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Foluso A. Akinsola
Nicholas M. Odhiambo

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Department of Economics
University of South Africa
P.O Box 392, UNISA
0003, Pretoria
South Africa
Email: akinsfa@unisa.ac.za /
akinfolu@yahoo.com

Nicholas M. Odhiambo
Department of Economics
University of South Africa
P. O. Box 392, UNISA
0003, Pretoria
South Africa
Email: odhianm@unisa.ac.za /
nmbaya99@yahoo.com

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REVISITING FINANCIAL LIBERALISATION AND ECONOMIC GROWTH: A REVIEW OF INTERNATIONAL LITERATURE

Dr Foluso A Akinsola¹ and Nicholas M. Odhiambo

Abstract

In this paper, we review the existing literature on the relationship between financial liberalization and economic growth, highlighting both the theoretical framework and empirical evidence. Our review is different from other reviews; since it critically evaluates the impact of financial liberalization on economic growth regarding its strength, weakness and policy implications. Unlike other previous reviews that tend to focus mainly on the impact of interest-rate liberalization on economic growth, our study incorporates other forms of financial liberalization, such as stock market liberalization and exchange rate liberalization. Based on the literature reviewed in this paper, we have found that the relationship between financial liberalization and economic growth is inconclusive – with some studies showing a positive effect of liberalization policies; while other studies have shown the negative effect of financial liberalization. Whether financial liberalization contributes to more economic growth, as postulated by its proponents, therefore, remains an empirical issue. We also found the efficacy of financial liberalization to be dependent on the proxy used to measure the level of financial liberalization, the country of study, and the methodology used. In addition, we have found that countries that observed the preconditions for financial liberalization ended up with a positive outcome; while countries that hurriedly liberalized their financial sectors had a negative outcome. We, therefore, recommend that full financial liberalization should not be implemented – without a concomitant strong prudential regulation, a stable macroeconomic policy and an impregnable institution in place.

Keywords: Financial Liberalisation, Economic Growth, Capital Market Liberalisation, Capital Account Liberalisation

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¹ Postdoctoral Fellow, Macroeconomic Policy Analysis Programme, Department of Economics, University of South Africa.
E-mail: akinfo@yaho.com/akinsfa@unisa.ac.za

1. Introduction

The theoretical and empirical interests in the relationship between financial liberalisation and economic growth have been repleted with a lot of controversies over four decades. The origin can be traced back to McKinnon (1973) and Shaw (1973) who believed that economic growth will be enhanced as soon as the financial system has been liberated. Goldsmith (1969), McKinnon (1973) and Shaw (1973) ascribe the poor performance of investment and growth in developing countries to ‘artificial interest rate ceilings’ and quantitative restrictions on the credit allocation. Most Sub-Saharan (SSA) economies had no choice but to bring in financial reform policies that were mainly motivated by the structural adjustment programmes (SAPs) introduced by the World Bank and the International Monetary Fund (IMF). The reform policies were aimed at liberalising interest rates and exchange rates; strengthening the banking sector with new financial instruments and securities market instruments; and deregulating financial markets, especially the stock markets. Their theory was stimulated by the drive to deepen the financial system through financial savings and investments. A higher market lending rate usually leads to a more efficient allocation of funds and removes the distortion arising from government-controlled administrative rates, promoting competition and higher economic growth in the long run. The debate on financial liberalisation is still ongoing and deserves adequate attention; given the increased fragility of the financial sector due to haphazard liberalisation action. Since the majority of developing countries have embarked on revitalising their banking systems and stock markets; and implementing financial liberalisation policies including interest rate and exchange rate liberalisation, there has been an unprecedented upsurge in capital inflows. The argument that opening up capital markets allow for the diversification and enhancement of stability may not be correct after all (aftermath of the prevailing global financial crisis and its effect on the economies of emerging markets). Wide empirical studies and cross-country analysis have shown that capital market liberalisation is systematically associated with greater instability; and for good reasons, capital flows are markedly, pro-cyclical exacerbating economic fluctuations when they do not actually cause them.

