IMPACTS OF FINANCIAL DEPTH AND DOMESTIC CREDIT ON ECONOMIC GROWTH: THE CASES OF LOW AND MIDDLE-INCOME COUNTRIES FROM 1995-2014

By

LE THI HOANG ANH

Academic Supervisor

Dr. Pham Thi Bich Ngoc

ABSTRACT

This paper focuses on the impacts of financial development on economic growth with the cases of 122 low and middle-income countries from 1995 to 2014. Indicators for financial development include the ratio of liquid liabilities to GDP and the ratio of domestic credit to private sector by banks to GDP. Control variables include the inflation rate, the ratio of government final consumption expenditures to GDP, the ratio of exports and imports to GDP, and the total enrollment in secondary education. Research results are drawn from estimation methods of Pooled OLS, FEM (Fixed Effects Model), REM (Random Effects Model) and GMM (Generalized Method of Moments). Accordingly, financial development is concluded to have negative effects on economic growth in countries with low and middle incomes during 1995-2014. The explanations for the negative impacts can be drawn from the fact that capital investments tend to have low productivity and weak efficiency in countries with low and middle incomes.