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Research Article

The Impact of Financial Depth Indicators on Economic Growth of Iraqi Banking Sector: An Analytical Study

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Abstract:
The study aims to show the impact of indicators of financial depth on the economic growth of the Iraqi banking sector for the period (2005-2019), to help formulate economic policies aimed at "developing financial institutions and stimulating the process of economic growth, As well as identifying the economic and development effects of money presentation in GDP growth and measuring indicators of financial depth in the banking sector and its impact on economic growth, where the essence of financial center according to many financial theories lies in the call to give a central and rye role to the financial sector in influencing economic growth, where the results of the standard study resulted During the period (2005-2019) there was a positive impact between financial development and economic growth, by strengthening financial intermediation, developing reliable information systems on borrowers, improving access to credit and providing financial services to the poor in remote and rural areas. Diversifying banking services, reducing risk, reducing transaction and information costs to attract investors, which increases growth rates.

Keywords: Financial Depth, Economic Growth, Iraqi Banking Sector

1. Introduction

the most important economic indicators that have occupied a large part of the attention of economists and decision-makers in developing countries, particularly developing countries, seek to improve their standard of living by raising their per capita accurate GDP growth rates. It is an essential and vital issue in the economy because it gives direction and path to the national economy. It is characterized as a complex and interlocking process that combines economic, social, political, and institutional factors. It is hampered by internal and external obstacles that various countries work to overcome and overcome through all available economic resources and with high efficiency to maximize economic growth and its continuation to reflect positively on financial performance and economic well-being. Many economists address this topic. Understanding its frequency and awareness of its determinants, particularly those suggesting the banking sector's significant and increasing position in achieving economic growth rate, have resulted in numerous applied theoretical studies demonstrating the influence of I indicators. The financial system promotes savings and investing through financial intermediation between savers and buyers and between lenders and borrowers. It also supports the optimum allocation of available funds for investment. As a result of the liberalization and deregulation of a large number of economies, especially emerging ones, society has become increasingly dependent on it, as well as the resulting sustainable economic growth, if financial jobs in banks convert into real investments that contribute to stimulating the economy and financing the process of economic and social progress.
"Accordingly, this study aims to test the impact of some indicators of financial depth on Iraq's economic growth for the period (2005-2019), and the hands of the financial center will be measured through three variables: the presentation of cash relative to GDP, the total deposits deposited by banks about GDP, the credit granted by banks to the private sector about GDP, as well as the use of real GDP as an indicator of economic growth, and through the simple regression model of testing the assumptions of the study.

2. Financial depth concept and indicators

The financial sector plays a crucial and significant role in the economy. It supports economic growth by pooling savings from surplus units and directing capital to productive investments, providing an opportunity for investors, accumulating private

wealth, and increasing overall stability in the economy. By diversifying sources of financing and despite the crucial roof by banks, it needs more regulation and more financial depth, making it more bearable to external shocks, hence the concept of financial depth [1].

2.1. The Concept Of Financial Depth

Most studies indicate no consistent and homogeneous definition of financial depth, and the difficulty is that there is no fixed and uniform measure. Different aspects suggest that the financial depth revolves around the points that come [2]:

1) The increasing size of institutions operating in the financial sector.
2) Increased capital loaned by private financial institutions to the private sector instead of direct government lending.
3) The diversity of available financial services and the number of funds brokered in all sector outlets" financial.
4) The proportion of people with access to credit and financial services has increased.
5) The financial sector has improved in terms of supervision, regulation, and stability

The above perception has gone beyond the traditional concept that financial depth is the sum of commercial bank deposits to GDP. The term "financial deepening": expanding the size or activity of that sector, which implicitly assumes the existence of reasonably sophisticated intermediary financial institutions. Financial depth, especially in developing economies, also means reducing the fragmentation of financial markets to gradually set prices that are more accurate and consistent, reflecting the scarcity of resources. Mckinnon and Show believe that finding favorable accurate interest rates is the first step in this direction. These rates stimulate financial savings, leading to increased economic growth and widening financial intermediation [3]. The concept of financial depth is often used in development studies. It refers to increased financial services delivery with vast choices of financial services. According to the World Bank, financial depth includes the increase in inventory of financial assets. From this perspective, financial depth means the ability of financial institutions, in general, to effectively mobilize financial resources for development [4].

