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EFFECT AND IMPORTANCE OF CREDIT FLOWS FROM MONETARY POLICY MANAGEMENT ASPECT

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Abstract: The paper focuses on a topic that explains the impact of credit flows on the conduct of monetary policy, as well as their impact on economic activities within national economies in certain countries in the world. Function and importance for the banking sector, as well as for all economic entities, which are categorized by company size, and the impact on the performance and realization of business activities.
By comparing similarities and differences, there is a clear distinction between the basic banking channel of credit and the credit channel in the wider sense, as well as their degree of operation in the period before, during, and after the global economic crisis. The paper highlights the positive effects, as well as the negative, ie how their implementation affects the actors of a country's economic system and what are the consequences with a focus on demand, personal consumption, inflation and employment. The problems of adequate application of the model in periods of recession, as well as the degree of representation in developed countries, moderately developed, and countries in the transition period are studied.
Keywords: bank lending flow, sources of financing, financial markets, monetary policy, financial crisis.

INTRODUCTION

Observing the economic activities of the entities, including the business, it is perceived that certain sources of additional funds are needed, and the question arises whether it will flow from internal financing, or businesses will turn to external sources of financing. In this paper, the analysis of credit channels examines the effects, as well as the monetary policy led by certain countries, depending on the conditions that prevail within national economies, as well as the trend of monitoring the economic trends of developed countries in relation to developing countries. Given the global recession caused by the financial crisis that began in the United States in 2007, the question is whether credit issues seem to be easy to respond with a daeming yes. However, the role of loans and their importance for understanding macroeconomic fluctuations has historically been a source of controversy. If credit channels are important for the monetary transformation process, then evolution in the financial markets due to regulatory changes or financial innovations will change the way in which monetary policy protects the real economy. This also implies that the level of real interest rates can not provide an essential indicator of monetary policy stance, and it is also suggested that credit shocks have an independent role in creating economic fluctuations (Walsh, 2010). The expert public, many experts, authors and analysts give an empirical basis of evidence of a credit flow, or channel, but globally observing it gives a factual conclusion that coverage is selective, in terms of interpretation, and there is still plenty of space for further research work and scientific study.
The role of non-monetary financial factors is extremely important from the aspect of observing and studying the effects and severity of the Great Depression in the United States, which occurred in the 1930s (Bernanke, 1983). After controlling the unexpected increase in money, it was established through a regression analysis that the representatives of the financial crisis in the early 1930s significantly contributed to the explanation of the growth rate of industrial production. If pure monetary causes were responsible for the decline in production during depression, other measures of financial turbulence and economic disturbances should not be added by explaining the power of regression as a process (Bernanke, 1983). It also points out that Bernanke's testimony is not "inconsistent" with the claim that the financial crisis in the United States was a separate non-monetary channel through which real production was achieved during depression. However, the evidence is not final; An alternative hypothesis is simply that the depression itself was the result of non-monetary factors (or at least factors not covered by unexpected growth in money) and that these factors caused a decrease in production, that the company collapsed and financial

institutions and banks closed. By controlling only because of the unexpected increase in money, Bernke's measures of financial crisis could only take the effects of the basic non-monetary causes of depression. Nevertheless, Bernanke's results have corroborated the claim that the enormous collapse of banks, as one of the strongest financial institutions, was not easy in the 1930s, but at least partially responsible for outbound declining autopsies. Attempts to isolate a special role for credit in normal business cycle cycles have been faced with fundamentally similar identification problems. Are the movements in credit aggregates reflecting changes in demand that arise from the effects that operate through the traditional money channel, or do they reflect the supply factors that constitute a particular credit channel? Most macroeconomic variables behave similarly in terms of money or credit, so the difference between two points is based on evidence of time series. For example, according to the traditional view of money flow, the contractionary shift in monetary policy increases interest rates and reduces investment spending. The fall in investment is associated with a decline in demand for loans, so quantitative measures of both banking and non-banking financing should be reduced. Competitive theories are not extremely strong to allow for crisp forecasts of the time of interest, money, credit and outflows that would allow testing of alternative views on the situation and economic situation. As a consequence, a large part of the empirical acumen of the professional public focused on the compositional effects, trying to determine whether there were different effects of interest rates and credit movements that could differentiate between alternative views.

