

- Original Article
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Real deposit rate and credit supply nexus in ECOWAS

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Abstract

The relationship between real deposit rate and credit supply is interrogated with panel data (1980–2015) from ten Economic Community of West African States (ECOWAS) using dynamic common correlated effects mean group (DCCE-MG) and pooled mean group (PMG) estimators. The results show that real deposit rate has a linear positive long-run impact on credit supply for the full and sub-samples of Communauté Financière d'Afrique (CFA) and non-CFA franc countries, while at country levels, the relationship is mixed with varying signs. Similarly, the Dumitrescu–Hurlin non-causality (2012) test shows that real deposit rate Granger-causes credit supply in the long run. Overall, the findings support the McKinnon (Money and capital in economic development, 1973) and Shaw (Financial deepening in economic development, 1973) hypothesis that interest rate is an essential ingredient in the intermediation role of the financial system and suggests that depositors

are incentivised to give up present consumption by saving at high deposit rates.

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Availability of data and material

Data will be available upon request.

Code availability

Not Applicable.

Notes

1. Real deposit rate which is computed as nominal deposit rate minus inflation rate is used due to the fact that a sizeable number of countries lack data on the real interest rate. Besides, the deposit rate captures the supply drive for loanable funds.
2. Pesaran ([2015](#)) extends the analysis of the Pesaran ([2004](#)) CSD test and shows that the implicit null of the test is a weak cross-sectional dependence. The interested reader is referred to Sect. 29.7 "Testing for error cross-sectional dependence" in Pesaran, HM (2015) Time Series and Panel Data Econometrics, 1Ed., Oxford Press.
3. Interested reader is referred to Kao ([1999](#)) for details.
4. Ditzen ([2016a](#)) developed the *xtdcce2* routine in Stata16.
5. Equation (14) can also be expressed as a static model.
6. For country-level analysis, only the *xtpmg* routine is used.

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