

ADB-IECD Roundtable on Capital Market and Financial Reform in Asia
22 March 2016, Tokyo, Japan

Bond Market Development in Asia

Daikichi Monma
International Bureau
Japan Ministry of Finance

ABMI: Asian Bond Markets Initiative

Background

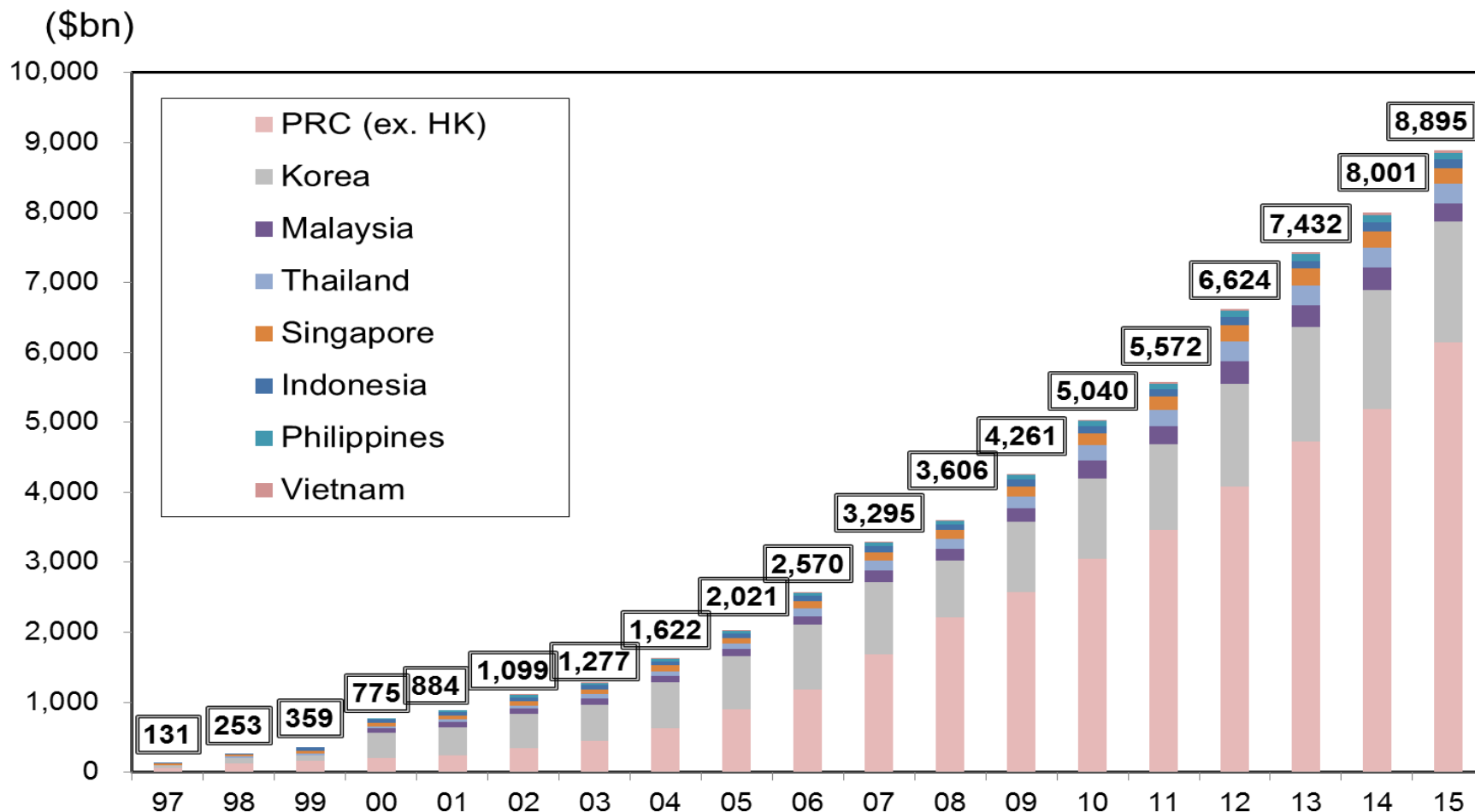
- Prior to the Asian currency crisis, Asian countries depended on short-term foreign currency-denominated loans in order to finance their long-term domestic currency-denominated investment. There were currency and maturity mismatches, so called “double mismatches.”
- In August 2003, ASEAN+3 Finance Ministers agreed to start the Asian Bond Markets Initiative (ABMI) so as to mitigate the mismatches and allow the region’s large savings to be channelled to finance its own investment needs.
- The size of local currency-denominated bond markets in the region has increased more than seven times, from US\$1.1 trillion (as of the end of 2002) to US\$8.9 trillion (as of the end of 2015).

