

Bank development, stock market development and economic growth in selected Asian economies

ABSTRACT

This study examines bank development, stock market development and economic growth nexus in selected Asian economies, namely Indonesia, Malaysia, the Philippines, Singapore, Thailand, Hong Kong, Korea and Japan over the period from 1995 to 2018. This study uses a more homogeneous economies to produce a more economically stylized. The results of the panel vector error correction approach demonstrate that there is bi-directional causality between real GDP per capita and the ratio of stock market capitalization to GDP. Real GDP per capita is found to Granger cause the ratio of stock market traded to GDP and not vice versa. The use of the ratio of stock market capitalization to GDP for stock market development is found to have significant impact on real GDP per capita than the use of the ratio of stock market traded to GDP on real GDP per capita. The ratio of trade openness and real effective exchange rate respectively is found to Granger cause bank development. Moreover, there is bidirectional causality between the ratio of trade openness and real effective exchange rate. In a restricted version of the estimation model, there is bi-directional Granger causality between real GDP per capita and stock market development and bank development, respectively, which bank development is proxied by the ratio of domestic credit to private sector to GDP or the ratio of domestic credit to private sector by banks to GDP and not the ratio of broad money to GDP. A different proxy for stock market development or bank development could have different impact on each other and on economic growth. The ratio of stock market capitalization to GDP is found to Granger cause the ratio of broad money to GDP and not vice versa. Thus, there is some evidence that stock market development stimulates bank development and not vice versa. Stock market development and bank development are not substitute to each other. Stock market development and bank development are appropriate to boost economic growth.