PREFACE

This study raises the following questions and attempts to provide some answers to them. (a) Can the Fund-Bank economic reforms have the same content for different countries facing balance of payments problem ? (b) Why did Sub-Saharan African countries fail to benefit from the economic stabilization programmes ? (c) Should countries accept convertibility of the currency before putting their financial institutions in sound health ? (d) What role can fiscal consolidation can play in proper implementation in economic reform measures ? (e) What should be the foreign exchange rate policy in the face of free movement of capital across the world ? (f) What is the degree of success and failure of structural adjustment programme ?

The study was undertaken to look into to these questions very closely with reference to experiences of select countries which have adopted structural adjustment programme.

Sub-Saharan African countries could not adjust immediately to the demand contracting monetary and fiscal policies as well as to the devaluation of their currencies which in most cases ended up making the balance of payments worse than before. These countries also needed relief from the heavy burden of external debt, and needed financial assistance for a longer period than originally envisaged under the fund supported package.

The study has shown that a hasty move on the part of Thailand and Indonesia to capital account convertibility without ensuring sound performance of their financial institutions proved to be disastrous for them. Again with the large flow of foreign capital from the private financial institutions should be cautiously examined with reference to its composition – especially short term capital that can turn extremely volatile under the slightest pretext. Again with large inflow of external capital, the foreign exchange rate should be largely allowed to be determined by the market prices with intervention from the Central Bank when required.

The study has shown that the Indian economy could steer through these difficult years because of the sound foreign exchange rate policy. It was due to allowing rupee to fall in a stable and orderly manner without panic in the foreign exchange market. The monetary policy has been, to a considerably extent, successful in controlling inflation, the fiscal consolidation process was slow for a number of reasons. However, with the Fiscal Responsibility and Budget Management Act, fiscal consolidation process could be placed on sound footing after 2003.

The experiences of these four countries shows mixed results over the twenty years during which they tried to adopt economic reforms that meant in most cases a sharp departure from their existing policies. The study has indicated the lessons that could be learnt by the developing countries for their integration into the world economy.