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Finance and economic growth - a review of theory and the available evidence

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Abstract

The EU's structural reform agenda attaches a considerable weight to the establishment of efficiently working and integrated EU financial markets. While there is a firm consensus that a well-functioning financial sector is a precondition for the efficient allocation of resources and the exploitation of an economy's growth potential, the economic literature is less consensual on how and to what extent finance affects economic growth.Â This paper reviews the economic theory and available evidence with particular focus on three questions:Â how does financial development affect economic growth;Â what are the features of a growth supportive financial structure;Â how are financial structures related to structural change and technical progress?Â

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