



中国人民银行  
THE PEOPLE'S BANK OF CHINA



# The Development of China's Bond Market

People's Bank of China  
Zhong XU  
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# Part I. China's Bond Market Overview



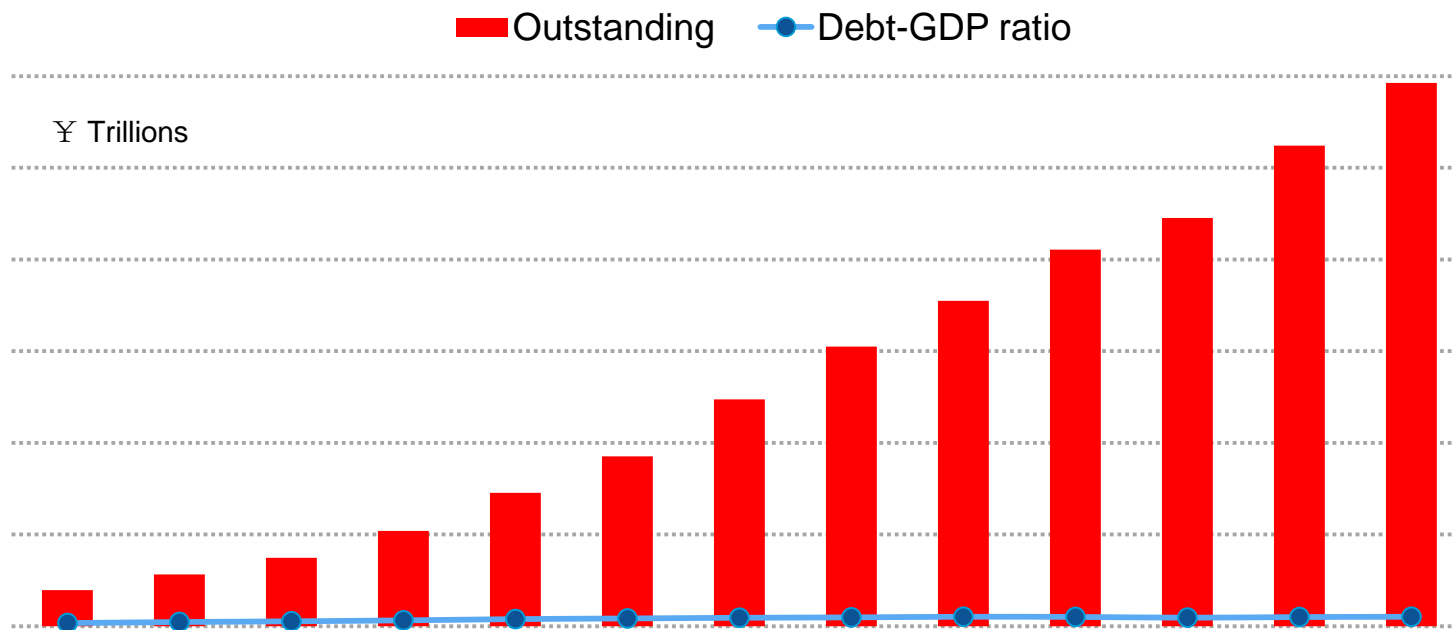
# China's bond market: overview

	Interbank Bond Market	Exchange Market
<b>Year of Est.</b>	1997	1992
<b>Trading</b>	Quote-driven, Ask-bid negotiation	Order Driven, Auto-matching
<b>Regulatory Authority</b>	PBOC	CSRC
<b>Types</b>	Treasury bonds	
	Enterprise bonds	
	Central Bank notes, Government sponsored agency bonds, Government sponsored bonds	Listing corporate bonds
	Financial bonds (Policy bonds, Commercial bank bonds and subordinated bonds, Hybrid bonds, NBFIs bonds by financial company and AMC, MDB bonds)	Convertible bonds, Separable bonds
	Non Financial Corporate Bond (SCP, CP, MTN, SMECN, PPN, ABN, etc.)	SME placement bonds
<b>Investors</b>	Qualified institutional investors	Small and medium institutional investor and individual investor
<b>Trading Platform</b>	RMB trading system provided by CFETS	Trading system provided by exchanges
<b>Depository</b>	CCDC, Shanghai Clearing House	CSDC



