

Explain the relationship between the development of financial markets and economic growth in Europe Union (Panel data approach)

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Theoretical studies as well as experimental observations imply that countries with advanced financial system enjoy faster and more sustainable economic development. Similarly, advanced financial markets positively and significantly affect economic growth and productivity, leading to higher long-term growth rates. The relationship between financial growth arising increased share of insurance sector in finance gains ever increasing significance in devolved and developing countries. The present study aims at explaining the relationship between financial development and economic growth in European Union member states. Thus, data 28 countries between 2005 and 2014 were analyzed. Results of Limer tests to identify the fittest model showed that the model is synthetic. Thus, regression was estimated with fixed y-intercepts. Results demonstrated that all independent variables, except real interest rate, had significant relationship with economic growth of European Union member states. Insurance services and degree of economic openness had positive, while inflation showed negative, relations. Results are in agreement with economic theories.

Keywords : Keywords: economic growth, insurance services, real interest rate, degree of economic openness, inflation, European Union

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