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THE FINANCIAL SYSTEM AND ECONOMIC GROWTH IN MOROCCO THROUGH THE LENS OF FINANCIAL INTEGRATION : THEORETICAL DEBATE

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ABSTRACT: A large body of evidence supports the hypothesis that financial development is a transmission channel of the financial integration-economic growth nexus. While less is known about the impact of financial integration on economic growth. My paper analyzes the analytical framework among financial integration, financial development and economic growth in Morocco as well as the transmission channels between the development of financial markets and economic growth on one side and on the other side between financial integration and economic growth.

KEYWORDS: Financial development, financial system, bank based financial development, Market based financial development, financial integration, saving-investment nexus.

1 INTRODUCTION

the financial markets have essentially ceased to operate anywhere in the world during the financial crisis. the price of many assets fell quickly and deeply, the central banks have reduced their rates of drastically and the situation has been characterized by great uncertainty. the crisis has aggravated then the nascent recession strongly, which has had a particularly severe on the economy of countries oriented toward the export.

1.1 INTEREST OF THE RESEARCH

The interest of this Article is to better understand the way in which the financial system affects the real economy or the reverse and through different channels of transmission ''. It is not intended to try to explain the evolution of financial markets as such or why the financial crises occur.

1.2 PROBLEMATIC OF RESEARCH

in what measures the structure of the financial system promotes Moroccan-t-it economic growth on the long term? , In other words, the degree of integration of the SF of the countries (particularly, banking) in the countries MENA and in Africa promotes-t-it a development of the growth of the GDP of Morocco? What financial system must -it then chooses for a better economic development in Morocco and a long-term economic growth? How to measure the degree of financial integration? To what extent the degree of integration in the financial system affects the economic growth?

1.3 HYPOTHESIS OF RESEARCH

There would be a link between finance and growth, this has been demonstrated by Gurley and Shaw(1955) and then by other authors , this general hypothesis of this research is the start of our analysis of the effects that have the markets , the financial intermediaries and the financial structure on economic growth and by extension the Income , the savings and investment.

Our general hypothesis is the following: The exogenous components of the development of the financial sector are positively related to economic growth, this requires to know if the financial development has an indirect effect or not on economic growth.

On this, we are resuming the assumptions of the work of economists who are hitched to demonstrate these implications and measured their impacts on the economic growth. It is:

There is an impact of the development of the financial sector on the sources of economic growth including the private savings (Beck and others (2000)

- There is a positive link between financial structure and the Economic Development (Goldsmith 1969)
- Hypothesis of Financial Order: where economic growth follows the financial development.
- Assumption of the application: where the financial development follows economic growth.
- Bidirectional hypothesis: Where the financial development and economic growth strengthens the'has of the other.
- Hypothesis of Development: Where First, economic growth follows the financial development, then, financial development follows economic growth.
- The degree of in

1.4 Research Methodology

There is interested to the determinants of the TRIANGLE financial development-financial integration and economic growth, in this sense it is appropriate to identify what follows:

- The institutional determinants of financial development
- The determinants of the integration of the financial system
- The determinants of economic growth

2 Links between financial system and economic growth: dilemma of financial systems oriented banks or stock markets

The economic literature on the dilemma between financial development and growth and growth in financial development shows the existence of two groups, a group of economists who assert the existence of a relationship between financial development and economic growth (levine 2005) and a group of economists who reject this relationship such as (Robert lucas 1988), there are those who argue on the one hand that financial development is an essential factor for economic growth and on the other hand those who claim that it is growth that determines the level of financial development of the country.

