

THE RELATIONSHIP BETWEEN FINANCE AND GROWTH IN GERMANY AND LUXEMBOURG: A TIME-SERIES ANALYSIS APPROACH

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Abstract: *The present paper examines the economic growth and financial development relationship in two of the European Union's founding countries and Eurozone members, namely Germany and Luxembourg, by taking into consideration a large period, from 1970 to 2019. We motivate the choice of these specific two countries based on the similar rate of GDP per capita growth over the years, and also on the relevance of the financial sector in the total economy. Five different measures of financial development are employed to address the depth and efficiency of the financial sector. We apply Granger causality tests, using the cointegration and Vector Error-Correction (VEC) methodology. The empirical analysis indicates consistent results, as both in the case of Germany and Luxembourg it can be established Granger causality for the economic growth – financial development nexus. There is also evidence of bi-directional relationship.*

Key words: *financial development; economic growth; times series; Granger causality; EU countries*

JEL Classification: *E44; F43; F63; G15; G21*

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