



Thinking ahead for Europe



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Improving the investor base in Local Currency bond Markets of China, India and Indonesia

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IISD-EPF Conference, 6-7 June 2016, Geneva



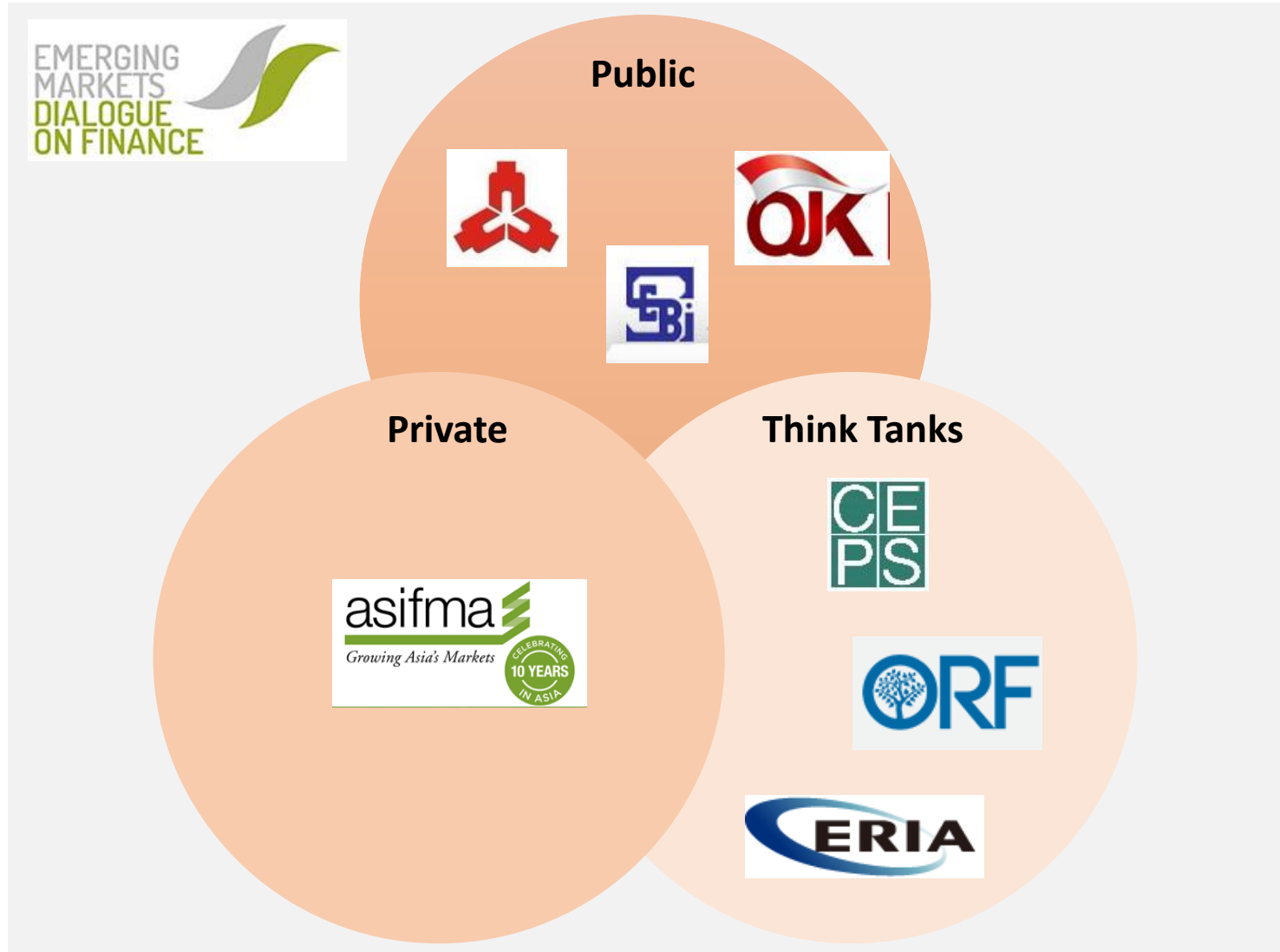
Within the framework of the Emerging Markets Dialogue on Finance, implemented by the German Agency for International Cooperation (GIZ), this research project is conducted by the Centre for European Policy Studies (CEPS, Belgium), in cooperation with the People's Bank of China (PBoC, China), Observer Research Foundation (ORF, India) and Economic Research Institute for ASEAN and East Asia (ERIA, Indonesia).

Project Setup

Infrastructure investment gap – abundant capital of institutional investors...

