

**Financial Development and Globalization
in Emerging Economies by Tatiana Didier and
Sergio Schmukler**

Some Observations and Comments

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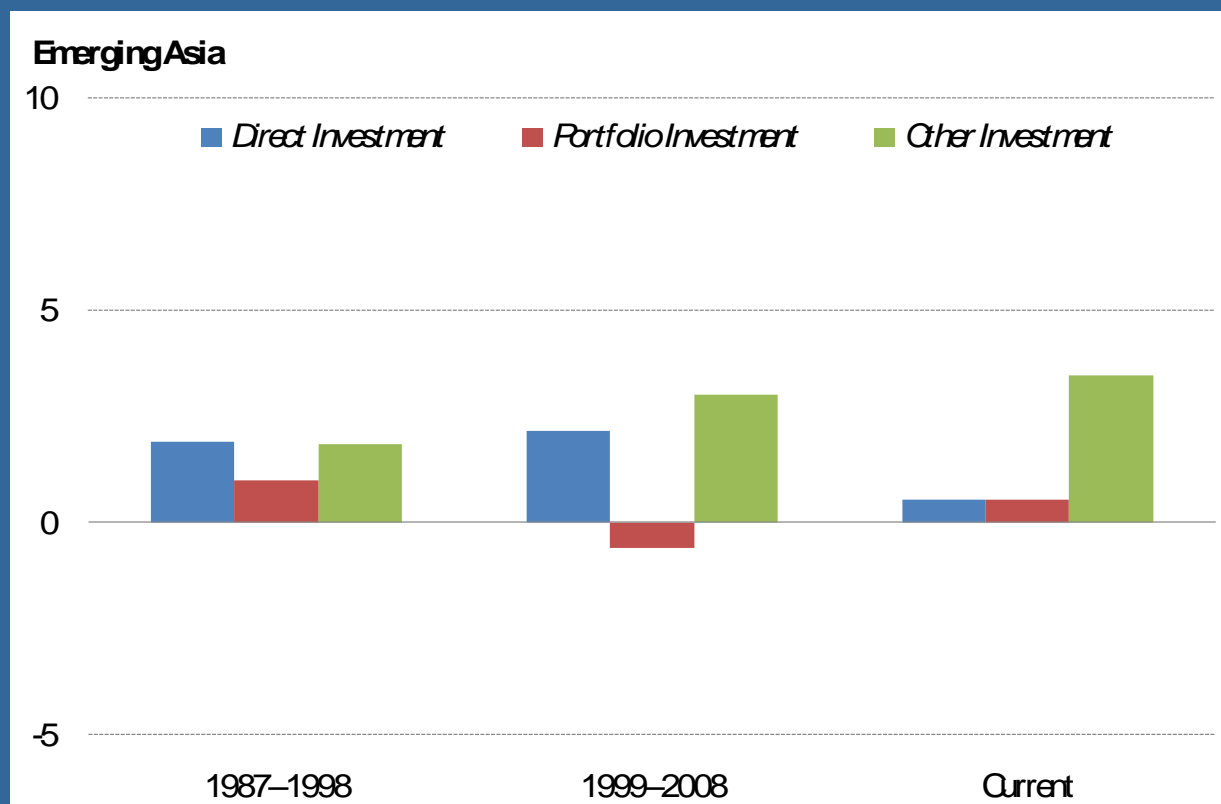
Highlights

- Focus on domestic financial development, and capital markets.
- Compare to globalization process.
- Contains a vast wealth of information.
- I will focus my comments on 3 issues
 - Domestic and International Markets: Complements or Substitutes ?
 - International Financial Integration: How to Measure ?
 - Periphery – center and / or periphery – periphery ?
 - Trends in Domestic Debt Markets in EMs

