



A WORLD BANK INITIATIVE

www.gemloc.org

Gemloc

ADVISORY SERVICES

Developing local currency bond markets
in emerging economies

Survey: Priorities for Market Development

Pilot Peer Group Dialogue

March 31, 2009



THE WORLD BANK

Objective of the Survey

Crisis poses additional challenges – reduced room for inefficiencies.

A few legitimate questions:

- EMs are spending efforts to develop their markets...what is the current demand for further support on this task?
- What type of support is being requested by topic, country, type of institution (e.g.: MoF, SEC and CB), region and market size?
- Countries search for tailored solutions and yet share similar interests and needs. Would there be room for further coordination across countries/institutions?

Answering these questions is a fundamental step for the design of a comprehensive program to assist EMs on the development of their local currency bond markets.

1. **Critical areas** for your local currency development
 - 1 – 4 (4 as most critical)
2. Ranking the areas of **work by priority**
 - 1 – 4 (1 as highest priority*)
3. Type of **product desired**
 - PCD (Peer-country dialogue)
 - STA (Country specific TA)
 - TT (Technical training)
4. Area covered by **other TA program**

Note: Reversed in the later analysis (4 as highest priority).

Design of Survey – 8 categories and 20 sub-topics

| Category | Detailed Category |
|---|---|
| 1. Macro and Micro interactions and trade-offs | 1.1. Capital controls and currency convertibility |
| | 1.2. Options for excess liquidity sterilization |
| | 1.3. Market taxation structure and financial neutrality |
| 2. Primary Markets | 2.1. Debt management strategy |
| | 2.2. Organization of primary market and issuance mechanisms (benchmark building) |
| 3. Money Markets | 3.1. Overall price dissemination and liquidity |
| | 3.2. Repo markets |
| | 3.3. Operational liquidity management for MM efficiency |
| 4. Secondary Markets | 4.1. Price dissemination and liquidity |
| | 4.2. Trading and institutional organization |
| | 4.3. Valuation schemes |
| 5. Derivatives Markets | 5.1. Interactions between cash and derivatives markets and development sequence |
| | 5.2. Exchange and OTC markets |
| 6. Investor base | 6.1. Strategies for diversification |
| | 6.2. Prudential regulations |
| 7. Custody, Clearance, and Settlement | 7.1. Local and International Central Securities Depositories (CSD) |
| | 7.2. Risk management upgrades |
| 8. Regulations for Debt Markets | 8.1. Systemic risk |
| | 8.2. Investor protection |
| | 8.3. Enforcement capabilities |

We have collected surveys from:

- 24 countries*
 - 17 Phase I, 7 Phase II countries
- 48 entities
 - 18 MoF, 18 SEC, and 12 CBs

ASIA

| | | | |
|-------------|-----|-----|----|
| China | | SEC | CB |
| Indonesia | MoF | SEC | CB |
| Malaysia | | SEC | CB |
| Philippines | MoF | | |
| Thailand | MoF | SEC | CB |
| Vietnam | MoF | SEC | CB |
| India | MoF | SEC | |
| Pakistan | | SEC | |
| Sri Lanka | | SEC | |

EMEA

| | | | |
|------------------|-----|-----|----|
| Poland | MoF | | |
| Turkey | MoF | | |
| Egypt, Arab Rep. | MoF | SEC | |
| Morocco | MoF | SEC | |
| Tunisia | MoF | SEC | |
| Kenya | | SEC | |
| Nigeria | MoF | SEC | CB |
| South Africa | MoF | SEC | CB |

LAC

| | | | |
|------------|-----|-----|----|
| Argentina | | | CB |
| Brazil | MoF | SEC | CB |
| Chile | MoF | | |
| Colombia | MoF | SEC | CB |
| Costa Rica | MoF | SEC | CB |
| Mexico | MoF | SEC | CB |
| Peru | MoF | | |

Notes:

*Phase I countries are in bold.



Summary of Survey Results

We find:

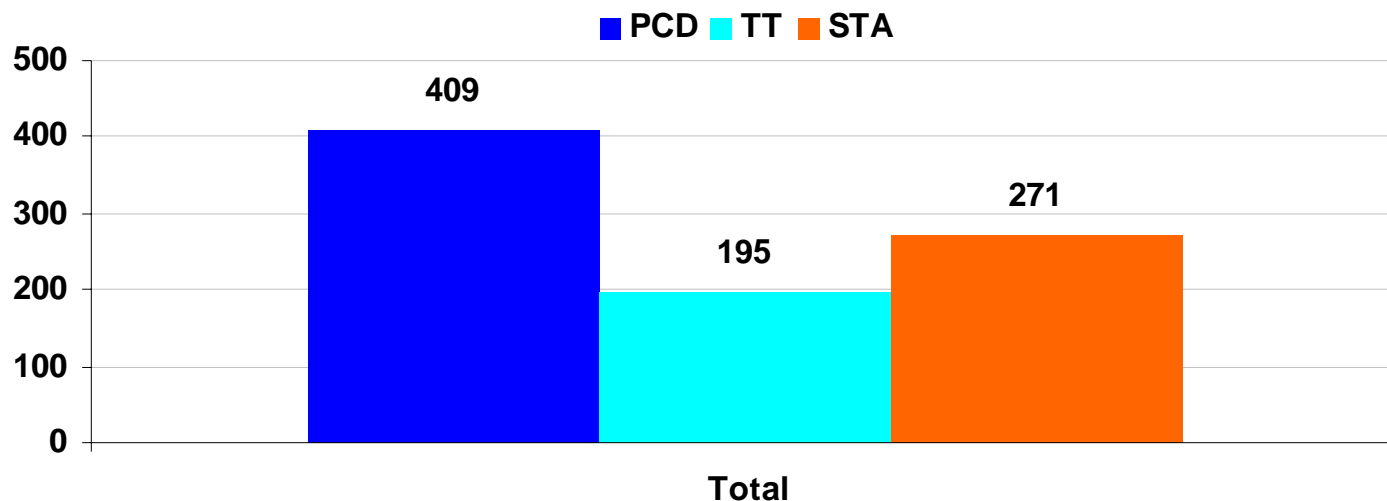
- *Strong Demand for work in all areas. The average overall score was 3.2 (Highest: 3.5 – “Secondary Markets”; Lowest: 2.9 Macro/Micro interactions)*
- *By entity: MoF has broader interest across all areas, whereas SEC and CB have more targeted interests. Secondary Markets topics are a priority to all of them*
- *By region: Interest vary somewhat across regions, e.g.: primary markets in LAC and EMEA, and regulatory and investor base in Asia*
- *By Market Size: Derivatives for larger markets. Investor base and regulatory framework for smaller markets*

What type of support would these institutions like to receive?



