The Moroccan banks contribution in the GDP

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Abstract: *The Moroccan financial system has been predominated by the banking sector where the savings were composed mainly by the short/ long term deposits. The financial reform touched the regulation and diverse the different sources of saving collection, funding possibilities and essentially the eventual intermediation of all the financial operations. The financial corporations should undergo number of new conditions and requirements and also to respect some rules.*

A deepening of reforms were deemed necessary in order to reduce the burden of debts, improve the central bank's control quality deployed, prepare Banks to meet the requirements of Basel II and Basel III, also the further ones proposed for Basel IV.

Reforms initially targeted the banking system and monetary policy, in parallel with a move toward a more market-based financing of the budget. These reforms were followed by efforts to deepen financial markets by introducing new instruments and reforming the stock market in addition to the initiation to the entrée of the participative bank into the banking sector in Morocco. As liberalization and deregulation of financial activities allowed market participants to assume greater risks, prudential regulations and bank supervision were strengthened.

The aim of this paper is to show the contribution of banks growth in the GDP before the introduction of the participative banks, and show the forecast of the said growth after the operability of those banks. A presentation of the GDP value through the last 10 years will be exposed via graphs and charts, in addition to data related to the banks performance. The study will assume some calculation and ratios to confirm or not the said contribution. This analysis will be based on the financial reports of banks and official publications of the ministry of finance.

Key word: *Banking system, performance, GDP, conventional banks, participative banks.*

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1. Introduction

Since a longtime, the Moroccan financial system has been predominated by the banking sector and the savings are structured mainly by the short/ long term deposits. The financial reform touched the rules and the diverse different sources of saving collection, funding possibilities and essentially the eventual intermediation of all the financial operations. Therefore, those reforms are established based on some changes and new introduction of some products services or even institutions. The Islamic banks are seeing the day in the Moroccan banking market, in which banking law must include the different rules directing those specific types of banks, in a way to keep their operability going along with the pre-existing ones.

After highlighting the reforms being applied through the previous years into the Moroccan banking system, some definitions and precision of Islamic banking notion are necessary to conduct the objective of this paper work.

The aim of this fusion of both Islamic and commercial banks systems is to bring out the importance of this sector and its contribution in the GDP. As known, the banking and financial sector are taking a significant part in the macro economic statistics. Thus, this contribution is increasing according to some expectations and forecasts done by local experts about encompassing a hug category of the Moroccan population that restricts using banks as considered as forbidden from the Islamic rules and instructions. The banking rate will, if we can say that it is already showing a positive raise.

The GDP in morocco is a key factor of the country performance in it various sectors, the increase or decrease of this variable is certainly explained by a change happened in one of many sectors that is reflected on the GDP.

The purpose of this paper is to study the evolution of the different banking reforms, in the addition of enlightens regarding Islamic banking. Consequently, the weight of the financial changes including new introductions, adjustments of the system, performances….on the GDP.

2. The Moroccan banking system and reforms

2.1.The banking law of 1993

The banking law July 1993 have been subject of :

- Unifying the legal framework applicable on the entire banking and financial institutions to create the adequate competition conditions
- broadening the concentration framework between the monetary authorities and the profession
- Reinforcing the protections of depositors and lenders by reinforcing their rights, through the implementation of the adapted control tools, also penalization regime.

The Moroccan banking system institutions are organized around the supervisory and tutorship authorities, consultative and coordinating organizations, Banks and financial institutions.

The ministry of finance exercises a control and guardianship over the banking system, where the Central Bank of Morocco (Bank Al Maghrib) take the role of the monitoring entity of the said system, which the dissuasion and control have been redefined through the banking law of 1993. (BKAM, 2007)

The financial corporations should undergo a number of new conditions and requirements and also to respect some rules which are as follow:

- Honorability of employees
- Non-cumulative tasks
- The ministry of finance agreement/approval
- The prudential standards compliance (minimum asset, liquidity coefficients, solvency ratio,….)
- The compliance with the central bank accounting rules
- membership in a professional organization

2.2.The interbank market dynamism

The interbank market allows to it actors mainly the banks to efficiently balance the treasury by reducing the mismatch between the deficit and the surplus, or by borrowing the needed amount from other banks.