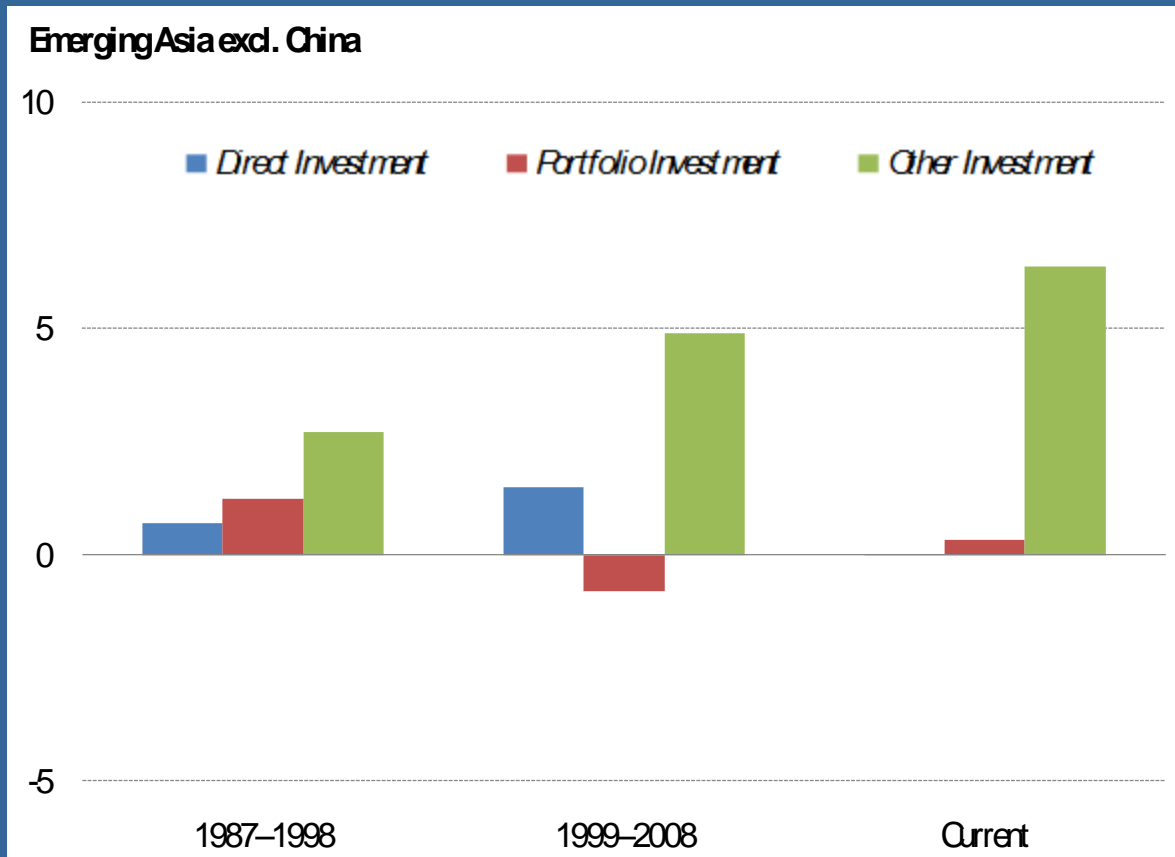
I. Complements or Substitutes ?

- Paper finds a transition in EMs from a mostly bank-based model to a more complete and interconnected model where non-bank markets (bonds and equities) have increased in absolute and relative sizes.
- Are changes in the composition of external financing related to this ? If so, what is cause and what is effect ? Issue is worth exploring further. I don't have the answers.
- But what have been the changes in the composition of external private financing? Let's look at Asia.

