IMPACT OF PUBLIC DEBT, BANK CREDIT, AND FINANCIAL INSTITUTIONS ON ECONOMIC GROWTH

By

AZADKHOYRASEKH SAEED

Thesis Submitted to the School of Graduate Studies, Universiti Putra Malaysia, in Fulfillment of the Requirements for the Degree of Master of Science

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Chair : Mohamed Hisham bin Dato Hj Yahya, PhD
School : Business and Economics

In the pursuit of promoting economic growth and advancement, navigating a path involves a nuanced journey rather than a straightforward trajectory. The economic growth of a nation is intricately linked to the sustenance and progression of its banking sector. This research aims to explore the complex interconnections between bank credit and economic growth across six ASEAN countries: Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. Furthermore, it seeks to clarify the association between banking development and economic growth in the ASEAN context. Additionally, the study examines the correlation between public debt and economic growth. The fluctuations in GDP act as a gauge, mirroring the economic progress or decline of each country.

The empirical findings underscore a robust correlation between a nation's economic growth and its status concerning bank credit and public debt, while demonstrating a comparatively weaker association with the banking sector itself. Consequently, it is deduced that bank credit and public debt wield more substantial influence as variables determining economic growth within these nations, in contrast to the influence of the banking sector. This study thus sheds light on the pivotal role of bank credit and prudent management of public debt in propelling economic growth within the ASEAN countries, delineating a critical pathway for sustainable economic development.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk ijazah Master Sains

KESAN HUTANG AWAM, KREDIT BANK DAN KEWANGAN INSTITUSI, MENGENAI PERTUMBUHAN EKONOMI

Oleh

AZADKHOYRASEKH SAEED

Ogos 2023

Pengerusi : Mohamed Hisham bin Dato Hj Yahya, PhD
Sekolah : Perniagaan dan Ekonomi

Dalam usaha mempromosikan pertumbuhan ekonomi dan kemajuan, merangka suatu kursus melibatkan perjalanan yang rumit daripada satu trajektori yang mudah. Pertumbuhan ekonomi sebuah negara berkait secara kompleks dengan pemeliharaan dan kemajuan sektor perbankan. Kajian ini bertujuan untuk menyelami hubungan yang rumit antara kredit bank dan pertumbuhan ekonomi dalam enam negara ASEAN: Indonesia, Malaysia, Filipina, Singapura, Thailand, dan Vietnam. Selain itu, ia berusaha untuk menjelaskan hubungan antara pembangunan perbankan dan pertumbuhan ekonomi dalam konteks ASEAN. Tambahan pula, kajian ini mengkaji korelasi antara hutang awam dan pertumbuhan ekonomi. Fluktuasi dalam KDN memberikan petunjuk, mencerminkan kemajuan atau kemunduran ekonomi setiap negara.

Hasil kajian empirikal menekankan hubungan kukuh antara pertumbuhan ekonomi sebuah negara dan statusnya mengenai pinjaman bank dan hutang awam, sambil memperlihatkan hubungan yang lebih lemah dengan sektor perbankan itu sendiri. Oleh itu, disimpulkan bahawa pinjaman bank dan hutang awam memiliki pengaruh yang lebih besar sebagai pembolehubah yang menentukan pertumbuhan ekonomi dalam negara-negara ini, berbanding pengaruh sektor perbankan. Kajian ini dengan demikian menerangkan peranan penting kredit bank dan pengurusan yang bijak terhadap hutang awam dalam memacu pertumbuhan ekonomi dalam negara-negara ASEAN, membentuk laluan kritis untuk pembangunan ekonomi yang mampan.

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This thesis was submitted to the Senate of Universiti Putra Malaysia and has been accepted as fulfilment of the requirement for the degree of Master of Science. The members of the Supervisory Committee were as follows:

Mohamed Hisham bin Dato Hj Yahya, PhD
Senior Lecturer
School of Business and Economics
Universiti Putra Malaysia
(Chairman)

Fakarudin bin Kamarudin, PhD
Associate Professor
School of Business and Economics
Universiti Putra Malaysia
(Member)

ZALILAH MOHD SHARIFF, PhD
Professor and Dean
School of Graduate Studies
Universiti Putra Malaysia

Date: 11 January 2024

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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Analyzing the ways in which governments secure funds across various nations highlights that debt is an unavoidable aspect of government finances. The economic outcomes vary based on the specific conditions, economic structures, and the assortment of debt instruments employed by different countries. In essence, debt operates as a double-edged sword, serving as an economic stimulus during periods of stability. However, the continuation of debt and its increasing growth causes uncertainty, limits the private sector's access to financial resources, and reduces savings. In such a situation, debt acts as an obstacle to economic prosperity. Therefore, considering the importance of the issue of debt and its double effect on economic variables, it is vital to ensure the optimal level of public debt in order to prevent financial indiscipline from the perspective of its effectiveness as an economic stimulus.

Banks, according to their work routine, provide returns for people with surplus resources, strengthen people in need of resources, and enable them to invest, the result of which is visible in the economy. This process, of course, occurs by considering other factors.

Nonetheless, the expanding economies in Southeast Asian and ASEAN nations have rendered the exploration of factors shaping their economic advancement a compelling subject. Consequently, scrutinizing the elements impacting the economic upturn of these countries holds significance within the realm of economic science. In this study, the focus is narrowed down to bank credit, bank development, and government loans as the pivotal factors under consideration.

In all economic systems, the financial and natural sectors complement each other and the inefficiency of each leads to the inefficiency of the other. In developed countries, the financial and natural sectors have a meaningful relationship with each other. In particular, financial activities related to equipping resources and directing them toward investment projects have a remarkably influence the prosperity of the natural sector. In ASEAN countries, obtaining persistent and sustained economic prosperity needs the superb allotment of resources at the level of the national economy, which is almost impossible without the assistance of financial markets. The financial market is a formal and organized market in which funds are transmitted from individuals and entities facing surplus financial resources to individuals and units requesting resources. Dynamics and creativity are the major features of financial markets, and new financial instruments are designed and offered every day based on necessity. Investors also choose the most suitable option according to their financial ability, expected future benefits of investment, and their level of risk tolerance. In sum, there are much evidence showing the positive and undeniable impact of the financial market on the prosperity of the natural sector of the economy. The experience of the last few decades of ASEAN countries is the best proof of the role of structured, efficient, and dynamic financial markets in capital formation and economic growth (Badi, 2017).

As developed and emerging nations are expanding their debt ratios, this review provides policymakers with helpful insight into the negative growth influences of rising public debt ratios. To prevent the impacts of this negative growth, the debt ratios for developed and developing countries should be kept below 80% and 60% of GDP, respectively (Leão, 2021). Placing the economy on a road of growth and development is more akin to a difficult journey than a definitive course to take. The goal of being the strongest economy unites all the nations in the world. A country's ability to maintain and grow its banking sector has a significant impact on its overall economic success. There is broad consensus among economists that the growth of an economy's financial sector contributes to the development of commercial and investment banks, stock exchanges, insurance policies, and financial mobilization networks, all of which support a country's economic progress. (Badi, 2017).

Banks provide different kinds of insurance and insurance companies and banks insure other banks. Insurance companies cover some of the bank's bankruptcy losses, that may cause systemic risk, which means the risk of the failure of a large bank has a filtering influence on other banks and the entire economy. The financial system in an economy helps to bridge the gap between units with surplus funds and units in need of funds for production and investment purposes. Thus, it helps to mobilize and effectively utilization of ideal funds in the form of savings directed towards equitable allocation for required economic investments. Investments are prerequisites for economic growth and the development of the productive capacities of an economy. It is thus stated that the efficient and effective performance of financial systems in an economy set the pace for the economic growth of the nation (Oura, 2012).

In the economies of ASEAN nations, banks play crucial roles such as managing deposits, facilitating payment transactions, allocating credit, and more. Financial institutions in ASEAN possess the ability for financial intermediation, contributing to risk mitigation in investments through the provision of diverse credit methods (Chung, 2019).

