Financial system and growth and economic development

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Abstract

The aim of the article is to present the role of the financial system in economic growth and development. The first part presents the traditional understanding of the relationship between the economic system and economic growth. The second part presents the experience of financial crises and their impact on the conversation on the mutual relations between the financial sector and the real sector. The third part shows the role of the state in the financial system. The article describes the arrangement of interrelated financial institutions, financial markets and elements of the financial system infrastructure. It shows what part of the economic system the financial system is, and whether it enables the provision of services allowing the circulation of purchasing power throughout the economy. The article presents the important role of the financial system, the role related to the transfer of capital from entities with savings to entities that need capital for investments. It shows the financial system as a set of logically related organizational forms, legal acts, financial institutions and other elements enabling entities to establish financial relations in the real sector and the financial sector, and this system forms the basis of activity for entities using money, enabling the conclusion of various economic transactions, in which money performs various functions. The article also presents the concept of a financial crisis as a situation in which there are rapid changes in the financial market, usually associated with insufficient liquidity or insolvency of banks or financial institutions, and as a result, a decrease in production or its deepening. The article also includes issues related to the impact of public authorities (state and local authorities) on the financial system in the economy.

Keywords: financial system, economic growth, money, financial crisis, COVID-19.

Introduction

The financial system is an element of the economic system and is characterized by a specific specificity of operation. The real economy and the financial sphere can be distinguished in the economic system. The financial sphere includes the financial system, i.e. the mechanism that enables the circulation of purchasing power in a given economy. The main essence of the financial system is the intermediation in the flow of purchasing power between non-financial economic entities, as well as its co-creation of the financial system. Within the financial system, we can distinguish financial entities, financial instruments, specific financial markets, as well as the principles determining the method of their operations (B. Filipiak, J. Fila, 2012).

The financial system is the mechanism by which services are offered to circulate purchasing power in the economy. Its existence allows for the co-creation and flow of cash flows between non-financial economic entities. The flow of funds can occur in two ways: directly - through financial markets, which include the...
money market, bond market, the stock market and indirectly - through the use of financial intermediaries such as banks, investment, pension funds and insurance companies.

A financial system is a complex set of institutions, instruments, financial markets and the rules by which they operate. Thanks to the existence of this system entities from the real sphere have the opportunity to raise funds, invest savings and satisfy other needs related to their financial sphere of activity. The relationship between the development of the financial system and economic growth has once again become an important topic of analysis in economic literature. Theoretical and empirical analyzes concern various aspects of this relationship (J. Czekaj, S. Owsiak, 2014).

**Material and methods**

1. The role of the financial system

The role of the financial system in economic growth and development should be perceived from the point of view of the existing, in conditions of uncertainty, information asymmetry between entities willing to provide purchasing power and the entities that are looking for it. This asymmetry is best shown in the hypothetical case where the financial system is not functioning, that is, financial intermediaries and organized financial markets. The group of entities with financial surpluses does not have enough information on the group of entities seeking financing. Information asymmetry relates to the main data relating to the decision to release funds. The potential loan taker knows his actual market and financial situation much better than the potential loan originator. An entity with surpluses is usually not able to properly verify the credibility of a given entity looking for free financial resources, and then control its behavior, i.e. cost, time, or knowledge limitations. The problem increases with the development of mass and depersonalized markets (W. Debski, 2014).

As a result, there is a strong incentive for opportunistic behavior. Negative selection takes place before the conclusion of the contract and is related to the aspect; that entities with a bad financial condition are often more interested in obtaining financing from entities with a relatively good financial condition. The risk of abuse is visible after the transaction is made and concerns the borrower taking actions that may have a negative impact on the repayment of the loan received. Opportunistic behavior is one of the reasons for the occurrence of credit risk and is understood as the potential loss of the lender which is the result of the default of the borrower. Credit risk is divided into specifics for a given borrower and systemic risk, which results from changes in the market situation (Z. Polański, 2008).

The role of the financial system can be shown in a broader way from the point of view of transaction costs. These are mainly the costs of searching and the costs of obtaining information.

In the economy of transaction costs, ex ante and ex post costs are distinguished.

