



The study of financial systems effects and commercial releasing on economical growth

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Abstract

One of the most important goals for many countries is to achieve economic growth and many strive to make the bed for it. Achieving this depends on realizing the effective factors on economic growth. That's why it is a controversy among economists to explain what factors contribute to economic growth. Since financial section constantly plays a key role in economic growth and development, the relation between economic growth and financial development seems to be essential. In this study, Liquidity ratio to GDP and ratio of credit allocated to the private sector to GDP are considered as two indexes to study the financial development. Statistical population in this study are the years of Iran's economic activities in a 32-year period between 1981-2013 (1360-1392 Iranian calendar). Also, the information needed for the present study is obtained based on the actual data from the Central Bank of the Islamic Republic of Iran. According to nature of information the time series method is applied in this study. Based on the results, the variables' coefficient effectiveness is statistically significant as well based on expected theoretical basis. Also, the variables cash volume and credit allocated to the private sector -considered as financial development indexes- and grade of economy openness had positive meaningful effect on economy in long-term, consequently hypotheses of the research are approved scientifically.

Keywords: economic growth, financial development, economy openness, liquidity volume, allocated credit.

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Introduction

One of the most important aims of some countries is achieving commercial growth and many of them try to provide suitable situations in order to reach economical growth . It depends on recognizing the effective factors on economical growth. That is why ,one of the most discussed subjects amongst economists is that what factors affect economical growth (Mohammadi and colleagues.1393 p 152).

The long-term relationship between financial development and economical growth , specially after the appearance and of inner-growth opinions, has attracted the attention of economists. Financial growth is usually defined as a process which causes quality of the service development of the financial mediators , its quantity and efficiency (Sadeghi and colleagues 1393 p 118).

At present, a big part of economical literature approves this fact that long-term economical growth and welfare of countries , is related to the degree of its financial development as well as some other crucial factors.

Financial development generally affects economical growth through gathering and facilitating capital resources as well as the best allocation of these resources on economical growth.

In other words, financial development indicators affect capital gathering indicator and its efficiency and these indicators subsequently have impressions on economical growth. Financial systems growth, leads to the more suitable allocation of resources and eventually faster economical growth through the development and diversification of financial markets of the country (Samety and colleagues 1393 p 29).

Countries experience shows that in modernized developed countries, financial development occurs mainly out of banking system, so, the base of financial growth happens out of this system. Having said that , in developing countries, the financial development is mainly based on the correlation of banks actions and it occurs inside banking system (Azarbaijani and colleagues 1392 p 2).

Financial and banking crisis caused and attention to wider dimensions of financial growth ,but ignoring the suitable theoretical area, also prevented presenting comprehensive definition of financial growth area and consequently, a powerful and comprehensive planning for financial development was unable to be designed and executed. commercial release causes technology transmission through the import of advanced capital goods. Such imports of capital goods also cause the growth increase with export goods and the increase of foreign investment entering currents.

During the transmission of technology, commercial release plays a major role in export increasing as well as the growth of internal production. The increase of exports can lead to the rise of internal impure production through the utilization of non-used resources. The rise of imports can lead to the increase of internal impure production amount. The rising of imports can also make the purchase of external capital goods under the shadow of release and can refine the technology improvements (Azarbaijani and colleagues 1393 p 2).

The background of the research

The result of Azarbaijani and colleagues research in 1393 consists of positive and meaningful effect of export diversification , commercial release and financial development on economical growth. In Aboonoori and Teymoori's research in 1392, the result shows that financial development has a negative and meaningful impact on economical growth in elected countries .Azarbaijani and colleagues concluded- in their study in 1393 - that the release indicator has a positive and meaningful effect on economical growth in short-term , but in long-term it is meaningful just for overall economical growth. Biabani, Khameneh and colleagues 1393 concluded that credits increase leads to the increase of export share of the production , further more, its positive effect on the number of exporters, the number of destination markets and the rate of institutions entrance is approved. The result of Mohammadi and colleagues research in 1393 shows that the reason of a short-term economical growth are financial development indicators and the commercial broadness dimension. The result of causality relationship in Norway shows that in short-term, there is a single-sided causality relationship from economical growth to the given credits indicators to the private sector.

Moreover, in long-term, there is a double -sided relationship between given credits indicators to the private sector and commercial intensity and another single-sided relationship from economical growth to the given credits in private sector.

The result of Sanchez and YU 2011 contains a positive relationship between financial development and economical growth in developing countries.

In addition, in short-term, there is a double-sided relationship from economical growth to financial development and economical growth in the majority of regions, and a single-sided relationship from economical growth to financial development in the poorest regions .Papaioannou 2013, concluded that in countries that people's accessibility of financial resources is more, they have more developed capital markets- in the research about economical development in Europe between 2002-2010.

Vomboy and Mokerji 2014 , analyzed the relationship between financial development and the import of factories goods for some African countries declaring that the amount of given credits to the private sectors is a suitable proxy for measuring the development of financial sector. The result shows that, the financial growth in some countries was the reason for export Granger and in some others was caused by export.

