

## **The impact of Islamic finance on economic growth: a literature review**

## **L'impact de la finance islamique sur la croissance économique : revue de littérature**

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## Abstract

In Morocco, the advent of Islamic finance in May 2017, through the launch of five banks and three windows, marked the beginning of the construction of a new Shariah-compliant financial and banking engineering ecosystem.

The aim of this article is to examine the potential contribution of Islamic banking to economic growth in Morocco. To do so, we will rely on a descriptive methodology, consisting of an in-depth exploration of existing literature and empirical studies dealing with this issue.

First, we will present the characteristics of Islamic finance, and discuss its emergence and track record in Morocco. We will then use a literature review to examine the relationship between financial development and economic growth, and whether the financial sector contributes to the process of economic development.

Finally, we will analyze the results of empirical studies that have examined the role of the development of Islamic finance in economic growth in the countries of the Middle East and Southeast Asia.

**Keywords:** Islamic Finance; Financial Development; Economic Growth; Morocco; Middle East.

## Résumé

Au Maroc, l'avènement de la finance islamique, en mai 2017, par le biais du lancement de cinq banques et trois fenêtres, marquait le début de la construction d'un nouvel écosystème d'ingénierie financière et bancaire conforme à la Charia.

L'objectif de cet article est d'examiner la contribution que pourrait avoir l'activité bancaire islamique dans le processus de la croissance économique au Maroc. Pour ce faire, nous nous appuyons sur une méthodologie descriptive, qui consiste en une exploration approfondie de la littérature et d'études empiriques existantes traitant cette problématique.

Nous présenterons dans un premier lieu les caractéristiques de la finance islamique, et nous évoquerons son émergence et son bilan au Maroc. Nous examinerons ensuite, à travers une revue de littérature, la relation entre le développement financier et la croissance économique pour savoir si le secteur financier contribue au processus du développement économique.

Enfin, nous analyserons les résultats d'études empiriques qui ont examiné le rôle du développement de la finance islamique dans la croissance économique dans les pays du Moyen-Orient et de l'Asie du Sud-Est.

**Mots-clés :** Finance islamique ; Développement financier ; Croissance économique ; Maroc ; Moyen-Orient.

## Introduction

Today, we are witnessing an economic crisis that has led to a deterioration in the world's major macro-economic balances, particularly in developing countries. Several sectors have been affected by this crisis, notably the financial sector, leading to the collapse and failure of several international banking groups. It is therefore timely to examine the merits of an alternative banking model, one that adopts a different approach to risk and finance based on Sharia principles. This is particularly relevant given the substantial growth of Islamic banking over the past decade, driven by the security these institutions offer in the face of financial shocks and volatility.

Indeed, the performance and stability of Islamic finance institutions during the 2008 global financial crisis can be attributed to the quality of their assets and the distinctive characteristics of their financial instruments. These instruments, rooted in social equity and economic citizenship, offer an alternative to traditional finance models based on interest-bearing loans, positioning Islamic finance as a potential remedy to many challenges faced by the international financial system.

Islamic finance has established itself as one of the world's fastest-growing economic sectors. According to the Islamic Financial Services Board's 2021 report, global Islamic banking assets reached US\$2,700 billion in 2020, compared with US\$1,300 billion in 2011. The majority of these assets are concentrated in the Gulf Cooperation Council (GCC), which accounts for 48.9% of the global Islamic finance market, and the Middle East and South Asia (MESA) region, which holds 24.9% of global Islamic assets. This popularity can be partly explained by the population's rejection of the Western financial system, primarily due to its reliance on interest payments.

In Morocco, the marketing of Islamic financial products and services is relatively recent, dating back to September 2007. This move responded to a growing demand and high expectations from Moroccan consumers, while also aiming to improve financial inclusion and stimulate economic development. The year 2017 marked the long-anticipated launch of Islamic banks in Morocco, paving the way for a more diversified and robust financial system.

Given this context, the key question guiding this article is: To what extent can Islamic banking contribute to economic growth in Morocco?

To address this question, the article is organized as follows. First, we explore the fundamentals of Islamic finance, its main characteristics, and its development in Morocco, highlighting its potential role in strengthening the country's financial system. Next, we examine the link

between a developed financial system and economic growth by reviewing existing literature on the contribution of the financial sector to economic development. Finally, we analyze the findings of a 2014 empirical study by Mosab I. Tabash and Raj S. Dhankar, which explored the relationship between Islamic finance and economic growth in Middle Eastern countries. This analysis serves to contextualize the potential impact of Islamic finance on Morocco's economic development.

