Banking Controls, Financial Deepening and Economic Growth in Mauritius (Abstract)

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This paper makes an attempt to test for the effects of financial repressionist policies on financial deepening and economic development in the case of Mauritius. Using the method of principal components, direct measures of banking controls are constructed and used in estimating financial depth and economic growth equations. We found no significant evidence that some form of financial repression has contributed to financial depth and economic growth. Instead, the results confirmed that banking controls have inhibited financial sector development in Mauritius, which is in line with the financial repressionist literature. Moreover, it is found that non-interest factors such as bank branches have promoted the rapid growth in bank deposits even during the period of financial repression. There is also a two-way relationship between banking sector development and economic growth in the economy. The major policy implication is that the pursuit of financial liberalisation and banking sector development is no doubt a right strategy to achieve higher economic growth.

Descriptors: Mauritius, economic growth, banking

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