

OFFICIAL MONETARY and FINANCIAL INSTITUTIONS FORUM

Inaugural Meeting in the Middle East

Perspectives 2011-2012 for the world economy

Finding a new equilibrium between East and West

A symposium at the Central Bank of the United Arab Emirates in Abu Dhabi, featuring a confidential discussion among selected public and private sector participants.

SUMMARY OF DISCUSSIONS
FULL MEETING PROGRAMME
LIST OF PARTICIPANTS



Central Bank of The U.A.E.



SUMMARY OF DISCUSSIONS

Meeting background

The Inaugural OMFIF Meeting in the Middle East followed the first two meetings in 2010, at Deutsche Bundesbank in Frankfurt on 2-3 March and Bank Negara Malaysia in Kuala Lumpur on 15-17 May. The gathering took place 10 days before the G20 meeting attended by heads of state and government in Seoul on 11 November. The discussions were conducted under Chatham House rules, i.e. no person can be quoted directly.*

More than three years after the eruption of the trans-Atlantic financial crisis in August 2007, the meeting coincided with a period of renewed uncertainty over the world economy. Generally positive developments reflecting buoyant growth in developing and emerging economies and a pick-up in demand caused by low interest rates were offset by some basic concerns.

These centred on doubts whether the US economic recovery would prove sustainable as well as predictions that the Chinese economic upswing would falter as a result of overheating in parts of the economy. There were additional worries about countries attempting to gain competitive advantage through competitive devaluations ('currency wars' or a 'race to the bottom') and renewed financial market scepticism on whether Europe had done enough to protect economic and monetary union following the emergency measures in May centred on a €750bn support package for peripheral member states.

In addition, there were underlying questions over the effectiveness of the Basle III package of regulatory tightening for banks and other financial market participants, focused on concerns about whether the measures would unnecessarily constrain bank lending in key economic areas or whether they would drive activities to unregulated fields that would eventually cause market distortions and possible instability. The meeting was also accompanied by some questioning whether the G20 process was continuing to meet the requirements of the world economy or was in some ways becoming counter-productive.

Structure of meeting

Following the example in Malaysia in May, the meeting was preceded on 31 October by a special Round-Table on E-Money bringing together private sector participants from financial institutions and technology companies and public sector regulatory and central banking representatives. A further innovation was a parallel meeting for debt management specialists from the public and private sector, termed the Debt Management Forum. Both these pre-meetings – attended by 40 and 60 participants respectively - were judged a success and there was a consensus they would be repeated in the future.

In addition, in line with the Bank Negara pattern, four break-out sessions were held on the afternoon of 1 November on the issues of Middle East banking and finance, banking supervision and regulation, asset management trends and European economic and monetary union. These smaller gatherings, attended by between 18 and 30 people, were welcomed by delegates as providing an opportunity for more focused discussions in smaller groups. Rapporteurs provided a summing up of these deliberations on 2 November. The following document provides a general summing of all sessions apart from the E-Money meeting. Participation at the plenary sessions including lunches and dinners averaged 80 delegates, varying between 110 (for the plenary session on 1 November) and 65 (for the plenary session on 2 November). Overall, satisfactory momentum between the different parts of the discussion was maintained over the three-day period.

* For the sole exception to the confidentiality rule, see reference to speech by Lorenzo Bini Smaghi, p.9

Participants

The seminar brought together a total of 61 institutions (not counting OMFIF) from 35 countries.* Eight institutions came from Africa, eight from the Asia-Pacific region, 29 from Europe, 12 from the Middle East and four from North America. There were 29 central banks (including multinational organisations), seven national and sub-national government institutions, seven debt management agencies, four sovereign funds and 14 private sector & academic institutions.+ Including members of the OMFIF Advisory Board, but not including alternates, 121 delegates took part.†

**Total figures do not include attendees to the E-Money Council*

+ Regional breakdown: Africa: 8 countries, 8 institutions - Kenya (1), Tanzania (1), Tunisia (1), Mauritius (1), Uganda (1), Libya (1), Nigeria (1), South Africa (1); Asia-Pacific: 6 countries, 8 institutions - Cambodia (1), China (1), Hong Kong (1), Australia (2), Japan (2), Philippines (1); Europe: 16 countries, 29 institutions – Albania (1), Czech Republic (1), Finland (1), Denmark (1), France (2), Germany (6), Hungary (1), Luxembourg (2), Moldova (1), Netherlands (1), Poland (2), Sweden (1), Switzerland (2), Turkey (1), UK (5), Ukraine (1); Middle East: 4 countries, 12 institutions – Bahrain (1), Kuwait (1), Syria (1), UAE (9); North America: 1 country, 4 institutions - US (4)

