Chapter 3

FINANCIAL MARKETS AND INSTITUTIONAL INVESTORS IN CENTRAL ASIA

by
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1. Capital markets in emerging economies

The international financial markets[1] have recently swayed widely due to a variety of unexpected problems such as the September 11, 2001 terrorism, a series of corporate scandals represented by Enron and WorldCom and, most recently, the Argentine collapse. Accordingly, the local bond markets in emerging economies in East Asia, Latin America and Eastern Europe have been exposed to sharply increased emerging market spreads[2], which amounted to more or less 1000 basis points in late 2001 and in the second half of 2002, now declining to 500 to 600 basis points.[3] During the period between 2001 and 2003, the "feast or famine" pattern of emerging markets has become apparent. During the same period, the financial markets in Central Asia seem to have almost slipped into geo-economic oblivion.

In recent years, the argument for the establishment of bond markets has gathered momentum in emerging economies. As for the mechanism for bond issuance in relation to emerging economies, two types are most discussed: one is to use the already established foreign and international markets such as the eurobond market in London and the other is to develop immature local debt markets in emerging economies. (Many such local markets have barely endured the adverse effects of crises, notably the 1994/5 Mexican crisis, 1996/7 East Asian crisis and 1998 Russian crisis.) The former has not been so attractive recently, because foreign bond issuance by governments and corporations in emerging markets has often been "opportunistic"—sporadic and limited to only a few natural-resources-oriented large corporations—and lacking in evolutionary spillover effects for other economic sectors.

On the other hand, the latter, the development of bond markets, has been strongly advocated for four reasons:

1. the development of a government bond market will contribute to the formation of multi-layered financial channels by realigning the excessive dependence on bank financing;

2. by enhancing efficient and effective trading and settlement in bond transactions, bond markets also provide the groundwork for a balanced financial market in general;

3. by realigning the financial intermediary mechanism and mobilizing domestic savings, bond markets help make the macro economy less vulnerable to malfunction of either bank financing or market financing and even to contagion from international financial crises; and

4. the diversified financial channels will ultimately offer a broader menu of tailored financial instruments to both fund providers (depositors and investors) and fund raisers (corporations

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and other borrowers), thus, providing small- and medium-sized enterprises (SMEs) easier access to financial resources. The open market financing is expected to help improve corporate transparency and corporate governance.

In this context, stock and bond markets have become increasingly important topics since the 1990s in transitional and emerging economies. They were expected to rectify the difficult situation arising from collapsing command economies and emerging market economies. The financial crises in the 1990s have also accelerated the efforts to reform financial systems. The most recent discussion on developing government bond markets in Eastern Europe and Central Asia (April 2003 in Istanbul) also focused on this direction. [4]

Like Latin America and Eastern Europe, the recent economic arguments in East Asia, in particular in the Association of Southeast Asian Nations (ASEAN), have increasingly focused on bond markets.[5] On the one hand, the bond markets in East Asia have been relatively dominated by sovereign bonds[6] and still remain immature in many parts of Asia. On the other hand, however, recent East Asian emphasis has already turned toward corporate bonds and away from government bonds. East Asia (including Southeast Asia but excluding Japan) account for 45 percent of recent international bond issues in international bond markets as compared with Latin America's 26 percent and Eastern Europe's 14 percent. [7] These shares could be interpreted as indicating somewhat the degree of development of regional bond markets.)

From 1997 to 2000 the bank loan markets in major ASEAN countries shrank whereas the corporate bond markets grew. This may imply that, against the backdrop of high domestic savings, the growing government bond markets ignited the development of corporate bond markets—thus signaling a departure from excessive dependence on bank financing and toward open market financing. In addition, the growing government bond markets were reported to have contributed to fostering benchmark yield curves and to laying the groundwork for an effective bond settlement mechanism.

2. Features of financial markets in Central Asia

The financial markets in Central Asia seem to be characterized by the three basic barriers.

