



Annual PDMO Market Dialogue for FY2015

Ms. Chularat Suteethorn, the Director-General of the Public Debt Management Office (PDMO), announced the results of the annual PDMO Market Dialogue, which was held on the 17th September 2014. The meeting is a forum for key stakeholders of Thai Bond Market to exchange information and opinions regarding Thai Government's funding strategy of FY2015, the current state of Thai Bond Market, the Development plan for Thai Bond Market as well as other Bond Market related issues. Around one hundred and fifty people, including representatives from Bank of Thailand (BOT), The Securities and Exchange Commission (SEC), Thai Bond Market Association (ThaiBMA), Ministry of Finance's Outright Primary Dealers (MOF Outright PD), financial institutions and insurance companies, participated in the event. Main topics discussed in the meeting are shown below.

1. Estimated Government Funding Needs* for FY2015

Government funding needs for FY2015 is estimated approximately THB 705,000 million baht and consist of:

1.1. Refinancing of maturing debt in FY2015

a. Direct government debt under public debt management act	THB 209,xxx million baht
b. FIDF debt	THB 86,xxx million baht
c. Debt Prefunding	THB 66,xxx million baht
d. On-lending	THB 29,xxx million baht

Total Refinancing of maturing debt in FY2015 THB 390,xxx million baht

1.2. New Borrowing in FY2015

e. Budget deficit financing	THB 250,xxx million baht
f. Substitution for external borrowing	THB 4,xxx million baht
g. Financing for Disaster insurance promotion fund	THB 2,xxx million baht
h. On-lending	THB 59,xxx million baht