Survey Results: Types of Advisory Services Requested (Total)

High number of requests in all areas – strong demand for support and cross-sharing of experiences on local currency bond market development



Peer-Country group panel analysis dialogue (PCD) received the highest requests, followed by direct specific technical assistance (STA) and technical training (TT).

Notes: The respective average for PCD, TT, and STA were 9.6, 4.9, and 6.4.

Final Remarks:

“So among the most important tasks ahead is to create a system of global finance that allows a more balanced world economy... A part of the answer will be the development of local-currency finance in emerging economies, which would make it easier for them to run current account deficits than proved to be the case in the past three decades.” Martin Wolf, “Asia’s Revenge” FT Oct 8, 2008

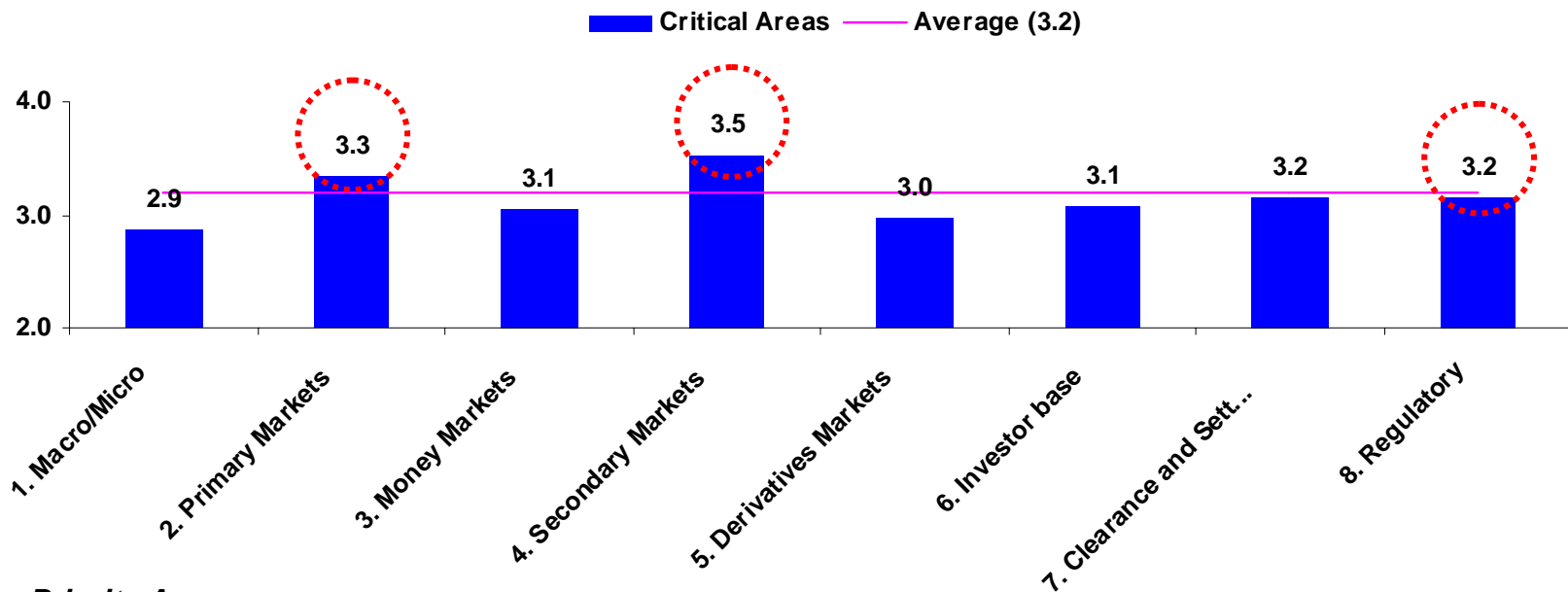
Importance and challenges for deepening domestic debt markets have increased

Survey confirms strong demand for support and cross-country cooperation in a variety of ways.*

Annex

Survey Results: Critical and Priority Areas

The most critical areas for the total universe were “Secondary Markets,” “Primary Markets,” and “Regulatory,” which are not necessarily correspondent to priority areas.



Priority Areas

FIRST STAGE

- 4. Secondary Markets
- 6. Investor Base

SECOND STAGE

- 7. Clearance and Settlement
- 2. Primary Markets
- 8. Regulatory

THIRD STAGE

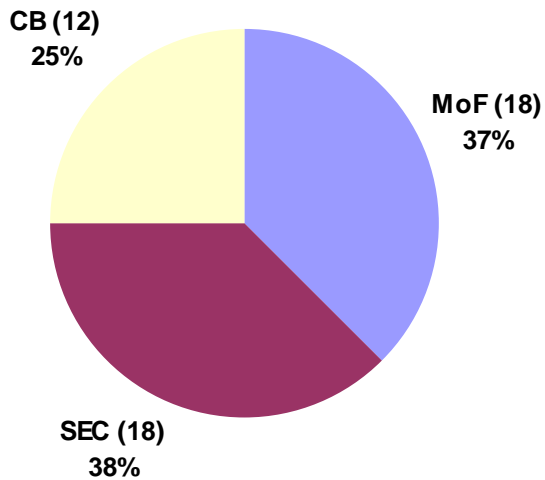
- 5. Derivatives Markets
- 3. Money Markets
- 1. Macro/Micro



