

# Europe and Central Asia Economic Update, Spring 2019 **Financial Inclusion**

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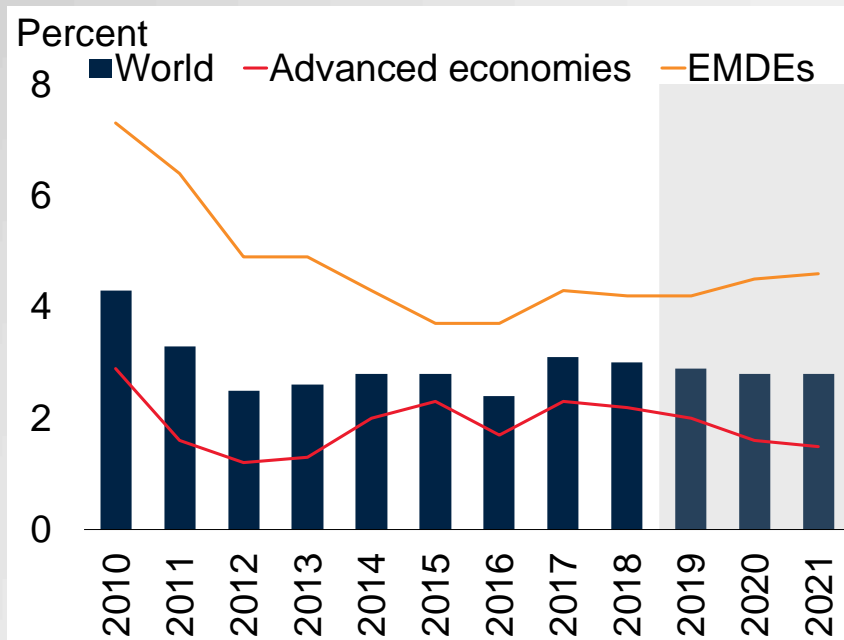
# Spring 2019 ECA update

- Global Macroeconomic context
- ECA outlook
- Risks to regional outlook
- Long term challenges, with a focus on one policy

=> Financial Inclusion

# Global Macro Outlook

## Growth is slowing



## Risks are rising

- Slowing activity in major economies
- Trade tensions
- Disorderly financial market developments
- Policy uncertainty and geopolitical risks

# ECA Outlook

- Aggregate growth in EMDE slowed to 3.1% in 2018 and is projected to slow to 2.1% this year but with significant variation:

|   | 2016 | 2017 | 2018e | 2019f | 2020f |
|---|------|------|-------|-------|-------|
| EMDE ECA, GDP <sup>a</sup>                    | 1.9  | 4.1  | 3.1   | 2.1   | 2.7   |
| EMDE ECA, GDP excl. Turkey                    | 1.5  | 3.0  | 3.3   | 2.5   | 2.6   |
|   |      |      |       |       |       |
| Commodity exporters <sup>b</sup>              | 0.7  | 2.1  | 2.7   | 1.9   | 2.2   |
| Commodity importers <sup>c</sup>              | 3.1  | 6.0  | 3.6   | 2.3   | 3.2   |
| Central Europe and Baltic States <sup>d</sup> | 3.3  | 4.9  | 4.6   | 3.6   | 3.3   |
| Western Balkans <sup>e</sup>                  | 3.3  | 2.6  | 3.8   | 3.5   | 3.8   |
| Eastern Europe <sup>f</sup>                   | 0.8  | 2.6  | 3.2   | 2.6   | 3.1   |
| South Caucasus <sup>g</sup>                   | -1.6 | 2.0  | 2.6   | 3.7   | 4.0   |
| Central Asia <sup>h</sup>                     | 2.9  | 4.5  | 4.7   | 4.2   | 4.0   |
| Russian Federation                            | 0.3  | 1.6  | 2.3   | 1.4   | 1.8   |
| Turkey  | 3.2  | 7.4  | 2.6   | 1.0   | 3.0   |
| Poland  | 3.1  | 4.8  | 5.1   | 4.0   | 3.6   |

- Regional growth expected to pick up in 2020-21

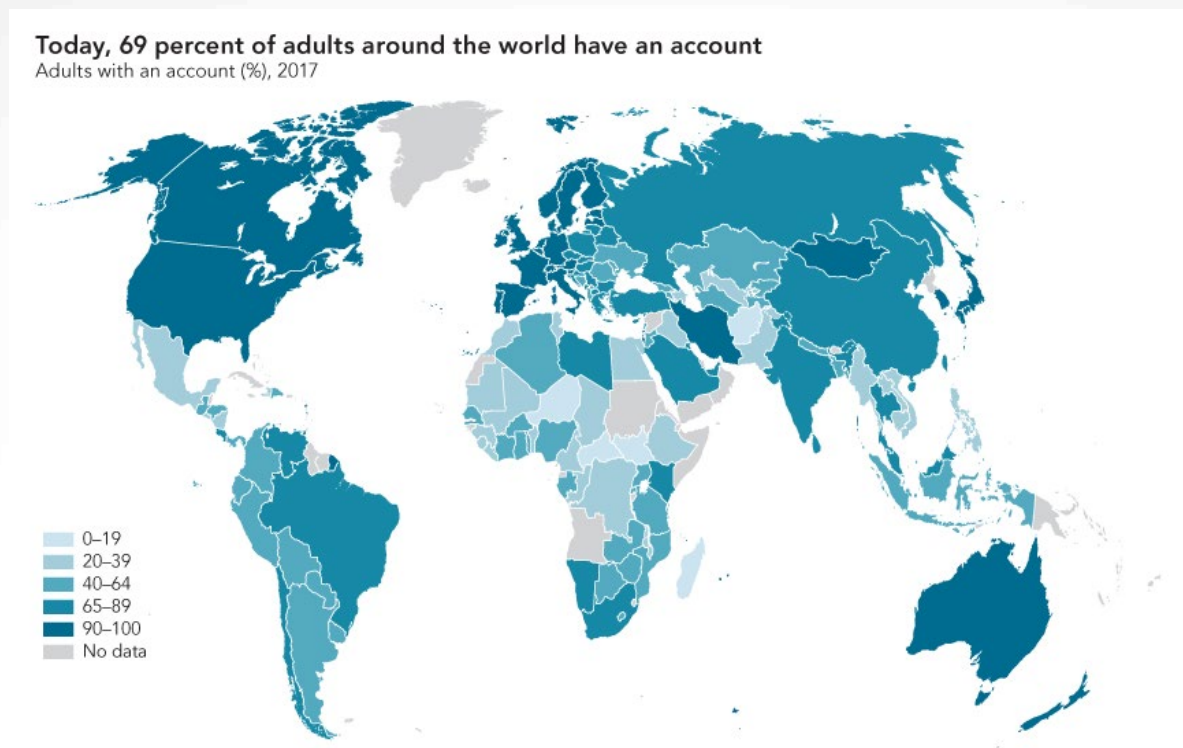
# Why Focus on Financial Inclusion?

Financial inclusion – proportion of adults that have access to and use financial services – important for development.

- Financial services help people escape poverty by facilitating investments in their health, education, businesses.
- They make it easier to manage financial emergencies – such as a job loss or crop failure – that can push families into destitution.
- There is growing rigorous evidence that individuals, especially the poor, benefit from basic payments, savings, and insurance services; microcredit shows more modest effects...
  - ✓ See literature surveys in Global Financial Development Report on *Financial Inclusion* (2014) and Demirguc-Kunt, Klapper and Singer (2018).

