



National Workshop on Infrastructure Financing Strategies in the Philippines: Tapping Financial Markets and Institutional Investors

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Outline

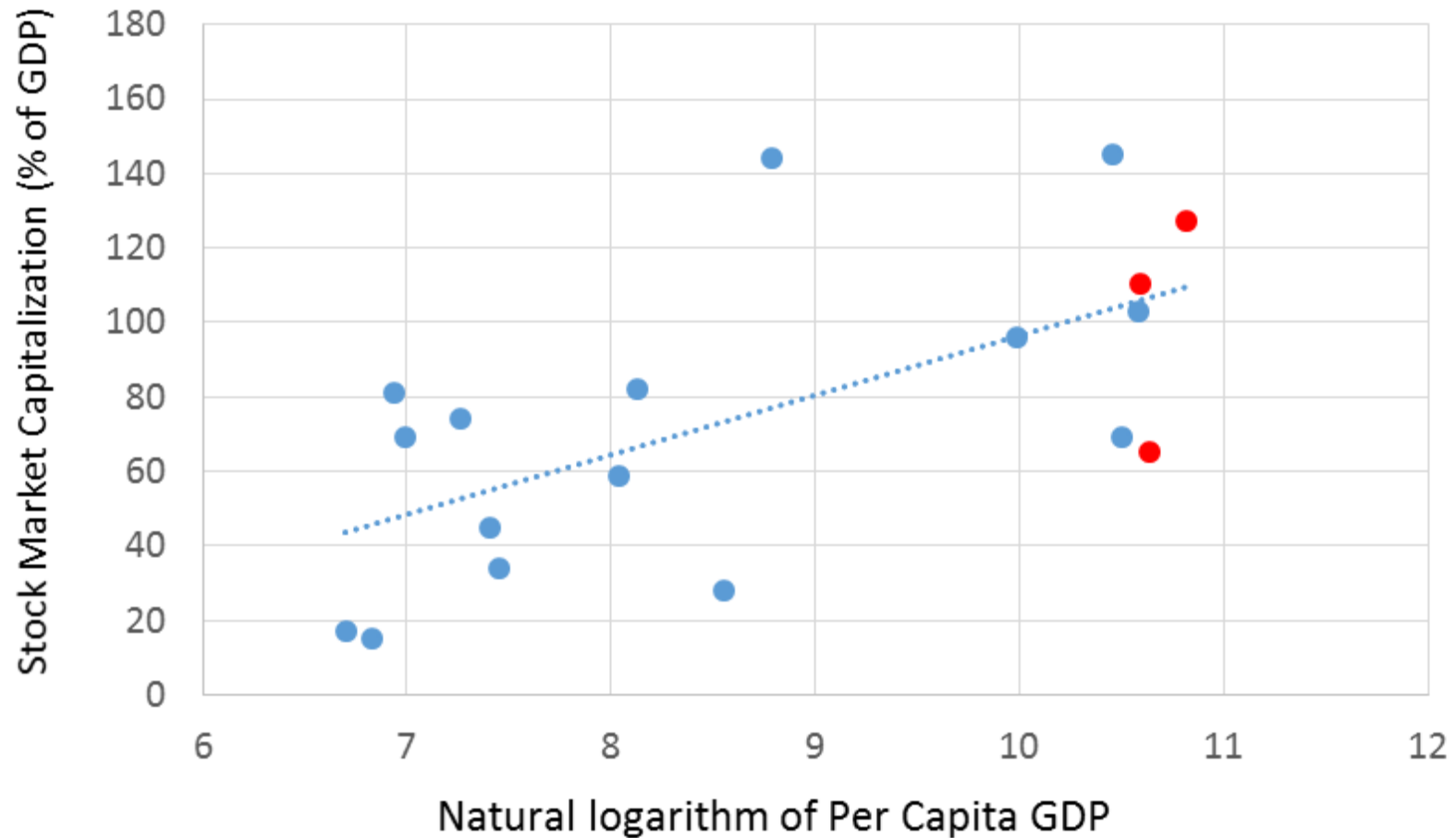


1. Stylized facts about capital markets in Asia
2. Critical elements for capital market development
3. How to incentivise institutional investors
4. Integrating with global financial markets