3 Banks and financial markets in MENA countries

In the MENA countries, financial systems are dominated by banks and in some economies by state-owned banks, although privatization efforts have been undertaken. According to standard measures such as deposits held by the financial system or liquid liabilities to GDP, the size of the banking sector is quite large compared to the emerging markets of Latin America, East Asia or East of Europe. However, banks are less willing to allocate credit than in other regions, as evidenced by low credit rates on deposits or high collateral requirements for loans. Banks Focus on Relationships with Large, Well-Established Firms and Support Government Development Plans

4 Causality link between financial system and economic growth in morocco: literature review and empirical approach

The relationship between financial sector development, commonly referred to as the financial system, and economic growth has received increasing attention, particularly over the past decade. This interest is largely driven by the growth of financial markets and the growing role of the banking sector in economic development. The importance of the financial system and economic growth also results from the greater synchronization of the financial system with the main macroeconomic indicators, such as the exchange rate and the interest rate, key parameters of several economic models, such as, among others:

exchange rate models and current account models, all of which have implications for economic growth. The empirical results of recent studies, both chronological and cross-sectional, corroborate earlier findings that the financial system promotes economic growth. For example, studies based on time series (see, for example, Bell and Rousseau, Campos, Luintel and Khan, Demetriades and Hussein, Kendall, Bordo and Rousseau, Odhiambo, Hasanov and Huseynov, find that the causality goes from the financial system However, one characteristic of this research stream is that the results tend to vary across countries, with the second group of studies on cross-section / panel data models (see, for example, Beck et al. Levine, Hassan, Cole, Chang, Zhang also found a positive role for the financial system in economic growth.

In a panel data framework, Narayan and Narayan, Ceccetti and Kharroubi and Arcand, Berkes and Panizza showed a positive relationship between the financial system and economic growth. In addition, a feature of the literature so far is that they have used estimation models that assume a linear process of data generation. However, there are studies that introduce non-linearity into the model by adding quadratic terms of the financial sector variables (see Cecchetti and Kharroubi and Beck et al.)

Although we consider the same research question, our approach to modeling this relationship is completely different from the existing literature, in that we use a non-parametric panel data model Our motivation for this approach is as follows: Most of the empirical research supports a positive relationship between the financial system and However, while there is no tension and conflict in this literature in terms of the role the financial system plays in economic growth, this literature has made a strong assumption in the estimation framework. : that variables and models are linear This case is an empirical problem, and this literature ignored re empirically the linearity of variables and models, particularly in the case of panel data models.

If the linearity assumption is rejected, it will cast doubt on the perceived relationship between the financial system and economic growth. However, two studies (Cecchetti and Kharroubi and Beck et al., Introduce nonlinearity into the model by introducing a quadratic term of the financial sector variable into the model and find it statistically significant) suggest that the relationship between the financial system and economic growth may not be linear, so we first test whether the variables are linear and whether a linear MCO-based model is appropriate for modeling the relationship between the financial system and economic growth.

As a result, we decide on the appropriate type of model, which means that there are two specific contributions to the literature on the relationship between the financial system and economic growth.

5 The role of the financial system in economic growth: Transmission channel test

Given the aggravating effect of crises on income distribution in developing countries, the financial system plays a crucial role in economic development and income distribution. Therefore, developing countries must follow a path that would use the financial sector as an instrument to reshape income distribution for long-term success. This approach is supported by numerous empirical studies that have found that differences between countries in levels of financial development account for a considerable portion of the differences between countries in income inequalities between economies.

Moreover, levine has focused on a number of specific functions of the financial system including risk reduction; more efficient resource allocation; exercise corporate control; mobilize savings; To facilitate the exchange of goods and services, these functions of financial systems must also be critically examined as they form the basis of the inherent link between economic growth and financial development. Thus, this functional approach can be described as a means of assessing the causal link between the structure of the financial system, the services provided by financial systems, the productivity of the financial system and finally its impact on economic development, economic growth and the increase in per capita income.

To this end, the positive impact of financial development on economic growth depends on the essential functions of the financial system, the transmission mechanism and the channels through which finance operates. This whole systemic structure can be classified into three broad categories: Firstly a reduction of uncertainty and risk management; then the reduction of market friction, transaction costs and the cost of information - all act in the same way as technological progress, indirectly increases the productivity of the "real" economy through positive externalities and positive spillovers, and lately the direct effects of productivity and growth through the increase in the quality and quantity of savings, which has a positive impact on both domestic and foreign investment (Direct investment in foreigners attracted by a developed financial system).