Outcome

- Diversified issuers and types of bonds
 - Issued local currency denominated bonds by IFIs such as ADB and Japanese large manufacturers and retailers
 - Securitized financial institution’s loan claims
- Launched “Asian Bond Online” which introduces the information of local bond market.
- Establishment of CGIF, providing the guarantee for the corporate bond issuances.
- Mizuho Bank issued the first bond under the ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF).
- Under the Cross-Border Settlement Infrastructure Forum (CSIF), HKMA and BOJ conducted the desktop study of bilateral CSD-RTGS linkage.

(Reference 1) Increased Size of Asian Local Currency Bond

Since the endorsement of the ABMI in 2003, local currency-denominated bond markets in the region have achieved remarkable growth in terms of size and diversity of issuers.

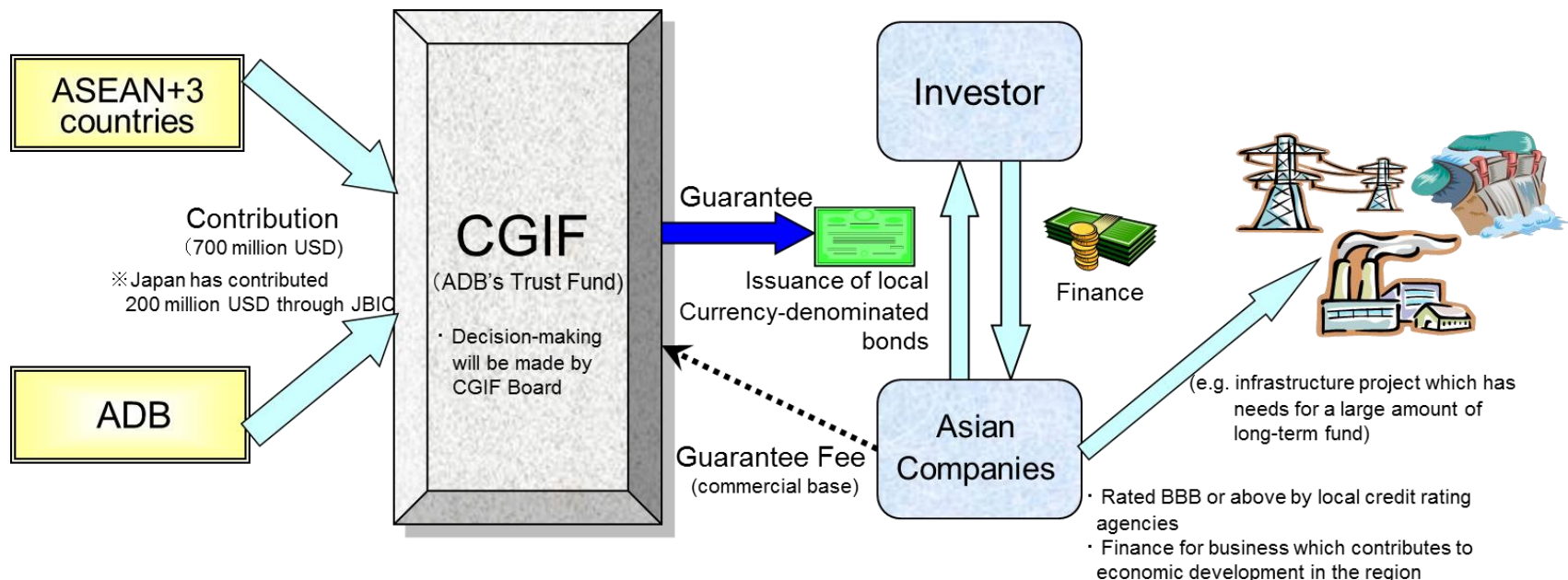


Note: Figures are sums of government bonds and corporate bonds

Source: Asian Development Bank "AsianBondsOnline"

