



# LCBM Framework

**L C B M**

Local Currency Bond  
Market Development

Context

Why Develop Local Currency Bond Markets (LCBM)?

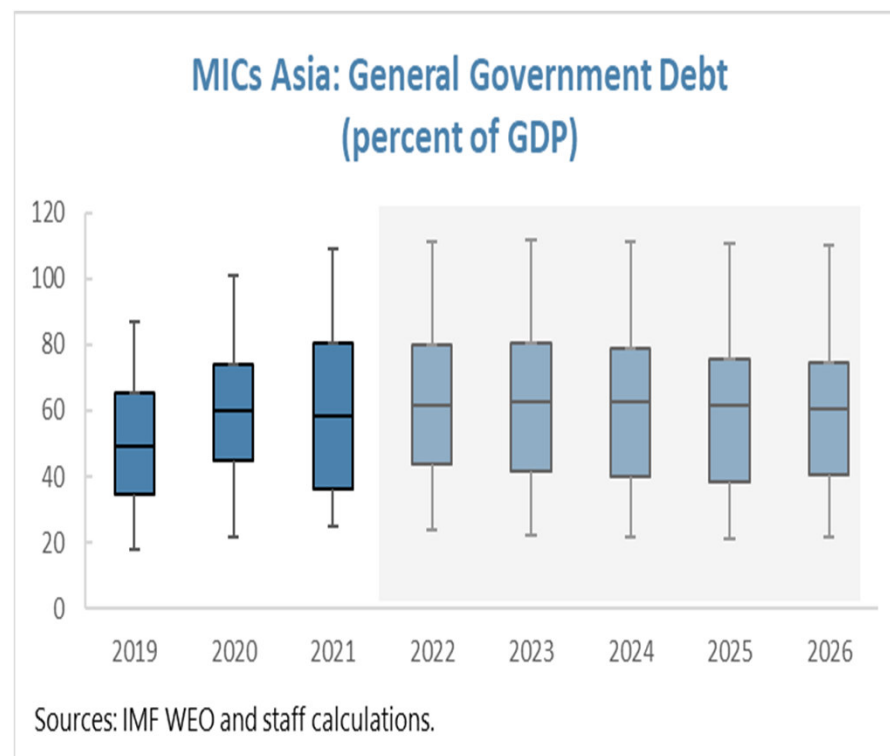
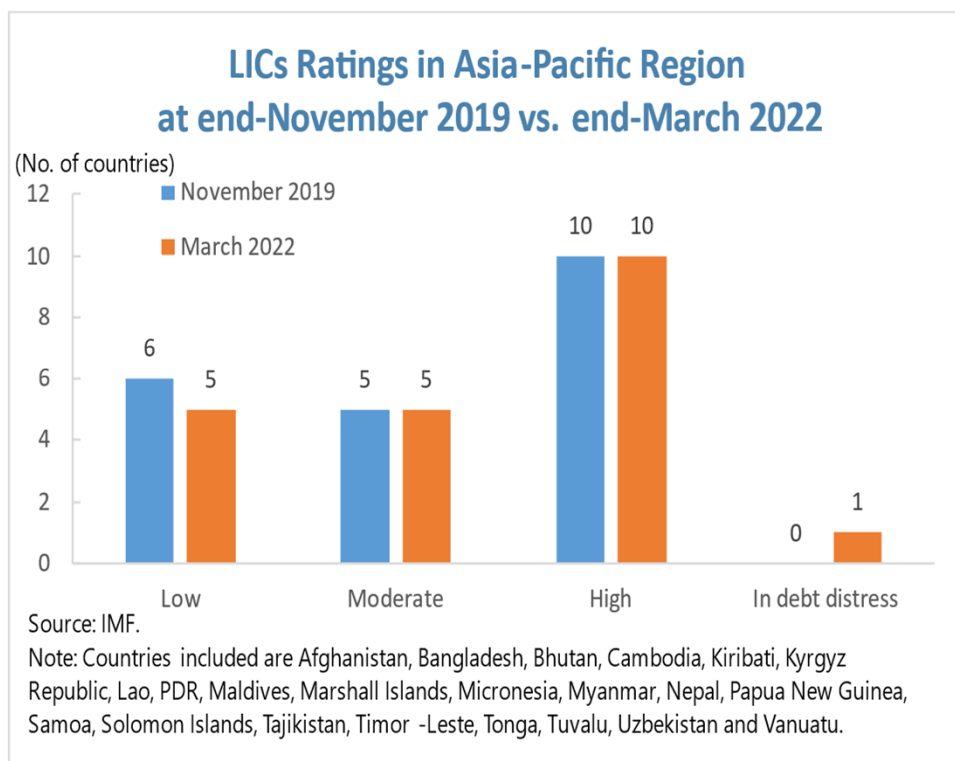
A Framework to Develop LCBM

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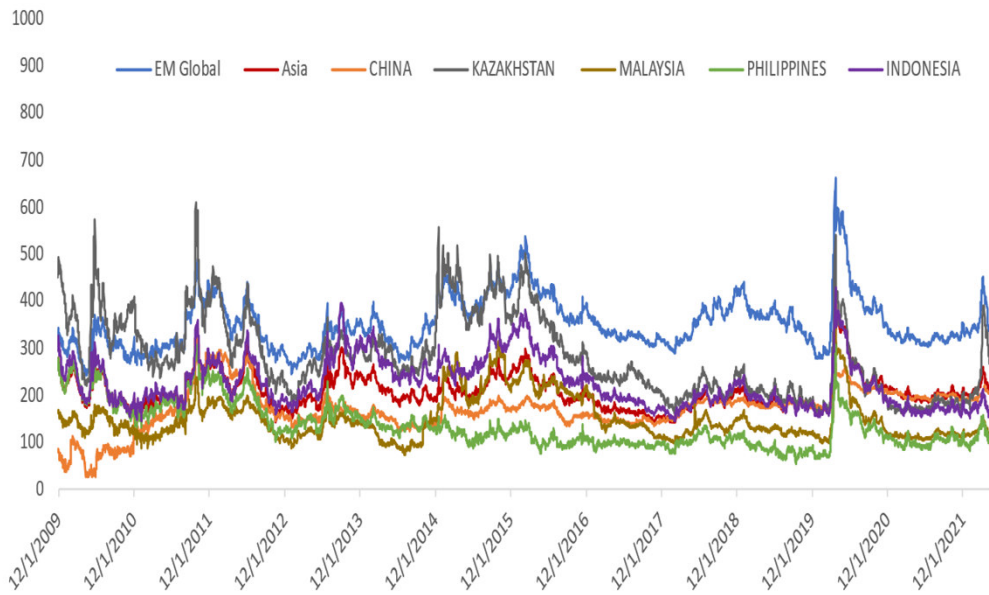
A Framework to Develop LCBM

