Chapter 13

The Impact of FinTech on Economic Performance and Financial Stability in MENA Zone

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ABSTRACT

This chapter deliberates on the effects of FinTech on economic performance in the context of political instability in MENA zone countries. Using a multiple regression model to estimate time series data based on a sample of 10 MENA zone countries for 2011, 2014, and 2017, the study contends that FinTech’s lending activities increase inflation and that this effect could be interestingly moderated by sound policies and regulations. In addition, the authors find empirical support for the FinTech’s role as a driver of economic growth and a breeding ground for innovative projects in a context of freedom of expression, association, and media. In terms of practical implications, decision makers are asked to formulate and implement sound policies and regulations that permit and promote the positive role of FinTech in terms of economic performance.

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INTRODUCTION

This chapter examines the impact of digital finance on financial inclusion and the stability of the financial system. In the past decade, the information technology (IT) revolution and advancement in encryption and network computing have transformed every aspect of human life, including banking and the financial services industry knew a supreme transformation in banking activities related to innovation and technologies. Indeed, with the emergence of virtual currencies, also known as crypto-currencies or digital currencies, the way goods, services, and assets are exchanged faced a fundamental transformation. IT acts as a catalyst for growth in the banking sector; in particular, it supports banking, productivity growth and risk management. IT is a driver of activity and can therefore be used to enhance competitiveness (Porter and Millar, 1985).

As a breakthrough innovation, financial technologies, nowadays known under the term of Fintech, denote companies that combine financial services with innovative technologies (Dorfleitner et al, 2017). More precisely, Fintech was coined to mean innovative financial solutions that have harnessed technologies and new and creative ways1. Even if, there is not a universally definition, Fintech is seen as a redesign of the financial services sector using entirely new business models for payment, wealth management, crowdfunding, lending and capital markets. Zavolokina et al. (2016) postulate that ‘Fintech’ is a living body with a flexible and changing nature, rather than a stable notion that is transparent and clearly understood by both academia and the media’ (p 12). They further postulate that the emergence of Fintech is the result of three main factors simultaneously interacting and challenging the status quo at the same time: organizations, people and geographical locations (markets). That being said, it must be recognized that Fintech lending was first created around the financial crisis and then has been growing quickly in the last decade. Today, Fintech are experiencing an increasing popularity in the financial markets and in portfolio management as they can be classified as financial assets or commodities to pure store of value advantages. Consequently, banking sector has increasingly moved to a shadow banking sector. According to Matvos, Piskorski, and Seru (2018) the market share of shadow banks in originating residential mortgages nearly doubled from 2007 to 2015.

As in other countries, the MENA Fintech sector is booming, with dozens of new start-ups launching every year. Such changes are expected to have an impact on countries’ economic performance. In this context, digital finance promises to increase the gross domestic product (GDP) of digitized economies by providing convenient access to a wide range of financial products and services (and credit facilities) for individuals, as well as small, medium and large businesses, which can boost overall growth and spending, thereby improving GDP levels. Digital finance can also lead to greater economic stability and increased financial intermediation for both customers and economy. Meanwhile, some other countries are often facing periods of political instability which would influence the relationship between Fintech and economic performance. Previous researches were conducted to study the relationship between digital finance, economic performance and financial stability e.g. [Han, R., & Melecky, M. (2013), Accenture, (2013), GSMA, (2014), McKinsey, (2015), Dermine (2016), Young (2017), Buchak et al. (2017) and Fuster et al. (2018). Our study intends to extend literature on the impact of Fintech on economic performance moderated by political instability. Focusing on digital finance, this chapter offers a discussion on digital finance and explores the impact of digital finance on economic performance in a context of financial instability: a problem that has not been addressed in the literature.
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