



Sustainable Bond Market in ASEAN+3: Recent development, challenges and opportunities

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Opportunities and Challenges faced by the financial sector during net zero transition

- **Transition** : higher carbon price leads to reallocations of resources and innovations and shift in jobs towards low carbon activities
- **Opportunities in the financial sector:**
 - Supply: huge green investment needs
 - Demand: Social capital from stakeholders towards green projects(more stable and long-term capital flows towards environmentally friendly investments; some evidence on negative green premium)
 - Market development: taxonomy, ecosystem, transparency, innovations on new instruments (e.g. **sustainable bond** family keeps expanding, emerging discussion on transition finance)
- **Challenges faced by the financial sector:**
 - Financial stability: Asset vulnerability
 - lower asset value and quality: cash flow volatility as operational costs increase and market shrink, stakeholders' negative recognition (higher risk premiums), especially in carbon intensive sectors
 - possible stranded assets
 - Value adjustments due to climate change risks
 - Price stability: inflationary pressure from higher carbon price /surge in green demand/climate physical risks
- **Challenges associated with opportunities: challenges in developing sustainable finance (taxonomy, information disclosure, impact assessment and measurements etc)**



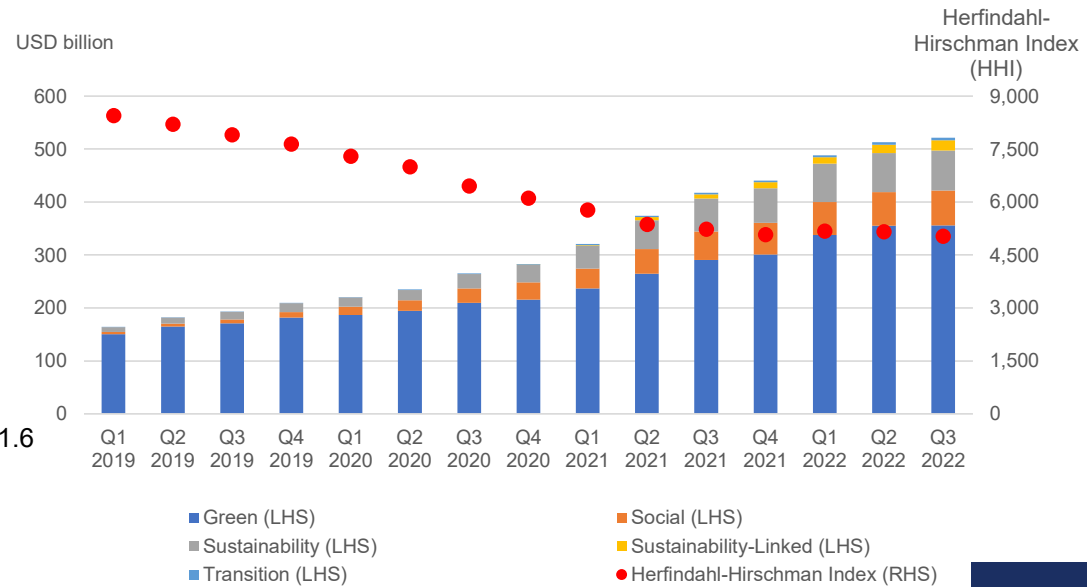
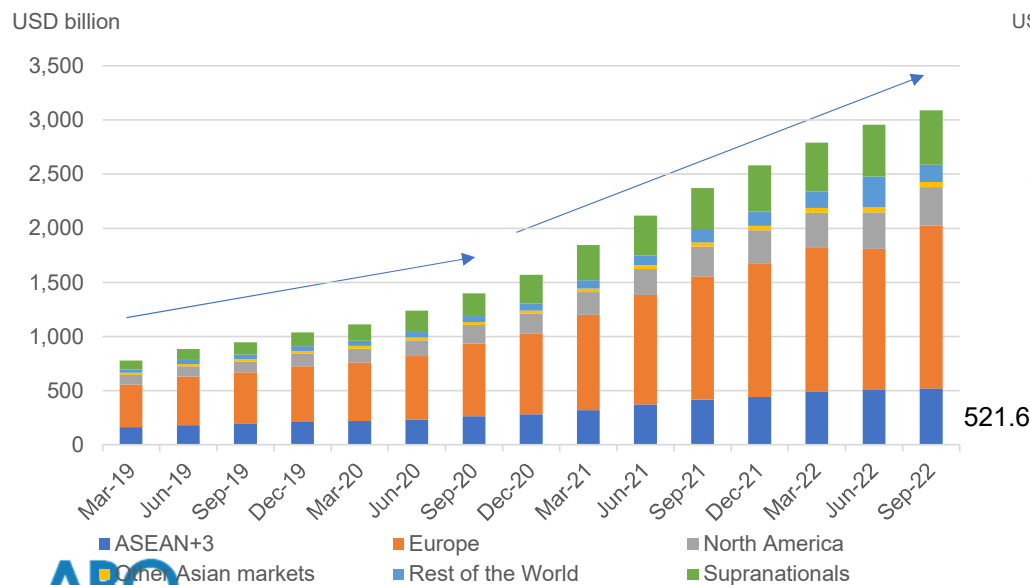
Expansion of global sustainable bond market accelerated, amid higher awareness