## Higher debt burden in Asia to linger .... Relatively more for MICs ..... Growing debt vulnerabilities in some sovereigns.... Debt Distress in LICs broadly unchanged



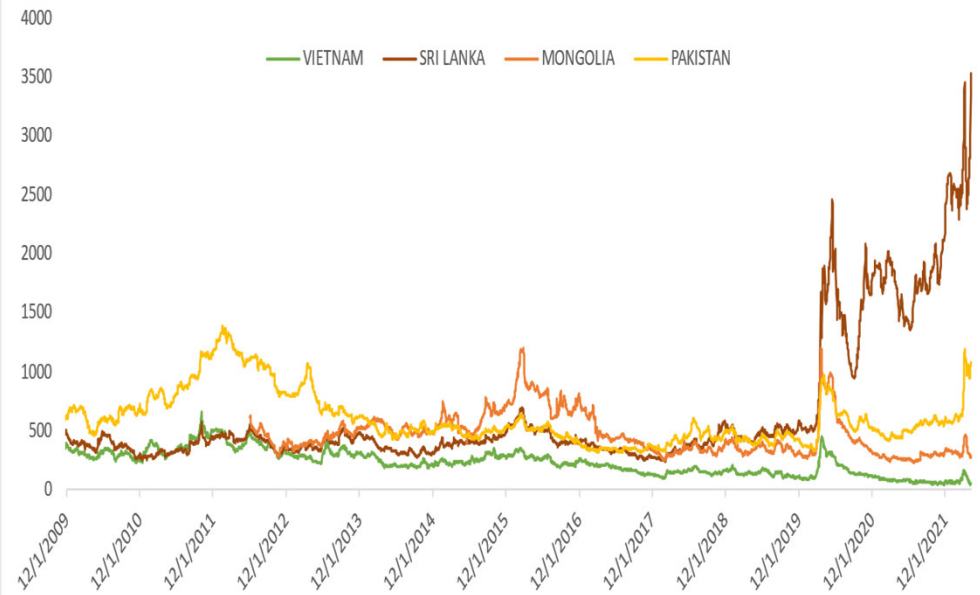
# Asian sovereigns registered sharper recovery in bond yields than other EMDEs since March 2020 .... barring few high-yield sovereigns with debt vulnerabilities

Investment Grade: USD EMBIG Sovereign Spread  
(in basis points)



Source: Bloomberg, LLP.

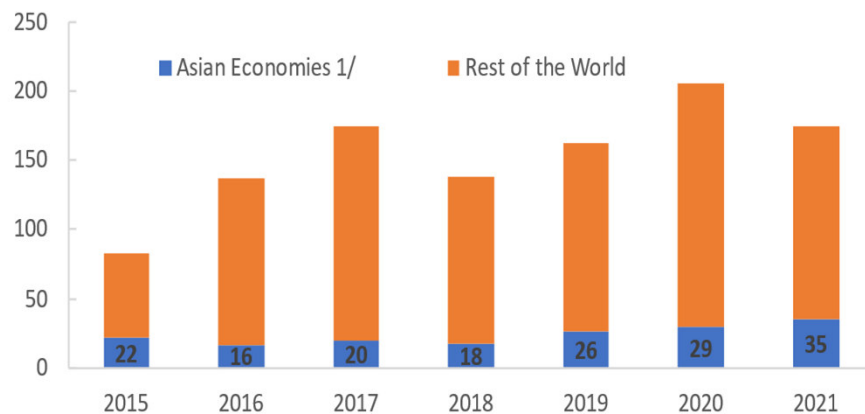
Non-investment Grade: USD EMBIG Sovereign Spread  
(in basis points)



Source: Bloomberg, LLP.

## Asian sovereigns relatively less reliant on international capital markets ..... Greater recourse by investment grade sovereigns .... High-yield issuers restored market access after being locked out in 2020

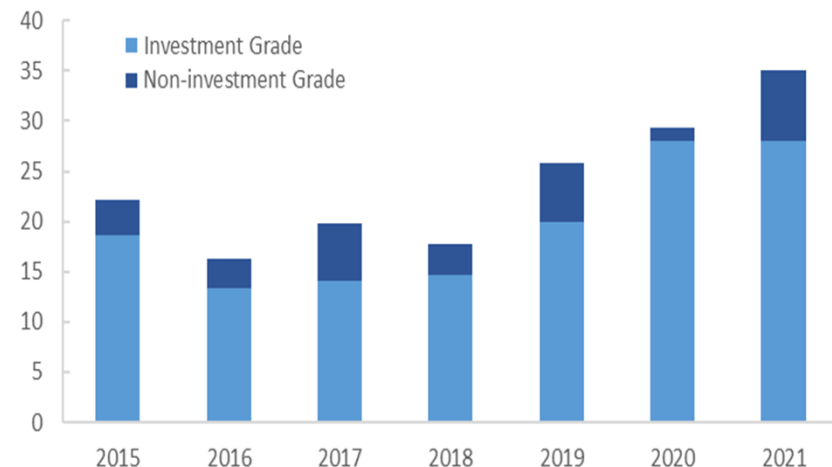
Sovereign International Issuance, 2015-21  
(in USD bn)



Sources: Bond Radar; and IMF staff calculations.

1/ Countries in the sample are Armenia, Azerbaijan, China, Fiji, Georgia, Indonesia, Kazakhstan, Malaysia, Maldives, Mongolia, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Tajikistan, Uzbekistan, and Vietnam.

