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An explorative study on the Banking Sector of Morocco: Is It A Growth Sector?

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Abstract

The Moroccan banking sector is one of the most developed sectors in Africa. It is a driving force in the development of the country's economy and prosperity. The latter has become in a short period a modern and efficient growth-creating sector. Indeed, Morocco is one of the top five banking markets in Africa, with South Africa, Nigeria, Egypt and Angola accounting for 68% of the total revenues of the sector in Africa. Continent wide and their share of revenue growth in 2017 is 60%. This shows that the African banking market is fragmented, according to the report that compares it to the situation in other areas of the world, such as North America, Latin America, the Middle East and emerging Asia, where the top five regions, at the level of these zones, represent more than 90% of the sector's revenues. This paper attempts to explore the relationship between banking sector as proxy to financial development and economic growth in Morocco, and transmission channel between these two variables. Researcher used annually data from 1997 to 2017 in this study to examine the impact of credit on economic growth. The study found found that banking sector induce economic growth.
Keywords: Economic growth, banking economy, banking, banking market.

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Introduction

The banking sector is an important pillar in an economy as it contribute to create an well functional financial systems, which is fundamental to a modern economy (Soares, 2019; Norges Bank, 2020). It plays a leading role in the creation of wealth. The bank plays a vital role in this structure by collecting deposits and redistributing them in the form of credits (Schroeder, Clark, & Cathey, 2019). Furthermore, the banking industry facilitates the flow of the financial funds in an economy and ensures financial resources are available and allocated efficiently towards promoting economic growth and development (Schroeder et al., 2019). This is also further corroborated by the study conducted by Jeucken, (2010), who argued that the banking sector's efficiency is prerequisite of the flow of monetary resources and activities of people as well as business organisations resulting the economic growth. If the banking sector of a country is not well established and organised, the country cannot advance its economy as world's most of the transactions are performed using banks even personal transactions also done using the banks (Edwards, 2013; Monyoncho, 2015). Furthermore, the banking systems and the services offered by the banks have also be developed over the times almost in the every country to expedite transactions as well as develop the customer satisfaction (). At present the people can provide their bills through the mobile banking while people can also pay the bills in restaurants for example in fast food restaurants or other shops through the bank's different types of cards (Shaikh, & Karjaluoto, 2015; Aldaihani & Ali, 2018). These services and processes are mainly developed for the greater satisfaction of the account holders and other stakeholders that fundamentally contribute to the development of an economy (Hanafizadeh, Behboudi, Koshksaray, & Tabar, 2014; Aldaihani & Ali, 2018;). Furthermore, banking industry has been developed through the local and internal banking where public and private and even Islamic banks are also exist to provide their services to the customers (Khan, 2010; Hanafizadeh, et al., 2014; Aldaihani & Ali, 2018). In this respect, the Moroccan banking sector has also experienced significant change over the period. However, in a still risk-ridden environment, the Moroccan banking sector, favored by the diversification of its international activities, is today subject to fluctuations and often abrupt changes (Ferrouhi, 2014; Eloitri, 2017). These changes impact its mission of resource allocation which weighs down its mission. The question that comes to mind is that of: Does the Moroccan banking economy finance the Moroccan economic growth?

Bank and Economic growth

The relationship between the banking economy and economic growth does not remain topical, either in the economic literature or in the debates of economists. Like Schumpeter (1911), this relationship was approached by another economist to visualize the contribution of the banking economy to economic growth. These contributions are a great surplus to the economy since, in all studies, a positive link is emerging between the banking and economic spheres.

Schumpeter's (1911) in his theory of economic evolution underlines the role of technological innovation in the economy. Schumpeter (1911), supports his theory by stating that banks encourage technological innovation by financing entrepreneurs, which is beneficial for economic growth through the development of industrialization. It shows that the stimulation of innovation is largely achieved through the intermediation of bank loans. This financing of innovation and technology, by the banks, encourages the acceleration of economic growth. The contribution of Schumpeter's theory lies in its placement of the financial system, the banking system more precisely, at the center of the economic development process.

Keynes (1930), In the Currency Treaty highlights the role of the banking sector in financing growth. He suggests that bank credit is the path in which production moves. The role of the banker for him is to provide the means of transport to ensure the transportation and use of the productive forces necessary for economic growth. For Keynesians, financial development is the result of changes in supply and demand in the real sector.

