The nexus between Financial inclusion and Income inequality: An Empirical evidence from the European Union

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ABSTRACT

This study empirically explores short run and long run causality between institutional financial inclusion and income inequality in 22 members of European Union (EU) divided in two subpanels: Old EU members and New EU Member states (NMS). A panel VECM (PVECM) approach is utilized to observe the dynamic causal relationship between financial inclusions on income inequality when control the effect of economic development on inequality. The current level of financial inclusion in the old EU members only through expansion ATMs services lead to decrease income inequality in long run while it contributes through expansion commercial bank branches in short run. On the contrary, the study finds weak and subdued effect financial inclusion on income inequality in the NMS countries in long run, while only expansion commercial bank branches lead to decrease income inequality in short run. The results show that financial inclusion measured by commercial bank branches contributes to more equal income distribution for both regions, only in the short run. In fact, deepening institutional financial inclusions by increasing availability and diversify of specialized financial products and ATM services are still needed to address impediments to financial inclusion, especially in the NMS.

Keywords: A Panel VECM Approach, financial inclusion, income inequalities, EU countries

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