

Re-Examining the Banking Sector Development and Economic Growth Nexus in Oman

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Abstract

The present paper was aimed to investigate the relationships between banking sector development and the economic growth of Oman. The findings of the study suggests that the variables selected for the study namely the banking sector assets and the credit granted by banks to have a positive and significant impact on the GDP of Oman. The study highlights the fact that banking sector in Oman had made a great progress during the period of study and playing a key role in the economic growth of Oman.

Key Words: GDP, credit, total Assets, banking

1. INTRODUCTION

Financial institutions play a great role in the economic development of any country. Therefore it has gained a lot of currency in economic and finance research and has caught the attention of researchers and policy makers. The financial institutions are providing the financial services for its different clients. The primary service in this regard is the role of financial institutions as that of financial intermediary.

Banks also play their important role in providing the finance to the national projects and offer wide variety of services to the different sectors of the economy. Therefore the present study is undertaken to explore which activity of the banking sector is contributing towards the growth and the development of Oman economy (Rudra et al.2014).As we know that the lending and deposits are the two main activities under taken by any bank and therefore it imperative to understand the causality relationships between these two activities and the GDP, the direction of causality whether it is unidirectional or bidirectional. This study will help policy makers and the government to frame appropriate policies for both sustainable and the speedy economic growth.

After the systematic literature review, we identified the existing studies have paid a less attention toward the role of banks and financial institutions in the national income. As banks can usher the economic development and growth(Majid and Mirhal2007) these institutions have the potential to play a great role in the economic development, therefore current study will identify its role in the economic growth of Oman.

2. LITERATURE REVIEW

The existing literature were reviewed to get comprehensive understandings about the role of financial institutions in the growth and development of any country. For this purposeseveral study were reviewed to get a clear perspective and to develop a model to study the Omans economic growth and the causal relationships between the bank deposits, bank credit and the Gross Domestic Product.

Muhammad et.al (2016) examined in their study the finance led growth of all the GCC countries. They found positive relation between the financial sector development and the economic growth largely contributed by the foreign direct investment, oil production and the capital formation.

(Hove, S., Tchana, F. T., & Mama, A.

T.,(2017).In the most emerging markets (EMEs), those countries which implemented their inflation control targets, could not reach at their targets even though they had good institutions. The study identified the importance of institutional quality in the form of central bank freedom, fiscal prudence and financial sector development to bring down the inflation to the targeted level. Logit model was used to analyze the panel data. However, as the macroeconomic variable rate gap Exchange, openness of trade and output gap also an explanation of the results of the target rate of inflation

In the context, the merits of the continent's role in national development banks (NDBs). As will be shown below, many African countries with limited access to finance vast majority, are very small and short on capacity, although NDBs. A few, however, most players, especially infrastructure (especially Algeria and in South Africa), and other governments to develop their country (as an additional financing and expertise to Ethiopia as promotion given their potential as a means that are undergoing the reforms, Rwanda and Uganda). This paper aims an overview of NDBs activities in Africa, and South Africa NDBs Development Bank is to present two case studies of North Africa (DBSA) and the Industrial Development Corporation (IDC) - can provide lessons for other NDBs ahead in Africa and beyond. Where does the concept of specific information about investment in sustainable infrastructure data with the permit, with the general characteristics of the paper NDBs. (Bradlow, D., & Humphrey, C. S., 2016).

The study analyze the impact of project financing investment. Companies' own funding, a joint production agreement, borrowed funds based on the company's own funds, raised funds by issuing bonds is considered as a source of project financing in the field of resources. Their work aims to look at various opportunities to support the 'green' economy banks funding the environment in the framework of project financing, including through attracting oriented projects. Environment and the role of banks and the banking sector to support social-oriented projects is analyzed. 'Green' economy is displayed banking experience in Asia, Europe

and the United States in terms of projects. In addition, the project adherence with environmental and social risks and impacts of a project, values and responsible finance criteria are considered in this article. (Ganbat, K., Popova, I., & Potravnyy, I., 2016).

In another study, a typological framework of the roles of State Investment Banks was examined in the economic development. Scholars identified the role of four different typologies countercyclical; developmental; venture capitalist; and challenge-led in economic development. Conceptual paper to provide a historical overview of the SIBs, and the mainstream 'market failure theory interpretation of the typology by how they justify. It then showing that atheists are in the form of market failure rather than fixing all about creating characters / market a different conceptualization of progress, SIBs based Insight Economics. The paper concludes with a proposal of a new agenda for research on SIBs based on typological framework (Mazzucato, M., & Penna, C. C., 2016)

Another study of Central, Eastern and Southeastern European (CESEE) post-Communist era (1995-2014) countries, foreign investors focused on economic development and global role in economic development, which coincides with the opening of the financial markets financial crisis. We investigated whether economic growth has benefited from the presence of foreign-owned banks in the CESEE countries. For this purpose, we introduce better measures of economic development and control of the financial strength of banks (Bongini, P., Iwanicz-Drozdowska, M., Smaga, P., & Witkowski, B., 2017).

