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The Influence of Financial Market Development on Economic Growth in BRICS Countries

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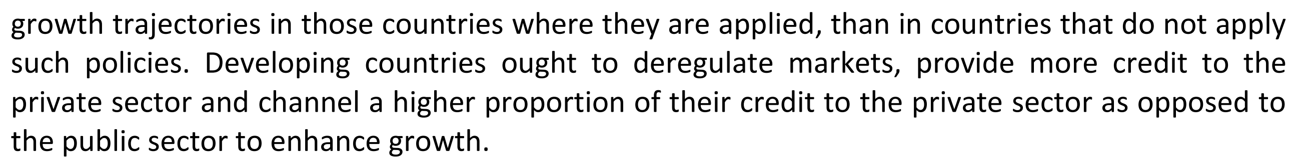
The debate about the influence of financial market development on economic growth has been ongoing for more than a century. Since Schumpeter (1912) wrote about the happenings on Lombard Street, right up to the economists of today, there is growing interest into how financial market development affects economic activity and hence economic growth. Financial market development is always expected after financial sector reforms. In their study, King and Levine (1993a; 1993b) demonstrated that financial-sector reforms in five developing countries that had experienced financial-sector reforms were widely associated with increases in their measures of financial development. Lynch (1996) noted that "As initial liberalisation leads to positive real interest rates, only projects with positive real returns are undertaken. Positive real interest rates stimulate greater financial saving, significantly increasing monetisation of the economy, and financial intermediation." Financial sector reforms will result in positive movements in the measures of financial development.

Chittedi, (2009) noted that BRICs nations reformed their financial regulations and policies to attract foreign portfolio flows and contribute to their stock market development and banking sector development. This resulted in a fundamental shift in the financial structures of these countries and capital flows from developed nations. Gries et al. (2008) concluded that these countries have been interested in fostering their financial development, by reducing governmental intervention in national financial sectors, privatising banks and enhancing market capitalisation. Such policies were implemented in the expectation of promoting growth through, inter alia, a higher mobilisation of savings or a rise in domestic and foreign investments.

The econometric analysis conducted to compare the aforementioned policy direction between BRICS and non-BRICS emerging economies concludes that a 1% increase in financial market depth causes BRICs economies to grow 13% faster than non-BRICS economies; a 1% increase in the assets of banks compared to the total assets of the financial sector including the central bank, causes BRICS economies to grow 2.32% faster than non-BRICS economies. A 1% increase in credit extended to the private sector causes BRICS economies to grow 2.32% faster than their non-BRICS counterparts. More financially open markets can accelerate growth for developing or emerging economies

The presence of a relationship between increases in measures of financial market development and economic growth, signal to initiatives that have to do with opening up financial markets to international capital flows, deregulation of functioning financial markets and channelling more funds to the private sector rather than to the public sector. These policies engender higher



growth trajectories in those countries where they are applied, than in countries that do not apply such policies. Developing countries ought to deregulate markets, provide more credit to the private sector and channel a higher proportion of their credit to the private sector as opposed to the public sector to enhance growth.