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BANKING SYSTEMS AND THEIR IMPACT ON SOCIAL JUSTICE: A COMPARATIVE STUDY

Abstract: *Background: The banking system and the services it provides can significantly enhance financial inclusion and stimulate business activity within the population. These factors play a critical role in economic development and poverty reduction, which, in turn, contribute to the establishment of social justice. The banking system can directly or indirectly alleviate the harmful effects of inequality by increasing access to credit, savings accounts, insurance, and other financial services. Additionally, the banking sector can encourage greater investment in human capital, thereby improving the overall social climate. As a whole, the purposeful functioning of the banking system can serve as a key component in implementing a country's social policy and fostering positive trends.*

Objectives: This study aims to examine the impact of banking services availability on social justice, focusing on the economies of Georgia and Latvia.

Methods: Both quantitative (correlation analysis) and qualitative approaches, based on data from national statistical services, central banks, and international financial institutions, are employed to explore the relationship between social justice and the banking system.

Results: Key findings reveal that both countries face challenges related to financial inclusion and social inequality, though in different forms. In Georgia, one of the manifestations of social inequality is the limited availability of formal banking services, particularly in rural areas, coupled with high rates of non-performing loans. Latvia's main challenge is addressing regional inequality and the residual effects of financial crises within the banking sector.

Social justice cannot be achieved where poverty is widespread, or where there is a high risk of falling into poverty. In this context, the current situation in both Georgia and Latvia is noteworthy. According to data from the National Statistical Service of Georgia, the absolute poverty rate in the country was 21.7% in 2018, 15.6% in 2022, and 11.8% in 2023. In Latvia, data from the European Commission indicates that in 2019, approximately 24.4% of the population was at risk of poverty; in 2020, the figure was 23.4%; and in 2022, it was 22.5%. Poverty in both countries is predominantly concentrated in rural areas and certain urban regions, making the need to address social inequality particularly acute in these areas. A review of international experience shows that an effective banking system, characterized by accessible credit, a strong regulatory framework, and targeted financial policies, plays a crucial role in reducing poverty and, therefore, in promoting social justice.

Conclusion: Enhancing financial inclusion, ensuring access to credit, improving financial literacy, and maintaining economic stability through sound banking policies should be central strategies for sustainable development. Achieving these goals requires a comprehensive approach involving the government, financial institutions, and civil society, all of which must collaborate to create an inclusive financial ecosystem. Therefore, there is a pressing need for affordable strategies and

innovative banking solutions tailored to the current realities in Georgia and Latvia to address the challenges of establishing social justice.

Keywords: Social Justice, Poverty, Banking System, Financial Access, Georgia, Latvia

JEL classification: D63, G21, H55, I32

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საბანკო სისტემის გავლენა სოციალურ სამართლიანობაზე: შედარებითი ანალიზი

აბსტრაქტი: შესავალი: საბანკო სისტემას და მის მიერ შემოთავაზებულ მომსახურებათა ერთობლიობას შეუძლია გაზარდოს მოსახლეობის ფინანსური ჩართულობა და ბიზნეს აქტიურობა. ორივე მათგანი მნიშვნელოვან როლს ასრულებს ეკონომიკის განვითარებასა და სიღარიბის შემცირებაში, რაც სოციალური სამართლიანობის დამკვიდრების ხელშეწყობი ფაქტორია. საბანკო სისტემა პირდაპირ თუ ირიბად გავლენას ახდენს უთანასწორობის მავნე გამოვლინებების შერბილებაზე კრედიტის, შემნახველი ანგარიშების, სადაზღვევო და სხვა ფინანსური მომსახურების ხელმისაწვდომობის გაზრდით. საბანკო სექტორს, ასევე, შეუძლია წახალისოს ინვესტიციების ზრდა ადამიანისეულ კაპიტალში და ამით საზოგადოებრივი ატმოსფერო გააჯანსაღოს. მთლიანობაში, საბანკო სისტემის მიზანმიმართულ საქმიანობას ძალუძს, რომ გახდეს ქვეყანის სოციალური პოლიტიკის განმახორციელებელი ერთ-ერთი საკვანძო რგოლი და მოახდინოს დადებითი ტენდენციების გავრცობა.

კვლევის მიზანი: საბანკო მომსახურების ხელმისაწვდომობის გავლენის შესწავლა სოციალურ სამართლიანობაზე საქართველოსა და ლატვიის ეკონომიკის მაგალითებზე.