THE LEVEL OF OPERATION AND CHARACTERISTICS OF BANKING LENDING FLOW

The flow, which is characterized as bank lending, that is, the banking channel of lending focuses on the cost that shocks on the banks' bills can have on debtors who depend on credit from the bank (Bernanke, 1983). Hierarchically and structurally, under the balance sheet of banks, the balance of the borrower is relevant for the costs of financing and, as a result, investments and personal consumption. From a different point of view, it can be viewed from two aspects, through a banking channel of crediting that studies and calculates the amount of available funds for lending, that is, for a loan expense, from a supply perspective, and, on the other hand, through a channel of the balance sheet that studies the total amount available funds, given the net value of the client, ie debtor (Mishkin, 1996).

A sharper degree of monetary policy measures in cases of the existence of a banking channel for lending can directly affect the amount and amount of the available loan, which also affects both the level of investment and the consumption in the society from the macroeconomic aspect (Kujundžić & Otašević, 2012) . The banking lending channel is extremely important in countries where banks play an important role within the financial system. In circumstances where there is no complete substitutability of bank deposits of economic entities with other sources of funds, the channel of bank lending of monetary transmissions will operate differently depending on the situations and indicators in the same. When an expansive monetary policy is applied, there is an increase in banks' reserves and deposits, which affects the growth in the volume of bank loans and indebtedness, as well as the increase in investments and gross domestic product (GDP). On the other hand, when a restrictive monetary policy is in force, there is a reversed situation, that is, a decrease in bank loans and indebtedness, with a reversed effect on investments and gross domestic product, ie their decrease (Dragutinović, 2008). From the aspect of ensuring a higher degree of convergence, a higher degree of mediation in the financial sense is desired, when viewed from the point of view and given the low initial level of credit and income. A higher degree of credit growth, in co-ordination with macroeconomic and financial crises - as was the case with the global crisis, which arose a decade ago (Palić, 2007). It is evident that monetary authorities are faced with the dilemma of the optimal level of credit growth, which at the same time will reduce the risk of a financial crisis, while ensuring greater economic growth and a higher degree of convergence. Higher credit growth can result in a real appreciation of the domestic currency, and limiting credit activity, which is a logical response of monetary authorities to credit expansion, can bring the economy into a state of recession (Palić, 2007).

Discussions about the channeled flow of loans often differ between lending rates for banks and a wider financial accelerator mechanism. The channeled flows of bank loans emphasize a specific and specific category of bank loans and the role of banks in the financial structure of the economy. In terms of lending by banks, it is important to point out that banks play a particularly critical but also important role in transferring monetary policy actions to the real economy. Political actions that affect the reserve positions of banks generate adjustment of interest rates and components of the balance sheet of the banking sector. Traditional models of the monetary transfer mechanism focus and focus on the impact of these changes in interest rates on money demand and on consumption and investment decisions of households and business entities, that is, companies and companies that make their business activity within the national economy, ie economy. The final effects on bank deposits and money supply are reflected in adjusting the passive side of the balance sheet of the banking sector.

Although the credit activity, that is, the activities of the banking channel for crediting act favorably and positively on the real movements of the economy, or the economy in the global, and tightly fosters economic growth, significant inflationary consequences can have a credit boom that is associated with the growth in demand for investment funds and growth personal consumption (Palić, 2007).

The effects of the banking sector's reserves and interest rates also affect the offer of bank loans on the side of the balance sheet assets. If banks can not refuse the decline in reserves by adjusting the securities, ie financial instruments or by collecting funds through the issuance of non-contractual obligations, lending to banks must be agreed. If bank lending is specific, in the sense that banks' borrowers do not have close substitutes for obtaining funds, variations in the availability of banks can have an independent impact on total spending. The key, then, channeled lending course for banks is the lack of close substitution for liabilities based on deposits on the liabilities side of the balance sheet of the banking sector and the lack of close substitutions for bank loans by the borrower. Non-profit instruments play an important role in credit markets, and bank loans can be special, i.e. without any similar substitution, because they have information that banks have in providing both elements, and transactional services and loans to businesses or entities. Especially in small enterprises, funds can be obtained from non-banking sources, and the reduction in lending to banks will force these companies to contract their activities.

Banks play an important role in the discussions about the monetary transfer mechanism, but the traditional approach emphasizes the role of the bank's obligations as a segment of accumulation of money. Part of the reason for the continued focus on the liabilities side is the lack of convincing empirical evidence that lending to banks plays a significant role in the process of transfer through which monetary policy protects the real economy. Half of the annual federal reserves over the economy can cause so many of the recognizable credit characteristics that banks derive from the unique characteristics of the deposit transactions that they receive to test the behavior of financial variables and actual output in a series of episodes of restrictive monetary policy.