† People: 121 counting 10 affiliated to OMFIF. People from individual regions and countries were: Africa: 15 - Kenya (2), Tanzania (2), Tunisia (1), Mauritius (2), Uganda (2), Libya (1), Nigeria (4), South Africa (1); Asia-Pacific: 9 - Cambodia (1), China (1), Hong Kong (1), Australia (3), Japan (2), Philippines (1), Turkey (1); Europe: 47 - Albania (2), Czech Republic (1), Denmark (1), Finland (1), France (2), Germany (8), Hungary (1), Luxembourg (2), Moldova (1), Netherlands (3), Poland (3), Sweden (1), Switzerland (2), UK (16), Turkey (1), Ukraine (2); Middle East: 41 – Bahrain (1), Kuwait (1), Syria (1), UAE (38); North America: 9 - US (9)

Main themes

Four inter-related themes permeated the discussions:

1. *Doubts over the recovery.* In public, governments may be playing up prospects that the global economy is on the mend. But behind the scenes policy-makers are far from sure that the worst is over. There was considerable hesitancy over both shorter and longer-term prospects. Talk about an 'exit strategy' from stimulus measures was muted, reflected in the general expectation of imminent fresh easing from the Federal Reserve through another round of quantitative easing. Participants took part in robust discussions about the gap in performance and perspectives between developed and developing economies. The world is being separated into 'winners and losers' from the crisis – but even the 'winners' were by no means sure that their relatively benign positions would be truly sustainable. There was considerable criticism from developing countries of American cheap money policies seen as driving destabilising inflows into emerging markets.

2. *Burden of debt and uncertainties on capital markets.* The high level of public debt is now regarded as a built-in feature of trans-Atlantic economies. Managing it has become a key macro-prudential policy-making task, reflecting the linkages to financial stability and the threat of contagion in a globalised economy. Problems over sovereign debt create a special problem in the euro area which was spilling over to the rest of the world. However, doubts about an imminent threat to the stability of the euro appeared to have receded somewhat compared with the previous meeting in mid-May in the immediate wake of the emergency bail-out measures. There are obvious linkages between public debt burdens and banking weakness in key countries. In view of the disparities between different countries and growth regions, delegates expressed very little hope that an effective harmonised international approach could be found for banking and financial market supervision and regulation; 'muddling through' was the best that could be expected.

3. *Rebalancing the world economy.* The principal worry was that rebalancing had an overall negative effect on growth as deficit countries were lowering demand and this was not being offset by demand increases elsewhere. There was general scepticism about the recent US suggestion that surplus countries should limit current account surpluses to 4% of GDP. Individual surplus countries defended actions to ward off destabilising adjustment effects (e.g. through currency intervention). The view was expressed that current account balances would start to decline of their own accord. The issue was raised whether tendencies towards 'currency wars' and trade protectionism could be countered by a new multinational currency ('a super SDR').*

4. *The new environment for asset management.* A combination of instability among major currencies, worries that yields had reached 'bubble' levels for some classes of government debt and awareness of a requirement for shareholder activism in some parts of the equity market created a particularly challenging environment across all categories of asset managers represented at the meeting. There was an important discussion of the need for 'responsible asset management' implying greater involvement in governance by shareholders, which would – all other things being equal – lead to lower risk and higher returns. With regard to official assets, a major theme of the meeting was the move towards currency and asset diversification reflecting the search for yield and the desire for protection against possible adverse movements of the main currencies.

*See article by Meghnad Desai, OMFIF Bulletin, January 2010

Discussions in detail

1. *Doubts over the recovery*

Legacy of the crisis

The overwhelming, albeit carefully articulated, consensus of the meeting was that immense question marks hang over the outlook for the world economy, principally as a result of the legacy of debt left by the 2007-09 crisis. Across the spectrum there are marked divergences in growth patterns – but a worrying tendency, even in more successful countries, to believe that expansion may prove only transient. Despite the plethora of policy initiatives and a marked increase in institutional activity built around the G20, a strong feeling of dissatisfaction remains.

As one delegate put it: ‘We need more imaginative ways of getting growth going. We have all the handles on policy but nothing is happening. Growth of 1.5 to 2% at best in industrialised countries is not good enough.’ Another speaker saw a ‘20 year workout period’ ahead for industrialised economies in which growth and dynamism would be highly muted. One delegate said the US had become a ‘vulnerable country’ that might eventually fail to attract sufficient international capital to finance its multiple deficits – a development that might lead to some form of ‘regime change’ on world financial markets with a concomitant weakening in the international role of the dollar.

Struggles for leadership

There were warnings of struggles over world monetary and financial leadership. America would not lightly give up supremacy, one delegate warned: ‘They will fight long and hard.’ Fault lines were developing with agencies and banks in places like Asia which disagreed with US policies on banking and financial reform and were not afraid to make these views known. One prominent developing country governor said he had been criticised by US delegates at a recent meeting for suggesting that very few American bankers responsible for the crisis had suffered in the aftermath.