# Financial inclusion is on the rise globally

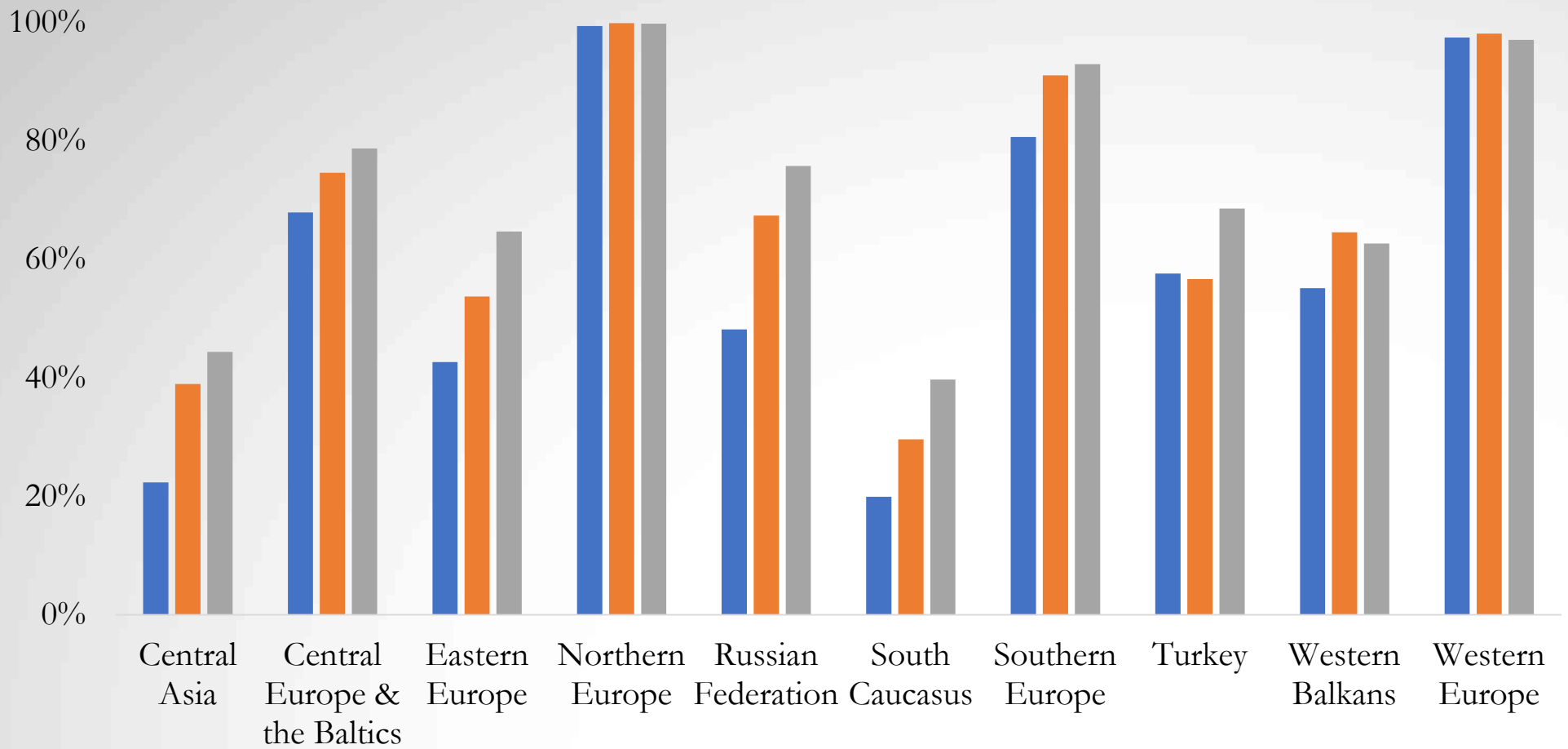
- The third edition of the Global Findex database, which tracks people's use of financial services, shows that 1.2 billion adults have gotten an account since 2011, including 515 million since 2014.
- Between 2014 and 2017, account ownership rose globally from 62% to 69%. In developing economies, it went from 55% to 63%.
- In developing ECA, account ownership was 45% in 2011, increased to 58% in 2014, and to 65% in 2017.



# There is diversity within ECA

Share of adults who own an account

■ 2011 ■ 2014 ■ 2017



# Some ECA countries have seen top increases globally

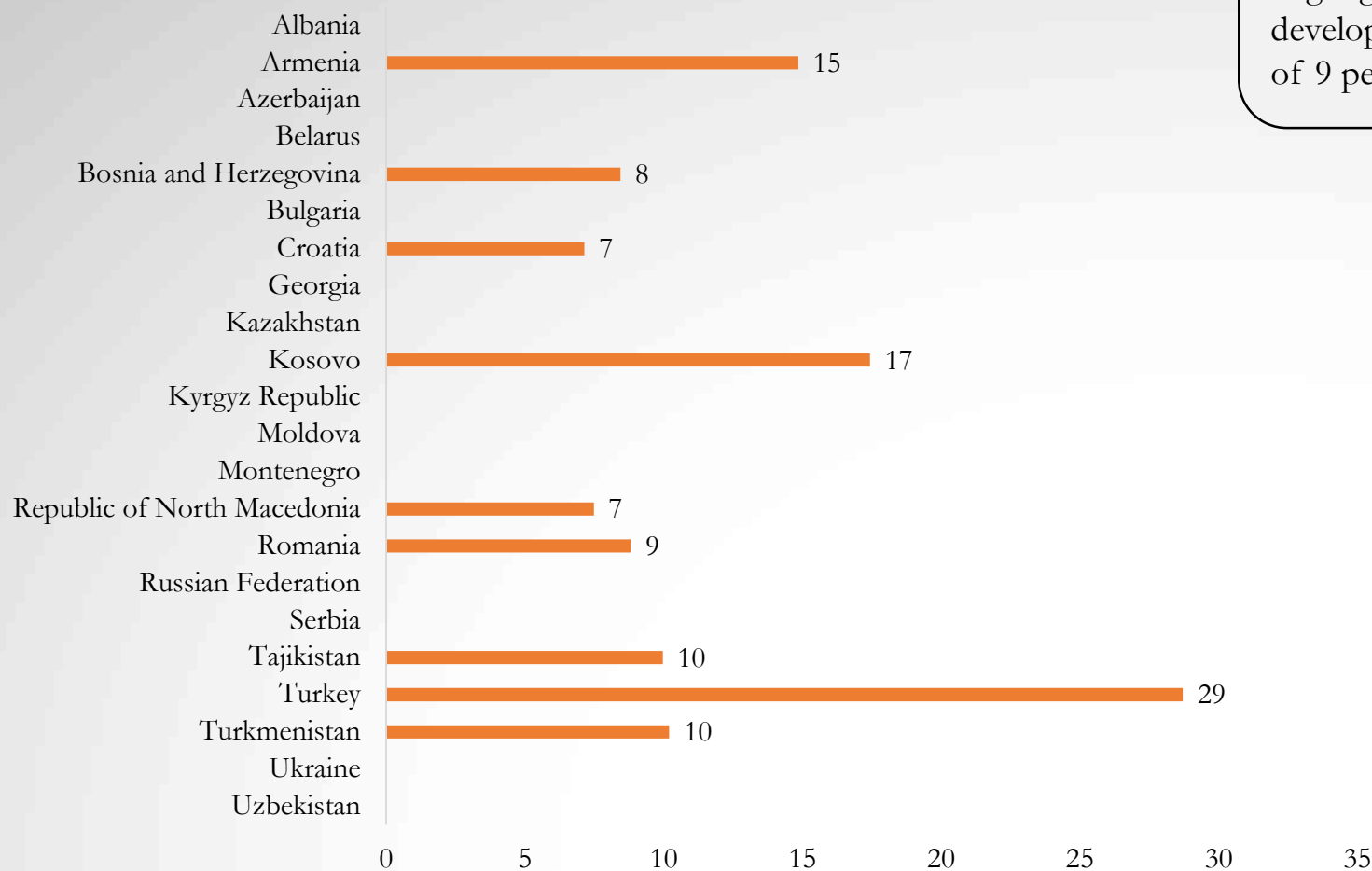
|                   | 2011                               | 2014 | 2017 |
|-------------------|------------------------------------|------|------|
| Subregion/country | Share of adults who own an account |      |      |
| Central Asia      | 0.22                               | 0.39 | 0.44 |
| Kazakhstan        | 0.42                               | 0.54 | 0.59 |
| Kyrgyz Republic   | 0.04                               | 0.18 | 0.40 |
| Tajikistan        | 0.03                               | 0.11 | 0.47 |
| Turkmenistan      | 0.00                               |      | 0.41 |
| Uzbekistan        | 0.23                               | 0.41 | 0.37 |
| Eastern Europe    | 0.43                               | 0.54 | 0.65 |
| Belarus           | 0.59                               | 0.72 | 0.81 |
| Moldova           | 0.18                               | 0.18 | 0.44 |
| Ukraine           | 0.41                               | 0.53 | 0.63 |
| South Caucasus    | 0.20                               | 0.30 | 0.40 |
| Armenia           | 0.17                               | 0.18 | 0.48 |
| Azerbaijan        | 0.15                               | 0.29 | 0.29 |
| Georgia           | 0.33                               | 0.40 | 0.61 |