At a broader level, finance can be defined as the monetary means necessary for individuals, businesses, and the government sector to meet their economic requirements. Consequently, all activities related to finances are coordinated within the financial sector of an economy. This sector encompasses diverse financial institutions and markets, including financial instruments, banks, and financial markets. The primary function of these markets is to serve as a conduit for the transfer of financial resources from actual savers to borrowers. Financial markets play a pivotal role in influencing the volume and accessibility of savings within an economy for investment purposes. Therefore, the financial market emerges as a significant institutional factor contributing to economic transformation. Acting as a key interface for households and businesses, banks constitute the most extensive institutional network within the financial system of an economy. (Oura, 2012).

Economists and scholars posit a direct correlation between the effective operation of banks in the economy and overall economic growth. Schumpeter, a pioneer in innovations and economics, asserts that the services provided by fiscal markets and banks are fundamental catalysts for innovation and growth. Additionally, it is noted that the banking network can impact growth through three primary channels: enhancing the marginal productivity of capital by investing in the most efficient projects, increasing the proportion of savings available to investors, and actively fostering an elevated savings rate in the economy. Furthermore, the banking system facilitates fund pooling, offering savers a diverse array of saving instruments, efficient allocation options, and opportunities for capital acquisition, ultimately contributing to increased wealth creation in the economy. (Maah, 2018).

This research attempts to strengthen the relationship between fiscal institutions and economic prosperity by examining Malaysia, Singapore, Vietnam, Thailand, the Philippines, and Indonesia.

1.1.1 Understanding Economic Growth

Economic prosperity refers to the consistent rise in the productive capacity of an economy (Indrani, 2018). It is reflected through a rise in the gross domestic product in the specified period. Therefore, it is defined as the consistent rise in national income that is evident through the enhancement of the total production of goods and services in an economy over a given time. The prosperity rate of gross domestic product is measured by the percentage alteration in the GDP from one year to the next (Aftab & Rehman, 2017). The real GDP means the value of GDP adjusted for inflationary changes. An increase in the value of nominal GDP may be due to an increase in market prices, i.e inflation. Nominal GDP means the market value of goods and services generated by a nation in an economy during a specific period (CGFS, 2018). Hence, real GDP adjusted for inflation provides a correct image of the pace of economic prosperity of a nation. The other economic variables used to measure the economic development of the nation include gross national product, industrial production income, and per capita gross domestic product (Yong, 2010).

Living standards and their gradual alterations are greatly different in each nation. The following table displays GDP per capita and annual growth of GDP growth per capita for some nations during 100 years (Cohen, 2022). GDP per capita data is modified for inflation; therefore, are "real". GDP per capita is the GDP of the whole nation divided by the number of residents in the nation and is similar to "average income" (Alizadeh et al., 2021).

Table 1.1: Economic growth by country

Country	Period	Real GDP per person at beginning of period	Real GDP per person at end of period	Annualized growth rate
Japan	1890–2008	$1,504	$35,220	2.71%
Brazil	1900–2008	$779	$10,070	2.40%
Mexico	1900–2008	$1,159	$14,270	2.35%
Germany	1870–2008	$2,184	$35,940	2.05%
Canada	1870–2008	$2,375	$36,220	1.99%
China	1900–2008	$716	$6,020	1.99%
United States	1870–2008	$4,007	$46,970	1.80%
Argentina	1900–2008	$2,293	$14,020	1.69%
United Kingdom	1870–2008	$4,808	$36,130	1.47%
India	1900–2008	$675	$2,960	1.38%
Indonesia	1900–2008	$891	$3,830	1.36%
Bangladesh	1900–2008	$623	$1,440	0.78%

(Source: Bacha, 2022)

Over time, small variations in annual GDP growth compound into large alterations in GDP (Diaz, 2018). For example, the GDP per capita in Great Britain in 1870 was $4,808. At the same time in the United States, GDP per capita was $4,007, about 20% less than in the UK (see Table 1.1). Nevertheless, in 2008 the situation was reversed with US GDP per capita 30% higher than UK GDP ($36,130 in the UK and $46,970 in the US)(Bacha, 2022). This means per capita GDP growth averaged 1.80% per year in the US and 1.47% in the UK (Chenery & Bruno, 2022). Thus, a few tenths of a percentage per year difference in GDP prosperity leads to notable differences over a generation. Therefore, economists consider GDP prosperity as the most significant section of macroeconomics:

> *" if we can learn about government policy options that have even small effects on long-term growth rates, we can contribute much more to improvements in standards of living than has been provided by the entire history of macroeconomic analysis of countercyclical policy and fine-tuning. Economic growth [is] the part of macroeconomics that really matters"* (Çiçek & Ceviche, 2021, p. 98).

On the other hand, we are encountered public debt that differs from private debt and includes obligations of govermental and non-governmental institutions (Edison et al., 2021). Table 1.2 displays public debt as a percentage of GDP by nation in previous years.

Table 1.2: Public debt as a percentage of Gross Domestic Product (GDP) by country for the last years

	2017	2018	2019	2020	2021
Albania	74.0	73.2	70.2	68.0	66.6
Algeria	8.7	20.5	27.1	38.1	46.3
Angola	57.1	75.7	69.3	89.0	-
Argentina	52.6	53.1	56.6	86.0	89.4
Armenia	44.1	51.9	53.7	51.3	50.0
Australia	37.7	40.5	41.1	41.5	45.0
Austria	84.9	82.9	78.3	74.0	70.4
Azerbaijan	35.0	50.7	53.2	48.4	-
Bahrain	60.4	71.8	79.5	80.7	83.0
Bangladesh	33.7	33.3	33.4	34.6	35.7
Belarus	46.9	47.2	47.2	45.4	44.8

Table 1.2: Continued

Belgium	105	105	102	99.8	98.6
Belize	82.7	88.9	96.4	96.6	99.7
Bolivia	40.9	46.5	51.3	53.9	58.0
Bosnia and Herzegovina	45.5	44.1	39.2	34.3	-
Botswana	23.2	21.3	18.1	18.9	18.7
Brazil	65.5	69.8	73.7	76.5	75.8
Brunei	3.0	3.0	2.8	2.6	-
Bulgaria	26.0	29.3	25.3	22.3	20.4
Cambodia	31.2	29.1	30.0	28.6	-
Canada	91.2	91.7	90.5	89.7	-
Chile	17.3	21.0	23.6	25.6	27.9
China	15.5	16.1	16.2	16.3	17.0
Colombia	42.9	43.8	44.9	48.2	47.2
Costa Rica	41.0	45.1	48.4	53.2	58.5
Croatia	84.3	80.8	77.8	74.7	73.2
Cyprus	108	103	93.9	101	95.5
Czech Republic	40.0	36.8	34.7	32.6	30.8
DR Congo	-	-	-	-	-
Denmark	39.8	37.2	35.8	33.9	33.2
Dominican Republic	44.7	46.6	48.9	50.4	53.6
Ecuador	33.0	38.2	44.6	46.0	50.2
Egypt	93.1	103	108	97.3	90.2
El Salvador	70.8	72.6	73.6	72.7	73.3
Estonia	10.0	10.2	9.3	8.4	8.4
Ethiopia	55.8	57.7	61.1	57.6	-
Eurozone	90.9	90.0	87.8	85.8	84.1
Finland	63.6	63.2	61.3	59.6	59.4
France	95.6	98.0	98.3	98.1	98.1
Georgia	36.8	40.3	39.9	39.9	41.2
Germany	72.1	69.2	65.3	61.9	59.8
Ghana	55.1	57.3	57.2	59.1	-
Greece	176	179	176	181	177
Guatemala	24.9	25.2	25.2	26.2	26.9
Haiti	30.3	33.7	31.0	33.3	-
Hong Kong	0.1	0.1	0.1	0.1	0.3
Hungary	76.2	75.5	72.9	70.2	66.3
Iceland	65.0	51.2	43.2	37.4	-
India	68.8	68.7	69.4	69.4	71.9
Indonesia	27.0	28.0	29.4	30.1	30.4
Iran	38.4	47.5	39.5	31.8	-
Iraq	56.9	64.3	58.9	49.3	-
Ireland	76.7	73.8	67.7	63.5	58.8
Israel	63.8	61.8	59.9	60.4	59.6
Italy	135	135	134	135	135
Jamaica	122	114	101	94.4	-
Japan	231	236	234	236	237
Jordan	92.4	93.8	94.3	94.4	96.6
Kazakhstan	22.8	28.2	26.3	26.0	25.2
Kenya	50.2	54.5	56.0	59.3	62.1
Korea	37.3	37.6	36.7	37.9	40.7
Kosovo	13.1	14.4	16.2	16.9	17.5
Kyrgyzstan	67.1	59.1	58.9	54.8	54.1
Laos	53.1	54.2	55.8	57.4	60.6
Latvia	37.3	40.9	39.3	37.2	36.9
Lebanon	141	146	150	155	171
Lithuania	42.6	39.7	39.1	33.8	36.3
Luxembourg	22.0	20.1	22.3	21.0	22.1
Malaysia	53.6	51.9	50.1	51.2	52.5
Malta	58.0	55.5	50.3	45.6	43.1
Mexico	45.4	49.4	46.9	46.8	47.1
Moldova	37.8	35.6	31.8	29.7	27.3
Mongolia	62.1	87.6	84.6	73.3	-