Global sustainable bond market reached a size of USD3.1 trillion at the end of September, triple the size of USD1.0 trillion from December 2019. After Europe, ASEAN+3 accounts for 16.9% of the global total.

ASEAN+3 sustainable bond market has seen improved diversification in terms of different bond types. This is evidenced by declining trend in HHI.

Sustainable Bonds Outstanding in Global Markets

ASEAN+3 Sustainable Bonds Outstanding by Bond Type



Source: AsianBondsOnline..

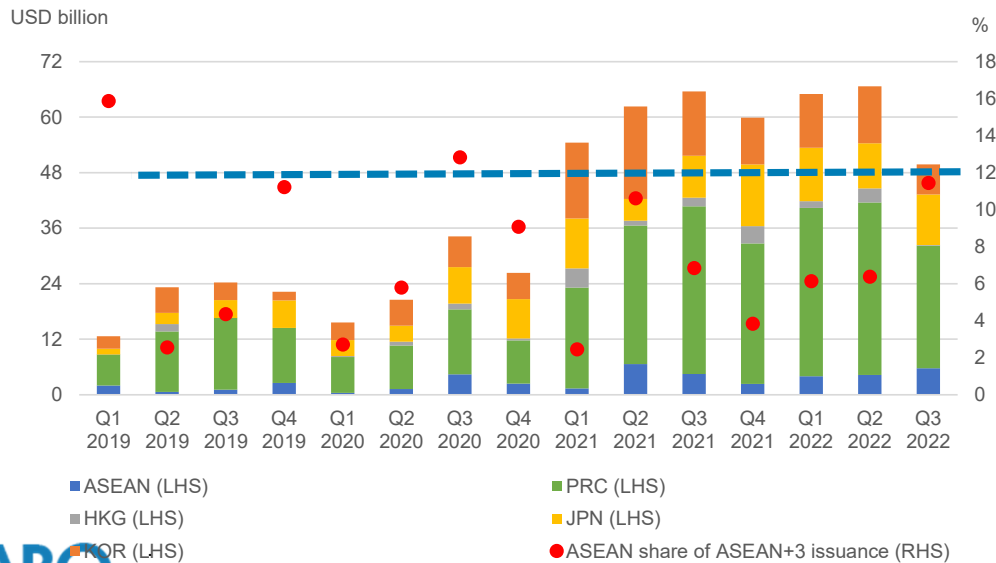


ASEAN makes good progress in developing sustainable bond markets

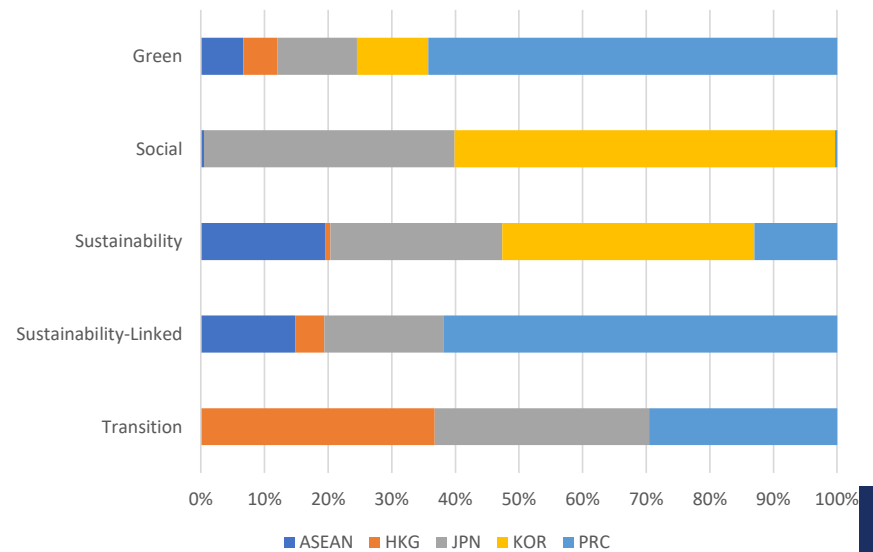