1. For one, due to the functional lack of financial intermediation, the major role of those financial markets is to provide only a short-term operation mechanism for surplus or idle funds of banks and state-owned enterprises (SOEs). There is little room for domestic savings to be mobilized for financial intermediation between fund providers and raisers. Local currencies are busily functioning as a medium of exchange rather than as a store of value, having practically no financial market roles. In other words, domestic savings are not in local currencies but in hard currencies and are privately hoarded ("under mattresses") or expatriated (as capital flight) to foreign financial institutions.

In most countries in Central Asia, financial markets have failed to mobilize domestic savings for industrial and productive activities. In Uzbekistan, proceeds arising from privatization of state enterprises were planned to be concentrated in the "Business Fund" for financial intermediation in 1995, but little information is available on how those funds have been managed. In Kazakhstan, a "National Fund," which now contains over US$2 billion of oil money, was established in 2000 for the purpose of mobilizing fiscal surplus for long-term financial intermediation, but the rules governing contributions to and investments from the fund remain broad, leaving latitude for short-term budgetary operations. Also in Kazakhstan, a "Capital Amnesty" program was implemented temporarily in 2001, attracting nearly US$500 million into the domestic financial system—both from the repatriation of

capital flight and the reintroduction of "mattress money." These schemes, regarded as forced savings, might have been effective but seem to be temporary in nature.

In Central Asia, except for the so-called directed credits, no effective and lasting financial mechanism has been deeply rooted yet.[8] In these circumstances, even the banking sector are not well informed about the contents of corporate activities, implying information discontinuation between the corporate sector and the financial markets. This is most likely to remain a crucial barrier to the start of a successful bond market, particularly private corporate bond market in the region.

2. Also hindering the development of financial markets in Central Asia is the limited variety of participants, made up mostly of banks and a small number of non-bank financial institutions. The closed-loop financial markets, coupled with overbearing guidelines of monetary authorities, have resulted in a shallowness of financial markets. The shallowness has been aggravated by a low turnover ratio of short-term government securities that form the mainstream of the financial markets.[9] In essence, financial markets in the region function practically the same way money markets do in Organization for Economic Cooperation and Development (OECD) countries, but the market size is not comparable. In addition, the variety of financial instruments is limited. A bond or note with a maturity of over one year is very rare in the region. The first issuance of treasury bills in the region was that of the Kyrgyz Republic in1993, followed by that of Kazakhstan in 1994, and those of Uzbekistan and Turkmenistan in 1996. In some countries the maturity of the treasury bills has been extended to one year, but short-term treasury bills still predominate, leaving the long-term market untapped.

The financial markets in the region have the following basic framework: central bank refinancing rates determined mainly by inflation considerations, lending interest rates determined mainly by directed-credit considerations, and treasury bill interest rates kept considerably low due to fiscal burden considerations. These peculiarities as well as the small market size have deterred other potential market participants from entering the financial markets.

Meanwhile, the hyper-inflation that overwhelmed Central Asia around 1993, and the ensuing relentless price rise, have adversely changed how people save—changing from local currencies to durable goods, real assets or hard currencies. Kazakhstan's experience in price stabilization, deposit insurance and capital amnesty suggests some scope for returning savings to the banking system. If this takes place widely, it may stimulate financial markets through the banking channel. However, changing "sleeping" savings into long-term investment in bonds will not be easy, mainly because securities themselves are not familiar to people in Central Asia, but also partly because little policy consideration has been given to issues such as the smooth functioning of secondary markets and investor protection within them.

3. The third main obstacle to the development of financial markets in the region is the rather rudimental and dormant nature of its stock markets. Following the intensified corporate privatization in the region, stock exchanges began to appear—Uzbekistan (1994), Kyrgyz Republic (1995), and Kazakhstan (1997). Like Eastern Europe, where stock exchanges, though small in size, became suddenly buoyant in the wake of the collapse of the command economies, the stock exchanges in Central Asia attracted much attention around 1995. Experiences in other countries also supported the view that stock exchanges could precede bond markets; for instance, Hong Kong, Malaysia, and Thailand witnessed thriving stock exchanges in the 1960s, partly because the economic framework originating from the colonial period favored private corporate environments and partly because fiscal deficits were constrained and reduced the need for government bond markets.

