

# The puzzle of Latin American Bond Markets: What is it in for Asia?

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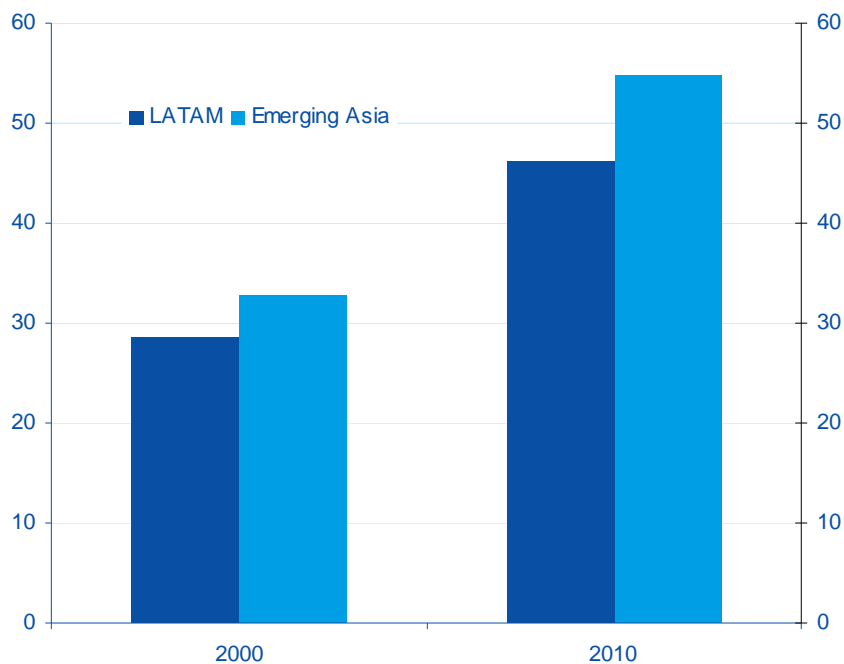
Chief Economist Emerging Markets

South Korea - September 2011

# 1. The Puzzle

- Asian bond markets are bigger than Latin American ones but.....
- Latin American ones are more liquid (although less so over time)

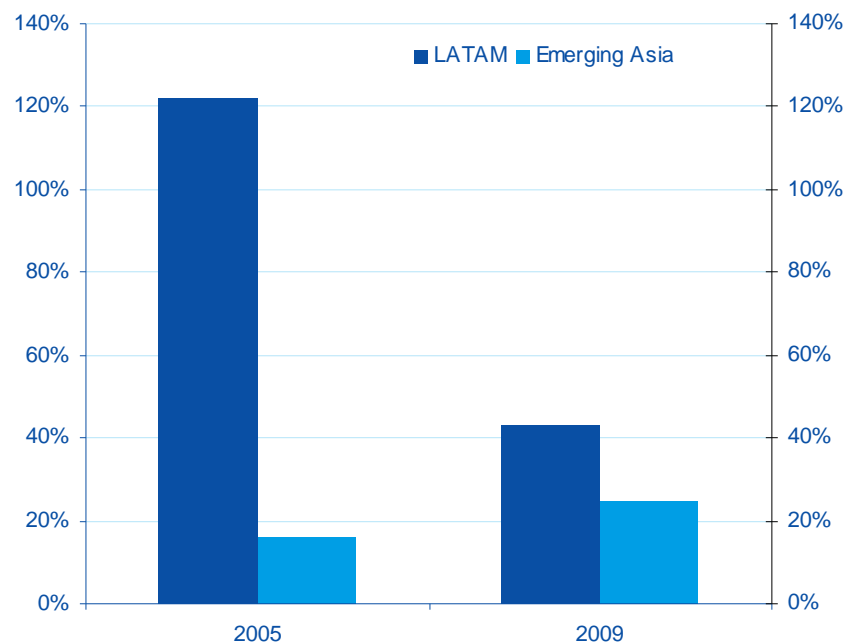
**Domestic Debt Securities as % of GDP**



Source: BIS & IMF

**EMTA trading of locally issued bonds**

(%, share of outstanding domestic bonds)