მეთოდები: სოციალური სამართლიანობისა და საბანკო სისტემის ურთიერთკავშირის შესასწავლად გამოყენებულია როგორც რაოდენობრივი (კორელაციური ანალიზი), ასევე, თვისებრივი მიდგომები სტატისტიკის ეროვნული სამსახურების, ცენტრალური ბანკებისა და საერთაშორისო ფინანსური ინსტიტუტების მონაცემებზე დაყრდნობით.

შედეგები: ძირითადი დასკვნები მიუთითებს იმაზე, რომ სხვადასხვა მასშტაბით ორივე ქვეყანა აწყდება გამოწვევებს, რომლებიც დაკავშირებულია ფინანსურ ჩართულობასა და სოციალურ უთანასწორობასთან. საქართველოში სოციალური უთანასწორობის ერთ-ერთი გამოვლინება დაკავშირებულია ოფიციალურ საბანკო მომსახურების შეზღუდულ ხელმისაწვდომობასთან, განსაკუთრებით სოფლად, და უმოქმედო სესხების მაღალ კოეფიციენტებთან. ლატვიის ძირითადი გამოწვევა კი არის რეგიონულ უთანასწორობასთან და საბანკო სექტორში ფინანსური კრიზისების ნარჩენ ეფექტებთან ბრძოლა.

სოციალური სამართლიანობა ვერ განხორციელდება იქ, სადაც სიღარიბის მაღალი მაჩვენებელია და ან დიდია რისკი იმისა, რომ ადამიანი გაღარიბდეს. ამ მხრივ ყურადსაღებია არსებული სიტუაცია როგორც საქართველოში, ასევე, ლატვიაში. საქართველოს სტატისტიკის ეროვნული სამსახურის მონაცემებით, ქვეყანაში აბსოლუტური სიღარიბის დონე 2018 წელს იყო 21,7%, 2022 წელს - 15,6%, ხოლო 2023 წელს კი 11,8%. რაც შეეხება ლატვიას, ევროკომისიის მონაცემებით, 2019 წელს ლატვიაში მცხოვრებთა დაახლოებით 24.4% იყო სიღარიბის რისკის ქვეშ, 2020 წელს - 23.4%, 2022 წელს კი 22,5%. სიღარიბე ორივე ქვეყანაში უპირატესად კონცენტრირებულია სოფლად და ზოგიერთ ურბანულ რაიონში. შესაბამისად, სოციალური უთანასწორობის გამოვლინებების აღმოფხვრის საჭიროებაც ამ ტერიტორიულ ერთეულებში უფრო მწვავედ იგრძნობა. სხვადასხვა ქვეყნის გამოცდილების შესწავლამ ცხადყო, რომ ეფექტიანი საბანკო სისტემა, რომელიც ხასიათდება ხელმისაწვდომი კრედიტით, ძლიერი მარეგულირებელი სისტემით და მიზანმიმართული ფინანსური პოლიტიკით, გადამწყვეტ როლს თამაშობს სიღარიბის შემცირებაში და აქედან გამომდინარე, ხელს უწყობს ქვეყანაში სოციალური სამართლიანობის დონის ზრდას.

დასკვნა: ფინანსური ინკლუზიის გაუმჯობესება, კრედიტზე ხელმისაწვდომობის უზრუნველყოფა, ფინანსური წიგნიერების ამაღლება და ეკონომიკური სტაბილურობის შენარჩუნება ჯანსაღი საბანკო პოლიტიკის საშუალებით უნდა იყოს ქვეყნის მდგრადი განვითარების აუცილებელი სტრატეგიები. მათი რეალიზაცია კი მოითხოვს კომპლექსურ მიდგომას, რომელიც მოიცავს სამთავრობო და ფინანსურ ინსტიტუტებს, ასევე, სამოქალაქო საზოგადოებას, რომლებიც ურთიერთშეთანხმებით და თანამშრომლობით შექმნიან ინკლუზიურ ფინანსურ ეკოსისტემას. ამდენად, არსებულ რეალობასთან მორგებული ფინანსურ რესურსებზე ხელმისაწვდომი სტრატეგიებისა და ინოვაციური საბანკო გადაწყვეტილებები სჭირდება საქართველოსა და ლატვიას სოციალური სამართლიანობის დამკვიდრების დროს არსებული გამოწვევების გადასაჭრელად.

