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The impact of the stock market on supporting economic development (Iraq Model) for 2014-2021

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Abstract

Financial markets are an important source of domestic and external finance as the instrument through which savings from surplus economic units are mobilized and directed towards underfunded economic activities, To play a role in stimulating the process of economic development as well as its contribution to various financial and economic functions. The premise of the research is that financial markets are the solid basis for supporting the development process of the national economy while discussing the problem of research that the Iraqi securities market suffers from a weakness in the circulation of its indices The research also aims to measure the relationship between the performance indicators of Iraq's stock market and the economic factors selected through two requirements, The first deals with the description of the measurement model of Iraq's stock market performance indicators the second is to measure and analyse the relationship between these indicators and the economic factors selected, The research found a correlation between GDP growth, trade volume index and market value in Iraq's stock market for 2014-2021, based on the methodology of descriptive and quantitative analysis of available market statistics and indicators and evaluation of results achieved through Eviews10 outputs.

Keywords: Financial Markets, Iraq Stock Market, GDP, Economic Development

Introduction

Financial markets are at the forefront of politicians' and economists' interest in being closely linked to economic and social development, thus becoming central to financial intermediation through its savings mobilization and its role in optimal resource allocation. Capital markets have been established in many developing countries and existing markets have been supported and developed to keep pace with changes in international finances. Iraq is one of the developing countries that have sought to adopt capital markets as a tool dictated by economic conditions through their economic liberalization.

Research hypothesis

Financial markets are the solid basis for supporting the development process of the national economy.

Research Objective

The research aims to clarify how financial markets contribute to supporting Iraq's development process, enabling the economy to grow at rates that contribute to targeting GDP, gaining opportunities for prosperity and raising the level of development with a degree of desirable growth and use.

Research problem:

The Iraqi securities market suffers from weak index trading and means must be found to make it efficient in financing the economy and its relevance to other financial means.

The temporal and spatial boundaries

Search time limits for 2014-2021

Research methodology

Research was based on the methodology of descriptive and quantitative analysis of available statistics and indicators on the market Evaluation of results achieved through Eviews 10 outputs

1st. Securities Markets and Economic Development

1. **Financial Market Concept**

The topic of stock markets has become a matter of great interest in both developed and developing countries because of the important role played by these markets in mobilizing national savings and channelling them into investment channels that support the national economy and thus increase economic growth rates, which in turn leads to the individual's development and well-being. (Badr Ghaylan and Wham,2009:133)

The function of the Iraqi securities market is determined by the fact that it makes it possible to trade equity and bond equity and that it is necessary as a market to encourage and attract savings and is therefore an effective element and an essential source of new capital by which capital flows from major savings units to investment units. (Ziad Ramadan,2007:16)

From the previous presentation a distinction can be made between financial markets and development. For financial markets, they are defined as "structured markets and institutions dealing with long-term debt instruments, including stocks, government and private bonds, long-term loans, mortgages and savings deposits. In the context of the concept of financial markets, they include two concepts (broad and narrow concept of the capital market) as follows .(Medhat Al-Quraishi,2007:122)

A. The broad concept encompasses the entire financial system consisting of commercial banks and other financial intermediaries, as well as short and long-term non-monetary and indirect financial transactions (bills of exchange, promissory notes and commercial contracts).
B. The narrow concept of the capital market restricts to the regulated market of shares and bonds (exchange) in which the sale and purchase is dealt through the services of intermediaries and allowed to deal in the market and guarantors of underwriting, which is most commonly used.

They are rights arising from financial transactions between people, and these rights can be represented by securities called financial assets, which are documents or documents that demonstrate the holder's right to claim the value or returns of the issuer. The concept of development is the sustainable advancement of society as a whole and the social system towards a better human life (called the broad concept of development).

