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How Financial Technology Advancement Impacts on the Size of Europe's Shadow Economy

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ABSTRACT

The purpose of this research is to assess how and to what extent financial technology (fintech) development affects the size of Europe's shadow economy. In particular, the main research questions raised in this paper are the following: a) What is the extent of fintech development in Europe; and b) How is fintech perceived to be contributing to the reduction in cash payments. In order to attain our goal, we employ a mixed-method approach consisting of: a) a questionnaire survey addressed to the financial authorities of nine selected jurisdictions; b) Schneider's et al. (2015) mimic method to estimate shadow economy macroeconomic data for these jurisdictions; and c) various statistical methods to process data derived from the World Bank, the ECB, and relevant central banks. Our preliminary results demonstrate the following: a) the development of fintech reduces reliance on cash payments, which, in turn, decreases the size of the shadow economy in the long run; and b) there is a two-way causality between the size of the shadow economy, fintech development and cash payments. We intend to expand our research beyond the initial nine jurisdictions selected, thus covering larger territories of the European economy.

KEYWORDS Financial Technology; Shadow Economy; Empirical Research; Technological Change

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