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The Impact of Bank Credit on Economic Growth: Libyan Bank of Commerce and Development

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ABSTRACT

All This paper mainly aimed to examine the role of Libyan Bank Commerce and Development in financing economic development through bank lending. In addition, a study is being conducted to identifying the extent of the interrelationship between bank credit and economic development. The major challenges encountered by the bank under study when developing plans and policies to contribute to the development process should also be identified and noted. The supervisory financial regulatory authorities in United States of America rely on the CAMELS rating system, which was developed in 1996 to assess the financial condition of a bank and identify its strengths and weaknesses based on its performance in five areas. A descriptive and quantitative analytical approach was used for the study by developing a standard model to determine the impact of bank credit affects Libyan gross domestic product. We collected data from the Libyan Bank Commerce and Development by financial ratios of the CAMEL model, bank credit and the Central Bank of Libya by gross domestic product growth. An important finding of the study is that the indicators of the Bank Commerce and Development are weak, which negatively impacts economic development. In this study, E-Views software was used to consider the normal distribution of the sample and to analysis the data. Furthermore, the study revealed that the bank credit of the Bank of Commerce and Development had a statistically significant effect on economic development. As a result, the bank shows a strong economic contribution to the development of economic sectors, especially small and medium enterprises.

Keywords: *Bank Credit, Economic Growth, GDP, Financial Ratios, Financial development*

1.0 INTRODUCTION

The rapid development of human societies has led to economic development being viewed as a long-term objective by most countries because it comprises economic, social, cultural, and other aspects of life. During the past century, the state has evolved from dominating economic activity to acting as a regulator of economic life in order to ensure a general balance in the economy (Volodymyr et al., 2020). In recent years, there has been a growing interest in private sector development in developing countries as a means of achieving development goals and accelerating economic growth. The role of commercial banks in a country's economy is crucial. Investing money in the economy generates jobs for members of the community and boosts purchasing power. As a result, national income grows in many economies dependent on banking jobs, particularly those that developed in a manner compatible with the circle of economic activity.

Digitization and use of the digital world in the banking system are important factors in

a globalized economy (Jamah et al., 2022). The existence of a sound banking systems serves as a key pillar for the safety of the financial system and the entire economy. Among the most important parts of the financial system is the banking system. Banking institutions also play a crucial role in advancing economic development, due to the various services they provide to serve the community. For instance, a targeted development plan can be developed by providing necessary loans to investors and financing various projects. In this sense, banks have played a pivotal and prominent role in economic development.

The economists and authors agree that economic development encompasses all aspects of society. As a result, it surpassed the concept of economic growth that dominated the early economists. In the following section, we will discuss more than one definition of this research.

The concept of economic development refers to a wide range of programs, policies, activities, and processes that strive to increase a community's real income and quality of life over the long term. The rate of growth exceeds the rate of population growth when development occurs. This led to increase national income per capita (i.e., average real income per capita). Over time, national income increases cumulatively, rapidly, and continuously. In other words, this increase corresponds to a higher rate of production and social services than the rate of population growth. Besides protecting renewable and non-renewable resources from pollution.The economic development includes the growth of real national and individual incomes as well as structural changes and a narrowing of the gap between social classes(Higgins, 2017). The term "growth" refers to an increase in production and economic flows in a country that excludes the effects of economic inflation. Consequently, economic growth is defined differently by researchers and analysts, and the following will address more than one definition.

In economic terms, growth refers to positive changes in production of goods and services over a specified period of time in a country. In general, economic growth means an increase in national income. It is also the increase in real output or the increase in real national product per capita that alleviates the burden of resource shortages.

In another perspective, economic development is the continuous increase in per capita income over ten years of a country's population and its gross national product increases by the same percentage. In other words, we refer to economic expansion as opposed to economic growth(Hagen, 1963). Nowadays, descriptive analysis was the dominant approach used in Libyan research. In this study, financial ratios of the bank, the subject of the study, were compared to indicators of the Camel Banking Safety Model. The standard model shows the impact of bank credit on Libyan economic development. Furthermore, this study explains how banks contribute to the development of economic sectors, especially small and medium businesses.

