Financial Inclusion and Financial Stability

4th High-Level Dialogue on Financing for Development in Asia and the Pacific

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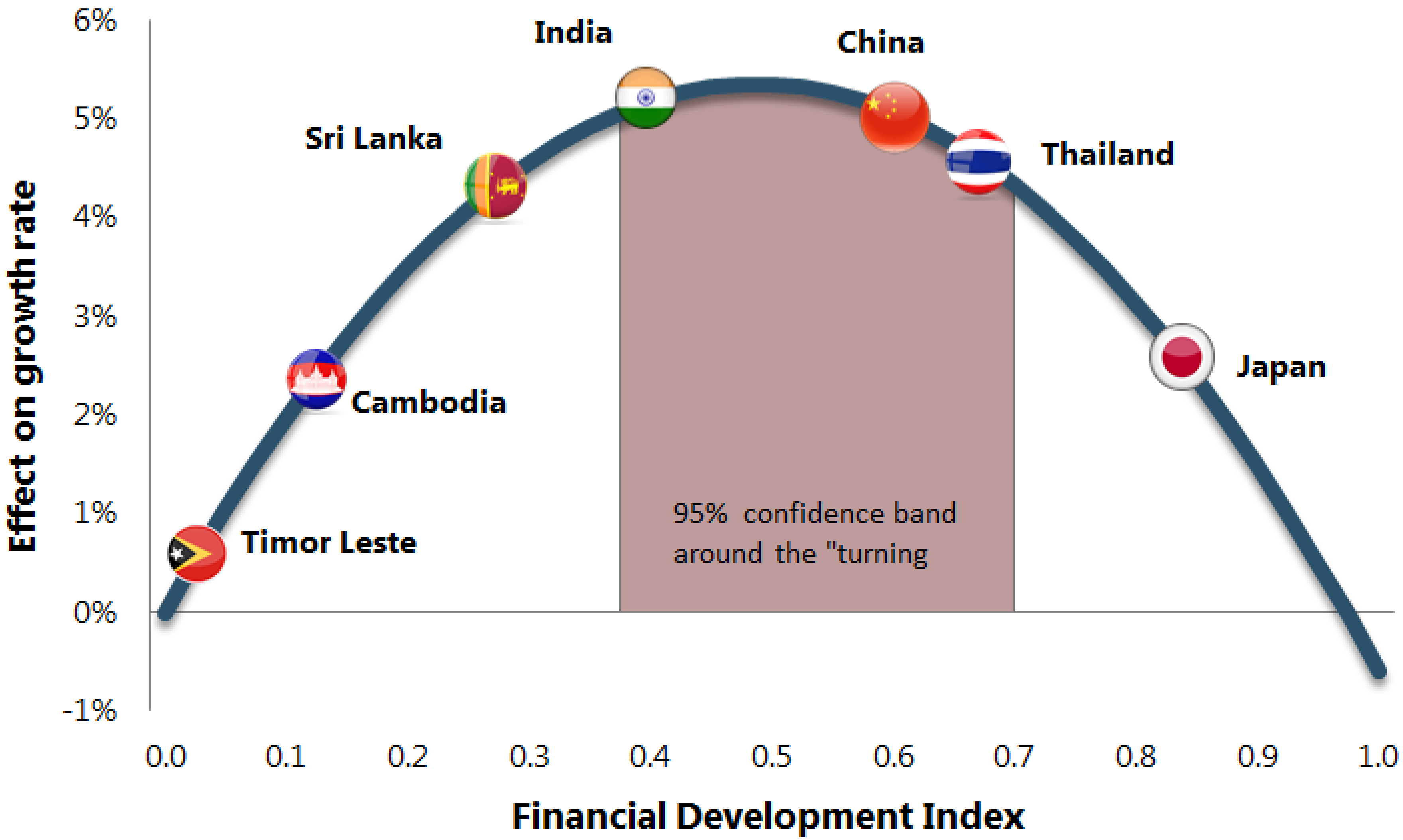
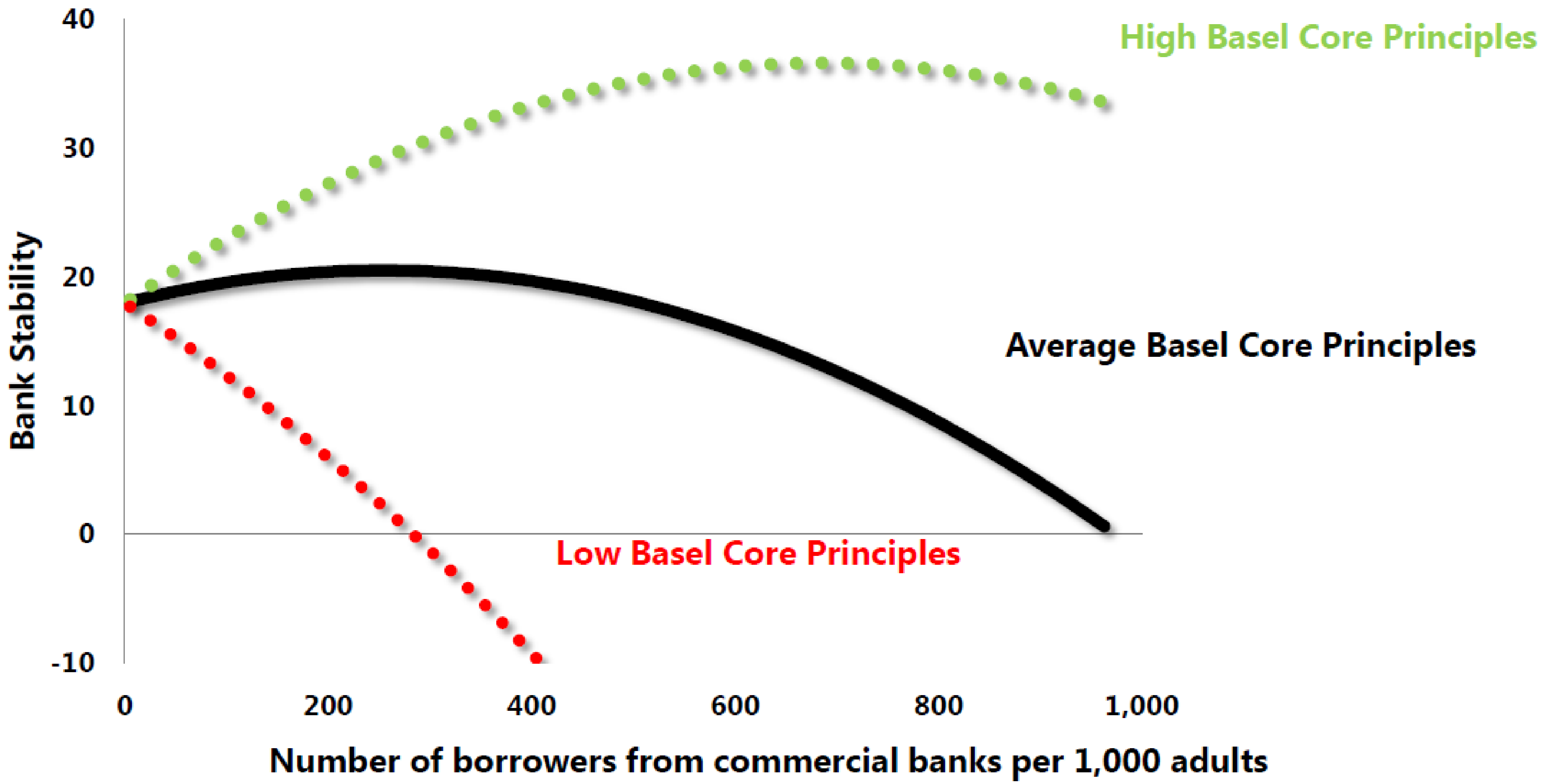
Financial Development Helps Growth… up to a Point