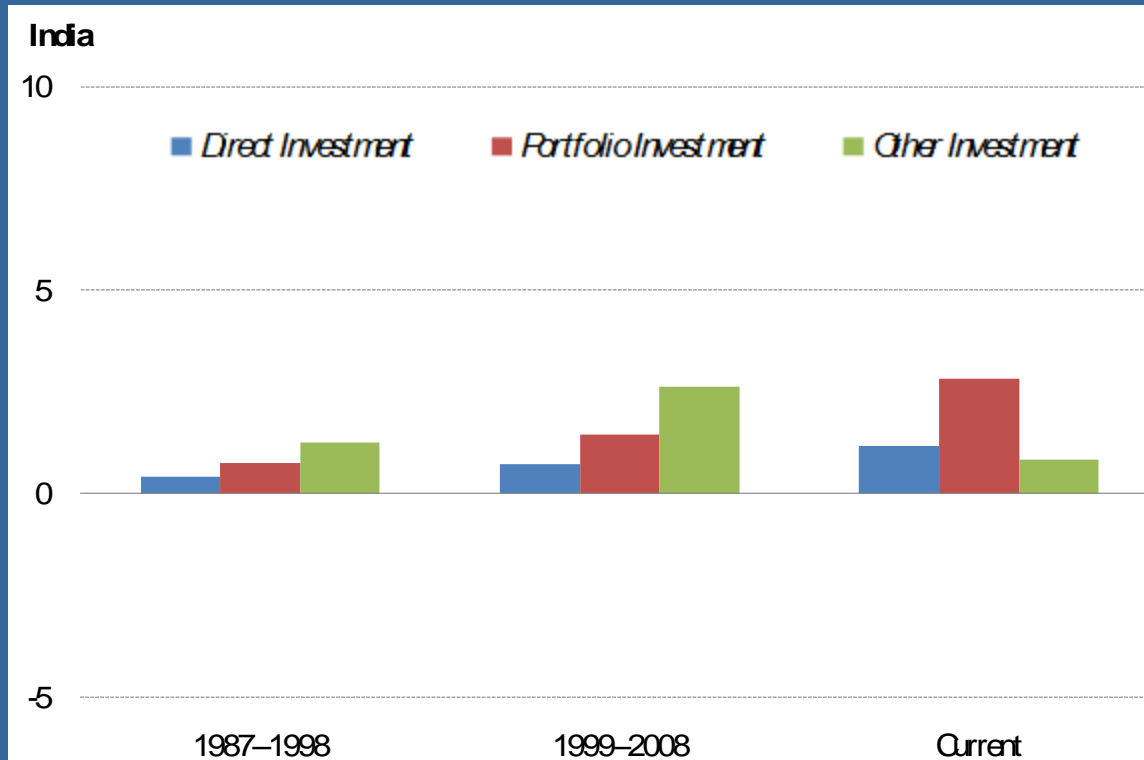
I. Complements or Substitutes: Inflows during “surge” episodes (percent of GDP)



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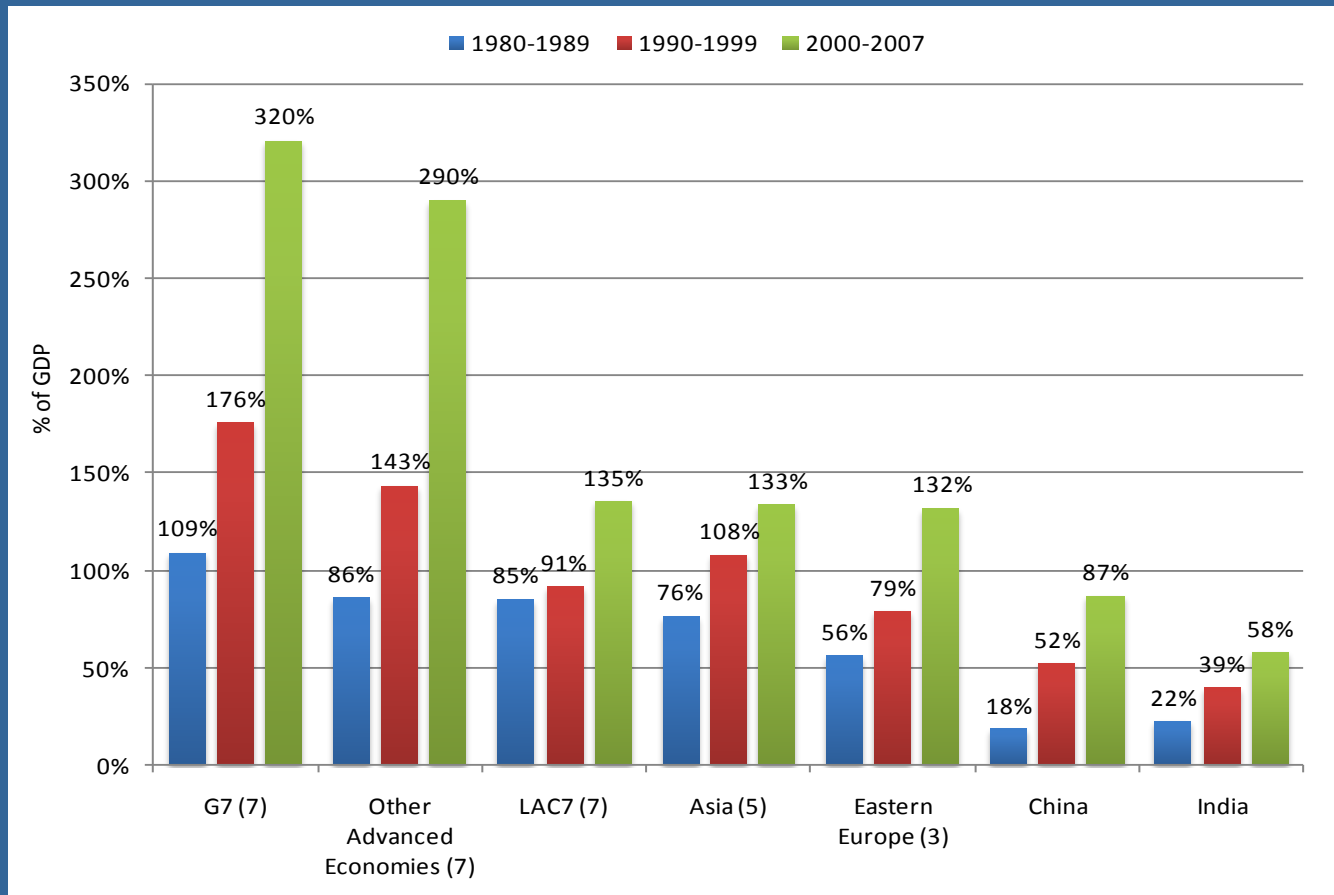


