Domestic Resource Mobilization and Financial Development

Financial industries in central, eastern and south-eastern Europe have undergone dramatic changes over the past decade.
Foreign direct investment contributed to the development of market-oriented banking and financial systems able to support the rapid pace of economic growth in these countries. Policymakers, academics and private sector analysts have contributed to this volume with their stimulating insights on a broad range of issues, from recent credit booms to the cross-border integration of banking and capital markets. Anyone who wants to understand how finance, growth and financial stability interact in transition economies should read this book. Mario Draghi, Governor of the Banca d'Italia and Chairman of the Financial Stability Forum 

This book highlights the achievements and challenges of the ongoing process of financial integration in Europe. The financial integration of Europe is both welcomed as an economic driving force and watched with concern as a source of potential stability. After all, changing financial, regulatory and corporate ownership structures are fuelling competition, capital mobility and financial intermediation, but at the same time creating new systemic risks. With a special focus on Central, Eastern and South-Eastern Europe, the contributors to this book explore a wide spectrum of underlying issues, including the finance-growth nexus, credit boom patterns, the implications of foreign bank entry modes, lessons learned from old EU member states and commercial bank strategies. Authoritative views from central bank officials and policymakers are complemented with a special focus on empirical and econometric evidence from academia as well as practical insights from key financial market players. This unique collection will be of great interest to economists and experts in the fields of financial markets and European integration from central, commercial and investment banks, governments, international organizations, universities and research institutes.

Financial Development and Growth in the Middle East and North Africa

Financial Development and Source of Growth

This paper examines the empirical relationship between long-run growth and the degree of financial development, proxied by the ratio of bank credit to the private sector as a fraction of GDP. We find that this proxy enters significantly and with a positive sign in growth regressions on a large cross-country sample, but with a negative sign using panel data for Latin America. Our findings suggest that the main channel of transmission from financial development to growth is the efficiency of investment, rather than its volume. We also present a model where the negative correlation between financial intermediation and growth results from financial liberalization in a poor regulatory environment.
Causality Between Finance and Growth

In recent years there has been substantial theoretical and empirical work on the role that financial markets play in fostering economic growth and development. This paper provides a selective review of the literature, as well as new empirical evidence on the relationship between financial development and economic growth for a large cross-section sample of countries. While the results indicate that the effect of financial development on growth is positive, the size of the effect varies with different indicators of financial development, estimation method, data frequency, and the functional form of the relationship.

Impact of Financial Sector Development on Economic Growth in Lebanon

In this study, the authors assess financial sector development in the MENA region and propose several policy measures, which include reinforcing the institutional environment and promoting nonbank financial sector development, to enhance this sector’s performance.

Financial Development and Economic Growth

Master’s Thesis from the year 2009 in the subject Business economics - General, grade: A, Vanderbilt University (Graduate Program in Economic Development), course: Masters in Economics, language: English, abstract: This study explores the relationship between financial growth and economic development in India using time series data over the period 1950-2007. The majority of the previous studies on this subject have used cross-sectional data, which may not address country specific issues. In addition, many studies used either OLS technique of estimation or bi-variate causality test and may, therefore suffer from the omission-of variable bias. This study attempts to examine the dynamic relationship between financial growth and economic development by including a range of financial variables like, quasi money for monetization, domestic credit for financial intermediation activities and bank asset for financial intermediary institutions. The casual relationship between economic development and financial growth indicators was examined with the help of Granger-Causality procedure based on Unrestricted Vector Auto Regression using the error correction term. The result from the cointegration tests indicates that financial development has a long-run equilibrium with economic growth. The financial sector and real sector move and evolve together in the same direction. The error correction model suggests that,
in the short-run, the output variable is the only effective adjustment factor in the system that responds to the fluctuations of financial measures and domestic capital formation. On the other hand, the response of financial intensities and investments are sluggish adjustments that correct the deviation from equilibrium. In nutshell, this study shows that India's financial development and economic growth are positively correlated; the process of economic development is not sustainable without the contributions of the financial sector and vice versa.