საკვანძო სიტყვები: სოციალური სამართლიანობა, სიღარიბე, საბანკო სისტემა, ფინანსური ხელმისაწვდომობა, საქართველო, ლატვია

JEL კლასიფიკაცია: D63, G21, H55, I32

Introduction

Social justice, a fundamental principle in ensuring equitable distribution of wealth, opportunities, and privileges within a society, remains a critical concern for policymakers worldwide. One of the key pillars supporting social justice is financial inclusion, which provides individuals and businesses with access to essential banking services such as credit, savings accounts, insurance, and investment opportunities. A well-functioning banking system not only facilitates economic growth but also serves as a vehicle for addressing inequalities, particularly in areas of poverty, unemployment, and regional disparities.

The banking system, with its broad array of financial products and services, plays a pivotal role in advancing social justice by reducing barriers to economic participation and improving individuals' and communities' financial security. For many, access to credit and savings can mean the difference between economic mobility and stagnation. However, the extent to which banking systems contribute to social justice varies significantly across countries, shaped by differences in regulatory frameworks, financial infrastructure, and societal priorities.

This study explores the relationship between banking systems and social justice, using a comparative approach to analyze the experiences of two distinct economies—Georgia and Latvia. These countries provide interesting case studies due to their contrasting economic histories, banking system structures, and socio-political contexts. In Georgia, the banking system has undergone significant reforms in recent decades, yet challenges remain regarding financial inclusion, particularly in rural areas. Latvia, a member of the European Union, faces its own unique set of challenges, including regional disparities in banking access and the lingering effects of past financial crises.

Through this comparative analysis, the study aims to identify how banking systems in both countries impact social justice, with a focus on financial inclusion, poverty alleviation, and regional inequality. The research further seeks to understand the role of banking in mitigating social disparities by facilitating access to financial services, fostering economic empowerment, and promoting equitable development. In doing so, this paper contributes to the ongoing debate on how financial systems can be leveraged to promote broader social goals and create more inclusive societies.

Social justice, broadly defined as the equitable distribution of resources, opportunities, and privileges within a society, is intricately connected to economic systems, including banking. In contemporary economic thought, the relationship between banking systems and social justice has been examined from various theoretical perspectives. These frameworks explore how financial institutions contribute to—or hinder—the achievement of social equity by shaping access to economic resources and opportunities.

The banking sector needs to be developed in several key directions to mitigate and eliminate social inequality. These are: 1. Expansion and deepening of financial services; 2. Perfecting the lending system and expanding access to credit; 3. Regulation of interest rates; 4. Providing elements of financial knowledge to the masses; 5. Stability of the banking system. All of this should be accompanied by the country's economic development, the increase in the level of employment, and government policy focused on social justice.

Methodology

Universal scientific methods were mainly used in the research process: analysis, synthesis, induction, deduction, comparative analysis, etc. Also, specific statistical methods: observation, grouping, and correlation analysis. Primary sources were analyzed, interpreted, and summarized. Peer-reviewed journals, books, and conference proceedings are reviewed. Data sets are taken from official sources of Georgian and Latvian national and international statistical organizations.

For analytical evaluations, data were processed and indicators were calculated using the Excel computer program.

Literature review

One of the most widely discussed theoretical frameworks linking banking systems with social justice is the concept of “financial inclusion“. Financial inclusion refers to the

availability and accessibility of financial services to individuals and businesses, especially those who are underserved by traditional financial institutions (Sarma, 2008). Theoretical models argue that access to banking services is a fundamental human right and a critical tool for empowering marginalized populations, reducing poverty, and promoting economic equality. Utilizing the financial inclusion index, the current situation in the country can be evaluated to what extent it creates the possibility of individual or group development and raising economic well-being (Sarma, 2015). The works of Schumpeter (Schumpeter, 1912) and Stiglitz (Stiglitz, 1994) emphasize the role of financial institutions in facilitating capital allocation, which drives economic growth and social development. From this perspective, banks are seen as instruments of economic mobility, enabling people to accumulate savings, invest in education or businesses, and access credit for entrepreneurial ventures. Sarma's Financial Inclusion Index illustrates the link between financial inclusion and social outcomes, showing that countries with higher levels of banking penetration tend to exhibit lower levels of poverty and inequality.

