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MEASURING THE FINANCIAL DEPTH OF FINANCIAL AND NON-BANKING INSTITUTIONSITS EFFECTON ECONOMIC GROWTH IN IRAQFOR THE PERIOD 2004-2020

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Abstract

The poor performance of banking activity and non-banking financial institutions, as well as the failure of Iraqi banks to update their banking systems, have contributed to the consolidation of poor banking awareness and a decline in individual banking use, resulting in a low level of banking services, which are an important part of the service sector and the structure of output in Iraq from 2004 to 2020. Activating the role of banking and non-banking financial institutions contributes to diversifying the sources of output and addresses part of the structural imbalance in the output structure. The inductive method and the deductive method were relied upon in order to investigate the potential of reform and the importance of implementing it in the banking system, based on references from books, reports, research and the relevant global information network.

Key words: Financial Depth - Banking Institutionsits - Economic Growth

Introduction

Economic growth is one of the main goals pursued by Governments, to which people aspire; This is the physical conclusion of economic and non-economic efforts in society; It is one of the necessary conditions for improving the standard of living of societies, as well as one of their lax indicators, and economic growth is linked to a set of fundamental factors in society that serve as the climate for its development; as a factor providing highly qualified institutions, adult governance, community participation, scientific research, health and education. So the process of achieving a good level of growth has become organically linked to the availability of this moving climate.. The evolution of financial credit, which is reflected in increasing reliance on the financial system and financial hiring at the expense of the real economy sectors, leads to greater exchange and diversification of financial instruments and thus encourages financial investment, as well as to diversification in the various activities of the economy. (Al-Zubaidi, 2008). The study of indicators of the financial depth of banking and non-banking institutions in financial markets and their role in stimulating economic growth are important studies, which are dealt with in the scientific field. Because of their economic importance, financial and economic development and the economic growth that will accompany them will be sustained if financial jobs in markets become real investments that contribute to the economic revitalization and financing of the economic and social development process.

Research problem:

The Research's problem is that poor performance, banking activity, non-banking financial institutions, and the lack of modernization of banking systems in Iraqi banks have contributed to a lack of banking awareness and reduced banking use by individuals, resulting in a low level of banking services, which are an important part of Iraq's service sector and output structure.

Research Hypothesis

Research assumes that the activation of the role of banking and non-banking financial institutions contributes to the diversification of sources of output and addresses part of the structural imbalance in output structure.

Search objective

The research aims at trying to address the imbalance in output structure by measuring the financial depth of banking and non-banking financial institutions and showing their contribution to economic activity.

Research importance

The significance of research is highlighted in the sense that improving the effectiveness of banking and non-banking financial institutions can generate new sources of savings and finance the capital required for investment, thereby addressing production sector imbalances and improving the structure of national output.

Research Methodology

The extrapolation and extrapolation method has been used to investigate the capabilities of reform and the importance of its implementation in the banking system, based on references from relevant books, reports, research and the global information network.

The temporal and spatial boundaries

Spatial boundaries: Iraq - Temporal boundaries: Duration (2004-2020).

1st. Concept of banking and non-banking financial institutions

Financial institutions are the companies responsible for providing the market with money by transferring it from investors to companies in the form of loans, deposits and investments. Commercial banks, investment banks, credit banks, brokerage companies or investment agents, insurance companies, and asset management funds are among the most common types of financial institutions. Other types include credit unions and finance companies. Financial institutions are organized to manage the supply of money to the market and to protect the consumer.

1. Founder Analysis at Finance

Financial institutions are critical components of a country's financial system, particularly in countries with rapidly changing economies. These banks offer long-term financing requirements for vital sectors. The government deems it vital to manage and regulate banks and other financial services organizations since financial institutions play such an important role for the majority of residents by offering all forms of financial operations, savings, and investment requirements. Similarly, the failure of a financial institution might induce economic fear and strain. Deposit accounts are managed and controlled by organizations such as the United States Securities Investors Protection Authority (FDIC) to safeguard people and businesses from the many sorts of hazards to which their assets may be exposed when deposited with a financial institution. Loss of faith in financial institutions might result in more severe external effects on the economy. (Al-Quraishi, 2009).

2. Types of financial institutions

There are different types of financial institutions that are dealt with on a daily basis. Whether it's through depositing money, applying for loans or disposing of currency.

