Is Financial Development A Factor to the Leading Growth Profile of the South African Economy in the Sub-Saharan Continents? Uncovering the Hidden Secret

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Abstract
This paper investigates the factors contributing to the formidable growth rate of the South African economy. Specifically, we determine whether the leading role of the South African economy in the Sub-Saharan African region is a result of its sophisticated and resilient financial sector development. If not, the paper tries to identify the possible explanations for the country’s economic growth profile in recent times. From a series of empirical findings, the paper assesses the factor(s) that could impede the overall growth profile of the country’s economy in both the long-run and the short-run. To do this, we measure the short-run and long-run impacts of financial development on economic growth of the South African economy, and we also investigate whether the relationship between financial development and economic growth is monotonic or not. The study employs time series data from 1980 to 2011. Using the ARDL bounds-testing approach to cointegration and the U test of Mehlum and Sasbuchi, the study reveals that trade openness and the ratio of credit issued to the private sector by banks to GDP have fuelled South Africa’s economic growth in both the long-run and the short-run. Similarly, the U test also discovered that the relationship between financial development and GDP growth in the country is non-monotonic. Surprisingly, M3 has a short-run negative influence on GDP while the greatest and most crucial long-run factor that has impeded the accumulated growth profile of the South African economy is the low productive contribution of the country’s population to GDP.

JEL Codes: N27, O16, O47, G29
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1.1 Introduction
South Africa is Africa’s leading industrial economy. It has an agile, mechanized, and highly diversified economic system that is comparable to none within the Sub-Saharan African region. According to the Industrial Development Corporation (IDC) Economic Overview (2013), in 2002-2008, the country witnessed a consistent average growth rate of 4.5%, seeing it supersede its regional counterparts and making it one of the leading economies in the region. It was further noted by the IDC that, from 1993 to 2013, the country’s GDP growth rate averaged 3.19% per annum, reaching an all-time high of 7.60% per annum in March 2009, when the growth rate then plummeted to a record low