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THE IMPACT OF PRIVATE SECTOR CREDIT ON ECONOMIC GROWTH IN ZIMBABWE (2009-2012)

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ABSTRACT

This study examines the direction of causality between private sector credit and economic growth in Zimbabwe using a dynamic Granger causality model. The research sought to find if there is a relationship between private sector credit and growth in GDP as well as growth in other real economic sectors. The study was motivated by the debate on whether credit growth results in growth or growth in credit inevitably arise from a growing economy. The thrust of this debate has been whether there exists a finance-led growth response or a growth-led finance response between the two variables. To this end the study uses three proxies of private sector credit namely total private sector credit, total deposits, agricultural sector credit, manufacturing sector credit, and mining sector credit and FDI against GDP (a proxy for economic growth). The empirical results reveal that the supply following response tends to predominate in Zimbabwe. The granger causality test results showed a unidirectional causality from private sector credit to economic growth. The granger causality test results also supported the supply led hypothesis of economic growth. Based on these results, we can reject the assertion that causality runs from economic growth to demand for credit (the demand leading hypothesis) and conclude that the supply-leading hypothesis holds for Zimbabwe.