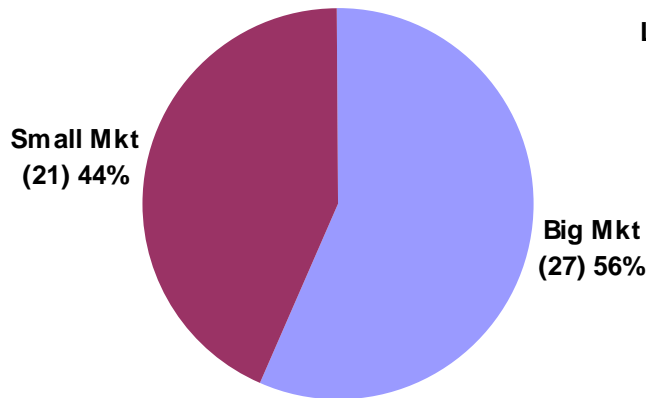
Notes: Figures are based on the sub-topic that received the highest average under each category. Taken from the pool of 24 country responses (averaged out for countries with more than one entities responding).

Analysis by entity, market size and region but...potential sample bias

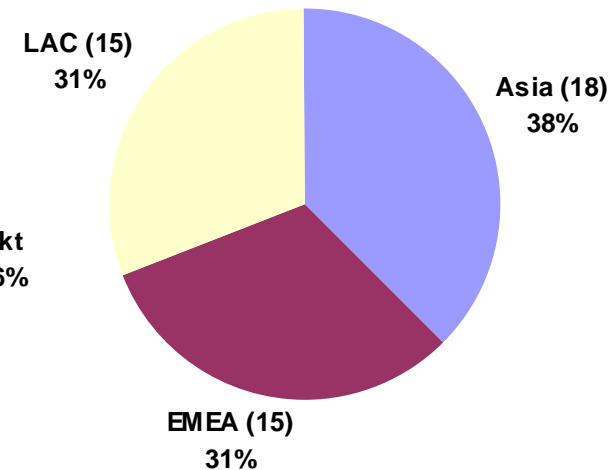
Entities



Market Size (2)



Region

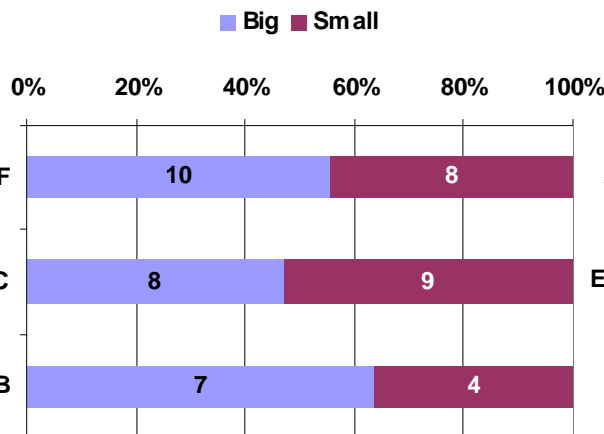


Notes:

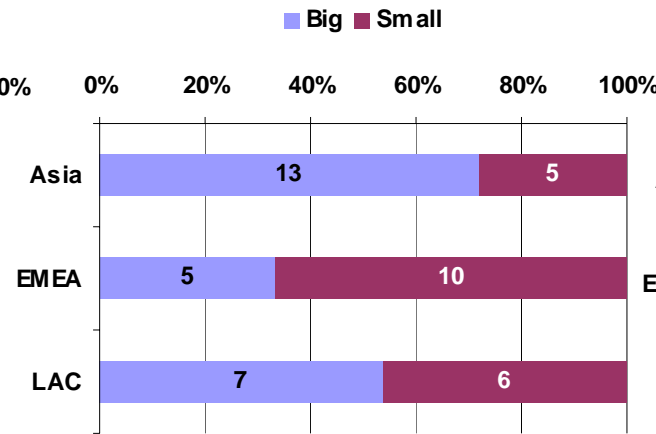
- (1) Colombia submitted one survey for the three entities but is counted as three entities in the above breakdown.
- (2) Market size is based on two groupings of the 24 countries that responded, based on market cap as of May 27, 2008 (source: Markit).

Analysis by entity, market size and region but...potential sample bias

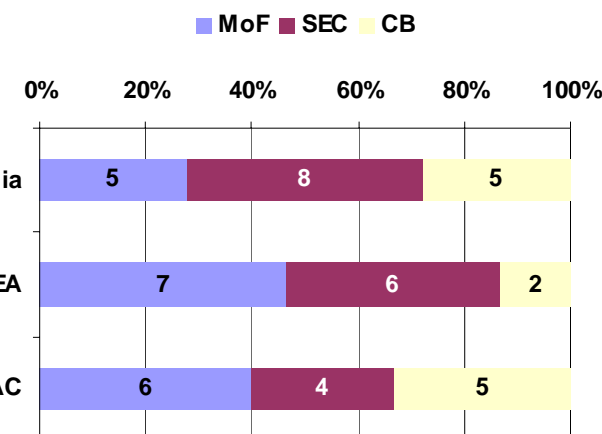
Entities / Size (2)



Region / Size (2)