**Financial Liberalization, Debt and Economic Development**

CD-ROM contains: World Bank data.

**Financing Africa’s Development**

The purpose of this present research is to explore the relationship between financial sector development and economic growth. Since financial development is a multifaceted concept, the question of whether the development of financial markets leads to economic growth or whether it is more of a consequence of a growing economy is addressed. Moreover, this project examines this central relationship in the context of one economy, that of Lebanon. The project utilizes secondary theoretical and empirical literature to draw general conclusions on the existing state of thought on the emphasis of the role of financial development in generating sustained growth. The trend in the literature is that the development of financial markets and institutions and a financial system that does a good job of delivering essential services, is a critical part of the growth process and not just a passive response to economic development. Furthermore, Lebanon is specifically examined in terms of its financial structure, level of financial sector development and economic performance. Primary research is carried out empirically through regression analysis of the effect financial development plays on the economic development of Lebanon. The results show that in the Lebanese context, financial sector development does in fact have an impact on economic growth. The indicators of financial sector development used in the tests collectively impacted the observed changes in economic growth. However, not all of the financial development indicators used were significant, which does not completely conform to the results of the majority of cross-country studies carried out in the literature. Thus, the findings of this paper can be regarded as being a preliminary step to further investigations. Lastly, the study proposes areas for further research and policy recommendations that the Lebanese government and key financial sector players should consider in order for the full effects of financial development
measures to take form.

Finance, Inequality, and Poverty

This paper provides evidence on the link between financial development and income distribution. Several dimensions of financial development are considered: financial access, efficiency, stability, and liberalization. Each aspect is represented by two indicators: one related to financial institutions, and the other to financial markets. Using a sample of 143 countries from 1961 to 2011, the paper finds that four of the five dimensions of financial development can significantly reduce income inequality and poverty, except financial liberalization, which tends to exacerbate them. Also, banking sector development tends to provide a more significant impact on changing income distribution than stock market development. Together, these findings are consistent with the view that macroeconomic stability and reforms that strengthen creditor rights, contract enforcement, and financial institution regulation are needed to ensure that financial development and liberalization fully support the reduction of poverty and income equality.

Financial Structure and Economic Growth

This book provides insights into the evolving debate regarding the mobilization of domestic resources and the crucial role that financial development can and should play in this regard, exploring aspects of the financial development–domestic resource mobilization nexus, including country case studies.

Finance and Economic Development in Korea

Finance and Growth Schumpeter Might Be Right

First published in 1999, this volume examines the role and effects of financial liberalisation in ten deregulated Asian developing countries including Indonesia, Malaysia, Myanmar, Nepal, the Philippines, Singapore, South Korea, Sri Lanka, Taiwan and Thailand. These areas experienced significant financial and economic changes between the ‘financially
repressed economies’ of the 1970s through to the 1990s. Muzafar Shah Habibullah approaches this issue in two parts. Part 1 provides empirical evidence of relationships between monetary aggregates, nominal income and price level. In part 2, he offers an early attempt to evaluate the Divisia monetary aggregate as an alternative to the Simple-sum aggregate as an indicator for the financial and economic situation of Asian developing countries.

**Financial Inclusion in Asia and Beyond**

**ECONOMIC GROWTH AND FINANCIAL DEVELOPMENT**

This book examines the impact of financing on Africa’s economic development. By exploring various financial instruments including the role of alternative sources of funding like migrant remittances and illicit flows, it analyses the role of financing for Africa’s macroeconomic development and other development indicators such as infrastructure, transport, global trade, industrialisation, social services, external indebtedness and governance. By presenting and examining case studies on various African countries and regions, the respective contributions investigate the capacity of institutions to facilitate and structure the economy’s funding activities, and to strengthen the ties between finance and development. Furthermore, they discuss various regional aspects, such as the integration of infrastructure, harmonization of fiscal policy, integration of financial markets, and the facilitation of intra-regional trade and movement of capital. Given its scope, the book will appeal to scholars of economics and development studies with an interest in the economic development of Africa.

