Financial Deepening Indicators And Economic Growth In

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Financial Deepening Indicators And Economic Growth In ***2020-03-21***

UNDERWOOD TALIYAH

Capital for the Future

International Monetary Fund

Despite significant strides in financial development over the past decades, financial dollarization, as reflected in elevated shares of foreign currency deposits and credit in the banking system, remains common in developing economies. We study the impact of financial dollarization, differentiating across foreign currency deposits and credit on financial depth, access and efficiency for a large sample of emerging market and developing countries over the past two decades. Panel regressions estimated using system GMM show that deposit dollarization has a negative impact on financial deepening on average. This negative impact is dampened in cases with past periods of high inflation. There is also some evidence that dollarization hampers financial efficiency. The results suggest that policy efforts to reduce dollarization can spur faster and safer financial development.

The Global Findex Database 2017 Springer Nature

This study introduces an index for measuring financial development and a set of six indices representing key characteristics of the financial systems in 38 sub-Saharan African countries. The results show that these countries have made good progress in improving and modernizing their financial systems during the last decade, particularly with regard to financial liberalization and the adoption of indirect instruments of monetary policy. In many countries, however, the range of financial products remains extremely limited, interest rate spreads are wide, capital adequacy ratios are insufficient, judicial loan recovery is a problem, and the share of nonperforming loans is large.

Financial Development, Inequality and Poverty

International Monetary Fund

International comparisons reveal that—even controlling for a host of explanatory factors—credit depth is exceptionally low in Mexico. Using panel data methods linking credit growth and fundamentals, this paper estimates a long-term gap between actual and expected credit of about 40 percent of GDP. Possible explanations include the history of banking crises, the large informal sector and an inefficient legal system. Using a disequilibrium regression approach, this paper also finds that supply factors are particularly important as determinants of credit in Mexico. Recent financial reforms address many of the supply constraints, but their success will depend on implementation. The main challenge going forward will be to support financial deepening, while limiting risks to financial stability.

Financial Structure and Economic Development

Springer Science & Business Media

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 World Bank Publications

How important is financial development for economic development? A costly state verification model of financial intermediation is presented to address this question. The model is calibrated to match facts about the U.S. economy, such as intermediation spreads and the firm-size distribution for the years 1974 and 2004. It is then used to study the international data, using cross-country interest-rate spreads and per-capita GDP. The analysis suggests that a country like Uganda could increase its output by 140 to 180 percent if it could adopt the world's best practice in the financial sector. Still, this amounts to only 34 to 40 percent of the gap between Uganda's potential and actual output. Charts and tables.

A New Database on Financial Development and Structure

International Monetary Fund

This book looks into the relationship between financial development, economic growth, and the possibility of a potential capital flight in the transmission process. It also examines the important role that financial institutions, financial markets, and country-level institutional factors play in economic growth and their impact on capital flight in emerging economies. By presenting new theoretical insights and empirical country studies as well as econometric approaches, the authors focus on the relationship between financial development and economic growth with capital flight in the era of financial crisis. Therefore, this book is a must-read for researchers, scholars, and policy-makers, interested in a better understanding of economic growth and financial development of emerging economies alike.

Financial Deepening in Mexico GRIN Verlag 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.

Finance and Growth
Schumpter Might Be Right
World Bank Publications
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.

Systemic Risk Assessment in Low Income Countries
DIANE Publishing
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.

Financial Development and Economic Growth

Springer Nature

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 Deepening, Terms of Trade Shocks, and Growth Volatility

in Low-Income Countries International Monetary Fund
In this study, the authors assess financial sector development in the MENA regionand propose several policy measures, which include reinforcing the institutional environment and promoting nonbank financial sector development, to enhance this sector’s performance.
Financial Deepening, Inequality, and Growth Springer
In 2011 the World Bank—with funding from the Bill and Melinda Gates Foundation—launched the Global Findex database, the world's most comprehensive data set on how adults save, borrow, make payments, and manage risk. Drawing on survey data collected in collaboration with Gallup, Inc., the Global Findex database covers more than 140 economies around the world. The initial survey round was followed by a second one in 2014 and by a third in 2017. Compiled using nationally representative surveys of more than 150,000 adults age 15 and above in over 140 economies, The Global Findex Database 2017: Measuring Financial Inclusion and the Fintech Revolution includes updated indicators on access to and use of formal and informal financial services. It has additional data on the use of financial technology (or fintech), including the use of mobile phones and the Internet to conduct financial transactions. The data reveal opportunities to expand access to financial services among

