



Bond Market Development in Emerging Asia

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Agenda

1. Recent Developments in Asian Bond Markets

- Steady growth of local bond markets
- Increasing reliance on foreign investors

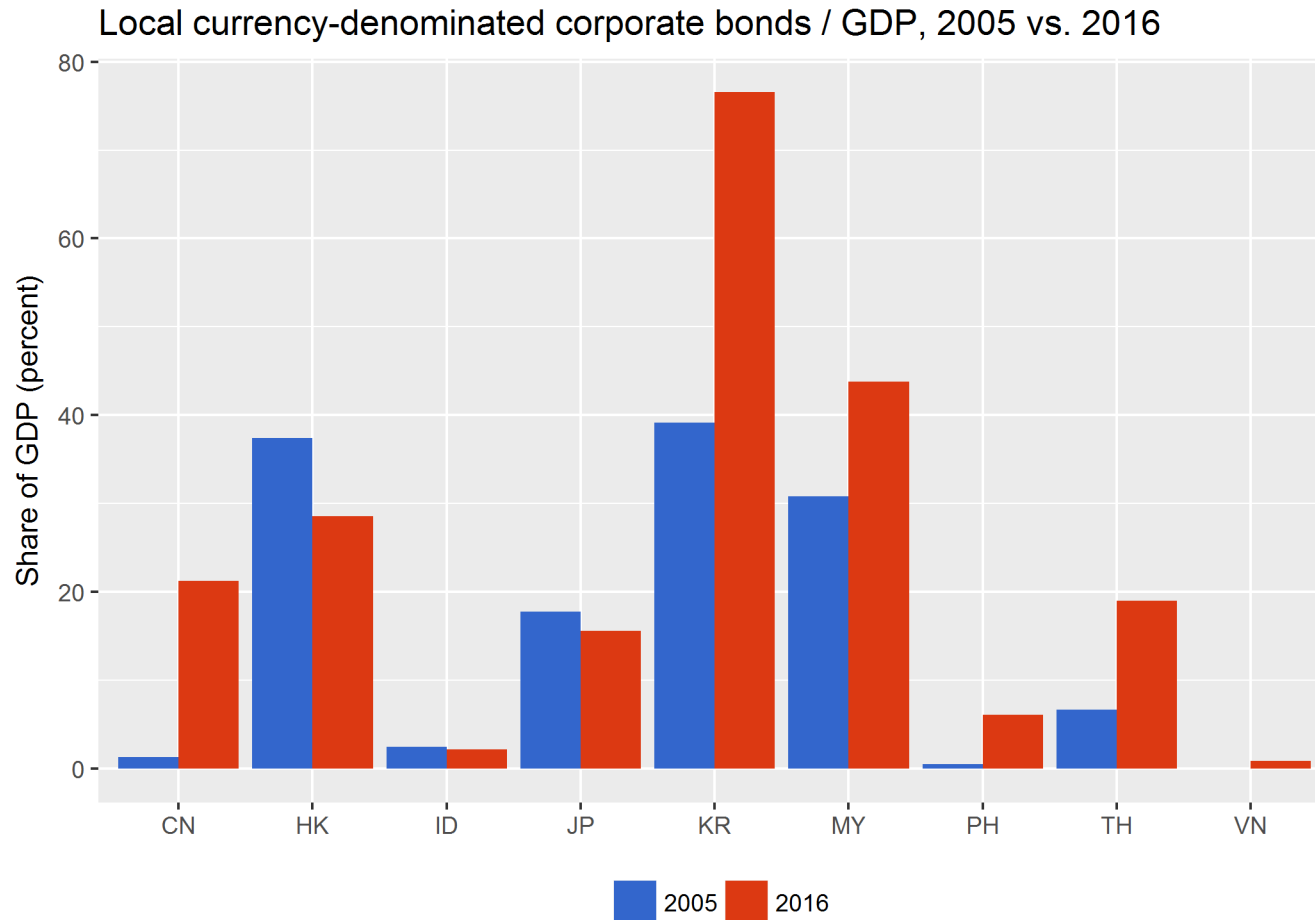
2. Challenges amid Increasing Uncertainty in Global Markets

- US interest rate hike and risk aversion sentiment could lead to capital outflow
- Highly leveraged private sectors are vulnerable to an interest rate hike