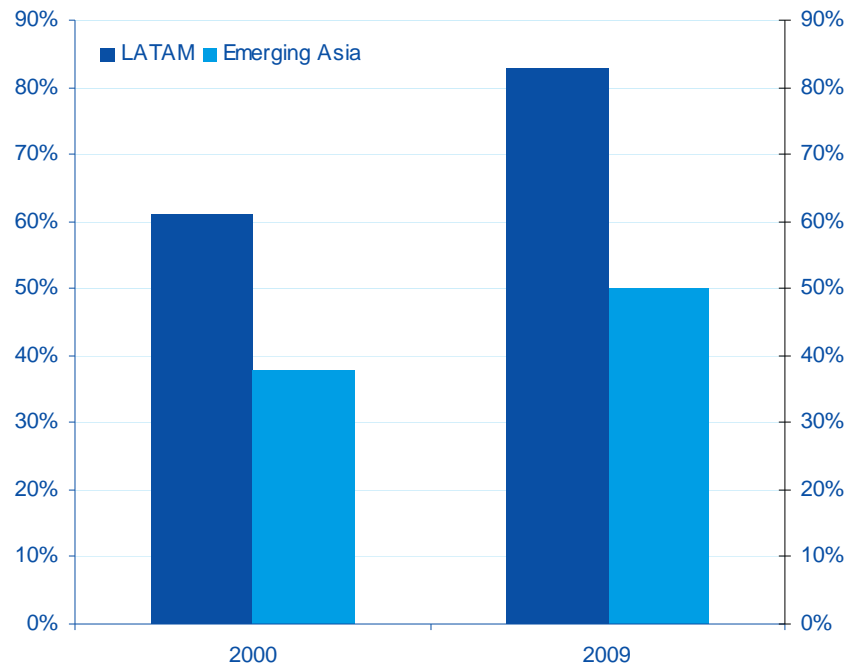
Source: EMTA, BIS

## 2. What has been behind Latam's edge?

**First history:** It all started with a “forced” by an accident: The Brady bond plan as a solution to the debt crisis during of the 80s.

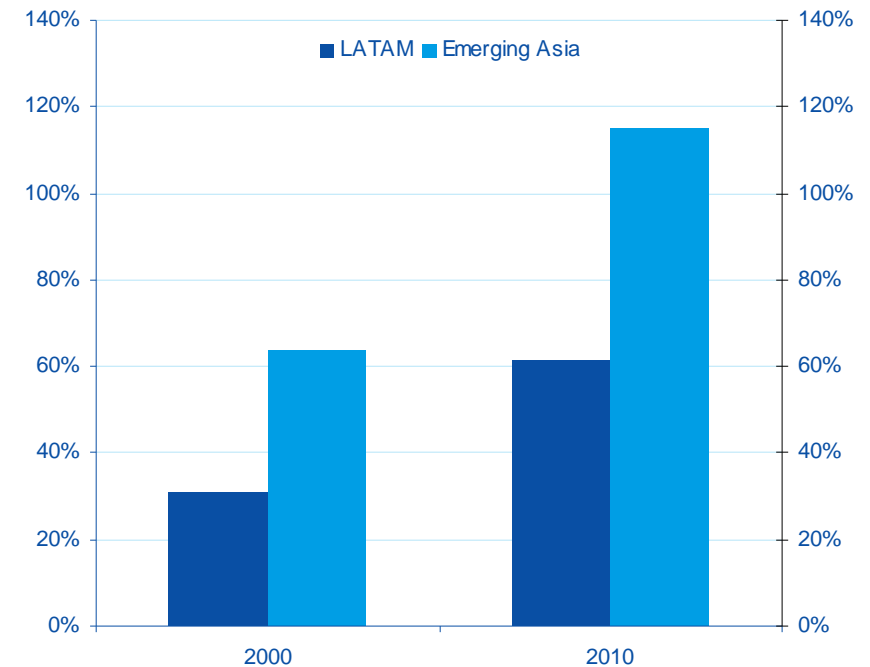
**Second, relative relevance of the market:** Latin America's smaller banks and less developed equity markets encouraged bond market development

