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Bank competition, financial innovations and economic growth in Ghana

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Purpose

– This paper takes the finance-growth nexus further by looking at the relationship between bank competition, financial innovations and economic growth in Ghana. The purpose of this paper is to find the causality among bank competition, financial innovations and economic growth in Ghana.

Design/methodology/approach

– The relationship between bank competition, financial innovations and economic growth was established through the framework of the endogenous growth model. In addition, the paper employed the bound testing ARDL cointegration procedures to enable us to establish both short-run and long-run relationship between bank competition, financial innovations and economic growth. Granger causality test were also estimated to determine the direction of causality.

Findings

– The results showed that, in the long run, bank competition is positively related to economic growth while financial innovation is negatively related to economic growth. In the short run, bank competition is negatively related to economic growth. By the same token, financial innovation is positively related to economic growth in the short run. In terms of causality, the results showed that there is unidirectional Granger causality from bank competition to economic growth. However, there is bidirectional Granger causality between financial innovation and economic growth.

Practical implications

– The study therefore, recommends for more regulations toward a more competitive banking system with more innovative products tailored toward mobilization of savings and investment to growth induced sectors of the economy.

– This paper provides a time series perspective to the finance-growth nexus and highlights the potential contribution of effective banking development to the economic welfare of the Ghanaian citizens.

Keywords: Causality, Cointegration, Bank competition, Endogenous growth, Financial innovations