# China's bond market: bond outstanding

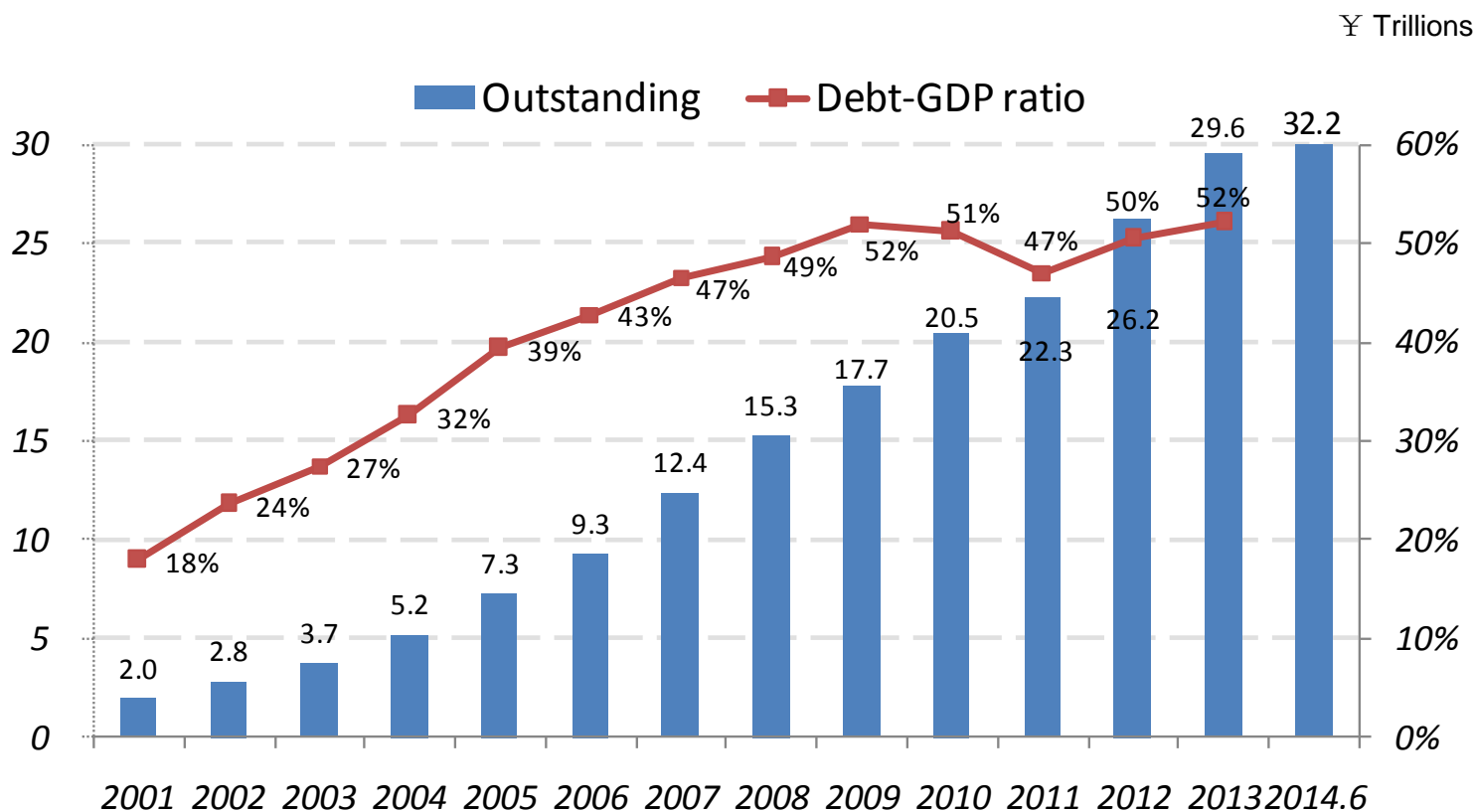
- Bond outstanding: RMB 29.6 trillion (USD 4.8 trillion) by 2013
- Interbank bond: RMB 30.1 trillion (USD 4.9 trillion, 93.2%) by June 2014
- Exchange-based bonds: is RMB 2.2 trillion (USD 0.36 trillion, 6.8%)