**Domestic bonds as share of total loans, %**



Source: World Bank, BIS

**Stock market capitalization % of GDP**

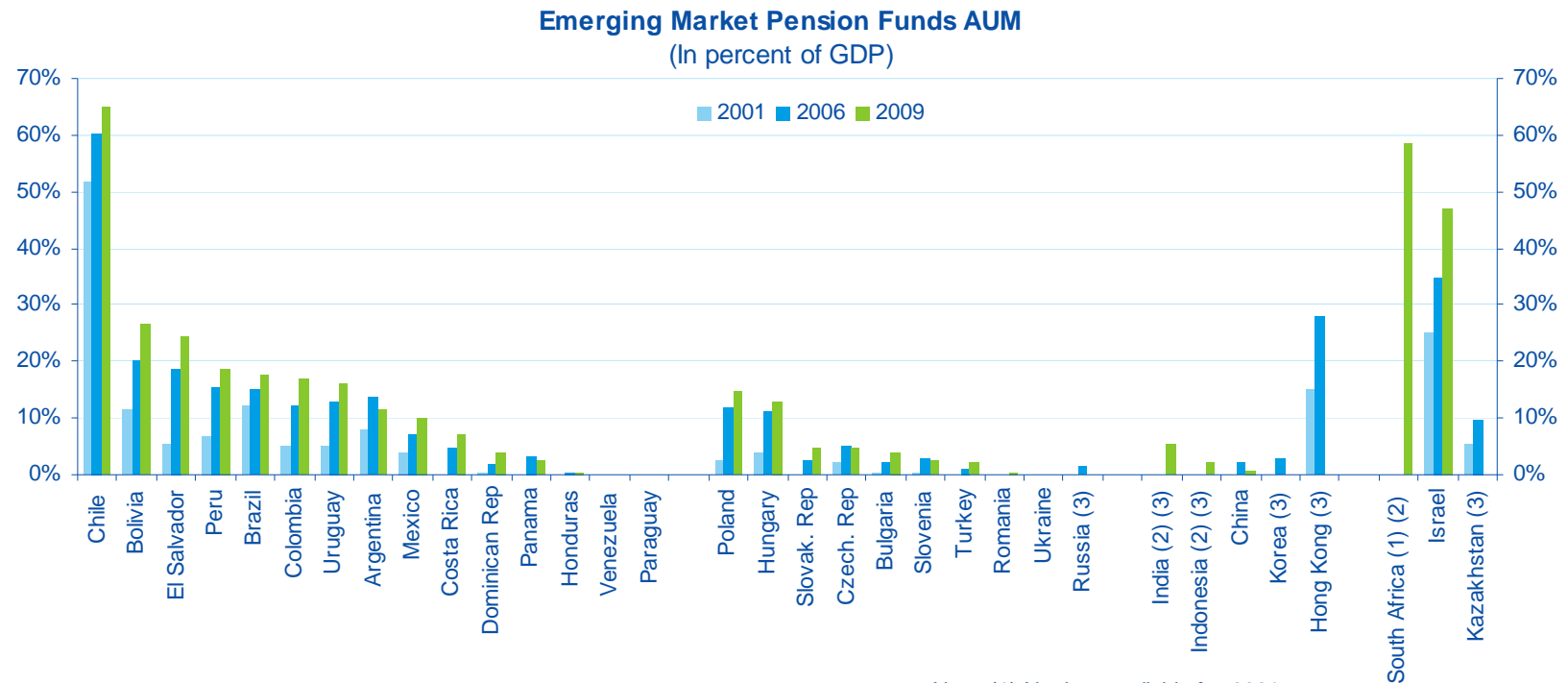


Source: World Bank, IMF, CEIC

## 2. What has been behind Latam's edge? (cont')

Third, pension reform: New set of increasingly large investors.

