“Financial development and economic growth: evidence from Tanzania 1967-2011”

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The study examines relationship between financial development and economic growth in Tanzania over the period 1967-2011, with objectives of uncovering existing link and direction of causality. By employing Autoregressive lag distribution (ARDL) approach, results show that in both long-run and short-run, financial development exert significant but negative effect on economic growth contrary to our expectations. The ratio of broad money to GDP (financial depth) is taken as a proxy measure of financial development. Inflation rate, real interest rate, real exchange rate, share on of investment to GDP, proportion of development expenditure to total expenditure and dummy for structural reforms are taken as control variables during our estimations. Results also suggest non-existence of causality between financial development and economic growth.Policies should be allocated in creating enabling environment for continuous growth of financial sector, especially by intensifying their operation all over the economy. Also strengthening supervision on banking and operations of other financial institutions is necessary to promote stable and sound financial sector. Stability and effective banking sector will attract more funds into formal financial system and promote financial intermediation in economy.