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And

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Welcome and Overview of Forum Programmes

Against the Backdrop of the Global Credit and Liquidity Crisis

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Welcome and Overview of Forum Programmes
Against the Backdrop of the Global Credit and Liquidity Crisis

Ladies and gentlemen,

On behalf of the OECD, I welcome you warmly to our brand-new conference centre (last year I welcomed most of you in Amsterdam in an almost 400 year's old building). This shift is perhaps symbolically related to the crisis-induced debate about a new architecture for globalised financial markets!

The Global Forum meeting (*sponsored by the Japanese government*) is part of the work programme of the OECD Working Party on Public Debt Management (WPDM)[1]. It is a truly global forum and not just another *emerging market* forum. Our ambition is to operate as an effective global platform for sharing and debating important insights and experiences from the OECD area with debt managers from non-OECD jurisdictions, involving also other relevant international and regional organisations. And, vice versa, to involve OECD debt managers in a face-to-face policy debate with their colleagues from the non-OECD area.

Another feature of the Global Forum is its practical nature. Whenever feasible, we are focusing on practical policy conclusions proposed by the debt managers themselves. The policy relevance of Global Forums *per se* has also increased, as debt managers from emerging market countries are increasingly face challenges similar to those of their counterparts from advanced markets due to pressures from global finance and the related need to implement OECD leading practices in this policy area.

But it is also the ongoing global credit crisis that demonstrates in vivid terms the inter-connectedness of the global financial landscape with the larger emerging markets having become key players. Brazil, Russia, India, China and South Africa (the so-called BRICS) represent almost 13 percent of global GDP and adding a few more (Korea, Mexico, Turkey, Indonesia, Argentina and Nigeria) bring their share to nearly 18 percent (compared to around 24 percent for the US).

The crisis has also pushed to the forefront the key fire-fighting role of debt managers in the resolution of this crisis, principally by raising *directly* new funds for governments to

[1] This OECD WPDM is an influential policy forum that brings together the senior debt managers from all OECD countries to discuss in a frank and open way the latest technical developments, to compare notes on best or leading practices and, more generally, to share experiences on debt operations. (For your convenience, we have circulated an OECD pamphlet on ***Objectives, Strategy and Operations of the OECD WPDM***.)

recapitalise banks and other financial institutions and, more generally, to finance governmental supporting schemes for the financial sector. Clearly, DMOs could also play (or are playing) an important role in helping to implement (or manage) guarantees. Moreover, as explained in a 2005 OECD report[2], on-lending can be used as an alternative policy instrument, thereby avoiding the use of guarantees. For example, DMOs could be asked by the government to raise funds on behalf of financial institutions in trouble but with good prospects.

As you can see from the agenda, we are sharing with you the latest policy conclusions regarding key debt management policies and operations from the OECD area. The crisis demonstrates that a global market and policy perspective is more important than ever. Accordingly, our first session plunges straight into the implications of the global credit/liquidity crisis for government debt managers. The discussion will be introduced via a summary of the latest discussions by the OECD Working Party on Public Debt Management.

Like last year, the Africa Forum (*sponsored by the Icelandic government*) is again held back-to-back with the Global Forum meeting, but with an even closer integration of agendas than in previous years. This year's organisational structure makes it easier for African participants to participate in the Global Forum, while Global Forum participants can more efficiently participate in the discussions of the Africa Forum. The agenda of the Africa Forum shows vividly that, at least in terms of debt strategy and policy design, many debt managers from that region have indeed come a long way. (Note that the agenda items are also very topical for debt managers from other regions, with the first item on 'the use of short-term government paper' scheduled jointly with the Global Forum.)

Let me now return briefly to the ongoing credit crunch crisis so as to give a global bond market backdrop to our discussions in both the Global Debt and Africa Forums. The credit crunch in financial markets that started last year and is continuing to this day, was a sharp reminder that in banking or financial markets more generally, financial turbulence is usually not

[2] Chapter 6: Explicit contingent liabilities in debt management *(Report on best practices in managing guarantees prepared by an ad hoc experts' group of the OECD Working Party on Debt Management)* in: H.J. Blommestein, ed., (2005) Advances in Risk Management of Government Debt, OECD.