Gurley and Shaw (1960) state that Keynesians sometimes neglect economic development in financial aspects. Gurley and Shaw (1960) analyze the role of financial intermediation in the economy. They define the bank as monetary financial intermediary. For them, the main activity of the bank is the intermediation between the agents with need of financing and the agents in lack of financing. This operation incurs remuneration for the bank which is the interest rate. These last assimilate the financial development to the division of labor and the techniques of transfer of the savings in investment. In their analysis, Gurley and Shaw (1960) weave a link between the real and the economic spheres allowing establishing, at the same time, a centralization of the savings and a competition between the financial intermediaries which generates an optimal allocation of savings to investment.

Cameron (1972) shows that the most important institutional innovation in the process of economic development is the emergence of the banking system. The banking system is one of those many institutions that affect the economy and affect its performance for the better or for the worst. Cameron (1972) argues that the banking economy makes it possible both to create money, to collect savings and to ensure a better allocation of resources, which has a positive effect on economic growth. For McKinnon (1973) and Shaw (1973) who develop the thesis of financial liberalization, financial repression discourages savings and investment, which hampers economic growth. McKinnon (1973) and Shaw (1973) considered financial liberalization as a driver of economic acceleration. They point out that in an economic structure, the absence of a financial system blocks economic development.

In the same vein, Levine's theory (1996) reinterprets Schumpeter's (1911) idea by emphasizing the importance of innovation through the accumulation of capital. He bases the existence of a positive relationship between bank financing and economic growth. Levine (1998) argues his progress by the central and specific role played by the bank in the allocation and channeling of savings to more productive uses, protection against risks and mobilization of savings (Levine, Loayza, Beck, 2000). As a result, the bank is becoming a necessary institution for the production of value. It plays a vital role in financing the economy. It is also responsible for reducing the risks inherent in the uncertainty of the future. It is a financial and monetary intermediary that ensures the transformation of sight deposits and term deposits into bank loans to the economy. It is therefore the bank that finances the economic growth of a nation.

Indicators of Banking Sector and Economic Growth in Morocco

Since independence, Morocco has pursued a series of structural and cyclical reforms to enable its economy to evolve and, also, to consolidate its micro and macroeconomic balances without compromising the resilience of the Moroccan economy. The Moroccan economic model is characterized by its openness to the international market. This opening was accompanied by an improvement in the situation in Morocco: global indicators of solvency and external liquidity strengthened, as witnessed by the control of inflation, the maintenance of a current account surplus, the weight of external indebtedness and the net increase in external assets.

Morocco is positioning itself as economic leader of the countries of the Arab world. Its economy is in a phase of consistent growth that will allow it to outperform the financial crises of the future. This transition has allowed Morocco to increase its overall wealth. This increase in wealth is illustrated by the rebound in Morocco's economic growth.

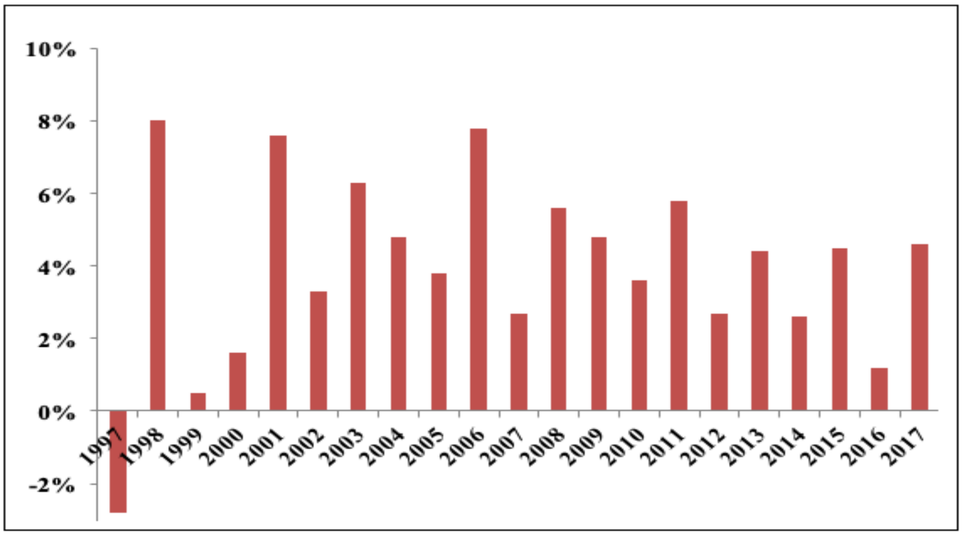
The banking sector contributes to the financing of the growth economy with a banking asset representing 1.2 times the 2015 GDP, the accompaniment of the sectoral and regional policies led by Morocco, the support of SMEs in their growth and the creation of jobs. To better understand the results of changes and structural changes in the Moroccan economy, we focus on indicators of economic growth and banking Morocco:

Economic Growth in Morocco 2007-2017

The Moroccan economy has a sound macroeconomic framework, capable of constituting an effective lever for achieving the structural objectives. During the last two decades, the Moroccan economy has been marked by significant structural changes, which have been manifested by changes in pace, and a new level of growth seems to be reached.

