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"Explaining and comparing the relation between financial markets development and economic growth in the Middle East countries"

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ABSTRACT

Due to the major role in gathering sources through saving, optimizing the flow of financial resources and lead those for use and investments needs in the productive sectors of the economy and a great effect on economic growth, the financial markets are attractive. Positive effects of stocks on economic development including incentive stock investment by reducing risk, pricing and facilitating the liquidity risk and mobilizations of deposits are so large and sensitive that economists believe that the difference between the developed and undeveloped, not only develops on advanced technology, but also it is widespread in the presence of active and integrated financial markets. This research investigates the relation between financial markets and economic growth on Middle East countries over a thirty-year period from 1361 to 1391. To test the hypothesis of research, the panel data regression approach has been used as an experimental model of endogenous growth. In this study, two hypotheses of bank credit volume and stock market size has been considered. the test result show a negative and meaningless relation between the bank credit volume and economic growth. Also there is a positive andmeaningless relation between stock market size and economic growth in the studied countries.

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INTRODUCTION

Using the economic policies and macroeconomic management is based on a systematic and systemic pattern in all the developed countries. The framework in these countries is so that all sectors are working based on a rational principle and coordinated system. Systems are designed such a way that by political upheaval and political displacement, do not have a major effect on the structure of economic system, but system moves toward a goal, automatically and efficiently and it has been traced for it by market interactions. In less developed and developing countries, the issue is entirely different. In these countries, a coherent and efficient system is not governed by complex economic interactions. Behavioral methods are mainly based on specific tests and human actions. Generally, the law is complying so that the interests of specific groups are not endangered. Monopolies and influence agents and rent-seeking and abuse is rampant in almost the majority of economic affairs. This creates obstacles to the development of other sectors [6]. The role of dynamic financial markets is critical in the economic development of the country. Financial markets are a key factor for economic growth in each country. So the financial markets development and long-term and sustainable economic growth are two interlinked categories. The financial system is one of the important parts of modern economy which is a combination of markets and financial institutions. Financial markets and institutions provide the possibility of decentralized activity and creating a broad and complex economy. In these markets, the holders of surplus financial resources and poor of financial resources will come together and they lead to increase the economic efficiency and optimal use of resources. Surely, without the expansion of the financial system, individuals and companies will come in the form of individual economic units that they don't have a way to provide resources

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or to invest their resources. For this reason, by linking between two groups, financial system will address the needs of each group [12].

The research Literature:

Financial markets have a key role in mobilizing and channeling funds in the economy in the industrial sector and consequently improve the economic growth. According to some perspectives of economics, the development of financial markets is the actuator motor of economic growth in countries. According to the macroeconomic theory, capital accumulation plays an important role in determining the total output and output per worker. Through the first case, along with the development of production increasing and productivity of the national economy, the progress of community with the investment has an align and appropriate relation and many economic studies emphasize that in the absence of Capital Cali, the economic growth will encountered a serious problem [2]. Since capital is one of the most important resources of continues growth of a country, through financial markets, we can accelerated the capital formation [23]. They can be also distinguished through the role of financial markets in the economic growth as two traditional schools of development economics. According to one view, financial markets are considerable as the minister of industry. The followers of this school of thought inspired from Raubinson view and the believe that financial markets compared with other factors that influence on the differences in economic growth, are passive. In other words, financial intermediaries are completely passive and they are a channel to guidance the households' savings into investment activities. And main factors of growth should be capital stock and investment rates and public policies should focus primarily on physical capital. Second view inspires from schmpeter view. Theoretical economics such as Gold smith, Mackinon and shao believe that from the economic development and growth, financial markets have a key role. The difference in the quantity and quality of services provided by financial institutions can explain a large part of difference between the countries growth rate. In a relation to the second view, Gold Smith was the first researchers who indicate the positive relation between financial development and economic growth. He looks to explain Manal that according to them, the emergence of markets and financial institutions influence on economic development [12]. The financial market has two main pillars as money market and capital market, a market with its high efficient, use and mobilizes the resources and sparse capitals. Thus, in an efficient market, we need appropriate organizations and financial institutions that lead to valuable achievements such as economic growth and economic development. According to Wong and Xu (2011) as well as other empirical evidence, independently stock market developing, indicates a strong positive correlation with economic growth and it stressed that development of stock market is as a key driver of economic growth in developing and developed countries. And it has positive effects on capital circulation, investment risk diversification and accumulation of storage for long-term industrial projects and provides sufficient liquidity. As a result, the financial market development is a driver for financial innovation, appropriate resource distribution and efficiency and technological progress. So, we should consider the development of capital market through creation of contribute peoples by expanding physical and electrical stock market, and development of innovative financial instruments in the stock market and accelerate the privatization and transition of the state economy. Among the key factors influencing the development of financial markets is the financial innovation and as a result, cause of flexibility, diversity and expansion of financial markets and it can in turn effect the economic growth and development. The developed countries experiments shows that unlike traditional theories of economic growth than consider the socio-economic development caused by the capital concentration and financial resources, the most important factor to reach the development of creativity and innovation in all sectors of the community, investment to create innovation to efficient and effective use of resources, increasing productivity and enhancing the welfare of the individuals and social development of the world, so innovation is a precondition for economic development [26].

