

FINANCE-LED GROWTH OF THE ECONOMY: THE ROLE OF FINANCIAL INNOVATIONS

YULIIA SHAPOVAL

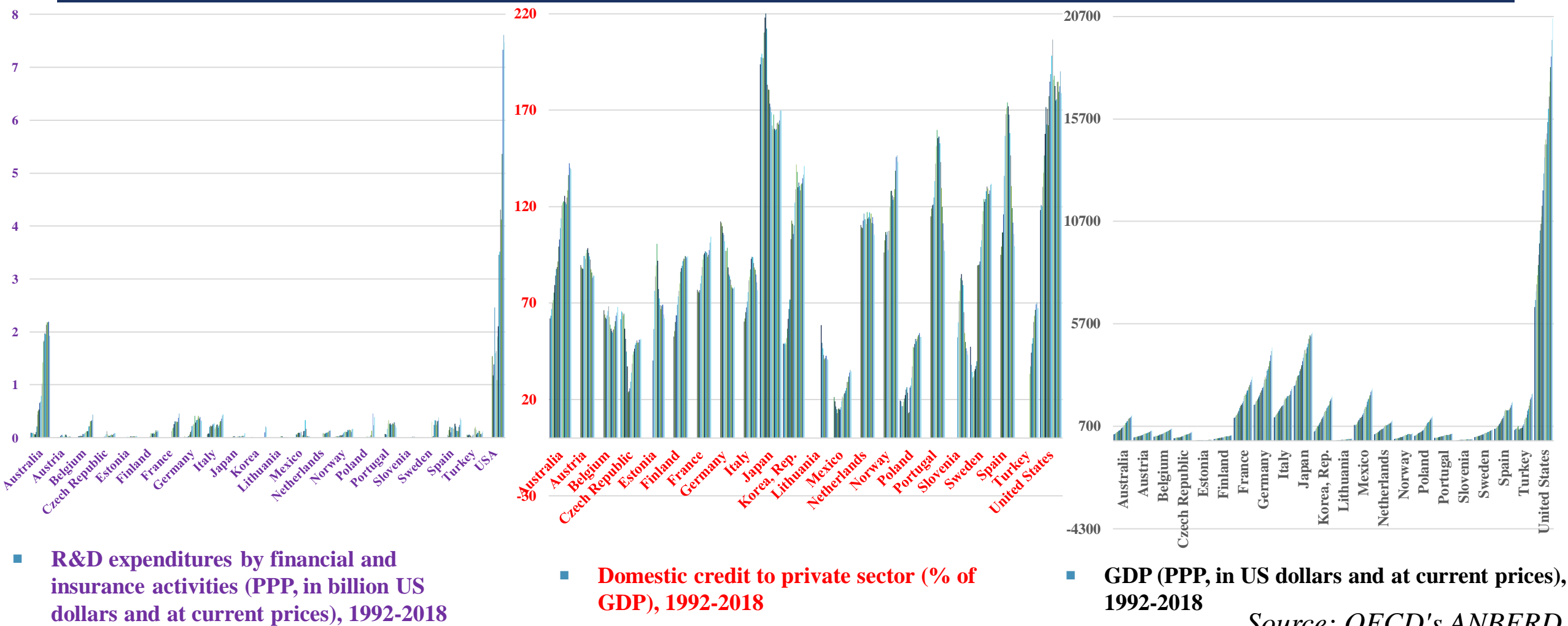
DEPARTMENT OF MONETARY RELATIONS

INSTITUTE OF THE ECONOMY AND FORECASTING

NATIONAL ACADEMY OF SCIENCES OF UKRAINE

KYIV-SOFIA, 20 OCTOBER 2021

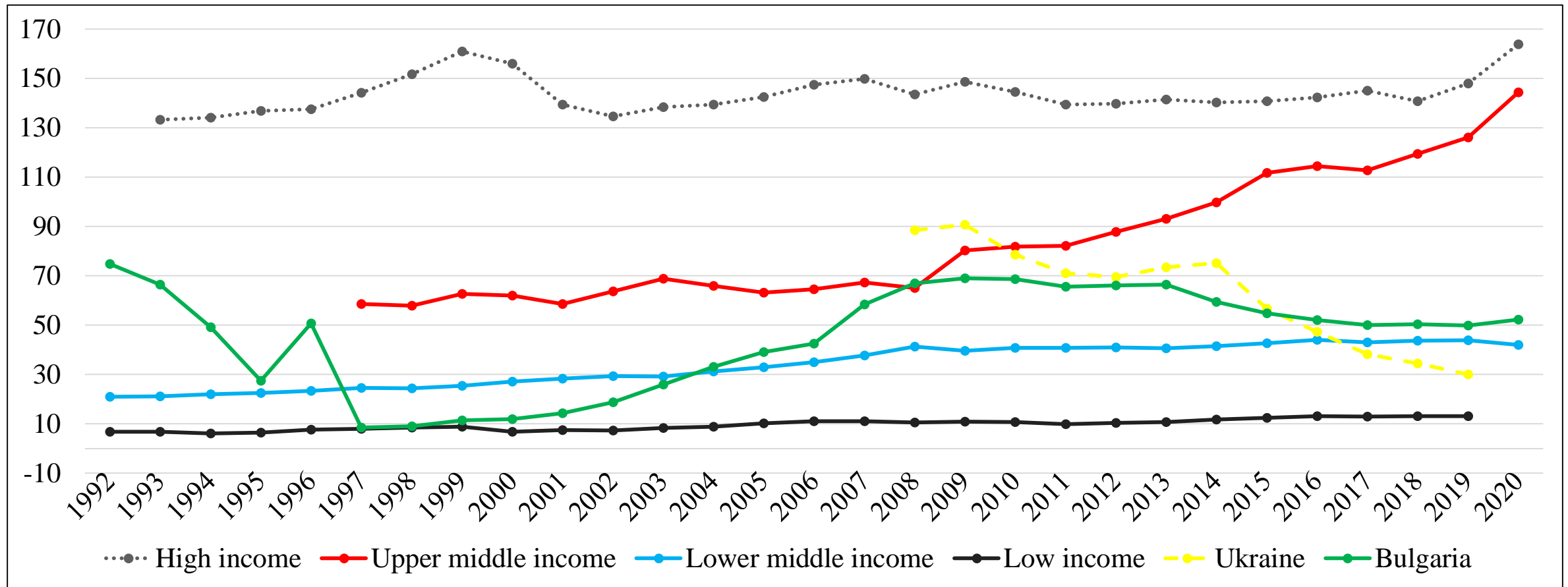
Financial innovation accelerates economic growth by expanding R&D and...



Source: OECD's ANBERD

...increase in resource potential...

