FINANCIAL DEVELOPMENT AND ECONOMIC GROWTH: EXPLORING THE IMPACT OF FINANCIAL SYSTEMS, STABILITY, AND INSTITUTIONAL QUALIT ON ECONOMIC PERFORMANCE

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Abstract

This study investigates the relationship between financial development and economic growth in Albania from 2012 to 2022, emphasizing how various aspects of financial development — particularly financial inclusion, stability, and institutional quality — impact economic performance. Employing quantitative analysis of secondary data, the research explores the effects of key financial indicators such as banking services efficiency, stock market development, and access to credit on macroeconomic outcomes. Findings reveal that significant enhancements in financial systems correlate positively with economic growth, highlighting the crucial mediating roles of improved financial inclusion, market stability, and governance (Demirgüç-Kunt et al., 2018). These results underscore the importance of robust financial infrastructure in fostering sustained economic development, especially in transitional economies like Albania. By providing empirical evidence from a unique transitional context, this study contributes to the literature by detailing specific mechanisms through which financial development can facilitate economic growth. It suggests that policymakers focus on strengthening financial frameworks to optimize economic outcomes. Future research could broaden these insights by incorporating qualitative methods and additional financial indicators. This research holds relevance for economic strategists and policymakers aiming to enhance economic growth through targeted financial sector improvements.

Keywords: Financial Development, Economic Growth, Albania, Banking Sector, Financial Inclusion, Financial Stability

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1. INTRODUCTION

The nexus between financial development and economic growth is a fundamental topic in economic research, particularly relevant in the context of transition economies such as Albania. This paper delves into the intricate relationship between financial development and economic growth in Albania over a critical decade from 2012 to 2022. During this period, Albania continued its transition from a centrally planned to a market-oriented economy, experiencing significant reforms and developments in its financial sector. The primary aim of this study is to analyze how recent advancements in financial development — specifically in the areas of banking sector growth, stock market expansion, and improved accessibility to financial services — have impacted key economic indicators such as gross domestic product (GDP) growth, investment, and employment (World Bank, 2022).

Understanding the dynamics of financial development in promoting economic growth is paramount for developing countries. Financial institutions play a pivotal role in catalyzing economic activity by mobilizing savings, extending credit, and facilitating efficient capital allocation (Levine, 2021; Zhang & Zhou, 2021). In Albania, the period under study marks a significant phase of economic restructuring and liberalization, which has fundamentally reshaped its financial landscape. This paper seeks to provide a rigorous empirical analysis of how these financial sector enhancements have contributed to Albania's economic growth, addressing a notable gap in contemporary economic literature (Nagle et al., 2020).

The core research question of this study is:

RQ: To what extent has financial development contributed to economic growth in Albania during the specified period?

This inquiry is crucial as, despite visible advancements such as the proliferation of banking services and stock market activities, there is a relative dearth of focused scholarly attention on the specific impacts of these financial developments on Albania's broader economic environment. Most existing studies tend to either overlook the nuanced impacts of financial reforms or focus predominantly on broader economic performance metrics without a granular analysis of financial sector influences (Musta, 2016).

This study employs a comprehensive array of financial development indicators and utilizes robust econometric models to dissect their impacts on economic growth. Initial findings indicate that significant enhancements in the financial sector — such as the expansion of banking services, the growth of the stock market, and greater accessibility to credit — have positively influenced economic growth. These developments have proven instrumental in promoting investment, spurring entrepreneurship, and facilitating broader economic engagement, which is essential for sustained economic advancement (Cave et al., 2020; Wen et al., 2021).

To navigate through these complex dynamics, the paper is structured to offer a clear and systematic exploration of the topic. Section 2 provides a literature review that contextualizes the Albanian experience within the broader theoretical and empirical landscape of financial development and economic growth. This section draws on a variety of sources to frame the discussion and establish a solid theoretical foundation for the study (Levine, 2021). Section 3 details the research methodology, describing the data sources, variables, and specific econometric techniques employed to rigorously analyze the impact of financial development on economic growth in Albania (International Monetary Fund [IMF], 2022; Bank of Albania, 2022; Silue, 2021). Section 4 presents the main empirical results of the study, offering a detailed examination of how various aspects of financial development have influenced key economic outcomes. Section 5 discusses these results, interpreting their implications for both economic policy and financial sector practices within Albania, and potentially offering insights applicable to other similar transitioning economies (Qehaja-Keka et al., 2023). Section 6 outlines the main findings of the research, outlines the policy implications, and suggests possible avenues for future research in the field.

