



ASSISING THE IMPACT OF FINANCIAL INCLUSION STRATEGIES ON THE FINANCIAL STABILITY OF ARAB BANKING SYSTEMS

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Abstract:

This study aimed to examine the impact of financial inclusion on strengthening the financial stability of Arab banking systems, with the broader objective of achieving overall financial and monetary stability. To this end, the research focuses on the core principles of financial inclusion, exploring the nature, mechanisms, and transmission channels through which it may affect financial stability. The relationship between financial inclusion and financial stability is analyzed using a bilateral correlation matrix between financial inclusion indicators and the Z-SCORE index, a recognized measure of banking sector stability in Arab countries. The findings indicate that financial inclusion levels across Arab banking systems remain modest and exhibit neither a significant positive nor negative effect on financial stability. This outcome is attributed to the structural weaknesses of Arab banking systems and the limited effectiveness of the financial inclusion strategies currently in place.

Keywords: Financial inclusion; Financial Stability; Binary Correlation Matrix; Banking Systems.

JEL Classification Codes: E58· G20· G21· G29

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1. Introduction

Since the global financial crisis of 2008, financial inclusion has received increasing attention both at the global level through its organizations and institutions, and at the level of countries, where the International Financial Inclusion Alliance was established, which is the first international network to benefit from the experiences of countries in the field of financial inclusion, and includes (94) developing countries, including (5) Arab countries represented by (119) institutions divided between ministries of finance and central banks. The Alliance works to develop the tools used to implement financial inclusion, exchange technical and practical expertise among member countries, and assist them in the formulation of policies, strategies and implementation mechanisms reforms and implementation mechanisms, in addition to benefiting educational missions in the same field.

This importance accorded to financial inclusion has made it a strategic objective that most Arab central banks seek to achieve, as it has very important implications in terms of including the financially excluded, by generalizing financial and banking services to all segments of society by making them more accessible, sustainable and at a lower cost, which facilitates the efficient distribution of financial resources, reduces the cost of capital, improves the management of finance, and helps to improve the quality of financial services. This facilitates the efficient allocation of financial resources, reduces the cost of capital, improves the management of finance, helps reduce the growth of informal finance, makes the financial sector more inclusive, and enhances the level of financial stability.

1.1. Research Problem

In view of the increasing emphasis on the role of inclusive finance in promoting macroeconomic stability, this study seeks to address a central research question: To what extent does the implementation of financial inclusion policies contribute to strengthening the financial stability of Arab banking systems? This core inquiry necessitates the resolution of several interrelated sub-questions, including: What are the conceptual and operational foundations of financial inclusion? What are the practical and theoretical implications of implementing financial inclusion policies, particularly in relation to financial system stability? How do current levels of financial inclusion in Arab countries compare with the financial stability of their banking systems, as measured by the Z-Score index? And finally, through what mechanisms—statistically captured via bilateral correlation matrices—does financial inclusion exert its influence on financial stability?

1.2. Research Hypothesis

The working hypothesis underpinning this research posits that the strategic activation of financial inclusion policies in Arab countries can significantly mitigate financial exclusion, thereby contributing to a more stable and resilient banking sector. However, such an outcome is contingent upon the adoption of a comprehensive and integrated approach—one that not only broadens access to financial services across all social strata, but also ensures a dynamic and constructive interaction between inclusion initiatives and financial system safeguards. In this context, the hypothesis suggests a potential zone of synergy wherein financial inclusion and financial stability are mutually reinforcing.

1.3. Study Objectives

The principal objective of this study is to elucidate the foundational concepts and operational dimensions of financial inclusion, and to assess the extent to which financial inclusion policies can serve as effective instruments for reinforcing financial stability in Arab countries. Specifically, the study aims to (1) identify the core elements that define financial inclusion, (2) explore the policy relevance of inclusion in relation to stability, (3) evaluate the empirical relationship between inclusion indicators and financial stability (as captured by the Z-Score index), and (4) analyze the underlying mechanisms of influence using statistical tools, with a particular focus on the correlation between financial access and systemic resilience.

1.4. Methodology

In the light of the multidimensional nature of the research problem, the study adopts a mixed methodological framework that combines descriptive, analytical, and comparative approaches. Conceptually, the study draws upon theoretical models of inclusive finance and stability, while empirically, it employs statistical techniques to analyze a set of relevant indicators. The data sources include internationally recognized databases such as the World Bank's Global Findex, the Global Financial Development Database, and the annexes of the Unified Arab Economic Report (2019). The analysis is centered on indicators that reflect both the breadth and depth of financial inclusion, alongside the Z-Score index, which serves as a proxy for the financial soundness of Arab banking systems.

