The Impact of Financial Fragility on Economic Performance: A Panel Data Analysis for N11 Countries

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Abstract

With globalization, trade and financial relations between countries have intensified, and the liberalization of capital movements has further increased the effects of the globalization process. Liberalization in capital movements has removed the barriers to transactions such as the ability of investors in one country to invest in another country, to open deposit accounts, and to trade in stock markets, and this has facilitated capital flows between countries. With the opening of economies to the outside world, economic indicators of countries have become influenced by each other, and this influence of countries on each other has led to shocks occurring in individual countries or in certain regions to affect other countries and spread on a global scale.

Although foreign capital flows contribute to the growth of countries and the expansion of investment volume, especially in developing countries, the possibility of sudden withdrawal of hot money from the country in the face of an unfavorable situation can have devastating effects on the economic indicators of developing countries and lead to increased fragility in the financial structure of countries. In this study, a panel data analysis will be conducted to reveal the effects of financial fragility on economic performance using data from N11 countries. The indicators in the FED (2014) monetary policy report will be used as financial fragility indicators.

Keywords: Financial Fragility, Economic Performance, Panel Data, N11 Countries