Table 1.2: Continued

Montenegro	66.2	64.4	64.2	70.1	77.2
Morocco	63.7	64.9	65.1	65.2	66.2
Mozambique	94.2	130	101	99.8	-
Myanmar	35.8	37.8	38.3	36.3	38.2
Netherlands	64.6	61.9	56.9	52.4	48.6
New Zealand	35.1	33.7	31.8	30.4	28.1
Nigeria	20.3	23.4	25.3	27.2	-
North Macedonia	38.1	39.9	39.4	40.6	40.2
Norway	33.4	37.2	37.8	39.4	40.6
Oman	15.5	32.7	46.4	53.5	62.6
Pakistan	61.8	65.5	65.1	69.9	83.7
Panama	37.4	37.3	37.6	39.4	46.4
Paraguay	15.1	17.3	18.2	19.4	21.3
Peru	23.3	23.9	24.9	25.8	26.8
Philippines	42.7	40.2	40.2	39.9	39.6
Poland	51.3	54.3	50.6	48.8	46.0
Portugal	131	132	126	122	118
Puerto Rico	95.1	91.8	92.9	-	-
Qatar	35.5	46.7	49.8	44.6	52.3
Romania	37.8	37.3	35.1	34.7	35.2
Russia	13.5	13.2	14.6	14.9	15.3
Saudi Arabia	5.8	13.1	17.2	19.0	22.8
Serbia	69.5	67.6	59.3	53.7	52.0
Singapore	99.5	105	106	109	126
Slovakia	51.9	52.0	51.3	49.4	48.0
Slovenia	82.6	78.7	74.1	70.4	66.1
South Africa	49.3	51.5	53.0	56.7	62.2
Spain	99.3	99.2	98.6	97.6	95.5
Sri Lanka	77.7	79.0	77.9	83.7	86.8
Sweden	43.9	42.2	40.8	38.8	35.1
Switzerland	30.0	28.9	29.3	-	-
Taiwan	36.6	36.2	35.5	35.1	-
Tajikistan	34.7	42.1	50.4	47.9	44.6
Tanzania	37.1	37.0	37.7	38.6	-
Thailand	43.7	41.0	41.1	41.8	41.2
Trinidad and Tobago	53.9	58.3	61.8	60.1	63.2
Tunisia	55.4	62.4	70.2	77.9	72.2
Turkey	27.5	28.2	28.2	30.4	33.1
Turkmenistan	21.8	24.1	28.8	29.1	-
USA	104	107	105	107	108
Uganda	34.3	37.1	39.7	41.4	-
Ukraine	79.1	80.9	71.8	60.9	50.3
United Arab Emirates	18.7	20.2	20.0	19.1	-
United Kingdom	86.9	86.8	86.2	85.7	85.4
Uruguay	62.9	61.4	60.7	63.5	66.3
Uzbekistan	7.1	8.6	20.2	20.4	29.3
Venezuela	74.7	92.3	120	-	-
Vietnam	61.0	63.7	61.4	58.4	-
Yemen	65.5	79.6	84.3	64.8	-
Zambia	62.3	60.7	61.9	78.1	-

(Source: Doğan, 2021, p. 203)

Southeast Asian ASEAN countries are mainly emerging. All ASEAN countries encounter public debt issues. This includes high per capita income Singapore, which has a high public debt-to-GDP ratio (105.6%), ranking 13th in the world (Kutivadze, 2021). ASEAN nations such as Malaysia, Vietnam and Thailand have public debt to GDP in the scope of 50%-53% (Table 1.3).

Table 1.3: Comparison Rating of Public Debt to GDP of ASEAN Countries in 2021

Rank	Country	%of GDP
13	Singapore	105.60
71	Malaysia	53.50
73	Vietnam	52.70
82	Thailand	50.60
102	Philippine	44.80
147	Indonesia	22.70

(Source: Hamilton, 2018, p. 390)

Indonesia ranks 147th in the world with a relatively low GDP (27.7%) compared to other ASEAN countries. In this part of the research, the variables evaluated in the research are discussed in the selected ASEAN countries.

1.1.1.1 Malaysia

Malaysia has undergone significant growth since getting independence in 1957. It was initially an agriculture-based economy that later diversified into the manufacturing and service sector. Malaysia is an open economy highly dependent on trade as trade is one of the major sources of income. It is classified as one of the most open economies due to its significant trade-to-GDP ratio. As of 2010, the ratio for Malaysia averages over 130%. International trade has a notable role in Malaysia's economy and generates huge employment and income for the citizens. The export sector generates around 40% of the total jobs in the Malaysian economy. Major export items from Malaysia include palm oil, electrical equipment and machinery, and mineral fuels including oils and rubber.

Malaysia is said to benefit from the undervalued currency as it makes the country's exports more competitive in the global market. The logistics required to produce effective and efficient goods are also available in Malaysia, making exports more competitive. This includes the availability of educated labor at a considerable price, developed infrastructure to boost production, and a sound political system. The political stability of the country has also attracted huge Foreign Direct Investment in the country (Bhattacharya & Nguyen, 2003)

Malaysia imports its main food crop (rice) due to the shortage in rice cultivation. The decline in the cultivation of rice has been mainly due to unfavorable weather conditions and the transfer of labor from the agriculture sector to the more attractive manufacturing sector. Rice is mainly imported from Japan. The two cash crops cultivated in Malaysia are rubber and palm oil, mostly for export purposes.

According to the World Bank, Malaysia has significant income inequality compared to neighboring countries. However, government policies have been working to gradually decline inequality. Malaysia has a sound financial sector, which helps its growth and development. They provide services including microfinance and special loans to farmers during the farming season. The financial sector also helps small and medium- scale enterprises in Malaysia. As per the World Bank, the country enjoys 92% financial inclusion, which is one of the highest in the world. Internet and phone connectivity in Malaysia have helped lot to increase financial inclusion. Adequate financial inclusion is important for the country and has indeed helped the small and medium-scale entrepreneurs in Malaysia to grow and employ around 40% of the country's workforce. The sound financial sector in Malaysia is a result of learning from the Asian financial crisis in the late 1990s. Malaysia's financial sector is now an example for other developing countries to formulate policies that are immune to risks and crises.

Malaysia is home to some of the largest banks in Southeast Asia, including Maybank Malaysia, CIMB Group, Public Bank Berhad, and RHB Bank. The country's central bank is known as Bank Negara Malaysia and was established in 1959. The country also devotes its success to financial inclusion by following the Islamic finance agenda. The banks in Malaysia operate based on Islamic financial principles to promote stability. The World Bank perceives that Malaysia's banking and financial sector could be exemplary for other developing countries to overcome prevailing problems like poverty (B., R. Bhattacharya and T. Nguyen, 2003).

The chart depicted below illustrates a significant surge in Malaysia's GDP per capita, with minor fluctuations. It can be asserted that Malaysia has undergone a consistent rise in GDP per capita since 1990.