1.5. Structure of the Study

The structure of the study is organized into two main analytical sections. The first examines the fundamentals of financial inclusion, addressing its conceptual basis, measurement indicators, and strategic importance within development finance. The second investigates the role of financial inclusion policy as a mechanism for promoting financial stability in Arab countries, focusing on both theoretical implications and empirical validation through data analysis. Together, these sections aim to articulate a coherent narrative on the interdependence between financial access and systemic financial health.

1.6. Literature review

The literature on financial inclusion increasingly recognizes its pivotal role in advancing inclusive economic growth and achieving the United Nations Sustainable Development Goals. Financial inclusion refers to the availability and accessibility of affordable financial services to all individuals and enterprises, particularly those traditionally excluded from the formal financial system. Its multidimensional character requires comprehensive measurement through indicators such as access, usage, and quality of financial services. By identifying gaps and inequalities in financial service provision, such indicators enable policymakers to design targeted strategies aimed at expanding inclusion. When effectively implemented, financial inclusion not only fosters social and economic empowerment but also serves as a stabilizing force for banking systems by diversifying financial intermediation and reducing systemic vulnerabilities.

2.The concept of financial inclusion

The term financial inclusion has received a lot of attention from financial professionals and international organizations. Some of the most important international organizations that frequently use the term in their literature include: The International Monetary Fund (IMF), the World Bank, as well as other international bodies with varying composition, financial core competencies, and the degree of interest in the topic, especially with international efforts to combat financial corruption, money laundering, and terrorist financing (Rose, Asit, & Shajul, 2016, p.1)

In the academic literature, financial inclusion is conceptualized as the effective access and use of a wide range of financial services by different segments of the population, including vulnerable groups. For instance, Bashar (2018), drawing on the joint perspective of the IMF and the Consultative Group to Assist the Poor (CGAP), highlights that inclusion encompasses not only the availability but also the sustainable and easy utilization of diverse services, such as payments, savings, credit, and insurance, within an enabling regulatory framework. Similarly, Abbes and Sadi (2018) emphasize the importance of affordability and responsiveness of financial products to the actual needs of individuals and businesses, underlining sustainability and responsibility as key principles. From another standpoint, Saadan and Mahajbia (2018) stress the dimension of customer dignity, framing financial inclusion as a situation where all individuals can access affordable, quality, and convenient financial services without compromising their autonomy.

All these conceptions refer, either explicitly or implicitly, to the following:

- Financial services should include all segments of society, with a focus on the poor, marginalised and low-income people.
- Access to financial services should be easy and available, at the right cost, with the right quality, at the right time, and in the right place.
- Financial services meet existing and anticipated needs, which raises the issue of innovation.
- Transparency and fairness of financial services to safeguard consumer dignity and protect their rights, which means a clear legal and regulatory framework, in addition to awareness and financial education.
- Developing financial and banking institutions, increasing the effectiveness of monetary policy, and diversifying its tools in order to achieve financial stability for banking systems.

It remains to be noted that there are several terms to describe the same phenomenon. There are those who use the term financial inclusion and those who use instead the term financial inclusion, financial inclusion, financial inclusion, financial inclusion, financial inclusion, financial deepening, inclusive finance or access to finance to refer to the same phenomenon that we have defined in the previous sense under the name ‘financial inclusion’, which is the term we adopt because it is the most common term and its linguistic meaning is closer to the foreign term ‘**financial inclusion**’.

3. Dimensions and indicators of financial inclusion

Over the past decade, the concept of financial inclusion has evolved into four main dimensions: Easy access to finance for all households and businesses, institutions guided by regulation and

financial supervision, sustainability for businesses and institutions, and competition among financial service providers to offer the best alternatives to customers.

Initially, in line with the most basic concepts of financial inclusion, the ratio of beneficiaries (commercial banks, ATMs, deposit and loan volumes) to the total number of low-income households and microenterprises was adopted as a measure of financial inclusion. This indicator is clearly limited as it does not take into account those who have voluntarily excluded themselves from financial services.