ASEAN sustainable bond market is catching up soon, accounting for 11.5% of issuance and 8.0% of outstanding in ASEAN+3 total in Q3 2022. [corresponding share of 13.7% for issuance & 5.5% in terms of outstanding for general bond markets.]

ASEAN markets have a significant presence in the sustainability bond market (19.6% of regional outstanding) and the sustainability-linked bond market (14.8% of regional outstanding) by September 2022.

Sustainable Bond Issuance in ASEAN+3



Sustainable Bonds Outstanding in ASEAN+3 by Economy Share



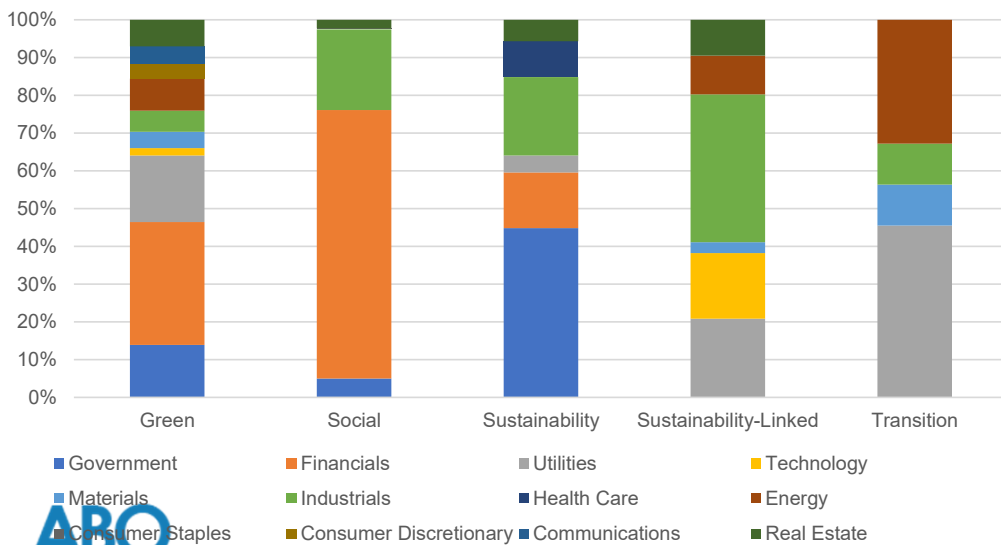


ASEAN+3 sustainable bond market has potential for longer tenor, public sector, and LCY issuance