## **1. Fundamentals of Islamic finance**

Islamic finance refers to all financial and commercial activities that respect the principles of religious law (Pajolec), the Sharia. The Islamic financial system is thus governed by this law, and is organized around mechanisms, institutions and products that must respect all the philosophical principles laid down in the sources of Islamic law, namely the Koran, the Sunna and Al Ijmaa (consensus of scholars).

In this paper, we discuss the main features of Islamic finance, its main tools, as well as its emergence and track record in Morocco.

### **1.1. The main features of Islamic finance**

Islamic financing contracts must not run counter to the fundamental principles of Sharia law. The fundamental principles of this financing model are:

- *Prohibition of interest*

According to Sharia principles, money has no intrinsic value, as it is simply a means of exchange and therefore cannot be used to make a profit.

- *The Profit and Loss Sharing Principle (PPP/3P)*

This is a process that enables risk to be shared between entrepreneurs and investors. The investor entrusts his or her funds to an entrepreneur, with whom he or she shares profits based on the performance of the underlying asset. Naturally, any losses must also be shared if they are not due to negligence or fault on the part of the entrepreneur.

- *Prohibition of uncertainty and speculation (Gharar)*

The word Gharar can refer to a hazard, uncertainty or chance. In Islamic contracts, it is not acceptable for the object of the contract to be conditional on the realization of an event that may or may not occur. The reason for this prohibition lies in the fact that this uncertainty may generate an imbalance between the profits and losses of the different parties to the contract.

- *Asset tangibility*

All Islamic financial transactions must be backed by a real, tangible asset. This principle reinforces economic stability and risk control. Islamic finance encourages investors to invest in

the real economy, preventing the disconnect between financial markets and the real economy that we see today.

- *Illegal activities*

Islamic financing may not be used to invest in any activity prohibited by Sharia law, such as alcohol, pork or gambling. Examining the compatibility of investments and financing with the Sharia is an additional diligence that must be carried out in any Islamic financing project.

- *The role of money*

For the Islamic financial system, money is not an object to be sold or rented. It is used primarily to facilitate trade and commerce. Consequently, profit is only legitimate if an effort has been made to acquire it.

- *Sharia Boards*

This committee of eminent religious specialists is responsible for approving the operations and products offered by the financial institution.

**1.2. The main tools and contracts of Islamic finance**

There are generally two main families of Islamic financial instruments: participatory instruments, pure financing instruments and increasingly sophisticated contracts and products in most financial fields.

**Table 1: Main Islamic finance tools and contracts**

Type	Tools	Definitions
<b>Participatory instruments</b>	Moudaraba	Contract between the financial backer (Rab Al Mal) who provides capital in cash and/or in kind, and the entrepreneur (Moudarib) who provides labor and expertise, in order to make a profit.  Profits are shared between the customer and the Islamic bank according to a distribution key agreed in advance in the Mudaraba contract, once the investor has recovered his capital and the entrepreneur has paid all his management fees. (Jouini and Pastré, 2009).
	Musharaka	Partnership between bank and customer in which both parties pool their contributions in cash and/or in kind with the aim of making a profit.  Profits are shared between the bank and its customer according to predetermined distribution keys.

		Losses are borne in proportion to each party's share in the capital.
<b>Financing instruments</b>	Mourabaha	Financing of movable or immovable property through its acquisition by the Bank at the customer's request, and its resale to the customer at a price equal to the acquisition cost plus a pre-agreed profit margin.
	Salam	Contract to finance working capital requirements, under which the bank buys the customer's goods with deferred delivery in return for immediate payment in full by the bank.  At the end of the 'Salam' contract, the bank mandates the customer to take delivery of the goods covered by the 'Salam' contract and to sell them on its behalf within a specified period.
	Istisnaa	A financing transaction whose purpose is to finance manufacturers' raw material requirements for the manufacture of a movable or immovable good, the characteristics and terms of which are clearly specified in advance.
	Ijara	A contract similar to leasing in conventional finance. The creditor purchases goods, which are then leased to a customer. The customer has the option of buying back the asset when the contract expires.
<b>Participatory investment products</b>	Sukuks	A financial product backed by a tangible asset with a fixed maturity, a "Sakk" (singular of "Sukuk") confers a right of ownership over the issuer's assets, and its holder receives a share of the profit attached to the performance of the underlying asset. In this case, interest is replaced by a profit forecast in advance, with virtually zero risk.
	Investment deposit	Term deposit contract governed by the 'Moudaraba', in which the customer is the lender (Rab Al Male) and the bank is the 'Moudarib'.

