

Banking Development and Household Welfare in Thailand: Evidence from a Panel Survey

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Abstract

Empirical evidence shows that banking development has a significant impact on macro-level economic growth through the finance-growth nexus and also highlights the prominent effect of development on local economy and household welfare, particularly in developing countries with restricted access to financial systems. The authors investigated the role of local banking development in affecting household welfare in Thailand which is a modest degree of financial access compare to other countries. The authors focus on the development of the banking sector in four dimensions, including financial depth, financial stability, financial efficiency and financial inclusion, and its impact on household welfare using the generalized method of moments approach to address the endogeneity problem. The authors employ biennial household welfare data from the National Statistical Office survey from 2007 to 2019 which covers all provinces in Thailand. The findings suggest that each type of banking development significantly affects household income and consumption in Thailand, although in different ways. Financial depth decreases income and consumption expenditure, while financial inclusion increases income and consumption expenditure (level effect). However, there are insignificant impacts on volatility of household income and consumption (volatility effect). Our findings prove that the implementation of policies to promote banking development either promote or decrease household welfare. This study can provide insight on policy impact and assist policymakers in considering the adoption of banking development policies to promote growth of the local economy, while at the same time aiming to reduce welfare inequality.

Keywords

Economigrowth; Finance-growth nexus; Generalized Method of Moment (GMM); Household welfare; Local banking development; Thailand