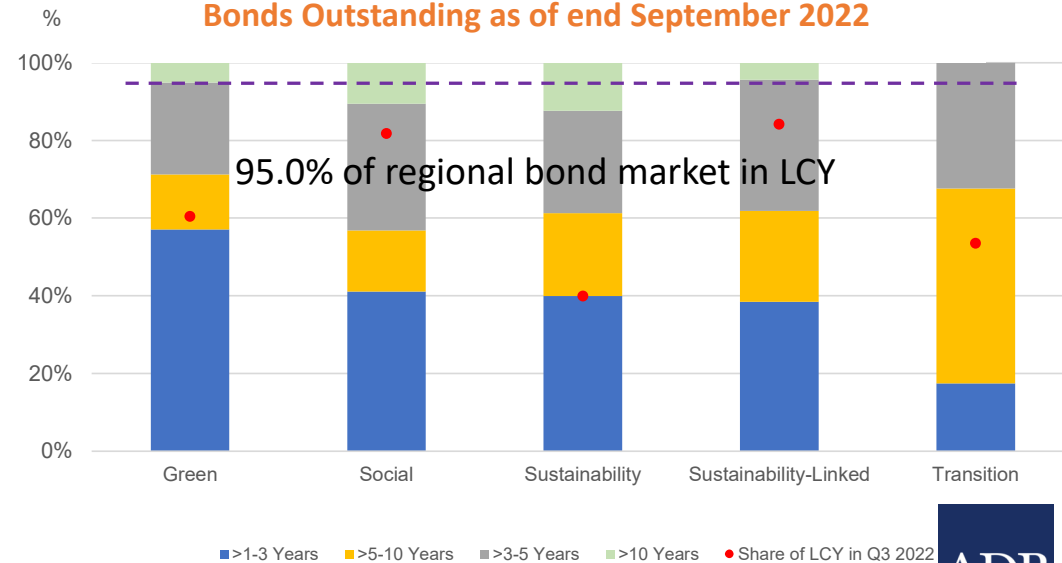
The private sector accounted for 87.4% of total regional sustainable bond issuance in Q3 2022, with financial institutions accounting for the single-largest share of private sector issuance at 37.9%.

Outstanding sustainable bonds in the region are largely concentrated in shorter tenors...the average size-weighted tenor of outstanding sustainable bonds at the end of September was 4.4 years. 61.0% of outstanding sustainable bonds in ASEAN+3 were denominated in local currencies

Sustainable Bonds Issuance in ASEAN+3 with Sector Breakdown in Q3 2022 (share of total)



Maturity and Currency Profiles of ASEAN+3 Sustainable Bonds Outstanding as of end September 2022



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Source: *AsiabondsOnline*.