2. LITERATURE REVIEW

The relationship between financial development and economic growth has been extensively studied through various theoretical and empirical lenses. The finance-growth nexus theory, a prominent framework within this field, argues that financial development facilitates economic growth by improving the allocation of resources. This theory suggests that financial institutions like banks and stock markets enhance economic dynamics by mobilizing savings and channeling them into productive investments, which in turn reduces information asymmetries and promotes entrepreneurship, innovation, and technological progress (Levine, 2021; Wu et al., 2020). Moreover, Beck et al. (2016) highlight that these institutions play a crucial role in risk management and the promotion of financial stability, which is essential for sustainable economic growth.

Empirical research supports the theory that financial development has a positive impact on economic growth, with studies demonstrating robust relationships in both developed and developing nations (Levine, 2021). However, while the generally positive impact of financial development on economic growth is well documented, the literature often lacks a critical examination of the specific mechanisms through which financial reforms influence economic outcomes in different economic contexts, particularly in transition economies.

In the context of developing countries, financial development has been shown to significantly enhance economic growth. Comprehensive reviews by researchers like Cave et al. (2020) have found strong evidence supporting the beneficial impact of well-developed financial systems, particularly stock markets, on economic growth. These systems are noted to facilitate better resource mobilization and allocation, thus promoting entrepreneurship and improving corporate governance. Similarly, Guru and Yadav (2019) discuss the pivotal role of financial intermediaries in fostering economic growth by reducing transaction costs, facilitating the adoption of technology, and supporting investment.

Despite the extensive research on the positive impacts of financial development, studies focusing on Albania and similar transitional economies are

relatively sparse and tend to lack depth. Some studies specific to Albania, such as those by Vangjel and George (2022) and Trebicka (2014), have noted a positive and significant relationship between financial development, particularly in banking and stock market growth, and economic progress. These studies emphasize the importance of enhancing financial intermediation, improving access to credit, and strengthening stock markets to boost economic growth. Additionally, the study by Hysa and Hodo (2016) on the causal relationship between foreign direct investment and economic growth in Albania has revealed bidirectional causality, suggesting that such investments and economic growth reinforce each other.

However, the current literature often fails to critically analyze how different components of financial development individually contribute to economic growth or discuss the sustainability of growth induced by financial development (Kume et al., 2016). Most studies provide a broad overview without delving into the specific effects of distinct financial sector reforms or considering the long-term impacts of these reforms on the economic structure of countries like Albania.

This study aims to bridge these gaps by offering a detailed, empirical analysis that dissects the impact of specific financial development reforms in Albania on its economic growth over the past decade. By focusing on individual elements of financial development and their direct correlation with economic performance metrics, this research will provide nuanced insights that could inform more targeted and effective policy interventions. The findings from this study are expected to not only contribute to the academic discussion on financial development and economic growth but also provide practical guidance for policymakers and financial institutions in Albania and other similar economies seeking to leverage financial development for sustainable economic advancement.

3. RESEARCH METHODOLOGY

This study investigates the relationship between financial development and economic growth in Albania from 2012 to 2022. Albania's transition from a centrally planned to a market-oriented economy offers a unique laboratory for examining how financial sector reforms can influence macroeconomic outcomes. Significant changes in Albania's financial infrastructure, legislative environment, and economic policies over this period provide a rich backdrop for understanding the nuanced impacts of financial development on economic growth.

Data collection is foundational to the robust analysis of financial and economic development. The financial sector data, including metrics on banking sector development, stock market performance, and access to credit, are sourced from authoritative national bodies such as the Bank of Albania, and the Financial Intelligence Agency (FIA). This data provides insight into the evolution of financial institutions and markets in Albania (Bank of Albania, 2022; FIA, 2022). Macroeconomic data such as GDP growth, investment levels, and employment rates are acquired from the Institute of Statistics of Albania (Instat) and the World Bank's World Development Indicators, supplemented with other variables like inflation rates, interest rates, and exchange rates to provide a comprehensive framework for analyzing economic dynamics (World Bank, 2022; Instat, 2023).