Potentially disruptive international capital flows were regarded as a major challenge for almost all emerging economies – and this was seen by these countries partly as a result of quantitative easing and other cheap money policies pursued by the US Federal Reserve and central banks of developed economies. Developing country representatives made the point that ‘hot money’ attacks could be more dangerous for financial markets than any weakness of regulation.

Winners and losers

One participant asked: ‘Can we identify winners and losers?’ The answer was that Asian countries, which were largely unscathed and are back on a growth path, are the winners, with considerable implications for the shift of economic power from West to East. However, several participants questioned the conventional wisdom that China in particular will emerge as a clear-cut victor. Not least, the reluctance of the Chinese authorities (outlined during a vigorous exchange during the meeting) to accept a further rise of the renminbi – because of fears that this could damp export growth and cause a destabilising dip in expansion – underlined the relative fragility of the Chinese position.

Some participants opined that the sustainability of China’s economic model was in doubt since its heavy dependence on investment had produced a potentially destabilising excess capacity overhang that would cause trouble ahead. Excess export capacity fed the increasingly strident confrontation between America and China over responsibility for, and action to correct, global current account imbalances.

America was not alone in its unease at the imbalance in trade with China and with China’s increasingly protectionist reflexes, something Brussels has been complaining about publicly in recent years. There was a robust exchange on the advisability of the renminbi being allowed to rise on the foreign exchanges. Japanese experience during the 1990s, when Japan’s trade surplus had not fallen despite the rise of the yen, was interpreted by protagonists on different sides as both positive and negative ammunition in the debate about whether the value of the renminbi should be increased.

Growth in Africa

Prospects for growth in Africa received detailed attention. There was considerable discussion of moves to set up sovereign funds in various African countries with resources of energy and/or minerals. Attention was also given to the need to restructuring. One African representative, speaking of his country's desire to be seen as part of a 'BRIC-like' group of powerful developing economies, spoke of the need to overcome the twin challenges of entrenched corruption and a moribund industrial base.

There was some discussion on the re-appraisal of Middle East debt markets caused by the Dubai borrowing crisis last year. Despite the technical preparations under way, there was general recognition that economic and monetary union among the Gulf states was no longer a key policy priority, partly because unrest in Europe had shown the pitfalls of a single monetary policy for states with disparate structures and economies.

Germany seen 'working again'

Among industrialised countries, Germany seems to be emerging as a winner, not just because of its export success but also because of signs that domestic consumption is now recovering fairly strongly and underpinning growth. Even German house prices and mortgage lending are rising, one European monetary representative pointed out. "Germany is working again. We have reaped the rewards of austerity... Germany is resuming its role as the economic powerhouse of Europe." There were questions over the effect on the rest of Europe.

Underlying pessimism about the longer-term ability of southern and western euro members to withstand low growth – as one speaker put it: 'Up to now, people in Greece and Spain have accepted austerity. Will they accept it next year?' – was countered by assurances that the euro 'would not collapse.' One leading central bank governor said Europe was unduly stable and badly needed dynamism; another representative said Europe was becoming overly influenced by German-style stability policies. Somewhat ominously, one participant said that if the euro did suffer a fatal breakdown, then the consequences would be felt well beyond the borders of the present euro area.

Some Nordic countries, notably Sweden, also have come through well, having coped better than might have been expected with the potentially damaging exposure of major banks to troubled Baltic and Eastern European countries. Nordic countries were held out as 'good examples' of debt management agencies in action, with particular reference to Sweden's record in lowering public debt from previously unsustainable levels.

2. Burdens of debt and uncertainties on capital markets

Threat from interest rate rises

The immense government debt burdens left by the crisis represent a major source of concern for the economic recovery. This raises the question of whether they preparing to deal with this threat promptly enough. When market interest rates turn up in perhaps 12-18 months time (assuming no 'double dip' recession), then this inevitable increase from the prevailing, artificially low, rates could itself set off either a new downturn or another sovereign debt crisis it was argued. Moreover, the way in which sovereign debt difficulties are spilling over into an already weakened banking sector can put global economic and financial stability in a precarious position.

'There is much denial and delusion about what lies ahead for sovereigns and governments,' according to one top multilateral policy official. Managing a semi-permanent burden amid a general climate of risk aversion and much greater differentiation of sovereign borrowers' economic profiles is now much more integrated than in the past into overall policymaking, reflecting the linkages to financial stability and the threat of contagion. The environment was especially challenging for countries within economic and monetary union in Europe threatened by a combination of austerity at home and relatively low growth abroad. 'Market indicators are not looking good... Markets are not convinced sovereign problems are over.' Indeed in one participant's view, much sovereign debt now carries risk characteristics which makes it essentially indistinguishable from corporate debt.

