Financial intermediation is dominated by the banking sector.

Financial development suffers from the absence of institutional diversity, great inefficiency and prohibitive lending costs.

Households and micro, small and medium-sized enterprises (MSMEs) have very poor access to financial services.

Critical Issues:
- South and Eastern Mediterranean Countries (SEMCs) are substantially less financially developed than EU-Med Countries
- Financial markets in the SEMCs are underdeveloped in terms of depth, access and efficiency

Financial development as of 2016

FDI: Financial Development Index
FID: Financial Institutions Development
FMD: Financial Markets Development

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Ensuring sustainable government finances.

Ensuring monetary stability by targeting low inflation.

Tackling the high level of non-performing bank loans.

There is a huge opportunity amongst SEMCs for radical reform towards more developed financial markets.

Sustainable financial market development must be associated with financial inclusion and job creation.

### Policy Proposals

**Achieve macro and financial stability by:**

- Ensuring sustainable government finances.
- Ensuring monetary stability by targeting low inflation.
- Tackling the high level of non-performing bank loans.

**Increase financial system diversity and enhance lending efficiency via:**

- Financial market development (private bond issuance, private placements, equity and IPO markets, etc.).
- Developing legislative regimes to encourage alternative financial structures and adopting new financial technologies.

**Widen access to affordable financial services for households and MSMEs by:**

- Developing credit registries and guarantee schemes for MSMEs.
- Developing and promoting digital financial services and increasing the role of postal offices to provide basic financial services for households.
- Requiring banks and insurers to offer basic financial services to households.
- Investing in enhanced financial literacy for the low skilled.

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