Are banks and stock market compete or complement relationship?: Empirical evidence from the Philippines, Malaysia And Singapore

ABSTRAK

Based on the previous studies, a few researchers mentioned the two strings of problems that are preventing the ability of firms in a country from securing the financing to develop those firms. Among the common problems faced by firms are 'certification-friction' and 'financing-friction'. 'Certification-friction' occurs when firms' quality of credit information is incomplete, while 'financing-friction' arose when a firm had to bear hefty refinancing loans from other parties. A complementary relationship between banks and stock markets is essential to solving the problem of 'certification-friction' and 'financing-friction'. Thus, the main purpose of this paper is to study the relationship between banks and stock markets, whether they are competing or complementing each other. This study will focus on low, middle and high level income countries. The indicators used are credit domestic for the private sector as a percentage of GDP, market capitalisation as a percentage of GDP, treasury bills, and broad money as a percentage of GDP and inflation. Annual time series data over the period from 1989 until 2018, and Autoregressive Distributed Lag (ARDL) testing approaches, as an analytical technique, are used. Banks and stock markets complemented each other when the result shows a positive relationship and vice versa. Thus, the empirical findings of this study expect banks and stock markets in selected countries to show a positive relationship.