Aisa: Sovereign International Issuance, 2015-21  
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# EM Sovereigns Weathered the Brief Volatility in LCBM to Finance their Growing Borrowing Needs ... But with steepening yield curve in some EMs

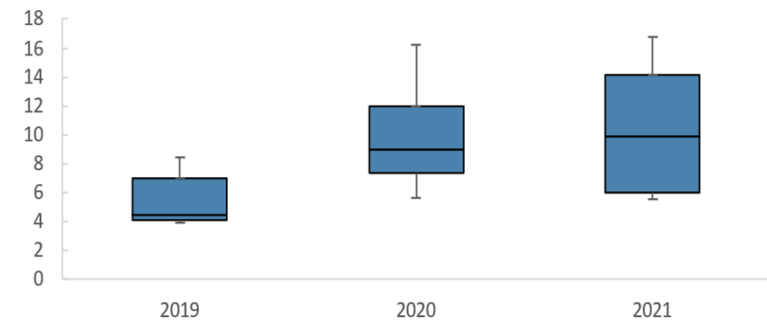
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Interest Rate Spread - 2yrs vs 10yrs - LCY Bond



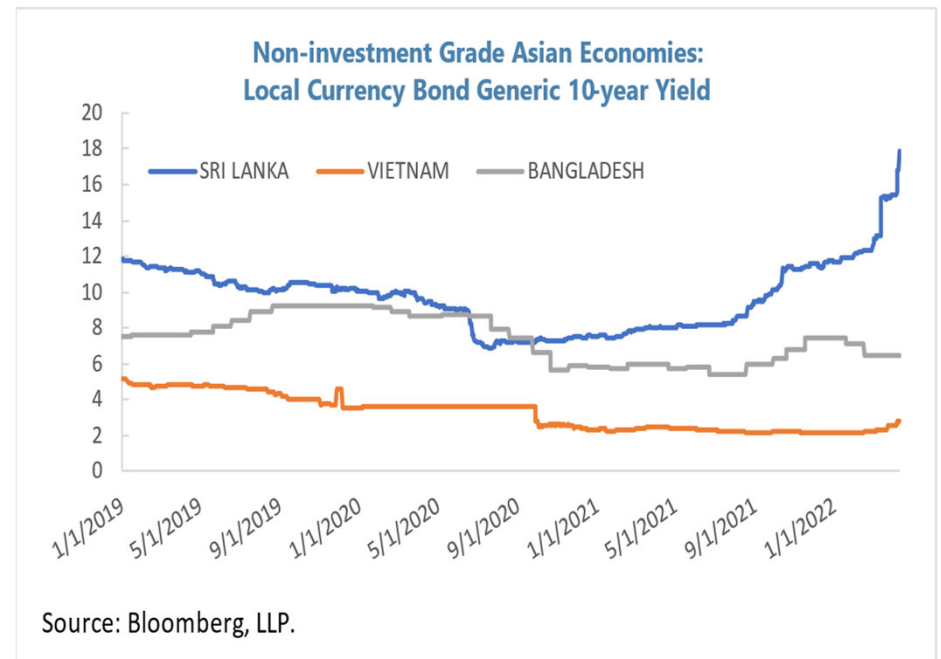
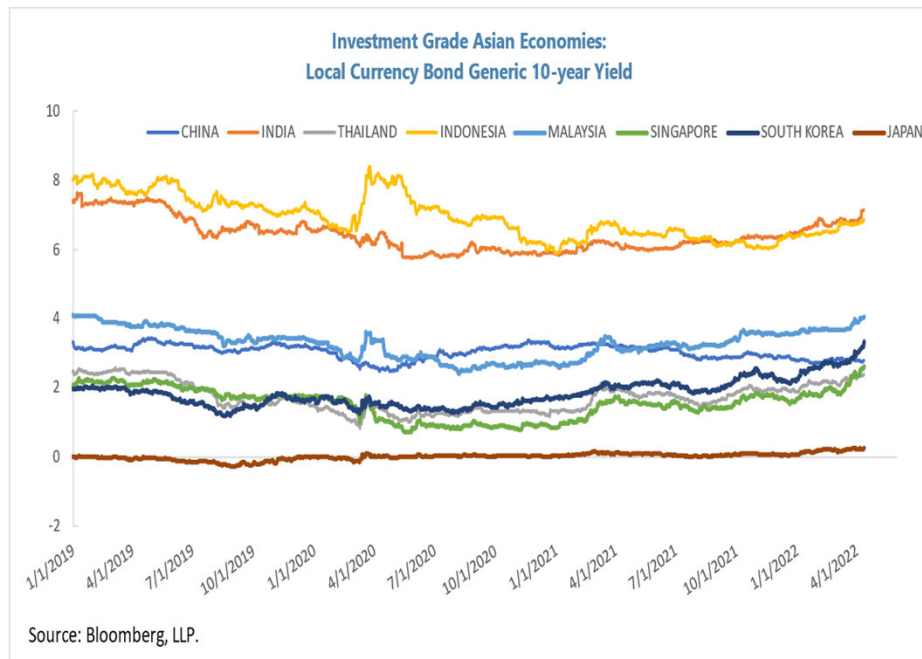
Source: AsianBondsOnline  
Download: 11/4/2022 @ 12:28:36

Investment Grade Asian Economies:  
Local Currency Bond Issuance  
(percent of GDP) 1/