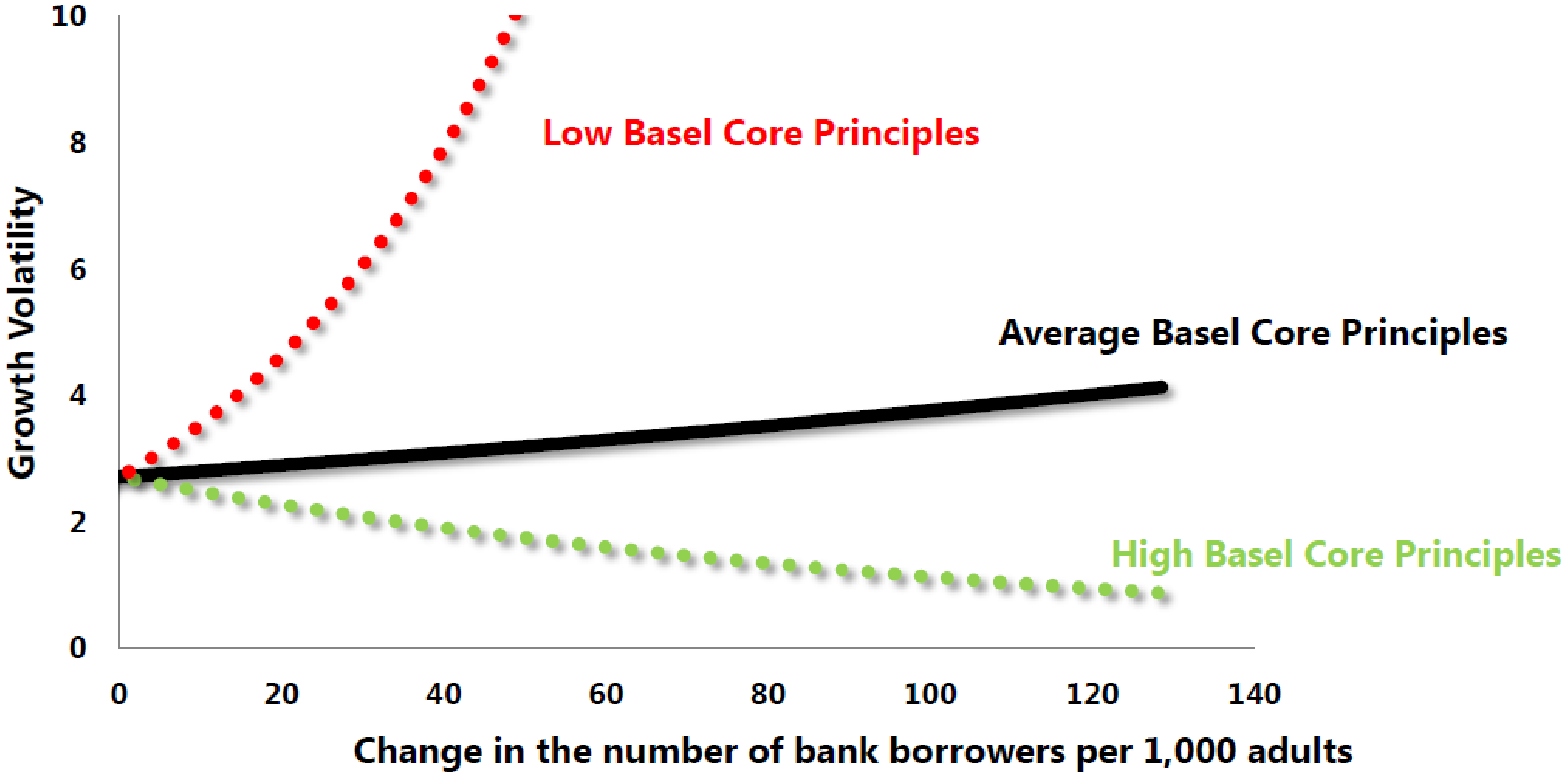
(αFD + βFD^2) evaluated at 2006-10 average FD - 128 countries

