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Finance and economic growth nexus: Complementarity and substitutability between the banking sector and financial markets in Africa, using South Africa as a case1

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Abstract

The paper empirically examines the dynamic relationship between financial development and economic growth in South Africa in terms of financial intermediaries and financial markets based structure. A time series analysis using the VAR Model provided evidence for the dynamic relationship. The paper provides empirical evidence on the causal impact of the financial market on economic growth in South African. The results suggest that financial intermediaries and financial markets have different impacts on economic growth given their different roles in the economy. In particular, there is bidirectional causality between stock market and economic growth. Also, a unidirectional causality from the bond market to economic growth was established. However, as for financial intermediaries, causality runs from economic growth to financial intermediaries. This suggests the importance of the financial market in economic development in South Africa.

Keywords

Financial markets financial intermediaries economic growth vector auto-regression Granger causality

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