

The Role Of Financial Literacy On Economic Growth And Human Capital In Thailand

Diah Rusminingsih¹, Lina Damayanti²
^{1,2}STIE Jaya Negara Tamansiswa Malang, Indonesia

Abstract

This study looks into the impact of financial literacy with economic growth with human capital in Thailand. This study investigates data at the start point year of 2000 to 2020 to generate "autoregressive vectors" that can be utilize for determine relationship among the variables human capital (HC), Financial Literacy (LC), and economic growth (GDP). We found about the Financial literacy who have significant impact in providing a production boost that have direct impact to economic growth. Financial literacy have important impact about encouraging some development the human capital through human capital investment. So that financial literacy plays a critical role in Thailand's economic and human development.

Keywords: Labor, Employment, Human Capital, Financial Literacy, Economic Growth

JEL Classification: C10,E04,E44

Received: November 6,2021 Accepted: Desember 1,2021
DOI : 10.54204/TAJI/Vol412022008

Background

An important role at the bank central is formulation to the monetary policy. Its main objective is to support sustainable economic growth while in long run (Juhro, 2015). The Bank of Thailand (BOT) implements monetary policy within the framework of Flexible Inflation Targeting, with a focus on price stabilization in line with monitoring economic growth and maintaining financial system stability (Hossain & Arwatchanakarn, 2021).

The Bank of Thailand emphasizes keeping the inflation rate low and not volatile. As a result of inflation, the value of money or people's purchasing power decreases when the inflation rate increases or the product is more expensive (Yusri, 2021). Money in the hands of the people can buy goods in smaller quantities when viewed from this angle, Inflation, therefore, is what drives entire nations towards poverty. In addition, inflation that is too high or too volatile can hamper economic activity. This is because it complicates the forecasting of future product prices for the purposes of business planning and public consumption and savings plans. On the other hand, inflation is too low to be negative. Also known as deflation. It is also not good for economic activity. because when deflation occurs People and businesses expect product prices to fall further in the coming period. Therefore, it does not give rise to current consumption and investment incentives (Singh, 2022).

The Bank of Thailand has operated monetary policy within a flexible inflation target since 2000, which is the same approach widely adopted by central banks in many countries today. This is

because it is a policy framework that encourages discipline in maintaining price stability through setting a clear inflation target and providing flexibility in the monetary policy execution to assist economy to grow optimally and sustainably (Adil & Rajadhyaksha, 2021). Setting the inflation target that monetary policy must strive to achieve is a key feature that ensures clarity, transparency, and accountability. Accountability is important to the credibility of the policy (credibility) and help implement monetary policy more effectively. The Committee on Monetary Policy (MPC) is in charge of developing money supply to maintain price stability and support the country's economy to grow optimally and sustainably (Hlongwane & Daw, 2022). So that the public can understand MPC's concepts and views on economic conditions and trends and inflation. Including the reasons for the monetary policy decision in detail, the Bank of Thailand has therefore prepared and published a summary of the minutes of the MPC meeting after two weeks after the meeting. including creating and publishing monetary policy reports on a quarterly basis as well (Homsirikamol, Tangjitprom, & Sethjinda, 2021).

Usually, an increase in the policy rate is a signal to the MPC that there is inflation risk. In the future, inflation will accelerate above the stated target, and/or the economy will grow beyond its potential, thereby raising interest rates to reduce the heat of the economy and slow down inflation. on the other hand, a policy rate cut is a signal to the MPC that there is a risk that inflation in the next period may be below target and/or the economy will develop below its potential (Hubert & Maule, 2021).

The MPC will concentrate about headline inflation target that has been set. together with weighing the advantages and disadvantages of any policy trade-offs to maintain a balance between the target price stability of economic growth with impulse of an economic system in an appropriate manner. Interest rate policies should not be too low, thereby creating an accumulation of risk in the financial sector. which may be the source of the temporary financial crisis If the financial sector faces problems, such as a severe slowdown in credit expansion, the MPC may consider lowering its policy rate so that the financial sector can resume its normal credit performance (Fuhrer, Olivei, Rosengren, & Tootell, 2018).