Financial institutions can be divided primarily into two types: banking and non-banking financial institutions. Banking financial institutions include commercial banks whose main role is to accept deposits and grant loans, while non-banking financial institutions include investment banks, insurance companies, financial companies, rental companies and others. The following is a summary of both types of financial institutions (Money and Banks, 1990).

The most prevalent sort of financial organization is the bank, which acts as a financial mediator between "depositors" and "borrowers." The primary responsibilities of a banking financial organization are to receive deposits and then lend to clients for purposes such as purchase, education, company development, and investment. The Bank also serves as a payment agent, offering a variety of payment services such as ATM cards, credit cards, check services, direct deposit services, and bank transfers, among others. The Bank's capacity to provide loans is controlled by the amount of cash reserves it has, and raising money is very simple for the Bank because some accounts, such as on-call deposits, provide no advantage to the account holder. The financial institution Earns money by investing funds invested in assets and, on occasion, financial goods, most commonly through loans. Investment banks, rental businesses, insurance companies, investment funds, and financial firms are all examples of non-bank financial entities. A variety of financial services are offered by the non-bank financial institution. Debt subscriptions, stock issuance, securities trading, investment, advisory services, transactions, and other services are provided by investment banks to businesses. Insurance companies and other financial entities give protection against specific losses for a set sum of money. Pensions and mutual funds serve as savings institutions where investors may put their money to work and earn a profit. Market makers and financial institutions function as brokers, enabling the trade of financial assets such as derivatives, currencies, and stocks. Other financial service providers, such as rental businesses, provide facilities for acquiring tools and equipment, while real estate financing firms provide funds to acquire real estate and provide financial guidance in exchange for a specified commission. (Yahya, Critical Theory, 2001).

The major distinction between banking and non-bank financial institutions is that banking financial institutions accept savings account deposits and other sorts of deposits that non-bank financial organizations do not.

2nd.Concept of economic growth

Economic growth is defined as an increase in real per capita income or output that is greater than the rate of population growth, while also providing productive and social services and protecting non-renewable resources from depletion. It is also defined as an increase in the amount of goods and services produced by a given economy. As a result, economic growth is defined as an increase in the market value of an economy's commodities and services through time. (Samo Bloon, 2006). Thus, economic growth is as follows:

- Increasing real domestic product between two periods.
- High per capita real income.

Economic growth is one of the most significant economic indicators since it represents the total value contributed by all production units in a particular economy, such as agriculture, mining, industry, power, banking, insurance, housing, commerce, and public services.

The difference between the value of a unit's total production and the value of the intermediate products and services used in that production is the added value of that unit. (Shlimon, 2015).

The percentage of GDP growth is used to quantify economic growth, and it is compared to the prior year. Economic growth is primarily driven by more capital, technical advancement, and greater education.

Because it is commonly considered that economic growth is the key to societal well-being, economists, planners, and politicians in both emerging and developed nations have made it a priority to accelerate the process of economic growth. The process of rapid growth is based on the increasing potential of modern technology as well as the necessary institutional and ideological changes. From the foregoing, we may deduce a number of characteristics of economic growth, including: -

- A focus on long-term growth, rather than transit growth.
- Long-term growth and the significance of centralized technologies.
- From the foregoing, we can see that a variety of - Institutional and ideological adjustments are required, demonstrating the relevance of the institutional system in the growth process. (Henderson, 2010).

3^th. Measuring the financial depth of banking and non-banking institutions and their impact on economic growth

Banking and non-banking systems are among the most important inventions of modern societies, in view of the essential role they play. Through their role in the media between depositors that make up the supply side of funds in the banking system and borrowers that make up the demand side of such funds, the banking

system is an important mechanic for collecting savings and turning them into investments.
The financial sector contributes effectively to economic growth through the provision of resources to meet basic needs, either directly or indirectly, because the financial sector is concerned with mobilizing financial resources for economic growth through the banking system, the insurance sector or the stock market, leading to an increase in the value added of the use of technological services and the provision of foreign exchange through remittances..

