ABSTRACT

The study aims to determine the relationship between financial development and economic growth with respect to the state of institutional quality on 27 Sub-Saharan Africa countries using a five-year averaged dataset over the period 1982-2016. The findings established evidence of a U-shaped relationship between financial development and growth which entails that more (less) finance drives (retards) growth in the region. The turning point beyond which financial development begins to contribute positively on economic growth ranges between 33% and 37%. Even though the connection is not strong, the selected institutional variables also showed both a direct and an indirect positive impact on economic growth. Financial development is positive and significant when embedded in selected well-developed institutions, which implies a complementary relationship of institutions and financial development on growth. It is therefore recommended that policy makers and responsible authorities take stringent measures to ensure the development of institutions and the financial sector for sustainable economic growth in the region.