an isolated event. In August of last year, a wave of volatility spread across the globe as it became clear that many financial institutions (including bulge-bracket commercial and investment banks) around the world (in US, Germany, France, UK, ….) would suffer major losses. This year losses accelerated to the point that a number of large banks went bankrupt, needed capital injections for survival and/or had to be saved via mergers. This led to a further reduction in the number of primary dealers. Another development of great concern to debt mangers is that even traditional safe-havens like government bond market did in the end not escape contagion. Repricing of risk spread to all markets, including government bond markets and debt issued by supra-national and quasi-government agencies. Around the time of last year's Forum meetings, we noted that extreme risk aversion and lack of trust led to wider than normal spreads in US and European government bond markets. Clearly, these severe bouts of illiquidity were making it more difficult and expensive for many OECD governments to raise funds. This difficult market situation is continuing to this day, while funding prospects indicate that governments around the world may also face financing challenges in the future. One such estimate puts the 2009 financing needs of governments around the world at US$ 2 trillion (or around € 2.5 trillion)[3].

Regarding specifically emerging markets, I concluded at last year's Forum meetings (in December 2007) the following.

First, the impact of the global credit crisis shock on emerging markets seemed to have been less dramatic than similar global shocks from the past. Although emerging markets were also affected, this was by relatively less than in previous episodes of global financial market turbulence.

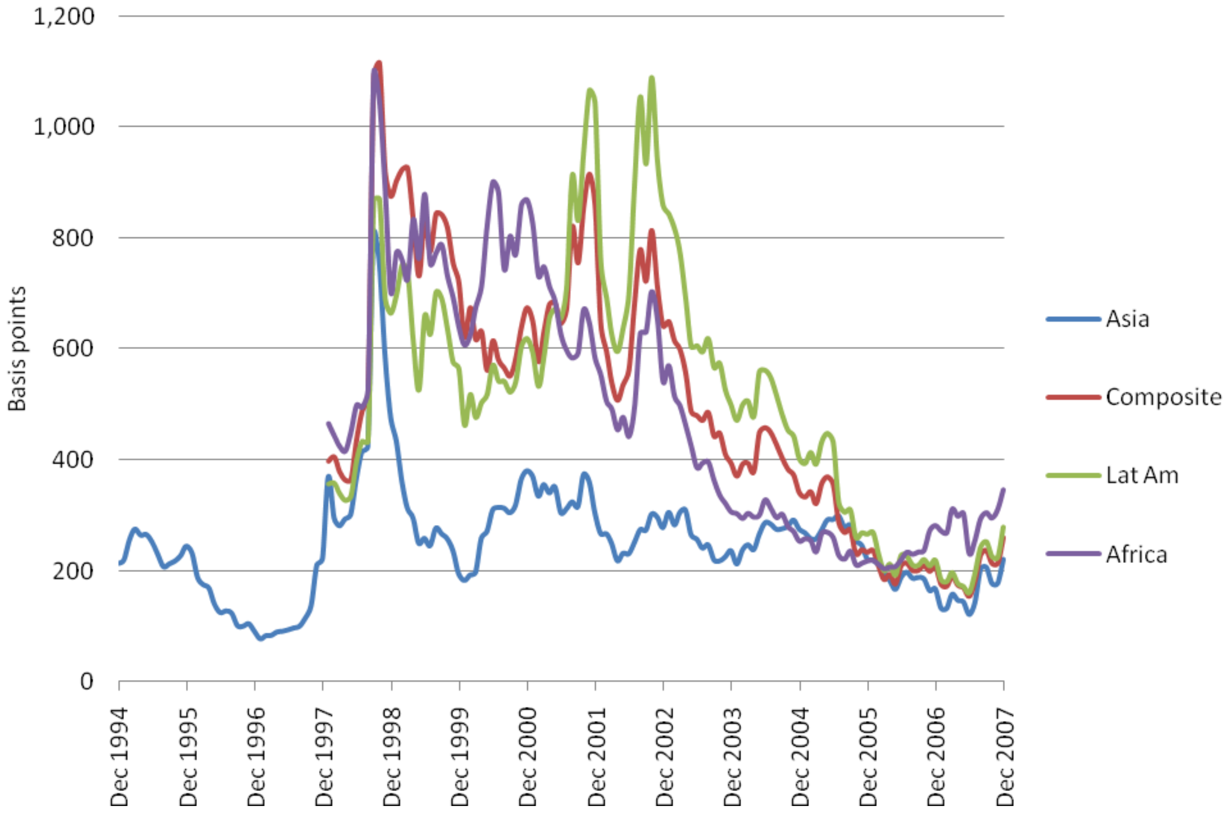
Second, even more surprisingly, at the end of last year many emerging markets felt the impact of the credit crisis to a lesser extent than more advanced or mature markets.

