
Bond Market Development Experience of Thailand

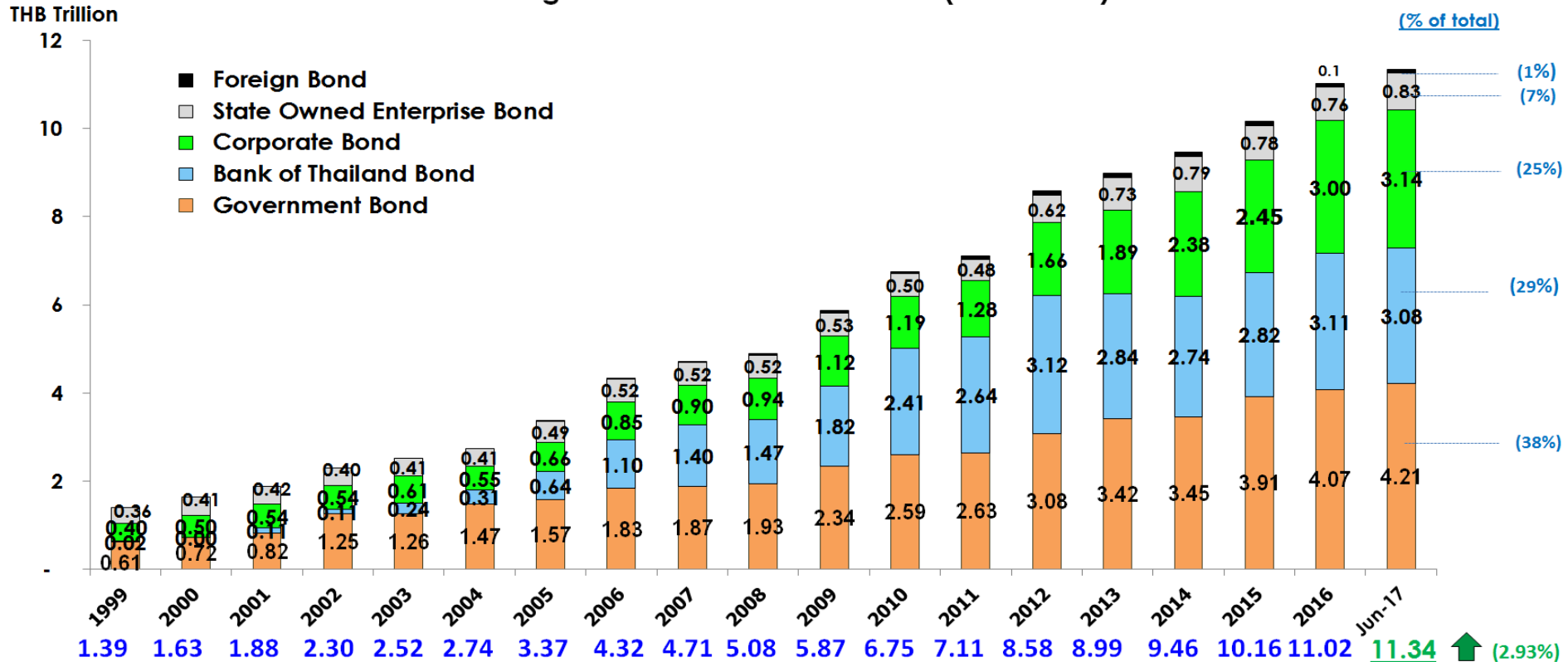
Mr.Tada Phutthitada

President

Thai Bond Market Association

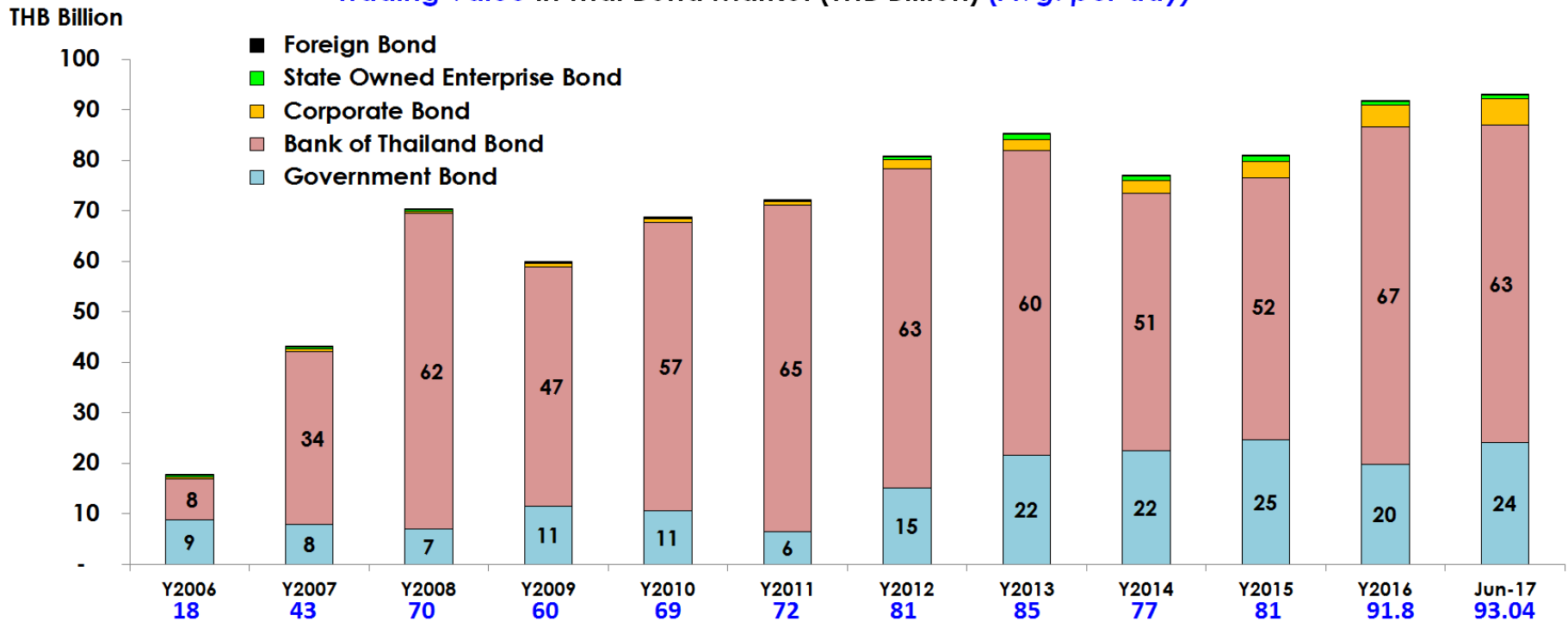
11 August 2017

Outstanding value of Thai Bond Market (THB Trillion)



At the end of H1 2017, the total outstanding of Thai Bond market climbed to THB 11.34 trillion or 3% increase from previous year.

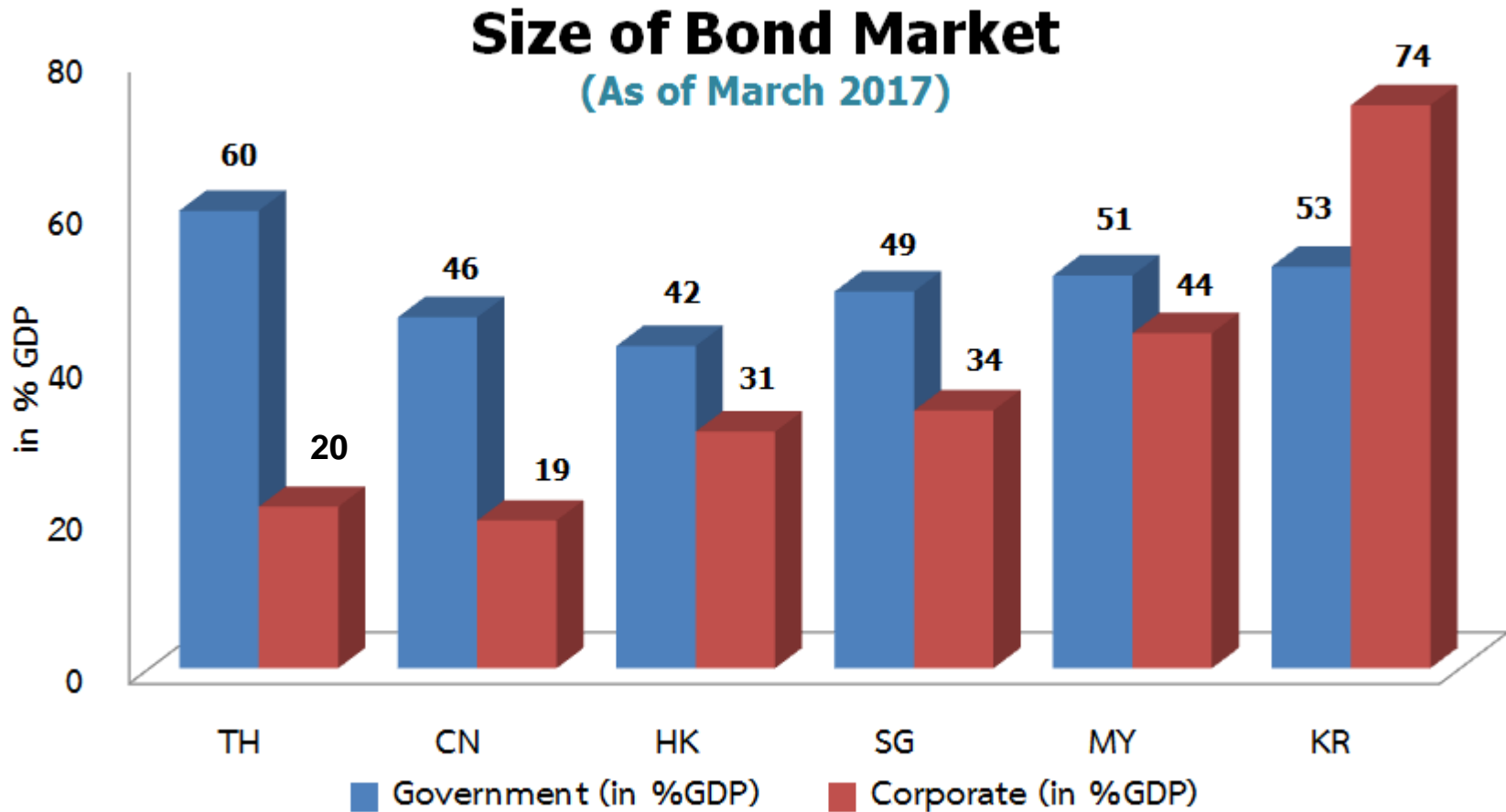
Trading value in Thai Bond Market (THB Billion) (Avg. per day)



At the end of H1 2017, the trading value averaged of THB 93 billion per day, increasing from THB 91.8 billion per day in the previous year.

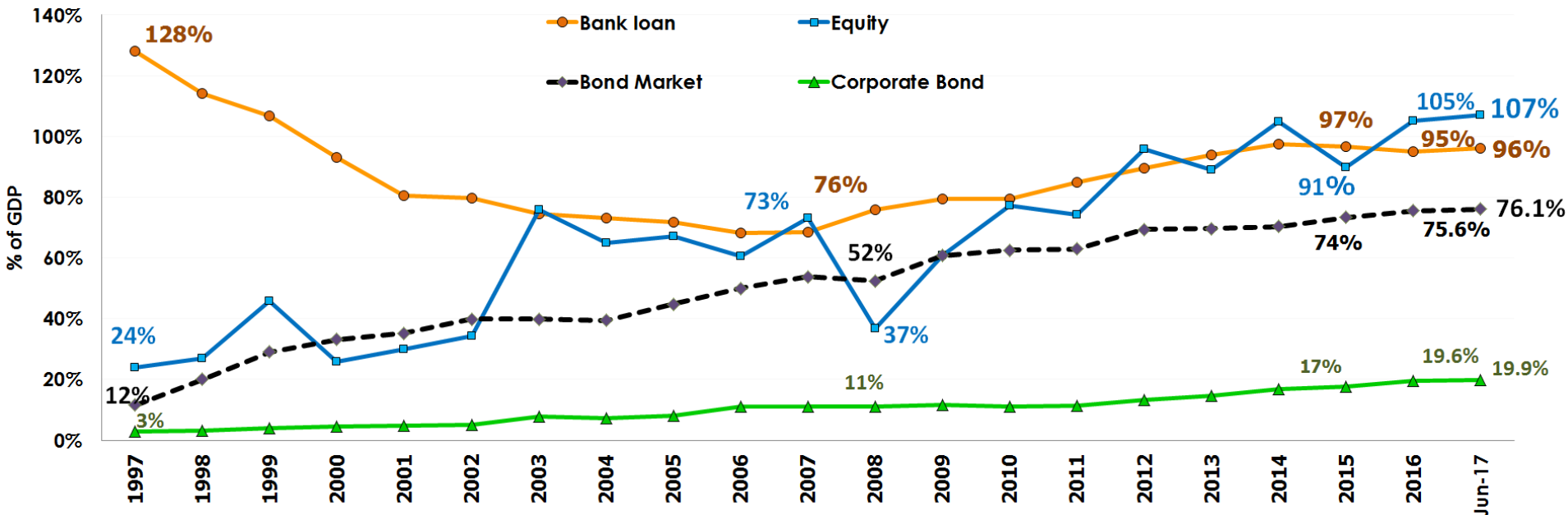
Particularly, increased in government bond by THB 4.3 billion per day, corporate bond by THB 0.89 billion per day state owned enterprise bond by THB 0.02 billion per day and foreign bond by THB 0.01 billion per day, respectively.

