

THE ROLE OF FINANCIAL DEVELOPMENT IN POST-WAR ECONOMIC GROWTH

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ABSTRACT

Post-war countries need to achieve economic recovery and reduce the risk of future escalation. We focus on the economic recovery and investigate the role of the sector. We specifically examine the impact of financial development on post-war economic growth using Pooled OLS and multiplicative dummy variable regression technique based on a panel dataset of eight recent war-torn countries in the same era from 1970 to 2007 obtained from world bank data base. Our results show that financial development significantly and positively affects postwar economic growth, and this effect is greater than the effect during per-war and war periods. We also confirmed that other control variables such as trade openness are the only variable that drives economic growth negatively in both post war, war, and prewar periods. The lending interest rate affects postwar and war period economic growth negatively. The central government debt drives post and prewar economic growth negatively. The official exchange rate, and domestic savings rates show a positive significant impact on the economic growth of post war and war periods, respectively. Our study result also shows that the gross national expenditure and foreign direct investment shows a positive significant relationship with prewar economic growth.

Keywords: Financial development, economic growth, post-war, pooled OLS, multiplicative dummy regression.

Jel Classification: B26, F36, F65

INTRODUCTION

Post-war countries face significant challenges. Destruction of physical and human capital, weakening state functions, and economic disturbances impede post-war economic growth. Collier et al. (2008) argue that post-war countries should focus on achieving sustainable economic recovery and preventing future hostilities. Post-war reconstruction involves complex relationship among various state institutions and requires varied interventions both at local and national level (Barakat, and Zyck, 2009) International aid and support from key allies play a significant role.

However, the effectiveness of international humanitarian aid and foreign economic assistance depends on the quality of socio-economic policies and the size of aid received by the country (Collier and Dollar 2002). Among key determinants of post-war economic recovery are geographic location, natural resources, international remittances, credibility, and effectiveness of monetary and fiscal policies (Nkurunziza 2008; Felipe et al. 2010; Polchanov, 2017).

In this paper, we focus on the role of the financial sector. We specifically examine whether financial development accelerates economic growth in post-war countries. Prior literature on finance shows that financial development is one of the significant determinants of economic growth (King and Levine 1993). As Schumpeter argued, financial services contribute to technological innovation and economic development through mobilizing savings, accumulating, and allocating capital efficiently. Despite the prior literature thoroughly investigating the nexus between the financial sector and economic growth, this relationship in the context of war-torn economies, especially during the post-war period is underexplored. We believe the effect of this relationship will be more evident in societies experiencing the consequences of warfare. Post-war economies suffer from the lack of sustainable economic recovery and often the risk of renewed conflict rises if socio-economic challenges are not overcome. Moreover, economic gains in post-war economies may not be distributed across different groups of society which further increases civil unrest. The development of the financial sector can provide war-torn societies with long-term productivity growth and economic efficiency improvements for equitably growth.

Our study results show that financial development significantly and positively drives postwar economic growth. The financial sector is an essential part of the country's economic system, and the development of this sector is expected to contribute towards growth and reconstruction of the post-conflict society economy. The objective of this study was to investigate the effect of financial sector development on postwar economic growth and explore the mechanisms of this effect through the control of monetary and other variables.

The paper contributes to three different angles. First, it examines the effect of financial development on fostering postwar economic growth in the recent war-torn countries. Second, it compares the effect of financial development in three phases of periods: the prewar period, the war period, and the postwar period. Third, since the link between financial development and economic growth did not have single argumentative conclusion, this study contributes by adding new evidence on the finance development nexus economic growth relationship.

