National University of Science and Technology

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FACULTY OF COMMERCE

DEPARTMENT OF BANKING

"An analysis of the impact of financial sector development on economic growth: A comparative study of Zimbabwe and South Africa"

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ABSTRACT

The impact of financial sector development on economic growth is a controversial issue. There has been lack of a clear cut study on the impact of financial sector development on economic growth specifically in Zimbabwe, for developing countries, empirical studies have provided mixed result. This research sought to help the research community by furnishing them with a clearer and detailed research which zeros in on two Sub-Saharan countries to facilitate a consistent conclusion to be reached. This study sought to empirically explore the relationship and the causal link between financial sector development and economic growth in two sub-Saharan African countries between 1990 and 2011. The primary objective of the study was to analyze the impact of financial sector development on economic growth, in Zimbabwe and South Africa. The empirical investigation is carried out using econometric models. The study used three most commonly used indicators of financial development MktCap, M2 and CrPvt in line with the literature. The test for a relationship was carried out using two approaches, estimating an equation using the vector error correction model (VECM) and causality was tested using the Pairwise Granger causality test. All-time series data had undergone preliminary tests for unit root using the Augmented Dickey-Fuller test. A co-integration procedure was also done in order to detect the existence of the number of cointegrating equations. The Data for the 21 year period under study was sourced from the World Bank data base and the respective Reserve Banks of the two countries. Using this above methodology the study first found that in both countries there is a positive and long-term relationship between all the indicators of financial development and economic growth which was proxied by the real GDP. With respect to the causality test, the tests provide mixed results especially in South Africa. In Zimbabwe the study found that there is an independence relationship between financial sector development and economic growth using Pairwise Granger and VECM, whereas in South Africa financial sector development causes economic growth when the VECM method was used.