I. Complements or Substitutes: Inflows during “surge” episodes (percent of GDP)



II Measuring Financial Integration: Standard Measures Show Significant Increase in De Facto Financial Integration

Foreign Assets and Liabilities



II a. Measuring Financial Integration: macroeconomic adjustment

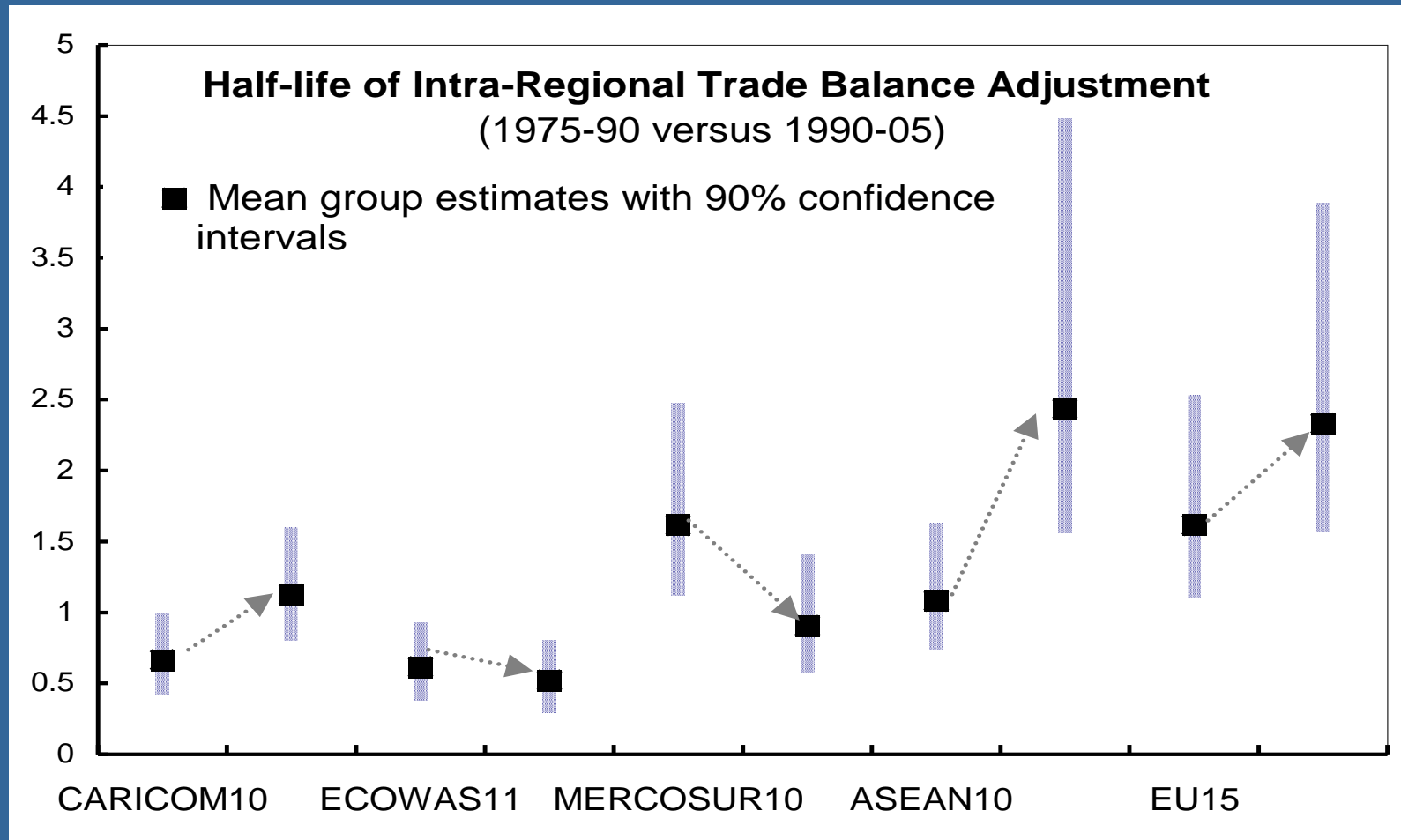
- A link between financial integration and external current account dynamics: Given that external current account deficits are financed by financial inflows,