3. Policy Considerations

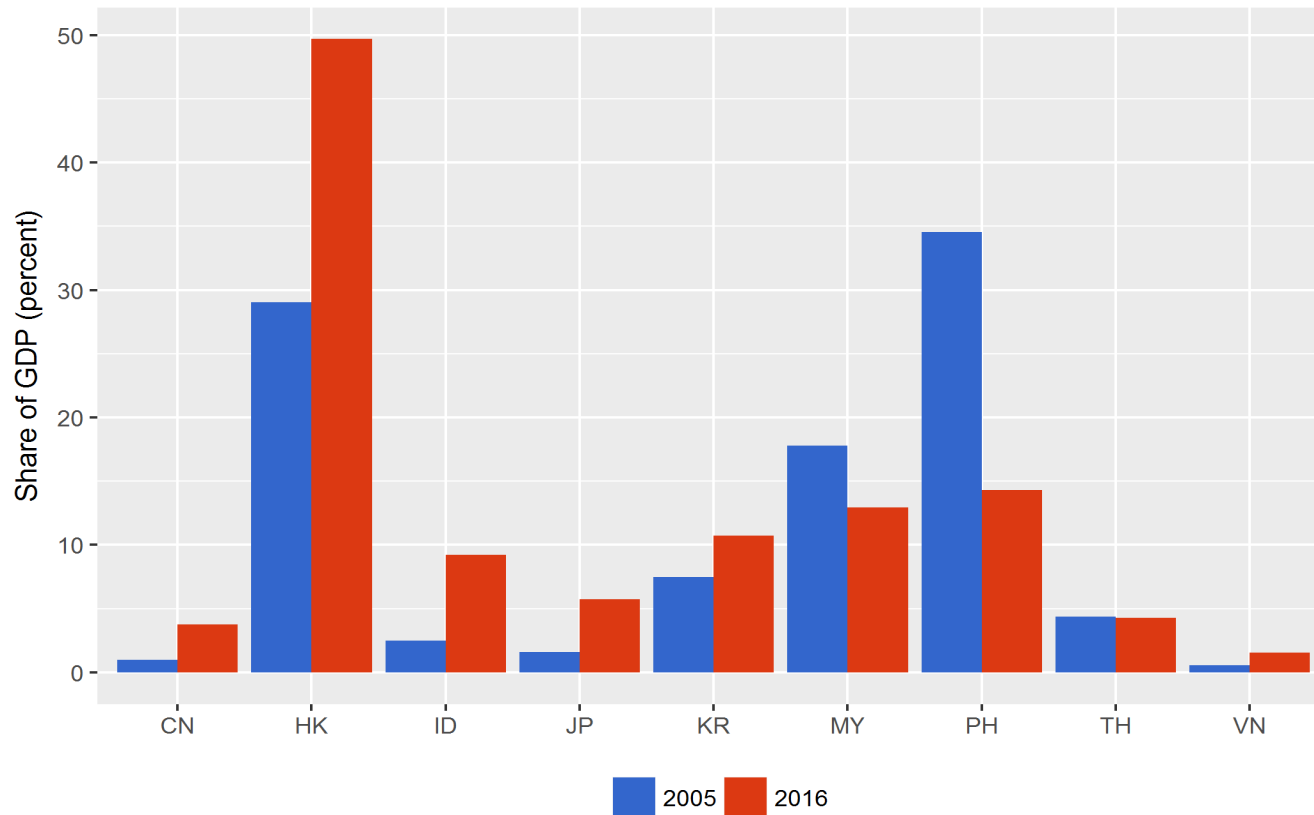
- Fiscal and economic reform could alleviate pressure
- More diversity of credit ratings and investors' profile

Financial System Is Bank Heavy but Local Currency Corporate Bonds have Increased Steadily

