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Causality between financial development and economic growth: an application of vector error correction and variance decomposition methods to Saudi Arabia

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(CUSUMSQ) and Chow Test (CHOW) tests. Our findings, based on the above mentioned rigorous techniques, tend to suggest that the direction of causation between financial development and economic growth is supply-leading (rather than demand-following), as expected at the early stage of development. These findings have clear policy implications in that a pro-active policy of growth and reform of the financial sector will help enhance economic growth in an open developing economy like Saudi Arabia.

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