

**UNIVERSITI TEKNOLOGI MARA**

**FINANCIAL CRISES AND  
ECONOMIC GROWTH:  
EVIDENCE FROM DEVELOPING  
COUNTRIES**

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## ABSTRACT

This study sheds light on the relationship between financial crises, financial development, financial liberalization and economic growth in the developing countries. The study aims to examine the impact of financial development and financial liberalization on financial crises in developing countries, to investigate the impact of the financial crises, financial development and financial liberalization on economic growth in developing countries, and to examine the interaction effects of financial crises and financial development on economic growth in developing countries. The sample of the study comprises 53 developing countries and the timeframe of this study starts from 2009 to 2018, the general method of moments (GMM) is the technique used. The results of this study reveal that financial development, financial liberalization trigger the onset of financial crises, however economic growth has no significant impact on crises. Regarding objective two (2), financial development and financial liberalization impact the economic growth positively, however, financial crises impact the economic growth significantly and negatively. For objective three (3), financial development, financial liberalization and gross fixed capital formation impact the economic growth positively, however, financial crises impact the economic growth significantly and negatively. Moreover, the interaction between financial development and financial crises impact positively the growth. The study findings imply that the developing countries should implement rules and regulations that aim to strengthen and spur more economic growth, expand their financial development by not just focusing on the banking sector, but capital markets also should be the utmost concern of the development of financial sector. Financial institutions should also provide more financial resources to productive projects in order to guarantee a sustainable growth and to prevent the occurrence of crises or at least mitigate their detrimental effects. Besides, foreign direct investment which is a proxy for financial liberalization must be encouraged with policies that aim to attract more foreign capital into the country. Financial crises have the tendency to affect deeply the countries which have flaws in their economic and financial regulations, therefore in order to limit their expansion, governments must implement policies that feature efficiency and high accuracy.

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## TABLE OF CONTENTS

	<b>Page</b>
<b>CONFIRMATION BY PANEL OF EXAMINERS</b>	<b>ii</b>
<b>AUTHOR'S DECLARATION</b>	<b>iii</b>
<b>ABSTRACT</b>	<b>iv</b>
<b>ACKNOWLEDGEMENT</b>	<b>v</b>
<b>TABLE OF CONTENTS</b>	<b>vi</b>
<b>LIST OF TABLES</b>	<b>ix</b>
<b>LIST OF FIGURES</b>	<b>x</b>
<b>LIST OF SYMBOLS</b>	<b>xi</b>
<b>LIST OF ABBREVIATIONS</b>	<b>xii</b>
<b>CHAPTER ONE INTRODUCTION</b>	<b>1</b>
1.1    Introduction	1
1.2    Financial Crises in Developing Countries	1
1.2.1    Banking Crises	1
1.2.2    Exchange Rate Crisis	6
1.2.3    Interest Rate Crisis	7
1.3    Financial Development and Financial Liberalization in Developing Countries	7
1.4    Definition of Variables: Financial Crisis, Financial Development, Economic Growth and Financial Liberalization	12
1.5    The Problem Statement	15
1.6    Objectives of the Study	18
1.7    The Research Questions	18
1.8    Scope and Limitations of the Study	18
1.9    Significance of the Study	20
<b>CHAPTER TWO LITERATURE REVIEW</b>	<b>22</b>
2.1    Introduction	22
2.2    Theoretical Literature	22
2.2.1    Theories of economic growth and financial development	23

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 Introduction**

This chapter presents the financial crises in details to explore their impact on the economies of the world and specifically the economies of the selected developing countries. Later on, this chapter divides the impact into two portions which are; financial development and financial liberalization in developing countries and then the impact of financial crises on the economic growth of developing countries. The problem statement comprises two issues and the objectives as well. The research tries to answer three questions related to financial crises, financial development, financial liberalization and economic growth. The significance of the study might be highly beneficial to different sectors of the economy as well as policy makers. The term crisis usually refers to Global Financial Crisis of 07/08, however the crises terminology used in this thesis is referring to the three types of financial crises such as banking, exchange rate and interest rates crises.

### **1.2 Financial Crises in Developing Countries**

The world has been witnessing financial crises since long time ago, however the amplitude of these crises has taken an alarming trend in the last century where the impact is taking a heavy toll on the financial sector and the growth as well. This section will shed light and highlights all the casualties that are incurred by these financial crises.

#### **1.2.1 Banking Crises**

According to Zhang, He, Zhu and Li (2018) who have given a comprehensive definition of banking crisis which is as follow: “Banking crisis