Capability Approach's theoretical framework was developed by Amartya Sen (Sen, 1999). This framework asserts that social justice is not merely about the redistribution of wealth but about expanding individuals' capabilities to lead a life they value. In this context, banking systems are integral in providing individuals with the tools they need to enhance their capabilities, particularly through access to credit, insurance, and other financial products. Sen explains how in a world of unprecedented increase in overall opulence, millions of people living in rich and poor countries are still unfree. Freedom, Sen persuasively argues, is at once the ultimate goal of social and economic arrangements and the most efficient means of realizing general welfare. Social institutions like markets, political parties, legislatures, the judiciary, and the media contribute to development by enhancing individual freedom and are in turn sustained by social values. Values, institutions, development, and freedom are all closely interrelated, and Sen links them together in an elegant analytical framework. Sen's theory argues that financial exclusion can limit individuals' ability to achieve essential functions such as education, health, and participation in economic life. Banks, in this sense, are seen as enablers of capabilities, providing opportunities for economic and social mobility. Klasen (Klasen, 2000) further argues that the expansion of banking services can directly increase individuals' "functionings" by improving their access to resources, thereby promoting social justice. Financial services empower individuals to make choices that enhance their well-being, thus contributing to social justice goals.

A third theoretical perspective comes from the "distributional justice" literature, which focuses on the fair distribution of resources and wealth. Key scholars like Rawls (Rawls, 1971) and Dworkin (Dworkin, 2000) emphasize that institutions must be designed to ensure fair outcomes and mitigate disparities between social groups. The Rawlsian framework, particularly, posits that inequalities are only justifiable if they benefit the least advantaged members of society (the "difference principle"). That means every person should be treated with fairness and recommends equal basic liberties, equal opportunities to similar individuals, and offering the highest possible benefits to the less advantaged members of society. This theory of justice, as believed by Rawls, helps in the functioning of a just society. From this view, banking systems must not only provide services equitably but also be structured in a way that addresses historical and structural inequalities. Stiglitz (Stiglitz, 2000) argues that financial systems can either perpetuate or reduce inequality depending on their structure. For instance, if banking systems disproportionately favor urban populations or wealthy individuals

by offering better access to credit and lower interest rates, they can exacerbate social inequalities. Conversely, a system that prioritizes accessibility, fair lending practices, and community investment can help reduce such disparities and promote more equitable outcomes.

From a more economic standpoint, the link between banking systems and social justice is also framed through the lens of “poverty alleviation” and “economic stability”. A well-functioning banking sector contributes to poverty reduction by improving access to financial products and fostering stable economic environments (Gertler et al., 2006). Banks act as intermediaries in the allocation of resources, which can help stabilize economies and reduce the impact of shocks on the most vulnerable groups (Beck et al., 2007). This economic stability is crucial for promoting social justice, as it provides a foundation for sustainable development and the protection of basic livelihoods.

In sum, the theoretical frameworks linking banking systems with social justice highlight a complex interplay between financial inclusion, economic empowerment, equitable distribution of resources, and poverty reduction.

The banking systems of Georgia and Latvia

Georgia's banking system has undergone a major transformation since the country gained independence in 1991. In the post-Soviet era, it faced challenges such as high inflation, currency instability, and political instability, which have shaped its financial institutions. The banking sector in Georgia has gradually become more market-oriented, especially after the early 2000s, with significant reforms introduced to modernize the banking sector and integrate it into the global financial system. A key reform was the establishment of a more transparent regulatory framework and the privatization of state-owned banks. Latvia's banking system has a different historical trajectory. Having been part of the Soviet Union, Latvia also had a highly centralized banking structure before independence in 1990. After the restoration of independence, Latvia, like many post-Soviet states, sought rapid integration with Western financial markets, including joining the European Union (EU) in 2004. Latvia adopted EU banking regulations and standards, and its banking sector was liberalized and modernized, with significant foreign investment coming from Scandinavian banks. Latvia's banking system is heavily influenced by EU financial policies, making it more integrated with global financial systems than Georgia's.

