

# G20 Action Plan on the Development of Local Currency Bond Markets

## Implementation Report to G20 Ministers and Central Bank Governors

July 2013

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### I. Background

In 2011, under the French Presidency, the G20 adopted the Action Plan to Support the Development of Local Currency Bond Markets (LCBMs) as part of its agenda on Reform of the International Monetary System. The Action Plan recognized that financial deepening in general, and LCBM development in particular, could enhance the stability of the international monetary system by (i) raising economies' capacity to absorb volatile capital flows and intermediate them efficiently and safely; (ii) reducing reliance on foreign savings; (iii) attenuating external imbalances; (iv) mitigating the need for large precautionary reserve holdings; and (v) improving the capacity of macroeconomic policies to respond to shocks by allowing balance sheets to adjust more smoothly. The Action Plan was comprised of three pillars: (i) improving the coordination of technical assistance (TA) among international organizations (IOs), (ii) developing a common diagnostic framework to support technical advice by IOs, and (iii) improving data availability to support LCBM development.

Since its adoption in November 2011, international organizations<sup>1</sup> have worked to implement all pillars of the Action Plan, reporting regularly to the G20 through a series of Progress Reports. This note describes the progress that has been achieved on the three pillars of the Action Plan, indicating areas of ongoing work by international organizations, as well as how international organizations will support G20 objectives on the development of LCBMs going forward.

### II. Implementation of the G20 Action Plan

#### 1. Improving the coordination of TA among IOs

*Coordinating agency:* World Bank Group

**Objective:** Improved, more systematic and regular sharing of information among IOs involved in TA on LCBMs about planned advisory programs and projects to reinforce complementarity, reduce redundancies, and foster learning from experience among the different agencies.

**Deliverables:**

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

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<sup>1</sup> The organizations involved in the IO working group include the World Bank Group (WBG), International Monetary Fund (IMF), Asian Development Bank (ADB), African Development Bank (AfDB), Inter-American Development Bank (IADB), European Bank for Reconstruction and Development (EBRD), Organization for Economic Co-operation and Development (OECD), and the Bank for International Settlements (BIS), with active support from the Deutsche Bundesbank.

***Status/Progress:***

- A TA project database was developed and launched in December 2012. It will be updated on a semi-annual basis with the first update to be completed by mid-July 2013. Based on IO's feedback, the database template has been recently revised to include additional categories for sub-product classification and type of project work.
  - The WBG's Collaboration for Development (C4D) Platform hosting the TA project database and other relevant documents has been launched; representatives from the IO working group (WBG, IMF, OECD, RDBs) have been invited to join. An updated TA database will be posted on the Group's C4D Platform.
  - The 4<sup>th</sup> Annual G20 Stocktaking Workshop was held on December 6-7, 2012 in Frankfurt. The 5<sup>th</sup> Annual Workshop will be held in December 2013 with representatives of the IO working group.
  - Regular calls/meetings with representatives of the IO working group including a conference call on September 19<sup>th</sup>, an annual stocktaking workshop on December 6-7<sup>th</sup>, and a working group meeting on April 22<sup>nd</sup>. These meetings were used to discuss progress on the G20 Action Plan and how to continue to improve collaboration on advisory work and use the TA database more effectively.
  - The WBG has committed to organizing quarterly conference calls (or meetings) with IOs providing support for LCBM development.
- 2. Shared Diagnostic Framework to support technical advice by TA providers and emerging market economy (EME) policy makers**

***Coordinating agency:*** IMF

***Objective:*** Develop a common Diagnostic Framework for LCBM deepening. This is a collaborative effort involving multilateral institutions providing TA and related advisory services on LCBM development. The framework sets out the key elements and preconditions that influence the deepening of LCBM to enhance the market's contribution to financing, risk management, and overall financial stability and identifies a set of core indicators to assess and monitor LCBM development at the country level.

***Deliverables:***

- Common diagnostic framework for LCBM development and deepening.