Despite their availability and accessibility (Al-Sharafa, Abd Taha, & Badr, 2019, p. 10), international organizations interested in financial inclusion have continued to research and develop in order to agree on acceptable indicators. In this context, the Financial Inclusion Data Working Group of the Global Alliance for Financial Inclusion proposed the following basic conditions when building financial inclusion indicators: (Ben Rajab, 2018, p. 2)

- **Interest and convenience:** To develop national policies for financial inclusion.
- **Balance:** Addressing both the supply side (access to financial services) and the demand side (utilisation of these services).
- **Pragmatism:** Relying on available data to minimize cost and effort.
- **Flexibility:** Respecting the specificities and circumstances of each country when selecting indicators.
- **Ambition:** adopting proxy indicators (to be developed later) if core indicators cannot be used.
- The work of this group focused on two key dimensions: access to financial services and the use of financial services.

At the Los Cabos Summit in 2012, the G20 adopted the recommendation of the Global Partnership for Financial Inclusion (GPFI) to support reliable data efforts on financial inclusion internationally and locally, and endorsed a core set of financial inclusion indicators that focus on measuring three key dimensions (Bashar Ahmed, 2018, p. 106): **Ease of access to financial services, utilization of financial services, and quality of financial services.**

It is worth noting here that financial inclusion indicators are overlapping and difficult to prepare. This is because this process requires data that extends to the smallest details related to financial inclusion. Many of these data are difficult to quantify. In general, what the World Bank provides in this area is considered pioneering, in our estimation, because it relies on a practical methodology based on a very accurate and detailed statistical survey, covering the largest number of people belonging to the largest number of countries.

The World Bank has released the Global Financial Inclusion Index (GFI) every three years since 2011 as the first edition (Al-Issawi, 2020, p. 36). The 2014 edition of the Global Findex relied on a sample of 97 per cent of survey respondents (adults aged 15 years and above) in 148 countries in 141 languages. The total number of main indicators in the 2014 database amounted to (96) main variables, in addition to associated sub-indicators, such as calculating the index according to gender, age, social status, residence, and other social and demographic variables, so that the total number of

variables approached (432) variables in 2014 (Ben Rajab, 2018, pp. 4-3), to reach (775) variables in 2017 (Ben Rajab, 2018, pp. 4-3). (Word bank findex, 2020).

4. Strategic objectives for financial inclusion in banking systems

With the growing global interest in expanding the scope of financial inclusion and creating alliances among global financial bodies and institutions to coordinate and work within common and unified mechanisms, the benefits of financial inclusion are growing. Many countries have included financial inclusion as one of the strong strategic objectives to build an inclusive banking system, given the strategic objectives that are: Financial Stability, Financial Integrity and Consumer Financial Protection. In order to achieve the following: (Ali Shehata, 2019, p. 23)

- Improving banking performance rates through the ability of banking sector institutions to embody an effective financial strategy that allows them to attract different types of savers and channel their funds into productive investments that reflect positively on maximising the level of profitability, within the framework of respecting banking safety standards based on the adequacy of capital to face potential risks, thus supporting the degree of financial depth of the banking sector in local markets.
- Activating the role of financial intermediation in attracting savings, granting credit, facilitating various means of payment, promoting financial transactions of individuals within official financial channels, and adopting an effective risk management method to be able to face financial shocks, will inevitably ensure financial stability at the level of the bank and banking systems.
- In light of the increasing competition between banks and fintech companies that have been able to overcome the geographical distance of bank branches from the location of individuals thanks to their digital financial technologies, and expand the provision of financial and banking services faster, more responsibly, transparently and efficiently, supporting the competitiveness of banks to face this competition is based on the adoption of technology applications To improve the quality of their current services and develop new banking services for their local and foreign markets; based on the principle of partnership between these companies and banks, especially since the latter are fully aware of how to provide the markets with their financial and banking services (expertise and specialisation), so that they can benefit from the use of the latest digital technologies and raise the level of financial and banking service delivery.
- The Bank's ability to maintain its current customer base and attract new customers is linked to its ability to provide a variety of high quality financial and banking products and services that match the nature of the needs and financial capacity of these customers, which demonstrates the Bank's interest in materialising An effective, successful, impactful and productive marketing policy that keeps pace with the ever-changing market conditions, based on studying the relationship between the services provided and customer requirements, and distributing them through electronic outlets to ensure that they reach the right place and time at the lowest possible cost.