## China's bond market: bond outstanding

- Bond outstanding: RMB 32.2 trillion (USD 5.2 trillion) by June 2014
- Interbank bond: RMB 30.1 trillion (USD 4.9 trillion, 93.2%) by June 2014
- Exchange-based bonds: RMB 2.2 trillion (USD 0.36 trillion, 6.8%) by June 2014





# China's bond market: products

China's Bond Market (2004-2014.6, ¥ 100 millions)

	Total	Government bonds	Central Bank notes	Policy bonds	GSA bonds	Financial bonds	Securities firm's CP	ABS	Corporate bonds											
									Subtotal	SCP	CP	Collective notes	MTN	PPN	ABN	Enterprise bonds	Listing corporate bonds	Convertible bonds	Separable bonds	SME placement bonds
2004	<b>45,326</b>	19,685	11,208	14,080	0	749	0	0	<b>1,241</b>	0	0	0	0	0	0	1,241	0	335	0	0
2005	<b>68,218</b>	23,102	22,627	17,724	0	1,988	0	0	<b>3,961</b>	0	1,380	0	0	0	0	2,581	0	249	0	0
2006	<b>83,946</b>	25,406	29,748	22,836	0	2,582	0	188	<b>5,499</b>	0	2,667	0	0	0	0	2,832	0	121	99	0
2007	<b>111,386</b>	43,255	30,655	28,784	0	3,516	0	324	<b>7,737</b>	0	3,203	0	0	0	0	4,422	112	99	288	0
2008	<b>139,003</b>	45,232	42,370	36,720	0	4,278	0	551	<b>13,078</b>	0	4,203	0	1,672	0	0	6,803	400	139	921	0
2009	<b>174,974</b>	57,411	42,326	44,498	0	6,553	0	339	<b>25,302</b>	0	4,561	13	8,622	0	0	10,971	1,135	120	951	0
2010	<b>203,544</b>	66,628	40,909	51,604	1,090	6,694	0	182	<b>36,428</b>	150	6,530	55	13,536	0	0	14,511	1,646	787	951	0
2011	<b>220,689</b>	73,839	21,290	64,778	2,090	9,810	0	95	<b>48,787</b>	450	7,861	108	19,743	899	0	16,799	2,927	1,163	871	0
2012	<b>260,001</b>	80,736	13,440	73,930	8,242	13,151	295	284	<b>69,923</b>	3,531	8,327	188	24,922	4,502	57	23,012	5,384	1,255	752	94
2013	<b>296,165</b>	91,764	5,522	88,720	10,035	13,566	810	354	<b>85,394</b>	4,729	8,244	191	28,840	9,381	98	23,359	7,956	1,606	598	392
2014.6	<b>322,292</b>	85,146	4,892	97,050	10,835	14,548	970	1,121	<b>98,266</b>	5,732	9,766	169	30,254	14,021	139	27,099	8,773	1,618	98	597