Over the 2007-2017 periods, economic growth averaged 4.25% per year, compared to the average rate of 4.1% between 1996-2006. This weak upward trend of economic growth in Morocco between the two periods, 0.15%, is explained by the fallout from the 2008-2009 financial crisis on Morocco and, also, by the decline in agricultural activity and deterioration. The balance of foreign trade in 2016.

Figure 1 Economic Growth in Morocco 1997-2017



Source: Graph Developed by the Author from HCP, 1997-2017

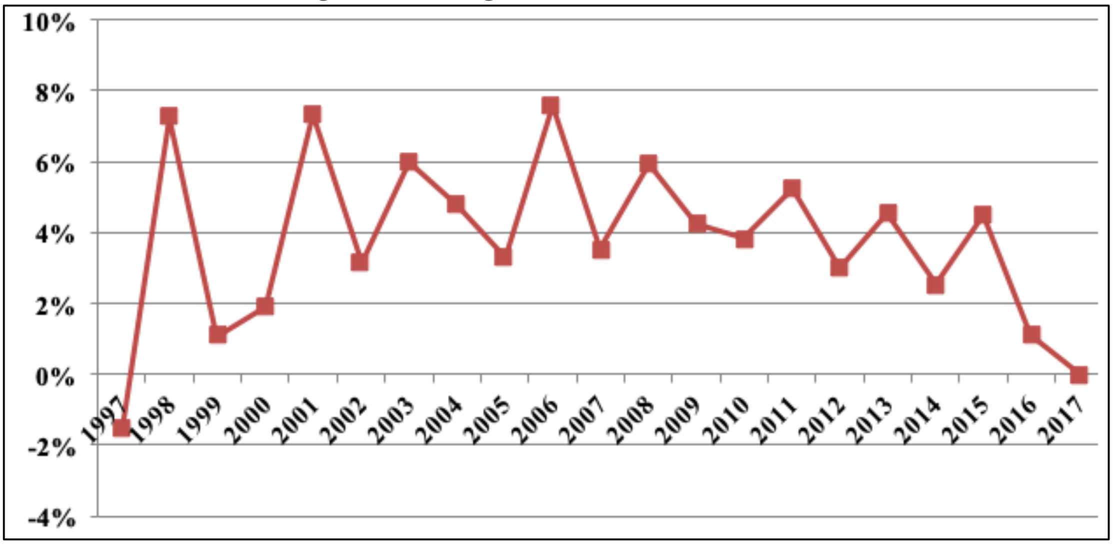
According to figure 1, that the period studied, 2007-2017, fluctuated in the rate of economic growth. This period was marked by the crisis of subrimes of 2008 which degraded the economic activity among the partners and resulting, then, a deterioration of the economic growth of Morocco.

Morocco has relapsed in 2016 with a growth rate of 1.2%. This decline is explained by the sharp drop in agricultural activity, 12.8% instead of an increase of 11.9% in 2015, and the moderate increase in non-agricultural activities. Lahlimi, (2017) recalled that agriculture remains the main contributor to the growth of the national economy and the improvement of the standard of living of the population. He explains that the average growth rate of agriculture has increased remarkably during this decade, from 3% between 2000 and 2007 to 7.3% between 2008 and 2017.

Growth of gross domestic product in Morocco 2007-2017

The level of growth of the Gross Domestic Product has fallen with the international crisis but remains at an appreciable level. Morocco is classified as a developing country and adhering to a capitalist economy. Morocco remains as the sixth largest economy across the continent is dominated by Nigeria, ahead of South Africa and Egypt. Over the 2007-2017 periods, GDP growth averaged 3.9% per annum, compared with the rate of 4.7% recorded on average between 1996-2006. This decline in Morocco's GDP growth is due to global economic conditions, rising oil prices and poor agricultural campaigns.

Figure 2: GDP growth Morocco 1997-2017



Source: Graph Developed by Author from World Bank, 1997-2017.

Figure 2 illustrates GDP growth over the period 1997-2017. It is reported that Morocco's GDP is divided between agriculture, industry and services. The decline in the contribution of the agricultural sector partly explains the reduction in the volatility of overall economic growth. Overall GDP increased by 4.6% on average, between 2003 and 2013, and by 5% excluding the years 2005 and 2007 bad agricultural seasons.

The years 2016 and 2017 have seen a sharp drop in economic growth and this is reflected in the weather hazards that influence Morocco's record cereal production, a severe drought in 2016, which reduces agricultural production, which still accounts for nearly 15% of Moroccan GDP.