2.2. Indicators of financial depth

A. Ratio of the money supply to GDP (liquidity ratio of the economy)

"The simplest indicator is the presentation of cash to GDP, which measures the degree or proportion of restriction in the economy. Money provides important services for payments and savings, and cash in the narrow sense (M performs the first type of services (payments) and cash in a broad sense (M performs the last type (saving). Cash balances must be increased in a narrow sense in line with increased economic transactions (when technical developments are ignored, but cash in a broad sense must rise more rapidly if financial deepening is achieved [5]. It measures the degree of use of cash in the national economy, and this indicator is of great importance considering that monetary supply is one of the most important monetary variables, because it has an impact on other economic data, such as output and the general level of prices, exchange rates and interest rates, and this increase over time indicates the development of the volume of financial intermediation, but during the financial development process this ratio tends to decline where other financial instruments are growing that are not included Within the offer of cash, it becomes more available and this reflects the upward trend of financial innovation, and this indicator has been criticized especially when used in the case of developing countries, because almost most of the monetary mass exists outside the banking sector because a large number of transactions and transactions have been made in cash, in which case this indicator does not give a good representation of the size of the financial intermediation which may lead to misleading results [6].

This ratio is used to measure the importance of financial intermediation and has been used by many researchers as an indicator of financial development during the development process. The ratio of cash supply to GDP tends to decline, like other financial instruments that are not included in the cash offer growth (including M2on, M1). It is liquid money in society, and term deposits, "savings account," become more available. It reflects the upward trend of financial innovation in

existing financial systems. The emergence of other new financial instruments that cannot be included in the cash offer becomes increasingly available.

B. The ratio of total deposits to GDP (bank transaction ratio)

This indicator includes various types of deposits regardless of their maturities and also does not include in this index the money traded outside the banking system. Considering that semi-liquid assets are the primary source of investment financing. So, this indicator is an essential indicator of the volume of banking, where the role of banks in mobilizing savings. thus financing investments, each increase in its proportion can be interpreted as an increase in banking dealing and an improvement in the provision of financial services. Simultaneously, the decrease indicates that the currency represents a large proportion of the balance of money traded outside the banking system. It is used mainly in transaction financing, suggesting that "currency use is increased rather than bank deposits increased, due to the inefficiency of banking operations as in developing countries [7].

Financial depth can also be calculated through the bank system's deposit liability-to-GDP ratio index as a qualitative measure of economic development. The currency in circulation is excluded as semi-liquid assets are the primary source of investment financing. An increase in this indicator, i.e., a rise in the ratio of deposits from financial savings against GDP. It may be interpreted as implying an improvement in bank deposits and other financial assets outside the banking sector that are likely to be used to accumulate assets and thus increase economic growth [8].

C. The ratio of credit granted to the private sector to GDP

As long as bank deposits finance credit, they act as an indicator or guide to the level of financial intermediation in the economy, using credit granted to the private sector, which focuses on credit to the productive private sector (not the service or consumer sector) [9]. This reflects the ability of banks to attract long-term and medium-term savings, enabling them to finance long-term productive investments in the economy. This indicator is one of the indicators that give a clear picture of the development of the banking system [10]. This ratio is defined as credit provided by banks and other financial institutions to the private sector divided by GDP. This indicator is used to measure the growth of the banking sector and the level of financial intermediation. It accurately measures the actual amount of funds directed to the private sector more than any other measure. The ratio of credit granted to the private sector to GDP is directly linked to investment and growth. It explains the increase in this ratio by increasing services, improving financial intermediation, and changing total deposits [11]. Most of the credit granted to the private sector is directed towards productive economic sectors, both commodity and service, enhancing these sectors' capacity and ensures that they provide the necessary liquidity. So the high ratio of credit directed to the private sector to GDP indicates strengthening indicators of financial depth and strengthening the links between the banking sector and the real economy [12]. Recent theoretical and experimental research has shown that the effective mobilization of local smoke and efficient resource allocation depends on how the private sector can obtain loans. According to the model developed by McKinnon and Shaw, the credit balance provided to the private sector is ultimately responsible for the quality and accumulation of capital (investment), and therefore economic growth [13].