Banking and financial market regulation

International regulation of banking, financial markets and insurance was given wide attention. Participants discussed the recent outcome of the G20 and Basle III processes, focused on tightened requirements for capital adequacy and liquidity ratios coupled with a definition of systematic important financial institutions. Delegates were anxious to explore whether criteria or standards could be set to define a good or a bad international regulatory framework, and also whether cost/benefit analysis could be carried out for international regulation. In spite of the difficulties of harmonising relations across countries with different models of banking and risk-taking, there was emphasis on the need for supervision of compensation and incentive structures.

Overhanging the discussion was a sense of dissatisfaction at the international community's powerlessness to stop the last financial crisis and possible impotence with respect to any new threats. Financial regulation and innovation had always been in contradiction, and this was likely to continue. One participant said the 'muddle-through model' was likely to beat the centre of any international regulation framework. It was pointed out that regulation could not be discussed in a vacuum without consideration of monetary affairs: since a single over-arching international regulatory body or agreement would not be possible, complementary / supplementary measures were necessary, particularly regarding coordination and cooperation in monetary policies.

Sharing of debt managers' experiences

There was considerable discussion with debt managers on different countries' experiences in reducing debt levels after periods of excess. These also involved episodes of large inflows of 'hot money' which could and frequently did flow out again, sometimes requiring control mechanisms such as capital restrictions of the sort being considered or implemented by a range of developing economies.

In the past, programmes to bring about public debt reductions were generally aided by domestic austerity coupled with benign conditions on foreign export markets – a combination that is much more difficult to achieve today. At the same time, delegates took part in widespread exchanges of views on different countries' levels of foreign investment on bond markets, with experience tending to suggest that a range in the order of 15% to 25% was optimal (depending on circumstances).

There has been a concomitant increase in maturity of debt issued by the more successful borrowing countries. Cautiously, some major banks and governments are making use of the fall in yields by issuing long bonds to lock in what they suspect will, in the longer term, prove to have been historically low rates.

Wider role for public debt managers

Considerable time was devoted to a discussion of the widening role of public debt managers. The danger that sovereign risk may transmute into systemic risks in the banking system now had to be taken into account. Debt management agencies were no longer in existence simply to ensure deep and liquid markets; they should be part of the economic policy-making apparatus, partly so they can play the role of 'whistle-blowers,' ready to warn about the widening range of funding risks, one official said. 'A good debt management strategy is anchored in sustainability...this needs a medium term debt strategy and has to be linked in to the conduct of fiscal and monetary policy,' said one participant. Such agencies also need to be good communicators, helping to explain to markets what government policy is, one adviser insisted.

Some agencies need to rethink their long term strategies, said one expert. Debt management now has to be an intrinsic part of a government's macro-prudential framework. In the new, high-debt environment, particularly in Europe, where euro members had 'suffered the crisis of over-success' (because financial markets at one time priced Greek debt as little more risky than Germany's), according to one delegate. Agencies had to assess the financial risks on the balance sheets of governments. Markets were questioning more deeply the ability of governments to deliver the revenues needed to meet their obligations. Not just the immediate risk of default but also the scale of contingent liabilities was being assessed. All this made transparency and communications skills vital pre-requisites for debt management agencies.

Changes in behaviour caused by risk aversion

Across the capital markets as a whole, lack of confidence is itself a key policy consideration since – despite the fall in yields - it was very hard to generate necessary levels of investment given the reluctance to take on risk. Risk aversion is itself altering debt market participants' behaviour in ways which could put upward pressure on medium and longer term market interest rates. Uncertainties in the money markets are another factor, since the markets are still dividing banks into 'good' and 'bad' banks, with the latter still having difficulty accessing funds, one participant pointed out. Even apparently sound banks still enjoying access to government support are aware how febrile the money markets remain. One participant pointed out that during the European sovereign debt crisis this year, even a bank with a big government shareholding found it difficult to issue long term debt without government guarantees. At the same time pressures from the US Securities and Exchange Commission and rating agencies were forcing money market funds to shorten their maturity structures. All these trends are posing challenges for central banks' monetary policies by interfering with the monetary policy transmission mechanism. This makes it harder for central banks to withdraw liquidity support from the banking sector and potentially tilt the competitive market place by keeping alive 'zombie' banks which really need to be thoroughly restructured. The 'exit strategy' (much-heralded at earlier OMFIF meetings) was hardly mentioned this time.

Reaction to European Council initiative on indebted euro area members

By arrangement with OMFIF, the speech at lunch on 1 November by Lorenzo Bini Smaghi, Member of the Executive Board, European Central Bank, was placed on the ECB website.* In his wide-ranging address, Dr Bini Smaghi called for a 'rules-based system, with automatic procedures and sanctions' for dealing with errant states within the euro area. 'That was the approach followed by the ECB in its published proposal for reform of the Stability and Growth Pact, and partly also the approach of the European Commission.' By contrast, he said the European Council had decided another route at the end of October, 'as they wanted to retain the ability to decide on budgetary matters, in particular concerning the imposition of sanctions on countries not respecting the rules. They did not want to deprive themselves of their powers in favour of the European Commission, nor to bind themselves with a rules-based approach.' This position might be understandable from a political point of view, he said – but it didn't resolve the governance problem that countries that might offend budgetary rules in future would be unduly generous in 'forgiving current sinners' – leading to a lack of rigour for the system as a whole.

