

# **Title: Fiscal dependence of the independent central bank in an emerging economy with oligopolistic banking**

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## **Abstract**

The authors investigate the effects of interest rates liberalization in developing countries, when the financial system is centered in an oligopolistic banking sector.

They find that, under such circumstances, financial deregulation hinders capital market development, and forces the government to fulfil the role of issuer of last resort, particularly when it pursues nominal exchange rate stabilisation policies.

In open and deregulated economies, the equilibrium interest rate depends on conditions in international financial markets, as well as on other sources of bank funding. Even though the central bank becomes unable to exert control over its level, it intervenes the money market in order to decrease its volatility. This poses a heavy burden on the government, who is compelled to perform the role of issuer of last resort.