		The bank invests the investment deposits in either the entire financing portfolio or the entire investment portfolio, or both at the same time. The resulting profits are shared between the two parties according to pre-determined distribution keys.
	Wakala Bilistithmar	Contract by which the customer mandates the bank to invest his funds in the financing or investment portfolio. At the end of the investment period, the customer is entitled to the profits resulting from the investment operation on the basis of realizations up to the expected rate of return, and the bank is entitled to a pre-determined commission and a percentage of profits in excess of the expected rate of return, if the contract between the parties so permits.
Insurance	Takaful	Financial transaction symbolized by mutual cooperation between two parties to protect one of them against probable future material risks". (Karich, 2007)

Source : Jouini, E., & Pastré, O. (2009). " Islamic Finance: A Solution to the Crisis? »; Karich, A. (2007).

"Takaful Insurance and Islamic Financial Instruments."; Usmani, M. T. (2002). "An Introduction to Islamic Finance." Kluwer Law International.; Islamic Financial Services Board (IFSB).

### 1.3. The main features of Islamic finance in Morocco

The launch of Islamic banks in Morocco in 2017 was an important step in a gradual, well-calculated process aimed at further complementing and strengthening the Moroccan financial system through, in particular, greater diversification of the means of financing the economy.

However, the founding legislation governing Islamic finance, Law 103-12 on credit institutions and similar bodies, uses the term "participatory finance" rather than Islamic finance.

For this reason, we will use the term "participatory finance" in our analysis of the main features of Islamic finance in Morocco.

In this section, we will discuss the role of the Shariah Committee for Participatory Finance in Morocco, introduce Moroccan participatory banks, and analyze the performance of participatory finance in Morocco as of June 30, 2021.

### **1.3.1. A central, independent Sharia committee reporting to the Higher Council of Ulemas**

By virtue of Dahir N° 1.15.02, a Sharia Committee for Participative Finance has been set up within the Conseil Supérieur des Oulémas. Its mission is to issue opinions on compliance with Sharia precepts:

- participative financial products offered to customers by credit institutions and similar bodies, and the related model contracts;
- circulars issued by the Wali of Bank Al-Maghrib concerning participative financial products, investment deposits and operations carried out by the deposit guarantee fund of participative banks;
- Takaful transactions carried out by insurance and reinsurance companies;
- the issuance of Sukuks in accordance with current legislation, irrespective of the issuing party.

The existence of such a supreme committee ensures total independence and impartiality when it comes to issuing opinions on the Sharia compliance of participatory finance products. Unlike most systems in other countries, where each participative bank has its own Shariah committee, this committee is independent and impartial.

#### *– Members of the Shariah committee for participatory finance*

The Shariah Committee for Participatory Finance is made up of 9 members, recognized for their in-depth knowledge of the precepts of Islamic Shariah law, plus a coordinator. Committee members are appointed by the Secretary General of the Supreme Council of Ulemas. It may also consult at least 5 permanent experts chosen from among individuals and legal entities recognized for their skills and experience in the fields of law and finance.

#### *– Opinion of the Sharia committee on participative finance*

Participative financial institutions wishing to obtain a "Sharia-compliant" opinion must submit their request through the financial regulators, namely : Bank Al-Maghrib, the Autorité des Marchés Financiers and the Autorité de Contrôle des Assurances et de la Prévoyance Sociale, which are responsible for submitting files to the Shariah Committee for Participative Finance under the auspices of the Conseil Supérieur des Oulémas.