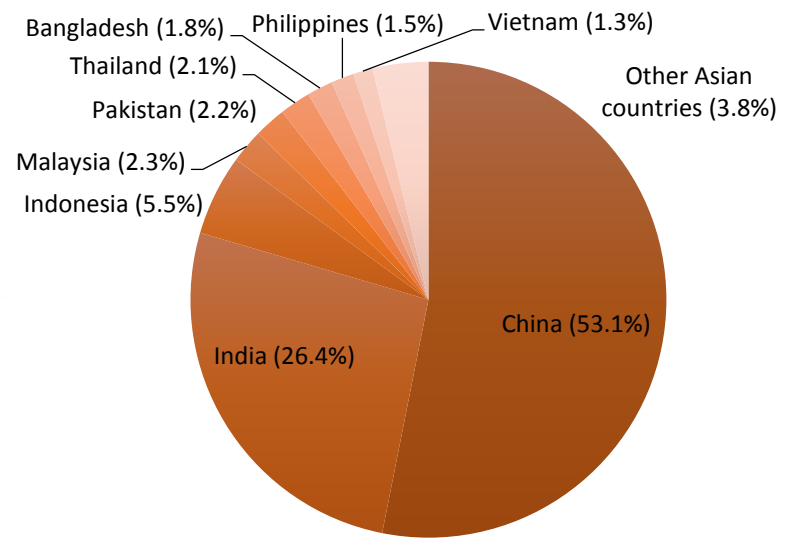
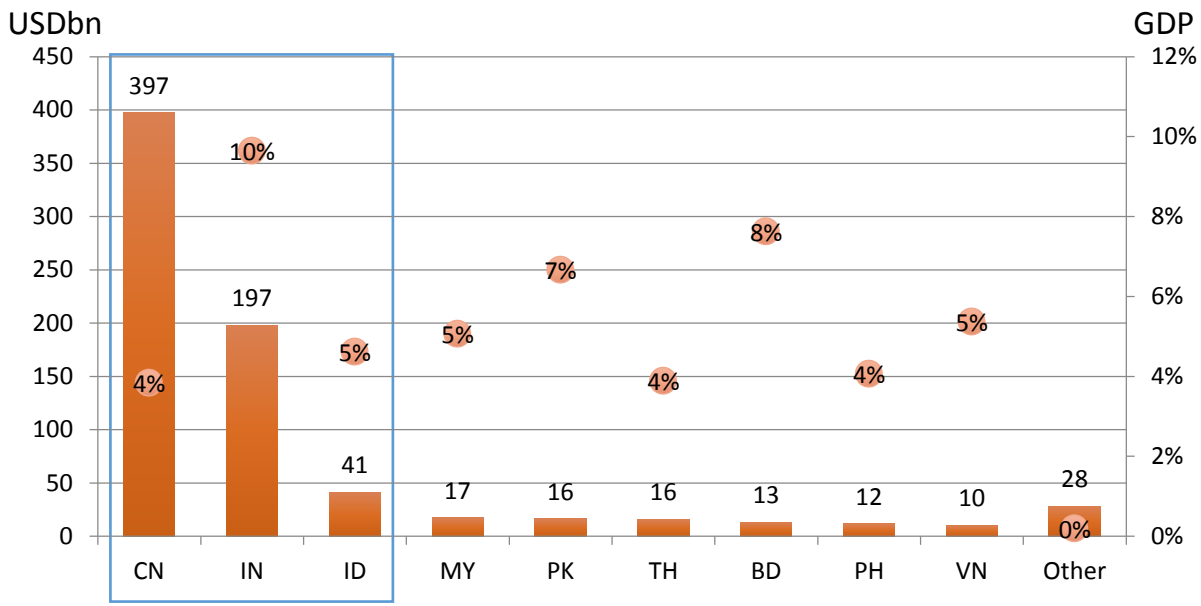


Project partners

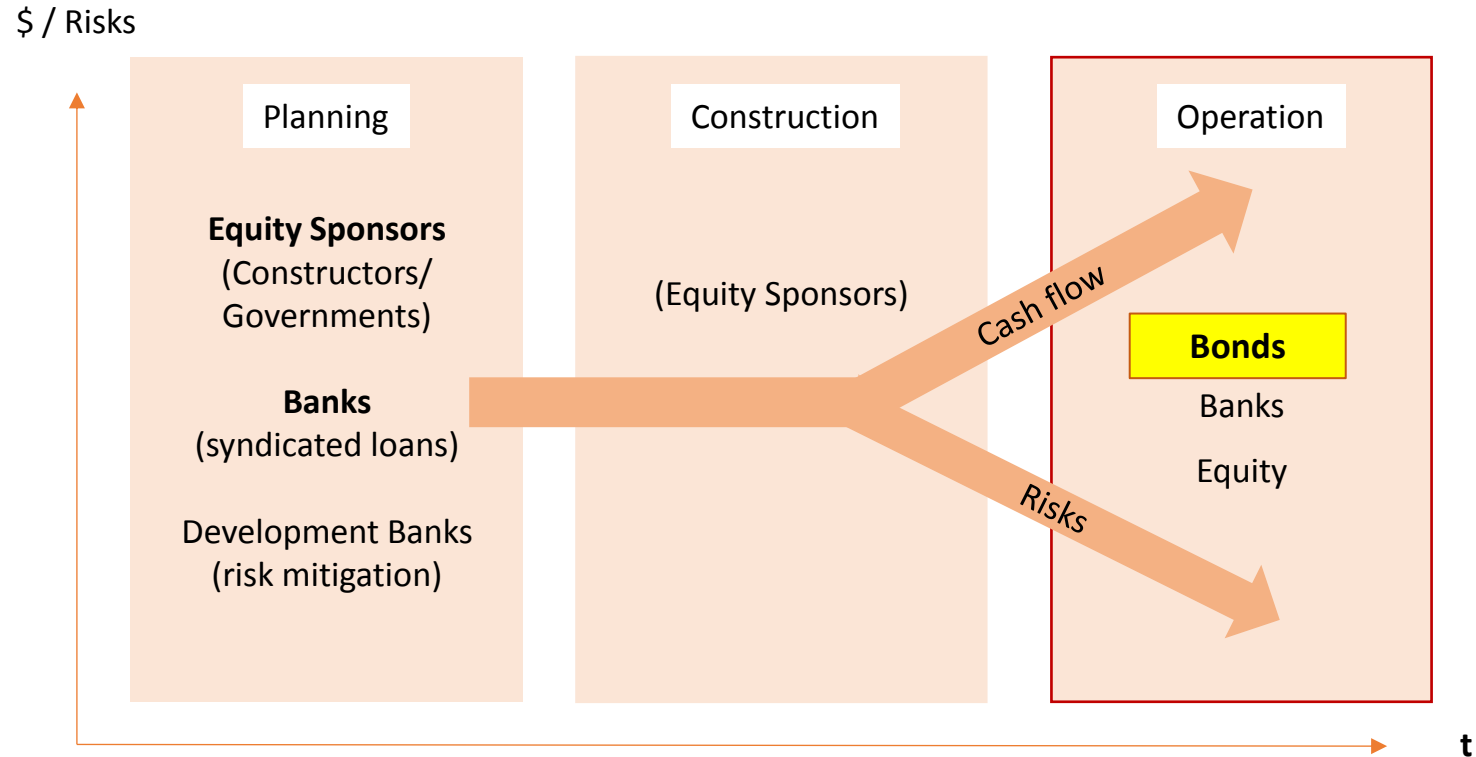


Infrastructure needs: USD 8 tr.

