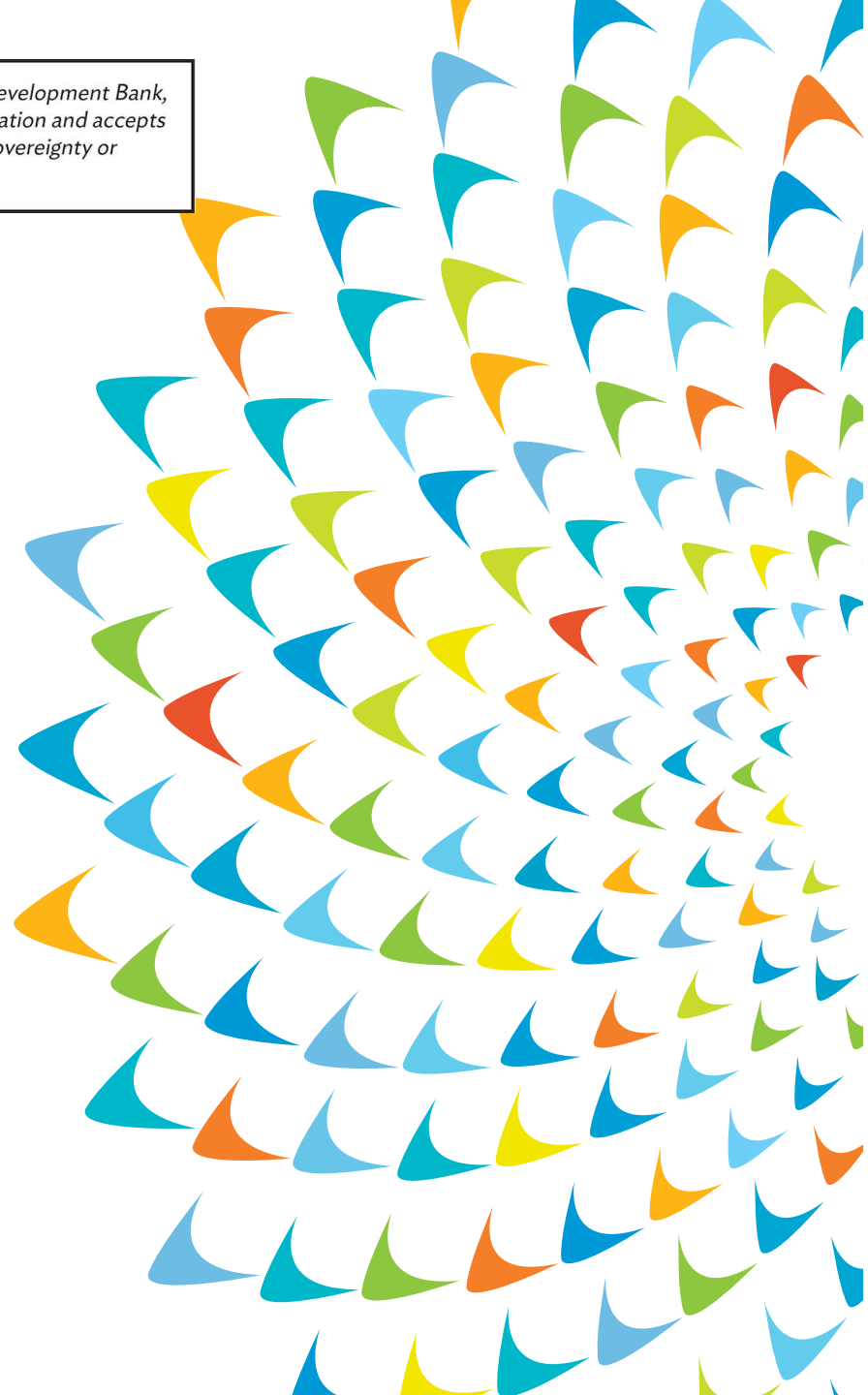


Importance of LCY bond market development for Mongolia

Asian Impact Webinar: Bond Market Guide for Mongolia Launch

19 April 2021 | 15:00 – 16:05 (Manila and UB Time)

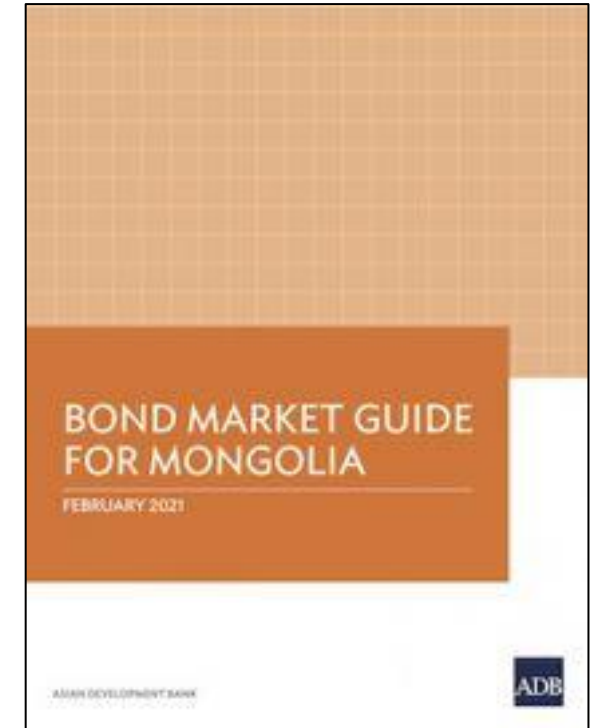
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Bond Market Guide for Mongolia

- ASEAN+3 Bond Market Guide (BMG) series
 - Asian Bond Markets Initiative (ABMI) to develop local currency bond markets to mitigate the double mismatch problem
 - BMG as key knowledge products of ABMI to support a bond market development
 - ASEAN+3 Bond Market Forum (ABMF) to serve as a platform to bring regions experts to support standardization and harmonization of the markets
 - Mongolia as the first non-ASEAN+3 official observer to ABMF.
- BMG to share ABMI's experience
 - Key stakeholders' involvement
 - Through the process of drafting, key stakeholders would be able to expand knowledge in comparison to ASEAN+3
- BMG to identify necessary building blocks
 - Customized approach: no one-size-fits-all approach





Current state of Mongolian bond market

Financial market structure of Mongolia

	2018	Percentage
Bank loans	17,082.39 billion MNT	94.2
NBFI and credit union loans	1,002.96 billion MNT	5.5
Securities issuance	50.54 billion MNT	0.3
Total	18,135.89 billion MNT	100

NBFI = non-banking financial institutions

Sources: Bank of Mongolia, Financial Regulatory Commission, and Mongolian Stock Exchange.

- The development of the bond market in Mongolia accelerated in recent years.
- Debt instruments may be publicly offered (referred to as open) or privately placed (referred to as closed).
- Between 2015 and 2017, local currency (LCY) government bonds were issued to the public regularly through the Mongolian Stock Exchange (MSE).
- MMOF temporarily ceased LCY government bonds issuance as part of the Extended Fund Facility (EFF) program of the IMF.
- In the absence of LCY government bond issuance, local investors started investing in the domestic corporate bonds market, including privately-placed corporate debt instruments.