# Gender gaps remain in some..

## Gender Gaps in Account Ownership

In Percentage Points



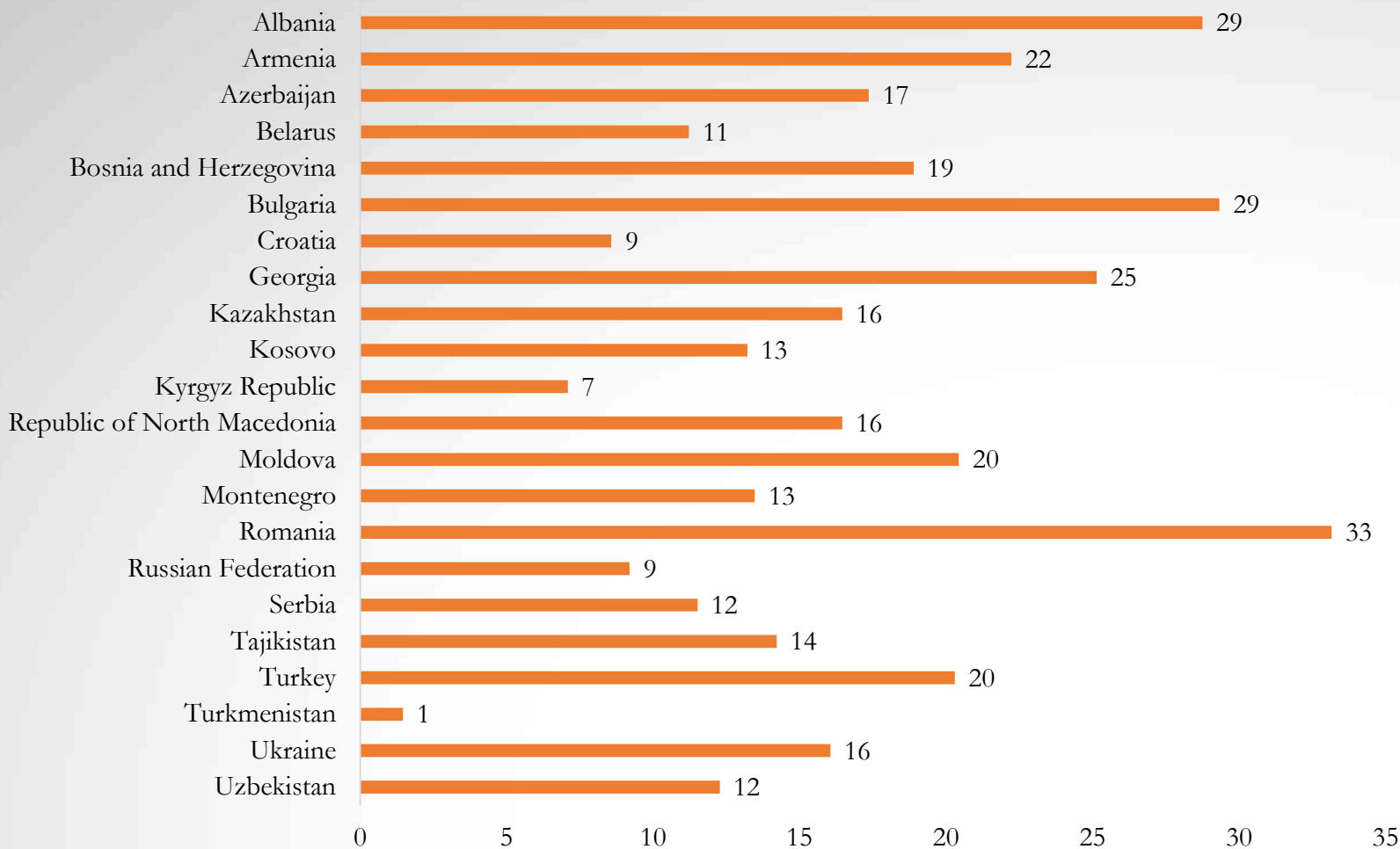
Armenia, Kosovo, and Turkey have significantly larger gender gaps than the developing country average of 9 percentage points.

# ...and income gaps

## Income Gaps in Account Ownership

In Percentage Points

Albania, Bulgaria, and Romania have income gaps of around 30 percentage points.



