Bank Concentration, Institutional Quality, and Economic Growth: Empirical Evidence from MENA Countries

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Abstract

This study examines the influence of institutional quality on the relationship between economic growth and banking sector concentration for a sample of 15 MENA countries over the period 1996-2010. Based on static and dynamic panel data analysis, the results reveal a positive and significant relationship between economic growth and each of bank concentration and institutional quality. The results support the argument that bank concentration and institutional quality are matter for growth in less developed countries. The results also indicate that the interaction variable between concentration and institutional quality is negative and significant. Consistent with Petersen and Rajan's (1995) argument, the study suggests that banks in MENA region can depend on their market power to protect their interests in the absence of an appropriate level of institutional quality. This can be performed by investing in long-term relationships with their client firms in order to facilitate more credit access and subsequently enhancing economic growth.