

Title of Paper: "**Financial Development and Economic Growth: The Case of South Africa**".

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### **Abstract**

The general consensus of an ever-increasing number of empirical and theoretical works on economic growth is that a well-developed financial system plays an essential role in fostering a country's economic growth. In view of this and the fact that South Africa is sub-Saharan Africa's largest economy and also, boasts the most developed financial sector on the continent, this study analyses the evidence on the financial depth - growth link for the case of South Africa.

To better capture financial development in South Africa, this study disaggregates measures of financial depth into indicators covering both the banking sector and securities markets. The ratio of commercial banks assets to the Reserve Bank plus commercial banks assets, the ratio of commercial bank liabilities to GDP and ratio of private sector credit to GDP are each used to proxy financial depth in the banking sector. In the securities market, financial deepening is captured by two indicators- the ratio of stock market capitalization to GDP and the ratio of stock plus bond market capitalization to GDP.

Based on data and information from the period 1970-2000, the impact of financial development on South Africa's economic growth is empirically evaluated using an endogenous growth type model. In addition, causality tests are performed between the various measures of financial depth and economic growth. The results obtained indicate that financial development exerts a significant impact on economic growth in South Africa; however, the effect on economic growth varies with each of the different measures of financial depth.

The results from the causality tests suggest that financial deepening and economic growth are independent in South Africa.