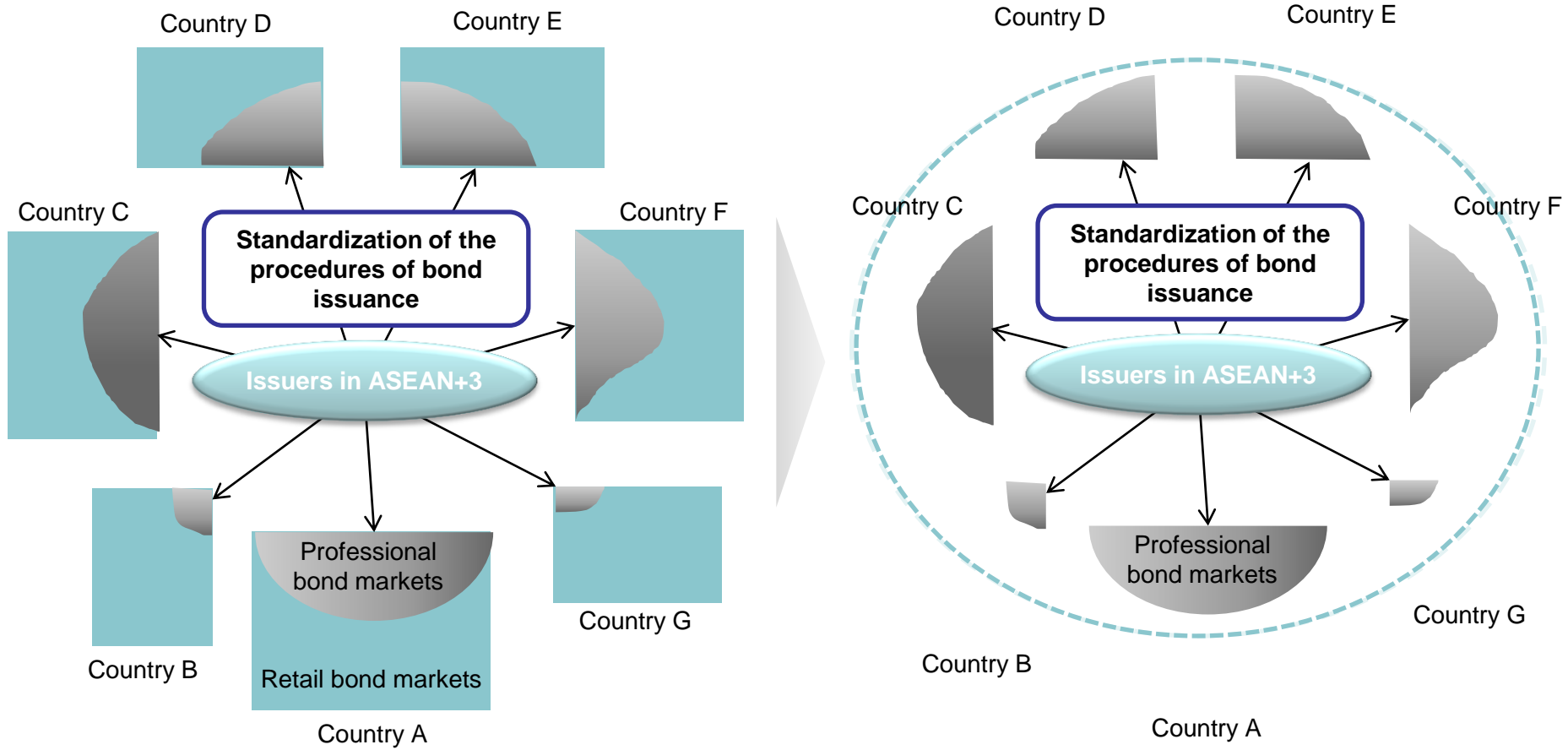
(Reference 2) Credit Guarantee and Investment Facility (CGIF)

- The main objective of the CGIF is to support the issuance of corporate bonds in ASEAN+3 by providing credit enhancement and allowing eligible issuers to access local currency bond markets.
- In November 2010, the CGIF was established with the initial capital of US\$700 million. It has been graded AA by Standard & Poor's.
- In October 2011, Mr. Kiyoshi Nishimura, a former EBRD banker, was appointed as the CEO.
- In April 2013, The inaugural guarantee transaction was launched. (Thai Baht denominated bond equivalent to US\$100 million)
- In November 2013, the CGIF's maximum guarantee capacity was scaled-up to US\$ 1.75 billion by increasing the maximum leverage ratio to 2.5:1 with the size of the paid-in capital unchanged.
- As of March 2016, the total amount of the guarantee is US\$921 million (10 companies).