3. Rebalancing the world economy

Scepticism about G20 initiatives

The notion that coordinated policy initiatives in the G20 might lead to global rebalancing was given short shrift by participants, one of whom bluntly insisted that such diplomacy 'can't resolve imbalances.' What was needed for a globalised economy was a multilateral reserve asset currency, perhaps a 'super SDR.' There was no significant support for the recent suggestion by US Treasury Secretary Timothy Geithner that international current account surpluses should be limited to 4% of GDP. A senior German delegate defended his country against charges that it was not sufficiently stimulating domestic demand on the grounds that this would have benign effects only in countries with highly flexible labour markets. Thanks to a feeding through of export-driven growth into a build-up of domestic investment and consumption, imports were picking up, and the German current account surplus would be down to less than 2% of GDP by the end of the decade, he predicted.

Experience of 1985 Plaza Accord

Another participant pointed out that the G5 1985 Plaza agreement to devalue the dollar in order, it was said at the time, to help reduce America's current account deficit, failed. 'The US current account deficit did not disappear.' But the Plaza agreement did, it was argued, create the preconditions for the Japanese asset bubble and bust in the early 1990s and the subsequent 20 years of intermittent stagnation. China, another participant suggested, is well aware of this history and is determined not to make the same mistake through an undue rise of the renminbi. Strength of feeling about potential negative effects of rebalancing by surplus countries was underlined by one Japanese delegate who proclaimed that recent Japanese intervention to sell yen and quell its rise had been a success – despite the manifest failure substantially to counter the currency's appreciation against the dollar.

* <http://www.ecb.int/press/key/date/2010/html/sp101101.en.html>

Position of China

Some delegates argued that imbalances would adjust only through market forces and since some big surplus countries (an oblique reference to China) were manipulating their currencies and not allowing market mechanisms to work, imbalances would remain, and may even get worse. On this view China's excess capacity, particularly in export sectors, was unsustainable and, unless reined in, would lead to protectionist responses – another threat to global recovery. 'Imbalances threaten to trigger trade tensions,' added another participant.

Role of sovereign funds

The idea that sovereign fund assets might be able to help tackle imbalances was a 'red herring', according to one participant. Such funds have to have a profit motive and in view of present risk perceptions, as with other long term investors, their focus has to be on capital preservation. 'We are still in the midst of the financial crisis, just in a different phase,' according to a veteran sovereign manager. Another uttered deep distrust of the conflicts of interest inherent among large private sector players on financial markets and put this forward as another reason for limited appetite for risk. Another worry, more for the longer term, centred on inflation. 'We are looking at how to mitigate the threat from inflation. This will cause bond yields to turn up in the future and trigger big capital losses for holders. We do not want to suffer such damaging capital losses. But you cannot hedge against it, 'there simply is not enough hedging capacity in the market,' said a large asset manager.

4. *The new environment for asset management*

Search for diversification intensifies

In particular with regard to official assets, a major theme was the move towards currency and asset diversification reflecting the search for yield and the desire for protection against possible adverse movements of the main currencies, the dollar and the euro – a development that had boosted the de facto role of gold. There was some discussion of recent Chinese moves to increase foreign investors' access to the domestic bond market. In addition, one major central bank governor said he was exploring building up renminbi assets in a direct reaction to the dollar's 15% fall against the euro since early summer. One concern was continuing lack of transparency about foreign official holdings of government debt issues. China in particular, it was noted, maintains secrecy about its asset allocations. This was against the background of a general sharp rise in global reserves. In March 2005 aggregate central bank reserves were \$2.6bn. Currently China alone has reserves of \$2.6bn linked to this overall issue, one official in charge of issuing debt said, 'Fear that large foreign ownership of our bonds could open us up to political pressure has been, and remains, a concern.'

'Responsible asset management'

Illustrating the general search for returns, but this time in the equity market, there was considerable discussion of the need for 'responsible asset management' implying greater involvement in governance by shareholders, which would – all other things being equal – lead to lower risk and higher returns. This will be a theme of forthcoming OMFIF meetings involving both public and private sector asset managers. There was also a discussion of longer term investment strategies in Europe with reference to issues like co-investment and developmental goals.

Role of gold

Gold was playing a growing part in reserve management, one participant said. Gold remains the third largest constituent in official reserves, with the dollar share having moved from 62% to 55% since the early 2000s, the euro's proportion growing from 16% to 24% and gold currently around 11%. There was some discussion about China's gold reserves with the official figure communicated to the IMF generally thought to understate the level of Chinese official holdings. It was pointed out that, as the world's largest gold producer, China is likely to organise a steady flow of gold into reserves. The idea of gold being a 'hold to maturity' reserve constituent within a capital preservation portfolio appeared to be gaining ground.