What can be seen in modern financial markets is that among the types of financial markets and financial intermediaries, the most complex mechanism is financial intermediation. Financial innovation in the form of new financial instruments, services, facilities, technology and financial markets pushes the direction from final storage toward productive investment. And it can increase the rate of capital accumulation and thus lead to increase the rate of economic growth. Only in the last two decades, hundreds of new financial instruments have been added to the advanced markets. Creating new financial instruments and using these tools influence on capital market and increase the possibility of mobilizing and allocating market resources.

Patrick (1996) is proposed on the field of transposition financial impact on economic growth and causal link between the financial and real sectors, two following models.

A: Supply-led pattern: according to this pattern, development of financial sector is precedence on the real sector. Because by pushing the scarce resources of storage to investment based on the relative return rate, it creates the real growth. B: the comply with the demand pattern: this pattern suggests that the growth of real part leads to the development of financial system. In other words, by developing the real part of economy, demands are created for different financial services that the financial sector responds to it. Also, economic development and growth is the most fundamental goal that countries and communities will follow it. Providing a good life for

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all levels of community is a wish that is considered in countries goals and programs. And today, there is no program to adjust without the development goal. To reach economic growth, we need appropriate mechanism.

One of the necessary mechanisms is the financial markets which plays an important role to reach the economic growth. Economic enterprises have an important role in the GDP as an indicator of economic growth and development. In order to prepare necessary resources of services and goods, these enterprises need financial resources and they play the major role in financing the essential role and by doing so, they influence on economic growth and development. Also, in this relation, the puzzle of economic growth and financial market developing is considered and in a collection, three theories have been introduced to it. In the first theory, the hypothesis of "Financial-Led Growth" arises. Here, it is assumed that the process of (supply-leading) can make a relation between financial markets and economic growth. Accordingly, in the case of a strong financial sector with infrastructure and financial institutions, the possibility of optimal resource allocation of financial restricted resources from the navigator sector with surplus is provided for the sections with deficit and following other economic sectors will be brings toward the economic growth. Therefore, an efficient financial sector causes economic growth in different parts [14].

In contrast to this hypothesis, there is a hypothesis "Growth-Led Financial". And it states that high economic growth can provide necessary demand to forming and creating tools and contexts of financial market development and these markets are obliged to change and coordinate themselves with the created changes and demands in different parts of economy. In other world, this hypothesis states that there is a demand following between financial markets and economic growth [14] [18].

In the third hypothesis, the feedback hypothesis is considered; this hypothesis implies that there is a two-way causal relation between financial markets and economic performance. In this hypothesis, it is stated that a country by using developed financial markets can create the context of economic growth through technological change in services and products [11]. Through this process, we will see the significant creation for demands and financial products. On this basis, the development of financial sector and economic growth in a dependent and interrelated form can have a causal feedback with each other. This issue has been studied in the study of Luintel and Khan more than other studies [24] [18].

