# Effect of Financial Development on Economic Growth: Evidence from South Asian Countries

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A growing line of research emphasizes the requirement of a well-functioning financial system for a sustained economic growth. Meanwhile, a good financial system is characterized by its continuous growth. This encourages hypothesizing significant economic growth effects of financial development. Therefore this study investigates short-run and long-run relationship between financial development and economic growth with reference to South Asian countries. However, due to data constraint, only India, Nepal, Pakistan, and Sri Lanka are considered over the period 1995 to 2012. Broad money supply to the GDP and bank deposits to GDP are taken as proxies for financial depth and banking sector development respectively. Long-panel estimation techniques of Mean Group, Pool Mean Group, and Dynamic Fixed Effect models are used in obtaining the results. Findings of the study indicate that the development of financial depth is significantly influencing economic growth in short-run, while the development in banking sector depicts long-run growth effects. As expected, growth effects are faster through banking sector development, since its' speed of adjustment to the long-run is relatively high. However, development in financial depth carries faster growth effects for India and Sri Lanka.

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