The Impact of Financial Inclusion on Financial Development in Emerging Economies

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ABSTRACT

Financial market development and financial access nexus has always been an important topic in economics. Since the onset of the global financial crisis of 2007, the relationship between financial development, economic growth, and financial access has drawn more interest. While this crisis had its biggest impact on the developed world, the role of financial access on financial intermediation and development is not well understood and still widely debated among economists. A common problem in the developing countries is the lack of access to financial services, and lending requirements such as, legal physical collateral of lower-income households. In developing countries, regulators tend to be more concerned with financial inclusion and there has been more recent regulation to support the financial inclusion agenda through mandates such as “consumer protection, financial capability, and regulation of microfinance, promotion of savings, promotion of access to finance for SMEs, and promotion of rural finance” (Ardic et al. 2011).

In this paper, we examine the impact of financial access on financial development for emerging market economies using GMM estimation method. We use Domestic Credit to Private Sector indicator as the proxy for financial development and Yorulmaz (2016)’s multidimensional financial inclusion index as the proxy of financial access. We found evidence that higher financial access levels are associated with higher financial development in emerging market economies.

Keywords: Financial Inclusion, Financial Development, and GMM