### **1.3.2. The emergence of Islamic finance in Morocco**

Morocco is among the latest countries to join the Islamic finance ecosystem. Indeed, on January 2, 2017, Bank Al-Maghrib, the Moroccan Central Bank, published a communiqué from the Comité des Établissements de Crédit relating to approval for the exercise of participatory

banking activity. All the Moroccan banks applying for approval have obtained it, almost all of them having chosen to launch in partnership with an international leader in Islamic finance. The following participative banks obtained their approval and started operations during 2017:

- *Umnia Bank*

Created in 2016, UMNIA Bank is a Moroccan bank dedicated to participatory finance. It was born of a partnership between Caisse de Dépôt de Gestion (CDG), CIH Bank and Qatar International Islamic Bank (QIIB). The bank offers products such as financing contracts, investment, placement and savings products. In 2017, eleven UMNIA Bank branches were opened in cities across the Kingdom. By 2021, UMNIA BANK will have 44 branches.

- *Bank Assafa*

Bank Assafa, a subsidiary of Attijariwafa bank, was created and licensed in 2017 as a Participative Bank. The bank was officially launched in July 2017 with a capital of 350 million dirhams.

The leader in the Moroccan participative banking market, Bank Assafa has a market share of over 30% in terms of financing and 32% in terms of deposits, and by 2021 will have 39 commercial branches spread across the different regions of the kingdom, 2 mobile branches and a digital branch.

- *Al Akhdar Bank*

Al Akhdar Bank (AAB) is a participative bank created jointly by the Crédit Agricole du Maroc Group (CAM) and the Société Islamique pour le Développement du Secteur Privé (SID). Al Akhdar Bank is part of the Crédit Agricole du Maroc Group's strategy to diversify the products it offers its customers. It also enables the CAM Group to distinguish itself through innovative banking solutions, particularly for the financing and development of the agricultural sector and the rural world. Furthermore, in August 2018, Al Akhdar Bank obtained approval from the central depository Maroclear and the Ministry of the Economy and Finance to carry out depository activities. By 2021, it will have a network of 17 branches.

- *Banque Participative du Maroc (Bank Al Yousr)*

"Banque Participative du Maroc" is a subsidiary of Banque Centrale Populaire (BCP) dedicated to participative finance. It is governed in the form of a limited company (S.A.) with a founding capital of 340 MDH, 80% of which is held by BCP and 20% by an industrial partner, Guidance Financial Group, which has extensive international experience in participative finance. Bank Al Yousr offers a wide range of value-added products in line with the advice of the Conseil Supérieur des Oulémas. It aims to position itself among the leaders of the Moroccan

participatory market. In 2017, Bank Al Yousr obtained approval from Bank Al Maghrib to operate as a participative bank. By 2021, the bank will have 18 commercial branches across the Kingdom.

- *BTI BANK*

BTI "Bank Al-Tamweel Wa Al-Inma" is the result of a partnership between two international institutions, Al Baraka Banking Group and BMCE Bank Of Africa, which hold 49% and 51% respectively.

By 2021, BTI Bank will have a network of 5 branches.

The Comité des Établissements de Crédit has also issued a favorable opinion authorizing three banks to open participative windows to offer their customers participative banking products.

These are:

- *BMCI - Najmah*
- *Crédit du Maroc - Arreda*
- *Société Générale - Dar Al-Amane*

### 1.3.3. Assessment of the participatory finance sector in Morocco:

The advent of participatory finance in Morocco in May 2017 with the launch of five banks and three windows marked the beginning of the construction of a new Shariah-compliant financial and banking engineering ecosystem.

Four years on, the ecosystem is still under construction, challenging the business of participative banks and windows.

In order to draw up a progress report on participatory finance in Morocco, we will assess the sector's performance in terms of financing, according to the latest figures published by banks and windows as at June 30, 2021. The outstanding amounts and market shares of participatory financing in Morocco are detailed in Table 1 below.

**Table 2: Outstandings and market share of customer loans to participative banks in Morocco**

In billions of DH	Participative banks					Participatory windows		
	Bank Assafa	Umnia Bank	Bank Al Yousr	Al Akhdar Bank	BTI Bank	Dar Al Amane	Arreda	Najmah
Customer receivables	4,78	4,12	1,75	2,22	0,33	1,96	0,60	0,21
Market share	30%	26%	11%	14%	2%	12%	4%	1%

Source: Compiled by the author on the basis of bank financial communications to 06-30-2021

At June 30, 2021, outstanding financing granted by banks and participative windows reached DH16 billion, compared with DH7.7 billion at June 30, 2020, representing an annual variation of 108%.

The annual variation recorded by the participative finance sector in Morocco is quite remarkable, and bears witness to Moroccans' enthusiasm for Sharia-compliant financing products.