However, despite the expectation that the inflow of capital would deepen the financial market and augment the liquidity of local stock markets, the experience of emerging markets indicate that booms were shortly followed by bust. The objective of this study is therefore to review existing literature on the relationship between financial liberalisation and economic growth;

and highlighting the theoretical framework and empirical evidence. The review is different from other reviews in that it critically evaluates the impact of financial liberalisation on economic growth in terms of its strengths, weaknesses and policy implications; evidence is inconclusive regarding the effect of financial liberalisation on economic growth; and a small number of studies have closely focused on the financial liberalisation link to various banking crises. The majority of literature tends to assume that financial liberalisation is about interest rate reform without taking the aspect of stock market liberalisation and exchange rate liberalisation into account. Previous literature survey studies fail to deliberate on these gaps. A good part of the literature reviewed in this paper is based on existing studies on financial liberalisation and economic growth. However, this review has gone further to consider stock market liberalisation and capital account liberalisation. The paper is divided into four sections. Section 2 reviews the theoretical literature on the causal relationship between financial liberalisation and economic growth while section 3 reviews the empirical evidence of the causal relationship between financial liberalisation and economic growth. The conclusion is presented in section 4.

2. Financial liberalisation and economic growth: a theoretical framework

2.1 Financial liberalisation thesis: the origin

The theoretical link between financial development and growth remains a controversial issue among economists and policy makers. Bagehot (1873) emphasised the pivotal role of the banking system in economic growth and also highlighted ways in which banks could actively spur innovation by funding productive investments. Schumpeter (1911) also argued that the services provided by financial intermediaries by developing the financial sector of an economy spur technological innovation and economic growth. Likewise, works by Goldsmith (1969) and McKinnon (1973) demonstrate a positive link between financial development and economic growth. Contrary to this, Robinson (1952) contends that financial development is only a by-product of economic growth. Singh (1997) argues that the development of financial markets may also turn out to be an impediment to economic growth when it induces volatility and subsequently discourage risk-averse investors from undertaking investment projects.

Country case studies on financial deepening and growth linkages indicate that better functioning financial systems support faster growth in the long run. They bring to fore the impetus of liberalising the financial sector to stimulate savings and investments. 'Financial liberalisation' advocates postulate that higher lending rates at market real interest rates will

mobilise and encourage an efficient allocation of loanable funds to the real sector (McKinnon 1973; Shaw 1973; Fry 1995; Rousseau & Wachtel 1998). For example, McKinnon (1973) and Shaw (1973) believe that financial liberalisation policies will eliminate distortion caused by administrative controls and could help to expand savings, investments and capital formation by augmenting aggregate demand in the real sector (Arestis & Demetriades 1999; Brownbridge & Harvey 1998). Government restriction on the banking system confines the quality and quantity of investment by setting artificial interest rates, which impose a high reserve requirement and implement quantitative restriction. They asserted that financial repression is responsible for low savings, credit ratings and investment outcome experienced in most developing countries in the 70s. They propose a free market policy where a real interest rate determined by the market system is paramount. When there is an increase in real interest rates, the flow of savings and investments will enhance the marginal productivity of capital thereby facilitating an efficient financial system. Financing liberalisation will, in turn, augment savings; facilitate investments and ultimately increase economic growth and financial deepening (Goldsmith 1969; Shaw 1973; Pagano 1993).

Shaw (1973) emphasised the importance of financial deepening in the process of economic growth and development. Shaw's seminal paper reckoned that financial deepening plays a pivotal role in expanding the monetary system by stressing the role of saving stimulants; real rate of return; and ensuring that there is real market price as a guide for resource allocation. The book also believes that financial deepening affects all spheres of the economy in that it can facilitate the efficient flow of resources in both the financial and foreign markets. It can also reduce unemployment, since aggressive investment can help the real sector by rising production and facilitating the employment of more workers. Extension to the McKinnon-Shaw framework demonstrates the importance of financial liberalisation to the stabilisation programmes. These programmes emphasise the impetus of quality investment in stimulating economic growth (Check Kapur 1976; Galbis 1977; Fowowe 2013).

