ABSTRACT

Does the Banking Sector Accelerate Economic Growth? Assessing Evidence from African Countries

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The relationship between financial development and economic growth has received much attention in the economic literature in recent years in the world and very little in Africa. Some of the studies have generally found that financial development has a strong positive effect on growth. However, some scholars find that finance may have a different effect on growth in different countries, time periods or stages of development. In addition a number of studies point out at a possible causality running from growth to finance. This paper attempts to assess the empirical relationship between financial development (with a focus on the banking system) and economic growth in African economies using cross-section instrumental variable estimation procedure and a data set of 103 countries (out of which 38 African countries) averaged over1965-2000. The findings suggest that the exogenous variations of financial development are positively associated with variations in the growth rate of per capita GDP in the selected African countries. The cross-country differences in legal origin and in geographical distance from world's major banking centers help account for differences in financial development in

African economies. Compared to the rest of the World, financial development explains a very little share of economic growth in African countries.