5. The importance of financial inclusion policy as a mechanism to support financial stability in Arab countries

Financial inclusion is a broad concept that overlaps with many economic, financial and banking concepts, and the importance of this overlap was highlighted in the communiqué of the international meeting on the discussion of financial inclusion indicators sponsored by the Bank of International

Settlements, held at the Sasana Kajiang Centre of Excellence for Knowledge and Learning established by Bank Negara Malaysia in 2011. Embodying the commitment of banks to the development of thought leadership and regional and international cooperation in central banking and financial services, it emphasised that no matter how high the level of financial inclusion is and how different and important the concept is, financial inclusion in its broadest form must take into account the qualitative aspects of inclusion such as financial and monetary stability, banking safety and consumer protection. In this context, the implications of the implementation of financial inclusion policy and its relationship with financial stability will be clarified, while identifying the reality of the levels of financial inclusion compared to the Score-Z index of financial stability in Arab countries, and the mechanisms of the impact of financial inclusion on financial stability according to the bilateral correlation matrix.

5.1.The implications of applying financial inclusion policy on financial stability:

As a digression from our previous definition of financial inclusion, it is important to follow it up by defining and clarifying the concept of financial stability, to make it easier for us to recognise the overlap between the two. In this regard, we point out that the talk about financial stability is linked to the successive financial crises for some time locally and internationally, as it is a new concept that is still being analysed and restricted, and we believe that the place here does not bear diving into this discussion, so we will adopt the definition provided by the European Central Bank (ECB) for two reasons: Firstly, it is the most commonly used definition in the economic literature, and secondly, it is sufficient to clarify the overlap between financial inclusion and financial stability.

The ECB defines financial stability as ‘the state in which the financial system with its components: financial intermediaries, financial markets and market infrastructure, is resilient to shocks’. This requires the financial system to be characterised by three characteristics: the ability to intermediate between savers and investors in an efficient and systematic manner, the accuracy of financial risk assessment and management, and the ability to absorb financial surprises and shocks or those originating from the real economy’ (De Bandt & Dujardin, 2013, p. 19). Despite the wide variety of definitions of financial stability (or financial instability), they all intersect in the following points: the reference to the functions and role of the financial system:

- Frequent reference to the functions of the financial system and its role in attracting and allocating savings and payments.
- the fact that sudden shocks are often the cause of financial instability
- the potential impact of financial instability on the broader economy
- The link between financial stability and the confidence of clients in the financial system (Boubaker, 2015, pp. 51-50).

Based on the above, it is possible to understand the interrelationship between financial inclusion and financial stability, as it is difficult to imagine the realisation of one in the absence of the other, and this is suggested by the existence of an inextricable link between them, as we will explain in this paragraph and the paragraph immediately following it.

Financial inclusion is a smart policy that already has the potential to support financial stability, which is the goal of financial inclusion. The implementation of this policy is based on the following key points:

- Financial inclusion policies can be a powerful factor for strong and inclusive growth: Increasing evidence (macroeconomic: GDP, financial stability, reducing inequality, mitigating shocks and crisis management) recently provided by the IMF, World Bank and McKinsey Global Institute has shown that financial inclusion is an engine of economic growth and financial stability, and that financial exclusion poses severe risks to financial stability and can be detrimental to financial soundness;
- Financial inclusion can strengthen the domestic capital base, thereby reducing dependence on foreign capital inflows and mitigating the risk of external shocks;
- Financial inclusion policy contributes to achieving financial protection for the consumer and thus enhancing financial stability, the expansion of the base of financial inclusion helps to achieve financial stability, as it has a positive impact, and at the same time this does not mean (necessarily) that increasing financial inclusion does not negatively affect financial stability; (Hussein Naama & Matar, 2020, p. 17)
- Financial inclusion improves the efficiency of financial intermediation between savings and investment by changing the structure of the financial system and relying on innovative products and transactions (digital financial innovation).
- Financial inclusion increases the share of the formal financial sector vis-à-vis the informal sector in support of monetary policy, as environments characterised by a high proportion of financially excluded people who resort to informal financial services are more fragile and prone to financial instability.
- The implementation of financial inclusion policy contributes to better risk allocation and management through diversification of asset and liability portfolios: An inclusive financial sector is characterised by stable deposits if they are more diversified, and this is only achieved under a certain level of financial inclusion, which contributes to mitigating the effects of ‘massive withdrawal’ of deposits (as one of the drivers of financial crisis whereby withdrawal creates the crisis and accelerates its spread) (Kuwait International Bank, 2015, p. 8), showing that a 10 per cent increase in the share of individuals with access to bank deposits may mitigate or reduce deposit withdrawal rates by about three to eight points. So, It was also found that low-income savers tend to maintain deposits during periods of cyclical crises, and therefore deposits of low-income clients are usually considered a stable source of financing in case other sources are depleted or difficult to access.