Right before resort to the interbank market to insure the treasury need, banks arbitrate between the various possibilities of funding, in which those banks will have access, to optimize the use of the financial instruments disposed by the above stated possibilities, starting with the one offering the lowest rates. Prior to reform of June 1995, banks were able to mobilize treasury fund either from the interbank market or rediscounts of loans from the Central Bank, or even more by the cash advance served in the money market(satisfying the Bid amount reclaimed by banks) (Michel Aglietta, 2002)

Since the implementation of the above reform, the fund is guaranteed on the money market only, where the interbank transactions have evolved as the rates offered are more attractive compared to the one proposed by Bank AL Maghrib.

2.3.Expanding and deepening the reform

The Moroccan banking system is in process during many years adopting a system of « directed loan » (loan framing, interest rates are fixed by the monetary authorities in terms of the economic policy objectives). In such system, the central bank role is limited to a role of a credit institution. Where the loan volume is distributed mainly by the ministry of finance.

The gradual lifting of the customs barriers has been initiated to an ample opening of the banking system. The public authorities' action doubled: in one hand banks started using freely the reserves after the suppression of the public effect, from the other hand the suppression of the directed loan which have been accompanied by the liberalization of the interest rates. Consequently, the government will seek funds from the market and allowing to the banks to practice their activities away from submission to the public authority decisions. Thus, the global volume of loans to distribute through the banking system will be defined and fixed by the market.

In spite of multiple public authority's injections, banks continued to carry out agreements. The central bank supervision doesn't achieve, at all time, the expected objectives, as various and heavy dysfunctions have been detected such as the case of BNDE and CIH (illustration des expl)…..

A deepening of reforms were deemed necessary in order to reduce the burden of debts, improve the central bank's control quality deployed, prepare Banks to meet the requirements of Basel II and Basel III, also the further ones proposed for Basel IV.

- Results of reforms and the current situation – achievement of objectives.

It is extremely difficult to attempt to relate the results to the objectives. The reforms undertaken are more in the form of a cumulative and continuous process than the stages of change to be covered. By way of illustration, as soon as the 1993 Banking Reform started to get applied, a new banking law, aimed at deepening the previous banking law, begins to be drawn up.

The reforms of the financial market of 1993 were followed very quickly by other reforms, targeting the deepening of the previous ones.

This situation is due to the extreme evolution observed in the functioning changes of the financial sector (nationally and internationally). Scarcely, operators become familiar with the Cooke ratio that a new ratio is proposed and soon imposed on all banks.

International change in the reorganization of banking systems and stock exchanges, in the bodies responsible for collecting and investing national savings, and the relationships between the various elements make them more interesting and more useful to highlight the main seeds of change than possible outcomes. (Basel, 2010)

However, it is still possible to compare some statistics: have reforms broadened the conditions for access to structured finance? Did the reforms extend structured finance to an important number of activity areas? Is the cost of access to structured finance more competitive than prior to these reforms, and in general the integration of the financial system into the real sector has improved?

The answer to all those questions cannot be positive. The itinerary for the establishment of pinpoint causal relationships between the nature and quality of reforms and results obtained is difficult to establish.

2.4.Banking reform of 2015

The Moroccan banks, globally the financial intermediary cores were ready to operate into the banking market through new branches dedicated to the micro finance, participatory finance and payment, the official bulletin brought out this possibility to make their new activities running within the market.

In another hand, some other frameworks are set for the digital currency/e-currency. The latter is defined according to the recent banking law as : " every monetary value representing a claim on issuer, which is stored on an electronic device, issued on a receipt of funds of an amount not lower in value than the monetary value issued , and accepted as means of payment by under takings other than the issuer ".(BKAM 2015).

Therefore, the central bank is creating though, new related bodies to the credit institutions designed as "*payment institutions",* which are distinguished as "offering institutions of one or multiple payment services and also can making exchange operations, and this under the respect of the legislative and regulatory framework". (Noblanc, 2015)

3. The Islamic Financial System

While elimination of "Riba" or interest in all its forms is an important feature of the Islamic financial system, Islamic banking is much more. At the heart of Islam is a sense of cooperation, to help one another according to principles of goodness and piety (but not to cooperate in evil or malice). In essence, it aims to eliminate exploitation and to establish a just society by the application of the Shari'ah or Islamic rulings to the operations of banks and other financial institutions. To ensure compliance to the Shari'ah, Islamic banks use the services of religious boards comprised of Shari'ah scholars.

