Impact of Bank Credit On Economic Activity

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The present paper is a study on the impact of bank lending fluctuations on economic activity in Australia, New Zealand, Belgium, France, Germany, Italy, Argentina, Brazil, Venezuela, Japan and USA. The period investigated is between January 1997 – December 2007 using monthly high frequency data. The methodology employed to investigate is based on an unrestricted VAR system and follows earlier work by Walsh 1995 (for the US). Macro-economic shocks (such as bank loan demand, policy shocks and inflationary shocks) likely to transmit further disturbances to the flow of bank loan supply to the economy have been introduced into the model. The Cholesky decomposition has been applied to the VAR system in order to distinguish between the impact of bank loan supply, and bank loan demand shocks. Results show that bank credit fluctuations are responsible for movements in GDP in the countries investigated. Our results provide further support for already existing evidence for the US (Walsh 1995, Friedman and Kuttner 1993).

Field of research: Banking, Monetary Economics

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