But the lack of transparency in procedures and transactions in Central Asia in the latter half of the 1990s proved troublesome to potential domestic public investors and the viability of quoted enterprises became questionable in the eyes of foreign investors. Thus, currently, the stock exchanges in the region appear to focus mainly on mergers and acquisitions (M&A) rather than liquidity, and even M&A deals seem to be made outside the stock exchange.

As referred to earlier, over the last few years investors have become highly cautious about stock transactions—the collapse of the pre-2000 information and communication technology (ICT) bubble; the rapid change in business, brought on by technological innovation; and numerous corporate problems have caused public investors to be skeptical about corporate governance practices even certified by underwriters, rating institutions, corporate analysts and others.

In contrast, over the same period, Central and Eastern European countries, including Russia, witnessed long-awaited recovery of confidence. This has been strengthened by political stability, a series of economic reforms and the confidence gained through the high prices their energy resources were commanding.[10] On the one hand, the improved situation has led to a continuous boom in their financial markets, especially the Russian stock market. On the other hand, however, the upward trend of financial markets tends to conceal such regulatory issues as price rigging, insider transactions, and maneuvering through hidden-hand behaviors.[11]

There is no denying that the recent developments in Central and Eastern Europe have helped to improve the opinions about the economic prospects of countries in Central Asia. But it is also true that foreign investment bankers and financiers with broad international perspective on energy- and resource-oriented industries and telecommunications industries, are remaining vigilant in monitoring regional developments, and have thus far found little to get excited about. Taken altogether, the general performance of the stock exchanges in the region remains boring and stagnant, inviting little attention from investors in general.

The following table chronicles the financial markets in the region.

Table 1: Financial progress in Central Asia

	1993 and before	1994	1995	1996	1997	1998	1999	2000 and later
Kazakh	**Banking law "tenge"**	**Ttreasury bills**		**Sovereign eurobond**	**Stock exchange**		**Municipal bond and corporate bond**	**2001: Capital amnesty**
Kyrgyz	**1991:Banking laws "som" Treasury bills**		**Stock exchange**					
Tajik	**1991:Banking law**		**Tajik ruble**	**Large-scale privatization**	**Treasury system reformed**	**New banking law**		**"somni"**
Turk	**1992:Banking law "manat"**	**Privatization program**		**Treasury bills**				
Uzbek.	**Securities law**	**"sum" Stock exchange**		**Treasury bills Banking law**				
Russia	**Treasury bills New "ruble" (old ruble zone collapsed)**		**Securities law**	**Sovereign eurobond**	**Corporate eurobond**	**Financial crisis**		
Azer	**1992:"manat" Privatization**			**Banking law Treasury bills**	**Voucher privatization**			

Sources: EBRD, *Transition Report* (2002); individual countries' information.

3. Investors for Central Asian capital markets

Little has been discussed on the problem of "institutionalization of investors,"[12] because no indigenous portfolio investor, either corporate or individual, has existed in Central Asia. Two types of institutional investors,[13] however, will be crucial to the financial prospects in the region: domestic and foreign.

Pension funds, either public or private, are most likely to be promising domestic institutional investors. Private pension funds already show some early signs of becoming increasingly significant in Kazakhstan's local financial markets,[14] but practically nothing else has been seen anywhere else in the region. Given the current regional circumstances, the interrelationship among inflation, real assets and pension funds holds the key—if inflation is contained and accompanied by socioeconomic political stability, the social tendency will be to favor contractual (or contract-based) savings, but if inflation remains high and unstable, the anomalous practices in saving will continue. The region's experiences up through 1993 imply that any financial turbulence is most likely to tempt people into hard currencies or real assets.

Life insurance companies, another type of long-term contractual savings institutions, will not likely contribute to the successful formation of financial markets, at least for the time being, because more time is needed for the general public to understand insurance. In many parts of the region, even the banking services are not well trusted by the general public, because of their poor quality and reliability. In these circumstances, where deposit-service is poorly managed, a rapid approach to savings creation and asset management through the long-term life insurance business will likely confuse people's understanding of financial services.

