



International Conference on Applied Economics (ICOAE) 2014

Correlation analysis of macroeconomic and banking system indicators

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Abstract

Banking system is described by volumes of financial assets, currency and deposits, loans. Correlation analysis is carried out to identify interrelation between dynamics of institutional environment and banking system indicators. The results show that banking system indicators mostly correlate with indicators of households' income and spending, trade balance. Influence of economic crisis changes correlation force between macroeconomic factors and indicators of a banking system.

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Selection and/or peer-review under responsibility of the Organizing Committee of ICOAE 2014

Banking system institutional environment, macroeconomic, correlation ;

1. Introduction

Financial crises of last years have led to the need of scientific researches of the factors causing them in modern economy, and investigation of main economic indicators, the institutional environment and financial sector interrelation. Effective activity of banking system catalyzes general development of national economy. Being an integral part of market infrastructure, the banking system is in bilateral connection with real sector. And all changes in real sector anyway affect whole banking system.

Banking system is a complicated concept which can be considered and analyzed from various points of view. The first approach considers the banking system as the organizational scheme. This scheme includes

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types and forms of credits in this state. The scheme is constructed according to credit form and bank participation.

Secondly, consideration of banking system by means of institutional analysis is possible. Set of separate organizational structures exists in national economy and directly or indirectly concerns bank activity. Imperfection of the corresponding institutional environment significantly complicates, and in some cases even excludes the possibility banking effective investment activity.

We'll investigate institutional environment of banking system from two points of view: 1) external environment that characterizes and forms investment climate as the key element of banking wherein bank is the integral part; 2) internal environment that is expressed by indicators of bank activity. In this study we will investigate external institutional environment of banking system. That assumes allocation of some macroeconomic indicators which can hypothetically influence on bank activity.

Besides, it is necessary to distinguish a number of cumulative indicators of credit organizations activity, characterizing banking sector role in economy. They will give a conception of dynamics of banking sector activity indicators in the ratio with the indicators characterizing the key macroeconomic parameters of economy development. The complex analysis of the external and internal institutional environment of bank activity in economic system as a set of formal and informal rules will allow allocating the factors influencing banking system.

The majority of financial sector researches are focused on investigation of financial development and economic growth interrelation according to usage of various econometric methods. Empirical researches assume and prove the existence of such interrelation, but the analysis often mentions only dependence on GDP.

P. Monnin and T. Jokipii (Monnin P., Jokipii T., 2010) consider extent of bank stability influence on the economic growth and inflation. The research is based on the selection including 18 countries of OECD. It is proved that there is a positive interrelation between the economic growth and stability of banking sector. There is not accurate interrelation between inflation and stability of banking sector.

S.H. Law, Azman-Saini, M.H. Ibrahim (Siong Hook Law S., Azman-Saini W. N. W., Ibrahim M.H., 2013) assume that financial market starts to influence on economic growth only after achieving certain level of institutional development. Besides they show that for economic growth the rule "more finance is better" is not always true, it is often necessary to reach an optimum level of financing. Andrew Grice analyzes banking sector contribution to payment balance (the statistical analysis ten-year period data), especially its influence on amount of current operations and such components as direct and portfolio investments, service trade.

Some investigations connected with institutional factors are rather interesting. Some papers consider the impact of law in the banking sector on economic growth (Levine R., Loayza N., Beck T., 2000). S.H. Law, Azman-Saini, M.H. Ibrahim (Siong Hook Law S., Azman-Saini W. N. W., 2012) using indicators of banking sector and indicators of stock market development considered influence of economic institutes' quality on financial development of the developed and developing economy. A. Costeiu and F. Neagu (Adrian Costeiu A., Neagu F., 2013) have developed the tool that will afford to give an assessment of banking sector readiness to various changes of macroeconomic environment; the interrelation between financial and banking sectors is investigated.

Thus, the carried review allows us to reveal two fundamental approaches to banking sector research: Representatives of the first approach analyze influence of banking sector, its stability, banking sector crises on real sector and its various economic indicators. The second approach analyzes the extent of real sector macroeconomic indicators influence on banking sector. Therefore, in this research we seek to show interrelation between institutional environment and internal indicators of banking system.

2. Method

In the research we make an accent on how the external institutional environment influences a banking

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