1.1 Research Questions and Hypotheses

In light of the importance of the subject, this paper focuses on the role of economic development in Libyan bank of commerce and development. This research aims to answer the following questions based on this research questions:

- What are the obstacles facing the Bank of Commerce and Development in economic development?
- What is the impact of the Commerce and Development Bank on economic development?
- H0 The first null hypothesis: The weakness of the indicators of the Commerce and Development Bank, which negatively affects economic development.
- H0 The second null hypothesis: There is no statistically significant effect of the bank credit of the commerce and development bank on economic development.

1.2 Purpose of the Study

Being aware of the importance of the Bank of Commerce and Development's contribution to economic development through its banking

financing services. In addition, identify the relationship between the performance of the bank of commerce and development and economic development. Furthermore, to identifying and addressing the main problems and challenges facing the commerce and development bank in the field of development policy.

1.3 The Importance of Studying

The purpose of this study was to shed light on the role played by the Commerce and Development Bank in economic development. In this regard, the study is important in the following aspects:

1. Providing beneficiaries with information about the actual performance of the Commerce and Development Bank.
2. Identification of the obstacles the Bank of Commerce and Development may face in its quest for economic development.
3. The article will serve as a reference for researchers in economic development fields.

2.0 LITERATURE REVIEW

The examination of agriculture and rural development banks in the Wilayat of Biskra Algeria was conducted for the purpose of identifying the role of commercial banks in financing economic development. According to Naji (2016) was found that banks offer a variety of financial products targeted at economic projects, such as investment loans and other types of loans. As a result, the Bank - Biskra Branch - provides a variety of financial products to economic projects (Al-abedallat, 2017). Additionally, this includes several other types of loans that contribute to the development of Algerian economy. Moreover, the study recommended that individuals be encouraged to develop productive projects that contribute to economic development.

Recent studies confirm by Omar et al. (2015) examined how commercial banks can contribute to economic growth by providing credit facilities to economic sectors. As a result of the study, it was concluded that the Palestinian monetary policy should be represented by an authority for directing productive bank credit (Abusharbeh, 2017). Furthermore, credit and marketing strategies should be used to minimize consumer dependency on banks (Köksal & Özgül, 2007).

A study conducted by Hassan (2009) examined how the Sahara Bank provides credit to finance economic development in Chad. A positive relationship was found between the credit granted by the "Buyer" commercial bank and national income. The study recommends that banks be guided toward granting more bank credit by paying attention to them. It contributes greatly to the financing of projects and the acceleration of economic development (Husien & Liyan, 2014).

According to (Jury & Vaux Jr, 2007)points out that the aims to examine how financial development and bank financing affect the volume of economic growth in Cyprus. The study showed a relationship between bank financing and economic growth in the country. Furthermore, the study found that bank financing has a weak impact on economic growth in Cyprus (Mehra, 2016). There is no evidence that financial development or bank financing leads to an increase in the volume of domestic product or economic growth. In light of our review of previous literature, we can select a study method, analyse data, and build economic models.

The Camel model is a comparative study of government and private banks in Libya by Ismayo and Ghaith (2022 ,اسميو & غيث). In this study, public banks and private banks in Libya were compared in terms of their financial performance. Based on the camel model, the study employed an analytical descriptive approach through its financial indicators (adequacy of capital, quality of assets, efficiency of management, profitability, and liquidity). During the period from 2017 to 2009, a sample of two banks was taken, the Republic Bank, a public bank, and the Trade and Development Bank, a private bank. Moreover, the study results demonstrate the financial strength of the sample, as they indicate a preference for the Trade and Development Bank over the Republic Bank in banking safety indicators. In addition to the fact that the

Development Bank scored better than Jumhouria Bank, there were differences between Jumhouria Bank and Development Bank in terms of financial performance indicators (adequacy of capital, quality of assets, and management efficiency). The Jumhouria Bank and Trade and Development Bank do not differ in the averages of profitability and liquidity financial performance indicators, based on the camel model.

