Bond Market Development
In Developing Asia

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From Stress to Growth:
Strengthening Asia’s Financial Systems in a Post-Crisis World
Peterson Institute for International Economics
Asian Development Bank
Why Local Currency Bond Markets?

• Potential contributions of LCBMs:
  - Diversified financial system –
    • Spare tire, less reliant on bank finance
  - Decrease currency and maturity mismatches in EMEs
    • Debate over Original Sin
  - International risk sharing / Diversification benefits for investors
How Have EME LC Bond Markets Developed?
Particularly impressive development in Asia.
How Have EME LC Bond Markets Developed?
Currency mismatches have been reduced across the board.

LC Bonds as % of Total Bonds Issued

Asia_EMs
Other_EMs
Latin_America_EMs
The Nature of EME Bond Markets:
Mostly LC, mostly Sovereign (green), but Private growing

Private local currency bonds small in 2006…
much larger in 2011.
Some Factors Enable Local Bond Market Development

Data: LCBM (as a % of GDP), inflation volatility (volatility of 10 years of quarterly year–over–year inflation) and legal rights for borrowers and lenders (from the World Bank’s Doing Business reports).

In the cross-section, countries with less inflation volatility and stronger legal rights had larger local currency bond markets.
Reduced Reliance on Foreign Currency Debt
Slow steady progress in Philippines
Dramatic change in Viet Nam

Philippines

Viet Nam

Local currency, % of GDP
Foreign currency, % of total

Local currency, % of GDP
Foreign currency, % of total

Local Currency  Foreign Currency Share

Local Currency  Foreign Currency Share
Maturity Mismatch in Viet Nam?

Share of local currency bonds with maturity > 10 years (%)
Beyond the Large EMEs

• Among 42 developing Asian economies median bond market size is ZERO.

• Historical inflation volatility is on average twice as high in developing Asian economies that lack bond markets.

• Previous research suggests creditor friendly policies and institutions would enable bond market development in financially underdeveloped economies.