The relationship between Economic growth and accepted bank stock returns in Tehran stock exchange

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ABSTRACT: One of the problems in developing countries like Iran is liquidity shortage for fixed investment as a barrier of the economic growth. Economists believe that solution of this problem is direction of the resources available in the country toward manufacturing and industrial sections through money and capital markets. The researches which economists have conducted in recent years indicate that banks of a country on the one hand and stock market on the other hand are effective on the economic growth. This research links the above studies to each other by analyzing relationship between economic growth and return on stock of the banks accepted in stock exchange. This research analyses data of banks accepted in Tehran Stock Exchange from 2005 to 2011 using data panel method. The obtained results indicate positive and significant relationship between return on stock of banks and GDP growth. On the other hand, Granger causality test also shows the bilateral relation.

Keywords: Banks; Economic Growth; stock returns; Financial Development

INTRODUCTION

In recent years all countries try to accelerate their economic growth and to achieve sustainable development. Research in this field suggests that financial intermediaries have an important role in ensuring this. So that some economists believe that in developing countries, development banks and financial performance primarily based on banking sector reform occurs. Because capital accumulation is one of the necessary conditions for economic growth and or developing countries like Iran are faced with a lack of adequate capital that financial markets can help to expedite the process of capital formation. Thus, on the one hand squeezed banks as one of the most important tools for absorbing liquidity growth and to finance the efficient and optimal allocation of resources can play a decisive role in achieving economic growth. On the other hand, the savings into capital markets to invest in various sectors of the national economy, the company moves. If Rebel and Moshirian and Wu (2007) argues that the banking industry's return on equity is defined as a measure of financial development. It indicates the size of the credit quality of the bank's credit. If the bank account of the political aspirations and projects of benefit to be allocated impact of bank credit on financial development and after economic growth will be negative. The overall performance of the bank on the bank's future cash flows directly affects the value of the banks which in turn will be reflected. It is widely used in the banking industry stock returns reflect the performance of each country's banking sector.

Therefore, this paper tries to answer the question that returns information about the bank's future economic growth is? It does not happen here, but the bank on the directly measure the amount of Bank Credit calculated as an indicator of financial development. The higher ratio of bank credit to GDP of a country's banking sector shows better performance. The overall aim of this study is to examine the relationship between stock returns and economic growth. Studies of the Bank and thereby economic growth and stock market and economic growth were also linked to gather.
Literature research theoretical

The country's economy at the macro level is composed of two parts: Real systems where goods are produced and includes both goods and labor markets. Balance in goods and labor markets lead to economic stability, growth and prosperity. But it requires investment and production financing. That's why the real system is in equilibrium with the financial system. The financial system, surplus funds from additional sources, which are faced with collected and held by individuals or entities applying for funds. The monumental task of allocating resources by shifting resources towards does the productive economic activity.

Financial system itself is composed of three major elements. These three elements together and can interact with the financial system that is favorable to the financial and business capital with perfect efficiency, to attract manufacturing sector and the real economy. The three elements are financial markets, financial institutions and intermediaries of financial assets (securities). The primary function of financial markets is to provide a platform for exchange of securities.

If the market fails to properly perform their duties in that case an efficient way of allocating liquidity problems will not be mixed (KahreSafavi, 2009). Like many other aspects of financial markets. However, a very important feature that, we will link the next and current earnings and savings that is possible to convert future costs and loan recipients the opportunity to find that the pictures do the action (valinezhad, 2001). Although the financial status of many of the indicators used, however, the indicators represent one of three characteristics: Performance, liquidity and market depth. Despite these indicators of financial development and growth of the market means that they are the cause of economic growth and achieving economic growth without increasing the confidence level of financing and investments are not allowed (valinezhad, 2001). Financial markets can also turn on the maturity of money market and capital market financing may be classified into two parts. Given that their own actions are not only separated from each other but also are largely complementary (barkhordari, 2011). Market risk is less than the money market funds. It demands a maturity of up to one year in money market and short term, but long-term capital market.

