

In search of a long-term relationship between economic growth and development of financial system

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Abstract

In the last decade there was an important growth of the financial system that was reflected in its greater incidence on GDP. In this sense, in this paper we investigate the effect of financial development on economic growth of Bolivia. Using monthly time series data from 1991 to 2015 our analysis is based on an Autoregressive Distributed Lag (ARDL) Bound Cointegration approach. We estimate the long-term effect of the variables that reflect the behavior of the financial system on economic growth.

Results suggest that there is a positive and significant relationship between the variables that measure the development of the financial system (except the level of credit) and economic growth, although the effect is still moderate.

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