



Financial Sector Development and Economic Diversification

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The Challenges

- ❑ Limited financial development is a major constraint on economic activity and diversification even in economies without significant natural resource wealth.
- ❑ The challenge is even greater in an economy with major natural resource income because of the risk of “Dutch disease”, making it difficult to diversify.
- ❑ Unfortunately, no very simple formula for either deepening the financial system or ensuring diversification.
- ❑ Success will require a range of measures that together should promote financial sector development and economic diversification.



Financial sector development objectives

Policies need to focus on developing and providing access to key functions of a financial system, including

- ❑ Infrastructure needed for efficient and trade and exchange;
- ❑ Widespread access to borrowing and savings opportunities and instruments;
- ❑ Instruments and information needed for risk management and transfer.



Together with stability and diversification

- ❑ General goals of financial sector development need to be complemented by an appropriate legislative, regulatory, and supervisory framework to ensure financial system stability and robustness.
- ❑ Particular attention is needed to ensure that financial sector development is inclusive; i.e., that it strengthens access to finance by individuals and businesses outside the natural resource sector to help counter Dutch disease and promote diversification.



Policies to promote financial sector stability, development, and access

Experience in low-income countries points to a range of policies needed to achieve these objectives (see Executive Board paper on Enhancing Financial Sector Surveillance in Low-Income Countries: Financial Deepening and Macro Stability available at www.imf.org/external/np/pp/eng/2012/041612.pdf):

□ Macroeconomic stability:

- Sustainable fiscal policy, with room for countercyclical flexibility;
- A monetary policy framework focused on low inflation, buttressed by central bank operational autonomy;
- Careful management of natural resource income (sovereign wealth fund and transfers to budget)



Policies to promote financial sector stability, development, and access

□ Financial sector regulation & supervision:

- A strong legal & institutional framework with adequate resources and powers for supervisors;
- Strong governance arrangements for financial entities;
- Flexible regulatory perimeter covering banks, credit unions, insurance, pensions, financial markets, and emerging financial providers;
- Conservative prudential rules: identifying and limiting risks; buffers to cover liquidity needs; adequate local capitalization to cover losses.
- Cross-border information sharing & cooperation.



Policies to promote financial sector stability, development, and access

- ❑ Financial sector participation and competition:
 - Support/provide of banking sector infrastructure: payments & settlements systems;
 - Minimize institutional/regulatory barriers to entry;
 - Promote competition within financial sector (banks/non-banks);
 - Facilitate FX & interbank market development: provision of market infrastructure (trading platforms, custody, clearing & settlements); support for development of rules & instruments (FX swaps; repos).



Policies to promote financial sector stability, development, and access

- ❑ Increasing access to finance & financial inclusion
 - Legislation & regulatory changes to facilitate use of mobile payments systems (M-Paisa, Smart money, etc.);
 - Regulatory changes to facilitate use of shops for basic banking services in remote areas;
 - Assistance with developing/hosting of credit registries;
 - Facilitation of provision of collateral through legislation & regulations relating to land and other assets (e.g. pension fund contributions);



Policies to promote financial sector stability, development, and access

- Government-funded credit guarantees for SMEs;
- Measures to establish micro-finance for households & businesses through commercial banks, as well as micro-insurance schemes;
- Financial literacy programs in schools and for general public;
- Potential complementary role for lending by a national development bank. NDBs can help overcome market failure problems, but should not compete with private banks. Need strong governance & transparency to ensure effective use of funds. Need to be very wary of trying to pick “winners”. Facilitation, not direction.



Obrigado
Thanks

