

# Chapter 12

## Digital Finance, Financial Inclusion, and Economic Growth: Evidence From Bangladesh

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### ABSTRACT

*It is essential for an economy to have well and developed financial system for its population since access to formal finance reduces poverty and increases economic growth. This chapter, therefore, empirically investigates the link between the various channels of digital finance, financial inclusion (FI) and its impact on economic growth in Bangladesh. Secondary data is collected from World Bank and International Monetary Fund (IMF). To formulate an econometric model, autoregressive distributed lag (ARDL) model and error correction (ECM) model are performed. Besides, to check the data order Augmented Dicky Fuller (ADF) and Philipe-Perron tests are implemented. Empirical results disclose interesting findings that a good number of digital finance and FI indicators have positive association with economic development both for short and long-run in Bangladesh. As more FI encourages people to become financially educate and thereby promote sound financial infrastructure of an economy, the results suggest deepening of financial structure through promotion of nationwide financial services.*

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## 1. INTRODUCTION

A strong financial system is essential to improve health of an economy (Burton and Brown, 2014; Asanović, 2020; Emara and El Said, 2021; Adedokun and Ağa, 2023). A well operating financial system confirms to deliver funds from savers; the group who have available funds, to those who have shortage and to the potential investors (Mayer, 1988). Therefore, financial literacy along with adequate FI is extensively needed (Santos, 2017; Raza et al., 2023; Reddy et al., 2024). But few numbers of banked population in developing countries like Bangladesh hinder this potentiality of growth to some extent. However, due to the expansion of Information and Communication Technology (ICT), specially from the year 2000 and a good number of populations to have cheap accessibility to mobile phones, the number of unbanked populations is declining. This trend certainly has positive effect on the economic growth of Bangladesh since more financial exclusion deteriorates the financial structure thereby reduce economic efficiency.

In recent years, inclusive finance becomes a key concern for sustainable development and economic growth for many countries, especially in the developing economies (Anakpo et al., 2023; Hussain et al., 2023). Policy makers and regulators put emphasize to spread FI so that people can access to the financial system at affordable cost without having much tension to provide line of documents. This makes easy access to formal financial systems, such as to deposits, remittances, lending/borrowing, savings, insurance or even payment options. While reduced costs to access to finance is a major attention for policy makers and many financial stakeholders, technological innovation in financial systems or FinTech plays essential roles (Ediagbonya and Tioluwani, 2023). Therefore, more innovation on financial products and services makes people life easy and comfortable (Dahiya and Kumar, 2020; Hasan et al., 2022). Besides, FI in many ways, increase financial network, improves people life standard, relieve poverty and confirms economic growth and development (Van et al., 2021; Shili and Panjwani, 2022; Lee et al., 2023). Countries adopted strategies and policies to promote FI through easy accessibility and low charges. The country-wide implementation of digital finance, for example, a key tool to provide formal financial access for many emerging countries in the world while the access has increased from 25% in 2011 to 50% in the globe (Demirguc-Kunt *et al.* 2018).

In many ways, availability of financial services engineer development. First, the financial sector spreads economic growth by offering a wide variety of facilities to small households, enterprises and governments which ultimately promotes economic growth (Australian Financial Center Forum, 2009). Second, poor or illiterate people in many countries lack financial services, such as bank accounts or payment services, can be facilitated through digital financial services which narrow gaps of financial

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