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Financial Development, Financial Fragility and Economic Growth: A Turkey Experience

Hilal Yıldız¹, Seda Atasaygın²¹Kocaeli University, Turkey²Finansbank, Turkey

ABSTRACT

The relationship between the financial deeping and economic growth has been debated extensively in the literature. The causal relationship of finance-growth nexus has important policy implications for the economy. The study examines the relationship between financial deepening and economic growth in Turkish economy for the period from 1984:01-2014:12. The industry production index is used a representative of economic growth. The variable of stock index of Istanbul, bonds and stocks are used as financial development indicators. We conclude that there is cointegration relation among variables. According our results, the demand-pulling hypothesis is valid for Turkish economy. We find that there is evidence that the growth of economy in recent years has substituted for financial development. The work is divided into five sections. Section one is the introduction, section two deals with the theoricalliterature reviewof relationship between economic growth and financial development, section three discusses the empiricalliterature. Section four analyzes the data and discusses the findings under the empirical results while section five discusses conclusion.

KEYWORDS Growth; financial deeping; causality; cointegration; Turkey

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