Debt Markets in Emerging Economies: Major Trends

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Summary

This paper presents a systematic and detailed account of where emerging economies stand with respect to the development of their debt markets. The overall evidence suggests that these countries have tried to reduce their susceptibility to volatility and financial crises. In general, debt markets have continued growing since the 1990s. More savings are available for use, especially for the private sector because governments have been reducing their crowding out.

Debt is moving toward longer maturities and is increasingly being issued in local currencies, which reduces mismatches, while domestic markets seem to be gaining some ground. Financing does not depend as much as before on banks, as both bonds and equity play a larger role. Institutional investors have become much more prominent.

There is a notable heterogeneity in the indicators of financial development across emerging economies. While financial development has progressed in Eastern Europe and Latin America, these regions typically lag behind not only developed countries but also other emerging economies, most notably Asian economies. Nonetheless, when compared to those in the developed world, debt markets in Asia are still relatively underdeveloped. In fact, debt markets in developed countries are the ones that have expanded the most in recent years. Therefore, the gap between developed and emerging economies in financial development has become larger.