

EFFECT OF FINANCIAL STABILITY ON ECONOMIC GROWTH IN MIDDLE-INCOME ASIAN COUNTRIES

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1. Introduction

Financial stability is important in ensuring sustainable economic growth, especially in emerging economies. It has enormous importance in fostering economic growth, while financial stability in middle-income Asian economies remains inadequately explored. This study attempted to study the effect of Financial Stability (FS) on Economic Growth (EG). This topic has emerged in the academic debate since the crisis (Beck et al., 2014). The Financial Stress Index was the proxy for FS and Gross Domestic Product (GDP) as the EG measure. Inflation (Inf), Trade Openness (TO), and Money Supply (MS) were the control variables.

2. Research Methodology

A quantitative approach was adopted to analyze the causal relationship through the adoption of a positivist research philosophy. Short panel data analysis techniques were used to examine the relationship between explanatory variables and EG while the sample consisted of 17 middle-income Asian countries, and the sample period was 12 years from 2008 to 2019. The 17 countries were selected based on data availability.

3. Findings and Discussion

The estimated results indicate that FS and TO present a significant positive effect on (EG) implying a high FS and TO lead to an increase in EG in the short and long run. Furthermore, there is a significant negative effect of INF and MS on the EG.

4. Conclusion and Implications

This study empirically reveals that financial stability is a prerequisite for economic growth in middle-income Asian countries. The findings underscore that maintaining Financial Stability is a significant factor in achieving sustainable economic growth. Hence, policymakers must focus on developing policies to enhance financial stability, foster balanced economic development, and mitigate inflationary effects.

Keywords: Dynamic panel data analysis, Economic growth, Financial stability, Middle-Income Asian countries