

Impact of Stock Market Development and Banking Sector Development on Economic Growth of BRICS countries: A panel data analysis

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Abstract

This paper studies the impact of stock market and banking sector development on economic growth of the BRICS nations, for the period 1998-2017. With the help of a Panel Estimated Generalized Least Squares (EGLS) model and by analysing causal links using the Granger Causality test, the magnitude and direction of relationship of various stock market, banking sector variables and GDP growth is tested. A bi-directional causal relationship is observed between credit to private sector by banks and GDP growth as well as market capitalization and GDP growth. Owing to high and significant coefficients of these variables obtained from the EGLS model, they are considered the most influential variables in affecting economic growth in this study. The causality analysis as well as regression estimates point towards a strong contribution of the banking sector development in economic growth. These results are attributed to the sound policies and measures adopted by the BRICS nations to strengthen their banking system. The study finds a positive relation between stock market variables like market capitalization, total value of stocks traded and economic growth which is also evident by success stories of economies like China with ever-increasing market capitalization. The policymakers of BRICS nations should comprehend the possible impact stock market and banking sector development can have on fuelling economic growth. The study supports the notion that financial development is the engine of economic growth.

Keywords: stock market, banking sector, BRICS, EGLS, Granger Causality, market capitalization, GDP growth.