



BANK NEGARA MALAYSIA

BANK
STOCK MARKET
and
ECONOMIC
GROWTH







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Editor

WONG HOCK TSEN

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Preface

Bank plays an important role in an economy through channelling funds from savers to investors. This would generate more savings, consumptions and investments. Thus resulting in greater efficiency and productivity, more output, and higher rate of economic growth. Hence, a well-developed banking system could contribute significantly to economic growth. Stock market may promote economic growth. Stock market encourages specialisation, acquisition and dissemination of information. Also stock market may reduce the costs of mobilising savings and thus facilitates investment. Moreover, a well-developed stock market may enhance corporate control by mitigating the principle-agent problem through aligning the interest of managers and owners. The role of financial system on economic growth, particularly bank and stock market are well documented in the empirical literature. However, most of the studies in the literature are on developed countries. In Malaysia, a few studies on the relationship between economic growth and both financial market and financial intermediary have been done previously. An empirical study on the impact of banking development and stock market development on economic growth in Malaysia over the period from 1970 to 2006 and a sub-period from 1970 to 1996 shows that there is a long-run relationship among real gross domestic product (GDP) per capita, capital, labour, openness to international trade, banking development, and stock market development. An increase in capital, labour, openness to international trade, banking development or stock market development will lead to an increase in real GDP per capita. Moreover, these variables are generally found to be important in influencing real GDP per capita in the short run. There is some evidence stock market development to have a stronger impact on real GDP per capita than banking development in the long run. On the whole, banking development and stock market development are important to economic growth in Malaysia.

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