Key building blocks to develop the local bond market

Mongolia has the basic market infrastructures, but it is necessary to build:

- Properly regulated private placement or exemption of public offering procedures to create a bond market which can flexibly support various funding needs.
 - Due to the fact that current regulatory requirements are the same for publicly offered debt securities and IPOs under the Securities Market Law and FRC regulations, public offers of corporate debt securities are required to go through a time-consuming and costly process for the issuer compared to private placements, which are unregulated.
- Large institutional investor base to provide long-term finance
 - As the domestic corporate bond market's development is in the early stages, and with the lack of professional institutional investors in the market, retail investors are the primary participants in the market for privately placed corporate debt instruments. As a result, most of these privately placed corporate debt instruments have maturities of 3–18 months.



Linkage with international market to develop LCY market

- Strong interest from foreign investors
 - foreign investors accounted for 39.2% of the total trading volume of publicly traded securities in 2018, up from just 4.1% in the previous year.
 - In addition, foreign investors formed 7.2% of the secondary market trading volume of government bonds in 2018, compared with 2.8% in 2017.
- ADB has issued Togrog-linked USD-settled bond.
 - Currency-linked bonds are important in development terms because they help plot a yield curve where government issuance is often sparse. The Mongolian domestic government bonds have maturities of up to 3 years only, and the government has not completed any new issue of MNT debt securities since September 2017, therefore ADB's *Nomad* bond serves as a relevant benchmark.
 - With a careful selection of issuers, this may be a way to invite more foreign issuers who want to do business in Mongolia.