Total New Borrowing in FY2015 THB 315,xxx million baht

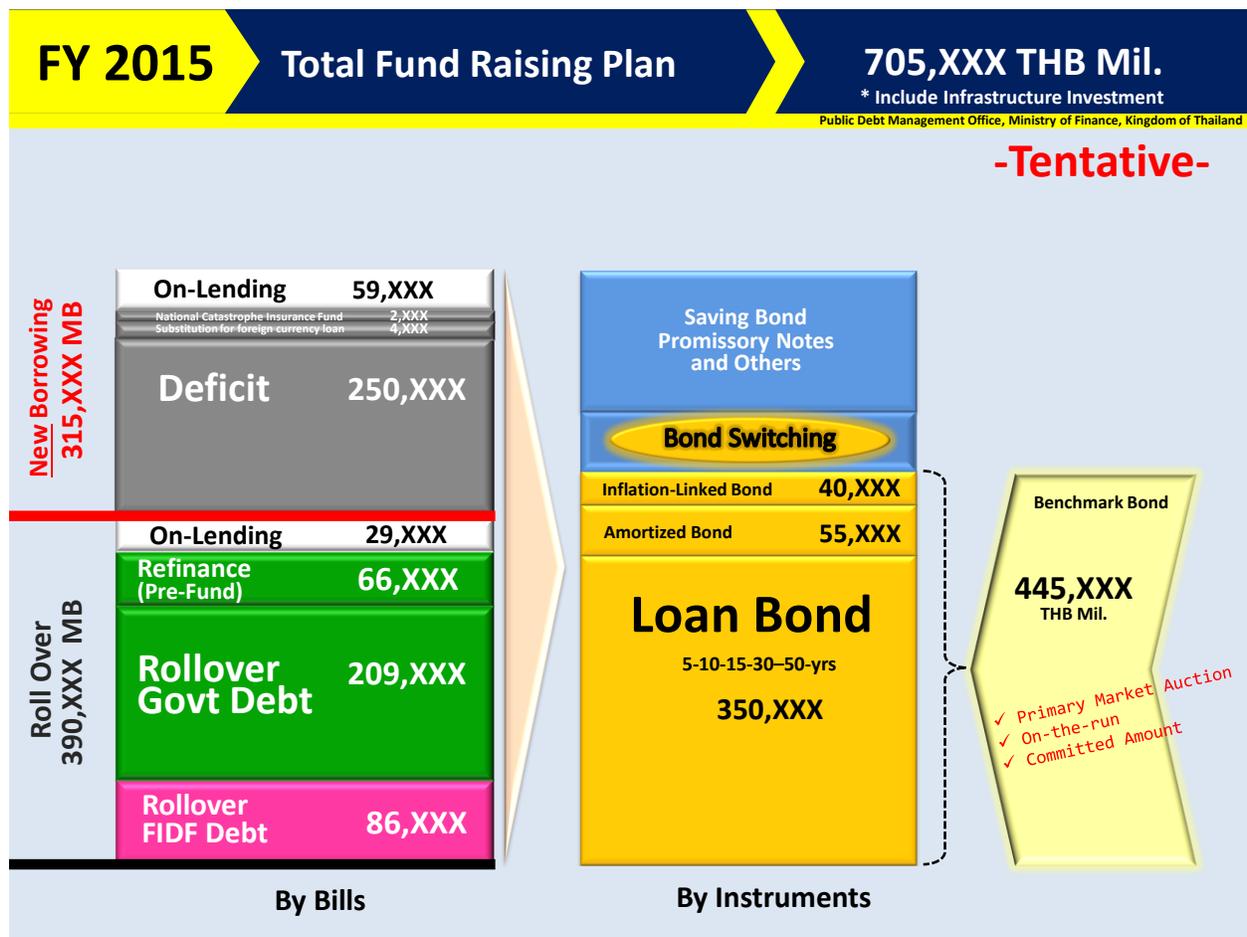
Total Funding Needs for FY2015

THB 705,xxx million baht

*Government direct borrowing

2. Governments Fundraising Plan for Fiscal Year 2015

Figure 1: Estimated Government Funding Needs and Funding instrument in FY2015



2.1 Continuity of the benchmark bond

Given the success of the benchmark bond in the past 6 years, PDMO will continue to use Benchmark bond as the primary tools to raise funds and will aim to further improve the benchmark bond. In FY2015, five series of benchmark bonds, which are 5-year, 10-year, 15-year, 30-year and 50-year, will be issued in an amount of THB 350,000 million baht or equivalent to 50% of total funding need (THB 705,000 million baht). All five series will be “top-up” of existing bond series in the market in order to enhance liquidity of the benchmark bonds. As a result, PDMO will issue the benchmark bond of FY2015 by top-up:

- LB21DA
- LB25DA
- LB296A
- LB446A
- LB616A

2.2 Continuity of Inflation-Linked Bond (ILB) and Amortized Bond (LBA)

Inflation-Linked Bond and Amortized Bond are Innovative Benchmark Bonds which were introduced to be primary fundraising tools and expand the investment base of the government. These two bonds also provide investors with investment alternatives. Thus, PDMO plans to build up the outstanding size of the 15-year Inflation-Linked Bond (ILB283A) and 25-year Amortized Bond (LBA37DA) to THB 100,000 million baht and THB 200,000 – 300,000 million baht respectively in FY2015 in order to ensure continuity of the two bonds. Also, PDMO is considering topping-up the 7-year Inflation-Linked Bond (ILB217A) or launching 30-year inflation-linked bond in the second half of FY2015 to further promote the Inflation-Linked Bond.

2.3 Promoting saving habit of citizen by issuing Savings Bond

PDMO aims to promote and encourage saving habit of the retail investors by regularly issue savings bond. Thus, PDMO plans to issue 3 series of savings bonds in an amount of THB 38,000 million baht in FY2015. The details of the savings bonds are as follows.

<u>Bond</u>	<u>Times per year</u>	<u>Tenors</u>	<u>Selling period</u>	<u>Issuing Size</u>
● Regular savings bond	2 times	3 years	4 months	4,000 million baht per time
● Special savings bond	1 time	5 years or longer	2 weeks	30,000 million baht per time

2.4 Systematic issuance of Treasury Bill

PDMO will continue to systematically and regularly issue the 28-day T-bill, which started in FY2014. The objectives of the issuance are maintaining adequate treasury reserve to support government expenditures. Therefore, THB 10,000 – 25,000 million baht of the 28-day T-bill will be issued consistently on a weekly basis and the outstanding size of the 28-day T-bill will be maintained at approximately THB 100,000 million baht through FY2015.

3. Bond Switching

PDMO is in process of implementing Bond Switching and Bond Consolidation in order to provide additional flexibility in debt management, and to minimize debt roll-over risk, as well as to increase the liquidity of the destination bonds in the secondary market.

PDMO has scheduled the inaugural Bond Switching to be in November 2014. In this transaction, “LB155A” will be the source bond and the destination bonds will be announced in the Domestic Bond Switching Roadshow on 28th October 2014. Bangkok Bank Public Company Limited, Kasikorn Bank Public Company Limited and Standard Chartered Bank (Thai) Public Company Limited are the joint lead managers of this transaction as well as other Bond Switching and Bond Consolidation transactions which will occur in FY2015. The timeline of the inaugural Bond Switching is shown in figure 2.