Region / Entities

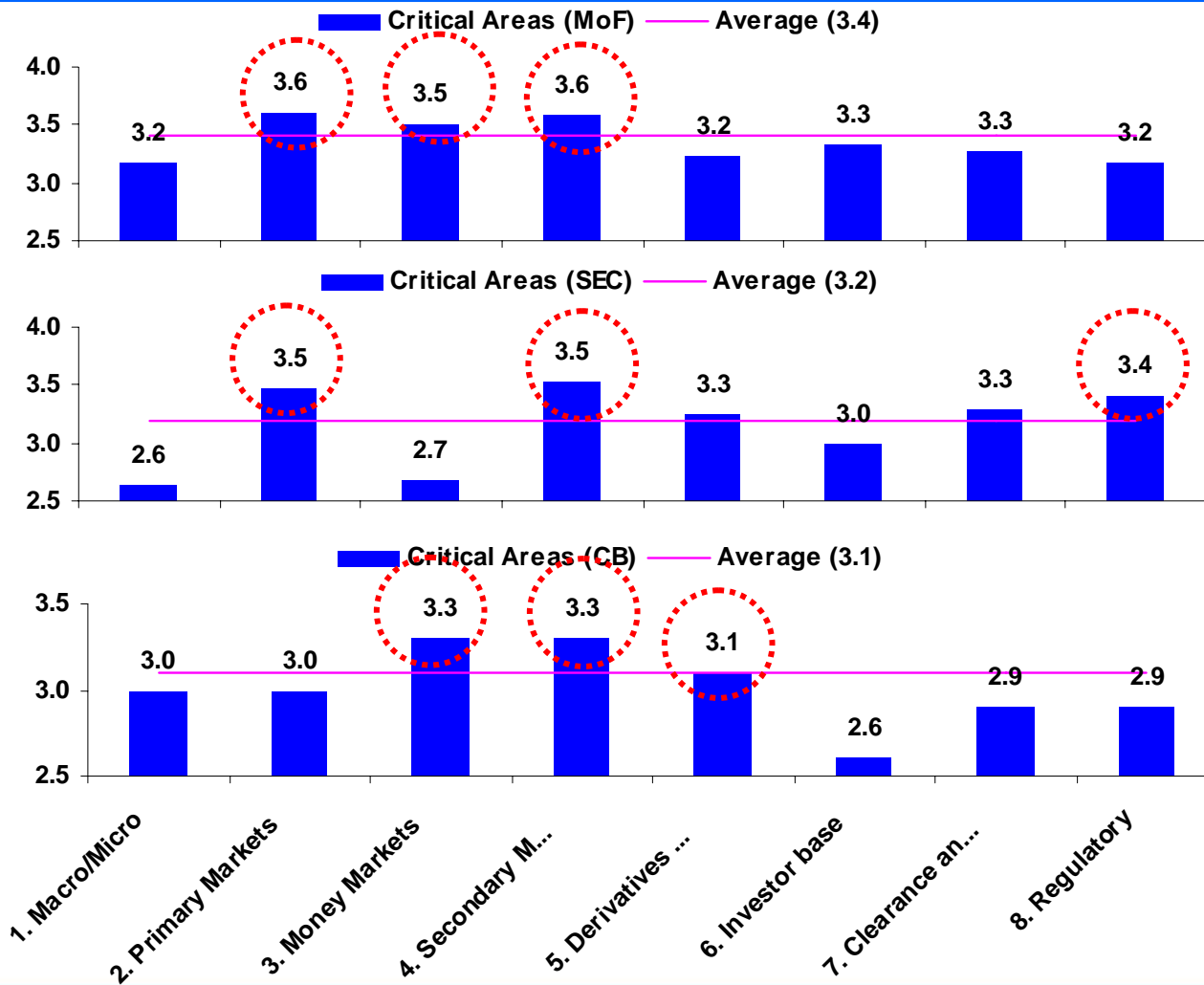


Notes:

- (1) Colombia submitted one survey for the three entities but is counted as three entities in the above breakdown.
- (2) Market size is based on two groupings of the 24 countries that responded, based on market cap as of May 27, 2008 (source: Markit).

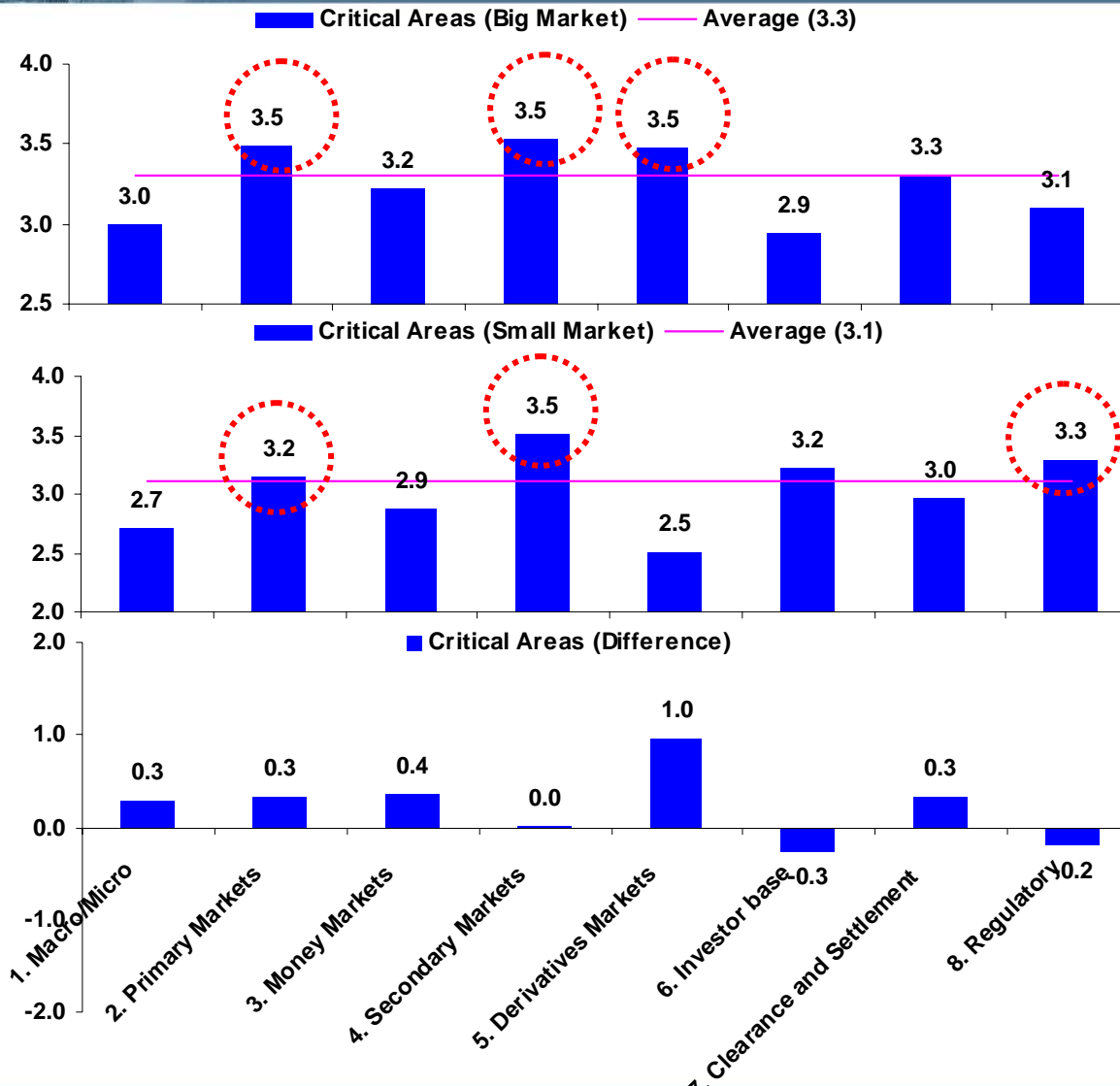
Survey Results: Critical Areas (By Entity)