Stylized Facts

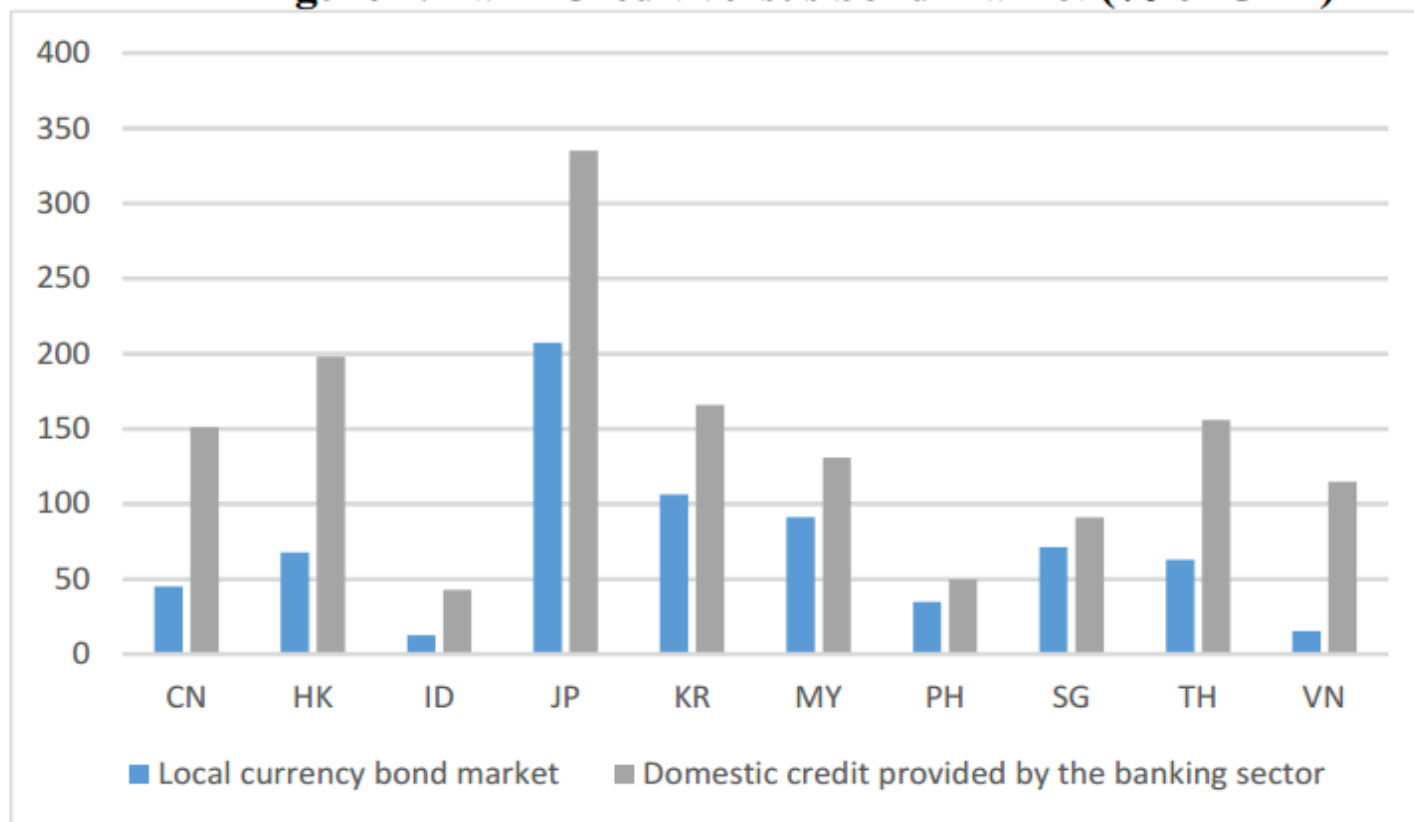
Capital markets matter

Figure 1: Stock Market Capitalization vs. Per Capita GDP, 2011



Bank Credit Still Dominant

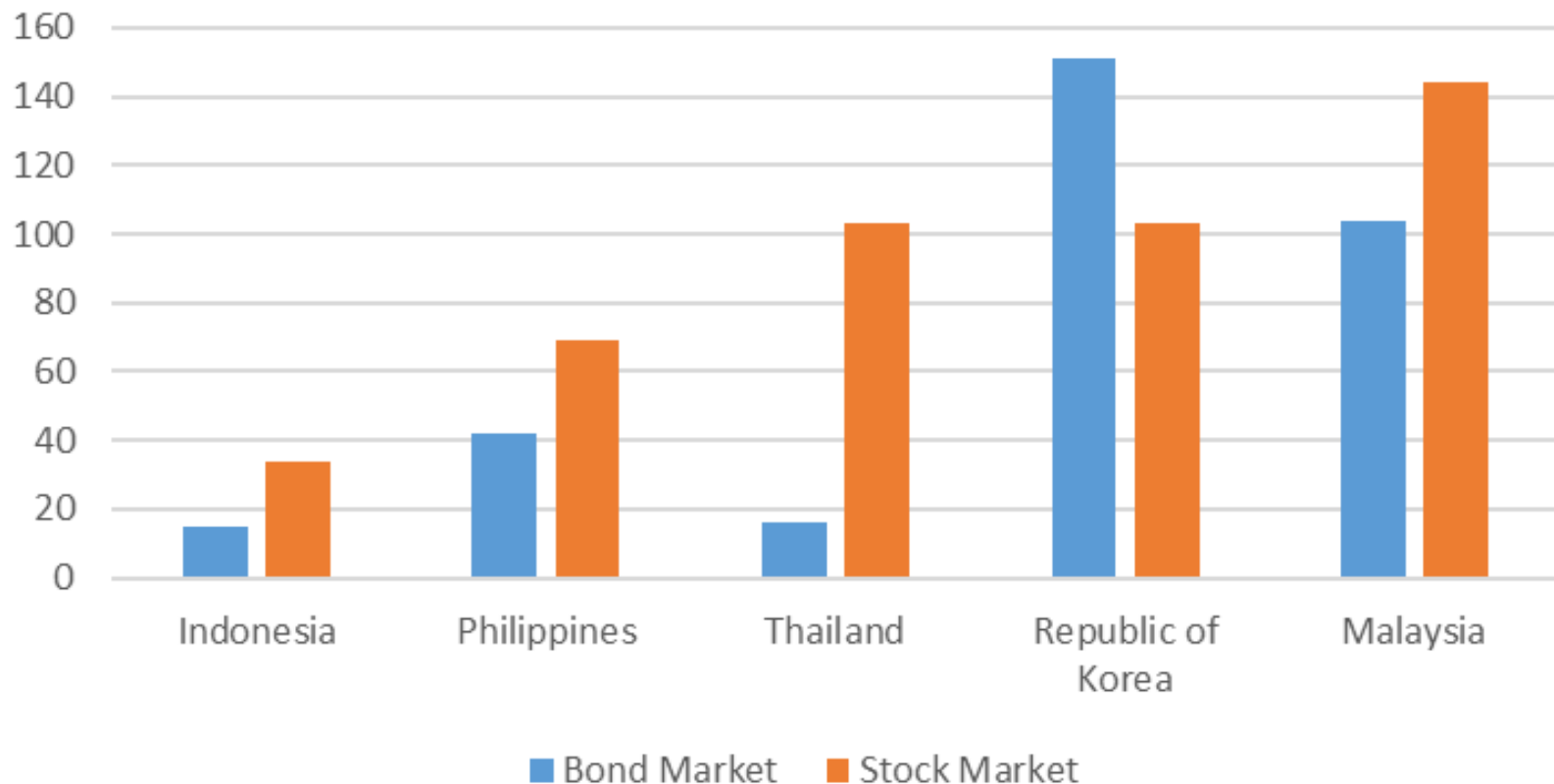
Figure 1. Bank Credit versus bond market (% of GDP)



Source: Bond market: Asian Development Bank, <https://asianbondsonline.adb.org>.
Bank credit: Asian Development Bank Key Indicators for Asia and the Pacific, 2014.

