



2018.12.12

## **First Issue of Corporate Bond in Cambodia: A Great Step Forward for the Development of Asian Bond Market**

**Mitsuru Yaguchi, General Manager and Chief Economist  
Institute for International Monetary Affairs**

The first corporate bond in Cambodia was issued on November 14 and listed on the Cambodia Stock Exchange (CSX) on December 5. Issuance of a bond in Cambodia is the first in the last 12 years after the issuance of government short-term bills in 2003-2006.

As the late comers (less developed countries) to the Association of Southeast Asian Nations (ASEAN), development of bond markets has been an urgent agenda in Cambodia, Myanmar and Lao People's Democratic Republic (Lao PDR). Originally, the ASEAN countries, learning lessons from the Asian currency crisis that took place 20 years ago, had made it a goal to develop bond markets in local currencies (Asian Bond Market Initiative, ABMI). In addition, the present need reflects the coming "graduation", due to their recent economic development, of these ASEAN late comers from grant aids and concessional loans they have received from the World Bank, Asian Development Bank (ADB) and foreign governments.

In such a situation, Myanmar has promoted the improvement of the market system to the point it issues government bonds regularly on a competitive auction starting from September 2016. At the end of 2017 the outstanding amount of the government bonds reached 6.6% of GDP. In Lao PDR, while most of the government bonds and corporate bonds are issued in the neighboring Thai market, some of them are issued in domestic market (outstanding at 2.4% of GDP at the end of 2017)<sup>1</sup>. On the other hand, in Cambodia, the situation of no outstanding of government bonds including short-term bills has been lasting for more than 10 years, with no issuance of corporate bond at all (the same is for the domestic markets in Myanmar and Lao PDR). In that sense, the first issuance of a corporate bond in Cambodia was not only an epoch-making event to the country but also was a big step forward from a perspective of improvement of bond markets in the ASEAN late comers.

---

<sup>1</sup> Yaguchi, Mitsuru: "Urgent Need for Developing Bond Markets in the ASEAN Late Comers: Efforts in Cambodia, Lao PDR and Myanmar", Institute for International Monetary Affairs, Newsletter No. 20, 2018 (Oct. 1, 2018)

The corporate bond was issued by a major microfinance company Hatta Kaksekar in the amount of 120 million riels for the term of three years and with a coupon rate of 8.5%. As there is no rating agency established in Cambodia, the bond got a rating of BBB+ from the rating agency TRIS in Thailand<sup>2</sup>.

Since it was the case where no failure was allowed from a perspective of fostering Asian bond market, it had been agreed in advance that the International Finance Corporation (IFC), a member of the World Bank Group, would buy 80 billion riels (approx. \$20 million). It was a focal point whether or not private investors were interested in the remaining 40 billion riels (approx. \$10 million), but it resulted in a success with several institutional investors like local commercial banks and insurance companies buying the bond.

As mentioned above, the bond was listed on the CSX. It had an aim to bolster the transactions by involving investors including retail investors, and to develop a secondary market. A local media reports that the CSX will request the IFC to sell on the CSX the bonds it purchased<sup>3</sup>.

Although the issuance of a corporate bond this time marks a great step forward, the following two issues can be pointed out as a challenge for achieving a second and a third issuance from now on.

The first issue is that it is pretty hard to set a coupon rate on a corporate bond as there is no government bond market with a yield curve available to serve as a benchmark. In the case of Hatta Kaksekar, the coupon rate (with 8.5% for the term of three years) was decided with reference to deposit rates and based on the actual applications by investors, yet it seemed to take a considerable cost. It is highly awaited for a prompt realization of the issuance of government bonds which is currently under preparation.

The second issue is that due to the progress of “dollarization” of the economy, the investors’ need for the dollar denominated bonds is stronger in Cambodia than for those in riels. The authorities are in a position to promote “de-dollarization”, and they will have to determine whether the investors’ need for riel-denominated bonds will be sustained or not, although they had a successful issuance of the Hatta Kaksekar bond in riels,

In Myanmar and Lao PDR, the first issue does not exist, and the second one is relatively small. Cambodia’s quick realization of domestic issuance of a corporate bond must have stimulated the authorities of Myanmar and Lao PDR. It is highly hoped that further progress will be made for the improvement of bond markets in these ASEAN late comers.

---

<sup>2</sup> Guarantee by the Credit Guarantee and Investment Facility (CGIF) was not provided after some consideration.

<sup>3</sup> The Phnom Penh Post, “Hattha Kaksekar Ltd bonds all purchased by institutions,” Nov. 15, 2018

Copyright 2018 Institute for International Monetary Affairs  
All rights reserved. Except for brief quotations embodied in articles and reviews, no part of this publication may be reproduced in any form or by any means, including photocopy, without permission from the Institute for International Monetary Affairs.