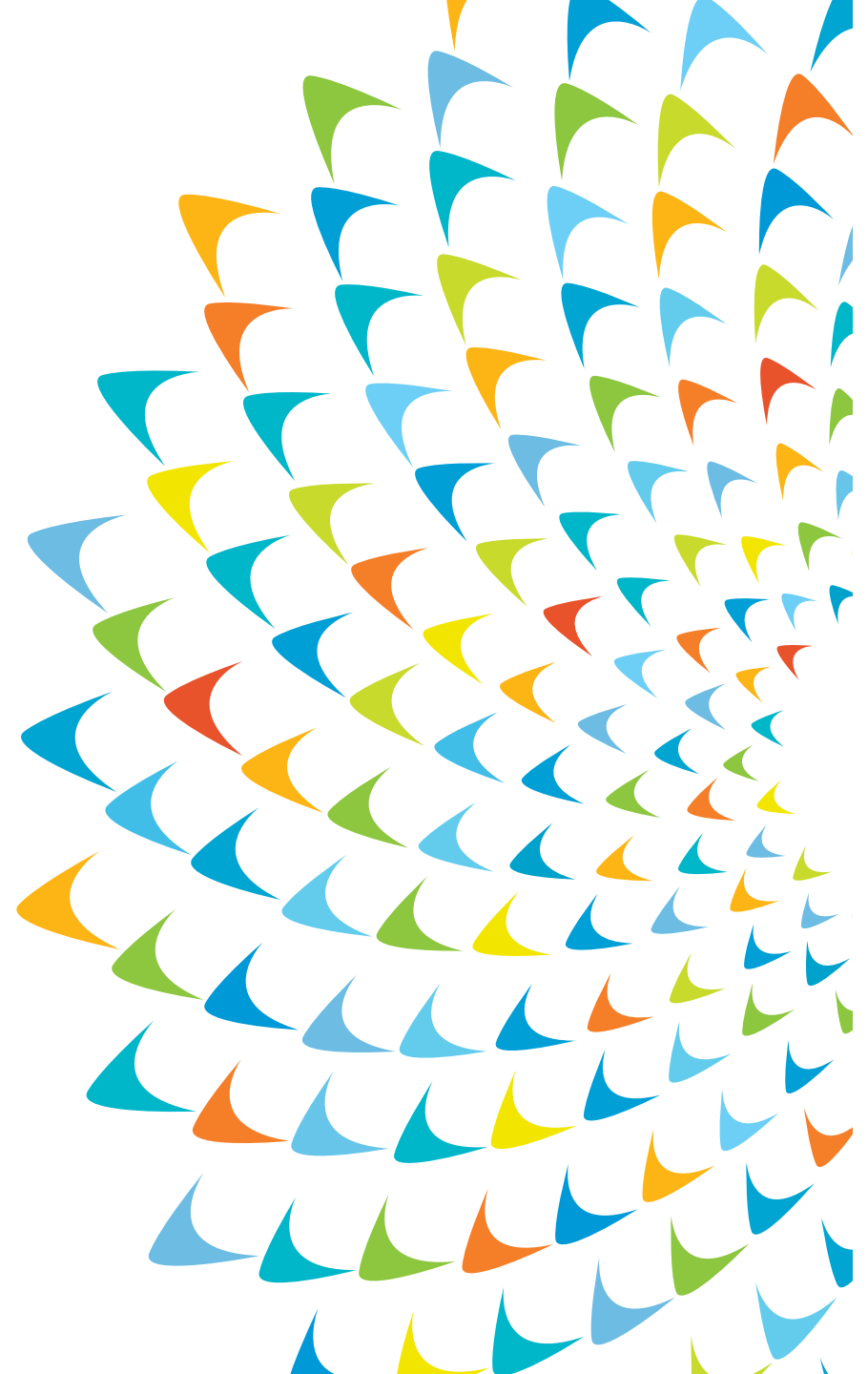


Remaining challenges and next step

- Introduction of best international practices to develop the market
 - Clear definition of securities
 - Proper disclosure of information
 - Proper investor protection with introduction of professional investors concept
 - Introduction of DVP in 2020
- Realignment of the government bond issuance procedures
 - Consolidation of the government bond issuance channel
- Sustainable Development Vision 2030 and National Program to Develop the Financial Market
 - The government will revise five pieces of legislation related to the capital market, with the aim of creating a legal environment to promote competition and accessibility in the finance sector, increasing product offerings, and streamlining regulations.
 - The revisions are expected to remove some of the obstacles currently faced by corporate debt instrument issuers under the leadership of the MOF.



THANK YOU



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