

## **Bond Market Development in Thailand**

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Ladies and gentlemen

I must congratulate Fitch on selecting for today's conference some very important and interesting topics about Thailand. You had asked me to make a few comments about debt capital market development in Thailand.

I wish to start by saying that bond market is the one of most important tools for liquidity management. I only have to look back at the Asian Crisis 13 years ago to confirm that.

At that time, I was working at the Bank of Thailand. The liquidity crunch started with the finance companies. They take wholesale deposits from rich individuals. These savers were the high society of Thailand. They relied on telephone to spread the news of finance companies in trouble, which was pretty effective. Then they rushed to withdraw their funds.

The finance companies went to the Bank of Thailand to seek help. But there was no way the central bank could help them. They had already run out of government bonds. All of their assets were in the form of loan contracts which could not be liquefied. The banks would not lend them any money. The market for clean interbank loans suddenly stopped.

The central bank decided to circulate cash around by borrowing from commercial banks and lending the money to finance companies against boxes of loan contracts. These loan contracts were supposed

to be collateral, but because of the sheer volume and speed needed, they were never really opened.

Because there was no bond market to speak of, this was the only tool available for liquidity management at the time. It kept a few finance companies going for a period of time.

Nowadays, the channel for the central bank to do such lending has been closed. The laws have been changed to prevent the central bank from repeating this exercise. The only way that the banking system can look after itself in the next crisis is to speed up the development of the bond market here.

Bond market development has therefore been high on the agenda of the Thai authority since the 1997 crisis, and it is also a key reform measure as set out in the current Capital Market Development Master Plan that runs until 2014.

In the 13 years since the Crisis, Thailand's debt market has grown significantly from US\$ 11 billion (11% of GDP) to US\$ 193 billion (70% of GDP). During the first 8 months of this year alone, foreign net inflow into the bond market reached US\$ 3 billion, reflecting renewed investors' interest.

The main part of this growth is the Thai Government bond market with the outstanding of more than US\$ 152 billion, or 55% of GDP by mid-2010.

A law has also been passed to allow the Government to issue bonds not just to cover fiscal deficits, but it can issue bonds more than it currently needs in order to develop the bond market too.

The corporate debt market in Thailand is unfortunately still much smaller than the public debt market. The outstanding is only US\$ 41 billion, or 15% of GDP. But there is hope that it will grow.

Last year when the banking system was quite tight with their lending, we saw growth in new issuance which was about US\$ 30 billion.

What are the new developments for the Thai bond market?

On the domestic front, we are encouraging product innovations both for investment diversification and for hedging purposes. The rules to pave the way for Islamic Sukuk bonds will be issued in October this year. Interest rate futures trading will be launched on the Exchange this October.

We are also drafting rules in preparation for allowing municipal authorities to issue bonds as well.

On the international front, we are paving the way for issuers in the future to be able to launch debt issues simultaneously across borders within ASEAN more conveniently by using the same set of processing documents. The measures that are being worked on include;

- The adoption of a common ASEAN Disclosure Standards that has been effective since June last year,
- The mutual recognition of Credit Rating Agencies within ASEAN,
- The introduction of rules to allow foreign governments to become originators of securitization issues so that large infrastructure projects in our neighbors that are based mainly on cash flows can be financed more easily in Thailand,
- The acceptance of the ASEAN scale credit rating that has been implemented by some credit rating agency.

Ladies and gentlemen

I am confident to say therefore that the future agenda for debt capital market development in Thailand is a full list. The authority is working hard to push for progress in recognition of its importance as a liquidity management tool.

I also wish to point out that the role of credit rating agencies is an important one. You are the main reason that makes investors have trust in the issuers.

It is necessary therefore that you promote transparency in your practice, carry out the tasks objectively and with credibility, in line with the IOSCO international standards that emphasize good management of conflict of interest and accountability of the information provided.

For rating agencies to remain central to the investors' need, your work must be of the high standards that we can all rely upon.

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