

IMPACT OF BANKING SECTOR PERFORMANCE ON ECONOMIC GROWTH OF PAKISTAN



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A THESIS PRESENTED TO BAHRIA UNIVERSITY, ISLAMABAD
IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE
DEGREE OF MS FINANCE

JANUARY 2018

Abstract

Banking sector of any economy plays the role of backbone to it. Hence having vital and crucial importance in terms of altering the course of economic growth. In case of Pakistan, its banking sector is rapidly growing, yet there is still much need for improvement. This study is an endeavor to check the impact of banking sector development on the economic growth of Pakistan. For this purpose we have adopted panel data model and data from 2001 to 2016 is used for analysis at both provincial and federal level, making five cross-section (1 for Federal, and 4 for provinces). It is concluded that the variable of Advances has significant positive impact on the GDP growth of Pakistan. While Deposits are found to be statistically insignificant in the model. The reason is well explained as the amount of deposits with the banks is not being properly circulated in the economy, hence showing no significant impact on the GDP growth of Pakistan. Interest rate is also found to be negatively affecting the GDP of Pakistan, which is in line with the theory. As increase in the interest rate is a contractionary monetary policy that is meant to reduce economic activity in the country. Deposit of Punjab is found to have significant positive impact on the GDP growth of Pakistan. Whereas, Deposits of KPK and Balochistan are found to have significant negative impact on the GDP growth of Pakistan. As we saw in the descriptive analysis, that the gap between deposits and the advances was much higher in these two provinces, meaning thereby the money is not being circulated in the economy, and finances for investment opportunities are not adequately available. All the variables for provincial advances, are all found to have significant positive impact on the GDP growth of Pakistan. Yet we can see that the impact of Punjab is much higher than other provinces, a one percent increase in the growth in advances in Punjab results into 0.64% increase in the GDP of Pakistan, which is highly significant even in magnitude. Province of KPK is found to have least impact on GDP growth in terms of magnitude. It is found that Deposits unless converted to Advances not significant effect on GDP growth, but at times it may negatively affect it. Therefore based on the findings of the study, it is recommended that the policies should be formulated that shall bring the money from banks to the investors.

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