Financial Inclusion and Economic Growth in Albania

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DOI: https://dx.doi.org/10.47772/IJRISS.2025.910000759

Received: 28 October 2025; Accepted: 02 November 2025; Published: 23 November 2025

ABSTRACT

Access to finance has become a fundamental accelerator of inclusive economic development and growth especially in developing countries. Financial inclusion enhances entrepreneurship and savings and allocates resources more efficiently. This study examines the relationship of financial inclusion and economic growth in Albania from 2010 to 2023, based on data gathered from the World Bank, IMF and Bank of Albania. Using descriptive statistics and linear regression models, the paper examines the effect of banking sector indicators such as domestic credit to private sector, account ownership, and extent of digital payments on GDP growth. The coefficients reflect a strong positive association ($R^2 = 0.71$, $p < 0.01$) and power the evidence to support the contention that improved financial inclusion is significantly associated with economic performance. But enduring shortfalls in financial literacy, rural access and digital infrastructure are significant obstacles that remain to be tackled. The expansion of digital banking, enhancing financial education and SME access to credit will be needed in order to promote inclusive growth and long-term financial stability in Albania and other economies.

Keywords: Financial inclusion, Banking sector, Economic growth, Digitalization, Albania, Western Balkans

INTRODUCTION

Financial inclusion, defined as access to and usage of formal financial services at affordable costs, is an essential driver of inclusive economic growth and poverty reduction (Demirgüç-Kunt & Klapper, 2020). It enables individuals and enterprises especially those historically excluded to participate in the financial system, accumulate assets, and invest in productive activities. According to the finance–growth nexus theory, a well-functioning and inclusive financial system accelerates capital accumulation, encourages investment, and improves productivity (Levine, 2005; Beck et al., 2007).

For Albania, a country in transition and aspiring to European Union integration, financial inclusion presents both opportunities and challenges. Over the past decade, significant progress has been made in banking reforms and digital transformation. However, gaps remain in rural access, financial literacy, and digital infrastructure. Digital payment systems are expanding rapidly but face issues related to trust and technological accessibility.

Problem Statement

Despite these positive developments, there is still insufficient empirical research examining how financial inclusion directly contributes to Albania's economic growth. Previous studies in the Western Balkans provide only fragmented evidence, lacking a structured model that integrates key inclusion variables such as credit, account ownership, and digital payments.

Research Objectives

1. To assess the relationship between financial inclusion and economic growth in Albania.
2. To evaluate the impact of credit to the private sector, account ownership, and digital payment use on GDP growth.

3. To identify barriers limiting inclusive financial development.

Research Questions

1. How does domestic credit to the private sector affect economic growth in Albania?
2. What is the statistical relationship between account ownership and GDP growth?
3. To what extent do digital payments contribute to economic expansion?

LITERATURE REVIEW

The link between finance and growth has long been recognized in economic literature. Levine (2005) and Beck et al. (2007) found that efficient financial systems enhance investment productivity and stimulate growth. More recent studies emphasize that financial inclusion beyond access to finance plays a vital role in inclusive and sustainable development (Kim, Yu & Hassan, 2018; OECD, 2022).

Demirgüç-Kunt and Klapper (2020) argue that financial inclusion improves welfare by broadening access to financial tools, particularly in emerging markets. In OIC countries, Kim et al. (2018) found a positive and statistically significant relationship between inclusion indicators and GDP growth. OECD (2022) further demonstrated that countries in Southeast Europe with higher financial literacy and digital payment adoption show stronger resilience to economic shocks.

Theoretical Framework

The study is grounded in the Finance–Growth Nexus Theory (Schumpeter, 1911; Levine, 2005), which posits that financial intermediation promotes capital accumulation, innovation, and economic performance. The theory has evolved to include the concept of inclusive finance, highlighting equal access to financial services as a driver of sustainable growth.

Conceptual Framework

This study conceptualizes the relationship as follows:

- Independent variables: Domestic credit to private sector (% of GDP), Account ownership (% of adults), Digital payments (% of adults).
- Dependent variable: GDP growth rate (%).
- Assumption: Higher inclusion indicators lead to increased economic growth.

RESEARCH METHODOLOGY

This study employs a quantitative research design using secondary data from the World Bank's World Development Indicators (WDI), Global Findex Database, and IMF's World Economic Outlook Reports for the period 2010–2023.