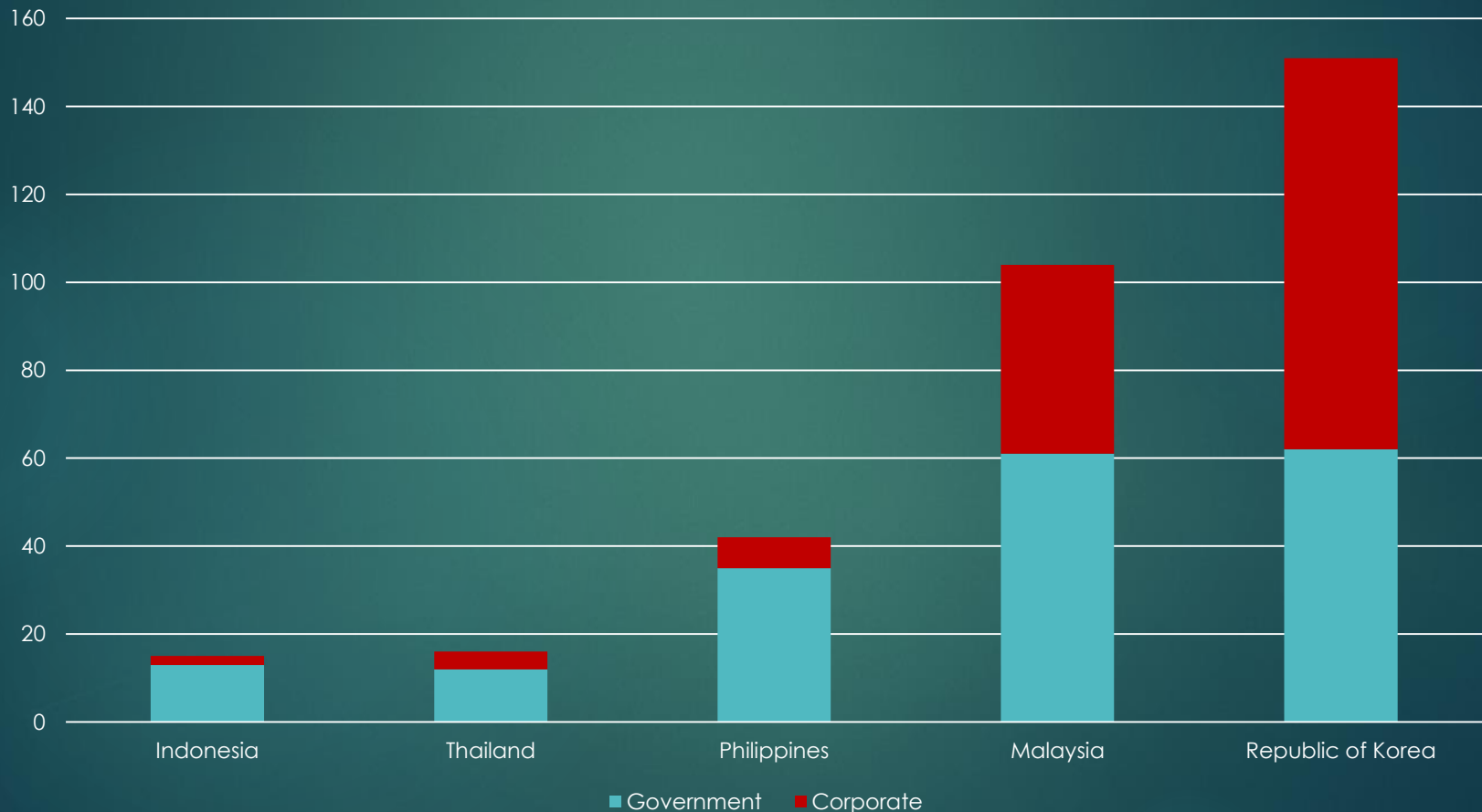
Bond market lagging behind

Market Capitalization (% of GDP),



Particularly the corporate bond market

Bond Market Capitalization (% of GDP)





Critical elements for capital market development

What determines the evolution of capital markets?



1. **Macroeconomic instability is detrimental** for the development of domestic capital markets.



2. **Well-functioning legal institutions:** strong property right protection, enforcement of securities laws and debt contracts, strong corporate governance are beneficial

What determines the evolution of capital markets?



3. Well-functioning payments and settlement system



4. Reliable custody infrastructure

What determines the evolution of capital markets?



5. Larger domestic investor base



6. Allowing foreign investors?

Government policies make a difference

1. Macroeconomic Stability
2. Legal System
3. Payments Infrastructure and Custodian
4. Investor Base: Tapping Institutional Investors
5. Allowing Foreign Investors?

