Determinant of Financial Development Evidence from selected Developing Countries

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Abstract
This paper attempts to determine the effect of tax revenue, government spending, inflation rate, interest rate, exchange rate on the financial development (FD) in developing countries. Secondary data have been used in this research that was taken from Global Financial Index and WDI for the 36 years from 1980-2015. A Panel ARDL model is used to establish for long extent of time and short period of time communication among the product variable. So to determine a statistics test are used such as descriptive statistics, unit rot test, granger causality test have been utilized in this research for driven conclusion. There is a positive and statistically significant connection between the tax revenue, government spending, and exchange rate on financial development. Other hand, there is a statistically significant and negative connection between the interest rate and inflation rate on financial development.

Key word: Financial development, Tax revenue, Government spending, Inflation rate, Interest rate and Exchange rate.

Introduction:
Financial development is the components of private sectors. Development approach encourages the economic development and poverty. The mechanism of the condensing cost of achieve facts, accomplish contracts and the assassinate transaction determinants in the rising financial contracts mediators and market. The more important to financial development is involved the established and enlargement of institution instrument and market that support this financing and development process. In simple words, financial development measure few improvement in generating facts about the achievable investment and the assign capital, control firms and existing corporate governance, trading, assortment, and the executives of risk, demonstration and merge of accumulation, alleviate the exchange of goods and services. Moreover, these financial reacts put impact on provision for future and investment decision and technological innovation sand for that reason economic growth.

While some good researchers believes that financial development had a strongly effect on economic growth. Four different views are properly determined by Al-Yousif (2012) the first is the stock driving perspective as per which financial development has a positive effect on economic growth. Supporters of this outlook contend that budgetary intermediation adds to financial development by raising the effectiveness of capital amassing and the turn peripheral profitability of capital. Financial intermeddlers it also increase the saving rate and the investment rate which have to economic growth.

As a key price affected of the financial system although there are many channel like inference of real exchange for the financial development increasing the focus of the awareness to the current policy argue. The most important reason in the rare increasing the attention of the financial put impact of real exchange rate in the development experience of the East Asian countries and they have evaluate the practice of a successful part of the export maintain a willing to oppose and constant the policy of exchange rate.

On the alternative way we can say that the alternative determinants of the financial effect of the exchange rate perform the exclusive area of the financial position as enlarge the responsibilities of dollarization in developing countries. The liability dollarization processes generate the currency and the sophistication.
difference among the debt and the revenue of the corporation and the devaluation of the real exchange rate have
tendency and thus the decline of the economic activity in development countries.

The financial development in developing countries had a vital subject matter of the study argue for a long-
term time. An important determinant of a financial development structure is that to intermediates, connecting
the lender and the borrowers so that the both parties can be reduced the transaction and the information cost.

Problem statement:
A problem associated with the lack of a critical mass of the research on this and related topic is that somewhat scattered nature of the literature. On the other hand one group of studies provides a experimental confirmation that genuine exchange rate and deterioration is plausible developing countries for a negative monetary record impact in rising and the developing countries because of the money related dollarization for a procedure occurring over the previous decades (cavallo et al., (2002) cespedes (2005) bebczuk et al., (2006),
varges (2009), Imam and Jacobs (2014) and Cobham (2015). In this way we concern the determinants of
financial development on developing countries such as Pakistan, India, Myanmar, Malaysia, Nigeria, Saudi
Arabia, Sudan, Swaziland, Sweden and Thailand. The current analysis is concerned on this research used Panel
data method but the previous researcher doing work on time series data.

Research objective:
1- To examined the short run or long run association among financial development and the tax revenue.
2- To examined the short run or long run association between financial development and the inflation rate.
3- To examined the short run or long run association between financial development and the exchange rate.
4- To examined the short run or long run association between financial development and the government
spending.
5- To examined the short run or long run association between the financial development and the interest rate.
6- To examined the direction of misfortune between the tax revenue, exchange rate, inflation rate, government
spending and interest rate on the financial development in developing countries.

