



Finance and Development - National Policies

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Finance & Development

- Financing capital formation
- Maintaining macroeconomic stability
 - Controlling booms and busts (mainly from external sources)
 - Managing debt, domestic and external
- Developing the financial sector

Financial Liberalization's Debris

- Goodbye financial repression
- Goodbye development financing
 - State provision of long-term financing
 - Long-term domestic private investment
- Hello high interest rates
- Hello macroeconomic instability

Financing Capital Formation

- Range of financing requirements
 - Agriculture
 - Small and medium scale
 - New economic activities
 - Enterprises of minimum scale
- Long-term, predictable finance
- At reasonable cost

State Banking, incl. Development Banking

- Advantages
 - Directing credit
 - Financial services to SME's
 - Microfinance's scourge
 - Acyclical financing capacity
- Mistake of trade lib w/o financing
- Politics and rent dissipation

Foreign Participation in Domestic Finance

- **Justifications**
 - Access to external finance
 - Improved efficiency and technology
- **Problems**
 - ‘Skimming off cream’
 - Vulnerability to external shocks
- **Stocks, bonds, foreign exchange exposure**
- **Investor protection straitjackets**

Controlling the Capital Account

- **Portfolio motives of non-residents**
 - Investment surges (herd behavior)
 - Go – stop pattern
- **Perverse impact on exchange and interest rates**
 - Greater instability in exchange rate -> increased exchange risk for investors
 - Ease of movement to foreign exchange -> lenders require higher interest rates
- **Higher domestic interest rates**

References

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Thank you

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