While declined in Bank of Thailand bond by THB 3.96 billion per day.

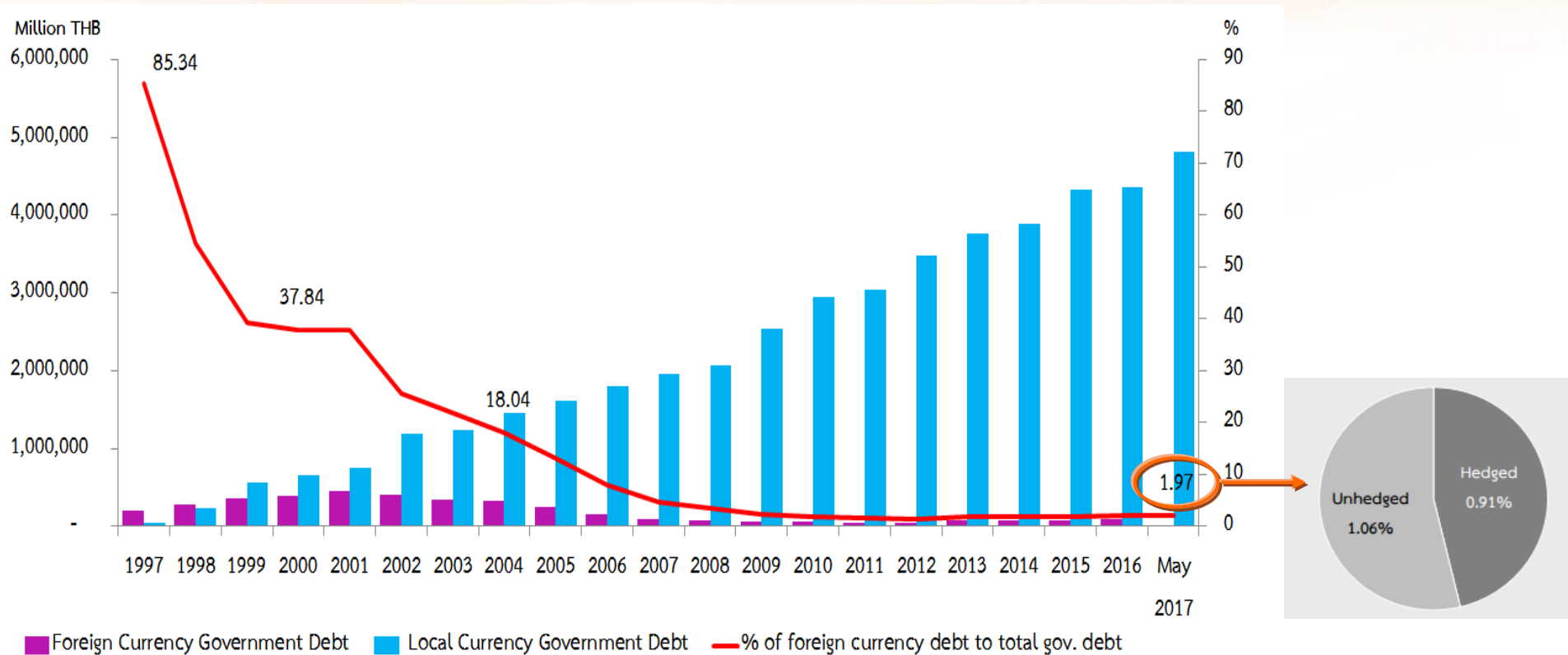


☐ In Q1 2017, the Thai corporate bond stood at only 20% of GDP which is smallest compared with 5 countries .

Outstanding of Thailand's Financial Market (% of GDP)



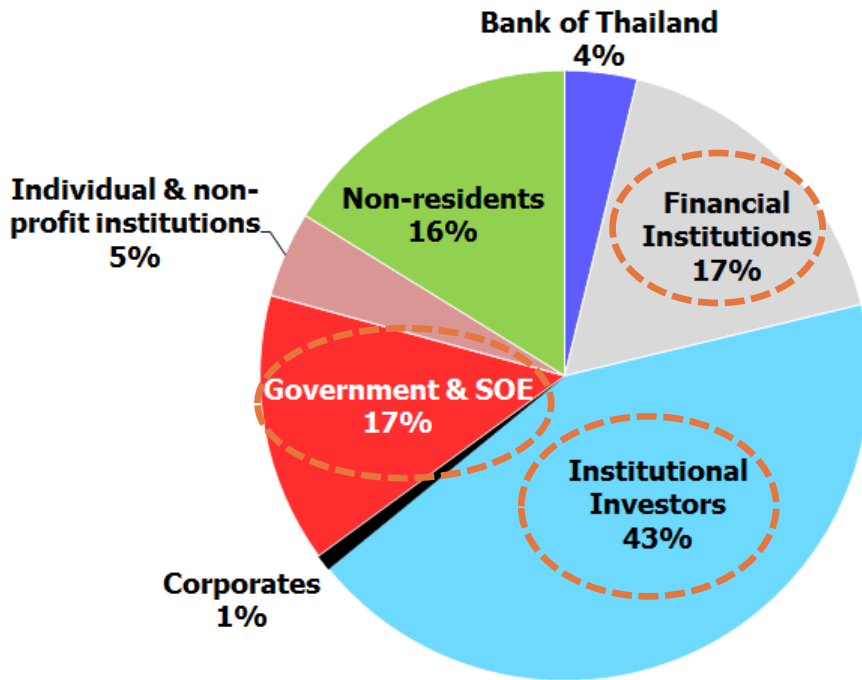
- ❑ After the 1997 financial crisis, Thai Bond Market has significantly grown from 12% of GDP to 76% of GDP in H1 2017.
- ❑ The growth of Thai Bond Market creates more balance among 3 main financial pillars (bank loan, equity and bond market).
- ❑ The size of Thai corporate bond has been continuously increasing, and unaffected by 2008 subprime crisis impacts.



- ❑ Evolution of the bond market has helped the government (1) to be less dependent on offshore funding and (2) to reduce foreign exchange risk.
- ❑ Proportion of Foreign currency debt / Total Gov. debt declined from 85.34% in 1997 to only 1.97% in May 2017.
- ❑ In May 2017, there is only 1.06% unhedged foreign currency debt, a relatively low foreign exchange risk.

