

Investigating the Impact of Social Capital and Economic Growth on Financial Development in Iran

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Abstract

This study examines the impact of social capital and economic growth on financial development in Iran from a demand leadership perspective. Utilizing statistical data from 1996 to 2020, the study employs an autoregressive distributed lag (ARDL) model. Financial development is measured as a weighted average of five indicators: (1) the ratio of banknotes and coins held by the public to the total money supply (FD1), (2) the ratio of liquidity to GDP (FD2), (3) the ratio of banking system claims on the private sector to total banking system credit (FD3), (4) the ratio of private sector debt to the banking system relative to GDP (FD4), and (5) the ratio of total traded shares' value to GDP (FD5). Additionally, principal component analysis combines six indicators of social capital, including life expectancy, income equality, political stability, absence of violence, government integrity, and rule of law. The study estimates both short-term and long-term relationships among these variables and employs a band-edge test to verify the existence of long-term relationships. The results indicate that, both in the short term and long term, social capital, economic growth, and foreign trade volume have a positive and significant influence on financial development, while the unemployment rate has a negative and significant effect. Consequently, the findings demonstrate consistency between short-term and long-term results.

Keywords: Financial Development; Social Capital; Economic Growth; ARDL model; Iran.

JEL Classification: O16, G20, H52, Q14.

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