Analysis of the relationship between financial depth and economic growth for the period (1990-2020)

Jawad Kazem Ghneideb [1]
A. Dr. Batool Matar Al-Jubouri[2]

Department of Banking and Finance
College of Administration and Economics /Iraq

[2]Department of Banking and Finance
College of Administration and Economics /Iraq

Corresponding author : Jawad Kazem Ghneideb affiliation :2020-2021 email : fina.banks.sc21.2@qu.edu.iq

Abstract

:The study aimed at the relationship of the study to the three indicators (money supply, graph, financial deposits) and the economic growth of the tide (1990-2020), and whether this relationship is a direct relationship, the relationship of the study on a set of statistical financial methods to analyze data and analyze the validity of hypotheses ,The study began in the domestic and total growth index and changes in the growth index in the standard version of the domestic growth index, and the study concluded with a set of financial factors And economic growth is represented by a positive relationship through which economic growth can achieve the highest states of recovery and prosperity if it is used in the right ways, as well as interest in modern financial technology, which has become the main tributary for the advancement of financial systems for various countries, and the associated benefits, including (bringing savings, creating money, And the provision of loans, and the provision of liquidity ... etc.), as the government must follow active fiscal and monetary policies and stimulus stimulating economic growth and economic activities.

.An Introduction

The study of financial depth indicators, their analysis and their role in stimulating economic growth is one of the important studies that are dealt with in scientific fields. Therefore, due to their importance in terms of economics, financial and economic development, and the accompanying sustainable economic growth, it can contribute to revitalizing the economy and financing the process of economic and social development. Therefore, it is considered Economic growth is one of the most important economic indicators through which it can fully reflect economic performance, and why the study of economic growth issues occupies a large and reliable space for studies and literature during recent decades, which is considered a goal for different economies to achieve accumulated growth rates in the size of their production Fundamentally, therefore, many countries can seek to achieve this difference and the increasing and multiple divergence in their construction and basic economic structures, as the sources of economic growth diversified with time and visions varied about the relationship of financial development of economies and the extent to which they achieved economic growth in a significant and sustainable way, as interest in it increased since the nineties, that The presence of indicators of financial depth and financial efficiency is considered a significant contribution to the increasing dependence on the financial system and financial investments at the expense of the sectors of the real economy, but due to the great expansion in economies, in financial banks, and in the financial market, it led to a greater expansion and growth in the productive real economy based on maximizing

Resources, and given the economic importance of studying financial depth indicators represented in (money supply, cash credit, and financial deposits), which can lead to an increase in exchange and diversification of financial instruments, and then encourage financial investment, and through which diversification can occur in economic growth in general. Which is of great importance in the rise in the level of production and thus raising the standard of living of the poor groups in a country. This growth is a great blessing for the country, which is considered the main goal and from it. Economic growth is also considered one of the most important issues of the age that must be studied and the extent of its relationship in financial depth. And the extent of the influence of one on the other, so history looked to know the interest in the financial sector. This research was divided into four topics:

The first topic - research methodology

The second topic - the theoretical side

The third topic - the applied side

The fourth topic - conclusions and recommendations

The first topic

Research Methodology

The methodology of the study is the starting point in searching for the essence of the problem of the study and its importance, as the researcher seeks through it to try to answer the cognitive problems that arise in it. To acceptable scientific results according to sound scientific foundations.

First: the research problem:

And based on the great economic importance occupied by the money markets in stimulating economic growth and attracting investments, and the optimal allocation of financial and economic resources and financing the economic development process, as the researcher tried to analyze the relationship between indicators of financial depth (money supply in relation to GDP, and deposits in relation to GDP, And credit in relation to the gross domestic product) and economic growth in Iraq and the extent of its contribution to financing various investments, and the role of financial depth indicators in stimulating economic growth, as attention is focused in the recent period on the development of financial institutions due to their importance in mobilizing savings and managing risks

And facilitating transactions and others with the aim of accelerating the accumulative rate of capital and enhancing opportunities for economic growth. Accordingly, the problem of the study stems from the following questions:

1- Is there a relationship between financial depth and economic growth?

2- What is the extent of the impact of financial depth indicators (the ratio of money supply to GDP, the ratio of total deposits to GDP, the ratio of credit to GDP) on economic growth?

3- Which of the indicators of financial depth has the most impact on economic growth?

Second: the importance of the study

The study gains its importance from the importance of its topic, which has become one of the contemporary economic issues at the local and global levels, especially in the stage of growth and the transition to market economies, as the problems that the Iraqi economy suffers from, including the increasing rates of unemployment and poverty and the low rates of real economic growth, require a study of the causal relationship between financial depth and growth. Economics, as the importance of the research stems from the fact that diagnosing the impact that financial depth can have on economic growth and working to enhance the positive part of it and addressing the negative part of it, as it is one of the main and effective tools that help financial and monetary decision-makers in formulating their policie

The future and in a way that supports the requirements of economic growth, the importance of the study appeared in terms of dealing with a contemporary topic under study, as it was the subject of controversy and discussion by many researchers and interested people, as the importance of the study comes through identifying the role that financial deepening plays in Iraqi economic growth

Third: Study Objectives

This study aims to take a comprehensive look at the theoretical frameworks that determine the nature and channels of influence that financial spending can exert on economic growth and the size of the impact that this depth can have on economic growth. In promoting economic activity in Iraq by analyzing the development of the financial depth index for the research period (1990-2020), the study aims to the following :

1. Measuring the impact and the changes that you obtain from time to time between the financial depth and economic growth in Iraq.

