MINISTÈRE
DE L'ÉCONOMIE, DES FINANCES
ET DE L'INDUSTRIE

MINISTÈRE DU BUDGET
DES COMPTES PUBLICS, DE LA FONCTION PUBLIQUE
ET DE LA RÉFORME DE L'ÉTAT

# CONCOURS EXTERNE
# POUR LE RECRUTEMENT DE TRADUCTEURS

## *SESSION 2011*

## *COMBINAISON LINGUISTIQUE*
## *ANGLAIS - FRANÇAIS - 3ÈME LANGUE*

ÉPREUVE ÉCRITE D'ADMISSIBILITÉ N° 3 DU 25 MAI 2011

ÉTUDE D'UN DOSSIER CONSTITUÉ DE PLUSIEURS TEXTES
À CARACTÈRE SPÉCIFIQUE,
RÉDIGÉS EN ANGLAIS ET EN FRANÇAIS,
COMPORTANT LES EXERCICES SUIVANTS :

- **IDENTIFICATION DES UNITÉS TERMINOLOGIQUES PERTINENTES ;**
- **REPÉRAGE DES DÉFINITIONS, DES CONTEXTES DÉFINITOIRES OU EXPLICATIFS ;**
- **RÉDACTION DES FICHES TERMINOLOGIQUES CORRESPONDANTES**

(Durée : 3 heures - Coefficient : 3)

**REMARQUES IMPORTANTES :**

- les copies doivent être rigoureusement anonymes et ne comporter aucun signe distinctif ni signature, même fictive, sous peine de nullité.
- le candidat s'assurera, à l'aide de la pagination, qu'il détient un sujet complet.
- l'usage de tout dictionnaire ou lexique est formellement interdit.

**TOUTE NOTE INFÉRIEURE À 8 SUR 20 EST ÉLIMINATOIRE**

**SUBJECT**

Please read the attached documents carefully. When you have finished :

1) **For each language, please extract approximately twenty finance-related terms (words or phrases).**

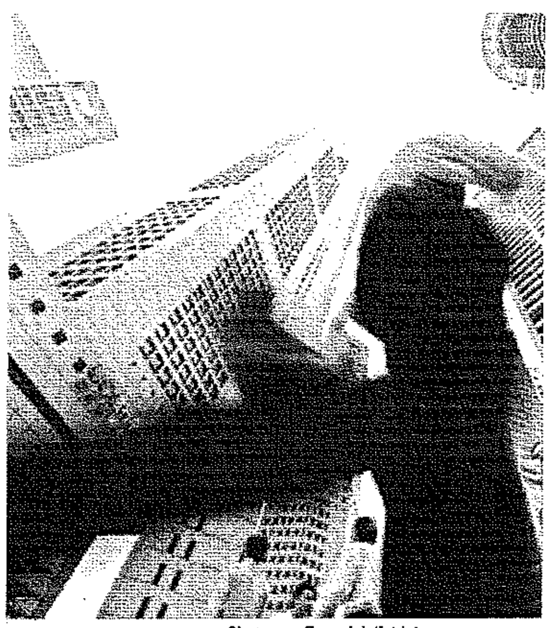
2) **Choose three of these terms and create a French-English terminology record for each.**

   *Each record should contain all of the fields needed to understand and use the term in question.*

3) **Briefly explain the relevance of the fields you chose.**

Text No. 1

# Deeper Markets, Cheaper Capital


Singapore financial district.

## Financial sector reforms can help reduce the cost of capital, spur investment, and promote rebalancing in Asia

*Sanjay Kalra*

THE global debate on imbalances has placed "excess" savings in Asia under international scrutiny. Although the debate has centered mostly on the role of China, savings-investment balances in other countries, especially those of the Association of Southeast Asian Nations (ASEAN) including Indonesia, Malaysia, the Philippines, and Thailand, are also attracting attention.

So does Asia save too much or invest too little? The answer varies across economies: some need to reduce savings, while others need to increase investment. But what can be done to fix imbalances is relevant for most economies. Recent research (Kalra, 2010; Oura, 2008) suggests that investment in some Asian economies—specifically, spending by firms on capital investment—would be higher if financial sector reforms could reduce the cost of capital and allocate capital more efficiently. This would moderate imbalances.