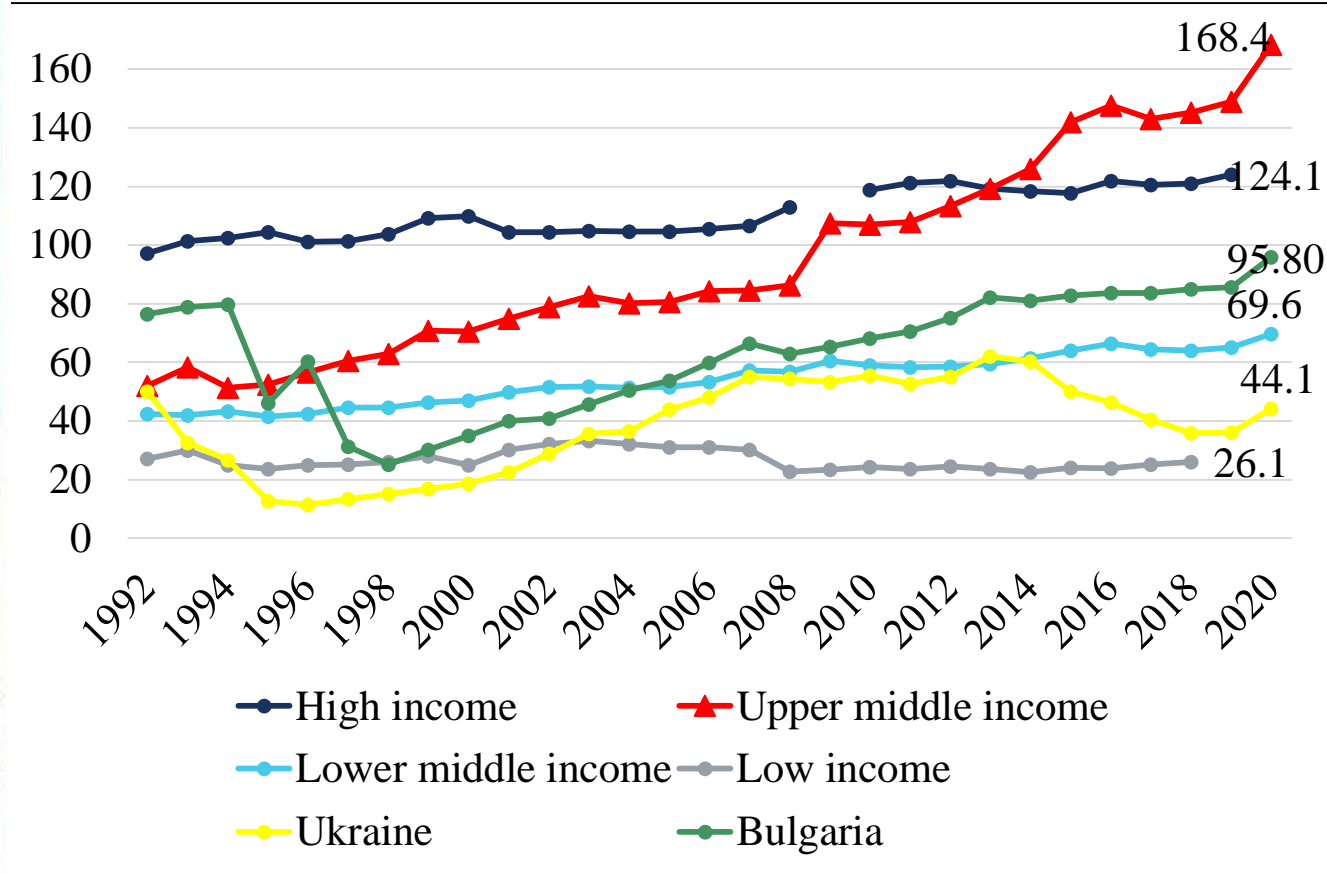
After the global financial crisis in upper-middle-income countries, there has been a marked increase in financial depth in contrast to the slow intensification of lending in lower-middle-income countries. In contrast to the rising global trends, the dynamics of the Ukrainian economy was marked by a decline in the level of credit market involvement in economic development.



■ Domestic credit to private sector (% of GDP) of group of countries by income level, 1992 – 2020