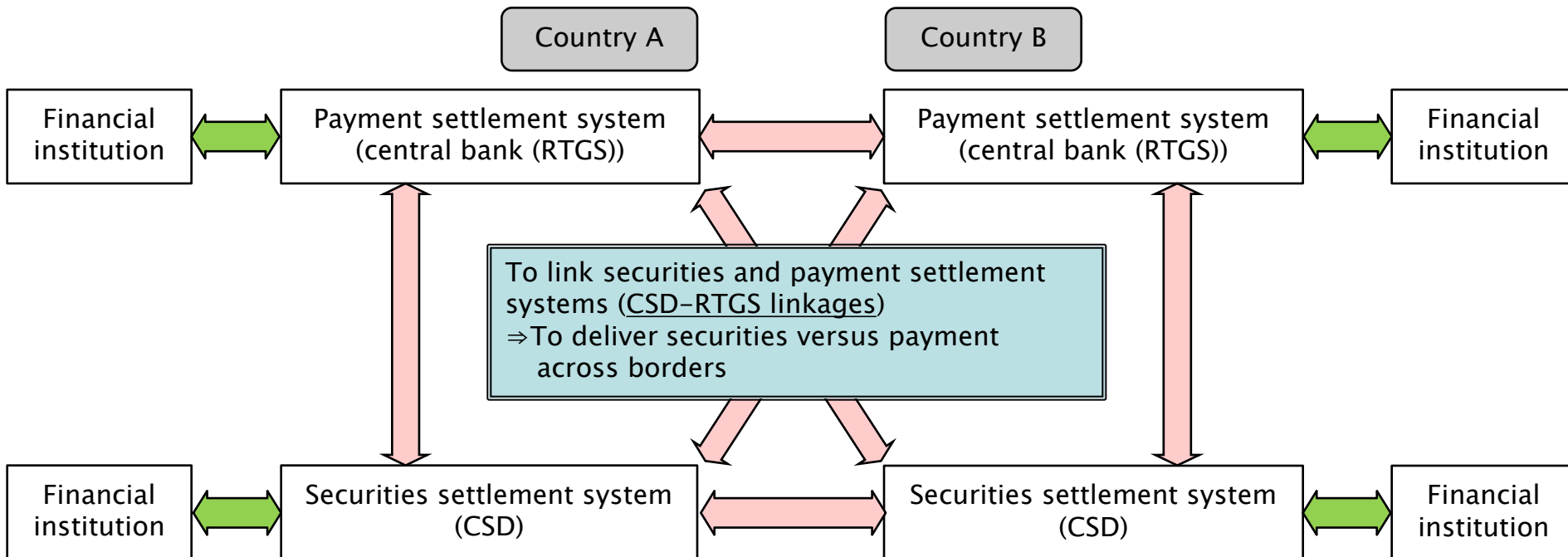
(Reference 3) ASEAN+3 Multi-Currency Bond Issuance Framework (AMBIF)

- Born in Asian Bond Market Forum.
- By standardizing the procedures and documentation of bond issuance of different countries, it will conceptually creates “**common professional bond market**”.
- Issuers can issue their bonds based on purely economic and business judgment.
- No immediate change in regulations.



(Reference 4) The bilateral linkages of securities and payment settlement systems in the region(CSD-RTGS linkages)

- For cross-border bond investment, investors face the risk that they may not receive securities even if they have made payment, for the reason that securities are not delivered versus payment across borders.
 - *1 For domestic bond investment, securities (settled in CSD) are delivered versus payment (settled in central banks) in most countries.
- In order to mitigate this risk, in May 2014, ASEAN+3 Finance Ministers and Central Bank Governors welcomed the direction of developing the bilateral linkages of securities and payment settlement systems in the region.



*2 CSD : Central Securities Depository

*3 RTGS: Real-Time Gross Settlement

Change of Macroeconomic Fundamentals from Asian Financial Crisis

【Basic Indicators】		Indonesia	Thailand	Philippines	Malaysia	Vietnam	China	Korea	India
GDP Growth (YoY)	1996	7.8%	5.7%	5.8%	10.0%	9.3%	9.9%	7.6%	7.6%
	2014	5.0%	0.9%	6.1%	6.0%	6.0%	7.3%	3.3%	7.3%
Inflation (YoY)	1996	6.4%	4.9%	7.4%	3.3%	9.2%	7.0%	4.9%	10.0%
	2014	8.4%	0.6%	2.7%	2.7%	1.8%	1.5%	0.8%	5.3%
Fiscal Balance (% of GDP)	1996	1.0%	2.7%	0.6%	1.9%	▲0.1% (1998)	▲0.7%	2.4%	▲5.6%
	2014	▲2.1%	▲0.8%	0.9%	▲3.6%	▲6.1%	▲1.2%	0.8%	▲7.0%
General Goverment Debts (% of GDP)	1996	87.4% (2000)	15.2%	54.7%	33.2%	32.3% (2000)	21.4%	8.2%	66.0%
	2014	25.0%	43.5%	36.4%	55.2%	57.2%	41.1%	36.0%	66.1%

