

Strengthening Private Sector Participation and Investment in Physical Infrastructure

19-22 November 2007 ADBI, Tokyo, Japan

Regional Bond Market for Infrastructure – Prospects and Opportunities for Asia and Pacific

Masato Miyachi

Senior Advisor

Office of Regional Economic Integration

Asian Development Bank

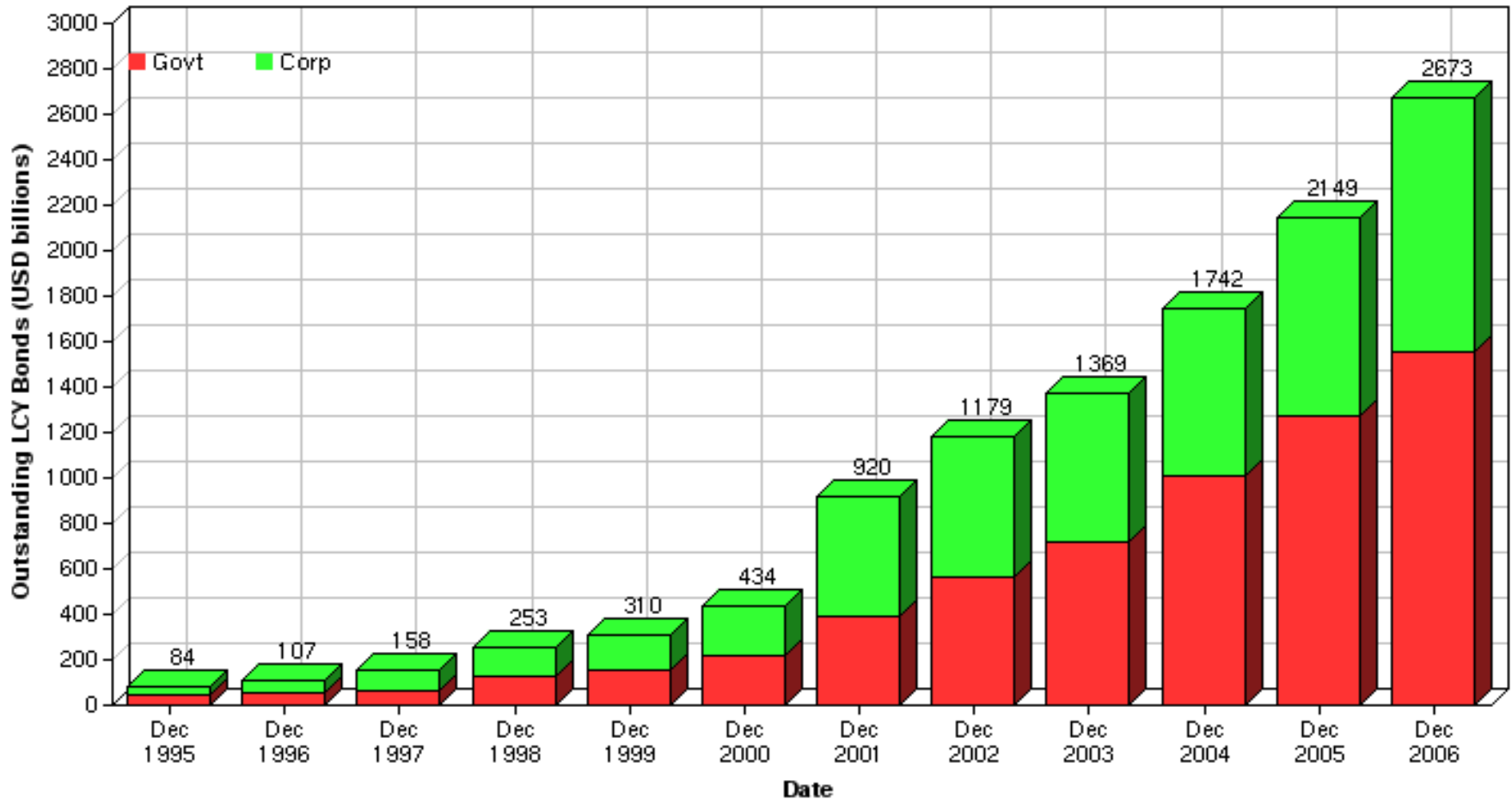
The views expressed in this paper are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank Institute (ADBI), the Asian Development Bank (ADB), its Board of Directors, or the governments they represent. ADBI does not guarantee the accuracy of the data included in this paper and accepts no responsibility for any consequences of their use. Terminology used may not necessarily be consistent with ADB official terms.