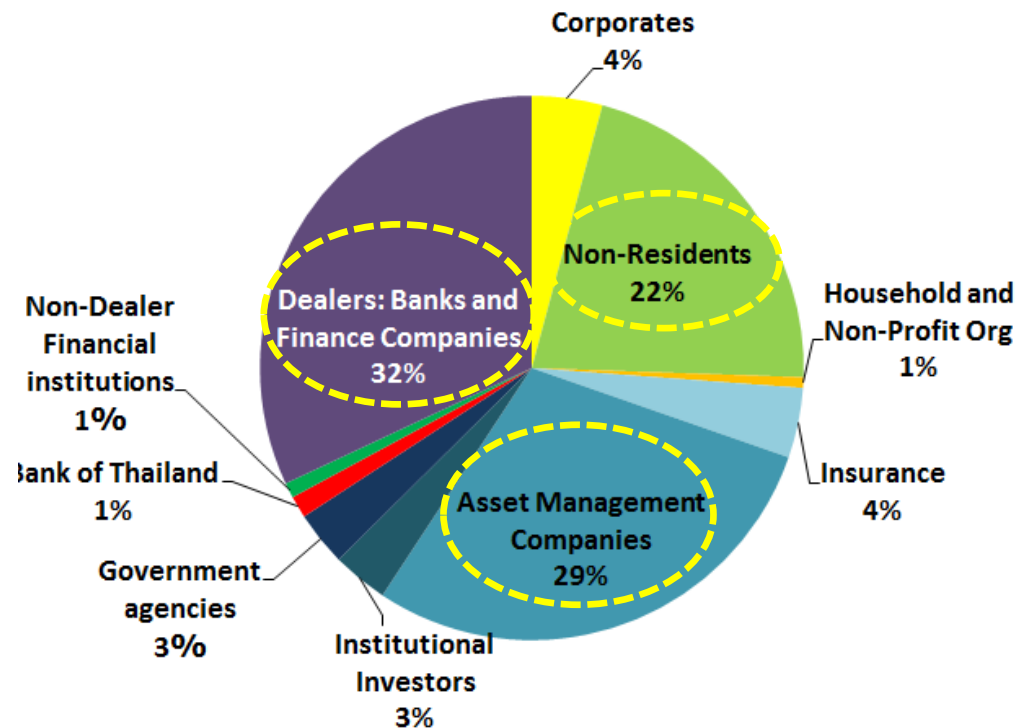
Government bond **Holders**

Total : THB 4,102,877 million
As of June 2017



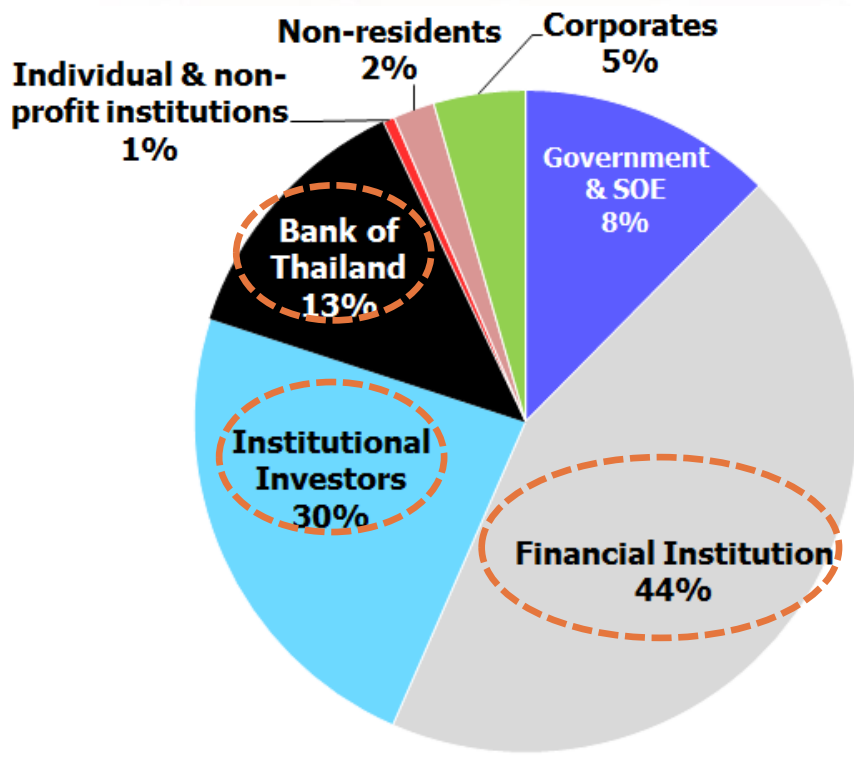
Government bond **Trading**

Total : THB 2,926,916 million
As of June 2017



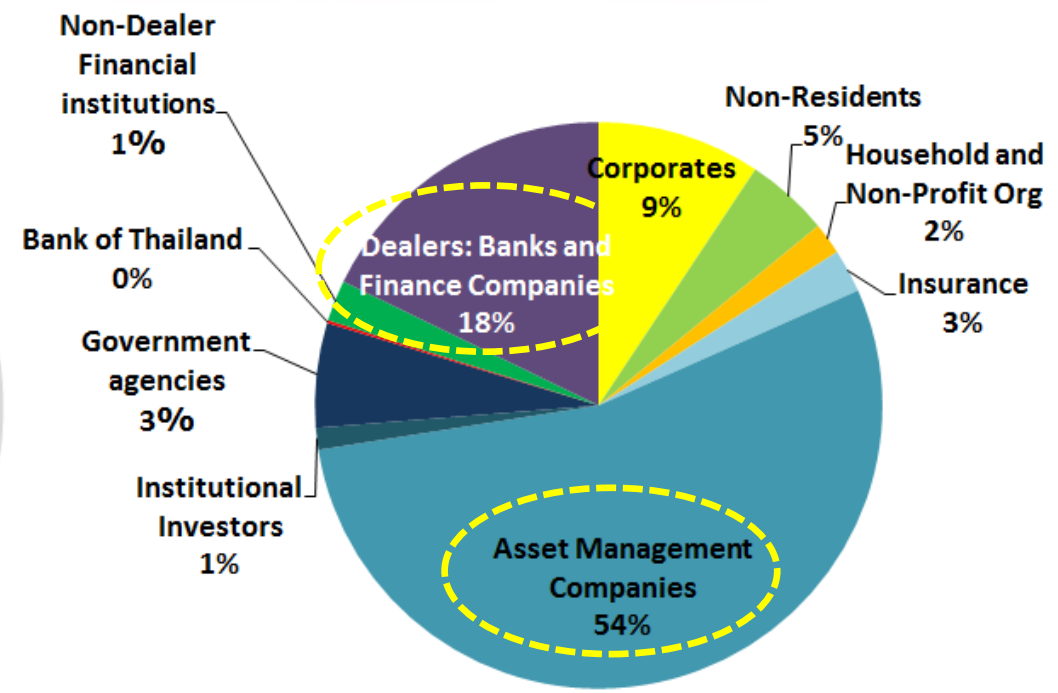
BOT bond Holders

Total : THB 3,080,298 million
As of June 2017

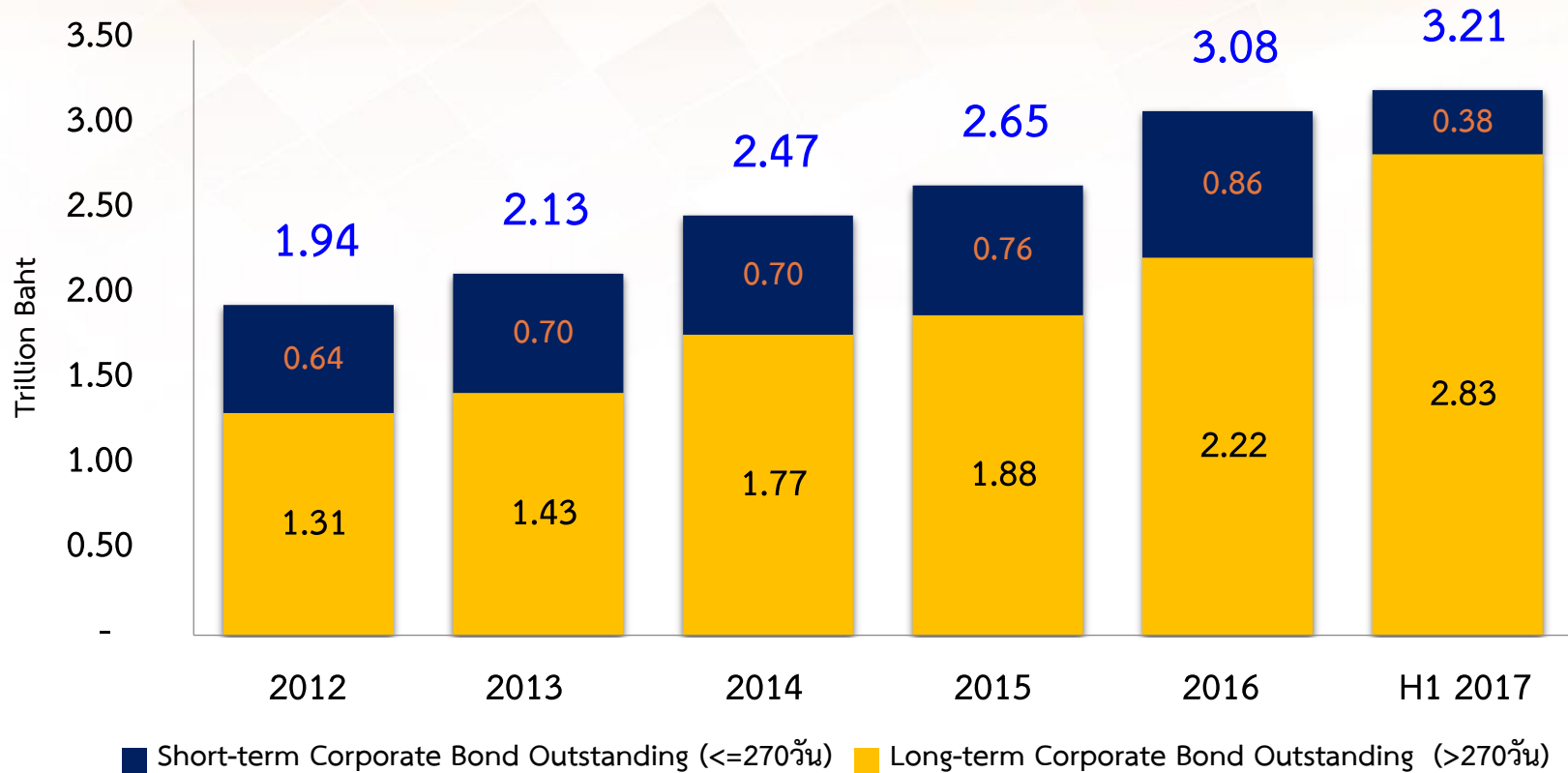


BOT bond Trading

Total : THB 7,648,344 million
As of June 2017

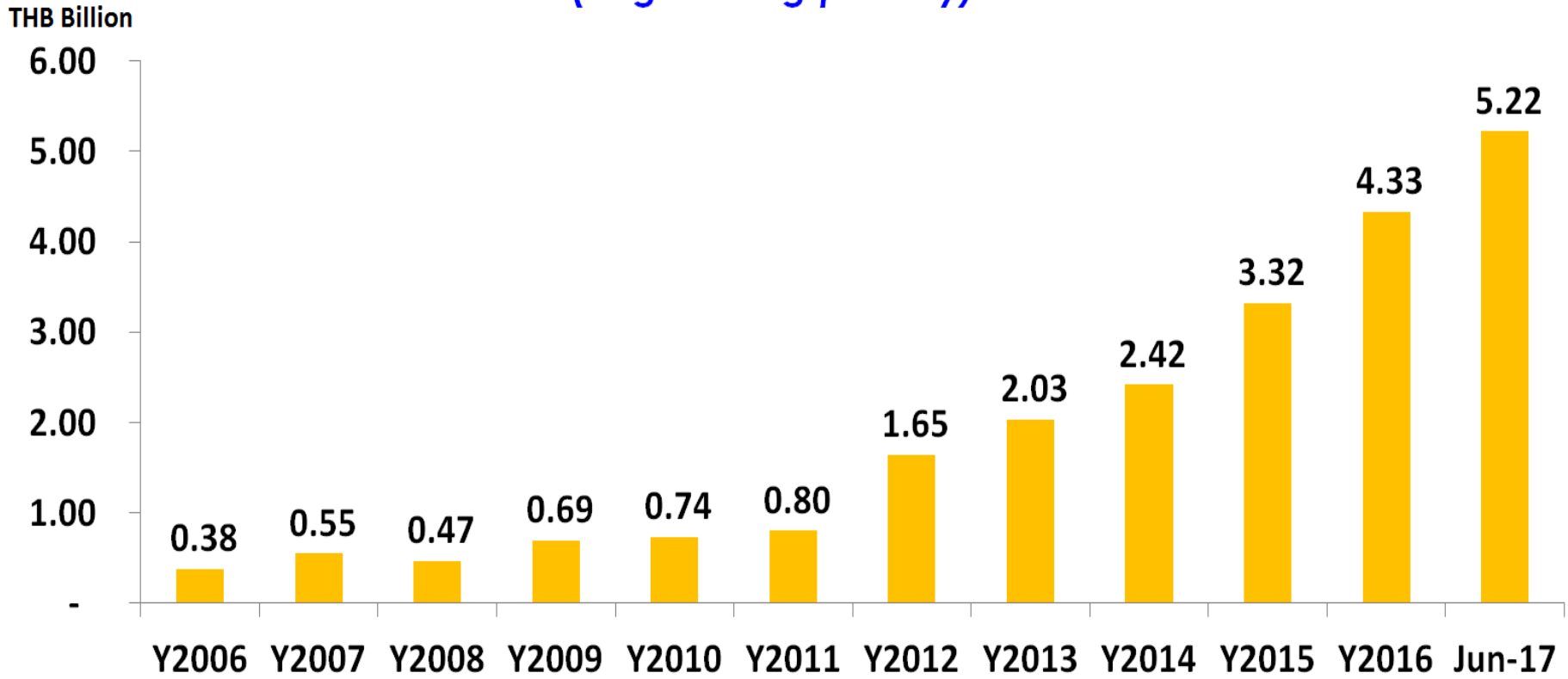


Corporate Bond Outstanding



At the end of H1 2017, the corporate bond outstanding was THB 3.21 trillion, increasing by 4.5% from the previous year.

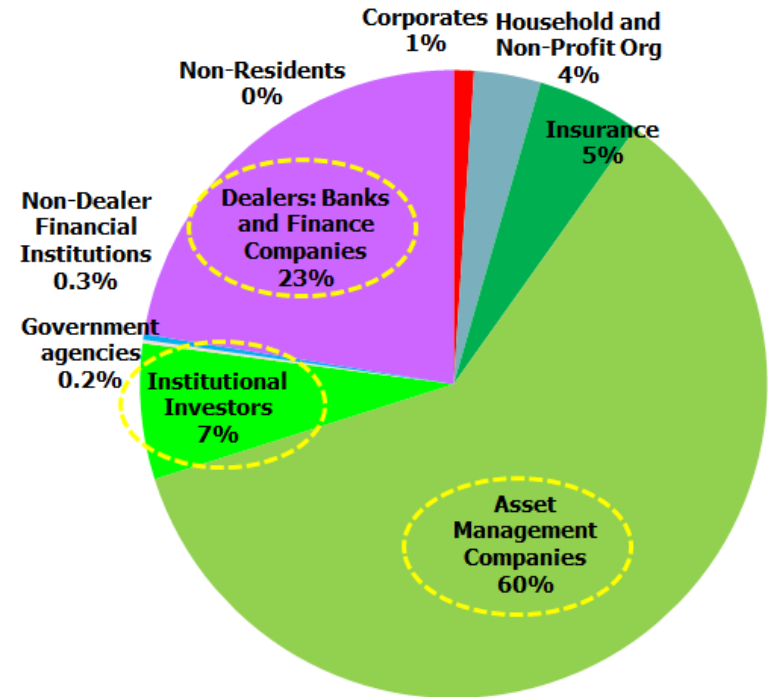
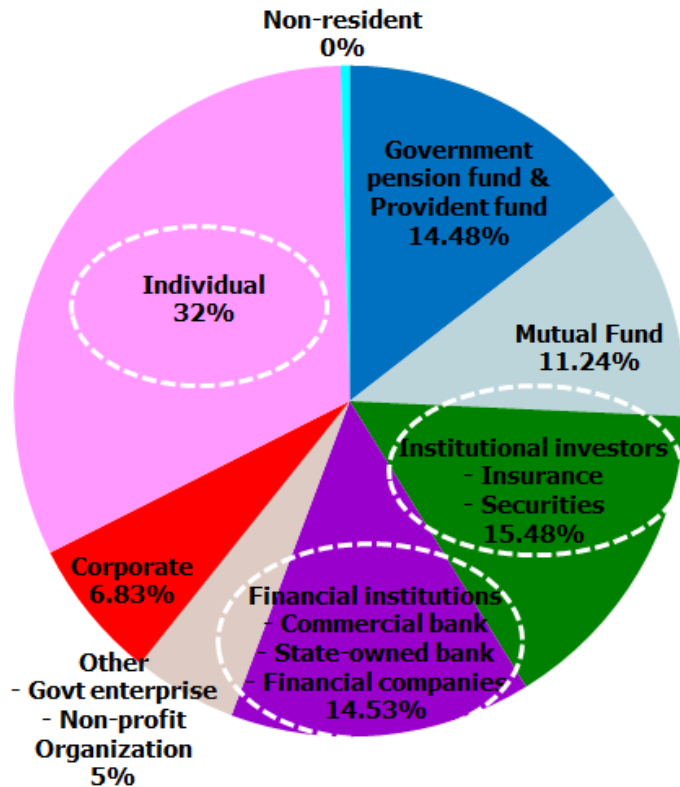
Trading value in Corporate Bond (THB Billion) (Avg. trading per day)



At the end of H1 2017, the corporate bond trading value averaged of THB 5.22 billion per day, rose about 20% from previous year.