2. **Components of the financial market**

The financial market consists of:

A. Capital markets: -This market in which long-term financial investment instruments such as stocks and bonds are traded, its importance lies in encouraging capital investment and providing long-term financing to projects that do not need a long time. The components of the capital capital market can be summarized as follows: -

- The primary market or the market for new issues, in which a direct relationship arises between the source of the security and the first book therein or between the borrower and the lender; This is a market where private savings are pooled into new investments that never existed before. The relationship in this market is translated by creating securities or financial obligations that were not in place or in circulation before they were created. In other words, the new issuance market serves as the wholesale market in which all issuances of securities created by businesses and government investment agencies that provide coverage, marketing, advice and other services to the issuers of these funds are sold.(Badr Ghaylan and Wham,2009:134-135)
- The secondary market and the trading market are the real market with the concept of the market, in which the values of the different investment instruments are determined naturally. Either it is organized, it takes the form of a stock exchange in which the conditions of membership and trading are determined by certain legal rules, or it is unregulated where it is traded between banks, brokers' offices and bankers.
- Parallel Market, a third exchange to trade securities not listed on the secondary market for one reason or another.

B. Monetary markets: Where debt instruments such as bonds, bonds, instruments or mortgages are traded, they are a contractual agreement between the borrower in which the holder of the instrument is paid a fixed and fixed amount in the duration of payment. (Raed Nasri Abu Moanes:9)

C. Financial Market Jobs

The main objective of financial markets is to finance various economic activities, i.e. to provide the necessary financing needs of various economic agents at an appropriate cost. Financial markets are an engine of economic growth through their sources of financing for productive activity and the conversion of savings into investments, thereby increasing production and increasing GDP growth rates. To achieve these objectives, the market performs two main functions:

- Mobilizing investors' savings
- Optimal resource allocation

In performing the first job, financial markets provide attractive returns to investors by offering encouraging interest rates or offering guarantees about companies' shares, in addition to achieving transparency in transactions by obliging listed companies to provide periodic reports about their activities while ensuring that they combat the diversion of misinformation that could affect investor decisions. With regard to optimal resource allocation, efficient financial markets strive to channel investors' savings to productive enterprises to ensure that they contribute to economic growth.

There is no doubt that long-term economic growth depends heavily on the development of the financial system as a whole, whether it relates to the banking sector or capital markets, for the financing they provide to different sectors of the economy. and if banks have formed and remain the basis of financing in many of the world's economies, Capital markets are doing the same job and have even outstripped many countries' funding capacities. capital markets ", however, it remains essential to integrate the banking sector with capital markets because expanding the financial sector to include, in addition to banks, capital markets, serves to achieve greater investment efficiency. (Ali Ahmed Bulbul & etc., 2004: 2)

D. The history of the emergence of financial markets in developing countries.

Other companies are spreading and the banking system has evolved with the establishment of central banks and commercial and specialized banks. Financial institutions and savings and insurance agencies have begun to expand and governments in these countries have issued securities to finance their needs, at which point they have adopted several programmes to develop their capital markets.

In the Arab States, in the recent backwardness of most of these countries, their monetary and financial markets have remained non-existent, underregulated or limited in size. Foreign banks have played a negative role in the development of Arab financial markets, focusing their role on servicing foreign trade with their foreign countries. (Badr Ghaylan and Wham,2009:137 -139)

E. Indicators of the degree of development of capital markets

The development of capital markets has been linked to the development of the economy as a whole. At one stage of economic development, commercial banks dominated the financial sector, and with economic development, financial intermediaries' specialization increased and equity and bond markets grew. To determine the extent of capital market development and link it to various economic indicators, economists relied on a set of indicators, the most important being the size of the stock market. (Exchange capitalization or market value of shares Market Capitalization and number of listed companies) and exchange liquidity (value of trading as a proportion of crude GDP, turnover and volatility in securities' returns) Such indicators would allow economists and policymakers to classify and compare their countries according to their level of exchange development. Given the importance of secondary market activity to ensure the continuity of the primary market, following the evolution of these indicators helps to correct the imbalances that may be involved in the secondary market. The most important indicators are presented below: -

- **Size indicators**

Market size is one of the most important indicators of the development of the stock exchange, and this index can be determined by either the market value rate relative to the crude domestic product, or by the number of companies listed on the exchange. In terms of market size as measured by the exchange capitalization rate, it is calculated by comparing the market value of shares credited to the exchange relative to the crude domestic product. This index allows to determine the extent to which the economy is affected by financing through capital markets. This percentage has not exceeded the end of the 1970s in many countries, but this indicator has seen a discrepancy between countries at the end of the century.