people who do not have an account—the unbanked—as well as to promote greater use of digital financial services among those who do have an account. The Global Findex database has become a mainstay of global efforts to promote financial inclusion. In addition to being widely cited by scholars and development practitioners, Global Findex data are used to track progress toward the World Bank goal of Universal Financial Access by 2020 and the United Nations Sustainable Development Goals. The database, the full text of the report, and the underlying country-level data for all figures—along with the questionnaire, the survey methodology, and other relevant materials—are available at www.worldbank.org/globalfindex.

Finance, Inequality, and Poverty Edward Elgar Publishing

This note provides an overview of the literature on the challenges posed by shallow financial systems for macroeconomic policy implementation. Countries with shallow markets are more likely to choose fixed exchange rates, less likely to use indirect measures as instruments of monetary policy, and to implement effective counter-cyclical fiscal policies. But causation appears to work in both directions, as policy stances can themselves affect financial development. Drawing on recent FSAP reports, the note also shows that shallow financial markets tend to increase foreign exchange, liquidity management, and concentration risks, posing risks for financial stability

Dollarization and Financial Development

International Monetary Fund

This paper discusses how sub-Saharan Africa's financial sector developed in the past few decades, compared with other regions. Sub-Saharan African countries have made substantial progress in financial development over the past decade, but there is still considerable scope for further development, especially compared with other regions. Indeed, until a decade or so ago, the level of financial development in a large number of sub-Saharan African countries had actually regressed relative to the early 1980s. With the exception of the region's middle-income countries, both financial market depth and institutional development are lower than in other developing regions. The region has led the world in innovative financial services based on mobile telephony, but there remains scope to increase financial inclusion further. The development of mobile telephone-based systems has helped to incorporate a large share of the population into the financial system, especially in East Africa. Pan-African banks have been a driver for homegrown financial development, but they also bring a number of challenges.

Too Cold, Too Hot, or Just Right? Assessing Financial

Sector Development Across the Globe World Bank Publications
This book addresses key issues in corporate finance and explores them from financial development and financial stability perspectives in emerging markets. Emerging economies are susceptible to rapidly changing financial sectors and products as well as financial upheavals. In this light, the growing interdependence of states and capital markets, and the risk of crises have an impact on the financing of firms. The chapters in this book highlight how companies and policies in emerging markets are affected and deal with the current post-crisis world. By combining academic and industry insights, the critical issues in corporate finance, financial development, and the preparedness of emerging markets are explored.

An Empirical Reassessment of the Relationship Between Finance and Growth
International Monetary Fund
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.

Quantifying the Impact of Financial Development on Economic Development International Monetary Fund

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.

Finance-Growth Nexus: Evidence from Indian Economy Using Causality Co-Integration Test Based on Error Correction Model
International Monetary Fund
Financial indicators may be linked to growth through two "channels" in particular: the share of GDP allocated to

investment and the efficiency with which resources are used. It is empirically important to identify which financial intermediaries are doing the intermediation and to whom the financial system is allocating credit rather than simply using proxies for the overall size of the financial system, as has been common in past studies.

Financial Depth in the WAEMU World Bank Publications

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.

Financial Indicators and Financial Change in Africa and Asia International Monetary Fund

We propose a coherent unified approach to the study of the linkages among economic growth, financial structure, and inequality, bringing together disparate theoretical and empirical literature. That is, we show how to conduct model-based quantitative research on transitional paths. With analytical and numerical methods, we calibrate and make tractable a prototype canonical model and take it to an application, namely, Thailand 1976-1996, an emerging economy in a phase of economic expansion with uneven financial deepening and increasing inequality. We broadly replicate the actual data, test the model formally, and identify anomalies.