High financial integration  Slow current account adjustment

Low financial integration  Fast current account adjustment

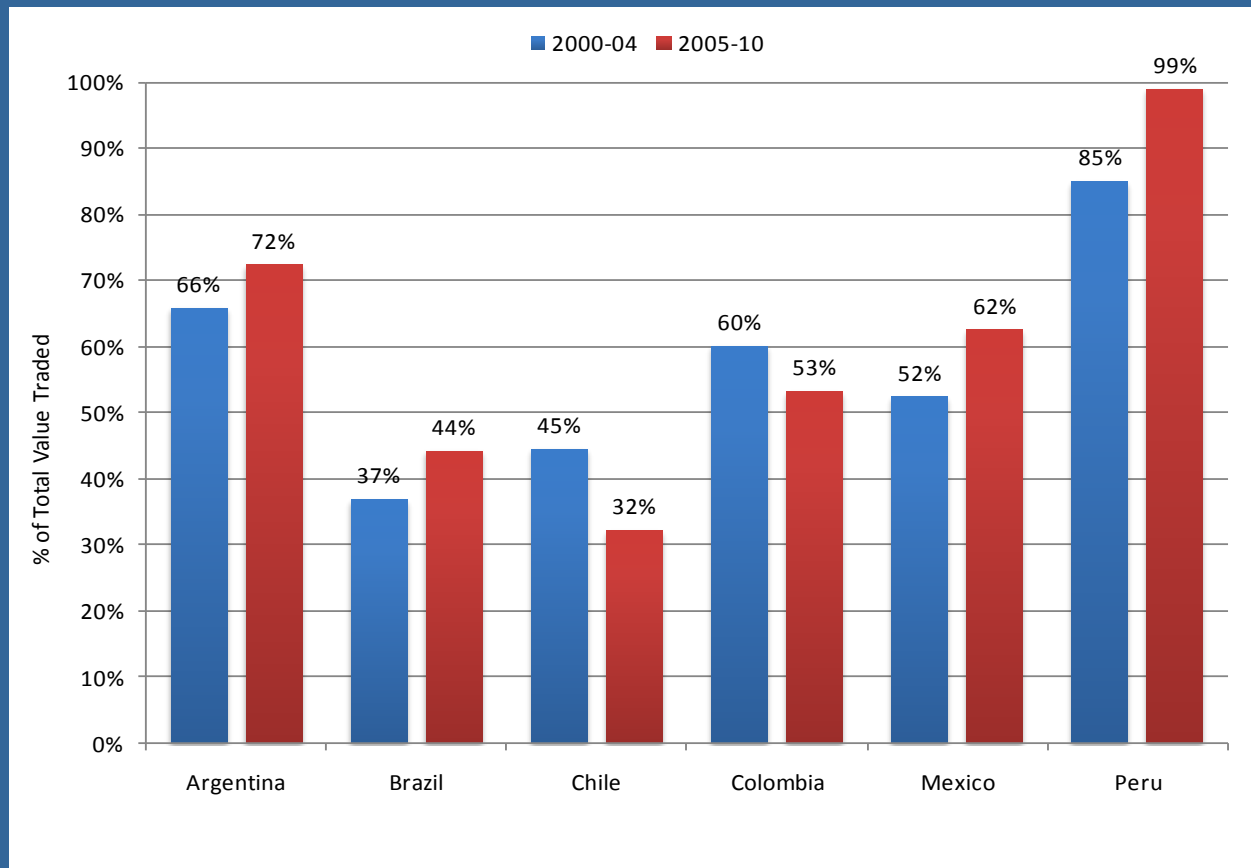
- Can do something similar for ***Regional Financial Integration***