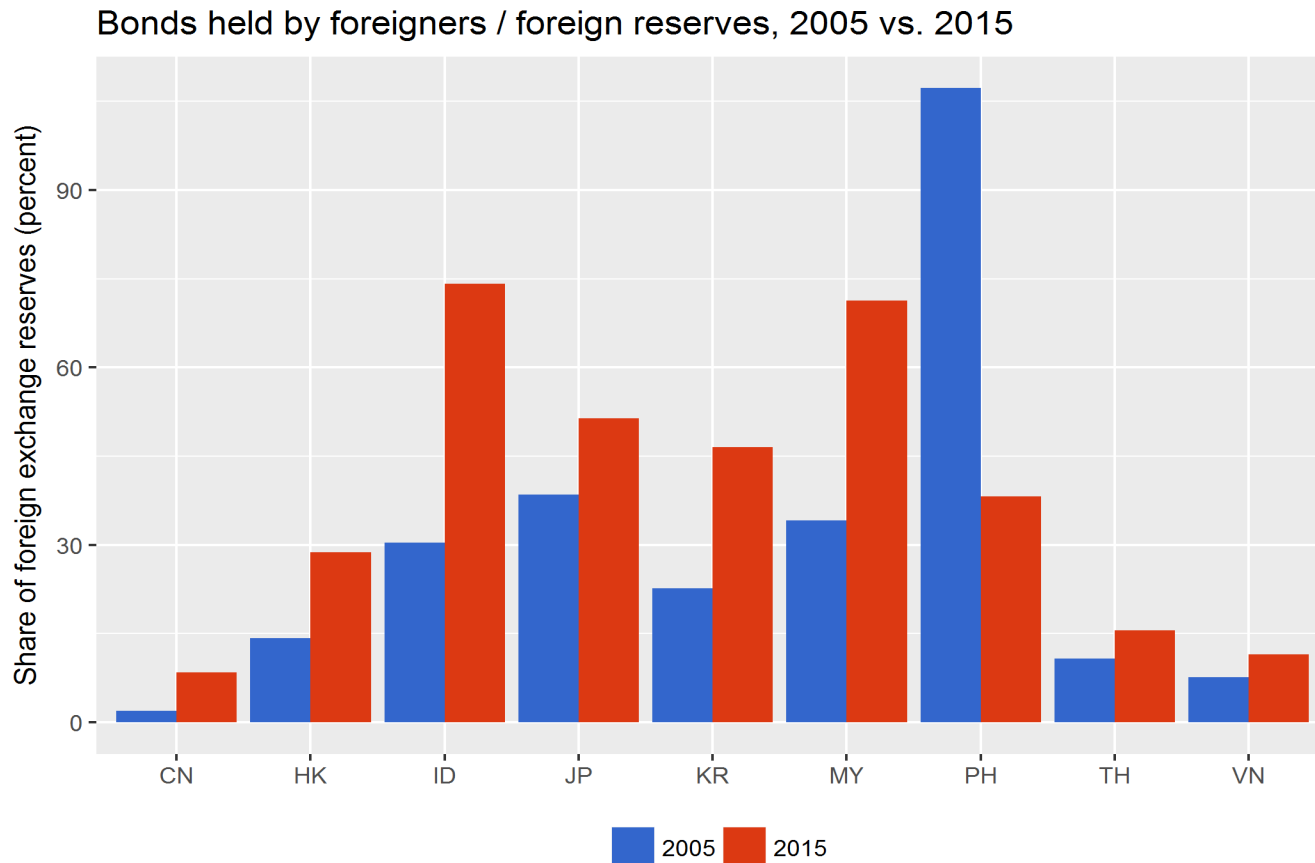


Foreign Currency Bond Issuance Surged amid Low Interest Rate Environment

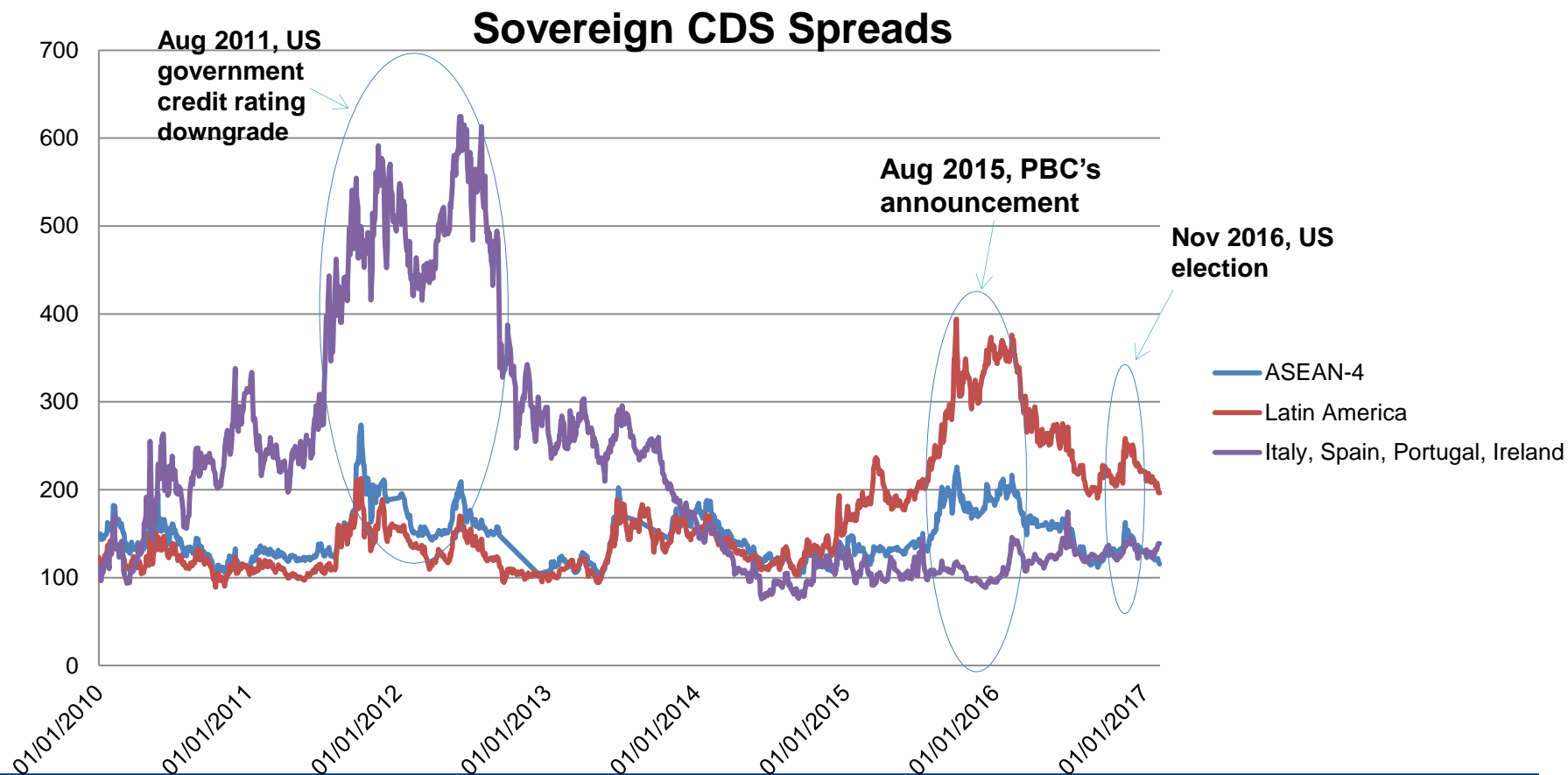
Foreign currency-denominated bonds / GDP, 2005 vs. 2016



