ABSTRACT

The most important function of the banking industry is to channel funds between the surplus sector and the deficit sector, banks create money in the normal course of their operations. Economists and scholars try to explore the role of banking in the economic development process, to find out whether banking industry is playing a leading role or just riding with the tide of the economic development process. In this thesis, some macro historical data including the GDP based production and loan level has been collected to examine the relationship between the banking industry and the economic development in Macao. A number of simple linear regression models have been built to test whether causal relationship exists between the production level and the loan level of different industries. In addition, lead/lag and economic factors have also been taken into consideration to run regression analysis. The study cover the period of 1989 to 2002 and the five major business sectors in Macao including, 1) Manufacturing, 2) Electricity, Gas & Water, 3) Construction & Public Work, 4) Wholesale, Hotels & Restaurants and 5) Transport, Storage & Communication. Empirical result supported that positive causal relationship exists between the banking industry and the economic development of Macao.