# Who are the Unbanked in ECA?

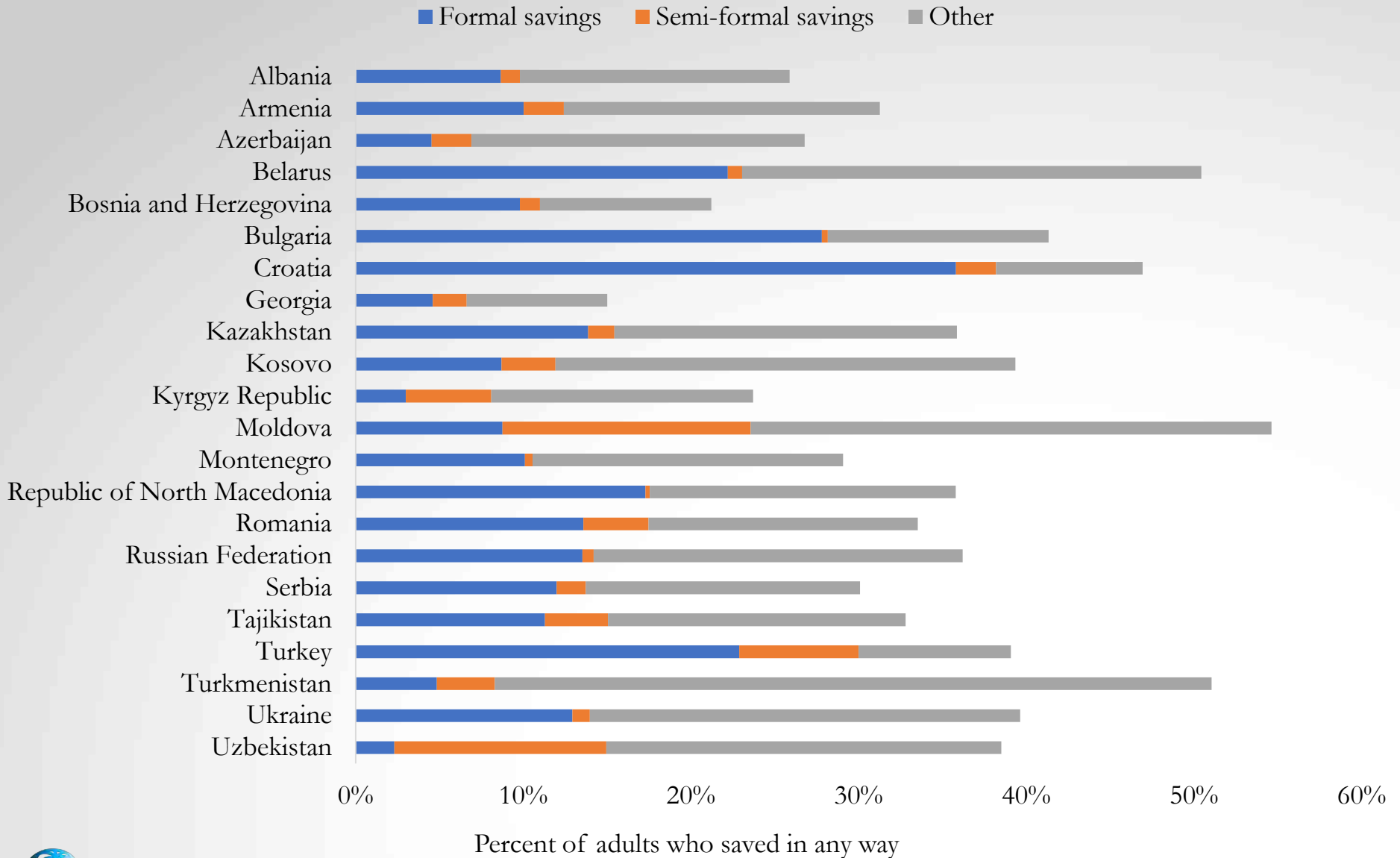
- Women represent 58 percent of unbanked adults
  - In some ECA countries, women are even more over-represented among the unbanked.
    - In Turkey, 73 percent of the unbanked are women.
  
- Half of unbanked adults live in the poorest 40 percent of households
  - In Romania, nearly 60 percent of the unbanked live in the poorest 40 percent of households.
  
- About 60 percent of unbanked adults are out of the labor force
  - In Azerbaijan and Uzbekistan, this share is about 40 percent.
  
- 34 percent of unbanked adults have a primary school education or less
  - There are large differences in the region. In Albania and Kosovo, 67 percent of the unbanked have a primary education or less. In Armenia, this share is 12 percent.

# Trust is a major issue..

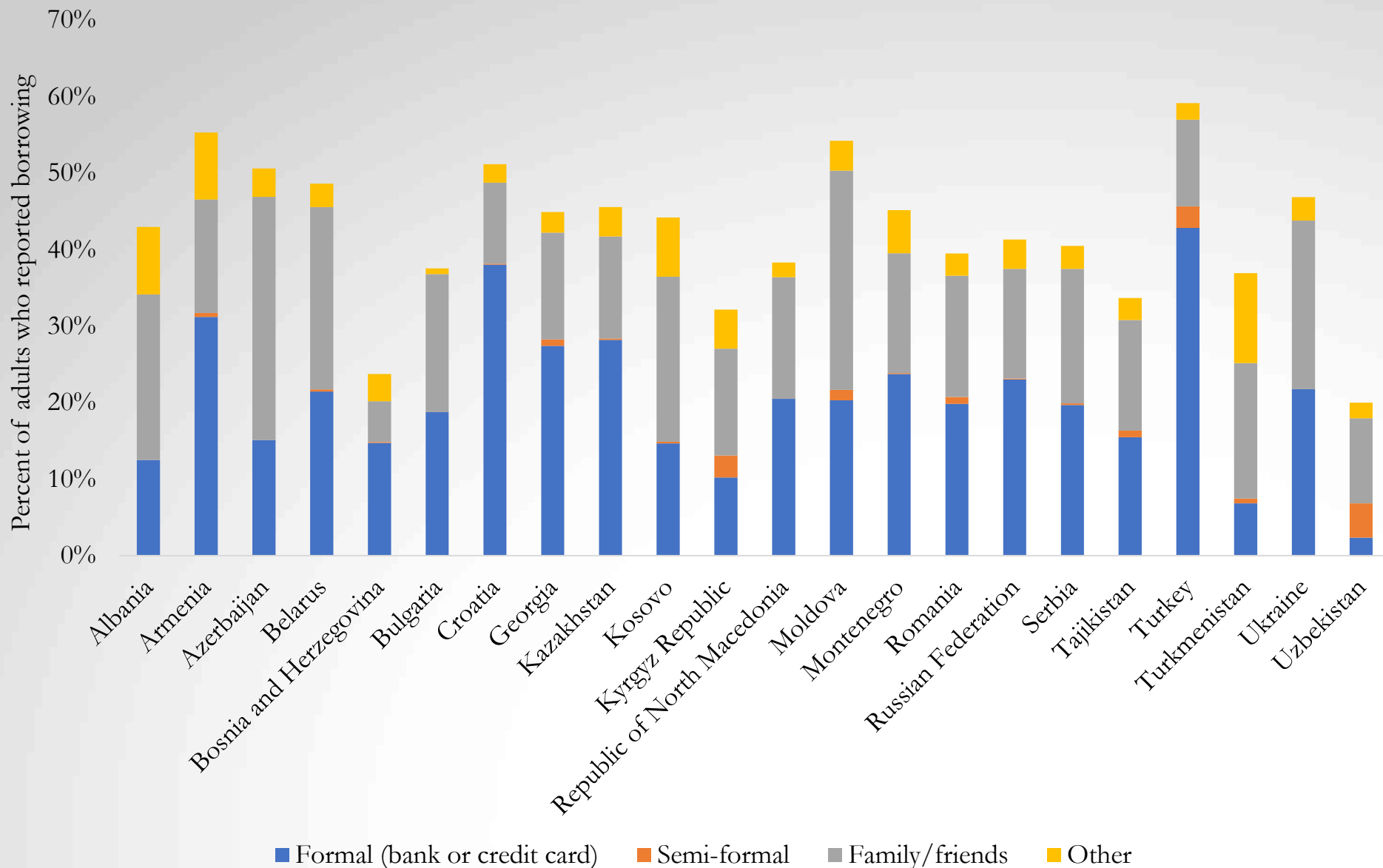
## Barriers to Account Ownership (Percentage of adults without account)

|   |  |
|---|--|
| Distance                                    | <ul style="list-style-type: none"> <li>• 15% of unbanked report distance as a barrier in ECA, which is 7 percentage less than the developing country average</li> <li>• A quarter or more of unbanked adults report this as a barrier in Albania (26%) and Belarus (25%).</li> </ul>   |
| Cost  | <ul style="list-style-type: none"> <li>• On average, 27% of unbanked adults report cost as a barrier, which is in-line with the developing country average.</li> <li>• <b>Exceptions include Albania (40%), Azerbaijan (39%), Bulgaria (39%), Kosovo (42%), Moldova (35%), Russian Federation (34%) and Ukraine (40%).</b></li> </ul>  |
| Documentation                               | <ul style="list-style-type: none"> <li>• 14% of unbanked adults in ECA report documentation as a barrier, which is 6 percentage less than developing country average.</li> <li>• <b>More than 35% of unbanked adults in Azerbaijan(42%), Georgia (37%) and Turkmenistan (41%) are reporting this as a barrier.</b></li> </ul>  |
| Lack of trust                               | <ul style="list-style-type: none"> <li>• <b>Almost 30% of unbanked adults in ECA report trust in banks as a barrier which is nearly double the developing country average.</b></li> <li>• 42% of unbanked adults in Azerbaijan and 50% of unbanked adults in Ukraine report this as a barrier.</li> </ul>  |
| Insufficient funds                          | <ul style="list-style-type: none"> <li>• Only 7% of unbanked adults in ECA report insufficient funds as their ONLY barrier (compared to 20% in developing countries)</li> </ul>  |
| Member of the family already has an account | <ul style="list-style-type: none"> <li>• 30% of unbanked adults in ECA report “member of the family already has an account” as a barrier.</li> <li>• More than 45% of unbanked adults in Belarus (47%), Kosovo (48%) and Montenegro (46%) report this as a barrier.</li> <li>• <b>More than 50% of adults report this as a barrier in Republic of North Macedonia (54%) and Turkey (65%).</b></li> </ul> |

