

# 'Asean bond markets can fund infrastructure deals'

**LONG-TERM FINANCING:** Potential in new growth area worth a staggering US\$8tril

**RUPA DAMODARAN**

KUALA LUMPUR

rupabanerji@mediaprima.com.my

**L**OCAL currency bond market in the Asean region, which has expanded faster than the United States-denominated bonds, can play an important role in bridging infrastructure financing.

The potential in this new growth area is enormous as infrastructure investments in Asia will amount to a staggering US\$8 trillion (RM26 trillion) over the next decade, said Bank Negara Malaysia deputy governor Datuk Muhammad Ibrahim.

"Asean bond markets can play a big role in bridging this long-term (LT) financing needs, given that most economies within the region are bank-dependent for LT financing.

"Not only the economy would be better served by a new source of funds, but the risks of depending on the banking sector for LT financing will be greatly reduced," he said at the inaugural Asean Fixed Income Summit, here, yesterday.

The one-day event was hosted by Bank Negara together with Cagamas, the ACI-Financial Markets Association of Malaysia and Malaysian Association of Corporate Treasurers.



Bank Negara Malaysia deputy governor **Datuk Muhammad Ibrahim** presenting a souvenir to **Maybank Kim Eng Group** and **Maybank IB CEO John Chong** at the **Asean Fixed Income Summit** yesterday. With them is **Cagamas Bhd chairman Datuk Ooi Sang Kuang**. Pic by Azmaidi Abidin

The regional individual local currency bond markets recorded growth rates ranging from 5.3 per cent to 42.2 per cent.

Muhammad added that the financial linkages between Asean fixed income markets are insignificant while intra-regional investments in Asean are small.

Inter-regional trade flows have grown substantially among the 10-member countries while Asean financial markets, in particular the fixed income markets, have also

grown significantly to support trade, financing and infrastructure.

"Despite the growth of our fixed income market and the substantial non-residents investment, the participation from other Asean countries is limited," he said, referring to the more than 90 per cent cross-border portfolio investment flows outside Asia.

Muhammad listed liquidity as one of the challenges in most markets in the region, including Malaysia, for some issuances.

"Another area is the underdeveloped repo markets and hold-to-maturity behaviours of Asian investors that reduce liquidity, an important investment criteria for many investors."

Non-uniform regulatory environment across regional markets poses huge resource and capacity challenges that prevent Asean fixed income market to function as a single large market.

As for regional financial integration, Muhammad said there are many proposals and ideas that can be pursued.

These include recognition approvals across member country jurisdictions while another bold step is to recognise the credit rating given by the domestic agency for domestic currency bond or sukuk issuance.

Towards this end, Malaysia has taken several steps to develop its market to facilitate cross-border investment activities and this includes foreign exchange administration rules to make it easier for domestic investors to invest abroad and for foreign investors to invest in ringgit assets.

As of this month, the total issuances by non-residents, including Asean issuers, amounted to 58 issues totalling RM20.5 billion.