



Deutsches Institut für
Entwicklungspolitik



German Development
Institute



Federal Ministry
for Economic Cooperation
and Development



Capacity Building International
Germany

Financial Innovation and Emerging Markets – Opportunities for Growth vs Risks for Financial Stability

**An InWEnt-DIE initiative supported by the Federal Ministry for Economic Cooperation and
Development (BMZ), July 3-4, 2008 in Berlin
Program**

Background

Financial markets that mobilize domestic savings and efficiently allocate these and foreign inflows to the most productive investments have long been recognized as key drivers of economic development. Financial markets will remain crucial in undertaking the substantial investments needed to stimulate and sustain growth and employment generation over the coming decades. In addition, access to financial services for the poor makes important contributions to poverty reduction.

While emerging markets have greatly increased the efficiency of and access to their financial markets, substantial risks for stability remain as financial innovation has continued to proceed at great speed. The rapid diffusion to emerging markets of new financial instruments like derivatives and asset-backed securities, as well as the entry of new investors like hedge funds and private equity raise questions to which extent policy and regulatory responses are required in these countries.

Conference Concept

This two-day dialogue aims at outlining policy implications of these recent trends in financial markets for large emerging countries. It will provide a platform for mutual learning and peer-to-peer discussion about the opportunities of innovative financial instruments and new investors for development finance and poverty reduction, but also explore their risks for the stability of financial systems at the national, regional and global levels.

Against this backdrop, the InWEnt-DIE-dialogue will place particular emphasis on an exchange between government officials and academics to address the public policy-oriented issues related to financial stability. It will bring together policy makers and policy advisors from relevant public institutions and academic research from Brazil, China, India, Mexico and South Africa with their peers from international and German bodies. The number of participants will be limited to 50 to allow for an intensive debate.

The exchange of results of in-depth analysis and sound political assessment is expected to lead to a number of recommendations that can help to shape policies with regard to upcoming new challenges to financial markets worldwide. Cooperation and networking opportunities offer a starting point for future coordinated action.

The dialogue is structured into three sessions on (i) the benefits and risks of new financial instruments; (ii) recent developments in bond markets; and (iii) the resulting challenges for regulatory authorities, policy reform priorities and scope for future cooperation.

Conference Structure

July 3, 2008 (Thursday)

08:30-09:00 Registration

09:00-09:30 **Opening**

09:00-09:05 Words of welcome by **Günther Taube**, Head of Department International Regulatory Framework, Good Governance, Economic Policy, InWEnt- Capacity Building International, Germany

09:05-09:10 Words of welcome by **Peter Wolff**, Head of Department, World Economy and Development Financing, German Development Institute (DIE)

09:10-09:20 Official welcome by **Paul Garaycochea**, Head of Division World Bank Group, IMF, Debt Relief, International Financial Architecture, German Federal Ministry for Economic Cooperation and Development (BMZ)

09:20-09:30 Financial Sector Trends in Emerging Markets, **Ulrich Volz**, Senior Economist, German Development Institute (DIE)

09:30-12:30 **Session 1: Benefits and Risks of New Instruments: Derivatives and Securitization**

A multitude of new financial instruments has developed over the past decade, enhancing the spectrum of financing and hedging opportunities. Yet the current financial crisis in a number of countries highlights the risks associated with innovative financial products that have developed faster than regulatory authorities could keep pace with. This session discusses the risks of synthetic and structured products and how they compare to the benefits. Moreover, it seeks to address how the trade-offs between improved risk sharing and stability can be managed. The first part of this session will provide an overview of recent developments and trends in the financial sectors of major emerging markets and address the main opportunities and risks for these economies stemming from financial innovation. Subsequently, the second part of the session will be a platform for discussion on how risk can be adequately dealt with, whether recent recommendations of the International Monetary Fund (IMF) and the Financial Stability Forum that were primarily directed toward industrialized countries are relevant also for emerging markets, and whether financial innovation has so far been sufficiently considered in the IMF/World Bank Financial Sector Assessment Programs.

09:30-11:00 **Current Trends in National Capital Market Innovations**

Chair: **Erich Harbrecht**, Head of Division, International Financial Systems, Deutsche Bundesbank

Daniel Mminele, Executive General Manager, South African Reserve Bank

Susan Thomas, Assistant Professor, Indira Gandhi Institute of Development Research, India

Keith Lui, Executive Director, Supervision of Markets, Securities and Futures Commission, Hong Kong

Eduardo Gomes, Head of International Affairs Department, Security and Exchange Commission, Comissão de Valores Mobiliários (CVM) of Brazil

Q&A

11:00-11:30 Coffee break

11:30-12:30 **Global Perspectives and the Role of International Financial Institutions**

Chair: **Rajiv Kumar**, Director General and CE, Indian Council for Research on International Economic Relations (ICRIER)

R. Sean Craig, London Representative, International Monetary Fund (IMF)

Michael S. Bennett, Principal Financial Officer, Treasury (Paris), International Bank for Reconstruction and Development

Q&A

12:30-13:15 **Keynote Speech** “A Pragmatic Approach to Coping with Financial Globalization”
Eswar Prasad, Tolani Senior Professor of Trade Policy, Cornell University

