

# Examining the Interactions of Economic Growth and Bank Credit to the Private Sector in Morocco: A causality Analysis

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## ABSTRACT

Our paper examines the relationship between bank credit to the private sector and economic growth in Morocco during the period 2003-2020. We employ a VECM in an econometric framework that controls for the impact of structural breaks. In the short run, we provide robust evidence for a one-way causal impact of bank credit to the private sector on economic growth in Morocco. In the long run, we show a feedback relationship between bank credit and economic growth, which explains the concordance between the evolution of the two variables. Finally, our results show that foreign direct investment contributes most to explaining the forecast errors of bank credit intensity to the private sector and nonagricultural GDP. These results illustrate the impact of exogenous FDI shocks on output and credit in Morocco in the short run.

**Keywords** Bank credit, Economic growth, Causality, VECM

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