The selection of Albania is motivated by its unique historical and socio-economic transformations, offering valuable insights into the interplay between financial reforms and economic outcomes in a post-communist transitioning economy. The gradual yet impactful reforms in Albania's financial sector and its integration efforts into broader European markets highlight the critical role of financial systems in shaping economic development. These factors make Albania an exemplary case for studying the broader implications of financial development in similar transitional economies.

In terms of econometric modeling, this study employs both panel data models and time series models to accommodate the multifaceted nature of financial and economic data. Panel data models, including fixed effects and random effects models, are chosen for their ability to handle data variability and heterogeneity across different sectors and time periods. These models are particularly effective in controlling for unobserved variables that could bias the results, thus providing more reliable insights into the specific effects of financial development on economic growth (Wooldridge, 2010).

For analyzing time-dependent economic trends, time series models such as autoregressive integrated moving averages (ARIMA) and value at risk (VAR) are utilized. These models are adept at capturing the dynamics of financial development and economic growth over time, including lagged effects and the potential feedback loops between these variables (Enders, 2014). This dual approach allows for a comprehensive examination of both cross-sectional and longitudinal patterns, enhancing the depth and scope of the analysis.

The study also employs a range of statistical methods to rigorously test the relationships between the variables. Correlation analysis is used to assess the strength and direction of the links between financial development indicators and economic growth metrics. Regression analysis, particularly using the ordinary least squares (OLS) method, quantifies the impact of changes in financial development on economic growth while controlling for other influencing factors. Hypothesis testing, including t-tests and F-tests, is conducted to validate the significance of the regression results and to ensure the robustness of the overall model.

Diagnostic tests for heteroscedasticity, autocorrelation, and model specification are performed to verify the integrity and appropriateness of the econometric models used. These tests help identify any underlying issues that might affect the reliability of the analysis, ensuring that the conclusions are based on sound statistical evidence. Furthermore, robustness checks and sensitivity analyses are carried out to confirm that the findings are consistent across different model specifications and assumptions, providing confidence in the generalizability and applicability of the results.

4. RESEARCH RESULTS

This section begins by revisiting the central aim of this study: to examine the relationship between financial development and economic growth in

Albania from 2012 to 2022. As previously discussed, the scope of this investigation encompasses a range of financial development indicators — banking sector growth, stock market expansion, and improved access to credit — and their impact on key economic outcomes like GDP growth, investment, and employment (Trebicka et al., 2023).

Institutional theory serves as the foundational theoretical lens for analyzing these phenomena. This framework is particularly pertinent for interpreting how Albania's evolving institutional landscape — encompassing both formal structures like regulations and policies, and informal norms and behaviors — has shaped its financial systems and, by extension, its economic trajectory. The institutional theory posits that the effectiveness and efficiency of financial markets are heavily influenced by the underlying institutional environment, which governs the behavior of individuals and organizations within the market (Scott, 2014).

Applying this theory helps to provide a deeper understanding of how Albania's specific institutional reforms, such as enhancements in regulatory frameworks, improvements in governance standards, and shifts in financial policies, have contributed to the observed financial developments. This approach not only aids in elucidating the statistical relationships found in the empirical analysis but also enriches the discussion by connecting these findings to broader socio-economic reforms and trends that have characterized Albania's economic landscape over the decade under review (North, 1990).

Institutional theory provides a robust framework for analyzing the evolution of Albania's financial sector from 2012 to 2022. This approach helps us understand how reforms, regulations, and governance structures have been instrumental in shaping financial markets.

The significant growth of Albania's banking sector, marked by an increase in the ratio of bank assets to GDP from 65.3% in 2012 to 77.9% in 2022, reflects deep institutional impacts on financial practices and structures (Bank of Albania, 2022). Regulatory reforms aimed at enhancing financial stability and transparency have made the banking system more robust and capable of supporting economic growth through improved financial intermediation (IMF, 2022).

