

**Abstract:**

This thesis investigates the impact of political environment on the development of financial sector. Data of variables took from 1970-2014 for 60 nations (30 developed nations and 30 developing nations), data are used to check the impact of political environment on the development of the financial sector. Whether, political environment effects the performance of financial sector or not. Political environment is a combination of different form of Govt. in a particular country. Data regarding the variables i.e. Democracy, autocracy, polity 2, consolidation democracy, anocracy, domestic credit given by financial sector, domestic credit to private sector, domestic credit to private sector by banks. Through these variables impact of political environment on financial sector can be observed. Panel co-integration is applied to check the long run relation between the variables that exists and also check the short term relationship between variables through error correction. Both short run and long run relations occurs between the variables. Significance and signs of the variables have observed through OLS.