Islamic finance may be viewed as a form of ethical investing, or ethical lending, except that no loans are possible unless they are interest-free. Among the ethical restrictions is the prohibition on alcohol and gambling and the consumption of pork. Islamic funds would never knowingly invest in companies involved in gambling, alcoholic beverages, or porcine food products. (insititut of islamic banking and insurance, 2017)

3.1.The Concepts

Islamic economic principles offer a balance between extreme capitalism and communism. It offers the individual the freedom to produce and create wealth, while surrounding the individual with an environment controlled, not by human rulers, but by Divine Guidance, which sets moral rules and norms of behavior that must require the utmost sincerity of intention. When these rules and norms are internalized and acted upon by people, peace and prosperity result for the wider society.

The Qur'an (2:30) says that man was created as the representative of God on earth. This concept has a considerable effect on Islamic business, since the lack of a sense of absolute ownership promotes a sense working for society, especially the needy.

This is not some philosophical concept, removed from the daily life of the society. It manifests itself in all the different aspects of lives. What makes the trader, banker, agriculturist or research and development scientist perform his job to the best of his ability? In capitalist economies, it is the notion of competition. This involves the necessity to constantly produce more new things for profit to keep up with others and this makes for wastage and often generates unbridled greed. But in an economy based on Islamic principles, the idea of man representing God on earth gives businessmen a feeling of co-operating with others for the good of society as a whole, including himself. Thus Quranic guidance enables man to conserve and use prudently all the resources of the earth that God has given mankind. (iqbal, 1997)

3.2. The Essentials

Divine Guidance for the economy, as enshrined in the Qur'an and the Sunnah (the living example of Prophet Muhammad), can be summarised as follows:

- **Trusteeship**

The Qur'an (57:7) emphasises that all the resources of the earth belong to God, the Creator, who has made human beings a trustee for them. Humans are therefore accountable to God for the uses they make of these resources. The idea of trusteeship distinguishes the Islamic approach to economics from materialistic approaches such as extreme capitalism and socialism. It introduces a moral and spiritual element into business life and has been made practicable by creating rules to govern individual behavior and public policy.

- **Protection of Consumers**

The State should insure that producers, manufacturers and traders do not exploit each other or the buyers. It should curb adulteration, under-weighing, encroachment of thoroughfares, unhealthy trades and unlawful professions and maintain good, firm employee relationships.

- **Qard Hasan**

Qard hasan is a Quranic term meaning an interest-free loan. It was the primary source of financing introduced by the Prophet after entering Medina and was used primarily for productive economic purposes, such as setting up qualified, but poor, people in trade and agriculture. (ayub, 2007)

4. The GDP as an indicator of the economic health

Economic growth seems to be a global topic and is continuously taken an increased importance. In order to measure the economic growth, the GDP (Gross domestic Product) is the best way to measure a country's economy. GDP is the total value of everything produced by all the people and companies in the country.

The components of GDP are:

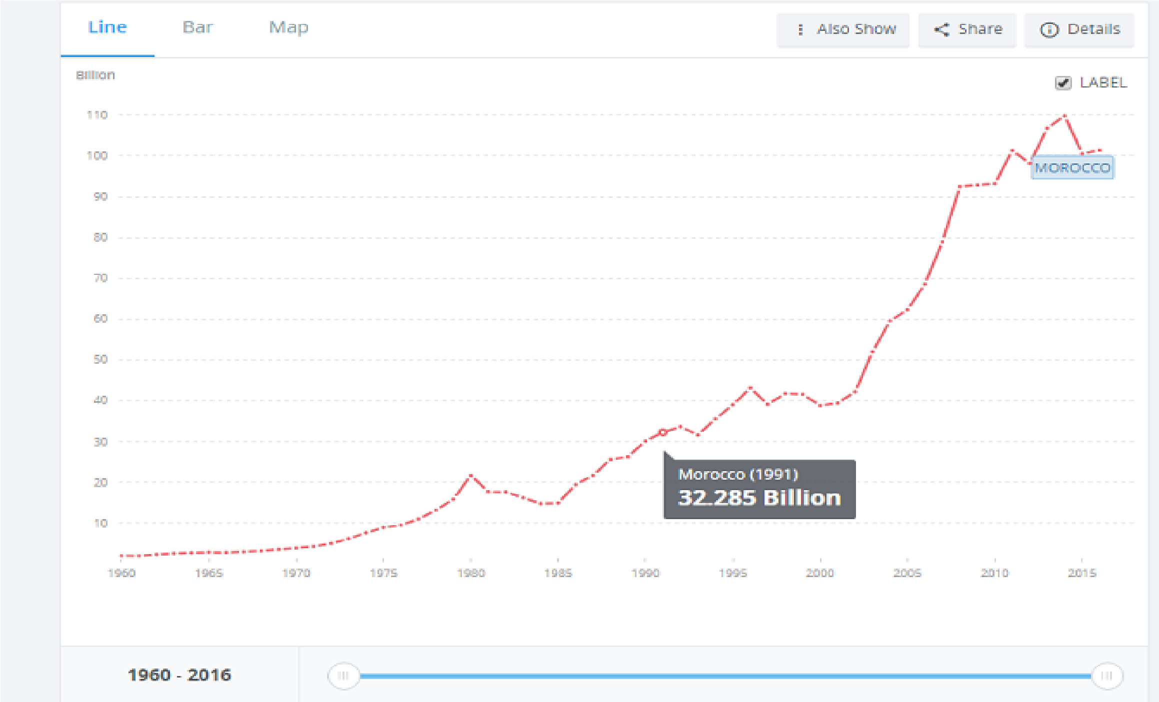
Personal Consumption Expenditures+ Business Investment + Government Spending + (Exports minus Imports).