2. Determine the direction of the relationship between financial depth and economic growth.

3. Focusing on the economic effects of money supply on GDP growth.

4. Variation in the effect of increasing the financial depth ratios in financial institutions in supporting economic growth and development.

5. Predicting the impact of the financial depth on the Iraqi economy.

Fourth: The hypothesis of the study:

In this research, we will test the correlation and influence between indicators of financial depth and economic growth using the statistical analysis program (ev12) as follows:

• Testing the research hypothesis that (there is no effect between indicators of financial depth and economic growth) and the following hypotheses branch out from it

1. The first sub-hypothesis (there is no effect between money supply and GDP).
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2. The second sub-hypothesis (there is no effect between the total monetary credit and the gross domestic product).

3. The third sub-hypothesis (there is no effect between total deposits and gross domestic product).

Sixth: Research Limits:

1. Spatial boundaries: the Iraqi economy in general.

2. Temporal boundaries: The temporal boundaries of the research included the period (1990-2020).

The second topic

the theoretical side

Financel depth the first:

The financial depth depends on an appropriate real financial policy, and this policy works to expand and spread the financial markets, as it depends on the accumulation of financial assets faster than the accumulation of plus non-financial wealth and production, according to (Shaw) 1973 Bakang ,2013:9 and the financial depth refers to the extent Availability of financial services and making them available for the purpose of use or dealing by multiple sectors that may include different sectors of society to benefit from these financial services. Securities, sinceThe most liquid financial market is the one that has the least impact on prices. In the end, financial markets that are characterized by price continuity require the presence of financial assets in the market, as the deep market is that market in which there are a large number of sellers, as well as a large number of buyers. They have the ability to trade prices for a long period of time. The financial depth can also be expressed as the expansion of markets, the diversification of financial instruments, and access to a high-quality and distinctive quality of financial services (Ekberg et al. 2015:8). On the other hand, financial depth can be defined as the state of the market in which buy and sell orders are available for repeated instances of securitiesWhereas, when buying and selling securities in this market, we notice a state of discrepancy or imbalance between the quantities required or the quantities offered, and this results in cases of discrepancies and slight changes in prices, and this means the case of capital losses. On the contrary, we note that the market is characterized by a lack of continuity between buying and selling orders, and it is possible that there will be a significant change in certain cases, including the imbalance between demand and supply, which could lead to a change in the price of the security, in the event that the supply exceeds the demand. The price of the paper falls and this is likely to lead to huge losses as it is forced to postpone Selling operations, but we notice that in the event of an increase in demand over supply, the price can rise to a point where the buyer is forced to postpone this process in the hope of a decrease in its price. To the balancing relationship between risk and return, which aims at the greater the risk, the higher the required return, as the market can accept the purchase of the paper in the event that the profit margin is large and achieves safety from the risks to which it is exposed (Hindi, 1997: 253)

The financial depth is characterized by a set of characteristics that we can refer to as the following points (Ekberg et al., 2015: 8)

1. When the financial market contains a large group of sub-markets.

2. When the process of merging the local markets with the large international markets with outstanding performance takes place.

3. The market in which a wide range of financial instruments are available to savers and investors in the capital market, which are diverse in terms of the degree of risk, return and liquidity, in addition to debt instruments and property rights.

4. One of the characteristics of the financial market is when the markets are linked together through a group of institutions, market makers and others, as well as financial intermediaries.

There are three indicators of financial depth (money supply, credit, and deposits), as follows:

1. Money offer:

The money supply is of great importance in most countries, because it expresses the amount of money in the economy, and is a means of trade exchange between countries. Therefore, most economists face difficulty in defining the concept and methods of measuring it, because it differs from one country to another according to social developments and differences. The monetary and banking systems and the similarity of its measurement methods with the methods of calculating inventory, raw materials and wealth, as it is calculated through a specific and known period of time.

Therefore, the money supply is defined as the amount of money or means of money circulating within society during a certain period of time (Kanaan, 2012, p. 475). And that any change in the level of money supply can affect economic growth, when the level of money supply available in the country's economy is narrow due to exceptional inflation.

2. Total Cash Credit

Commercial banks provide a variety of services to various commercial and industrial sectors to be able to carry out their various activities, whether represented by financing the purchase of fixed or current assets or facilitating payment operations.

And import or financing the needs of short-term expansion and all these services provided fall within the concept of cash credit (Al-Zoubi, 2000, p. 80).