Also, in the twenty-year perspective of Iran, Iran is a developed country with the first economic, scientific and technological place in the area that the economic goals in the Iran perspective of 1404 that at least have the first rank among West Asia countries (30). According to the above statements, this research tries to investigate the relation between financial markets developments and economic growth through the Middle East studies. And it uses independent variables such as the volume of bank credit and market size and dependent variable such as per capita GDP which is the agent of economic growth to identify the relation between two above countries.

Effective factors on financial market development to national development of a country:

1. Liberalization of interest rate or returns at financial markets:

In the past and present circumstances, determining the interest rate of bank deposits through administrative decisions and without reliance on market mechanism are determined through the money council. And in fact, in the side of bank deposits and bank loans and facilities, and real interest rate is negative in most years (means the nominal interest rate after inflation deduction). And this issue on one hand has motivation of saving and on the other hand, has a negative effect on resource optimal scopes. So, one of the strategic lines of financial sector reform is liberalization of interest rates of bank deposits.

2. Completion and expansion of financial institutions:

In the banking system, banks provide short-term and long-term loans available to their customers. And banking services are supplied as special and investment banking to all citizens. In the base system of exchange in deposit banks, generally, they operate in the field of short-term loans and providing commercial banking services. In this system, a large part of financial needs of productive and industrial needs are supplied in the market. Capital markets have a large activity in the base system of exchange market related to the bonds in compare with base bank system.it should be noted that in developing countries such as Iran, financial market relies on the banking system. And banking system is composed of two groups as specialized and commercial parts. So the commercial banks deal with short-term and commercial banks, while specialized banks are more focused in long-term loans. In these countries, governments have an extensive intervention in commercial and specialized banks and this arises of ownership of banks which is arises from the government side.

3. Securities type and developing the range of financial assets:

To attract savings and direct them toward industrial and productive activities, the range of financial assets should be expanded that peoples with different tastes and attitudes toward risk and danger can have a wider choice to select good assets from the return and risk side.

4. Regulating the financial markets:

The other tools of financial market development is regulating the capital market or in other word Institutionalization and regulation and legislation, regulation, criteria and mechanisms for ensuring the integrity, transparency and prevent from fraud and structuring transactions and generally, it creates a safe environment for investors, especially the owners of small saving.

5. Creation of second-hand markets and secondary and derivatives markets:

Development of second-hand markets and derivative market should be considered from the context creation and development for buying and selling securities and as a tool for resource mobilization and benefits allocation. In countries with developed financial systems, the role of these markets is far wider than stock. The most important issue in these markets is to legalizing them.

6. Minimizing the public sector and developing the private sector:

Creating an atmosphere and good environment for economic activity, specially minimizing the government bodies and private sector development are the requirementsthe industrial development. Public sector development and along it the financing of budget deficits system of government and guidance is an important part of the banking system to governmental and quasi-governmental banking activities, actually led to the expulsion of the private sector from the field of industrial activity. Therefore, the capital resources of a private sector will lead to productive and industrial activities of private sector and the role of public sector will be less and less visible.

7. The need for foreign investment:

If you do this, the industry sector can benefit from the updated management and technology of foreign investment in addition to financing. A foreign partner who wants to his/her productive and industrial products be in the market, he should use the efficient and competent technology and management [4].

Types of financial markets:

From the financial receivables maturities, financial markets can be divided into two major categories such as market and capital market. These market participants are primarily individuals or liquidity administrative units and as a saving sector, they provide other economic units through the special resources of banking systems. Thus, the most important aim of money market is to create facilities for economic units to provide liquidity (short-term) and provision of working capital. These funds ae mainly used to short-term financing items of the balance sheet, financial constraints compensation and business needs of economic units.

The main features of money market can be summarized as follows:

1. High degree of confidence in proportional to the principal and interest repayment.
2. Speed of financial transactions in these markets
3. Use tools with high degree of liquidity
4. Control of monetary authorities (Central bank) by using the tools of monetary policy.