Monetary aggregates better predict future output than bank loans. Unfortunately, existing theories are usually not rich enough to provide sharp predictions of time patterns that are critical to drawing conclusions from evidence of the predictive content of macroeconomic variables. This is especially true when behavior depends on future expectations. Forecasts of future developments in production can lead to portfolio and financing adjustments, which will affect the relationship between sources and credit measures. Given that a reduction in production may be associated with an increase in inventories, demand for short-term loans may initially increase, and the existence of credit obligations will limit the ability of banks to rapidly change their credit portfolios. These factors constitute templates for credit and outgoing periods to interpret them.

The negative ocean of some authors partially reflects the problem of identification mentioned earlier. The contraction of banks' reserves caused by policies will lead to the fall of both items, both the obligation of the bank (deposits), as well as the funds of the bank (loans and securities). Considering the reduction of the balance sheet of both segments of the banking sector, it is clear that it is possible to be attributed to the subsequent decline in production to the money channel, credit channel or both.

Counteraction policy increases interest rates, reduces aggressive demand and overall demand for credit. Accordingly, all other credit measures should be deducted. In terms of bank lending, the contraction policy has a clear effect in reducing the supply of bank loans. With a bank loan that is less available, borrowers will try to replace other loan sources, and the relative demand for non-bank loans will increase. Accordingly, the composition of the loan should change if crediting is correct, whereby the bank loan corresponds more closely to the contraction monetary policy than other forms of credit.

The mixed financing principle deviates from bank loans after monetary contraction. However, this is primarily due to an increase in the issuance of commercial paper, rather than a reduction in lending to banks. Commercial lending to banks is actually increasing after the shocks of the contraction monetary policy.

THE EFFECTS OF THE CREDIT FLOW IN THE PRESENT OCCASIONS

The flow of bank lending, as it is stated, is based on claims and interpretations that the entities of the banking sector, that is, banks play a central role in the fi nancial structure and are in charge of solving the problem of asymmetric information (Žigman i Lovrinčević, 2005). Furthermore, the assumption is that there is no possibility of perfectly replacing bank deposits with other sources of funds. The transmission mechanism functions in such a way that expansive monetary policy increases banking reserves and deposits, thereby increasing the total loan amount. As banks are the center of the financial system, increased lending activity increases the investment and consumption of those entities that operate with banks. It is an implicit conclusion that monetary policy has a much greater impact on small-scale, small-scale businesses and households than large companies, recognized as enormous economic drivers of activities that can provide sources for financing in the capital market or otherwise. Transmission mechanism of

this type with the growth of globalization and expansion of banking sector activities is becoming less significant (Meltzer, 1995). It certainly has to stand out. regardless of the decline in its performance in current national economies, it still holds a predominant role in underdeveloped financial markets and markets with a predominantly large role of banks, as the main issuers and headquarters of funds available for use in the form of loans. In such national economies, the dominant role of banks in relation to other intermediaries enables the retention of this approach and this channeled flow of funds (Zigman and Lovrinčević, 2005).

It is important to point out that the concrete conclusion about the strength of the link between the credit expansion and the initial level of financial intermediation can not be made. The credit base at the start of the transition period may be low, and taking into account that dynamic credit growth is realized over a longer period of time, so that higher credit growth rates can not be explained by replacing the previously low level and by striving to reach a level that is characteristic for market economy (Palić, 2007). At the same time, higher lending activity can not be linked to more intensive use of foreign sources of financing (foreign loans), since in countries where large credit growth is registered, there is no interaction between the net foreign exchange assets of banks. In certain national economies and countries, high credit growth rates are the result of the rising degree of monetization of the economy, i.e. increasing share of deposits in GDP. Based on this, it is noticed that there is a possibility of influencing higher credit growth by a higher share of deposit potential. Intensification of credit activity in the private sector is achieved with the reduction of the budget surplus, when the policy of reducing the participation of loans to the given countries is approached. One of the most important factors contributing to the more intensive growth of credit activity are certain substantive and structural changes in the regulations, which were made by the implementation of reforms (Palić, 2007). At the same time, as a factor that follows it, and which is extremely important for the impact of credit growth, is the ownership structure within the banking sector, that is, the entities in the same, ie the banks.