Financial System is More Exposed to Global Markets in line with Higher Share of Foreign Investors

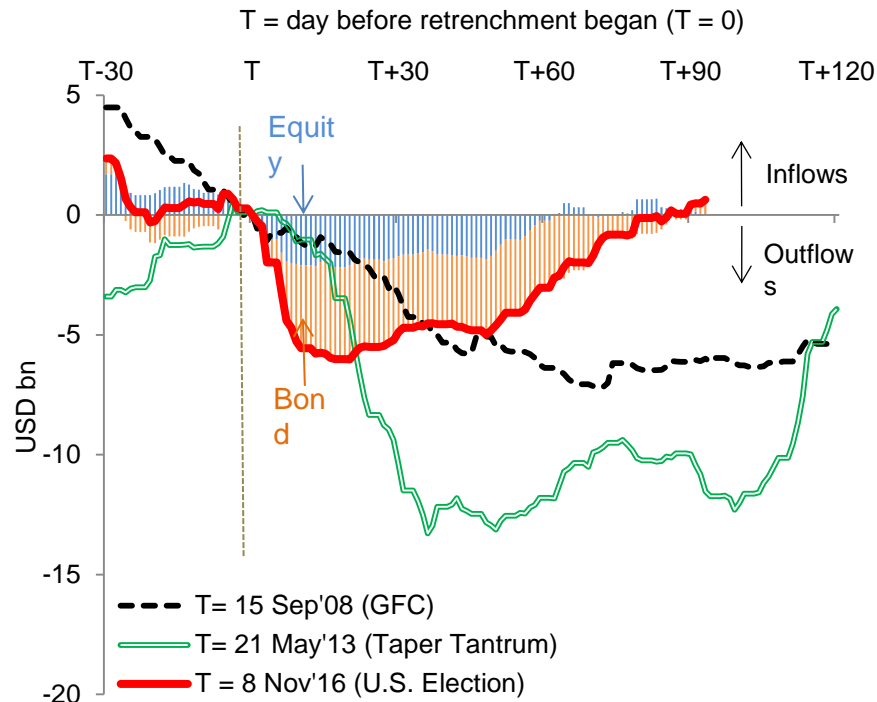


Investors' Risk Assessment Has Been Relatively Stable in Asia Supported by Sound Fiscal Balance and Flexible Exchange Rates