A financial assessment of all 13 Egyptian commercial banks listed on the Amman Stock Exchange has been conducted by (Bawaneh & Dahiyat, 2019).This study examined the impact of the Camels banking safety model on the performance of banks between 2012 and 2018. Based on the analytical descriptive approach, the study concluded that each of the four factors (management efficiency, profitability, liquidity, and market sensitivity) affects performance. Jordanian banks' financial performance is not significantly affected by the appropriate head Money and asset quality.

Another study was conducted to evaluate the performance of banks operating in the Syrian state, where a random sampling was taken, represented by Banque Bemo Saudi Fransi and Bank of Syria and Overseas between 2015 and 2016 (Sahyouni & Wang, 2019). The study methods included a case study approach using a complete banking safety model. Based on the study's findings, each bank obtained a strong rating in the capital adequacy, profitability, and market sensitivity indices. The model is also important for evaluating financial performance because it relies on a comprehensive, unified model as opposed to individual evaluation tools that may give conflicting results.

In light of the previous studies, it becomes apparent to us that there is a research gap. As compared to others, this study relies on the Libyan banking safety model. In addition, the adoption of this study on the standard quantitative approach and the use of financial ratios to clarify the impact of bank credit granted by the Trade and Development Bank on economic development, where we note the similarity of this study with (2022 اسميو, & غيث). However, what distinguishes this study from the aforementioned research is the dependence of the aforementioned study on the descriptive analytical approach, while this study relied on the standard quantitative approach.

3.0 MATERIAL AND METHODS

The general framework of the methodology used in this field study is the descriptive analytical method for studying and evaluating the financial position with the Bank of Commerce and Development. First, CAMEL was used to test the first hypothesis, and second, the quantitative analytical method was used to test the second hypothesis.

3.1 Population and Sample

A representative sample of the study population can be found in the Libyan commerce and development bank's financial statements. The study sample data were taken from the financial statements of the main branch of the Commerce and development bank and the gross domestic product was used to represent the sample from 2007 to 2018 (مصرف التجارة والتنمية, n.d.).

3.2 Data Description and Analysis

1 - CAMEL ratios used to evaluate the bank of commerce and development are as follows:

- *Capital adequacy*: Equity to total assets R1, equity to total deposits R2, equity to total deposits R3, equity to total debt R4.
- *Asset Utilization*: The ratio of net interest income to total assets R5, the ratio of total debts to total assets R6, the ratio of total operating income to total assets R7, the ratio of total liabilities to total assets R8, and the ratio of total expenses to total income R9.
- *Profitability*: It consists of net income to equity R10, net income to total assets R11, total income to total operating income R12.

- *Liquidity*: The cash flow ratio indicates total debt to total deposits R13 and the liquid assets to total deposits R14.
- *Management of liquid assets:* The ratio of doubtful debts to total assets R15, and the doubtful debts to total debts R16.

Researchers used CAMEL model to calculate 16 financial ratios for the bank during the study period. It is necessary to categorize these ratios into two groups so that whenever they rise, they represent positive indicators, including: "R1, R2, R3, R4, R5, R7, R9, R10, R1 and R1". Additionally, some percentages represent positive indicators whenever they decrease, including R6, R8, R13, R14. The comparative financial statement of the commerce and development bank CAMEL model for year 2007 to 2018 showing in figure 1.