Financial liberalisation can also be synonymous with stock market liberalisation and capital account or exchange rate liberalisation. Financial liberalisation policies include the privatisation of state-owned banks; stimulation of competition among banks; deregulation; interest rate reform; abolition of directed credit programme; reduction of reserve requirement and stock market and capital flow restructuring. For example, financial sector liberalisation also includes the removal of regulations on deposit interest rates, lending interest rates,

allocation of credit and reserve requirements, moving towards market determined interest rates and all financial products, which in turn increases internationalisation. Stock market openness includes repatriation of interest and earnings; and deregulation of shareholdings in the domestic stock market by foreigners. (Bekaert & Harvey 2000) and Eichengreen (2001) observed that the restriction on capital flows discourages foreign investors and a constraint financial system in the long run. However, financial liberalisation policy is not without its weaknesses. The policy assumes that all financial systems should have perfect information; perfect competition and a strong institutional framework which seems to be very unrealistic in most economies. Beju and Ulici (2012) believe that financial liberalisation is a process that can bring enormous gains, but at the same time it can also be detrimental to the development and economic prosperity of many countries.

The financial liberalisation thesis argues that prices and credit allocation should be determined by the market; with the real rate of interest adjusting to its equilibrium level to enhance the efficiency level of investment, savings and credit supply. This will induce the productivity of capital and ultimately encourage economic growth. According to Arestis and Demetriades (2004), the liberalisation thesis failed to ascertain and anticipate the repressive policy combination of a fixed exchange rate and external government debt. These policy implications spur instability and crisis in many developing countries – For example the Mexico Crisis, Latin American crisis (Angkinand et al 2010).

Full liberalisation in some economies may lead to destabilisation and bank crisis characterised by capital flight. (World Bank 1989; Alawode & Ikhide 2001; Rodrik & Velsasco 1999 and Johnston 1997) argue that full liberalisation without a strong macroeconomic stability and prudential regulation can harm a country There is an urgent need for governments to develop strong institutions and corporate governance in both monetary and exchange markets.

2.2 Interest rate liberalisation and economic growth

Financial liberalisation is a direct policy to correct the lapses of financial repression. The liberalisation of interest rates has taken centre stage in various developing countries. The majority literature believes that interest rate liberalisation is expected to increase the level of saving (financial saving and deposit mobilisation) and investment; and that it will ultimately enhance financial deepening and economic growth; however, this must be done with caution. The policy should also encourage more efficient allocation of loanable funds by introducing a higher interest rate. Interest rate liberalisation will remove distortions in the financial market

which exist as a result of administrative control (Brownbridge & Harvey 1998). Interest rate liberalisation entails the abolition of directed credit policy by means of which some 'priority' sectors of an economy are given preferential treatment by directing credit to them at a low interest rate. Free entry to the banking institution is encouraged since it spurs competition. However, clear evidence in most empirical studies have shown that financial liberalisation policies have not encouraged macroeconomic stability and fiscal discipline in the majority of developing countries .

For instance Galbis (1993:4) made it very clear that: "Countries that are still contemplating interest rate liberalization should take preventive measures to stabilize prices, achieve fiscal consolidation, improve indirect monetary policy instruments, and strengthen prudential regulation and supervision of the financial system before problems emerge". These prerequisite actions are paramount to avoid moral hazard consequences and bank crisis. Ikhide and Alawode (2001) noted that the speed, sequence and consequence of financial reforms will determine the success of the financial reform. Fowowe (2013:33) believes that "improper coordination and rushing through various reforms are responsible for the failure of financial liberalization".

