

Zeti Akhtar Aziz: The Malaysian bond market

Speech by Dr Zeti Akhtar Aziz, Governor of the Central Bank of Malaysia, at the Launch of AmBank's Malaysia Corporate Bond Handbook Commodity Murabahah House, Kuala Lumpur, 18 August 2009.

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It is my pleasure to be here today on this occasion of the launch of the Malaysia Corporate Bond Handbook. The handbook, which is the first comprehensive guidebook for bond investors, is an initiative that will contribute towards improving the visibility and the development of the Malaysian bond market. Our bond market continues to be dynamic, with continued new developments that enhance Malaysia's position as a centre of origination for securities. In addition, a deeper and more liquid domestic bond market is also important for the development of a vibrant regional bond market which would in turn allow for a part of the savings in the region to be recycled and re-invested in the region.

Growth and development of the Malaysian bond market

The Malaysian bond market has experienced significant transformation over the recent decade and is now well positioned to have a more significant role to support the changing requirements of the economy in our next stage of development. Initiatives introduced by Bank Negara Malaysia to spur the development of the domestic bond market started as far back as 1986. The establishment of Cagamas Berhad, the national mortgage corporation was the first institution that the Bank established as part of the efforts to develop the domestic bond market. This was followed with the establishment of other institutions, which included the Securities Commission and the domestic rating agencies. The Bank also put in place a comprehensive and modern depository, delivery and settlement system to facilitate the issuance, trading and settlement of debt securities in the market.

Mechanisms to increase liquidity in the market to enhance the overall price discovery process were also introduced through the provision of updated market information. In addition, measures were also introduced to release the captive holdings and to facilitate the efficient borrowing and lending of securities. More flexible foreign exchange policies was also implemented to facilitate capital raising and investment by non-residents to further accelerate the development of our domestic bond market.

Today, the Malaysian bond market is the largest in the ASEAN region, accounting for nearly 90 percent of our gross domestic product. Corporations now have access to more innovative and sophisticated financing solutions through the bond market to meet their diverse funding requirements. Financing through the bond market by the corporate sector now accounts for 58 percent of their total financing compared to 33 percent prior to the Asian financial crisis, when there was greater reliance on the banking system for financing. With the advent of new financing instruments and supporting infrastructure, trading activity in the secondary market have also increased by more than three fold, with the trading volume now amounting to RM516 billion.

A key development of the Malaysian financial market is the enormous growth of the sukuk market. As a pioneer in the global sukuk market, Malaysia has remained firmly established as one of the largest issuers of sukuk, with 62 percent of the world's outstanding sukuk having originated in Malaysia. Malaysia's lead is also reflected in the innovative and competitive structures that have been pioneered such as the exchangeable sukuk musharakah and sukuks based on *istisna'* and *ijarah*. All these augurs well for Malaysia to evolve as an International Islamic financial hub and as a centre of sukuk origination.

Riding through the global financial market uncertainties

The enhanced resilience of our financial system during this challenging international financial environment can be attributed to the comprehensive reform measures undertaken over this decade which has contributed to reduce the impact of the global financial crisis on our financial system and our economy. The domestic financial markets have remained orderly despite experiencing greater volatility, higher outflows and lower trading volume at the height of the crisis. The financial sector has also remained solid and has continued its intermediation function without disruption throughout this period.

A number of pre-emptive measures has also been initiated to ensure continued access to the bond market for funding. This includes the establishment of Danajamin Nasional Berhad, a national financial guarantee insurer to provide credit enhancement for viable corporations to raise financing from the bond market. This initiative is expected to enhance the prospects for companies to tap the bond market. Within three months of its operations, two submissions have been received with 30 more in the pipeline. These applications amount to a credit enhancement to raise RM8.4 billion of bonds. A further initiative in this direction is the resumption in the operations of the Corporate Debt Restructuring Committee (CDRC), to facilitate the restructuring of debts, including private debt securities of the larger viable corporations.

Renewed optimism in the financial market

It is now more than two years since the onset of the global financial crisis. The effects of the crisis on the Asian economies began to be felt in the second half of 2008. Measures to stabilise the financial systems in the advanced countries and the implementation of massive fiscal and monetary stimulus on a global scale have begun to contribute towards a gradual improvement in economic activity in most countries.

Conditions in the domestic economy have also shown signs of improvement in the second quarter, with the decline in the industrial production index and in retrenchments being at a much slower pace. As labour market conditions stabilises and the business and consumer sentiments turn positive, and as this is reinforced by the accelerated implementation of the fiscal stimulus packages, the continued access to financing and the lower rate of inflation will cumulatively improve conditions in the domestic economy in the second half of 2009 and into 2010.

Signs of optimism have also started to emerge in the bond market. The recent narrowing of spreads between benchmark issuances and triple A rated papers indicate that risk aversion has now eased. In the primary market, new corporate bond issuance has increased by about 40 percent to RM28.4 billion in the second quarter of this year. In the secondary market, the recent average daily trading volume has also increased by more than 50 percent.

Demand for higher-yielding securities are also beginning to rise ahead of the recovery in the global economy. In addition, in view of the prospects for an earlier recovery in Asia, global investors in the current uncertain international environment will increasingly be looking at Asian financial markets for investment opportunities. This trend is already being observed through the substantial inflow of funds dedicated for emerging markets since the middle of April this year with an estimated average inflows of USD 144 million per week compared to the net outflow recorded in the early part of the year. This positive trend enhances the opportunity for Malaysia to further expand its bond market.

Timely issuance of corporate handbook by AmBank

The corporate handbook being launched by AmBank today therefore comes at an important juncture in the development of the bond market. Encapsulating the profiles of 100 conventional and sukuk issuers in the Malaysian bond market, it is indeed a commendable

effort by AmBank to provide this comprehensive information to foreign and domestic investors to facilitate their investment decisions.

On this note, I wish to congratulate AmBank on the official launch of the Malaysian corporate bond handbook and to all those involved in its successful publication.