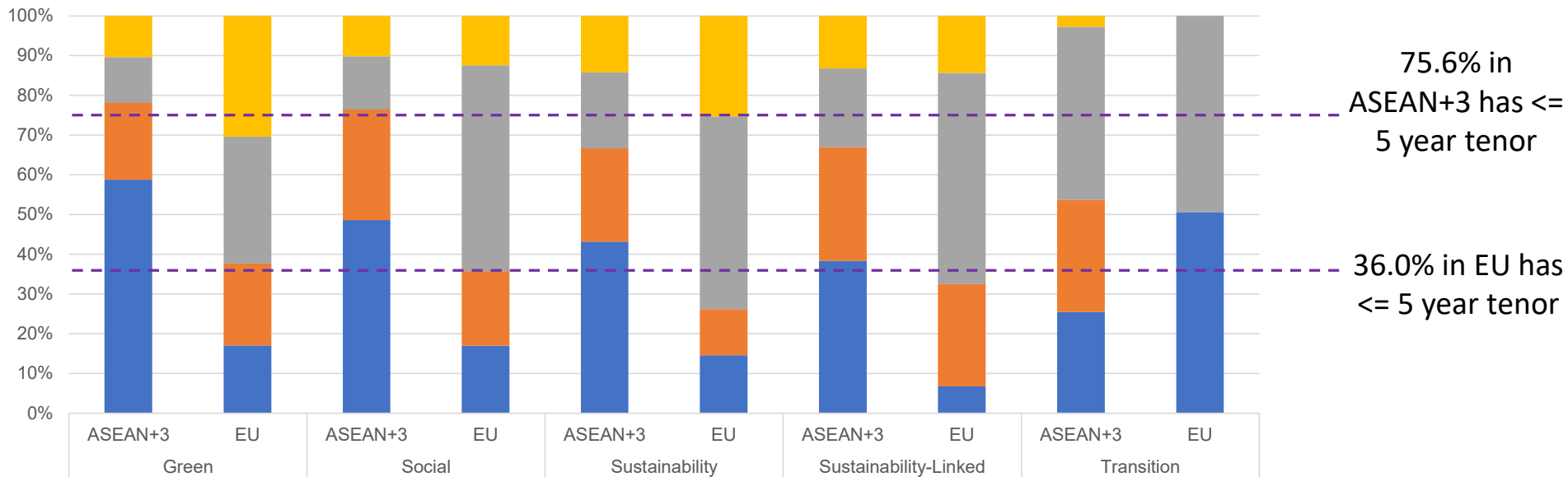


Efforts needed to boost demand for long-tenor sustainable bonds in ASEAN+3

ASEAN+3 sustainable bond markets have a high concentration of short-tenor financing, with 75.6% of sustainable bonds outstanding having tenors of 5 years or less by Q3 2022, while the corresponding share is only 36.0% in EU markets.

Maturity Profile of ASEAN+3 Sustainable Bonds

Share to total



Source: AsiabondsOnline.

■ 3 years or less ■ over 3 years to 5 years ■ over 5 years to 10 years ■ over 10 years

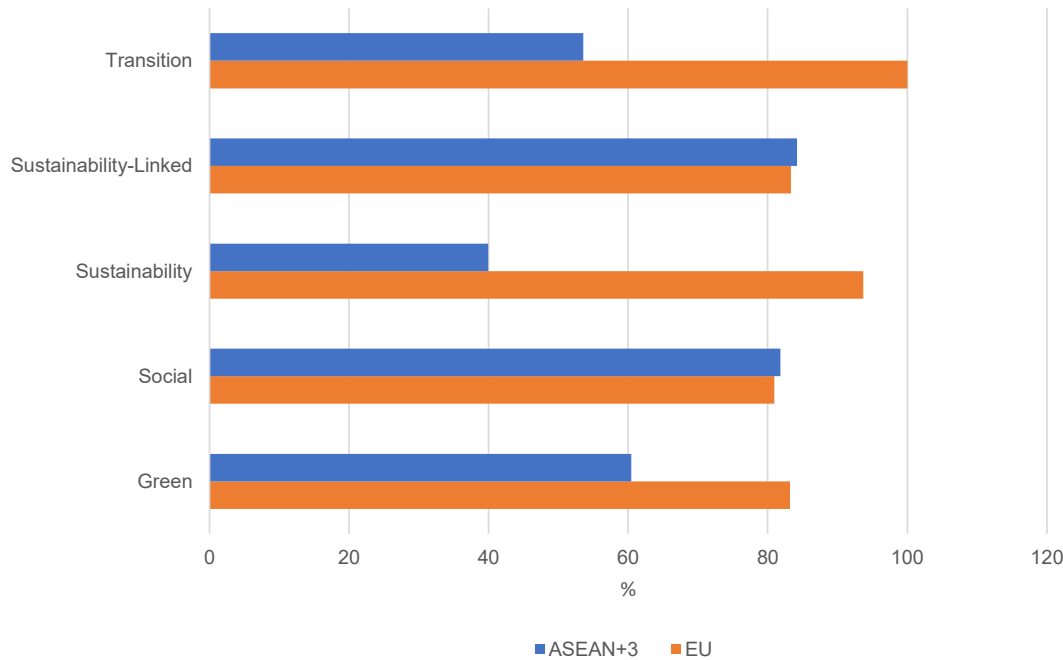
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Efforts needed to boost demand for LCY sustainable bonds in ASEAN+3

