The interconnectedness of financial inclusion and bank profitability in rising economic powers: evidence from heterogeneous panel analysis

Yanqi Wang
Chengdu Neusoft University, Chengdu, China
Muhammad Ali
UCSI University, Kuala Lumpur, Malaysia
Asadullah Khaskheli
School of Management, Hainan University, Haikou, China
Komal Akram Khan
Department of Business Administration, IQRA University, Karachi, Pakistan, and
Chin-Hong Puah
Universiti Malaysia Sarawak, Kota Samarahan, Malaysia

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Abstract

Purpose – The objective is to assess the relationship between financial inclusion and bank profitability in emerging economies, i.e. "Bangladesh, Egypt, Indonesia, Mexico, Nigeria, Pakistan, Philippines, and Vietnam".
Design/methodology/approach – The second-generation econometrics of panel data has been applied to examine the cross-section independence and control the heterogeneity between cross sections. Additionally, the authors employ the following tests for the analysis: "the unit root test, Westerlund's (2007) bootstrap cointegration, Pedroni cointegration, fully modified ordinary least square (FMOLS), and heterogeneous panel causality techniques". The annual data consist of the period from 2000 to 2019.
Findings – The findings reveal that financial inclusion fosters bank profitability. Therefore, easier access to financial services and products will maximize banks' profitability. Additionally, the association between financial inclusion and bank profitability is unidirectional.
Originality/value – This research is a first attempt to bring a novel contribution to the subject of emerging economies by investigating the association between financial inclusion and bank profitability. Another unique addition to the literature is the use of a novel financial inclusion index. At last, a panel cointegration technique, FMOLS and heterogeneous panel non-causality tests are taken into consideration for the in-depth analysis.

Keywords Financial inclusion, Bank profitability, Emerging economies, Heterogeneous panel analysis
Paper type Research paper

1. Introduction

The term "financial inclusion" refers to a situation in which individuals and businesses can access affordable and beneficial financial goods and services that fulfill their requirements. These goods and services may include transactions, digital payments, accounts, savings, credit and insurance. Several institutions have taken initiatives for the promotion of financial inclusion. For instance, in the 2030 Sustainable Development Goals, financial inclusion has

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