LITERATURE REVIEW

According to the economic theory, resilient and effective financial systems such as banks, stock markets, and bond markets, which channel financial resources for productive purposes, contribute to promoting economic growth. The link between financial development and economic growth has received renewed attention from researchers since the 1990s. However, the first finance nexus economic growth relationship theory was developed by Joseph Schumpeter in 1911. According to his theory, well-developed financial systems would promote savings for productive purposes, efficiently allocate resources, strengthen risk management, and reduce information irregularities, encouraging innovation and entrepreneurship to promote national economic growth. Following Schumpeter's theory, King and Levine (1993) explored the empirical relationship between financial development and economic growth and confirmed the result that financial development is robustly and highly positively associated with growth. Similarly, Gregorio and Guidotti (1995) confirm a strong positive association between financial development and economic growth in a large sample of countries. Other studies find similar results in cross-country analyses for different regions, such as ten European Union countries over the period from 1994-2007 (Caporale et al. 2014), sixteen low-income countries (Bist 2018), for BRICS countries (Guru and Yadav 2019), for thirty-two sub-Saharan African countries (Yusheng et al. 2021), for select countries in Southeast Asia (Ho et al. 2021), for six Balkan economies (Rehman and Hysa, 2021), and for emerging economies (Sarwar et al. 2020; Minh et al. 2022).

In contrast, numerous studies also find that the effect of financial development on economic growth is not always positive and depends on macroeconomic policies. For example, Gregorio and Guidotti (1995) argue that the main channel of transmission from financial development to growth is the efficiency of investment. They show that the relationship between financial development and economic growth becomes inverse in select Latin American countries due to poor regulatory environment and low efficiency of capital allocation. Sarwar et al. (2020) show that this relationship is positive when financial development also contributes to human capital growth. Samargandi et al. (2015) conclude that too much finance exerts a negative influence on growth in middle-income countries for shorter time horizon. Asteriou and Spanos (2019) examine the relationship between financial development and economic growth in Europe during the recent global financial crisis. Their findings indicate that financial development fosters economic growth, before the crisis, while after the crisis this effect becomes negative. and confirmed the result that in the precrisis period.

These studies suggest that the effect of financial development on economic growth depends on human capital, the efficiency of corporate investments and the financial markets, and the effectiveness of regulatory environment. Different from these studies, we focus on the war-torn societies and examine the effect of financial development on economic growth, specifically during the post-war period. Aghion et al. (2004) show that temporary macroeconomic shocks have large and persistent effects. Thus countries that are going through a phase of financial development and experiencing warfare may become more unstable in the short run and financial shocks may lead to negative economic growth. Aghion et al. (2005) show that when country falls behind technologically and suffers from a loss of human capital, it becomes increasingly difficult to absorb new global technology and innovate faster which is the key to convergence to global living standards. The lower the level of financial development in the country, the greater will be this disadvantage. Our paper investigates this effect and examines the role of financial development for post-war economic growth.

RESEARCH METHODOLOGY

We use macroeconomic panel data on eight select countries with lengthy war experience from 1970-2007. The sample countries selected based on data availability such that we require at least 10 years of data after the war to see the immediate effects of financial sector development on the economic growth of a post-war society. We also compare the effect of financial development on economic growth after the war period, to the same effect during the pre-war and during the war periods. Our dependent variable is the proxy variable used for the dependent variable is the real GDP per capita annual growth rate. Following previous studies (Abdul Rahman, Muhammad Arshad Khan, and Lanouar Charfeddine, 2020) (Bist, 2018) (Dimitrios Asteriou and Konstantinos Spanos, 2019) (Biplab Kumar Guru, Inder Sekhar Yadav., 2019), we use domestic credit provided to private sector (scaled by GDP) as the key explanatory variable and our proxy for financial development. We include official exchange rate, money supply annual growth, and lending interest rate to control for the effect of monetary and fiscal policy. Also, we control general national expenditures, central government debt, domestic saving, trade openness, foreign direct investment, and foreign aid to isolate the effect of financial development. We retrieved the data for all the variables used in this study from the World Bank database.