**Financial Liberalization, Development and Fragility**

**Macroprudential Regulation of International Finance**

**Effect of Economic Growth, Human Development, and Governance Factors on Financial Inclusion:**
A Cross Country Comparative Analysis

A New Database on Financial Development and Structure

This paper examines how financial development affects the sources of growth—productivity and investment—using a sample of 145 countries for the period 1960-2011. We employ a range of econometric approaches, focusing on the CCA and MENA countries. The analysis looks beyond financial depth to capture the access, efficiency, stability, and openness dimensions of financial development. Yet even in this broad interpretation, financial development does not appear to be a magic bullet for economic growth. We cannot confirm earlier findings of an unambiguously positive relationship between financial development, investment, and productivity. The relationship is more complex. The influence of the different dimensions of financial development on the sources of growth varies across income levels and regions.

Financial Deepening, Terms of Trade Shocks, and Growth Volatility in Low-Income Countries

This paper contributes to the literature by looking at the possible relevance of the structure of the financial system—whether financial intermediation is performed through banks or markets—for macroeconomic volatility, against the backdrop of increased policy attention on strengthening growth resilience. With low-income countries (LICs) being the most vulnerable to large and frequent terms of trade shocks, the paper focuses on a sample of 38 LICs over the period 1978-2012 and finds that banking sector development acts as a shock-absorber in poor countries, dampening the transmission of terms of trade shocks to growth volatility. Expanding the sample to 121 developing countries confirms this result, although this role of shock-absorber fades away as economies grow richer. Stock market development, by contrast, appears neither to be a shock-absorber nor a shock-amplifier for most economies. These findings are consistent across a range of econometric estimators, including fixed effect, system GMM and local projection estimates.

Institutions, Financial Development and Economic Growth

"While substantial research finds that financial development boosts overall economic growth, we study whether financial
development disproportionately raises the incomes of the poor and alleviates poverty. Using a broad cross-country sample, we distinguish among competing theoretical predictions about the impact of financial development on changes in income distribution and poverty alleviation. We find that financial development reduces income inequality by disproportionately boosting the incomes of the poor. Countries with better-developed financial intermediaries experience faster declines in measures of both poverty and income inequality. These results are robust to controlling for other country characteristics and potential reverse causality"--National Bureau of Economic Research web site.

**The Influence and Effects of Financial Development on Economic Growth**

**Introducing a New Broad-based Index of Financial Development**

This paper reexamines the empirical relationship between financial development and economic growth. It presents evidence based on cross-section and panel data using an updated dataset, a variety of econometric methods, and two standard measures of financial development: the level of liquid liabilities of the banking system and the amount of credit issued to the private sector by banks and other financial institutions. The paper identifies two sets of findings. First, in contrast with the recent evidence of Levine, Loayza, and Beck (2001), cross-section and panel-data-instrumental-variables regressions reveal that the relationship between financial development and economic growth is, at best, weak. Second, there is evidence of nonlinearities in the data, suggesting that finance matters for growth only at intermediate levels of financial development. Moreover, using a procedure appropriately designed to estimate long-run relationships in a panel with heterogeneous slope coefficients, there is no clear indication that finance spurs economic growth. Instead, for some specifications, the relationship is, puzzlingly, negative.

**Financial Structure and Economic Development**

This study investigates the relationship between financial sector development and progress in reaching the Millennium Development Goals (MDGs). It assesses the contribution of countries' financial sector development to achieving the MDGs. The focus is on the relationships between financial development and economic welfare and growth, and the following four MDG-themes: Poverty, Education, Health, and Gender Equality. In doing so, the book reviews the
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theoretical channels, surveys existing empirical evidence - both cross-country and case study evidence, and provides new evidence. Financial Sector Development and the Millennium Development Goals finds that financial development is an important driver for economic welfare in that it reduces the prevalence of income poverty and undernourishment. In addition, new evidence is provided of a positive association between financial development and health, education, and gender equality.

