

**CHARLES UNIVERSITY IN PRAGUE**

**FACULTY OF SOCIAL SCIENCES**

Institute of International Studies

International Masters in Economy, State and Society

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**The Impact of Financial Development on  
Innovation: A Comparative Study of  
Central and Eastern European Countries  
and Western European Countries**

*Master thesis*

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## **Bibliographic note**

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## **Abstract**

This thesis applies a panel dataset of 40 European nations from 1995 to 2021 to investigate the impact of financial development on innovation. Considering the heterogeneity of these European countries, they are divided into two subgroups (Central and Eastern European countries and Western European countries) to carry out a comparative study and determine whether financial development influences innovation differently in the two groups of countries. This paper measures the development of the financial system from four dimensions, consisting of depth, access, efficiency, and stability, and selects two indicators to capture innovation, including innovation input and innovation output. The empirical outcomes deliver that in CEE countries, improvements in financial depth, access and efficiency can significantly contribute to innovation input and innovation output. In WE countries, the positive effect of financial development on innovation is mainly achieved by enhancing financial efficiency and access. Whether with respect to innovation output or innovation input, depth, access, and efficiency of financial systems exert a greater influence on promoting innovation in CEE countries than in WE countries.

## **Keywords**

financial development, innovation, financial systems, patent, research and development, Central and Eastern European countries, Western European countries