

https://dspace.org/

Finance-growth nexus and effects of banking crisis

Musasiwa, Edmore T.

2009-03-31T08:04:39Z
http://hdl.handle.net/10539/6850

Downloaded from a DSpace repository. https://dspace.org/

FINANCE-GROWTH NEXUS AND EFFECTS OF BANKING CRISIS

Edmore T Musasiwa

Abstract

Many economists have observed that the financial system has a positive and monotonic effect on economic growth. In this study we reaffirm the finance-growth nexus. We adopt a three-tier approach for the study's methodology using panel data of 66 countries from 1986 to 2005. Firstly, we test for the finance-growth nexus with particular emphasis on financial sector indicators that best represent the effective financing activity in the economy. Secondly, we examine the financial market type that exacerbates or mitigates the effects of a shock (financial crisis). Thirdly, we investigate the causes of financial crisis by looking at both the macroeconomic and institutional, and micro-level determinants of banking crisis.

Our results show that financial development enhances economic growth, more so, in the middle income countries. We also find that increased domestic private credit and activity reduces the effects of a financial shock on growth. In addition, openness of the economy in low income Sub-Saharan African countries is important for growth even where financial development indicators appear not to influence growth. In most economies the investment channel and openness are consistent in explaining economic growth.