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Economic development and banking sector growth in Pakistan

Ahsin Shahid , Hibba Saeed & S. Muhammad Ali Tirmizi

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Abstract

This study empirically analyzes the financial and economic development in Pakistan with reference to banking sector. Time series data of Pakistani banks from 1980 to 2012 have been employed. Statistical analysis including Augmented Dickey-Fuller, Johansen co-integration, ordinary least square (OLS) regression, and Granger causality tests have been applied on the data relating four indicators (i.e. Broad Money (M_2); Domestic Credit to Private Sector; Domestic Credit to by Banking Sector; and Banks Deposit Liabilities (BDL) - all taken as percentage of gross domestic product] which measured the level of financial development (FD) contributed by banking sector. The results revealed that a positive and statistically significant relationship exists between FD and economic growth. However, BDL are positive but statistically insignificant, and M_2 is negative and statistically insignificant. Moreover, unidirectional and bidirectional causality have been found between the variables. Hence, there is a dire need of sound

banking sector to ensure long-term sustainable economic growth that could be achieved if the Government takes concrete measures to reduce all kinds of deficits and borrowings that are the major causes of crowding-out private investment.

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