

## **NEW PROXY FOR FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH: WHAT CAUSES WHAT? BOOTSTRAP PANEL CAUSALITY FOR 21 LOW-COUNTRIES**

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### **ABSTRACT**

This paper investigates the direction of causality between financial development and economic growth in Low-income countries. We develop a new proxy for financial development that refers to the input of real resources into the financial system. The panel causality testing approach, developed by Kónya (2006), based on the Seemingly Unrelated Regressions and Wald tests with the country specific bootstrap critical values, is applied to the panel of twenty one Low-income countries for the period 1970–2012. Our findings support the supply-leading hypothesis, as many financial development variables lead economic growth in Benin and Zimbabwe. Our results also confirm for twenty one Low-income Countries suggesting that their financial development does not depend on economic growth.

**KEYWORDS:** Financial Development, Economic Growth, Bootstrapping, Panel Data, Low-Income Countries