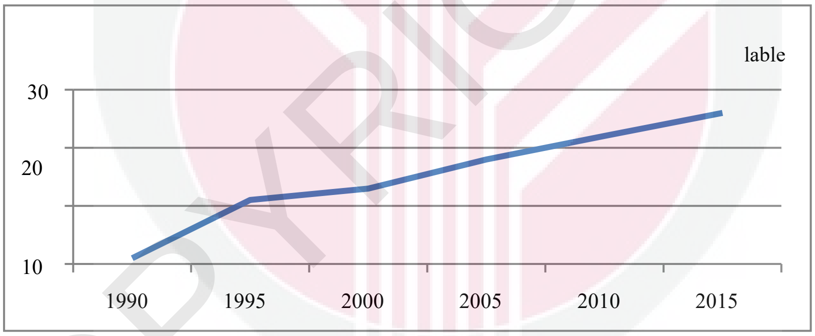

Figure 1.1: GDP per capita of Malaysia
(Source: World Bank)

1.1.1.2 Singapore

Singapore gained independence from Britain in the year 1963 and separated from Malaysia in 1965. The country had to go through many problems after independence due to its geographical positioning. The country did not have good relations with the neighboring countries of Malaysia and Indonesia, and moreover, it lacked natural resources. A high ratio of the population was unemployed and two-thirds of the population lived in slums.

The road to economic growth for Singapore was not an easy one. The government introduced strict but business-friendly rules and policies to attract international investors, as trade was not feasible due to neighboring countries. The United States and Japan were the key Foreign Direct Investors in Singapore by 1972. Due to the favorable climate and established port system, the country became ideal for the manufacturing sector. Today, Singapore's port is one of the world's busiest ports and the country has powerful trade agreements with many countries. It also has a strong tourism industry including medical and culinary tourism (Malarvizhi et al.,2019).

Singapore has climbed up the ladder from a low-income country to a high-income country quite fast. GDP grew at an average of 9.2% for the initial 25 years after independence and 7.7% thereafter. In the year 2018, the overall growth of Singapore stood at 3.2%. The manufacturing and service sectors are the two main driving forces for the growth of the economy. The manufacturing sector mainly involves value-added manufacturing in the electronics and engineering sectors, and the major services are the information and communication industries.

As per the World Bank Human Capital, Singapore is ranked as the best nation for human capital expansion. This implies that a child will have an 88% return when grows up. The productivity of its citizen is quite evident rather than a labor force that comprises just 3 million people. Its annual GDP exceeds $300 billion dollars per year. Singapore has the commendable infrastructure and an efficient public transportation system. It is one of the most developed economies in the world. Due to the strict rules, the country is also classified as a corruption-free nation. Similar to the Malaysian economy, Singapore's economy is highly dependent on exports.

The chart provided illustrates Singapore's GDP per capita from 1990 to 2019, showcasing a notable upswing with occasional minor declines. This pattern suggests that Singapore's economy exhibited nearly linear growth throughout the indicated period (Panizza & Presbitero, 2014).

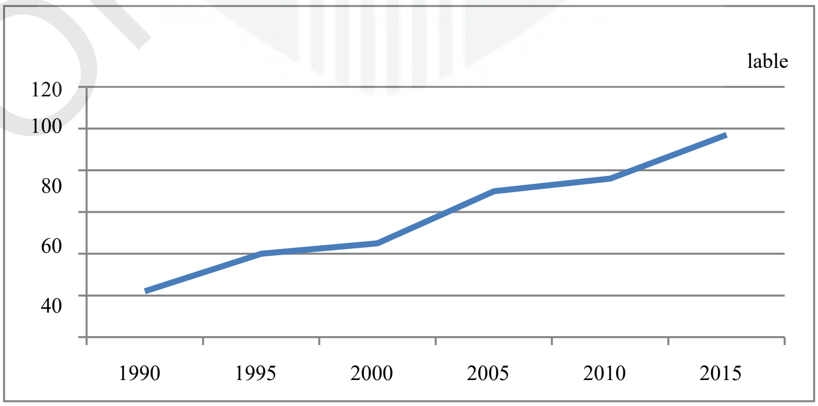

Figure 1.2: GDP per capita of Singapore from 1990 to 2019
(Source: World bank.com)

1.1.1.3 Thailand

Thailand's economy is dependent on exports, which was about 60% of the country's GDP in 2019. The country has the eighth largest economy in Asia with a GDP of US $ 505 as per the records of the World Bank. The inflation rate was 1.06% in 2018 and its current account surplus was 7.5% of its GDP. The country's currency, the Thai Baht, was placed as the tenth most frequently used currency in the world in 2017. The main sector is the service and industrial sector, which accounts for 39.2% of the GDP from the industrial sector and 8.4% of the GDP from the agricultural sector. Further, the logistic sector contributes 13.4% and the communication sector contributes 9.8% of GDP. 4.3% of the GDP comes from the mining and construction sector and 24.9% of GDP comes from other sectors, like finance, education, hotels, and restaurants. The major industrial expansion and competitive sectors are telecommunications and trade in service.

In Southeast Asia, Thailand ranked as the second largest economy with US$7,273.56 and ranks fourth in GDP per capita for Southeast Asian countries in 2018. In addition, in 2018, it was the second country among South Asian countries in terms of international reserves and international trade. This country is also ranked low in terms of the unemployment rate.

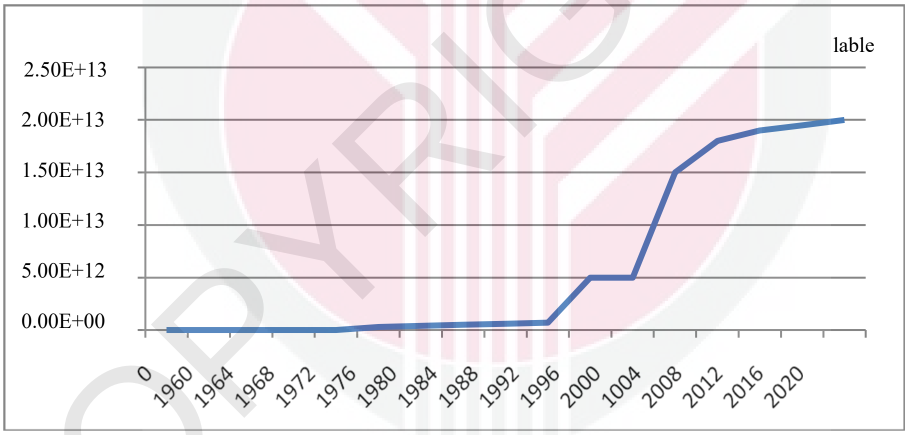

Figure 1.3: GDP of Thailand from 1960 to 2020
(Source: World bank.com)

1.1.1.4 Indonesia

In the last couple of decades, Indonesia has recorded strong growth with stable output production and sustainable inflation. The reason is the good government policy that has been able to widely use the natural resource of the country along with the young and growing labor force. The country has liberalized its policy in international trade and invested more in the country's industrial advancement. There have been considerable changes in the structural framework and the country is integrating into the global economy. The country has favorable demographics and good infrastructure, which makes other countries invest and help the country achieve fast economic growth.

The value of Indonesia's exports expanded significantly in the 1970s, with oil exports being a significant source of income, and the country's trade to GDP ratio increased from 30% in 1970 to 60% in the 2000s. As trade liberalization and industrialization policies were implemented in the Indonesian economy in the late 1980s, there was a significant increase in international trade.

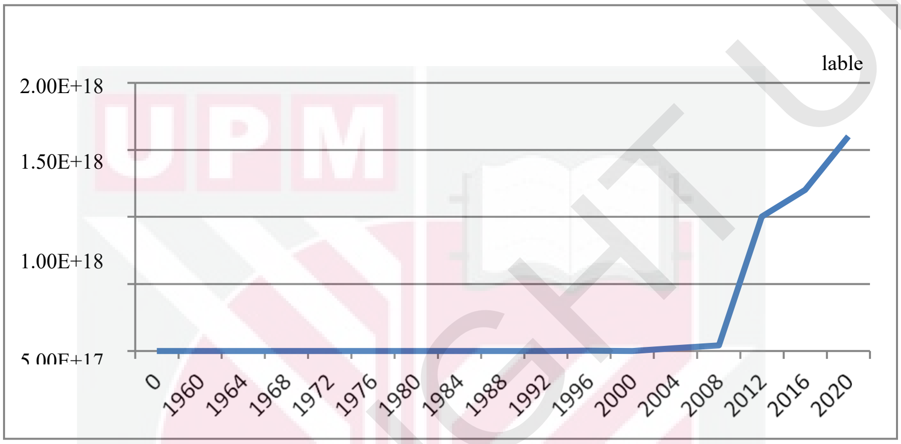

Figure 1.4: GDP of Indonesia from 1960 to 2020

The above graph shows Indonesia's GDP growth since 1993. The GDP has been increasing for three decades and the country has grown significantly economically.