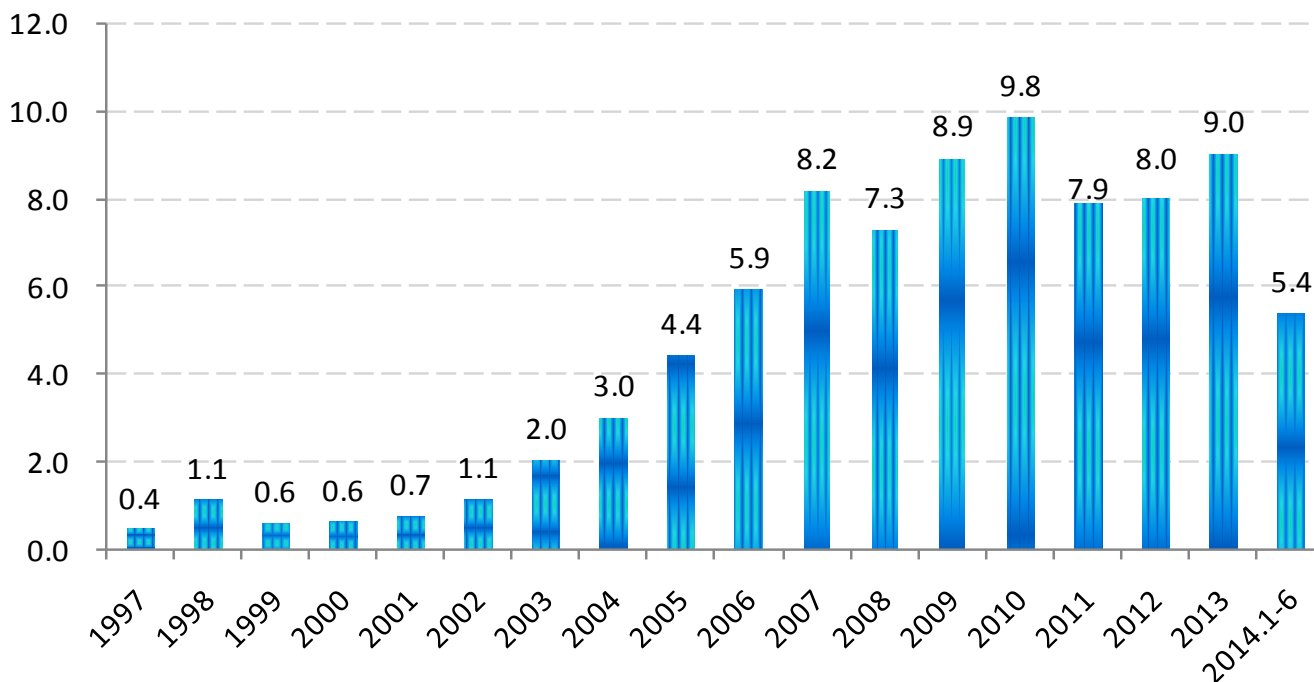


## China's bond market: issuance

- In 2013, the RMB bond issuance was RMB 9 trillion (USD 1.46 trillion), of which, the interbank issuance accounted for 95.3%.
- In the first half of 2014, the RMB bond issuance was RMB 5.4 trillion (USD 0.88 trillion), of which, the interbank issuance accounted for 98%.