Third, a closer look at different regions gave in December 2007 the following picture. Although yield spreads widened since the middle of last year, they were still below their levels of only a few years ago (**Chart 1**). Compared to emerging markets as a whole, yield spreads in Asian emerging markets continued to be tighter, although the difference was less dramatic than in the

[3] Concerns mount on ability to fund state debt, *Financial Times*, 30 November 2008.

past, when very wide spreads in Latin American and African markets skewed the all-emerging market composite (**Chart 1**).

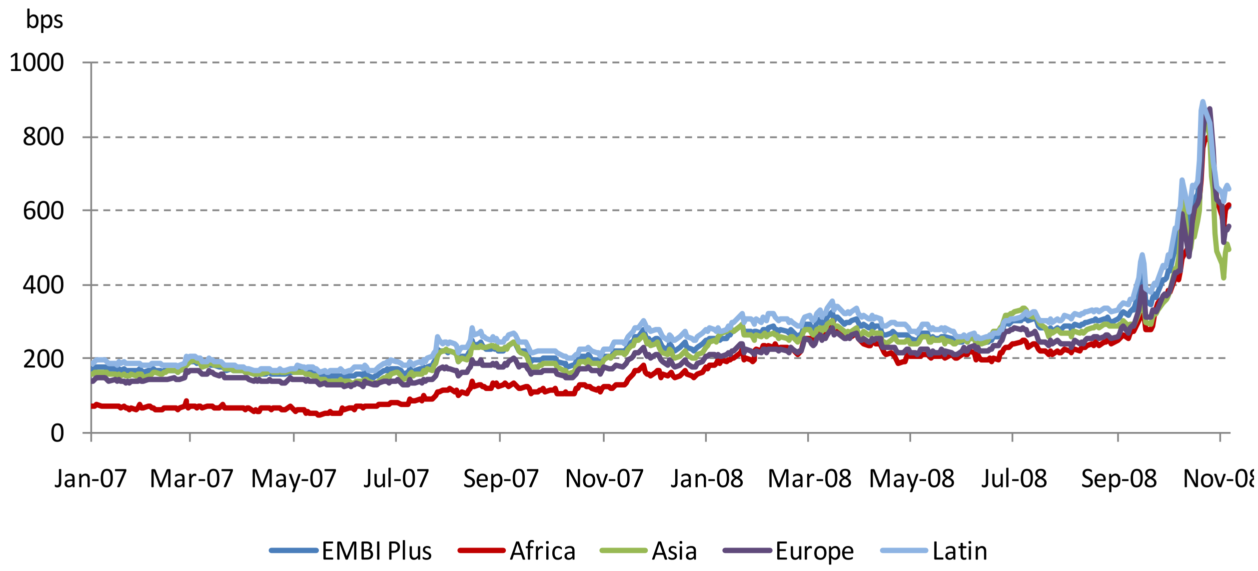
CHART 1: Yield spreads, all emerging markets and individual regions (Dec 1994-2007)



SOURCE: JP Morgan Emerging Market Bond Index Global Composite and Global Asia series. Data for Global Composite series not available prior to January 1998.

In other words, emerging markets were performing surprisingly well last year, both relative to past major shocks to emerging markets and in several respects also vis-à-vis mature markets. Several analysts were optimistically arguing that truly emerging markets could 'de-couple' themselves from adverse events elsewhere, even from those originating in major mature markets. The *'de-coupling' hypothesis* was borne! Unfortunately, one year further, this optimistic and perhaps even somewhat naïve picture has changed quite a bit (**Chart 2**).

CHART 2: Yield spreads, all emerging markets and individual regions (Jan-Nov 2008)



The drivers of these changes and policy implications will be discussed during the coming days, in particular as part of the Round-Table discussions in session 1 of the Global Forum and session 4 of the Africa Forum.

Finally, Mr Chairman, a brief word on the ***structure of our discussions***. We have organised the discussions so as to have an interactive, focused debate preceded by short (I emphasise short) presentations. All speakers are kindly requested to be very brief and to the point. In general, we request you to be so kind to refrain from lengthy country presentations. We are always prepared to circulate at your request documents with detailed country information. We can also put it on our website and that of the OECD-Italian Public Debt Management Network. The annotations to the agenda provide information about suggested issues-for-discussion, while moderators and rapporteurs will extract operational policy conclusions at the end of each session. Each session has a general discussion part where all participants are invited to join the discussion. To that end, use the boards in front of you.

Thank you for your attention.