Evidence based on aggregate credit measures may be problematic, however, if the fighters are heterogeneous in their sensitivity to the business cycle and the types of loans they use. For example, the sale of small businesses is higher during the business cycle than in large enterprises, and small companies are more dependent on bank credit than large companies and businesses that have greater access to the market of commercial papers, or financial instruments. Contraction monetary policy that affects both small and large companies to reduce their demand for credit leads to aggregate lending to banks in relation to non-banking financing (Walsh, 2010). This could be taken into account in the co-ordination between one side of the debt even in the absence of any channeled lending flow with banks. Using data on large and small enterprises, some authors have found that in response to monetary contraction, there is no significant effect on the combination of banking / non-bank loans used by small or large enterprises. Instead, the movement of aggregate debt is due to the general shift of short-term debt from small firms to large enterprises. They concluded that the evidence did not support the channel of lending to banks as an important part of the monetary policy transfer process (Walsh, 2010).

While the channeled flow of lending to banks as part of the monetary policy transfer process may not be operational, it could still be the case that shifts in the delivery of bank loans are the cause of economic fluctuations. In the United States, again from 1989 to 1992, interest in credit channels and monetary policy has begun. An unusually large decline in bank loans and events that had ties to big-borrowing businesses have led many to seek evidence that credit markets played an independent role in contributing to the recession of 1990-1991. Research has begun to try to isolate the impact of credit supply disorder as a need to separate movements caused by the change in loan supply from the movement due to changes in demand for credit.

Turbulences of economic character as well as financial shocks in the supply of bank loans were replaced and precluded by innovations at the basic interest rate. They have shown that their assessment of monetary initiatives is related to changes in banks' capital, changes in mandatory reserves and the imposition of credit controls. This gives some evidence that innovation actually covers the factors that make up the offer of bank loans. Although high-speed shocks are presumed to be estimated to decrease in quantity and production, they have not shown to play a major causal role in business cycles in the US, although their role was unusually high during the 1990-1991 recession.

Through the impact on aggregate demand, it is clearly noted that there is an intricate link with the variability of the level of inflation in the country, whereas there is a positive link between credit activity and economic developments on the other. In the gross domestic product, this relation is observed, by comparing the specific share of the trade deficit in the same and credit growth rates. A positive link between credit and economic activity is evident, and through the impact on aggregate demand, it is clear that there is a connection with inflation (Palić, 2007).

THE SCOPE OF APPLICATION AND THE IMPACT OF CREDIT FLOW ON ECONOMIC ACTIVITIES

The loan channel in a broader sense is based on the assumption that all types of external financing are imperfect substitute for internal or internal financing. The asymmetry of the information itself is the cause of the kind of

compensation that borrowers pay for the use of external funds. The fee is paid to the lenders, or in the specific case to the lenders, in order to cover the costs of monitoring and valuation. The amount of the fee itself depends on the character of monetary policy, with the restrictiveness of monetary policy increasing the fee for all types of external financing. The reason for this lies precisely in the fact that restrictive monetary policy measures act negatively on borrowers who are borrowing, and who are in the borrower's loan, reducing the value of their collateral, which directly affects the reduction of the demand (Ćorić, 2008). It is manifested in the fact that the increase in real interest rates due to an increase in the reference interest rate can cause a decrease in the profitability of the company and a decrease in the net worth of its assets. For this reason, banks - companies become less attractive for placement and they reduce the total volume of new loans (Dimitrijević, 2007). A broad credit channel is not limited to a banking credit channel. Lack of credit markets can be projected to all credit markets and categorized them, thereby affecting the nature of financial contracts, increasing the likelihood of a balance with rationalization and creating a wedge between the costs of internal and external financing. This wedge occurs due to agency costs related to the asymmetry of information and the inability of lenders to track borrowers without charge (Walsh, 2010). As a result, cash flow and net worth become important in terms of the costs and availability of financing and the level of investment spending. A recession that weakens internal sources of entity funding in the form of a company can create the effect of a financial accelerator; the firm is forced to rely more on the cost of external funds just when the decline in internal sources of finance leads to a relative cost of external funds. The contractionary monetary policy that leads to the slowdown of the economy reduces the financial flow of money and profit. If this policy increases the premium for external financing, there will be additional contraction effects on consumption. In this way, the credit channel can serve to propagate and enhance the initial monetary contraction. The effects of a financial accelerator can arise from the adjustment of asset prices in relation to the contraction monetary policy. Borrowers may be limited in an amount that may be covered by the value of their assets that may serve as collateral. An increase in interest rates that reduces asset prices reduces the market value of the borrower's guaranteed funds. This decrease in value can then force some firms to reduce investment spending as their ability to prevent downturns. As for the interpretation of a wide-spread credit channel, the reduction is directly affected by the access, ie availability of credit, as well as the actual economic activity of the high agency costs of the borrowers (Žigman & Lovrinčević, 2005).