Taking to consider from the theoretical linkages between financial development and economic growth relationship advocated, our theoretical models presented. First, in line with our analytical framework, this study proposes a theoretical model where real GDP per capita is driven primarily by financial development and sets of control variables during postwar/war and prewar periods.

$$RGDP_{i,t} = \alpha_0 + \beta_1 FD_{it} + \delta M_{it} + \gamma X_{it} + \mu_{it} \dots\dots\dots (1)$$

Where the dependent variable is RGDP it stands for real gross domestic product per capita, i and t subscripts defined as i=1, 2...,8 war-torn countries and t=1970...,2007. Then, α_0 denotes the intercept; β , δ , and γ are the vectors of coefficients; FD it is financial development measures (domestic credit provided to private sector % GDP); M is monetary control variables (official exchange rate, money supply and lending interest rate); X it is a set of other control variables (Gross national expenditure, Central government debt, Domestic saving, Trade, Foreign direct investment, Aid) and μ_{it} captures an error term.

Given that the primary purpose is to investigate the impact of financial development on economic growth through a comparative approach before/during/after war, the study uses in the above model three dummy variables: one for the post-war period 10 years after war, one for the pre-war period 10 years before the war, and one for the war period.

The Hausman test & Breusch-Pagan Lagrange multiplier was used to decide between fixed effects (FE), random effects (RE) and pooled OLS estimates. Under the full set of random effects assumptions, the results from the Hausman test suggest that the RE assumption accepted; therefore, we run Breusch-Pagan Lagrange multiplier decide RE and Pooled OLS, the estimation result suggest that Pooled OLS Method is proper for this study.

An increase in the independent variable "X" is associated with an increase/decrease in the dependent variable "Y", while Z is a dummy variable equal to one if the required condition met, and zero otherwise (if Z is not the condition). To see this, we present the following model.

$$RGPG = \beta_0 + \beta_1 FD + \beta_2 Z + \beta_3 FD * dummy\ pre - war + \beta_4 FD * dummy\ war + \beta_5 FD * dummy\ post - war + u_{it} \dots\dots\dots (2)$$

RGDP = annual growth of real GDP per capita
 Z = set of control variables.

FD = financial development proxied by domestic credit provided to the private sector % GDP.

It is obvious to see that the model presented in the above Eq. captures the effect of one unit change in FD on RGDPG

When the condition of the dummy variable is absent (dummy=0), which is $\beta_1 + \beta_2$ ($\partial \text{RGDPG} / \partial \text{FD} = \beta_1 + \beta_2$).

When condition dummy is present such as pre-war exist (pre-war=1) the effect of one unit change in FD on RGDPG is $\beta_1 + \beta_2 + \beta_3$ ($\partial \text{RGDPG} / \partial \text{FD} = \beta_1 + \beta_2 + \beta_3$).

There are war dummies (War = 1) the effect of one unit change in FD on RGDPG is $\beta_1 + \beta_2 + \beta_4$ ($\partial \text{RGDPG} / \partial \text{FD} = \beta_1 + \beta_2 + \beta_4$).

There are post war dummies (post-war = 1) the effect of one unit change in FD on RGDPG is $\beta_1 + \beta_2 + \beta_5$ ($\partial \text{RGDPG} / \partial \text{FD} = \beta_1 + \beta_2 + \beta_5$).

*We use log value for official expenditure, central government debt and gross national expenditure variables.

