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Title: Which way to go now? Economic growth and Finance relationship in the Sustainable Development Era

Is credit a banker's gift to the world or are strong institutions a government's gift to its citizens? Does financial development always lead to economic growth or is the relationship dependent on the definition of financial development, country characteristics as well as quality of institutions? These questions are increasingly gaining importance in the era of sustainable development. This paper uses nonparametric kernel regression estimates to find answers.

In 2015, 193 member states of the United Nations included a financing for development framework, in the 2030 Agenda for sustainable development. Development of the financial sector is a key element of the financing for development framework. There are generally two models for financing economic activities: (i) a bank-based system and (ii) a market-based approach. Depending on various regional specificities, research shows that lately market-based financing has been growing steadily, particularly in the Asia Pacific region. Our paper takes a closer look at these recent trends (particularly in vulnerable country groups) to evaluate their desirability. We re-visit the discussion on financial development and growth for vulnerable country groups, particularly in the Asia Pacific Region.

This paper uses a nonparametric kernel regression methodology to estimate how financial development influences growth at the cross-country level during 1960 - 2015. The methodology gives us a consistent estimate of the growth-finance relationship when the underlying functional form of the regression function is unknown, thus avoiding model misspecification bias; a major benefit of using this technique. In addition, we get an estimate of the slope of the regression function ($\Delta Y/\Delta X$) at every data point (for every country-time observation), which allows us to determine how the growth-finance relationship varies among different country groups; groups based on institutional quality, level of development and geographical features.). Our findings caution against recent trends of small and vulnerable groups of countries moving resources away from bank-based measures of financial development to market- based measures in the era of sustainable development. Our results from a nonparametric model hold after we correct for endogeneity.