Capital market:

Capital market is the long-term financial transaction markets. Long-term concept, monitors on financial receivables with maturities greater than one year. For example, when a firm is issuing long-term bonds and pays interest for a long time, want to invest with the obtained funds and repay him with the returns of obtained debts. And the capital market is divided into two markets such as primary and secondary markets:

Primary market:

Primary market is a market that enterprise can exchange its financial assets with long-term financial resources. In this market, the issuer of security market wants to sell these bonds to provide necessary funds. In this market, the exchange issuer sells bonds to provide his necessary funds. The main reason is ability to sell these securities secondary market. Primary financial market has two features:

1. It is a market which capital formation occurs in it.
2. The issued securities will be published for the first time in this market.

In order to this issue that primary market can play its role in an optimal way, so that this role can be done in setting the sale and distribution of published papers, often firms use investment banks. These financial institutions can help to firms to sell their issued funds in the market. In general, the functions of primary market can be provided and classified as follows:

1. Their interface role is placed between companies and buyers of securities. And to supply securities to the publishing companies, provide different types of service.

Because primary market can play its role in an optimal manner, so this role should be done in bring order the sale and published distribution securities. These financial institutions can help to companies to sell their published securities in the market. In general, the functions of primary markets can be classified and presented as follows:

1. Interface role is placed between companies and potential buyers of securities and to supply securities to issued companies, they provide different parts of services.
2. Consultation
3. Portfolio management
4. administrative/parliamentary duties
5. The role of sales insurance/underwriting (getting obligation to buy)
6. Preparing a subscription ad banners those aware potential investors of the new issues of securities.
7. Distribution and sales, when the bonds or new shares should be guaranteed, they take responsibility for bonds distribution.
8. They form a group of investment banks and in the case of new securities and related money receiving; they can offer services to the securities companies.

Secondary market:

In this market, the securities which are already published will be sale and purchase. These markets ensure participants that they can sell their securities easily. And they don’t have a problem to cash out their financial assets. In the case of bonds with a special maturity, the existence of these markets makes it possible to the holders of these bonds does not have to keep them up to date. The secondary market is also divided into two sub-markets:

1. Organized exchange market:

These are concentrated markets in which auction or deals are done. And they can work for equities, the bonds or pre-purchase or pre-sale. There are many examples of organized markets among the countries on the world of which the New York Stock Exchange is dedicated an effective position to itself.

2. over the counter market:

These markets consists of a group of securities dealers who are created an extensive network. Due to its owned portfolio, they buy and sell securities [20].

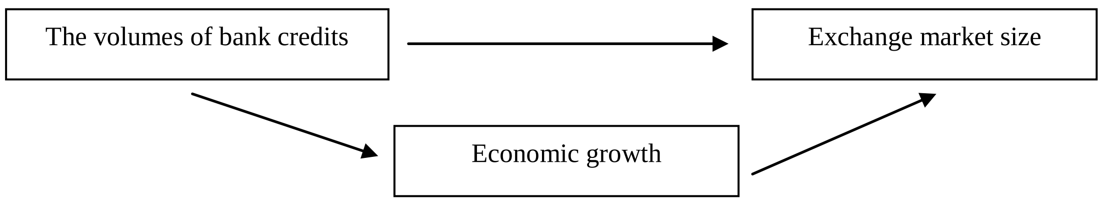

Fig. 1: the conceptual model of research

The main task of the financial markets is to transfer of funds from lenders to investors. This transfer is done by intermediary which are work in market and capital market. The main task of money market is to create short-term facilities for enterprises to meet their liquidity and improvement. While in the capital market, long-term instruments with maturities are traded with more than one year. In practice, these two markets are complementary which takes the necessary facilities for investors in financial markets [22].

Banks as the largest financial intermediaries can facilitate the financial activities and the flow of economic activity and in other word; they can increase the productivity in the economy. The banks activity lead to this issue that with the production factors, more production should be realized, So the more wide and accurate performance of banks is considered as the economic growth and higher welfare in each country. And the increase of deposits ratio and credit to GDP in non-inflationary situation can be a sign of financial market and increase its contribution to economic growth. Like other financial markets, stock market is mainly the confluence of demand and supply of financial resources. Since the basic and primary nature of funds supply in this market is for investors and savers. Development of the market plays a key role in the growth of productivity and economic growth. Appropriate stock markets facilitate the private bond issuance. Also, some of the operational aspects of the market can be stated as follows:

1. The issuance of shares and bonds to provide funds for new investment activities (primary market).
2. Accreting the individuals annual savings for new investments
3. The optimal allocation of savings to the most efficient investments and optimal allocation of factors (efficiency increasing).
4. Providing the liquidity capability of people savings as a capital in secondary market.