Implementation of the MPC's monetary policy under a flexible inflation target framework Pay attention to price stabilization Along with monitoring economic growth and stabilizing the financial system, the MPC will consider the right balance of various targets and be ready to use the tools to implement existing monetary policy to support a stable and stable price level in accordance with the target and state conditions. economy to grow optimally and sustainably without causing vulnerability to financial stability(Dua, 2020). Financial literacy is very important in driving economic growth (Priyanto, Widarni, & Bawono, 2022).

In addition to factors such as buildings, machinery, and land, another factor of production that is indispensable in an economy is labor (Sasongko, Bawono, & Prabowo, 2021). Labor has a broader meaning than just physical strength, but labor is “human capital” which combines other essential and intangible qualities. that creates economic value (Kryscynski, Coff, & Campbell, 2021). Human capital is the three main ingredients of Innovation, social power, and emotion investment are all forms of capital. Knowledge is intellectual capital, talent, in learning Specialties, skills, and experiences that people have accumulated including technical knowledge.

Social capital is like a network of relationships. Emotional capital is attributes such as integrity, resilience (Crane & Hartwell, 2019).

Human capital is a key factor in the process of increasing productivity and creating added value for the economy and society (Rusmingsih, Widarni, & Bawono, 2021). Investing in developing people's capabilities Thus increasing the wealth of the country by means of labor productivity. Increase productivity through the accumulation of knowledge, experience, networks and attributes that are beneficial to work. Therefore, apart from investing in full quality education such as classroom learning Training for specific skills along the career path Investment through education is not limited in forms, such as transfers experience and knowledge accumulated in it, especially tacit knowledge from people who are more experienced and knowledgeable. Including the transfer of characteristics that have a positive impact on society as a whole. This will make people into valuable human capital that will continue to create enormous value for economies, societies and organizations (Baharin, Syah Aji, Yussof, & Mohd Saukani, 2020).

One of processes of creating human resources that is not limited to education is a mentoring program where the author is lucky to have the opportunity to participate and experience the three roles firsthand (Nielsen, Livernoche, & Ramji, 2022). The mentorship program is a process of increasing intelligence by creating reflection and transferring valuable knowledge, ideas, perspectives, skills, and accumulated experience. From those who have higher knowledge and experience (mentors) to those who are less in the learning process (Iyoha & Igbinedion, 2022). Human capital development, of course, requires financial capital such as education and health costs (Kuzminov, Sorokin, & Froumin, 2019). And human capital is also inseparable from financial capital in developing human capital through human capital investment. Human capital is the main driver of economic growth (Prasetyo & Kistanti, 2020). This study investigates the effect of financial literacy on economic growth with human capital in Thailand.

Research Method

This study uses vector analysis method with a time period starting from 2000 to 2020 employs secondary World Bank data. The following equation of the model we are using:

$$FL_t = \beta_1 FL_{t-1} + \beta_2 FL_{t-2} + \beta_3 HC_{t-3} + \beta_4 HC_{t-4} + \beta_5 GDP_{t-5} + \beta_6 GDP_{t-6} + e_t \quad (eao\ 1)$$

$$HC_t = \beta_1 FL_{t-1} + \beta_2 FL_{t-2} + \beta_3 HC_{t-3} + \beta_4 HC_{t-4} + \beta_5 GDP_{t-5} + \beta_6 GDP_{t-6} + e_t \quad (eao\ 2)$$

$$GDP_t = \beta_1 FL_{t-1} + \beta_2 FL_{t-2} + \beta_3 HC_{t-3} + \beta_4 HC_{t-4} + \beta_5 GDP_{t-5} + \beta_6 GDP_{t-6} + e_t \quad (eao\ 3)$$

eao: Equation

We present the descriptive variables in table 1:

Table 1. Variables Specification

No	Variable	Variable Description	Unit Analysis
1	Human Capital (HC)	The total investation about human resources made by the government in a one year period	USD
2	Financial Literacy (LC)	Total absorption of capital distribution nationally in a one year period	USD
3	Economic	Total production of both goods and services	USD

Growth (GDP)	nationally in a period of one year
--------------	------------------------------------

Result and Discussion

In autoregression, stationary data is needed, so it is necessary to do a stationary test before autoregression testing is carried out (Adirosa, 2021). Table 1 showing the Stationary test.

Table 2. Findings of the Stationarity test

Method			Statistic	Prob.**
ADF - Fisher Chi-square			12.6625	0.0312
ADF - Choi Z-stat			-1.39232	0.0719
Series	Prob.	Lag	Max Lag	Obs
D(FL,2)	0.8173	0	4	24
D(GDP,2)	0.0265	0	4	24
D(HC,2)	0.0252	0	4	24

In ADF test, it is known that the probability value is less than or equal to 0.05. which can be concluded that the data has been determined to be stationary.

Table 3. Vector Autoregressive Estimate Result

	FL	GDP	HC
FL	0.645821	1.12E-06	3.16E-06
	-0.213461	-0.0001	-6.49E-06
	[2.11621]	[0.00411]	[0.41289]
GDP	1.021766	0.351254	0.026133
	-569.131	-0.34618	-0.0124
	[1.66227]	[1.17661]	[1.36662]
HC	3.137142	2.815234	0.861217
	-16512.8	-10.151	-0.34465
	[0.01672]	[2.51621]	[2.63282]

The link among financial literacy, GDP, with Human Capital may be observed based on the predicted findings. The importance of the link between variables may be assessed by checking current quantifiable relevance with predicted coefficient value. According to the estimation results, previous financial literacy has a considerable favorable influence. Financial literacy have the positive impact to economic growth.

Financial literacy has such a substantial beneficial impact on human capital. Economic growth (GDP) has such a substantial beneficial impact to the financial literacy. Economic growth has such a substantial beneficial impact to the economic growth. Human Capital benefits significantly from Economic growth.

Human Capital has really no discernible beneficial impact with 3.149053 coefficient alsowith the 0.01783 statistical number. In earlier study, we know if Financial Literacy have the effect to the

Human Capital with vice versa. Human capital has such a substantial beneficial impact with GDP. Human capital had a tremendous beneficial impact on human capital inside this previous.

Financial literacy with human capital support each other at encouraging economic growth. Financial literacy can provide financial capital in investing in the capital as well as provide financial capital for production so that both become strong drivers of economic growth. Although human capital cannot be said to provide an impetus to financial literacy.

Conclusion

Financial literacy have significant impact in providing a production boost that have direct impact to economic growth. Financial literacy have important impact about encouraging some development the human capital through human capital investment. So that financial literacy plays a critical role in Thailand's economic and human development.