Foreign pension funds and other contractual savings institutions, which are conservative in nature, will remain cautious about the financial markets in the region. Already, many of them have been victimized by the 1998 Russian financial crisis. They are the least likely to participate in portfolio investment in the region. Before their interest is piqued, they will have to see positive outcomes from various foreign corporations' foreign direct investment (FDI) in the region. Many of them feel that the economic barriers between advanced and transitional economies could be best dispelled through the introduction of FDI in countries with sound economic and social policies. The ability of countries in Central Asia to absorb, adapt and respond to FDI will be carefully appraised as a barometer of successful economic transition.

Many factors that might be insignificant in the minds of the region's residents, may be very important to most foreign investors in the region. Such factors are deeply rooted in geopolitical and geo-economic settings and are crucial determinants in the minds of conservative foreign investors. Across nearly the entire region, the transition to market economy has been dominated by relics of the former command economy. Government intervention into everyday affairs may not be disconcerting locally, but it is beyond the imagination of investors in advanced countries.

In addition to these common factors are individual ones. In Kazakhstan, the gap between the oil sector and the non-oil sector is so large that general economic policies are always accompanied by uncertainties. In Uzbekistan, the recent foreign exchange reform has brought its economy into accord with IMF Article 8, which requires that there should be no restriction on current account payments; but the international community still perceives some insecure economic management, which may create unpredictable elements.. In Turkmenistan, activity in every sector other than natural gas remains irregular or even self-defeating. The Kyrgyz Republic and Tajikistan are so economically remote from the advanced markets that foreign financial institutions and investors are oblivious of business opportunities there. To crown it all, Central Asia lacks a tie that unites countries and promotes economic cooperation and benefits.

At the same time, an increasing number of fund managers who invest in emerging countries now take the view that the Central European countries have shown sustained economic resilience despite serious economic problems in the EU for the last couple of years and that EU candidate (in particular) and other Eastern European countries are already within reach of stable and sustainable economic prosperity.[15] They also see that those countries' economic successes have brought spillover effects to neighboring regions that used to be part of the former Soviet Union. In these circumstances, the most risk-taking of investment companies may be watching vigilantly for portfolio investment chances in Central Asia.[16]

Still, the previously mentioned crises in Mexico, Asia, Russia and Argentina are indicative of the impact that risk-taking investment companies could have on Central Asia. Perhaps the most likely scenario is that signs of economic success and willingness to endure the pains of reform will trigger some risk-taking turbulence, and not until after that turbulence subsides can a steady inflow of portfolio investment be expected.

To avoid the scenario of Central Asia falling into financial turbulence similar to that around 1993, a domestic capital market framework has to be set up whereby domestic savings can be mobilized through secure channels of financial intermediation. At the same time, the region must consolidate financial intermediation through the banking sector and must address its opaque inward-looking and shallow financial market structure and its dormant stock exchanges. It will require more expertise, which will be discussed below. The region's deficiency in basic capital market settings, will attract neither domestic nor foreign financial resources through open market channels.

4. Government bond market as basis of debt/capital market infrastructure

In this section, government bonds are assumed to be the most reliable financial instruments in domestic financial markets. On this basis, the development of the government bond market is expected to lay the groundwork of financial market functions (e.g. interest-maturity relation, liquidity, settlement efficiency, tax treatment, risk management) upon which to evolve various financial transactions. In fact, experiences in advanced countries and some emerging economies show that this policy approach has led to efficient and effective capital markets. In this context, seven market-fostering settings will be discussed—settings that also happen to be concerns of institutional investors regarding Central Asia.[17]

1. The government bond market forms the backbone of most fixed income markets and, together with the banking financial intermediation, contributes to the development of a multi-layered financial system.[18] In this sense, the government bond market is an essential part of financial reforms. So far, however, Central Asian policy discussions have focused mainly on short-term government debt management and little consideration has been paid to how the financial markets will compensate when the government borrowing from the banking sector is scaled down. Similarly, little attention has been paid to a gradual lengthening of debt maturity and to the creation of a benchmark yield curve.

