

FINANCIAL DEVELOPMENT, INSTITUTIONS AND POLICY - PANEL DATA EVIDENCE

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ABSTRACT

In recent years significant researches have been done to identify what are the determinants of financial development. This paper provides new evidence that sheds light on the complex and combined role of institutional quality, trade openness and financial liberalisation on banking and stock market development, using data from 44 economies (of low, middle and high income) during 1985-2007. The economic, political and social dimension of institutional quality is investigated, as well as their combined effect with trade openness and financial liberalisation on banking sector and capital market development. The dynamic panel data analysis results demonstrate that: i) institutional quality can explain international differences in the level of financial development; (ii) relative influence of institutions varies across stages of development; and iii) the link between financial development and institutions is more apparent in the banking sector.

JEL Classification: G29, F19, K49

Keywords: Financial development, institutions, trade openness, financial liberalisation, panel data analysis

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