However, participatory financing in Morocco represents only 1.6% of the 970.3 billion in financing<sup>1</sup> by the banking sector as at June 30, 2021.

This position of participative finance in relation to conventional finance in Morocco can be explained by the inadequacy of the financing solutions offered by the participative finance sector in Morocco in relation to existing financing needs. In fact, all participative financing granted consists of real estate and equipment Murabaha. The challenge now is to structure the participatory finance offering and offer the full range of Islamic financing instruments, in particular 'Musharaka' and 'Mudaraba' participation products, as well as 'Salam' and 'Ijara' trusts, which are powerful products in their own right.

## **2. Islamic financial development and economic growth: Literature Review**

In order to examine the relationship between Islamic finance and economic growth, it is first necessary to study the relationship between financial development and economic growth, given that Islamic finance is a component of the financial system.

### **2.1. Relationship between financial development and economic growth**

The relationship between financial development and economic growth has been one of the most hotly debated questions as to whether the financial sector contributes to the process of economic development. Some authors consider finance to be an important element of growth (Schumpeter, 1934; Goldsmith, 1969; McKinnon, 1973, Shaw, 1973; King and Levine (1993), while for others it is only a minor growth factor (Robinson, 1952; Lucas, 1988).

Schumpeter (1934) saw the banking sector as an engine of economic growth, financing productive investment. In contrast, Lucas (1988) argues that the role of finance has been overestimated.

Explicitly or implicitly, in all studies, it is noted that an efficient financial system accelerates economic growth. The main contribution of the financial system to the materialization of growth is that it ensures the operation of an efficient and scalable payment system, and

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<sup>1</sup> Figures based on Groupement Professionnel des Banques du Maroc (GPBM) monthly statistics to 06/30/2021.

mobilizes savings and improves their allocation to investment. The existence of a reliable and healthy financial system is therefore a prerequisite for growth.

The financial sector plays a growth-promoting role, if it is able to direct financial resources towards the most promising sectors. A well-developed financial system thus enables the creation of financial resources that can be allocated to productive use, and the development of human capital, which will lead to economic growth.

Odedokun (1992) spoke of the bidirectional causality between finance and growth. Financial and economic developments are causally linked, in that financial development drives economic growth, and economic growth drives further financial development.

Masih (1996) supports the "demand-following" hypothesis, whereby economic growth drives the development of financial sectors. According to this point of view, the faster GDP growth, the greater the demand from companies for funds (other people's savings), and therefore for financial intermediation, since companies will not be able to finance their development through self-financing. The financial system can thus support and perpetuate growth sectors. In this case, the development of the financial system is a consequence of economic growth.

Levine and Zervos (1998) studied the empirical relationship between stock market evolution, banking development and long-term economic growth. Their research showed that stock market liquidity and banking development are both positively and strongly correlated with current and future economic growth rates, capital accumulation and productivity growth.

Fase and Abma (2003) have argued that the development of the financial system could have a positive impact on economic growth. In this case, financial sectors act as "Supply- Leading", leading to the transfer of resources from traditional low-growth sectors to modern high-growth sectors, and promoting an entrepreneurial response in these modern sectors.

Abu-Bader and Abu-Qarn (2005) examined the causal relationship between financial development and economic growth in Egypt over the period 1960-2001, using Granger causality tests and concluding that financial development promotes economic growth by increasing investment efficiency and through capital accumulation.

Tang (2006) used a modified growth model to investigate whether financial development facilitated economic growth among APEC countries from 1981 to 2000. Tang's study focused specifically on the effects of three aspects of financial development on economic growth: the stock market, the banking sector and capital flows. Tang found that the level of stock market development and capital flows have no impact on economic growth in APEC countries.

However, his study shows that a developed banking sector would only boost the growth effect of APEC countries, particularly developing countries.

Roméo-Avila (2007) has also confirmed the positive impact of finance on growth. He investigated the relationship between finance and growth, focusing on the effect of financial deregulation and banking law harmonization on economic growth in the European Union. The study establishes that financial intermediation has a positive impact on economic growth.

Kenourgios and Samitas (2007) examined the long-term relationship between finance and economic growth for Poland, and concluded that credit to the private sector was one of the main drivers of long-term growth in the country studied.