2.3 Capital market liberalisation and economic growth

The majority of developing countries have embarked on revitalising their stock markets and implementing financial liberalisation policies which include interest rate and exchange rate liberalisation; and there has been an unprecedented upsurge in capital inflow. However, despite the expectation that the inflow of capital would increase the liquidity of local stock markets (Litman 1994; Aitkin 1998), the experience of emerging markets indicate that booms were shortly followed by bust. In addition, capital market liberalisation exposes countries to vicissitudes associated with changes in economic circumstances outside the country; specifically countries perceived to be highly vulnerable and non-resilient to external stocks. A sudden change in a lender's perceptions concerning 'emerging markets risks' can ultimately lead to huge capital outflows, undermining the viability of the entire financial system.

The issue whether capital market liberalisation in the absence of a catalyst, such as restrictions on cash outflows, provides additional sources of funding, is rather questionable. It is noted that China, which claimed to be the most successful country in attracting foreign direct investments, imposes a high level of restrictions on short-term capital flows. In essence, there is a little

evidence that countries that have imposed restrictions on short-term flows (Chile on inflows, Malaysia on outflows) have had their long-term flows adversely affected (Lee 1996).

In the same vein, Stiglitz (2004) posited that capital account liberalisation is not associated with faster investment; and therefore, faster growth. He noted that the case for positive effect is weak: firms are unlikely to engage in productive long-term investments on the basis of short-term funds. There are even reasons to expect that capital market liberalisation can have a negative effect on growth. Since it leads to greater instability and specifically financial market crises, it has adverse effects on economic growth (Stiglitz 2004). There are several channels through which instability exercises its adverse effects on the average level of growth. First, given the limited ability to divest risk; especially in developing countries, instability increases the 'risk premium' – the returns that investors demand to be willing to invest. Second, crises lead to the destruction of the net worth of firms, reducing their willingness and ability to invest. In more extreme cases, crises can lead to bankruptcy like in East Asia; while corporate bankruptcy leads to undermining financial institutions. In both instances there is a loss of organisational and informational capital – a loss which cannot be easily reversed. There is an equally compelling argument concerning the reason why capital market liberalisation (at the short end) might be expected to have adverse effects on growth. Nowadays countries are encouraged to maintain adequate reserves which serve to protect them against volatility in international financial markets. A key indicator here is the ratio of reserves to foreign denominated short-term indebtedness. When that number falls below unity, investors and lenders become worried; and recent econometric works have suggested that this variable provides the best explanation for countries that were adversely affected by the global financial crises.

Some studies, notably, by Kim and Singal (2000) have questioned the argument which favours foreign investors in emerging stock markets. It is argued that opening up to foreign investors exposes the domestic market to external shocks which could increase stock price volatility and consequently raise the cost of capital as shareholders demand a higher risk premium.

2.4 Capital account liberalisation and economic growth

Capital account liberalisation includes the removal of control over off-shore borrowing by domestic financial institutions and the introduction of multiple exchange rate markets. Capital account liberalisation refers to a policy in which government gives foreign investors the right to purchase shares and bonds on the domestic market, whereby domestic investors are also

permitted to trade in foreign securities. Capital account liberalisation can be divided into two sub-categories. The first category is the *de jure* measure of financial integration. *De jure* measures are financial liberalisation that concentrates on events such as a change in regulations and the response of monetary authorities to financial flows. *De facto* (or price and quantity-based) measure concentrates on financial integration. It can be measured as the sum of the total capital inflows and outflows as a percentage of the GDP.