Outline

- Regional Bond Markets in the Asia-Pacific Region: Prospects Opportunities and Challenges
- Current developments and experiences in developing frameworks for bond markets
- Priorities for development and policy reforms
- ADB's role in regional bond market development

Regional Bond Market Overview

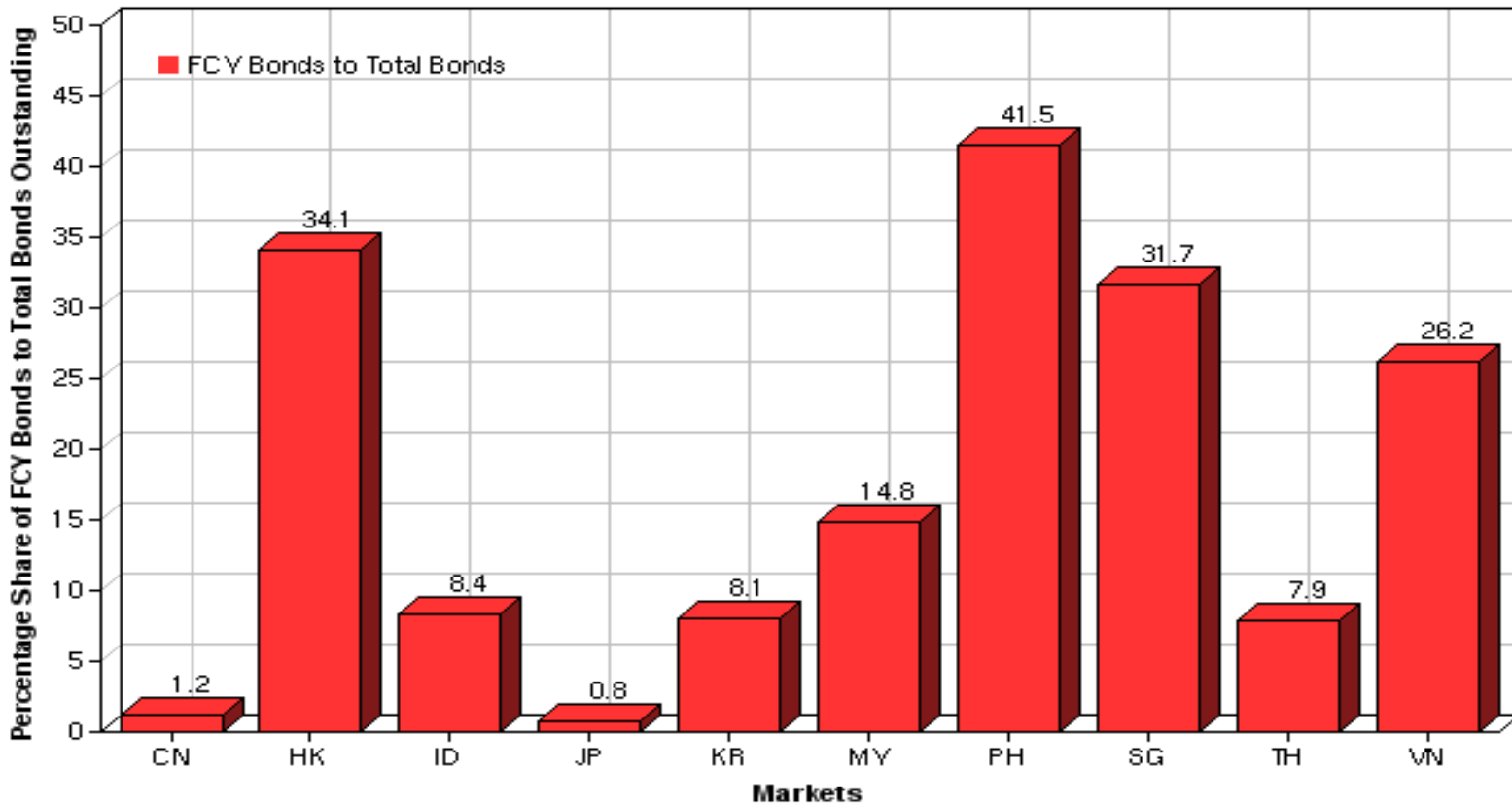
Growth of ASEAN+ 3 Bond Markets



