



# A Comparative Analysis of Commercial Bank Loans in The Economic Development of SAARC Countries

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## Abstract

To investigate a comparative analysis of commercial bank loans which played a significant role in the economic development of SAARC countries. Findings reveal how loans and credit affect the GDP, poverty alleviation and economic growth of different SAARC countries except sustainable development. Research is based upon the secondary data and results identified that higher rate of interest in most countries which is one of the main barriers for borrowers. It is also identified that bank loans does affect GDP, Poverty alleviation and overall economic growth of most countries but sustainable development will not occur unless Bangladesh can make sure that its development partners around the globe are willing to cooperate for mutual benefit. The general role of commercial banks is to provide financial services to general public and business, ensuring economic and social stability and sustainable growth of the economy. Commercial banks mostly provide short term loans and in some cases medium term financial assistance also to small scale units. Most of the commercial banks have got specialized units in their administrative structure to take care of the financial needs of the small scale industrial units.

**Significance** | Commercial bank loans significantly drive GDP growth, poverty alleviation, and economic stability across SAARC countries, fostering regional development and stability.

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Therefore commercial bank loans helps for smoothing the commerce and trade function. Capital formation, financing Industry and trade, support agricultural development and financing consumer activities and helping in monetary policy among the SAARC countries.

**Keywords:** social stability, GDP, economic growth, loans, tax, poverty alleviation

## Introduction

The South Asian Association for Regional Cooperation (SAARC) stands as a testament to the collective aspirations of its member nations towards social, economic, cultural, and technological progress. Established in December 1985, SAARC has served as a pivotal platform for fostering collaboration and development initiatives among its diverse member states. Its inception was rooted in the pursuit of financial inclusivity, with the primary objective of extending economic opportunities to all segments of society within the SAARC nations (Bakvis, 2006).

Over the past few decades, Bangladesh has emerged as a beacon of progress, achieving significant milestones in social, economic, and political spheres. Transitioning from a period of military rule to a fledgling democracy, Bangladesh has demonstrated remarkable resilience in building essential institutional frameworks. Noteworthy achievements include the remarkable increase in school enrollment rates, strides towards gender equality, improvements in maternal and child health, and substantial poverty reduction efforts (Parvin et al., 2004).

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Within the SAARC region, India occupies a central position both in terms of its economic prowess and demographic magnitude. Accounting for approximately 80 percent of the GDP and population among SAARC nations, India has undergone rapid economic growth since the adoption of pro-liberalization policies in 1991. The nation's trajectory towards becoming an economic powerhouse has been marked by visionary initiatives aimed at harnessing natural and human resources for regional development. Notable endeavors include the establishment of the BRICS Bank, the conceptualization of a trans-Himalayan growth axis, and the development of extensive infrastructure networks to bolster regional economic cooperation (Haque et al., 2010).

India's journey towards economic prosperity has not been without challenges. While significant progress has been made, there remains a consensus among scholars that the nation must address structural impediments and institutional deficiencies to sustain its growth momentum (Rahman, 2013). Moreover, the experiences of neighboring SAARC nations such as Afghanistan, Pakistan, Nepal, and Sri Lanka underscore the importance of collective efforts towards fostering an enabling environment for growth and development across the region (Siddiqui et al., 2015).

The prospect of India attaining per capita income levels comparable to those of advanced economies within a generation is tantalizing. However, realizing this potential hinges upon concerted efforts to create stable institutions and favourable socioeconomic conditions conducive to sustained growth (Kabir et al., 2013). As the gravitational center of the South Asian economy, India is uniquely positioned to catalyze regional integration and propel collective development initiatives forward (Rahman et al., 2005).

The relevance of sustainable economic development within the SAARC context cannot be overstated. While there exists a wealth of literature on this subject in the context of developed nations, there remains a glaring dearth of research focusing specifically on bank loans and credit mechanisms for sustainable economic development in developing countries within the SAARC region (Hassan et al., 2003).

It is imperative to draw insights from diverse scholarly perspectives. Studies such as Bakvis' examination of how international financial institutions utilize reports like the Doing Business Report to promote labor market deregulation in developing countries shed light on the complex interplay between global economic frameworks and local contexts (Bakvis, 2006). Similarly, Bhattacharai's analysis of economic growth and development in India and SAARC countries offers valuable insights into the multifaceted challenges and opportunities confronting the region (Bhattacharai, 2016).