**Banks, Financial Development and Regional Growth**

This work deals with finance and banking and the linkage between finance and economic growth in Thailand. Notwithstanding a strong reserve position and macroeconomic performance between mid-1980s and mid-1990s, the Thai economy in 1997 suffered the worst twin crisis in its history. This raises many related questions. What made the favourable performance disappear within a few years? What can we do to prevent financial crises in the future? Did the expanded participation of foreign banks in the Thai banking industry after the crisis lead to efficiency gains? And more generally, are there long-run effects of financial development on real economic growth? This work is intended to answer these questions. The main finding is that the growth rates of regional real incomes in Thailand during 1981 and 2003 are significantly negatively related to the initial level of regional real incomes as expected from unconditional convergence in growth theory. Based on the concept of conditional convergence, the results show that there is a divergence of regional real incomes in Thailand during 1994 and 2003, i.e. after controlling the differences in financial development, the richer ones grew faster. Based on the Granger causality test results, there is a bi-directional causality between finance and growth. Although this work is based on the case of Thailand, international evidence and comparisons are also included.

**Finance-Growth Nexus: Evidence from Indian Economy Using Causality Co-Integration Test Based on Error Correction Model**

This book attempts to study causal relationships between several measures of financial sector growth and deepening and economic growth in the Indian context, using annual data from 1950-51 to 2008-09. The relationship between financial sector development and economic growth can be analyzed from three angles: financial deepening leading to economic growth, economic growth leading to financial deepening and a bi-directional relationship between the two. The book gives a detailed description of the data used in this study, book further describes the empirical methodology, the main
tool of analysis are the method of Granger causality, Error correction Mechanism, Impulse Response Function (IRF) and Co-integration explained. The data used are annual data from Handbook of Statistics on the Indian Economy; Statistical Tables Relating To Banks in India, Banking Statistics, NSE News (Private Circulation), Fact Book of NSE, BSE annual reports, and Handbook of Statistics on The Indian Security Market by SEBI. All the variables were tested for unit roots using the Dickey-Fuller test (1979) which have been referred from the Enders (2003) to find out stationarity and study considers critical values at 5 per cent significance level. Unit root test is performed by using the R software and difference operators have been indicated with the numerical value. This study applied Granger causality test to verify causality between various variables of financial deepening and Gross Domestic Product and Per Capita Income as indicators of economic growth. It is shown that for a wide range of financial variables, financial deepening does indeed cause economic growth. However, the causality is not unidirectional; in a feedback relationship, economic growth too causes financial sector deepening. The study supports the claims of all three schools.

**Financial Development and Economic Growth**

There is a vast body of literature estimating the impact of financial development on economic growth, inequality, and economic stability. A typical empirical study approximates financial development with either one of two measures of financial depth - the ratio of private credit to GDP or stock market capitalization to GDP. However, these indicators do not take into account the complex multidimensional nature of financial development. The contribution of this paper is to create nine indices that summarize how developed financial institutions and financial markets are in terms of their depth, access, and efficiency. These indices are then aggregated into an overall index of financial development. With the coverage of 183 countries on annual frequency between 1980 and 2013, the database should offer a useful analytical tool for researchers and policy makers.