Annual infrastructure needs in developing Asia (2010-2020)



Financing Instruments for Infrastructure



Why local currency bond markets (LCBM)?

Why LCBMs?

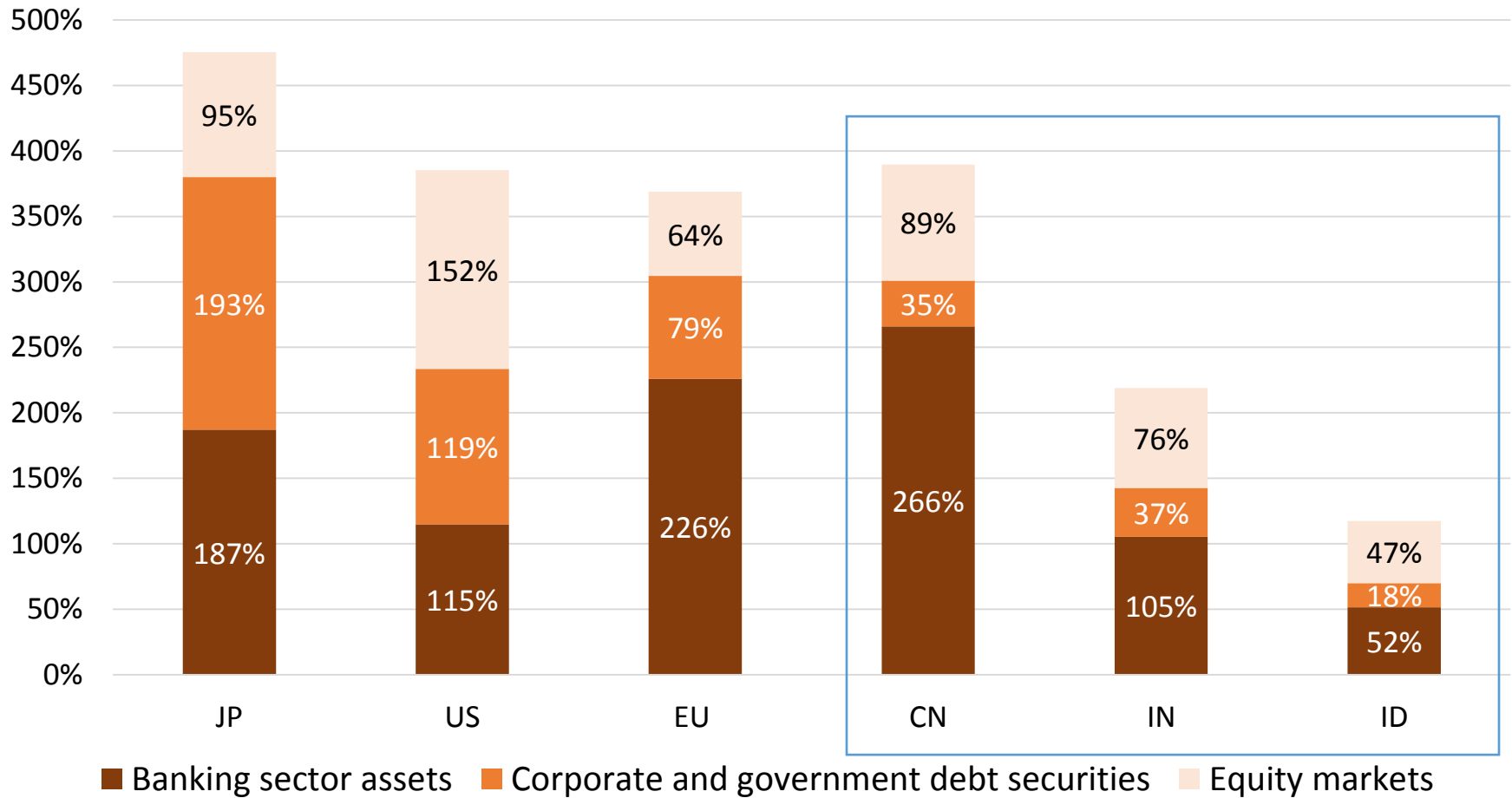


- Shock absorber
 - Eliminating currency and maturity mismatches
 - Diversification of financial system -> cross-sectional risk sharing (debt)
- Additional financing source
 - Infrastructure finance (e.g. project financing)
 - \$8 trillion infrastructure needs in emerging Asia in 2010-2020 (ADB)
 - Funding future liabilities of ageing population
- Activating savings surpluses
- Competitive pressure on banking system
- Support monetary policy
 - More market-driven rates (e.g. QE more effective)
- Discipline governments
- Longer-term financing
- Credit worthiness information