1.1.1.5 Philippines

The country has the most active economy in Eastern Asia. The economy is underpinned by robust purchaser demand, an active labor market, and healthy remittances. It is supported by rising urbanization, a developing working class, and many adolescents. The growing sectors of the country are the services sector, business process outsourcing, real estate, tourism, as well as finance and insurance industries.

The average annual growth of the country in the period 2010-2019 was 6.4%, which showed a hike from 4.5% during 2000-2009. The country rose from a lower middle-income country with a GDP per capita of US$3,850 in 2019 to an upper middle-income country with a per capita income range of US$4,046–$12,535. In 2018, the country had a low poverty rate of 16.6% and a Gini coefficient of 42.7%. The real wage showed an increasing trend with the rising income of the households.

In 2019-20, the Coronavirus reduced the growth rate and affected the transactions in the international market. The exports were reduced, the tourism industry faced a setback and there was a drastic decline in consumption and investment. However, in 2021-22, it was expected to rebound with rising consumption and investment and control of the coronavirus domestically as well as globally.

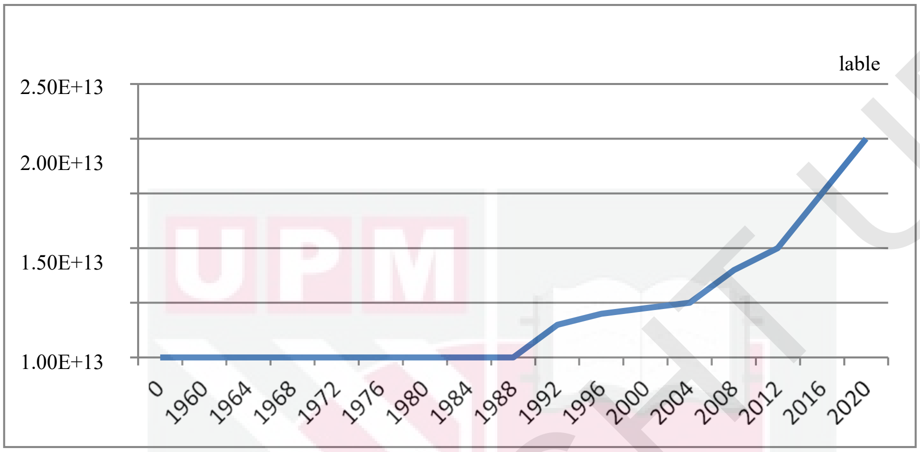

Figure 1.5: GDP of the Philippines from 1960 to 2020

The graph above illustrates the expansion of the Philippines' GDP from 1982. Over the past four decades, there has been a continuous increase in GDP, indicating significant economic growth in the country.

However, in recent years, economic prosperity has declined due to the outbreak of Coronavirus. This seems a temporary effect and will be resolved shortly.

1.1.1.6 Vietnam

Vietnam is an open economy with the largest number of trades in Asia. In 2019, the country's trade was nearly 210% of the GDP. The major exported products are electronic apparatus with 21.3% of exports in 2019, electronic integrated circuits and micro assemblies footwear, technology devices, and automatic data processing machines. The major imported products are electronic integrated circuits and micro assemblies (12.1% of imports in 2019), transmission and electronic apparatus, and petroleum oils (Comtrade, 2020).

The country's trading partners are the U.S.A (contributing 23.2% of exports as in 2019), China (21.8% of all imports in 2019), Japan, and South Korea. The economic model followed by the country is dependent on foreign investment and exports, and it strongly follows the trade liberalization policy. The country is involved in a large number of Free

Trade Agreements with different ASEAN countries and signed Regional Comprehensive Economic Partnership (RCEP), the world's largest trade agreement along with 16 countries, namely, Australia, Brunei, Cambodia, China, India, Indonesia, Japan, Laos, Malaysia, Myanmar, New Zealand, Philippines, Singapore, South Korea, Thailand. In 2019, the export value of goods was 264.2 dollars, which was 243.7 billion dollars higher than in 2018. The imports of goods amounted to 253.9 dollars in 2019 and 235.5 billion dollars in 2018. In 2018, the trade surplus was 16.5 billion dollars, against the trade surplus of 10.8 billion dollars in 2017. The largest share of the country's trade balance was the manufacturing sector.

Since 2018, Vietnam is a net exporter of services, with imports of 18.5 billion dollars and exports of 27.4 billion in 2019. Geographic disparities exist in Vietnam's commerce trend. Its trade deficits with neighboring Asian countries offset its trade surplus with Western nations. The nation should diversify its product line and raise the value of exports in order to preserve equilibrium.

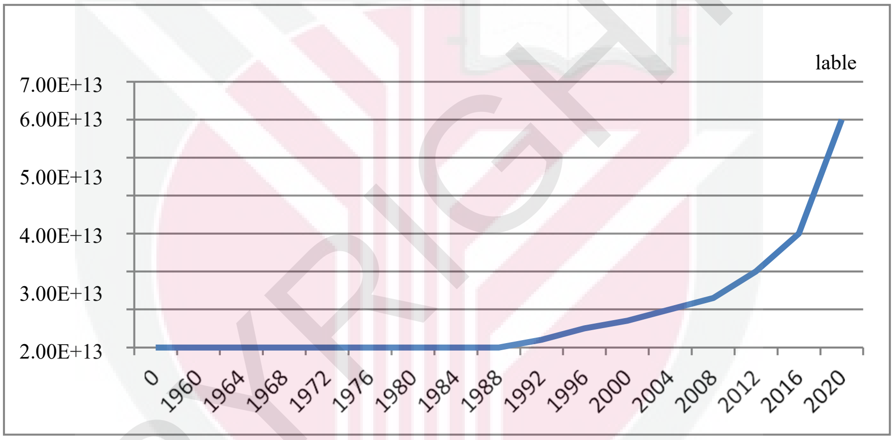

Figure 1.6: GDP of Vietnam from 1960 to 2020

The graph above depicts the ascending GDP trend in Vietnam since 1960. From 1988 onward, there has been a consistent increase in GDP, indicating substantial economic growth in the country. However, in recent years, the outbreak of the coronavirus has temporarily slowed down economic growth. This is anticipated to be a transient effect that will be overcome in the near future.

1.1.2 The Foundation of Public Debt, Bank Credit, Financial Institutions, and Economic Growth

1.1.2.1 Public Debt

Increased interest in the relationship between public debt and economic growth since the GFC has given rise to theories about the effect of public debt on growth. Since the 1960s, neoclassical economists have pointed out how rising taxes to finance interest payments on the government's developing domestic and foreign government debt negatively influences gross capital stock formation (Diamond 1965). Meanwhile, Keynesian economists state that increasing public debt creates productive public spending and positively influences the economy (Adam, 2022).

The different channels of the impact of high and developing public debt levels on economic growth are: "(1) Crowding out of the private investment (Elmendorf & Mankiw 1999) while government borrowing competes for funds in the country's capital markets; (2) higher long-term interest rates due to excess supply of government debt and higher credit risk (Agénor, 2021); (3) higher distortionary taxes to finance future debt repayments (Dotsey 1994); and (4) a rise in the rate of inflation" (Alizadeh et al., 2021).

Recently, New Keynesian economists have argued that as long as interest rates on public debt stay below the rate of economic prosperity over the long term, the level of debt is less of a concern as it is related to other economic factors (Bacha, 2022). This view may overlook existing budget deficits and the upward pressures on long-term interest rates from enhancing debt ratios (public debt as a share of GDP). Considering these ambiguities, the latest observations indicate that a dramatic rise of debt-to-GDP ratio can cause higher taxes, lower future revenues, and intergenerational inequality (Bakar et al., 2018).

Apart from these theoretical disputes, there is another theory that supports a nonlinear link between public debt levels and economic prosperity, namely, the threshold or nonlinear effect theory. According to the theory, rising government debt levels positively influence the growth when debt level is low, but when the level of debt increases above a particular threshold level, this influence becomes negative (Burro, 2019).