Research Question:
Q1: Does exchange rate have connection with financial development?
Q2: Does the purpose independent variable in this study share long run connection on financial development in
development in developing countries?
Q3: Does interest rate effects on the financial development positively or negatively?
Q4: Either inflation rate effects on financial development positively or negatively?
Q5: Do the government spending effect the connection on financial development?

Research Hypothosis:
Hypothesis-1
H₁. There is a relationship between tax revenue and financial development.
H₀. There is no relationship between tax revenue and financial development.
Hypothesis-2
H₁. There is a relationship between government spending and financial development.
H0. There is no relationship between government spending and financial development.

**Hypothesis-3**

H1. There is a relationship between inflation rate and financial development.

H0. There is no relationship between inflation rate and financial development.

**Hypothesis-4**

H1. There is a relationship between exchange rate and financial development.

H0. There is no relationship between exchange rate and financial development.

**Hypothesis-5**

H1. There is a relationship between interest rate and financial development.

H0. There is no relationship between interest rate and financial development.

**Significant of the study:**

Significant of the study is typically includes an explanation of the work significant, its potential benefit and its overall impact.

Government checks the effect between the exchange rate and financial development. Helpful for others researcher they can be used this research for the future used. In this research I used those policies which help the economy of our country for future and it helpful of our economy. Help to reduce the inflation rate of our country. Control the exchange rate of the country and it will be help the research students to get information about the behavior of the economies in our countries Pakistan. In this research I used those policies which help in collect the tax revenue of the country. This paper can be used by the other developing countries as well and it can be served as a base for conducting further studies and as a secondary data.

**Literature review:**

**Tax revenue:**

Cobham (2015) analyzed the connection among tax evidence and the financial development. Nevertheless, the annual data is utilized for the extent of time 2007-2015. The current analysis employed panel VECM model. An additional result suggests the positive link between the tax evidence and the financial development in developing countries.

Dye and Merriman (1999) explored the association the effect of tax increment financing on economic development. Annually data is being utilized for the time period 1980-1995. The current study employed regression model. The finding of this study suggested a positive association between the tax revenue and financial development.

Helms (2013) investigated the connection between the impact of tax and financial development countries. Annual data is beings utilized for the time period 1965-1979. The current study employed a time series and cross section data and used correlation model. The measurement of the study suggested a positive association between the tax and financial development.

Mahdavi (2008) analyzed the connection between the tax revenue on developing countries. Annual data is beings utilized for the time period 1973-2002. The current study employed a panel data. The results of this study suggested a positive association between the tax revenue and financial developing countries.

Talvi and Vegh (2004) analyzed the connection between the tax and developing countries. Annual data is beings utilized for 56 countries (20 industrial, 36 developing countries) over the period 1970-1994. The
current study employed correlation coefficient model. The result of this analysis suggested a positive association between the tax and financial developing countries.

Imam and Jacobs (2014) explored the connection between the tax revenue on developing countries. The data is utilized for the period 1990-2003. The current study employed GMM general method used. The results of this study suggested a positive association between the tax revenue and the Middle East developing countries.

**Government spending:**

Farag et al. (2009) explored the relationship between the government’s spending for health on financial developing countries. Annual data is being utilized over the period 1995-2006. The current study employed using the panel data for more than 144 countries for 1995-2006. The result suggests that a positive association between the Government spending and the Middle East developing countries.

Zhang and Zou (1998) analyzed the connection between the government spending and the financial development. Annual data is being utilized for the time period 1978-1992. This study employed the government using provincial panel data. The finding of this study suggested positive association between the government spending and financial development.

Corsetti et al. (2012) explored the effect of government spending fluctuate with the economic environment. Annual data are being utilized for the time period 1975-2008. The current study employed a panel VECM model. The finding the study suggest the unconditional response to a positive association between the government spending and the economic environment.

Bortolotti and Fccio (2008) explored the connection between the government controls on privatized firm in financial development countries. Annually data is utilized for the period 1977-2003. In this study they used panel data for using regression models. The results of this study suggested a positive association between the government control and privatized firm on financial development in development countries.