Georgia has made strides in improving the regulatory environment of its banking sector, with the National Bank of Georgia (NBG) playing a key role in overseeing financial stability. Despite this, challenges remain in terms of market concentration, with a few major banks dominating the sector, and concerns about transparency and accountability in lending practices. Social justice implications arise in the context of access to finance for marginalized populations, such as rural residents, low-income groups, and ethnic minorities, who may face barriers to obtaining credit or banking services. Latvia's banking system is tightly regulated within the framework of EU laws and the European Central Bank's (ECB) monetary policies. The Latvian financial market is highly competitive, with both domestic and foreign banks operating within it. Latvia's banks have made efforts to adhere to international standards of anti-money laundering (AML) and customer protection. However, social justice concerns have been raised in the context of financial exclusion, particularly regarding the accessibility of banking services in rural or less-developed areas. Additionally, the dominance of foreign banks could limit the scope for domestic credit allocation to local businesses, potentially affecting the socio-economic development of Latvia's more deprived regions.

In Georgia, the banking system's role in promoting social justice is constrained by several factors. First, financial inclusion remains a challenge, with a significant portion of the population—especially in rural areas—lacking access to formal banking services. Although Georgia's banking sector has seen growth in mobile banking and digital finance, these services often cater to urban, tech-savvy populations, leaving behind the more vulnerable sectors. Moreover, high interest rates and a predominance of foreign currency loans create risks for lower-income households, who may be more vulnerable to economic fluctuations. However, there are initiatives aimed at improving access to credit for small and medium-sized enterprises (SMEs), which can indirectly promote social justice by fostering local entrepreneurship and reducing inequality. The government, through state programs and partnerships with international financial institutions, has worked on improving access to credit for underbanked populations, particularly those involved in agriculture and small businesses. Latvia's banking system is generally more inclusive than Georgia's, in part due to its integration into the EU's regulatory and financial infrastructure. Latvia has policies aimed at financial inclusion, particularly in urban areas, and efforts to promote access to affordable housing loans for low- and middle-income households. Additionally, EU-funded programs have provided financial support to SMEs, social enterprises, and low-income households, helping to reduce inequality. However, there are still gaps in financial inclusion, especially in rural areas and among marginalized communities, such as the Russian-speaking minority, who may face barriers to accessing banking services due to language or documentation issues. The banking sector's reliance on foreign investment has also led to some criticism that profits are being repatriated, rather than reinvested in local communities, potentially undermining efforts to achieve social justice in terms of equitable economic development.

The Georgian banking system plays a pivotal role in the country's economic development, though it is often criticized for its limited impact on social equity. While the banking sector has contributed to macroeconomic stability, its focus has largely been on corporate and urban sectors, with limited attention given to inclusive economic development in rural and underserved regions. The government has implemented various initiatives to promote financial literacy, small business development, and rural banking, but challenges persist in addressing income inequality and the broader economic needs of marginalized groups. Latvia's banking system supports economic development through both large international and smaller local banks. The country benefits from EU structural funds, which support regional development and economic inclusion. Latvia's banking system is also closely linked to regional economic development in the Baltic region, and the financial system's integration with EU markets has facilitated trade and investment flows. Social justice initiatives are reflected in the availability of microloans, financial counseling services for the vulnerable, and programs that aim to reduce the wealth gap. However, the dominance of foreign banks sometimes restricts the reinvestment of profits into local communities, which could hinder broader social development.

Both countries face challenges in ensuring that their banking systems foster social justice. For Georgia, the key issues are financial exclusion, high interest rates, and the lack of targeted financial products for low-income and rural populations. For Latvia, while financial inclusion is generally better, issues like rural under-banking, the risk of economic inequality due to foreign banking dominance, and challenges related to financial literacy persist. Both systems are moving toward more inclusive financial practices, but the extent to which they

can address social justice will depend on ongoing reforms in financial literacy, access to credit, and the prioritization of social objectives over purely market-driven goals.

In practice, the banking systems of Georgia and Latvia reflect different approaches to financial inclusion and social justice. Latvia's system, shaped by EU integration, offers a relatively higher degree of financial inclusion and regulatory transparency, though challenges remain for rural and marginalized populations. In contrast, Georgia's banking sector, while rapidly modernizing, still faces significant barriers in providing equitable access to finance, particularly for its rural and low-income populations. Both countries have made strides in promoting social justice through their banking systems, but there is still a long way to go to ensure that banking serves the broader goal of reducing inequality and fostering inclusive economic development. The economic condition of the country and, accordingly, the well-being of people are affected by the effectiveness and accessibility of the banking system. Although the banking systems of various countries are developing depending on national characteristics, in global economic cooperation, commercial banks need to ensure their activities are following the factors influencing general trends in the global economy (Konovalova, & Mikiashvili, 2024). Also, if the national banking system promotes the inclusive growth of the economy, it will indirectly affect the reduction of the poverty level (Mikiashvili, 2023a).