【External Sector】

Current Account Balance (% of GDP)	1996	▲2.7%	▲8.0%	▲4.3%	▲4.1%	▲8.2%	3.9% (1997)	▲4.0%	▲1.2%
	2014	▲3.0%	3.3%	4.4%	4.3%	4.9%	2.1%	6.3%	▲1.3%
Foreign Reserves (USD million, % of GDP)	1996	18,251 (6.6%)	37,731 (20.6%)	10,058 (11.0%)	27,009 (24.9%)	1,736 (7.0%)	107,039 (12.4%)	34,037 (5.7%)	20,170 (5.0%)
	2014	108,836 (12.2%)	151,253 (37.4%)	72,057 (25.3%)	114,572 (33.9%)	34,189 (18.4%)	3,859,170 (37.3%)	358,785 (25.4%)	303,455 (14.8%)
Foreign Reserves (Months of Imports)	1996	5.1	6.3	3.5	4.1	1.9	9.2	2.7	6.7
	2014	7.3	8.0	12.6	6.6	2.7	23.6	8.2	7.9

【External Debts】

Total External Debts (% of GDP)	1996	47.0%	61.6%	47.9%	36.6%	106.3%	15.0%	25.2%	23.5%
	2014	33.0%	33.5%	27.3%	62.4%	38.7%	9.3%	30.2%	22.6%
Short-Term External Debts (% of Total External Debts)	1996	25.0%	42.3%	18.1%	27.9%	14.3%	19.7%	50.3%	7.2%
	2014	15.9%	41.7%	20.9%	49.3%	18.2%	71.2%	27.1%	18.5%
Short-Term External Debts (% of Foreign Reserves)	1996	176.6%	126.5%	79.2%	41.0%	216.3%	23.7%	223.0%	33.3%
	2014	42.8%	37.4%	22.5%	90.6%	38.2%	17.7%	32.1%	28.2%

ABMI's way forward – Medium Term

- Continue to foster the development of local currency bond markets building on progress, to strengthen regional financial stability and meet the long-term investment needs of the region.
- Expand the use of local currency bonds to address key areas of financing gap in the region, SME and Infrastructure.
- Further advance regional market integration.

Questions to Speakers

Mr. Serdar Celik

- The current low interest rate environment since 2008 has put bond investors on a quest for yield. This trend could be one of the reasons of Asian bond expansion. Please give us your view on whether this trend will change, considering that the risk appetite of investors, especially in banking sector, will decrease.

Mr. Noritaka Akamatsu

- Generally, risk adjusted return is low for not only equity investors but also debt provider in infrastructure project. Could you share your idea for, if any, how to share risks and returns between commercial sector (equity investors and debt providers) and public sector?
- In the report “Local currency bonds and infrastructure finance in ASEAN+3” published by ADB, it is stated that modern legal framework, appropriate securities regulation, bond pricing infrastructure and development of domestic investors are required for promoting infrastructure bond. Among them, while it depends on each country’s development stage, what is most important in general?

Mr. Ephyro Luis Amatong

- Under PPP, public sector tends not to be involved, too much depending on private sector, resulting in failure of the project. What is the key for successful PPP in Philippines?
- There are some difficulties to issue infrastructure bond, upfront one-time proceeds, investors’ risk aversion to completion risk, etc. Could you share your experience to have overcome such difficulties?

Ms. Naoko Nemoto

- The coverage of global rating agency seems to be smaller in Asia than other region. This is one of the barriers for further development of Asian bond market. What can the Asian local company initiate for global rating agency to expand the coverage?
- Could you give your view on Local Rating Agency’s competence, from the viewpoint of Global Rating Agency?

Mr. David Fernandez

- While the outstanding balance of bonds in China is increasing, secondary market is still under development (Turnover ratio:0.26 / Buying and selling spread : 3.4bp). What can be the policy measure to expand the secondary market?