2. The above will have to be addressed in conjunction with efforts to build a diversified base of investors—from domestic investors (both individual and institutional) to international investors. For this purpose, more attention to the nurturing of primary dealers in domestic financial markets is required. Also, other countries' experiences, in particular, those of Singapore and Malaysia in the 1970s and of Chile in the 1980s, imply that funding schemes based on public pension systems may provide an effective part of the investor base. Such

schemes are likely to act as stabilizers in the financial markets, owing to their "buy and hold" nature and their emphasis on corporate monitoring.

3. The performance of financial markets in Central Asia has been characterized by low turnover ratios for treasury bills. Consideration must be given to policy that will stimulate primary dealers and other intermediaries to foster secondary markets—secondary markets with secure and efficient trading and settlement systems. In order to get a high degree of liquidity expertise, young staffers should be trained (hands-on) in financial markets in advanced countries.

4. Also needed is policy on the establishment of an effective regulatory system aimed at restricting illegal, fraudulent, improper or foul transactions in the markets. The regulatory system will monitor the issuers of securities, sovereign[19] and other issuers; the central bank (as government agent), primary dealers and other intermediaries; and end-investors. Their contact must be close, but arms-length, in order to facilitate smooth market transactions.

5. Taxation of financial transactions has also significant implications for and impacts on the markets, but its effects differ depending on taxation circumstances—for example, whether or not end-beneficiaries of financial instruments can be easily identified, or whether or not a withholding tax can be imposed at the source of interest and dividend payments from financial institutions. Experience shows that only good communication between market participants and tax authorities will lead to effective solutions.

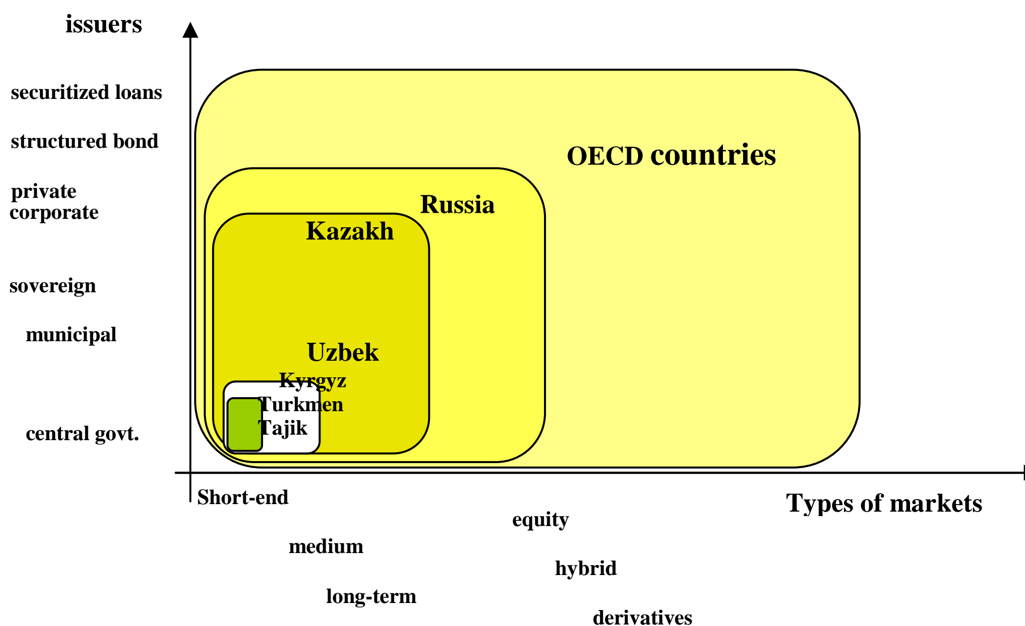
6. The evolution from a government bond focus to a diversified market focus will have to include policy consideration related to rating institutions, corporate analysts and accounting and auditing bodies in order to ensure the quality of information. Stock exchanges vary widely—affected by country-specific and business-specific information that, in some cases, is judged quite subjectively. Bond markets, on the other hand, are so closely tied across national boundaries through interest-rate spreads reflecting specific risks and so on, that high-quality pricing information, both credible and logically deductive, is strongly needed.