Individuals and units that have excess liquidity in the money market, usually the savings through the banking system are able to provide the needed resources to other economic units. Private Banks after the financial markets in order to increase market share and profitability are trying to improve performance and increase efficiency. Among all banks, commercial banks in the country in the first place in order to generate funding, Distribution and sale of goods are established and are of particular importance. This is because banks create credit and lending decisions or avoid it, and the way distribution Credit. The fate of the various economic activities and the general state of the economy. Commercial banks based on deposit with the people that put their trust; Attempt to open a new credit. So that the total amount of credits issued by more than notes and coins will be available. In fact, commercial banks through loans or credit can increase the money supply and make money. The Federal Reserve Bank as banker to the government and banks, both in terms of the extent of multiple operations and the partial sum of its assets in money market and banking system is dominated, Degree of central bank assets equivalent to more than 50% of the total assets of commercial banks and non-governmental sector is almost equal to the total amount of claims. This database includes not only the activities of monitoring and regulating banking activities but direct lending to state-owned companies, regulators, and regulatory activities in Tehran Stock Exchange (Capital Market) and even up to the largest property investment companies in the capital market in general is Iran. The economic structure of the banking system in Iran through subsidiaries and associated companies, and covers a large part of the money market and the capital market directly or indirectly holds. Moreover, the bank has the authority to grant such credit is to ministries and government agencies (Gharib Shah, 2010). Therefore, in this study, the Central Bank assets - trade as one of the indicators of financial development are considered. Financial structure of the country, after the victory of Islamic Revolution and Interest-Free Banking Act, the restrictions on has banking system. Interest-Free Banking Actof the securities transactions of banks and financial services are extensive. Compared to the stock market and commercial banks commercial banks in order to finance the show, more than 50 times the stock in financing the real sector has economy. Yet this is not the bank's performance due to non-bank institutions to develop capital markets and direct means of implementing monetary policy, banking reform and state laws and regulations, for to each Money and Capital Market and the substrates private banks will increase the efficiency of the banking system (vali Aliiah Seif, 2005, quoting Irqai Khalili, 2005). However, in recent years, with the entry of private banks has increased banks' stock performance.

But the financial systems that are based on the capital markets and securities, after the purchase of commercial paper Savings are funds to provide financiers sources of the applicant units (Motameni, 2009). Stock market liquidity and efficiency, thereby helping to manage and therefore, will increase economic growth (Levine, 1991). Clearly, the stock market will cause people to reduce risk by diversifying the portfolio of assets to engage in these terms, the share of resources allocated to the firms and, therefore, economic growth increases(Rasikh and Ranjar, 2009). In other words, the capital market is responsible for guiding the
allocation of economic resources (Barkhordari, 2011). One of the official stock market in any country that can attract small and unproductive savings and use them to build and develop effective (Hosseini, 2012).

The objective is to invest in the business market efficiency. Interest income to investors in the form of Interests, stock prices, or both may be manifested (Estahbanati, 2010). So the return on equity capital markets where banks have not developed well as a good indicator of the overall performance of the Bank's credit activities act (Rebel et al, 2007). The hypothesis of this paper is to examine the predictability of stock returns are banks.

While the economy of the method and process so interest rate in conventional banking methods varies with the rate observe din real economic output, were decisive in the early stages of the governmental system, with the support of the Glance economic sectors and the general economic indicators such as inflation. The order shall be appointed by the Council of Money and Credit. The rates are determined by the nature of its ability to maintain a balance between demand and supply off understand there is no guarantee that interest rates are not determined by the rate of the process is economic equilibrium (Akram and Mehdizadeh, 2004).

Therefore, in this study, the rate of return on government bonds as risk-free rate is used. Calculate the excess return on the excess return on the bank and the banking industry as an Independent variables used in. Efficient financial system, external financing constraints and reduce manufacturing units to facilitate the access of foreign investment, development, investment, financial development and the economic growth it provides. (Shukri, 2009).

Development of financial instruments, institutions and markets are included. As previously mentioned in the main stock exchange and the development of banks and financial markets. Thus, financial development is a multifaceted concept that is being developed as part of the bank. Hence a measure of private credit, debt and cash assets of commercial banks, the central bank as part of a good show. - Review of debt, an indicator of financial depth and thus is a measure of financial intermediaries.

Typically have short coming for measuring financial development may not be accurate and effective financial sector in ameliorating information asymmetry and reduction of transactions costs not. The liabilities include cash deposits in other financial intermediaries, which makes it a double accounts are accounts. Based on the assumption that the size of financial intermediaries is positively associated with quality financial services are used by many researchers to measure financial depth (Levine, Loayza and Beck, 2000).