II a. Measuring Financial Integration: macroeconomic adjustment: Mixed picture on regional financial integration



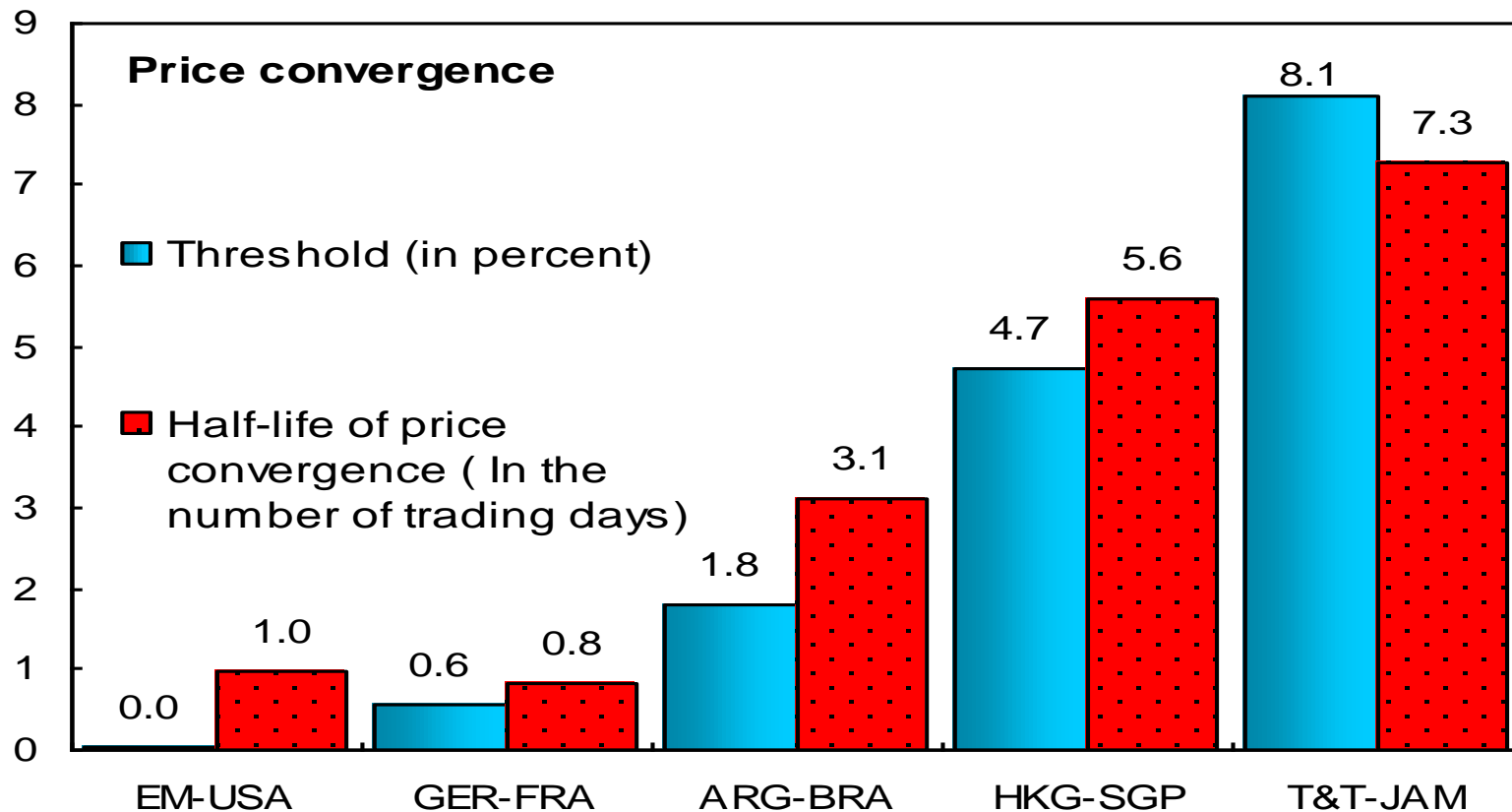
II b. Measuring Financial Integration Equity: Foreign Markets Significant for Trading