Local government debt market has been the first to target, followed by debt corporate debt and stocks. Most of the pension funds still have limitations to invest abroad



Note: (1) No data available for 2001  
(2) No data available for 2006  
(3) No data available for 2009

Source: FIAP, OECD, McKinsey and IMF

## 2. What has been behind Latam's edge? (cont')

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Pension funds portfolio investment regulation:

In the case of Chile, Mexico and Peru, regulation allow pension funds to invest between 60% up to 100% of their portfolio in local currency bonds.

### 3. Why don't Asians invest in Asia?

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García-Herrero, Wooldrige and Yong Yang 2009:

Econometric analysis of geographical composition of the cross-border portfolio holdings of more than 40 countries divided in four groups:

- advanced industrial economies
- emerging market economies
- European economies
- Asia-Pacific economies

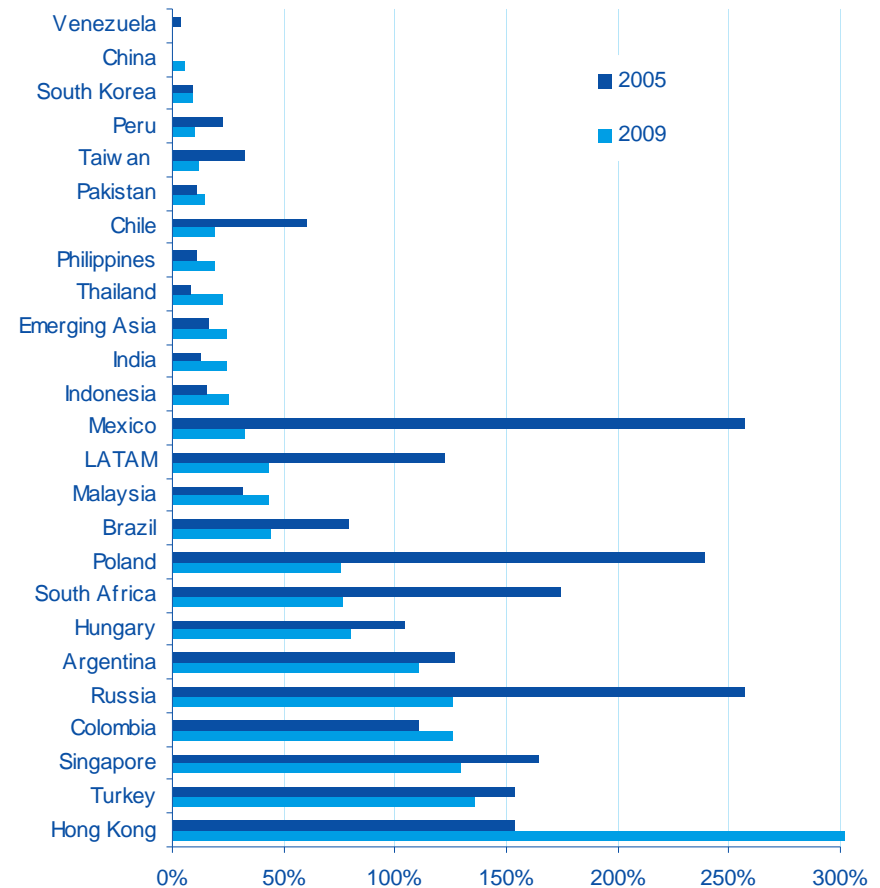
Gravity model used:

**The lack of liquidity in Asian financial markets** is found statistically significant in explaining why Asian capital is invested predominantly outside the region

# 4. Opportunities are arising

- Hong Kong surged as the most liquid bond market in 2011 with 344 US billion in turnover
- A very important reason has been the new Dim sum bond market.
- The internationalization of the RMB can bring a huge increase to bond markets in other markets in Asia, particularly in off-shore ones, such as Singapore

**EMTA trading of locally issued bonds**  
(%, share of outstanding domestic bonds)



**Note: Hong Kong out of scale with EMTA at 568%**

Source: EMTA, BIS

## 5. In summary

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- The Latin American experience shows us that bond market development depends on history and the structure of the financial market
- But things can also change rapidly thanks to innovation
  1. Latin America's example is pension reform
  2. Asia has its own example: the dim sum market in HK following RMB internationalization