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Financial development and growth in economies in transition

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Abstract

The hypothesis that financial development promotes economic growth is largely supported by empirical studies. This hypothesis is tested for 13 Central and East European Countries (CEECs) during transition using panel data. Results show that financial development, as measured by liquid liabilities as a proportion of gross domestic product, has an insignificant effect on economic growth: economic growth in CEECs is not constrained by underdeveloped financial sectors.