Ex ante transaction costs relate to the design, negotiation and security of the contract in question. Ex post costs relate to maladjustment, renegotiation, establishment and maintenance of structures to which conflicts are submitted, as well as costs of actions securing the implementation of obligations (J. Chołoniewski, P. Górnik, 2020).

In an economy without a financial system, high transaction costs would greatly hamper the flows of purchasing power between surplus entities and those seeking financial resources. The high level of transaction costs would be determined, in particular, by information and related asymmetries with it, as well as the lack of mechanisms to reduce or transfer risk to other entities. Important phenomena that increase transaction costs in the absence of financial intermediaries and organized markets also include the necessity of a double convergence of interests of the entity with surpluses and the entity seeking funds. Achieving this convergence is usually difficult, for example, when the time limits for the release
of funds by the holders of surpluses are short and the fund seekers need longer periods. The same problem is seen in the case of the value of funds. Entities with surpluses usually have small amounts at their disposal, while people looking for funds for the implementation of an investment project need amounts of relatively high value (E. Kania, P. Rosiński, 2007).

It can therefore be concluded that the main role of the financial system is to minimize transaction costs related to the flows of purchasing power between entities with financial surpluses and entities looking for sources of financing. When there is a double alignment of interests, the possibilities for obtaining and processing information are better, and the risk is spread over a larger number of entities (E. Kania, P. Rosiński, 2007).

In a banking system typical of today’s market economy, the main problem of information asymmetry is to some extent limited due to the activities of financial intermediaries, banking institutions and organized financial markets. Financial intermediaries take over the risk by granting a loan, as well as activities related to obtaining the right information needed for its assessment. Comparing them with other entities; they have easier access to other sources of information from the market, they have appropriate technologies that enable mass data processing and can benefit from the scale and scope of obtained information. The functioning of financial intermediaries reduces the transaction costs of the economic system and is the primary source of the pro-growth function of the financial system (J. Choloniewski, P. Górnik, 2020).

It should be noted that the asymmetry of information in a given financial system is not completely eliminated and poses important threats to the stability of the entire financial system and at the same time, to the positive role of the financial sector, also in economic growth. Institutionalized financial markets also incur transaction costs, but slightly less than if financial markets did not exist. A characteristic feature of any financial system is the existence of transaction costs, while in the absence of these costs are higher.

Given the neoclassical theory of economic growth, the financial system, the perceived growth factor of the Gross Domestic Product operates through two channels:

1. Investment: Limiting the asymmetry of information and transaction costs enables easier financing of investment expenditure. In the case of insufficient savings in a given country, it facilitates obtaining foreign savings.

2. Total factor productivity: the financial system makes it easier to finance research, innovation and then increases productivity.

The conducted empirical research focuses on the analysis of the relationship between financial development and economic growth. Most empirical studies show an important positive relationship. It is very visible in the case of countries with low and medium level of development (not only financial but also economic), it decreases in the case of mature economies. Regarding mature economies, the continued deepening of the financial system does not lead to further economic growth (A. Kasprzak-Czelej, 2012).

Despite the fact that in the literature there is a predominant belief that there is a relationship between financial development and economic growth, there are also different views. According to them, the financial sector and financial flows are only an expression of changes in the real sector or their mutual relations are weak.

The literature on the subject distinguishes two main types of financial systems:

1. Bank-oriented type
2. Financial markets-oriented type.

The main separation criterion is the dominant technique of external financing of economic entities, which is accompanied by a number of other differences. However, there is no evidence that financial system diversification in this respect has an impact on economic growth (J. Choloniewski, P. Górnik, 2020).

2. Financial crises and the function of the financial system in economic growth.

To talk about the relationship between the financial and real sectors, as well as the role of
the financial system in the growth of the Gross Domestic Product.

In recent years the experiences of the financial crisis in 2007-2009 have had a strong influence. This crisis, having a global character and the magnitude of its negative effects on the real sector has had a strong impact on the perception of the importance of the financial system for the economy. It should be noted that this is not the last financial crisis that has occurred since the 1990s. The most important of them include the currency crises in emerging economies (mainly the 1990s), the banking crisis in Japan, and the banking crisis in the Scandinavian countries. Each of these crises had its own specificity, including the role of the financial system. However, in each of these crises, the flaws of the financial system contributed to the reinforcement of volatility and the transmission of volatility to the real sector. A characteristic feature of these crises was the mechanism of expansion and collapse in which the entire financial sector played a very important role. A controversial aspect may be whether and to what extent the original impulse had its source in the financial sector.

