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**FINANCIAL MARKETS DEVELOPMENT AND ECONOMIC GROWTH:  
THE EXPERIENCE OF TRANSITION ECONOMIES**

*F. Antolini\**, *A. Billi\**

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**Abstract**

*This paper reviews some of the most relevant contributions of the theoretical literature on the role of financial systems in the long run growth. Studying the effects of capital mobility, researchers focused their attention to the problem of capital accumulation and liberalization. The role and effects of financial systems development on the long run growth have been often misunderstood and considered as a "side show" of the industrialization process. The main focus of the literature was on the effects and determinants of international capital flows but now we know the functioning of financial systems is crucial to prevent and manage international financial crisis.*

*Transition economies are a subset of emerging economies but the macroeconomic environment is different because they have not only to develop their countries but also to "transform and adapt" themselves to market economy paradigm, after a long period of centrally planned management. In particular Central and Eastern European Countries (CEECs) had a banking system, which played a sort of administrative role instead of efficiently allocate savings, selecting the best entrepreneurial projects. The financial system was monopolized by the public bank which did not know how to evaluate investment project and price them.*

*The paper is organized as follows: sections 1 to 3 review critically the different approaches on the finance-growth link and present briefly the recent experience of financial sector in CEECs, sections 4 and 5 analyse the process of reorganization and harmonization of financial and macroeconomic statistics during transition, according to the EU standard, as an important technical step towards EU enlargement; section 6 presents the empirical investigation on the "evidence/existence" of the finance-growth link, highlighted by the recent literature, using a set of indicators identifying beyond the usual "size" measures of financial systems also some activity and efficiency variables, according to the Levine database on financial development and structure; a particular solution for regression analysis has been applied to avoid the problem of the short time series available; section 7 presents the results of the regression and some concluding policy implications.*

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\* UNIVERSITY OF ROME "LA SAPIENZA" - DEPARTMENT OF ECONOMIC THEORY AND QUANTITATIVE METHODS.  
<http://web.dte.uniroma1.it>. For comments and suggestions: [f.antolini@dte.uniroma1.it](mailto:f.antolini@dte.uniroma1.it) [a.billi@dte.uniroma1.it](mailto:a.billi@dte.uniroma1.it).

F. Antolini wrote section 4 and 5; A. Billi section 1 to 3 while section 6 and conclusions has been written together.