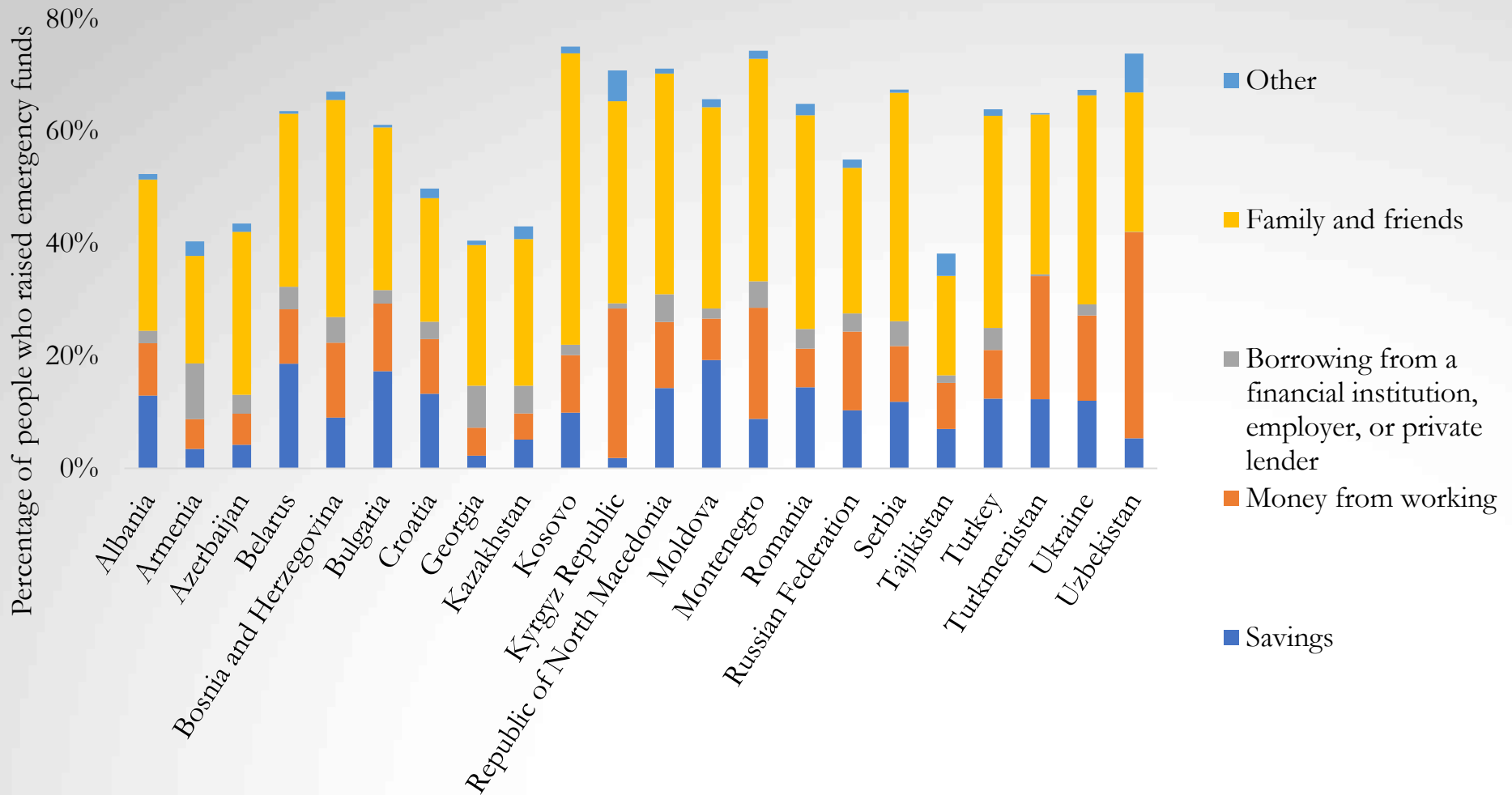
# Formal Savings is low..



# Informal borrowing is prevalent...

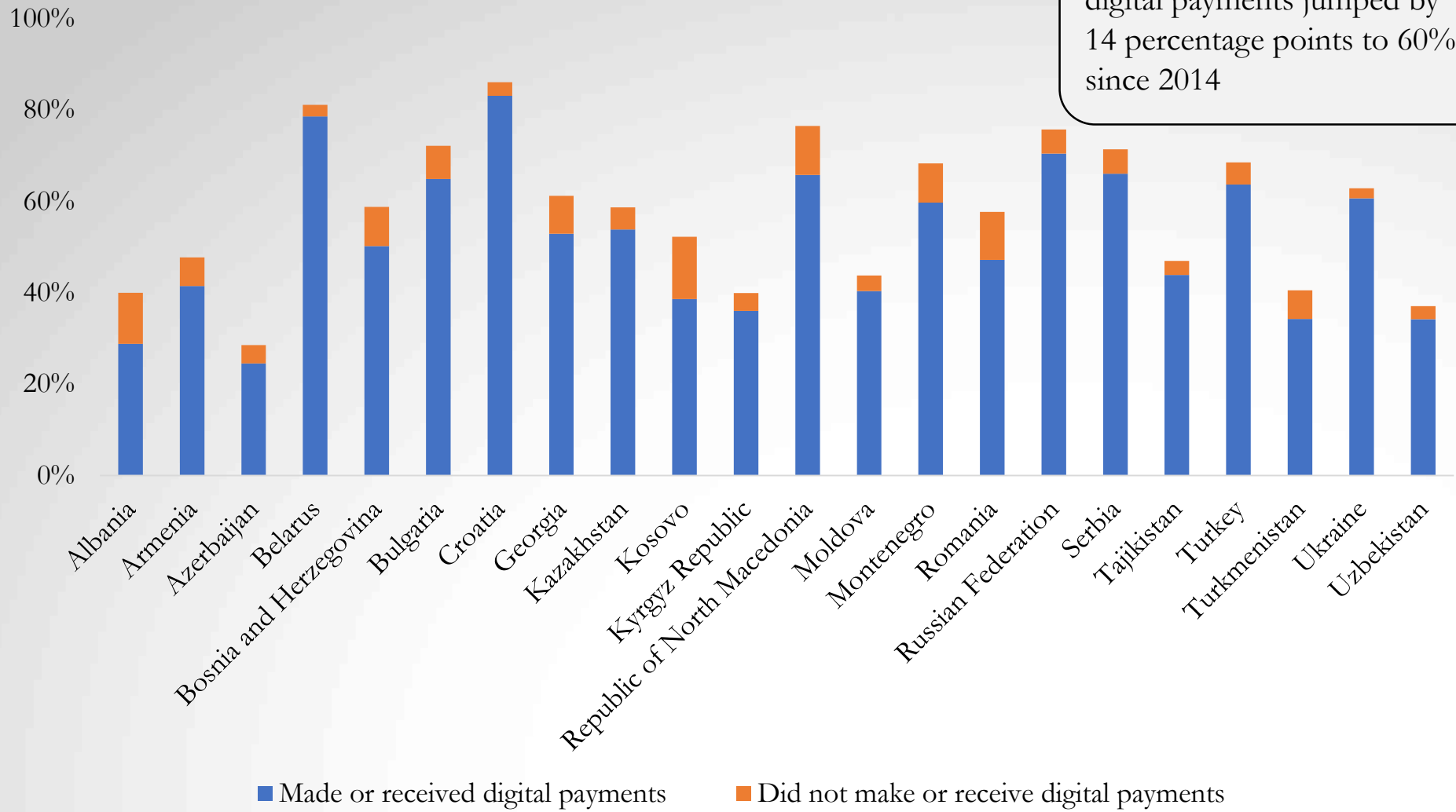


# ...and source of emergency funds is most commonly family or friends



# Digital payments have been driving inclusion

The share of adults using digital payments jumped by 14 percentage points to 60% since 2014