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5. Increasing the desire to saving due to get a further return and immediate liquidation capability in stock market.

6. Attracting foreign savings to increase investments through opening the stock market for foreign workers.

7. Allocation of increased liquidity to turnover in stock market and the influx of speculative discount on the market for goods and services and physical assets

8. Providing risk management by using derivative securities and consequently create derivative market as a set of capital market. In the other part of research, according to the evaluating the relation between the development of financial markets and economic growth and with the application of an endogenous growth model, the relation between financial markets and economic growth is checked. One of the advantages of endogenous growth model is that it explains the growth model as a series of internal economic factors. And it provides interesting features such as external effects arising from the knowledge. The basis of the used model in this section is a production function in the form of

Y_t=F(K_t, L_t , FM)

FM=LBP , LSMC

Where y is equal to per capita GDP, k is the physical capital, L is the number of workers, FM is the financial market, LBP is the size of bank credit and LSMC is the securities market size and t indicates year.

Research Hypothesis:

The main hypothesis

There is a significant and positive relation between the development of financial markets and economic growth in the Middle East countries.

Secondary hypothesis:

There is a significant and positive relation between the size of bank credit and economic growth in the Middle East countries.

There is a significant and positive relation between the stock market and economic growth in the Middle east countries.

Methodology:

Since in this research, the relation between variables is considered, so the research methodology is descriptive and correlational. Investigating the relation between financial market development and economic growth is done by the case study of Middle East countries and it is done by using the past data. The purpose of a research is an application and its results are used by government, all investors, researchers, organizations and institutions managers, economic and financial organizations and institutions such as central bank. In this study, two independent variables are used which are the volume of bank credit and the securities related to the statistical population for the years 1982 to 2012 (1981-2011). And GDP per capita is considered (GDP) during the years of economic growth as the dependent variables are represented as a dependent variable. The statistical population of this study includes the Middle East countries and due to incomplete data from countries, their investigation has been refused. The investigated countries include Iran, Egypt, Oman, Israel, Saudi Arabia and Jordan. The information gathering in the first step includes the research topic such as history, features and other cases. Through studies and library resources including books, magazines, weekly and monthly publications and research centers and academic theses and research papers and domestic and foreign articles, In the second phase, the required data to calculate the variables for the period 1361 to 1391. In order to classify data, the Excel software is used, also after classify research data for statistical analysis and test hypothesis, also after classifying, research data are used for statistical analysis and for hypothesis test, Eviews software is used. by Considering the research test, that the present or absence of significant relation is studied between dependent and independent variables in multiple countries, simultaneously. Major hypothesis is investigated with the results of first and second hypothesis. This hypothesis investigates the relation between financial markets and economic growth in the Middle East countries.

The research model:

$GDP_{it}=\alpha_0+\alpha_1 LBP_{it}+\alpha_2 LSMC_{it}+e_{it}$

GDP_{it}: GDP of country I in year t

LBP_{it}: the volume of bank credit

$LSMC_{it}$: the size of securities market

e_{it}: Model error

α_0, α_1 , α_2 : model's coefficient

to test the first hypothesis, the following model is used:

$GDP_{it}=\alpha_0+\alpha_1 LBP_{it}+e_{it}$

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GDP_{it}: GDP of country I in year t
LBP_{it}: the volume of bank credit
e_{it}: Error model
α_0, α_1: model coefficients
this model is investigated the relation between the volume of bank credit and GDP in the Middle East countries.
To test the second hypothesis, the following model is used:
$GDP_{it}=\alpha_0+\alpha_2 LSMC_{it}+e_{it}$

GDP_{it}:GDP of country I in year t
$LSMC_{it}$:the size of securities market
e_{it}: Error model
α_0, α_2 : model coefficient
This model investigates the relation between market size and securities and GDP in the Middle East countries.