The credit cycle has played an important role among the mechanisms of financial crises in recent years. On the basis of literature data, forty-eight cases of credit booms between 1960 and 2006 have been identified in industrialized nations and emerging economies. The researchers analyzed the characteristics of the periods of credit expansion and the following one followed by the credit collapse stage. The expansion and collapse of credit are accompanied by a large deviation of the main macroeconomic figures from the trend. During the credit boom, the growth of the Gross Domestic Product and consumption is much faster than the trend. During the collapse of credit, a negative deviation from the trend of these variables is visible. Credit expansion is associated only with slight changes in the inflation process, while it is strongly associated with the prices of financial assets and real estate.

Ninety-nine credit booms were analyzed for the 1960-2010 period (21 in developed countries and 43 in emerging economies). Important conclusions were consistent with the research on changes in the Gross Domestic Product and minor changes in the inflation process (investment and consumption expansion is reflected in the growth of imports, not in rising prices). The role of macroeconomic policy was also analyzed. It was found that the credit expansion was preceded by low central bank and market interest rates, as well as their increase prior to the collapse of credit expansion. During the credit booms, there were times of a stronger inflow of foreign capital, which differed from direct investment - portfolio investment and interbank investment.

Credit expansion is very often accompanied by consumption and investment booms. The causality between such phenomena is not, however, unequivocal. The causality that begins with the credit boom and goes on to the consumption and investment boom is indicated. The credit boom may also be the result of convergence and catching-up processes (C. Wójcik, 2008).

The conducted research shows a specific picture of the credit boom - credit expansion preceding low interest rates (but rising before the boom collapses) and the inflow of foreign capital in the form of portfolio and interbank investments. Then the credit boom is accompanied by such aspects as: an increase in Gross Domestic Product, private consumption, a large increase in investment, a strong increase in asset prices and a slight increase in consumer inflation, an appreciation of the real exchange rate and a deterioration in the current account balance, followed by an increase in interest rates and a period of collapse.

Interactions with the asset market, in particular with the real estate market, play an important role in the growth mechanism of the credit boom. Eighteen cases of real estate booms that occurred between 1989 and 2007 in developed countries were analyzed. It was found that credit and interest rate growth are the determinants of a boom and a collapse in the real estate market. Global liquidity also
contributes to the boom building up (K. Glinka, 2010).

When trying to explain the global financial crisis of 2007-2009, two hypotheses are visible: the flawed policy of the Federal Reserve System, which maintained relatively low interest rates in 2001-2005, and global surplus savings, which in emerging countries (especially China) and in oil countries caused an influx of capital to the United States. Both are responsible for the expansion of the property bubble in the United States, exacerbated by mutual interactions between the banking sector and the real estate market.

During the expansion preceding the crisis, the collapse and then the transmission of the collapse, the financial system played a negative role through:

1. Financial innovations – these, inter alia, through the securitization of assets, made it possible to transfer credit risk from entities that grant the loan to other entities. Risk loosening led to riskier behaviors of banks’ lending to the real estate market in the United States. Assets resulting from loan securitization were also a mechanism for shifting the crisis outside the United States - the crisis in the US real estate market led to a decline in their value and at the same time the losses of the financial institutions that manage them.

2. Globalization of financial markets – increasing the interdependence between economies as a result of capital flow leads to an increased susceptibility to the domino effect.

3. Procyclical nature of banks’ lending policy – the cause of excessive and then limited bank lending can be seen in such phenomena as:
   a) asymmetry of information – during an economic downturn, a change in the motives for taking loans may occur – the percentage of companies taking out loans increases due to protection against bankruptcy. For this reason, banks limit access to credit.
   b) financial accelerator – increasing the value of collateral held by borrowers causes an increase in lending.
   c) financial innovation – these can have an impact on ability and propensity for lending by reducing transaction costs, including in the form of new settlement technologies, including in the form of new settlement technologies, much greater improvement in risk management or the possibility of transferring credit risk to others.
   d) changes in the lending policy of banks - according to the stages of speculation, also banks may pursue riskier activities. The longer the economic situation lasts, the looser lending policies will be applied by banks, i.e. granting loans at higher risk related to with creditworthiness or quality of collateral.
   e) access to the global money market - access to the international money market leads to the fact that lending in a country is no longer linked to domestic sources of financing and may be dependent on global liquidity.