Macroeconomic Stability

- ▶ Significant strides
 - ▶ Central Bank Independence
 - ▶ Inflation control
 - ▶ More Flexible Exchange Rates
 - ▶ Shock absorbers
 - ▶ Fiscal Sustainability

Tapping Institutional Investors

Expanding the Investor Base

- ▶ Ease of trading
 - ▶ Greater liquidity
 - ▶ Greater competition
 - ▶ Improved price discovery

Institutional Investors

- ▶ Who are they?
 - ▶ Pension Funds
 - ▶ Insurance Companies
 - ▶ Sovereign Wealth Funds
- ▶ What can they bring?
 - ▶ Long-term perspective
 - ▶ Stabilizing force
- ▶ How to bring aboard
 - ▶ Same factors as for developing markets
 - ▶ Removal of restrictions on investments




Integrating with foreign markets

Allowing Foreign Investors

- ▶ Benefits
 - ▶ Larger investor base
 - ▶ Competition
- ▶ Potential Costs
 - ▶ Financial Stability Risks

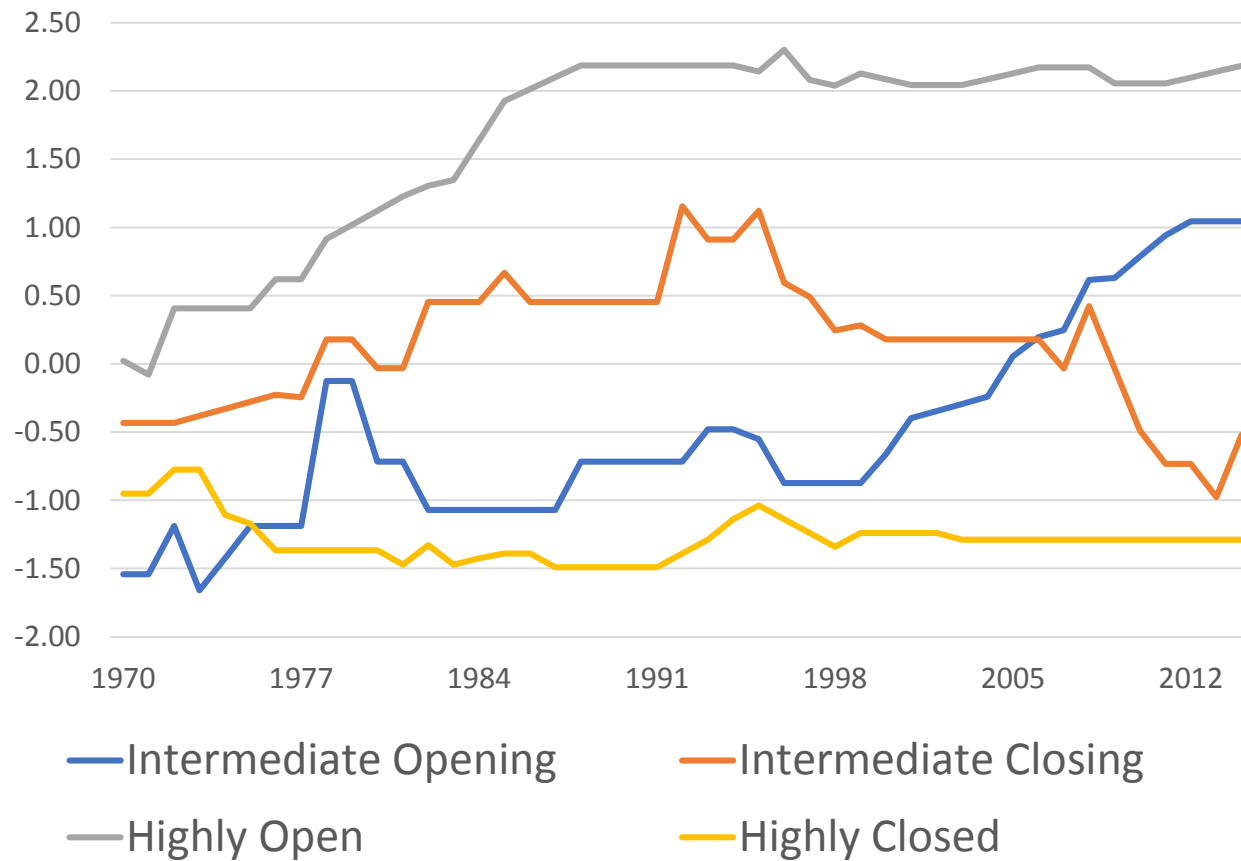
Dealing with financial stability risks

- ▶ Macprudential policies
- ▶ Capital Account Management



Changes in openness of the capital account

De Jure Capital Account Openness Index