Specifying the econometric model:

In this section, we specify the used model to test the hypothesis of this study and assessing the effect of economic indicators of the financial market. By considering different researches in the field of financial market model, our proposed model is based on the Cobb-Dagalas function and the reason of its appropriate form and the fluidity of its internal variables inside the function in the compatible form with economic conditions are diagnosed. On the other hand, due to the homogeneity, we can use Euler theorem for production distribution among production factors. On this basis, we try that by providing the framework for this function and use similar patterns in other research and using the designed indicator based on the conceptual model, we can estimate the factors for studied countries and share financial market indicators on economic growth. As it mentioned in this research, the form of production function in general is as follows:

$Y_t=F(K , L , FM)$
$FM=LBP , LSMC$

Where Y equals to per capita GDP, K is the physical capital, L is the number of workers, EM is financial market, LBP is the credit volume of banks and LSMC is the size of exchange markets. Each of the indicators of the financial markets as a component and its effect on economic growth is evaluated. Cobb-Douglas in this research by assuming the constant returns to scale in defined as follows:

$Y=AK^{\alpha}+L^{\beta}+FM^{\gamma}$

That Alpha, beta and gamma are production elasticity of each host institutions.
In the next step, by taking the logarithm of both sides of Cobb-Douglas function, this equation is estimated:

$LnY=\ln A+\alpha\ln K+\beta\ln L+\gamma\ln FM$

According to this equation, the research hypothesis is tested and the effects of financial markets indicators are tested as a dependent variable on a per capita GDP.

Data Analysis:

Table 1: Descriptive statistics of the Middle East countries

variable	LBP	LSMC	GDP
Average	52.08922	211.9639	346159.4
mean	41.91354	13.8320	5851.689
maximum	232.0800	2161.547	6877716
Minimum	-55.36872	0.0000	240.6068
Standard deviation	43.47460	510.4486	1271041

In the above table, the central and dispersion variables are shown. The main indicator is average that represents balance and center of gravity distribution. In this study among related countries, the highest level of average volume of bank credit is dedicated to Israel and the lowest average was for Saudi Arabia. Also, the highest average related to the variable size is for Saudi Arabia and the lowest average is for Iran. Also, Israel has the highest average of GDP per capita and Egypt has the lowest average of GDP per capita.

Table 2: Trend Analysis of variables in the study period

Variable	During the period (1982-2012)	Percent growth over the period
LBP	Rising from 51.82 to 55.67 percent	4.15
LSMC	Rising from -6.43 to 29.12 percent	35.55
GDP	Rising from 111.16 to 175.60	64.44

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According to the above information, the volume of bank credit is changed from 51.82 to 55.67 and it is increased to 4.15 percent. And the volume of exchanging market is increased from -6.43 to 29.12 with the amount of 35.55. Thus, both variables have improved during the study period and the per capita GDP has been growth to 44.64%.

First hypothesis:

To test the first hypothesis, the following model is used:

$GDP_{it}=\alpha_0+\alpha_1 LBP_{it}+e_{it}$

e_{it} :error model

$\alpha_0+\alpha_1$: coefficient model

GDP_{it}: GDP per capita of country I in the year t

LBP_{it}: the volume of bank credit

H_0: there is not a positive and significant relation between the volume of bank credit and GDP in the Middle East Countries.

H_1: there is a positive and significant relation between the volume of bank credit and GDP in the countries of the Middle East.

Table. 3: the results of the first hypothesis test related to the Middle East countries

Variable	correlation	Standard deviation	T statistic	Significant level
C	8534.636	1196.520	7.132880	0.000
LBP	-3.438518	2.147973	-1.600820	0.1111

As it can be seen in the above table, since the significant level of LBP variable is lower than 0.05 significant levels. And it the related column to the correlation it was seen that this variable has a significant coefficient.

So, there is a negative and meaningless between the volume of bank credit and economic growth in the member countries of the Middle East.

The second Hypothesis:

The primary model is as the second hypothesis:

$GDP_{it}=\alpha_0+\alpha_2 LSMC_{it}+e_{it}$

e_{it}: error model

α_0,α_2: model coefficient

GDP_{it}: GDP per capita of country I in the year t

$LSMC_{it}$: the volume of stock market size

H_0: there is a positive and significant relation between securities and GDP in the Middle East countries.