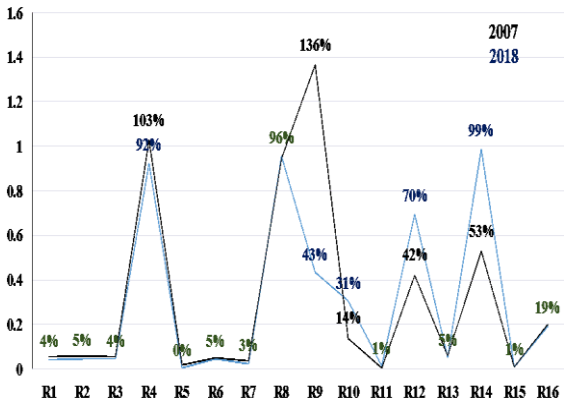

FIGURE 1

The Comparative financial statement of the Commerce and Development using CAMEL model from 2007-2018

As shown in figure 1, certain ratios have a negative change, while others have a positive change for the commerce and development bank according to the CAMEL model. These ratios include:

There were negative changes (a decrease in financial ratios R4, R9, and a rise in R14). On the other hand, the positive changes (high financial ratios R10, R12) are due to low customer confidence towards the bank and sudden withdrawals with the outbreak of the war in 2011.

The standard method used for model estimation

The time series analysis was based on using the E-views10 software. Within the series analysis procedures, the researcher uses the time series static test as a first step. The purpose is to determine whether or not the variable time series are static. As soon as the time series are still, we will estimate the study model using the Ordinary Least Squares (OLS) method, which is the most common method used by researchers. The OLS depends on finding the values of the estimators β, α in which the sum of squares is mistakes $\sum_i^n \boldsymbol{u_1^2} = \mathbf{1}$ at its minimum value. In figure2, shows the natural logarithm of Libyan GDP is represented and the credit that the Commerce and Development Bank has received is reflected.

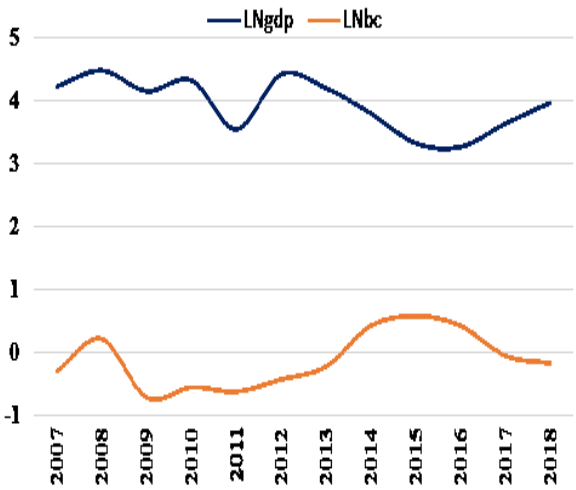

FIGURE 2

The natural logarithm of Libya's GDP and Commerce and Development Bank credit

The hypothesis test: The first hypothesis concerns the soundness of the Commerce and Development Bank's current financial situation in 2018.Table 1 shows a test about the general average of the financial ratios according to CAMEL model of the Commerce and Development Bank for the years 2007 to 2017. The null hypothesis: CAMEL's general average of financial ratios is similar to the current financial situation 2018. The alternative hypothesis: the general average of the financial ratios according to the

CAMEL model differs from the current financial situation 2018.

TABLE I
The CAMEL Model Results about the General Average of Financial Ratios

CAMEL	Overall average	Std. Dev.	Statistics Test	Statistical Significance
Financial solvency	0.265	0.440	-0.556	0.617
Asset uses	0.293	0.412	-3.266	0.031
Profitability	0.339	0.343	0.799	0.508
Financial liquidity (cash flow)	0.520	0.663	0.202	0.873
Asset Management	0.102	0.131	-0.698	0.613

As shown in table1, the significance of the solvency of the capital was 0.617, which is greater than 0.05. Thus, we reject the alternative hypothesis and accept the null hypothesis, which indicates that the capital adequacy of the commerce and development bank in 2018 is comparable to the total capital adequacy of the bank over the past few years 2007-2017. There was a significant correlation between asset use and asset value of 0.031, which is less than 0.05.