Share of outstanding local currency sustainable bonds in ASEAN+3 and EU markets (as of September 2022)



Despite of a higher share (95.0%) of LCY bond in total bond market in ASEAN+3 than in EU (82.7%), ASEAN+3 has a lower share (80.3%) of LCY issuance in sustainable bond market compared to EU (90.8%).

This may reflect that domestic LCY investors needs more capacity to invest in sustainable bonds.

High awareness: Bifinance (2021)'s survey--- around 95% surveyed asset managers in Asia and Pacific, rated ESG considerations as high or moderate importance in their investment decisions.

Low action: Willis Towers Watson (2021), only 31% of surveyed Asian investors have an ESG policy statement in place and Asian asset owners only allocated an average of 10% of their portfolio in ESG-related strategies



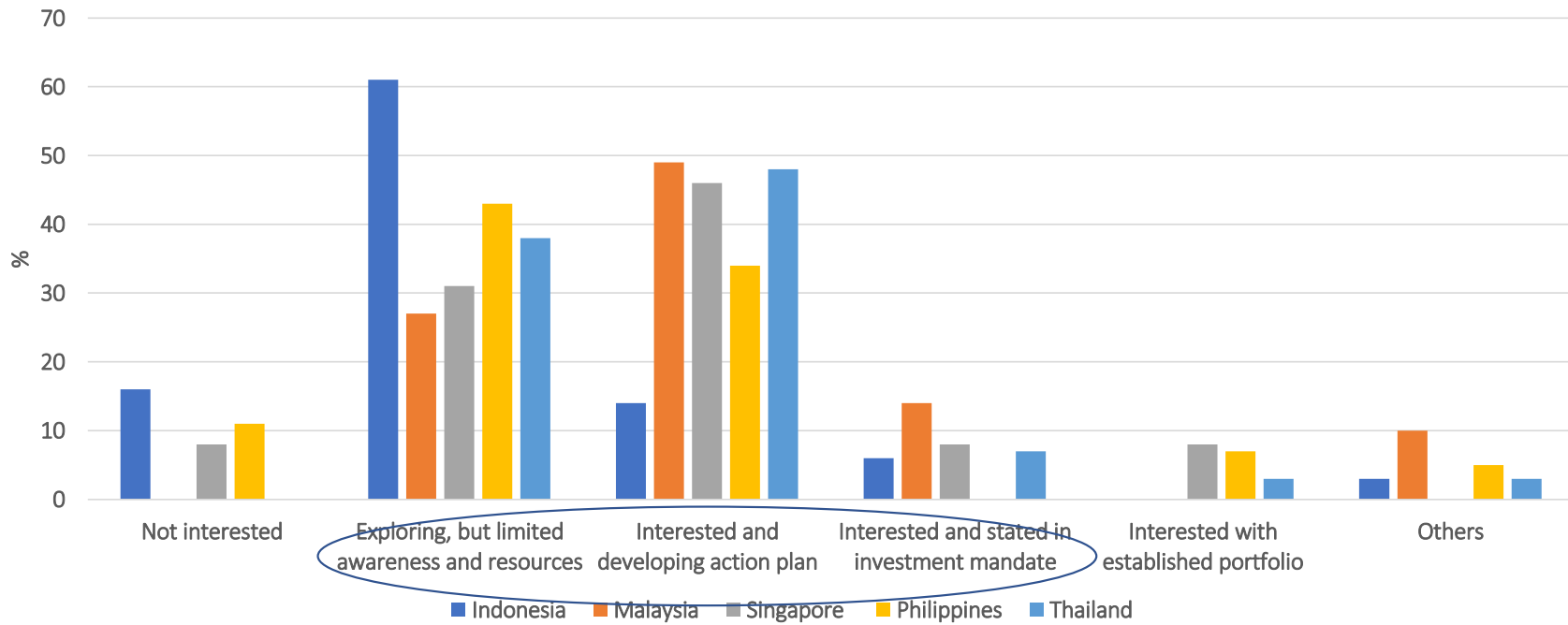
Source: AsiabondsOnline.