A review of the existing literature shows that most empirical work published before the global financial crisis of 2007-2008 attested to the positive relationship between finance and growth, given that the functions performed by the financial system, notably resource allocation and risk management, are conducive to the investment that drives long-term economic growth.

However, in the wake of the financial crisis, many authors have questioned the positive relationship between finance and economic growth.

Indeed, Arcand et al, in their 2015 article "Too Much Finance", argue that finance participates in the economic growth process up to a certain threshold, and that beyond this threshold, finance is detrimental to economic growth. They demonstrate that when the ratio of private sector credit to GDP is below 100%, it is positively related to economic growth, and that when it exceeds 100% of GDP, financial development has a negative effect on growth.

A study by Cecchetti and Kharroubi (2015) has added to the work of Arcand et al. by developing a model demonstrating that the overdevelopment of finance can negatively affect total factor productivity, and consequently growth.

An analysis of the recent literature on the relationship between financial development and economic growth therefore reveals a causal link between the two variables studied, although there is a threshold beyond which finance becomes detrimental to growth. The impact of Islamic finance on economic growth

Although there are many studies on the relationship between financial development and economic growth, studies examining the role of Islamic financial development in economic growth are very rare. Some researchers in the Middle East and Southeast Asian countries have published a few articles on the subject.

### **2.1.1. Islamic finance and economic growth in Southeast Asia**

Furqani and Mulyany (2009) examined the dynamics of interactions between Islamic banking and economic growth in Malaysia, using the co-integration test and error correction model (VECM) to see whether the financial system influences growth and whether growth impacts the development of the financial system in the long term. They found that, in the short term, it was only fixed investment that drove the development of Islamic banking over the period 1997 to 2005. Where, in the long term, there is evidence of a relationship between Islamic banking and economic growth, insofar as rising GDP drives the development of Islamic banking, rather than the other way round.

Abduh and Chowdhury (2012) studied the relationship between Islamic banking development and long-term economic growth for the case of Bangladesh. Quarterly time series data of economic growth, total financing and total deposits of Islamic banking from 2004 to 2011 were used in their study. Using the cointegration model and Granger causality method, Islamic bank financing is found to have a positive and significant effect on both long- and short-term economic growth.

These studies have shown that the development of the Islamic financial system has played a viable role in the economic growth of the countries studied. But the extent of the relationship between Islamic finance and economic growth differs from country to country, and is linked to the monetary policies of each country.

### **2.1.2. Islamic finance and economic growth in Middle Eastern countries**

Global Islamic financing is mainly concentrated in the Middle East. The United Arab Emirates has 8.7% of total global Islamic finance assets, followed by Bahrain 5.3%, and Qatar 4.8%.

Thus, an empirical study was carried out in 2014 by Mosab I. Tabash and Raj S. Dhankar, from the University of Delhi, on the relationship between Islamic finance and economic growth in Middle Eastern countries. The study concerns the most important Middle Eastern countries in which Islamic finance has a significant footprint, namely the United Arab Emirates, the Kingdom of Bahrain, and Qatar.

The authors of the study began by taking stock of Islamic finance in the countries studied. The results show that Islamic finance occupies a predominant place in the financial systems of these three countries.

Indeed, in Bahrain, the market share of Islamic banks has grown considerably from 1.8% of total banking assets in 2000 to 13.3% in August 2012, and the combined assets of all Islamic

banks have grown impressively from less than \$7,000 million in 1990 to over \$37,000 million in 2008.

In Qatar, Islamic banks have performed strongly over the period 1990 to 2008, with the combined assets of Islamic banks in Qatar, including Qatar International Islamic Bank, Qatar Islamic Bank, Masraf Al Rayan and First Finance Company, generating an impressive increase from less than US\$5,000 million in 1990 to over US\$30,000 million in 2008.

The performance of the Islamic banking sector in the United Arab Emirates continues to benefit from a buoyant economic environment. Total assets of Islamic banks in the UAE have grown from less than \$1 million in 1990 to over \$58,000 million in 2010.

The researchers then empirically analyzed the relationship between Islamic bank financing and economic growth using econometric analysis. They used annual time series data for the following variables:

- Islamic banks' financing methods as an indicator of financial sector development
- Gross domestic product (GDP) as an indicator of economic growth.

GDP is a common statistic used to represent a country's level of income over a given period of time. In order to study the link between Islamic finance and growth, it is essential to use GDP as the main variable reflecting economic growth.