All entities considered "Secondary Markets" as one of the most critical areas. Others were dispersed.



Notes: Figures are based on the sub-topic that received the highest average under each category.

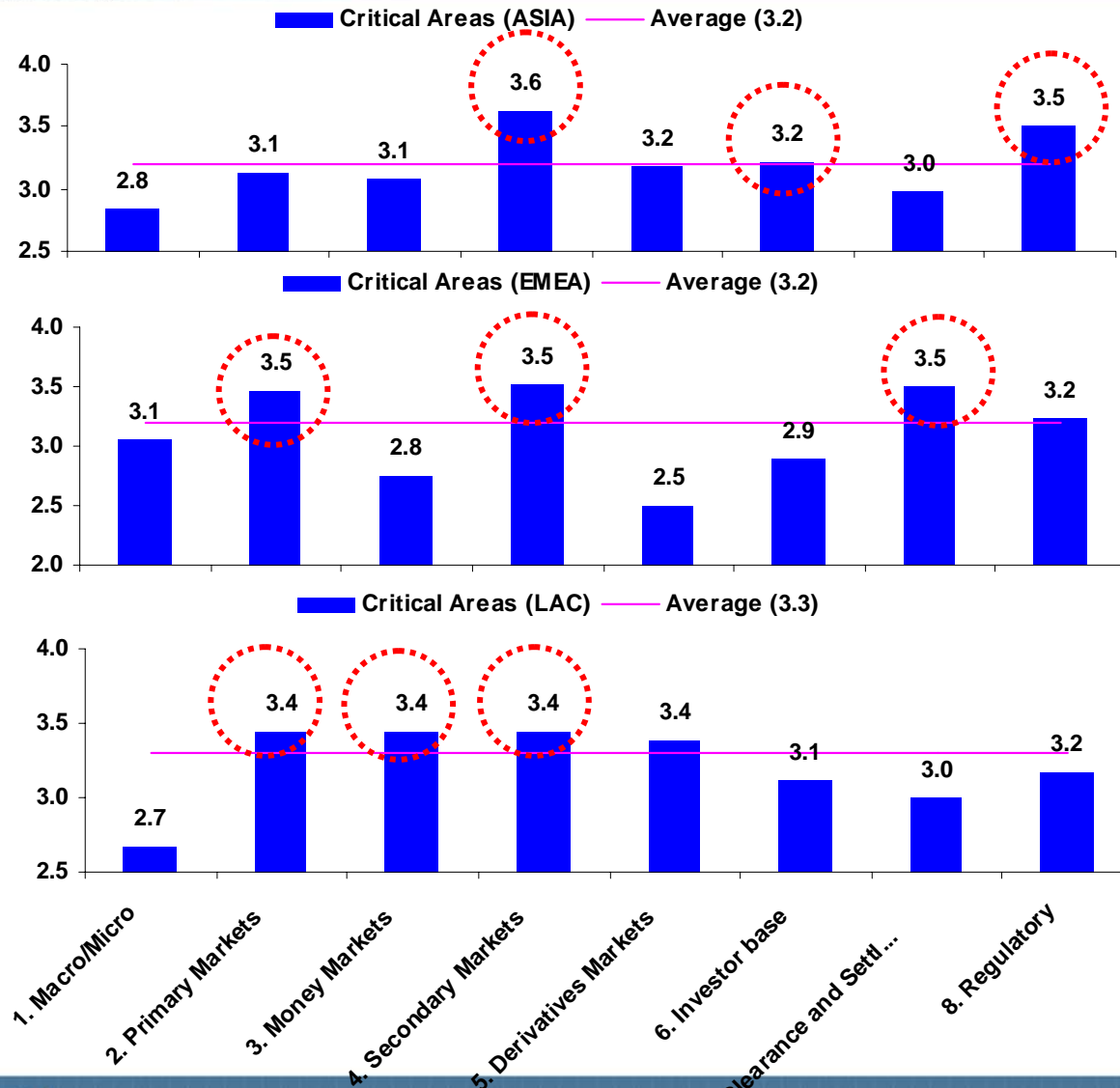
Survey Results: Critical Areas (By Market Size)



Similarly, both big and small bond markets considered “Secondary Markets” and also “Primary Markets” as the most critical areas. Large markets also considered “Derivatives” a critical area, while small markets thought of “Regulatory” and “Investor base” as critical.