Regional Bond Market Overview

Foreign Currency Denominated Bonds

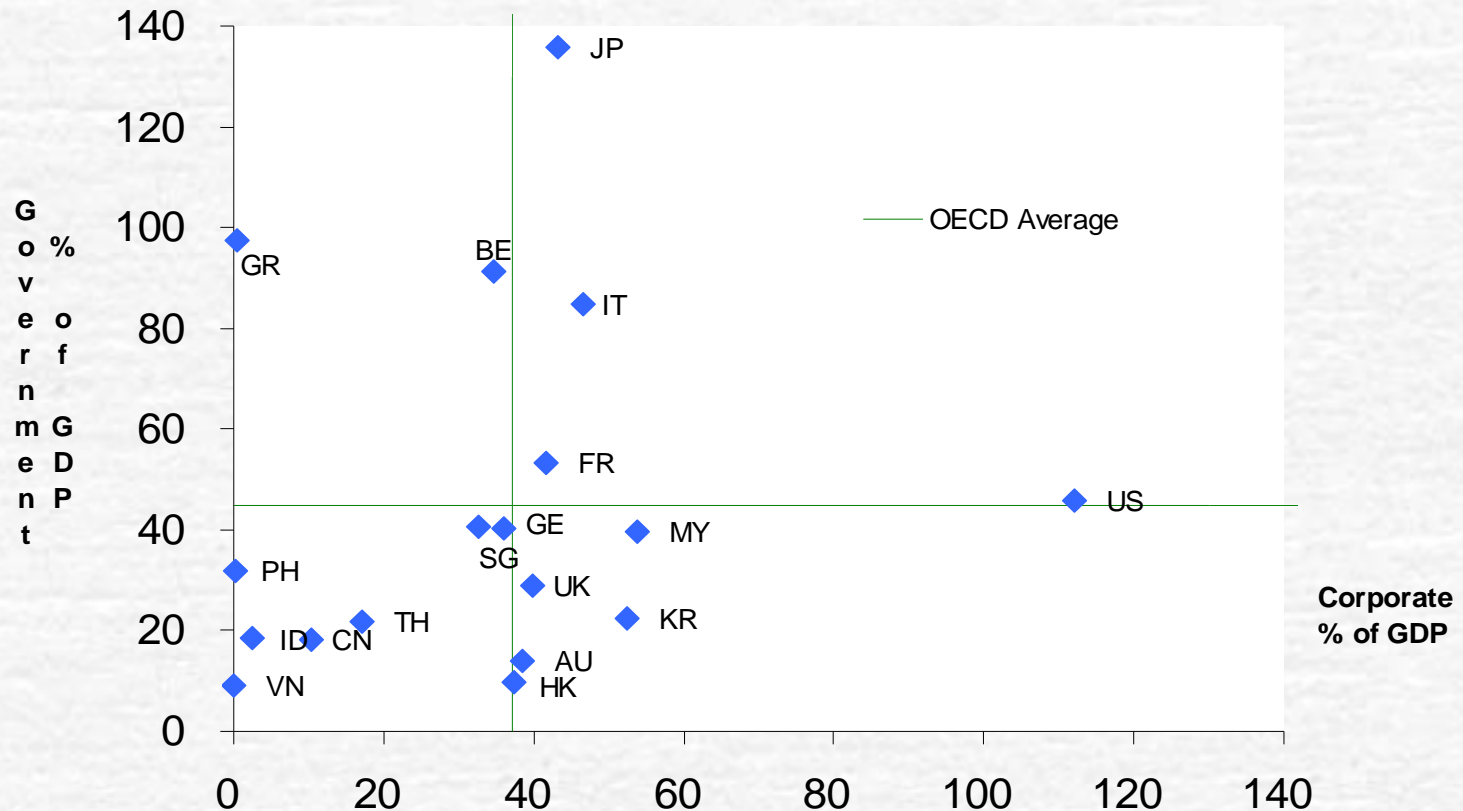
Foreign Currency Bonds continue to dominate the region's bond markets (FCY bond issued vs total bond outstanding, as at end Dec. 2006)



Regional Bond Market Overview

LCY Bonds as % of GDP

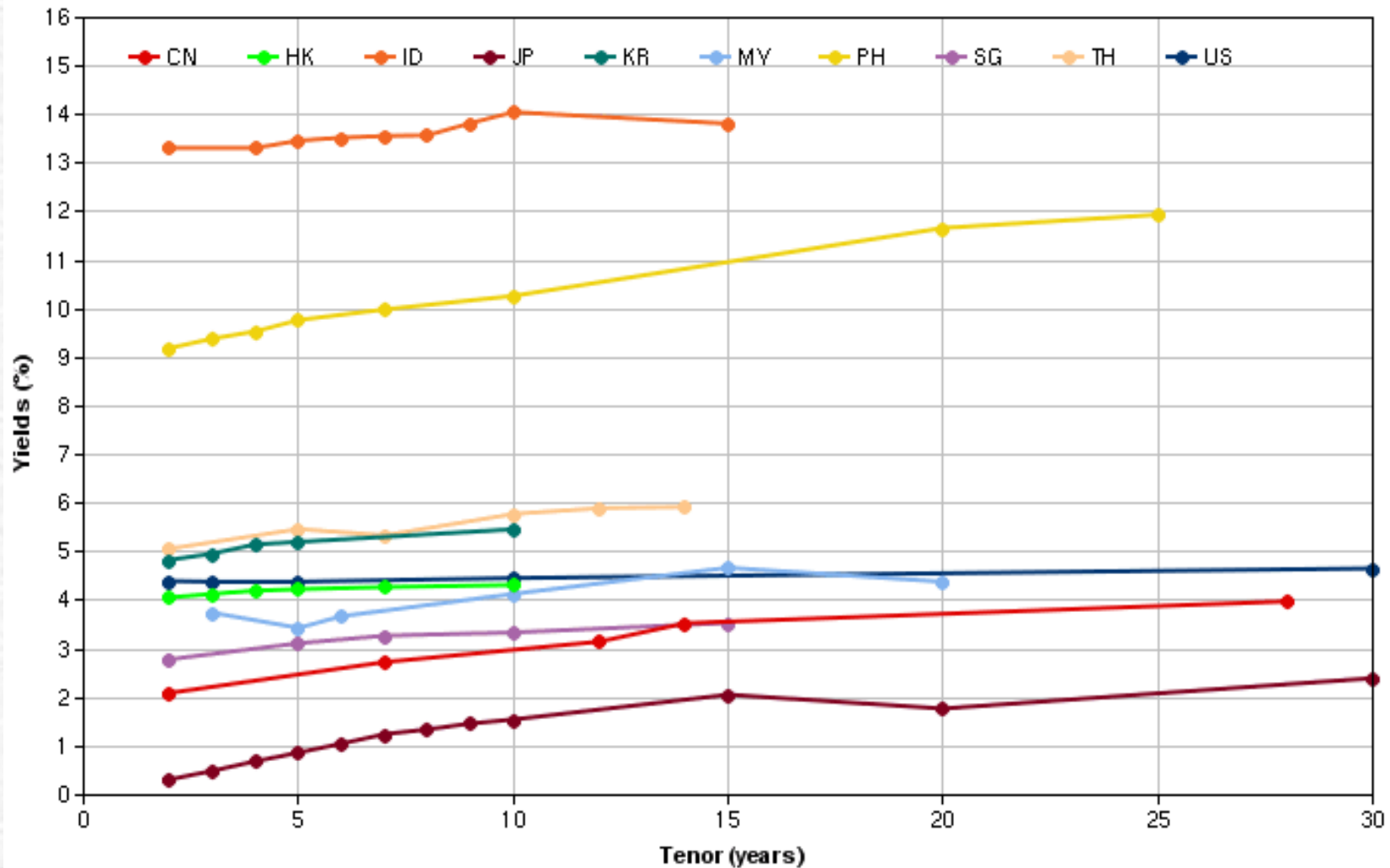
Debt Securities Outstanding as % of GDP:
Gov't vs. Corp