Galstyan and Lane (2009) analyzed the connection between the government’s spending on real exchange rate in developing countries. The data is utilized for the period 1980-2004. The current study employed a panel data using 48 countries and used regression method. The result suggests that government spending has an valuable impact on real exchange rate on financial development in developing countries.

**Inflation rate:**

Boyd et al. (2000) explored the connection between inflation rate and the financial development and equity market activity. Annual data is being utilized consists of sixty four countries for the period 1960-1995. The current study employed panel model. This study suggested that there is a significant and negative connection between the inflation rate and the financial development.

Bittencourt (2010) investigated that link between the inflation rate on financial development in Brazil. Hence the data covered for the time period 1985-2004. The current analysis shows the time series on than panel data analyzed. The finding of this study suggests that there is a negative connection among the inflation and the financial development.

Epstein and Yeldan (2008) explored the connection between the inflation targeting on economic development. Annual data is being utilized for 80 countries over the extent of time 1961-2000. The current employed based on their non-linear regression method. The results of this study suggested a negative association between the inflation targeting on financial development.

Luccote (2012) explored the connection between the inflation and economic development. Annual data is being utilized for 59 countries over the period 1980-2009. The current study employed a panel VECM
model. The finding of this study suggested a positive association between the inflation and the economic development.

Khan and Schimmelpfennig (2006) analyzed the connection among the inflation and financial developments in Pakistan. The model is estimated for the period 1998-2005. The current employed a panel data for regression model. The result for this study suggested a dominate role among the inflation and the financial development in Pakistan.

Asongu (2014) conducted the connection among the inflation rates on financial development. Data is beings utilized for the period 1980-2010. They examine a panel data of 10 countries for used correlation method. The finding of this study suggested a negative connection among the inflation and the financial development.

**Exchange rate:**

Gala (2007) analyzed the connection between the real exchange rate level and the economic development. The data is beings utilized for the time period 1970-1999. The current study employed to negative connection between the growth and overvaluation for a panel of 58 developing countries. The finding of this study suggested positive connection between the exchange rate and the financial development.

Berman and Berthou (2009) explored the connection between the impacts of exchange rate on financial development. Quarterly data is beings utilized for more than 27 developed and developing countries over the extent of time 1990-2005. The current study employed the panel VECM model. The finding of this study suggested negative connection between the exchange rate and the financial development.

Edwards (1988) analyzed the connection between the exchange rate and the financial development. Quarterly data is utilized for the time period 1962-1979. The current study employed regression results. The result finding of this study is that the distinction between nominal and real exchange rates developing countries.

Broda (2002) analyzed the connection between the exchange rate and financial development in developing countries. Annual data is beings utilized for the time period 1973-1996. The current study employed a panel data. The finding of the study suggested positive association between the term of trade and the exchange rate on financial development in developing countries.

**Interest rate:**

Becerra et al. (2011) annualized the connection between the interest rate and the financial development. The data is being utilized for the time of 1997-2009. The current study employed Panel VECM model. In order to test this hypothesis they used sector level panel data to build a cross country data. The result suggests in this study is a positive association between the interest rate and the financial development.

Chance and lane (1980) analyzed the connection between the interest rate in the common stock on financial institution. Annual data is beings utilized for the time 1972-1976. The current study employed a regression model. The finding of this study covariance with interest rate could also occur if other characteristics such a high dividend yield makes certain common stocks for fixed income securities. They used two particular groups of securities whose often to interest rate movement are utilized and financial institution.

Becerra et al. (2011) explored the connection between the role of interest on financial development. Annual data is being utilized for the time period 1960-2005. The current study employed a panel regression model. The finding of this study suggested a negative association between the interest and the financial development.

