

IMPACT OF NON-INTERMEDIATION ACTIVITIES OF BANKS ON ECONOMIC GROWTH AND VOLATILITY: AN EVIDENCE FROM OIC

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KEYWORDS

Economic volatility

OIC member

Non-interest/financing income
(non-intermediation income)

Economic growth



INTRODUCTION

- It is generally believed that financial intermediaries particularly the banking sector in a well-developed financial market affect economic growth positively by facilitating the allocation of capital to the real sector, enhancing allocation of resources and supporting firms to raise required investments.
- In an era of financial deregulation, banks are left with no choice but to be more creative to survive in the market place.
- Therefore, banks have tried to offset this reduction in profits with income derived from non-traditional banking activities.
- The traditional and non-traditional banking activities have their impact at both micro and macro level.
- This present study is relevant and worth to be investigated because:
 - previous studies do not reveal much about the effect of non-interest/financing income on growth and volatility (Beck et al., 2014).
 - most OIC countries (except Turkey and Malaysia) have yet to implement Basel 3. Regulators considering its adoption must assess differences in non-intermediation activities in OIC countries and their impact on banks and the economy.



METHODOLOGY

Data

- Data availability consists of 48 out of 57 OIC member countries
- Time period: 2001–2013

This study uses the bias-corrected least square dummy variable (LSDVC) model originally developed by Kiviet (1995, 1998), Judson and Owen (1999), Bun and Kiviet (2003), and Bruno (2005) to estimate the impact of non-intermediation activities on the economic growth and volatility of OIC member countries.

CONCLUSION

- The authors find non-intermediation income to be insignificant for the economic growth of OIC member countries.

i) regulators to loosen up the control by decreasing the risk weights applied to off-balance sheet items which are mostly related to non-intermediation activities.

ii) regulators to consider encouraging banks in OIC to expand their revenue sources as they increase bank profitability without impacting the economic volatility.

- Future research may explore the impact of different components of non-intermediation income on economy (different types of non-intermediation activities possess different characteristics).

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