### More robust systems

Asian economies have so far weathered the onslaught of the latest global downturn with greater ease than in previous crises. Asian firms' finances have improved significantly since the 1997 crisis. Corporate leverage has declined, and profitability and liquidity have increased. Vulnerability indicators have also improved significantly, and default probabilities in the corporate sector are lower than a decade ago. In short, there is evidence of sounder corporate financing practices and strength in a number of Asian countries hit by the crisis. Financial systems in the region are also stronger. In particular, banking systems' financial indicators have improved over the past decade. So Asian economies can now increase investment spending to meet higher demand at home as they rebalance toward domestic sources of growth and make the most of the global upswing.

How Asian countries make use of these opportunities will depend, in part, on how well their financial systems can allocate investable funds across various investment projects, both by reducing the cost of capital and by directing funds to where they are needed most. Financial sector reforms can help with both.

### Room for expansion

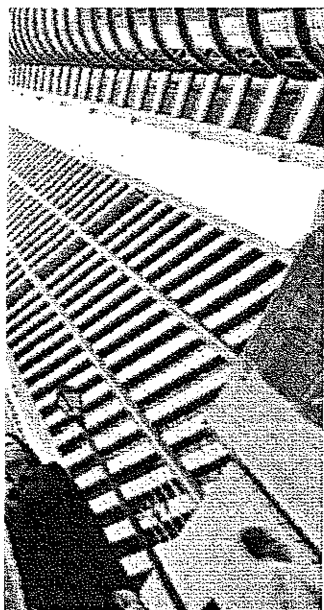
Financial systems in a number of Asian economies are still dominated by banks, with small local currency bond markets and little corporate bond issuance within those markets. Stock market capitalization is relatively low in many countries compared with advanced economies in Asia and beyond. Foreign participation in the equity and bond markets is also limited. Indeed, large movements in equity prices generated by periodic bouts of capital inflows are in part indicative of the limited depth and breadth of the stock market. All told, a number of Asian countries' financial systems need to grow and diversify.

Asian firms do substitute among alternative debt financing options and would actively seek alternatives to bank funding if capital markets were deeper and more liquid. For example, there was a large—but temporary—spurt in issuance of corporate securities in local currency debt markets in the midst of the global financial crisis in 2008. At the time, these firms' financing needs were arguably limited, and the issuance of corporate securities reflected a shift from bank financing to bond markets to take advantage of lower spreads (Kalra and Oner, 2010).

### Cost of business

There is room for Asian financial systems to lower costs and allocate capital more efficiently. In some economies, including India, Indonesia, Malaysia, and Thailand, the cost of capital could be reduced further to levels in other banking systems in the region (Australia, Korea, New Zealand, and Singapore). Reductions in the cost of banking can be achieved through financial sector reforms to strengthen bank balance sheets, reduce nonperforming loans, and improve credit information. In addition, in countries such as Indonesia, structural reform that reduces credit risk—for example, through clearer collateral and bankruptcy procedures—would also help lower lending rates.

Cost measures of economies' banking systems are reflected in the overall cost of capital facing firms. Simple measures of the cost of capital make the point succinctly: countries with higher banking costs generally have higher cost of capital (see chart).



Since equity and corporate bond markets are relatively small in a number of Asian countries, the cost of credit from banks determines the cost of capital. These measures of the cost of capital—encompassing cost of equity and debt capital—are constructed in Kalra (2010) along the lines of Ameer (2007). These are comprehensive measures of the cost of capital, which incorporate countries' price-equity ratios, growth prospects, interest rate on debt, and corporate income tax rates.

And measures that reduce the cost of capital will, most likely, spur investment. Empirical analysis of firm-level capital spending suggests that financing costs are a key determinant of capital expenditures: a lower cost of capital is associated with higher capital spending by firms.

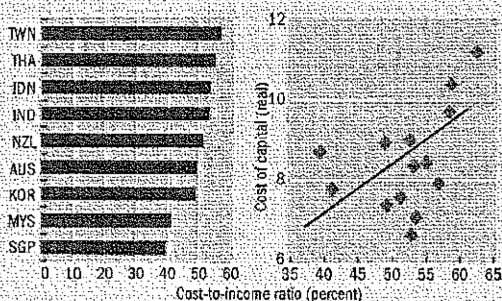
This holds for a range of economies in Asia—India, Indonesia, Korea, Malaysia, Taiwan Province of China, and Thailand—and for alternative sources of external financing of capital spending; that is, debt and equity. And capital spending is more sensitive to the cost of debt in some economies (Korea, Malaysia, and Taiwan Province of China), possibly reflecting higher stock market capitalization and significantly larger stock markets relative to gross domestic product.