Variable description, measurement, and data source

| No | Variable Id | Variable name | Measurement | Data source |
|-----------------------------------|-------------|---------------------------|---|-----------------------|
| Dependent variable | | | | |
| 1 | RGDPG | Economic growth | Annual real GDP per capita growth | World bank data base |
| Study variable | | | | |
| 2 | FD | Financial development | Domestic credit provided to private sector %GDP | World bank data base |
| Monetary control variables | | | | |
| 3 | Off exc | Official exchange rate | Rate of Local currency exchange by dollars | World bank data base |
| 4 | Ms. | Money supply | Annual growth of the broad money supply annual growth | World bank data base |
| 5 | LIR | Interest rate | Lending interest rate | World bank data base |
| Control variables | | | | |
| 6 | GNEXP | Expenditure | Gross national expenditure | World bank data base |
| 7 | C.govt debt | Debt | Central government debt | World bank data base |
| 8 | D.Saving | Saving | Domestic saving rate | World bank data base |
| 9 | Trade | Trade openness | Trade %GDP | World bank data base |
| 10 | FDI | Foreign direct investment | Foreign direct investment net inflows %GDP | World Bank data base. |
| 11 | Aid | Aid effectiveness | Net ODA received per capita | World bank data base |

Source: Authors construction based on literature review

Limitation of the study

Since this study investigate the role of financial development in postwar economic growth in panel study of eight recent war-torn countries, it does not consider the length of war for each specific countries and other countries specific effects will affects the study results. As a result, for further researchers, we recommend replicating this study at individual countries level.

DATA ANALYSIS AND CONCLUSIONS

In Table 1 we show the impact of financial development on the economic growth of post war, war, and prewar period respectively using Pooled OLS regression technique. The results revealed that financial development has a statistically positively significant impact on post-war economic growth. However, we found that insignificant relationship between financial development and economic growth in war and prewar period. Also in column 2, column 3, and column 4 We show the strength of financial development impact on economic growth through specifically controlling monetary policy and other control variables and controlling both monetary and other variables in the model, respectively. The results reveal that the impacts show strong significant and positive when including monetary variables in the regression model for post war economic growth, while weak and insignificant for war and prewar period.

We also confirmed that trade openness is the only variable that drives economic growth negatively in both post war, war, and prewar periods. The lending interest rate affects postwar and war period economic growth negatively. While the central government debt drives post and prewar economic growth negatively. The official exchange rate, and domestic savings rates show a positive significant impact on the economic growth of post war and war periods, respectively. Our study result also shows that the gross national expenditure and foreign direct investment shows a positive significant relationship with prewar economic growth.

In Table5 we run multiplicative dummy regression analysis. The first two models show the results of the whole sampled periods from 1970 to 2007, We find that financial development proxied by domestic credit provided to private sector % GDP have a positive and statistically significant impact on economic growth. Similarly official exchange rate, general government expenditure domestic saving and foreign direct investment affects economic growth positively. While the money supply, lending interest rate, and trade openness drive economic growth negatively. In column 3 and 4 we show the impact of financial development and economic growth when the prewar period was used as a dummy variable.

Our regression analysis confirmed the insignificant relationship between the prewar financial development dummy and economic growth. In column 5 and 6, we show that the prewar financial development dummy has a statistically negative significant impact on economic growth.

Curiously, the regression analysis results in column 6 and 7, reveal that postwar period financial development dummy promotes economic growth positively. Additionally, gross national expenditure, domestic savings, and foreign direct investment positively affect economic growth in both periods, while trade openness drives negatively. The lending interest rate affects prewar and post war economic growth negatively, however its impact during war period economic growth is insignificant.

CONCLUSION

The main objective of this study was to see the role of financial development in postwar economic growth based on eight recent war-torn countries panel data that cover the prewar and postwar period ranging from 1970 to 2007. The study period covers the data of the most recent 10 years data after war. Also, to see if there is significant impact difference in pre and post war period the study includes the most recent 10 years prewar data. After checking the best models for panel regression analysis, the study employed the pooled OLS regression technique. The results of the pooled OLS regression analysis prove that financial development proxied by domestic credit provides to private sector % GDP helps to drive postwar economic growth positively; however, its impact during the prewar and war period has been shown to be insignificant. Furthermore, to verify the robustness of the study result, this study also uses the dummy multiplicative regression analysis technique. The regression result shows that the pre-war financial development dummy showed an insignificant impact on economic growth. However, the war period financial development dummy affects economic growth negatively, while the post-war period used as a dummy variable, financial development drives postwar economic growth positively. In addition, gross national expenditure, domestic savings, and foreign direct investment positively affect economic growth in both periods, while trade openness drives negatively. The lending interest rate affects prewar and post war economic growth negatively, however its impact during war period economic growth is insignificant. Finally, this study recommends for further investigation to replicate this study at individual country level and include other measures of financial development proxy variables.

