

Session 2 | FINANCIAL INCLUSION AND MONETARY TRANSMISSION

NEW TECHNOLOGIES, FINANCIAL INCLUSION, AND MONETARY POLICY IN CCA COUNTRIES

This session will focus on the two-way relationship between monetary policy and financial inclusion. Macroeconomic and price stability are important drivers of banking soundness, credit supply, and financial inclusion. In return, financial inclusion influences monetary policy effectiveness through the behavior of households and firms, which adjust their savings or borrowing patterns in line with the central bank's policy stance. With low levels of financial inclusion, a large share of domestic money is outside the banking system, and the central's ability to manage aggregate demand is weakened. Indeed, there is evidence that greater SME access to formal lending increases the role of the interest rate in the economy, improving monetary policy transmission and allowing to better ensure price stability.

How should CCA country authorities assess progress and prioritize their efforts to strengthen the financial inclusion/monetary policy transmission nexus? What are some of the most relevant lessons from international experience in this area?

Panel and presentations

Moderator: **Oksana Pak** – Head of Access to Finance and Entrepreneurship, EBRD

Presenter: **Leonardo Gambacorta** – Head, Innovation and the Digital Economy, BIS

Discussants:

- **Martin Galstyan** – Chairman, Central Bank of the Republic of Armenia
- **Thorsten Beck** – Professor and Director, Florence School of Banking and Finance European University Institute
- **Binur Zhalenov** – Chairman, Board of Payments & FinTech Research and Development Center, National Bank of Kazakhstan

Key Takeaways and Quotes

- Big tech firms are increasingly providing credit by leveraging artificial intelligence.
 - *“Big tech credit is overtaking fintech credit: we estimate that big tech lending flow reached around \$600 billion in 2019, when fintech credit was about \$220 billion.” Leonardo Gambacorta*
- China's experience suggests that big tech credit is less procyclical.
- The broader reach of digital financial services may increase monetary policy transmission.
- Digital infrastructure will become increasingly important and central banks will play an important role in providing it.
 - *“We'd better start talking about the perspective of emerging markets on cross border payments, including inter-operability of our payments infrastructure and CBDCs.” Martin Galstyan*
- CBDCs could reduce the impact of the lower-bound interest rate constraint during deep recessions.
- Regulators need to protect customers from data misuse while relying on digital ID to limit network concentration and promote market integrity and cybersecurity.

Summary of discussions

In his presentation, Leonardo Gambacorta emphasized that big tech firms are increasingly providing credit to households and small firms: by leveraging artificial intelligence, they can reduce information asymmetry faced by traditional banks that rely on physical collateral. Therefore, AI can allow the industry to effectively use customer data as a new form of collateral. However, there is also a risk that AI and algorithmic biases may potentially exclude certain customers from the credit market. Empirical analyses of the activity of Chinese fintech firms suggest that big tech credit is less correlated with local business conditions (i.e., less procyclical), because it does not depend on collateral valuation but on customers-specific information (e.g., firm transaction volumes), and increased use of big tech credit may weaken the financial accelerator mechanism.

The panelists noted that while the relationship between digital financial intermediation and monetary policy is not yet clear, the broader reach of digital financial services (and thus greater financial inclusion) may increase monetary policy transmission. In addition, CBDCs could reduce the impact of the lower bound problem potentially associated with monetary policy during deep recessions. At the same time, the development of private stable coins and cryptocurrencies may challenge national monetary sovereignty. Looking forward, participants emphasized that digital infrastructure will become increasingly important for CCA economies, and that central banks will play an important role in providing this infrastructure. Also, regulators will need to be prepared to safeguard the protection of customers from the excessive use of private data, ensure inter-operability and open data to avoid excessive payment network concertation and limit integrity risks (e.g., AML and cybersecurity). The development of digital IDs was a critical precondition for the expansion of digital payments and the associated increase in financial inclusion.