

Supporting Growth in Asia's Local Currency Debt Markets

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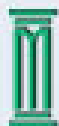
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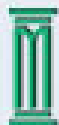
Domestic and Foreign Currency Sovereign Ratings

	Number of Sovereigns	
	New Foreign Currency Ratings	New Domestic Currency Ratings
Pre-1985	17	0
1986-1990	22	3
1991-1995	19	31
1996-2000	36	60
2001-2003	11	12
Total	105	106



Domestic and Foreign Currency Sovereign Ratings

- **47 new sovereigns received foreign currency ratings in past eight years.**
- **72 new sovereigns received domestic currency ratings in past eight years.**
- **Number of sovereigns with domestic currency ratings (106) is now nearly equal to those with foreign currency ratings (105).**



Credit Quality of Newly Assigned Sovereign Ratings

	Median Ratings	
	New Foreign Currency Ratings	New Domestic Currency Ratings
Pre-1985	AAA	...
1986-1990	A+	AAA
1991-1995	BB+	AA-/A+
1996-2000	BB	BBB
2001-2003	BBB	BB

Source: BIS (2003)



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Credit Quality of Newly Assigned Sovereign Ratings

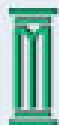
- **Since 2001, the median domestic currency rating assigned has been below investment grade.**
- **Rating agencies often rate domestic currency obligations of sovereigns higher than their foreign currency ones.**
- **However, disagreements among rating agencies may indicate greater uncertainty as to the risk of domestic versus foreign currency obligations.**



Domestic Debt Market Development in Asian Countries

(March 2003)

	Total Amounts Outstanding (US\$ Billions)	Total/GDP (%)	Percent Accounted for by:		
			Government	Financial Institutions	Corporate Issuance
China	465	38	52	45	2
Hong Kong, China	46	28	33	56	10
India	164	32	99	0	1
Japan	6,910	174	73	16	11
Malaysia	83	87	41	13	46
Singapore	52	60	61	34	5
South Korea	373	78	24	37	39
Thailand	48	38	59	27	14
<i>Memo:</i>					
United States	16,764	161	28	57	15



International Debt Market Development in Asian Countries

(March 2003)

	Total Amounts Outstanding (US\$ Billions)	Total/GDP (%)	Percent Accounted for by:		
			Government	Financial Institutions	Corporate Issuance
China	16	1	31	55	14
Hong Kong, China	44	27	0	68	32
India	3	1	0	30	70
Japan	250	6	2	80	19
Malaysia	23	24	22	36	42
Singapore	17	20	2	65	34
South Korea	55	12	9	53	38
Thailand	12	9	31	42	28
<i>Memo:</i>					
United States	2,814	27	1	87	13



Indicators of Quality of the Financial Infrastructure

(0 to 10 scale, higher is better)

	Delivery and Settlement	Benchmark Yield Curve	Public Issuance Modality	Private Issuance Modality	Average Score
Hong Kong, China	8	8	8	8	8.0
Singapore	8	8	8	8	8.0
Taiwan, China	8	4	8	8	7.0
South Korea	6	6	8	6	6.5
Malaysia	6	4	6	6	5.5
Thailand	4	4	4	4	4.0
China	2	0	2	0	2.0
Philippines	2	0	4	0	1.5
Indonesia	2	0	2	0	1.0
<i>Memo:</i>					
United States	10	10	10	10	10.0

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[L]ong-term and fixed rate local currency bonds are probably the most stable type of borrowing that a country or corporation can engage in.”

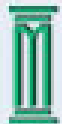
Michael Pettis



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Why has it been so difficult to develop local currency markets?

- **Lack of speed and reliability in delivery and settlement?**
- **Lack of an appropriate benchmark yield curve?**
- **Lack of market orientation and thus proper pricing of public and private debt?**



Why has it been so difficult to develop local currency markets?

- **Lack of institutional investors?**
- **Lack of good economic policies?**
- **Too much government debt issued?**
- **Lack of credit enhancements?**
- **Lack of adequate creditor rights/bankruptcy codes and good corporate governance?**



Why has it been so difficult to develop local currency markets?

- **Lack of data and transparency?**
- **Is the newly created Asian Bond Fund a solution?**
- **Is local currency debt issued by the IFC and ADB a solution?**
- **Will the IMF and World Bank Financial Sector Assessment Program help?**



Why has it been so difficult to develop local currency markets?

- Is there an optimal sequencing in developing debt markets vis-à-vis other financial markets and macroeconomic and regulatory policies?