2.3. The Concept Of Economic Growth

Economic growth is defined as long-term steady increases in per capita real income. If per capita income increases after the economy are cleared of recession, the increase is cyclical, not stable, and therefore no growth [14, 15]. It is also known as a positive change in the production of goods and services in a country in a certain period, i.e., increasing income for a particular country [16]. Economic growth is also defined as the product of a positive attitude. Due to a narrow quantitative and measurable concept related to changes over time in the size of output, national or national income. in particular form and aggregate, and economic and non-economic factors behind these changes. Still, in itself, they remain a concept of purely financial nature, as actual growth can be achieved without fundamental transformations. in the structure and location of social and political forces or values, trends, culture, and organization other than the radical change in non-economic details related to economic activity [17, 18].

2.4. The Importance of Economic Growth

Economic development is critical because it enables economies to advance and progress; it also contributes to poverty alleviation and increases the population's wellbeing and educational levels. It leads to job creation and unemployment reduction, increases the supply of goods and services, and decreases the proportion of fiscal deficits in the budget [19]. The budget subsidizes and subsidizes the state's balance of payments by the current account and adds to society's well-being. Development is essential for improving welfare since it increases productivity, jobs, earnings, salaries, and per capita wealth [20]. Growth requires investment, which means sacrificing the present for future gains [21]. Economic growth is one of the leading indicators of the Human Development Guide. Without economic growth, it will not be possible to improve human conditions in general, and economic growth is the growth rate in the gross national product. It reflects the speed with which the actual total production of goods and services increases in the economy and achieves this rate. The country's economic growth has relied on the idea of economic efficiency and work to diagnose the conditions for successful economic efficiency and the optimal use of scarce financial resources [22].

2.5. The Structure of The Iraqi Banking Sector

The banking system in Iraq consists of (73) banks of 2019, including (7) government banks. The sector included two government banks, Rashid bank and Rafidain (66) local and foreign private banks, the largest of which are commercial banks and 43 banks, followed by Islamic banks with 27 banks, and then specialized banks with (3) banks. Central Bank of Iraq report). Rafidain and Rashid banks have not played any significant role in lending to the productive sector, especially private sectors, over the past three decades [23, 24]. This conclusion stems from the observation that the volume of loans in Rafidain Bank's budgets did not exceed 8% of the importance of assets. Approximately 60% of this lending went to the institutions and companies of the sector. In general, only a large part of it went to the private sector. When audited, 66% of Rafidain Bank's assets and 50% of Al-Rasheed Bank's assets consisted of treasury transfers issued by the Iraqi government to finance the public sector and to cover losses, subsidies, and support. The bottom line is that 90% of banking activity was and continues to be intended to finance public activity burdened with inefficiency, disguised unemployment, and accumulated loss [25, 26]. The effectiveness of the banking system is measured by the cost of the services it provides and the information it provides to customers, and Iraqi banks lack this kind of effectiveness, which is attributed to:

A. The absence of real competition in the banking market regarding the reliance on the economic system's monopoly status ensures this system.
B. Technological delays and inefficient use of automated media by Iraqi banks.
C. Iraqi banks do not rely on R&D centers, which reduces their competitiveness in light of the weak variety of services.

The banking system is effective if it conducts a sound payment system and an optimal allocation of resources. The distribution of resources is intended to distribute funds available to banks on different terms of use and in a way that ensures the appropriateness between liquidity needs, return, and profitability. Two issues in which Iraqi banks continue to suffer from deficiencies are related to collecting deposits and granting loans.

2.6. Financial And Credit Mucus Facing The Iraqi Commercial Banking Sector

The Iraqi banking sector suffers from structural and regulatory problems [27]. It faces market challenges and risks due to the instability of the investment environment, which led to its lack of development in the required manner and its weak association with the global banking system. The Iraqi banking sector has been practicing policies and mechanisms stalled and stalled these risks [28, 29].

1) Interest rate risk: Interest rate risks usually appear when the real interest rate becomes negative because this rate deserves the attention of the investor or depositor and not the nominal interest rate. After all, the latter rises if the inflation rate increases while the real interest rate avoids the increase in the general level of interest rates. The nominal interest rate gives In both cases, the depositor tends to put his savings in the money, and then the loss of the economy (funds) that could have been used to develop the Iraqi economy. the same situation with banks refraining

from granting credit will negatively affect the establishment of various investment projects, essentially one of the most critical economic infrastructures.

