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## **Financing businesses:**

### **The bond market is turning into a "spare tyre" in several countries of Asia, Central Europe and Latin America**

- **2017: the 20th anniversary of the crisis in Asia which had exposed the need to diversify the sources of funding in the emerging countries, and not simply depend on financing from banks**
- **The bond markets are appearing more and more to serve as a "spare tyre", but where the effect is differentiated depending on whether companies make use of the domestic or the international market**

### **Strong growth in bond financing for companies in emerging countries**

Since the early 2000s, corporate debt in the emerging countries has been on a constant rise, with significant acceleration since the 2008 crisis: the value growing fourfold between 2008 and 2017, corresponding to a high-on 25 percentage point rise in the GDP. Emerging Asia is the region most concerned by corporate debt (133% of GDP in 2016), largely caused by China.

Bank credit, in particular the credit granted by domestic banks, remains the source of funding favoured by businesses. However, the development of the bond market in the emerging countries is growing at a faster rate. The proportion of bonds in corporate debt grew from 14% in 2008 to 20% in 2016. Globally beneficial for companies and private individuals alike, this diversification of the funding source is bringing down its cost, increasing the capacity of loans to small companies and, lastly, encouraging investment.

### **Yet the bond markets do not offer any breathing space to companies in periods of extremely violent upheavals**

In periods of bank credit contraction, as was the case in the emerging countries during the 2008-2009 crisis, then in 2015 and 2016, bond funding can offer companies some breathing space. The Coface economists have identified **3 groups of emerging countries**, based on an analysis of bond market growth during periods of bank credit contraction in the non-financial sector in **18 countries**.

- **1<sup>st</sup> group:** the domestic bond market fulfilled its role as "spare tyre" for companies in **Thailand, Indonesia, Poland, Czech Republic, Hungary and Argentina**. The growth of the bond market has not been negative when bank credit has fallen; the growth in the issuing of bonds has been faster, and the proportion of outstanding debt on the domestic market is in the majority (more than 60% for the Czech Republic and 86% for Thailand).

- **2<sup>nd</sup> group:** the lower levels of bank funding have been compensated by the issuing of bonds on the dynamic international markets in **Chile, Colombia, Mexico and Turkey**. Unlike the first group, it is above all the bonds issued on the international markets that have been used as an "spare tyre", with all the incumbent risks (increased exchange risk in the case of bond issues in foreign currencies).
- **3<sup>rd</sup> group:** no alternative to bank credit in **South Africa, Brazil, Malaysia and Russia**. Whereas the falling value of raw materials has been translated in these major emerging countries by a contraction of business activity, bond borrowing by companies has maintained a procyclical dynamic and investor bond demand has fallen. The bond market is of no assistance when the economic shock is particularly violent, despite the existence of relatively large liquid markets.

Lastly, in **China and India**, no credit contraction has been recorded recently, and so it has not been possible to analyse any such "spare tyre" effect.

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#### About Coface

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