Sources: BIS International Financial Statistics, Hong Kong Monetary Authority, Monetary Authority of Singapore for outstanding data (as of September 2004). National sources and OECD for GDP.

Regional Bond Market Overview

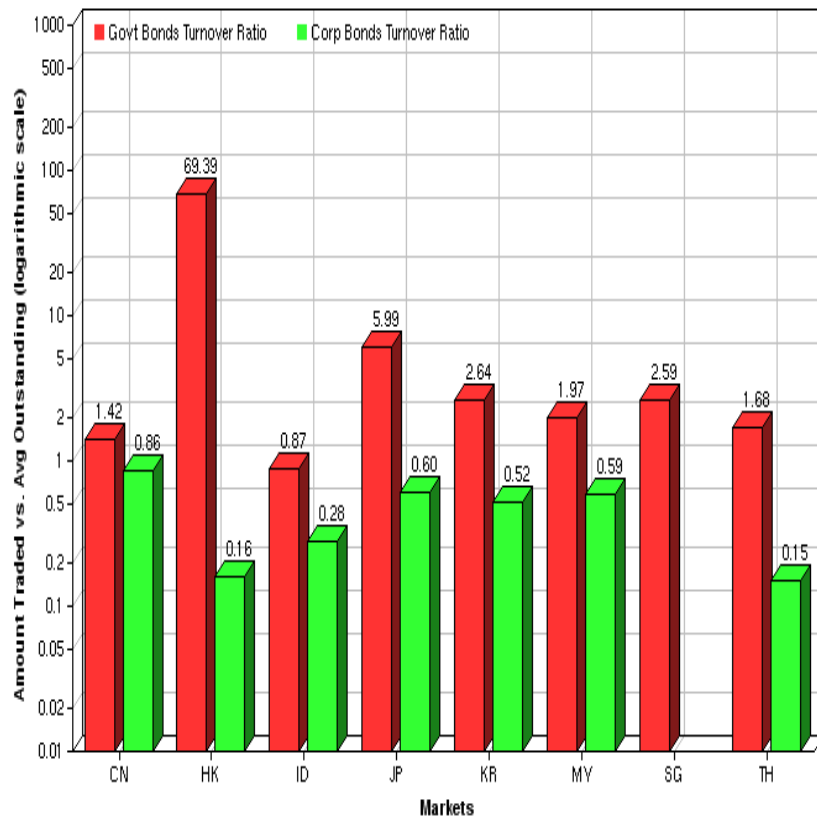
Benchmark Yield Curve



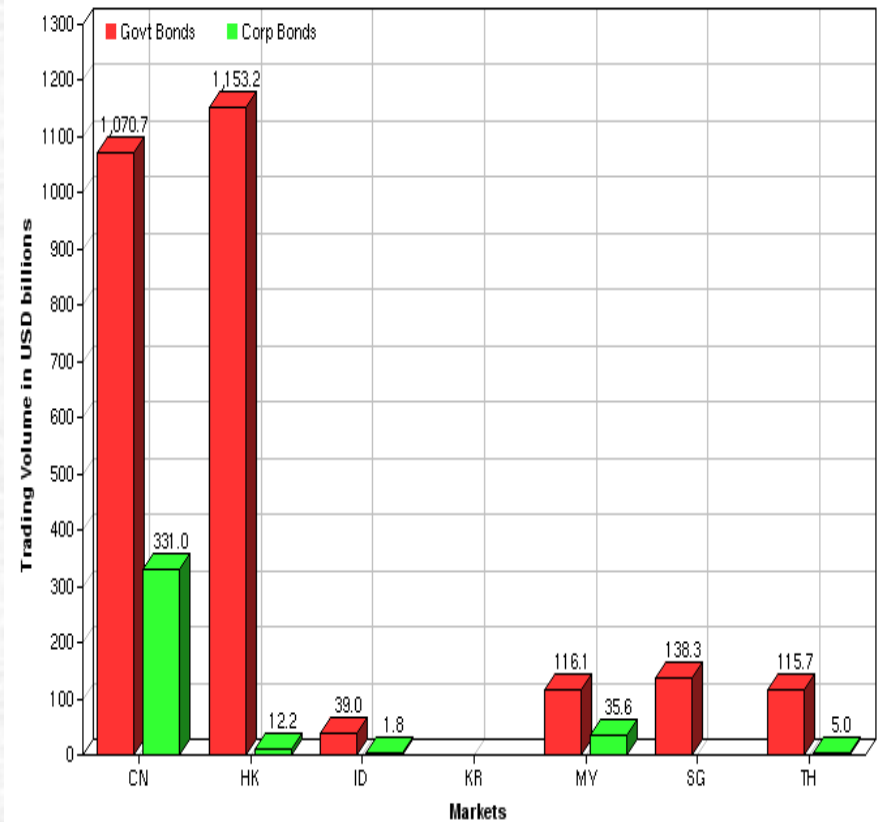
Regional Bond Market Overview

Liquidity of Asian Bond Markets

As of Dec 2006



Turnover ratio



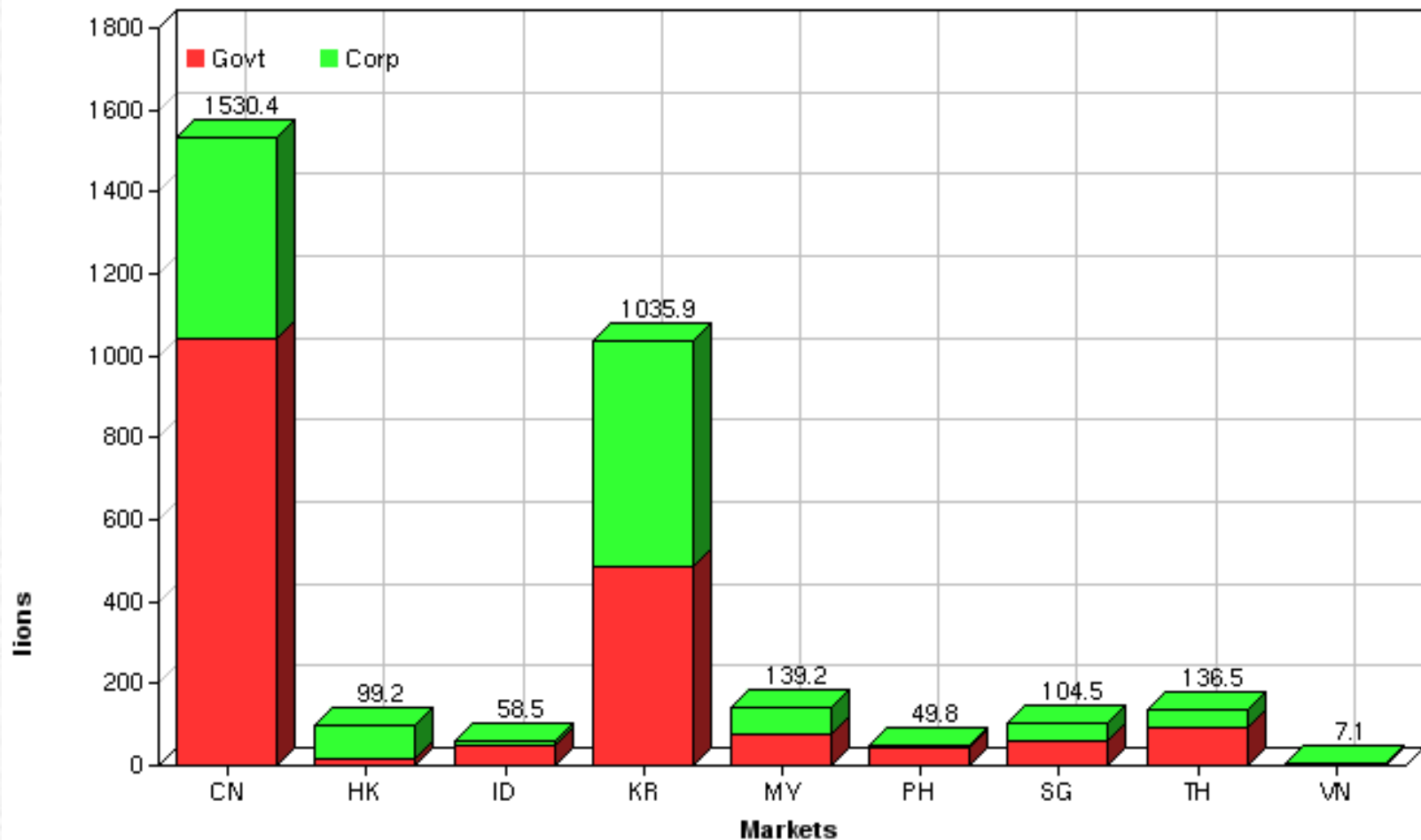
Trading Volume

Regional Bond Market Overview

US sub-prime market turmoil: implications for Asia

- Sub-prime market turmoil expected to be contained but still unfolding;
- Market conditions could worsen as more information trickles in;
- Early indications of limited impact on Asian markets due to limited exposure to US sub-prime credit market
- Warning signs remain – need to carefully monitor markets in the coming months

Current Developments: Size of Local Currency Bond Market of ASEAN+3 Countries as of September 2007



Lessons Learned: Regional bond market development

- Different paces, levels of development
- More developed markets (Hong Kong, Singapore, Korea, Malaysia)
 - Govt. bond yield curves up to 10 years basis for pricing corporate bonds
 - Efficient market infrastructure & sound regulatory environment
 - Good secondary market liquidity
 - Liberal tax treatment of bonds
 - Diverse issuer profile