2) Investment risks: Investments in Iraqi commercial banks are often short-term and do not contribute to long-term projects so as not to risk themselves so that they prefer limited and guaranteed investments for the short term, and as we know that there is an expelled relationship between return and risk since Iraqi commercial banks avoid risks, so they do not make a high profit, as they do not enter into long-term investments.
3) Risks of inflation: Iraqi commercial banks have been exposed to the dangers of high prices, the low real value of assets and liabilities, and in general, the impact of higher prices directly on the business of these banks, which has made them pursue a very cautious policy of granting credit and entering investments.
4) Credit risks: Iraqi commercial banks, like international banks, are exposed to the chance of not recovering the amount of credit with interest resulting from it, which puts these banks in a very financial position, taking specific measures such as reducing the volume of loans and advances granted by them, tightening credit grant procedures through the indicators reviewed that represent obstacles to monetary policy on the one hand and the political and economic change that took place in 2002. 03, which resulted in several amendments to the Central Bank Act and the issuance of other banking laws to shift towards a market economy. The most important of which is allowing foreign banks to operate in Iraq, which will lead to increased competition. On the other hand, makes us think about preventive measures in addition to the therapeutic means to protect bank funds, which are mainly deposits of depositors, the most important of which is the establishment of an institution to ensure or insure bank deposits in Iraqi banks [30, 31].

3. The Results

The quality of data will be measured through skew and Kurtosis and Jarque-Bera and unit root tests. Skewes the degree of deformation in a similar bell curve or natural distribution. It measures the lack of consistency in data distribution and distinguishes extreme values at the tail of one direction against the other. The equal distribution will be similar to (0). Positive twisting means when the curve's seat on the right side of the distribution is longer than the left. The high level of the data set is an indication that data is precious. Jarque-Bera tests the appropriateness of sample data as to whether sample data contains twisting and flatness corresponding to normal distribution. If it is far from zero, the data does not have a normal distribution and is tested if the morale level is more significant than (5%). Etc., if it is stable at the deck allows the use of the slope method in the manner of small squares and the possibility of short- and long-term forecasting, and results as in table (1):-

Table 1. Stabilization test for study indicators

Pointer	Level			First Deference	
	ADF Statistics		Result	ADF Statistics	Result
X_1	-4.50643	0.0074	Stationary	-	-
X_2	-6.31523	0.0007	Stationary	-	-
X_3	-4.35942	0.0068	Stationary	-	-
y	-5.95709	0.0004	Stationary	-	-

Table 2. Natural Distribution Test for Study Indicators

Indicators	Skewness	Kurtosis	Jarque-Bera	Probability
X_1	-0.270	1.982	0.830	0.661
X_2	-0.850	2.866	1.818	0.403
X_3	-0.203	1.877	0.891	0.640
y	-0.097	2.518	0.169	0.919

Table 2 shows the unit root test results for financial depth indicators (cash supply to GDP, total deposits on GDP, credit given to the private sector by banks on GDP) and the economic growth index. The results showed that the data were stable at the level, which allows the use of linear regression in micro squares. Table 2 tests the natural distribution of the study indicators: the values of flatness and twisting within limits touched, according to the moral level(Jarque-Bera), which recorded levels greater than (5%). It means it's a natural distribution dispenser.

3.1. Testing The Relationships

The correlation coefficient is a statistical measure of the strength of the relationship between the relative movements of two variables. Values range from (-1.0 to 1.0). The calculated number larger than (1.0) or (-1.0) means an error in measuring the link. The link (-1.0) shows a complete negative correlation, while the link (1.0) shows a complete positive correlation. The correlation (0.0) shows no linear relationship between the movement of variables.

Table 3. Matrix of correlations between study indicators

	X1	X2	X3	and
X1	1.00	0.94**	0.86**	0.54*
X2		1.00	0.80**	0.49*
X3			1.00	0.52*
and				1.00

According to the results of table3, show the following: -

1) "The first hypothesis: The researcher imposes a positive correlation of moral significance between the presentation of cash to GDP and economic growth, and according to the results of Table3, the correlation factor has reached (0.54), which is an expulsion relationship between the two indicators, i.e., the increase in the supply of cash to GDP leads to a similar rise in economic growth, which is moral at the level of indication (5%). According to these findings, the hypothesis is accepted at the level of this study.

