

The Impact of Institutional Quality on Financial Development (Case Study: Eurasian Developing Countries)

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Abstract

Financial development is one of the important issues that has always been of special importance in the economy of any country. Achieving the desired economic growth and development is impossible without efficient financial institutions and proper equipping of financial resources. Qualitative factors including the political environment, institutional, legal and information infrastructures, regulations and supervision can be mentioned as determining the level of financial development in countries. Numerous factors affect financial development and there are many studies and theories in this field, but what has been less considered so far is the impact of qualitative and institutional factors on financial development. The main purpose of this study is to investigate a group of important non-economic and qualitative factors on financial development. For this purpose, the effect of the average of 3 ICRG indices as the quality index of institutions, POLITY IV index as the democracy index and property rights index on banking indices as the financial development index for 27 developing countries in the Eurasian region during 2018-1999 has been studied. Accordingly, an econometric model was specified and estimated using the Generalized Torque (GMM) method in the panel data. The results of this study show that high quality institutions, higher democracy and protection of property rights have had a positive and significant effect on financial development in the studied countries.

Keywords: Institutional Quality, Democracy, Property Rights, Financial Development, Dynamic Panel.

JEL Classification: C23, O43, P14, P26.

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