**Bond Issuance (1997-2014H1)**

¥ Trillions



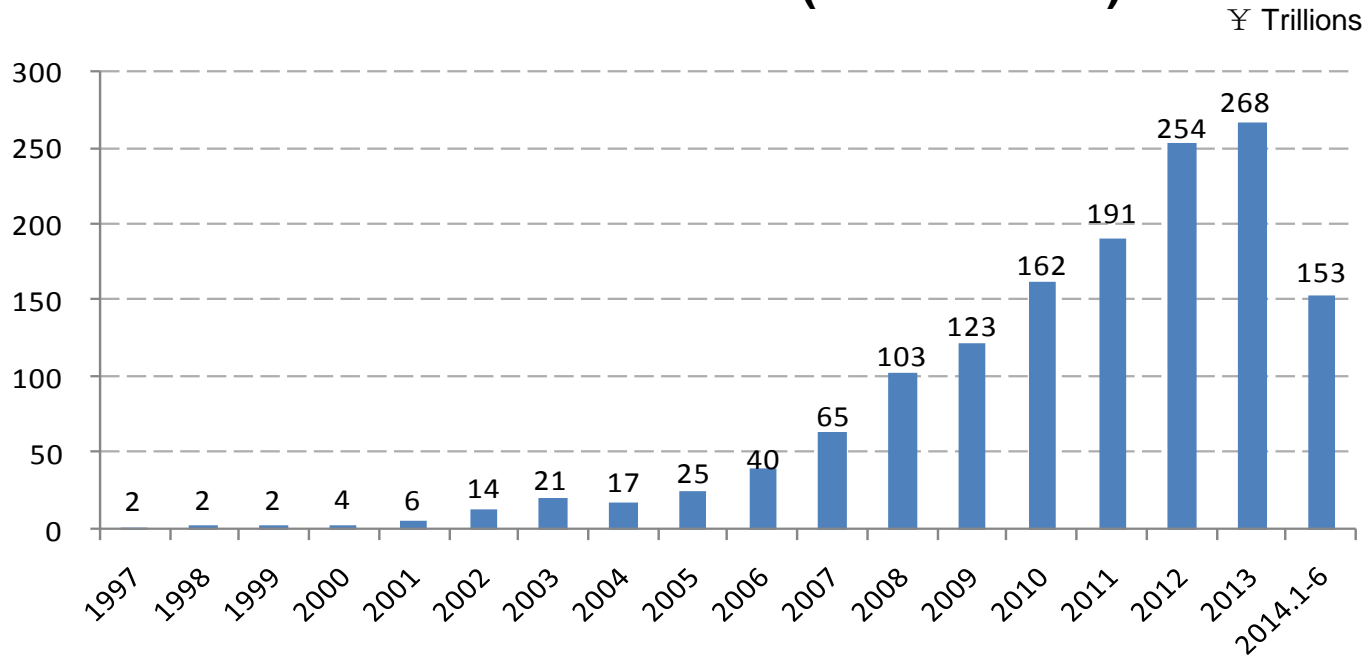




## China's bond market: transaction

- In 2013, the transaction volume of bond market (spot and repo) registered RMB 267.6 trillion (USD 43.5 trillion), of which the interbank market volume was RMB 199.8 trillion (USD 32.5 trillion), 75% of total market.
- In the first half of 2014, the transaction volume of bond market registered RMB 152.9 trillion (USD 24.9 trillion), of which the interbank market volume was RMB 111.9 trillion (USD 18.2 trillion), 73.2% of total market.

### Transaction volume (1997-2014H1)

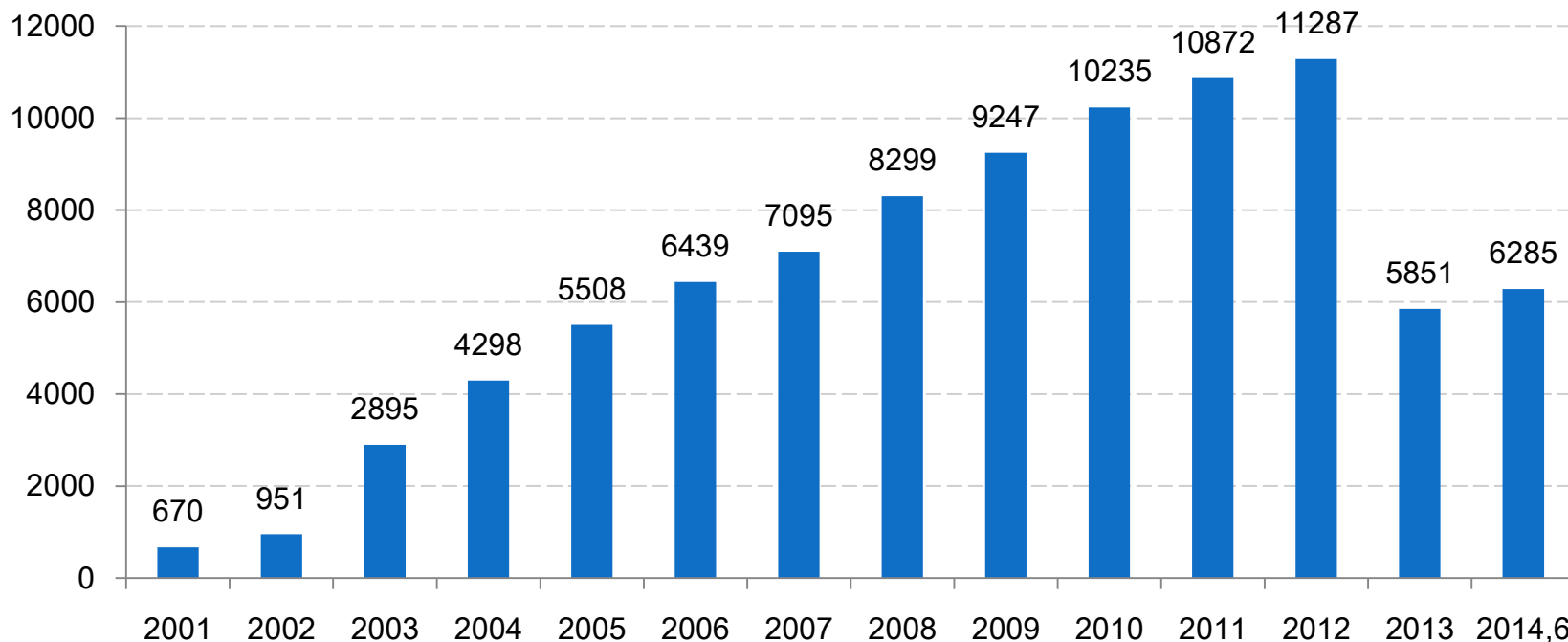




## China's bond market: investors

- By June 2014, 135 foreign institutions have access to the interbank market

Number of interbank bond market investors (1997-2014.6)





## China's bond market: investors

- More foreign institutional investors have access
  - In August 2010, PBOC allowed three types of foreign institutions access to the interbank market.
    - (i) foreign central banks
    - (ii) HK & Macau RMB clearing banks
    - (iii) overseas participating banks of cross-border RMB settlement.
  - In December 2011, CSDC, PBOC and SAFE jointly released a notice, granting RQFII access to the interbank market.