Proponents of capital account liberalisation believe that the policy will encourage risk sharing and diversification and enhance investment and capital flows with higher earnings and dividends. The studies of Bekaert et al (2002); Loayza and Rancière (2002) Edison et al(2002); and Klein (2005) believe that international financial liberalisation has a positive impact on the economic growth and development of financial systems. However, financial liberalisation can only be effective when there is a sophisticated and mature capital market (Loayze & Ranciere 2002); stable and sound macroeconomic policies (Bekeart & Harvey 2002); and institutional reform development (Blackburn & Puccio 2010;Chinn & Ito 2006; Gibson & Tsakalatos 1994). Chinn and Ito (2006) examined the issue of financial development, capital controls and institutions in respect of 108 countries, using the panel error correction model. Their result shows that the success of the financial liberalisation policy to enhance economic growth depends largely on the quality of governance and the degree of institutional and legal development.

According to the neoclassical theory, capital account liberalisation allows the interest rates of domestic economies to be equal to the international interest rates. A change in the interest rates usually leads to higher investment; which, in turn, leads to a permanent change in the stationary state of growth (Henry 2007; Esteban et al 2010). The literature points out the fact that neoclassical theory does not include the distribution channel through which liberalisation can affect the productivity investment and economic growth (Henry 2007).

Henry (2007) further argued that the majority of empirical studies in the past that focused on the long- run impact of financial liberalisation and economic growth are not ‘valid’, since the prediction of neoclassical theory has only established a temporarily increase in economic growth. In other words, financial liberalisation policies are not without some hiccups; critics believe that the policy can also encourage asymmetric information and a banking crisis in a weak financial system and legal system.

3. Financial liberalisation and economic growth: an empirical literature

Naude (1995); Allen and Ndikumana (2000) and Garma (2009) examined the impact of financial liberalisation policies on economic growth. Their results show that interest rate reform has a positive and long-term effect on financial development and economic growth. Seck & El Nil (1993); Reinhart and Tokatlidis (2003); Tornell and Westmann (2004); Obamuyi (2009); Odhiambo (2010) and Fowowe (2013) examined the relationship between interest rate liberalisation and economic growth in Africa. Their results confirm that there is a long-term relationship between real interest rate liberalisation and economic growth. However, Ahmed (2013), Ozdemir (2014) and Akinsola and Odhiambo (2017) examined the relationship between financial liberalisation policies and economic growth and found that financial liberalisation is negatively related to economic growth in Sub-Saharan Africa.

Seck and El Nil (1993) in their analysis of 21 African countries found a decisive significance of financial liberalisation and economic growth. Fowowe (2013) found similar results to the effect that financial liberalisation will enhance economic growth in Sub-Saharan Africa (SSA). The author used a system GMM estimator and dynamic panel data approach. In the same year, Ahmed (2013) analysed the effect of financial liberalisation on the financial market development and economic performance on SSA, using the GMM estimator, but found contradictory results. The author found a negative relationship between financial liberalisation and growth. This may be due to the various variables used when measuring financial liberalisation.

Akinsola and Odhiambo (2017) took a different by empirically examining the effect of financial liberalization and the impact of different banking crises on economic growth in sub-Saharan Africa. The result shows that financial liberalization is positive and significant for SSA. However, they got a negative result for low-income countries. Their results also show that there is a negative relationship between a banking crisis and economic growth, explicating that periods of a banking crisis can severely affect economic growth in sub-Saharan Africa.

Few studies have distinguished interest rate liberalisation and capital market liberalisation from financial liberalisation studies as a whole. Section 3.1 and 3.2 discussed empirical studies based on these.

3.1 Capital market liberalisation and economic growth

Bekaert, Harvey, and Lundblad (2005) study the effects of equity market liberalisations on economic growth in five developed countries. The results show that equity market liberalisation increases economic growth in these countries. Arestis et al. (2001) analysed the impact of stock markets on financial development and economic growth relationship, using the Vector Autoregression Model for six developed economies and found that stock market development stimulates economic growth. Beju and Ulici (2012) in their study of four emerging countries, using panel regression also suggest that capital account liberalisation will have a positive impact on the efficiency of the banking system which will eventually enhance economic growth. However, Tswamumo et al. (2010) and Fuchs and Funke (2003) examined the effects of stock market liberalisation on macroeconomic development in South Africa. Their results show that the liberalisation of equity and bond market did not induce economic growth in South Africa. Also, Tornell et al. (2004) studied 66 countries, using CUSUM and Granger causality test and found that financial openness will positively enhance economic growth.

