Domestic Bond Market in Asia

Thiam Hee Ng, Senior Economist
Asian Development Bank

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Outline

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Introduction

• 1997/98 Asian financial crisis exposed the currency and maturity mismatch endemic in the region’s financial system.

• Banks were borrowing short-term in foreign currency (usually US$) and lending it on in local currency long-term.

• Authorities recognize the need to develop stronger and more robust regional financial markets to prevent a repeat of the crisis.

• Sparked efforts to promote local currency bonds
Asian Bond Market Initiative

• To avoid the problem of double mismatch in the future, the Asian Bond Markets Initiative (ABMI) was started in 2003 to promote the development of local currency bond markets in Asia among ASEAN+3 countries.

• Consists of four task force
  – Promoting issuance of local currency bonds (CGIF)
  – Facilitating demand for local currency bonds (Asian Bonds Online)
  – Improving regulatory framework (ABMF, AMBIF)
  – Improving related infrastructure for bond market (Regional Settlement Intermediary)
Information on Asian Bonds

• Asian Bonds Online web portal was set up as a one-stop clearinghouse of information on sovereign and corporate bonds. It aims to promote greater awareness of local currency bonds among investors.

• ADB also publishes the Asia Bond Monitor which provides the latest research analysis of local currency bond markets. Recent topics covered include capital flows, infrastructure and sukuk.
Asian Bonds Online website
http://asianbondsonline.adb.org/
Asian Bond Market Forum

• To further promote cross country issuance of bonds, Asian Bond Market Forum (ABMF) was established in 2010 to foster standardization of market practices and harmonization of regulations relating to cross-border bond transactions in the region.

• A key initiative is the ASEAN+3 Multi-currency Bond Issuance Framework (AMBITF), a common regional bond issuance program, to allow qualified issuers from any country in ASEAN+3 to issue local currency bonds in any ASEAN+3 currency in the ASEAN+3 region. ABMF is also working to towards streamlining bond transaction flows including more simplified disclosure requirements.

• Also working to improve the regional cross-border settlement infrastructure through ASEAN+3 Cross-Border Settlement Infrastructure Forum.
Rapid growth in LCY bonds

Emerging East Asia’s LCY bond market reaches US$8.2 trillion at end-2014

Size of Emerging East Asia’s LCY Bond Market

Note: Emerging East Asia refers to the People’s Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.

Source: AsianBondsOnline.
Corporate bond market rising faster than government bond market

Annual Growth Rates

Note: Growth figures are based on end-December 2014 currency exchange rates and do not include currency effects.
PRC is the largest LCY bond market in the region

Note: Data as of end-2014.
Source: AsianBondsOnline.
Malaysia, Singapore and Thailand have well developed bond markets

LCY Bonds as a share of GDP (%)

Note: Data as of end-2014.
Source: AsianBondsOnline.
Bank loans are still the major source of debt financing

Note: Data as of end-2014.
Source: Local market sources and AsianBondsOnline.
Growing foreign interest in Indonesian, Malaysian and Thai bond markets
Cross-border holdings of bonds have increased

- Traditionally, Asian investors have preferred to invest in their own home markets or in developed markets.
- But, we have seen intraregional holdings of debt securities continue to rise.
- Intra-ASEAN5 bond holdings rose from 5.8% in 2001 to 11.0% in 2013.
- However, intra-regional holdings of equity is lower than bond at 8.6% in 2013 falling from more than 21% in 2001.
Intra-ASEAN5 holdings of bonds now higher than equity holdings

Source of basic data: IMF Coordinated Portfolio Investment Survey.
Conclusions

- Local currency bond markets have flourished and there has been increasing intra-regional holdings of bonds.

- Work is underway to make it easier for companies to issue bonds in different countries and to improve the settlement system.

- Growing use of local currency bonds have made financial systems more stable and less vulnerable to external shocks.
Thank you

Thiam Hee Ng
thiamng@adb.org