 - Strong commitment of govt. to develop domestic bond market

Lessons Learned: Regional bond market development

- Developing markets (China, Indonesia, Philippines, Thailand)
 - Need to develop benchmark yield curves
 - Inadequate liquidity in secondary markets
 - Ad Hoc tax treatment

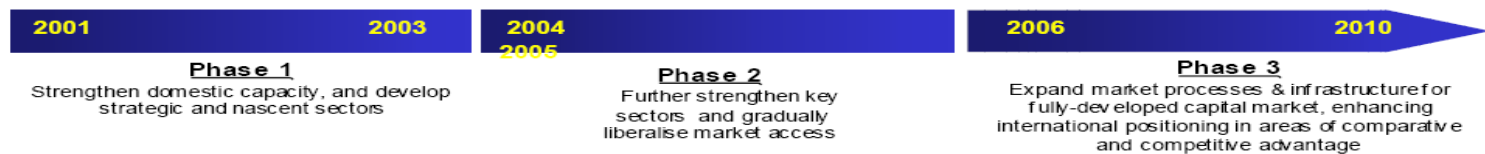
Lessons Learned: Remaining issues and challenges

- Benchmark yield curves
- Improvements in market infrastructure to enhance transparency and security of transactions
- Rationalization of taxes
- Revised/new laws, rules and regulations to adapt to dynamic global markets

Lessons Learned: Malaysia bond market development strategy

- Well-defined plan to develop the government and commercial bond markets.

Capital Market Master Plan to set future broad direction...



- Background**
- Launched in February 2001 to chart the strategic positioning and future direction of the Malaysian capital market for next 10 years to support national economic growth in the face of deregulation and liberalisation – to be executed in 3 phases
 - Formulated by the Capital Market Strategic Committee, comprising representatives from SC, BNM, experienced local and foreign professionals, including independent consultants

Objectives

- ✓ to be the **preferred fund-raising** centre for Malaysian companies
- ✓ to promote an **effective investment mgmt** industry and more **conducive environment for investors**
- ✓ to enhance **competitive** position and **efficiency** of market institutions
- ✓ to develop strong and competitive environment for **intermediation services**
- ✓ to ensure stronger and more **facilitative regulatory regime**
- ✓ to establish Malaysia as an **international Islamic capital market** centre

Recommendations

- 152 recommendations covering the following areas:-



Lessons from Malaysia bond market development strategy

- Deliberate and planned effort to develop the Malaysian government and commercial bond market – Capital Market Masterplan
- Efficient and well-functioning market infrastructure for primary and secondary markets and settlement were put in place
- Rules and regulations to ensure the functioning of an orderly market were issued and enforced

Priorities for reform

- Develop risk-based regulatory environment
 - Improve risk hedging options
 - Adopt measures to improve risk management
- Build-up market infrastructure
- Increase use of securitization
- Develop infrastructure bond financing
- Strengthen cooperation in developing regional bond market

ADB's Role in Regional Bond Market Development

- **Stimulating market activities by issuing prime name credit papers.**
- **Promoting transparency/information dissemination**
- **Providing technical and research assistance to the Working Groups (WG) and the Focal Group of the Asian Bond Markets Initiative (ABMI);**

