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Assessing the role of financial deepening in business cycles: the experience of the United Arab Emirates

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Abstract

The relation between financial market development and the severity of business cycles in the economy of the United Arab Emirates is investigated. No evidence is found of a dampening effect from financial deepening on cyclical fluctuations in the short-run, but strong effects in the long-run. These results extend recent findings on the financial development/economic growth nexus and imply that growth volatility reductions expected from further financial developments are slow to materialize especially in countries with relatively large and well-functioning financial sectors.

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Notes

For example, the standard deviations of output growth are 22.06% in Saudi Arabia and 19.66% in Egypt.

'Granger' is attached to 'cause' since controversy still surrounds the Granger concept of causality which may differ from 'causality' in the strict philosophical sense.

Additional EC lags are excluded since they are already reflected in the distributed lags of the other explanatory variables. See Miller (1991).

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