Financial development and economic growth in Poland in transition: causality analysis

Gurgul, Henryk and Łukasz, Lach (2011): *Financial development and economic growth in Poland in transition: causality analysis.*

Abstract

The economic literature suggests that the efficient allocation of resources by the financial system speeds up economic development and reduces poverty. However, there are economists who find financial development to be the result of economic growth. This study examines causal relationship between economic growth and financial development in Poland on the basis of quarterly data for the period Q1 2000 – Q4 2009. The empirical research was performed in two variants: bank– and stock market–oriented approaches. The results suggest causality running from the development of the stock market to economic growth and from economic growth to the development of the banking sector. This implies that the direction of causality strongly depends on which particular area of the financial sector is considered. Empirical results were found to be robust both to the type of common variable applied and the specification of testing procedure, which clearly validates major conclusions of this paper.

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