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Financial development and economic growth in the Middle East

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Abstract

This paper investigates the linkages between financial development and economic growth in the Middle East using newly developed methods of panel cointegration along with the popular time series methodologies such as the Johansen's cointegration, Granger causality, and the variance decompositions. The results indicate that, in the long run financial development and economic growth may be related to some level. In the short run, the panel causality tests point to real economic growth as the force that drives changes in financial development while individual countries' causality tests fail to give a clear evidence of the direction of causations.

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Notes

[1]See Cheung and Lai (1993).

[2]Significance of causality that runs from GDP to financial development for Morocco is on the margin as the p-value is very slightly higher than 5%.

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