



Final Presentation

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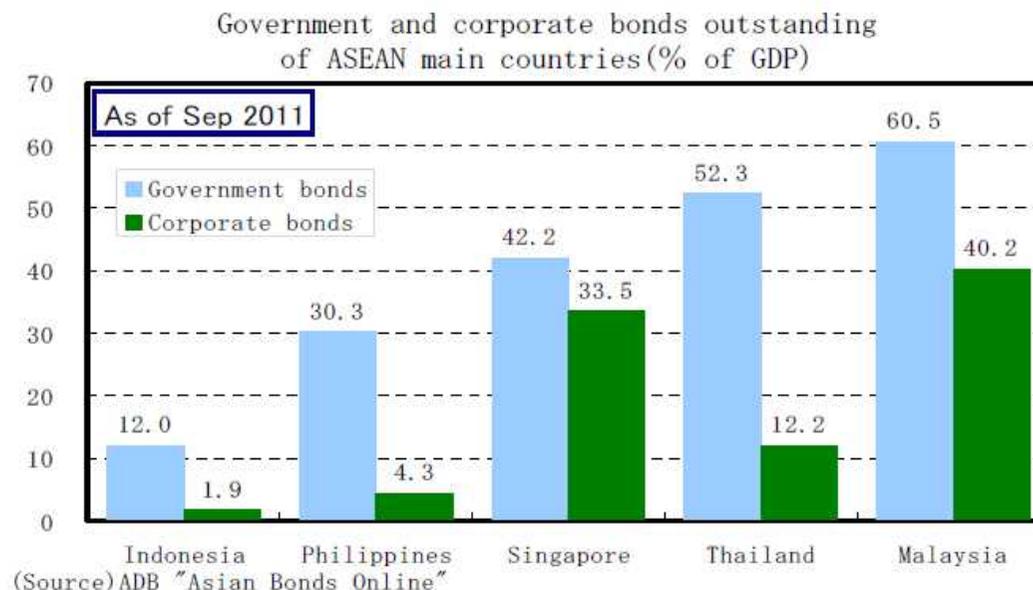
Research Objectives

- Although Asia had grown a lot for last few decades, there was a crisis, and then there would be worries about whether Asian countries sustainably can grow or not due to its vulnerability in financial market
- Therefore through examining Asian financial market, I want to convince Asian countries growth

Asymmetrical Growth in Asian Bond Market

This chart shows that Asian public bond market grew to the great extent, but not about private one

(3) Government and corporate bonds outstandings



Hypothesis

"Asian Private Bond Market has not been matured even after the financial crisis."

We need some improvements

What had been improved after Crisis?

➤ Fixed vs. Floating Exchange Rate

During dollar-pegged exchange rate system,

Asian financial market was stable

Below shows Asian market had been attractive due to stable currency

<i>Economy / Region</i>	<i>Average CPI, 1961–1991</i>
<i>HPAEs^a</i>	7.5
<i>Hong Kong^b</i>	8.8
<i>Indonesia^c</i>	12.4
<i>Korea, Rep. of</i>	12.2
<i>Malaysia</i>	3.4
<i>Singapore</i>	3.6
<i>Taiwan</i>	6.2
<i>Thailand</i>	5.6
<i>All low- and middle-income economies</i>	61.8
<i>South Asia</i>	8.0
<i>Sub-Saharan Africa</i>	20.0
<i>Latin America and Caribbean</i>	192.1

^aAverages are unweighted

^b1972–91 only.

^c1969–91 only.

Sources: World Bank data; World Bank (1992); Taiwan (1992).

After 1997

After Asian Financial Crisis,
Southeast Asian countries suffered a lot due to
mismatches of currency

Maturity & Currency mismatches: SEAs had to repay loan “right after” local currency severely “depreciated”

Table 2.1 Proxies for currency mismatches before the Asian crisis, 1995–99 (percent of foreign exchange reserves)

Country	Short-term external debt					M2				
	1995	1996	1997	1998	1999	1995	1996	1997	1998	1999
Indonesia	208	197	224	113	75	719	661	470	318	345
Korea	184	222	330	76	59	1,498	1,541	1,548	1,022	802
Malaysia	35	44	75	39	27	323	354	353	288	281
Thailand	124	125	152	88	45	371	391	358	457	383
<i>Memorandum:</i>										
Latin America	118	109	105	102	98	426	393	407	431	452

M2 = broad monetary liabilities

Sources: IMF's *International Financial Statistics*, national sources, and Bank for International Settlements.