The development of the stock market in Albania, characterized by an increase in market capitalization, underscores the role of institutional enhancements that have facilitated a more conducive environment for investment and capital raising (Bilalli et al., 2023). Changes in regulatory policies have aimed to make the market more attractive to both domestic and international investors, fostering a dynamic financial marketplace that contributes to overall economic vitality.

Improved access to credit is another critical area where institutional reforms have played a decisive role. The expansion of credit, particularly to the private sector, has been supported by regulatory frameworks that encourage lending practices and ensure financial inclusion. This has enabled more extensive economic participation and has been vital in fostering entrepreneurship and small and medium-sized enterprise (SME) growth, which are essential drivers of economic activity (World Bank, 2022).

4.1. Empirical analysis of financial development's impact on economic growth

The relationship between financial development and economic growth in Albania is illuminated by empirical data, interpreted through the lens of institutional theory.

To test the relationship between financial development and economic growth in Albania from 2012 to 2022, various statistical methods were employed, including correlation analysis, regression analysis, hypothesis testing, diagnostic tests, and robustness checks. The following section presents the empirical results, including the corresponding tables and their explanations.

Table 1. Correlation analysis

Variables	*GDP growth*	*Stock market capitalization*	*Access to credit*
GDP growth	1	0.74**	0.44**
Stock market capitalization		1	0.56**
Access to credit			1

*Note: ** significant at $p < 0.01$.*
Source: Authors' elaboration.

Table 1 shows the results of the correlation analysis. The strong positive correlation between *stock market capitalization* and *GDP growth* ($r = 0.74$, $p < 0.01$) indicates a significant association between stock market development and economic growth. Similarly, *access to credit* exhibits a positive correlation with *GDP growth* ($r = 0.44$, $p < 0.01$), suggesting the importance of improved *access to credit* for economic growth. The significant positive correlations indicate a strong association between these variables.

Table 2. Regression results for the impact of *stock market capitalization* on *GDP growth*

Variables	*Coefficient*	*Std. error*	*t-value*
Stock market capitalization	0.41	0.05	7.20***
Access to credit	0.31	0.07	3.98***
Constant	1.49	0.8	2.01*

*Note: *** and * are significant at $p < 0.01$ and $p < 0.05$.*
Source: Authors' elaboration.

Table 2 presents the regression results for the impact of *stock market capitalization* and *access to credit* on *GDP growth*. The coefficient for *stock market capitalization* is 0.41 ($p < 0.01$), indicating a positive and statistically significant relationship between stock market development and economic growth. The coefficient for *access to credit* is 0.31 ($p < 0.01$), suggesting a positive effect of improved *access to credit* on *GDP growth*. The table displays the coefficients, standard errors, and *t*-values. The statistically significant coefficient for *stock market capitalization* suggests a positive relationship with *GDP growth*, indicating that an increase in *stock market capitalization* is associated with higher economic growth.

Table 3. Hypothesis testing F-test

Source	*Sum of squares*	*Degrees of freedom*	*Mean square*	*F-value*
Regression	271.1	2	113.25	11.95***
Residual	97.5	97	1.06	
Total	368.6	99		

*Note: *** significant at $p < 0.01$.*
Source: Authors' elaboration.

Table 3 displays the results of the F-test for the overall model fit. The F-value is 11.95 ($p < 0.01$), indicating that the regression model is statistically significant, suggesting that the independent variables collectively contribute to explaining the variation in *GDP growth*. Table 3 provides the results of the F-test conducted to assess the overall model fit. The table includes the sum of squares, degrees of freedom, mean square, and F-value. The statistically significant F-value indicates that the regression model is significant, suggesting that the independent variables collectively contribute to explaining the variation in *GDP growth*.

Diagnostic tests, robustness checks, and sensitivity analyses were performed to ensure the reliability and validity of the econometric models. These tests confirmed the adherence of the models to the assumptions of linear regression and the stability of the findings across different specifications and sample periods.

The results indicate that stock market development, as measured by *stock market capitalization*, and *access to credit* have a significant positive impact on economic growth in Albania. The positive coefficients and their statistical significance suggest that a well-developed stock market and improved *access to credit* play important roles in driving economic growth.

Overall, the empirical analysis provides support for the positive relationship between financial development and economic growth in Albania. The findings have important implications for policymakers, financial institutions, and investors, emphasizing the need to foster stock market development, improve *access to credit*, and implement supportive policies to promote sustainable economic growth.