4 th.The system banking-the size , the structure , Efficiency and stability:-

The banking system remains the bulk of most countries' financial system, particularly in emerging and developing markets. So we included a set of indicators, measuring the size, structure, efficiency and stability of banks across countries and over time. In addition to the indicators discussed in the previous section, the database contains several other indicators of the financial intermediaries' size. Specifically, based on preliminary data from IFS, the following three indicators measure the size of the three types of financial institutions relative to GDP (Financial Institutions and Markets across Countries and over Time Data and Analysis, 2009):

- Central Bank assets to GDP
- Deposit of banks' funds to gross domestic product
- Assets of other financial institutions for GDP

These indicators provide evidence of the importance of the financial services of the three types of financial institutions relative to the size of the economy. Assets include claims on the entire real non-financial sector, including the Government, public institutions and the private sector. The sum of these three indicators refers to the total claims made by financial intermediaries at the level of non-financial domestic sectors relative to GDP, and thus constitutes a comprehensive indicator of financial intermediation. Private credit through bank deposits and other financial banks to GDP represents private sector claims through funds deposit banks and other financial institutions divided by GDP. It is a standard indicator of finance and growth literature. Countries with higher levels of private credit to GDP have shown faster economic growth to reduce poverty (Hindi, 2010).
The current global financial crises highlight the importance of good asset and liability management. As funding sources become more scarce and costly, liquidity

management becomes more important. As well as issues related to fiscal upgrading: Although increased borrowing can help an enterprise increase its revenues, at the same time it exposes it to greater risks (which is what highly leveraged institutions have recognized in successive crises(Abdel-Qader Mohamed Abdel-Qader I. A., Trends, Modern in Development, 2003).

The deposit of funds against central bank assets of countries where deposits of funds and assets are significant has the greatest role in financial intermediation from central banks with limited deposits and assets, so that they can be considered to have higher levels of financial development and thus show the positive relationship between deposits against central bank assets and economic growth (Robinson, 2004).

5 th. Financial depth of banking and non-banking institutions in Iraq and its impact on economic growth

The Iraqi banking system consists of the Central Bank and commercial banks, most notably Rafidain Al-Rashid and the Iraqi Trade Bank (TBI), the State-owned Islamic Riverine Bank, and specialized banks, most notably industrial, agricultural and real estate banks. as well as non-bank financial institutions, most notably insurance companies, the pension fund and some investment funds. Thus, the Iraqi banking system consists of a wide spectrum of banking institutions, as intermediate channels between savers and investors, which places a great responsibility on the monetary decision-maker to control liquidity levels and achieve monetary stability. There are many institutions that do some banking, including money transfer companies, bank exchange companies, a loan guarantee company, a small and medium-sized enterprise finance company, two electronic banking and smart card services companies, as well as bank branches spread across all governorates of Iraq. (Annual Report of Financial Stability in Iraq, Central Bank Department of Monetary and Financial Stability for different years).

1. Financial depth index of banking institutions

Table 1 indicates that the dimensions of fiscal depth are evident in terms of the ratio of bank credit to GDP, showing the path of change in fiscal depth for the period 2014-2020. These years saw the highest credit-to-GDP ratio at 14.3% and increased to 25.06% in 2020. This credit performance index is lower than the averages of all those groups, including low income in the world. Measures are needed to remove the obstacles responsible for restricting this activity. The total deposits, including those of the Government and public enterprises, are 62.4

trillion dinars and the total cash credit for all sectors is 37.2 trillion dinars. State banks contributed 29.8 trillion dinars and private banks contributed about 7.3 trillion dinars of that credit volume, 19.6% of the total credit. The total claims of deposit banks to the non-financial economy, both in terms of GDP and in terms of deposit funds as well as central bank claims, rise with the level of economic development, and - because bank credit is an essential function of the modern economy that is not compensated for by the financial market, which operates mainly with securities, The excessive diversity of banks away from their traditional activities should lead to a review of controls, restrictions and errands from the point of view of specialization, division of labour between banks and other financial institutions, as well as the specialization of banks themselves and compensation for economies of scale (Diversity) experiences with the large size of credit, diversifying credit activity away from concentration and devising additional means to protect banks from risk.

Table (1)

Mortgage credit to output the local Total million dinars

credit ratio /GDP	**GDP at current prices**	**bank credit**	**the year**
1.04	53235359	552,448	2004
1.07	73533599	785,073	2005
1.45	95587955	1,384,231	2006
2.04	111455813	2,275,531	2007
2.12	157026062	3,323,634	2008
3.62	130643200	4,734,055	2009
5.61	162064566	9,084,973	2010
6.98	217327107	15,171,445	2011
8.85	251907662	22,296,216	2012
8.26	267395614	22,081,289	2013
0.97	2589006331	25,110,985	2014
14.30	199715699.9	28,562,670	2015
14.31	203869832.2	29,180,601	2016
13.31	225995179.1	30,069,636	2017
14.31	268918874.0	38,486,947	2018

