

## **Chapter Three**

### **The Impact of Financial Liberalisation on Economic Growth**

## **Summary**

*This Chapter reviews the growing body of literature on both the theory of financial liberalisation and its empirical testing for a number of LDC's. It concentrates on exploring the relationship between financial liberalisation and economic growth. This is the long-term "return factor" of financial liberalisation.*

*The previous Chapter has clarified two approaches to the relationship between finance and economic growth: the functional and institutional approaches. In this Chapter the instrumental approach will be illustrated. This is the role of money in economic growth. Section two and three are devoted to financial liberalisation in terms of both the theory and empirical testing.*

*In section four, "sequencing" issue is considered. "Sequencing" might help in explaining the potential of financial liberalisation programmes and the linkage between new liberalised financial systems and other key macroeconomic variables.*

*Section five reviews capital account liberalisation as a gate way for portfolio capital inflows to LDC's.*