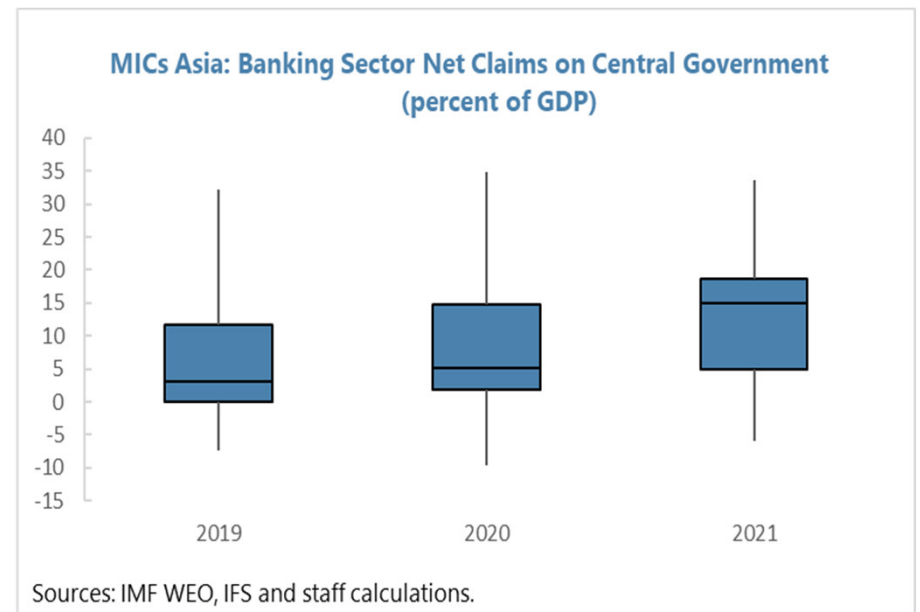
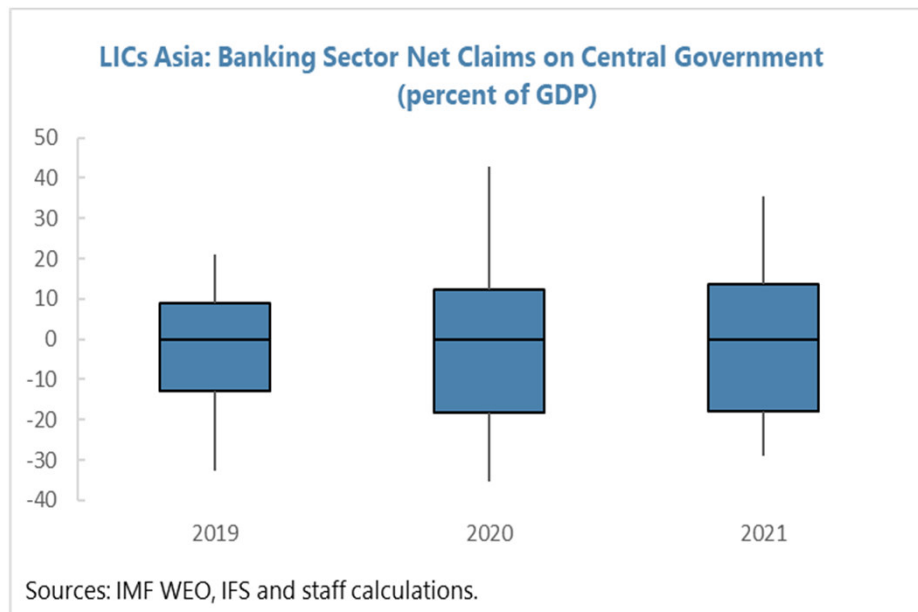


Sources: ADB Bonds Online, India, MoF, IMF WEO and staff calculations.  
1/ Countries included are China, India, Indonesia, Malaysia, Philippines and Thailand.

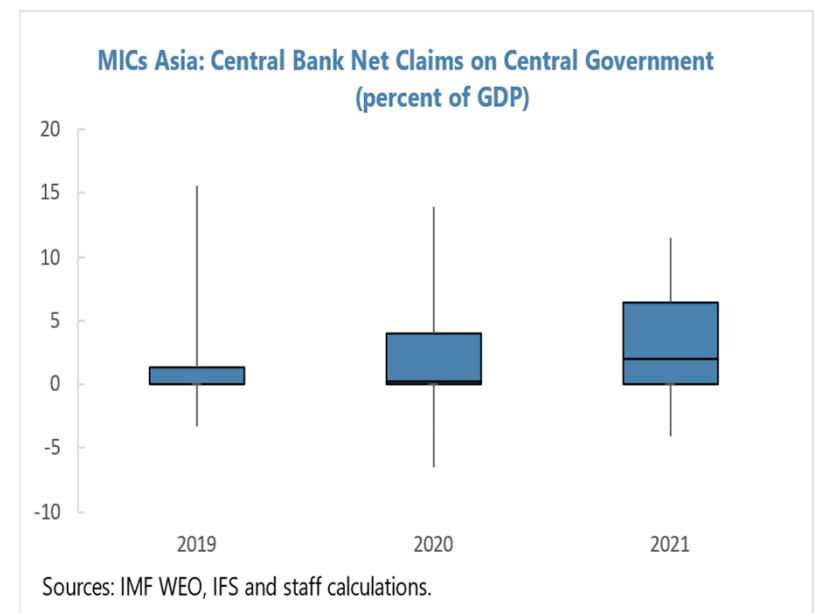
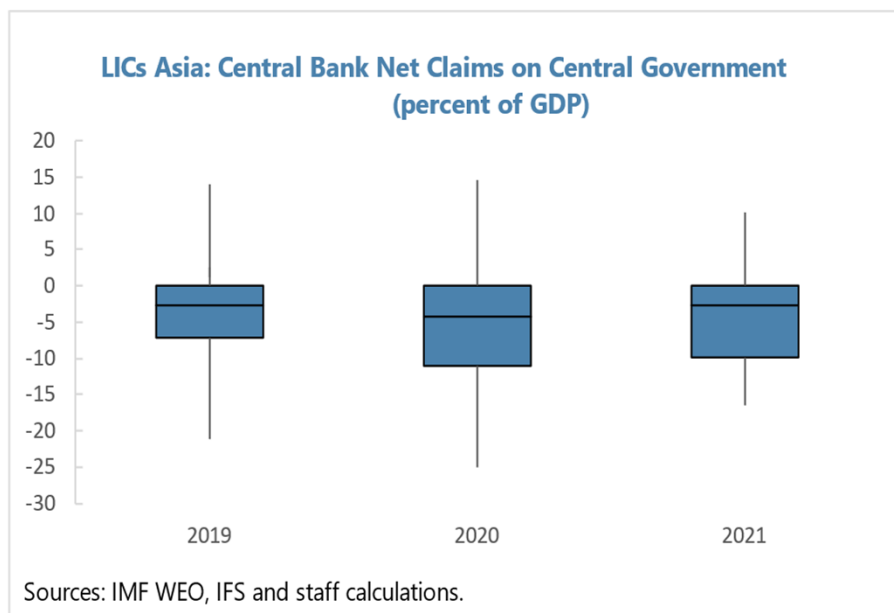
# EM Sovereigns Weathered the Brief Volatility in LCBM to Finance their Growing Borrowing Needs ... But with steepening yield curve in some EMs



## **Rising sovereign- bank nexus: Net exposure of banks to their sovereigns increased significantly in MICs .... Risks from rising rates on bank balance sheet**



## Normalization of monetary policy: could be challenging amid rising inflationary pressure .... some central banks added net government claims in their balance sheet



## **Developing Local Currency Bond Markets Continues to be Important**

- Eurobond spread has widened
- Asian LCBMs faced with large outflows due to external shocks
- Upward/steepening of yield curve in LCBM as combination of outflows, inflation and tightening monetary conditions
- Long-term developing bottlenecks:
  - Large bank-sovereign nexus: banks passively hold large amount of LCBM, sovereign risk has been on the rising
  - Limited secondary market liquidity: external shocks and capital outflows could cause large volatility in LCBM
  - Monetary policy implementation (e.g. dominant policy rates rather more than complex multiple policy rates and windows) and bond issuance strategies to create a liquid yield curve
  - Investor base diversification (beyond banks)
  - Legal reform on repo framework