There is a Trade off between Access to Credit and Financial Stability When Supervision is Weak



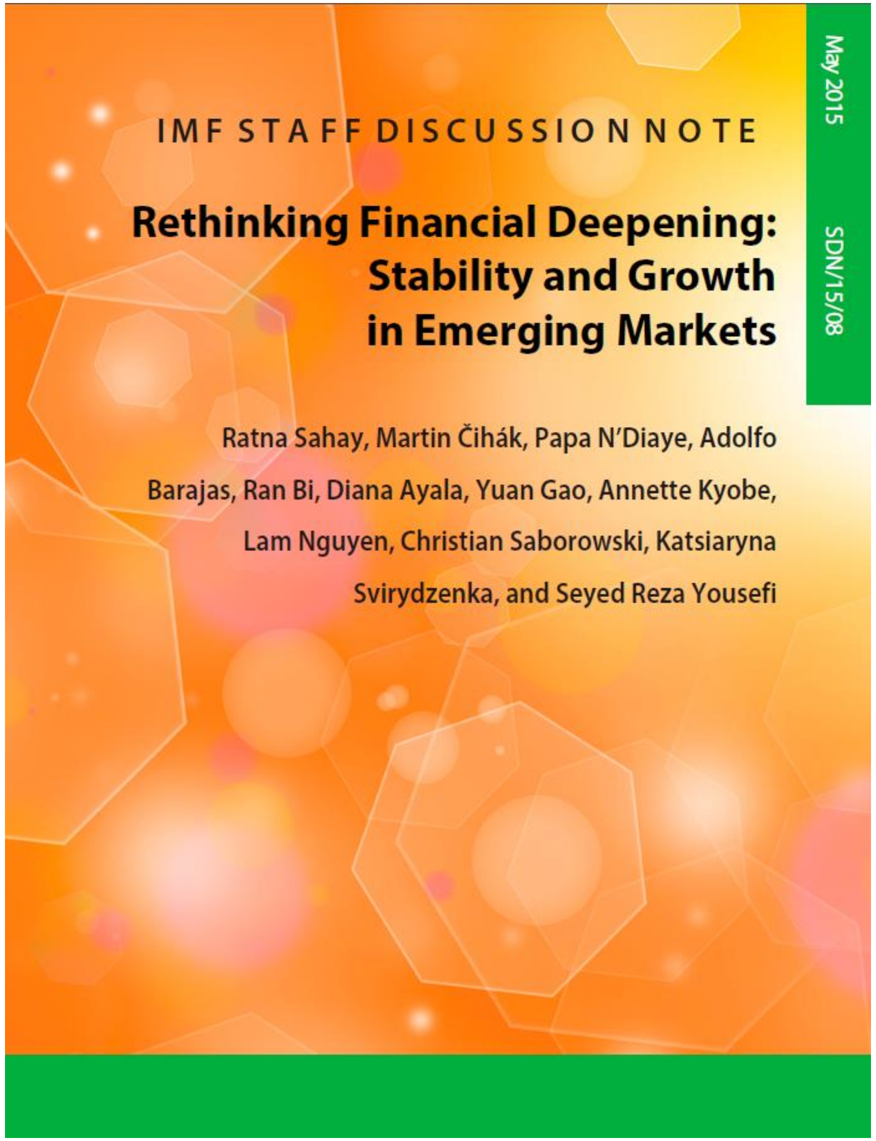
Source: IMF staff calculations.
Note: Bank stability is approximated by bank z-score, which captures banks' distance-to-distress (the amount of buffers banks have against shocks to earnings).

