Literature review assignment assignment (approx. 1000 words)

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1. Introduction

The financial sector has an important role in economic growth since it mobilizes savings, allocates resources efficiently, and promotes investment. However, it remains essential to consider how central banking policies, banking sector development, financial regulations, and financial development affect economic growth. As a result, articles investigate these correlations from different approaches, such as comparative meta-analysis, theoretical perspectives, empirical analysis, and panel data analysis, where other economic growth metrics such as inflation, GDP, and employment are also considered.

2. Literature review

Central banks are key institutions in modern economies, with the objective of promoting price stability, stimulating economic growth, and ensuring financial stability. This review of the literature includes different aspects of this relationship, such as theoretical points of view on the impact of central bank independence on inflation in transition economies, the link between banking sector development and productivity growth in transition economies, The impact of financial development on European Union (EU) economic growth, and finally investigating the relationship between financial development and economic growth in the EU during the recent crisis.

Central Bank Independence and Inflation in Transition Economies

Central Bank Independence refers to the extent to which the central bank has power and freedom to execute monetary policy without excessive political influence. The concept of Central Bank Independence is especially important for transition economies, whose have undergone considerable political and economic transformations in recent decades.

According to Iwasaki (2017), Central Bank Independence has a significant negative impact on inflation in 45 transition economies. According to the study, the influence of CBI on inflation is greater in countries with enhanced market economies. Another study, however, Fontan et al. (2018), argues that Central Bank Independence alone may not be sufficient for handling inflation in transition countries due to certain issues such as institutional weaknesses, a lack of financial market development, and macroeconomic instability. The authors argue that controlling inflation in transition economies requires a comprehensive approach that combines fiscal discipline, structural changes, and financial market growth.

Studies also demonstrated that the relationship between Central Bank Independence and inflation in transition economies is complex and depends on various factors, including institutional quality, financial market development, and macroeconomic stability. Empirical evidence suggests that greater independence is associated with lower inflation in transition economies. However, Central Bank Independence alone may not be sufficient to control inflation, and a comprehensive approach that includes fiscal discipline, structural reforms, and financial market development is necessary. Financial development is also crucial for economic growth in transition economies.

Banking Sector Development and Economic Growth in Transition Economies

In transition economies, countries are moving from a centrally planned to a market-based economy, the role of the banking industry in promoting economic growth is even more essential.

Petkovski (2015) investigates the connection between banking sector development and economic growth in several Central and Southeastern European countries. The study expressed the positive relationship between banking sector development and economic growth, implying that a well-functioning banking sector contributes to capital accumulation, which is crucial for long-term economic growth. Countries with lower levels of financial development also expressed to have a stronger impact on economic growth. Their research also emphasizes the importance of developing these countries' banking sectors, which can promote economic growth through increased access to credit, investment, and job creation.

However, regulatory policies can have a significant impact on the banking sector's productivity growth. Delis (2009) investigated the impact of regulations on productivity growth in banking in transition economies, pointing out that heavily tight regulations may result in lower productivity growth. As a result, the negative effects of regulations can be prevented by encouraging competition and enhancing the quality of institutions, including the central bank. However, it is also critical to improve efficiency while encouraging a competitive environment.

Financial Development and Economic Growth in the EU

The studies mentioned above demonstrate that financial development is essential to boosting growth in the economy in the EU. However, the effect on economic growth may be influenced by other factors such as institutional quality, economic development level, and policy effectiveness.

Using panel data analysis, Arç (2014) examines the impact of financial development on economic growth in the EU. According to the study, there is a positive relationship between financial growth and the economy, indicating that it's a critical factor and has a greater impact on economic growth in countries with lower levels of financial development. Accordingly, Asteriou and Spanos (2018) research found out identical outcomes, also within the framework of the recent crisis in the EU. The authors also suggest that financial development can help countries to recover from the crisis and promote sustainable economic growth in the long run.

Fontan, Carré, and L'Oeillet (2018) explore the EU's new era of central banking, which has been differentiated by the implementation of unconventional monetary policies such as the introduction of quantitative easing. According to the authors, these policies and central bank interventions have contributed in ensuring financial stability and growth.

3. Conclusion

Finally, the articles underline the significance of an integrated approach that includes the interaction of multiple components in promoting economic stability and progress. It presents the complex relationship between central banks, financial development, and economic growth across various factors, including transition economies and the EU. According to the studies, central bank independence is critical in controlling inflation in transition countries, but it must be accompanied by other policies such as financial market growth and fiscal discipline. Furthermore, the development of the banking sector is vital for long-term economic growth, and regulations should be intended to encourage competition and improve the quality of institutions. The creation of an efficient banking system can facilitate financial intermediation, increase savings and investment, and promote economic growth.

4. Resources:

1. Arıç, K. H. (2014). The Effects of Financial Development on Economic Growth in the European Union: A Panel Data Analysis. Journal of Business, Economics, and Finance, 3(3), 174-184.
2. Asteriou, D., & Spanos, K. (2018). The relationship between financial development and economic growth during the recent crisis: Evidence from the EU. Journal of Economic Studies, 45(2), 358-373.
3. Delis, M. D., Molyneux, P., & Pasiouras, F. (2009). Regulations and productivity growth in banking: Evidence from transition economies. Journal of Money, Credit and Banking, 41(4), 735-774.
4. Fontan, C., Carré, E., & L'Oeillet, G. (2018). Theoretical perspectives on the new era of central banking. Journal of Economic Surveys, 32(3), 726-750.
5. Iwasaki, I. (2017). Central Bank Independence and Inflation in Transition Economies: A Comparative Meta-Analysis with Developed and Developing Economies. Emerging Markets Finance and Trade, 53(6), 1256-1272.
6. Petkovski, M., & Kjosevski, J. (2015). Does banking sector development promote economic growth? An empirical analysis for selected countries in Central and South Eastern Europe. Economic Research-Ekonomska Istraživanja, 28(1), 496-514.