Context

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A Framework to Develop LCBM

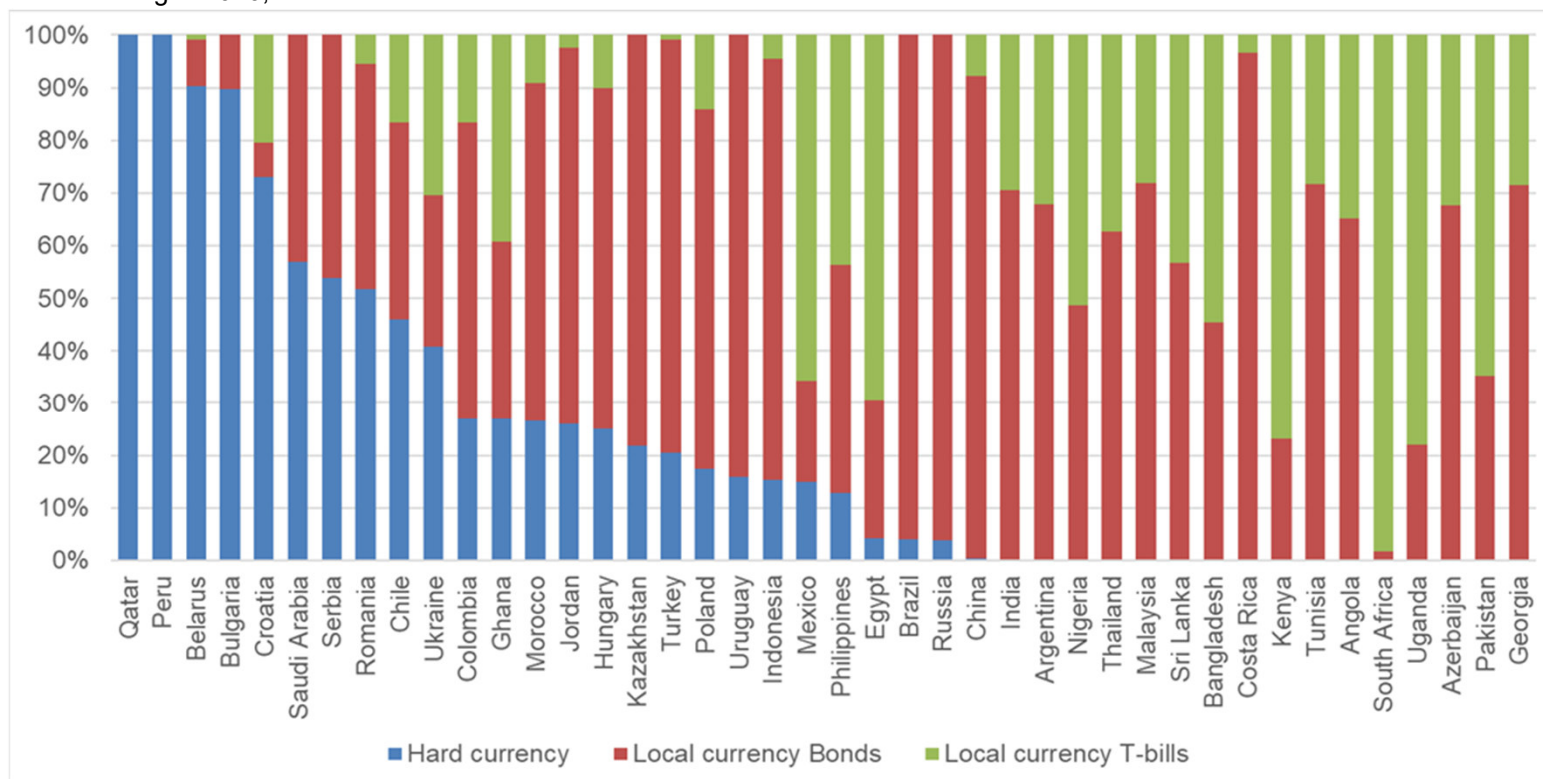
## Why is it important?

- Provides a stable source of domestic funding
- Safeguards sovereign portfolios from currency and maturity mismatches
- Contributes to financial stability and mitigates risks from volatile capital flows
- Enhance effectiveness of monetary policy
- Cornerstone of broader capital market development