ASEAN domestic investors need to build investment capacity

Figure 9: Interest in investing in green bonds





Efforts needed to boost more supply in ASEAN+3

- Limited supply is listed as a key barrier for green investments too
- More room for sovereign issuance:
 - By Q3 2022, government bonds comprising for 75.9% of emerging East Asia’s outstanding bonds, however, the share of public sector is only 11.3% for sustainable bond markets.
 - Most (23 out of 29) regional sovereign sustainable bonds are in FCY.
- More pipeline, incentive, and capacity are needed for more issuance.

Figure 15: Main obstacles to investing in green bonds

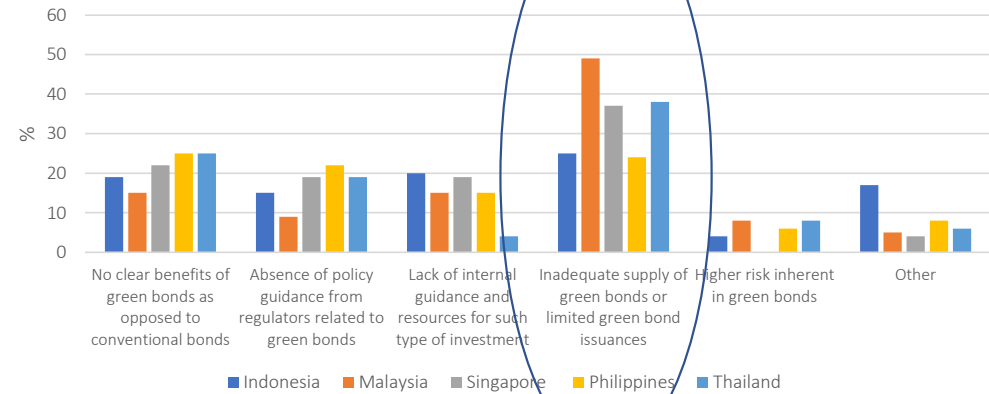
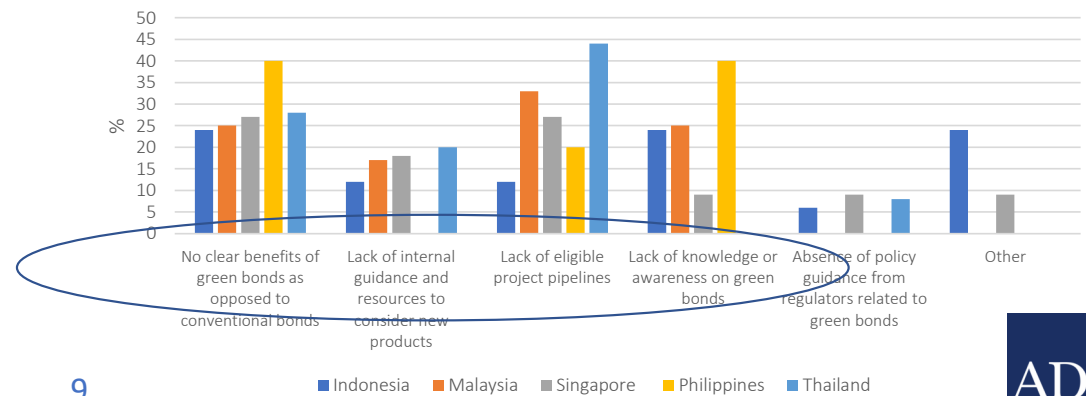