7. Once a credible government (sovereign) bond market has been established, its mechanism will be extended to a variety of fixed-income financial instruments (most importantly those of the corporate bond market for financial intermediation purposes), to more sophisticated instruments such as structured bonds and securitized bank loans for medium-sized corporations, and to futures and derivatives markets.[20] These debt instruments will complement the equity products in a stock exchange, producing a wide range of financial instruments in specific segments of financial markets. It should, however, be kept in mind that stock exchanges are dependent on the development of corporate business environments.

It should be stressed here again that the government bond market is an essential part of financial infrastructure. The government bond market provides diversification in type of financial channels, which will ultimately result in a broader menu of tailored financial instruments between fund-surplus and fund-deficit units (including small- and medium-sized enterprises). The development of a bond market for debt financing must go hand in hand with that of a stock exchange for equity financing. Viable and productive business activities on the fund raising side are a basic prerequisite for financial benefits on the fund providing side. In this sense, the formation of financial markets is not an ultimate target but it is merely an intermediate target.

The financial market development in Central Asia is depicted below.

Figure 1: Structure of financial markets in Central Asia



In many emerging economies, banks have dominated financial markets. This situation is likely to continue in the near future, partly because the banking sector has captured many quality clients and is not ready to release them. Another contributing factor is that regulatory environments have been mostly based on banking activities, a typical example being the concentration of rules regarding lender of last resort. Essentially, this is the situation in Central Asia. Soon after the collapse of the former Soviet Union, a two-tier banking system was quickly introduced, though the engine of the new system started off poorly. Even so, the banking sector has been in the public eye and thus people understand the functions of banking—deposit taking, loan making, and funds transfer. Problems underlying the present Central Asian banking system are procedural inefficiency and credibility gap. However, the system will continue to improve as it gains increased exposure to the modern banking services of advanced countries.

The banking channel alone, however, is not sufficient. Economic environments now change faster, because of revolutionary developments in information and communications technologies, technological impacts on business models, extensive social and political renovations, and the disappearance of time and geographical constraint. Diverse assessments emerge incessantly and sometimes alternately, affecting people's financial judgment. Such assessments are more functional in an open market framework than in a bank-centered framework. There is good reason that the most modern environments promote open financial markets and expect institutional investors to play a significant role.

It should be noted that before the Second World War, bond markets existed in various capacities in Central Europe, Latin America, and East Asia—many of them related to practical business during the colonial period. Central Asia, on the other hand, has no such history; and when this difference is considered in the context of Central Asia's slower economic development, the argument in favor of government bond markets is all the more strengthened.

NOTES

1 Although many papers on this subject emphasize capital markets, referring either in general to securities markets or in specific to bond markets, stock markets and hybrid securities markets ("hybrid" here meaning a mixture of debt with equity capital), this paper focuses on financial markets, comprised as follows: (1) bank loan markets, which wed fund providers with fund raisers; (2) debt markets that are composed of money markets for short-term financial transactions and bond markets for medium- and long-term financial transactions; (3) capital markets that are composed of stock market and hybrid securities markets, and (4) derivatives markets.

2 Defined as emerging-economy-oriented bonds' redemption yields minus the 5-year US government bond yield, whereas the corporate spread is often defined as BBB-ranked corporate bonds' redemption yields minus the 10-year government bond yield. In this paper, "emerging markets" are not strictly defined, partly because available databases' definitions differ. Broadly, economies with low-to-middle income per capita but open to the international economy and making efforts to improve and grow themselves are regarded here as emerging economies. See also the International Finance Corporation's Emerging Markets Data Base. Unfortunately no conventional database has recognized any Central Asian country as an emerging economy yet.

