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MICROFINANCE WEEK 2015
FINANCIAL INCLUSION FOR SUSTAINABLE DEVELOPMENT

Does financial inclusion foster financial stability?

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Olivier Jérusalmy, *European Financial Inclusion Network (EFIN)*

Timothy Lyman, *CGAP*

Adalbert Winkler, *Frankfurt School of Finance & Management*



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Goals and Objectives

- Clarify the importance of financial inclusion – financial stability connection
- Explore the relationship between financial inclusion and stability
- Discuss the implications for policy makers and practitioners



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Inclusion and Stability: Definitions and Measures

■ Financial inclusion

- Access to and *use* of formal financial services by households and firms
- Measures: FIA, Total Financial Inclusion Index

■ Financial stability

- *Condition* in which the financial system – intermediaries, markets and market infrastructures – can withstand shocks without major disruption in financial intermediation and in the effective allocation of savings to productive investment.
- Measure: Bank z-score, stability indexes



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Trade-offs and Synergies from Financial Inclusion and Stability

- Negative when achieving the two outcomes involves a trade-off for policymakers, e.g., more systemic risk in the pursuit of financial inclusion.
- Positive when achieving the two outcomes produces synergies, e.g., financial stability improves trust in the financial sector and increases demand for bank deposits.



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Key Question: Does Financial Inclusion Matter for Financial Stability?

- Credit versus other financial services?
- Level of financial development?
- Quality of regulation and supervision?
- What are the channels – direct and indirect?
- Is there a 'good' inclusion and a 'bad' one?
- What should we measure to capture the important impacts?



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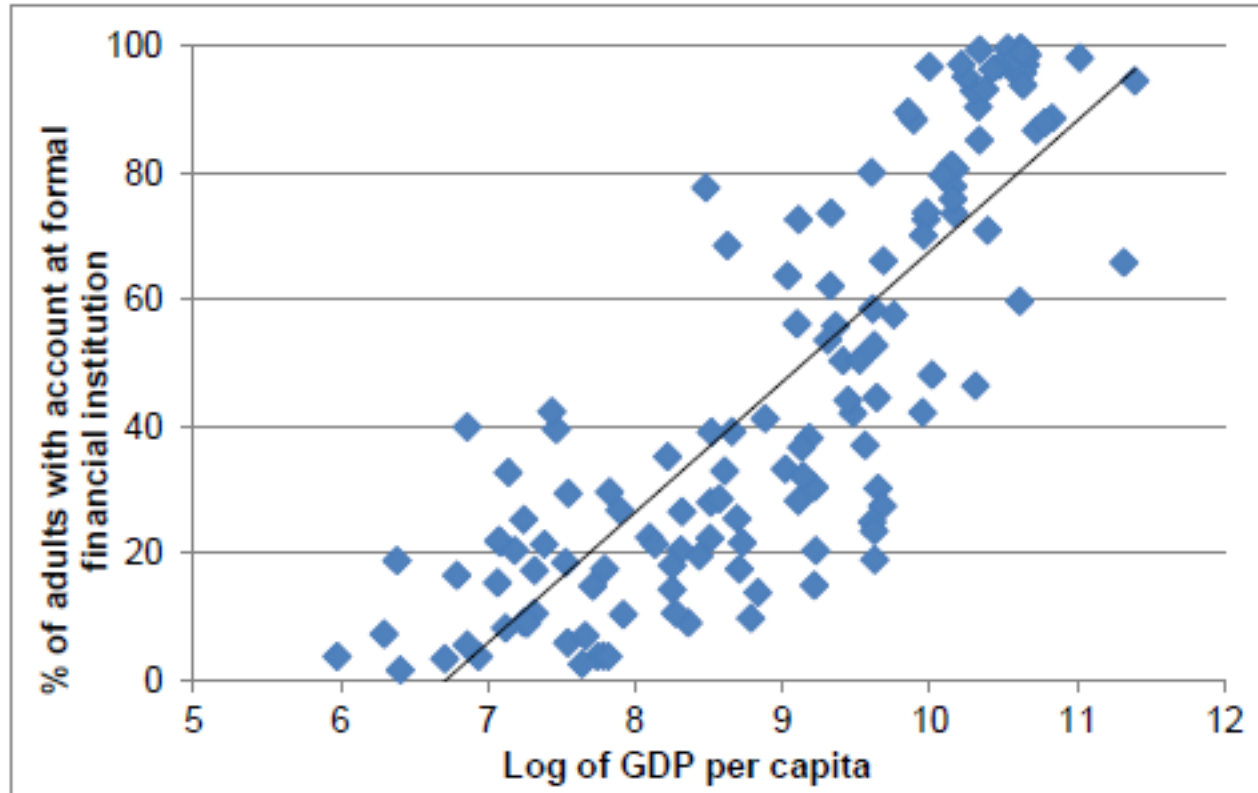
- Hard facts
- Half-truth
- Complete nonsense



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Figure 1: Share of Adults with an Account at One or More Formal Financial Institution versus per Capita GDP



GDP = gross domestic product.

Source: World Bank Global Financial Inclusion Database (2012), 2011 data.



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Panel Presentations

- Tim Lyman
- Adalbert Winkler
- Olivier Jérusalmy



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Discussion

- What Should Policy Makers and Practitioners be Aware of in relation to financial inclusion and stability?