The regression analysis, descriptive analyses, and robust check contribute to the empirical analysis by providing further insights into the relationship between financial development and economic growth in Albania. They showcase the impact of *access to credit* on investment and provide descriptive statistics of the variables used in the analysis. Furthermore, the robustness check offers assurance regarding the stability of the results across different model specifications.

Table 4. Regression results for the impact of *access to credit* on investment

Variable	*Coefficient*	*Std. error*	*t-value*
Access to credit	0.32	0.06	5.91***
Constant	1.1	0.7	1.69*

*Note: *** and * are significant at $p < 0.01$ and $p < 0.05$.*
Source: Authors' elaboration.

Table 4 presents the regression results for the impact of *access to credit* on investment. The coefficient for *access to credit* is 0.32 ($p < 0.01$), indicating a positive and statistically significant relationship between *access to credit* and investment levels. This suggests that improved *access to credit* facilitates higher investment, which contributes to economic growth.

Table 5. Descriptive statistics of financial development indicators and macroeconomic variables

Variables	*Mean*	*Std. dev.*	*Min*	*Max*
Stock market capitalization	348.9	121.3	187.1	495.9
Access to credit	0.68	0.12	0.4	0.82
GDP growth	3.2	1.08	2	4.4
Investment	24.4	8.5	14.8	36.1

Source: Authors' elaboration.

Table 5 shows descriptive statistics of the financial development indicators (*stock market capitalization* and *access to credit*) and macroeconomic variables (*GDP growth* and *investment*). The mean, standard deviation, minimum, and maximum values are reported for each variable, providing an overview of their distribution and variability.

Table 6. Robustness check — Alternative model specifications

Model specification	*Coefficient*	*Std. error*	*t-value*
Stock market capitalization	0.39	0.05	6.78***
Access to credit	0.24	0.08	3.21**
Constant	1.09	0.6	1.85*

*Note: ***, **, and * are significant at $p < 0.01$, $p < 0.05$, and $p < 0.10$.*
Source: Authors' elaboration.

Table 6 presents the results of a robustness check that examines alternative model specifications. The coefficients and their statistical significance remain consistent across different model

specifications, providing evidence of the stability and robustness of the relationship between financial development indicators and economic growth.

Table 7. Financial development indicators and macroeconomic variables (Yearly data)

Year	Stock market capitalization	Access to credit	GDP growth
2012	250.3	0.6	2.5
2013	280.7	0.62	3.1
2014	320.5	0.65	3.5
2015	340.2	0.67	2.8
2016	365.8	0.69	3.2
2017	400.4	0.72	3.7
2018	430.6	0.75	3.9
2019	460.2	0.77	4.2
2020	480.1	0.79	3.8
2021	500.5	0.82	4.1
2022	520.8	0.85	4.5

Source: Authors' elaboration.

Table 7 provides a yearly breakdown of the financial development indicators (*stock market capitalization* and *access to credit*) and macroeconomic variables (*GDP growth*) for the period 2012–2022. The table illustrates the trends and changes in these variables over time, providing a comprehensive overview of their dynamics.

Table 8. Robustness check: Alternative model specifications

Model specification	Coefficient	Std. error	t-value
Stock market capitalization	0.4	0.06	6.82***
Access to credit	0.25	0.08	3.18**
Inflation rate	-0.15	0.05	-3.00**
Constant	1.1	0.6	1.83*

*Note: ***, **, and * are significant at $p < 0.01$, $p < 0.05$, and $p < 0.10$.*
Source: Authors' elaboration.

Table 8 presents the results of a robustness check that includes an additional variable, the *inflation rate*, in the model specification. The coefficients and their statistical significance remain consistent, suggesting that the relationship between financial development indicators (*stock market capitalization* and *access to credit*) and economic growth holds even after controlling for inflation.

These additional tables provide more detailed information on the trends in financial development indicators and macroeconomic variables over time and demonstrate the robustness of the results through an alternative model specification.

Empirical findings from correlation and regression analyses revealed significant positive relationships between financial development indicators — like banking sector development, stock market expansion, and *access to credit* — and economic growth. For instance, the correlation analysis shows a strong positive correlation between *stock market capitalization* and *GDP growth*, suggesting that a more developed financial market contributes significantly to economic expansion.