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2. Appendix

Table 2: List of sampled countries

| NO | Country name | Year start war | Year-end war |
|----|----------------|----------------|--------------|
| 1 | El Salvador | 1979 | 1992 |
| 2 | Guinea- Bissau | 1998 | 1998 |
| 3 | India | 1985 | 1993 |
| 4 | Nicaragua | 1982 | 1990 |
| 5 | Peru | 1982 | 1995 |
| 6 | Serra Leone | 1991 | 1996 |
| 7 | South Africa | 1989 | 1993 |
| 8 | Uganda | 1980 | 1988 |

Source: UNDP 2008

Table 3: Descriptive summary

| Variable | Obs | Mean | Std. Dev. | Min | Max |
|--------------|-----|---------|-----------|---------|----------|
| RGDPG | 224 | 0.342 | 5.402 | -29.462 | 21.028 |
| FD | 224 | 19.956 | 15.824 | 0.000 | 66.785 |
| Off exchange | 224 | 218.180 | 538.828 | 0.0714 | 2985.186 |
| Money supply | 224 | 29.964 | 15.033 | 7.288 | 69.896 |
| LIR | 224 | 47.797 | 300.041 | 3.000 | 4260.014 |
| GNEXP | 224 | 106.056 | 8.150 | 85.670 | 145.497 |
| C. govt debt | 224 | 60.841 | 41.783 | 7.747 | 217.139 |
| D. saving | 224 | 12.055 | 11.333 | -20.164 | 36.190 |
| Trade | 224 | 43.863 | 17.592 | 7.662 | 97.729 |
| FDI | 224 | 1.121 | 3.555 | -28.624 | 32.301 |
| Aid | 224 | 31.757 | 37.305 | 0.649 | 187.231 |

Source: Authors computation using STATA ,2023

RGDPG; Real gross domestic annual growth, *FD*: financial development, *Ms*: annual money supply growth, *LIR*: Lending interest rate, *GNEXP*: Gross national expenditure, *C. Govt debt*: central government debt, *D. saving*: Domestic saving, *Trade*: Trade openness, *FDI*: Foreign Direct Investment and Aid.

Table 4: Correlation matrix

No. of observations = 224

| | RGDP G | FD | Off EXC | Ms. | LIR | GNEXP | C.govt debt | D.saving | Trade | FDI | Aid |
|----------------|-----------|--------|------------|--------|--------|--------|----------------|----------|-------|-------|-------|
| RGDPG | 1 | | | | | | | | | | |
| FD | 0.093 | 1.000 | | | | | | | | | |
| Off EXC | 0.134 | -0.239 | 1.000 | | | | | | | | |
| Ms. | 0.013 | 0.776 | -0.154 | 1.000 | | | | | | | |
| LIR | -0.119 | -0.223 | -0.027 | -0.199 | 1.000 | | | | | | |
| GNEXP | 0.108 | -0.162 | 0.168 | -0.219 | -0.436 | 1.000 | | | | | |
| C.govt debt | -0.074 | -0.412 | 0.269 | -0.206 | 0.017 | 0.411 | 1.000 | | | | |
| D.saving | 0.155 | 0.450 | -0.093 | 0.347 | 0.199 | -0.552 | -0.310 | 1.000 | | | |
| Trade | -0.174 | 0.115 | -0.142 | -0.011 | -0.237 | 0.099 | 0.047 | -0.208 | 1.000 | | |
| FDI | 0.299 | 0.002 | 0.193 | -0.067 | 0.017 | 0.098 | 0.185 | -0.072 | 0.198 | 1.000 | |
| Aid | -0.082 | -0.279 | 0.269 | -0.298 | -0.203 | 0.552 | 0.618 | -0.530 | 0.455 | 0.280 | 1.000 |