When the debt ratio extends to higher levels (nonlinear threshold), a rise in the level of debt as a percentage of GDP negatively influences economic growth (Bhala & Lau, 2020). The presence of a nonlinear threshold suggests that neoclassical theories about the link between debt and growth may be well founded. Such theories indicate that the distorting effect of future tax enhancement to obtain debt sustainability may reduce economic output (Bilgilirt al., 2022). In addition, a nonlinear threshold indicates that enhanced government borrowing competes for funds in the country's capital markets, which in turn enhances interest rates and pushes private investment, confirming the debt overhang theory (Bernstein, 2019).

1.1.2.2 Bank Credit

A notable part of the financial literature indicates that the expansion of financial institutions should develop the economy. The link between the development of the financial sector and economic prosperity first appeared through the work of Schumpeter (1911). He affirmed that services presented by financial institutions can encourage technological innovation and economic prosperity by financing productive investments (Chen, 2020). Different people from different sectors and different organizations need funding for many reasons. Financial services prepare funding from different financial institutions that are categorized into capital and money markets (Çiçek & Ceviche, 2021).

The appearance of the Asian financial crisis (AFC) in Thailand in July 1997 destabilized the region's economies and endangered the financial system (Chenery & Bruno, 2022). In particular, banks' foreign debt was enhanced because of the devaluation of the currency. Meantime, investors' savings dwindled due to a lack of trust and the fear of bankruptcy developed. In these conditions, the major precedence of the monetary officials was to rehabilitate the investor's trust in the economic system and to decrease the fear of the collapse of the economic system. Meantime, certain measures were considered by ASEAN member countries to limit the risk-taking actions of banks and to create a general reconstruction of the banking system. Each member of ASEAN also took emergency actions by providing general guarantees and by presenting approaches to deal with diminished assets (Çiçek & Ceviche, 2021). Cohen (2022) states that the country's regulatory officials adopted reconstructing approaches since the banking inefficiencies that emerged after the Asian financial crisis (AFC) period were because of country-specific environments like a concentrated market, high-interest rate, and economic expansion.

ASEAN member nations have tried notably to enhance the health and effectiveness of financial institutions with regard to the development of money and capital markets (Diaz, 2018). In the ASEAN area, commercial banks are considered as significant and governing financial institutes (Doğan, 2021). They have more than 82% share of the total financial assets of ASEAN (Edison et al., 2021). Nevertheless, ASEAN banks are faced with credit risk. A credit risk appears because of the rise of bad loans. Bad loans cause concern to the banking sector of emerged and emerging nations (Hofman & Reisen, 2021). Thus, the determinants of credit risk are of notable importance.

Enhanced economic prosperity, which is accompanied by high credit development, stimulates banks to take on excessive risk (Gunning & Mash, 2020) since banks consider high economic growth as a sign of positive market situations. Therefore, if market situations stay positive in the future, banks' performance will improve and their non-current assets will reduce. The study by Frankel and Romer (2019) in the Turkish market using the panel ordinary least square approach and covering the data period 2014 to 2017 showed that enhancing economic prosperity reduces the credit risk of Islamic banks. Based on this, Firouzi (2021) concluded that credit risk in the Greek banking system is defined by economic prosperity. The study analyzed the credit risk for different categories of loans, including business loans, consumer loans, and mortgages.

There are two strands of literature on the link between bank size and credit risk. One strand is on the basis of the "diversification by size" argument (Froot, 2019, p. 53) and mentions that huge banks are less faced with risk considering their better abilities in risk diversity. Moreover, huge banks also have enough risk capacity (Hellmann, 2021). Therefore, they can effectively manage bad loans (Griffin, 2021).

On the contrary, huge banks usually take too much risk under the assumption of being "too big to fail" (Hamilton, 2018, p. 390). This supposition may lead a bank toward crisis. Hashemi (2022) believes that unrestricted risk behavior is usually seen in huge banks since they are not closely monitored by creditors. Moreover, these banks have a safety cushion from the government in that instance of collapse. As a result, these banks enhance their leverage and lending to "bad" borrowers. This event causes an increase in non-performing loans.

The effect of inflation on credit risk is not clear (Fatahi et al., 2022). On the one hand, inflation can ease debt payment by reducing the real value of outstanding loans (Falahati et al., 2019) and decreasing unemployment as suggested by the Phillips curve (Erdal et al., 2020). On the other side, inflation may worsen the borrowers' debt repayment capacity by reducing their actual revenue (Enders, 2021), particularly in the case of sticky wages. Moreover, when loans have changing rates, inflation can decrease the borrower's loan payment capacity since lenders are always modifying the rates to keep their actual income degree. The motive for modifying the rates made by the lender is to put the load of the policy rate enhancement on the lender. A rise in the policy rate happens when monetary authorities act to fight inflation (Eisner, 2022).

1.1.2.3 Financial Institutions

"A financial institution (FI) is a company involved in the business of financial and monetary transactions like deposits, loans, investments, and currency exchange. Financial institutions cover a broad scope of business affairs in the financial services sector including banks, trust companies, insurance companies, brokerage firms, and investment dealers" (İspir, 2019).

Almost everyone in an advanced economy requires the services of financial institutions. Financial institutions must provide a market for money and assets so that capital can be allocated to the place of greatest profit. For instance, a bank receives deposits from customers and loans the money to borrowers (Joines, 2022). Without an intermediary (bank), it is unlikely that anyone would find an appropriate borrower or realize how to offer the loan. Through the bank, the depositor can receive interest as a result. Similarly, investment banks discover investors to market a company's stock or bonds (Kakar et al., 2021).

Financial institutes or the banking system are the center of the fiscal system of a nation. Exploring the role of the banking system in economic prosperity is one of the research fields on the interaction of financial development and economic development (Krugman, 2020). Visions on the influence of fiscal prosperity on economic development were studied many times. Levine (1997) states that financial prosperity, like the expansion of the banking system, assists mobilize and allocate capital, helps firms manage risk, stimulates the buying and selling of items and services, and inspires expansion in capital mass and technology. Therefore, it leads the economy toward growth. Krugman (2020) considers financial development as helping economic units to enhance their ability to handle risks, advocate innovation, and drop information costs. This leads to an enhance the effectiveness of the allocation of financial resources and investment activities, and finally leads to economic growth.

In contrast, Mariano et al. (2021) believe that nations with retarded financial markets, featured by a lack of a passage to link savings and investment, expand steadily and usually experience stagnation and instability. Nevertheless, the expansion of the fiscal system does not always happen in a sustainable way. The occurrence of financial crises creates periods of uncertainty that may cause the financial system not to support growth (Moulai et al., 2021).

1.2 Problem Statement

The economic prosperity of a country depends on several factors, like the development of banks, infrastructures, and providing inclusive growth. Banks are one of the pillars of a country's prosperity due to their connection with the monetary activity of the people and the flow of money circulation in the country. Banking is an important financial institute through which the circulation and flow of money in the economy are monitored. The right flow of money in the required sectors is essential for economic development. Economists undoubtedly believe that financial development of an economy greatly contributes to its economic growth and development. These institutions help to mobilize savings in the economy, which is a prerequisite for more investments and thereby economic prosperity. The performance of stock exchange markets forms a crucial component of the financial economy of any nation. Some economists and researchers have conducted event studies to prove the link between financial expansion and the economic prosperity of a nation. There are few studies that deeply explore the effect of banking on economic prosperity. This study aims to bridge the knowledge gap by establishing a clearer connection between a country's economic growth and the effective operation of its banking and financial systems and institutions (Erdel, 2017).

Several researchers have identified multiple factors influencing economic growth. Kumar (2019) highlighted the significance of bank credit in fostering economic prosperity, emphasizing its crucial role in the economic development of nations. Additionally, Pang (2019) asserted that the advancement of financial markets remains a key concern in the growth of developing economies. Within this context, bank credit is considered a pivotal and influential factor in economic growth, as it establishes the foundation for growth and development by generating investment opportunities for producers (Yang, 2019).

Concurring to Liu and Lyu, (2021), the improvement way of East Asia is based on market-oriented viewpoints and the utilize of what has been proposed in later decades as the Washington Agreement, which is straightforwardly impacted by bank credits (Liu & Lyu, 2021). Concurring to Hadi and Hisham (2020), the advancement way of East Asia is based on more genuine government intercessions, which is known as formative government. This implies that financial advancement is straightforwardly influenced by government execution and open obligation (Hadi & Hashim, 2020).