Source: World Bank

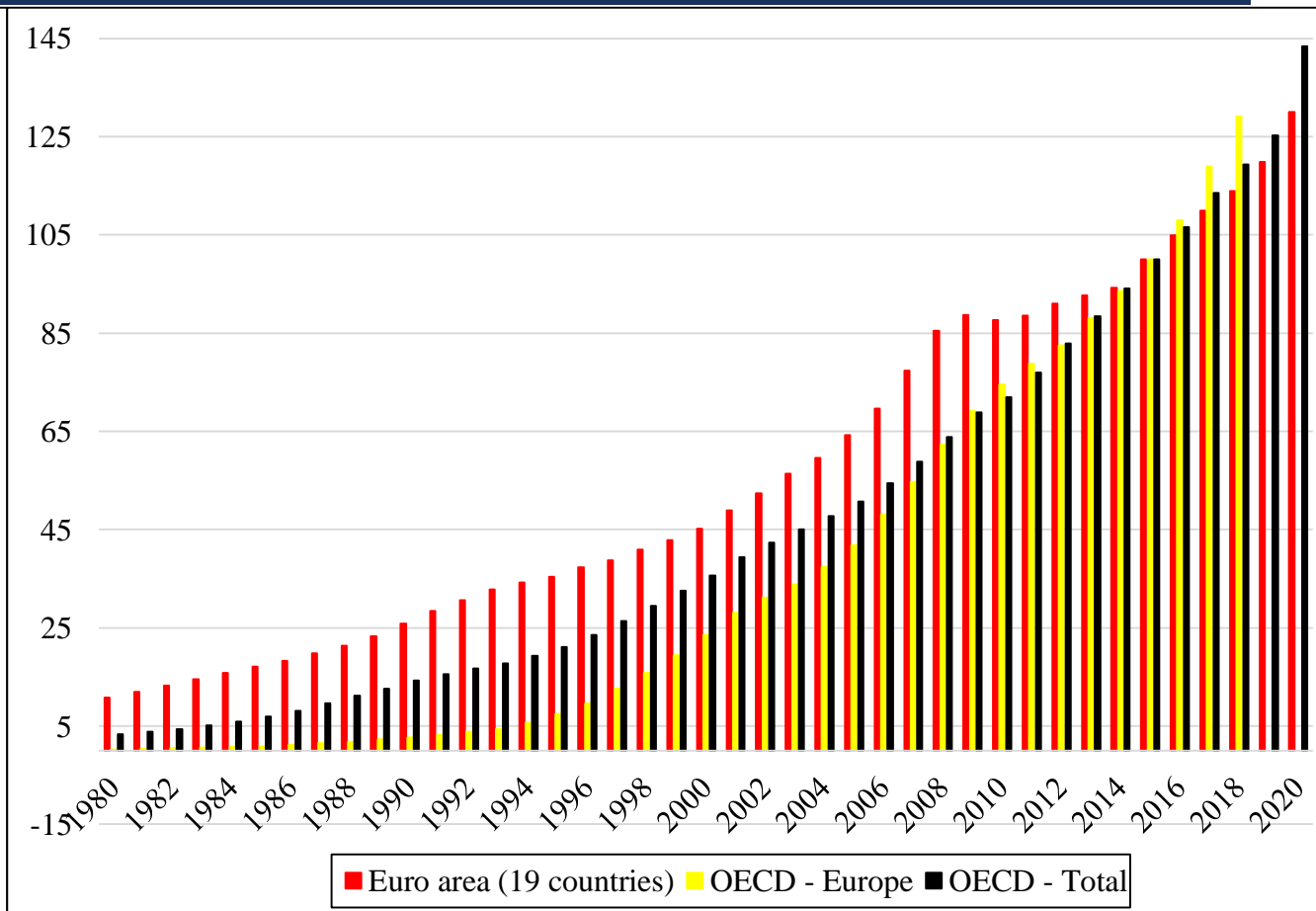
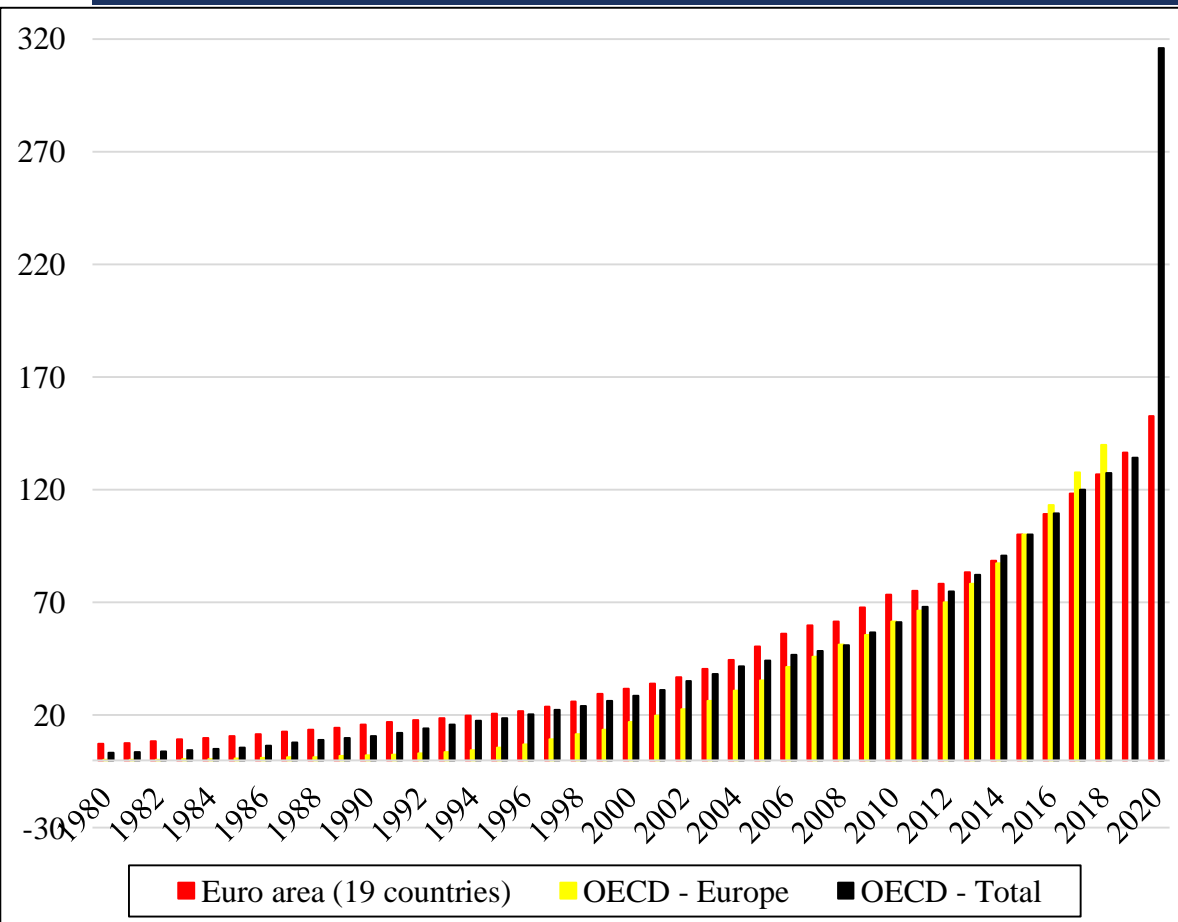
...and a higher level of broad money. At the end of January 2021, global broad money stood at USD 106.7trn: growing at an annual rate of +13.2%, the highest rate posted since 1986 (during the great financial crisis, global money growth peaked at “only” +10.5%)