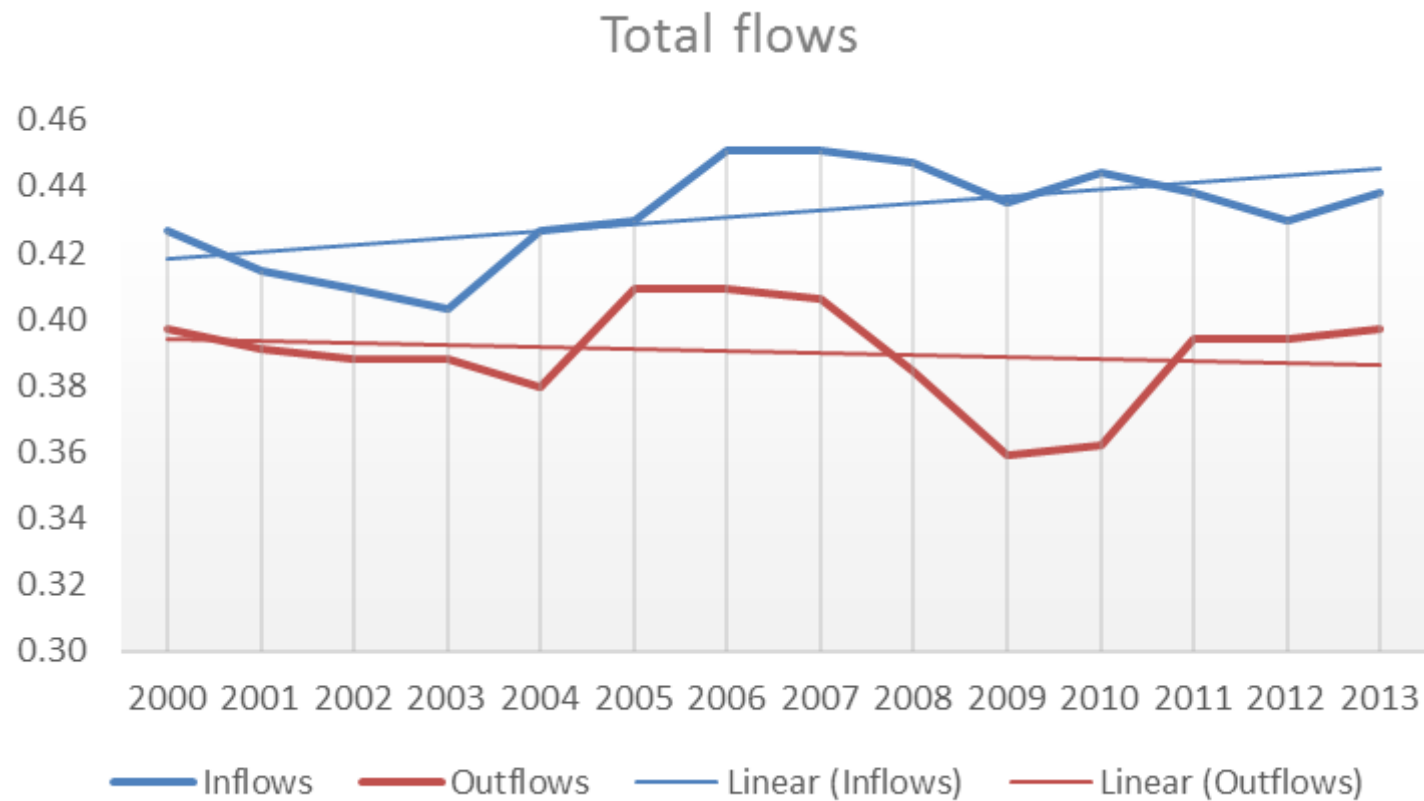
Intermediate opening: Cambodia, Korea, Mongolia, PNG, Vietnam.

Intermediate Closing: Sri Lanka, Indonesia, Malaysia, Philippines, and Thailand.

Highly open: Japan, Australia, New Zealand, Hong Kong, Singapore, Maldives.

Highly closed: Bangladesh, Bhutan, Myanmar, India, Lao PDR, Nepal, Pakistan, and China.

Difference between inflows and outflows



Four take-aways

1. Bank finance is still dominant
2. Developing capital markets can be achieved, but needs a broad-based approach
3. Institutional investors can play a positive role, but attracting them also requires reforms
4. Integrating with global markets bring benefits, but potential volatility of capital flows can threaten financial stability

A reference

- ▶ “Capital market development and emergence of institutional investors in the Asia-Pacific region.” [Asia-Pacific Development Journal](#), Vol. 22, Issue 2, 2015, pp. 1 – 26.



THANK YOU FOR YOUR
ATTENTION

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