

**Titel:** Risks and Returns: Managing Financial Trade-Offs for Inclusive Growth in Europe and Central Asia

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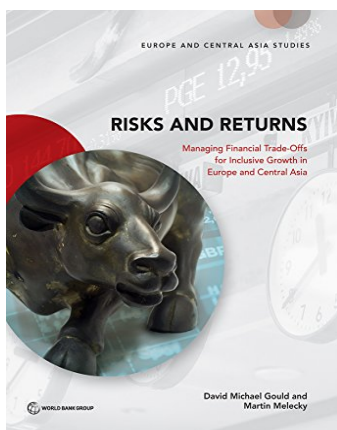
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During the 1990s, Emerging Europe and Central Asia (ECA) opted for a model of rapid financial development focused on bank credit expansion often funded by foreign capital. This model helped boost the financial inclusion of firms and households, but was also accompanied by lower financial efficiency and increased vulnerability to banking crises.

The need for financial sector reforms has become more urgent as stagnating income growth, particularly of middle- to lower-income earners, is leading to increased dissatisfaction with the status quo of low productivity growth and limited access to opportunities. This demand for change can be the impetus for rebalancing financial policies to support higher and more inclusive growth. A healthy and balanced financial sector is needed to support structural adjustment in the oil dependent economies of the eastern side ECA and greater innovation in the countries of the western part of ECA.

This report argues that financial development must reach beyond increasing access to credit. ECA countries should strive to build balanced financial systems integrating both

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bank and non-bank markets, enabling prudent financial inclusion. Most importantly, ECA falls significantly behind other world regions in the use of saving products. Striking the right balance across all dimensions of financial development (stability, efficiency, inclusion, and overall depth) is crucial for achieving and sustaining inclusive growth.