Poverty statistics in Georgia and Latvia

Poverty statistics in Georgia provide insight into the socio-economic challenges the country faces, despite its economic growth and modernization efforts in recent decades. According to official data from Geostat (the National Statistics Office of Georgia), the poverty rate in Georgia fluctuates but remains significant, particularly in rural areas. In 2023, about 11.8% of the population lived below the absolute poverty line, a measure defined based on the cost of meeting basic needs (Figure 1).

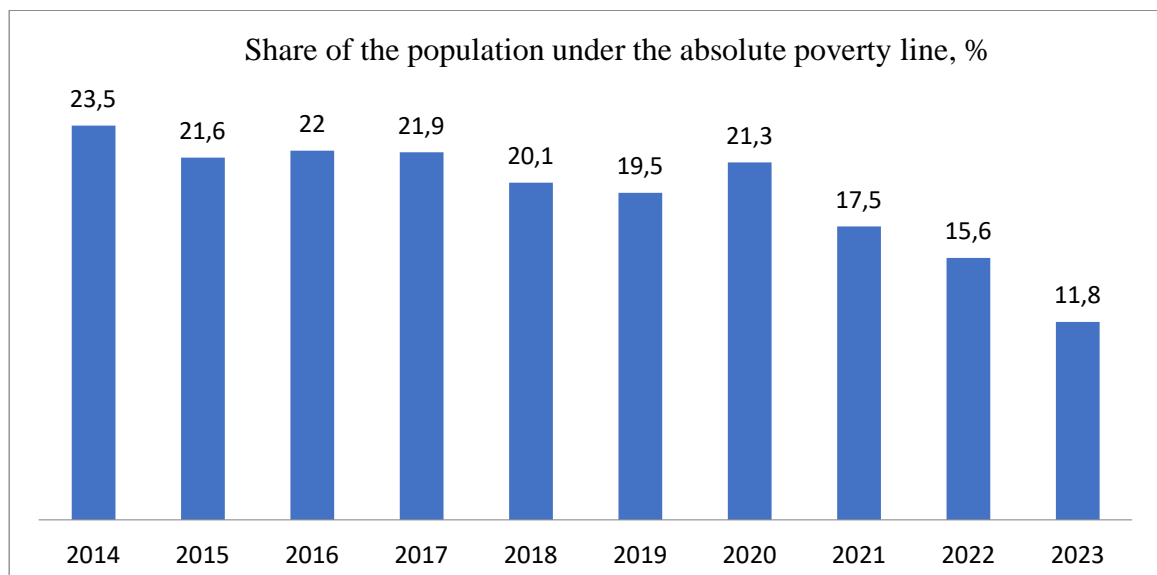


Figure 1. Share of the population of Georgia under the absolute poverty line, %

Source: National Statistics Office of Georgia

<https://www.geostat.ge/en/modules/categories/192/living-conditions>

The relative poverty rate, which measures the percentage of people with income below 60% of the median income, stood at approximately 19.8% in 2023 year. The dynamics of the change of the population of the mentioned category in rural and urban areas according to the years 2004-2023 (Figure 2).