Foreign Capital Outflow Has Recovered, though Susceptible to Market Changes

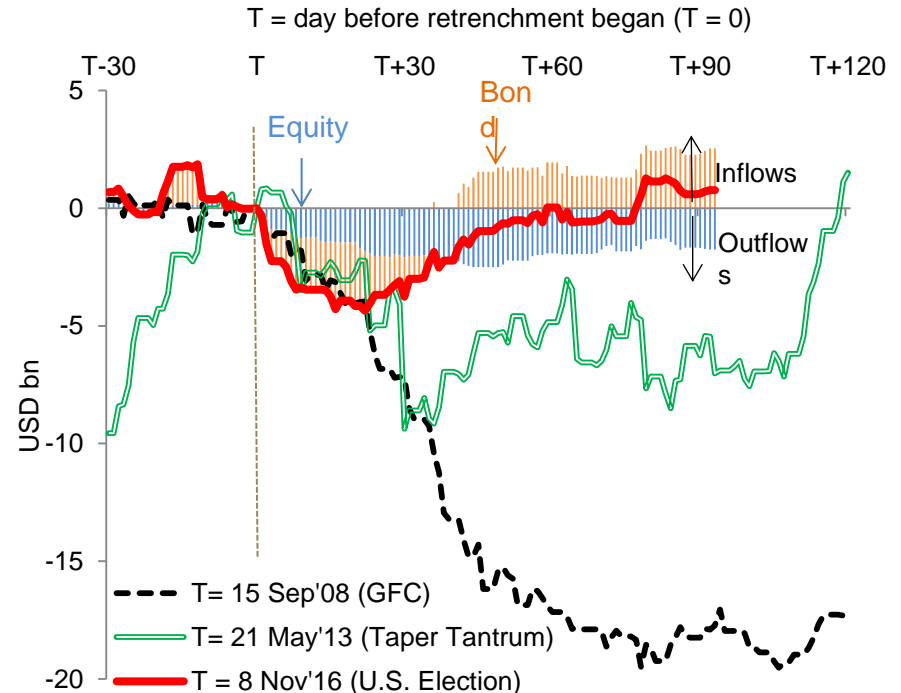
Asia



Regional data consists of Indonesia, Korea, the Philippines and Thailand

Source: IIF as of Feb 13

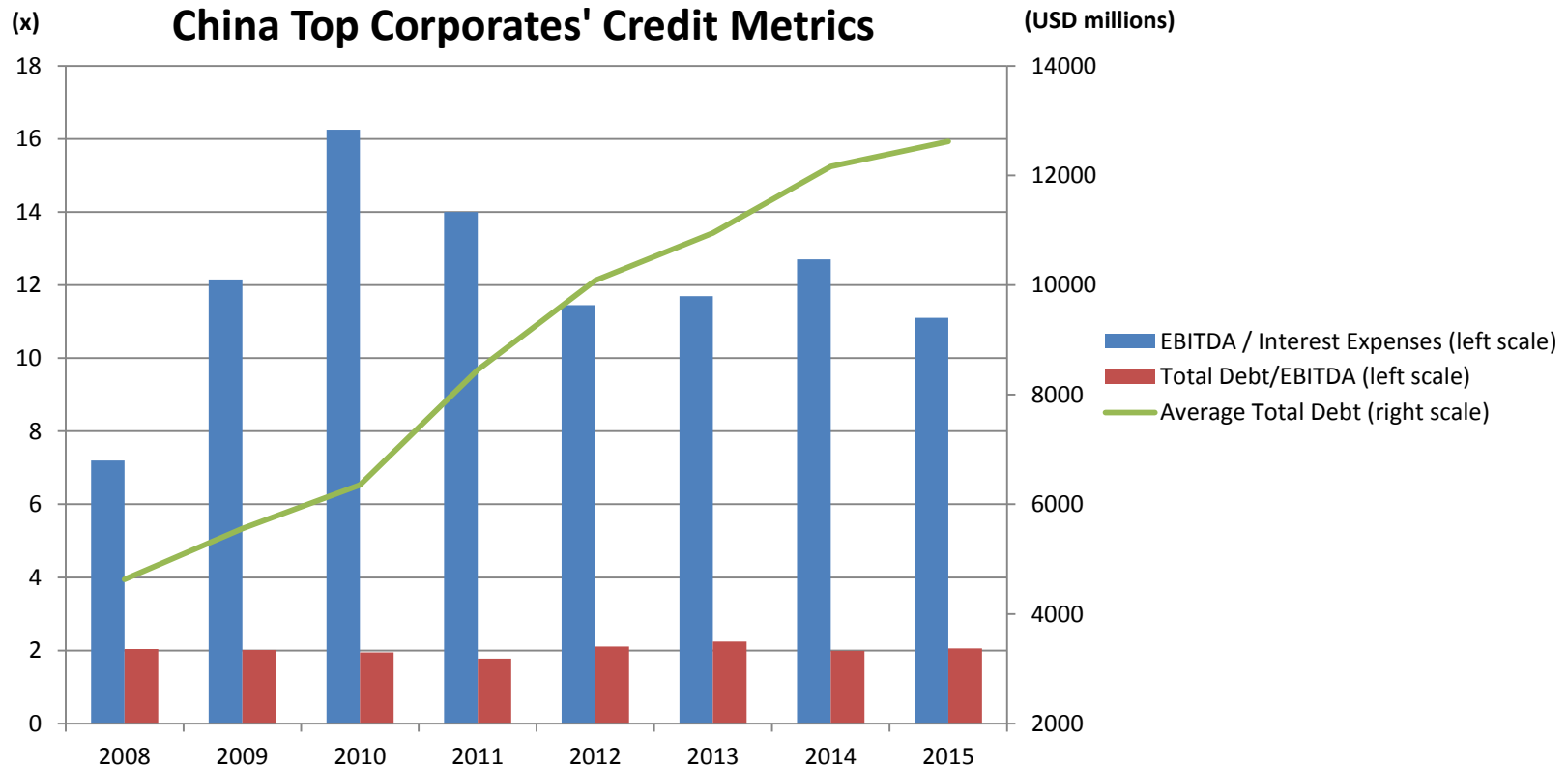
Emerging Non-Asia