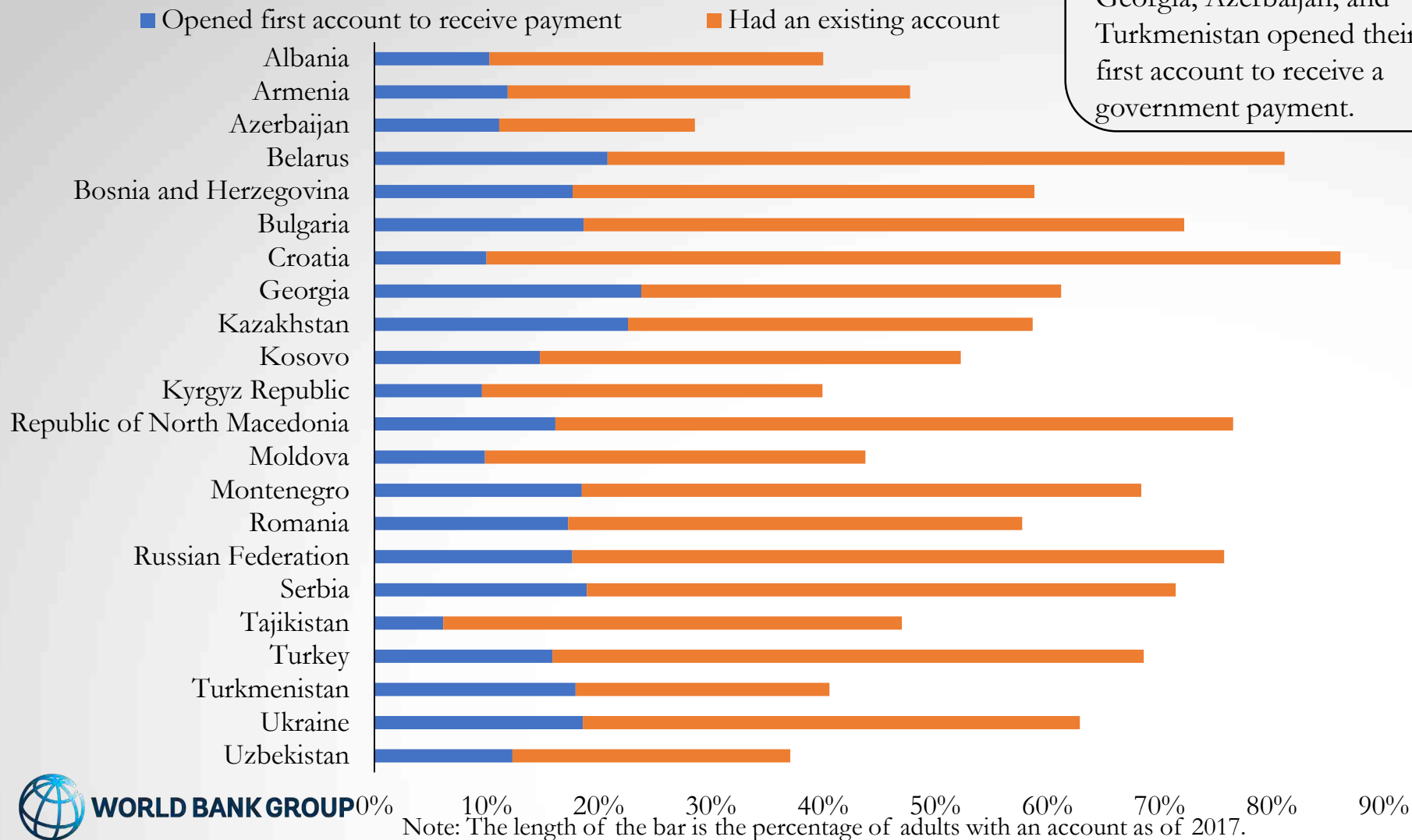
# Opportunities to increase account ownership and use

- In ECA, 83 percent of the unbanked, or 95 million adults, have a mobile
  - 55 million unbanked women, and 40 million unbanked men, have a mobile.
- In ECA, nearly 25 million adults are unbanked and receive government payments in cash.
  - 75 percent of these adults have a mobile.
- In ECA, about 19 million adults are unbanked and receive private wages in cash
  - Over 90 percent of these adults have a mobile.
- In ECA, about 15 million adults are unbanked and receive agricultural payments in cash
  - About 90 percent of these adults have a mobile.
- In ECA, about 80 million adults are banked and pay utility bills in cash
  - Nearly 95 percent of these adults have a mobile.

# 17% of banked opened their first account to receive government payments....

## Opened First Account to Receive Payment

Total Percentage of Adults



More than 50 percent of government payment recipients using accounts in Uzbekistan, Kazakhstan, Georgia, Azerbaijan, and Turkmenistan opened their first account to receive a government payment.