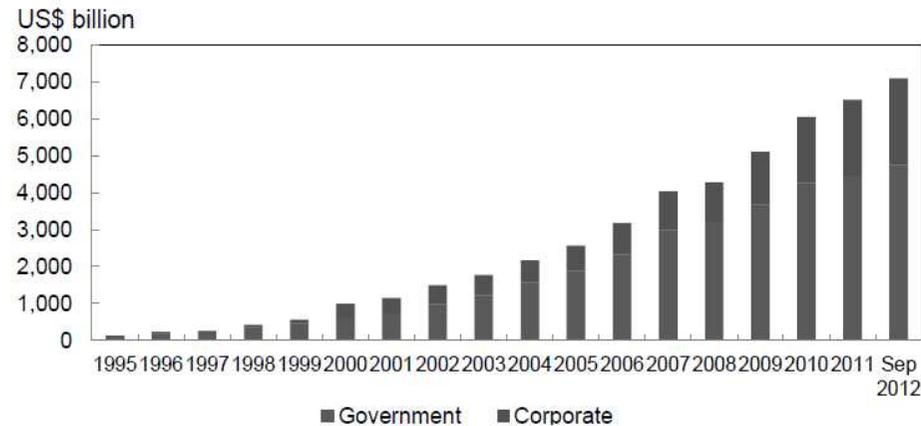
Actions

- Receiving the challenge of mismatches, Three East Asian countries & SEAs tried to make Asian Bond Market Initiative (ABMI)
- ABMI proactively foster SEAs local currency (LCY) bond market maturity

Outcome

- After AFC, Asian LCY bond market had been developed at 16% pace yearly
- However, private LCY bond market progress is little

Figure 1: Growth of the Emerging Asian LCY Bond Market



Notes:

1. Emerging Asia includes People's Republic of China; Hong Kong, China; India; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.
2. For India, 3Q12 data carried over from December 2011.

Source: *AsianBondsOnline*.

Reasons why SEAs' LCY bond market matured?

- There are two ways of explanation

Politics & Economics

■ Politics

- 1) ABMI (ADB&East Asian countries contribution, structural change)
- 2) Local government & central bank cannot change dollar in floating exchange rate (Macroeconomics analysis; small open market monetary policy does not work to change exchange rate)

■ Economics

- 1) After last worldwide financial crisis, worldwide money outflow is to bond sector rather than stock and other riskier assets (After 2008)
- 2) SEAs is experiencing a period that people's salary is always increase, so their saving rate is getting higher (inflow to bond market)
- 3) Demand side needs less riskier and longer term loan

A Suggestion from a scholar

A scholar said through below regression that if foreign participation increases, bond yield will decrease

$$Lr_{it} = \alpha_i + \beta_1 Sr_{it} + \beta_2 \pi_{it} + \beta_3 b_{it} + \beta_4 D_{it-1} + \beta_5 M_{it} + \beta_6 GDP_{it} + \beta_7 USr_{it} + \beta_8 CA_{it} + \beta_9 FP_{it} + \varepsilon_{it}$$

Table 3. Fixed effects estimates of long-term yields (2000Q1–2009Q1)

Policy interest rates	0.12** (4.63)
Inflation	0.16** (5.26)
Fiscal deficit	0.05* (1.74)
Foreign participation	-0.06** (4.71)
Current account deficit	0.13** (5.08)
U.S. Interest Rate	0.45** (3.54)
Constant	5.38** (15.82)
R-Square (within)	0.40
F-statistic	129.3

The t-statistics are in parentheses
 ** significance at the 5 percent level
 * significance at the 10 percent level

