

# AFIS told of Asean bond market prospects

*Economy will be better served by a new source of funds other than the banking sector, says BNM deputy governor*

by **KAVITHAH RAKWAN**

THE regional bond market could be a great alternative to long-term bank borrowings in bridging infrastructure financing, according to Bank Negara Malaysia (BNM) deputy governor Datuk Muhammad Ibrahim.

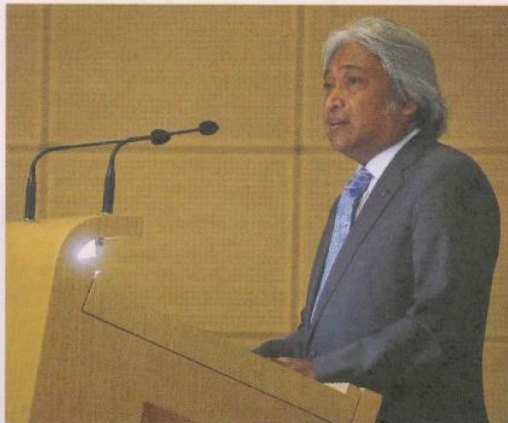
He said infrastructure investments in Asia are estimated to reach US\$8 trillion (RM26.25 trillion) over the next decade.

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

"Not only would the economy be better served by a new source of funds, but the risks of depending on the banking sector for long-term financing would be greatly reduced," he said in his speech at the opening of the Asean Fixed Income Summit (AFIS) in Kuala Lumpur yesterday.

Muhammad said Asean fixed income markets have expanded by more than sixfold since 2000, and now stand at US\$1.1 trillion.

The size of Asean local currency bond markets is now five times larger than the total US dollar denominated bonds issued by Asean entities.



Picture by Hafez Mohamed

**Muhammad says intra-regional financial integration could be further promoted via the use of regional currencies for trade settlement**

This indicates the growing maturity, resilience and the important role of the domestic bond market in each economy.

The compounded annual growth rate in Asean local currency bond issuance has been 12.9% since 2003. The regional individual markets have experienced growth rates ranging from 5.3% to 42.2%.

Muhammad said challenges still exist as the financial linkages between Asean fixed income markets and intra-regional investments by Asean investors are still small.

"Malaysia, the largest fixed income market in Asean, has seen a fair share of non-resident participation and investment. Despite the growth of our fixed income market and the substantial non-resident investment, the participation

from other Asean countries is limited.

"It would be a fair estimate that this is similar in other Asean fixed income markets. Within the Asean region, more than 90% of cross-border portfolio investment flows are still with advanced economies outside Asia," he said.

Muhammad suggested enhancing the network of intermediaries through the formation of a regional dealers' network to promote further integration of the regional fixed income markets.

"Such regional dealers will help to distribute securities around the region and more importantly, create the market to facilitate cross-border transactions.

"In doing so, it creates liquidity in the fixed income market, attracting greater

foreign investors' participation and lowering the cost of funding.

"Asean corporates are thus able to tap new markets and investors and widen their source of financing. This contributes to greater depth and breadth of the regional fixed income market," he said.

Muhammad said intra-regional financial integration could be further promoted via the use of regional currencies for trade settlement.

"The cost of hedging the exchange rate risk will be lower and it promotes efficiency in trade and enhances export competitiveness of our businesses.

"We should, therefore, work together and double our efforts to promote and enhance the use of regional currencies for trade and investment settlement.

"Sovereign funds managers could also give a timely boost to this effort by investing a fraction of their funds into domestic currencies of regional bond markets," Muhammad said.

AFIS was organised by Cagamas Bhd, in collaboration with BNM, the ACI-Financial Markets Association of Malaysia and the Malaysian Association of Corporate Treasurers.

The summit discussed issues and challenges in promoting liquidity and market transparency in the region, while also focusing on the developments, challenges and opportunities in Asia's cross-border bond market.