Financial diversification

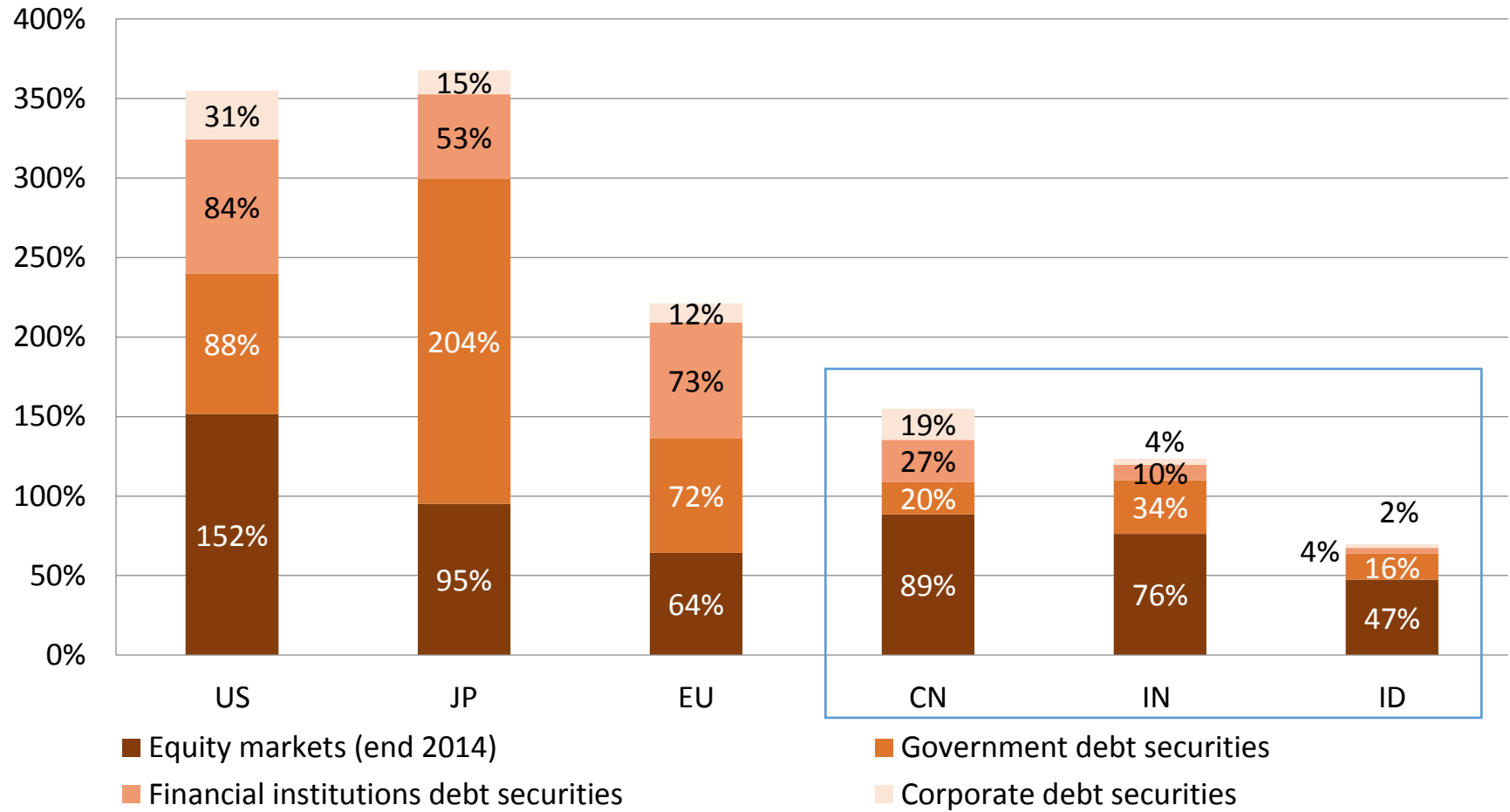


Size of the financial sector (% GDP, end 2014)