Financial inclusion policy is supposed to support financial stability and contribute to risk management. On the one hand, it will include large groups of financially excluded people, reintegrate them into the formal financial system and ensure their involvement in the process of development, social capital building and participation, and minimise the risks of money laundering, financial corruption and terrorist financing. money laundering, financial corruption and terrorism financing; on the other hand, the financial technology on which financial inclusion policies are based can create competition with traditional financial institutions in a way that serves the banking

system while facing the risks arising from this digital financial transformation (Nagham Hussein and Hassan Matar, 2020, p. 18).

5.2.The relationship between financial inclusion and financial stability

In this element, we highlight the causal relationship between financial inclusion and financial stability: Does an increase in financial inclusion tend to enhance or deteriorate financial stability? We answered the question in the previous paragraph, and this answer indicates the direction of the relationship: Financial Inclusion - Financial Stability. We can also ask whether an increase in financial stability leads to an increase in financial inclusion, which indicates the direction of the relationship: Financial Stability - Financial Inclusion. We hasten to add that the latter question is irrelevant, as it seems unlikely that an increase in financial stability would lead to a decrease in financial inclusion, but rather that financial stability leads to the following outcomes:

- It builds financial stability and enhances customer confidence in the financial sector as a whole, making them more likely to join the financial sector and thereby enhancing the degree of financial inclusion.
- Financial stability has a positive impact on the following factors, for example: Inflation, interest rates, which leads to a reduction in the prices of some key products and services, thus making financial services available to the poor at affordable prices, thereby expanding the scope of financial inclusion.
- Studies have revealed that the relationship between financial stability and financial inclusion is one of co-existence: On the one hand, it is difficult to achieve financial inclusion without a stable banking system, and on the other hand, it is difficult to envisage financial stability when a large segment of the socio-economic system is financially excluded. Financial inclusion is not only linked to financial stability, but also to monetary stability, as financial inclusion interacts with monetary stability (monetary policy) in two ways:
- The first method: more consumers are helped to smooth their consumption over time, and this can affect the fundamental choices of monetary policy, including the target price index (TPI).
- The second method: This interaction encourages consumers to move their savings away from physical assets.
- This shows that increased financial inclusion is indicative of central bank policies aimed at maintaining monetary and financial stability in two ways:
- The first way: Increased financial inclusion facilitates the homogenization of consumption, as households can easily access savings and borrowing instruments and, as a result, output volatility is no longer costly. This may facilitate central banks' efforts to maintain price stability.
- The second way: Increasing financial inclusion is likely to increase the importance of interest rates in monetary transmission because a larger share of monetary mobility in economic activity is influenced by interest rates, and while this tends to improve the effectiveness of monetary policy using interest rate instruments, policymakers may need to

pay attention to rapid monetary mobility. (Nagham Hussain and Hassan Matar, 2020, pp. 17-18).

6. The reality of financial inclusion levels compared to the Score-Z Financial Stability Index in Arab countries

In this section, we will explore the overall levels of financial inclusion in Arab countries and compare them to the Score-Z Financial Stability Index (FSI). A quantitative model used to measure banking stability and safety.) The main financial inclusion indicator in Arab countries is the use and access to various financial and banking services, and measuring the efficiency and effectiveness of financial intermediation institutions in encouraging this. This indicator includes the percentage of the adult population (15+) who have a bank account in financial and banking institutions, which is the indicator on which the financial inclusion literature is based.

Table 1. levels of high, medium, and low financial inclusion and stability in Arab countries

Classification	Country	Financial Inclusion Index				Score-Z Financial Stability Index			
		2011	2014	2017	2021	2011	2014	2017	2021
Countries with high levels of financial inclusion	UAE	59.7	83.2	87.4	86.0	25.5	26.3	26.6	22.3
	Bahrein	64.5	81.9	82.9	/	15.1	15.4	16.7	07.8
	Kuweit	86.8	72.9	79.8	/	17.9	15.4	16.0	16.6
	Saudi Arabia	46.4	69.4	71.7	74.0	17.9	17.7	20.6	24.4
Countries with medium levels of financial inclusion	Algeria	33.3	50.5	42.8	44.0	18.9	17.9	21.7	/
	Lebanon	37.0	46.9	44.8	21.0	33.6	34.8	37.3	20.2
	Morocco	39.1	/	28.4	44.0	37.6	42.5	44.0	42.4
	Tunisia	32.2	27.3	36.8	37.0	31.4	32.7	38.5	38.7
	Libya	/	/	65.7	/	63.4	34.9	23.8	/
	Jordan	25.5	24.6	42.1	47.0	54.7	51.1	57.2	50.1
Countries with low financial inclusion levels	Mauritania	17.5	20.4	19.0	23.0	26.6	25.5	21.7	/
	Egypt	9.7	13.7	32.1	27.0	16.9	2.7	20.8	20.6
	Iraq	10.6	11.0	20.3	19.0	24.0	27.2	20.2	37.3

