MARKET COMMENTARY

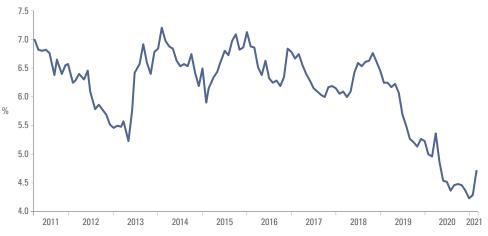
# <u>Ashmore</u>

## Missing the big picture on IMF lending

By Jan Dehn and Gustavo Medeiros

In a recent opinion piece in the Financial Times, Ousmene Mandeng makes the point that the lending programmes of the International Monetary Fund (IMF) are defective.<sup>1</sup> He is right. No one wants to surrender control of economic policy to the global financial policeman. But Mr Mandeng's call for new types of IMF lending programmes, while laudable, misses the bigger point that the IMF can *never* be the real solution to financial vulnerability in EM countries.

The only way to truly end financing vulnerability is for Emerging Markets (EM) countries to develop their own domestic bond markets. Asia was able to escape vulnerability to external shocks precisely by becoming financially self-sufficient. Thailand, for example, obtains all financing domestically and does not even issue external debt. Local bond markets were also critical in limiting the fallout from last year's Covid-19 crash in a large number of EM countries, where local bond yields actually fell for the first time in a global crisis (Figure 1). The way to end financial vulnerability in EM countries is staring us in the face – as long as countries run their economies well *and* have domestic bond markets they can cope with almost anything that global markets throw at them.



#### Fig 1: Local bond yields fell during the 2020 Covid-19 financial crisis (base on JP Morgan's GBI-EM GD)

Source: Ashmore, JP Morgan, Bloomberg. Data as at 2 March 2021.

Which begs the question: if local bond markets are so effective in preventing financial crises in EM countries why have International Financial Institutions (IFIs) not placed their development at the very top of the policy agendas, even made them part of the conditionality in their lending programmes?

One possible reason is that the top management in many IFIs simply does not understand the real significance of local markets. Alternatively, they understand all too well that local markets could reduce materially their own role in managing financial risks. Turkeys do not vote for Christmas.

Regardless of the reasons, Mr Mandeng inadvertently makes the point clearly by reminding us that Italy has not tapped IMF money since 1977. Exactly the same thing is happening in more and more EM countries as they develop their local bond markets. Local bond market development is a good thing because it ends crises, it could happen much faster if only the IMF and other IFIs genuinely wanted to see an end to financial crises in EM.

## Ashmore

#### Contact Head office Bogota Mumbai Tokyo **Bloomberg page** T: +57 1 316 2070 T: +9122 6269 0000 T: +81 03 6860 3777 Ashmore <GO> Ashmore Investment Management Limited Dubai New York **Fund prices** 61 Aldwych, London www.ashmoregroup.com T: +971 440 195 86 T: +1 212 661 0061 Other locations WC2B 4AF Bloomberg Lima Dublin Riyadh FT.com T: +44 (0)20 3077 6000 T: +353 1588 1300 T: +966 11 483 9100 Shanghai Reuters C @AshmoreEM Jakarta Singapore S&P T: +6221 2953 9000 T: +65 6580 8288 www.ashmoregroup.com Lipper

### No part of this article may be reproduced in any form, or referred to in any other publication, without the written permission of Ashmore Investment Management Limited © 2021.

**Important information:** This document is issued by Ashmore Investment Management Limited ('Ashmore') which is authorised and regulated by the UK Financial Conduct Authority and which is also, registered under the U.S. Investment Advisors Act. The information and any opinions contained in this document have been compiled in good faith, but no representation or warranty, express or implied, is made as to their accuracy, completeness or correctness. Save to the extent (if any) that exclusion of liability is prohibited by any applicable law or regulation, Ashmore and its respective officers, employees, representatives and agents expressly advise that they shall not be liable in any respect whatsoever for any loss or damage, whether direct, indirect, consequential or otherwise however arising (whether in negligence or otherwise) out of or in connection with the contents of or any omissions from this document. This document does not constitute an offer to sell, purchase, subscribe for or otherwise invest in units or shares of any Fund referred to in this document. The value of any investment in any such Fund may fall as well as rise and investors may not get back the amount originally invested. Past performance is not a reliable indicator of future results. All prospective investors must obtain a copy of the final Scheme Particulars or (if applicable) other offering document relating to the relevant Fund prior to making any decision to invest in any such Fund. This document does not constitute and may not be relied upon as constituting any form of investment advice and prospective investors are advised to ensure that they obtain appropriate independent professional advice before making any investment in any such Fund. Funds are distributed in the United States by Ashmore Investment Management (US) Corporation, a registered broker-dealer and member of FINRA and SIPC.

Source: MSCI. The MSCI data is comprised of a custom index calculated by MSCI; and as requested by, Ashmore. The MSCI data is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the 'MSCI Parties' makes any express or implied warranties or representations with respect to such data or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits), even if notified of the possibility of such damages. The MSCI Frontier + Select Emerging Markets Countries Capped Index is a customised benchmark that is designed to measure equity market performance of constituent companies in each of the MSCI Frontiers Market Index (50%) and emerging markets crossover markets (50%), which are the Philippines, Qatar, United Arab Emirates, Peru, Colombia, Argentina, Egypt and Pakistan, together with a country cap of 15%.