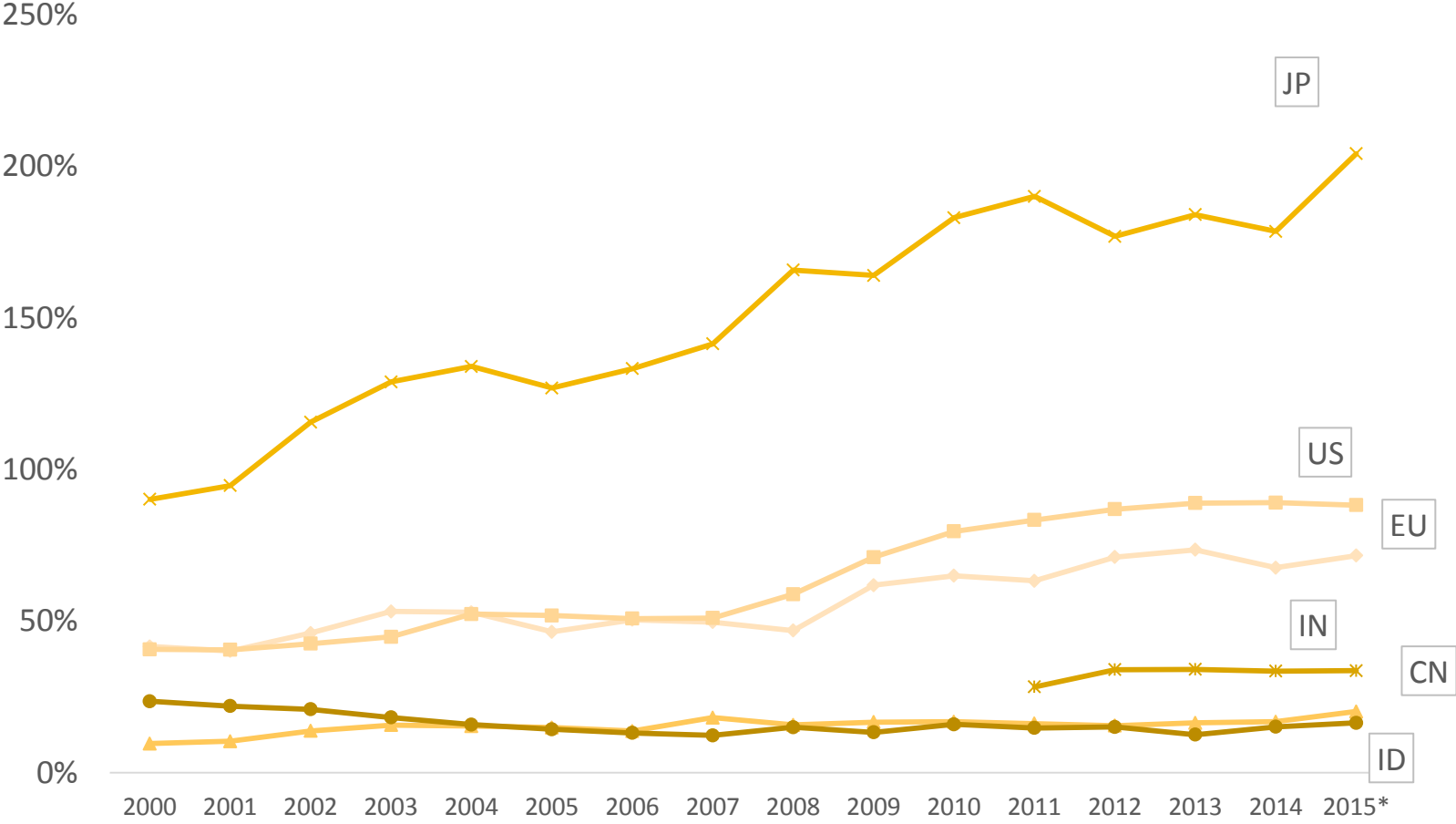


Financial diversification

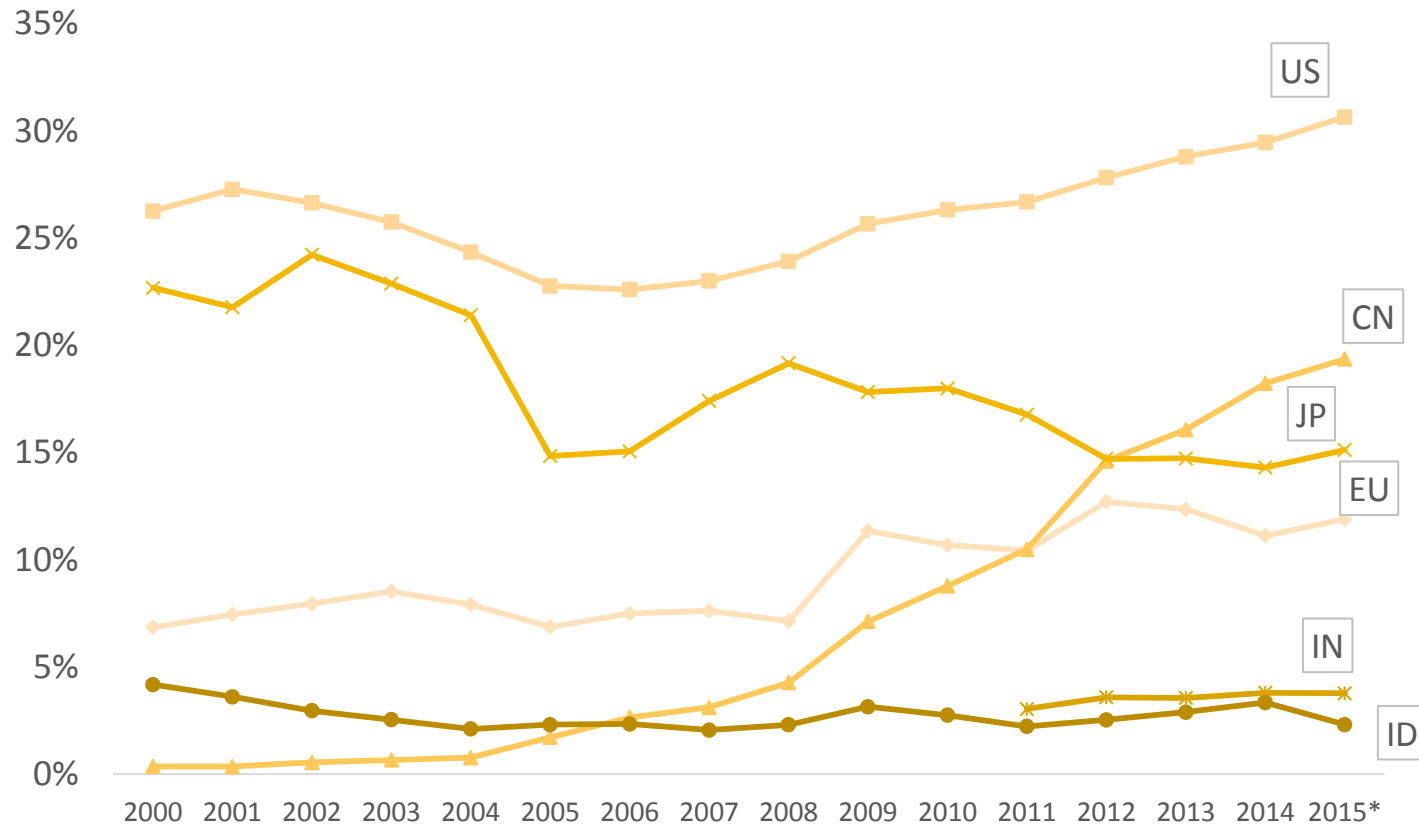
Capital markets structure (% GDP, end 2015)