Faß et al. (2004) determined the connection between the impact of interest rate and the financial developing sector. Hence study is motivated for the period 1978-1998. The GARCH-M model is used to utilize the current data. The result of this study suggests a positive association between the interest rate and the Australian financial sector.
Methodology

Conceptual framework:

The theoretical study and tentative literature recommended that corresponding macro-economic variable can persuade the financial development. These elements are tax revenue, government spending, exchange rate, inflation rate, interest rate and financial development. Using the above factors, the theoretical system can be sketched out as pursues:

Tax revenue
Government spending
Inflation rate
Exchange rate
Interest rate

Financial development

Total six (6) variables are being utilized as in this present study (tax revenue, government spending, inflation rate, exchange rate, interest rate and financial development). The current investigation is based panel data for the time period 1980-2015. In this present study we composed annual data from WDI and the Global Financial Index. In this study composed tax revenue, government spending, inflation rate, interest rate and the exchange rate as independent variable while the financial development (FD) as dependent variable.

The sensible form of this model is as given below:

Table: Variables description and sources:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Description</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>FD</td>
<td>Financial development</td>
<td>Global Financial Index</td>
</tr>
<tr>
<td>TR</td>
<td>Tax revenue</td>
<td>WDI</td>
</tr>
<tr>
<td>GS</td>
<td>Government spending</td>
<td>WDI</td>
</tr>
<tr>
<td>IFR</td>
<td>Inflation rate</td>
<td>WDI</td>
</tr>
<tr>
<td>ER</td>
<td>Exchange rate</td>
<td>WDI</td>
</tr>
<tr>
<td>INR</td>
<td>Interest rate</td>
<td>WDI</td>
</tr>
</tbody>
</table>

\[ FD_{it} = \beta_0 + \beta_1 (tr_{it}) + \beta_2 (gs_{it}) + \beta_3 (ifr_{it}) + \beta_4 (er_{it}) + \beta_5 (inr_{it}) \mu_{it} \]

Where

FD = Financial development
TR = Tax revenue
GS = Government spending
IFR = Inflation rate
ER = Exchange rate
INR = Interest rate
i = country in the panel
t = time period
$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ = sloops of coefficients

**Panel Unit root tests:**

It involve the on the whole literature the matter of facts starts with the judgment of the stationary prosperity of planned variables incorporate in to the models. There is the most pleasant useful stand point of the panel unit root tests, over the time series and the off chance and that they are overall pooled data crosswise the over units and its builds the tests powers Khan and Schimmelpfennig (2006). The most important to units root tests is that before its doings some others statistical judgments. Another’s it’s important that the units root tests is to estimation to stationary and non-stationary data to create its imitation tests and more it’s like to useful the determination of the appropriate economics techniques. In the current examination we analyzed the two units root tests such as the Levin’ Lin and Chu (LLC) tests Levin et al., (2002) and the other Im’ Pesaron and Shin (IPS) tests Im et al., (2003). A lot of numbers of methods are available in the panel units root tests but we discussed the two methods.

The most important and the benefit of the used LLC test is that it checked the heterogeneity of a variety of the cross section in existing the penal unit root tests before doing to some other numerical assessment and the main important to stationary and the non-stationary data are tech to determinates to techniques.

**Optimal lags selection:**

In order to determine how many lags to use several criteria can be used. The information criteria are the initial measures that can be adopted when selecting the appropriate lad length in a time series. However we can get a conflicting conclusion regarding the lag length selection, when these criteria are used. Let me clarify for using the example of estimating a VAR model. Then firstly one should use significantly huge statistics of delay when estimating a VAR model, of course depending on the number of observation. Secondly he should test if the same model can be estimated with fewer lags on the variable included. And the thirdly he can test the cross equation using the likely hood ratio tests is that case when the sample size is no large. A normal rule of thumb about using optimal lags is that annual data is max lags = 4/5, quarterly data maxlags = 8/12 and monthly data maxlags: 12/36.

