The Effect of Financial Development Indicators on Financial Convergence: Experience of OECD Countries

Jülide Damadoğlu
İstanbul Gedik University,Turkey
julide.damadoglu@gedik.edu.tr

Gülten Dursun
Kocaeli University,Turkey
dgulten@kocaeli.edu.tr

Abstract

Financial convergence is important for providing a more effective distribution of risks through the integration of financial markets, strengthening financial stability and facilitating price stability. The aim of this study is to examine the financial convergence among OECD countries with respect to the financial development indicators. The analysis covers the period between the years 1994-2017, including the global financial crisis. The System Generalized Moments (GMM) methodology developed by Arellano and Bover (1995) and Blundell and Bond (1998) was used to explain the convergence dynamics of financial markets in OECD countries. Financial systems are constituted in two groups as banking market and capital market. In contradistinction to the literature Lerner index, which is one of the important indicators of market power in banking sector and stock market volatility variables in terms of stock market are included in the models for OECD countries. The findings have proven the existence of absolute financial convergence among OECD countries, and it has been determined that convergence rates increase with the control variables for conditional convergence. Especially in the banking sector, where credits given to the private sector are the dependent variable, convergence has taken place very rapidly. It is understood that the Lerner index has a negative effect on the liquid liabilities and the credits given to the private sector. When the stock market is evaluated, a high convergence indication is achieved in the models in which stock market turnover is the dependent variable. Stock market volatility creates an effect that decreases the stock market trading volume and increases the stock market turnover rate. In the context of the convergence hypothesis, increasing the financial development level and financial efficiency of the countries will depend on the main policy solution proposals such as introducing a fair legal system and implementation of legal regulations, ensuring macroeconomic stability, combating corruption, and implementation of effective contract practices.

Keywords: Financial Development Indicators, Financial Convergence, OECD Countries, System GMM

JEL Codes: C23, E44, F36, O57.