Links between fund manager behaviour and growth prospects

Risk aversion by big investors raises the question 'Where will risk capital come from?' If the very heavy expected demands for capital are not met, or only at a very high premium, this would hit growth, one participant argued. 'Many big institutional investors are now highly risk averse... If they do not take the plunge this will hit growth prospects,' said one senior government official 'Some investment strategy changes have been tactical, others strategic. 'The latter could have a very significant impact on the global economy which may not help growth come back, one participant warned.' Long term real money is looking at long term capital preservation,' said one government-sector participant.

In the post-crisis world, the accepted wisdom of some investment precepts had been fundamentally challenged, one participant pointed out. Data going back 20 years would suggest that short-term government debt was an ideal investment for capital preservation, however while many models are still reflecting this a common-sense approach suggests otherwise. With three year investment yielding a margin around 34bp and interest rates expected to rise within the next 12-18 months, the investment would not appear to make sense, one delegate said. One solution to this could be an approach taken by a major European central bank where two portfolios are run; one on a mark to market basis and a second on a 'hold to maturity' basis.

Shifts to emerging economies

There has been much talk of the shift in investment flows from developed to developing markets. However it was noted that a typical North American Pension fund has around 2.6% of their investment focus directed towards Emerging Markets. There were robust exchanges between representatives of industrialised and developing countries about the optimal places for investment, given the poor growth outlook particularly in Europe.

There was interest in the experience of Asian central banks which created the Asian Bond Fund in the early 2000s, each investing seed money. This was to encourage issuance in local currency, and total issuance in Asian currencies now stands at \$4-\$5bn. Discussion took place at various points in the meeting on how Asian countries could boost the issuance of their own bonds both to encourage a more stable and wider Asian capital market and also to harness the desire for diversification by world asset managers. A collaborative approach on bond issuance was needed by Asian debt issuers, it was suggested.

A representative of an African central bank asked how Africa could attract some of the investment flows from pension funds, as part of its work in attracting capital inflows of a long-term nature rather than 'hot money'. The answer seemed to lie in improving institutional structures and economic flexibility as well as transparency and accountability of the underlying economic performance.



FULL MEETING PROGRAMME

DAY ONE Sunday 31 October 2010

PRE-MEETINGS – DEBT MANAGEMENT FORUM, E-MONEY ROUND TABLE

10.00 Registration / refreshments – Lobby / Balcony Room, 7th Floor

PARALLEL PRE-MEETING SESSIONS (see page 14 for E-MONEY ROUND TABLE)

11.00 PRE-MEETING MORNING SESSION: OMFIF DEBT MANAGEMENT FORUM

Conference Hall, 7th Floor

Opening remarks by meeting chairman

Mike Williams, Founder and former Chief Executive, UK Debt Management Office

11.15 MORNING SESSION

Implications for the debt management model as a result of the financial crisis

- Has the independent debt management model been made more difficult/less valuable?
- What new considerations should debt managers be factoring into operations (eg financial stability, roll-over risk etc)?
- What should debt managers do about the state's huge contingent liabilities (eg for banking sector support)?
- Who has been doing things right? (Did anyone escape entirely and what were they doing to be able to do so?)

Speakers

Bo Lundgren, Director General, Swedish National Debt Office

Udaibir Das, Assistant Director, Sovereign Asset and Liability Management Division, International Monetary Fund

Stefan Bielmeier, Chief Economist and Head of Research, DZ Bank

12.45 END OF MORNING SESSION

13.00 – 14.00 LUNCH HOSTED BY CENTRAL BANK OF THE U.A.E.

Sea View Room, 7th Floor

DAY ONE Sunday 31 October 2010

PRE-MEETINGS – DEBT MANAGEMENT FORUM, E-MONEY ROUND TABLE

- 14.30 PRE-MEETING AFTERNOON SESSION - NEW THINKING ABOUT LINKAGES
Conference Hall, 7th Floor
Joanne Perez, Joint Head of Policy & Markets, UK Debt Management Office
Christophe Frankel, Chief Financial Officer and Deputy CEO, European Financial Stability Facility (EFSF)
Hon Cheung – Regional Director, Asia, State Street Global Advisors
- Do central banks and debt managers need to talk more?
 - Do debt managers need to communicate and market more?
 - How should debt managers orient themselves towards foreign holders of their national debt?
 - Is it time for debt managers and sovereign funds to talk?