13:15-14:15 Lunch break

14:15-18:30 Session 2: New Developments in Bond Markets

The underdevelopment of domestic bond markets in developing and emerging countries has been recognized as a potential source of havoc. The deepening of domestic bond markets – including the development of domestic currency corporate bond markets with longer maturities – remains a key challenge for many emerging markets. Since the Asian crisis, East Asian countries have made modest progress in nurturing a regional bond market, a development that could lead the way also for other regions. These indigenous efforts received international support, e.g. by the G8 ‘Action Plan for the Development of Local Bond Markets in Market Economies and Developing Countries’ and initiatives of development banks, such as the ADB, to issue regional bonds. Challenges remain, including, but not limited to, the development of benchmarks for the pricing of corporate bonds, the creation of state of the art regulatory frameworks complying to international standards and appropriate supervision. After discussing recent developments in national bond markets the second part of this session will discuss best practices for domestic currency bond markets and how regional organizations and initiatives can provide support. Also, it will discuss the development of regional bond markets as a complementary means to the development of national markets.

14:15-16:00 **Developments and Trends in National Bond Markets**

Chair: **Hans J. Blommestein**, Head of Debt Management and Bond Markets Program, Organisation for Co-operation and Development (OECD)

Carlos Serrão, Analyst, Department of Open Market Operations, Banco Central do Brasil (BCB)

Garth Greubel, CEO, Bond Exchange of South Africa (BESA)

Roberto Marino, Manager of International Economic Affairs, Banco de Mexico

Bandi Ram Prasad, Chief Executive Officer, Nehvira – Knowledge Advisors, former Chief Economist Bombay Stock Exchange, India

Stephany Griffith-Jones, Executive Director, Initiative for Policy Dialogue, Columbia University

Q&A

16:00-16:30 Coffee break with group photo

16:30-18:30 **Best Practices and Scope for Regional and International Cooperation**

Chair: **Hans J. Blommestein**, Head of Debt Management and Bond Markets Program, Organisation for Co-operation and Development (OECD)

Dietrich Lingenthal, Head of Department International Financial Markets; Capital Market Policy; Financial Stability Forum; Financial Services Liberalisation, German Federal Ministry of Finance (BMF)

Srichander Ramaswamy, Senior Economist, Secretariat for the Global Financial System, Bank for International Settlements (BIS)

Lotte Schou-Zibell, Economist, Office of Regional Economic Integration, Asian Development Bank (ADB)

Thierry de Longuemar, Vice President Finance, African Development Bank (AfDB)

Q&A

19:30 Conference dinner at Siemenssaal, Mövenpick Hotel

4 July, 2008 (Friday)

09:00-13:00 Session 3: Challenges for Regulatory Authorities, Policy Reform Priorities and Future Cooperation

Ever-closer linkages in international financial markets and the development of increasingly complex products make it progressively difficult for national regulatory authorities to keep track with the pace of financial markets. At the same time, more closely integrated financial markets significantly increase the danger of financial contagion across borders. Moreover, actors like hedge funds pose challenges to regulators, increasingly also in emerging markets. This session discusses the role that highly leveraged institutions like hedge funds and private equity play in emerging markets and which regulatory instruments and institutions might be most suited to effectively mitigate the risks they entail. It addresses the regulatory challenges for emerging markets stemming from the diffusion of new financial instruments that were discussed in the two previous sessions. The session will identify key challenges to financial markets of emerging market economies and on a global scale and try to identify suitable policy responses. Although the international community has taken a number of steps to intensify international cooperation to come to terms with the various challenges to the global financial system, the disturbances of financial markets since last summer and the influence of new actors outside the G8 leads to questions whether the current institutional set-up can meet the challenges posed. Against this background this session will also discuss possible future forms of cooperation between industrialized economies and the main emerging market economies.

09:00-10:30 **Suggestions from Emerging Markets' Perspectives**

Chair: **Peter Wolff**, Head of Department, World Economy and Development Financing, German Development Institute (DIE)

Phakamani Hadebe, Deputy Director-General, National Treasury of South Africa

Ronaldo Malagoni Cavalcante, Director, Department of International Affairs, Banco Central do Brasil

Q&A

10:30-11:00 Coffee break

11: 00-13:00 **Perspectives of Future International Cooperation**

Chair: **Günther Taube**, Head of Department, International Regulatory Framework, Good Governance, Economic Policy, InWEnt- Capacity Building International, Germany

Christian Thimann, Head of International Policy Analysis Division, European Central Bank (ECB)

Gerhard Ressel, Deputy Head, Division World Bank Group, IMF, Debt Relief, International Financial Architecture, German Federal Ministry for Economic Cooperation and Development (BMZ)

Jiaqiang Zhang, Head of Department of Economic Affairs, Embassy of the People's Republic of China in Germany

Discussion with

Michael S. Bennett, Principal Financial Officer, Treasury (Paris), International Bank for Reconstruction and Development

Phakamani Hadebe, Deputy Director-General, National Treasury of South Africa

Ronaldo Malagoni Cavalcante, Director, Department of International Affairs, Banco Central do Brasil

Rajiv Kumar, Director General and Chief Executive, Indian Council for Research on International Economic Relations (ICRIER)

Roberto Marino, Manager of International Economic Affairs, Banco de Mexico

13:00

Official Closing

Günther Taube, Head of Department, International Regulatory Framework, Good Governance, Economic Policy, InWEnt- Capacity Building International, Germany

13:10-14:30

Farewell lunch