Kooja and colleagues, in their studies, concluded that financial development and open commerce, do not have a considerable effect on countries economical growth.

Pattern introduction

The main question of this research is what effect the financial development and commercial release has on country's economical growth , so that by defining these factors , the planners of country can take steps for economical growth and briskness, through the related programmes. Noticed variables are: financial development, commercial openness as independent variables and economical growth in Iran as dependent variables. The ratio of liquidity volume to the ratio of given credits to the private sector to the internal impure production, show the financial development.

The ratio of total import and export to the internal impure production is considered as an indicator for measuring the degree of commercial openness. To show the economical growth ,the internal impure production is utilized as well.

$$GDP = F(FI, OP) = F(M, PR, OP)$$

.Log GDP = =

That in it

GDP: share of internal impure production

FI: financial investment (M the ratio of liquidity volume to the internal impure production, PR the ratio of given credits to the private sector to the internal impure production)

OP: commercial openness

According to the above model, research theses are defined as below :

- There is a meaningful relationship between economical growth and financial systems development.
- There is a meaningful relationship between commercial openness and economical growth.

The statistical population of the current research are the years of economical activities in Iran .The information related to Iran economy has been presented in the official website of “Markazi Bank” from 1338. Since the information of the inspected variables did not exist in this research entirely, the researcher had to consider a sample consisting a 32 year-period from 1360 to 1392.

After the clarification of the pattern, a suitable method of problem inspection and a suitable method of estimation should be chosen.

In the current research, regarding the nature of information , the temporal series way is used which is one of important types of statistical data utilized in experimental analysis.This is because these types of statistical data has special features for researchers in economical measures.The importance of temporal analysis can be defined in this ways:

- Firstly,in researches based on temporal series data, it is assumed that the temporal series is static.

explanation	Prob	Critical amount			ADF	variable
		10%	5%	1%		
durable	0.00	1.61-	1.95-	2.64-	5.67-	GDP
durable	0.00	1.61-	1.95-	2.64-	5.88-	M
durable	0.00	3.21-	3.56-	4.28-	4.84-	Pr
durable	0.00	1.61-	1.95-	2.64-	3.09-	OP

As you see, all variables are durable
The inspection of classical theses :
The lack of self correlation:

In the current study, we used correlation LM test in order to assess self correlation. The results are as below:

The outcome of correlation test

Correlation LM	Critical amount	prob
F-statistic	5.63	0.00
Obs*R-square	9.71	0.00

Regarding the result of the test, this model has the issue of self correlation, so, in order to solve this problem, we enter AR parameter into this model and repeat the test. The new results are as below:

The outcome of correlation IM with AR parameter

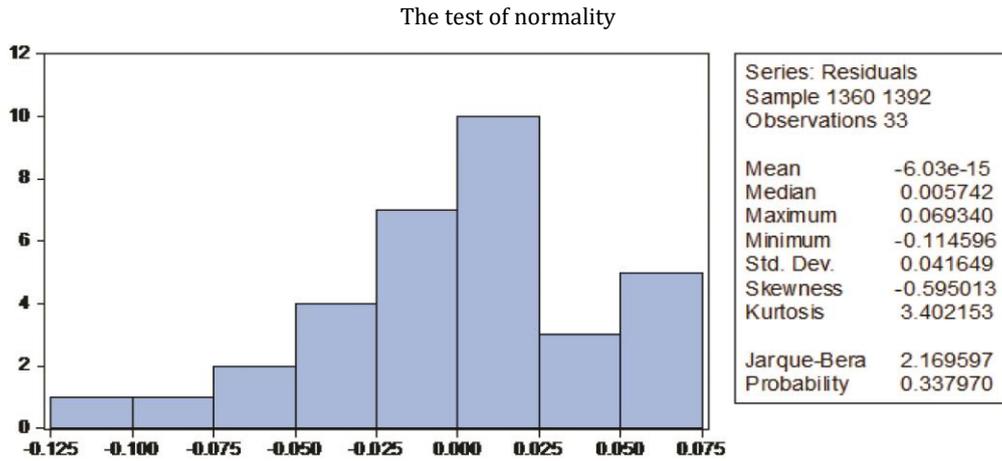
Correlation LM	Critical amount	prob
F-statistic	0.76	0.38
Obs*R-square	0.91	0.33

Regarding the result of the test, this model does not have the issue of self correlation. The thesis is still valid.

Statistic, \bar{r} Equals to $2/16$ and with regarding the measured amount Regarding the Of more than $0/05(0/03)$.

So, the HO thesis based on the normality of the remains of the model is accepted.