Observing the policy of a broad credit channel, the three empirical implications of the same are highlighted. As a first implication, it is suggested that external financing is more expensive for borrowers, that is, clients who are characterized as lenders, but internal forms of financing. Then, as another implication, considering that the costs of deviations between internal and external forms of financing arise precisely from the intermediary costs, that is, the costs of the agency type, the size of the gap or the gepa should depend on the net worth of the borrower. The costs of external or external financing just raise the net worth. And finally, as a third implication, the fact that harmful net worth shocks precisely reduces the access of borrowers to this type of financing, which directly reduces the level of investment, as well as the degree of investment in investment, and at the same time the level of production and employment.

If, as highlighted within a broad credit channel, agency costs increase during the recession period and in response to a contractionary monetary policy, then the proportion of loans that come to borrowers with low agency costs should increase. This is characterized by a rise in quality by some authors, but precisely aggregate data will probably have limited usefulness in testing such a hypothesis, as most data on credit actions and emissions are not constructed on the basis of the characteristics of borrowers. Since small and medium enterprises, or economic entities, are likely to be subject to higher agency costs, unlike large companies, most of the evidence contributing to a broad credit channel policy is required by looking for differentials in the business behavior of large and small firms in the case of monetary contraction (Walsh, 2010).

Smaller companies behave differently than large companies during the business cycle, and unlike large corporate entities and entities, are far more sensitive to cyclical fluctuations that can occur within the economy and the economy of one country in general. Without access to financial markets and the availability of public securities in the form of bonds, the investment investment of the company directly points to the existence of problems that arise in the degree of liquidity, and generally arises as a result of a lower degree of ability to settle liabilities in accordance with deadlines.

The increase in interest rates in response to monetary contractions reduces the value of assets and the value of collateral, increasing the cost of external funds relative to internal funding funds. Since agency problems for small businesses are likely to be higher than for large entities, the link between internal sources of funds and investment costs should be particularly strong for small firms after monetary contraction. The impact of cash flow is reflected in

the increase in investment in small business entities, in the form of firms and companies, but not on the investment of large companies, in cases where monetary policy measures are tightened.

CONCLUSION

On the basis of everything contained in the paper, certain reliable conclusions can be drawn. Lack of credit markets often lead to situations where the expected lender profits are not monotony in the interest rate charged on the loan; expected profits are initially increasing with the credit rate, but reaching the maximum before declining. Therefore, the balance can only be established by credit rationalization: the excess of demand does not cause lenders to increase the rate of credit, as this reduces the expected profits. Variations in the net worth of debtors are their ability to obtain credit. A recession that reduces cash flows or affects the reduction in asset prices that reduces net worth diminishes the availability of loans and increases the gap between the costs of internal and external forms of financing. The resulting effect on aggregate demand can generate the effect of a financial accelerator.

In general terms, skepticism surrounds the existence and importance of the credit channel, or has surrounded it just before the global economic crisis in the time interval from 2007 business year to 2009, when its effect was fully felt through economic developments in many countries of the world. Although the periods of monetary contraction are accompanied by a fall in bank loans relative to open market loans, this may indicate the effects of loan composition rather than the negative characteristics of the banking credit channel. Access to managed liabilities also suggests that variations in the banking sector reserves caused by changes in monetary policy will enable banks to lend mainly through a channel of traditional interest rates (Walsh, 2010). Trusting a broad credit channel or for the effects of a financial accelerator is more favorable. Companies classified as small business entities represent a group that is likely to face high agency costs in gaining access to external financing, and they appear more often during the recession period. Net value and cash flows influence the investment, ie, the investment itself, the stock, as well as the production decisions, from which the level of operation can be concluded and detailed insight into the effects of the application.

The Central Bank, as its head and the head of the monetary policy, must take into account all aspects of the functioning of certain policies it applies and, accordingly, depending on the economic activities and goals of the Government, apply the most effective for that period. Developing adequate macroeconomic instruments as well monetary policy instruments and the financial market, the effects of the recession periods, as well as the turbulence that arise in accordance with the effects of the crisis economic interval, can be prevented.

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