Non-Asian EMs consist of Brazil, South Africa, Hungary and Mexico

Rising Corporate Leverage Will Increase Credit Risks in Some Countries

High leverage in corporates will make them vulnerable to hike of interest rates and constrain investments



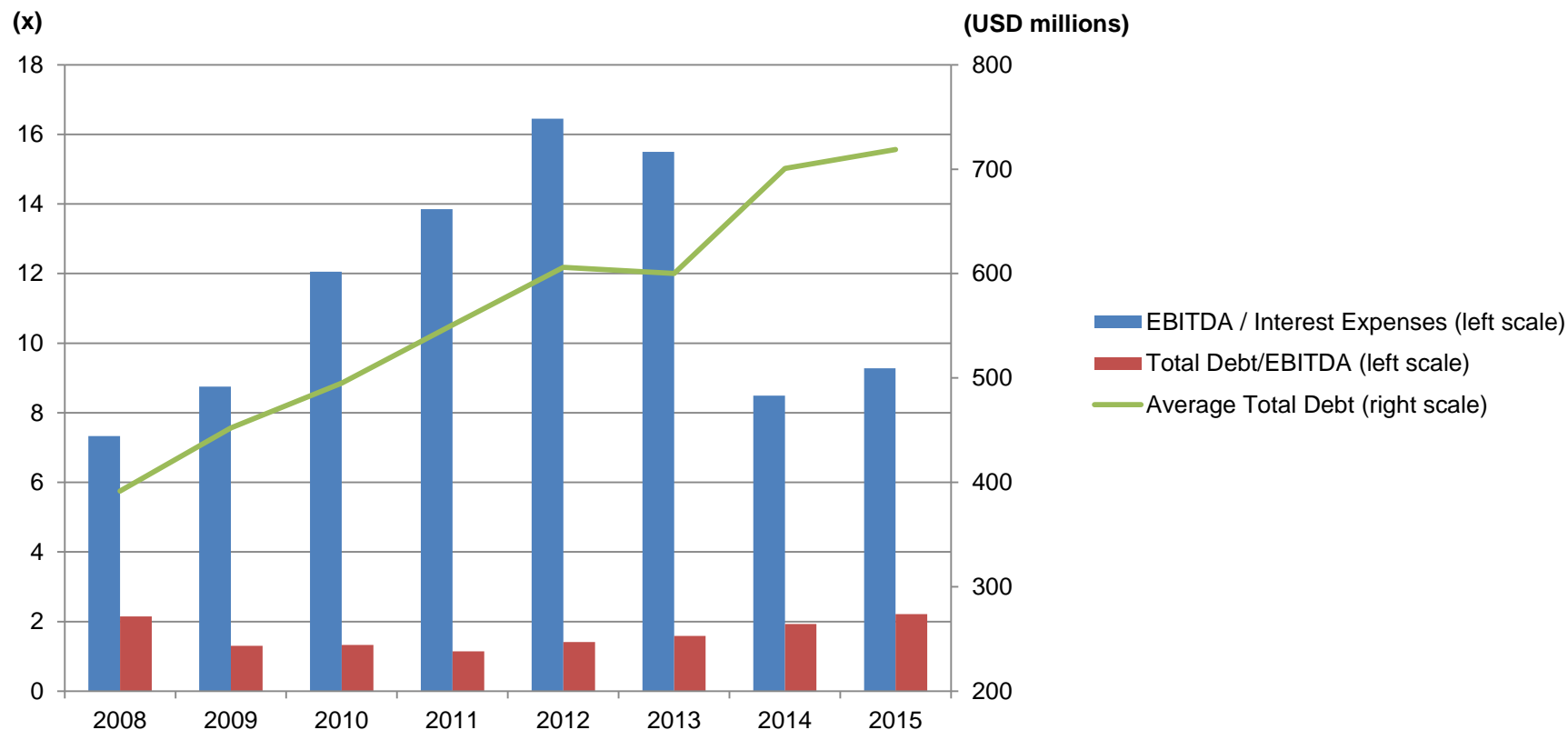
Top 50 companies in China in terms of market capitalization.

