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Financial development and economic growth: Additional evidence

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This note suggests that, contrary to the conclusions reached in several recent studies, the empirical evidence does not support the view that financial development promotes economic growth. It is first noted that the predominant pattern in the data for 95 individual countries is that of a negligible or weakly negative covariation between financial development and growth of real GDP per capita. Second, the individual-country correlational picture is a sharp contrast to the correlations based on crosscountry data that have been used in most research on the subject. Third, individual-country estimates of a basic multiple-regression growth model also do not indicate a positive association between financial development and growth. Fourth, in cross-country data and models of the kind that have been used in most studies, when the regression structure is permitted to vary across three subgroups, a huge parametric heterogeneity is observed, and the overall indication is that of a negligible or negative association between financial development and growth.

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