## Efficient allocation

Are there frictions in Asian financial markets—transaction costs that are high or make it difficult for firms to borrow—that reforms can resolve? Frictions can arise for a variety of reasons, such as institutional structure, financial market size, and information gaps. There is evidence that such frictions impede the efficient allocation of capital across sectors and firms in Asia.

**Cost of banking**

Some Asian banking systems can reduce their cost of doing business; those that do so are able to provide capital at lower cost.




Sources: Bankscope; Worldscope; and IMF staff estimates.
Notes: TWN=Taiwan Province of China, THA=Thailand, IDN=Indonesia, IND=India, NZL=New Zealand, AUS=Australia, KOR=Korea, MYS=Malaysia, and SGP=Singapore.

Of course, friction and financing constraints differ across sectors and countries especially when compared with more developed markets such as the United States, so that the constraints to rebalancing most likely vary across economies. And there are also differences across segments of the financial system.

For some economies, such as India and Thailand, there is evidence of friction in the financial sector as a whole and of financing constraints on firms. Elsewhere, evidence of financial friction is weaker. In Korea, Malaysia, and Taiwan Province of China—which have deeper nonbanking segments—financial systems seem to allocate capital more efficiently. In particular, equity and debt markets appear to do a better job than banking systems of allocating funding across sectors and firms.

But that only works for exchange-listed firms that access external financing. However, many firms—mostly small and medium-sized enterprises that are not listed—in several countries are unable to access external financing through organized financial markets. For these firms, financing constraints remain acute. They rely heavily on internal sources to finance their growth. Financial sector reforms can be expected to ease financing constraints for unlisted firms.

## Reform measures

Initiatives are already under way in Asian countries—at the national and international levels—to expand and reform financial systems. For example, Thailand has formulated its Financial Sector Master Plan II and Capital Markets Development Masterplan. Malaysia has recently adopted measures to further liberalize its financial sector and develop Islamic finance both in the banking sector and in capital markets. At the international level, the Asian Bond Market Initiative is an initiative of the ASEAN, China, Japan, and Korea (ASEAN+3) started in 2003. It aims to develop efficient and liquid bond markets in Asia, facilitating use of Asian savings for Asian investments. This initiative has made substantial headway in fostering local currency bond markets. And pan-Asian stock exchanges are being linked to improve the cross-border flow of capital in the ASEAN region.

Such reforms in Asia's financial markets will make them deeper and more efficient. This in turn will help reduce the cost of capital, spur investment, and promote rebalancing in Asia. ■

*Sanjay Kalra is a Deputy Division Chief in the IMF's Asia and Pacific Department.*

*References:*

*Ameer, Rashid, 2007, "Time-Varying Cost of Equity Capital in Southeast Asian Countries,"* Asian Economic Journal, *Vol. 21, No. 2, pp. 207–38.*

*Kalra, Sanjay, 2010, "Thailand: The Corporate Sector, Financial Reforms, and Rebalancing" (unpublished).*

*———, and Ceyda Oner, 2010, "Asian Local Currency Bond Markets: A New 'Spare Tire'?" (unpublished).*

*Oura, Hiroko, 2008, "Financial Development and Growth in India: A Growing Tiger in a Cage?" IMF Working Paper 08/79 (Washington: International Monetary Fund).*

Text No. 2

The Economist



keep the yuan stable against the dollar. Others have less rigid currencies but still intervene to stem what they regard as excessive upward pressure. Between September 13th and 16th Brazil's central bank bought dollars at a rate of $1 billion a day.