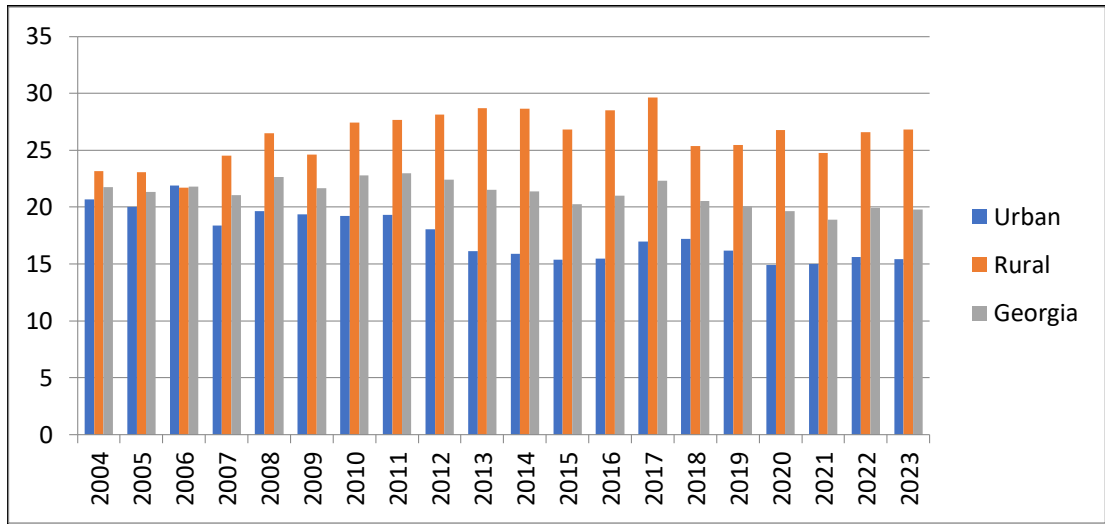


Figure 2. Share of the population of Georgia under 60 percent of the median consumption, %

Source: National Statistics Office of Georgia

<https://www.geostat.ge/en/modules/categories/192/living-conditions>

Latvia, as a European Union (EU) member state, has made significant progress in reducing poverty over the past decades. However, challenges remain, particularly for certain vulnerable groups and in rural areas. According to Eurostat, in 2022, about 22.5% of Latvia’s population was at risk of poverty or social exclusion. This measure considers people whose income is below the poverty threshold, who are severely materially deprived, or who live in households with very low work intensity. The “at-risk-of-poverty rate”, which reflects the percentage of individuals earning less than 60% of the median income, in Latvia is higher than the EU average of approximately 16.8%. While the overall poverty rate has decreased since Latvia joined the EU in 2004, progress has been uneven. Results from a survey conducted by the Central Statistical Bureau (CSB) in 2023 show that 419 thousand people (22.5 % of the population of Latvia) were at risk of poverty in 2022 (Figure 3).

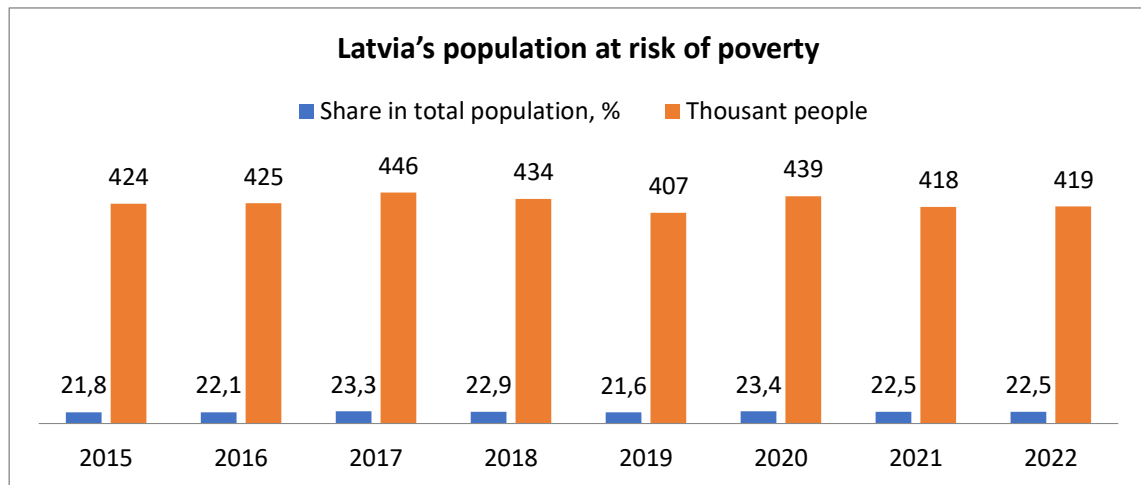


Figure 3. Latvia's population at risk of poverty

Source: <https://stat.gov.lv/en/statistics-themes/population/poverty-and-inequality/press-releases/14302-monetary-poverty-and?themeCode=NN>

Latvia, like Georgia, has a high level of poverty in rural areas. Rural residents face challenges such as limited job opportunities, lower wages, and reduced access to services like healthcare and education. In contrast, Riga, the capital, like Tbilisi, has lower poverty rates due to better employment prospects and higher average incomes.