Source: Prepared by the researcher based on The Word Bank, The global Findex Database (2020) & The world Bank, World Development Indicators (2020)

It is clear from Table 1 that the levels of financial inclusion are modest in most Arab countries, with the exception of the UAE, Bahrain, Kuwait and Saudi Arabia, which recorded high levels of financial inclusion thanks to the development of digital infrastructure, the spread of smart phones, the high penetration of the Internet, and the performance of their banking sector. While medium

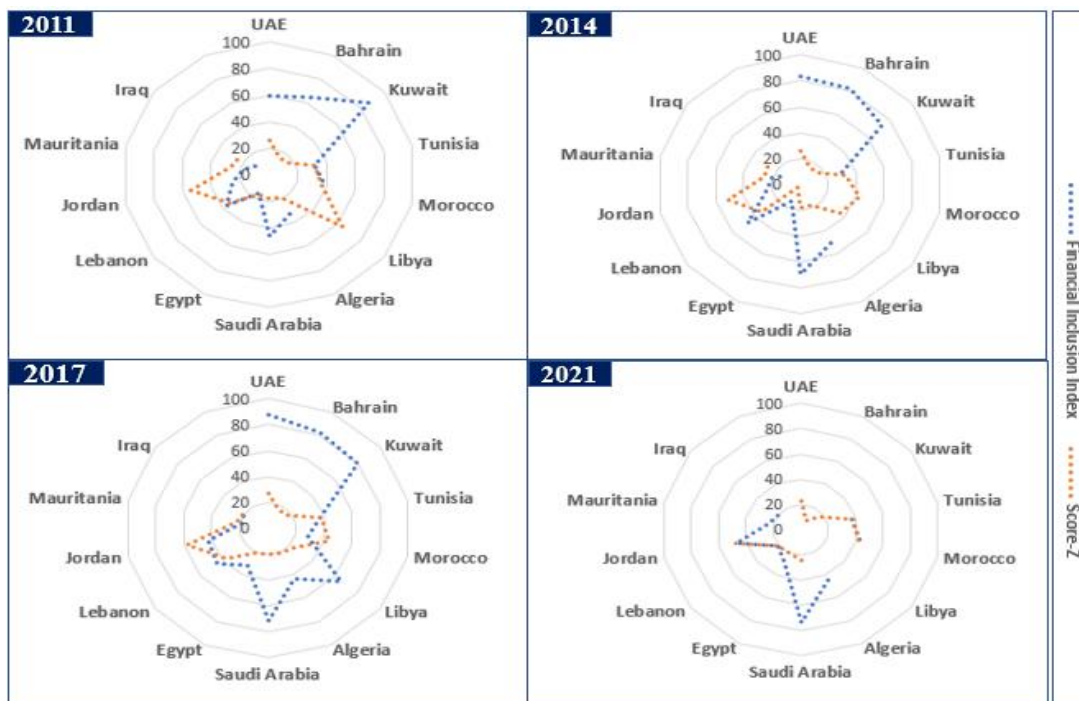
levels of financial inclusion were seen in North African countries as well as Jordan and Lebanon, low levels were seen in Myanmar, Egypt and Iraq, reflecting the high level of financial exclusion and the limited efficiency of financial intermediation in these countries. In order to determine the mechanisms of the impact of the financial inclusion index on financial stability, we relied on Table 1 and the pairwise correlation matrix.

6.1. Mechanisms of the impact of financial inclusion on financial stability according to the bivariate correlation matrix

Based on the previous presentation of the levels of the Financial Inclusion Index and the Score-Z Financial Stability Index, the effectiveness of the bilateral correlation between financial inclusion and financial stability and each of the other related elements (financial integrity and consumer financial protection) is clearly shown using a matrix in which financial inclusion is listed on the horizontal axis and financial stability is listed on the vertical axis. Figure (1) shows the comparability between the data in Table (1) and Figure (2) - see

The next page shows the position of Arab countries on the impact mechanisms between financial inclusion and financial stability according to the bilateral correlation matrix, which reflects the various possible combinations, which may result in either a negative correlation (i.e. ‘Tradeoff’ where the achievement of one goal prevents the achievement of the other goal), a neutral correlation (no impact) or a positive correlation (i.e. ‘Synergy’ where the achievement of one goal supports the achievement of the other goal).