This is more than two times the crude domestic product of some countries, such as Honk Konk, Singapore and Malaysia, whereas the proportion is about one in America and Japan. This difference is explained by the degree to which the financial sector relies on banks or securities markets to finance economic operations. One of the deficiencies of this criterion is that it does not take into account certain non-listed stocks that are traded off the stock exchanges despite their role in the economy.

The second index to measure the size of the capital market is the number of listed companies In highlighting this index, the number of listed companies tended to rise in general during the 1990s. According to the World Development Index (WDI) in 2001, the number of domestic companies listed on the stock exchanges was 25121 in 1990, jumping about 10 years later by 49612. The high number of companies listed on the exchanges is due to many factors, most notably the privatization of public companies and the facilitation of many States' stock exchange listing procedures. In addition, the number of foreign companies on domestic exchanges has steadily increased as a result of the recipient countries' improved investment environment and high profit opportunities. When relying on this indicator in determining market size, account must be taken of the degree to which listed companies contribute in terms of exchange-traded capital.

The division of the exchange's capitalization into a diverse number of companies is an important indicator for portfolio holders of the diversification of risks that it gives them in the situation prevailing in the United States exchanges, Japan, Canada and the United Kingdom, where the market value of the exchange is concentrated on a large number of companies. Conversely, some multinational companies dominate the stock exchanges of Switzerland and the Netherlands, meaning that the exchange's activity is concentrated in a specific number of companies, and the degree of concentration of the market value of the exchange is determined by calculating this value for the 10 most active stock companies on the exchange and comparing it with the total market value of the exchange.

- **Liquidity indicators**

Exchange liquidity expresses the ease of trading securities on sale or purchase It is an important indicator of investor lure to engage on the stock exchange and allows the liquidity of the exchange to reduce risk and achieve greater attractiveness for funds as it gives savers the opportunity to collect their assets from securities quickly and sell them at appropriate prices whenever necessary. as if they were willing to recover their savings or change their portfolio components In the event of liquidity of the exchange, companies can raise their capital through new issuances to exceed the long deadlines required for productive investments, reflecting positively the optimal allocation of resources. The provision of information and widespread savings awareness in advanced and emerging financial markets contributed to the rise in the value of the world's equity trading. The high number of listed companies and the diversification of their investment instruments have also affected high trading values. Among the indicators that help calculate liquidity can be focused on the trading rate index that determines the role of the exchange in the economy as a whole and the turnover index that determines the degree of trading activity in the exchange.

For the trading rate, it reflects the value of traded securities (volume) during a given period as a proportion of crude GDP, i.e. the share of listed companies in the country's outputs, i.e. market liquidity in the economy. The trade rate indicator complements the market value index. The results of both indicators need to be taken into account in order for the analysis to be more accurate The size of the exchange may be significant as a result of the number of listed companies or because of the high market value of the exchange, The initial impression if the sizing index is applied individually in this case is that the stock exchange in question is characterized by activity. But deepening the analysis by taking into account the trading index may lead to the conclusion that this index is low, which means that the weight of the exchange in the economy of the country concerned is low, Consequently, there is a lack of exchange activity, which contradicts the first result.

Turnover measures the value of traded papers as a proportion of the exchange's market value, and the high rate indicates lower transaction costs. This indicator, in turn, complements the market value rate, as the large and stagnant stock exchange indicates that although market value has risen, its turnover is low. This index also complements the trading rate relative to crude GDP, because the turnover is linked to the size of the exchange and the trading rate is linked to the size of the economy as a whole. A small stock exchange with high liquidity expresses its high turnover despite the low trading rate.