Survey Results: Critical Areas (By Region)



“Secondary Markets”
critical for all

“Primary Markets”
mostly in LAC and
EMEA

Asia: Regulatory (SEC
bias?) and Investor
Base

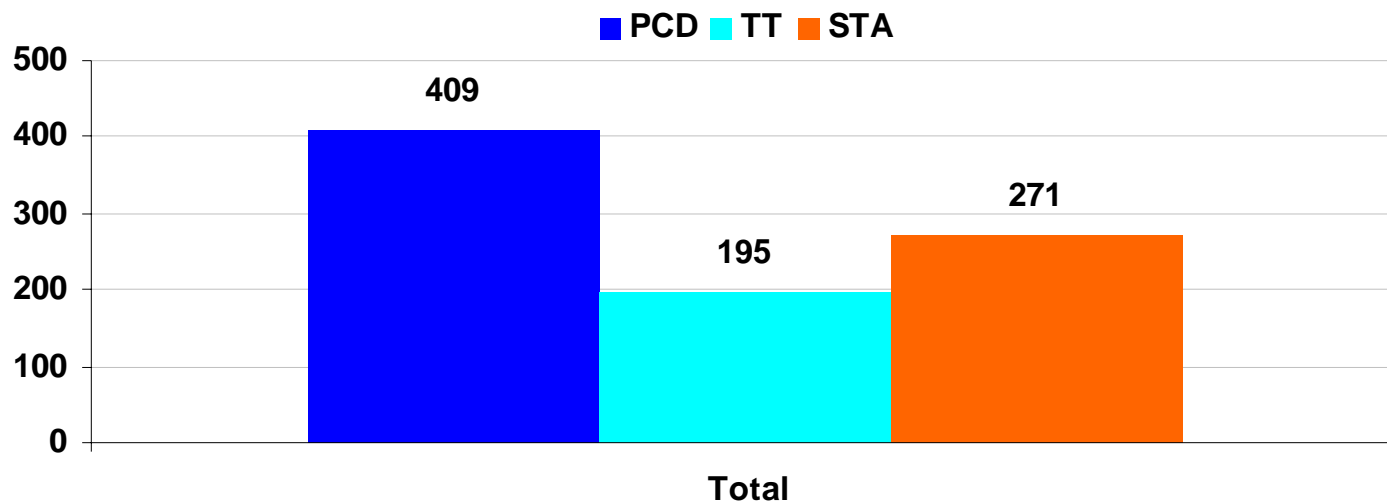
EMEA: “Clearance and
Settlement”

LAC: “Money Markets” .



Survey Results: Types of Advisory Services Requested (Total)

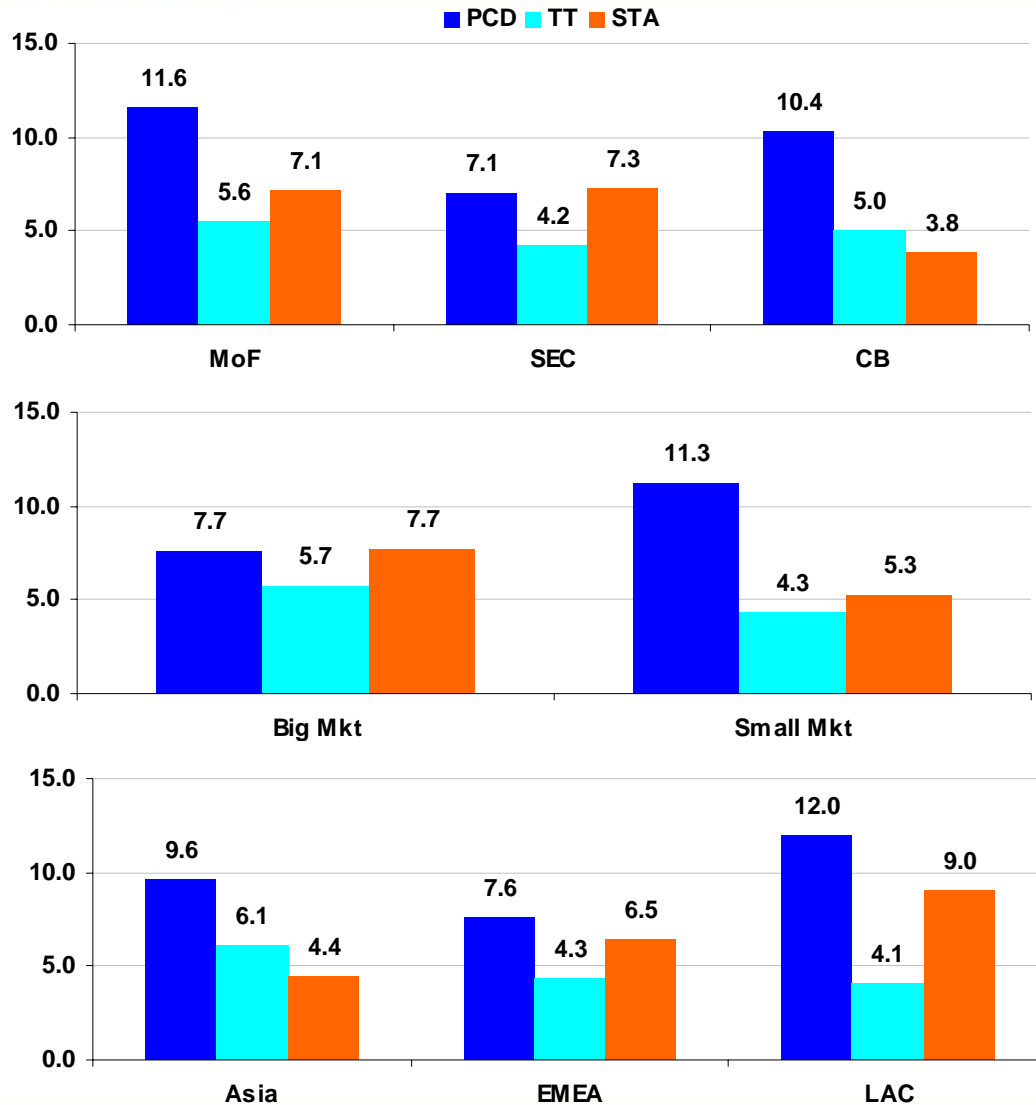
High number of requests in all areas – strong demand for support and cross-sharing of experiences on local currency bond market development



Peer-Country group panel analysis dialogue (PCD) received the highest requests, followed by direct specific technical assistance (STA) and technical training (TT).