As a result, Islamic bank financing data corresponding to the period 1990 to 2010 were collected, with the aim of examining the relationship between Islamic bank financing and GDP in the UAE, Qatar and Bahrain.

The first step in the study was to determine the relationship between Islamic financial development and economic growth, and whether or not the time series are stationary. In a model, for a correct evaluation, the time series must be separated from all effects, and must be stationary, i.e. its statistical properties do not vary over time (expectation, variance, auto-correlation).

The researchers first performed a unit-root test on the time series to determine its stationarity, and found that the time series is not stationary. This implies that it is not possible to perform a co-integration test between the variables under study. Consequently, they performed a first-order differentiation test, which resulted in a stationary series.

Co-integration test analysis was then carried out to determine the number of co-integration vectors (Engle and Granger, 1987; Johansen, 1988; Johansen and Juselius, 1990). The results of the test confirmed that there is a co-integration relationship between the variables for the

three Middle Eastern countries studied. This suggests that, in the long term, Islamic bank financing will contribute to GDP growth in the three selected Middle Eastern countries.

Once the long-term co-integration relationships between the variables had been confirmed, the Granger causality test was used to test causality between Islamic bank financing and economic growth.

Granger test results showed that there is a two-way causality between bank financing and economic growth for Bahrain and Qatar. This means that in these countries, Islamic finance has led to economic growth, and at the same time, economic growth stimulates the development of Islamic banking institutions.

For the United Arab Emirates, the Granger test states that there is a one-way causal relationship between Islamic bank financing and economic growth. In other words, the high flow of Islamic financing led to economic growth.

### **Conclusion**

In this article, we explored the theoretical foundations of Islamic finance and its integration into the Moroccan financial system. We also reviewed the literature on the relationship between financial development and economic growth, as well as empirical studies that have demonstrated the impact of Islamic finance on economic growth in regions such as the Middle East and Southeast Asia. Specifically, we highlighted the participatory nature of certain Islamic financial instruments, such as 'Mudaraba' and 'Musharaka', and financing instruments such as 'Salam', 'Ijara', and 'Istisnaa', which are seen as viable alternatives to conventional finance and capable of strengthening the financial system to promote economic growth.

Our analysis of the empirical study conducted in 2014 by Mosab I. Tabash and Raj S. Dhankar from the University of Delhi revealed a stable long-term relationship between Islamic bank financing and economic growth in the three countries studied: Bahrain, Qatar, and the United Arab Emirates. The development of the Islamic financial system in these countries demonstrated its potential to contribute significantly to long-term economic development. These findings suggest that improving Islamic financial institutions in the Middle East can positively impact regional economic growth.

However, our study also shows that these findings cannot be generalized to Morocco. The weight of Islamic finance in the financial systems of the countries studied is significantly greater than in Morocco. For example, the market share of Islamic banks in Bahrain accounted for 13.3% of total banking assets in 2012, whereas in Morocco, participatory financing represented only 1.6% of banking assets as of June 30, 2021. This underscores the need for a deeper

examination of the strategies implemented by Islamic finance actors in Bahrain to develop this sector. In 2000, the market share of Islamic banks in Bahrain was only 1.8%, demonstrating that gradual and targeted growth is achievable.

The main contributions of our research lie in demonstrating the potential of Islamic finance to foster economic growth, provided that the local context and conditions are favorable for its development. The study also highlights the importance of distinguishing the specific contributions of each Islamic financial instrument, considering their differentiated impact on economic development.

Despite these contributions, our research has certain limitations. First, the analysis focuses primarily on existing literature and empirical studies conducted in other regions, limiting the applicability of our conclusions to Morocco. Second, the small market share of Islamic finance in Morocco makes it difficult to draw direct comparisons with other countries where this sector is more established.

To further advance this research, an in-depth empirical analysis of the impact of Islamic finance on economic growth in Morocco is needed. This study could be conducted by establishing forecasts under various scenarios using the ARDL (AutoRegressive Distributed Lag) method. Such an analysis would allow for the evaluation of the potential impact of Islamic finance in both the short and long term, taking into account specific variables such as Sharia-compliant investments, sukuks, and other economic indicators. This approach would provide concrete paths for developing participatory finance in Morocco, drawing on lessons from other markets and the dynamic evolution of the sector since its launch in 2017.

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