

EFFECT OF BANKING SECTOR DEVELOPMENT ON ECONOMIC GROWTH: MIDDLE-INCOME ASIAN COUNTRIES

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1. Introduction

This paper analyzes the effect of Banking Sector Development (BSD) on Economic Growth (EG) in middle-income Asian countries. In this research, economic growth refers to increased GDP, while banking sector development refers to improved financial development and gross domestic savings. This study tries to fill critical gaps between variables. The main gap is the limited number of studies on PS, GDS, FD, and economic growth in Asia. The aim of the study is to analyze the effect of banking savings and political stability on economic growth in Asia.

2. Research Methodology

The study was conducted in 15 middle-income Asian countries, and the time frame was from 2008 to 2019. Short panel data analysis techniques were used to examine the relationship.

3. Findings and Discussion

Analysis shows a positive relationship between Economic Growth (EG) and Financial Development (FD). In contrast, the study shows a negative relationship between EG and Political Stability (PS) since political instability leads to a decline in EG.

4. Conclusion and Implications

The outcome of the analysis is evidence that EG depends on FD and PS. Thus, the findings suggest that the country should focus on maintaining political stability to obtain high EG and enforce laws and regulations to maintain political consistency. Further, enhancing infrastructure, streamlining regulations, and encouraging innovative finance create a finance-friendly climate, making countries more attractive to foreign investors.

Keywords: Economic growth, Financial development, Generalized Method of Movement (GMM), Gross Domestic Savings, Political stability