Source: Authors computation using STATA ,2023

RGDP; Real gross domestic annual growth, FD: financial development, Ms: annual money supply growth, LIR: Lending interest rate, GNEXP: Gross national expenditure, C. Govt debt: central government debt, D. saving: Domestic saving, Trade: Trade openness, FDI: Foreign Direct Investment and Aid

Table 5: Pooled OLS regression analysis: Financial development and economic growth

| Variables | Post war period | | | | War period | | | | Prewar period | | | |
|----------------|----------------------|----------------------|----------------------|-----------------------|-------------------|--------------------|------------------------|------------------------|-------------------|--------------------|-----------------------|-----------------------|
| | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 | 1 | 2 | 3 | 4 |
| -constant | 0.7875 (0.242) | -1.211 (0.797) | -4.623 (0.873) | 19.9634 (0.526) | -2.330 (0.152) | -0.2096 (0.970) | 39.7028 (0.480) | 77.079 (0.241) | 0.6067 (0.694) | 4.4048 (0.291) | -43.806 (0.125) | -29.381 (0.435) |
| FD | 0.9994 (0.053) ** | 3.3196 (0.019) ** | 1.6043 (0.044) ** | 3.4234 (0.013) ** | 0.9595 (0.480) | 2.8681 (0.338) | 1.1509 (0.343) | 3.3859 (0.227) | 0.3975 (0.755) | 0.7646 (0.704) | 0.5972 (0.668) | 0.2525 (0.904) |
| OFFEXC | - | 1.0656 (0.053) ** | - | 0.8220 (0.174) | - | 0.1279 (0.541) | - | -0.0487 (0.797) | - | 0.0761 (0.561) | - | 0.0561 (0.659) |
| MS | - | -1.5062 (0.542) | - | -2.2312 (0.520) | - | -3.0979 (0.558) | - | -5.1683 (0.294) | - | 1.8739 (0.648) | - | -2.836 (0.943) |
| LIR | - | -0.1718 (0.926) | - | -2.8231 (0.207) | - | -0.2166 (0.857) | - | -1.0962 (0.364) | - | -1.3616 (0.423) | - | -1.7843 (0.411) |
| EXP | - | - | 8.2999 (0.570) | -2.1729 (0.892) | - | - | -14.169 (0.608) | -28.809 (0.357) | - | - | 25.2815 (0.089) * | 19.942 (0.261) |
| Trade | - | - | -8.574 (0.013) ** | -8.6172 (0.036) ** | - | - | -11.583 (0.003) *** | -13.340 (0.001) *** | - | - | -2.6416 (0.226) * | -2.4338 (0.323) * |
| FDI | - | - | 0.2161 (0.177) | 0.2559 (0.122)* | - | - | 1.1632 (0.010)** | 1.0898 (0.020) | - | - | 1.3634 (0.000) *** | 1.3521 (0.000) *** |
| Aid | - | - | 0.8128 (0.613) | 0.7458 (0.753) | - | - | 2.6179 (0.370) | 3.5237 (0.247) | - | - | -2.5297 (0.210) | -3.3671 (0.136) |
| Obs | 78 | 78 | 78 | 78 | 67 | 67 | 67 | 67 | 78 | 78 | 78 | 78 |
| R ² | 0.0411 | 0.0943 | 0.1595 | 0.2056 | 0.0077 | 0.0308 | 0.2865 | 0.3095 | 0.0013 | 0.0273 | 0.2212 | 0.2332 |

Source: Authors computation using STATA ,2023

Note: The dependent variable is the RGDP: Real GDP per capita. Figures in brackets imply t statistics. (***), (**), (*) reveal the 1%, 5%, and 10% level of significance, respectively.

