Prasarn Trairatvorakul: Regional cooperation for improved financial resilience and liquidity support – a decade on and the challenges ahead

Keynote speech by Dr Prasarn Trairatvorakul, Governor of the Bank of Thailand, at the 10th Anniversary Commemoration of the launch of the Asian Bond Market Initiative (ABMI), Asian Development Bank, Manila, 4 May.

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Ministers and Central Bank Governors;

Distinguished Guests; Ladies and Gentlemen,

It is an honour to be part of the 10th Anniversary Commemoration of the launch of the Asian Bond Market Initiative (ABMI). The ABMI along with the CMIM or the Chiang Mai Initiative Multilateralisation, have been at the centre of regional financial cooperation in the ASEAN+3 Finance Ministers process which have gathered momentum at this year's meeting.

Since its inception, the ABMI has been instrumental in spearheading bond market developments in our respective economies. The learning process from peer comparison and benchmarking, as well as the continued assistance from our+3 members, has been key drivers for us to develop our own domestic bond market. Over the years, the local currency bond market in Asia has expanded about five folds[1] between 2001 and 2011. This growth performance exceeded that of the credit market which grew 4 times[2] during this same period. Such is the success of regional cooperation which I would like to pay tribute to today.

Bond markets, like any development projects, have to start first at home as the base of development. Today, many of the ASEAN-5 countries have fairly deep and liquid local bond markets. ***Central banks, whose operation is contingent on a deep and liquid bond and foreign exchange markets, have been part of the development process for the government bond market. Over the years, our financial markets have become more efficient, more sophisticated and more balanced.*** ASEAN-5 have moved from a predominantly bank-based or credit market to a growing capital market, both equity and bond. We have also strived to better manage the impact from volatile capital flows as we seek to balance between foreign inflows and capital outflow. Here bond markets have been instrumental to help absorb the impact from the volatilities and sudden reversal of these flows. These developments have facilitated central banks in their conduct of monetary policy, manage market expectations, and guide the path of monetary policy.

Today, the ABMI is taking this development further from a domestic orientation to a regional level. This is timely in view of the increasing need for Asians to find new sources for growth and new markets for their exports, and in recognition of the need for "Asian savings to finance Asian investment". Initiatives such as the Credit Guarantee and Investment Facility (CGIF) is a case in point that aims to foster cross border fund mobilization using the tools of a regional credit guarantee vehicle. Other initiatives such as the harmonization of the regulatory framework in the region will also help foster an investment-friendly environment that encourage issuers to tap funds across the region using procedures, prospectus, and disclosure requirements they are familiar at home. Savers will also have a greater choice of diversification of their savings.

As finance people, we are always conscious that finance always follows trade and production. Today, our region trades more with one another and invest more in each other's market, which is confirmed by the ranking of Asian trading partners as top export destination

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[1] From 950 USD billion as of December 2001 to 5,700 USD billion at end 2011.

[2] From 2,800 USD billion at end 2001 to 14,000 USD billion at end 2011.

for most of our countries. ***It is therefore only natural that our financial markets become more integrated to enable our firms and enterprises to allocate resources where they most benefit themselves and the region.***

Notwithstanding these progress and ongoing works, there are challenges that come with a maturing and more integrated market. Some Asian bond markets experience, from time to time, market turbulence as foreign investors leave the market during the recent crisis period. These point to the limited ability of the market to manage large amount of foreign capital flows. Moreover, several challenges such as the advent of ASEAN Economic Community (AEC) in 2015, the implementation of the Basel III accord and the rocky recovery of the western hemisphere, remained ahead of us.

In this regard, I view that priority should continue to be on strengthening the role of domestic and regional institutional investors. This group of market participants are important players on both the issuer and investor side. Collective investment or asset management companies can be an important vehicle to channel cross border savings for cross border investment. We know all too well that very few non financial single name issuer can succeed in a foreign market if they are not well known household names. But institutional investors such as insurance, pension funds and asset management firms are likely to be able to better intermediate cross border savings and investment. These institutional investors would be able to provide a two way flow and with a better knowledge of regional conditions and a natural home bias, would also be a stabilizing factor during severe market stress. A stronger and broader regional institutional investor will also provide opportunities for diversification as well as alternative saving vehicle that would serve the changing demographic trends. Throughout Asia, we are seeing increasing demand for more sophisticated wealth management services.

As regulators we also need to continue to collectively enhance our infrastructure and further harmonize regulatory regimes to support greater cross border activities. Standardized market conventions help promote cross border issuance in our respective markets. But harmonization takes time as the devil is in the details. And harmonization may go beyond regulations on the trade or issuance of bonds. As cross border initiatives, they inevitably involve regulations over international capital flows which we need to also respect both host country and home country authorities. For instance, the home country may allow their savers to invest abroad, but the recipient countries still maintain controls on inflows. Other regulators may permit non residents to make use of tools such as repo, as liquidity enhancing mechanism, but others may look at this measure as way to engage currency speculation. These are all delicate balancing acts which we would need to tackle as we strive to integrate our financial markets further.

And while we pursue development and liberalization objectives we also need to strengthen our regional safety net. Today our regional cooperation has multilayer safety net consisting of Cross Border Collateral Arrangement (CBCA) for our banks to avail themselves of liquidity from the host central bank using collaterals at their home or head office, bilateral foreign exchange swap line, and the Chiang Mai Initiative Multilateralisation (CMIM) serves as second line of defense and should continue to be enhanced to counter possible market turbulence. As you have heard from the Minister of Strategy and Finance of Korea, Mr. Bahk Jaewan, the ASEAN+3 Finance Ministers and Central Bank Governors have made progress on important features of the CMIM. We have announced the doubling of the total size of the CMIM from $120 billion to $240 billion. We have also lengthened the supporting period and increased the IMF delinked portion, from 20% to 30% this year with a view to increasing it to 40% in 2014, subject to review should conditions warrant.

In serving as a regional safety net, such arrangements contribute to further development of the regional financial markets by providing a credible liquidity firewall, both for crisis resolution and crisis prevention, to anchor investors' confidence. It is only with enough confidence that we can attract the participation of foreign investors into our markets for the sustainable developments of our economies and region.

I look forward to an even greater success in the next 10 years.

Thank you for your kind attention.