This measure assumes that the value of financial intermediaries to deliver financial services is positively related to the risk management of the bank, but it does not count (Rebel, et al, 2007).

Tejarat banks-central, the value of commercial banks, the Central Bank has allocated the sum of savings measures. Again, the financial development index does not directly measure the effectiveness of banks (Levine et al, 2000). These measurements suggests that the central banks, commercial banks have a greater impact on credit allocation (Rebel et al, 2007).

Private credit, which is the most commonly used measure of financial development (Motamen, 2009). This measure of financial development is more than a simple measurement of the financial sector (Levine et al, 2000). The main advantage of this index is that public sector funds are not included in the calculation (firm and Ranjar, 2009). Reputation index to other indexes because the private sector is preferred that these other measures of financial development used in the literature are improved (Levine et al, 2000). Thus, this measure of financial intermediaries in mobilizing funds to private investors as well as private sector to better show (firm and Ranjar, 2009). And by the way has a greater impact on risk management. The larger the index indicates that financial development has improved the efficiency of the banking sector (Motamen, 2009).

Economic growth and development is affected by financial development and economic growth in turn realized without increasing the confidence level of financing and investments are not allowed. Generally, there are two views on financial development and economic growth. The first view suggests that financial development has no impact on economic growth.

The second perspective on the relationship between financial sector development and economic growth is emphasized. This approach can be divided into three groups. The first approach is known as the demand. The proponents believe that the growth of the financial sector. The second group is known as the supply-side perspective. Proponents of this theory believe that the financial sector prior to the development of the real sector of the economy. Third, the relationship between financial development and economic growth are considered simultaneously. In other words, there is bidirectional causality between economic growth and financial sector. (Salman and Amir, 2009).

Traditional theories by investigating the relationship between financial development and economic growth are not suitable because they have focused instead on the level of capital stock per capita growth rate or efficiency are emphasized. However, recent studies of the relationship between financial development and economic growth using endogenous growth models have been investigated. In this context, not only on the level of capital market growth is shown, but the effect is also seen growth rates (Hassanzadeh and Ahmadian, 2009).
Background

Research and Zeruos and Levin (2005) studied the "Stock Market, Banks and Economic Growth", using data from 49 countries during 1976-1993 are represented by stock market liquidity and banking development, the growth rate can predict the future. Also argue that this result is consistent with the following comment: 1-financial markets and institutions provide important services for long-term growth 2-the stock market and banks offer various financial services.

Naceur and ghazouani (2005) studied the relationship between stock markets, banks and economic growth in the Middle East and North Africa stated that the experimental results reinforce the idea that there is no significant relationship between stock market development and the growth of the bank and does not exist. Rebel et all (2007) in a paper on the relationship between bank stock returns and economic growth using a dynamic panel of 18 developed markets and 18 emerging markets analyzed, and implies that the relationship between stock returns of banks and GDP growth mining there are The relationship between return and market index growth is independent of the information not exist content of bank stock returns to this article Special features such as a standard of accounting disclosure and corporate banking, financial crisis, insider trading law enforcement and government ownership of banks.

Ake (2010) The role of stock markets on economic growth, based on time series data from five countries, Belgium, France, Portugal, Holland, England, to review the results indicate a positive relationship between stock market and economic growth in some countries the market there is a very active stock However, causality and suggest that countries with small market shares are lower liquidity is rejected.

Rioja and Varel (2011) in a study of stock markets, banks and economic growth in high-income countries have low income and are expressed in low-income countries; banks’ capital is a significant positive effect. However, stocks of capital accumulation and productivity growth help. The findings with regard to developing countries stressed that the stock market is somewhat surprising. In contrast, high-income countries stock markets and a significant positive effect on productivity and capital growth, while banks can influence the accumulation of capital.

Iran has also done a lot of research on economic and financial developments, some of which are as follows.

Fakhr Hussein and shahabi (2007) The effect of stock market development on economic growth in the size of the stock market Granger causality implies that economic growth is not a causal variable liquidity growth rate. That the liquidity ratio to economic growth. Hence we can say that the development of stock markets could grow to be more. But due to lack of causal relationship between economic growth and stock and marketing definitive conclusions cannot be madein this case.