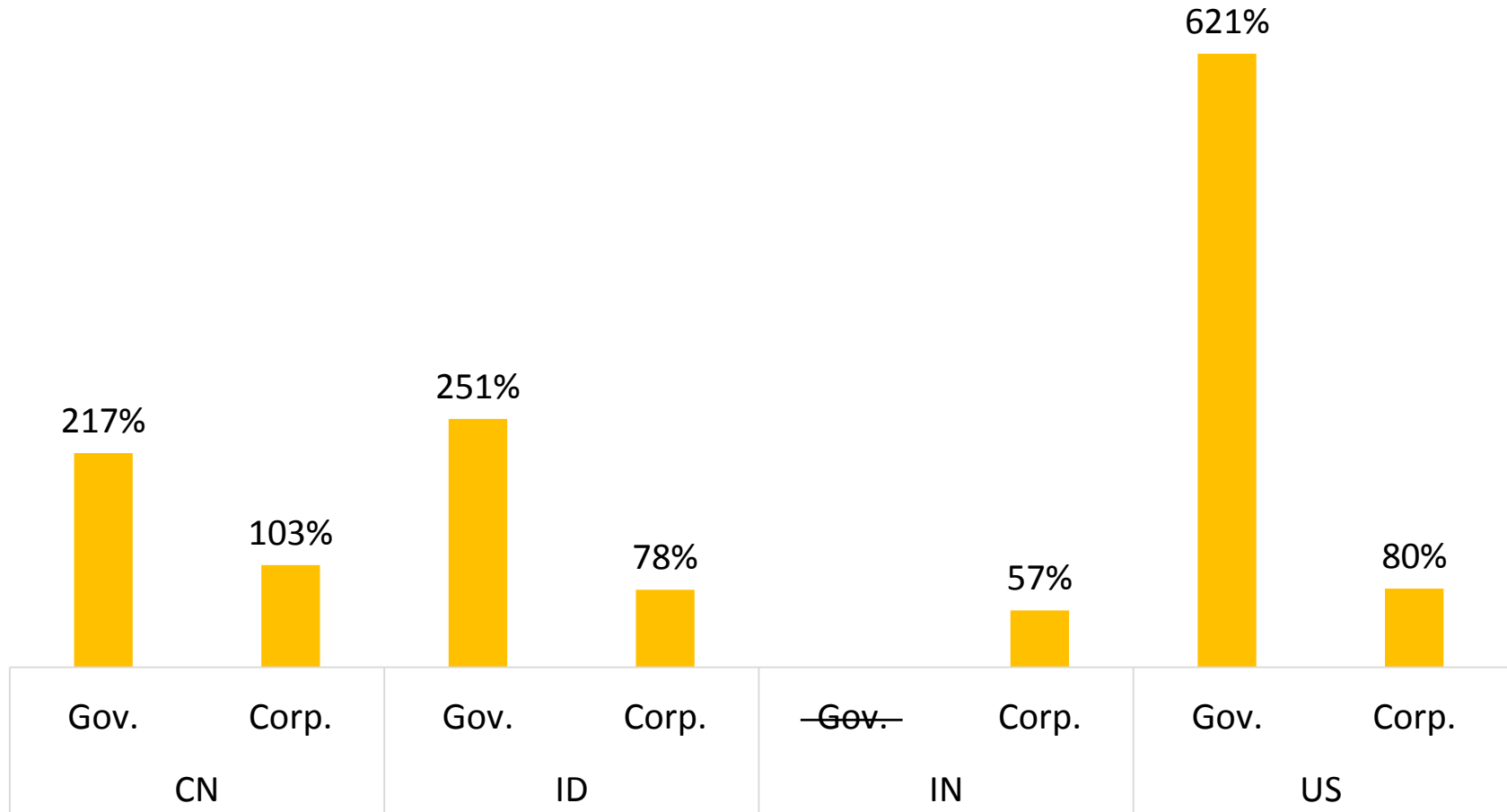
Government bond markets



Corporate bond markets

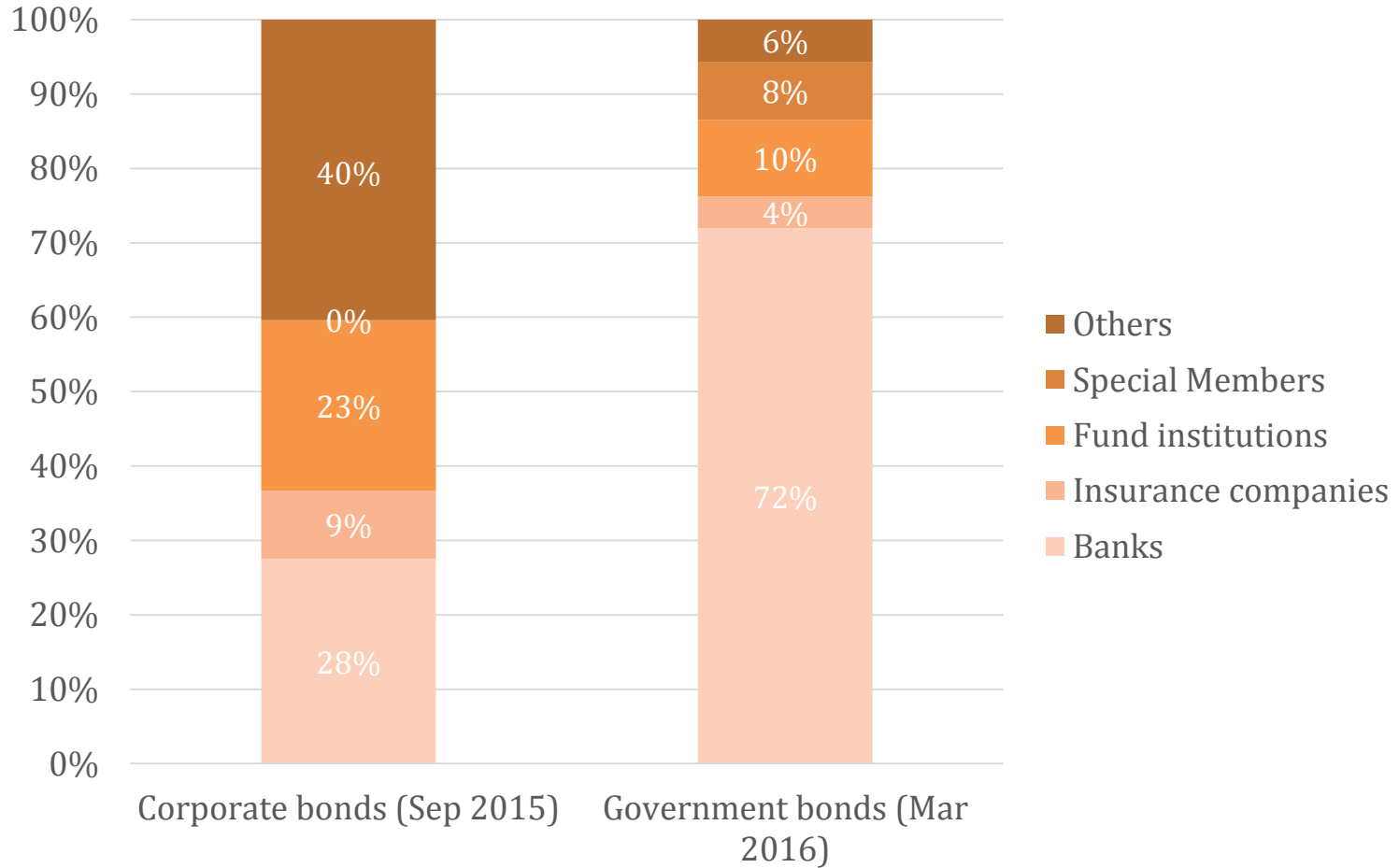