**Financial Indicators and Financial Change in Africa and Asia**

The gradual acceleration of growth in developing countries is a defining feature of the past two decades. This acceleration came with major shifts in patterns of investment, saving, and capital flows. This second volume in the Global Development Horizons series analyzes these shifts and explores how they may evolve through 2030. Average domestic saving in developing countries stood at 34 percent of their GDP in 2010, up from 24 percent in 1990, while their
investment was around 33 percent of their GDP in 2012, up from 26 percent. These trends in saving and investment, along with higher growth rates in developing countries, have resulted in developing countries’ share of global savings now standing at 46 percent, nearly double the level of the 1990s. The presence of developing countries on the global stage will continue to expand over the next two decades. Analysis in this report projects that by 2030, China will account for 30 percent of global investment activity, far and away the largest share of any single country, while India and Brazil (at 7 percent and 3 percent) will account for shares comparable to those of the United States and Japan (11 percent and 5 percent). The complex interaction among aging, growth, and financial deepening can be expected to result in a world where developing countries will contribute 62 of every 100 dollars of world saving in 2030, up from 45 dollars in 2010, and where they account for between $6.2 trillion and $13 trillion of global gross capital flows, rising from $1.3 trillion in 2010. Trends in investment, saving, and capital flows through 2030 will affect economic conditions from the household level to the global macroeconomic level, with implications not only for national policy makers but also for international institutions and policy coordination. Policymakers preparing for this change will benefit from a better understanding of the unfolding dynamics of global capital and wealth in the future. This book is accompanied by a website, http://www.worldbank.org/CapitalForTheFuture, that includes a host of related electronic resources: data sets underlying the two main scenarios presented in the report, background papers, technical appendixes, interactive widgets with variations to some of the assumptions used in the projections, and related audio and video resources.

Financial Sector Development and the Millennium Development Goals

Deregulation of the financial system often proceeds in tandem with macroeconomic stabilization centered on monetary and other financial targets. This paper presents a model where there may be conflict between these processes. The indicator properties of some financial variables may be rendered unstable by the liberalization process. However, other, carefully selected financial aggregates may contain information about economic activity that is useful to policy makers during stabilization. Data from a group of selected African and Asian countries is examined. These are broadly consistent with the predictions of the model, while highlighting the importance of macroeconomic and financial stability for the success of financial reforms.

Capital for the Future
Recent events, such as capital flow reversals and banking sector crises, have shaken faith in the widely held belief in the benefits of greater financial integration and financial deepening, which are typical in advanced economies. This book shows that emerging economies have often weathered the storm best despite the supposed burden of ‘weak institutions’. It demonstrates that a better policy framework requires reliable indicators of vulnerability to financial instability, as well as improved policy tools and automatic stabilizers that anticipate and limit the vulnerabilities to financial crises.

**Financial Development, Inequality and Poverty**

This book explores country case studies and works that detail the exact transmission mechanisms through which financial development can enhance pro-poor development in order to derive best practices in this field. This is an important companion for professionals and policymakers, and also a vital reference source for students.

**Financial Development, Institutions, Growth and Poverty Reduction**

The World Bank considers financial inclusion to be an enabler for at least 7 of the 17 United Nation’s sustainable development goals (SDGs). Financial inclusion, with its associated policy implications, is an important issue for ASEAN. This book examines the economic effects of financial inclusion. It explores issues surrounding measurement and impact of financial inclusion. The book looks at various, salient topics including measurement of financial inclusion, the impact of (various indicators of) financial inclusion on development outcomes and macroeconomic volatility using aggregate data, as well as the effects of financial inclusion on poverty and development outcomes using micro data.

**Financial Development and Economic Growth**

This new database of indicators of financial development and structure across countries and over time unites a range of indicators that measure the size, activity, and efficiency of financial intermediaries and markets.

**Financial Development, Integration and Stability**
This paper examines the causal relationship between financial development and economic growth for the Albanian economy using the Granger causality test for five different proxies for financial development. For the non-stationary and non-cointegrated series, the VAR model has been constructed and later, the above test has been applied. For non-stationary series but with a cointegrating relationship, the Granger-causality test has been applied after the construction of the vector error correction model (VECM). The empirical findings of the study show that there is a positive relation between all indicators measuring the financial development and economic growth in the long term. While in the short term, this relation is quite vague since different indicators provide different results. The data used in this paper belong to the period 1996-2007