Samadi, Nasrallah, Karamalyan Sichani (2007) in a study that examines the relationship between financial market development and economic growth in Iran and 13 other countries have expressed that Stock in the bank and have a significant impact on economic growth, but the stock is positive and significant impact on economic growth However, survey results show that 14 of the country’s financial sector, but the effect is positive and significant impact on banks’ stock on economic growth is positive but not significant.

Hassanzadeh and Ahmadian (2009) review "of stock market development on economic growth," admits that a positive relationship exists between economic growth and stock market development indicators. However, due to lack of development of Tehran Stock Exchange, its impact on economic growth than the effect of the credit granted by the banking system to the private sector.

Salmani and Amiri (2009) examined the impact of financial development on economic growth in developing countries over the period 2004-1960 using panel data has been uneven. The results show that the use of different measures of financial development, economic growth and the addition of other variables that affect the statistical model and different time periods does not affect results and the results are robust.

Taghavi, Amiri and Mohamadian (2011) "Financial development and economic growth in MENA countries using dynamic panel \(^\wedge\) in the period 1960 to 2006 to examine the financial and the results suggest that the negative impact of development on economic growth.

RESEARCH METHODOLOGY

For data collection in the research literature, a library of methods has been used. In other words, by reading books and articles and searching the Internet, the required information was collected. To conduct research and collect the data needed to test the hypotheses of this method has been used. The population considered in this study banks listed in Tehran Stock Exchange since the beginning of 2005 until the end of 2011. The banks listed in Tehran Stock Exchange during the seven-year study involving seven Banks. As the study population are considered. The systematic sample is selected so that all Banks 2003 to 2011, after attending the Stock Exchange and all the information you need is available to them as samples were. Thus, only seven are used by banks as
an example. All information on the website of the Central Bank and the New Deal has been extracted Cd. Firstly, the variables calculated using Excel and then analyzed using Eviews software is located.

**Data Analysis**

**Specify model**

This paper studies the model of Rebel et al. (2007) is founded. In this model, the relationship between stock returns and economic growth has been studied.

\[ Y_t = \alpha + \beta_1 Y_{t-1} + \beta_2 X_{t-1} + \varepsilon_t \]

The subscript t denotes time and Y is the GDP growth rate, and X is a vector of explanatory variables. In this study, three groups of variables, independent indicators of financial development are used. The dependent variable in this study, the GDP growth rate (G), which is used as an indicator of economic growth. Independent variables excess market return (Rm) and the banking industry excess returns (Rb). Financial development indicators used in the research model also includes private credit, debt and cash assets of commercial banks - is central.

The study of the efficiency index used. One of these factors, the Bank is the excess return is calculated from the following equation. Bank excess return is defined as the difference between the actual return and the risk-free rate. Investigate the efficiency of the banking industry, which is the excess return of bank I at time t equal to the sum obtained by multiplying the value of bank I at time t is the excess return. The value of bank I at time t is equal to the market value of bank I at end of period (t-1) divided by the total market value of the banking industry in the period (t-1). Dependent variable is the growth rate of GDP is used as an indicator of economic growth. The Dependent variable the logarithm of the total growth rate of GDP in the period t divided by the growth rate of GDP in the period (t-1).

In addition to the independent and dependent variables in the research model of the three indicators of financial development are used. Method of the three variables is as follows:

A) Private credit: credit is equal to the value of private financial intermediaries divided by GDP.
B) Cash Debt: Debt is equal to the cash value of the banking system (including money and quasi money) divided by GDP.
C) The Central Bank assets: Assets is the ratio of commercial bank assets to total assets of commercial banks and central banks.

The aim of this study is the relationship between economic growth and stock returns can be measured by. Therefore, we seek to answer the question of whether economic growth can be stock returns is significant or not? Therefore, the research hypotheses regarding the foregoing theoretical and to answer the question as a main hypothesis and sub-hypotheses were formulated as follows:

The main hypothesis of the research: Between banks excess returns and GDP growth are related.

First hypothesis: between banks excess returns and GDP growth are related.

Second hypothesis: the excess return on the banking industry and GDP growth are related.

The sub-hypothesis, the main hypothesis will be confirmed.

