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The relationship between banking facilities and Iran's economic growth: Evidence from a Financial Social Accounting Matrix

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EXTENDED ABSTRACT

INTRODUCTION

During the recent years, stagnant inflation is considered as one of the main challenges in the economy of Iran , which has caused a drop in total demand in the economy by reducing the real per capita income and purchasing power of households. A decrease in the components of the total demand and its continuation will damage the productive capacity of the economy reduce the economic growth and gross domestic product. Thus, a solution must be suggested to resolve the stagnation which has been formed on the demand side of the economy. In this context, financial development and facility granting can stimulate demand and create the necessary platforms for reconstructing production processes. Therefore, this study aims to evaluate the effectiveness of the growth of economic activities in Iran from the facilities granted to socio-economic institutions (non-financial companies and households separated by urban and rural income groups). Based on the literature, researchers have paid less attention to the matrix of social and financial accounting. In addition, no study has focused on the evaluation of the relationship separately by economic sectors through FSAM although the relationship between facilities and economic growth has been analyzed based on an econometric approach . Therefore, this study seeks to collect FSAM for Iran's economy using the updated data of 2018 in a large format (dimensions 257x257) and the effect of the facilities granted by banks on the growth of activities checking the economy.

METHODOLOGY

Endogenous and exogenous accounts should be separated for operationalizing the financial social accounting matrix and calculating the increasing coefficients like social accounting matrix. Endogenous accounts consists of 1) accounts of the real side of the economy including the

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production account, production factors account, and the current account of institutions (households, financial companies, and non-financial companies), 2)accounts of the financial side of the economy including capital account (households, financial institutions, non-financial companies) and financial account (cash and deposits, securities, insurance technical reserve, and other accounts). Further, accounts of the government, central bank, foreign world, monetary gold and special drawing rights, legal reserves of the central bank, loans and government partnership bonds are presented in the form of external accounts. It is necessary to use the output data table to compile the parts of the exchanges in the real party of the social financial accounting matrix. These tables should be updated due to the time gap between the statistical base year and year of their publication. Therefore, the updated supply and consumption table of Iran's economy for 2018 was collected and used to complete the social financial accounting matrix.

FINDINGS

The results of this study showed that stimulating the current demand of households with current facilities and the capital demand of households and non-financial companies with capital facilities increases the production of economic activities at an appropriate level. Thus, the increasing coefficient of current facilities of households is more than 2 and the increasing coefficient of capital facilities of households (except for the low-income decile) and non-financial companies is more than one. Given the percentage of additional growth, the results of this study showed that the added value (income of production factors) increases, along with the granting of capital facilities to institutions, especially non-financial companies, by applying a shock to banking facilities. The growth of added value provides 0.16%.

CONCLUSION

Based on the obtained results, it is possible to provide the basis for stimulating the demand and expect to improve the production of activities and reduce the recession by granting facilities and providing credits to the institutions. In this context, by adopting measures and solutions such as granting purchase facilities to consumers, it is possible to provide the basis for the prosperity of production units. Further, it is possible to help stimulate

the supply side by facilitating the receipt of capital facilities for households and non-financial companies. In addition, granting facilities to urban households, as well as households of low income urban and rural groups, and granting facilities to rural households and households of high-income groups can have more productive consequences than other groups. Hence, it is suggested that the groups which can have a greater impact should be targeted in granting facilities to the private sector and households. Further, since the granting of various current or capital facilities can have different effects on the production of economic sectors. In other words, the type of facilities granted should be considered based on the growth of that sector when the growth of the production of a specific sector in the economy is desired.

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