6 FINANCIAL INTEGRATIONS AND THE CAUSALITY LINK BETWEEN FINANCIAL SYSTEM AND ECONOMIC GROWTH: THEORETICAL AND EMPIRICAL EVIDENCE

Recent transnational investigations into the financial system-economic growth link, show that financial development is an important determinant of economic growth (Levine, Rousseau). However, the financial integration effect on growth is still ambiguous. Edison argues that financial integration does not accelerate economic growth, even when special economic, financial, institutional and political characteristics are taken into account.

On the one hand, while reviewing some of the previous studies, Quinn and Toyoda show that capital account liberalization favors growth in both developed and developing countries. In addition, Rajan and Zingales propose a theory of interest group, which provides that the incumbents could fight against financial development. However, this opposition will be improved when an open economy is both a commercial and a capital market. They suggest that neither commercial opening alone nor the opening of the capital market alone is likely to favor financial development successfully.

Moreover, the contribution of this theory of Rajan and Zingales is important, but the evidence is limited. Due to limited availability of data they include only the twenty-four industrialized countries in their analysis. It is therefore impossible for them to take full advantage of the time series model and the panel data model and dynamic estimation techniques in order to explain the impact of openness on financial development. Demetriades investigated the causal link between trade openness, the opening of financial markets and financial development.

Moreover, Demetriades reach a conclusion that both types of openness favor financial development, it is a discovery that is compatible with the hypothesis of Rajan and Zingales. However, it suggests that the opening of a market without another does not necessarily have a negative impact on the development of the financial sector, which is a conclusion not shared by Rajan and Zingales. The results that financial development influences economic growth highlight a new question: Why do countries vary across the degree of financial development?

7 INTEGRATION OF THE FINANCIAL SYSTEM: HISTORICAL AND CONCEPTUAL APPROACH

Over the past two decades, all developed and developing countries have liberalized their financial systems, removed barriers to capital mobility and reduced the costs of financial intermediation. These developments have led to unprecedented integration of the domestic financial system around the world. Like other developing economies, Maghreb countries have implemented structural policies and modernized banking and financial regulation to strengthen their financial systems.

Over time, the development of a financial system reduces inefficiencies and market failures. In a well-functioning financial system, financial contracts, markets and intermediaries act to reduce the cost of acquiring information, executing contracts and completing transactions. Financial instruments and institutions, in turn, influence the allocation of financial resources within an economy for more efficient use of capital. Thus, a developed financial system is better equipped than an underdeveloped one to perform the following functions:

This paragraph aims to take stock of the factors and the obstacles to the integration of the financial system according to several axes of analysis: we analyze at first glance the factors and the obstacles to the integration of the financial markets and the banking sector, finally we emphasize progress and reforms for further development of financial system integration in developing countries.

8 ANALYSIS FRAMEWORK OF THE CAUSALITY LINK BETWEEN FINANCIAL DEVELOPMENT, INTEGRATION OF THE FINANCIAL SYSTEM AND ECONOMIC GROWTH

There is no universal definition of "financial integration". Nevertheless, the term generally encompasses concepts such as financial openness, the free movement of capital and the integration of financial services. Financial integration can be seen as a multidimensional process by which the allocation of financial assets becomes increasingly borderless. Financial integration refers to the liberalization of the movement of international capital and the integration of global financial markets. Developing countries, by adopting such a policy, have become an increasingly attractive destination for international investors. The latter find in these countries a higher return and a possibility of diversifying the risks. Financial integration is the process by which financial markets in an economy integrate more closely with those of other economies or those of rest of the world.

This implies an increase in capital flows and a price trend and returns on the financial assets traded in different countries to equalize. This figure describes the main transmission channels between the two links, in particular the link between financial development and economic growth and the link between financial integration and economic growth.

