Financial Liberalization in Developing Countries

Trevor M. Sikorski

Previously with The University of Strathclyde

Contents

Lis	et of Tables	vii
Lis	t of Figures	viii
1.	Introduction	1
	Main objectives	1
	Some introductory issues	1
	Structure of the book	10
2.	Endogeneity v Exogeneity - A Monetary Debate	16
	Introduction	16
	Conceptual clarification: exogeneity	17
	The quantity theory tradition	20
	The money-multiplier approach	26
	The Keynesian, neo-classical-Keynesian synthesis	29
	The portfolio balance approach	34
	Weaknesses of the multiplier approach	38
	The post-Keynesian monetary position	40
	Summary	55
	Appendix 2 Mathematical solutions	57
3.	Financial Repression and Liberalization	59
	Introduction	59
	Tobin and the theory of 'financial repression'	59
	McKinnon and Shaw and the neo-classical school	66
	Theoretical refinements: advances on the essential theory	69
	General weaknesses of the neo-classical approach	84
	Summary	87
	Appendix 3 Mathematical Solutions	89
4.	The New-Structuralists and Beyond	91
	Introduction	91
	The new-structuralist critique	92
	Weaknesses of the new-structuralist critique	99
	The neo-classical response to the difficulties of financial	
	liberalization	103

	Conclusions from the lessons of liberalization	112
	The revised neo-classical versions: Montiel's model	114
	Summary	119
	Appendix 4 Montiel's model of monetary policy	121
5.	An Alternative: An Application of Post-Keynesian Economics	125
	Introduction	125
	Credit demand: private sector financing requirements	127
	Credit demand: public sector requirements	130
	Credit supply: the Central Bank	135
	Credit supply: commercial banks	139
	Financial repression: credit allocation	148
	The monetary transmission mechanism: financial repression	149
	Residual credit supply: the unregulated money market	151
	Open-economy extension	155
	Summary	164
6.	Short-Run Macroeconomics: Adjustment to Financial	
	Liberalization	166
	Introduction	166
	An unannounced liberalization program	167
	An announced liberalization program	174
	Open-economy extension: a capital-account liberalization	177
	A summary of short-run adjustment to financial liberalization	180
	A formal theoretical model of adjustment to a financial	
	liberalization	182
	Long-run implications of financial liberalization	200
	Policy implications	201
	Appendix 6 Mathematical solutions	206
7.	Experiences of Financial Liberalization in the Pacific Basin	211
	Introduction	211
	Indonesia	212
	Korea	226
	Malaysia	243
	The Philippines	254
	Policy implications	266
8.	Conclusions and Policy Directions	274
	Conclusions of the text	274
	Policy directions	275
	Suggestions for future research	282
Bil	Bibliography	
Inc	Bibliography Index	

Tables

2.1	The Fisherian approach	20
2.2	The Cambridge approach	22
2.3	Money-multiplier approach	27
2.4	Keynesian liquidity preference with flexible prices	30
2.5	Keynesian liquidity preference with fixed wages	33
2.6	Keynesian money multipliers: the portfolio balance approach	36
2.7	Weintraub's simple model with wage-push	43
2.8	A macroeconomic model with a simple financial structure	51
3.1	Tobin's monetary model of economic growth	62
3.2	Kapur's model of liberalization policy	70
3.3	Galbis's model of investment efficiency	75
3.4	The Mathieson open-economy model	81
4.1	Buffie's new-structuralist model of financial liberalization	95
4.2	Stiglitz and Weiss asymmetric information model	104
7.1	Elements of reform	268

Figures

6.1	Group 1 firms' response to financial liberalization	194
7.1	Indonesia - government deficit	213
7.2	Indonesia - government foreign net borrowing	213
7.3	Indonesia - inflation and interest rates	215
7.4	Indonesia - growth in M2, credit to the private sector, GNP	215
7.5	Indonesia - M1/GNP, M2/GNP ratios	222
7.6	Korea - Won/\$ exchange rate	226
7.7	Korea - inflation and interest rates	227
7.8	Korea - government deficit and foreign borrowing	230
7.9	Korea - M1/GNP, M2/GNP ratios	230
7.10	Korea - growth in M2, credit to the private sector, GNP	235
7.11	Malaysia - Ringgit/\$ exchange rates	244
7.12	Malaysia - inflation and interest rates	245
7.13	Malaysia - M1/GNP, M2/GNP ratios	245
7.14	Malaysia - government deficit and foreign borrowing	248
7.15	Malaysia - growth in M2, GNP, credit to the private sector	249
7.16	The Philippines - inflation and interest rates	261
7.17	The Philippines - growth in M2, credit to the private sector,	
	GNP	261
7.18	The Philippines - M1/GNP, M2/GNP ratios	264
7.19	The Philippines - Peso/US\$ exchange rate	264
7.20	The Philippines - government deficit and foreign borrowing	266