Journal website : https://pse.razi.ac.ir

Razi University

Public Sector Economics Studies
Qurterly
9 PSE
Department of Economics, Faculty of Social Sciences, Economics and Entrepreneurship, Razi University
Vol. 3, Issue 9, Autumn 2024 | Online ISSN: 2821-2681

The effect of institutional variables on financial stability banking system

Gudarzi farahani, Y.[1] ‖ Morsali arzanagh, Z.[2] ‖ Abbasi, E.[3] ‖ Mehrara, M.[4]

Type of Article: **Research**
10.22126/pse.2024.10463.1113
Received: 05 April 2024; Accepted: 28 May 2024
P.P: 385-406

Abstract

Weak institutional and structural performance in the banking system reduces the bank's ability to manage assets and liabilities. The role of institutional variables is important for various reasons. Appropriate institutional and structural performance in the banking system helps to use the scarce resources in the economy efficiently and as a result, the resources move towards efficient investments and more financial stability is created in the banking system. The purpose of this study was to investigate the effect of institutional variables on financial stability in the country's banking system. The statistical population of the present study was the banks admitted to the Tehran Stock Exchange in the period of 2002-2023. In order to analyze the data, the panel data method was used. In order to estimate this relationship, diagnostic tests were performed on the research variables and finally the experimental model was estimated using the panel data method with fixed effects. The obtained results indicate that the banking concentration index had a positive and significant effect on banking stability. The estimated coefficient is equal to 0.24. Based on this, with the stability of other conditions, a one percent increase in banking concentration leads to an increase in banking stability by 0.24 percent. The indicator variables of the ratio of non-current claims to total facilities and the number of bank branches have a negative and significant effect on bank stability, but the variables of ROA and ROE profitability indicators, the ratio of risk-weighted assets to the total assets of the bank and the ratio of facilities and deposits to the total Bank assets have had a positive and significant impact on banking stability.

Keywords: Banking stability, banking concentration, institutional index, banking system, panel data.

JEL Classification: E51, D20, E52, G21, C23.

1. Assistant Professor, Department of Islamic Economics, Faculty of Economic and Administrative Sciences, Qom University, Qom, Iran (Corresponding Author). ***Email:*** y.gudarzi@qom.ac.ir

2. PhD student, Department of Accounting and Management, Islamic Azad University, Karaj Branch, Karaj, Iran ***Email:*** z.morsali@ut.ac.ir

3. Professor, Department of Financial Management, Faculty of Social and Economic Sciences, Alzahra University, Tehran, Iran. ***Email:*** abbasiebrahim2000@yahoo.com

4. Professor, Department of Economics, Faculty of Economics, University of Tehran, Tehran, Iran. ***Email:*** mmehrara@ut.ac.ir

Citations: Gudarzi farahani, Y.; Morsali arzanagh, Z.; Abbasi, E. & Mehrara, M. (2024). "The effect of institutional variables on financial stability banking system". *Public Sector Economics Studies*, 3 (9), 385-406.
Homepage of this Article: https://pse.razi.ac.ir/article_3066.html?lang=en

1. Introduction

Examining the financial stability of these institutions has a special place in the macro framework. The main feature of banks' activity is collecting deposits from savers and granting financial facilities to companies and applicants. What makes banks the focus of attention is the importance of these two aspects of the activities of these institutions, on the one hand, they provide their financial facilities mainly through the savings of the general public, and on the other hand, especially in Iran, one They are one of the main providers of financing services to companies and other applicants for financial facilities, or in other words, providing liquidity needs in the economy. In addition to the fact that the changes in the banking system have a prominent role on the real sector of the economy, other reasons have been raised to pay attention to these institutions and their role in the occurrence of economic crises, which have made banks more than ever the focus of financial stability issues.

From the point of view of financial intermediation, banks are always at risk of crisis. The mismatch between the maturity of assets and liabilities of banks, as well as their lack of flexibility in terms of assets (limited ability to collect granted credits, especially in unfavorable economic conditions), always expose these institutions to significant risks. gives This characteristic of banks' activity is one of the main arguments for the supervision and intervention of public politicians such as the government and the central bank in the performance of these institutions. Based on this, a wide literature has been formed about how to monitor the banking system and the tools used for it. Assessing the health and stability of banks is one of the most important tools used in bank supervision. Based on this, in this study, the role of institutional indicators on financial stability in the country's banking system is examined.

2. Theoretical Framework

The stability of the banking system is important for four reasons. First, a stable banking system provides a suitable environment for attracting deposits. Second, it helps to transfer the monetary policy. Third, a stable banking system creates an efficient financial intermediary and enables it to be more successful in allocating resources to investments, and as a result, it can improve economic growth and investment. Fourth, the existence of a stable banking system increases the efficiency of the banking system and improves the distribution of resources in the economy. Due to the relationship between the banking system and the macroeconomic system, it is important to establish the governance index and institutional indicators in banks. Of course, it should be acknowledged that establishing corporate governance in banks is different from establishing it in other financial institutions. The complexity of banks' activities increases information asymmetry and reduces the power of shareholders to manage the bank.

Public Sector Economics Studies Qurterly 9 PSE
Volume 3, Issue 9, Autumn 2024

3. Methodology

In this study, correlation analysis and regression analysis were used to analyze the research data, and due to the type of data studied and the simultaneous comparison of cross-sectional and temporal data from the panel data model and from the software. Eviews12 will be used. The statistical population of this research consists of banks admitted to the Tehran Stock Exchange that were active during 2002-2023.

4. Discussion

The results obtained from this study indicated that the banking concentration index had a positive and significant effect on banking stability. The estimated coefficient is equal to 0.24. Based on this, with the stability of other conditions, a one percent increase in banking concentration leads to an increase in banking stability by 0.24 percent. The indicator variables of the ratio of non-current claims to total facilities and the number of bank branches have a negative and significant effect on bank stability, but the variables of ROA and ROE profitability indicators, the ratio of risk-weighted assets to the total assets of the bank and the ratio of facilities and deposits to the total Bank assets have had a positive and significant impact on banking stability.

5. Conclusion and Suggestions

In recent decades, financial stability as the goal of the economic system has been given more attention in policy making. Many central banks and financial institutions, including the International Fund, the World Bank and the Bank of International Settlements, have devoted a large part of their research activities to studying this field. Stability in a financial system will be established when the allocation of economic resources (savings and investment, lending and borrowing and economic growth) is done efficiently and easily, financial risk is identified, evaluated and managed and in Finally, it should be presented quantitatively and the system has the ability to absorb chaos and reorganize itself even during external shocks. Improvement in governance indicators as well as institutional indicators leads to an increase in financial stability in the banking system.

Since the growth of the amount of money is the main reason for the facilities granted by the banks, it is suggested that the banking system of the country prevents the process of continuous money creation through monetary discipline and the future plans of the bank in line with providing micro financing and establishing banking stability.

6. Ethical Consideration

6.1. Compliance with ethical guidelines

The authors of the article declare that research ethics have been followed in this study.

6.2. Funding

No funding received from public, commercial or not-for-profit agencies.

6.3. Authors' Contribution

The authors of the article declare that he has conducted all aspect of this study.

6.4. Conflict of interest

The author declares any conflicts of interest.

6.5. Acknowledgments

I greatly appreciate the valuable comments and suggestions from the respective reviewers, as they have significantly improved the quality of the article