

High Level Workshop 2007 Developing Bond Markets in Emerging Market Economies

Wednesday, 9 May 2007

08.30 – 09.00

Registration

09.00 – 09.15

Welcome and opening remarks

Thomas Mirow, State Secretary, Federal Ministry of Finance,
Germany

09.15 – 10.45

Session I

The anatomy of local bond markets in emerging market economies (EMEs)

This session aims to give an overview of the quantitative and qualitative developments in EMEs' local bond markets within recent years. The diagnosis should help to identify the remaining main deficiencies in the development of local bond markets with a view to reducing external vulnerability.

What is the anatomy of currency and maturity mismatches today, and what are their implications in terms of the most urgent further reform steps in the various regions? Some countries have already significantly reduced currency mismatches. However, in some cases, currency mismatches may have been replaced by maturity mismatches. The analysis should also include the attractiveness of different local bond markets in EMEs for long-term institutional investors. The various stages of development in terms of liquidity, derivatives markets and the use of new financial instruments are all important issues in this respect.

Presenters: **Philip Turner** (Head of Secretariat Group, Bank for International Settlements)
Paulo Vieira da Cunha (Deputy Governor and Member of the Monetary Policy Committee, Banco Central do Brazil)
Rahamat Bivi Yusoff (Under Secretary, Ministry of Finance, Malaysia)

Tae Soo **Kang** (Deputy Director General, Bank of Korea)

Discussion

10.45 – 11.00 Coffee break

11.00 – 12.30

Session II

Institutional investors and EMEs' local bond markets

This session aims to identify areas where action is needed in order to increase and further diversify the investor base, which seems to be the most important challenge with regard to broadening and deepening the EMEs' bond markets and enhancing liquidity.

What can we infer from institutional investors' portfolio management strategies for the purpose of identifying further reform steps needed to make EMEs' bond markets more attractive for long-term foreign capital as well as for domestic savings? To what extent are institutional investors restricted in their choice of an optimal portfolio allocation? How far developed are options for foreign institutional investors to increase risk-adjusted returns (derivatives and hedging markets)? What reform steps are needed in the field of clearing and settlement systems to encourage local currency investment by foreign institutional investors? Many countries have adopted reforms in pension systems; what conclusions can be drawn for broadening the domestic investor base? What does empirical research tell us about the determinants of investment in local bonds?

Presenters: Michael **Discher-Remmlinger**, Head of Emerging Markets, Europe (PIMCO Europe Ltd)
Sergey A **Storchak** (Deputy Minister of Finance of the Russian Federation)
Marvin **Barth** (Chief Economist, International Affairs, US Department of the Treasury)
Sonsoles **Gallego** (Chief Economist, Latin America and Emerging Asia, Bank of Spain)

Discussion

12.30 – 14.00 Lunch

14.00 – 15.30

Session III

Sequencing: Local bond markets and capital account liberalisation

The development of local currency-denominated bond markets can facilitate external capital account liberalisation. One lesson of the financial crises in Asia was that capital account liberalisation in the absence of a well diversified financial sector harbours the risk of channelling the funds into the weakly regulated banking system. Therefore, building liquid local bond markets can assist policymakers in managing the potential impact of capital account liberalisation (foreign currency-denominated financial transactions). On the other hand, it may be questionable whether there are enough incentives for building market infrastructures without a broader investor base and foreign capital investments. Capital account liberalisation itself can be a catalyst in the development of local bond markets. The importance and difficulty of

“optimal sequencing” in both fields seems to be one of the most important lessons of the financial crises over the past ten years.

Presenters: Michael **Klein** (Vice-President, Finance & Private Sector Development, World Bank, Chief Economist, IFC)
Manfred **Schepers** (Vice-President, Finance, European Bank for Reconstruction and Development)
Gurumoorthy **Mahalingam** (Head of Government Bond Markets, Reserve Bank of India)

Discussion

15.30 – 15.45 Coffee break

15.45 – 17.15 **Session IV**

Unresolved issues and challenges of bond markets in Africa

This session aims to give an overview on the stage of development of local currency bond markets in Sub-Saharan Africa and their possible contribution to economic growth and financial stability in the region. Local African markets are gaining increasing importance for foreign institutional investors, especially since sovereign debt has been cancelled in those countries, but bond markets are lagging behind.

What are the most important steps in strengthening market infrastructure and institutions? What role can IFIs play in furthering the growth of local bond markets? Does the issue of bond market development in the least developed countries require a specific approach with regard to the particular obstacles to achieving this goal?

Presenters: Thierry **de Longuemar** (Vice-President Finance, African Development Bank)
Hans J **Blommestein** (Head of OECD's Emerging Bond Markets Programme, Organisation for Economic Co-operation and Development)
Sam **Mensah** (Technical Advisor, Ministry of Finance & Economic Planning, Ghana)
Michel **Cardona** (Deputy Director for Economics and International Relations, Bank of France)

Discussion

19.30

Dinner

Guest Speaker: Gerd **Häusler** (Vice Chairman Lazard International, Managing Director and Member of the Advisory Board, Lazard & Co GmbH)

Thursday, 10 May 2007

09.00 – 10.30

Session V

Broadening the database and technical assistance

There is still a lack of data on the development of domestic bond markets. Appropriate advice on development of local bond markets in the EMs depends on the availability of a broad variety of macroeconomic and micro-structural data on financial markets, institutional investors and capital flows to and from EMs. How can the necessary database be broadened, and which institutions have comparative advantages in gathering this information?

What role can the IMF and other IFIs play? How effective has their work been so far?

Presenters: Ceyla **Pazarbarsioglu** (Division Chief, Capital Market Development/Financial Infrastructure, International Monetary Fund)
Mehmet **Yörükoglu** (Vice-Governor, Central Bank of the Republic of Turkey)
John **Hauge** (Chief Financial Manager, Inter-American Development Bank)

Discussion

10.30 – 10.45

Coffee break

10.45 – 12.15

Session VI

Strengthening infrastructure

This session aims to analyse the development and status of the legal framework and the market infrastructure in various EMEs in order to identify the next steps needed for deepening local bond markets and for broadening the diversity of the investor base.

What progress has been made in the “rule of law”, ie the quality of legal and regulatory systems and their enforcement? What further reform steps are perceived by investors as being most urgent?

Effective clearing and settlement systems are of key importance for further strengthening local bond markets. Different regions of EMEs have followed different approaches: global, regional and national. In Asian EMEs, regional initiatives are the prevailing form; can this be a model for other EMEs? How can the transaction costs of national clearing and settlement systems be reduced?

Strengthening market transparency is of overwhelming importance for EME bond markets. What progress has been made in developing efficient credit rating agencies? What seems more appropriate: national credit rating agencies with common standards or regional credit agencies?

Presenters: Masahiro **Kawai** (Dean, Asian Development Bank Institute)

Frank **Czichowski** (Senior Vice President/Treasurer, KfW Bankengruppe)

Xolile P **Guma** (Deputy Governor, South African Reserve Bank)

Alicia **Nunez de la Huerta** (Deputy Director General of Debt Issuance, Ministry of Finance and Public Credit, Mexico)

Discussion

12.15 – 13.00

Conclusions and political recommendations:

Presenter: Hermann **Remsperger**, Member of the Executive Board of the Deutsche Bundesbank

13.00 – 14.30

Lunch