

The study has been performed to analyze the influence of financial intermediation on micro and macro growth in emerging economy of Pakistan. This study testifies the impact the financial intermediation functions on growth at three levels: Firm Level, Industry Level and the Macro Economic Level. Literature identifies a variety of functions performed by financial intermediaries beyond savings and pooling of funds. These functions include transaction cost function, liquidity assurance function, delegated monitoring function and information sharing function. Several proxies have been used to quantify the utilization of the financial intermediation functions while the growth has been measured as of firm size. In the first tier, a total of 130 Pakistani companies were investigated for the impact of functions of financial intermediation for the period 2004-2013 using Panel Data Analysis. Common Effect Model with Fixed Effects has been tested at the firm level panel data. According to the Fixed Effect Model in firm level panel, the proxies for the variable of Transaction Cost, Liquidity Assurance and Information Sharing Coalitions are found to have a significant impact on firm level growth while the proxies for the variable of Delegated Monitoring function have an insignificant impact on firm growth in the Pakistani sample. This is a reflection that the Delegated Monitoring function does not statistically influence firm growth. This can be attributed to inefficient corporate governance mechanism. The other variables show a statistically significant impact which reflects that firms utilizing these functions has been positively benefitted. The results reflect that firms with higher level of financial inclusion i.e. access to financial services have a positive influence on firm growth.

In the second tier, the firms were grouped into 15 industries and industry wise panel data analysis is conducted to study the impact of financial intermediation functions on growth across the different industries. A fixed effect is found across the industries which show that the impact of financial intermediation functions is different for each industry. According to the Fixed Effect Model in industry wise panel, the proxies for the variable of Transaction Cost, Delegated Monitoring and Information Sharing Coalitions are found to have a significant impact on industry level growth. Further, each industry is then taken as a reference industry and the impact of financial intermediation is observed in each industry being similar or different from other industries. The industry wise panel data is done for exploring the moderating effect of the industry-variable interactive term to see whether a particular function moderates the impact of financial intermediation functions in a specific industry or not. All the functions are examined with relevance to the reference industry to empirically test the moderating impact of financial intermediation in each industry. The results report that several proxies of the financial intermediation functions moderate the impact on growth in different industries.

In the third tier, macroeconomic data is examined to appraise the influence of financial intermediation on macro level economic growth. In Pakistan, the results reflect that there exists significant co-integration between financial intermediation and economic growth. However, there is no difference in the impact of financial liberalization on economic growth before and after the financial liberalization. The evidence concludes that the linkage between financial intermediation and economic growth is present as a significant interaction in the emerging economy of Pakistan.