The future trajectory of institutions like the IMF and the World Bank, as explored by Rajan, underscores the need for adaptive and inclusive approaches to development financing (Rajan, 2008). Srinivasan's examination of productivity and economic growth in

South Asia and China provides a comparative lens through which to evaluate the region's developmental trajectory and identify potential areas for intervention and improvement (Srinivasan, 2005).

The pursuit of sustainable economic development within the SAARC region demands a comprehensive understanding of the multifaceted challenges and opportunities at hand. By leveraging insights from a diverse array of scholarly contributions and fostering collaborative initiatives both within and beyond the region, SAARC member nations can chart a course towards inclusive and equitable growth for generations to come.

## Materials and Methods

### Data collection

It is quantitative research, that aims at establishing cause and effect relationship between two variables loan and GDP by using statistical methods and comparative trend analysis where Data series used in this paper are obtained from secondary sources of data such as Business journals Libraries, Internet, the World Economic Outlook and International Financial Statistics of the IMF, different SAARC countries Central Bank web sites fig. 1 respectively.

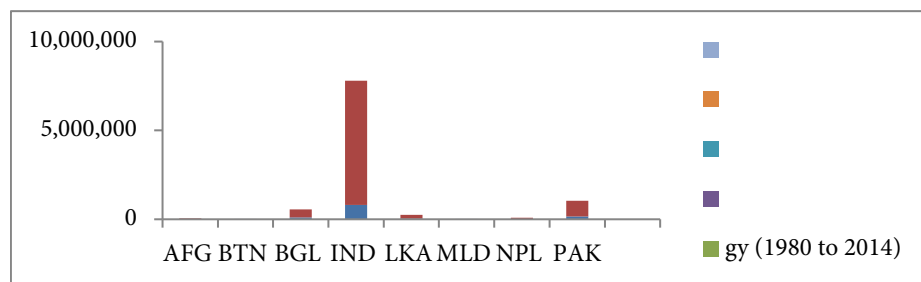
### Data Analysis

Time series data and comparative trend analysis has used for data analysis. In the journey of literature survey, we could not find any study that has directly investigated the impact of bank loans which played a significant role in the economic development in SAARC countries. So there are many different initial challenges that need to be overcome to set the stage for the analysis. We all know that the main objectives of economic development are an increase in the level of national income, an increase in investment, the Provision of employment, poverty alleviation, and Self-sufficiency.

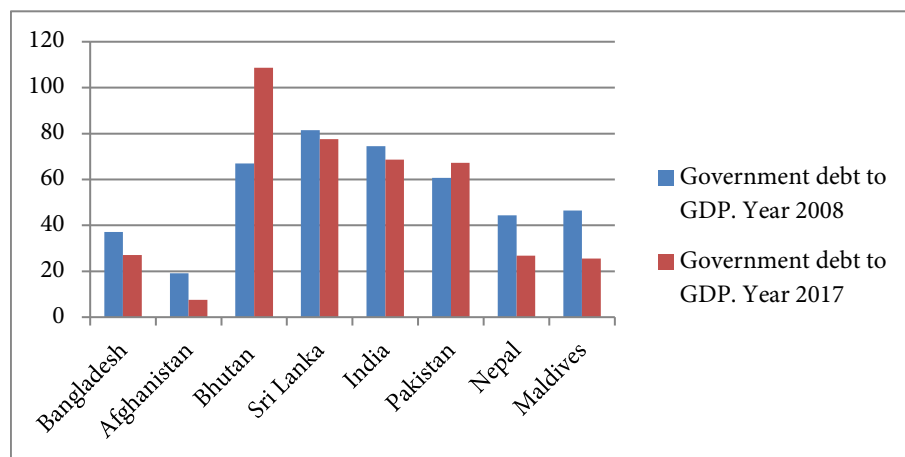
Financial combination of the South Asian region must base on the strength of its members. India is stable, dynamic and economic power of the region. Bhutan and Maldives two tiny countries of the region, with less than a million population, are doing better economically by pursuing strategies appropriate to the massively growing production sectors and middle classes in India. Bhutan is benefiting by proximity to India; by developing a number of hydro power stations generating electricity to sell to India. Maldives is developing fast by tourism aiming at individuals in the growing middle income class in India. Bangladesh is achieving higher growth rates than before by exporting textiles but still caught in natural disasters and political problems. War torn Afghanistan and Pakistan could not emerge above the ethnic conflicts to focus on economic growth. In spite of relocating the age old domain and being able to restore the peace with Maoists it is an irony that Nepal is yet struggling to form a political agreement to implement a new constitution for the republic of Nepal. Given above potentials and