Turnover ratio (efficiency)

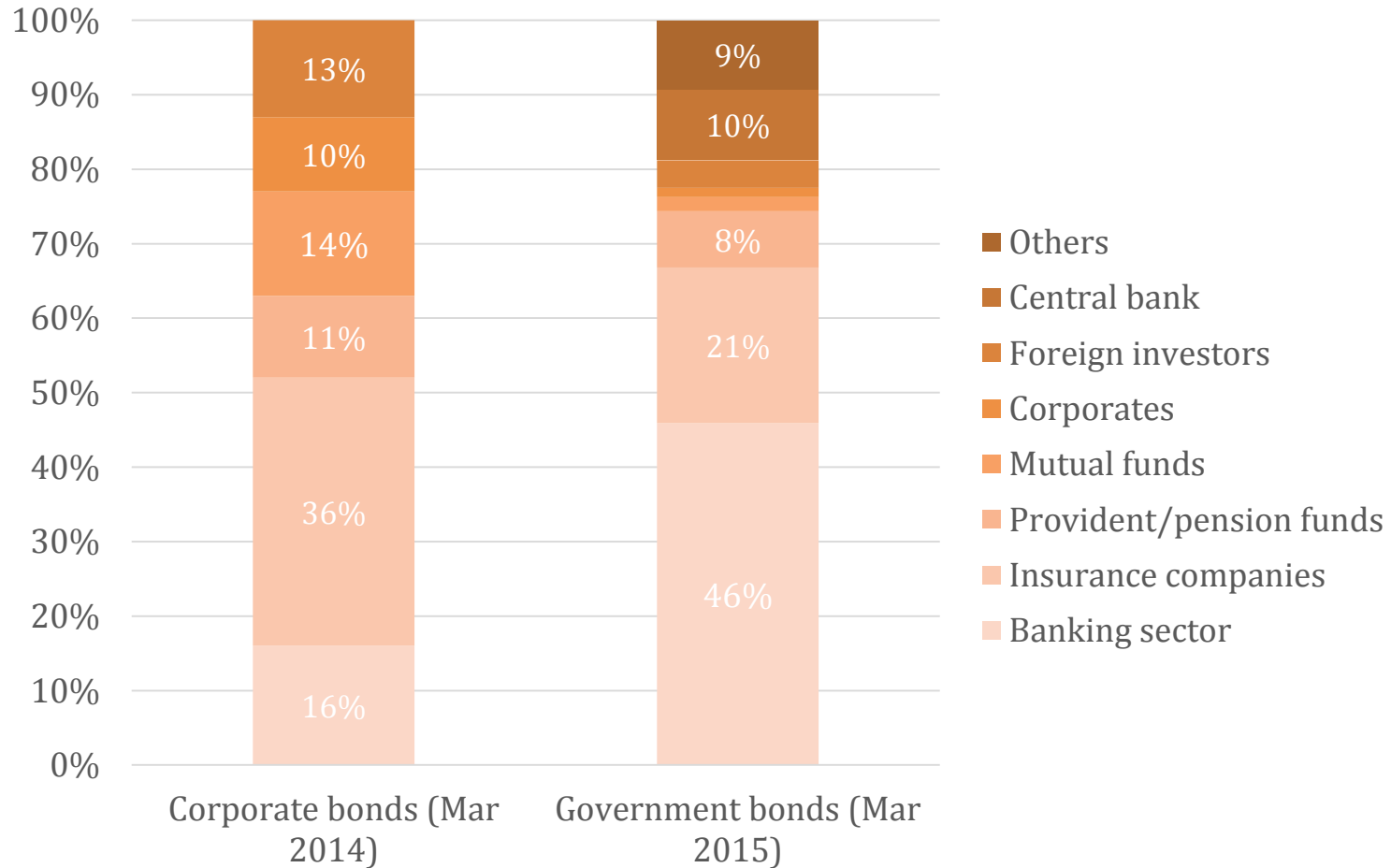


How is the current investor base?