4. Mistakes of credit rating agencies - the main function of credit rating agencies is to reduce information asymmetries between issuers of debt securities and their potential buyers. This function was not properly performed - in a large number of cases, the rating did not correspond to the real risk. In the subsequent stages of the crisis, the decisions of rating agencies were reactive, pro-cyclical.

Due to the causes and course of the Global Financial Crisis, unorthodox explanations of the behavior of individual economic entities during credit expansion have become increasingly important. Behavioral economics and behavioral finance provide a better understanding of how certain economic agents behave during the boom. Behavioral finance points to the essence of psychological factors when making decisions, first of all, they point to the role of general market mood and heuristics (simplified decision-making patterns). Searching for unusually high rates of return, underestimating the risk, too high optimism, and herd behavior are among the phenomena that contribute to increasing the negative phenomena leading to the global crisis. A characteristic feature of boom times is the existence of overly optimistic expectations about the future, more and more people in society are losing their natural skepticism about the economic outlook and are ready to believe in discussions about a new boom. The time
before the outbreak of the Global Financial Crisis was also characterized by just such “irrational optimism (L. Angello, L. Schuknecht, 2011).

The financial crises have caused many negative tendencies in the modern financial system, which have a negative impact on the ability to adequately fulfill its functions in economic growth:

1. Detachment of financial processes from the situation in the real sector - in the last few decades the share of transactions in the total turnover on financial markets resulting from the core activities of non-financial entities has decreased significantly. It should be noted that to some extent, transactions carried out on a speculative motive are indispensable for maintaining proper liquidity in the market (the point is, for example, that hedging against exchange rate risk together with the use of derivatives would be a very difficult task were it not for the guaranteed liquidity of the market by participants operating from speculative motives). On the other hand, the process of detaching transactions in financial markets from all real sector processes leads to the creation of shocks that are transferred from the financial sector to the real sector.

2. Increasing the importance of the short-term perspective on financial markets - the importance of the short and very short transaction horizons has increased, and this is a reverse trend in relation to the needs of increasingly longer terms for financing investments.

3. Increased interdependence between national financial systems and a significant susceptibility to the domino effect, with the result that relatively healthy financial systems can become volatile.

4. Increased risk of abusive activities due to the transferability of risk, i.e. its ‘dilution’. This problem should be perceived not only from the point of view of market changes but also as actions of public authorities (real or implied guarantees on the part of public authorities may lead to excessively risky actions of market entities).

The Global Financial Crisis, as well as the phenomena visible in recent years on the financial markets, have led to the formulation (especially outside of economic sciences, as well as by economists) of opinions undermining the positive role of the financial sector in terms of economic growth and development. It can be said, however, that the appropriate approach is not to deny the positive role of the financial sector in relation to economic growth, but to consider methods to avoid shocks causing destabilization of a financial nature, i.e. a proper discussion on the appropriate infrastructure of financial markets (J. Taylor, 2010).

Nowadays, the financial sector is struggling with a global crisis caused by the negative effects of the COVID-19 pandemic that began in 2020. A large number of cases causing exacerbations in the form of limiting the functioning of the economy led to a slowdown in economic development due to the closure of some sectors of the economy. The COVID-19 pandemic and all measures taken to reduce it lead to the collapse of the global economy. In a short time, the reduction of production and consumption in the countries most affected by the pandemic, it will lead to a global recession. In the long run, this crisis may result in, for example, a partial retreat from globalization, more debt, or a narrowing of the disparities in the economic potential between the European Union, the United States and China. A positive effect may be the acceleration of the development of the digital economy, in particular the services market.