Corporate bond Holding
Total : THB 2,318,125 million
As of March 2017

Corporate bond Trading
Total : THB 201,938 million
As of March 2017

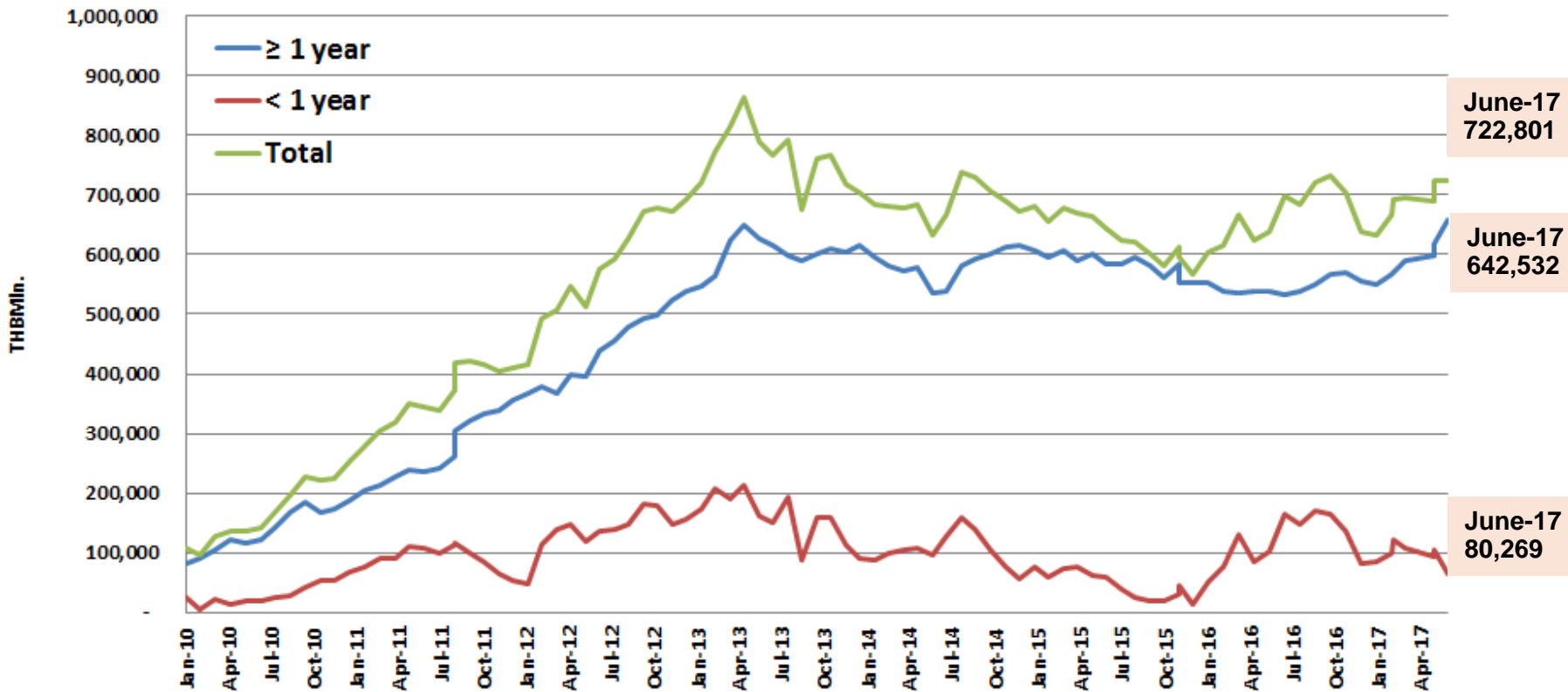


Unit: THB million

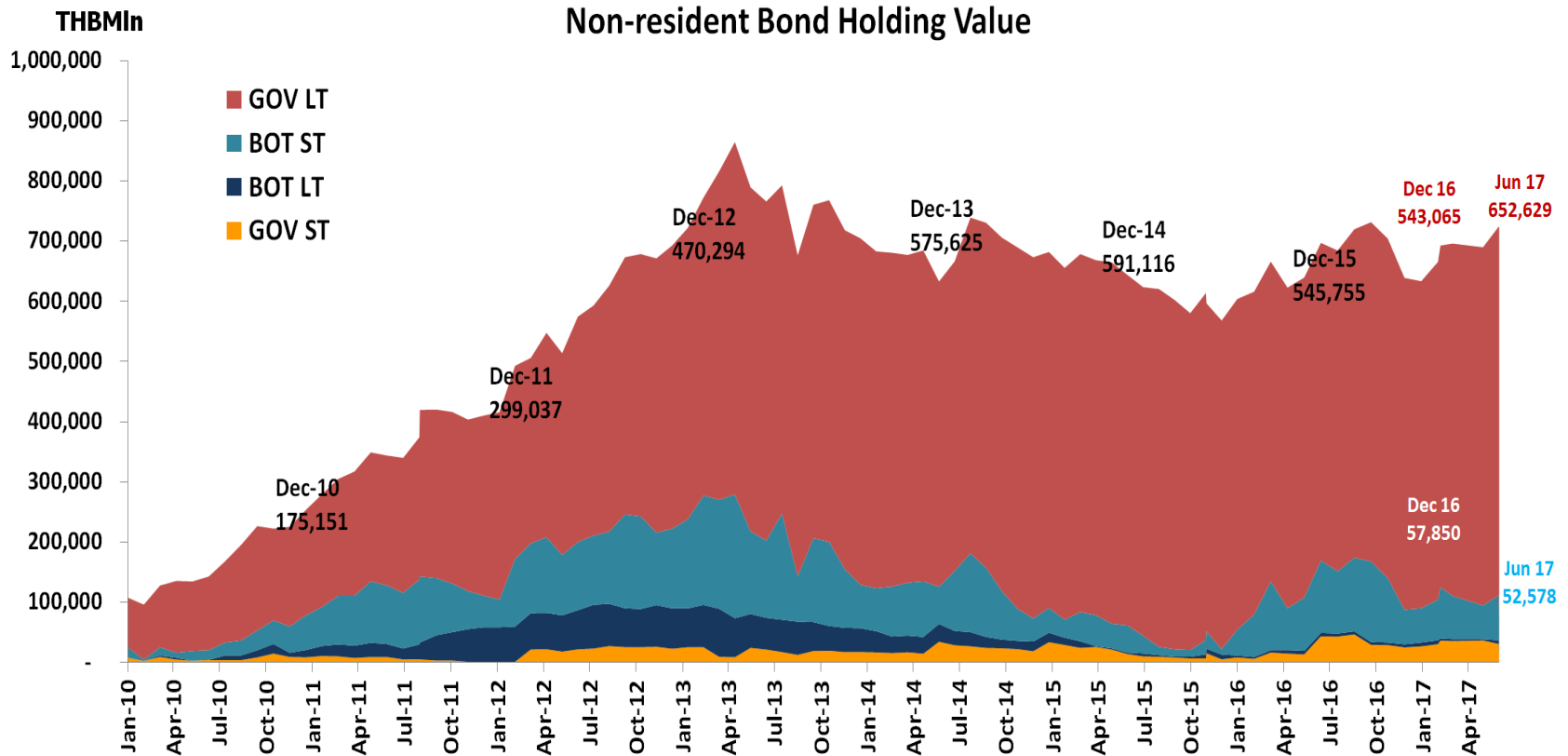
Period	Net Flow					Accumulation
	<=1Y Bond			>1Y Bond	All	
	Net Trading	Expired	Net Flow			
End of 2015	3,029	-81,977	-78,948	-31,182	-110,130	-110,130
Jan-16	37,845	-6,484	31,361	2,703	34,064	34,064
Feb-16	40,216	-15,598	24,618	-13,402	11,217	45,281
Mar-16	106,676	-52,637	54,038	-5,785	48,254	93,535
Quarter 1	184,737	-74,719	110,018	-16,483	93,535	93,535
Apr-16	-7,969	-38,890	-46,859	3,849	-43,010	50,524
May-16	26,535	-9,583	16,952	489	17,441	67,966
Jun-16	76,242	-57,053	19,189	37,111	56,300	124,266
Quarter 2	94,808	-105,525	-10,718	41,449	30,731	124,266
Jul-16	6,226	-24,008	-17,783	4,493	-13,290	110,976
Aug-16	44,995	-21,315	23,680	17,440	41,120	152,096
Sep-16	24,416	-20,467	3,949	11,345	15,294	167,390
Quarter 3	75,637	-65,790	9,847	33,278	43,125	167,390
Oct-16	-19,850	-20,848	-40,698	10,821	-29,877	137,514
Nov-16	-43,640	-10,940	-54,580	-15,426	-70,006	67,508
Dec-16	5,280	-3,624	1,656	-7,092	-5,436	62,071
Quarter 4	-58,210	-35,412	-93,621	-11,698	-105,319	62,071
End of 2016	296,972	-281,446	15,525	46,546	62,071	62,071
Jan-17	21,815	-6,926	14,890	18,204	33,094	33,094
Feb-17	40,006	-8,932	31,074	8,163	39,237	72,331
Mar-17	-17,413	-15,601	-33,014	26,549	-6,465	65,866
Quarter 1	44,408	-31,459	12,949	52,917	65,866	65,866
Apr-17	3,403	-18,910	-15,507	9,196	-6,311	59,555
May-17	15,489	-3,193	12,296	21,298	33,593	93,148
Jun-17	-24,682	-14,311	-38,993	41,733	2,740	95,888
Quarter 2	-5,790	-36,415	-42,204	72,226	30,022	95,888
YTD	38,618	-67,873	-29,255	125,143	95,888	

At the end of H1 2017, the net capital inflows of bond market totaled THB 95,888 million, including short-term net outflow of THB 29,255 mln. and long-term net inflow of THB 125,143 mln.