3. DATA & METHODOLOGY

To carry out the present work data was collected for a period of eight years from 2011 to 2016 from the website of Central Bank of Oman and annual reports. In first step, discussed the descriptive statistics of all the variables. After that regression analysis is carried out to ascertain the role of independent variables selected for the study on the GDP of Oman. To determine the effect of assets on GDP, the data of total assets were collected of these 6 years. This data is shown in the table-1 below.

Table 1: Total Assets of Banks from 2011 to 2016.

Bank Name	Assets (RO' 000)					
	2011	2012	2013	2014	2015	2016
Oman Arab Bank	1649607	1732880	1816153	1899426	1982699	2065972
Bank Muscat	7228001	7913669	8486450	9728318	12544529	10820070
National Bank of Oman	3328801	3409905	3491009	3572113	3653217	3734321
Bank Dhofar	2063912	2442870	2821828	3194127	3593061	3952043
Bank Sohar	2032174	2164981	2253761	2342541	2520101	2,207,625
Bank Nizwa	-	-	195997	253106	346094	350127
Alizz Islamic Bank	100126	101236	99717	119619	252728	249137

Source: Central Bank of Oman

The credit created by the bank is another important variables which is a reflection of how much one bank is contributing in the economy. Therefore, we collected the data of credit given by the selected banks. The time series data from 2011 to 2016 is shown in the table-2 below. All the values shown in the table-2 are in Omani rial.

Table-2: Credit Exposures

Bank Name	2011	2012	2013	2014	2015	2016
Bank Dhofar	1,573,215	1,747,988	1,982,529	2,342,309	2,827,924	3,107,474
Bank Muscat	4,995,926	5,811,780	6,360,418	7,044,809	7,330,215	7,957,330
Bank Sohar	1,041,087	1,171,407	1,273,080	1,454,447	1,683,167	1,954,160
National of Oman (NBO)	1,733,598	1,986,071	2,838,390	2,903,752	3,182,670	3,438,207
Oman Arab Bank	1,079,931	1,217,251	1,324,069	1,684,873	1,977,445	2,069,372
Al Ahli Bank	1,043,177	1,255,782	1,495,108	1,840,216	2,162,125	2,099,304
GDP	11,921,214	14,384,722	16,254,066	18,431,719	20,364,354	22,044,262

Source: Central Bank of Oman

4. RESULT AND ANALYSIS

The study explores the role of banking sector in the development of Oman economy. For this study, the following hypothesis were tested.

H₀: There is no role of the total assets of national banks on Oman economic growth. H₁:

There is no role of the total credit of national banks on Oman economic growth.

In this study the GDP of Oman is the dependent variables and the total assets of the bank and credit granted by the are the independent variables.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.46 ^a	.25	.074	2.70134

The model summary explains that the explanatory power of the model is not good because it is explaining only 25% variance. Our results represent that there can be many other predictors which can explain the variance of GDP of Oman. These factor may be incorporated in the future studies.

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	143.440	2	71.720	9.828	.000 ^b
	Residual	1590.795	218	7.297		
	Total	1734.235	220			

a. Dependent Variable: GDP of Oman %

b. Predictors: (Constant), Total Assets, Total credit for the year

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.795	.702		-1.132	.259
	Total Assets	.599	.218	.382	2.749	.006
	Total credit for the year	.488	.031	.289	2.852	.005

a. Dependent Variable: GDP of Oman

In this study the null hypothesis that total assts and bank credit have no role in the economic growth of Oman is rejected. Thus this study accepts alternative hypothesis that the total assets and credit given by the bank have impact on the economic development, Oman. Our results show that Total assets as .38 positive effect on the GDP of Oman. This effect is also significant at 0.01 significance level. In our hypothesis 2, we proposed that the credit given by the national banks has positive effect on the economic development of Oman. Thus the findings of the result indicates that both the independent variables

namely total assets and the credit given by the bank have positive and significant impact on the GDP of Oman.

5.CONCLUSION&RECOMMENDATI ON

In this study we examined the role of banking sector in the economic development of Oman. It is concluded that banking sector is growing very rapidly in Oman. It is playing a significant role in the economic development of Oman. Oman's banking sector with international banks equal under international laws and regulations developed by adapting to

change in the banking industry. However, it is worth mentioning that all the components of its assets has increased in the period between 2011 to 2016. The role of banks in credit extension indicate 219.0 per cent increase from RO 2885.1 million in 2011 to 9185.0 million in 2016.

According to our findings, the banking sector of Oman as a whole is working well and stable in the economic environment of Oman. Banking sector in Oman is well-functioning for the long period. However the banks in Oman need focus on the IT related services by which the customers can transfer their money online, bill payments, different local and international transaction. By offering these services, the banking sector will be stronger and can contribute more to the economy of Oman.

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