2) The second hypothesis: The researcher imposes a positive correlation of moral significance between total deposits on GDP and economic growth, and according to the results of Table3, the correlation factor has reached (0.49), which is an expulsion relationship between the two indicators, which indicates that the increase in total deposits on GDP leads to a similar rise in economic growth, which is moral at the level of indication (5%). According to these findings, the hypothesis is accepted at the level of this study.

3) Hypothesis 3: The researcher imposes a positive correlation of moral significance between the credit granted to the private sector by banks on GDP and economic growth, and according to the results of Table3, the correlation factor has reached (0.52), which is an expulsion relationship between the two indicators, and the increase in credit granted to the private sector by banks on GDP leads to a similar rise in economic growth, which is moral at the level of significance (5%). According to these findings, the hypothesis is accepted at the level of this study.

3.2. Testing The Impact Relationships

the impact of financial depth indicators on economic growth will be determined. The hands will be tested using the simple regression method using the statistical program(EViews), as the amount of impact and direction of the relationship will first be identified. The quality of the model will be determined by the selection factor (R2)to estimate the interpretation of variation for each indicator of financial depth in economic growth. The test also shows how the model's constant impact within the research periods and how the regression equation affects the research years.

The first hypothesis: The researcher assumes a positive moral effect on the presentation of cash to GDP in economic growth. It means that economic growth(Y) is a natural function of offering money to GDP (X1). A similar change would follow any adjustment in the supply of cash to GDP in economic growth and according to the following equation:"

Y=B_0-B_1 X_1+e

The:

B0 is fixed when the variable is independent (0).

B1 is the tendency of the relationship between the independent variable And the follower.

X1 is the cash supply index on GDP.

Y is the variable of economic growth.

The coefficient will be estimated between the two indicators, and the hypothesis will be accepted or rejected to rely on a moral level (5%). Suppose the percentage achieved is less taking of the idea and vice versa. In that case, the selection factor that explains the variation in the independent indicator will be extracted from the dependent hand. The decision to accept the interpretation ratio depends on the level of moral value(F) if recorded less than (5) accept the hypothesis and vice versa rejects And the test results as in table(4):

Table 4. Results of monetary supply impact relationships on GDP in economic growth

Independent indicators	Index of the	Estimates Coefficient	Standard error Std. Error	(t) t-Statistic	Level of morale Prob.	Resolution
X_1	and	0.280	0.121	2.318	0.037	Acceptance
(C)	35. 1	Ct method for micro squares Method: Pooled Least Squares $Y = (1.35) - 0.28X_1$				
(R^2)	29. 0					
(F) F-statistic	5.37					
Moral level(F)	0.037					
Source: Who returned the researcher based on the outputs of the program (EViews).						

According to the results of Table 4, which included testing the hypothesis between the presentation of cash to GDP and economic growth, it was found that the offer of money to GDP in economic growth was (0.28). This shows a positive impact between the two indicators and that a change of (0.28) will follow any change in the independent index. It is morally significant because it was less than (5%). The quality of the model has also reached the selection ratio (0.29), which means that the independent index of variation in the economic growth index is acceptable because the moral level(f)has been recorded below (0.037). These results accept the hypothesis at the level of this study. "

"The second hypothesis: The researcher assumes that there is a positive moral impact on GDP in economic growth. This means that economic growth (Y)is a natural function of total deposits on GDP(X1).

Y=B_0-B_2 X_2+e

The:

B0 is fixed when the variable is independent (0).

B2 is the tendency of the relationship between the independent variable And the follower.

X2 is the total deposit index on GDP.

Y is Variable dependent on economic growth.