16.30 Outline of OMFIF debt managers benchmarking study

17.00 Session close

PARALLEL PRE-MEETING SESSIONS (see page 13 for DEBT MANAGEMENT FORUM)

- 10.00 PRE-MEETING SESSION: WORLD E-MONEY COUNCIL
Majlis Room, 7th Floor
Opening remarks by meeting chairmen
Chris Gabriel, former Chief Executive, Zain Africa, Bahrain
Michael Lafferty, Chairman, Lafferty Group
- 10.15 MORNING SESSION I – Global E-Money briefing
- Monetary creation via e-money
 - Country-by-country progress report
 - Business models
 - Regulatory environment
- Sridhar Chityala**, Chairman & Founder, CKL Partners LLC, and Former Chief eCommerce Officer and Executive VP, Wachovia. Vice-chairman, World E-money Council
- 11.00 MORNING SESSION II – The role of central banks and governments in E-Money
- The leadership role of governments as catalyst for the adoption of e-payments
 - Balancing the need for regulation with market forces
 - Catering for the un-banked and under-served communities
 - Safeguarding the protection of consumers
- Speakers
Serge Kolb, Executive Director, Banque Centrale du Luxembourg
Bob Thomson, Chief Manager, IT Projects Unit, Central Bank of the U.A.E.
Ahmed Mohamed Al Naqbi, Senior Manager Channels & Electronic Banking Services, Consumer Banking Group, National Bank of Abu Dhabi
Chris Gabriel, former chief executive, Zain Africa, Bahrain
- 12.45 End of morning session

DAY ONE Sunday 31 October 2010

PRE-MEETINGS – DEBT MANAGEMENT FORUM, E-MONEY ROUND TABLE

13.00 – 14.00 LUNCH HOSTED BY CENTRAL BANK OF THE U.A.E.

Sea View Room, 7th Floor

AFTERNOON SESSION I – Sharing a common vision for the mobile phone as delivery channel and key enabler of financial inclusion

- Learning from the Kenyan experience
- Aligning the strategies and interests of market practitioners and regulators
- A business model for the future: acceptance and revenue-sharing

Speakers

Professor Ngujuna Ndung'u, Governor, Central Bank of Kenya, Nairobi

David Porteous, Director, Bankable Frontier Associates, Boston

George Held, Group Marketing Director, Airtel, Bahrain

16.00

AFTERNOON SESSION II – Innovation in business models

- Case Study: Voice Commerce Group
- Case Study: WIPRO
- What influences the success of new payment initiatives?
- What are the drivers of innovation?

Speakers

Prakash Devulapalli, Head of Global Payments, Wipro Technologies, Bangalore

Nick Ogden, Chief Executive, Voice Commerce Group, London

17.00

Session close

END OF PARALLEL PRE-MEETING SESSIONS

19.00

PRE-MEETING RECEPTION *Balcony Room, 7th Floor*

19.30

WORKING DINNER HOSTED BY CENTRAL BANK OF THE U.A.E. *Sea View Room, 7th Floor*

Opening remarks

H.E. Sultan Bin Nasser Al Suwaidi, Governor, Central Bank of the U.A.E.

Keynote addresses:

The state of the world economy

Prof. Marek Belka, President, Polish National Bank

View from the financial markets

John Cummins, Group Treasurer, Royal Bank of Scotland

Ben Simpendorfer, Chief China Economist, Royal Bank of Scotland

Followed by dinner discussion

21.45

End of dinner

DAY TWO Monday 1 November 2010 Main OMFIF Meeting

- 8.00 Breakfast
- 10.00 **OPENING OF OMFIF MEETING** *Conference Hall, 7th Floor*
Opening remarks
H.E. Sultan Bin Nasser Al Suwaidi, Governor, Central Bank of the U.A.E.
- 10.15 **PLENARY SESSION I - Where are we now in the economic cycle?**
- The balance between the emerging and developed economies
 - The outlook for sovereign debt
 - The outlook for currency and asset relationships
- Speakers**
David Murray, Chair, Board of Guardians, The Future Fund, Australia
Rintaro Tamaki, Vice Minister of Finance for International Affairs, Ministry of Finance, Japan
Dr. Kingsley Moghalu, Deputy Governor, Central Bank of Nigeria
Dr. Joachim Nagel, Head of Markets Department, Member-Designate of Executive Board, Deutsche Bundesbank
John Cummins, Group Treasurer, Royal Bank of Scotland
Pawel Kowalewski, Head of European Department, National Bank of Poland
Laurent Vigier, Head of European and International Affairs, Caisse des Dépôts
Jörg Decressin, Assistant Director, Research Department, International Monetary Fund
Session chairman: **David Marsh**, Co-chairman, OMFIF
- 12.15 End of Session I
- 12.30 **LUNCH HOSTED BY CENTRAL BANK OF THE U.A.E.**
Sea View Room, 7th Floor
Keynote address: The challenges facing the euro area
Dr. Lorenzo Bini Smaghi, Member of the Executive Board, European Central Bank
- 14.00 End of lunch
- 14.30 **SPECIAL SESSION - Responsible Asset Management**
The new paradigm for asset managers in the new financial environment
- Session chairnam: **Prof. Lord Meghnad Desai**, Chairman, Advisory Board, OMFIF
David Murray, Chair, Board of Guardians, The Future Fund, Australia
Saker Nusseibeh, Head of Investment, Hermes Fund Managers
Mumtaz Khan, Chief Executive, Middle East Asia Capital Partners
Udaibir Das, Assistant Director, Sovereign Asset and Liability Management Division, International Monetary Fund
- 16.00 End of Special Session

