World Experience:

Commercial Bank Credit and Economic Growth Relationship

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ABSTRACT

This research studied the problem of the large-scale disproportion of success in the development of the banking sector and mostly unsuccessful development of the real sector of the economy. It should be noted that this disproportion is a subject of consideration in contemporary economic literature and the research is an attempt to broaden the issue and share ideas inside the international scientific circles. The main problem in the research is the impact of the banking sector's credit portfolio and the functioning of credit markets on the economic growth of the country. From the economic point of view, the main function of banks is to increase the financing/lending of funds as the core point to increase investments in the economy. Thus, the development of the country in economic terms depends on the increase of investments. At present, it is in the hands of the banking sector to lead us to the economic immobility or to accelerate country's economic development through efficient allocation of resources.

KEYWORDS

Banking Sector, Credit Booms, Economic Growth, GDP

INTRODUCTION

The impact of the smooth functioning of the banking sector's credit portfolio and credit markets with regard to economic growth is widely discussed in economic literature. This issue is relevant for the further development of the economy of both developed and developing countries. Because of macroeconomic stabilization and accelerated economic growth, it is important to identify, study and analyse the mechanism of impact of credit market factors on economic growth.

THEORETICAL FRAMEWORK

In that view, it is interesting to analyse the level of study of this problem by foreign scientists. One of the research, where this problem was studied, was presented by Nigerian University of Economics researcher Orji Anthony in his research on impact of bank saving and credits on economic growth in Nigeria in the period of 1970 - 2006. The study provided two models of impacts on economic

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growth. The first specification model for the ARDL-ECM regression presents the specification variables such as: Per capita income (PCY), the ratio of bank domestic savings to market prices. The second specific model was developed to achieve the second objective, focusing on economic growth in Nigeria, namely the impact of bank domestic savings, bank loans and other variables of regression with respect to GDP (Orji, 2012).

Based on the results of the study, the Nigerian government has been recommended to make efforts to increase per capita income, reduce unemployment and effectively utilize bank credits and savings to accelerate economic growth in the country.

Another research, conducted by the group of scientists from El-Riyadh, the Islamic University of Saudi Arabia, described what was most relevant for Qatar to raise the level of financial development and economic growth in Qatar. The study empirically explores and substantiates the long-term causal link between financial development and economic growth in Qatar in 1990–2012. The country's financial development is measured by three alternative indicators: the broad money (M2) attitude to GDP, the ratio of private sector bank lending to GDP, and the ratio of domestic banking credit to GDP. Economic growth is a measure of real GDP growth. The results of the study showed that there is a long-run positive equilibrium relationship between all three financial indicators and real GDP growth rates. The study found that there is a bilateral causal link between the broad money supply (M2) and GDP as well as the GDP growth rate, and there is a one-sided causal link between domestic credit to the banking sector between GDP and GDP growth in the short run. The results of the observation show that there is a one-sided cause of a positive correlation between the GDP growth rate and the domestic credit provided by the banking sector (Alkhuzaim, 2014).

The relationship between bank credit and economic growth relates to the work of Ho Ngai Wa in Macao, in which the author acknowledges that financial development and structure are closely linked to economic growth. In turn, the country's financial development has a positive effect on the level of investment attraction, but is relatively low correlated with the increase in production. Empirical research has shown that a number of financial indicators are strongly and positively correlated with economic growth. Macao has been heavily focused on access to bank loans and is considered one of the driving factors in the development of manufacturing (Ho Ngai Wa, 2005).

Of particular interest is a study done the International Monetary Fund on "Macro-Financial Stability Policy: Working with the Credit Boom and Downturn". The "credit boom" episodes, which include the rapid growth of lending, are a political dilemma for the country. Expansion of access to finance, widespread investment support and economic growth (Ho Ngai Wa, 2005) is a common occurrence, but when enlargement takes on a sharply accelerated nature it can become offensive, with weak lending standards, credit can be obtained. Unlimited use and value of funds are a dangerous bubble on assets. Normally "credit booms" are associated with a financial crisis (Alkhuzaim, 2014), "credit booms" are dangerous in the best of situations, and in the worst case we have a catastrophe. They were not focused on these dangers until the "Great Recession" crisis of 2008-2010.

Credit booms are problematic with the approaches of the central banks of India and Poland, with the credit boom making it difficult to distinguish between healthy and unhealthy credit flows, so policies should be geared to contain results. For this purpose, it is necessary to use effective monitoring and control tools over the results of the past period. A statutory base has already been worked out, for example Basel III has introduced a number of capital buffers, which are adjusted when there is a moderate increase in credit. (Basel Committee on Banking Supervision 2010). (Dell'Ariccia et al., 2012). This document discusses how and to what extent we should intervene in the credit boom or credit downturn. The study also analyses those geographical areas, their location, and problems where the boom effect is more likely. The authors consider such countries as the countries of South Africa and Latin America, as well as those of the European Union, which are in the process of enlargement in the European Union.

In terms of economic growth, it is very interesting to develop a warning indicator of the occurrence of a systemic banking crisis. To this end, an article by Mathias Drehmann, dedicated to the development

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