

Supporting the Development of Local Currency Bond Markets

Interim Progress Report on Implementing the G20 Action Plan on the Development of Local Currency Bond Markets¹

June 2012

I. Background

The World Bank Group (WBG), the Asian Development Bank (AsDB), the African Development Bank (AfDB), the Bank for International Settlements (BIS), Inter-American Development Bank (IADB), European Bank for Reconstruction and Development (EBRD), the International Monetary Fund (IMF), and the Organization for Economic Co-operation and Development (OECD), with the active support of the Deutsche Bundesbank, are in the process of implementing the G-20 Action Plan to support the Development of Local Currency Bond Markets, endorsed by G-20 Heads of State and Government at their November 2011 Summit in Cannes².

Since the Summit, these institutions have met several times, including in the context of a workshop organized by the Bundesbank, World Bank, and IMF in Frankfurt in November 2011, on the margins of the 13th Annual OECD-IMF-WBG Global Bond Market Forum in Washington DC in April 2012, and through regular conference calls organized to take stock of efforts underway in the three main pillars of the G20 Action Plan (AP): (i) advisory assistance; (ii) diagnostics for assessing LCBM development preconditions and priorities, and (iii) improving data on LCBMs. We also discussed how institutions involved in implementing the AP can work together more effectively.

While incremental resources to ramp up advisory assistance for the development of LCBMs and implement data standards and the diagnostic framework under development have yet to be mobilized (as envisaged under the AP), it was agreed at the Frankfurt meeting that progress on several aspects of the Action Plan was still achievable. Agreement was reached on a notional division of labor and way forward for these efforts.

1. Improving the coordination of technical assistance among international organisations (IOs)

Coordinating agency: The World Bank

Objective: Improved, more systematic and regular sharing of information among participating IOs about planned advisory programs and projects to reinforce

¹ Prepared by staff of the World Bank Group with input from the African Development Bank, Asian Development Bank, Bank for International Settlements, European Bank for Reconstruction and Development, Inter-American Development Bank, International Monetary Fund, Organization for Economic Co-operation and Development and Deutsche Bundesbank.

² <http://www.g20-g8.com/g8-g20/g20/english/the-2011-summit/declarations-and-reports/g20-cannes-summit-declarations-and-reports.1553.html>

complementarity, reduce redundancies, and foster learning from experience among the different agencies.

Deliverables:

- A database that can be shared and accessed by participating IOs with updated information on projects by region, country, type of market supported, core activities and deliverables.
- A regular conference call to discuss TA strategies, regions and countries of work and potential coordination issues.
- An annual workshop to take stock of TA projects conducted by the IOs and other agencies and discuss topics of common interest raised by TA work.

Consultations are under way with participating institutions on creating a shared project database, including discussion of options for shared electronic platforms. Regular coordination conference calls were initiated in March 2012.

By November 2012, we expect the project database electronic platform to be operational. An annual coordination workshop is scheduled for the second half of November 2012 in Frankfurt.

2. Developing a Common Diagnostic Framework to support technical advice by IOs

Coordinating agency: IMF

Objective: To develop a common diagnostic framework to help country authorities and IOs identify and set priorities for technical assistance and related advisory services in support of LCBM deepening, taking into account of a country authorities' market development and financial sector reform goals and recognizing that the needs of market players—both issuers and investors—will vary with the stage of economic development, with implications for prioritization and sequencing of reforms.

Drawing on the identification of key indicators that could be commonly used across different types of countries to assess the depth of LCBM and feasibility of development, the framework will set out the key elements that influence the depth of LCBMs and their potential to enhance the market's contribution to financing, risk management, and overall financial stability. It will look at a range of relevant dimensions of LCBM development, including: (i) the macro-financial policy framework; (ii) institutional and regulatory preconditions; (iii) market microstructure factors, including market infrastructure trading and disclosure platform requirements, (iv) inter-linkages across different sub-components of capital markets and (v) composition of the investor base. It will focus on the core bond markets (i.e., government and corporate bond markets, and complimentary money and derivatives markets).

Deliverables:

- Common diagnostic framework for LCBM development and deepening.

In June 2012, a first draft of a common diagnostic framework (which draws on inputs from various IOs) covering government debt markets, corporate bond markets, the investor base, money markets and macroeconomic pre-conditions for local currency bond markets will be circulated among participating IOs for review and discussion.

By November 2012, we expect to have made significant progress in achieving consensus among the involved IOs on a common diagnostic framework and to have begun soliciting feedback on the draft from interested stakeholders, including the private sector. Our intention is to make the framework available as a public good before the end of 2013 as guidance for countries and TA providers that may find it useful.

3. Improving data availability to support LCBMs

Coordinating agency: Deutsche Bundesbank

Objective: Provide an inventory of available data and a list of the different working groups and institutions currently working on collecting and disseminating data on LCBMs; draft a strategy to increase transparency, harmonize definitions, improve data quality and expand data availability, specifically on linkages between LCBMs and financial stability. The strategy would also propose a model to operationalize data gathering and sharing among the working groups and institutions that would conduct the work.

Deliverables:

- Inventory of data sources and data availability, and list of working groups and institutions involved in collecting, processing and disseminating data relevant to LCBMs.
- List data gaps on LCBMs and their links to financial stability, focusing on the data identified as most relevant in the diagnostic framework.
- Prepare a strategy to increase transparency of and expand data on LCBMs, taking into account existing working groups on data and statistics.

In June 2012, we reached agreement to focus our efforts on the kinds of data that are needed to support the diagnostic framework.

By November 2012, we plan to have prepared a list of data gaps on LCBMs, to have drafted a strategy for consultation to improve quality and availability of data on LCBMs and to have agreed on strategy among institutions participating in the process to improve data on LCBMs. Implementation of this strategy to improve data quality and dissemination would be subject to availability of adequate financing.

II. 2012 Progress Report on Implementation of the G20 Action Plan on LCBMs

The WB will continue to coordinate the interagency efforts, including by coordinating preparation of the Progress Report on Implementing the G20 Action Plan on the Development of LCBMs to be presented to G20 Finance Ministers and Central Bank Governors at their meeting in November 2012.