Indicators of capital market development are particularly important if they are linked to indicators of the development of the banking sector, and therefore the extent to which a country's economy is affected by different financing methods and the impact of each method on economic growth can be determined .(Sami Mubaraki :5 -7)

2nd. Impact of Iraq's Stock Exchange on Supporting Economic Development for 2014-2021

Stock markets provide sound channels and incomes for individuals, especially small investors, and are a key tool for promoting States' economic development and achieving, inter alia, the benefits of tenure, ownership, utilization and appropriate investment return. It is also an incentive for companies whose shares are listed in these markets to follow up on changes in their share prices and drive them to improve their performance and increase profitability, leading to improved share prices and financing economic development by helping Governments borrow from the public for development projects and accelerating their economic growth rates.

1. **The historical development of Iraq's stock market.**

In 1921, Iraq witnessed the first steps in the development of a securities market, where the first joint stock company was established in 1936. (Trade Exchange Act) No. 65 of 1936 establishing a commodity exchange and, in the absence of a stock exchange at that time, shares were traded by some shareholding companies directly between the seller and the buyer and thus registered with the company concerned, In 1955, it was concentrated on Al-Samawal Street, Baghdad. in 1975, the Industrial Bank established an office for the sale and purchase of shares within its administrative organ, This continued until the passage of Baghdad Stock Exchange Law No. 24 of 1991, which regulated stock trading in the financial market In order to regulate equity trading in the financial market and encourage the mobilization of national savings, It has also expanded the trading of shares of shareholding companies among citizens, and has included the market

(99) Joint Stock Company in 2000, including (34) Industrial Company, (34) Service Company, (21) Agricultural Company and (10) Banking Companies, Industrial Companies were at the forefront of the companies trading their shares in the market. However, the market suffered a severe setback due to political conditions, including the blockade and the decline in the exchange rate of Iraqi dinars**. (**Badr Ghaylan and Wham,2009:149 -151)

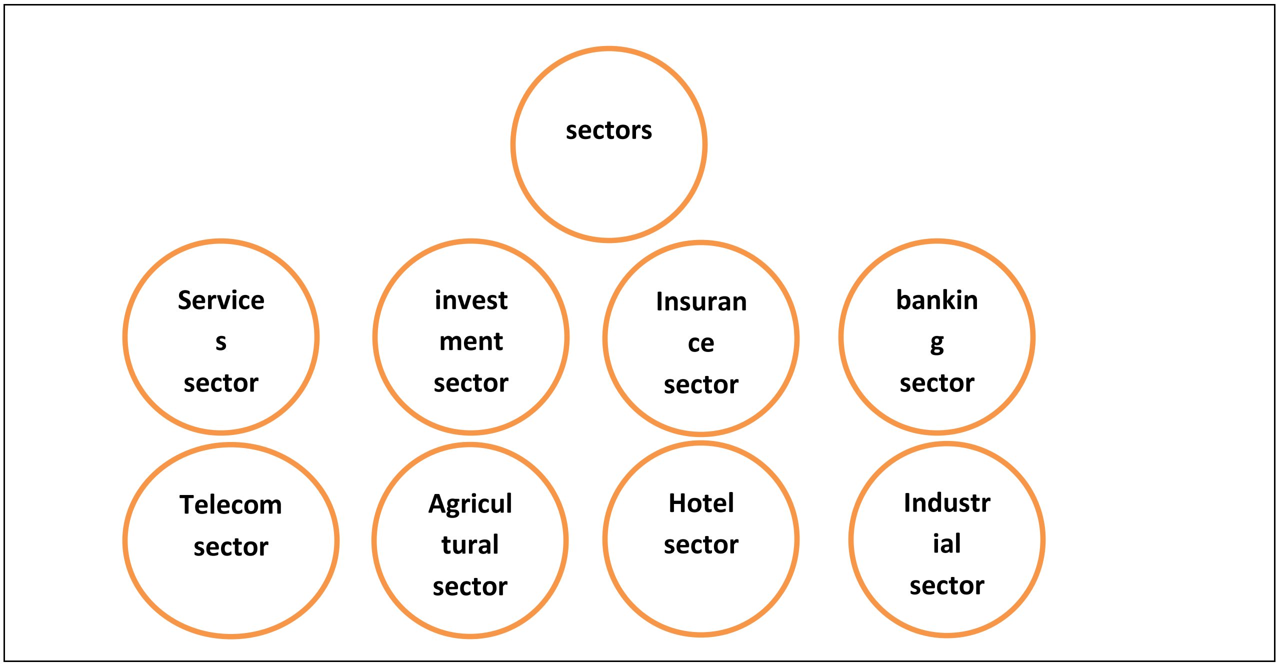
On 24 June 2014, the Iraqi Stock Exchange officially returned to operation (as a securities exchange) which is an administratively and financially autonomous self-regulated institution that does not target profit owned by members, its dealings with non-traders are not contrary to the Provisional Law (and permanent upon approval) and the rules of procedure of the Iraq Securities Market and instructions issued by the Authority and is subject to the Securities Authority[1], and the Iraqi Stock Exchange has a technically modern trading system All stocks can be traded electronically despite retaining the trading platform of brokerages wishing to use them, Government papers are traded in a separate system operated by the Central Bank of Iraq.(Sahar Nasr:53-55)