The different measures of GDP are great tools for comparing the economies of other countries or how an economy changes over time. When economists talk about the "size" of an economy, they are referring to GDP. In 2007, the United States lost its position as the world's largest economy. (Investopedia, 2017)

The growth rate measures whether the economy is growing more quickly or more slowly than the quarter before. If it produces less than the quarter before, it contracts and the growth rate is negative. This signals a recession. If it stays negative long enough, the recession turns into a depression. As bad as a recession is, you also don't want the growth rate to be too high. Then you'll get inflation. The ideal growth rate is between 2 percent to 3 percent.

5. The GDP Growth within the Moroccan economy

Morocco, is a stable economy with continuous growth over the past half-a-century. Current GDP per capita grew 47% in the Sixties reaching a peak growth of 274% in the eighties. However, this proved unsustainable and growth scaled back sharply to just 8.2% in the Eighties and 8.9% in the Nineties. (Bank, 2017).



Source: (Bank, 2017)

6. The banking contribution (including the Islamic banking) in the GDP

As the financial and banking sector has an impact on the GDP, we can assume that there is a relationship between economic growth and the development of financial sector. This relationship was developed in many works, such as Schumpeter and Gurley, also Shaw who are considered as precursors.

It can be explained as; any development of the banking sector is favorable to the economic growth as the banking activity increases the mobilization of the savings and improves the efficiency of the resources allowance.

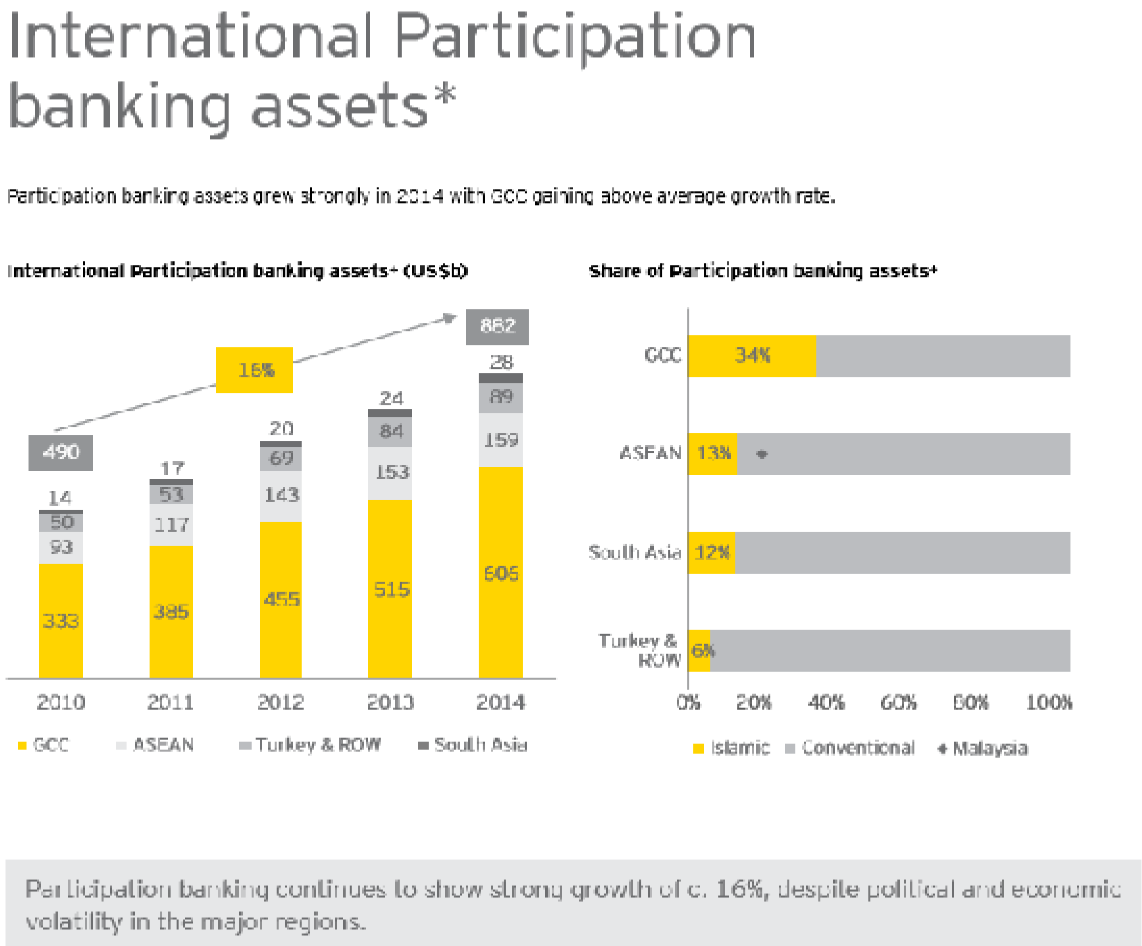
In other words, the financial markets and banking intermediation can assure a better mobilization of the available saving and can sustain the economic growth.

