ECOSOC Forum on Financing for Development follow-up 2017

Side Event

"Monitoring financial instability in a globalized world - New financial conditions indicators for emerging and frontier markets"

Organizers: UNCTAD, Eurodad
Time: Monday, 22 May, 1.15-2.30 p.m.
Venue: United Nations Headquarters, New York. Room CR7

ABSTRACT

The event provides an opportunity to discuss up-to-date ways to monitor financial conditions in emerging and frontier markets, including LDCs and small island developing states. In the context of rising concerns about financial vulnerabilities in many developing countries, the improved ability of governments to monitor early signs of financial distress is essential to help prevent serious financial stress. The event will bring together experts and policy-makers to discuss the increasing complexities of financial markets, including interlinkages between shadow banking and more conventional forms of banking. The event will include a brief presentation by UNCTAD of its new financial conditions indicators for developing countries, followed by a panel discussion on the nature of financial vulnerabilities in developing economies and methods to monitor financial distress effectively under conditions of imperfect data quality.

THEMATIC FOCUS

Since the 2007-2008 global financial crisis an essential part of the policy debate on how to avert a repeat of such financial turmoil has focused on the role of improved monitoring and regulatory tools and mechanism. However, despite the introduction of new national and international supervisory bodies and national financial reforms, financial innovation and engineering has continued to evolve fast, expanding into new products and markets. This has rendered the conventional duties and responsibilities of financial regulators and central bankers in developed countries ever more complex, at a time when the global financial crisis has highlighted the importance of interlinkages between shadow banking and more traditional forms of banking, and their interdependence with the rest of the economy. For instance, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 aims at ensuring macroeconomic and financial stability by curtailing various banking activities in order to reduce such interconnections and prevent fast spreading financial contagion to all sectors of the economy.

The spillover effects of financial instability on emerging and frontier markets have, though, not received the intention they merit, in this context, in particular given the increased speed at which many developing countries' integration into international financial markets has proceeded in recent years. Financial markets in developing economies, too, have become more complex. This complexity goes well beyond standard concerns with sovereign debt sustainability, generally associated with financial crises.. The development of financial engineering and financialized globalization has facilitated access to financial markets through the introduction of liquid financial products easily available to investors in developed markets, notably Exchange Traded Funds (ETF) and other money pooling schemes. These products make it easier for international investors to pump relatively large amounts of liquidity in and out of those markets. At the same time, they also have increased interdependence and idiosyncratic market volatility. Recent research as shown that over the past few years financial markets have become more prone to financial instability and volatility despite the emergence of new regulations. In some developing countries, the rise of domestic shadow banking further complicates the analysis of the national financial system. In other words, emerging and frontier markets are now subject to external as well as internal shocks of increased probability.

Divergence in financial stability, in monetary policy, cracks in the globalization process in advanced countries, and its spillover effects have highlighted the continuous struggle for macroeconomic and financial stability in emerging and developing markets. Thus, the capacity to monitor financial stability in those countries requires a complex understanding of the various forces at play, their interconnections and their impact on GDP performance.

In this context, UNCTAD's measure and methodology of Financial Conditions Indicators (FCI) for a very heterogeneous set of developing countries is an attempt to provide an innovative policy tool that equips policy-makers in developing countries as well as market participants with real time reliable and leading indicators of financial stress. The new synthetic indicators have the advantage that they are computable at high-frequency (monthly) as well as in real time. Build with the specific difficulties and concerns of developing countries in mind, they can address difficult data (quality and omission) issues and build on a methodology that allows the systematic and dynamic consideration of highly country-specific features.

AGENDA AND SPEAKERS

Chair: H.E. Mr Christopher Onyanga Aparr (Uganda), President of the Trade and Development Board, UNCTAD

1.15-1.25 **Introductory Remarks** by the Chair

1.25-1.45 **Presentation:** UNCTAD Financial Condition Indicators

Stephanie Blankenburg, Head, Debt and Development Finance Branch, Division on Globalization and Development Strategies, UNCTAD

David Bicchetti, Economic Affairs Officer, Division on Globalization and Development Strategies, UNCTAD

1.45 - 2.15 **Panel Discussion**:

H.E. Mr Horacio Sevilla Borja, Permanent Representative of Ecuador to the United Nations

Mr Scott Brave, Federal Reserve Bank of Chicago

Mr Matthew Klein, Financial Times Alphaville

Mr Bodo Ellmers, Policy and Advocacy Officer, Eurodad

2.15 -2.25 Questions and Answers

2.25-2.30 **Concluding Remarks** by the Chair

A background paper on the UNCTAD Financial Conditions Indicators is available at http://debt-and-finance.unctad.org/

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