5. CONCLUSION OF THE ANALYSIS

5.1 Real GNP in aggregate and per capita were the most important economic variables affecting total financial institutions assets ratio ($\phi_T$) as they have shown a high significant regression equations by F- and T-Tests. These results confirm the theoretical background of the model of Goldsmith, as GNP increases in aggregate and per capita, the volume and size of financial institutions (expressed by the ratio of total assets to GNP) would be increased. The effectiveness of real GNP in aggregate and per capita on the financial assets ratio revealed a better results, if we allow one year time lag as an adaptation period for this effectiveness. On the other hand, the effects of real GNP per capita on the ratio was much higher in both cases compared to effects of real GNP in aggregate. Therefore, it is the responsibility of the Ministry of Planning to consider the achievement of a desirable value of per capita real GNP and then estimate the size of the financial assets that would correspond to this target.

5.2 The examination of the relationship between the ratio of financial assets of the commercial banks and the economic variables has shown important results since the share of the commercial banks assets in total assets of financial institutions is high. The results of the regression analysis in
this case, has its influence on the relationships of total financial institutions! In total financial institutions, the effects of per capita real GNP on the commercial banks financial ratio was more significant compared to the effect of real GNP in aggregate, and thus the commercial banks could be taken in this study as a good example representing the relationship between financial structure and real GNP in aggregate and per capita. Moreover, annual rate of growth of population has revealed its influence on the commercial bank ratio as the size and complexity of the commercial banks related, to some extent with the population growth, their activities would grow as the rates of growth of population grow.

5.3 The examination of the relationship between the ratio of assets of Reserve Bank and the economic variables did not show any significant relation in all groups of equations, timely or lagged. This means that Reserve Bank activities were not related to economic variables towards assets ratios. The case of Reserve Bank here reflects the non-effectiveness of monetary policy towards its relation to economy. The results show the necessity for drafting of a monetary policy to consistent with economic policy.

5.4 The results of quantitative testing of relationship between the assets of specialized banks and the selected economic variables were almost close to those related to Reserve Bank with few exceptions. These exceptions were mainly re-
related to the significance of the regression and correlation coefficients of two simple linear equations related to real GNP in aggregate and per capita, though their regression coefficients were low compared to their corresponding equations of Reserve Bank. This result could be explained by the fact that the role of specialized banks were neither effective nor significant as the role of non-monetary financial intermediaries should be. Moreover, the significance of the above variable represents the role of these intermediaries in activating the existed liquid assets in economy, thus affecting velocity of circulation rather than real GNP in aggregate and per capita directly. That is the reason for a new era of specialization by section of the activities of the banking system which the government has adopted in recent years and by which more results can be promising if this specialization could be carried out within a framework of a consistent credit and monetary plan.

5.5 According to this research, it can be concluded that the best approach to deal with the examination of the quantitative relationship between the banking system (Reserve Bank + commercial banks) assets ratio and the economic variables is to measure these relations by simple linear equations, and to direct the analysis to the real side of economy, mainly with real GNP in aggregate and per capita. On the otherhand, this research has proved empirically that if the economic policy could be related to the banking system, this should be
applied after an adaptation period of dynamic analysis expressed in one year time lag.

5.6 This study has shown inter-correlations among some of the independent economic variables in some of multiple linear equations. This inter-correlation or multicollinearity was mostly related to the variable rate of growth of real GNP per capita and annual rate of price changes. For example, the non-significant results of the relationship between the rate of growth of real GNP per capita and annual rate of price changes as two independent variables and the financial ratio are self explanatory.

5.7 The examination of the relationship between net issue ratios of all type of financial institutions and the selected economic variables did not show significant results. The reason is that these ratios were relatively small and did not show a major trend that could benefit from the time series analysis as was in average ratios. This prove that study of the quantitative relationship between the assets of financial institution and the real side of economy is more reliable if we use average ratio than the net ratio.