

The Impact of Financial Development on Economic Growth: Study on the South Asian Countries

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ABSTRACT

Introduction - In the literature of the development economy recognised different schools of thoughts ranging from bidirectional, uni-directional and no directional relationship between financial development and economic growth. Therefore, this study analyses the relationship between financial development and Economic growth of South Asian countries.

Data/ Design/ Methodology – This study uses a panel data set for South Asian region over the period 1989- 2019. Parameter estimation in the regression analysis with cross section data is done by estimating the least squares method called Ordinary Least Square (OLS) Normality, Heteroskedasticity, Serial Correlation and Cointegration have been tested for model fitness. The dependent variable Per Capita GDP while independent variables are Broad Money to GDP, Bank Deposits to GDP, Domestic credit to private sector, Total debt service (% of GNI), Net Interest Margin, Private credit by deposit money banks to GDP, and control variables of Real Interest Rate and Gross Capital Formation.

Findings - The results indicate that Broad Money to GDP, Bank Deposits to GDP, Net Interest Margin, Private credit by deposit money banks to GDP, and control variables of Real Interest Rate and Gross Capital Formation proved statistically significant for Asian Region Economic Growth. Interestingly Domestic credit to private sector, Total debt service (% of GNI), no considerable influence on fostering economic growth which is generally unexpected in South Asian region.

Conclusion - The study concludes that Broad money, Bank Deposits to GDP, Domestic credit to private sector, Total debt service (% of GNI), Net interest margin, Private credit by deposits money banks to GDP, and control variables Gross capital formation is yet to have an influential role in significantly promoting economic development and growth in the South Asian region.

Keywords - *Financial Development, Economic Growth, South Asian countries*