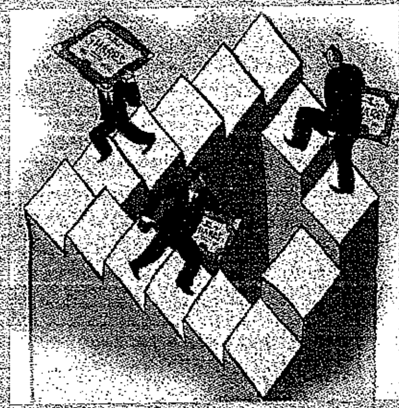
As the recovery slows, a growing number of people worry about a descent into competitive depreciation, as countries try to grab a bigger share of global demand at others' expense, a trend that could fuel protectionism. Optimists, however, argue there may be benefits from today's fad for currency fiddling. One argument is that intervention may be a backdoor route to reflation. If central banks all print money to prevent their currencies appreciating and don't mop up or "sterilise" that liquidity by issuing bonds, then their exchange rates might end up the same but the world will have had a monetary boost in the interim.

The truth lies in between. Although most of the intervening governments have the same goal—to stop their domestic currency from rising—their circumstances and motivations vary widely. China's ongoing determination to fix the yuan is the least defensible and most distortive. Unfortunately, it is also the world's most effective intervener. Thanks to a closed capital account (even if cracks are appearing) and government control over domestic banks, China has been able to buy vast quantities of dollars without fuelling inflation. The central bank issues bills to mop up the liquidity created from buying reserves, which obliging banks hold at low rates.

For most emerging economies, however, intervention is more about coping with volatile capital flows. Thanks in part to rock-bottom interest rates in the rich world, foreign capital is flooding back into emerging economies. By intervening, emerging-market central banks restrain the pace at which their currencies appreci- ▸▸

## Buttonwood | Busily going nowhere

**Low interest rates have been a mixed blessing for equities**



IF YOU are the sort of person who does not pay much attention to the daily gyrations of the stockmarket, congratulations. After nearly nine months of volatility, and a deciduous forest's worth of reports by stockbrokers on the outlook for markets, global share prices are back where they were at the start of the year.

All this frenetic activity has doubtless generated lots of income for middlemen in the financial sector. But the clients of stockbrokers have, in aggregate, merely taken home their dividends. And given that the American market is yielding just 2.5%, a lot of that will have been absorbed by fees and commissions.

The lacklustre performance of equity markets in 2010 is symptomatic of the previous decade. A long-term asset-return study by Deutsche Bank found that American equities had delivered slightly negative returns over the ten years up to the end of July.

The factor pulling stockmarkets in different directions this year has been low interest rates. On the one hand, low rates entice investors out of cash and into riskier assets. For example, issuance of American high-yield (or junk) bonds has already reached $168 billion this year, more than was raised in the whole of 2009. Jim Sullivan of Prudential, an American insurance group, says that many institutional investors are drifting up the yield curve, buying investment-grade bonds as an alternative to low-yielding Treasury bonds. Equities have benefited from the same process.

On the other hand, the implication of low interest rates is that the outlook for economic growth, and thus corporate profits, is extremely subdued. The market has suffered a couple of "growth scares" this year, first when the European sovereign-debt crisis was raging in the spring and second, in August, when there was talk of a double-dip recession.

The markets have snapped out of their funk this month. There have been some moderately better data from America on non-farm payrolls and manufacturing activity. The National Bureau of Economic Research said this week that the American recession ended in the summer of 2009.

But the data have been far from universally upbeat. The real boost to confidence may have come from the conviction that the central banks will act again to revive activity. These hopes will have been encouraged by the Federal Reserve's latest statement on September 21st which talked, unusually for a central bank, of inflation levels "below those the committee judges most consistent over the longer run with its mandate to promote maximum employment and price stability." In short, inflation is too low.

With rates already near zero the Fed's remaining policy option is to pursue quantitative easing (QE) in the form of money creation to buy government and corporate bonds. But will that do much to help the American economy? Paul Ashworth of Capital Economics points out that when the Fed stopped its first round of QE Treasury-bond yields were around the same as when it started. Indeed, yields have fallen since the Fed stopped the programme. And Capital Economics' measure of broad-money supply (M3) fell while QE was in operation.

David Bowers of Absolute Strategy Research nonetheless argues that low rates in the developed world will eventually boost global growth as they are imported by the developing world via managed exchange rates. Asia will come to the rescue of America and Europe. Perhaps. But there are complicating factors, including the potential for international disputes as Asian countries try to manage their exchange rates (see previous articles).