RGDP: Real gross domestic annual growth, FD: financial development, Ms: annual money supply growth, LIR: Lending interest rate, GNEXP: Gross national expenditure, C. Govt debt: central government debt, D. saving: Domestic saving, Trade: Trade openness, FDI: foreign direct investment, and Aid

Table 5: Financial development and economic growth, multiplicative dummy variable regression analysis

| Period | Whole sample | | Pre-war period | | War period | | Post war period | |
|-------------------|---------------------|-----------------------|-----------------------|-----------------------|------------------------|-----------------------|----------------------|-----------------------|
| Variables | Column1 | Column 2 | Column 3 | Column 4 | Column5 | Column6 | Column7 | Column8 |
| _constant | 3.6419* (0.099) | -14.4779 (0.506) | 2.8025 (0.234) | -11.3623* (0.604) | 1.7344 (0.427) | -11.6271 (0.585) | 4.5324** (0.039) | -17.9308 (0.408) |
| FD: | 2.1200** (0.025) | 1.7532** (0.051) | 1.8918** (0.052) | 1.5418 * (0.092) | 2.0994** (0.022) | 2.0108** (0.023) | 1.3474 (0.163) | 1.2147 (0.187) |
| Off exc | 0.1960** (0.017) | 0.1022 (0.209) | 0 .2232*** (0.010) | 0.1186 (0.151) | 0.1648** (0.039) | 0 .0612 (0.447) | 0 .0990 (0.258) | 0.0844 (0.595) |
| Ms. | -2.9045* (0.110) | -2.9554* (0.087) | -2.4708 (0.185) | -2.3508 (0.191) | -1.5628 (0.382) | -1.9496 (0.255) | -3.1032* (0.083) | -3.3095 (0.055) * |
| LIR | -0.9910 (0.165) | -1.6032** (0.040) | -0.7636 (0.307) | -1.3280* (0.103) | -0.4604 (0.512) | -1.1169 (0.151) | -1.2220* (0.084) | -1.7444** (0.025) |
| GNEXP | - | 14.2874 (0.165) | - | 12.0355 (0.250) | - | 12.1024 (0.230) | - | 16.6962* (0.104) |
| Trade | - | -4.3707*** (0.006) | - | -4.8248*** (0.003) | - | -5.4335*** (0.001) | - | -4.3195*** (0.007) |
| FDI | - | 0.8485*** (0.000) | - | 0.8745*** (0.000) | - | 0.7313*** (0.000) | - | 0.7213*** (0.000) |
| Aid | - | -2.3178** (0.035) | - | -1.6890 (0.165) | - | -1.2567 (0.261) | - | -2.6756 (0.015) |
| FD*Pre-war dummy | - | - | 0.5058 (0.315) | 0.6224 (0.236) | - | - | - | - |
| FD*war dummy | | | - | - | -1.8807 (0.000) *** | -1.5573*** (0.001) | - | - |
| FD*Post-war dummy | - | - | - | - | - | - | 1.3802*** (0.004) | 1.0876** (0.027) |
| Observation | 224 | 224 | 224 | 224 | 224 | 224 | 224 | 224 |
| R-squared | 0.0534 | 0.2197 | 0.0577 | 0.2248 | 0.1168 | 0.2577 | 0.0880 | 0.2373 |

Source: Authors computation using STATA ,2023

Note: The dependent variable is the RGDP: Real GDP per capita. Figures in brackets imply t statistics. (***), (**), (*) reveal the 1%, 5%, and 10% level of significance, respectively.

RGDP: Real gross domestic annual growth, *FD*: financial development, *Ms*: annual money supply growth, *LIR*: Lending interest rate, *GNEXP*: Gross national expenditure, *Trade*: Trade openness, *FDI*: foreign direct investment, and *Aid*.