**Analysis of data**

Descriptive statistics were first examined the results of which show the mean (± SD) excess market returns and the independent variables of excess stock returns are equal to 14.73, (2.34) and 14.52, (1.26). The mean (and standard deviation) of the dependent variable is the growth rate of GDP to R 0.08 (0.09). The tests results show that the linearity between variables was performed with 95% confidence of the majority of relationships are not linear. And a few of them and the Rm and Priv, G and LL, Rm and LL, Ccb and LL 90% confidence level are not linear with time.

Type in the model test to check the levels and different time periods combined data of Chow and Housman tests used. The Chow test with a significance level of 0.000 is the result of the panel model (fixed or random effects) was used to test the research hypotheses. To select the appropriate model from the Fixed and random effects models Hausman tests performed. Hausman test is a significance level equal to 0.466 Hausman test indicates that the null hypothesis of this tests confirmed. Therefore, methods for estimating the random effects model are appropriate option.

Before the model to test the hypothesis and be estimated is not necessary to assume that the classical regression model tested. It remains to be normality assumptions of the model, residual variance homogeneity, the lack of a linear correlation between the explanatory variables and their lack of error components. Results residual normality test of the research model to test the significance level of 2.5348 and 0.1236 hypothesis proves to be zero. The residual from the regression model with normal distribution is investigated. Results
residual variance homogeneity test statistic of 4.32 and a significance level of 0.164 research model to test the null hypothesis that the homogeneity of variance confirmed. Autocorrelation of the independent variables associated with the use of the camera to be Watson Should be stated that the results presented in Table 1 for correlation between the explanatory variable amounts of research have been achieved. These low ratios indicate your lack of solidarity between the explanatory variable. To estimate the research model and hypotheses to test if it works. The relationship between the independent variables and the dependent variable will be measured separately.

Explanatory variables

Estimate (1): \( Rm_{t-1} \)
Estimate (2): \( Rb_{t-1} \)
Estimate (3): \( Rm_{t-1} \times Rb_{t-1} \)
Estimate (4): \( Rm_{t-1} \times Rb_{t-1} \times L_{t-1} \times Rb_{t-1} \times Priv_{t-1} \)
Estimate (5): \( Rm_{t-1} \times Rb_{t-1} \times L_{t-1} \times Rb_{t-1} \times Priv_{t-1} \times CCB_{t-1} \)

Then, measures of financial development, respectively, were added to the model is estimated. Appropriate model selection criterion, the coefficient of determination adjusted for the estimated model. The results of the model are shown in Table 1.

The statistic F (Fisher) represents the overall significance of the model. As can be seen, the F-statistic of the significance level in all estimates is significant at the 99% confidence level. Because, p-value of less than 1% of the test model. Thus, the model estimates to investigate all potential explanatory variables were significant in explaining the dependent variable is the indicator of economic growth. To investigate the optimal model, the coefficient of determination adjusted according to the estimates. The coefficient of determination adjusted for the estimated model test in the first 0.34, the second estimate of 0.28, 0.39 estimate of third-quarter estimates of 0.24, 0.26 and estimate estimates VI, V was 0.41. These figures can be interpreted as an example of the first estimates about 34 percent of the variability. GDP growths of banks by the independent variables included in the model are explained in the financial development index.

These results suggest that financial development into the third indicator of the total assets of the Bank increased performance model. However, the research models without financial development indicators in the first three estimates are significant. Bank excess returns and excess returns separately for the banking industry (estimated first and second) and simultaneously (third estimate) had a significant relationship with GDP growth. Determine the significance of the model assumptions and analyzes the significance of the coefficients will be discussed. To determine the statistical significance of the coefficients, the statistics are. The test to determine significant factors in addition to its effect on the dependent variable, the coefficients is determined.

The first sub-hypothesis, the dependent variable and independent variables including GDP growth, return on excess bank. According to the results presented in Table 1 for variable returns significantly in excess of the bank in the first approximation, 0.02 (less than 5%) patients. Thus, a significant relationship between bank excess returns and GDP growth has been in the model. The coefficient of the independent variable is positive. As a result, the relationship between bank excess returns and GDP growth is a direct link. In other words, with the increased banks’ excess returns, GDP growth has also increased. Thus, the first sub-hypothesis research with 95% in the first estimate of (R model with one independent variable) be approved.