There is also the danger of complacency. Japanese stagnation couldn't happen here, Western commentators used to argue, because the Japanese were too slow to act, propped up their problem banks, tightened fiscal policy too early and all the rest. Yet history is repeating itself.

Core inflation in America is less than 1%. Two years after the Fed slashed rates almost to zero, ten-year Treasury-bond yields are 2-3%, around the same level as Japanese bonds reached two years after Japan's short-term rates fell to 0.5%. European governments are tightening fiscal policy well before their economies have recovered output lost in the recession.

The more the economic outlook turns Japanese, the harder it will be for equity markets. American equities may have had a decade of poor returns since the dotcom crash in 2000. Yet Japanese investors have had to endure two decades of frustration (and counting) since the end of Tokyo's bull market.

Economist.com/blogs/buttonwood

Text No. 3

# 2 EXECUTIVE SUMMARY

The euro bond market developed quite well since 2001. The growing importance of the euro as an international investment currency has made the market for euro-denominated issues more attractive for both investors and issuers. A key element behind these developments of the European bond market in this period was the impetus for a better integrated and more liquid market and the increasing diversity of innovative products, such as index-linked bonds, real-time bond indices, fixed income exchange traded funds, credit derivatives and structured products. The euro bond market study includes most of these developments, including, as appropriate, in some empirical testing of special market features. The executive summary is hence only a shortcut to finding the chapter that is of special individual interest.

The attractiveness of investments denominated in euro is associated with greater competition between market segments and different issuer types in the euro area. In continental Europe, where financing structures are still strongly bank-based, government bonds and bank debt securities have dominated the market for decades and still do. However, of particular importance is the rapidly growing market segment of private issuers. At the beginning of European monetary union, corporate bonds had a share of only 9% in the stock of outstanding bonds. This share went up to 14% towards the end of 2003 as access was gained to a larger potential pool of investors than existed before the introduction of the euro.

Improved access to financial markets within the EU allows investors to diversify their portfolios and to invest more easily in markets of countries other than their own. Since many investors prefer assets denominated in local currency, the introduction of the euro has reduced the home bias of euro area investors and further promoted the diversification of investments within the euro area. Furthermore, the development of a relatively broad and homogenous financial market in the euro area attracts international investors. Efforts to reduce information asymmetry and to improve transparency (as enforced by the Financial Services Action Plan) together with increased liquidity and declining transaction costs further foster the attractiveness of European bond markets for European and international investors.

In recent years the more intense competition, also due to the introduction of the euro, has accelerated the process of reshaping market infrastructure and has involved trading, clearing and settlement stages. The different components of the financial marketplaces have developed new services and slimmer ownership structures. Strong synergies, the need to lower costs and the drive to strengthen the position of the main management companies have spurred integration between the trading circuits and the settlement systems.

The euro covered bond market, an example for on-balance sheet securitisation, has witnessed interesting developments over recent years. While the issuance of covered bonds declined until 2001, mainly due to the sharp reduction in issuance of German Pfandbriefe, a recovery started in 2001. However, apart from the rising volumes since 2001 and continuous product innovation, the interesting feature in this market segment is the growing share of issuance from European countries other than Germany, whose covered bonds nonetheless still dominate the market to a large extent. While issuance has increased in the existing covered bond markets, new markets have also developed or are about to be born. This is an outcome of the modernisation of existing covered bonds legislation in several countries, while other countries have already adopted covered bonds legislation or will soon do so. These developments show the current dynamism in the covered bond market in a pan-European context.

Off-balance-sheet securitisation has seen impressive growth since the late 1990s and has become an established asset class in the European fixed income market. Total issuance volumes rose to €268 billion in 2003 and expectations are that securitisation issuance

will continue to grow and even outstrip corporate bond issuance in 2004. Different kinds of securitisation in terms of asset classes have been introduced, among them residential mortgage-backed securities (RMBS) and collateralised debt obligations (CDOs). With respect to the degree of development of the securitisation market there are still large differences between European countries which can be explained mainly by differing legal, regulatory, tax and accounting rules applicable to securitisation transactions. In some countries the legal and tax conditions for securitisation have been improved recently. Whether the high growth rates seen over recent years can be maintained, however, remains to be seen.