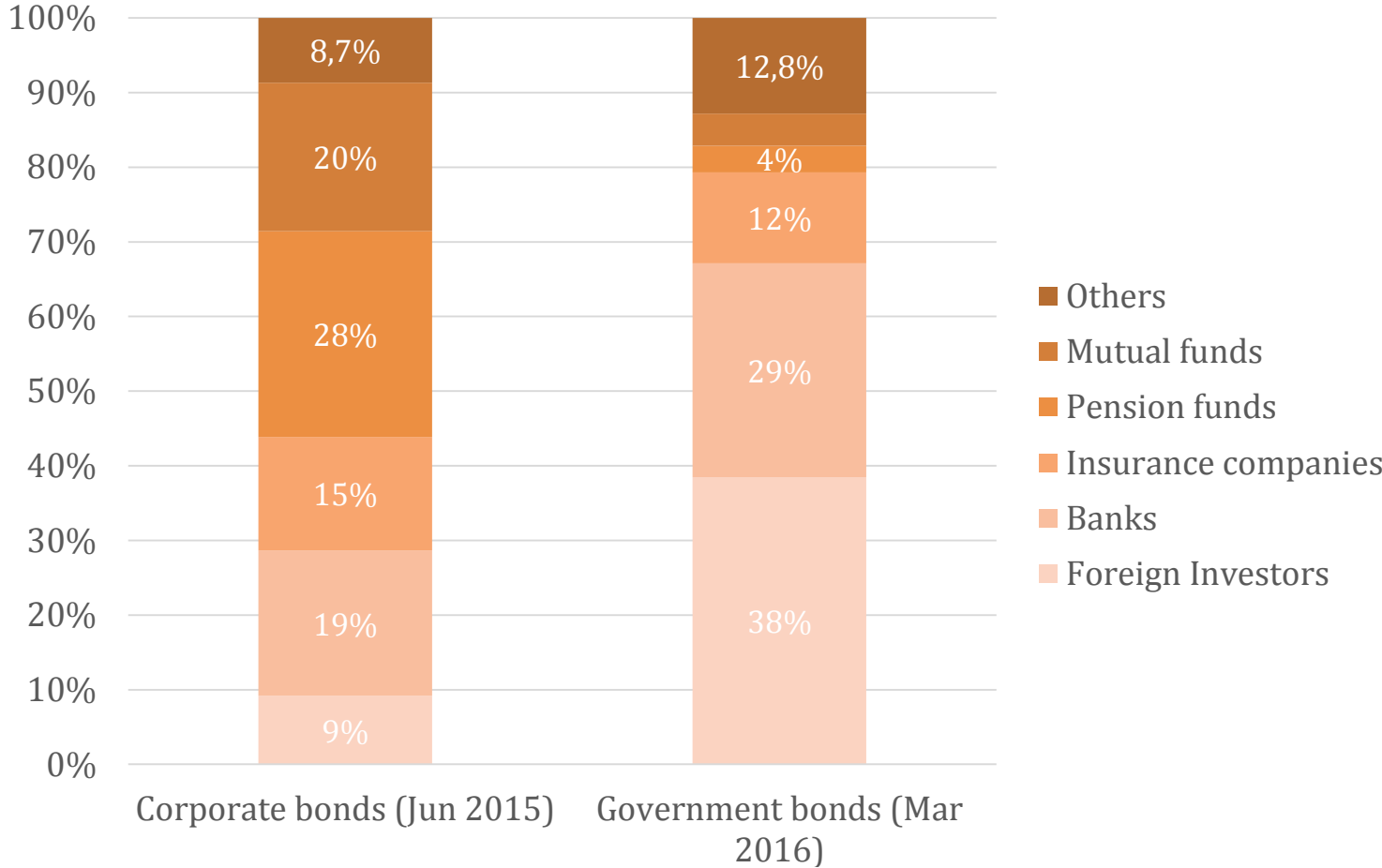
Investor base - China



Investor base - India



Investor base - Indonesia



How to secure diversification?

Three building blocks

1. Information flows (price discovery)

- Information about the issuer (pricing underlying/counterparty)
- Information about the financial instrument (pricing product)
- Key objective is comparability

2. Execution (procedures)

- Entry requirements (accessibility to markets and products)
- Exit/renegotiation requirements (liquidation)
- Key objective is fairness

3. Enforcement (implementation)

- Enforcement of laws (e.g. supervisory practices, regulatory procedures, courts)
- Enforcement of contracts (e.g. insolvency proceedings)
- Key objective is certainty

Price discovery

- Information about issuers
 - Accounting standards
 - IFRS convergence
 - Enforcement
 - Company data (e.g. business registry & company filings)
 - Credit scoring and reporting
 - Conflicts of interest information (RPT, ownership, etc)
- Information about issued products
 - Prospectus
 - Credit ratings
 - Reporting systems (pre and post-trade)
 - Yield curve liquidity (risk-free rate)

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Execution

- Barriers to entry (accessibility)
 - Capital controls (quotas, investment restrictions, convertibility)
 - Primary issuance access (objective criteria)
- Barriers to exit (liquidation)
 - Calibration of prudential requirements ('buy and hold')

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Enforcement

- Public enforcement
 - Institutional coordination (functional approach)
 - Securities law (collateral, netting, etc)
 - Weak sanctions/enforcement and implementation process
- Private enforcement
 - Bankruptcy regimes
 - Redress procedures



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Thank you!

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