

Financial Development and Economic Growth: Evidence from States in India

Abstract

This essay examines the relationship between financial development and economic growth using unique panel data from states in India, for a 30-year period. Using instrumental variable technique, this study finds strong positive impact of financial development on growth and this result is robust for alternative specifications. Further, this paper examines the effect of economic reforms and inflation on the finance–growth relationship. Using the post-1991 years as the reform years, the results provide evidence of a positive impact of financial development on growth only in periods after the initiation of economic reforms. With regard to inflation, the results provide evidence of a strong positive relation between financial development and economic growth when inflation is low. However, at moderate inflation levels, this relationship between financial development and economic growth declines in magnitude as well as in significance and finally becomes insignificant at high levels of inflation.

Local Financial Development and Economic Growth: Evidence from Districts in India

Abstract

We examine financial development and economic growth relationship at the local level. Using unique panel data from districts in India, we find that financial development is a strong factor in fostering economic growth. We segregate the relation between financial development and economic growth across urban and rural districts and find that this relation is not biased by presence of big cities and holds in rural districts as well. We find that marginal growth impact of financial development in rural districts is higher than that in an urban district. We find that financial development is a significant driver

of growth in districts with high as well as low literacy levels. However, as growth-fostering factors, an improvement in literacy levels acts as a substitute for financial development.

Bank ownership, financial development and local economic growth: evidence from districts of India

Abstract

This essay examines whether ownership of financial intermediaries affects the relationship between financial development and economic growth at the local level. The presence of state-owned, private, and foreign banks across the districts of India enable us to study if the relationship between financial development and economic growth is influenced by the ownership of banks using a unique dataset that provides credit and deposit at a district by bank ownership type. We find that while financial development, irrespective of bank ownership; positively affects economic growth of districts; financial development from private and foreign banks has a significantly higher impact on economic growth compared to financial development from state-owned banks. However, when we examine the impact of bank ownership for rural and urban districts separately, we find that financial development by state-owned banks has a higher impact in rural areas, where the presence of private and foreign banks is limited. In more urban districts, financial development by private banks has a significantly higher effect on local economic growth compared to financial development by state-owned banks.