

PhD seminar: Aguima Aime Bernard Lompo

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How Financial Sector Development Improve Domestic Tax Revenue Mobilization for Developing Countries?

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ABSTRACT

This study examines the effect of financial development on domestic tax revenue mobilization in developing countries. Our empirical analysis uses the aggregate financial index that comprises the banking system's depth (size and activity), access, and efficiency of financial institutions and financial markets. Using panel data from developing countries over the period 1995-2017, our findings suggest that more developed financial sectors positively and significantly influence the government's ability to raise tax revenue. More interestingly, we find that this favorable effect is sensitive to developing countries characteristics, namely the level of economic development, the degree of financial openness and the stance of fiscal policies. When we more precisely look at the effects of disaggregated financial development components on domestic tax revenues mobilization, we find that the estimated coefficients on the sub-components of financial development are statistically significant at least at 10% of significance, except for the financial market's efficiency. The results denote that domestic tax revenue in developing countries depends on financial institutions and financial markets. Finally, our results show that financial development contributes positively to domestic tax revenue mobilization excluding resources. Keywords: Financial development, Domestic Tax revenue, Economic growth, Degree of openness, non-resources tax revenue.

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