



Financial Development

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Outline of talk

- Why financial development?
- Aspects of financial development
- Political economy of financial development
- Conclusion



Why financial development?

- Growth
- Stability
- Inclusion and political stability
- ⇒ Stable and sustainable growth
- Challenges
 - How to develop financially without destabilizing the economy
 - How to overcome vested interests



Aspects of financial development

- Macroeconomic stability
 - Low inflation, moderate fiscal and current account deficits, moderate dependence on foreign borrowing
 - Institutions to govern these
 - Managing domestic demand most difficult task
- Stability of banking system
 - Regulation and supervision
 - Clean up quickly
 - Forbearance vs recognition
 - Macro-prudential surveillance and measures



Aspects of financial development

- New institutions
 - New bank entry
 - Supportive infrastructure – credit information bureaus, collateral registries, receivable exchanges, rating agencies
 - Shadow financial system
 - Fintech
 - How much competition is too much?
- New markets
 - Sovereign bonds, corporate bonds, interest, currency, and commodity derivatives
 - Speculation vs manipulation



Aspects of financial development

- Payments
 - Technology enabled
 - Risk control vs transaction costs
- Financial Distress
 - Recovery versus rehabilitation – the right balance



Aspects of financial development

- Financial Inclusion
 - Payments
 - Savings
 - Insurance
 - Credit



Political Economy of Financial Development

- Financial development will hurt various interests
- Much of the opposition, though, is because of preconceived false notions or fear of zero-sum games
 - The merits of the camel's nose
 - The merits of technical opacity
- How to enlist broader support
 - Central banker as preacher!



Conclusion

- Financial development is a support to sustainable growth.
- Two big challenges
 - To develop without destabilizing the economy
 - To overcome the power of vested interests
- Path not easy but very worthwhile.