

Financial sector development and economic growth in the Southern African Development Community region

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Abstract

Orientation: The relationship between financial sector development and economic growth has been the subject of intense debate for some time. The debate has received substantial attention in both empirical and theoretical literature and remains inconclusive. **Research purpose:** This study examines the relationship between financial sector development and economic growth in Southern African Development Community (SADC) contributing to the ongoing debate. The study uses the SADC as the laboratory case. **Motivation for the study:** The protocol on finance and investment seems to foster harmonisation of the financial and investment policies in order to make them consistent with the objectives of SADC. Competent implementation of financial policies suggests that each country in the region should be able to bring sustainable economic growth and development. Southern African Development Community's protocol for finance and investment spells out objectives and actions that are meant to improve financial development. **Research approach/design and method:** The study used the Fixed Effects panel data approach and seemingly unrelated regression estimators (SURE) methods covering the period 1990 to 2014. Financial development was measured using money supply with control variables such as inflation, interest rates and country openness. Other growth related variables that were used include population growth rate and gross fixed capital formation. **Main findings:** Results from the fixed-effects model showed that inflation; gross fixed capital formation; and openness of a country significantly influenced economic growth. The fixed effects result confirmed a positive association between financial sector development and economic growth in SADC region. The SURE results show that there is heterogeneity across the SADC countries. **Practical/managerial implication:** The study shows that SADC countries should improve the financial sector landscape to enhance economic growth. The results imply that among the SADC convergence criteria, emphasis should be placed on stabilising the financial sector landscape. **Contribution/value-add:** The study has contributed to the debate on the relationship between financial sector developments especially more in the context of Southern African Economic Community which is working towards achieving a convergence macroeconomic framework.

Keywords: financial sector development; economic growth; Southern African development community; nexus; fixed effects.