About Morocco, the financial sector plays a vital role in the process of capital accumulation and productivity. However, after confirming its strong contribution to economic growth in 2000, the overall indicators for this sector marked a slowdown in its activity since 2009. Indeed, the added value of the business sector, financial services and insurance companies recorded an average annual growth of 4.9% in 2009 and 2014 compared with 9.5% between 2004 and 2008, which remains in line with the value added (5%). The share of this sector in total value added remained relatively stable, around 5% over the period 2004-2008. (BAM, 2016).

In a context marked by the significant increase in investment financing requirements of the economy, the financial sector is called upon to play a decisive role in supporting structural reforms and meeting the requirements of inclusive growth. While surveys of banks show a continuation of conditions of access to credit during 2014, the fact remains that the outstanding economy continued to grow at a slower pace at a time when the pace of deposits has a significant improvement. This slowdown is marked by the persistent decline of loans granted to Private Non-Financial Corporation's(NFCs) and the stagnation of the share of loans granted to SMEs in the total credits mobilized in spite of the sustained intervention of the guarantee system and the by Bank Al-Maghrib unconventional measures to support the credit companies.

In the last decades, the finance industry has witnessed the emergence of a new form of finance, more ethical and answering the needs of many people, Islamic finance or as we call it in Morocco, participation finance; this industry is excluding the use of interest rate.

There are several empirical studies regarding the role of Islamic banking in economic growth and development. Studies have established that Islamic finance allows a closer link between real economic activity that creates value and financial activity to be forged (Nedal, 2011), as Islamic finance is an asset based finance, that answer the needs of the economy.



Islamic banking assets have been growing rapidly for several decades. They rose from about US$386 billion in 2006 to US$1.1 trillion in 2011 (Bank, 2011) . In recent years, growth in Islamic financial assets has generally outperformed conventional financial instruments, particularly following the onset of the financial crisis that has been gripping the world since 2008.

7. Conclusion

Many studies, which are empirical, have shown the link between Islamic finance and banking and economic growth. Islamic finance theory promotes economic development through its direct link to the real economy and physical transactions, its prohibitions against harmful products and activities, and its promotion of economic growth and social justice.

In 2016, Morocco has authorized Islamic banking in its financial system, in order to answer the needs of many who decline the conventional banks and finance that are away from their believes.

Morocco will clearly follow the path of many economies adopting the Islamic banking as shown through many studies, mainly empirical, linking between the ethical banking and economic growth. Islamic finance theory promotes economic development through its linkage to the real economy and physical transactions, its prohibitions against harmful products and activities, and its promotion of economic growth and social justice.

Follow the other countries that have Islamic finance and see its financial indicators grow rapidly as what happened in the GCC (Golf Cooperation Council) and Malaysia for instance: Many studies showing that macroeconomic indicator will know an increase thanks to Islamic finance in Morocco, and that because Moroccan people and investors from gulf countries are waiting for such an finance system to be established in order answering their ethical believes allowing them to integrate the banking market and putting their trust in it to invest. However, this evolution has to be accompanied by an efficient economic strategies wish that will make the maximum benefits of this distinguished type of funding.