

# **Title: Financial Inclusion and Sustainability of Economic Development: Empirical results from selected EU Member States**

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## **Abstract**

The study's primary objective is to verify the anticipated positive impact of financial inclusion on the economic development of selected European economies between 2014 and 2023. To achieve this, econometric models and authors' aggregate indices, which represent multidimensional concepts of these phenomena, have been implemented. The main sources of data were statistical databases provided by FAS-International Monetary Fund, World Development Indicators, and Eurostat. The results obtained indicate no clear relationship between the level of financial inclusion and economic development among European Union member states. The estimated models revealed varying effects of financial inclusion in European countries before and after the Coronavirus pandemic. However, these findings must be treated with caution, primarily due to the structural break caused by the economic downturn in 2020. Another contribution of the study is the finding that, in countries characterised by a high level of development, some standard variables used to measure financial inclusion are inadequate. The results could be used to determine favourable conditions for maximising the positive influence of financial inclusion on the economy. Such policies reduce disparities in the levels of development of various countries, particularly by addressing the issues faced by people on lower incomes.

**Keywords:** financial inclusion; sustainable economic development; linear ordering; econometric models

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## **Discussion:**

Despite widespread knowledge about the positive impact of financial inclusion on economic growth and development, there are still many limitations in this area. Households are likely to be financially excluded due to unemployment and low-income levels [1] and low usability of bank accounts. Policymakers may utilize the findings to facilitate the restructuring of policies, to guide the government on its expenditure models that engender opportunities for financial inclusion. Furthermore, insurance companies and financial institutions may also utilize the findings to address any existing gaps that impede efficient access to financial services, thereby contributing to sustainable economic development. The situation in terms of increasing financial inclusion can be improved by incorporating digital financial tools such as FinTech. Such tools can promote the financial inclusion of individuals and businesses in low-income regions, enabling them to access capital and participate in sustainable economic activities, which encourages them to manage their finances by making effective investment decisions. [2] shows that developing the technology infrastructure allows Fintech to support SDGs, because Fintech substantially enhances financial inclusion in urban areas, significantly reducing poverty and fostering effective collaboration between financial service providers and customers. However, it is worth remembering that despite institutional development and improvements to the financial system's infrastructure, certain groups of people remain financially excluded because they are reluctant to adopt digital or fintech tools for their everyday transactions, due to trust issues or a reluctance to give up cash habits [3].

One of the key conclusions drawn from the study is that, in countries with a high level of development, certain components of the measures used to assess financial inclusion are not only outdated but, above all, inadequate. Based on an analysis of data describing the level of development of financial services in the analysed European Union countries, the number of ATMs can certainly be included among them. The results obtained indicate that there is no clear relationship between the level of financial inclusion and economic development among European Union Member States. In the case

of some countries, we can observe even a strong negative relationship between these phenomena. We can also observe a distinct division into two sub-periods, much different according to the relationship between financial inclusion and economic development. Until 2019, we noticed a positive relationship, because during the first examined years, there was no economic slowdown. The expected type of the relationship has changed in the second part of the whole period due to the negative impact of the Coronavirus pandemic. However, when we interpret the received results, it is worth noting that due to gaps in statistical data, the study covered only nine European Union countries, and conclusions were drawn solely based on econometric models using data in the form of relatively short individual time series.

Future research on the importance of financial inclusion for economic growth and sustainable development should consider in more detail the impact of an individual country's level of socio-economic development and cultural aspects. More attention could also be paid to analysing the sensitivity of the results obtained to different constructions of indicators characterising the level of financial inclusion and economic development, as well as to the use of different data analysis tools, including multidimensional analysis methods.

## References

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