Financial Development, Financial Fragility, and Growth

Rethinking Financial Deepening

Financial Development and Economic Growth

Financial inclusion is considered as a befitting support to help in economic development. This inclusion's gaining currency far and wide as different researchers and policymakers try to probe further into the matter along with its direct or indirect association with the economic and other (external) indicators. The designed pattern of this study underscores financial inclusion in the developed and developing states along with those macro-economic indicators and other factors that (somehow) influence this level of inclusivity. This study examines the effect of economic indicators (GDP, and inflation), human development (HDI), and governance factors (WGI) on financial inclusion; it further draws a comparative analysis for both the developed and developing countries. To assess the healthiness of this level of this inclusion in any state, Financial Access Survey (IMF), along with economic variables i.e., GDP and inflation, and different indexes (HDI and WGI) have vastly been assessed to determine the level of their influence. With the help of factor analysis through PCA, a single factors been determined to envisage its association with the macro-economic indicators and indexes. In the context of comparative and collaborative analysis, the dynamic panel regression (GMM) has been performed. The results
of the t-test of equality of means represent that the high quality institutions strengthen the monetary side of the country and, thus, its level of financial inclusion in comparison to the low quality institutions. Moreover, a high level of HDI provides a certain entry into the financial markets and purely benefits the level inclusion and economic development. The comparative results of this study indicate that financial inclusion is directly influenced by GDP, HDI, and Governance within the economy, however, inflation does show a negative association with the developed and developing states. Empirical and theoretical evidences suggest that financial inclusion per se doesn't drive the better economic development but also those external factors that play a vital role in a cogent way to bolster the overall economic and monetary development in any state.

Financial Development and Economic Growth in Fiji

A country's level of financial development and the legal environment in which financial intermediaries and markets operate critically influence economic development. In countries whose financial sectors are more fully developed and whose legal systems protect the rights of outside investors, economies grow faster, industries dependent on external finance expand more quickly, new firms are created more easily, firms have more access to external financing, and firms grow faster.

Financial Deepening and Stock Market Development in Nigeria

This study examines the empirical relationship between financial development and economic growth. The employed data set includes a representative selection of 60 countries over the period 1965-1997. To test the empirical relationship between finance and growth, I have used OLS regressions and three indicators of financial sector development. These indicators measure the financial sector by size (liquid liabilities) and activity (credit provided to the private sector and credit by banks). In accordance to earlier research, the financial sector plays an important part in economic growth as it can reduce the cost of acquiring information, conducting transactions and facilitating savings mobilisation. By providing these services, the financial sector can enhance resource allocation and increase aggregate savings. The study identifies three sets of findings. First, I run regressions by using financial indicators averaged over the period 1965-1997, and I find a positive statistical relationship between financial development and economic growth. The second finding is based on regressions with financial indicators measured in the initial year 1965. These regressions support the first findings, in
addition to testing for the long-run effects and checking for causality. While the two first findings are in accordance with earlier studies, the third finding adds to previous research by controlling for the level of economic development. In the last regressions, the sample has been separated into different income groups, interacting with the three financial variables. Financial sector development seems to have at least the same importance in developing countries as in industrialised countries, especially concerning increased credit allocated to the private sector. Credit provided to the private sector seems to follow a path with increased influence associated with a decreased income level, and seems to be important for convergence and a country's economic growth.

**Divisia Monetary Aggregates and Economic Activities in Asian Developing Economies**

**An Empirical Reassessment of the Relationship Between Finance and Growth**

The global financial crisis experience shone a spotlight on the dangers of financial systems that have grown too big too fast. This note reexamines financial deepening, focusing on what emerging markets can learn from the advanced economy experience. It finds that gains for growth and stability from financial deepening remain large for most emerging markets, but there are limits on size and speed. When financial deepening outpaces the strength of the supervisory framework, it leads to excessive risk taking and instability. Encouragingly, the set of regulatory reforms that promote financial depth is essentially the same as those that contribute to greater stability. Better regulation—not necessarily more regulation—thus leads to greater possibilities both for development and stability.

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