**The recent COVID-19 Pandemic has further underscored the importance and urgency of developing LCBMs in EMDEs**

# LCBM played a key role for many countries during 2020

% of funding in 2020, across instrument



Source: Bloomberg, staff calculations

Context

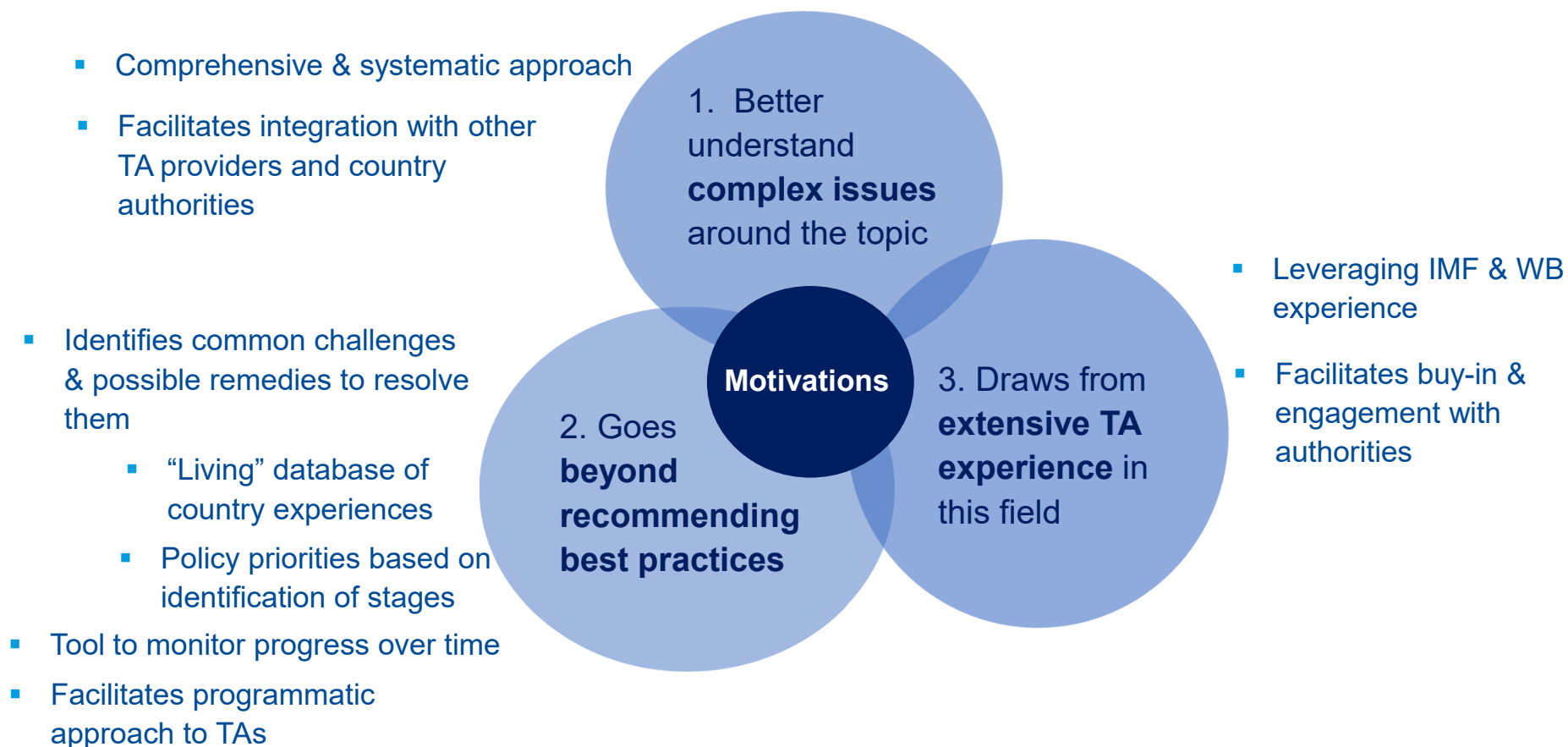
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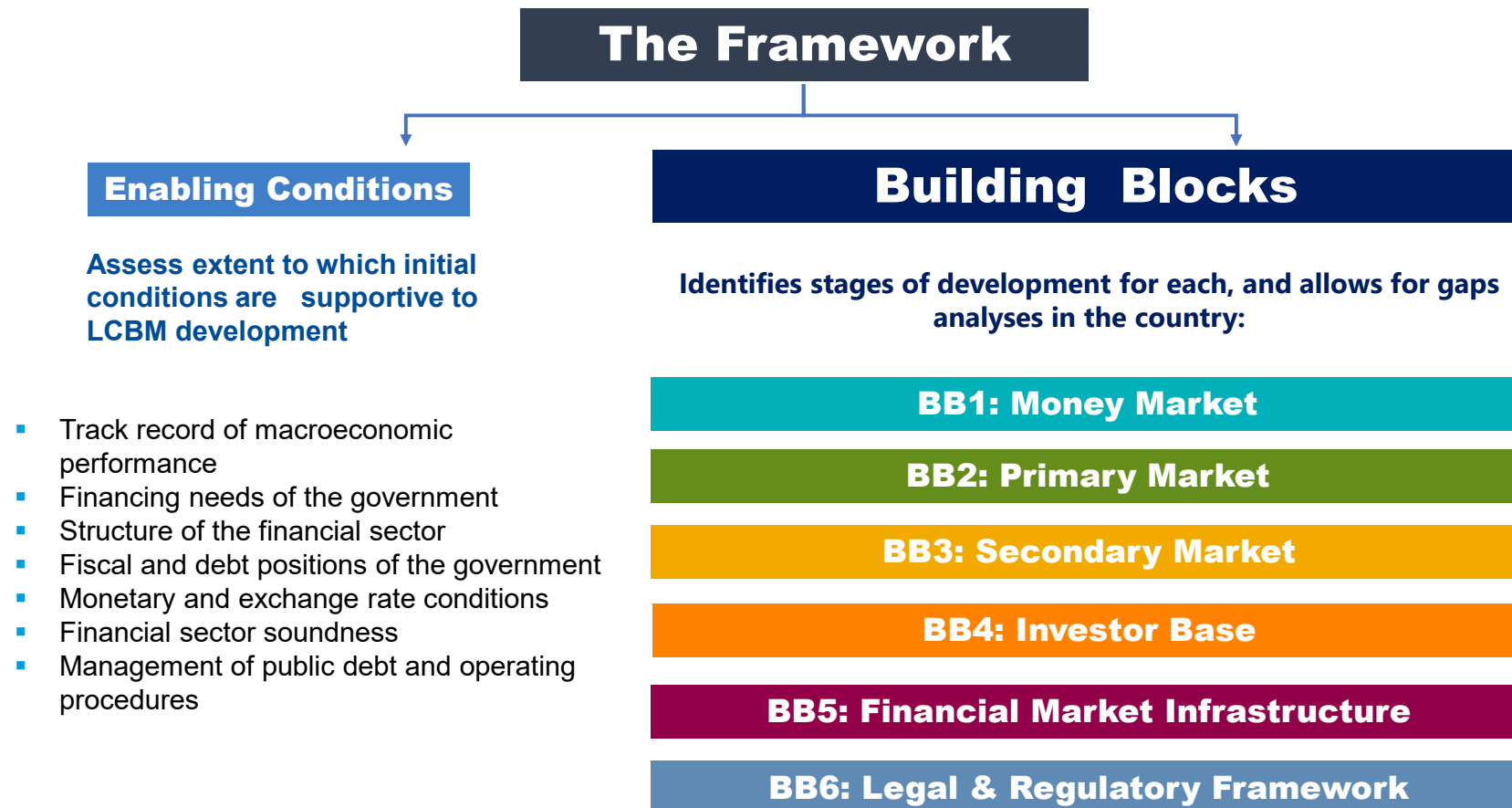
## **A framework**

- That facilitates the identification of weaknesses and strengthens of the domestic debt market environment, for each country
- Based on it, derive an action plan
- That proposes a set of customized policies for that particular country

