The Dark Side of the Moon? Fintech and Financial Stability

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Fintech and Financial Stability
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Abstract

Rapid advances in digital technology are revolutionizing the financial landscape. The rise of fintech has the potential to make financial systems more efficient and competitive and broaden financial inclusion. With greater technological complexity, however, fintech also poses potential systemic risks. In this paper, I use a novel dataset to trace the development of fintech (excluding cryptocurrencies) and empirically assess its impact on financial stability in a panel of 198 countries over the period 2012–2020. The analysis provides interesting insights into how fintech correlates with financial stability: (i) the impact magnitude and statistical significance of fintech depend on the type of instrument (digital lending vs. digital capital raising); (ii) the overall effect of all fintech instruments together turns out to be negative because of the overwhelming share of digital lending in total, albeit statistically insignificant; and (iii) while digital capital raising is estimated to have a positive effect on financial stability in advanced economies, its effect is negative in developing countries. Fintech is still small compared to traditional institutions, but rapidly expanding in riskier segments of the financial sector and creating new challenges for policymakers.

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