Non-resident Bond Holding Value

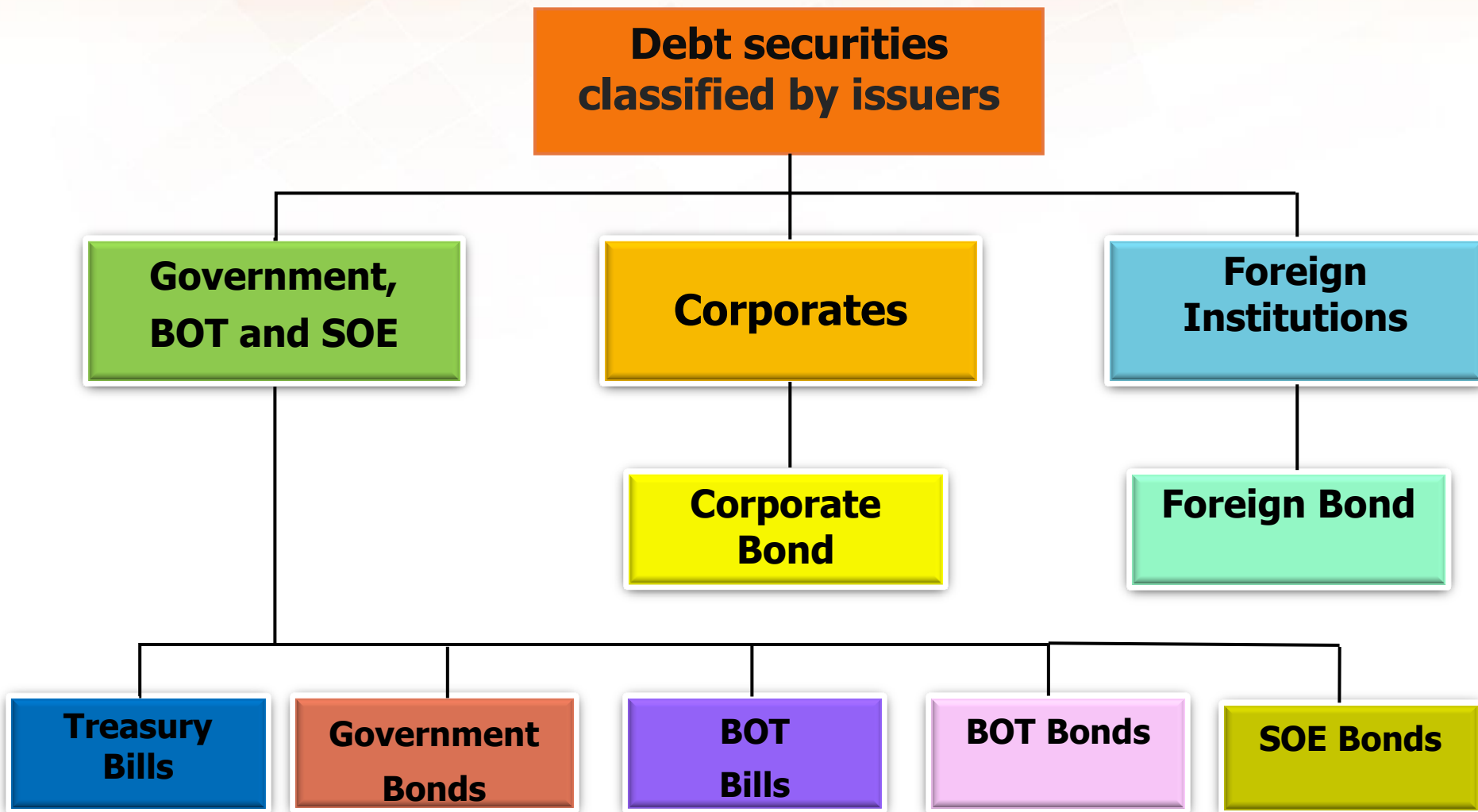


- ❑ As of June 2017, non-resident holding Thai bond of THB 722,801 mln.
- ❑ More than 90% of total holding was long-term bonds.



At the end of H1 2017, the non-resident holding value in long-term government bond totaled THB 652,629 million

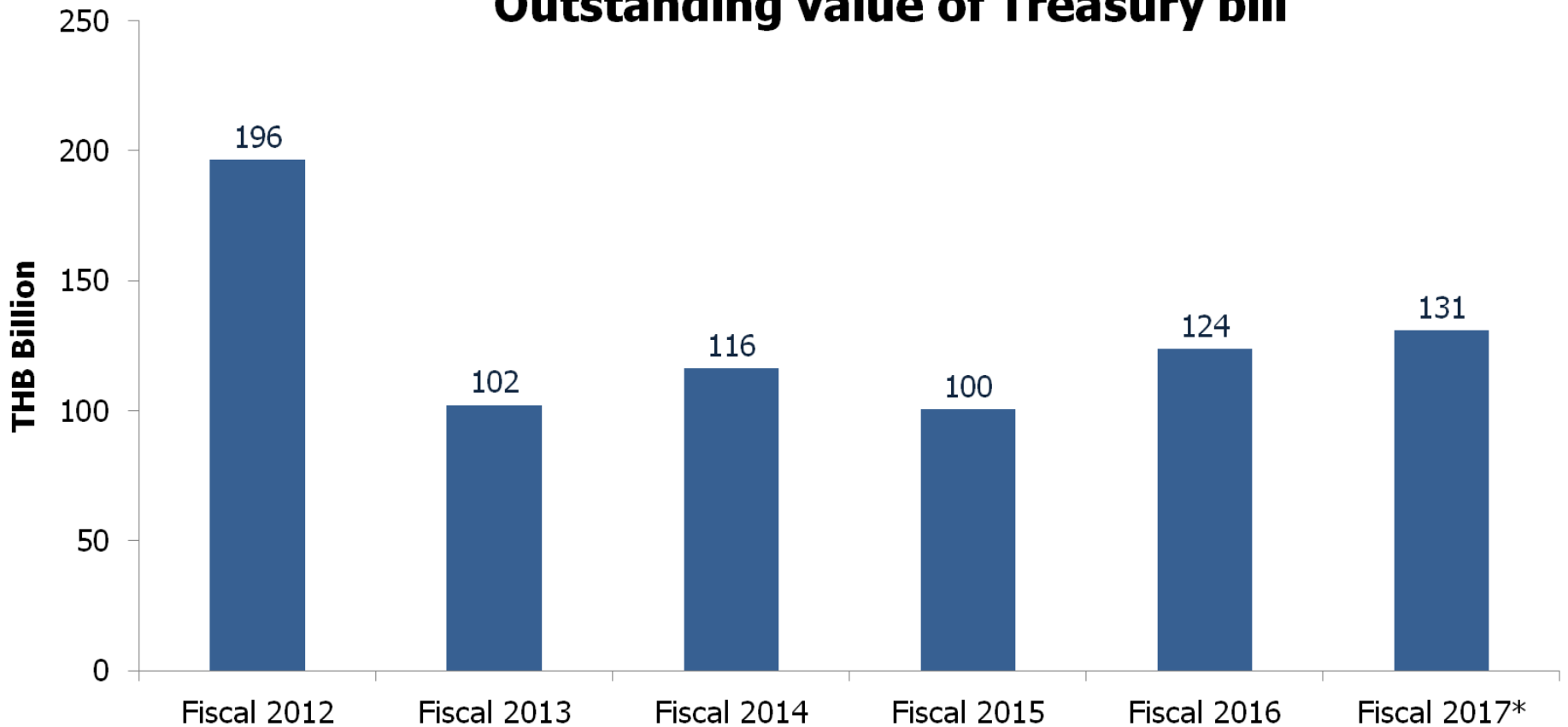
About 90% of total invested in long-term government bond and 8% in short-term bank of Thailand (BOT) bond



- Short term, tenor < 1 yr
- 4 tenors: 28, 91, 182, 364 days.
- Offered at discount

Treasury Bill

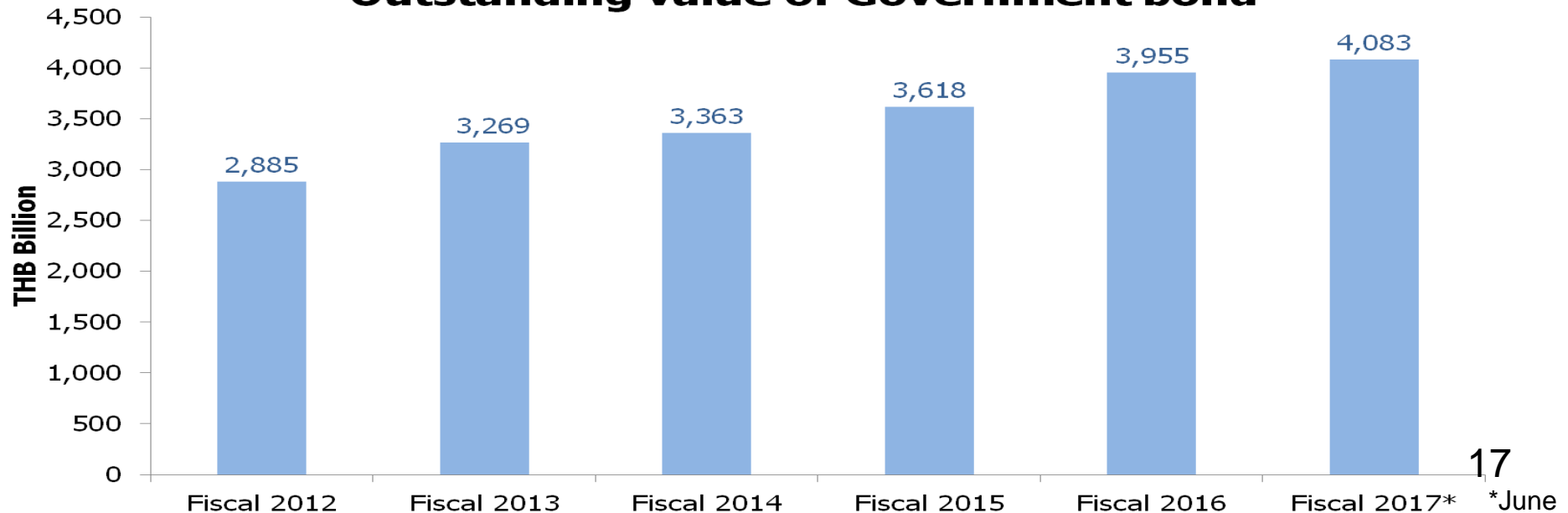
Outstanding value of Treasury bill



Government Bond: GB

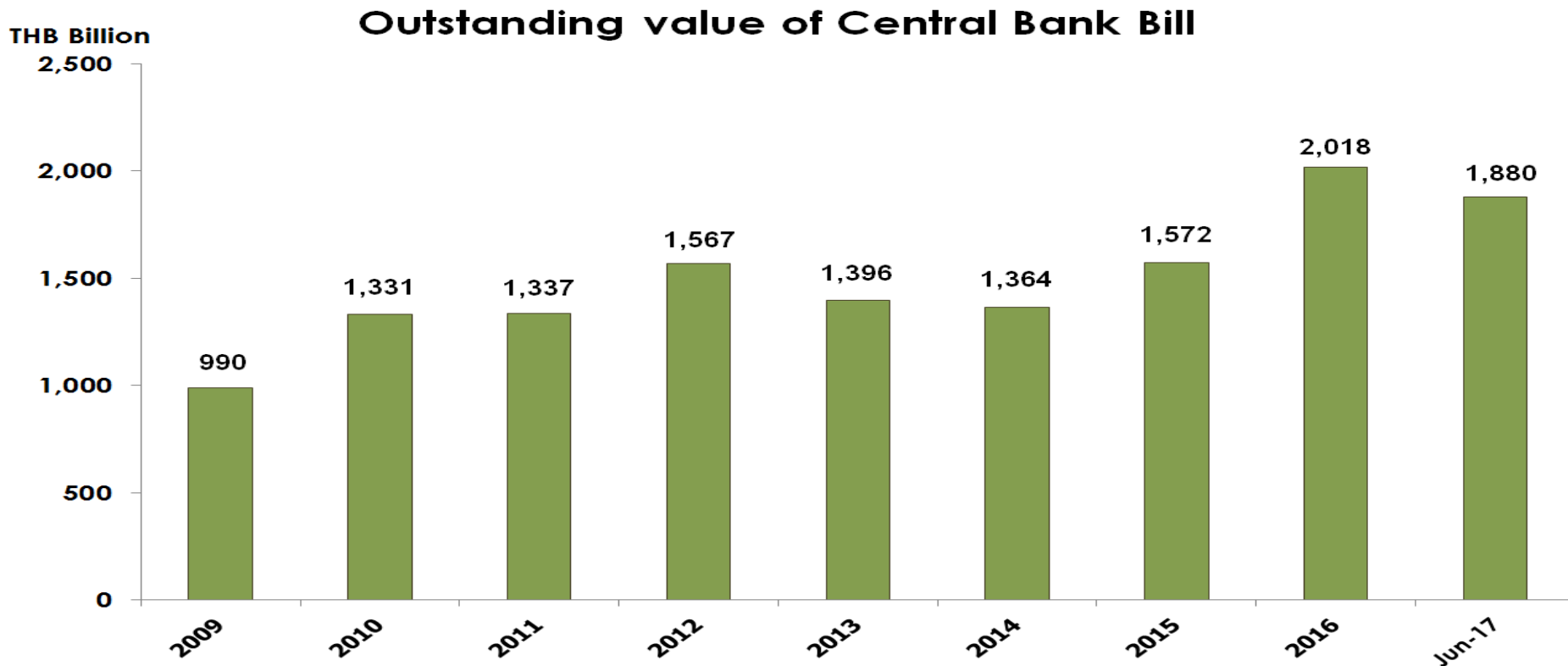
- Long term, tenor > 1 yr
- 4 types of bond
 - Government Fixed rate Bond: fixed-rate, Semi-annual payable, most common
 - Saving Bond: target retail investors to promote saving
 - Inflation-linked Bond: coupon rate varies by inflation rate
 - Floating Rate Bond: e.g. coupon rate equal to BIBOR (6 months) plus/minus spread