Latvia has one of the highest levels of income inequality in the EU. The Gini coefficient, a measure of the income distribution, was around 34.5 in 2021, compared to the EU average of approximately 30. In Georgia, this coefficient is 34 in 2021-2022 years and 36 in 2023. High-income inequality exacerbates poverty and limits social mobility, particularly for low-income households.

Various quantitative and qualitative methods are used during the study of poverty. Also, several types of models have been developed, with which the study of the mentioned current issue is carried out (Mikiashvili, 2023a). In this case, correlation analysis will characterize the mutual influence of economic and banking-financial characteristics affecting poverty and the strength of the connection.

It is interesting to describe the correlation between the poverty level, which is given by the percentage of the population with consumption less than US \$5.50 per day, various economic and financial indicators, and these indicators themselves. Considered as economic and financial indicators: CPI - consumer price index (2010 = 100); Depositors - Depositors with commercial banks (per 1,000 adults); Borrowers - Borrowers from commercial banks (per 1,000 adults); Capital/Assets - Bank capital to assets ratio (%); Nonperforming loans - Bank nonperforming loans to total gross loans (%). Data taken from www.macrotrends.net.

In the case of Georgia, all characteristics, except Bank nonperforming loans, have a strong relationship with the poverty level. There is a similarly strong relationship between the features themselves (Table 1). Bank non-performing loans are still an exception.

	Poverty level	CPI	Depositors	Borrowers	Capital/Assets	Nonperforming loans
Poverty level	1					
CPI	-0.8363	1				
Depositors	-0.8795	0.8989	1			
Borrowers	-0.9433	0.9291	0.9628	1		
Capital/Assets	0.7580	-0.7463	-0.8132	-0.8165	1	
Nonperforming loans	0.1107	0.0572	0.1351	0.0248	-0.1409	1

Table 1. Correlation between the poverty level and economical-financial characteristics (Case of Georgia)

Source: www.macrotrends.net. Individual calculation.

As for the case of Latvia, CPI, Depositors with commercial banks (per 1,000 adults), and nonperforming loans to total gross loans Depositors and Nonperforming loans are closely correlated with the level of poverty, and the strength of the connection between the characteristics itself is mostly average (Table 2).

	Poverty level	CPI	Depositors	Borrowers	Capital/Assets	Nonperforming loans
Poverty level	1					
CPI	-0.8055	1				
Depositors	-0.6248	0.8345	1			
Borrowers	0.4663	-0.6186	0.2623	1		
Capital/Assets	0.2005	-0.3143	0.18	-0.2373	1	
Nonperforming loans	0.8013	-0.5875	0.2019	0.2673	0.4168	1

Table 2. Correlation between the poverty level and economical-financial characteristics (Case of Latvia)

Source: www.macrotrends.net. Individual calculation.

The relationship between poverty and the banking system in Georgia and Latvia is complex and multifaceted. Overall, the relationship between poverty and the banking system highlights the need for policies that promote financial inclusion, fair lending practices, and financial education to help reduce poverty and enhance economic stability.

Conclusion

Improving financial inclusion and promoting social justice through banking systems requires coordinated efforts among governments, financial institutions, and civil society. Access to banking services is critical for reducing poverty, fostering economic growth, and enhancing social equity. Marginalized populations, including rural communities, women, and minorities, are often excluded from formal financial systems, perpetuating cycles of inequality.

High fees, collateral requirements, and complex application processes limit access to credit for low-income individuals. Rural areas face a lack of banking infrastructure, further exacerbating financial exclusion. The dominance of profit-driven models in banking often deprioritizes social justice objectives.

Effective regulation can create a supportive environment for inclusive financial systems, ensuring consumer protection and equitable access. Public-private partnerships can leverage resources and expertise to scale financial inclusion initiatives.

To strengthen social justice the following measures should be taken: reduction of documentation and collateral requirements for basic banking accounts and loans; development of tailored financial products for low-income groups, such as micro-loans and savings accounts; implementation of nationwide financial literacy campaigns focusing on budgeting, savings, and credit management.

It is very important to establish national financial inclusion strategies with clear targets and timelines and to engage independent organizations to assess the social justice impact of banking policies.

Financial inclusion and social justice are closely intertwined, with inclusive banking systems playing a crucial role in reducing inequality and empowering marginalized populations. By implementing targeted policies that address access barriers, leverage technology, and foster collaboration, governments and financial institutions can build systems that promote equitable economic growth and sustainable development.

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