Considering the performance of the European bond markets, spreads of corporate bond yields over government bond yields were at exceptionally low levels by the end of 2003 after having peaked in the autumn 2001 and in 2002. Quantitative assessment of this phenomenon suggests that much of corporate spread depression is due to historically low interest rate levels, encouraging investors to search for yield. In addition, spreads, taken as premia for default risk, have been depressed by declining corporate leverage, a possible indicator of companies' solvency. Finally, the increasing market liquidity associated with the maturing corporate bond market has squeezed liquidity premia. The current broadening and deepening of the European corporate bond market is expected to continue in the future. This gives reason to believe that the dampening impact of lower liquidity premia on spread movements will continue.

Another segment of European credit markets which has expanded rapidly in recent years is the credit derivatives market. Credit derivatives, which allow the transfer of credit risk to other sectors that lack direct origination capabilities, are on the way to becoming one of the most successful financial innovations in recent history. The remarkable development of credit derivatives markets especially in Europe and the ongoing integration of European credit markets is contributing to the evolution of liquid markets, thus facilitating the efficient pricing and trading of credit risks. Meanwhile, credit default swaps (CDS), which also provide the basis for more complex structured instruments, fulfil an important function in secondary credit markets with respect to price discovery. On 21 June 2004, the Iboxx/TRAC-X merger led to the launch of DJ iTraxx indices. This set of new rules-based and transparent indices is comprised of the most liquid names in the European financial and corporate credit default swap (CDS) market. Discussions are ongoing among market participants for listing futures on DJ iTraxx indices and for having them traded on electronic trading platforms and cleared in a central clearing house. Should these avenues or similar developments become concrete and successful, it is likely that they will enhance transparency and liquidity in the overall credit markets, ultimately expanding the corporate market, both in terms of instruments and market participants.

Inflation-linked bonds is a small but growing segment of the euro bond market. Most of the EU national treasuries which have already issued some inflation-linked bonds (UK, Sweden, France, Italy and Greece) are tending to increase their issuance, whereas the German Treasury is expected to start to issue in 2005. In parallel, the market for inflation linked derivatives has picked up over the last three years, expanding the hedging and trading opportunities of inflation risk.

One of the most recent innovations in the European bond market was the development of exchange-traded funds (ETFs), which allow a diversified portfolio to be bought or sold more cost-efficiently through one single transaction than is currently possible with traditional funds. Another means by which innovation could help would be through the development of futures contracts based on portfolios of corporate bonds, with delivery taking place through either cash or through ETFs. A prerequisite for the development of the former (cash-settled futures contracts based on

corporate bond portfolios) is, however, the development of indices whose integrity is beyond doubt and whose computation and publication is effected in real time. It is interesting to monitor the development of real-time indices and ETFs in the bond market and the corporate bond segment in particular because it may allow two impediments to the development of this market to be overcome: the shortage of convenient hedging instruments and the relatively high transaction costs associated with portfolios composed of many small issues.

Rating agencies have been playing a pivotal role in the development of the euro bond market as providers of independent credit assessments on bond issuers' creditworthiness. One of the factors underpinning this growth has been the increasing coverage and use of credit ratings provided by rating agencies. However, owing to still greater reliance on bank intermediation, the coverage of credit ratings in Europe is still under-developed compared with the United States. Both general structural factors and specific European drivers explain the role of rating agencies in the European bond market. The advent of the euro and the integration of European financial markets conferred an even more determinant role to credit ratings. By eliminating currency risk, the use of the euro allowed bond investors to focus on credit risk while the enlargement of their investment universe increased their need for simple indicators of this risk.

The Financial Services Action Plan (FSAP), adopted by the European Commission in 1999 and endorsed by the Lisbon European Council in March 2000, presents the most ambitious initiative to date to foster the integration of capital markets and to achieve a single market for financial services in the EU. The four strategic objectives underlying the FSAP relate to the single EU market for wholesale financial services, open and secure retail markets, state-of-the-art prudential rules and supervision, and wider conditions for an optimal single financial market (namely tax and corporate governance issues). With regard to the euro-denominated bond market, a relatively high degree of integration can be observed. Nonetheless, in the case of the euro area government bond market, additional integration may be possible.