Residual sentences normality: The test of



Errors of the model stipulation

Since the model stipulation can be a threat for analysis, the RAMSEY RESET test is used in order

to discover this issue and the results show that there is no stipulation in the present model

The test of error stipulation

Ramsey RESET	Critical amount	prob
F-statistic	0.37	0.68
Log likelihood ratio	0.90	0.63

After assessing classical thesis, the estimate results are as below chart:

The outcomes of the model estimation

variable	coefficient	T statistics	Prob
c	4.56	5.04	0.00
M	0.83	22.41	0.00
Op	0.24	-3.67	0.00
pr	0.50	0.75	0.45
F-statistic=5319	Prob(F)=0.00		

Regarding the amount of Watson's camera from the self-correlation and we add the statistics(D.W=0.91) that has a considerable parameter AR to the table in order to change the difference with number 2 and the test of result of the table as below: correlation that was done at the beginning of this chapter, it is obvious that the model is suffering

Estimate outcome with the entrance of AR parameter

variable	coefficient	T statistics	Prob
c	3.72	4.09	0.00
M	0.89	15.36	0.00
Op	0.13	1.56-	0.03
pr	1.23	2.02	0.05
AR(1)	0.62	3.58	0.00
F-statistic=5090	Prob(F)=0.000		

As observed from the outcome of the estimation, the volume of liquidity and given credits (the financial development indicators) and economical openness, has had a meaningful effect on economical growth of country between the years 1360-1392.

One of the main scales for defining the goodness of regression fitting is the ascertainment coefficient. As a description, the definition coefficient is the percentage of changes of dependent variable that is justified with pattern's dependent variables. The existence of $R^2=0.99$ and R^2 defines the high explanation of dependent variables. $R^2=0.99$ and R The

existence of R^2 This means that about %99 of changes in dependent variables, are able to be justified with independent variables. In other words, regression ascertainment coefficient shows the goodness of pattern's fitting.

On the other hand, regression coefficients need to be approved not only with t test and separately, but also simultaneously in terms of statistics, so we use Fisher statistics. The amount of F statistics in this model equals to 5090 and with the existence of prob=0.00 We can claim the meaning of total regression. As mentioned above, one of the classical thesis, is the lack of relationship between

wastes in different periods of time that the denial of the thesis generates a problem named self-correlation, so , to recognize it- regarding the calculated Watson camera statistics- it can be said that if this amount is near 2, the problem of self-correlation does not exist. The amount of D_W in the current model is 1.71, so, we can declare the correctness of that.

Conclusion

The aim of the current research is to inspect the impact of financial systems development and commercial liberization on economical growth. According to the achieved results, the effect of variable coefficients based on theoretical infrastructures and statistics, is meaningful and in long-term, the variables of liquidity volume and given credits to the private sector (that is considered as the financial development systems indicators) and the degree of economical openness has had a positive and meaningful effect on economical development, so, the investigation theses are approved scientifically. According to the research findings, commercial releasing affect economical growth. The broadness of commercial relationship can increase the speed of technological circulation that consequently accompanying the international competition, cause the increase of productivity in industrial companies and subsequently cause the economical development. The studies show that a complete free economy , with a powerful probability , dominates a strongly restrained economy. In fact, there is a possibility of a positive relationship between commercial openness policy and the growth of an important factor in stimulation of an unexampled wave in commercial reforms in many countries.

The logical and wise base to execute the commercial reform plans is this belief that the releasing is the prerequisite of transmission from a quite close economy to a quite open one.

If the openness of economy has a positive relation with the growth ,the releasing is the prerequisite for the growth with the increase of openness degree, it has a positive effect on the economical growth , as much as our relationship with foreign countries and the amount of import and export increase because with increasing export and its outcomes, it is possible to utilize the resulted outcomes in order to invest and using the production cycles and to cause the increase of growth and employment in society.

According to the research results , we can present some suggestions as below: According to the first result, it is suggested that in order to increase the banks efficiency revenue, we direct the bank facilities to the currents and science based and entrepreneur projects.

Regarding the impact of financial development indicators (the volume of liquidity and given credits), we can provide the conditions of economical growth through the increase of given credits by activating the private sector in country and the increase of investments in this sector.

According to the second result, it is advised that with taking suitable and analyzed commercial openness policies such as import and export policies, it is possible to increase the effect of commercial openness policies.

With an attempt for exporting manufactured goods with the high added value, preparing a suitable channel for industrial competition and increasing their efficiency. The increase of financial development through the increase of internal given credits to the private sector can cause the private investment increase and subsequently, the economical growth. The increase of the growth followed by financial development can cause the re-increase of economical growth through investment and reference multiplier effects.

Suggestions for taking policies

Releasing of country's commercial regime and making governmental industries and institutes cause the boom of marketing of the branches of multi-national companies and also Iranian-foreign companies and it is a major factor to absorb the direct foreign investment in country.

- The existence of sufficient and powerful transportation is very important in order to relate with internal and external markets. Facilitating the aerial,, marine and road transport system and having an organized and dynamic transport web are the conditions of the area's success, so, it is necessary to accelerate the infrastructure and the growth of industry and services sector that is related to preparing and constructing buildings to allocate to the applicants with the usage of legal facilities and preferences, In addition to this fact that we should not ignore the recreational, residential, sanitary and welfare services.

- Allocating parts of governmental budget in the total of suggested budget in order to empower the infrastructure and basic installations.

- Clarifying rules and long-term rules constant collection, concerted with universal standards.

- With the decrease of limitations in commercial policies , cause the better situations of commercial and tariff policies and the increase of countries foreign commerce

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