Journal of Internet Banking and Commerce

An open access Internet journal (http://www.icommercecentral.com)

Journal of Internet Banking and Commerce, March 2023, Vol. 28, No. 2

Comprehensive Study on Bond Market Development in Developing Countries

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Received date: 22-02-2023, Manuscript No. JIBC-23-95879;
Editor assigned date: 24-02-2023, Pre QC No. JIBC-23-95879 (PQ);
Reviewed date: 10-03-2023, QC No. JIBC-23-95879;
Revision date: 17-03-2023, Manuscript No: JIBC-23-95879 (R);
Published date: 27-03-2023

Description

Macroeconomic stability is a vital factor in the development of developing-country bond markets. Bond markets are an important component of a well-functioning financial system because they allow governments and corporations to raise capital for investment and growth. However, bond markets may struggle to flourish in the absence of macroeconomic stability, and their potential benefits may not be fully realised.

Macroeconomic stability refers to the entire stability of the economy, including price, exchange rate, and interest rate stability. Macroeconomic instability in emerging countries is frequently characterised by high inflation rates, variable exchange values, and unpredictable interest rates. These circumstances make it difficult for investors to make informed decisions and issuers to raise financing at reasonable costs.

The impact of macroeconomic volatility on developing-country bond markets is dual. First, macroeconomic volatility can raise borrowing costs for issuers, discouraging investment and slowing economic growth. Second, macroeconomic instability might make assessing the risks associated with bond investments more complex. As a result, investors may demand greater returns to compensate for the increased risks, raising issuers' borrowing costs even further. Consider the case of two emerging countries, Country A and Country B, to demonstrate the importance of macroeconomic stability in bond market development. Both countries have similar economic qualities and face comparable issues; however, Country A has a history of macroeconomic volatility, whereas Country B has a stable macroeconomic environment.

Until now, the role of macroeconomic stability on current account balances has not been explored using a computed indicator. For the first time in the study, it aims to discover the role of macroeconomic stability in current account balances. The macroeconomic stability is represented by an index composed of all countries' affectation rate, growth rate, severance rate, and financial balance statistics. It has been established that macroeconomic stability is a major predictor of current account balances, alongside institutional quality and fiscal development.

Macroeconomic stability is defined as the balance of important profitability factors. There is no obvious line between stability and insecurity. It is the assessment of various combinations of important profitability variables such as growth rate, affectation rate, financial balance, severance, debt position, and current account poverty that provide information on macroeconomic stability. Nonetheless, large current account deficits financed by short-term borrowing, a high severance rate, a high position of adding public debt, two integers adding affectation rates, and negative or declining GDP growth rates demonstrate a country's relatively fluent position of macroeconomic insecurity.

Similarly, macroeconomic stability is indicated by a positive financial balance, a current account balance that is fat with diminishing debt situations, a dwindling affectation rate in one number, and an increasing growth rate. Moreover, empirical studies demonstrate a favourable association between macroeconomic stability and FDI inflows. To investigate the role of macroeconomic stability in current account balances, a panel data analysis system is used. We are not only interested in the short-term determinants of current account balances. To get a complete picture, we also incorporate short-term critical variables such as growth rate and real effective exchange rate. So, in order to capture short-term products, our model includes periodic data. The panel data set is erratic.

Until now, the role of macroeconomic stability on current account balances has not been explored using a computed indicator. For the first time in the study, the goal is to determine the role of macroeconomic stability in current account balances. The study's major goal is to comprehend the impact of macroeconomic stability on current account balances. The macroeconomic stability indicator is developed and calculated collectively for each country.