**Table 1: Real GDP Grows**

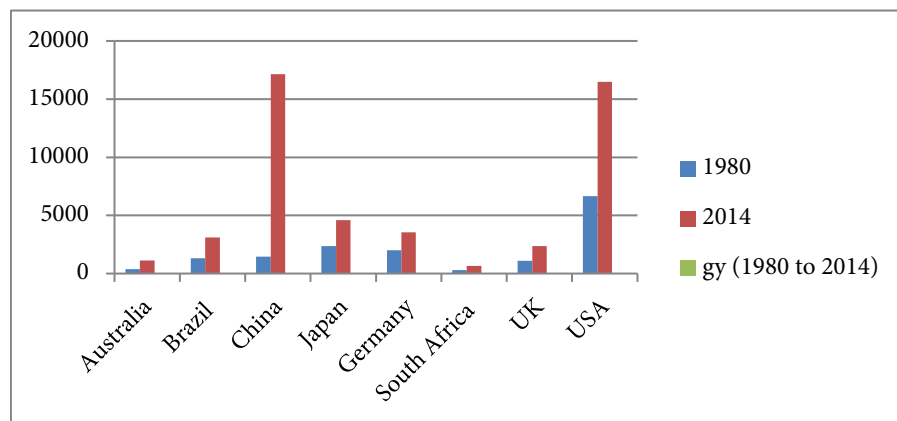
Real GDP Growth	2014	2015	2016 (est)	2017 (f)	2018 (f)	2019 (f)
Afghanistan (CY)	1.3	0.8	1.2	2.4	3.4	3.1
Bangladesh (FY)	6.1	6.6	7.1	6.8	6.4	6.7
Bhutan (CY)	5.7	6.5	6.8	6.8	7.7	10.5
India (FY)	7.2	7.9	6.8	7.2	7.5	7.7
Maldives (CY)	6.0	2.8	4.1	4.5	4.6	4.6
Nepal (FY)	6.0	2.7	0.6	6.0	5.5	4.5
Pakistan (FY, at factor cost)	4.1	4.0	4.7	5.2	5.5	5.8
Sri Lanka (CY)	5.0	4.8	4.4	4.7	5.0	5.1



**Figure 1. Thirty-Five Years of Growth Experience of SAARC Countries (Million PPP dollars)**



**Figure 2. Thirty-five years of Growth Experience in Emerging and Advanced Countries (Billion Dollars)**



**Figure 3. GDP comparison between 2008 - 2017 years.**

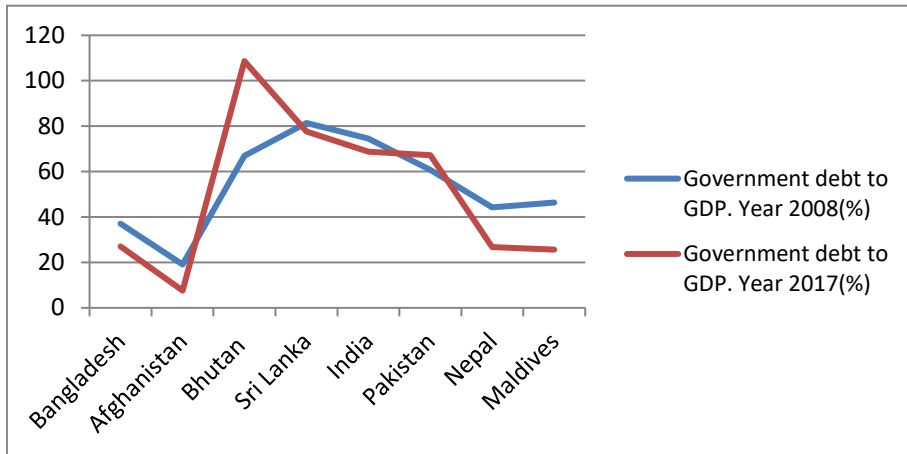


Figure 4: GDP rates (%) of Central Bank of different SAARC countries.

absurdities a systematic study, particularly focusing on the role that India can play in development of the South Asia region has become an interesting topic of research, apparently very little is found on this in the existing literature fig. 2 respectively.

The average growth rate in developing Asia has been 7 to 8 percent in the last 30 years, twice the global average and three times or more of that in the EU economies. After decades of sluggishness 2, growth rates in South Asian countries have been higher than those in other regions of the world; particularly very impressive in India (5.5 to 7.0 percent) and china (8.5 to 10.3 percent). Bosworth and Collins (2008) provide growth accounting at collective and sectorial levels of the remarkably growth occurring in China and India, residence of over one third of the global population; less than 20 percent population reside now in advanced countries.