Excludes banks and insurance.

Source: S&P Cap IQ

Credit Metrics of Top Corporates in Indonesia

Indonesia Top Corporates' Credit Metrics



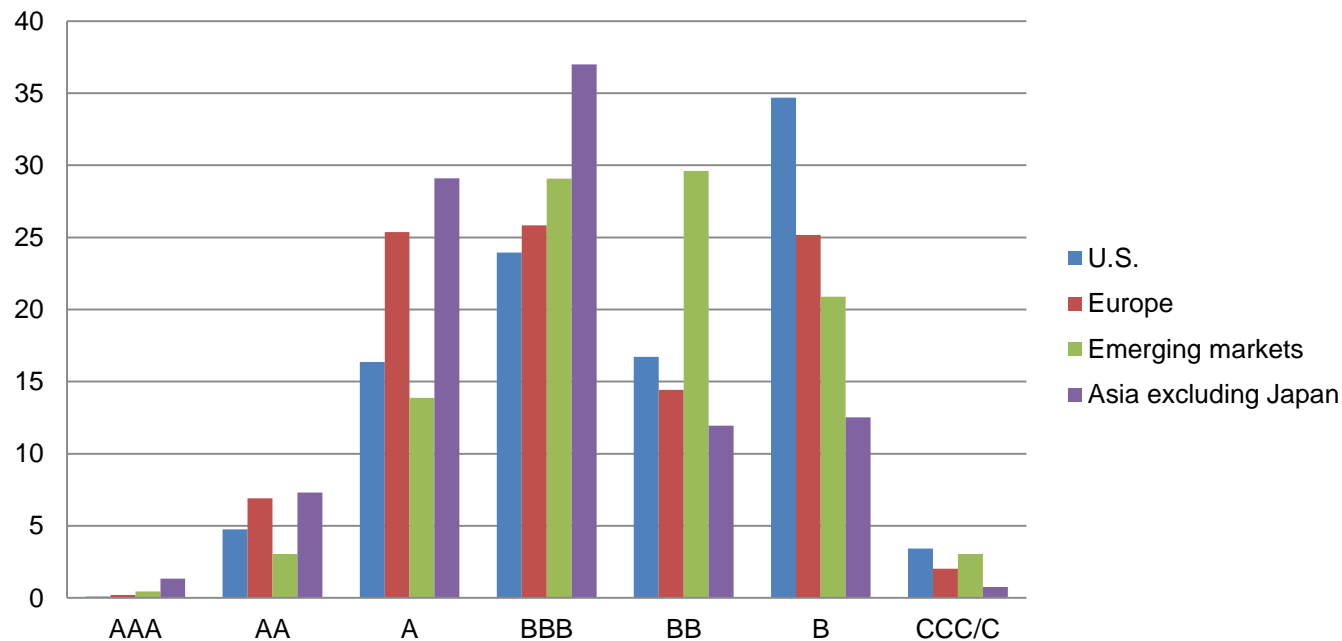
Top 50 companies in Indonesia in terms of market capitalization. Excludes banks and insurance.