Due to the fact that the general average of assets used for the year 2018 is higher than the general average of assets used for the years 2007 to 2017.we reject the null hypothesis and accept the alternative hypothesis. Compared to previous years, the commerce and development bank has been more efficient in using assets. Furthermore, the profitability ratios were statistically significant at 0.508, which is greater than 0.05. Therefore, we reject the alternative hypothesis and accept the null hypothesis, indicating that the profitability index of the commerce and development bank for 2018 which is not different from the general average of the same indicator for 2007 to 2017.

The significance level of the liquidity ratios is 0.873, which is greater than 0.05, so we reject the alternative hypothesis and accept the null hypothesis. In 2018, the liquidity index of the commerce and development bank was not significantly different from the general average. The asset management efficiency was significant at 0.613, which is greater than 0.05. Thus, we reject the alternative hypothesis and accept the null hypothesis, which indicates that the asset management index of the commerce and development bank did not differ from the general average of the asset management Index from 2007 to 2017.

The current financial position of the commerce and development bank for the year 2018 did not differ from the bad financial position of the commerce and development bank for the years 2007-2017, especially from the default that occurred in the year 2011 of total expenses to total income, R9, which confirms:

The economic development was negatively affected by the weak indicators of the commerce and development bank. According to the official website of the commerce and development bank, the study data of bank credit were obtained from the financial statements for the years 2007-2018 to test the second main hypothesis. In addition, the Central Bank of Libya provides the Gross Domestic Product through(GDP) its bulletins and reports on its website(Annual Reports – Central Bank of Libya, n.d.; Central Bank of Libya – Official Website, n.d.). Table 2 shows how the study model was estimated.

TABLE II
The Results of the Unit Root Test of the Model Variables using EViews 10 Software

	Stability Test - Dickey Fuller					
VAR	Level 1			Deference 1		
	DF	(prob)	Result	DF	(prob)	Result
GDP	-3.39	0.11	Unstable	-5.23	0.000	Stable
BC	-2.37	0.37	Unstable	-3.19	0.005	Stable

In table II, the results of the stability test for the model variables show that the variables bank credit and GDP settled after taking the first difference and did not stabilize at the level. As a result, the time series of the variables are integral of the first degree. Consequently, a co-integration test can be conducted to determine whether the model variables have a long-term equilibrium relationship as integrals of the same degree. The results of the Engels & Granger cointegration test shows in table III using E-Views10 software.

TABLE III
The Results of the Engels & Granger Cointegration Test

	T-statistic	Prob *
Augmented Dickey-Fuller Test	-4.50156	0.0231
Test critical values		
Level 1 %	-5.12488	
Level 5 %	-3.93336	
Level 10 %	-3.42003	

According to the table3, the co-integration is significantly correlated at 5%, as the calculated value is -4.502, which is less than the critical value of -3. 933.Therefore, the null hypothesis that the variables are not co-integrated is rejected, while the alternative hypothesis is accepted. In other words, the model variables behave similarly over time as a result of a long-term equilibrium relationship.

Estimation of Regression Model Coefficients:
Based on the results of the previous static and cointegration tests, we estimated the regression relationship between the dependent and independent variables using the Ordinary Least Squares (OLS) methods as shown in table IV.

TABLE IV
The Results of the Model's Regression Coefficient Estimation

P-value	T-test	S.E	Coefficient	Variable
0.000	6.90	12.46	85.994	C Constant
0.0211	-2.79	11.71	-32.681	Bank Credit BC-1
AdjR2 = 0.40		F = 7.785	D.W = 1.684	

Statistical and Standard Evaluation of the Estimated Model:
The model should be used to explain the relationship between the independent variable and the dependent variable before using it. it is necessary to verify the validity of the estimated model by testing the extent of congruence of the conditions of the least squares (OLS) method. Additionally, the model's statistical quality should be evaluated as follows:

Statistical Analysis

In Table 4 shows that the calculated value of the fixed limit coefficient in the model was statistically significant at the 5% level using the T-test, where the calculated values exceeded the tabular values. This also reflects the value of P-value where it was less than 5%, as well as the fact that bank credit coefficient was statistically significant at the level 5% by using the T-test, where the calculated values were greater than the tabular values as reflected. The statistical significance was confirmed by the F=7.785 test as the F value was significant, while the P-value was less than 5%. The value of the adjusted coefficient of determination was Adjusted R2 = 40%. The value indicates that bank credit accounts approximately40% of the change in GDP.

