Determinants of financial development

Abstract

The paper studies effects of country level determinants on the rate of financial development and, in particular, assesses the empirical question whether democracy and political freedom can enhance financial development, as measured by Bank Private Credit to GDP and Liquid Liabilities to GDP. Using Fixed Effects estimation techniques and a panel data for a list of 39 countries over the period 1990 to 2011, we provide evidence that suggests positive link between political openness and financial development. The empirical evidence also confirms financial openness and real per capita income to be positively correlated to financial deepening and in contrast, we find that size of financial sector does not spur the rate of financial development.