The degree of development of a financial system depends on the quality with which it performs its functions, that is, the quality with which it provides its services. Through the development of these functions, a financial system hypothesizes savings and investment decisions, contributes to the increase in factor productivity, and therefore influences a country's economic growth. How is this development measured? In principle, it is difficult to find indicators that show the quality with which a financial system performs its functions. For example, there are no direct indicators to measure the quality with which the financial system evaluates the corporate governance of a company. However, there are broadly disseminated indicators that, in a rough way, make it possible to compare the degree of financial development achieved by two countries, or the evolution of this development in the same country over time.

9 DEVELOPMENT OF FINANCIAL MARKETS AND GROWTH: THE EFFECT OF FINANCIAL INTEGRATION

Many documents suggest that the development of financial markets plays an important role in economic growth while promoting the mobilization of savings, while facilitating risk management, while promoting technology transfer and reducing costs of information and transaction. However, the effect of financial integration on growth remains an empirically controversial topic. How does financial integration work through the development of financial markets?.

In addition, earlier publications such as Allen and Ndikumana have reported a strong and positive relationship between financial development and economic growth in Africa. However, recent studies such as Bonfiglioli and Osada and Saito have emphasized the importance of considering two indirect effects of financial integration. First, financial integration negatively influences income growth, as it can increase the likelihood of a financial crisis and increase financial instability if financial markets are imperfect. Second, financial integration can foster economic growth by improving the depth of the financial system.

10 CHANNEL TRANSMISSION BETWEEN THE INTEGRATION OF THE FINANCIAL MARKET AND ECONOMIC GROWTH

Theoretical models have identified several channels through which international financial integration can help foster economic growth in the developing world, but empirically it has been difficult to find a strong causal dependence between financial integration and growth.

In addition, financial integration occurs if potential market participants are confronted with the same set of rules, have equal access to financial instruments and are treated equally when they are active in the market; domestic financial markets and institutions to foreign actors and domestic subjects to access foreign markets, remove borders for capital flows, remove barriers and discrimination of foreign actors, harmonize standards and law. The integration of international financial markets is becoming an increasingly powerful and economically significant process. This concerns several regions of the world - developing countries and developed countries as well.

The real effects of the integration of financial markets are widely discussed in the literature (Edison, Abiad, Leigh, Mody, Bonfiglioli, Kose, Kose, Prasad, Taylor, Kose et al., 2009, Babecky, Komárek, Komárková, Osada, Saito). The current literature identifies several direct and indirect channels through which the integration of financial markets can influence growth.

First, financial integration enables the fulfillment of the functions of financial systems at the international level. Financial surpluses can be invested more effectively when the effects of information and transaction costs are mitigated. Financial integration also allows for international risk sharing. Several forms of capital flows trigger the operation of different channels through which financial integration directly influences the real economy.

FDI flows affect several determinants of growth: investment decisions and thus capital stock, technological innovation and productivity, external debt securities allow for international risk sharing and efficient capital raising, foreign equity securities allow efficient allocation of capital. financial integration has a negative influence on the size of domestic savings because it creates more profitable allocation possibilities for these surpluses.

Second, financial integration also affects the real economy through indirect channels. It contributes to the development of national financial markets and boosts the volume of international trade. Both factors promote growth. Nevertheless, growing financial integration creates the risk of economic volatility and crisis transmission. This channel has particularly attracted attention after the last global financial crisis of 2007-2009.

11 CONCLUSION

After examining the theoretical literature on financial development, integration and economic growth, this article presents new evidence of the effects of financial integration. Although the results are often weak, the evidence suggests that there is indeed a positive relationship between the degree of financial integration and the depth of the domestic financial system. However, there is no evidence of the direct effect of financial integration on growth, after taking into account the depth of the domestic capital market. Therefore, it can be concluded that the beneficial effects of financial integration on economic growth feed primarily while promoting the development of the domestic financial system.

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