3.2 Interest rate liberalisation and economic growth

The interest rate liberalisation study of Barrell et al. (2016) for OECD countries, using the Logit Model found that interest rate liberalisation can only be effective when the capital buffer is strengthened. Arestis et al. (2002) used variables such as real interest rate, interest rate restraints, reserve requirement, liquidity ratio and real GDP per capita to analyse the impact of financial liberalisation policies on financial development for six developing economies. They employed the Cointegration and Error Correction Model and found that real interest rate has a positive and significant long-term effect on financial development in four out of the six countries under study. Bonfiglioli and Mendicino (2004), using a dynamic panel data for 90 countries shows that liberalisation and crises affect growth through financial development. This is also similar to the result of Kaminsky and Schmukler (2002) and Tornell et al. (2004) who indicated various ways in which institutional quality may matter when shaping the relationship between financial liberalisation, crises, and long-run growth. Kaminsky and Schmukler (2002) also investigated the relationship between equity market liberalisation and financial market. Their result shows that the equity market liberalisation can cause a financial crisis in the short-run and positive long-run.

4. Conclusion

This paper aims to review the existing literature on the relationship between financial liberalization and economic growth, highlighting both the theoretical framework and the empirical evidence. Unfortunately, most of the previous studies focused mainly on the efficacy of interest rate liberalisation, while leaving out other aspects of financial liberalisation, such as stock market liberalization and exchange-rate liberalization. The current review is, therefore, different from other reviews, in that it critically evaluates the impact of financial liberalization on economic growth regarding its strength, weakness and policy implications. Based on the literature reviewed in this paper, the study found that the relationship between financial liberalization and economic growth is inconclusive – with some studies showing a positive effect of liberalization policies; while other studies showed the adverse effect of financial liberalization. The study also found the efficacy of financial liberalization to be dependent on the control variables employed, the stage of financial development of the sample countries, and the indicators used in measuring financial liberalization policy. Also, the study found that countries that observed the preconditions for financial liberalization ended up with a positive outcome; while those countries that hurriedly liberalized their financial sectors had a negative outcome. We, therefore, recommend that full financial liberalization should not be implemented – without a concomitant strong prudential regulation, a stable macroeconomic policy and an impregnable institution in place.

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Table1: Selected empirical findings on the effect of Financial liberalization on economic growth

Author(s)	Title	Region/County	Variables	Methodology	Impact of Fin Liberalisation
Ahmed 2013	Effects of financial liberalization on financial market development and economic performance of the SSA region: An empirical assessment	Sub-Saharan Africa (SSA)	Real GDP per capita, school enrolment, investment, population growth, government spending, trade openness, institutional quality, inflation	GMM estimator	Financial liberalisation is negatively related to economic growth in SSA
Allen and Ndikumana 2000	Financial intermediaries and Economic growth	Eight African countries	Real GDP growth, total credit, liquid liabilities, government consumption, financial index, import and export of GDP, debt service		Financial liberalisation is positively related to economic growth.in selected African countries.
Arestis , Demetriades , Fattouh and Mouratidis 2002	The impact of financial liberalisation policies on financial development: evidence from developing economies	South Korea, Greece, Thailand , India, Philippines and Egypt	Real interest rate, interest rate restraints, reserve requirement, liquidity ratio, real GDP per capita,	Cointegration and the Error Correction Model (ECM).	The real interest rate has a positive and significant long-run effect on financial development in 4 out of the 6 countries.

