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Effects of Financial Development on Economic Growth in South Asia

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Abstract : Although financial liberalization has been one of the most important policy prescriptions of international organizations like the World Bank and the IMF, the effect of financial liberalization on economic growth in developing countries is far from unanimous. Since the '80s, South Asian countries made a significant development in liberalization the financial sector. However, due to unavailability of a sufficient number of time series observations, the relationship between economic growth and financial development has not been investigated adequately. We aim to fill this gap by examining time series data of five developing countries from the South Asian region: Bangladesh, India, Pakistan, Sri Lanka, and Nepal. Applying the cointegration tests and Granger causality within the vector error correction model (VECM), we do not find unanimous evidence of financial development on positive economic growth. These results are helpful for developing countries which have been trying to liberalize the financial sector in recent decades.
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