The paper studies the effects of income level and inflation on financial development, measured by two proxies, credit to the private sector relative to GDP and liquid liabilities relative to GDP. It is overall done well but in my view creating a better connection between the economics and the econometrics would be important.

The introduction of the paper is well-written, laying out three channels through which effects may arise. Here, they should already define what they mean by financial development. The term captures a number of different issues, among them growth of credit. It however also covers other aspects that go beyond the mere volume of credit. The World Bank calls these “access”, “efficiency”, and “stability”.

Even within “depth”, which you proxy, there may be some reverse causality. For example, if the central bank increases the money supply, there is likely to be more credit, more inflation and more private sector credit relative to GDP. You should discuss (1) what drives the proxies you use in addition to the drivers that you study in your model and (2) whether these cause any empirical problems for your approach or why your approach can deal with them.

The authors write that knowing in which countries there is a relationship between income/inflation and financial development is important. They however do not discuss the finding s of their estimations in any detail so far. Are there no interesting patterns to discuss? Average inflation in low and middle income sample is over 50 percent p.a., which must be driven by countries that experience hyperinflation. Could that be an interesting subgroup? You suggest one should use policies to reduce inflation. Any suggestions which could do so without also reducing financial development (according to your proxies) directly?