3- Total deposits:

Commercial banks are defined as deposit banks whose main activity is focused on dealing with the public of depositors because these banks enjoy the confidence of depositors, which is essential to the development of deposits (Al-Sisi, 1998: 10), and a bank deposit is defined as (a contract whereby the depositor pays an amount of cash Through one of the means of payment, according to which the bank is obligated to return this amount to the depositor upon request or when its due date comes, and it is also obligated to pay interest and profits according to the terms of the contract concluded between them (Al-Shammari, 2009: 342), and deposits are also known as the money that he leaves

Customers in their accounts, whether they are current accounts, savings accounts, or other deposits, (David, 1988: 33), and deposits represent the most important source of commercial bank funds, and the bank also makes a profit from deposits through what it obtains from a profit margin as a result of the difference between The interest obtained from the loans granted and the interest paid on those deposits (Howells Bain, 2008: 250), so the banks depend primarily in their credit policies on the size and types of deposits in providing loans to the bank's customers (N oor, Al-nami, 2003: 36).

Second: economic growth

As economic growth is a criterion by which developed countries are distinguished and classified, as individuals, in turn, find many different economic problems, and such problems satisfy the many needs, which are unlimited, all of this is done through the available resources, which are usually scarce, as individuals seek to obtain They control and control those resources, in addition to increasing efficiency and using those resources to achieve their needs, which in turn can help the society progress and develop continuously (Abdul Hamid and Rashwan, 2009, pp.: 126-125).

Simon Kuznets defined economic growth as: the state of an increase in the per capita share or the state of an increase in the labor component of the volume of output, as the increase in the volume of output may be accompanied by an increase in the number of population and that relying on calculating rates of economic growth on the per capita indicator, this requires estimation In order to achieve a state of economic growth recovery (Acemoglu, 2009:693). Edward Shapiro also considers economic growth as the quantitative variable through which the quantitative changes in the productive capacity available in the economy are measured. When this energy rises, it leads to an increase in the quantities of goods and services through which the general needs of all members of society can be provided (Shapiro, 1974: 25). There are three types of economic growth:

1- Spontaneous growth :

It is that growth that is spontaneous, as it is by means of the self-power that is fully contained in the national economy, as this is done without resorting to the method of effective planning at the global or local level, where it is often slow, successive, or gradual, as it is despite the difficulty Which in many cases face negative violent fluctuations, but these fluctuations are limited, represented by the short period, in addition to that this

The type may be directed by developed and developed countries, especially those capitalist countries represented by the period of the industrial revolution in England, as the special requirements for this type or this style, it needs great ease, smoothness and flexibility in the social framework, especially the cultural one that contains the transition to growth very quickly from sector to sector else . (Al-Rashedan, 2008 50:-51)

2- Temporary growth:

Temporary growth occurs as a result of temporary, temporary factors, usually external factors, as they quickly disappear, and when these factors disappear, the growth that they caused disappears with them, that is, it does not have the characteristic of continuity and stability, the fact that this growth occurs under rigid social and cultural structures, or It leads to perpetuating the phenomenon of growth without development

Which prevails in most developing countries in general, and Arab countries in particular. (Kumayl, Hazem 2000,: 26-27).

3- Planned growth:

Planned growth is a type of economic growth, as it arises as a result of a wide planning process for a group of society's resources and requirements, and the extent of its ability and effectiveness of this growth is closely related to the type of planning efficiency, the extent of its ability and effectiveness of the drawn plans, the extent of effective implementation, its ability to follow up, and the extent of its management in a more experienced and efficient manner. As the planned growth takes place with the intervention of the state by putting in place a comprehensive planning process for the resources and requirements of society, and this is related to

Growth through effective implementation and follow-up in the planning process at all levels, as economic planning studies are of recent origin, as planning has become a broad activity practiced by many countries (Karam, 1993, p. 25).

Third: Analyzing the relationship between financial depth and economic growth

Through the studies and research that were previously discussed, three insights became clear about the relationship between financial depth and economic growth: (Shqipe Abazi, Arbenita Aliu, 2015: 112).

1. The financial depth positively affects economic growth, as this was proven by using cross-sectional data on the one hand, and time series regression analysis, whether in developed or developing countries.

2. Financial depth negatively affects economic growth, as this was proven by using banel cross-sectional time series data in developing countries during the past three decades (the eighties and nineties and the first decade of the millennium).

3. The existence of a complex relationship between economic growth and financial depth, where financial depth positively affects economic growth at a certain level of development, and then this effect becomes negative on economic growth when this development is exceeded.

The third topic

side of my application

In this research, we will test the correlation and influence between indicators of financial depth and economic growth using the statistical analysis program ( ) as follows:

• Testing the research hypothesis that (there is no effect between indicators of financial depth and economic growth) and the following

hypotheses branch out from it:

1. The first sub-hypothesis (there is no effect between money supply and GDP).

2. The second sub-hypothesis (there is no effect between the total monetary credit and the gross domestic product).

3. The third sub-hypothesis (there is no effect between total deposits and gross domestic product).

In order to test the second main hypothesis {there is a significant effect relationship between {the ratio of money supply to GDP (x1), the credit ratio to GDP (x2), the ratio of deposits to GDP (x3)} and the dependent variable is the rate Y GDP growth using short-run and long-run regression model estimation. The researcher tried several models, and the best model was

y=β_0+β_1 1/X_1 +β_2 1/X_2 +β_3 1/X_3 +u