The coefficient will be estimated between the two indicators, and the hypothesis will be accepted or rejected to rely on a moral level (5%). If the percentage achieved is less accepting the premise and vice versa. The selection factor that explains the variation in the independent indicator will be extracted from the dependent hand. The decision to receive the interpretation ratio depends on the level of moral value (F) if recorded less than (5) agrees with the hypothesis. Vice versa rejects And the test results as in table(5):

Table 5. Results of relationships of the impact of total deposits on GDP in economic growth

Independent indicators	Index of the	Estimates Coefficient	Standard error Std. Error	(t) t-Statistic	Level of morale Prob.	Resolution
X_2	and	0.264	0.122	2.169	0.036	Acceptance
constant (C)	27. 1	Ct method for micro squares				
(R^2)	27. 0	Method: Pooled Least Squares				
(F) F-statistic	4.785	$Y = (1.27) - 0.26X_2$				
Moral level(F)	0.039					
Source: Who returned the researcher based on the outputs of the program(EViews).						

The results of Table5, which included testing the hypothesis between total deposits on GDP and economic growth, was found that total deposits on GDP in economic growth amounted to (0.26). This shows a positive impact between the two indicators.

Any change in the independent index will follow the shift of (0.26), which is morally significant because it was less than (5%). The quality of the model has also reached the selection ratio (0.27), which means that the independent index of variation in the economic growth index is acceptable because the moral level(f)has been recorded below (0.039). These results accept the hypothesis at the level of this study.

Hypothesis 3: The researcher assumes that there is a positive moral impact on the credit granted to the private sector by banks on GDP in economic growth. This means that economic growth(Y)is a real function of credit granted to the private sector by banks on GDP(X1). Any adjustment in the credit granted to the private sector by banks to GDP would follow a similar change in economic growth and according to the following equation:"

Y=B_0-B_3 X_3+e

The:

B0 is fixed when the variable is independent (0).

B3 is the tendency of the relationship between the independent variable And the follower.

X3 is the credit index granted to the private sector by banks on GDP.

Y is Variable dependent on economic growth.

"Coefficient will be estimated between the two indicators, and the hypothesis will be accepted or rejected to rely on a moral level (5%). If the percentage achieved is less accepting the premise and vice versa. The selection factor that explains the variation in the independent indicator will be extracted from the dependent hand, and the decision to accept the interpretation ratio depends on the level of moral value(F) if recorded less than (5) get the hypothesis and vice versa rejects And the test results as in table(6):

Table 6. Results of the impact of credit relations granted to the private sector by banks on GDP in economic growth

Independent indicators	**Index of the**	**Estimates** **Coefficient**	**Standard** error **Std. Error**	**(t)** **t-Statistic**	**Level of morale** **Prob.**	**Resolution**
X_3	**and**	0.312	0.138	2.265	0.032	Acceptance
constant (C)	45. 1	**Ct method for micro squares**				
(R^2)	27. 0	**Method: Pooled Least Squares**				
(F) **F-statistic**	5.725	$\boldsymbol{Y = (1.45) - 0.31X_3}$				
Moral level(F)	0.039					
Source: Who returned the researcher based on the outputs of the program (EViews).						

The results of Table 6 included testing the hypothesis between credit granted to the private sector by banks on GDP and economic growth. It was found that the recognition given to the private sector by banks on GDP in economic growth was (0.31). This shows a positive impact between the two indicators. Any change in the independent index will follow the shift of (0.31), which is morally significant because it was less than (5%). The quality of the model has also reached the selection ratio (0.27), which means that the independent index of variation in the economic growth index is acceptable because the moral level(f)has been recorded below (0.039). These results accept the hypothesis at the level of this study.

4. Conclusions and discussion

According to many financial theories, the essence of financial depth lies in calling for a central and 40th role for the financial sector in influencing economic growth. Economic growth increases the standard of living and provides us with an increase in additional goods, services, and jobs. Change is usually linked to financial objectives. The increase in total output from the rise in population means increased living standards and per capita income. An increase in real work contributes to solving economic and social problems. The growing economy can meet current and future needs at the local and global levels. The monetary indicators of the Iraqi banking sector, such as the offer of money, total deposits, and credit provided to the private sector, were characterized by a rise at the overall level during the duration of the study and at varying growth rates. The indicators of the financial depth of the Iraqi banking sector, represented by the presentation of cash in GDP and total deposits to GDP and credit granted to the private sector by banks to GDP. The fluctuations up and down during the duration of the study and credit indicators indicate a weak contribution of the banking system to economic growth despite all the facilities provided by the Central Bank of Iraq, which means the invalid role of the banking sector in achieving economic growth.

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