**Panel ARDL:**

The auto regressive distributed lag (ARDL) model is beings recycled for decades to model connection between economic variable in a single equation time series. Eviews offers commanding time saving tools for the estimated and examining the properties of Auto regressive Distributed Lag (ARDL) model. The operation of ARDL path in this situation will contribute to the sensible and the competent calculation. Dissimilar the Johansen Juselius (1990) co-integration the action of Autoregressive Distributed Lag (ARDL) technique to co-integration assistance in recognizing the co-integrating vectors.
This cointegration experimental method especially help us to know whether the hidden factors in the model are cointegration or not, likely the endogenous variable. However there is numerous cointegration heading ARDL technique to cointegration cannot be tested. Hence, Johansen and Juselius (1990) approaches turn in to the alternate.

Results and Analysis

This study comprised of six variables financial development, tax revenue, government spending, inflation rate, exchange rate and interest rate. Whereas the outcomes presents in the succeeding section, descriptive statistics, panel unit root, optimal lags selection, normal panel VECM, panel ARDL, impulse response function and decomposition and diagnostic test for example serial correlation, heteroskedasticity, multicommenearity and lags exclusion.

Table: 4.1 Descriptive Statistics:

<table>
<thead>
<tr>
<th>Variables</th>
<th>LNFD</th>
<th>INR</th>
<th>INF</th>
<th>LNGOS</th>
<th>LNTR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>3.448525</td>
<td>4.318532</td>
<td>10.00364</td>
<td>2.707820</td>
<td>2.802271</td>
</tr>
<tr>
<td>Median</td>
<td>3.386406</td>
<td>5.347468</td>
<td>5.539917</td>
<td>2.657800</td>
<td>2.733385</td>
</tr>
<tr>
<td>Maximum</td>
<td>4.838966</td>
<td>15.12481</td>
<td>132.8238</td>
<td>3.561686</td>
<td>3.622187</td>
</tr>
<tr>
<td>Minimum</td>
<td>1.588733</td>
<td>-31.50879</td>
<td>-3.203331</td>
<td>1.521541</td>
<td>2.071939</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>0.808092</td>
<td>5.765846</td>
<td>16.66483</td>
<td>0.396439</td>
<td>0.404448</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.116865</td>
<td>-2.214105</td>
<td>4.560938</td>
<td>-0.140977</td>
<td>0.246933</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>2.214925</td>
<td>11.38347</td>
<td>28.15526</td>
<td>2.809003</td>
<td>1.876928</td>
</tr>
<tr>
<td>Jarque-Bera</td>
<td>9.169956</td>
<td>797.7885</td>
<td>10739.94</td>
<td>1.556041</td>
<td>12.35513</td>
</tr>
<tr>
<td>Probability</td>
<td>0.010204</td>
<td>0.000000</td>
<td>0.000000</td>
<td>0.459314</td>
<td>0.002075</td>
</tr>
<tr>
<td>Observations</td>
<td>328</td>
<td>213</td>
<td>360</td>
<td>322</td>
<td>197</td>
</tr>
</tbody>
</table>

The present study consists of 36 years remarks for the extent of time 1980 to 2015. In this table i run to descriptive statistics to make out in this data. In this table the descriptive statistics signified the financial development value 3.45 in with the standard deviation of 0.81 and the high and the low values 4.84 and the 1.58 correspondingly. Minimum of the financial development indicates those countries includes in which have the low financial development like as developing countries.

Moreover Skewness for the financial development residuals for the LNFD variables are correct Skewed on the based f Kurtosis that can be seen that LNFD changeable is leptokurtic having longer speak. Finally in Jarque-Bera statistics it shows that the residuals of LNFD changeable are not usually dispersed to the null hypothesis are usually distributed in that while the probability values are less than the 5% hence that we accept the alternative hypothesis in which the residuals are not usually circulated even residuals are not usually the accepted model. However the normal value of the interest rate is 4.32 with standard deviation of 5.76 all along with the higher and lower values are 15.13 and -31.51 commonly.

The regular financial worth of the inflation rate is 10.01 with a standard deviation of 16.66. More government spending and the tax revenue average values are 2.71 and 2.81 with standard deviation 0.39 and 0.41 respectively. The entire variables are right Skewed. While the probability of the Jarque-Beras statistics display that the manufacture index having ordinary stable distribution but rates if variable are not usually distributed.