***Status/Progress:***

- The Diagnostic Framework was elaborated by the WBG, IMF, EBRD, and OECD. A roundtable consultation with a subgroup of stakeholders took place on April 22, 2013 in Washington, D.C. with comments received from regional development banks, IOSCO, several EMEs (Turkey and Uruguay), and a private-sector asset manager. The Diagnostic Framework is now complete and was sent to the G20 Working Group on Reform of the International Financial System in July 2013 in preparation for the July meeting of G20 Finance Ministers and Central Bank Governors.
- Going forward, we expect the Diagnostic Framework will provide guidance to TA providers in LCBMs, including IOs, as well as policy makers in EMEs. A dissemination strategy will be articulated by the IO working group so that the Diagnostic Framework can be used widely as a tool in LCBMs diagnostics.

### 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 aims at proposing the operating model, working groups or institutions that would conduct the work.

**Deliverables:**

- Inventory of data sources and data availability, and list of working groups and IOs involved in collecting, processing and disseminating data relevant to LCBMs, including IMF, WBG, OECD, ADB, AfDB, EBRD, IADB.
- 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.

**Status/Progress:**

- A set of core indicators has been identified in the Diagnostic Framework to assess and monitor LCBM development.
- During the 4<sup>th</sup> Annual Stocktaking Workshop held on December 6-7, 2012, the WBG, IMF, OECD, BIS, ADB, AfDB, EBRD and IADB made presentations on ongoing and planned data gathering activities.
- In parallel the Bundesbank has worked on the following :
  - Issue note circulated to IOs in January 2012 to reach agreement in principle in March on the way forward
  - Drafting a systematic data template for a survey on data availability and collaborative efforts
  - Preliminary list of identified data gaps linked to financial stability produced.
- Going forward, TA providers will be encouraged to focus on the indicators identified in the Diagnostic Framework, when providing support to countries on standardizing LCBMs core data.

### III. Way Forward

Building on the work in support of LCBM development under the G20 Action Plan, IOs will sustain their enhanced collaboration and information sharing to improve resource allocation and the effectiveness of TA in support of LCBM development.

The TA project database will be regularly updated and will continue to contribute to an improved, more systematic and regular sharing of information among IOs about planned advisory programs and projects.

The Diagnostic Framework will be broadly disseminated so that it can be used as a reference by both IOs and bilateral TA providers, as well as policy makers in EMEs. To assist the G20 in monitoring LCBM development, the WBG, in consultation with other international organizations (IMF, OECD, BIS, ADB, AfDB, EBRD and IADB), has also committed to producing a yearly note to the G20 on recent developments in LCBMs. The first of these notes will be delivered in time for the Meeting of G20 Finance Ministers and Central Bank Governors in October 2013.

An inventory list of data sources, data availability and planned work on data gathering activities will be prepared for the next Annual Stocktaking Workshop to be held in December, 2013.

While the G20 focus on LCBM development was initially motivated by the contribution of LCBMs to monetary and financial stability and capital flow management, the work underway in the G20 Study Group on Long-Term Investment Financing provides an opportunity to focus on the contribution of LCBMs to resource mobilization in support of growth, employment and productivity-enhancing investment. As indicated in the *Umbrella Report on Long-Term Financing for Growth and Development* local currency government debt markets in EMEs demonstrated resilience in the midst of capital flow volatility and international market instability in the wake of the global financial crisis. EME local currency corporate debt is growing but is still small.

Given the potential benefits of LCBMs, and the general recognition that LCBMs - particularly corporate bond markets - remain underdeveloped as a vehicle for mobilizing domestic and international financing for EMEs, the Work Program of the G20 Study Group on Long-Term Investment Financing includes analytical work on LCBM, including as part of a broader, more holistic approach to domestic capital market development.

Also of relevance to the work of the G20 on LCBM development is a recent initiative co-led by the WBG, the IFC and the EBRD to establish a senior forum of VPs/CFOs from leading development finance institutions on LCBM development. This group will give visibility and focus to key issues on LCBM development needing attention from regulators and policy makers, thereby building on the work of the G20.