Notes: The respective average for PCD, TT, and STA were 9.6, 4.9, and 6.4.

Survey Results: Types of Advisory Services Requested (Average)



MoF requested the most number of PCDs out of the three entities, while MoF in general largely requested for more technical assistance than the others.

Big markets have requested less PCDs compared with small markets, while requesting more TT and STA on a relative scale.

Asia had the highest requests for TT, while LAC had the largest PCD and STA requests.

Survey Results: Preferred Areas for Advisory Services, by Types of Product

| Type of Product | Sub Category | Number of Entities | |
|------------------------------------|--|--------------------|------------------------------|
| PCD (Peer-country dialogue) | 1.1. Capital controls,currency convertibility | 24 | Top 10 Critical Areas |
| | 7.1. Local,International Central Securities Depositories (CSD) | 23 | |
| | 1.2. Options for excess liquidity sterilization | 22 | |
| | 1.3. Market taxation structure,financial neutrality | 22 | |
| | 2.2. Organization of primary market,issuance mechanisms | 22 | |
| | 6.1. Strategies for diversification | 22 | |
| TT (Technical training) | 4.3. Valuation schemes | 20 | |
| | 3.2. Repo markets | 15 | |
| | 5.1. Interactions between cash,derivatives | 15 | |
| STA (Country specific TA) | 7.1. Local,International Central Securities Depositories (CSD) | 18 | |
| | 4.1. Price dissemination,liquidity | 17 | |
| | 4.2. Trading,institutional organization | 16 | |
| | 5.2. Exchange,OTC markets | 16 | |

Notes: Identified based on the frequency asked, out of the 48 entities that responded. Of the top 10 critical areas, the blue arrow shows those that are top 5, and the orange shows those that are top 10.

Survey Results: Critical Areas

Critical Areas & Priority Areas

| Category | Critical Areas | | Priority Areas | | Detailed Category |
|-----------------------------|----------------|------|----------------|------|--|
| | Score | Rank | Score | Rank | |
| 1. Macro/Micro | 2.9 | 16 | 2.6 | 16 | 1.3. Market taxation structure and financial neutrality |
| 2. Primary Markets | 3.3 | 2 | 3.1 | 5 | 2.2. Organization of primary market and issuance mechanisms (benchmark building) |
| 3. Money Markets | 3.1 | 10 | 2.9 | 12 | 3.2. Repo markets |
| 4. Secondary Markets | 3.5 | 1 | 3.3 | 1 | 4.1. Price dissemination and liquidity |
| 5. Derivatives Markets | 3.0 | 11 | 2.9 | 11 | 5.2. Exchange and OTC markets |
| 6. Investor base | 3.1 | 9 | 3.3 | 2 | 6.1. Strategies for diversification |
| 7. Clearance and Settlement | 3.2 | 6 | 3.1 | 3 | 7.1. Local and International Central Securities Depositories (CSD) |
| 8. Regulatory | 3.2 | 5 | 2.9 | 9 | 8.2. Investor protection |



Survey Results: Critical Areas (By Entity)

Critical Areas (MoF)

| Category | Max | Ranking | Detailed Category |
|-----------------------------|-----|---------|---|
| 1. Macro/Micro | 3.2 | 9 | 1.3. Market taxation structure and financial neutrality |
| 2. Primary Markets | 3.6 | 1 | 2.1. Debt management strategy |
| 3. Money Markets | 3.5 | 3 | 3.2. Repo markets |
| 4. Secondary Markets | 3.6 | 2 | 4.1. Price dissemination and liquidity |
| 5. Derivatives Markets | 3.2 | 8 | 5.1. Interactions between cash and derivatives markets and development sequence |
| 6. Investor base | 3.3 | 6 | 6.1. Strategies for diversification |
| 7. Clearance and Settlement | 3.3 | 7 | 7.1. Local and International Central Securities Depositories (CSD) |
| 8. Regulatory | 3.2 | 9 | 8.1. Systemic risk |

Critical Areas (SEC)

| Category | Max | Ranking | Detailed Category |
|-----------------------------|-----|---------|--|
| 1. Macro/Micro | 2.6 | 16 | 1.3. Market taxation structure and financial neutrality |
| 2. Primary Markets | 3.5 | 2 | 2.2. Organization of primary market and issuance mechanisms (benchmark building) |
| 3. Money Markets | 2.7 | 15 | 3.2. Repo markets |
| 4. Secondary Markets | 3.5 | 1 | 4.1. Price dissemination and liquidity |
| 5. Derivatives Markets | 3.3 | 5 | 5.2. Exchange and OTC markets |
| 6. Investor base | 3.0 | 11 | 6.2. Prudential regulations |
| 7. Clearance and Settlement | 3.3 | 4 | 7.1. Local and International Central Securities Depositories (CSD) |
| 8. Regulatory | 3.4 | 3 | 8.2. Investor protection |

Critical Areas (CB)

| Category | Max | Ranking | Detailed Category |
|-----------------------------|-----|---------|--|
| 1. Macro/Micro | 3.0 | 6 | 1.2. Options for excess liquidity sterilization |
| 2. Primary Markets | 3.0 | 6 | 2.2. Organization of primary market and issuance mechanisms (benchmark building) |
| 3. Money Markets | 3.3 | 1 | 3.1. Overall price dissemination and liquidity |
| 4. Secondary Markets | 3.3 | 1 | 4.1. Price dissemination and liquidity |
| 5. Derivatives Markets | 3.1 | 5 | 5.2. Exchange and OTC markets |
| 6. Investor base | 2.6 | 15 | 6.1. Strategies for diversification |
| 7. Clearance and Settlement | 2.9 | 10 | 7.1. Local and International Central Securities Depositories (CSD) |
| 8. Regulatory | 2.9 | 10 | 8.1. Systemic risk |