Arestis , Demetriades and Luintel 2001	Financial Development and Economic Growth: The Role of Stock Markets	Germany, United States, Japan, United Kingdom and France	Real GDP per capita; market capitalisation ratio, stock market value, stock market index	Vector Autoregression Model (VAR)	Stock market development helps stimulate economic growth.
Arestis 2005	Financial liberalisation and the relationship between finance and growth			Literature review	The review shows mixed evidence exist in support the financial liberalisation hypothesis.
Aziakpono 2004	Financial Development and Economic Growth in Southern Africa	Five African countries	Private credit, government, size, openness to trade, government size, exchange rate , openness to trade	Panel regression	Financial liberalization is positive and will enhance economic growth in Southern Africa.
Barrel, Karim and Ventouri 2016	Interest rate liberalization and capital adequacy in models of financial crises	OECD countries	Capital adequacy ratio, liquidity ratio, real house price, current account balance, interest rate Lib. Ratio	Logit Model	The results show that interest rate liberalisation can only be effective by strengthening capital buffer has a problem in curtaining crises.
Beju and Ciupac- Ulici 2012	The impact of financial liberalization on banking system	Four emerging countries: Romania, Czech Republic, Hungary and Poland	Kaopen index, monetary freedom index, financial freedom index, bank nonperforming loans to total gross loans, domestic credit	Panel regression	The KAOPEN and monetary freedom index have a positive impact on banking system efficiency.

			provided by banking sector		
Bekaert, Harvey and Lundblad 2006	Growth volatility and financial liberalization	40 liberalising countries	Official equity market Lib. indicator, Intensity equity market Lib. indicator, Quinn capital account Lib. indicator, Real GDP, school enrolment, population growth, life expectancy, trade-GDP, fiscal deficit, quality of institutions, banking crisis dummy	Generalised method of moments (GMM)	Twenty-six countries are experiencing consumption growth volatility and 14 countries are experiencing an increase after liberalisation.
Blackburn and Puccio 2010	Financial liberalization, bureaucratic corruption and economic development			Analytical framework	Financial liberalisation will enhance economic development when governance is good.
Bonfiglioli and Mendicino 2004	Financial Liberalization, Bank Crises and Growth: Assessing the Links	90 countries	Real GDP, school enrolment, investment, population growth, credit to private , banking crisis dummy, Intensity equity market	Dynamic Panel Data Approach: Arellano and Blundell	Capital account liberalisation has a positive effect on growth, but banking crises cut be curtained.

			Lib. indicator, Quinn capital account Lib. Indicator		
Bumann, Hermes and Lensink 2013	Financial liberalization and economic growth: A meta-analysis	1256 papers in Journal and working under REPEC		Meta-analysis	There is a positive effect of financial liberalisation on growth.
Daniel and Jones, 2007	Financial liberalization and banking crises in emerging economies			Literature review: Theoretical Modelling Framework	Financial liberalisation leads to financial crises
Diaz-Alejandro 1985	Good-bye Financial Repression, Hello Financial Crash	Latin America		Literature review	Financial liberalisation can lead to financial crises in Chile without a balanced budget.
Fowowe 2013	Financial Liberalization Policies and Economic Growth: Panel Data Evidence from Sub-Saharan Africa	SSA countries	Financial lib. index, financial lib. dummy, investment, trade openness, life expectancy, debt	System GMM Estimator and Dynamic Panel Data Approach: Arellano and Blundell	Financial liberalisation will enhance economic growth in SSA.
Galbis, V 1993,	High Real Interest Rates under Financial Liberalization is there a problem?	28 countries that went through financial liberalisation	Lending rate, discount rate, deposit rate, real GDP, growth rate, investment rate,	Literature review	Financial liberalisation increased economic growth and productivity but decreased rate of investment.
Gibson and Tsakalatos 1994	The Scope and Limits of Financial			Literature review	Institutional reform is a pre-requisite for financial