## China's bond market: overview

- From 2002 to June 2014, the proportion of loan in total social financing has declined from 95.5% to 76%. The ratio of direct financing has risen from 4.9% to 14.1%, of which bond financing plays a pivotal role, which has increased from 1.8% to 12.2%.

¥ Trillions

Time	Total social financing	Among which:						
		RMB loans	Foreign currency loans	Entrusted loans	Trust loans	Undiscounted bankers' acceptance	Bonds	Non-financial enterprises equity financing
2002	2.01	1.85	0.07	0.02	-	-0.07	0.04	0.06
2003	3.41	2.77	0.23	0.06	-	0.2	0.05	0.06
2004	2.86	2.27	0.14	0.31	-	-0.03	0.05	0.07
2005	3	2.35	0.14	0.2	-	0	0.2	0.03
2006	4.27	3.15	0.15	0.27	0.08	0.15	0.23	0.15
2007	5.97	3.63	0.39	0.34	0.17	0.67	0.23	0.43
2008	6.98	4.9	0.19	0.43	0.31	0.11	0.55	0.33
2009	13.91	9.59	0.93	0.68	0.44	0.46	1.24	0.34
2010	14.02	7.95	0.49	0.87	0.39	2.33	1.11	0.58
2011	12.83	7.47	0.57	1.3	0.2	1.03	1.37	0.44
2012	15.76	8.2	0.92	1.28	1.29	1.05	2.25	0.25
2013	17.29	8.89	0.58	2.55	1.84	0.78	1.81	0.22
2014H1	10.54	5.74	0.46	1.35	0.45	0.77	1.29	0.2



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# Part I I. China's Bond Market in Retrospect



# China's bond market in retrospect

## I. The infant stage (1981-1997)

- In 1981, treasury bonds re-started.
- In 1995, the treasury futures market suspended
  - “327 event”
- In 1997, the interbank market founded, commercial banks withdrew from exchange-based market to safeguard financial stability.



# China's bond market in retrospect

## II. The overhaul (1997-2004)

- After the Asian Financial Crisis, the bond market in China overhauled
- PBC led the efforts with market-based approach
  - Reduced administrative control
  - Oriented for qualified institutional investors
  - Implement OTC quote-driven trades, centralized and single-tier custody, unified trading platform.



# China's bond market in retrospect

## III. The skyrocketing stage (2004-Present)

- PBOC promoted the corporate bond market
  - In 2005, short term financing bills (CPs) launched
  - NAFMII, a self-regulatory organization, founded to formulate self-regulatory rules for the non-financial corporate debt instruments and authorized by PBOC. Shelf-registration introduced.





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# Part III. Issues



## Debt to GDP ratio is relatively low

### Debt to GDP Ratio (2013)

- By the end of 2014 Jun, the outstanding of China's bond market totals RMB 32.2 trillion (\$5.2 trillion), 60% of GDP.
- US, UK and Japan all surpassed 200%.

\$ Billions

	Bond Outstanding	Debt to GDP
US	37,347	225%
UK	5,786	234%
Japan	14,592	245%
Korea	1,439	127%