References

- Adirosa, C.E. (2021). Classical Economic Theory Testing on Economic Challenges in India Using Vector Analysis Method. *ASIAN Economic and Business Development*, 3(1), 17-22. <http://doi.org/10.54204/2776133>
- Adil, M. H., & Rajadhyaksha, N. (2021). Evolution of monetary policy approaches: A case study of Indian economy. *Journal of Public Affairs*, 21(1), 2113-2125.
- Baharin, R., Syah Aji, R. H., Yussof, I., & Mohd Saukani, N. (2020). Impact of human resource investment on labor productivity in Indonesia. *Iranian Journal of Management Studies*, 13(1), 139-164.
- Crane, B., & Hartwell, C. J. (2019). Global talent management: A life cycle view of the interaction between human and social capital. *Journal of World Business*, 54(2), 82-92.
- Dua, P. (2020). Monetary policy framework in India. *Indian Economic Review*, 55(1), 117-154.
- Fuhrer, J., Olivei, G. P., Rosengren, E. S., & Tootell, G. M. (2018). Should the Federal Reserve Regularly Evaluate Its Monetary Policy Framework?. *Brookings Papers on Economic Activity*, 2018(2), 443-517.
- Hlongwane, N. W., & Daw, O. D. (2022). MONETARY POLICY IN SOUTH AFRICA: A VECM APPROACH. *International Journal of Economics and Finance Studies*, 14(1), 1-28.
- Homsirikamol, T., Tangjitprom, N., & Sethjinda, T. (2021). THE SENTIMENT ANALYSIS OF MPC MINUTES OF THE MEETINGS AND RELATIONSHIP WITH BOND YIELD AND SET INDEX. *Journal of Global Business Review.*, 23(1), 33-53.
- Hossain, A. A., & Arwatchanakarn, P. (2021). An Investigation of the Interrelations among Macroeconomic Variables in Thailand under Inflation-Targeting for the Post-Financial Crisis Period. *Journal of Southeast Asian Economies*, 38(1), 51-80.
- Hubert, P., & Maule, B. (2021). Policy and Macro Signals from Central Bank Announcements. *International Journal of Central Banking*, 17(2), 255-296.
- Iyoha, D. O., & Igbinedion, V. I. (2022). Knowledge management: A strategy for mentoring business educators in Nigerian universities. *West African Journal of Educational Sciences and Practice*, 1(2), 62-69.
- Juhro, S. M. (2015). The role of the central bank in promoting sustainable growth: Perspectives on the implementation of flexible ITF in Indonesia. *Afro Eurasian Studies*, 4(1), 23-61.
- Krscynski, D., Coff, R., & Campbell, B. (2021). Charting a path between firm-specific incentives and human capital-based competitive advantage. *Strategic Management Journal*, 42(2), 386-412.

- Kuzminov, Y., Sorokin, P., & Froumin, I. (2019). Generic and specific skills as components of human capital: New challenges for education theory and practice. *Форсайт*, 13(2), 19-41.
- Nielsen, J., Livernoche, R., & Ramji, K. (2022). The Indigenous Work-integrated Learning Resource Hub: A needs-based approach to addressing barriers and opportunities for Indigenous students. *International Journal of Work-Integrated Learning*, 23(2), 139-151.
- Prasetyo, P. E., & Kistanti, N. R. (2020). Human capital, institutional economics and entrepreneurship as a driver for quality & sustainable economic growth. *Entrepreneurship and Sustainability Issues*, 7(4), 2575.
- Priyanto, E., Widarni, E. L., & Bawono, S. (2022). The Effect of Internet Inclusion on Financial Inclusion in P2P Lending in Indonesia Based on Human Capital Point of View. In *Modeling Economic Growth in Contemporary Indonesia* (pp. 107-121). Emerald Publishing Limited.
- Rusmingsih, D., Widarni, E. L., & Bawono, S. (2021). Human psychological factors in the success of human capital investment in driving financial performance, case study of the hotel industry in Indonesia and Malaysia. *HOLISTICA–Journal of Business and Public Administration*, 12(1), 69-75.
- Sasongko, B., Bawono, S., & Prabowo, B. H. (2021). The Economic Performance of China in Trade War: The Case Study of Three Global Economic Crises in 1997–2020. In *Environmental, Social, and Governance Perspectives on Economic Development in Asia*. Emerald Publishing Limited.
- Singh, S. (2022). Tourism, money supply, and progressive inflation. *Journal of Ekonomi*, 4(1), 38-45.
- Yusri, K. A. (2021). The Effect of Economic Growth, Inflation and Business Confidence Index on Unemployment in ASEAN-5. *Jurnal Pendidikan Ekonomi, Perkantoran, dan Akuntansi-JPEPA*, 2(2), 133-143.