	Liberalisation in DC: A Critical Survey				liberalisation to augment economic growth.
Honohan, 2000	How Interest Rates Changed under Financial Liberalization: A Cross-Country Review	50 countries, from developed and developing countries	Official rate, money market rate treasury bill rates ,deposit and lending rate, inflation, m2-GDP, GNP growth	Panel data analysis: pool cross section time series estimation	Results show an increase in the level of real interest rates after financial liberalisation.
Laeven, L 2000	Does Financial Liberalization Relax Financing Constraints on Firms?	13 developing countries	Financial lib. Index, investment ratio, inflation, market value of equity	OLS and Two step GMM estimates	Financial liberalisation reduces imperfection in the financial market.
Loayze and Ranciere 2004	Financial Development, Financial Fragility, and Growth	75 countries	Growth rate of GDP per capita, financial depth, government consumption _GDP, inflation rate, trade openness	Pooled Mean Group(PMG) Estimator and Panel error Correction Model	There is a significant positive relationship between financial liberalisation and economic growth.
Naude 1995	Financial Liberalisation and Interest Rate Risk Management in Sub-Saharan Africa	African countries	Deposits rate, lending rate,	Literature review	Financial liberalisation creates a significant interest rate risk.
Owusu and Odhiambo 2010	Financial liberalisation and economic growth in Nigeria: an ARDL-bound testing approach	Nigeria	Real GDP, foreign direct investment, gross investment, financial lib. index	ARDL-bound testing approach	Financial liberalisation has a positive and significant effect on economic growth.

Özdemir 2014	Economic growth and financial liberalization in the EU accession countries	11 EU accession countries	Real GDP per capita, exports, imports, direct investments, portfolio investments, other investments, gross fixed capital Formation, international reserves, net foreign assets, stock market index and exchange rates.	Dynamic Panel Data Approach: Arellano and Blundell	Financial liberalisation is negatively related to economic growth.
Reinhart and Tokatlidis 2003	Financial Liberalisation: The African Experience	African countries	Gross national and domestic saving, gross domestic investment, private consumption, government consumption, GDP growth, real interest rate, deposit and lending rate, m2_GDP	Simple mean and standard deviation comparison.	Financial liberalisation is positive and enhances economic growth in Africa.
Seck and El Nil 1993	Financial Liberalization in Africa	21 African countries	Real deposit, interest rate, gross saving ratio, financial saving, gross investment	Dynamic Panel Data Approach: Arellano and Blundell	Financial liberalisation is positive and will enhance economic growth in SSA
Tornell and Westmann 2004	The Positive Link Between Financial Liberalization, Growth and Crises	66 countries	De facto. Trade lib. index	Cumulative sum of residuals (CUSUM) method, granger causality test	Financial liberalisation will enhance economic growth.

Klein 2005	Capital account liberalization, institutional quality And economic growth: Theory and evidence	71 countries	Real GDP per capita, capital account openness index, institutional quality, population growth and school enrolment, investment	OLS, Least square and Instrumental Variable(IV)	The effect of capital account liberalisation on economic growth depends on institutional quality
Bekaert et al. 2002	The dynamics of emerging market equity flows	20 emerging markets	Capital inflows,	Panel Vector Autoregressive Model	Capital account liberalisation increases capital inflows
Chinn and Ito 2006	What Matters for Financial Development? Capital Controls, Institutions, and Interactions	108 countries	KAOPEN financial openness, legal dev. Chin-Ito index, real GDP per capita, inflation rate, private credit, stock market capitalisation, stock market turnover and stock market total value.	Panel Error-Correction Model	The level of a country's quality of governance and legal institution determines the success of the liberalisation policy.
Ferreiro, Correa and Gomez 2008	Has Capital Account Liberalization in Latin American Countries Led to Higher and More Stable Capital Inflows?	Latin American countries	Real GDP per capita, net financial inflow, net FDI inflow, net portfolio inflow,	ANOVA tables, F statistics	Capital account liberalisation has not enhanced economic growth in the Latin American economies.