Figure 1: Levels of financial inclusion and financial stability for Arab countries during the years (2017-2014-2017-2021)



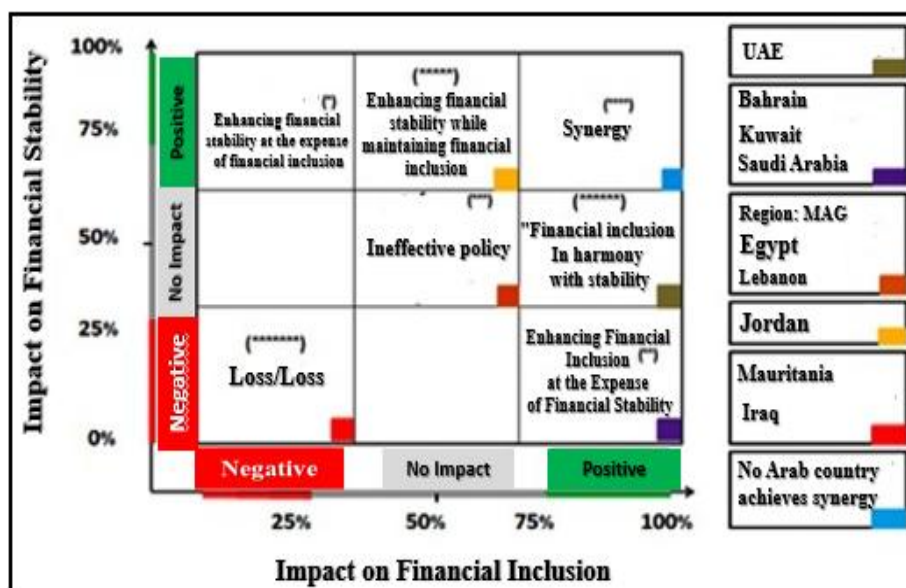
Source: Prepared by the researcher based on the data from table (1)

It is clear from the above figure that the aggregated statistical data of Arab banks continue to improve in general in the main indicators of the performance of the Arab banking sector in aggregate, especially the Score-Z indicator of financial stability, confirming the report of the Arab

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Monetary Fund, although this may vary in the case of some Arab countries, due to the impact of challenges and difficult circumstances on the performance of the banking sector in them, but the continuation of this improvement is not commensurate with the levels of financial inclusion in the majority of Arab countries.

Figure (2): Mechanisms of influence between financial inclusion and financial stability according to the bilateral correlation matrix in Arab countries.



Source : (Tomitova, 2018, p.5)

Through Figure (2), this matrix explains how to achieve synergy between financial inclusion and financial stability, and through it the trade-off between them can be clarified, as when financial stability is achieved while limiting financial inclusion, it means achieving financial stability at the expense of financial inclusion, and this trade-off is unacceptable because it negatively affects the principle of proportionality and balance between financial stability and financial inclusion.

This trade-off is unacceptable because it negatively affects the principle of proportionality and balance between financial stability and financial inclusion.

- Also, when financial inclusion is promoted and stability is reduced, the same (*) and financial inclusion, which is shown in Bahrain, Kuwait and Saudi Arabia, also means achieving financial inclusion (**) the result, which represents a negative correlation (*****) financial at the expense of financial stability and this is seen in the UAE.

The region (***) in which there is no trade-off indicates that there is no effective policy working towards reaching the synergy zone, which represents a neutral correlation, which is seen in the Arab Maghreb countries - Algeria, Tunisia and Morocco - as well as Egypt and Lebanon. It was also noted that Jordan achieved high levels in the Financial Stability Index, but without differentiating with, viz: Mauritania and Iraq (*****), while the countries that achieved low levels in the two indicators (*****) financial inclusion has a negative impact.

According to the correlation matrix, it is confirmed that there is no positive or negative impact of the levels of the financial inclusion index on the levels of the financial stability index in the Arab countries, and the explanation for the absence of this impact is mainly due to the severe weakness of

these countries in terms of financial inclusion levels and the ineffectiveness of the financial inclusion strategy adopted in the Arab countries

financial inclusion levels in these countries and the ineffectiveness of the financial inclusion strategy adopted in the Arab countries with the exception of Saudi Arabia, UAE, Kuwait and Bahrain. The impact of the challenges and difficult circumstances faced by some Arab countries on the performance of the banking sector is evident from the low levels of financial inclusion, and it can be said that although there are acceptable levels of financial inclusion in the Arabian Gulf countries, they do not reflect the required depth of financial inclusion.