Source: S&P Cap IQ

Asian Bonds Market is Skewed Toward Investment Grade

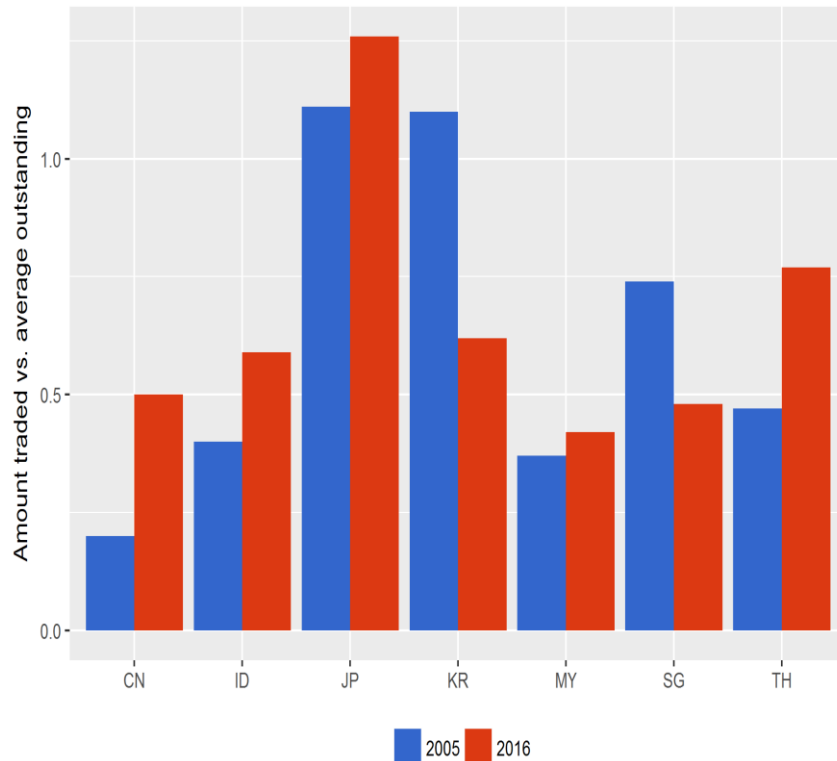
- **SMEs and start-up firms can not tap into the market**

**Distribution of Corporate Ratings
Asia vs Other Regions**

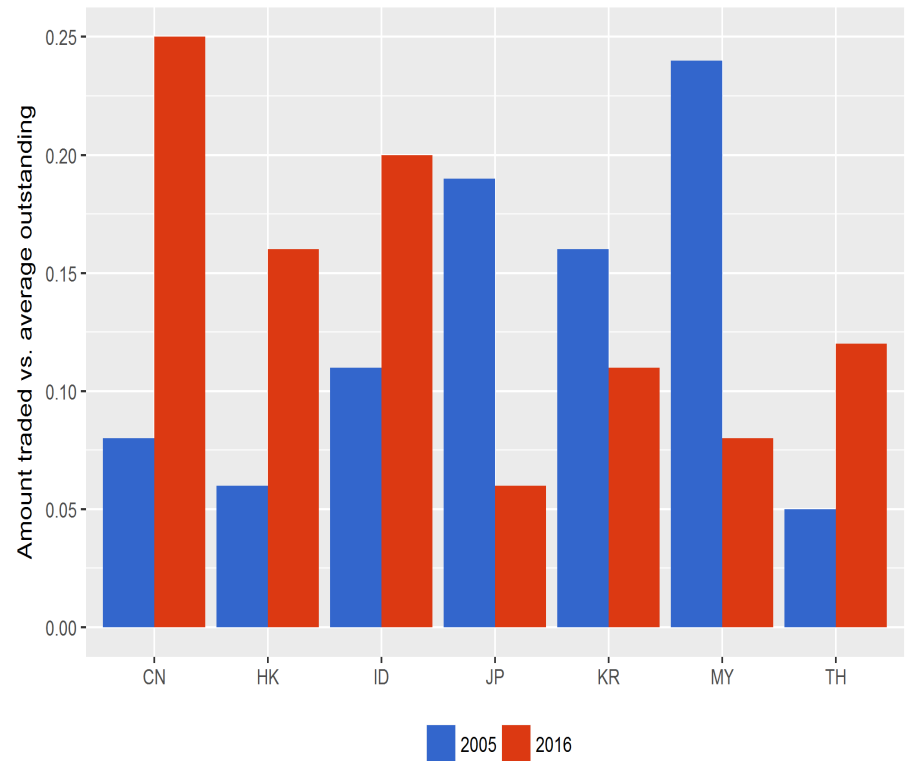


Market Liquidity Has Improved, but Still Low, particularly for Corporate Bonds

Government bond turnover ratio, 2005 vs. 2016



Corporate bond turnover ratio, 2005 vs. 2016



Source, ADB, ADMI

Policy Considerations

- Maintain solid and predictable policy environment, which will alleviate headwinds and encourage foreign investments
- Improve financial conditions of corporate (e.g. reform of state-owned enterprise)
- Encourage inter-regional capital flows leveraging ASEAN integration
- Policy to encourage issue of lower-grade bonds, combined with enhancement of transparency and legal infrastructure

Thank you for your attention.

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