Due to the COVID-19 pandemic, many governments have introduced radical restrictions on social and economic activity, as well as barriers to travel. The restrictions affected about half of the world's population and negatively affect the global economy. Consumption has decreased and the service sector as well as industries such as tourism, transport and gastronomy suffered the most. In addition, the absence of employees at workplaces has led to disruptions in the activities of global value chains, i.e. the scattering of the entire production process in many places around the world, not only within...
one company, but also within many sub-suppliers, making it difficult to maintain production even in a place where it has not yet seen restrictions apply. The crisis caused by the pandemic is not only demand-driven but also supply-side. This makes it difficult to finish and at the same time increases its size. The continuing state of pandemic will lead to a recession in the United States and the euro area, as well as the entire global economy. According to the International Monetary Fund, in 2020 the global Gross Domestic Product, instead of increasing by the previously forecast 3.3%, may decline by 3%. The growth of the Gross Domestic Product will also be halted in emerging markets, especially China. As the pandemic weakens in the second half of 2021 and the measures to reduce its negative effects are effective, global growth is expected to rebound by 5.8% in 2021.

The pandemic is also having an impact on financial markets. In the first quarter of 2020, stock exchanges on the world market lost more than 20% of their value, recording the weakest results since the global financial crisis in 2007–2009. Fluctuations are also noticeable in the currency market, where the dollar is gaining in particular. Emerging markets have suffered the most, with over USD 80bn with drawn from them and this could threaten the stability of their economies, including debt servicing.

The obligation to counter the effects of a pandemic rests, in particular, with countries whose governments are introducing stimulus packages (for example, the United States worth 2.2 billion dollars, or Germany – 1.1 billion euros) and central banks. The European Union helps member states by allocating funds from the cohesion policy budget. The International Monetary Fund and the World Bank offer developing countries easier access to finance and urge developed countries to suspend debt repayments in the poorest countries.

Cooperation enabling the effective flow of funds aimed at combating the pandemic to the areas most in need. It is particularly hampered by the mutual accusations of the United States and China regarding responsibility for the crisis and the uncoordinated intentions of each country in the group to secure as much resources as possible. Governments are imposing restrictions on trade in medical products, for example, India has partially stopped exporting the drug for malaria, used to treat COVID-19. This threatens local shortages and may make it difficult to control a pandemic on a global scale. Trade in many other products, such as personal care products and food, may also be restricted. In addition, the decision by Donald Trump of April 14 to suspend the financing of the WHO by the United States made fighting the crisis at the international level even more difficult.

The COVID-19 pandemic will permanently change the picture of the global economy, leading to a partial retreat from globalization. In a situation of maintaining restrictions on the movement of people or goods, a decrease in international trade turnover and its share in the global Gross Domestic Product can be expected. The importance of digital services in the economy will also increase. The pandemic is increasing government spending for healthcare and medical products around the world, which will affect other budget lines. Western countries are likely to cut military spending. Funding the fight against the effects of the epidemic and stimulus packages, along with the reduction in corporate revenues caused by the recession, could lead to increased state intervention and a large increase in global debt - not only public, but also private. Extraordinary activities of central banks - large cuts in interest rates, will minimize debt servicing costs, such as commercial loans, but will reduce the range of possible activities of these entities and increase the risk of a financial crash. Due to the purchase of treasury bonds, the role of central banks in financing fiscal policy will increase, but the ease of debt service will only apply to large countries, not developing countries, where investors lose confidence during the crisis, which results in capital disappearing from these countries. There is also a risk that the stimulus measures will turn out to be insufficient and the economic rebound will be slower than assumed, and this will increase the social costs of the collapse.
The recession in the European Union and the United States also opens up an opportunity for China to reduce the differences in economic potential faster. Despite, that the current crisis, in contrast to that of 2007–2009, a strong slowdown in the Chinese economy, the relatively rapid reduction of restrictions, and the launch of production plants may minimize all these damages. At the same time, China will try to turn the collapse of world trade to its advantage. They will be a supplier of goods whose production has decreased in other countries, but at the same time, they will try to make the economy independent of exports due to the instability of foreign demand. Investors in China may show interest in buying high-tech foreign companies weakened by the crisis (M. Wasiński, D. Wnukowski, 2020).

