

**IMPACT OF FINANCIAL DEVELOPMENT AND  
FINANCIAL DEEPENING ON ECONOMIC  
GROWTH OF PAKISTAN**



**By**

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## Abstract

In the present study, we have examined the impact of Financial Development and Financial Deepening on the GDP growth of Pakistan, for which we have used the data from 1980 to 2016. Since time series data was under examination, first of all Unit Root test were applied and based on their results we adopted Auto Regressive Distributed Lag (ARDL) model. It is concluded that financial development has a significant and positive impact on the economic growth of Pakistan. At the same time, financial deepening has also significant positive impact on the economic growth of Pakistan in the long run. Yet, we can see that the impact of financial development is larger than the impact on financial deepening in magnitude. While interest rate has come up with the result inconsistent with theory, that an increase in interest rate shall have negative impact on the GDP growth. While Real effective exchange rate (REER) has also been shown to be consistent with theory, that shows that a depreciation of the REER shall have positive impact on the GDP growth in the long run. While, in the short run, both financial development and the financial deepening are appeared to be positively significant with GDP growth rate. Meaning thereby, these two variables affect GDP growth rate in the short run also. While interest rate has shown to be statistically insignificant. On the other hand, REER has shown to be statistically significant and having positive impact on GDP growth rate in the short run as well. ECT(-1) term shows the speed of adjustment, if any shock from the independent variables occur, then how much time shall it take to bring GDP growth rate on its long run path, the results shows that it take very little time. In a time period of 6 months the effect of shock fades away. The study shall play an important role in order to have an appropriate understanding of

an economy, the financial sector's understanding is pivotal. This study shall be helpful for policy makers to understand the impact of Financial Development and Financial Deepening on the Economic growth of Pakistan. And to formulate the suitable policies that may further stimulate the development of financial sector of Pakistan, thereby resulting into higher growth rates

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