Webinar on May, 15, 2014

Title:
Reducing Exposure to Foreign Currency Risk by Attracting Non-resident Investors to Invest in Local Currency Denominated Public Debt Instruments

Sub-Title:
Country experiences in reducing exposure to foreign currency risk by various channels and instruments, potentially including foreign investment directly in the domestic public debt market, local instruments clearable through international clearing systems, Global Depository Notes, and international bonds linked to local currency.

Description:
In recent years the currency composition of sovereign debt portfolios in emerging market economies (EMEs) has significantly shifted towards local currencies. This shift was enabled by strong macroeconomic fundamentals, a relatively benign global economic environment until the global financial crisis, loose monetary policy in developed economies after the crisis, and the deepening of domestic capital markets in EMEs, including a broadening of the investor base. The broadening of the investor base included non-resident investors who were increasingly interested in investing in local currency sovereign debt of EMEs.

Many debt management offices in EMEs proactively pursued strategies to increase the share of local currency instruments in their respective sovereign debt portfolios, including the use of liability management operations such as buy backs and switches of foreign currency instruments for local currency instruments.

Additionally, debt managers have pursued various strategies to facilitate the investment of non-resident investors in local currency denominated debt instruments. These potentially include the sponsoring of Global Depository Notes (GDNs), the issuance of international bonds linked to local currency, and attracting foreign investment directly to the domestic public debt market, for example by clearing domestic bonds through international clearing systems or reducing tax and regulatory hurdles in the local market.

While the increasing participation of non-resident investors in local currency instruments has allowed EMEs to reduce currency risks in their public debt portfolios, it has also created challenges, such as an increase in vulnerability of domestic capital markets due to the volatility of international capital flows. Moreover, the merits of some strategies need to be carefully considered against the risk of market fragmentation. Debt managers have therefore attempted to implement mechanisms to monitor non-resident investments in local currency markets to assess and potentially manage the associated risks.

At this webinar debt managers from EMEs will share their experiences with an increase in non-resident investment in local currency public debt, what strategies they have employed to facilitate non-resident investment, and how they assess and manage the opportunities and challenges associated with these investment flows.