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FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH: TURKEY CASE

Abstract:

In this study, the relationship between financial development and economic growth has been handled in the light of causality linkage through the concerning variables in Turkey during the period 1984-2013. Four major variables for financial development have been used to evaluate this relationship. Moreover, investments are thought to be an effective variable to complete the causality between financial development and economic growth. To this end, the relationship has been observed by adding the investment variable to the model with the financial development indicators. Granger causality tests have been applied by using Johansen's co-integration and vector error-correction methodology. Additionally, to ensure the effects and directions of causality impulse-response tests have been employed. Although there are several results and contributions for the direction of causality among the literature, this study reveals that there are causality from financial development to economic growth with significant variables. Growth, on the other hand, causes to financial development by only one important variable. Banking and financial regulations are crucial for a solid growth and reliable financial markets. The politics regarding to financial markets had to be applied substantially.

Keywords:

Financial Development, Economic Growth, Turkey, Granger Causality, Error Correction Model, Co-integration