

Executive Summary

This thesis focuses on the influence of financial development on economic indicators in advanced Asian countries. Even though this interrelationship has been thoroughly researched in the past, no clear and generally applicable connection has yet been found. In addition, prior studies have primarily focused on countries in Africa and South America, leaving a notable gap in our understanding of how financial development influences economic indicators in Asian countries. This thesis attempts to fill this knowledge gap by examining previous findings in the context of advanced Asian economies. An empirical approach is used with data from the following selected countries: Australia, Hong Kong, Japan, Republic of Korea, New Zealand and Singapore. The results were interpreted with regards to the following two main research questions: “Financial development mostly has a positive impact on economic growth in advanced Asia” and “Inflation has a significant effect on the gross domestic product and therefore on economic growth”.

In the first part of this thesis, there is an overview of the existing literature and related findings. It can be seen that there are various approaches to this research question and the associated problems, with distinct outcomes. For example, Bist (2018) examined the relationship in low-income African countries, Ustarz and Fanta (2021) focused their studies on sub-Saharan African countries, and Nguyen et al. (2022) examined 22 emerging economies around the world. These papers came to different conclusions, with some finding a positive impact of financial development on economic growth and others finding a negative effect. The results also vary depending on the region and country in which the research was conducted.

The second part presents the methodology, the case study and the discussion. To analyze the impact of financial development on economic indicators, a linear regression model was used in this thesis. The ordinary least squares (OLS) method is widely used and is characterized by comparatively high simplicity and interpretability. For this reason, OLS was chosen for the analysis of the indicators.

The data is taken from two sources: The World Development and the World Governance Indicators (World Bank Group 2023a; World Bank Group 2023b). The data were divided into three categories: economic, financial, and governance indicators. The indicators were then selected based on their usefulness for research. In this thesis, we look at 20 years of the modern era from 2000 to 2020.

The linear regression results show that the indicators do not always have a positive impact on economic growth in the advanced Asian countries. Some indicators, like the market capitalization of listed domestic companies, were rather surprising. On the whole, it can be stated that it is difficult to draw firm conclusions and the true nature of the relationship between financial development and economic growth remains unclear.