Table: 4.2 Time Series panel unit root test:

<table>
<thead>
<tr>
<th>Variables</th>
<th>Levin, Lin &amp; Chu Test</th>
<th>Im, Pesaran and Shin Test</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Level</td>
<td>First difference</td>
</tr>
<tr>
<td>T-statistics</td>
<td></td>
<td>T-statistics P-value</td>
</tr>
<tr>
<td>P-value</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Observations</td>
<td>328</td>
<td>213</td>
</tr>
</tbody>
</table>
Table 4.2 on behalf of the outcomes of series stationary, the present study is the two difference tests units (LLC and IMP) is that used to conformation the variable are stationary or non-stationary. According to Levin et al., (2002) is that the null hypothesis of the LLC is that the unit root. It can be used to check the spurious results of the stationary and the non-stationary. The results shows that the all the variables are at the first smooth on the base of the LLC method and the other variables is stationary but the other variables are tested on the first difference all the variables got stationary 1(l) while the other variable are repeated experimental at the base of the IMP tested. So we may continue at the present to check co integration moreover variables are co integration or not co integration.

Table: 4.3 optimal lags selection:

<table>
<thead>
<tr>
<th>Lag</th>
<th>LogL</th>
<th>LR</th>
<th>FPE</th>
<th>AIC</th>
<th>SC</th>
<th>HQ</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>-1918.292</td>
<td>NA</td>
<td>3.08e+09</td>
<td>38.87460</td>
<td>39.03188</td>
<td>38.93823</td>
</tr>
<tr>
<td>1</td>
<td>-1206.366</td>
<td>1323.177</td>
<td>3617.944</td>
<td>25.21951</td>
<td>26.32047*</td>
<td>25.66496*</td>
</tr>
<tr>
<td>2</td>
<td>-1168.906</td>
<td>65.08173</td>
<td>3540.075</td>
<td>25.19001</td>
<td>27.23465</td>
<td>26.01728</td>
</tr>
<tr>
<td>3</td>
<td>-1131.178</td>
<td>60.97344</td>
<td>3486.919</td>
<td>25.15512</td>
<td>28.14344</td>
<td>26.36420</td>
</tr>
<tr>
<td>4</td>
<td>-1087.977</td>
<td>64.58318*</td>
<td>3131.849*</td>
<td>25.00965*</td>
<td>28.94165</td>
<td>26.60054</td>
</tr>
</tbody>
</table>

Table 4.3 represents calculations of optimum diminish selection. The optimum diminish selection is a responsive assignment if we involve the lot of the lags in the present model it might guide towards mistakes in the project. On the other hand as long as compute too many lags occlude related facts. The judgments, experience are selected through optimal lags selection. In this table two Min normally used information like AIC and the SC. In the present study we selected four (4) optimal lags on the support of AIC.

Table: 4.4 Long run results:

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>Prob.*</th>
</tr>
</thead>
<tbody>
<tr>
<td>INR</td>
<td>0.256397</td>
<td>0.007012</td>
<td>0.0062</td>
</tr>
<tr>
<td>INF</td>
<td>0.075066</td>
<td>0.000915</td>
<td>0.0532</td>
</tr>
<tr>
<td>EXR</td>
<td>0.066733</td>
<td>0.009838</td>
<td>0.0001</td>
</tr>
<tr>
<td>LNGOS</td>
<td>2.458874</td>
<td>0.057238</td>
<td>0.02161</td>
</tr>
<tr>
<td>LNTR</td>
<td>3.509299</td>
<td>0.544790</td>
<td>0.03231</td>
</tr>
</tbody>
</table>

Table 4.4 indicates long run results of ARDL model, standard errors and t-values emerging in the developing economics. The finding of this study showing that financial developing in developing countries have a positive and significant association in the long run 5% level of significant in financial development. The interest rate has a positive significant association of the financial development. If we add to one unit in interest rate in this...
response financial development will be decrease 0.256397 respectively. Further the finding of the study conform the claims of Rodrik (2008); Basso et al., (2009); OUMA (2014); Giovannint (1983); Chance and lane (1980).