Outstanding value of Government bond



Central Bank Bill (< 1 year)

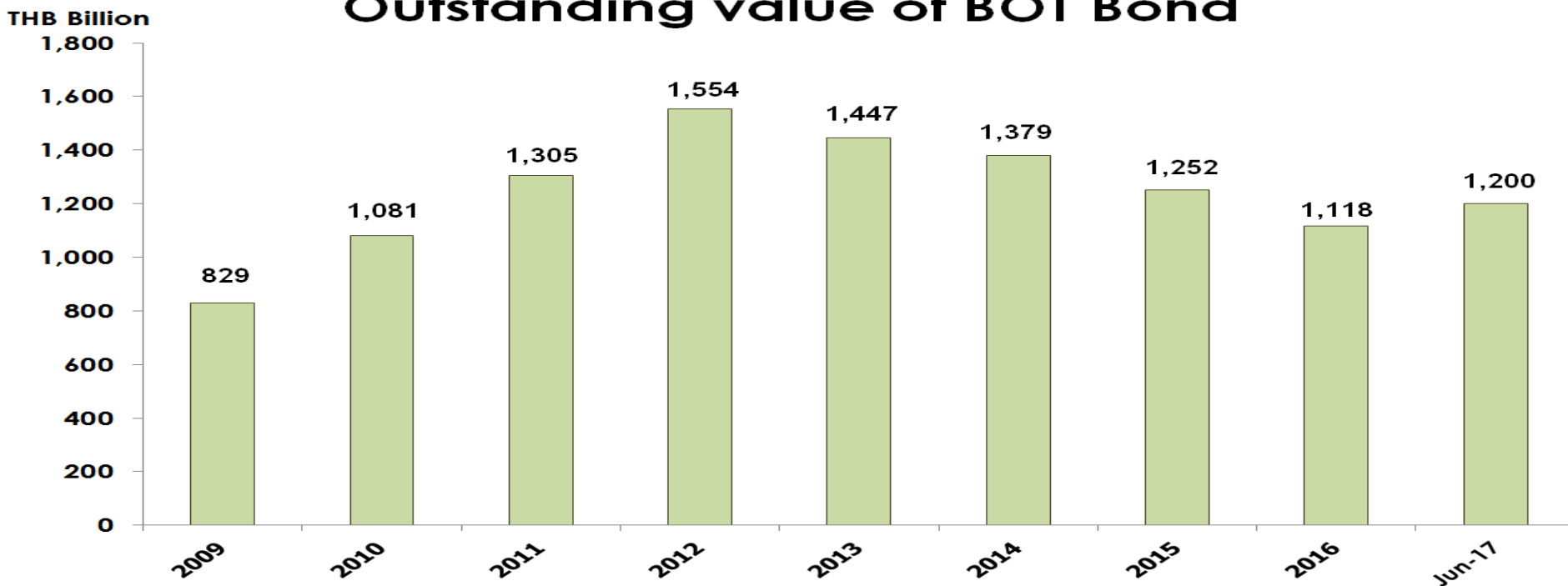
- Tenor: 14, 91, 182, 364 days
- Offered at discount from par value



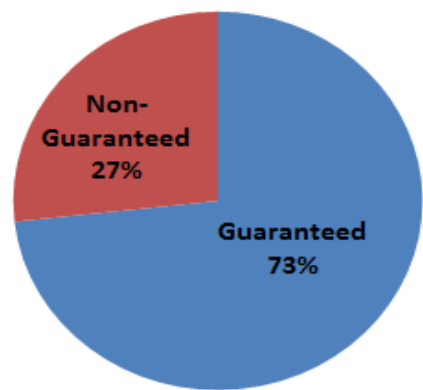
BOT Bond (>1 year)

- Fixed Rate (Semi-annually)
- Floating Rate e.g. Quarterly referred to BIBOR 3 months minus/plus spread

Outstanding value of BOT Bond

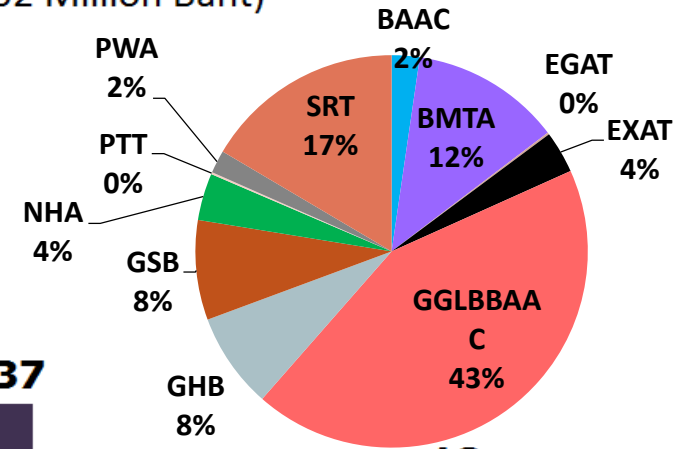
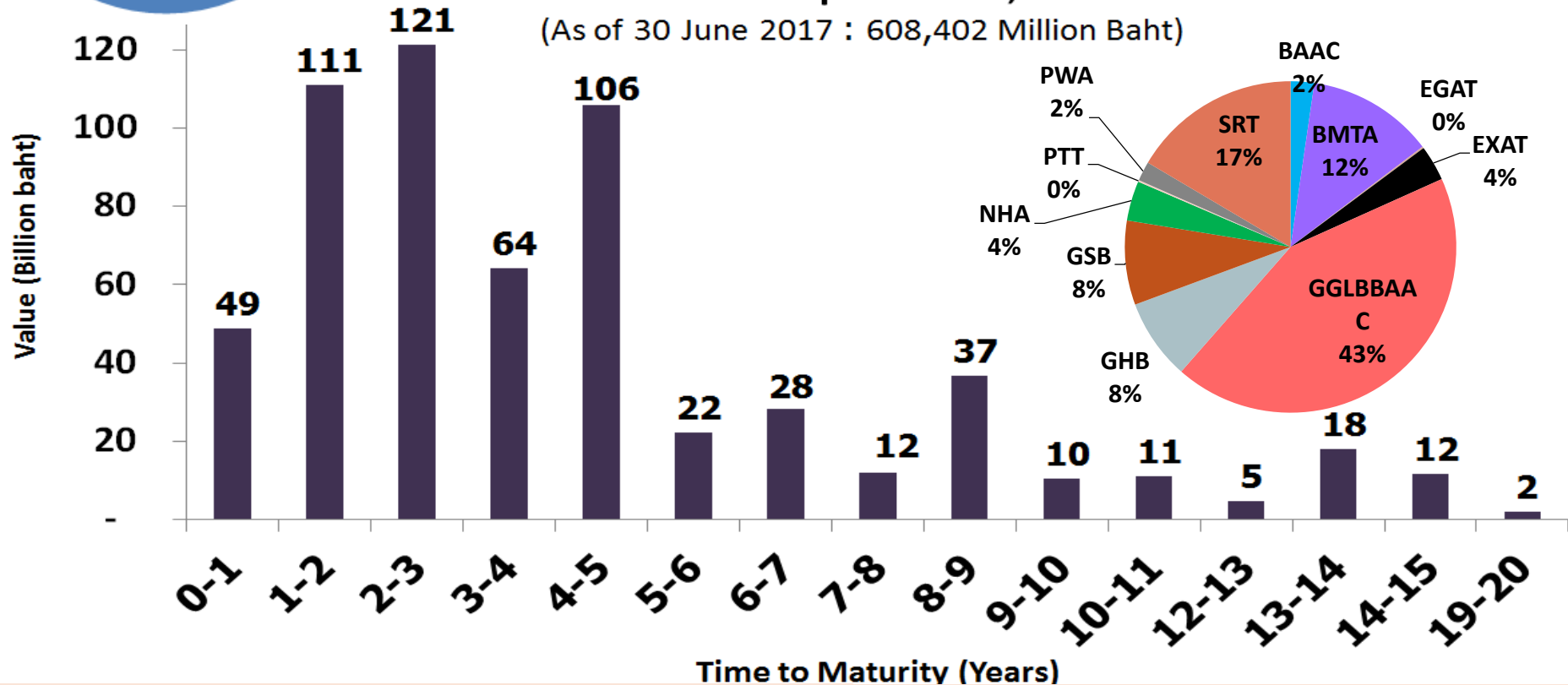


SOEs Bond with Guarantee



Outstanding value of State Owned Enterprise Bond, Guaranteed

(As of 30 June 2017 : 608,402 Million Baht)



BAAC (Bank for Agricultural and agricultural cooperative:

EGAT (Electricity Generating Authority of Thailand),

GHB (Government Housing Bank),

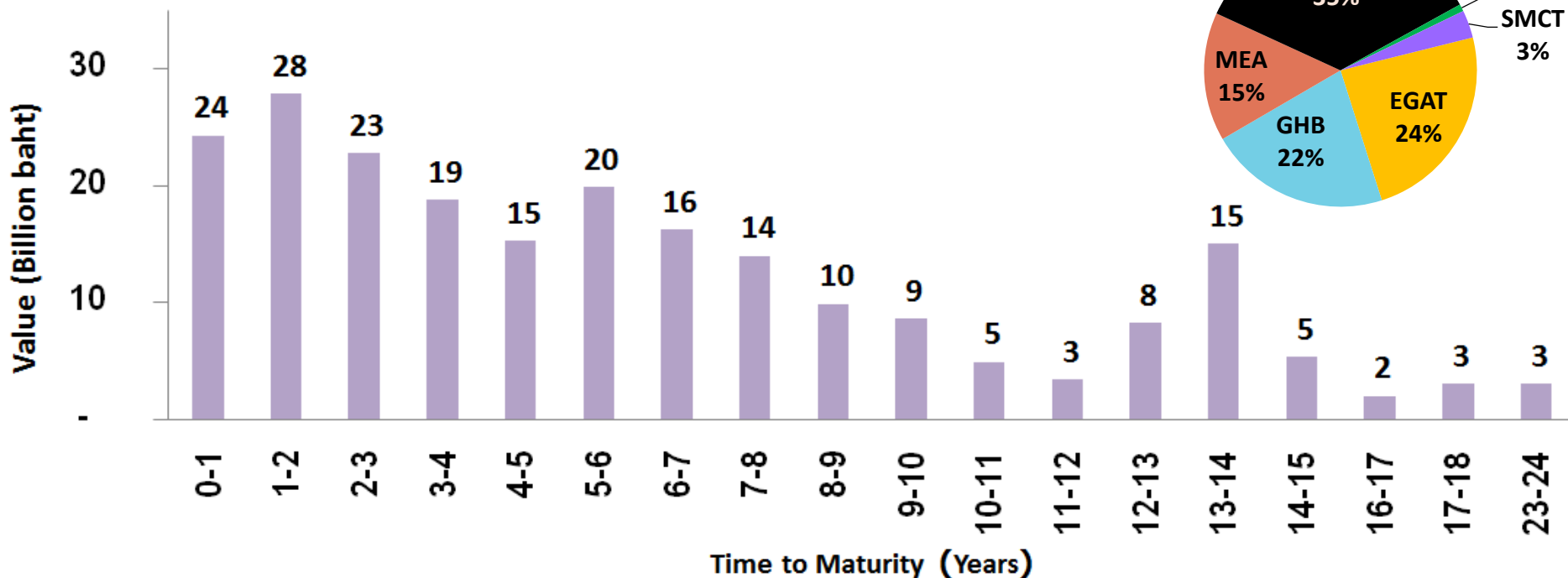
MEA (Metropolitan Electricity Authority),

