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FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH: THE ROLE OF STOCK MARKET AND BANKING SECTOR

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ABSTRACT

The purpose of this study is to investigate the link between ASEAN's financial development and its economic growth. There are many impact that influence the economic development on this research such as liquidity level of stock market, banking performance and government intervention or monetary policy. The stock market's growing global effect has sparked a new line of inquiry into the relationship between financial development and economic growth, with a focus on the impact of stock market development on the banking sector. As a consequence, it can have various fundamental consequences. It is therefore very necessary for any economy to determine the reasons for these ties of financial growth. The previous study on this research case study produce a different or mixed result. This study was supposed to build on previous findings and evidence by using the most up-to-date data and providing more information on the relationship between financial development and economic growth. This look at uses stock market turnover ratio and stock market size as proxies for liquidity stage of stock market, non-performing loan as a proxy for banking sector overall performance, and discount rate as a proxy for authorities intervention or financial coverage GDP. A multiple regression model was employed to investigate the relationship between the dependent and independent variables in this study. Five country which is selected around ASEAN as the sample of this study over a 10 years. The study's expected findings demonstrated that financial development has a major positive or negative impact on ASEAN's economic growth. In fact, the result of this finding may be very beneficial to the government as they will handle the risk of financial and economic risks supported what is going on within the past of ASEAN.

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CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

There are many researchers have discussed financial development and economic growth in relation to how they would deal with the financial and economic risks that have arisen in the past as a result of ASEAN's actions. Financial development, which is developing as a crucial engine of economic expansion, is another factor impacting economic growth.

The amount, quality, and efficiency of financial intermediary services rise as a result of financial growth. The relationship between financial development and economic growth has been a hot topic in the development and growth literature since the beginnings of both finance-led growth and growth-led finance theories. Despite the fact that empirical studies typically show a clear correlation between financial development proxies and growth, there is still a lot of debate over how to interpret these results.

Stock market and banking sector developments have an impact on financial institution operation and, as a result, on economic development. Atje and Jovanovic (1993) investigate the position of capital markets in banking systems and come to the conclusion that both development and growth are beneficial. The relationship was statistically insignificant when the financial development test was used. This demonstrates that the stock market's function is becoming more significant, especially in emerging markets, and that it should not be overlooked. In conducting their research recently, Levine, Loayza, and Beck (2000) have concentrated on three financial development metrics. They built a new database and concentrated on three financial intermediation initiatives. The first metric represents the stock market's aggregate scale. The second metric assesses whether intermediation is carried out by commercial banking institutions or by the Central Bank. The final metric measures how much credit was channelled via financial intermediaries to private sector operations.

In order to assess output and economic activity, The Gross Domestic Product (GDP) is a widely used metric for measuring economic growth. In order to test the variables in this research paper, GDP was used as a dependent variable. The aim of GDP is to calculate the total value of all final goods and services generated over a given period of time. It takes into account all personal consumption expenses, as well as government spending, net exports, and capital formation. The benefit of using GDP is that it standardises the procedures for measuring GDP, allowing for comparisons between countries.