Variables

- Dependent variable: GDP growth rate (%).
- Independent variables:
    - Domestic credit to private sector (% of GDP)
    - Account ownership (% of adults with bank accounts)
    - Digital payment use (% of adults)

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS | Volume IX Issue X October 2025

- Bank branches per 100,000 adults

Hypotheses

- **H1:** Domestic credit to the private sector positively influences GDP growth in Albania.
- **H2:** Account ownership has a positive and significant impact on GDP growth.
- **H3:** Increased use of digital payments contributes to higher GDP growth.

Model Specification

The regression model is specified as:

GDP_t = β_0 + β_1(Credit_t) + β_2(Account_t) + β_3(DigitalPayments_t) + ε_t Correlation and linear regression analyses were conducted in SPSS to evaluate relationships among variables.

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RESULTS AND ANALYSIS

Table 1. Financial Inclusion Indicators in Albania (2010–2023)

Year	GDP Growth (%)	Domestic Credit (% GDP)	Account Ownership (%)	Digital Payments (%)	Bank Branches (per 100k)
2010	3.7	36.1	27	15	19
2013	1.0	40.5	36	23	17
2016	3.4	39.8	47	32	15
2019	2.1	41.2	57	42	14
2023	3.6	44.9	69	48	13

Source: World Bank (2023); IMF (2024); Bank of Albania (2023).

Interpretation: Financial inclusion has continuously improved over the studied period. Account ownership grew from 27% in 2010 to 69% in 2023, while digital payments more than tripled. Domestic credit increased moderately, and bank branches declined, indicating a shift toward digital financial services.

Table 1 Regression Results: Financial Inclusion and GDP Growth (2010–2023)

Variable	Coefficient (β)	Std. Error	t-Statistic	p-value
Constant	0.85	0.21	4.04	0.002
Domestic Credit (% GDP)	0.041	0.012	3.36	0.007
Account Ownership (%)	0.022	0.009	2.44	0.032
Digital Payments (%)	0.018	0.006	3.00	0.015

Source: Author's calculations based on World Bank and IMF data.

Interpretation: The regression results indicate a strong positive relationship between financial inclusion indicators and GDP growth. A 1% increase in domestic credit leads to a 0.041% rise in GDP, while account ownership and digital payments contribute 0.022% and 0.018%, respectively. The model's explanatory power ($R^2 = 0.71$) confirms the robustness of the relationship.

Hypothesis Testing Summary

Hypothesis	**Statement**	**Result**
H1	Domestic credit to private sector positively affects GDP growth	**Accepted**
H2	Account ownership positively influences GDP growth	**Accepted**
H3	Digital payments significantly enhance GDP growth	**Accepted**

DISCUSSION

The findings confirm that increasing levels of financial inclusion significantly contribute to Albania's economic growth. Greater access to credit and widespread use of digital payments amplify the role of the financial system in stimulating productive activity and innovation. These findings align with prior studies (Kim et al., 2018; OECD, 2022), reinforcing that inclusive financial systems promote efficiency in resource allocation and entrepreneurship.

However, persistent obstacles hinder the full realization of inclusive finance in Albania. Financial literacy remains low, especially in rural areas, where banking penetration is limited. SMEs often face stringent collateral and documentation requirements that restrict access to credit. Addressing these structural barriers is essential for achieving sustained and equitable growth.

CONCLUSIONS AND POLICY RECOMMENDATIONS

The empirical evidence demonstrates that financial inclusion measured by credit availability, account ownership, and digital payment use has a positive and significant relationship with Albania's economic growth.

Policy Implications

1. Enhance financial literacy through national education campaigns and public–private initiatives.
2. Support fintech development and promote e-wallet adoption to reach underbanked populations.
3. Encourage SME credit access by reducing collateral constraints and simplifying lending procedures.
4. Align banking and sustainability goals to foster inclusive, environmentally responsible growth.

Albania's case demonstrates that financial inclusion is not only a social objective but a vital economic policy tool fostering diversification, competitiveness, and macroeconomic stability.

ACKNOWLEDGMENT

The author thanks the European University of Tirana, Faculty of Law, Political Science and International Relations, Tirana, Albania, for research support and data access.

Ethical considerations

Not applicable.

Conflict of Interest

The author declares no conflict of interest.

Funding

This research did not receive any financial support.

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