Value Traded Abroad Over Total Value Traded



II b. Measuring Financial Integration

Price convergence



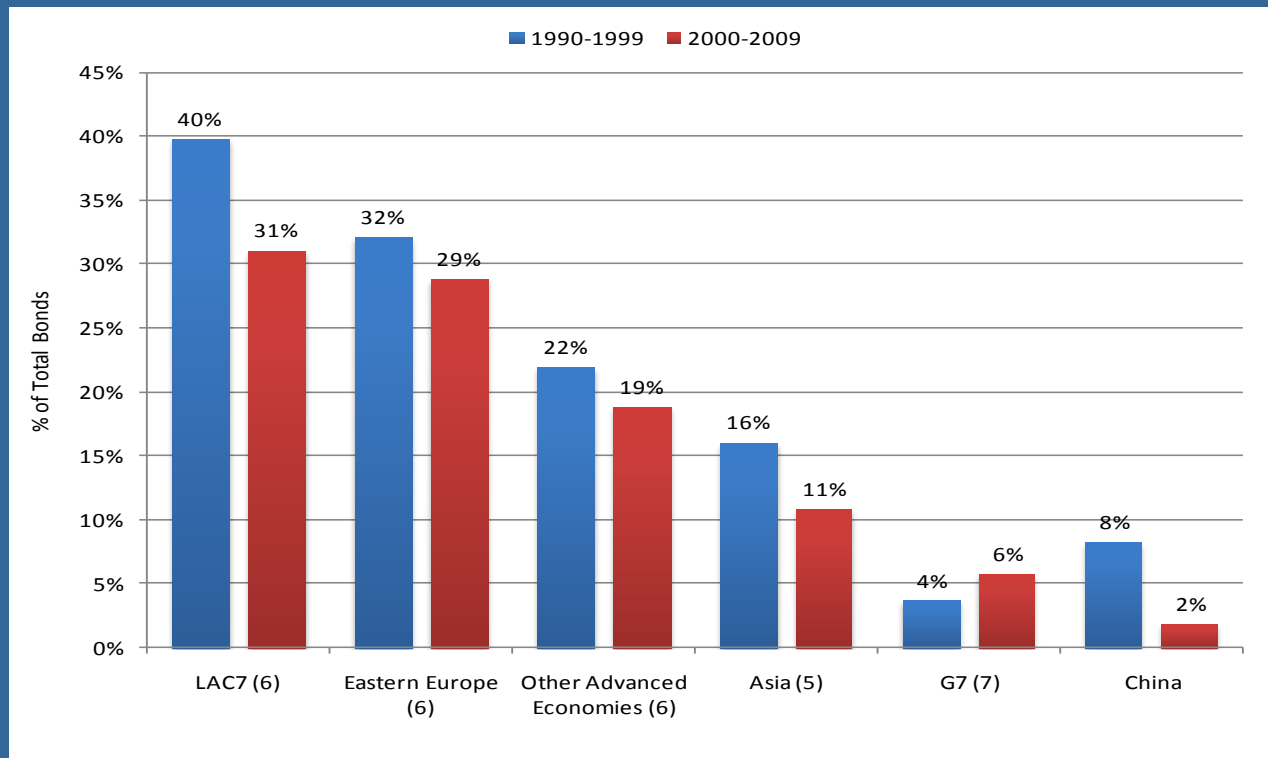
Source: Country authorities and Fund staff estimates

III. Trends in Domestic Debt Markets

Relative Size of Foreign and Domestic Bond Markets: Public Sector

- Domestic markets are gaining importance

Relative Size of Bond Financing for The Public Sector
International Outstanding Bonds as % of Total Bonds



III. Trends in Domestic Debt Markets

Foreign Holdings of Local Government Bonds (percent outstanding)