Source: BIS, World Bank



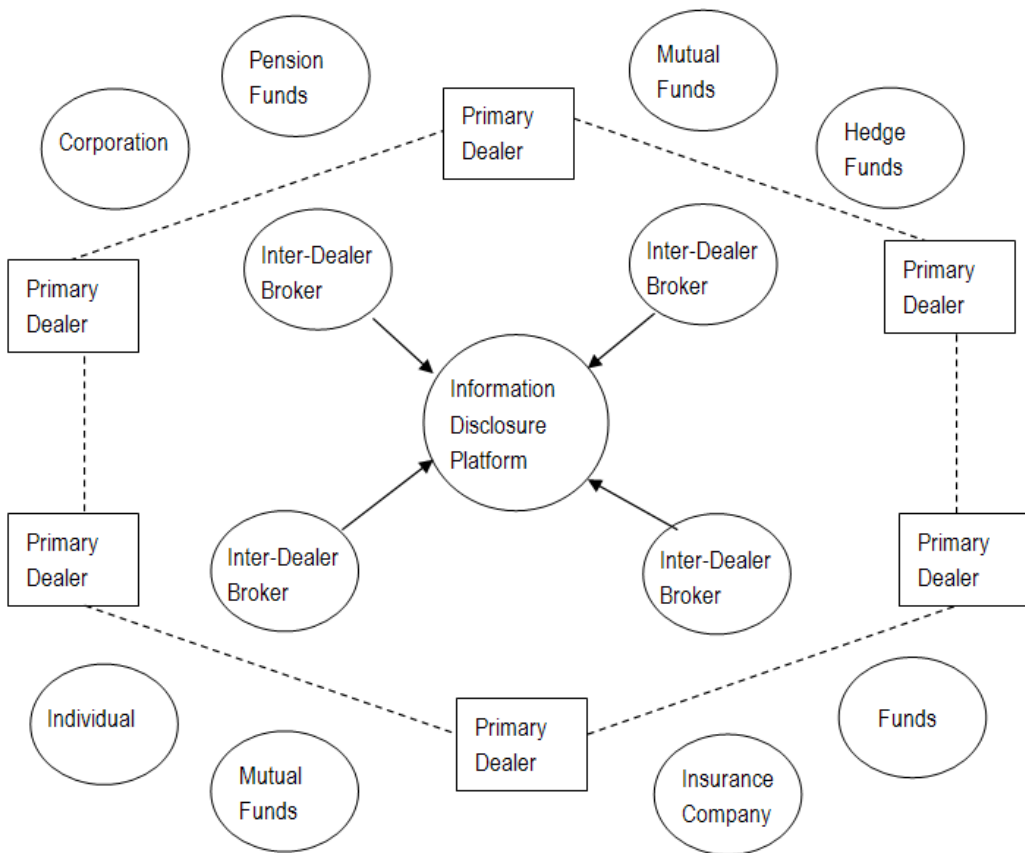
## Liquidity

### Daily Turnover Ratio (2013)

	US	China
Treasury Bonds	4.60%	0.26%
Corporate Bonds	0.19%	1.04%
Total	2.03%	0.58%



## Market making



- Market makers are not given full play to their roles. The efficiency of microstructure could be improved.
- The transaction volume by market makers account for merely 0.09% in the total volume of interbank market, while the proportion is 75.4% in the US bond market.

### Microstructure of US bond market



## Derivative market

### Overview of transaction volume in China Derivative Market

¥ Trillions

	Spot	Repo	Interest Rate Derivatives	Credit Derivatives
2009	47.3	70.3	1.1	0.0
2010	64.0	87.6	1.8	0.0
2011	63.6	99.5	2.8	0.0
2012	75.2	141.7	2.9	0.0
2013	41.6	158.2	2.8	0.0
2014.1-7	21.2	115.2	2.1	0.0



## Bond default is rare

- From 2007 to 2011, 400 bonds default in US bond market. The default rate increased from 0.49% to 5.71%. In 2013, the rate is 2.1% in US credit bond market.
- Default cases in China's bond market since 2004
  - Listing corporate bond of Chaori issued in 2011
  - SME placement bond of Zhongsen issued in 2013 (failure to pay the interest due)
  - SME placement bonds of Jintai issued in 2012 (failure to pay principle and interest due)



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# Part IV. outlook



## outlook

- Marketization and reduction government implicit guarantees and administrative control.
- Develop various innovative products to meet the demand of economic entities.
  - CDS, Municipal bonds, centralized bond lending, interest rate option, tri-party repo, etc.
- Enhance openness to international investors.





## Outlook

- Deepen the stratification of inter-bank market, enhance the role of market makers.
- Enhance information disclosure.
- Enhance market infrastructure. Strengthen custody and settlement system, clearing system, unified trading platform and trades repository (TR)
- Improve regulatory coordination.