The significance level for variable yields estimates of third and sixth bank in excess of 0.00 (less than 1%) of the estimated quarter estimates of 0.03 and 0.02V (less than 5%) patients. Therefore, banks with surplus output variable with other variables in the model, GDP growth has been significant in the relational model. The coefficient of the independent variable is positive in all estimations. As a result, the relationship between bank excess returns and GDP growth is a direct link. Thus, the first sub-hypothesis research with 95% in the first estimate of (R model with one independent variable) and the fourth and fifth, respectively, with varying estimates of private funds in cash and debt estimates with 99% confidence in the third Excess Inventory return Bank stocks are also in the sixth variable estimates are approved by the Bank’s assets. The sub-hypothesis variable, GDP growth and the independent variable is the banking industry excess returns. According to the results presented in Table 1 for variable returns significantly in excess of the quantity banking industry in the second estimate, 0.00 (less than 1%) patients. Thus, the relationship between the efficiency of the banking industry in excess of GDP growth in the model is significant. The coefficient of the independent variable is positive.
Table 1. Results of the research model combines data

\[ G_t = \beta_0 + \beta_1 Rm_{t-1} + \beta_2 Rb_{t-1} + \beta_3 Rb_{t}*Priv_{t-1} + \beta_4 Rb_{t}*LL_{t-1} + \beta_5 Rb_{t}*CCB_{t-1} + \epsilon. \]

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Source: Calculations research model variables: GDP growth rate (G)

As a result, the relationship between excess returns and GDP growth in the banking industry is a direct link. In other words, with the increased efficiency of the banking industry surplus, GDP growth has also increased. Thus, the second sub-hypothesis with 99% confidence in the estimate (model with one independent variable R) is approved. The significance level for variables to estimate the efficiency of the banking industry over the second, third and sixth (less than 1%) and the fourth estimate of 0.06 (less than 10%) patients. Thus, the excess return variable banking industry despite central bank assets variable in the model, with GDP growth (at 1%) had a significant relationship. The estimated coefficients of the independent variables ~II, III, and VI are direct and positive. As a result, the relationship between excess returns and GDP growth in the banking industry is a direct link. However, the IV estimates with a confidence level of 90% is significant and negative. Fifth and estimations with a confidence level of 90% and significant doubt directly. And so, the second sub-hypothesis with 99% confidence in the estimate (model R with one independent variable) and the third estimate of the excess return on the bank’s assets, the central bank estimates vary sixth despite being approved. Summarizes the results of the second sub-hypothesis tests are presented in Table 1. As can be seen, the estimated coefficient of the variable vi (0.47) was higher than in other cases. Thus, highly variable between excess returns in the banking industry stronger than other estimates are estimates sixth.
Granger causality test results are presented in Table 2. The results are given in Table 2, the test statistic and its significance level, all relationships with the dependent variables Rm, Rb and G 1 and 5 percent error level is significant. Namely, the relationship between the variables is bidirectional. However, according to statistics of the results and to compare them in different relations, so that the efficiency of bank excess returns over the banking industry have a greater impact on economic growth to this relationship. Thus, given that the two sub-hypothesis can be concluded that the main hypothesis of this study was to confirm that there is a relationship between stock returns and GDP growth will also be accepted.

CONCLUSION

According to macroeconomic theory, capital accumulation is one of the effective factors on the growth of the national economy. Financial capital is one of the processes that contributed to the collection of large and small savings optimize the flow of funds and redirect them toward productive investment spending and economic needs. Banks and stock markets mobilize and resource allocation can help to accelerate economic growth. The findings confirm the relationship between stock returns and economic growth is to accelerate further growth of the systematic reforms in the financial sector and the efficiency and the development recommended.

For future research is recommended to examine the impact of stock returns and economic growth in other industries. Also the impact of various factors such as the financial crisis, institutional and country-level disclosure, property type, different organizational rules and...The relationship between economic growth and stock returns examined. On the other hand the impact of various factors such as exchange rate and interest rate on this review.

REFERENCES

Shokri z .2009. The impact of financial development and financial liberalization on income distribution; the caseofiran.MS Thesis Economic Sciences, University of Sistan and Baluchestan.

Table 2: Results of Granger causality test

<table>
<thead>
<tr>
<th></th>
<th>G</th>
<th>Rb</th>
<th>Rm</th>
<th>description</th>
<th>Granger causality test</th>
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<td>6.18</td>
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<td>0.00</td>
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Source: Calculations research