Certain scholars, including Mah (2018), argue that the persistent growth in government spending contributes to an expanding fiscal deficit gap, prompting the government to borrow from both domestic and foreign sources. In some nations, prevalent economic challenges have led to a practice of covering a portion of the government's revenues and expenditures through a budget deficit. Elevated budget shortfalls contributing to public debt have adverse effects on economic well-being (Mah, 2018).

Research has mainly focused on public debt or bank credit and measured the economic growth affected by it. Examining the component of economic growth under the influence of the three factors of bank credit, development of banks, and public debt makes it possible to identify hidden and unexamined effects and generalize the results much better. Public debt and bank credit play an important role in components of GDP (Aftab & Rehman, 2017). This creates a thirst for a deeper study of the role of banking and confirms the research work of the previous authors. From the literature, it is understood that economic prosperity is affected by public debt, banking, and bank credit. However, the study of Asian economics is rarely chosen. Therefore, the researcher aims to examine the link between economic prosperity and public debt and bank credit as well as economic growth and bank and economic growth for some Asian economies, including Malaysia, Singapore, Indonesia, Thailand, and Vietnam (Chinnasamy et al., 2011). Further, the researcher is inspired by the research works related to the link between ASEAN economies and economic growth, which shows the correlation of a country's financial development with its economic growth (Chung, 2019). However, the effect of financial expansion on economic growth is less than domestic investment in the country and current account trade. Therefore, the desire to find the link between the variables for the two developed countries of the Asian economy was formed.

In general, there are two major sources of economic prosperity, namely, development in the size of the labor and development in the productivity (output per hour worked) of that labor. Each of these two factors is able to enhance the overall dimension of the economy; however, only robust productivity development can rise per capita GDP and revenue. Productivity development enables people to obtain a higher level of comfort without working longer hours (Fullana et al., 2020).

GDP calculates the market value of items and services generated in a nation; however, it merely expresses market performance and not economic well-being. A working parent influences the GDP, but an unemployed parent who cares for other people at home does not. However, if the household employs a worker to do the similar tasks, he/she contributes to GDP. Health, safety, and environmental rules can force businesses to pay costs that may reduce measured Economic prosperity. However, such costs must be balanced against the advantages of better health, safer work environments, and a cleaner environment that may not be included in GDP (Hacievliyagil & Eksi, 2019).

Finally, a comprehensive evaluation of the advantages of economic prosperity needs consideration of the extent to which Americans contribute to that economic expansion. The growth between 1948 and 1973, which doubled living standards and narrowed income distribution, was different from the growth with increasing income inequality we have experienced since then (Hadi & Hashim, 2020). The tax plan that President Trump was working on, included sweeping tax cuts that mostly benefited high-income taxpayers. That is certainly true of the conventional income estimation approaches employed by Congress's official budget scorekeepers, the CBO, and the Joint Committee on Taxation (JCT) (Kumar, 2019). It is also true of most "dynamic scoring" that consider macroeconomic feedback influences on economic prosperity and income. The tax base, which supply parties tend to analyze, is an outlier with regard to dynamic scoring (Fullana et al., 2020). It tends to discover more significant dynamic influences for tax proposals than CBO or JCT discovered in their own previous analyses, and notably deeper influences than the Tax Policy Center/Penn Wharton model discovered in its analysis of the Trump (Hacievliyagil & Eksi, 2019) and proposals of Better Way (Hadi & Hashim, 2020). However, even Alan Cole (Senior Economic Policy Analyst) rejected the idea that Trump's tax policies could generate sufficient economic growth to pay for themselves (Krosnick, 2018).

One of the cornerstones of President Trump's campaign tax proposal and the Better Way tax plan was a certain and lower rate for "pass-through" business revenue, taxed at owners' personal income tax rates instead of the corporate rate and was in the hands of shareholders as dividend income. About half of the pass-through income flowed to the top 1 percent of households, while only about 27 percent reached the bottom 90 percent of households (Mah, 2018).

These suggestions reduced the highest rate on pass-through income, setting it lower than the highest rate on regular income (at 15 percent and 25 percent respectively). This created a significant motivation for wealthy individuals to reclassify their earnings as "business income" to benefit from the lower pass-through rate. Consequently, this resulted in a significant reduction in overall income without providing any advantages to the vast majority of small businesses, whose tax rates remained unaffected (Indrani, 2018).

1.2.1 Trade Openness, Exchange Rate Movements, and Fiscal Discipline

Recently, the notable and continuous budget shortages and the resulting public debt have become a major concern of many nations. The International Monetary Fund (IMF) (2011) indicated that the overall budgetary shortage in developed countries reached 7.4% of GDP in 2021 (Hellmann, 2021). In a perhaps an astonishing distinction, the budget shortage in developing market economies and low-income countries was relatively lower, at 3.7% and 3% of GDP, respectively. On the other hand, average public debt rose to around 100% of GDP in developed economies in 2021 (Hofman & Reisen, 2021). The instance of Greece where the public debt escalated to 143% of GDP is famous in public and academic areas. Even though the average public debt in developing countries was not giant, it was 70% to 80% of the GDP in India, Brazil, and Hungary. It is believed that this international increase in the deficit and public debt is not only the outcome of the global financial crisis in 2008 but began a long time ago and mirrors the non-success of governments to collect sufficient surpluses at appropriate times (İspir, 2019).

The concern about persistently high budget shortages is mostly related to its influence on other sectors of the economy. For instance, an "aggressive use of discretionary fiscal policy" causes macroeconomic instability, including output fluctuations, which may decrease economic prosperity (Joines, 2022, p. 6). In addition, as the "twin deficit" hypothesis states, continuous budget shortage may cause current account shortage. In this regard, Bluedorn and Leigh (2011) show that a drop in the ratio of budget deficit to GDP by 1% is related to a reduction in the ratio of the current account balance to GDP by 0.6%. Therefore, financial discipline and an understanding of the factors that create such discipline are considered a significant research agenda (Kakar et al., 2021).

1.2.2 The Budget Deficit, Exchange Rate Movements, and Public Debt

As previously mentioned, public debt is the net quantity owed by a government to its creditors. If public debt rises speedily in the nonattendance of a strategic crisis plan, it destroys the value of a country's currency. Therefore, public debt and exchange rate are correlated (Krugman, 2020). The exchange rate has a notable role in a country's ability to conduct transactions, which is critical to almost any free market economy in today's era. If the value of a country's currency rises, the price of imported goods from a country is lower and the value of exporting goods to a country in foreign markets is higher (Kutivadze, 2021).

Having a currency with a lower value has the opposite effect on a government, as the import of goods becomes more affordable and the export of goods in foreign markets becomes less valuable. A higher exchange rate embitter a nation's trade balance, while a lower exchange rate enhance it (Lund University, 2015). Exchange rates are important for the wealth of a country and are signaled as a comparison of the currencies of two nations. Therefore, frequent control, analysis, and measurement of the exchange rate are necessary for a government to conduct strategic and effective transactions (Mariano et al., 2021).

The weakness of a country's currency probably increases the inflation rate (Moulai et al., 2021). This has been observed in major importing countries, as higher foreign product prices cause the country's central bank to raise interest rates to fight inflation and maintain the value of the domestic currency (Nourzad, 2022). In contrast, a robust currency smooths out inflation and helps a country avoid sinking into public debt. Thus, the exchange rate prevails over the interest rate, which influences people's daily life because it determines the repayment amounts of mortgages, car loans, and savings interest (Puente-Ajovín et al. 2021).

High public debt means less space for economic growth (Ramzan, 2021). This could result in fewer jobs being generated through government funds such as construction work or small business loans (Reinhart, 2020). If the labor market is unreachable and associated with high-interest rates, it restricts spending powers, an individual's ability to live comfortably, and the overall affluence of a country, weakening the domestic currency (Rodrik, 2022).

1.2.3 The Mutual Effect of the Price of Export Commodities on the Movements of Exchange Rate and the Flow of FDI

In the last two decades, there were a number of economic crises and macroeconomic uncertainties in the world. Therefore, price and exchange rate fluctuations are considered features of the globalized economic environment (Romer, 2021). In spite of the influence of price and exchange rate fluctuations on FDI inflows, which has been comprehensively explored theoretically and empirically, the evidence of ASEAN countries is still scarce due to the lack of reachable data (Sachs, 2019). ASEAN Economics (2015) explicitly calls for more exploration on this topic, as it is observed that the influence of export commodity prices on exchange rate movements and FDI inflow is a priori uncertain. Moreover, it is sensitive to several factors, including the type of investment, the origin of the investor, the features of the host economy, and the time horizon (Savvides, 2022).