Size of the SAARC region has increased to around 7 percent of global GDP in PPP which has more than doubled since 1980. However this growth in global share pales when compared to China which raised its global share to 16.5 in 2014 percent compared to 6 percent of India. Srinivasan (2005) reports on TFP growth rates underlying these trends. Financial Statistics of the IMF, Asian Development Bank and the World Bank accessed through the data archive in the UK (UK data. stat) [4] fig. 3 respectively.

Form the above used data the trend analysis shows that in the year 2008 percentage (%) of Government debt were high in most of the SAARC countries. Government debt were high during that time is because to increase GDP, poverty alleviation and economic growth loans helps for smoothing the commerce and trade function, Capital formation, financing Industry and trade, support agricultural development and financing consumer activities and helping in monetary policy among the SAARC countries. Bangladesh recorded a government debt equivalent to 27.10 percent of the country's Gross Domestic Product in 2017. Government Debt to GDP in Bangladesh averaged 38.97 percent from 1995 until 2017, reaching an all-time high of 50 percent in 2002 and a record low of 27.10 percent in 2017. Afghanistan recorded a government debt equivalent to 7.60 percent of the country's Gross Domestic Product in 2017. Government Debt to GDP in Afghanistan averaged 12.53 percent from 2006 until 2017, reaching an all-time high of 23 percent in 2006 and a record low of 7.60 percent in 2017. Sri Lanka recorded a government debt equivalent to 77.60 percent of the country's Gross Domestic Product in 2017. Government Debt to GDP in Sri Lanka averaged 69.69 percent from 1950 until 2017, reaching an all-time high of 108.70 percent in 1989 and a record low of 16.30 percent in 1951.

### Results and Discussion

In 2017, Bhutan stood out within the SAARC region with a notable government debt that equaled 108.64 percent of its Gross Domestic Product (GDP), a stark increase from the levels recorded in 2008.

Conversely, other SAARC nations experienced a gradual decrease in government debt over the same period, largely attributed to their expanding GDPs, poverty reduction efforts, and overall positive economic growth.

Government loans play a crucial role in facilitating various aspects of economic development across SAARC countries. They contribute to smoothing commerce and trade functions, capital formation, financing industry and trade, supporting agricultural development, funding consumer activities, and aiding in the implementation of effective monetary policies (Shiri et al., 2015). This multifaceted support helps sustain economic momentum and mitigate the need for excessive borrowing, thereby contributing to the declining trend in government debt observed in most SAARC nations.

The positive economic growth witnessed across SAARC countries has led to significant improvements in human lifestyles and notable achievements in social stability. As economies expand, there is a corresponding enhancement in the quality of life for citizens, reflecting broader access to education, healthcare, and improved living standards. This transformation is underpinned by the effective deployment of government resources into productive sectors, further reinforcing sustainable development goals (Uddin et al., 2017).

Table 1 illustrates the real GDP growth rates that have characterized recent years across SAARC countries, underscoring their sustained economic progress and developmental milestones. This growth is indicative of robust economic foundations and strategic fiscal management practices that have collectively contributed to the region's economic stability and resilience in the face of global economic challenges.

While Bhutan's government debt stood out within the SAARC region in 2017, other member countries have successfully navigated towards decreasing government debt levels over the past decade. This trend is closely tied to their expanding GDPs, poverty alleviation efforts, and positive economic growth trajectories. The strategic utilization of government loans has played a pivotal role in fostering economic growth, enhancing social welfare, and promoting sustainable development across SAARC nations (Usman et al., 2012). As these economies continue to evolve, sustained efforts in fiscal management and investment in key sectors will remain instrumental in consolidating their economic gains and advancing regional prosperity.

### Conclusion

This paper proved that commercial bank loans played a significant role in the economic development of SAARC countries. Loans and credit affect the increase of GDP, poverty alleviation, and economic growth of different SAARC countries and prefer sustainable development. SAARC country's government debt gradually

decreases because of increasing GDP, reducing poverty, and positive economic growth. Sustainable developments are being achieved but at a very slow level because development partners around the globe are willing to cooperate for mutual benefit, which is very insufficient and measured. The bank loans help heavily for smoothing the commerce and trade function. Capital formation, financing Industry and trade, supporting agricultural development and financing consumer activities and helping in monetary policy among the SAARC countries.

### Author contributions

M.N.I., conceptualized and developed the methodology, prepared the original draft and collected data and reviewed and edited the writing.

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### Competing financial interests

The authors have no conflict of interest.

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