On the other hand the exchange rate and the tax revenue have a positive significant association of financial development. If we decrease one unit in exchange rate and tax revenue the dependent variable will be increase 0.066733 and 3.509299 units respectively. Further the finding of the study conform the claims of Talvi and Vegh (2004); Mahdavi (2008); Kamin and Rogers (1999); Helms (2013); Ghura and Grennes (1992); Broda (2002); Aizenman and Jinjsark (2007); Edwards (1988); Berman and Berthou (2009).

Table: 4.6 Granger Causality:

<table>
<thead>
<tr>
<th>Null Hypothesis</th>
<th>Obs</th>
<th>F-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>INR does not Granger Cause LNFD</td>
<td>164</td>
<td>6.55360</td>
<td>0.0018</td>
</tr>
<tr>
<td>LNFD does not Granger Cause INR</td>
<td>4.01734</td>
<td>0.0199</td>
<td></td>
</tr>
<tr>
<td>INF does not Granger Cause LNFD</td>
<td>304</td>
<td>13.5357</td>
<td>2.E-06</td>
</tr>
<tr>
<td>LNFD does not Granger Cause INF</td>
<td>2.50246</td>
<td>0.0836</td>
<td></td>
</tr>
<tr>
<td>EXR does not Granger Cause LNFD</td>
<td>304</td>
<td>0.07679</td>
<td>0.9261</td>
</tr>
<tr>
<td>LNFD does not Granger Cause EXR</td>
<td>1.04209</td>
<td>0.3540</td>
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<tr>
<td>LNGOS does not Granger Cause LNFD</td>
<td>281</td>
<td>3.56351</td>
<td>0.0297</td>
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<tr>
<td>LNFD does not Granger Cause LNGOS</td>
<td>1.10370</td>
<td>0.3331</td>
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<tr>
<td>LNTR does not Granger Cause LNFD</td>
<td>158</td>
<td>3.56036</td>
<td>0.0308</td>
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<tr>
<td>LNFD does not Granger Cause LNTR</td>
<td>6.30038</td>
<td>0.0023</td>
<td></td>
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<tr>
<td>INF does not Granger Cause INR</td>
<td>196</td>
<td>3.63861</td>
<td>0.0281</td>
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<tr>
<td>INR does not Granger Cause INF</td>
<td>0.90722</td>
<td>0.4054</td>
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</table>

Table 4.6 represents there is bidirectional causality between the INR and the LNFD. There is unidirectional causality between the INR and the LNFD. There is no causality between the EXR and LNFD. There is a unidirectional causality between the LNGOS and LNFD. There is bidirectional causality between the LNTR and LNFD.

Conclusion:
Study explored the effect of financial development on developing countries. Different microeconomic used in this research are tax revenue, government spending, exchange rate, inflation rate, interest rate and financial development. To find out to which extent these variable effects on financial development in developing countries for the data of 36 years (1980-2015) has been used panel ARDL model for this paper. In paper objective we concerned the point of the work i.e the general reason for the investigation ought to be obvious and to sum things up characterized. In this study I focused the financial development on developing countries. The finding of this study implies that government arrangement and interest rate influence the financial development anyway interest rate likewise positively effects on financial development. This study proposed that financial development as dependent variable while the interest rate, inflation rate, government spending, tax revenue, and exchange rate as independent variables. The study showing that inflation rate and interest rate have a negative significant connection with financial development. While the tax revenue and exchange rate has a significant and positive association on financial development in developing countries.
Recommendation:

Recommendation means a implication or proposal as to the course of action especially in one put forward by an authoritative body. This study recommends that it can be observed that tax revenue, government spending, exchange rate, interest rate, and inflation rate have a significant connection in financial development on developing countries. The financial areas growth in developing countries and materialized advertise is the components of the private development sector policy to encourage economic growth and decreased poverty. However the financial development is a set of institution, tools and the market. Fundamentally the financial development sector is concern the overpower costs acquired in the financial system.

References


