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Financial market inclusion, shadow economy and economic growth: New evidence from emerging economies

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Highlights:

- The shadow economy has significant short-run asymmetric effects on financial market inclusion of a majority of emerging economies in our sample.
- In the long run model, a negative significant estimated coefficient for the shadow economy for 10 countries indicates that the existence of shadow economy clearly affects financial market inclusion.
- As our estimation indicates, real income is the main long-run determinant of financial inclusion in almost all of the countries.
- Nonlinearity is present in nine models. The shadow economy has asymmetric short-run effects on the financial market inclusion of each country.
- In nonlinear models, economic activity and human capital in this selected group of emerging economies seem to be the main factors in the long run. Both variables carry expected positive and significant coefficients in most countries; this was the case in linear model, too.
- Emerging countries should implement reform programs that lead to income equality. They should improve the quality and availability of adequate financial services and products to the unserved, underserved and financially excluded households and firms, helping, in turn, to boost financial market development and economic growth in emerging countries.