University of Jijel

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Module : English for Specific Purposes ***Teacher :Manel.A***

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Financial Depth

The World Bank defines **financial depth** as: "**The increase in the stock of financial assets, indicating the capacity of financial institutions in general to effectively mobilize financial resources to achieve economic development goals**.

Financial deepening is also defined as: **A multi-dimensional process aiming to expand the size and activity of intermediary financial institutions through diversifying the range of services and financial instruments.**

Financial depth is to provide financial services and make them available for use or dealing by different sectors of society and enable them to benefit from financial services and thus contribute to economic development, financial deepening enables savers to invest in a wide variety of assets with high quality (Bouflih & Torchi, 2016, p. 42).

Finally, it can be said that there is no fixed definition of financial depth, yet the concept of financial depth can be summarized in a set of points: (alshadod & Alsadi, 2013, p. 72)

1-Increasing the size of institutions operating in the financial sector;

2-The variety of financial services available and the amount of funds being brokered in all areas of the financial sector;

3-Increased capital imposed by private financial institutions for the private sector rather than direct government lending;

4-Improved financial sector in terms of supervision, regulation and stability as well as efficiency and competitiveness;

5-Increasing proportion of the population with access to credit and financial Services.

The importance of financial depth can be represented in the

- Rational and logical thinking in making savings and investment decisions plays a crucial role. Financial depth itself partially depends on the willingness of wealth owners to invest their savings in various financial assets such as stocks and bonds.

- Full risk coverage is ensured by comprehensively diversifying the asset portfolio. This includes offering a diverse range of financial assets with the aim of reducing liquidity risks. The financial sector establishes a wide range of assets that diversify or distribute risks.
- Increasing the capital volume required by private financial institutions rather than relying on direct government funding .
- Strengthening the financial sector by improving supervisory and regulatory procedures, enhancing stability, efficiency, and competitive capability.
- An increase in the size of institutions participating in the financial sector enhances the effective exchange of goods and services.
- Reducing information asymmetry relies on the use of technology in processing and disseminating information, applying effective rules and regulations to regulate the financial sector, efficiently organizing companies and markets, and establishing new institutions .

Objectives of Financial deepening

- Financial deepening can achieve the following objectives:
- Increase the number of active institutions in the financial services sector .
- Diversify available financial services and the volume of financial trading in various channels of the financial sector .
- Strengthen the financial sector through improved supervisory and regulatory procedures, enhance stability, increase efficiency, and bolster competitive capability.
- Increase the volume of financing provided by private financial institutions to the private sector rather than direct borrowing from the government .
- Increase the proportion of the population that has access to credit and financial services.
- Ensure good risk coverage by diversifying a wide range of assets .
- Make logical and prudent decisions regarding savings and investments.

Indicators for measuring the financial depth of the Banking system

The financial depth of any financial system is measured on a set of indicators, including those specific to the banking system, including those for the financial market, and in this study we will rely on the financial depth indicators of the banking system only, which are:

- **Monetization of the Economy** : Monetization is the proportion of liquidity, composed of currency in circulation and demand deposits plus time deposits in domestic currency, plus deposits denominated by foreign currencies, to GDP. Monetization describes the volume of transactions involving monetary instruments in the economy, this ratio is the simplest indicator, which measures the degree of monetization in the economy, money provides valuable payment and saving services, the" narrow money" stock best reflects the former and "broad money" the latter, the narrow money balances should rise in line with economic transactions, but broad money should rise at a faster pace, if financial deepening is occurring

- **Deposits to GDP**: This ratio is an important indicator of the volume of banking, as well as a qualitative measure of financial deepening, where deposits (current and savings) are one of the main sources of financing for banks that enable them to provide bank credit, and any rise in this ratio can be interpreted as It means an improvement in bank deposits and other financial assets that are likely to be used to accumulate assets and this increase economic growth rates ,
- **Private sector credit to GDP**: this indicator is an important indicator that reflects the efficiency and development of the banking system in any country, and depends on the size and importance of the private sector's contribution to economic activity compared to the public sector, and therefore directly linked to investment and growth .
- **Banking density**: through this indicator, the extent of the expansion of the banking network in a country can be measured, which means that financial services are available to a large proportion of the population without the cost of moving to banking agencies, this indicator also reveals the ability of banks to absorb savings. Bank density is measured by the number of branches per 10,000 inhabitants.
- **Banking Concentration**: the concentration ratios measure the competition from the perspectives of the number and size distribution of firms in the industry. In other words, the concentration measurement emphasizes the evaluation of competition on the number of firms and their size distribution (Tan, 2016, p. 106). The concentration in the banking markets is also an important feature of structural changes in the world of banking, and concentration is by no means a modern phenomenon, as banking systems in many countries of the world are dominated and controlled by a few large banks for at least half a century, this system varies. Banking is competitively focused. The most common way to measure banking concentration depends on calculating the ratio of assets or deposits of the banking sector in a country controlled and managed by the top three or five banks.

❖ ***Text Based Activities***

Exrtcise 01 :

1. How does the World Bank define financial depth?
2. What are the key components of financial deepening according to Bouflih & Torchi (2016)?
3. Explain the role of financial depth in reducing information asymmetry.
4. How does banking concentration impact financial depth?
5. What is the significance of private sector credit to GDP as an indicator of financial depth?
6. How does banking density impact financial depth?

Exercise 2: Fill in the blanks with the correct term from the text:

1. ________ refers to the proportion of liquidity to GDP and measures the degree of monetization in the economy.
2. Increasing the ________ of institutions operating in the financial sector enhances economic development.
3. ________ is a key indicator that reflects the efficiency and development of a country's banking system.
4. Financial depth ensures full risk coverage by ________ a wide range of financial assets.
5. Banking ________ measures the competition in the banking industry by evaluating the number and size of firms.
6. Financial depth refers to the increase in the stock of ________ assets.
7. ________ to GDP is a key measure of financial depth.
8. A higher number of bank branches per 10,000 people indicates greater ________.
9. Financial deepening allows savers to invest in a wide variety of ________.
10. The most common way to measure banking concentration depends on calculating the ratio of assets or ________ controlled by top banks.

Exercise 03: State whether the following statements are true or false:

1. Financial depth solely depends on government funding. (False)
2. Monetization of the economy is an indicator that helps measure financial depth. (True)
3. Financial depth reduces liquidity risks by limiting asset diversity. (False)
4. Banking density is measured by the number of branches per 10,000 inhabitants. (True)
5. Deposits to GDP is an insignificant indicator of financial deepening. (False)