■ Broad money (% of GDP) of group of countries by income level, 1992 – 2020

Source: World Bank

During COVID-19 the broad money has risen sharply. Although developed countries are characterized by high monetization rates, it does not cause significant inflation, but significantly stimulates even greater economic growth because developed countries have a high level of public confidence in government, economic policy, national currency, as well as a developed financial market. In addition, in the case of countries with reserve currencies, their money issue serves not only their own economies, but also others.



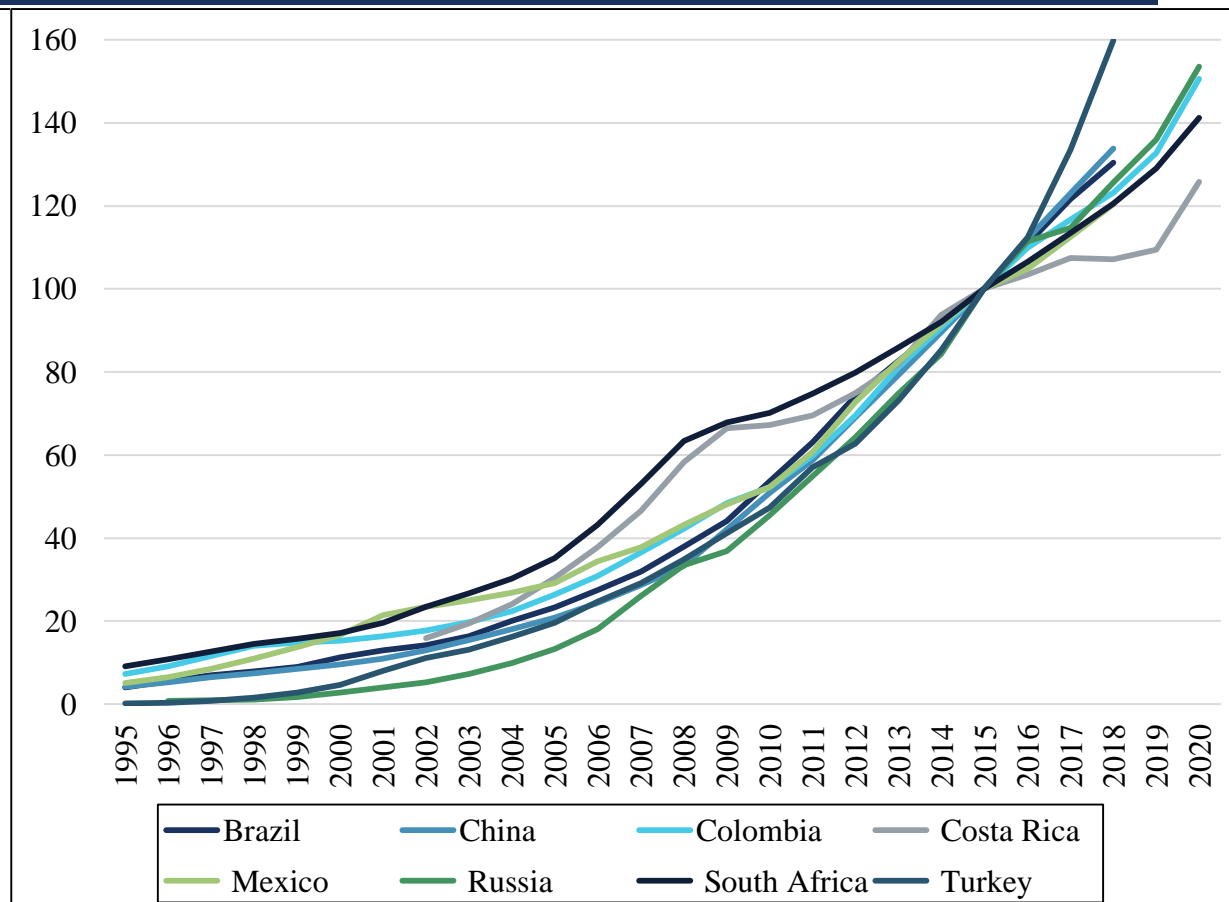
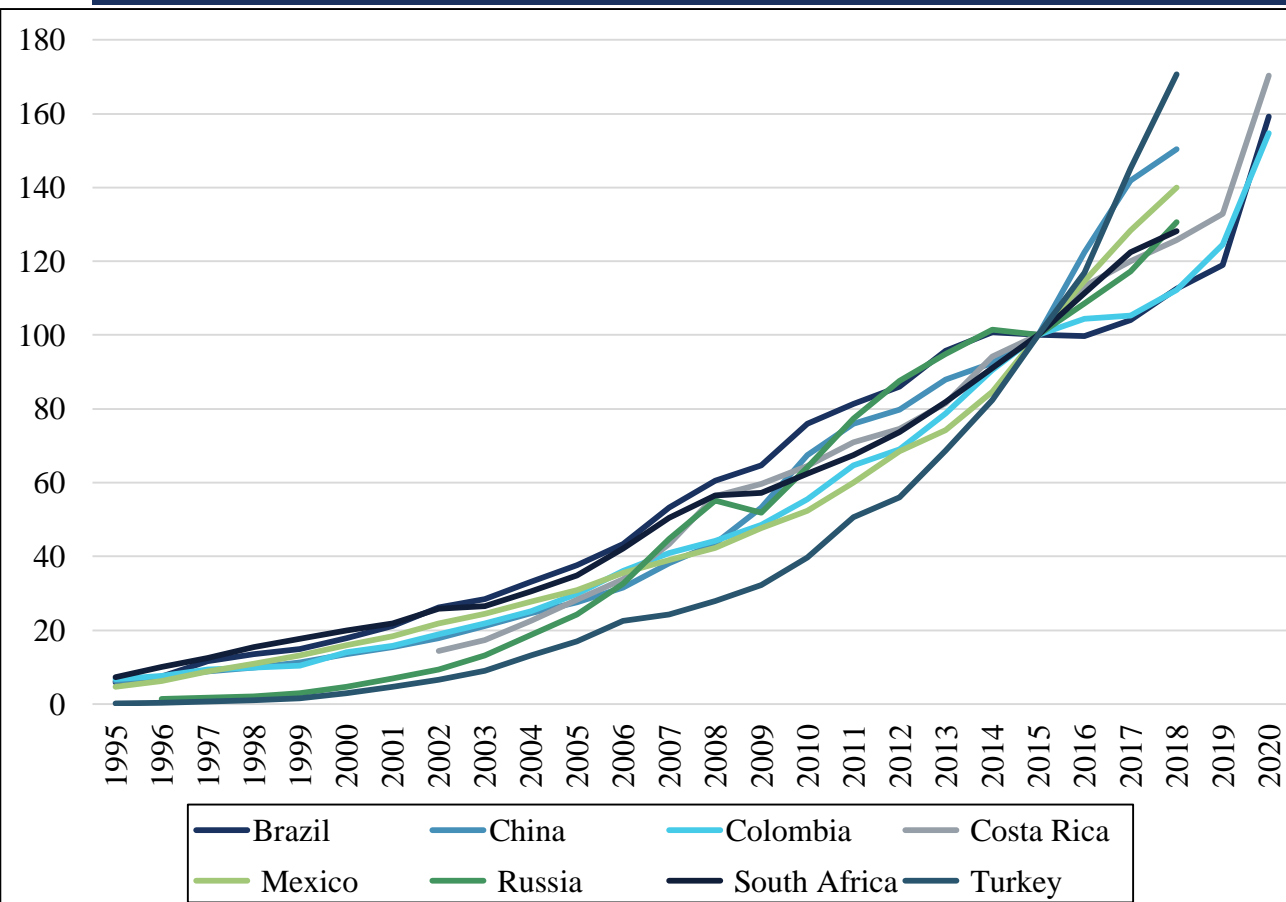
■ Narrow money (M1/GDP) of high-income countries, 1980 –2020, %