15.13	277884869.4	42,052,511	2019
25.06	198774325.4	49,817,737	2020

Source: Prepared by the researcher based on:-

The orientation of banks in developing and developing countries, including Iraq, towards greater diversification along with greater importance of non-lending income may be understood as the context of a general course of development that is positive in terms of scale economics and risk reduction as described above. However, empirical studies have revealed different results, which may be attributed to the weak monitoring and control capacity of banks, leading to an increased risk of failure when expanding to activities and sectors that the bank does not have sufficient experience to deal with, including serious risk assessments, It is not exactly this issue that arises about the performance of Iraqi banks in competing for employment in the exchange market or the provision of risk-free services at the expense of credit. But diversity by engaging in types of financial investment or offering products that were not previously available to banks, including speculation in financial assets, insurance, derivatives, etc. But the shares are clear between Iraq's experience and the global diversification of banking, namely, high returns on unorthodox operations and an attempt to reduce credit weight in banking in order to avoid the losses of borrowers' failures.

In table 2, cash credit provided to public institutions (banking) by the Central Bank is the highest in 2016, with 7,637,859 dinars, reflecting an increase in fiscal depth in 2016. This illustrates the poor performance of banks in providing credit and their partial reliance on cash credit to expand their activities.

Table (2)

Cash credit provided by the central bank to financial institutions

Million dinars

credit ratio /GDP	**GDP at current prices**	**bank credit**	**the year**
0.42	53235359	222,597	2004
0.34	73533599	248,407	2005
0.78	95587955	745,045	2006

0.79	111455813	877,644	2007
0.44	157026062	690,059	2008
0.46	130643200	603,740	2009
0.49	162064566	802,064	2010
0.55	217327107	1,194,319	2011
0.94	251907662	2,379,798	2012
2.43	267395614	6,492,613	2013
0.28	2589006331	7,361,903	2014
3.86	199715699.9	7,708,723	2015
3.75	203869832.2	7,637,859	2016
3.19	225995179.1	7,201,678	2017
0.99	268918874.0	2,675,495	2018
0.96	277,884,869.4	2,654,868	2019
1.37	198774325.4	2,717,075	2020

Source: Order researcher From data the bank central Iraqi, Newsletter Statistics annual 2004-2020.

2. Indicator Measure depth financial for non-institutions banking

Table 3 shows the weak financial depth of non-bank financial institutions in the Iraqi economy, while there is no clear relationship between the total claims of central banks or other financial institutions relative to GDP and the level of economic development. Note that in the case of other financial institutions, cross-country variation may be driven to the extent that data are available according to their actual size. While bank assets on deposits to gross domestic product (GDP) and funds held against central bank assets have increased over time, this reflects the weak role of these institutions in economic activity, as the ratio of insurance companies' investments to output is only If compared with financial and banking institutions, we will see a greater role for banks in economic activity than non-banking institutions in the Iraqi economy..

Table (3)
Non-banking financial institutions (insurance companies)

The ratio of investment to output%	Gross domestic product at current prices Million dinars	Investments toTrapatInsurance	the years
0.01	130643200	18119	**2009**
0.01	162064566	18962	**2010**
0.01	217327107	92151	**2011**
0.01	251907662	64771	**2012**
0.01	267395614	50716	**2013**
0.00	2589006331	52235	**2014**
0.02	199715699.9	53467	**2015**
0.01	203869832.2	48525	**2016**
0.01	225995179.1	44217	**2017**
0.02	268918874.0	46223	**2018**
0.02	277,884,869.4	45677	**2019**
0.03	198774325.4	52440	**2020**
0.02			**the average**

The source was prepared by the researcher based on the data of the Iraq Stock Exchange

CONCLUSIONS

1. The weak ability of banking and non-banking institutions to stimulate savings receptacles, as well as the reluctance of many banks to grant credit, as indicated by the credit-to-output ratios, will make it possible for weaknesses and imbalances in banking activity to persist unaddressed.
2. Although many banking and non-banking institutions have adopted some modern banking systems, they are still unable to attract individual deposits, increase the number of customers, improve banking activity and support the quality of banking services.
3. Weak financial depth of non-banking institutions versus financial depth of banks in economic activity.

Recommendations

1. Raising efficiency in domestic financial institutions through increased competition and improved quality of banking service..
2. Liberalizing credit guidance. In the context of the banking sector process, the freedom of banks to direct their bank and non-bank credit according to the creditworthiness standard is a component of sound financial reform and the development of specialized banks.

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