Research Title: “Financial Liberalization and its Impact on Economic Growth of Pakistan”

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Abstract: This dissertation is an attempt to contribute theoretically and empirically in the area of research regarding financial liberalization and economic growth for Pakistan. On account of growing importance of financial liberalization in the promotion of growth in the developed and emerging economies and dearth of significant literature on this topic in the case of Pakistan, the present study examines the impact of financial liberalization on economic growth. The thesis investigates both the domestic and external components of the financial liberalization process and their impact on economic growth of Pakistan. The dissertation in particular develops an index of domestic financial liberalization using the technique of principal component analysis. The index captures the important dimension of reform process and quantifies the impact of domestic financial liberalization on growth. The external financial liberalization is examined through the de jure and de facto measures of external financial liberalization. The dissertation develops a quantitative measure of external financial openness through de jure approach on the basis of information under the capital account liberalization. The de facto measure of external financial liberalization is based on the work of Lane and Ferretti (2006) while the data for remaining years are updated utilizing their methodology. A joint impact of both the domestic and external components of financial liberalization (showing an overall impact of financial liberalization on growth) is also examined through the measure of domestic financial liberalization index and de facto measure of external financial liberalization. The results of the study indicate a positive impact of composite index of domestic financial liberalization on economic growth. External financial liberalization when measured through de jure approach positively impacts economic growth. However, the de facto measure shows a negative association between external financial openness and economic growth. The empirical results finally report an overall positive impact of financial liberalization on economic growth examined by including both the domestic and external components of financial liberalization. The positive impact of financial liberalization on economic growth is on account of financial intermediation, financial deepening and easy access to capital brought through domestic and external liberalization. However, to get more pronounced benefits out of liberalization process, financial sector needs more strengthening both at the domestic and external fronts.