Standard Problems Test

The Autocorrelation Durbin-Watson statistic test:
According to the results, the Darbin Watson coefficient D.W = 1.684 is within the acceptable range, which indicates no correlation with the model, where d1 = 0.971 and d2 = 1.331.

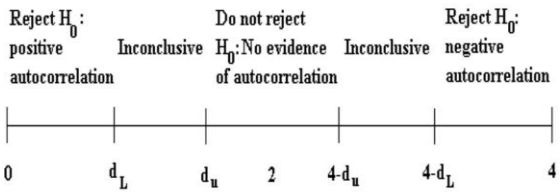

FIGURE 3
Dimensions of Autocorrelation Spots

Normality Test

The researcher used the Jarque – Bera test to test the normal distribution of the error terms (residuals) resulting from the model estimation. The results proved that the limits of error follow a normal distribution, where the test value was J-B = 0.319, with a calculated significance level P-value = 0.852. This indicates acceptance of the null hypothesis which states that the residuals follow a normal distribution as shown in figure 4.

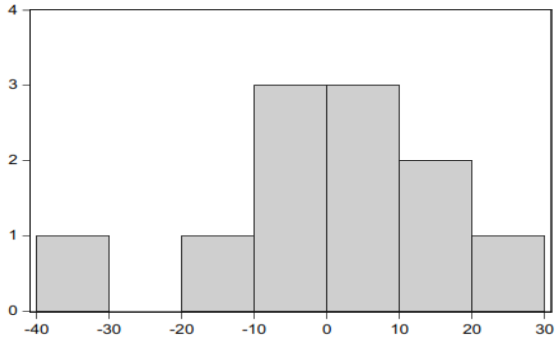

FIGURE 4
Normality Distribution Test

Heteroscedasticity Test

The results of the Arch test to assess the homogeneity of the error limits (residuals), indicated that the test was not significant. In this example, the test value was F = 0.593 with a calculated level of significance = 0.76 P-value, which is not statistically significant. Thus, we conclude that the condition of homogeneity of the error limits is met, as shown in table V.

TABLE V
The Homogeneity Test of Error Variance

F-statistic	1.587	Prob. F (1,9)	0.239
Obs*R-squared	1.649	Prob.Chi-Square (1)	0.199

By evaluating the parameters of the model statistically and testing it for standard problems, the researchers conclude that the model has no standard problems and is statistically acceptable. This reflects that the model has a high capacity for economic interpretation and forecasting.

Economic Analysis of the Estimated Model:
Researchers developed the following economic model after analyzing the role of the Commerce and Development Bank in economic development:

$$GDP = 88.994 - 32.68\, BC_{(-1)}$$
$$0.0211 \quad 0.000$$

The results show that the parameter of the constant amount is significant at 0.05, which has a positive sign and equal to 88.994. Based on the positive sign of the constant, the gross domestic product is approximately 88 billion dinars without bank credit. Furthermore, the negative sign of the elasticity coefficient of the bank credit variable reflects inverse correlation between bank credit and gross domestic product, which contradicts economic theory despite the significance of this coefficient.

The coefficient of determination reached 0.404, which indicates that the bank of commerce and development, in carrying out the credit process, explains a 40% change in economic development, where the value of F is 7.785, which is significant at 0.05, where this coefficient is 0.021 significant. As a result, the estimated model is significant. The researchers believe that during the study years, specifically the years from 2011 to 2018, which represent most of the years of analysis.

In general, the Libyan economy was affected by major shocks and the money supply fluctuated greatly, which resulted in a loss of confidence between depositors and commercial banks.

