

A Cross-Country Study of

Financial Sector Development and its impact on Economic Growth

Abstract

For the development of a country, its financial and economic backbone must be strong. This is especially true in the case of developing countries, who attach great importance to financial sector development and deepening in the pursuit of their poverty reduction goal. The financial sector performs various important roles as discussed in the literature; a few key roles being mobilizing savings, facilitating payments and trade of goods and services, and promoting efficient allocation of resources. Thus, the financial sector is seen as playing a critical role in facilitating economic growth. The direct route is through broadening access to finance and indirect route is through growth and contributing to poverty reduction. This paper is a modest attempt to study this phenomenon; using data for various countries, we study whether financial sector development and overall growth of the country are causally related.