PEA (Provincial Electricity Authority),

NHA (National Housing Authority),

PWA (Provincial Waterworks Authority),

**Outstanding value of
State Owned Enterprise Bond, Non-Guaranteed**
(As of 30 June 2017 : 222,221 Million Baht)

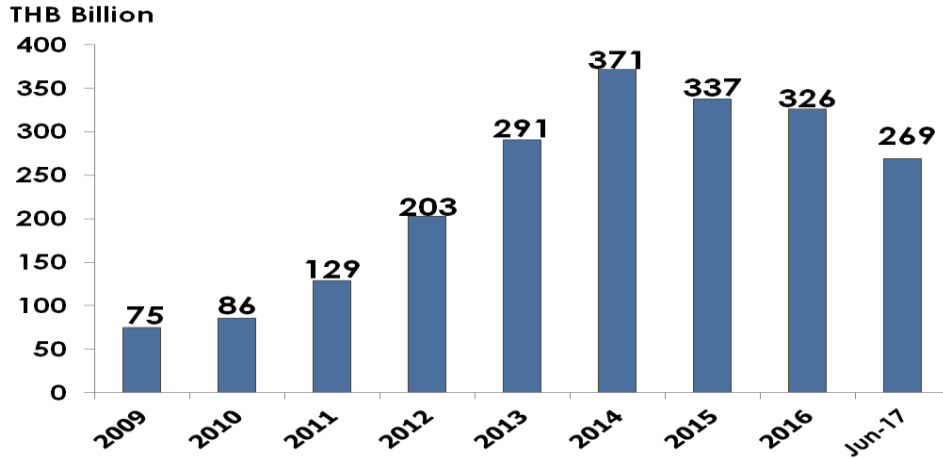


SMCT (Secondary Mortgage Corporation) ,
GHB (Government Housing Bank) ,
PWA (Provincial Waterworks Authority)

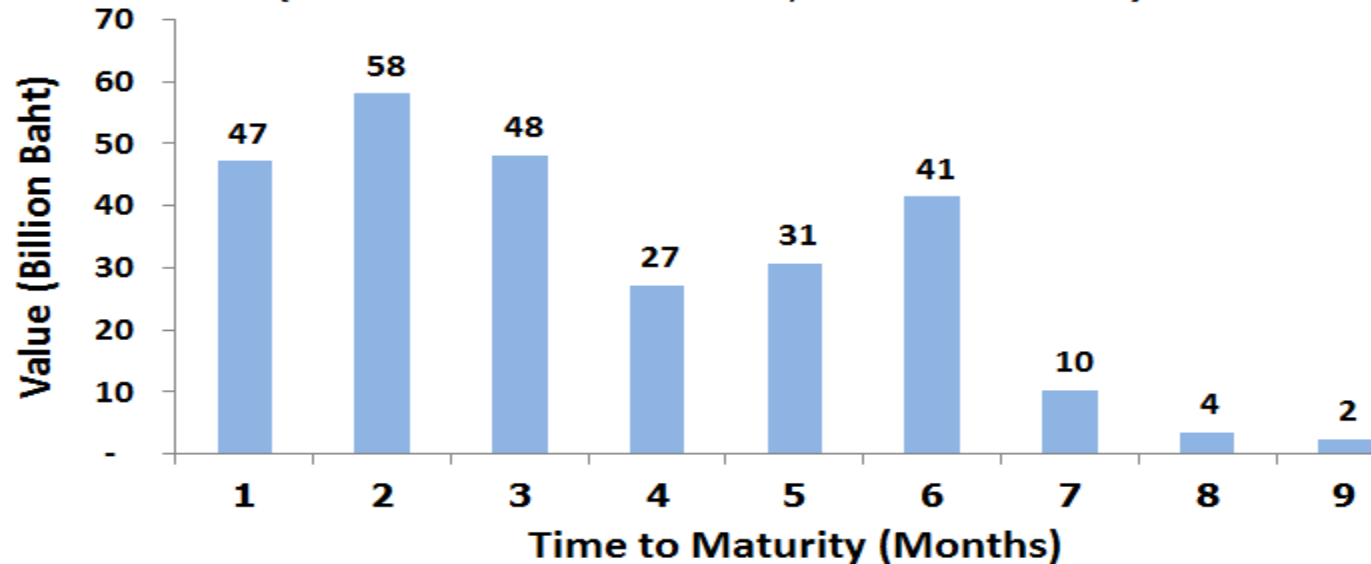
MEA (Metropolitan Electricity Authority) ,
EGAT (Electricity Generating Authority of Thailand),
PEA (Provincial Electricity Authority)

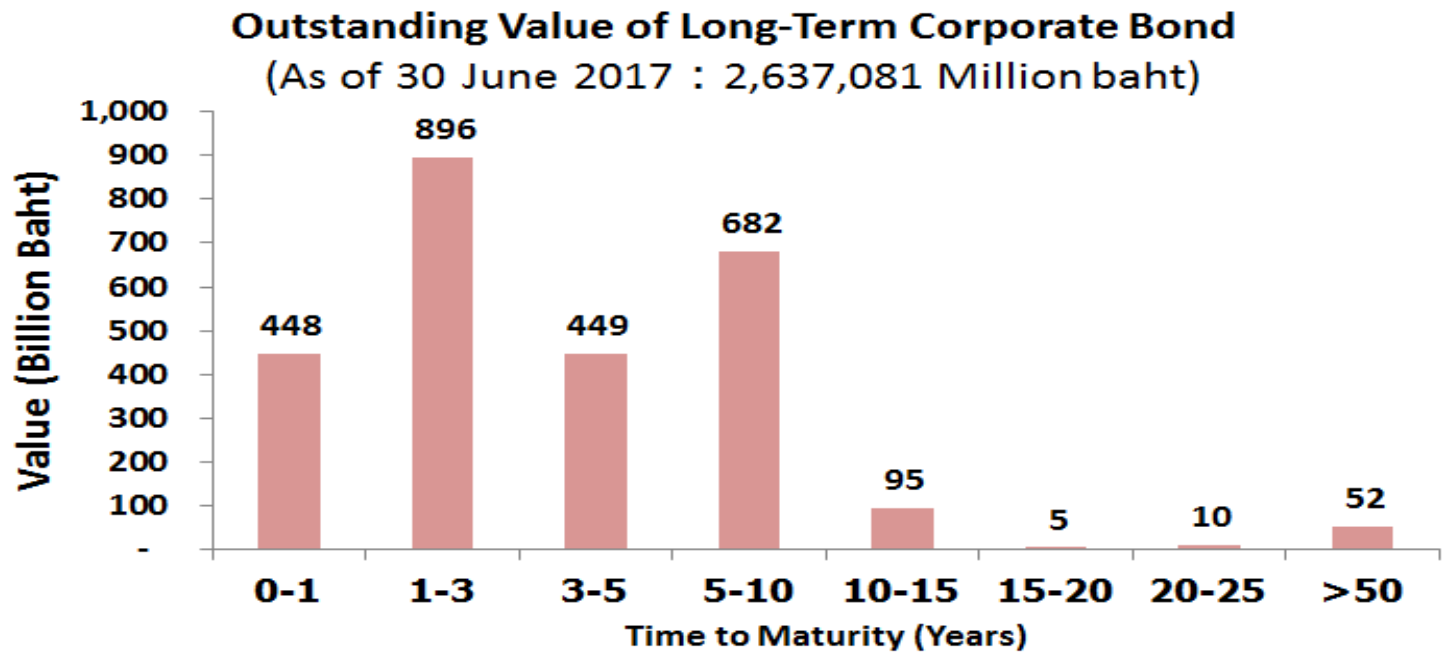
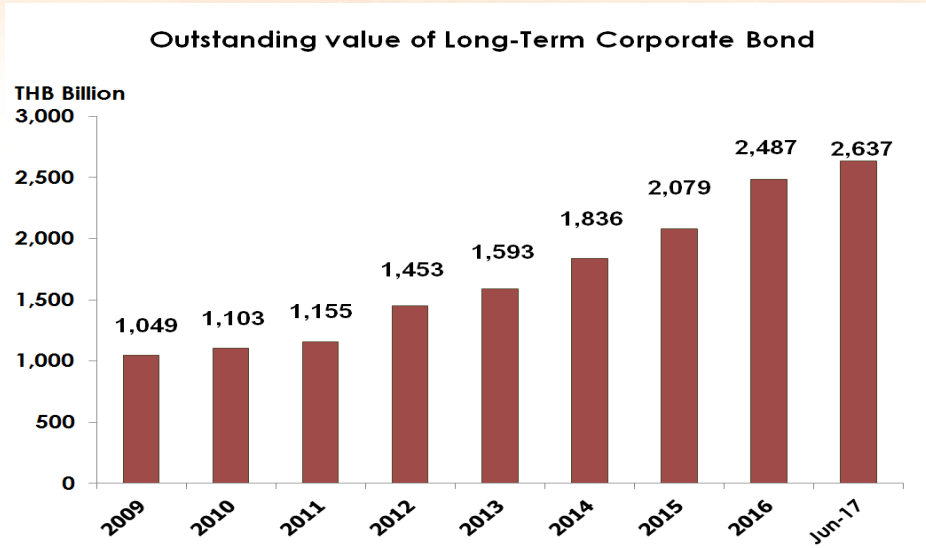
Short-Term	Long- Term
<ul style="list-style-type: none"> • TTM: no more than 270 days • Bill of exchange • Short-term debentures 	<ul style="list-style-type: none"> • TTM: more than 270 days • Fixed/Float rate based on deposit rate / loan rate /THBFIX/BIBOR • Amortizing Bond • Callable Bond • Puttable Bond • Subordinated /Unsubordinated debt • Basel III Bond • CoCo Bond • Perpetual Bond • Securitization Bond

Outstanding value of Short-Term Corporate Bond



Outstanding Value of Commercial Paper
(As of 30 June 2017 : 268,721 Million Baht)



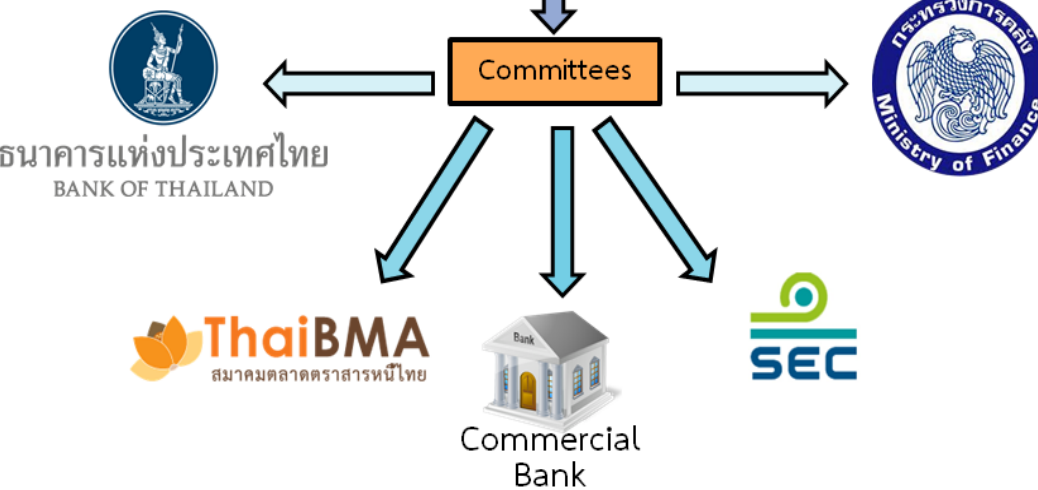


1998

Domestic Bond Market Development Committee

- 8 Task Force :
1. Primary market development
 2. Secondary market development
 3. Clearing and Settlement System
 4. Taxation on Debt Instrument Transaction
 5. Database and IT Development
 6. Market convention and Code of Conduct
 7. Debt Management Office
 8. Private repo Market Development

Deputy Permanent Secretary, MOF
Chairman



The establishment of
Public Debt Management Office : PDMO
(1 Oct 99)



1st Domestic Bond Market Development Plan (2001-2004)

✉ Objectives

- To stabilize the overall financial market and economy
- To provide alternative channel and instruments for public and private sectors in order to reduce risk and cost of fund mobilization and investment
- To create efficient channel for liquidity management

✉ Strategic goals

- To increase efficiency of government securities issuance
- To increase liquidity in secondary market
- To diversify debt instrument products
- To reduce investment risk
- To develop market information
- To diversify investor base for government funding and create efficient investment channel for investor

2001

1st Domestic Bond Market Development Plan (2001-2004)

Task forces	Achievements
Primary Market Development	<ul style="list-style-type: none"> • The Establishment of Public Debt Management Office (PDMO) • The Public Debt Management Act • Announced issuance calendar in advance <ul style="list-style-type: none"> - A quarterly auction schedule for government bonds - A monthly auction schedule for T-Bills • Developed auction system by introducing Competitive Multiple Price Auction in 1998, Non-competitive Bidding in 2003 • Established a window for retail investors by issuing the Saving Bonds from time to time • Established a government yield curve up to 20 years
Secondary Market Development	<ul style="list-style-type: none"> • Introduced Primary Dealers system in May 2002 by appointing 9 primary dealers to participate in primary auctions for government bond and to act as market maker • Developed private repo market

2001

1st Domestic Bond Market Development Plan (2001-2004)

Task forces	Achievements
Trading System Development and Risk Prevention	<ul style="list-style-type: none"> • Developed Electronic Trading Platform • Implemented Thailand Futures Exchange Plc.(TFEX)
Clearing and Settlement System	<ul style="list-style-type: none"> • Introduced RTGS/DVP system in December 2001 • Set up Central Clearing & Settlement Securities Depository
Investment facilitation and IT	<ul style="list-style-type: none"> • Solved related tax problems <ul style="list-style-type: none"> - <u>repo transactions</u> exempted from Special Business Tax (SBT) for capital gain, and exempted from stamp duty. - <u>outright transactions</u> bond holders only pay proportional income tax for interests throughout the holding period. • Improved database by providing basic bond info, trading volume and pricing calculation on website.