Credit reports in Morocco economy GDP 2007-2017

The banking sector has a major role in the Moroccan economy. It contributes to the financing and support of the restructuring of sectoral and regional policies adopted by Morocco. It also has a major role in supporting SMEs and creating jobs.

Bank credit to the national economy has had a rising trend over the 2007-2017 periods. They went from 529 to 842 billion dirhams during the period studied. According to the GPBM, one-third of business loans were granted to SMEs, which represent around 92% of the national economic fabric.

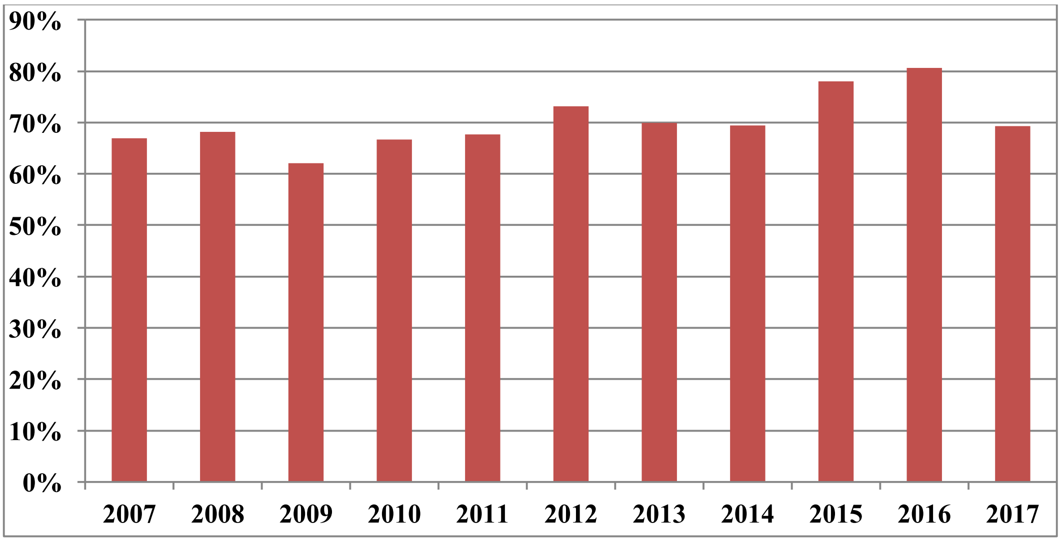
Figure 3 Credit-Economy in GDP in Morocco 2007-2017

Source: Graph Developed by Author from the Data of World Bank and BAM, 2007-2017

Now we see that the banking sector provides most of the financing of the economy by draining a significant part of the savings of economic agents. The credit to the economy evolves in line with the gross domestic product from a favorable macroeconomic environment.

The evolution of domestic demand and strong investment growth was supported by favorable financing conditions, both in terms of interest rates than the volumes granted by banks.

Figure 4 Credit to the Economy in Morocco Reported GDP 2007-2017



Source: Graph Developed by Author from the Data of World Bank and BAM, 2007-2017

The analysis of the ratio of credit to the economy as a percentage of GDP over the period 2007-2017 shows that, on average, loans to the economy finance more than 70.7% of national GDP. Indeed, the ratio of bank credit to the economy on gross domestic product (GDP) is an indicator reflecting the positive link between the creation of wealth and the banking economy. Finally, we touch here the heart of analysis of our article. No one can deny the enormous role played by the Moroccan banking system in financing the economy, influencing economic growth and ensuring capital accumulation. The results validate the assumption that the banks accompany the creation of the wealth of the nation which then generates economic growth.

Conclusion and Future Direction

The banking sector plays a major role in the Moroccan economy. It contributes to financing and supporting the restructuring of sectoral and regional policies adopted by Morocco. Contribute to the financing of growth with a banking asset 1.2 times the 2015 GDP, to support sectoral and regional policies, to support SMEs in their growth and creation. Morocco has a relatively developed financial system. The potential contribution of financial development to economic growth is considerable, but it depends on the development of the appropriate institutional structures. The liberalization of the financial system could increase the efficiency of the Moroccan economy to allow a better allocation of resources. The Moroccan financial system is dominated by bank financial intermediation with a capital market incapable of mobilizing national savings and its optimal allocation. We touch here at the heart of our article. Colossal that plays the Moroccan banking system to finance the economy, the influence of economic growth and the insurance of the accumulation of capital. The results validate the assumption stipulated by the banks accompany the creation of the wealth of the nation which engages, thereafter, the economic growth.

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