$$Lr_t = \theta + \sum \theta_j Lr_{t-j} + \varepsilon_t$$

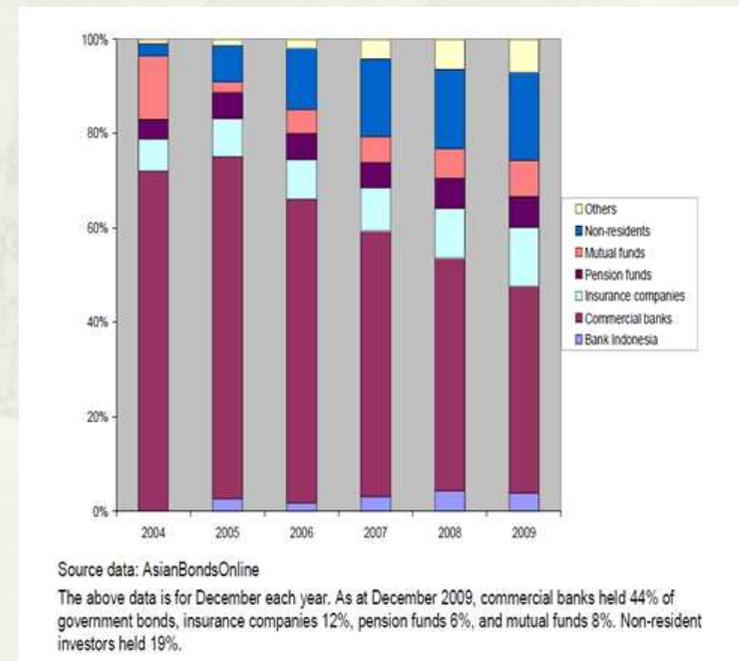
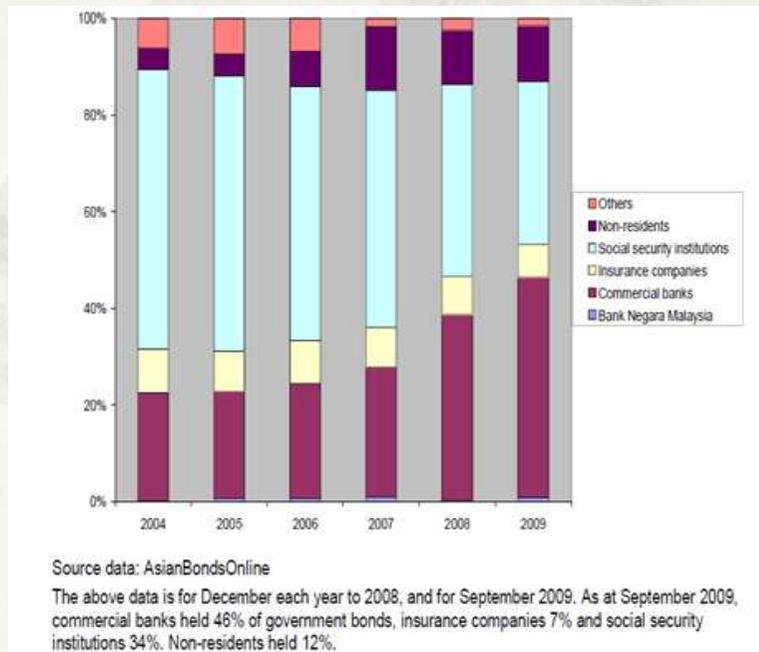
$$\varepsilon_t \sim N(0, \sigma_t^2)$$

$$\sigma_t^2 = \exp(\varphi + \gamma FP_t) + \alpha \varepsilon_{t-1}^2 + \beta \sigma_{t-1}^2$$

However, opposite observation can be possible

This shows that less capitalized Indonesian bond market has more foreign participation.

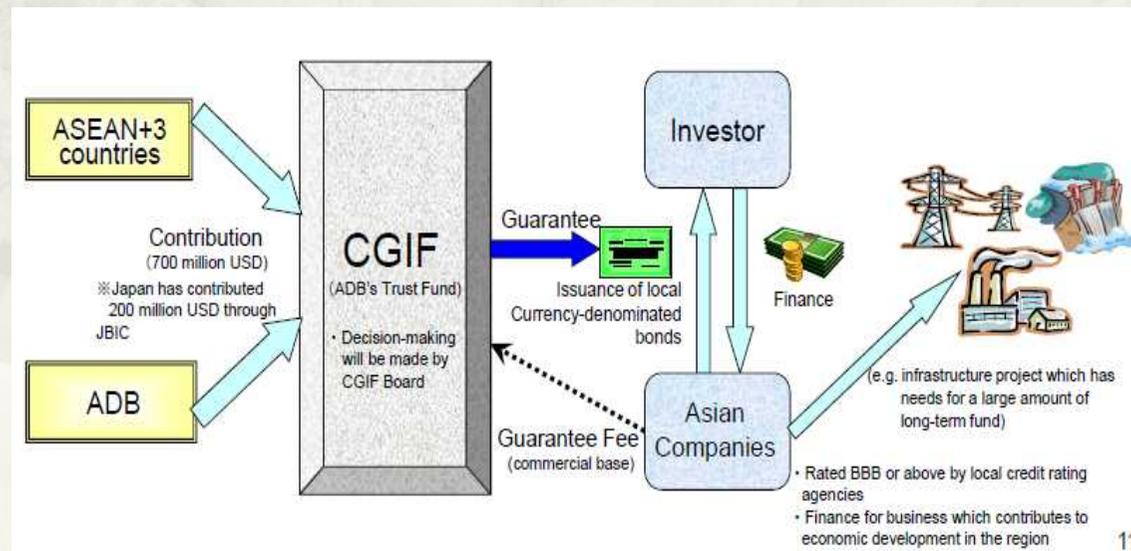
This shows different result from previous regression in that less capitalized market actually has more foreign participants



Credit Guarantee and Investment Facility

Credit Guarantee and Investment Facility (CGIF) try to foster further development of private LCY ABMs by making financially secured system

- Countries, such as Japan & China, invest their money in this institution to make investor easier to invest in the region



Conclusion

- As the fundamental part, there are many positive reasons that foster ABMs developments, particularly CGIF by ADB
- However, although there are suggestions in private LCY ABMs, not all of the suggestions are accurate.
- We need further examination about how to develop private ABMs

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