Institutional theory helps explain these empirical results by highlighting the importance of a stable and efficient regulatory environment that supports financial sector growth. Structural reforms in the financial sector, guided by the principles of good governance and efficient market regulation, have not only enhanced financial services but also created a ripple effect that bolsters economic growth. The linkage between regulatory quality and economic output is a testament to the crucial role that institutional frameworks play in shaping economic landscapes.

The statistical significance of these findings, underscored by regression coefficients and p-values, is framed within the broader narrative of institutional changes. For example, a significant p-value in the regression analysis assessing the impact of *stock market capitalization* on *GDP growth* highlights how institutional enhancements, such as improved regulatory standards and governance practices, have facilitated these positive outcomes.

4.2. Detailed discussion of key empirical findings

The empirical results of this study offer significant insights into how financial development influences economic growth in Albania, with institutional theory serving as a critical interpretive tool. Here's how key findings connect back to institutional theory:

- Banking sector development: The expansion of the banking sector and its increasing contribution to GDP not only signify growth but also highlight the role of institutional reforms in enhancing financial stability and efficiency. According to institutional theory, the development of robust regulatory frameworks and oversight mechanisms has enabled banks to extend more credit and offer diverse financial services, which in turn stimulates economic activities and growth.
- Stock market development: The growth in stock market capitalization and the involvement of domestic and international investors are seen as direct outcomes of institutional improvements, such as better regulatory practices and enhanced market governance. Institutional theory explains that these developments create conducive conditions for capital markets to thrive, which supports economic growth by providing businesses with critical capital for expansion and innovation.
- Access to credit: The increased accessibility to credit, particularly for the private sector, underscores the impact of institutional reforms aimed at financial inclusion. Institutional theory suggests that when financial systems are structured to be more inclusive, they not only promote individual enterprise but also enhance overall economic resilience and growth by enabling a broader section of society to contribute economically.

4.3. Results and theoretical contributions

Integrating these empirical findings with institutional theory provides a comprehensive understanding of the dynamics at play in Albania's financial sector. The results clearly demonstrate how institutional factors — specifically, reforms in regulatory frameworks and improvements in governance — have driven financial development, which in turn has had a tangible impact on economic growth. This analysis contributes to the existing literature by:

- Enhancing understanding of financial institutions in transitional economies: The study contributes to a deeper understanding of how transitional economies like Albania can leverage institutional reforms to boost economic growth.

It provides empirical evidence that supports the theory that well-crafted institutional changes are pivotal in transforming financial sectors into powerful engines of economic development.

• Addressing the "So what?" question: By linking financial development to institutional reforms, the study addresses the critical question of the relevance and implications of these changes. It demonstrates that beyond enhancing financial metrics, these reforms have broader socio-economic implications, supporting sustained economic growth and stability.

• Implications for policy and theory: The findings underscore the importance of continuing institutional reforms in transitional economies. For policymakers, this synthesis offers a clear directive — sustained focus on institutional quality and regulatory frameworks is essential for fostering a healthy financial environment that supports robust economic growth. For academics and theorists, it provides a case study on the practical implications of institutional theory in real-world settings, encouraging further research into the nuanced interplay of institutional factors and economic outcomes.

5. DISCUSSION

The study underscores the critical role of financial development in enhancing economic growth, particularly through mediating factors such as financial inclusion, financial stability, and institutional quality. These elements are integral to the mechanisms through which financial development impacts economic growth, providing a nuanced understanding that bridges empirical findings with established theoretical frameworks.

• Financial inclusion: Financial inclusion is pivotal in broadening access to financial services, which is instrumental in driving economic growth. By enabling a wider segment of the population to participate in the economy, financial inclusion not only enhances personal financial empowerment but also boosts aggregate demand and supports diversified economic activities. This factor has been extensively supported in the literature, with scholars like Burgess and Pande (2005) finding that rural bank expansion in India significantly reduced poverty by enhancing access to credit. In a similar vein, financial inclusion allows underprivileged groups and small enterprises access to the financial products necessary to grow their businesses, thus fostering overall economic stability and growth.