Iraq's Stock Exchange aims to: -

1. Organize and train its members and listed companies in the market.
2. Promoting investors' interests with a safe, effective, competitive and transparent free market.
3. Regulate and simplify securities transactions fairly, effectively and systematically, including clearing and reconciling transactions.
4. Regulate the dealings of its members with all its funds related to the purchase and sale of securities and determine the rights and obligations of the parties and the means to protect their legitimate interests.
5. Developing Iraq's financial market to serve the national economy and help companies build capital for investment.
6. Sensitize Iraqi and non-Iraqi investors on opportunities to invest in the market.
7. Communicate with stock markets in the Arab world and international markets with a view to developing the market[2].

[1] The annual report of the Iraqi Stock Exchange 2021, pp. 5-7.
[2] The annual report of the Iraqi Stock Exchange 2021, previous source, p. 8.

The sectors listed in the Iraq Stock Exchange until 2021 are as follows:



The drawing was prepared by the researcher based on the Iraq Stock Exchange 2021 report.

2. **Measuring the relationship between Iraq's stock market performance indicators and GDP for 2014-2021**

The stock market performance indicators of independent variables are: -

- The general stock price index (ISX60) is expressed in variable (P)

The Domestic Stock Price Index in Iraq has been used to measure the overall performance of the Iraqi securities market, which reflects the overall level of equity prices of companies listed on the regular market.

- Market value (M.C)

This index represents the total market value of the shares of companies listed on the Iraqi Stock Exchange, reflecting the liquidity and activity of the stock market.

- Trading Volume (V)

This index reflects the total value of local stocks traded or exchanged in the financial market within one year. The volume index is also used to measure market liquidity.

Affiliate Variable

- Gross domestic product (G)

I. ESTIMATE THE RELATIONSHIP BETWEEN IRAQ's STOCK MARKET GENERAL INDEX AND GDP

More than one formula (linear and non-linear) has been used to estimate the relationship between the Egypt Stock Exchange General Index and the economic factors selected, and using the multiple linear regression method (micro-square-OLS method) (the non-linear model has been shown to be the best estimated models representing the studied relationship, the results of the estimate are: -

$$Ln\ gdp = 3.41 - 1.2\ Ln\ p + +1.4 Ln\ M.C. + 1.96 Lnv$$
$$t \quad = \quad (0.94) \quad (-3.45) \quad (4.12)$$
$$S.E.E=0.171 \quad R^2=0.97 \quad R^{-2}=0.96$$
$$F=158.177 \quad D.W=1.9$$

(% 1) [*] between test)) the morale of the estimated parameters at a morale level (% 1)[**].
In standard terms, second-tier tests relevant to the standard have shown that the model is without standard problems, such as self-correlation. (Problem Autocorrelation) and the problem of multiple linear association (Problem Multicollinearity) show test (D.W) The calculated value of the model in the acceptance area falls at a moral level (% 1)[***] indicating that there is no self-correlation problem between random residues in the time chain used.

