

High Level Workshop 2007
Developing Bond Markets in Emerging Market Economies

Opening Remarks
by State Secretary Dr. Thomas Mirow,
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Welcome and opening remarks

Begrüßung

Ladies and gentlemen,

Good morning and welcome to the Workshop on **Developing Bond Markets in Emerging Market Economies** on behalf of the Ministry of Finance of Germany and the Deutsche Bundesbank.

This workshop represents an important opportunity to broaden and deepen our understanding of the role of bond markets for economic growth and financial stability in emerging market economies and in low income countries. Besides taking stock of ongoing work and individual countries experience, we would also like to highlight areas where further work is needed to help establish local currency bond markets.

There are many good reasons to focus our attention on this topic at this time.

[Wachstumsimpulse durch Finanzmärkte]

Well-functioning and stable financial bond markets are needed to foster and accelerate economic development. According to a recent IMF study, emerging market economies with open financial markets have in the last thirty to thirty-five years grown three times as fast as those countries, which have not yet opened-up.

However, despite an increasing participation in financial globalisation, financial markets in Emerging Market Economies still lag well behind mature markets in many aspects. For example, the bond market capitalization in Emerging Market Economies amounts to just 40 per cent of gross domestic product (GDP). The figure for mature markets is 140 per cent or more than three times as much.

One area where Emerging Market Economies - not to mention developing countries - are well behind is in company bonds. Because of the

improved refinancing opportunities corporate bonds offer, these bonds open up new room for manoeuvre for local business when issued in local currency. The additional private investment this generates helps improve the growth potential of the national economy as a whole. However, some additional requirements are needed with respect to these bond markets for companies. One important requirement are benchmark bonds, which are generally liquid government bonds.

[Erhöhung globaler Finanzmarktstabilität]

Well-functioning financial markets in the emerging market economies also help improve global stability.

One recent example of the growing interlinkages of national financial markets was the fall in share prices on the Shanghai exchange at the end of February. The upshot was a global market correction and increased risk awareness across the globe.

Thus, the risk of crises in one country spilling over into other regions or spreading across the

world is considerable. Reducing the stability risks at national level thus leads to greater global financial stability.

[Disziplinierung der Politik]

Financial markets subject to the free interaction of supply of and demand for capital act as seismographs for positive and negative developments. This applies with respect to investor expectation of future economic developments and to changes to the economic framework conditions brought about by policy decisions.

As such, financial markets also have a disciplinary effect on economic and fiscal policies.

Negative reactions will generally follow when policy decisions not geared to stability are made and when additional limits and restrictions are placed on the free movement of capital. On the other hand, improved framework conditions have a positive effect on the financial markets.

[Weitere Fortschritte notwendig]

Advanced domestic bond markets are important. They add extra momentum to economic growth, reduce local currency and stability

risks, improve global financial market stability, promote long-term local and international capital investment and have a disciplining effect on economic and fiscal policy.

Without doubt, much progress has been made in recent years in developing local financial markets. It must be said, however, that developments differ considerably between countries and regions. For example, the share represented by domestic bonds is higher in Asia than in Latin America. In contrast, there are still considerable deficiencies in developing countries or even less developed countries, such as most of the Sub-Saharan states. And progress varies widely from country to country. A mere six Emerging Market Economies account for 70 per cent of the entire volume of domestic bonds outstanding.

These problems have been intensively analysed by the international organisations such as the IMF, World Bank, IDB and BIS.

Moreover, technical assistance is being offered by international and regional finance institu-

tions. Benchmark bonds have even been issued by various international finance institutions and even by development banks of advanced countries.

It is against this background that Germany has put this topic on the agenda of its G7/8 presidency. The G8 finance ministers will discuss this topic at their meeting in Potsdam on 18 and 19 May.

Our principle objectives are to lend more transparency to the initiatives and experience to date, to identify the progress made in certain countries and areas, and to point out continued deficiencies and problems. Overall, this is intended to help identify the opportunities and measures to improve the current approaches and to ensure their better coordination. To this end, I wish you every success and am sure that the informed discussions will lead to positive and viable results.

The first session “The anatomy of local bond markets in emerging market economies” will be chaired by Frank Moss who is Director General

for international and European relations in the European Central Bank.

Mr. Moss, you have the floor for opening the first session today.