



The Development of Government Bond Market in Cambodia



Asian BondsOnline Capacity Building

Workshop on Bond Market Development in Emerging East Asia

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Agencies in Cambodia

- MEF is the ministry that is in charge of the issuance and management of government securities
- NBC as the central bank is responsible to provide deposit accounts for the government
- SECC is in charge of the non-government securities market by the Law on the Issuance and Trading of Non-Government Securities

Conceptual Steps & General Prerequisites

	Step I	Step II	Step III
Cross-Border Market	<ul style="list-style-type: none"> - Basic infrastructure for non resident investors' investment to Gov't bonds available 	<ul style="list-style-type: none"> - Gov't has at least one sovereign rating 	<ul style="list-style-type: none"> - Various types of investors actively invest
Secondary Market	<ul style="list-style-type: none"> - Basic infrastructure for Gov't bond trading available 	<ul style="list-style-type: none"> - Broadened investor base enhance trading 	<ul style="list-style-type: none"> - Active trade of Gov't bond makes yield curve
Primary Market	<ul style="list-style-type: none"> - Legal framework for Gov't and corporate bond implemented 	<ul style="list-style-type: none"> - Auction of Gov't bond forms yield curve at primary market - Various corporation issue bonds 	<ul style="list-style-type: none"> - Various types of corporate bond issues become common

General Prerequisites to Reach Each Step

	Step I	Step II	Step III
Cross-Border Market	<ul style="list-style-type: none"> - Local custodian bank service is available. - Regulatory framework is in place so that non-residential investors can invest - Gov't starts offshore issuance 	<ul style="list-style-type: none"> - Government obtains sovereign rating by at least one globally recognized CRA 	<ul style="list-style-type: none"> - Variety of foreign investors through investment vehicles (such as investment trusts) become active
Secondary Market	<ul style="list-style-type: none"> - Settlement system for government bond trading becomes available. - Post trade information sharing system / rules become available. 	<ul style="list-style-type: none"> - Globally recognized Master Repo Agreement is available - Hedging instruments become available - Settlement system for corporate bond trading becomes centralized. - SRO is established. 	<ul style="list-style-type: none"> - Money market including repo is active. - Dealers make markets for gov't bonds at the secondary markets. - Inter-dealer broker is active to support dealers' transactions. - Market makers are available for large corporate bonds.
Primary Market	<ul style="list-style-type: none"> - Growth of economy develops the size of investors and issuers. - Legal and regulatory frameworks for Gov't / corporate bond issuance are implemented 	<ul style="list-style-type: none"> - Gov't applies debt management and investor relations program frameworks. - Eligible dealers bid for auctions continuously. - Life insurers and pension funds by L-T bonds. - CRA system is implemented 	<ul style="list-style-type: none"> - Legal/regulatory framework for structured product becomes available. (e.g. securitization). - Wide variety of banks and securities companies work as arrangers / advisors.

Cambodia Macro Economy and Bond Market

- Cambodia has shown a robust economic growth for the past decade, about 7.5% real growth.
- The budget situation and inflation has generally been under control, showing a good macroeconomic performance.
- To maintain this growth, Cambodia needs to strengthen its investment in infrastructure and other areas.
- Here, Cambodia's public investment has not necessary kept up with the GDP while it needs to maintain high level of investment well into the next decade.
- For this purpose, issuing government bonds is one of the few options available.
- Cambodia has already exceed the IDA cutoff per-capita income of USD 1,205.
- Similar points can be made for the corporate bonds

Highlight of T-Bill Issued

- The government of Cambodia wanted to issue two kinds of Treasury bills:
 - Treasury bill issued on tap: Issues and settles by national treasury
 - Treasury bill issued on current account: National Bank of Cambodia (NBC) in charges of auction arrangement
- Past, government issued only treasury bill issued on current account.

Highlight of T-Bill Issued (cont.)

Purposes of T-Bill Issuance

- Fills up government budget deficit, sufficient source of funds for such investments and timely expenditures
- Facilitates monetary policy implementation and builds confidence on local currency
- Contributes the de-dollarization and increases local saving

Size of T-Bill Issued

- Treasury bill issued on current account permitted to issue 50 thousand million riels annually. Statistic of the issuance of treasury bill issued on current account from 2003-2006 as follow: (First 5 Banks attended the auction/ 2006: 02 banks)

Year	Auction amount	Payment amount	Paid amount	Balance
2003	131,900,000,000	130,059,396,000	82,000,000,000	49,900,000,000
2004	199,600,000,000	196,652,439,350	199,600,000,000	49,900,000,000
2005	131,600,000,000	129,643,598,350	165,600,000,000	15,900,000,000
2006	9,800,000,000	9,653,401,800	25,700,000,000	0

Fulfillment of Prerequisites

- Cambodia already fulfills the first prerequisites to have sufficient potential issuers and investors
- Most of the legal background and infrastructure needed under step I already exist.
- Law on Government Securities is already adopted
- Sub-decree on the Issuance and Management of Gov't Securities is on the way toward adoption.
- NBC already developed primary system to register the certificates which can be applied for the Gov't bond settlement
- The Government of Cambodia obtained sovereign rating which is categorized as one of the prerequisites for Step II.
- The largest and first prioritized challenge is the practice in which the government needs to start trial issuance of Gov't bonds.

Challenges and Work-Programs

Challenges

- Develop settlement system for Gov't securities
- Issuance feasibility study
- Development of detailed debt management system
- Encouragement of establishment of dealers' association

Work- Programs

- Develop conceptual design of the necessary IT system to connect between the market participants and GSMA
- Feasibility study on off-shore issuance opportunities for Gov't bond
- Need to fix operation gap and prepare for repayment of government bonds
- Regulatory document would be drafted for repayment procedures
- Round table discussions, knowledge sharing workshops or seminars

Note on Concessional Loans

- Currently, Cambodia can get concessional loans from donors (World Bank, ADB, JICA, etc.)
- Concessional loans have very attractive terms (20-30 yrs) and rates (1-2%). Probably, it is wise to rely on it as much as possible. However;
- It increases the public debt in foreign currency
 - It is prone to Forex change (ex. 1997 Asian currency crisis)
 - Local currency debt is easier to manage because the government can increase tax or print money. Foreign currency debt doesn't have those options.
 - Cambodia is already at very high level of foreign currency debt. Room for further concessional loans may be limited.
- On this point, the situation is a bit complicated because Cambodia is a dollarized economy (see next page).
- Government bonds are essential in fostering the interbank market and the development of the financial system.
- Government bonds provides a benchmark for the financial market yield.

Gov't Bonds in a Dollarized Economy

- ASEAN started ABMI to create a bond market in local currency, in order to reduce reliance on foreign currency denominated debt, so that countries will not suffer from sharp changes in FX.
- Cambodian Market Status
 - Most tax collection (70%) is done in KHR
 - Financial market & economy is highly dollarized
- Key Points in Determining Bond issuance currency
 - Match with government revenue currency to avoid FX risk
 - Market demand: USD denominated bonds will be demanded in a highly dollarized economy
 - Cambodia will have to issue bonds in both currency.
 - Match with the revenue currency, and gradually moving to higher issue of KHR denominated bonds.

Conclusion

- When would be the right time for us to issue Government bond?
- What would be issuing currency?
- How much should we issue?
- How long will be the maturity?
- How would we determine coupon rate?
- Who would be our main investors?



Thank you!