# What are the expected benefits of LCBM Framework?



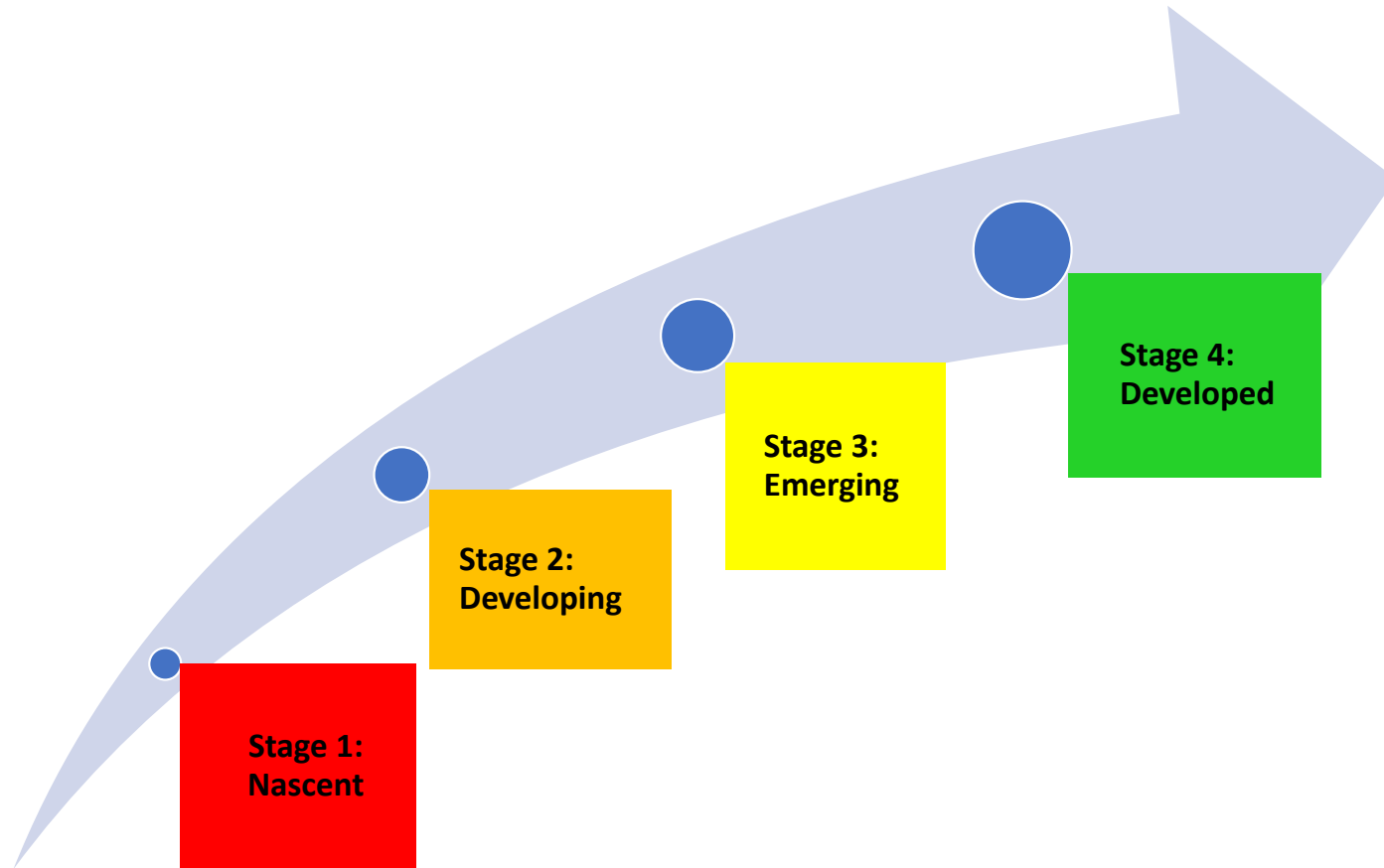
# Part I: Diagnostic



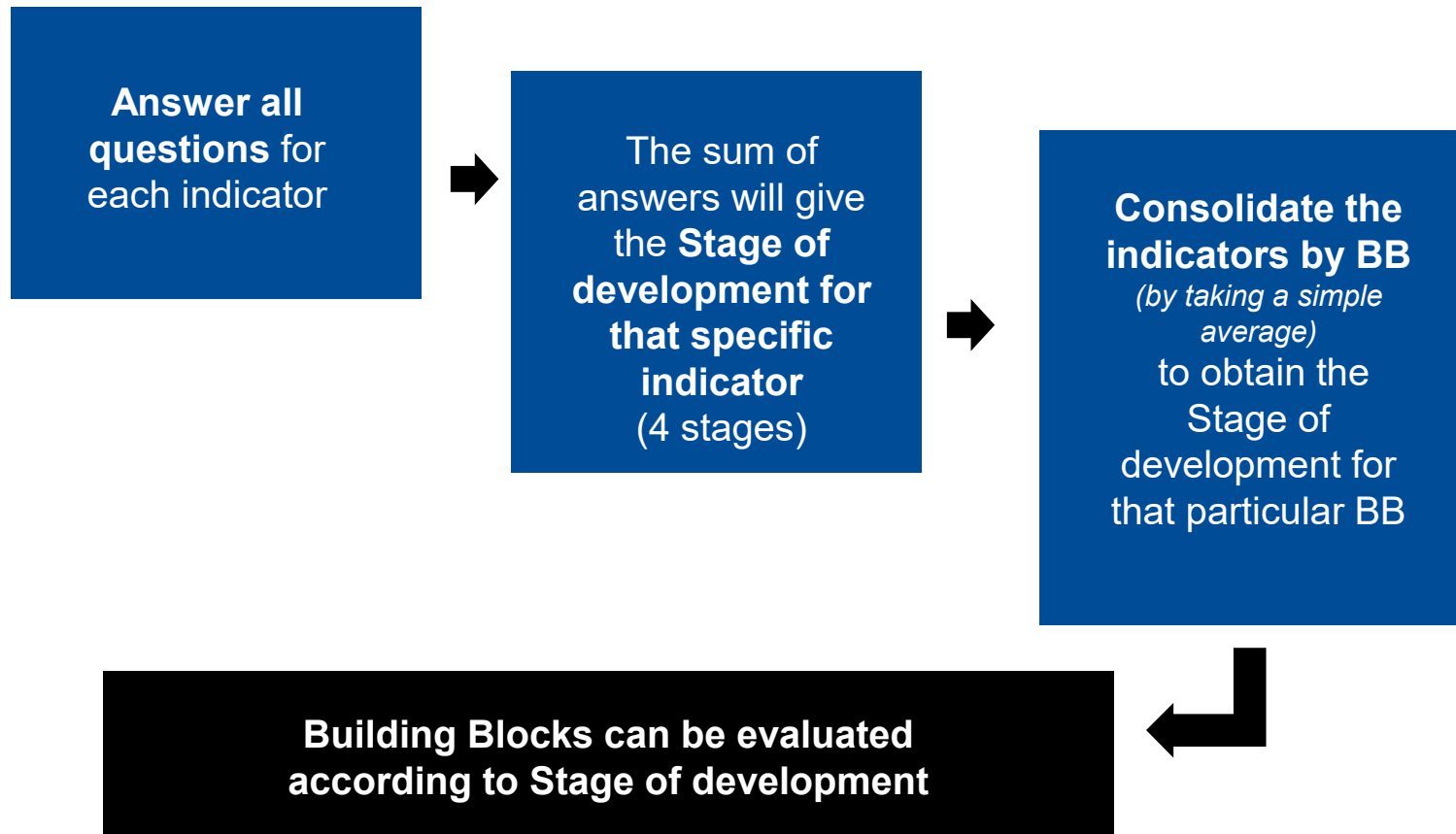
# Types of Indicators

	Outcomes	Policies / Practices
BB1: Money Market	1	4
BB2: Primary Market	4	9
BB3: Secondary Market	1	5
BB4: Investor Base	1	5
BB5: Financial Market Infrastructure		8
BB6: Legal & Regulatory Framework		5
Total of 43 Indicators		

# Four stages of Market Development



## Consolidate Stage of Each Indicator



## Part II: Country Experiences

**Commonly-faced  
challenges  
& possible remedies**

- Non-exhaustive list, identified based on extensive TA experience, engagement with authorities, and recently-conducted survey
- Aims at tackling country specificities