3 For more arguments, see William Witherell's presentation at the Fifth Annual OECD-World Bank Bond Market Forum, June 2003, Washington, D.C. (www.worldbank.org/wbi/banking/capmarkets/oecdwb5/agenda.html)

4 Almost all the related major issues and practical matters are described in *Developing Government Bond Markets: A Handbook* (World Bank/International Monetary Fund [2002]), on which recent discussions seem to be based. The OECD/World Bank Bond Market Workshop in June 2003 in Washington, D.C. considered basically the same issues.

5 In 2002, the bond market issue was referred to by Thailand's prime minister, Thaksin Shinawatra. He pointed out a particular model, which was immediately supported by Asian financial leaders in 2003, resulting in the agreement on the Asian Bond Fund (ABF). In the ABF scheme, member central banks of the Executives Meeting of East Asia-Pacific Central Banks (EMEAP) make collective investments in U.S. dollar denominated sovereign or quasi-sovereign bonds issued in countries belonging to the ASEAN.

6 In Malaysia, which among ASEAN members is fairly advanced, private corporate bonds accounted for a high proportion of the sovereign bond and private bond total in 2000 and 2001 (in the 55–65 percent range). Over the same period, the proportion was around 40 percent in Korea, 15 percent in Singapore, 10 percent in Hong-Kong and 3 percent in China. (*Sources.* Bank for International Settlements, *International Banking and Financial Market Developments*; individual countries' statistics for 2000–2002).

7 If advanced countries are included, North America accounted for 41percent, Europe, the Middle East and Africa for 53 percent, Asia-Pacific for 4 percent, and Latin America for 2 percent. (*Source. The IFR TOP 250 Borrowers 2002*).

8 Even so, Kazakhstan seems to have made steady progress in bank intermediation following the introduction of deposit insurance, tightened banking supervision and corporate financial restructuring. It was also reported that private pension funds became increasingly significant participants in the local financial markets. (*Source*. EBRD, *Transition Report 2001*, pp. 24–25.)

9 Little information is available on transactions of government securities markets, though there remains good scope for repo-transactions for open market operations. It was reported that, compared with OECD member countries, financial markets in Eastern Europe are still dominated by banks and that there is a big difference in turnover ratios in government securities between OECD countries and emerging markets. For details, see Clemente del Valle and Mueen Batlay *Regional Snapshot of Government Bond Markets of Eastern Europe and Central Asia—A Framework,* first presented in a regional workshop held by the World Bank and IMF in Istanbul (April 2003).

10 The sharp depreciation of the Russian ruble -soon after the financial crisis in 1998 has brought unexpected economic benefits to Russia, which seems to have enjoyed improvements under the new government.

11 Beneath the financial markets, there lie such crucial pro-blems as short-sighted interests (focusing exclusively on businesses in the limelight) and expanding regional and income imbalances.

12 Here "institutionalization" means the tendency toward gradual domination of financial markets by institutional investors, as compared with individual investors.

13 "Institutional investor" is defined as a corporate-type investor with large amounts to invest; typified by investment companies, collective investment funds (mutual funds, investment trust and unit trusts), insurance companies, pension funds, investment banks and endowment funds (funds donated to an institution or group such as a university, museum, hospital, or foundation as a source of income to be used for a specific purpose). The institutional investors account for a majority of the overall volume of financial market transactions, but as opposed to individual investors, they are covered by fewer protective regulations because they are assumed to be more knowledgeable and better able to protect themselves.

14 See footnote 8.

15 For example, see RZB Group, *Strategy East* (4th quarter 2003).

16 Before 1998, Mr. George Soros appeared to have interest in Central Asia only for benevolent purposes, but not for investment purposes.

17 The author owes credit for some of the following arguments to the World Bank/IMF, *Developing Government Bond Market: A Handbook* (2002).

18 Usually the public sector, particularly the central government, is a non-opportunistic issuer—that is, a constant issuer—of treasury bills and government notes/bonds in contrast to local governments and private sector issuers, who are opportunistic issuers.

19 Sovereign bonds are those issued by central and local governments and their affiliations.

20 The order of the seven arguments just enumerated could be thought of as a sequencing process for securities markets.

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