DAY TWO Monday 1 November 2010

Main OMFIF Meeting

16.30

BREAKOUT SESSIONS

Session rooms, 6th Floor

Group I – Developments in Middle East banking and finance

Chairman **Matthew Hurn**, Executive Director, Group Treasury, Mubadala Development Company
Rapporteur **Meera Al Suwaidi**, Mubadala Development Company

- The fall-out of the financial crisis
- Financial and regulatory issues - Regional shifts and competition/cooperation among regional centres
- Financial innovation in Middle Eastern retail markets
- The role of Islamic finance

Group II – International solutions for banking, insurance and financial market regulation

Chairman **Stefan Bielmeier**, Divisional Head, DZ Bank
Rapporteur **Songzuo Xiang**, Deputy Director, The Institute of International Monetary Research

- Where we are now in the G20/FSB process
- The institutional framework – is there a Middle East model?
- The balance between competition and cooperation among countries and regions
- The future of the Volcker model

Group III – Latest trends in asset management for long-term investors

Chairman **Saker Nusseibeh**, Head of Investment, Hermes Fund Managers
Speakers **Patrick M. Thomson**, Global Head of Sovereign Clients, J.P. Morgan Asset Management

Ashish Bhatia, Manager, Government Affairs, World Gold Council

Laurent Vigier, Head of European and International Affairs, Caisse des Dépôts

Rapporteur **Robin Poynder**, Head of FX & Money Markets, EMEA, Thomson Reuters

- Sharing best practice
- Transparency and regulation in the fixed income sector
- Currency diversification – including the role of gold
- The importance of Islamic finance instruments

Group IV – The future of economic and monetary union in Europe

Chairman **Prof. Lord Meghnad Desai**, Chairman, Advisory Board, OMFIF

Speakers **Dr. Lorenzo Bini Smaghi**, Member of the Executive Board, European Central Bank

Dr. Joachim Nagel, Head of Markets Department, Member-Designate of Executive Board, Deutsche Bundesbank

Rapporteurs **Fatema Al Sayegh**, **Omar Eraiqat**, Mubadala Development Company

- The effects of the sovereign debt crisis
- New methods for European governance
- The European Central Bank's exit strategy
- Competitiveness in the euro area

DAY TWO Monday 1 November 2010

Main OMFIF Meeting

- 18.00 End of Breakout Sessions
- 19.00 RECEPTION *Balcony Room 7th Floor*
- 19.30 WORKING DINNER *Sea View Room, 7th Floor*

Keynote address: An example of long-term state investment in Middle East development - the impact of Mubadala on Abu Dhabi's social and economic infrastructure.
A Q & A session with Mubadala's 'rising stars'.

Matthew Hurn, Executive Director, Group Treasury, Mubadala Development Company

Mahra Al Suwaidi, Assistant Manager, Treasury
Omar Eraiqat, Associate, Structured Finance
Meera Al Suwaidi, Associate, Structured Finance
Mariam Balfaqeh, Associate, Structured Finance

- 21.45 End of Dinner

DAY THREE - Tuesday 2 November 2010

Main OMFIF Meeting

- 09.00 **PLENARY SESSION II**
Conference Hall, 7th Floor
- Reports from the Working Groups followed by discussion
- 10.30 **Coffee/ tea break**
- 11.00 **PLENARY SESSION III – World economy and finance - Perspectives 2011-2012**
- Disparities among regions – are they due to increase?
 - Contours of the future world banking and financial architecture
 - What will be the new sources of risk and reward and where will they be situated?
- Sanusi Lamido Aminu Sanusi**, Governor, Central Bank of Nigeria
Prof. Dr. Turalay Kenç, Member of the Board, Central Bank of the Republic of Turkey
Dr. Carl Heinz Daube, Managing Director, Deutsche Finanzagentur
Masaru Tanaka, Senior Research Fellow, Institute of Monetary and Economic Studies, Bank of Japan
Prof. Lord Meghnad Desai, Chairman, Advisory Board, OMFIF
Prof. Niels Thygesen, Emeritus Professor, University of Copenhagen
- Session chairman: **Michael Lafferty**, Co-chairman, OMFIF
- 13.15 **LUNCH HOSTED BY CENTRAL BANK OF THE U.A.E.**
Sea View Room, 7th Floor
Keynote address: The economic outlook for Nigeria and Africa in the light of world development needs
- Sanusi Lamido Aminu Sanusi**, Governor, Central Bank of Nigeria
- 15.00 **End of lunch**
- End of meeting



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