Chapter 9


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ABSTRACT

The main purpose of this chapter is to evaluate the causality relationship between non-performing loans, industry volume, and economic growth and to provide some policy recommendations for global growth. Within this context, annual data of 16 African countries for the periods between 2001 and 2015 was taken into the consideration. Additionally, Dumitrescu Hurlin panel causality test was used to reach the objective. According to the result of this analysis, it was identified that there is a causality relationship between industry volume and economic growth.

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In addition to this situation, it was also defined that a decrease in economic growth is the main cause of the non-performing loans ratio in African countries. This chapter makes an important contribution to the literature. While considering these results, it can be said that to increase global trade economies of the countries should be improved and banking sectors should work more effectively. As a result, it will be possible to increase the living standards of the people and provide global growth.

**INTRODUCTION**

Africa is the second biggest continent of the world with respect to population density. There are 54 different countries and more than 1 billion people in this continent which is correspond to 15% of the world population (Toenniessen et. al., 2008). On the other side, Africa combats many different problems at the same time for a long period. Starvation, unfavorable health conditions, migration and civil wars are accepted as the most important problems for Africa (Watts, 1991).

In addition to them, economic problems play a very significant role for this continent. Africa is one of the poorest regions in the world in spite of the fact that it has many natural resources (Kownacki, 2000). According to the World Bank report, most of the people in Africa have less than 2.5 USD incomes per day. This situation underlines the importance of economic problems in this continent. Owing to this condition, it can be said that studies, which focus on economic development in Africa, are essential in order to solve the problems in this continent.

Furthermore, Africa has also significant role in global trade. Especially after the effects of globalization, economic borders among the countries have been disappeared (Yüksel et. al., 2015). This condition gives a chance to all economies to reach new markets in the world. This issue can be accepted as a leading factor to develop global economy. In other words, when the economies of African countries are improved, this will make an important contribution to the global growth. This situation will increase the living standard of the people in the world.

Non-performing loans (NPL) of the banks, industry volume and economic growth are interrelated variables. When non-performing ratio of the banks in the country increases, this problem influences industry volume of this country negatively. The main reason behind this situation is that banks will be unwilling to give loans in this aspect (Elegbe, 2013), (Abadi et al., 2014), (Ahmad and Bashir, 2013). Furthermore, when banks reduce the amount of the loans due to the high NPL problem, it will decrease the investment and consumption amount that has a direct effect on economic growth (Balgova et. al., 2016), (Klein, 2013).

Moreover, decrease in industry volume mainly refers that companies have some financial problems. Because of this issue, these countries will face some difficulties
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