The aim of this study is to examine the causal relation between financial deepening and economic growth by means of Smooth Transition Autoregressive (STAR) model-based Granger causality analysis applied to the monthly data of Turkey over the period 1998M1-2012M3. The results show that non-linear structure of the series should be considered as the evidence from linear and non-linear causality analysis differs. According to non-linear Granger causality analysis, the financial deepening is found to be causing variable for economic growth in Turkey.

1 Hacettepe University, Department of Public Finance, Ankara, Turkey
pelinv@hacettepe.edu.tr