- Proposes possible remedies, backed by country cases where available
- Recognizes that best practices are not always implemented, due to constraints...

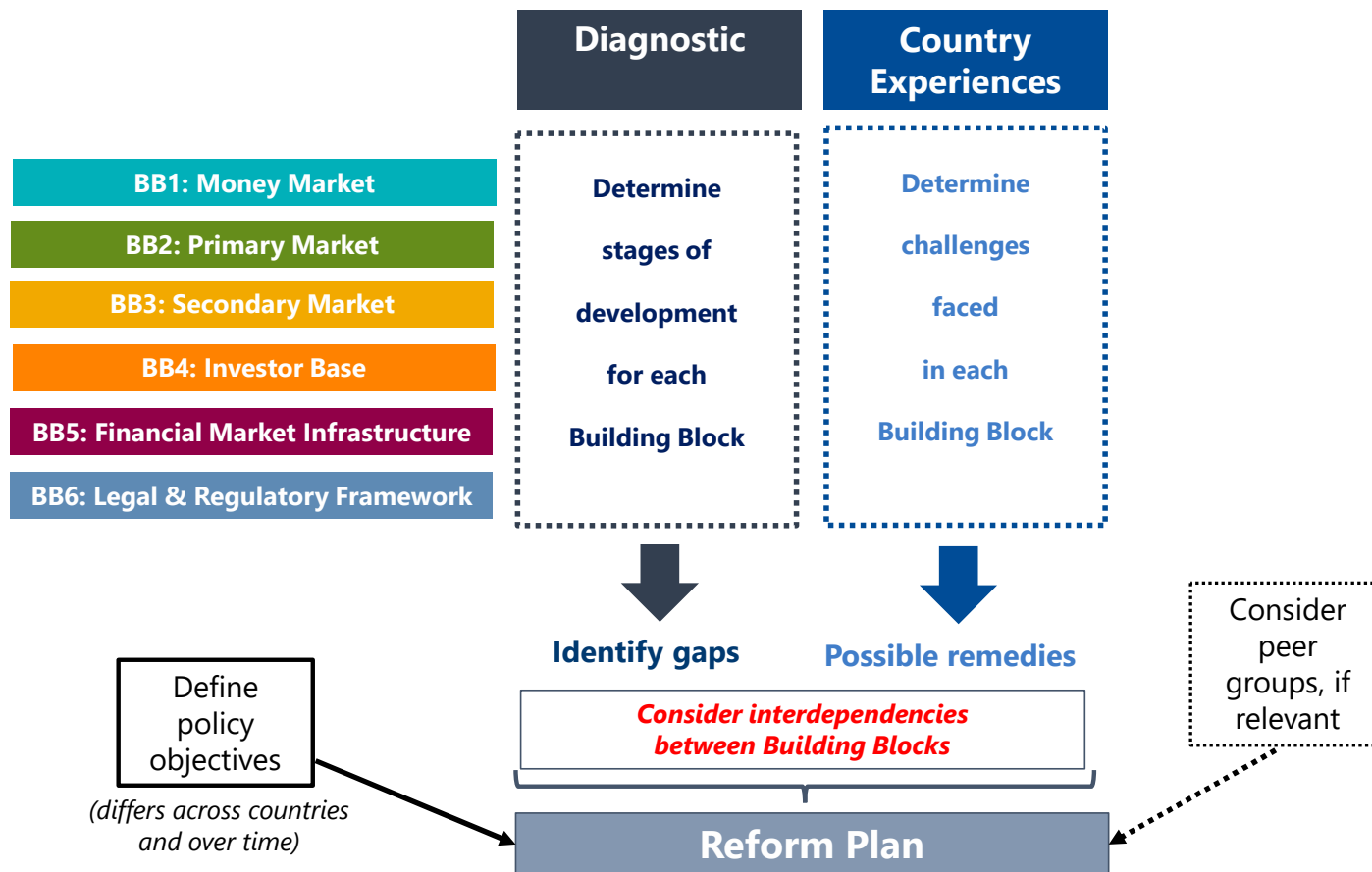
... such as weaknesses in other building blocks



**Highlights  
interconnected nature  
of building blocks**

***“living” document to be updated continuously***

# Designing a Reform Plan



# •Thank You

**Thordur Jonasson**

Deputy Division Chief, Debt Capital Market Division  
Monetary and Capital Markets Department  
International Monetary Fund  
[Tjonasson@imf.org](mailto:Tjonasson@imf.org)

**Guilherme Pedras**

Senior Financial Sector Specialist, Debt Capital Market Division  
Monetary and Capital Markets Department  
International Monetary Fund  
[Gpedras@imf.org](mailto:Gpedras@imf.org)