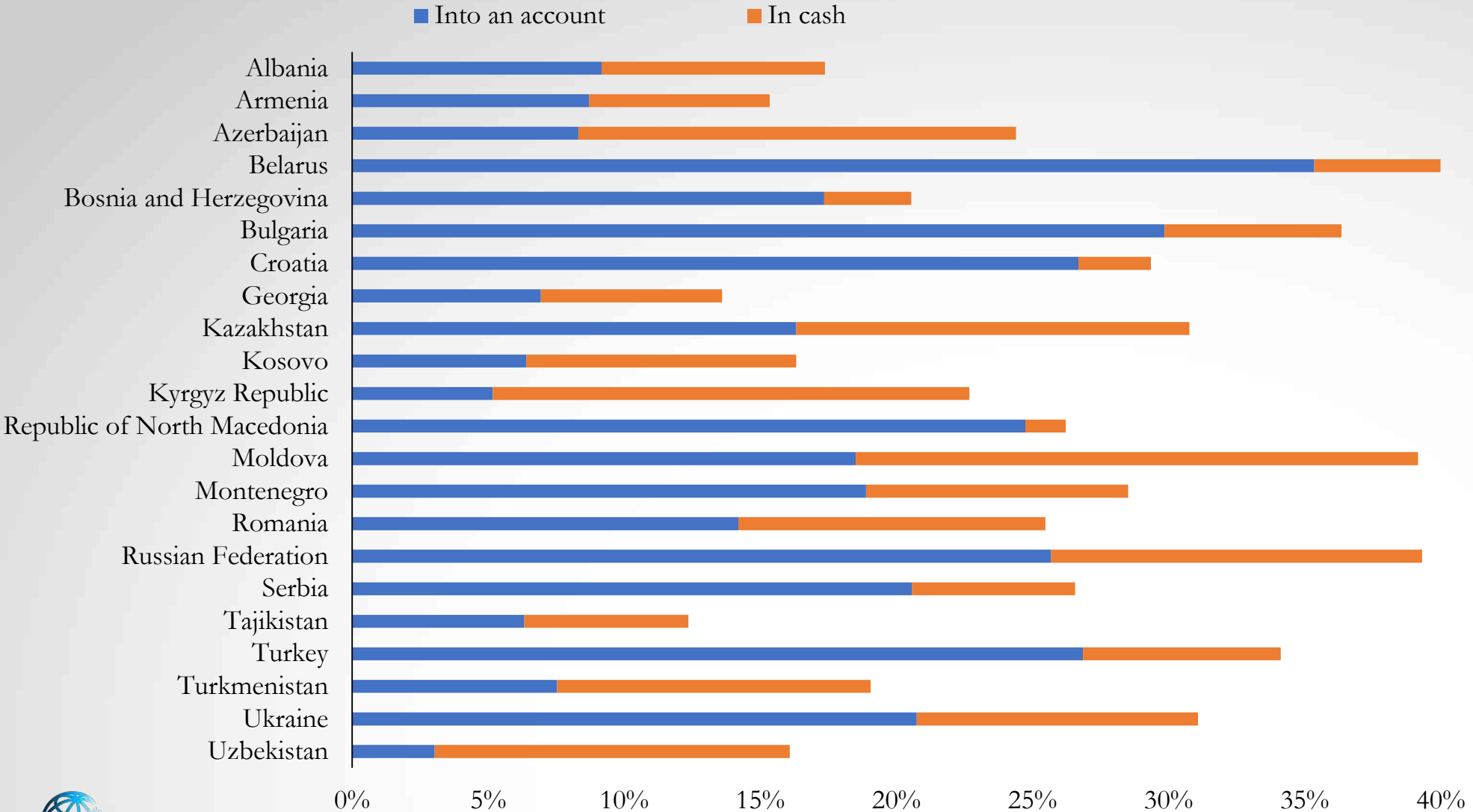


# Digitizing private payments would help..

## Private Wage Payments Received

Total Percentage of Adults

About 19 million unbanked adults in ECA receive private wages in cash, over 90 percent of whom have a mobile.



Note: The length of the bar is the percentage of adults receiving private wage payments as of 2017.

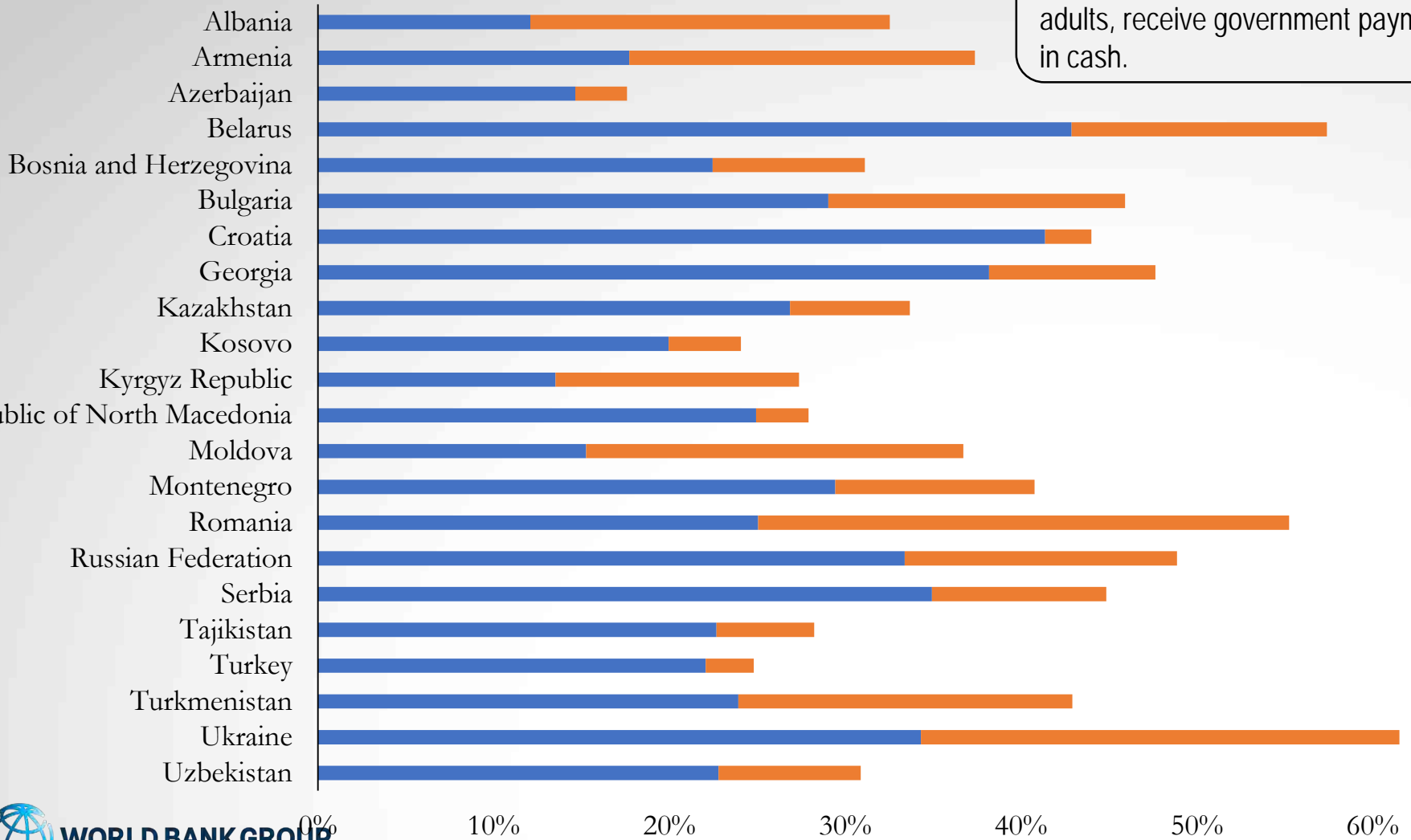
# ...government payments...

## Government to Person (G2P) Payments Received

Total Percentage of Adults

■ Into an account ■ In cash

In ECA nearly 25 million unbanked adults, and around 10 million banked adults, receive government payments in cash.