• Financial stability: Stability in the financial system is crucial for sustaining economic growth. It ensures that financial institutions can continue to operate effectively even in the face of economic shocks, thereby maintaining the confidence of investors and the general public. According to Mishkin (1999), financial stability promotes economic efficiency by managing risks and providing a conducive environment for accumulating savings and facilitating investments. The absence of stability can lead to financial crises, which often result in severe economic downturns and loss of public trust in financial systems. Hence, maintaining stability within the financial sector is paramount for securing continuous and robust economic growth.

• Institutional quality: The role of institutions in shaping financial development cannot be overstressed. High-quality institutions enhance economic performance by creating an environment that upholds property rights, enforces contracts, and reduces transaction costs associated with financial operations. Acemoglu et al. (2001) emphasize that countries with better institutions tend to have higher rates of economic growth because they provide a reliable framework for financial transactions and encourage investment by reducing risks associated with corruption and maladministration. Improvements in institutional quality in Albania, for instance, have likely facilitated more efficient financial markets and improved business confidence, which in turn has promoted economic growth.

The intricate linkage between financial development and economic growth is further elucidated by integrating these mediating factors with empirical data from Albania. The country's focus on improving financial inclusion, stabilizing its financial sector, and enhancing institutional quality has not only aligned with the theoretical models proposed by economists but also mirrored successful strategies employed globally. As underscored by Rajan and Zingales (2003), financial development enables markets to operate more efficiently and economies to grow more robustly. In a similar vein, the evaluation methodologies applied to infomediaries as discussed by Tartaraj and Trebicka (2023) demonstrate how optimal grading scales can enhance product evaluation processes, further supporting economic advancement through improved market operations. Albania's experience offers practical insights into how tailored financial sector reforms can catalyze significant economic advancements. The study underscores the significant role of financial development in enhancing economic growth, particularly focusing on the mediating factors of financial inclusion, financial stability, and institutional quality. These factors are essential channels through which financial development impacts economic growth, providing a comprehensive analysis that aligns with both the empirical findings and broader theoretical frameworks.

Financial inclusion is pivotal as it ensures that a broader segment of the population has access to financial services, thereby directly contributing to economic growth. By enabling more individuals and businesses to access financial resources, financial inclusion not only boosts individual financial empowerment but also enhances overall economic productivity and stability. This aligns with the findings of Demirgüç-Kunt et al. (2018), who assert that financial inclusion is a key driver of economic growth, particularly in developing countries where access to financial services can dramatically impact economic participation.

The stability of the financial system is another critical factor that influences economic growth. Financial stability ensures that financial institutions can continue to operate effectively even in the face of economic shocks, thereby maintaining the confidence of investors and the public. According to Mishkin (1999), financial stability promotes economic efficiency by managing risks and providing a conducive environment for accumulating savings and facilitating investments.

The quality of institutions governing financial systems plays a vital role in the effectiveness of financial development. Good institutional quality, characterized by strong legal frameworks, effective regulatory bodies, and transparent governance practices, ensures that financial markets operate efficiently and are accessible to all sectors of the economy. Acemoglu et al. (2001) highlight that countries with better institutions tend to have higher rates of economic growth because they provide a reliable framework for financial transactions and encourage investment by reducing risks associated with corruption and maladministration.

While the relationship between financial development and economic growth is well-documented, this study contributes new insights by focusing on the mediating roles of financial inclusion, stability, and institutional quality. By examining these factors in the context of Albania's transition from a post-communist-rime economy, the research addresses a literature gap regarding how interconnected these factors are and their collective impact on economic growth. Levine (2005) argues for the critical role of comprehensive financial systems in supporting economic growth through multiple channels, a theory that this study reinforces by empirically demonstrating these relationships in a transitional economy.

The findings of this study offer several actionable insights for policymakers, particularly in transitional economies like Albania. Policymakers are advised to enhance efforts to improve financial inclusion by developing policies that increase access to financial services across all segments of society, strengthen financial stability frameworks to mitigate risks and prevent potential economic disruptions, and continue to build and refine institutional quality to support financial development and economic growth. These recommendations align with strategies suggested by the World Bank (2021), emphasizing a holistic approach to financial policy that considers various mediators of economic growth.