There was a decrease in the volume of bank credit in particular due to the bank of commerce and development. Further, the lack of data subject to analysis may lead to results that are inconsistent with economic theory. Based on the bank of commerce and

development's bank credit elasticity coefficient, a decrease in bank credit of 1 billion dinars this year will lead to an increase in GDP of nearly 32 billion dinars next year. This can be explained by the fact that depositors have alternative investment opportunities that represent investment channels with a return that is better than the interest rate obtained, and with reference to the assessment of the financial position of the bank for the years 2010-2011.

The collapse in the ratio of total expenses to total income will be noted, with the consequences continuing through 2018. The bank of commerce and development has a negative impact on economic development in Libya during the study period 2007-2018, despite its negative role on GDP. Therefore, the null hypothesis is rejected, and the alternative hypothesis is accepted. The bank of commerce and development's bank credit has a statistically significant effect on economic development.

4.0 RESULTS AND DISCUSSION

This article discusses the most important findings of this study, along with some recommendations related to the study of the financial position based on the CAMEL model. In addition, this bank plays the following roles in economic development. There was a weakness in the commerce and development bank's indicators, which negatively affected the economic development of the country.

The moral significance of the capital adequacy amounted to 0.617, which is greater than 0.05. Therefore, we reject the alternative hypothesis and accept the null hypothesis. This indicates that the capital adequacy of the commerce and development bank in the year 2018 does not differ from the general average of the capital adequacy of the bank for the years 2007-2017.

The significance of the asset uses was 0.031, which is less than 0.05. Therefore, we reject the null hypothesis and accept the alternative hypothesis. The general average of the uses of assets for the year 2018 is higher than the general average of the uses of assets for the years 2007-2017. This indicates the efficiency of the commerce and development bank in using the assets compared to previous years.

The significance of the profitability ratio was 0.508, which is greater than 0.05. Therefore, we reject the alternative hypothesis and accept the null hypothesis. This indicates that the profitability index of the commerce and development bank for the year 2018 does not differ from the general average of the same indicator for 2007 to 2017.

The significance of the liquidity ratios was 0.873, which is greater than 0.05. Therefore, we reject the alternative hypothesis and accept the null hypothesis. This indicates that the situation in the liquidity index of the commerce and development bank for the year 2018 does not differ from the general average of this indicator.

The significance of the asset management efficiency was 0.613, which is greater than 0.05. Therefore, we reject the alternative hypothesis and accept the null hypothesis. This indicates that the asset management index of the commerce and development bank did not differ for the year 2018 from the general average of the asset management index for the years 2007-2017.There is a statistically significant effect of the bank credit of the bank of commerce and development on economic development.

This result of this study is based on the following:

The value of the parameter of the constant amount is 88.994, which is significant at 0.05. The elasticity coefficient of the bank credit variable was -32.68, which is significant at 0.01. It reflects the inverse relationship of bank credit with GDP and is not consistent with economic theory.

The adjusted coefficient of determination was 0.404, which indicates that the Bank of Commerce and Development, in carrying out the credit process, explains the change in economic development at a rate of 40%. The value of F = 7.785, which is significant at 0.05, as well as indicates the significance of the estimated model.

5.0 CONCLUSION

The researchers recommend several recommendations based on the findings, the most important of which are:

The bank of commerce and development's management should take into account the achievement of financial ratios according to the CAMEL model throughout its entire organization.

Following the trends of the financial ratios that reflect the capital adequacy ratios, the ability to pay, and the efficiency of management in operating the available assets to assess the current financial position of the commerce and development bank.

The management of the bank of commerce and development must possess scientific and trained competencies in financial analysis and financial management. To identify potential financial problems and find appropriate solutions based on the outputs of the accounting system.

To facilitate research and studies about banks operating in Libya as well as to make recommendations for their development and success, we are establishing research and study centers to collect financial and economic data and information.

The ability to study the economic, political, and social conditions that affect the performance of the bank of commerce and development, as well as the surrounding environment.

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