With regard to economic analysis, the economic growth estimate indicated a correlation between GDP and GDP. (G) and market value index (M.C) reflecting variable (G) parameter Flexibility of the GDP index relative to the market value variable, as market value changes by (% 1) GDP changes by 1.41% in the same direction, assuming other factors are stable. An increase in the level of economic activity means an increase in the number of equity issuers, as well as a rise in the level of corporate profits, thereby increasing the percentage of dividends will be reflected in increased investor demand for equities and thus higher prices.
With regard to economic analysis, the estimate of economic activity indicates a correlation between GDP and GDP. (G) and trading volume index (V) reflect variable parameter (v) Flexibility of the resulting variable relative to the volume index, as the volume index changes by (% 1) leads to a change in GDP of (1.96%) in the same direction, assuming the stability of other factors.
A number of economists explain the correlation between economic growth and the high volume index of certain securities (especially stocks), on the basis that GDP growth will have a positive impact on equity demand, as increasing the real incomes of individuals helps them save more money, leading them to invest this surplus Cash (savings) in the purchase of shares, thereby increasing the quantities traded thereof.
On the other hand, fluctuations in economic activity can affect the activity of financial markets. If companies' activities translate into profits or losses, securities values translate the difference between sales prices and cost prices. Thus, the market value of projects restricted in the stock market is also influenced by the soundness of the financial and economic position of these projects.
The estimate also indicates an inverse relationship between GDP (G) and Market Price Index (p) reflects index parameter (p) Flexibility of the resulting variable relative to the market price

[*] F value)) tabular at a level of morale (% 1) and a degree of freedom (13-1) equal to (9.07).
[**] The value of (t) tabular at a level of morale (1%) and the degree of freedom (13) equal to 2.16).
[***] Value (D.W) tabular at a morale level (% 1) and degree of freedom (-2 15) is: (dL = 0.7, du = 1.25)

index, as the market price index changes by (% 1) leads to a change in GDP of (-1.2%) and reversing the trend, assuming the stability of other factors[1].

This can be justified by the fact that Iraq's stock market is ineffective or inefficient (In Inefficient Market) Therefore, it is unlikely that economic growth will respond to expectations for equity prices, as well as the low investment awareness of most Iraqi securities market operators, so that securities are dealt with on sale and purchase based on the forecast element, without resorting to technical analysis methods or access to economic data and reports on economic growth rates.

Conclusions

1. The ability of financial markets to provide and recycle an appropriate amount of funds to achieve the liquidity needed for society, and support investments with different timelines.
2. Providing motivation and vital motivation to investors' audiences by achieving the fair price of securities traded on the stock market and protecting mutual parties.
3. The more effective the stock markets are able to achieve their vital mission of supporting and consolidating the State's economic stability by helping to increase production levels in the economy by financing investment opportunities that lead to higher levels of production and thus higher levels of operation or employment and thus achieving better levels of income at both the individual and national levels.
4. The benchmark analysis established a correlation between gross domestic product (GDP), market value and trading volume index in the stock market for the period in question. This confirms the validity of the research hypothesis.
5. The benchmark analysis demonstrated a reverse relationship between GDP and the market price index.

Recommendations

1. Raising public awareness of the importance of dealing in stock markets and transforming them into active investors in the national economy.
2. Create an economic, political, social and cultural environment to mobilize savings.
3. Developing the financial sector as a whole to keep abreast of international developments.
4. Support legislative and regulatory reforms and make them more attractive to investors, such as providing incentives for providers to deal in the financial market.
5. It requires the development of investment in economic sectors to increase their contribution to GDP.

[1] Market efficiency means the extent to which information is fully and quickly reflected in the market prices of the security (shares), whether that information is in the financial statements or in the information published in the media, or in the historical record = of the share price in the past days, weeks and years, or in analyzes and reports expressing The effects of the general economic situation on the performance of the establishment. For more information on the concept of market efficiency and its types, see:
Munir Ibrahim al-Hindi, Fundamentals of Investing in Securities, Manshaat al-Maarif, Tanta, 1988, p. 399.

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