Therefore, the zone of integration and synergy (****), which expresses the positive correlation between financial inclusion and financial stability (positive influence), where financial inclusion is achieved with the achievement of financial stability or vice versa, has not been achieved by any Arab banking system. However, the Arab Monetary Fund (AMF) report for 2017 and 2018 indicated several positive indicators that Arab countries are seeking to achieve a synergistic relationship, starting from increasing customer confidence in the banking sector, adopting effective policies in banking systems to attract more savings, applying the financial inclusion policy adopted by the supervisory authorities in the Arabian Gulf countries (Saudi Arabia, UAE, Kuwait, Bahrain, Saudi Arabia, Saudi Arabia, Kuwait, Bahrain, Saudi Arabia, Saudi Arabia, UAE, Kuwait, Bahrain, Saudi Arabia, Saudi Arabia UAE, Kuwait, Bahrain) in particular, and relying on financial services that rely on financial technologies to enhance access to financial and banking services.

7. Conclusion:

This study tried to determine the reality of the impact of financial inclusion policy on enhancing the financial stability of Arab banking systems by discussing and analyzing the concepts of financial inclusion, its dimensions and indicators to measure it, determining its level and the implications of activating its policy on financial stability in Arab countries, and after identifying the mechanisms of mutual influence between financial inclusion and financial stability in 13 Arab countries, based on the data of the financial inclusion index and the score- z index for financial stability. z index for financial stability. The study concluded with the following findings:

- Financial inclusion policy is based on the inclusion of large groups of financially excluded people and ensures their involvement in the development process, building social capital and participation through the provision of more responsible, transparent, efficient and low-cost financial services that help them establish and expand their small businesses, but its success depends on the development of the banking sector infrastructure and the spread of financial culture in society, taking into account the protection of consumers of financial and banking services.
- The implementation of financial inclusion policy is reflected in achieving financial stability by improving the efficiency of the financial intermediation process between savings and investment based on digital financial innovations, increasing the share of the formal financial sector versus the informal sector to strengthen the financial environment and make it less vulnerable to financial instability, and better distribution of risks through diversification of the financial sector's portfolio of assets and liabilities, and on this basis the interrelationship between financial stability and financial inclusion can be understood: Financial inclusion cannot be achieved without the stability

of the financial system, and financial stability cannot occur with the presence of large categories of financially excluded people.

- The Arab countries were characterized by a remarkable disparity in the levels of financial inclusion, with the Arabian Gulf countries taking the lead compared to the modest level of the rest of the Arab countries, as a result of the increase in the penetration of smart phones, the growth of the Internet penetration rate, and the performance of their banking sectors, which reflects their interest in reducing the degree of deprivation of financial and banking services; this reflects the extent of their interest in reducing the degree of deprivation of financial and banking services.

8- Recommendations

We propose several key recommendations, among which the most significant are as follows:

- A. Advancing the Banking Sector in Arab Countries:** It is imperative to modernize the banking systems in Arab countries, particularly those that still rely on traditional business practices. This can be achieved by embracing digital financial technologies aligned with the Fourth Industrial Revolution. Such technologies offer significant potential to expand access to financial and banking services for the financially excluded. However, their adoption must be accompanied by robust risk management strategies. This, in turn, necessitates increased investment in telecommunications infrastructure and its modernization. Furthermore, it is essential to adopt international best practices in the development of payment systems to facilitate the digitization of cash transactions and to offer a diversified and sophisticated range of banking products and services that align with the financial capacities of various segments of society.
- B. Strengthening Regulatory Frameworks for Consumer Protection:** The development of strong and effective regulatory mechanisms is critical to ensuring financial consumer protection in the Arab world. These mechanisms should be grounded in internationally recognized principles that emphasize fairness, transparency, and equitable treatment of consumers. Integral to this approach is the active involvement of private sector stakeholders in implementing initiatives aimed at enhancing financial education and awareness among consumers. Such efforts contribute to building public trust in the banking sector, promoting financial stability, and fostering responsible financial inclusion.
- C. Enhancing the Role of Non-Bank Financial Institutions:** Greater attention should be directed toward empowering non-bank financial institutions—such as microfinance entities, leasing companies, and crowdfunding platforms—given their proven capacity to mobilize savings and extend credit to financially marginalized groups. To maximize their impact, it is essential to establish a comprehensive legal and regulatory framework that facilitates partnerships between these institutions and the traditional banking sector. Such collaboration can play a vital role in improving the overall performance of the financial sector and in advancing broader objectives of financial inclusion and stability.

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