ADB's Local Currency Bond Issuances

2007 Local Currency Bond Issuance by ADB (as of October 2007)

Country	Coupon (%)	Amount	Issue Date	Maturity Date
Hong Kong	4.00	HKD 1,500,000,000	18-Jan-07	18-Jan-12
Kazakhstan	6.80	KZT 6,000,000,000	08-Aug-07	08-Aug-12
Malaysia	4.00	MYR 500,000,000	08-Feb-07	08-Feb-17
Philippines	5.23	PHP 5,000,000,000	24-May-07	24-May-12
Singapore	3.27	SGD 250,000,000	08-Feb-07	08-Feb-12

Source: ADB Treasury

Improving transparency and information dissemination

Asian Bonds Online Website

(<http://asianbondsonline.adb.org>)

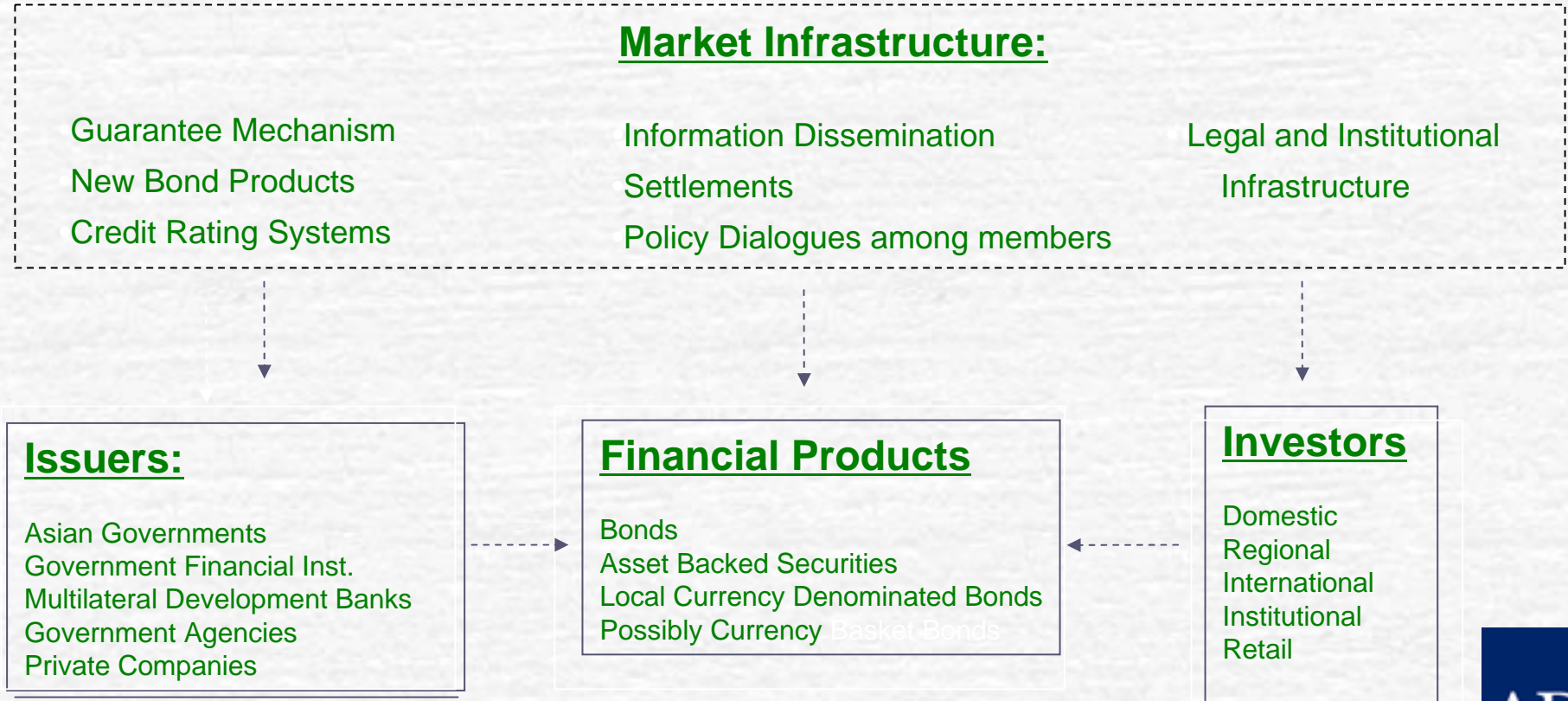
- A one-stop information site on ASEAN+3 bond markets.
- Completed studies of working groups can be downloaded from this site.
- 2,000 visitor sessions per day (average Q1 2007).