3. The role of public authorities in the financial system.

Considerations about building the financial system in a way that positively influences economic growth to refer in particular to the role of public authorities in it. There are three important approaches in this regard:

1. Laissez-faire
2. Market support

According to the laissez-faire approach, the state plays no role in the financial system. Public authorities do not function as an entity that offers financial services, and there are no specific regulations for this sector of the economy.

Experiences with financial systems with little involvement of public authorities are distant in time, but it should be noted that they are not negative. For advocates of just such an approach, for example, can be a positive example. 19th century Scotland. The problem concerns, in particular, the assessment to what extent the periods of strong destabilization of the economy originating in the financial sector before the 20th century are the result of market processes, and to what extent the functions of public authorities and to what extent the stability of a given financial system depends on the adopted monetary system. When analyzing the literature on the subject, it is dominated by the view that the laissez-faire approach in the case of today's financial system is not appropriate, if only because of its characteristic features and the asymmetry of information and strong connections between entities.

In terms of the financial sphere, there is a certain specificity in the context of the real sphere, economic processes, as well as issues of coordination and regulation. The problem of information asymmetry and risk, although typical of any business activity, takes on serious importance in terms of the financial sphere, and this has a significant impact on the specificity of the financial system. A different situation is an interdependence between economic entities, which does not occur to such an extent in the real sphere. The nature of the links between financial institutions and between financial institutions and non-financial sector entities is such that the bankruptcy of one entity in the financial sector, through the loss of credibility of the entire sector and financial panic, poses a threat not only to the financial sector as a whole but also to real entities. Therefore, the issue of financial system stability takes on fundamental importance, other than in relation to the entire economic system – it causes very strong external effects. This is an argument for a different treatment of the financial sector in regulatory policy and is reflected in today's financial systems by regulatory practices that do not are encountered in the real sector, for example, prudential standards, frequent restrictions on entering the market or the activities of banking or insurance supervisory authorities.

In another approach, the role of the state is primarily to support the financial market, mainly by ensuring the appropriate legal framework and macroeconomic stability. The activities of public authorities should aim, in particular, at reducing information asymmetry. They should also reduce the possibility of instability arising from different causes and the transmission of instability between markets and countries. This approach speaks of the vulnerability of the market economy to crises, but it is not an indelible feature of the mechanism of
coordinating only the wrong institutional framework. The coordination of economic processes varies depending on the structure of the market and the monetary system. Despite that, the crises and depressions of the nineteenth and early twentieth centuries were usually triggered or exacerbated by imperfections in the price mechanism, not because the price mechanism is unreliable as a coordinator, but because prices fail in specific market structures and monetary systems. So, the problem is to think in terms of order and the lack of a policy of economic order. One should not take care of the conditions of a stable order from the beginning, in order to prevent instability in a prophylactic manner, but wait, leaving matters to run its course, until instability occurs and then, taking this instability as a date, try to eliminate it with delayed interventions. Such action is characteristic, in particular, of the full employment policy. Contemporary experience in implementing economic policy allows drawing two additional conclusions. The first conclusion is the fact that the activity of the state should focus on building the economic order and not on managing economic processes. The state should create a policy of economic order, and this builds an appropriate legal framework for the operation of the economy, in particular ensuring competition. The state should not interfere in economic processes. The second conclusion is that the economic policy of the state should be separated from interest groups, it should remove them or limit the possibilities of their activity.

For a proper understanding of these views, it is important to distinguish between the policy of governance and the process policy. The state should create the rules of the game, but should not pursue a procedural policy that consists of indirect interference in economic processes. Indeed, an attempt to apply such a division to the assessment of specific regulatory actions may encounter certain problems, but nevertheless, a regulatory policy understood as an economic governance policy should not be regarded as anti-market, but as a policy supporting market mechanisms.

The scope of the policy that supports market processes in the financial sector is the subject of many discussions, while its basic solution is dominant in the literature on the subject.

