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Editorial

Financial Reform and Economic Development

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The crucial role of the financial sector in the process of economic development and growth is widely acknowledged by scholars and policymakers. Over the past two decades, several countries have liberalized their financial sector and have implemented various financial and structural reforms with the aim to promote the role of banks and financial institutions in the economy. Consequently, the financial sector has emerged spectacularly and financial innovations have been developed at a spectacular rate. In some advanced service economies, the liberalization process and the implementation of financial reforms have shown their effectiveness in bolstering economic growth and the financial sector has become the *lifeblood* of the economy since it employs more than the manufacturing of apparel, automobiles, computers, pharmaceuticals, and steel combined (Harker and Zenios, 2000 [1]). As part of the financial sector, banks have modernized their role and have changed their business model. Nowadays beyond lending activity, banks offer a wide range of financial services such as modern payment system, many types of insurance services, funds management, wealth creation, and the financial products are increasing in diversity. Therefore, banks have become the “one stop financial shop”.

In this context, one can conclude that a well-developed financial system can contribute efficiently in promoting economic prosperity and development. This conclusion was initially demonstrated by the pioneering work by Bagehot in *Lombard Street* [2], originally published in 1873 who argued that banks have played a major role for the industrial revolution of the United Kingdom in the beginning of the 19th centuries and later on by Schumpeter (1912) [3] in “The Theory of Economic Development” who argued that banks play a major role in the economy through the allocation of capital and the creation of wealth (Hamdi *et al.*, 2013 [4]).

However, in some developing countries, the banking sector is still under-developed and it is still suffering from some malfunctions since no innovation or financial reforms have been introduced yet. Therefore, the contribution of the financial sector in economic development is marginal or even nil.

In this special edition, we will receive contributions explaining (1) how the financial reforms were successful in some countries and (2) by which channel the financial sector contributes to economic development and growth. We would also like to understand (3) why financial reforms are still not yet implemented in some countries and (4) why they fail to promote growth in some other countries.

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