■ Broad money (M3/ GDP) of high-income countries, 1980 –2020, %

Source: OECD

Common feature is a constant increase in the level of monetization.

The rapid growth of economic monetization in upper-middle-income countries and slower growth in high-income countries is the evidence of expansionary monetary policy.



■ Narrow money (M1/GDP) of upper-middle-income countries, 1995 –2020, %

■ Broad money (M3/ GDP) of upper-middle-income countries, 1995 –2020, %

Source: OECD

CONCLUSION

A higher level of financial depth (reflected by domestic credit to the private sector, financial and insurance activities R&D expenditures) and broad money (correspondingly higher liquidity through financial intermediaries) positively affect economic growth as opportunities for innovation increase.

As practice shows, the higher level of monetization is a feature of developed countries, where inflation is low and stable for a long time. Groups of countries with high and upper middle income have a higher level of financial depth, which indicates the positive nature of the impact of the financial market on economic development. The lagging behind (since 2014) of monetization level of the Ukrainian economy among countries with similar economic development highlights its bank-centricity and insufficient financial inclusion level.

On the other hand,

- financial innovation are associated with the lending boom and bank fragility;
- rapid monetization of the economy is a prerequisite for inflation to pick up.



THANK YOU!

**Yuliia Shapoval,
PhD, Research Officer
Department of Monetary Relations
State Organization “Institute of the
Economy and Forecasting”
National Academy of Sciences of Ukraine
26, Panasa Myrnoho, Kyiv, Ukraine, 01011
e-mail: shapoval@nas.gov.ua**