FDI policies are an integral part of overall development strategies in many ASEAN countries. Either to replace imports or to encourage exports, foreign investors have been welcomed in certain cases, subject to strict criteria (Smyth, 2018). Companies that wish to export more of their products are often treated as positively as investors in OECD countries are. On the other hand, foreign investors interested in presenting goods and services to the domestic market encounter many limitations, such as absolute interdiction in some sectors (Tehranchian, 2020). In several instances, these latter foreign companies may not obtain a majority stake in a local company or own the land on which the factory is built. They also often encounter different performance necessities associated with technology transfer or the hiring of local staff, including managers. The understood threat of investment redirection from ASEAN to China had pushed ASEAN policies towards a more liberal FDI even before the crisis (Tornell, 2022). It was also central to the decision to accelerate the progress of regional integration through the ASEAN Free Trade Area and the ASEAN Investment Area. This crisis increased the motivation for this liberalization by allowing foreign investors to have more access to the domestic market, including through the purchase of domestic companies (Umutlu et al., 2021).

Even though this openness is restricted to two years, those investors who take advantage will continue to enjoy benefits after that time (Utkulu & Kahyaoglu, 2019). Such liberalization is welcome; however, it is unlikely that it will in itself boost the confidence of foreign investors or put future development on a more sustainable footing. Sustainable development is more sensitive to the quality of investment received than to quantity (Adam, 2022). The experience of numberless underdeveloped nations over the past few decades shows that the advantages of inward direct investment are not automatic and strongly depend on the overall policy conditions in which the company invests (Uysal et al., 2022).

Foreign investment policies in ASEAN can be seen in retrospect as creating distortions that disrupt the traditional mechanisms through which foreign investors transfer technology and other knowledge to the local economy (Agénor, 2021). Restrictions on selective export incentives foreign investors were not the only ASEAN exporters, but they were well-represented in the sectors with the most rapid export growth. Through export-oriented foreign direct investment, ASEAN countries moved rapidly towards a production-based economy where export-led economic growth was expanding rapidly. The record of this export performance proves this fact, but so does the apparent failure in many cases to convert this FDI-based export success into something more durable (Alizadeh et al., 2021). Not only are exports restricted to a small number of products and sectors, but also to varying degrees, these export sectors are virtual blockades in the host countries. Investments in these covered areas are usually featured by low added value and a poor history of technology transfer (Bacha, 2022).

These deficiencies were one of the growing structural issues that led up to the crisis. This dual strategy of aggressively advancing export-oriented investment while safeguarding the local economy from imports and market-driven investment finally undermined the intended gains (Bakar et al., 2018). To successfully export to global markets, foreign investors must buy inputs primarily from abroad or foreign investors in the host country. Many of the most successful export sectors in the ASEAN4 are heavily dependent on imports, and this has restricted the influence of massive depreciations in these economies on exports (Burro, 2019). The main interest of these exporters in the host economy is a low-cost workforce (Bhala & Lau, 2020).

Domestically oriented foreign investors often have closer ties with domestic companies. As the world's most competitive companies in these sectors, knowledge and other essential technologies to local companies. Since these foreign companies create goods and services for the domestic market that meet global standards, they can indirectly assist domestic companies to become more competitive in global markets, thereby increasing the export of local entrepreneurs (Bilgili et al., 2022). The purpose here is not to discuss one form of foreign investment over another. In an enabling environment where private sector performance can develop, any kind of foreign investment can have a beneficial share in economic prosperity and sustainable development in general (Bernstein, 2019).

A recent study of 69 developing countries showed not only that FDI stimulates economic growth, but also that it has a greater influence than investment by local companies. Outward orientation through the stimulation of foreign investment has continued to be a practicable development approach that will drive fast economic prosperity in the future (Chen, 2020). In fact, the possible role of foreign companies may have enhanced since the crisis. However, simultaneously, the choice of incentives based on the degree of export orientation has been shown to have generated a dual economy in which technological spillovers have been small (Chenery & Bruno, 2022).

These spillovers, instead of exports per se, should be the concentration of investment policies. It is believed that such spillovers are increased in a policy environment where foreign investors are allowed to generate for both local and export markets under the same situations (Çiçek & Ceviche, 2021).

In summary, as the study of the influence of public debt, banking, and bank credit on economic prosperity is the subject of this research, by explaining some generalities, an attempt was made to familiarize the reader with the subject of the research. Considering the growing economy of ASEAN countries, and the prevailing situation in the economy of those countries, as well as the current development of banks in these countries, the purpose of this research is to find the effect of public debt, banking, and bank credit on economic prosperity.

1.3 Objectives of the Study

- To study the influence of bank credit on economic growth.
- To study the impact of the development of banks on economic growth.
- To study of the impact of public debt on economic growth.

1.4 Research Questions

- What is the impact of bank credit on economic growth?
- What is the impact of the development of banks on economic growth?
- What is the impact of Public debt on economic growth?

1.5 Motivation for the Study

The current research is performed with regard to the significant motivations of episodes of soaring debt, banking and public debt policies, and the growing debt threshold literature, particularly after the GFC and their significance in policymaking for sustainable development.

1.6 Significance of the Study

Investigating the topic of this research is important from two practical and theoretical views.

1.6.1 Practical Significance

From a practical point of view, it is very important to examine economic growth, i.e. the rise in the value of goods and services modified by inflation over time. According to statisticians, it is the percentage increase in GDP. Economic growth is directly related to the supply of goods and services and facilitating human life. Financial institutes and their performance, bank credit, public debt, and their impact on economic growth are investigated for the following reasons:

1. Assisting economic prosperity:

Financial institutes and banks can have a notable role in economic prosperity by increasing production by financing the investment needs, and working capital of manufacturing companies, and financing large and small projects.

2. Creating added value for the economy:

In addition to the spillover effects that they have in creating added value in various economic sectors, banks create added value for the economy.

3. Controlling or causing inflation:

The fact that inflation is essentially a monetary phenomenon is an approved principle and the consensus of the majority of economists. At the same time, empirical studies show that in most societies, there is a direct link between the rise in the amount of money and inflation.

4. Facilitating payments:

Many financial payment mechanisms are directly and indirectly related to the banking network and their performance, either in a traditional way or with electronic payment mechanisms.

5. Facilitating foreign exchanges:

One of the requirements for entering global markets and becoming a member of the World Trade Organization is to have an efficient banking system that can accurately and quickly enter these markets and create a business environment for domestic producers, attracting foreign investment, and consequently, the export and import process.

1.6.2 Theoretical Significance

From a theoretical point of view, as far as the researcher's investigations show, no study measured the effect of bank credit, bank development, and public debt on economic growth. This creates a research gap that is very important to fill. Therefore, the theoretical importance of the current research is in examining the scientific data and presenting correct opinions in this field, the results of which can facilitate the improvement of economic growth conditions.

1.7 Scope of the Study

This study aims to undertake a comprehensive examination of the intricate relationship between public debt, financial institutions, bank credit, and economic growth within selected ASEAN countries. The research will involve an extensive literature review encompassing academic papers, research articles, scholarly publications, and relevant reports to establish a strong theoretical framework. Data collection will involve sourcing diverse and reliable data from reputable sources, including the World Bank, national financial institutions, academic publications, and economic databases, to compile a robust dataset of key economic indicators such as gross domestic product, public debt, and bank credit. Employing advanced quantitative methodologies, the study will quantitatively analyze the collected data using statistical modeling, regression analysis, and econometric techniques to measure the measurable impact of public debt and bank credit on economic growth in the specified ASEAN countries. Furthermore, qualitative analyses, including case studies and expert interviews, will be conducted to gain a nuanced understanding of the functioning and efficiency of banking systems within these countries. Comparative analysis across the selected ASEAN countries will facilitate the identification of commonalities, distinctions, and unique contextual factors that influence the relationship between banking systems, public debt, and economic growth. Ultimately, the research will culminate in offering policy recommendations based on the findings, providing valuable insights for policymakers and stakeholders to optimize the role of public debt and bank credit in fostering sustainable economic growth within the ASEAN region.

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