The third approach – market substitution – proposes that public authorities become one of the active market players in offering financial services. Proponents of such a policy argue that the imperfections of the credit market allow the state to undertake activities such as subsidizing loans, granting loan guarantees, applying limits on the supply of loans and the level of interest rates, holding or acquiring shares in financial institutions. Such activity has gained much greater acceptance than before during the Global Crisis. Such an approach must, however, tacitly assume that the activity of public authorities is more effective than market processes, and taking into account the development of the new political economy and the economy of the public sector, it may be very difficult to maintain. Two types of actions should be distinguished here: rescue and long-term. A deep financial crisis may force public authorities to take rescue measures that rely on intervening in market processes because the costs of not intervening can be much higher than the costs of the intervention. However, this situational understanding differs from the discussion on whether such intervention leads to economic growth in the long run (P. Ciżkowicz, 2008).

Results and discussion

When analyzing the role of the financial system, it is worth paying attention to one aspect that emerged in the early 1990s. The role of the financial system and the appropriate choice of the financial system model were discussed. The influence of the financial system on the dynamics and direction of the country’s economic development is widely analyzed. It should be noted that the issue has not been the subject of extensive analyzes and research not long ago. It is worth mentioning among the few authors who deal
with this topic: Bagehot (1873), Schumpeter (1960), Goldsmith (1969) and McKinnon (1973). This problem was strongly emphasized by Schumpeter (1960) in his famous theory of economic development, and thus he is considered an intellectual precursor of analyzes and research on the impact of the development of the financial system, its structure and effectiveness on economic growth. Over time, the views of Schumpeter and his successors gained greater favor from economists, but this did not mean a consensus on this topic. Many influential economists, such as Robinson 1952 and Lucas 1998, have tried to convince themselves that the development of the financial system is not a relatively important factor in economic development, or that cause-and-effect relationships between these categories cannot be shown. A breakthrough in research on the impact of financial development on economic growth was the end of the 1990s. Previously, the theory was that economic growth had a strong influence on the development of the financial system. It was only at the beginning of the 21st century that much more attention was paid to the possibility of a cause-and-effect relationship between the development of the financial system and economic development.

Regardless of the allegations, directed mainly against the methodology of the conducted research, there are several important arguments in the discussion on the relationship between the financial and economic development of a country. These arguments are also a summary of the results of empirical research:

1. The financial system enables the mobilization of savings, ensuring wide access to various forms of savings.
2. The financial system enables a more effective allocation of the savings obtained (thanks to the specialist knowledge of financial intermediaries).
3. The financial system enables the reduction of risk taken by individual investors by diversifying the portfolio of assets.
4. The financial system is a source of liquidity. As a result, savers have easy access to their own money.
5. Financial intermediaries contribute to risk management through the ongoing monitoring of borrowers.

It should be emphasized that the complex nature of the cause-and-effect relationship between the categories of financial system development and economic growth is still a subject of debate by economists and economic politicians. Levine’s words (R. Levine 1996) can be a good summary and at the same time an indication of the direction for further analyzes and research in this area: "(...) we do not have the right theories to explain why different structures of financial systems have developed and how and why these structures are changing (...), however, we need models that will show us the conditions in which financial systems with different structures, they will mitigate information problems and transaction costs to a greater extent” (A. Matysek-Jędrzych, 2007).

Conclusions

The global crisis is contributing to a deeper emphasis on statements that were already visible in public discussions about the secondary importance of the financial sector in relation to real processes, and even about its "parasitic" role. This view is based on underestimating the importance of the financial sphere in relation to economic growth and development. The final goals of management are certainly related to the real sphere, while the financial sphere provides products and services without which the real sphere could not function effectively. There is no possibility of dynamic economic growth without effective financial intermediation and the operation of organized financial markets. The financial system makes it possible to divide labor in the economy, mainly by providing money, using the financial surpluses of some entities to
finance the investment activities of other entities, facilitating risk management, and mobilizing savings. On the other hand, the current global economic crisis has shown that the financial system may act to destabilize the economy (B. Filipiak, J. Fila, 2012).

Mutual international cooperation is very important in limiting the collapse of the world economy. However, it is hampered by the rivalry between the United States and China, or by trade restrictions. Although the narrowing of the differences in economic potentials has led to an increased propensity of the United States to escalate the trade and technology dispute with China, the recession in the United States will not provide opportunities for such activities in a short time due to too high economic costs. It also contributes to the de-escalation of the EU-United States trade dispute (J. Czekaj, S. Owsiak, 2014).

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