Figure 16: Main obstacles to issuing green bonds





Central banks play a key role in developing sustainable bond market

➤ Support sustainable bond market development:

- Lead taxonomy development to identify eligible projects and asset
- Develop market ecosystem: boost transparency and creditability to reduce information costs and “impact-washing risks”
 - External reviewer and certifier
 - Strength ESG performance and risk disclosure, ESG impact measurement and metric
- Increase information and knowledge dissemination to boost awareness and capacity

➤ Boost supply and demand:

- Integrate climate change risks into macroprudential policies to create incentive and promote sustainable financing and investment
- Depending on mandates and priorities, some CBs might also participate in the market, considering greening credit policy, greening policy assets (foreign reserves, asset purchasing) and non-policy assets (pension funds, etc)



ADB in Action

- Expand issuer base and increase local demand for sustainable bonds
 - Capacity building of issuers, and local investors (ABMI)
 - Increase information dissemination and boost awareness
- Increase bankability of projects
 - Derisk: e.g. ASEAN Catalytic Green Finance Facility (ACGF)
 - Development partners can act as anchor investors in sustainable bond transactions
- Create enabling ecosystem for sustainable finance
 - Support external reviewer



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The screenshot displays the AsianBondsOnline website interface. At the top, the ABO logo is visible alongside navigation links for 'About' and 'Contact'. A search bar is present with the text 'ENHANCED BY Google'. The main navigation menu includes 'Home', 'Data Portal', 'Economies', 'Market Watch', 'Publications', 'Events', 'What's New', 'Green Bonds', 'ABMF', and 'Macroeconomic Tracker'. The 'Data Portal' section is active, showing a 'Sustainable Bonds' filter. Below this, a table lists various bond issuances with columns for issuer, country, currency, amount, maturity, yield, and sector. A sidebar on the left lists categories for 'Sustainable Bonds' such as Green Bonds Issuance, Social Bonds Issuance, and Sustainability-linked Bonds Issuance. In the foreground, several report covers are displayed, including 'ASEAN+3 Sustainable Bonds Highlights' (August 2022) and 'ASIA BOND MONITOR' (June 2022).

Issuer	Country	Currency	Amount	Maturity	Yield	Rating	Sector	Category
BCPG	TH	THB	2000	2021-09-15	3.0	1.64	A- (TRIS)	Renewable Energy
BCPG	TH	THB	1000	2021-09-15	7.0	2.51	A- (TRIS)	Renewable Energy
BCPG	TH	THB	1000	2021-09-15	5.0	2.14	A- (TRIS)	Renewable Energy
ACEI Finance Limited	PH	USD	400	2021-09-08	Perpetual	4.00		Power Generation
Kasikornbank	TH	EUR	155	2021-08-26	0.5	-0.26	F1+ tha (Fitch Thailand)	Banks
Cagamas	MY	MYR	200	2021-08-25	1.0	0.00	AAA (RAM Berhad)	Consumer Finance
Oversea-Chinese Banking Corporation Limited (Acting Through Its Sydney Branch)	SG	AUD	500	2021-08-12	3.0	0.27	AA- (S&P), AA- (Fitch)	Banks
Cagamas	MY	MYR	85	2021-08-09	1.0	2.15	AAA (RAM Berhad)	Consumer Finance
Cagamas	MY	MYR	25	2021-08-09			AAA (MARC)	Consumer Finance
Aprote Business (M)	MY	MYR	200	2021-08-05				
Cagamas	MY	MYR	200	2021-08-05				