Asian Bond Monitor

- A Bi-annual publication that reviews recent developments in local currency bonds.
- Latest publication November 2007 issue to be launched 22 November

ASEAN+3 Asian Bond Market Initiative (ABMI)

1. Facilitate access to market via wider variety of bond issues in Asia
2. Enhance market infrastructure for bonds



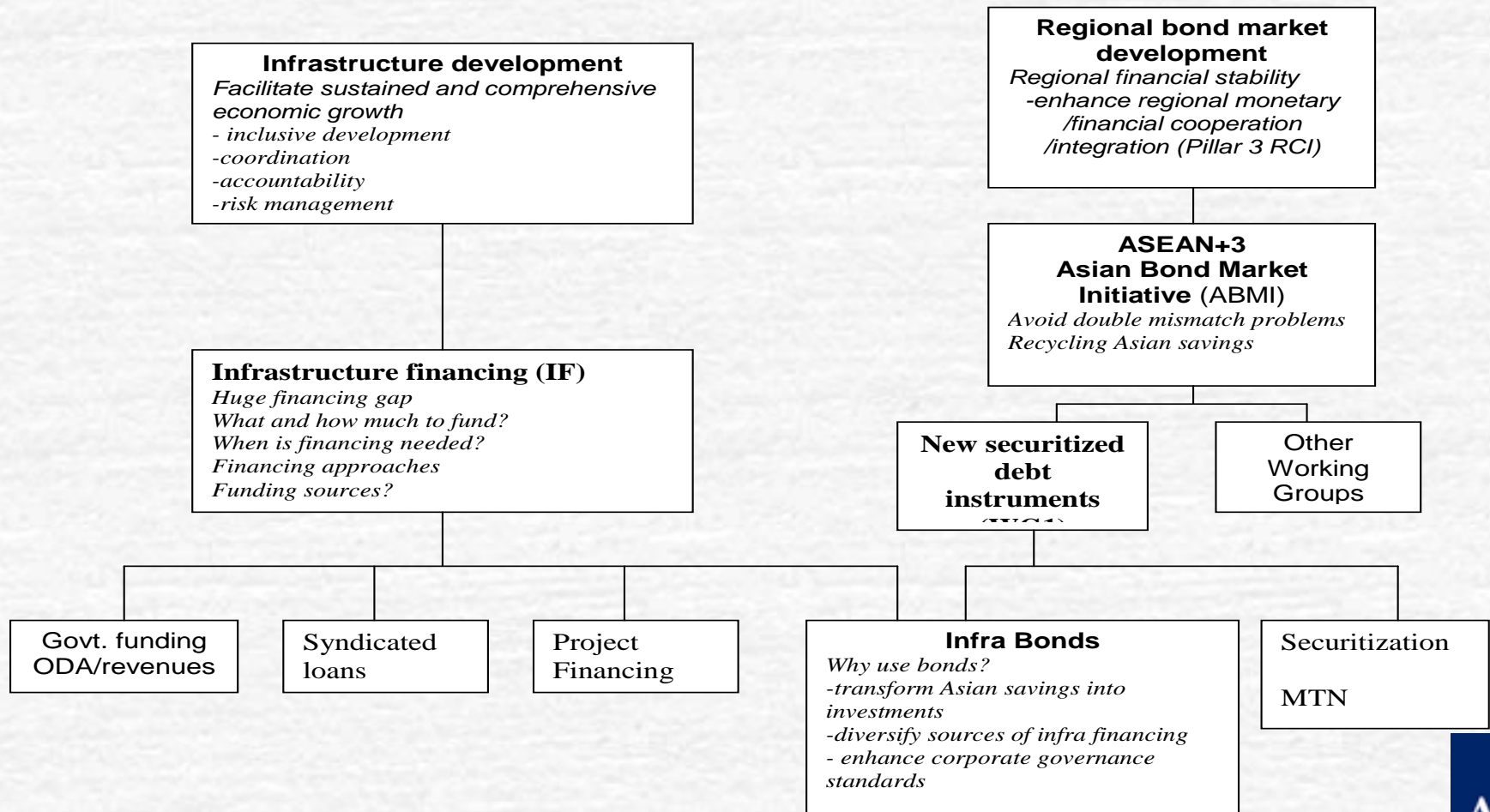
ADB Assistance to ABMI Working Groups

- Joint regional studies
- Extensive consultations with market participants
- Policy dialogues among government regulators
- Regional conferences
 - First Asia Bond Clearing and Settlement Conference
16 April 2007 Singapore
 - Investing in Asia Bonds Conference 2007
2 November 2007 Tokyo

Technical Assistance on Bond Financing for Infrastructure Projects in ASEAN+3 Region

- ☛ Objectives: To provide alternative financing mechanism in funding infrastructure projects thru use of local currency bonds
- ☛ Expected outcome: i) increased local currency bonds issuances; ii) higher volumes of cross-border bond financing of infra projects

Technical Assistance on Bond Financing for Infrastructure Projects in ASEAN+3 Region



Technical Assistance on Bond Financing for Infrastructure Projects in ASEAN+3 Region

Components of TA:

- Debt market analysis for Infrastructure projects
- Lessons Learned
- Role of government and infrastructure development strategies
- Case Studies and best practice
- Recommendations



Thank You

For more information pls. contact
Mr. Masato Miyachi, Senior Advisor
Office of Regional Economic Integration
mmiyachi@adb.org
+63-2-632-6832
<http://asianbondsonline.adb.org>