Larger Increase in Access to Credit is Also Related to Higher Growth Volatility



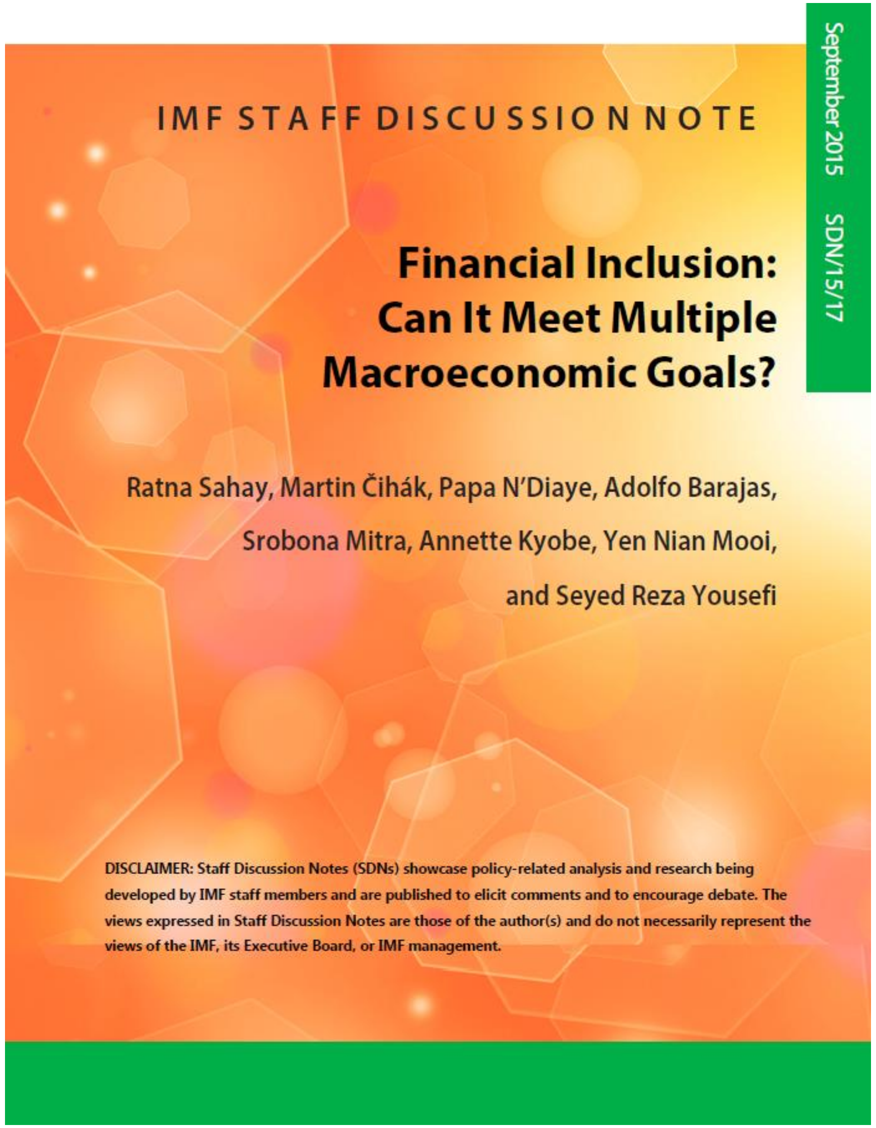
Source: IMF staff calculations.
Note: Growth volatility is approximated by the 3-year rolling standard deviation of GDP growth.

Key Takeaways: Financial Development



- Financial development is **multi-faceted** and should be measured by looking at many indicators.
- There is scope for further financial development for most EMs and all LIDCs, **a trade-off between stability and growth at high levels**.
- There can be **"too much finance"** if regulation and supervision don't keep pace with financial development.
- The weakening effect on growth at higher levels of financial development stems from financial deepening → **raising access or efficiency would be beneficial at any level.**
- To mitigate economic and financial stability risks and reduce the likelihood of a crisis, **too fast a pace of financial development should be avoided**.
- There is **no "one-size-fits-all**" in the sequencing of institutions and markets.

Key Takeaways: Financial Inclusion



- **There are substantial benefits to growth from financial inclusion**
  - firms access, women's access, low income access
  - accounts usage, pay bills, receive income and social security
  - credit, loans
- **Benefits to growth decline at high levels**
  - lower at high levels of access and depth
  - holds for both households and firms
- **Trade-offs and synergies with stability:**
  - broader access to credit can hurt financial and output stability
  - other forms of financial inclusion do not hurt stability
- **High quality of supervision should be top priority to mitigate negative effects on growth and stability.**

References

- Sahay, Ratna, Martin Čihák, Papa N'Diaye, Adolfo, Barajas, Ran Bi, Diana Ayala, Yuan Gao, Annette Kyobe, Lam Nguyen, Christian Saborowski, Katsiaryna Svirydzenka, and Seyed Reza Yousefi, 2015. *"Rethinking Financial Deepening: Stability and Growth in Emerging Markets."* IMF Staff Discussion Note 15/08, International Monetary Fund, Washington.

- Sahay, Ratna, Martin Čihák, Papa N'Diaye, Adolfo Barajas, Srobona Mitra, Annette Kyobe, Yen Nian Mooi, and Seyed Reza Yousefi, 2015. *"Financial Inclusion - Can It Meet Multiple Macroeconomic Goals?"* IMF Staff Discussion Note 15/17, International Monetary Fund, Washington.

THANK YOU