H_1 :there is a significant and positive relation between the stock market size and GDP in the Middle East.

Table 4: Results of the second hypothesis of the member countries of the Middle East

variable	correlation	Standard deviation	Statistic t	Significant level
C	9713.784	2598.197	3.738663	0.0002
LSMC	0.804156	0.709985	1.132638	0.2588

As it can be seen from the above table, the significant level of variable LSMC is higher than 0.05 significant level and it has the positive coefficient correlation.

Testing the main hypothesis according to the results of previous hypothesis

H_0: there is not a significant and positive relation between financial market and economic growth in the Middle East.

H_1: there is a significant and positive relation between financial market and economic growth.

In this study, the financial market includes of two variables as bank credit and the financial market securities market size that the relation between financial markets and economic is measured. Based on the assumptions described earlier, there is not a significant and positive relation between the volume of bank credit and economic growth in the Middle East countries. And there is no significant and positive relation between the market size of securities and economic growth.

Table 5: the results of main hypothesis

Variable	correlation	Standard devaion	T statistic	Significant relation
C	8489.977	1175.463	7.222667	0.000
LBP	3.544602	2.147985	-1.650199	0.1006
LSMC	0.836516	0.708813	-1.180164	0.2395

As you can see in the above table, there is a negative and insignificant relation between the volume of bank credit and GDP per capita (economic growth). Also the results indicates a positive relation but insignificant between the market size of stocks and per capita GDP (economic growth).

Results:

The first Hypothesis:

These results indicate the absence of a significant positive relation between Middle East countries of bank credit volumes and GDP per capita. In most studied countries, the banking sector is underdeveloped, the banking sector is entirely in the hands of state and government retains a significant portion of the banking system. In most countries, there is an urgent need to develop the banking sector and financial innovations which should be brought to the country according to the studies of Habib pour dehkordi (2006) is insignificant in Iran and in the study of Nili and Rastad (2003) is so negative and very small in Iran. Also in the Reytan study 2007, in the Middle East and North Africa, Tayyeb Nia and safaii (2008), in the group of ECO, OECD, they don’t have a positive effect on economic growth. In the advanced industrial countries Stock Exchange is the main source of financing business ventures. It should be noted that in addition to the market, banks also play a significant role in financing firms. But in developing countries, banks are still the main supplier of the financial needs of enterprises and economic institutions; we know that borrowing from the banking system is always inflationary effects, which, in turn, can have a negative impact on economic growth. So the stock is better and easier to expand businesses can meet the financial requirements of these markets. As a result, possibility to control liquidity and to control inflation will increase and evidence suggests. Stock Exchange countries increasing and has positive effects on economic growth. The results also show that the hypothesis of the research and development of exchange may cause the country's economic growth. And this relation in the Khataii and seyfi pour (2005) studies in Iran has a positive and long-term on economic growth, Karbasi and Noubakht (2009) in 15 countries show a non- strong and Samadi et al (2007) includes Iran and 13 selected countries and it was positive and insignificant. The studies of wong and Vozo (2011) is related to Hong-kong, china, japan, and America and britian and tostonBak and raslovin (2002) and lovinvezros (1996) indicate 41countries and the relation between 74 countries is positive and Soliman and Holvez (2003) for four countries, Chile, Malaysia, and Philippines have shown a positive effect on economic growth.

Suggestions:

1. According to the first hypothesis, it is proposed to control the Middle East, the volume of bank credit and appropriate infrastructure for economic growth; they should distribute their credits in the country. On the other hand, the organs should monitor of this issue.

2. Also a more accurate monitoring on public and private sectors and information gathering should be conducted. And economic activities are inconsistent with the objectives of economic policy of these countries and the bank credit is not attracted to the economic growth. And it would not lead to inflation and economic growth.

3. also, according to the results of the second hypothesis and further expansion of the volume of capital market by creating greater public participation in the development of physical and electronic stock market, and definition and design of a variety of investment in the securities market and accelerates privatization and transition from the state economy.

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