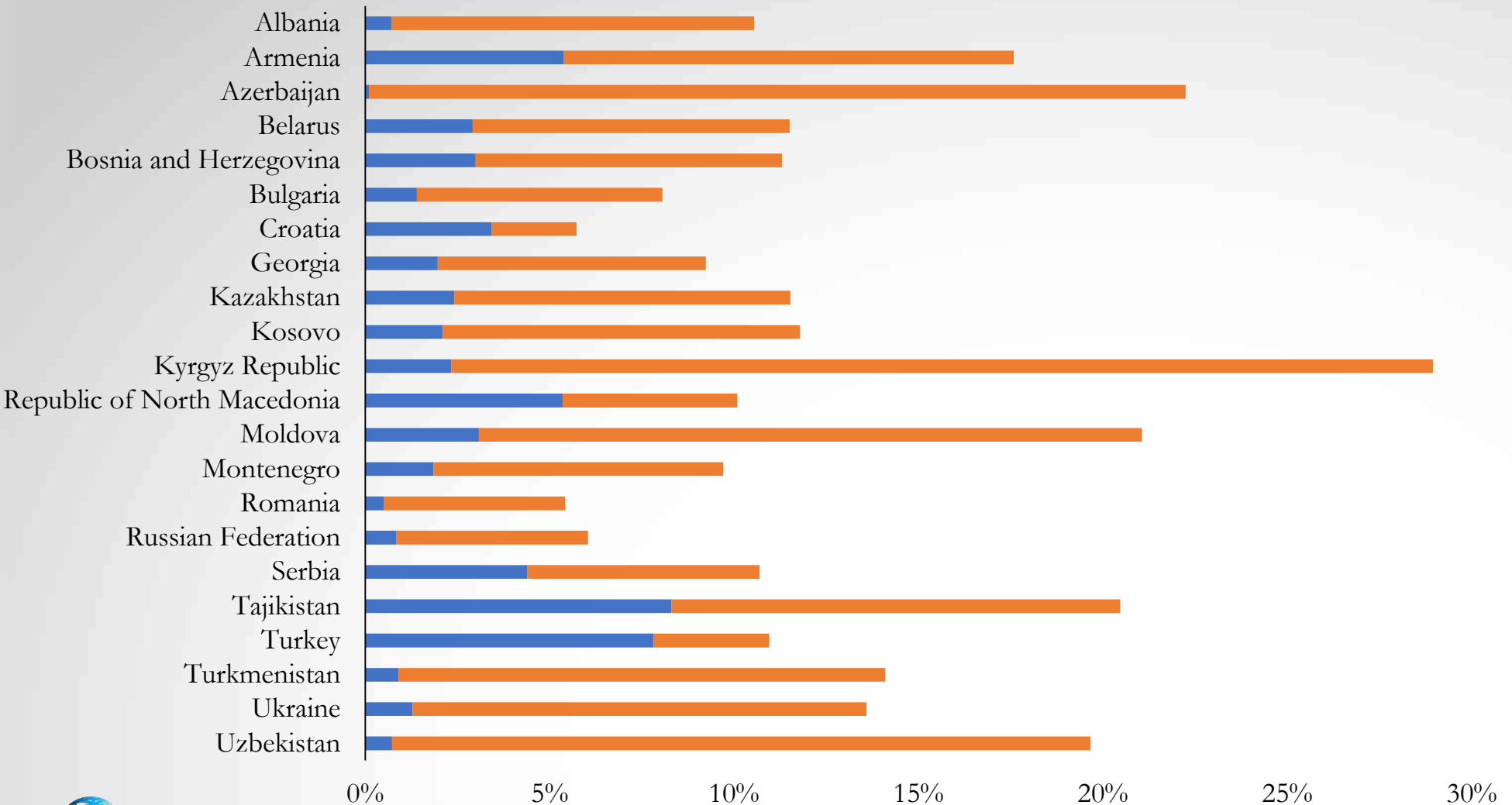
# ...and agricultural payments

## Agricultural Payments Received

Total Percentage of Adults

In ECA, about 15 million banked, and about 10 million unbanked, receive agricultural payments in cash.

■ Into an account ■ In cash



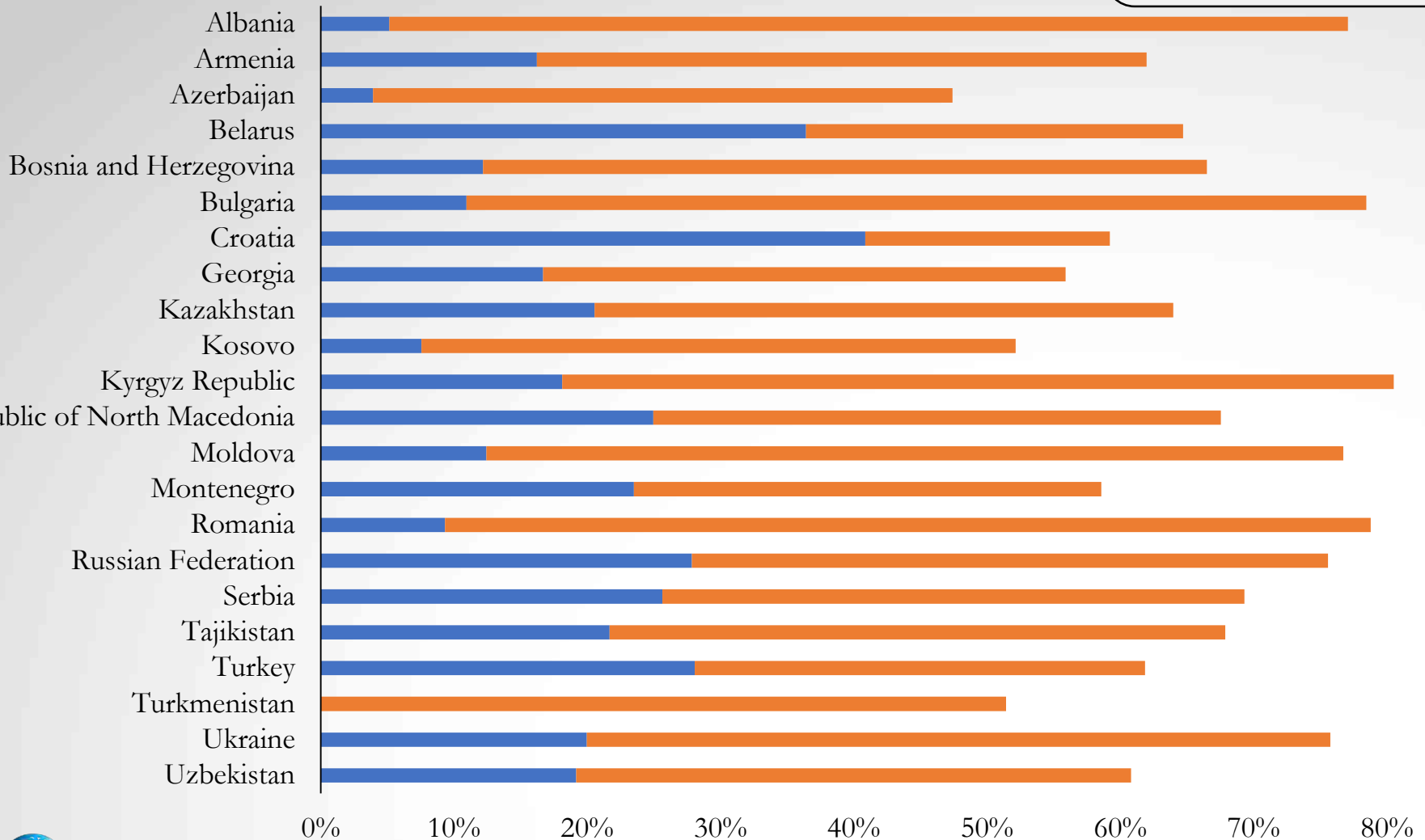
# Digitization can also increase usage

## Utilities Paid

Total Percentage of Adults

About 80 million banked adults in ECA make utility payments in cash, and nearly all of them have a mobile phone.

■ Into an account ■ In cash



Note: The length of the bar is the percentage of adults who pay utility bills (trash, electric, or water bills) as of 2017.

# Digital technology alone is not sufficient - Policies to promote financial inclusion

- Focus on fundamentals – address market and policy failures and build institutions
  - Better information systems, creditor rights, enforcing contracts, improving legal and regulatory framework. Healthy competition among financial service providers
- Role of technology
  - Digitalization has the potential to not only increase accounts but also their use. Ensure digital payments are safer, more affordable and more transparent. Requires physical infrastructure, availability of agent networks and correspondent banking.
- Strong consumer protection safeguards, financial literacy
- Also emphasize what not to do
  - Direct government interventions - particularly on the credit side – such as directed credit, subsidized lending through state-owned banks...

# Future work in ECA

- How to address the trust issue?
- What explains the diversity of experiences in recent growth? What role does digitalization and technology play?
- How do we address differences across different sub-regions?
- How does financial inclusion and spread of technology affect entrepreneurship and the resilience of MSME to shocks?
- What to do about the remaining gaps? For example – gender
- What role does financial literacy and consumer protection play?





Thank you!