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Bank, Stock Market Efficiency and Economic Growth: Lessons for ASEAN-5

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Abstract : This paper estimates bank and stock market efficiency associations with real per capita GDP growth by examining panel-data across three different regions using Panel-Corrected Standard Errors (PCSE) regression developed by Beck and Katz (1995). Data from five economies in ASEAN (Singapore, Malaysia, Thailand, Philippines, and Indonesia), five economies in Asia (Japan, China, Hong Kong SAR, South Korea, and India) and seven economies in OECD (Australia, Canada, Denmark, Norway, Sweden, United Kingdom U.K., and United States U.S.), between 1990 and 2017 are used. Empirical findings suggest one, for Asia-5 high bank net interest margin means greater bank profitability, hence spurring economic growth. Two, for OECD-7 low bank overhead costs (as a share of total assets) may reflect weak competition and weak investment in providing superior banking services, hence dampening economic growth. Three, stock market turnover ratio has negative association with OECD-7 economic growth, but a positive association with Asia-5, which suggest the relationship between liquidity and growth is ambiguous. Lastly, for ASEAN-5 high bank overhead costs (as a share of total assets) may suggest expenses have not been channelled efficiently to income generating activities. One practical implication of the findings is that policy makers should take necessary measures toward financial liberalisation policies that boost growth through the efficiency channel, so that funds are efficiently allocated through the financial system between financial and real sectors.

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