No.56

2016.8.22

How They are Fostering the Bond Markets in CLM (Cambodia, Lao P.D.R. and Myanmar)

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Among the participating countries in the Asian Bond Market Initiative (ABMI), the bond markets in Cambodia, Lao P.D.R. and Myanmar are still in the early stage of development. However, in preparing for the increased demand for funds following the economic development, each of them has been tackling a challenge of fostering its bond markets.

1. Cambodia

Currently Cambodia has virtually no bond market[1] Although the country started in 2003 to issue 3 month government bonds denominated in riel, its issuance was suspended in 2006[2]. Further, the government initiative to prioritize the improvement of fiscal balance had weakened its efforts toward issuing government bonds.

The government released in 2011 "Financial Sector Development Strategy 2011-2020" and expressed its intention to issue government securities if and when the preparations for fostering money markets get ready, indicating that "A broad-based government securities market is essential for implementing monetary policy in parallel with promotion of the Cambodian riel." The plan projected the consideration of the issuance of government bonds in 2017-2020 following the issuance of short-term treasury bills. However, any kinds of government securities have not been issued yet. According to the officials of the National Bank of Cambodia (the central bank), the delay was caused mainly by the fact that the government has not taken it as a priority to issue government securities and also by a marked shortage of capable human resources. Such government attitude seems to reflect the influence of lack of the short-term money market. The central bank started in 2013 to issue NCDs (Negotiable Certificates of Deposit) to encourage the formation of interbank money market, but the numbers have not been increasing due to the low fixed interest rates. Yet, the government plans to start issuance of

[1] The three-year recapitalization bonds denominated in riel are the only bond issued in Cambodia which has been issued by the Economy and Finance Ministry to inject capital into the government-related corporates.
[2] It has been said that it was because the riel-denominated bonds in a dollarized economy or their yields fixed to a low level (6%) did not meet the demand of state banks, the main purchasers of the bonds.

short-term government bonds in 2018-2020, gradually extending their redemption periods and increasing the amounts of issuance. The introduction of government securities may stimulate the growth of short-term money market and therefore it is desired that the government will steadily move forward with the issuance of government bonds[3].

2. Lao, P.D.R.

The country has a short-term government bond market but no long-term government bond market[4] and corporate bond market.

In 1990, a short-term government security was issued for the first time aiming to control inflation by absorbing excess liquidity, and since 1994 the treasury bills have been issued to fill the gap of fiscal balance. The frequency of issuance, however, is irregular, due to its inexperienced fiscal management. The government is required to improve the situation by enhancing its capacity of fiscal management. The Bank of Lao People's Democratic Republic (BOL, the central bank) has also issued BOL bills on an irregular base.

There are only small secondary transactions of short-term government bonds in relation to liquidity supply to commercial banks by the central bank (in either form of repurchase agreement, outright agreement, and collateralized lending).

Interviews to the BOL officials revealed that the bank has been putting more emphasis on the improvement of coordination between the Bank and the Ministry of Finance on bond issuance and the development of online transactions of securities rather than the early build-up of long-term government bond market. On the other hand, the fostering of corporate bond market has been on the move, with a seminar on corporate bonds issuance being held in March, inviting the local potential issuers and investors.

3. Myanmar

In Myanmar both short-term and long-term bonds have been issued. Among the long-term bonds, the issuance of 2 year government bonds started in 2010, but the first issuance of those with 3 year and 5 year maturity goes back to 1993. However, the outstanding amounts of the long-term bonds remain only at 4% of GDP in 2014[5]. This is mainly because the fixed coupon rates of the bonds (currently 8.75% for 2 year bonds, 9.0% for 3 year bonds and 9.5% for 5 year bonds), which are to be reviewed in every several years, are not so attractive to commercial banks that account for the most part of investors, in comparison to the minimum deposit rate

[3] The fostering of corporate bond market has been promoted. When the fourth company was listed on the Cambodia Securities Exchange at the end of May 2016, its senior official presented an outlook that the framework of legal requirements for the listing would be established by the year-end. However, the development of corporate bond market will require the fostering the government bond market which can provide benchmark interest rates.

[4] Excluding the Arrears Clearance Bonds which are long-term bonds issued to offset the government debts on the state-owned companies.

[5] Calculated using the data of GIZ Myanmar's Financial Sector (2015) and of the IMF

and maximum lending rate (8% and 13% respectively) set by the Central Bank of Myanmar (CBM). The secondary market has just begun to expand after it was authorized at last in April 2013. There exists no corporate bond market and there have been no media news and reports seen on fostering the market, possibly because this has not been regarded as the main issue among the various monetary reforms that have been promoted in recent years. On the front of system construction, the CBM Financial Network System (CBM-NET) was launched for operation in January 2016, with the assistance of the project by Japan International Cooperation Agency (JICA). The CBM-NET system performs such functions as funds settlement, securities settlement, management of collateral, etc.

Looking ahead, what is drawing attention now is the introduction of competitive bidding system for long-term government bonds which is reportedly to be implemented next month. Already in 2015 the transaction method of 3 month government bonds[6] was changed to a competitive bidding system from the entire acceptance of the amount by the CBM. If its introduction is successfully implemented, it will become a new step toward the reform of the bond market, and if the level of yields goes up accordingly, increase in demand from the investors and revitalization of the market can be also expected.

[6] Since 2016, those with 6 month maturity and 12 month maturity have been added, albeit in very small amounts.