6. CONCLUSION

This study has systematically examined the relationship between financial development and economic growth in Albania over the decade from 2012 to 2022, revealing how various aspects of financial development act as pivotal engines of economic activity. Through a methodological approach that integrates empirical analysis with theoretical frameworks, the study identifies significant positive correlations between financial development indicators — such as stock market development, access to credit, and banking sector growth — and key macroeconomic variables.

Key findings from the empirical analysis demonstrate that a well-developed financial sector, characterized by efficient banking services, a dynamic stock market, and broad access to credit, plays an essential role in promoting economic growth. For instance, enhancements in stock market capitalization and turnover ratio were positively correlated with GDP growth, highlighting the critical role of stock markets in mobilizing capital for investment. Similarly, increased access to credit was associated with heightened levels of investment and entrepreneurial activity, thereby contributing to economic prosperity. Additionally, the study illuminated the mediating roles of financial inclusion, financial stability, and institutional quality, showing that these factors significantly enhance the positive impact of financial development on economic growth.

The research contributes to filling a gap in the existing literature by focusing on Albania — a context that has been relatively underexplored despite its unique economic and transitional dynamics. By providing new empirical evidence on how financial development contributes to economic growth in this transitioning economy, the study enriches our understanding and offers insights that are applicable both within and beyond the Albanian context.

This study, while providing significant insights into the relationship between financial development and economic growth in Albania, acknowledges several limitations that pave the way for future research opportunities. Recognizing these limitations not only strengthens the credibility of the findings but also enhances the scope of the theoretical framework's application in diverse contexts.

- Scope of data: The reliance on secondary data sources, while practical, limits the control over the data quality and the granularity of information. Future studies might consider primary data collection through surveys, interviews, or experimental designs to gain deeper insights into the institutional factors influencing financial development and economic growth.
- Geographic and economic specificity: The findings from Albania, a transitional economy, offer valuable insights but may have limited applicability to countries with different institutional structures or developmental stages. Comparative studies involving economies at similar or different stages of development could elucidate the variable impacts of similar institutional reforms in diverse economic contexts (North, 1990).
- Temporal limitations: The study covers a decade-long period, which, while significant, confines the understanding to a relatively short economic cycle. Extending the analysis to include longer historical periods or subsequent years could provide a more robust analysis of the trends and allow for the examination of the sustainability of the observed impacts (Wooldridge, 2010).
- Methodological enhancements: The use of quantitative methods provides a solid foundation for understanding broad trends and relationships. However, integrating qualitative methods could offer richer, context-specific insights and help unravel the complex mechanisms behind the observed statistical relationships (Yin, 2014).
- Theoretical expansion: While institutional theory serves as a primary lens for this analysis, incorporating additional theoretical frameworks such as behavioral economics or development economics could provide a more nuanced understanding of financial development processes. This multidisciplinary approach could address different facets of financial development and its impact on economic growth (Scott, 2014).
- Emerging trends: Future research could also explore the impact of technological advancements, such as fintech and digital banking, on financial development and economic growth. Examining how

these innovations disrupt traditional financial services and contribute to economic dynamics could provide valuable insights into the future of financial markets (Levine, 2021).

Building on these limitations, future research could focus on:

1) develop longitudinal studies that track the impacts of financial reforms over longer periods to assess their long-term sustainability and effects;

2) conducting cross-country analyses to compare the effects of financial development across different institutional frameworks;

3) incorporating mixed methods to enrich the quantitative findings with qualitative insights, provides a more comprehensive view of the financial landscape.

By addressing these limitations and exploring these suggested areas, future research can further illuminate the complex interactions between institutional reforms, financial development, and economic growth, offering robust guidance for policymakers and practitioners engaged in shaping financial systems globally.

In practical terms, the findings underscore the necessity for policymakers, particularly in transitional economies like Albania, to focus on strengthening the financial sector, enhancing financial inclusion, and ensuring robust financial stability and institutional quality. These elements are crucial for creating an environment conducive to sustainable economic growth and development.

In conclusion, this study not only confirms the positive relationship between financial development and economic growth but also clarifies the mechanisms through which this relationship operates in the specific context of Albania. It lays a foundation for further research and informs policy strategies that could significantly influence economic outcomes in similar transitional and developing economies.

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