2004

2nd Domestic Bond Market Development Plan (2005-2014)

GOALS

- To promote bond market to gain the market capitalization close to GDP
- To increase the share of foreign issuers and investors to be not less than 5% of total outstanding value

2004

2nd Domestic Bond Market Development Plan (2005-2014)

2005

Domestic Bond Market Development Steering Committee

5 subcommittees

**Minister of Finance
Chairman**

**PDMO DG
Secretariat**

**Deputy Minister of Finance
Deputy Chairman**

Committees

- Public Sector**
- MOF Permanent Secretary
 - BOT Governor
 - FPO DG
 - RD DG
 - SEC Secretary-General

- Indep. Professionals**
- 5 Persons in diversified area of expertise

- Private Sector**
- SET President
 - ThaiBMA President

Primary Market Development (PDMO, MOF)

Secondary Market Development (BOT)

Market Infra-structure Development

Taxation

IT and HR Development

2nd Domestic Bond Market Development Plan (2005-2014)

Subcommittees	Goals	Achievements
Primary Market Development	<ul style="list-style-type: none"> • Issued benchmark bonds regularly to create a reliable yield curves • Improvement of government bond auction system <ul style="list-style-type: none"> - increase auction size - reduce auction frequency • Amended Public Debt Management Act <ul style="list-style-type: none"> - allowing MOF to borrow before the maturity to refinance the existing debt. - authorizing MOF to borrow in Baht for on lending to SOEs and other government units - authorizing MOF to issue the bond for bond market development purpose even though the government runs budget balance. 	<ul style="list-style-type: none"> √ √ √ √ ≈ √

2nd Domestic Bond Market Development Plan (2005-2014)

Subcommittees	Goals	Achievements
Primary Market Development (Cont.)	<ul style="list-style-type: none"> • Expanded issuer base by allowing Foreign Entities to issue Baht-denominated bonds in Thailand <ul style="list-style-type: none"> - eligible applicants : International Financial Institutional, Foreign Governments (FGs), Financial Institutional of FGs and Juridical persona established under foreign laws - set up Baht Bonds Committee to consider applications - set up quota, guideline and criteria • Issued saving bonds regularly <ul style="list-style-type: none"> - fixed rate - step-up • Improved PDs system <ul style="list-style-type: none"> - exclusive rights and privileges - meeting on regular basis : one-on-one and one-on-group 	<p>√</p> <p>√</p> <p>√</p> <p>√</p> <p>√</p>

2nd Domestic Bond Market Development Plan (2005-2014)

Subcommittees	Goals	Achievements
Secondary Market Development	<ul style="list-style-type: none"> • Promoted private repo market <ul style="list-style-type: none"> - encourage market participants agreeing on GMRA - educate market participants on private repo • Integrated Central Clearing & Settlement and Central Securities Depository <ul style="list-style-type: none"> - transferred the clearing and settlement system for government sector's debt instruments from BOT to the TSD • Set up Collateral Management Unit <ul style="list-style-type: none"> - mark-to-market collateral - designing the selection criteria and allocation of collateral debt instruments. • Set up Bond Lending Unit <ul style="list-style-type: none"> - act as an intermediary for borrower and lender matching. - manage the settlement risk, and report the status of investors. • Developed OTC Interest Rate Derivative market <ul style="list-style-type: none"> - modernize rules and regulations - improve the derivatives manual 	<p>≈</p> <p>≈</p> <p>≈</p> <p>≈</p> <p>≈</p>

2nd Domestic Bond Market Development Plan (2005-2014)

Subcommittees	Goals	Achievements
Market Infra-structure Development	<ul style="list-style-type: none"> • Developed bond futures market • Revision of related regulations and laws <ul style="list-style-type: none"> - 3 years shelf filing - foreign issuers can submit filing in English - allow high net worth to invest in high risk high return products • Centralized the electronic trading platform at SET • Securitization promotion 	✓ ✓ -MTN ≈ ≈
Taxation	<ul style="list-style-type: none"> • Removed tax obstacle <ul style="list-style-type: none"> - waived withholding tax for non-resident investors - reduced Special Business Tax (SBT) for financial transaction from 3.3% to 0.01% - waived income tax for capital gain and SBT tax for bond futures - waived SPV income tax for securitization transactions 	≈ ✓ ≈ ✓
IT and HR Development	<ul style="list-style-type: none"> • Established ThaiBMA as <ul style="list-style-type: none"> - Self Regulatory Organization and data information center - Bond Pricing agency provided market information and understanding to foreign participants. • Provided knowledge about bond market to interested public • Develop traders, market analysts & product designers 	✓ ✓ ✓

Capital Market Master Plan 2002

Goal : To develop and diversify Thailand's sources of funds.

Initiatives : promoting good governance, enlarging the investor base, increasing the quantity and variety of financial instruments, enhancing infra-structure, and reforming the supervisory system.

Capital Market Master Plan II 2006-2010

Goal : To develop and strengthen the Thai capital market to be ready for changes in the global markets.

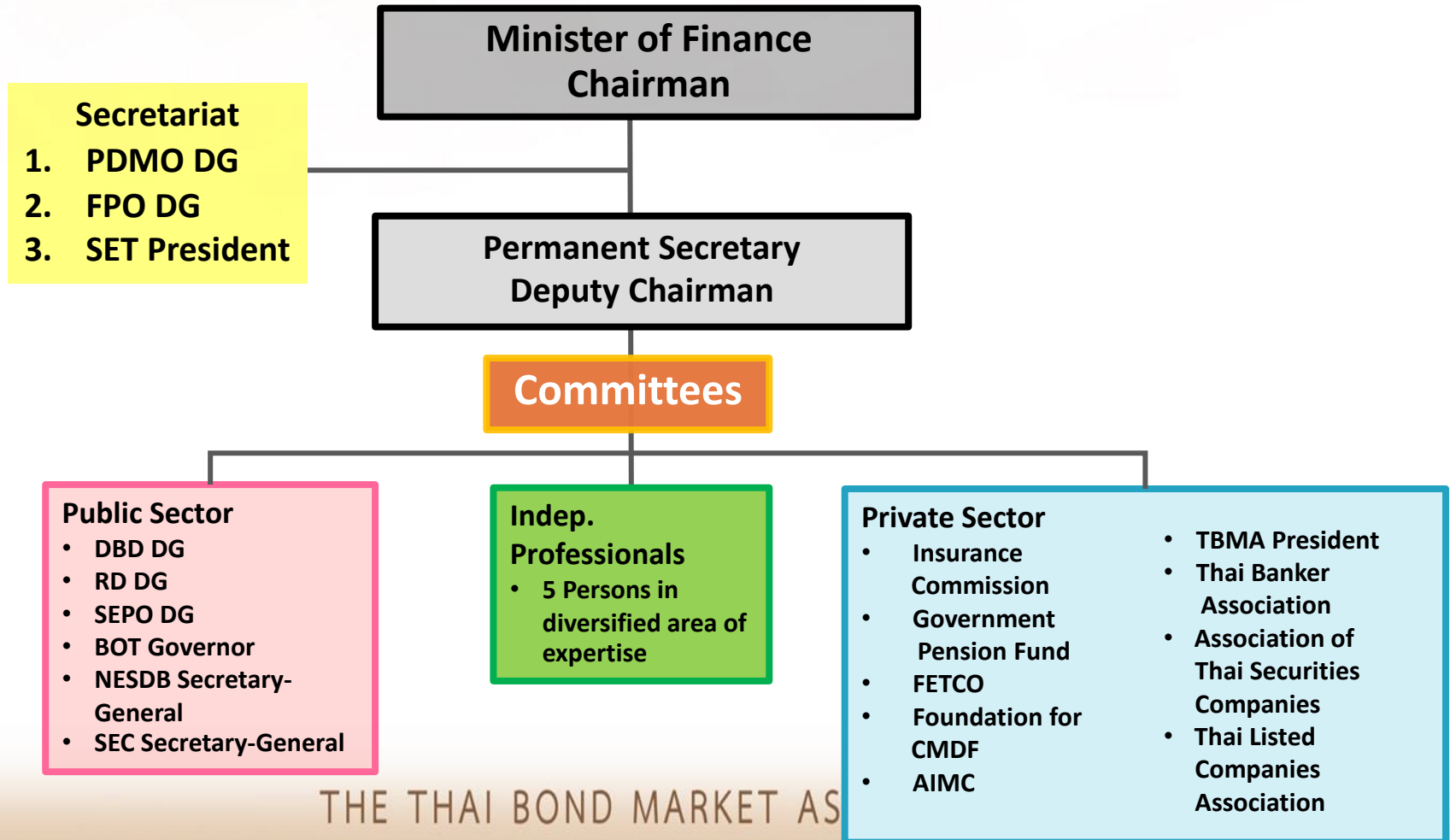
7 Principal Measures : (1) Equity market **(2) Bond market** (3) Product innovation
(4) Strengthening intermediaries (5) Listed companies (6) Financial literacy
(7) Supervisory

Bond Market Development Plan

- Encouraging the continued growth of the bond market to enable it to match the money market in size.
- Supporting bonds issued by domestic and foreign companies and greater participation by retail investors.
- Providing incentives to attract more retail investors and taking measures to facilitate their investment.
- Splitting large-volume bonds into smaller units to broaden the range of investors.

2008

Capital Market Development Committee



Capital Market Master Plan 2009-2013

Goal : The Thai capital market is the primary mechanism for aggregating, channeling, and monetary economics resources. The goal of the capital market is to perform these tasks efficiently to increase overall competitiveness of Thailand.

Achievements of Bond Market Development under Masterplan

- Regular Benchmark Bond Issuance (Tenor ; 3,5,7,10,15,20,30,50 years)
- Created new products
 - Inflation-linked bonds / Floating rate bonds / Retail bonds for micro savers / Amortizing bond
- Primary Dealer System Upgrade and regular market dialogue with PDs and BOT
- Obligations
 - Maintain at least 5% share of total issue size of 3,5,7,10 years tenor, and inflation-linked bond
 - Participate in every auction and submit bid at least 10% for exclusivity tenor.
- Privileges
 - Exclusivity in 5 yrs tenor / MOF preferred counterparty and BOT Outright counterparty
- Reduced Special Business Tax from 3.3% to 0.01% for Insurance Companies
- Increased corporate bond supply
- Educating and promoting retail investors -> Bond Mart

- **ThaiBMA** is registered under the SEC Act 1992 as “**Association related to Securities Business**”
- The role of ThaiBMA as a Self-Regulatory Organization (SRO) has been endorsed and clarified through **the MOU** between ThaiBMA and SEC Under mandate of SEC regulations to support SRO role of ThaiBMA , it’s required that
 - All securities firms (***financial institutions having Debt trading license***) be ThaiBMA members
 - All bond transactions be reported to ThaiBMA
 - All bonds be registered with ThaiBMA