Survey Results: Critical Areas (By Market Size)

Critical Areas (Big Market)

| Category | Max | Ranking | Detailed Category |
|-----------------------------|-----|---------|--|
| 1. Macro/Micro | 3.0 | 14 | 1.3. Market taxation structure and financial neutrality |
| 2. Primary Markets | 3.5 | 2 | 2.2. Organization of primary market and issuance mechanisms (benchmark building) |
| 3. Money Markets | 3.2 | 9 | 3.2. Repo markets |
| 4. Secondary Markets | 3.5 | 1 | 4.1. Price dissemination and liquidity |
| 5. Derivatives Markets | 3.5 | 4 | 5.1. Interactions between cash and derivatives markets and development sequence |
| 6. Investor base | 2.9 | 16 | 6.1. Strategies for diversification |
| 7. Clearance and Settlement | 3.3 | 7 | 7.1. Local and International Central Securities Depositories (CSD) |
| 8. Regulatory | 3.1 | 10 | 8.1. Systemic risk |

Critical Areas (Small Market)

| Category | Max | Ranking | Detailed Category |
|-----------------------------|-----|---------|--|
| 1. Macro/Micro | 2.7 | 12 | 1.3. Market taxation structure and financial neutrality |
| 2. Primary Markets | 3.2 | 4 | 2.2. Organization of primary market and issuance mechanisms (benchmark building) |
| 3. Money Markets | 2.9 | 11 | 3.2. Repo markets |
| 4. Secondary Markets | 3.5 | 1 | 4.1. Price dissemination and liquidity |
| 5. Derivatives Markets | 2.5 | 15 | 5.2. Exchange and OTC markets |
| 6. Investor base | 3.2 | 3 | 6.1. Strategies for diversification |
| 7. Clearance and Settlement | 3.0 | 8 | 7.1. Local and International Central Securities Depositories (CSD) |
| 8. Regulatory | 3.3 | 2 | 8.2. Investor protection |

Critical Areas (Difference)

| Category | Max | Ranking | Detailed Category |
|-----------------------------|------|---------|--|
| 1. Macro/Micro | 0.3 | - | 1.3. Market taxation structure and financial neutrality |
| 2. Primary Markets | 0.3 | - | 2.2. Organization of primary market and issuance mechanisms (benchmark building) |
| 3. Money Markets | 0.4 | - | 3.2. Repo markets |
| 4. Secondary Markets | 0.0 | - | 4.1. Price dissemination and liquidity |
| 5. Derivatives Markets | 1.0 | - | n/a |
| 6. Investor base | -0.3 | - | 6.1. Strategies for diversification |
| 7. Clearance and Settlement | 0.3 | - | 7.1. Local and International Central Securities Depositories (CSD) |
| 8. Regulatory | -0.2 | - | n/a |



Survey Results: Critical Areas (By Region)

Critical Areas (ASIA)

| Category | Max | Ranking | Detailed Category |
|-----------------------------|-----|---------|--|
| 1. Macro/Micro | 2.8 | 14 | 1.3. Market taxation structure and financial neutrality |
| 2. Primary Markets | 3.1 | 9 | 2.2. Organization of primary market and issuance mechanisms (benchmark building) |
| 3. Money Markets | 3.1 | 10 | 3.2. Repo markets |
| 4. Secondary Markets | 3.6 | 1 | 4.1. Price dissemination and liquidity |
| 5. Derivatives Markets | 3.2 | 7 | 5.2. Exchange and OTC markets |
| 6. Investor base | 3.2 | 5 | 6.1. Strategies for diversification |
| 7. Clearance and Settlement | 3.0 | 12 | 7.2. Risk management upgrades |
| 8. Regulatory | 3.5 | 2 | 8.3. Enforcement capabilities |

Critical Areas (EMEA)

| Category | Max | Ranking | Detailed Category |
|-----------------------------|-----|---------|--|
| 1. Macro/Micro | 3.1 | 7 | 1.3. Market taxation structure and financial neutrality |
| 2. Primary Markets | 3.5 | 3 | 2.2. Organization of primary market and issuance mechanisms (benchmark building) |
| 3. Money Markets | 2.8 | 12 | 3.2. Repo markets |
| 4. Secondary Markets | 3.5 | 1 | 4.1. Price dissemination and liquidity |
| 5. Derivatives Markets | 2.5 | 16 | 5.2. Exchange and OTC markets |
| 6. Investor base | 2.9 | 11 | 6.1. Strategies for diversification |
| 7. Clearance and Settlement | 3.5 | 2 | 7.1. Local and International Central Securities Depositories (CSD) |
| 8. Regulatory | 3.2 | 5 | 8.1. Systemic risk |

Critical Areas (LAC)

| Category | Max | Ranking | Detailed Category |
|-----------------------------|-----|---------|--|
| 1. Macro/Micro | 2.7 | 18 | 1.1. Capital controls and currency convertibility |
| 2. Primary Markets | 3.4 | 1 | 2.2. Organization of primary market and issuance mechanisms (benchmark building) |
| 3. Money Markets | 3.4 | 1 | 3.2. Repo markets |
| 4. Secondary Markets | 3.4 | 1 | 4.3. Valuation schemes |
| 5. Derivatives Markets | 3.4 | 6 | 5.1. Interactions between cash and derivatives markets and development sequence |
| 6. Investor base | 3.1 | 11 | 6.1. Strategies for diversification |
| 7. Clearance and Settlement | 3.0 | 14 | 7.1. Local and International Central Securities Depositories (CSD) |
| 8. Regulatory | 3.2 | 10 | 8.2. Investor protection |



THANK YOU

Gemloc Advisory Services

Contact us: gemlocta@worldbank.org