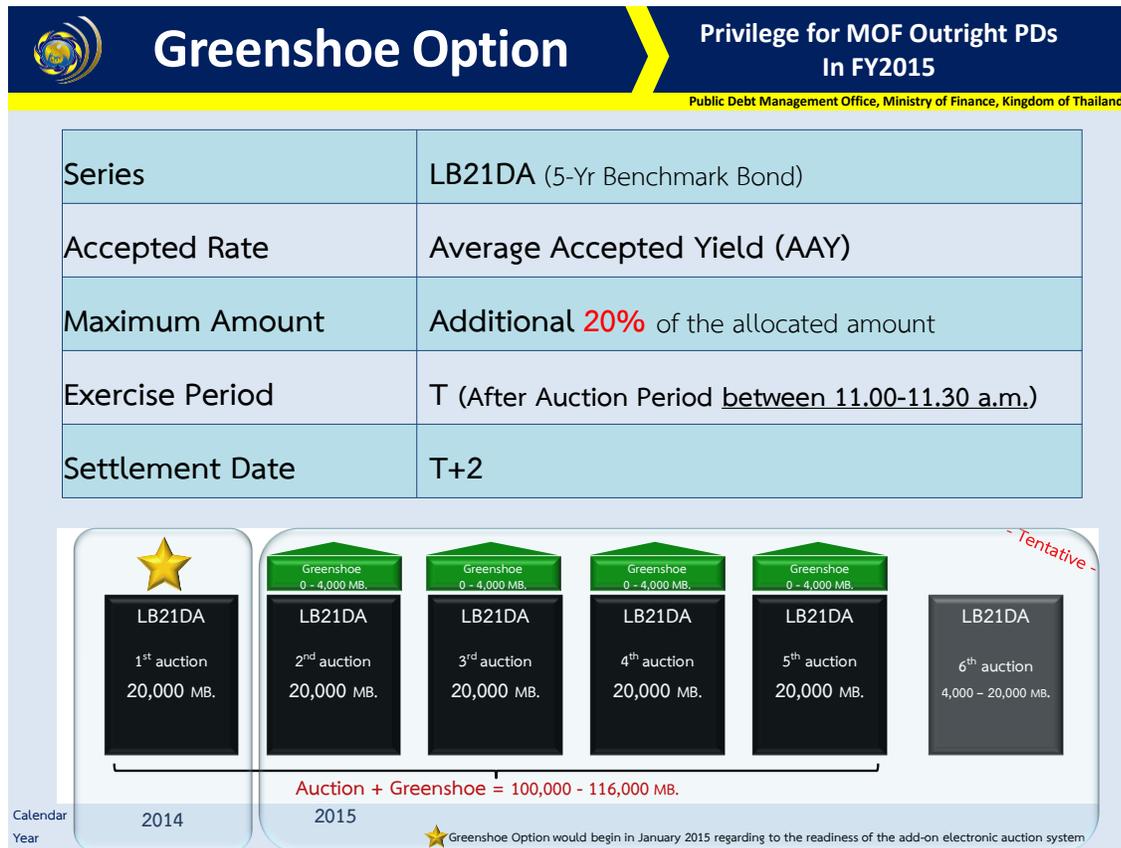
Figure 2: Bond Switching Timeline



4. Greenshoe Option

The Ministry of Finance has appointed thirteen financial institutions as the MOF Outright PD and is in process of appointing one more MOF Outright PD. The MOF Outright PDs play important roles as market makers that can help enhance the liquidity of Thai Bond Market. The Nominating and Monitoring Committee of MOF Outright PD which chaired by the Director General of PDMO had reviewed the privilege and duties of MOF Outright PD and has decided to give Greenshoe Option to the MOF Outright PD on 5-year benchmark bond auction, which can be entered exclusively by only the MOF Outright PD, from FY2015 onwards. Thus, the MOF Outright PD who is allocated with 5-year benchmark bond from the primary market auction will be able to request an additional 20% of the allocated proportion at average accepted yield (Greenshoe). The MOF Outright PDs must send the request to PDMO within 11.00 – 11.30 of the auction date in order to activate the Greenshoe Option. The details of Greenshoe Option are shown in figure 3.

Figure 3: Details of Greenshoe Option



5. The Relaxation on Eligible Thai-denominated Bonds and Debentures Applicants for CLMV Countries

On 21st August 2014, the Baht Bond Committee; chaired by Director-General of PDMO, together with the representative from PDMO, BoT, and SEC as board members, agreed to relax the requirement of Thai-denominated Bonds and Debentures application in order to promote Thai bond market as the leading bond market of the region and prepare for the entrance to ASEAN Economic Community (AEC) in 2015.

The committee has now granted foreign entities from CLMV countries (Cambodia, Lao PDR, Myanmar, and Vietnam) to apply for the Baht Bond issuance with the credit rating of Investment Grade (BBB-) in local scale. In this regard, the committee will closely monitor all transactions related to the relaxation and ensure limited impacts on Thai corporate funding.

6. Information and feedback from market participants of Thai Bond Market are taken into consideration by PDMO in developing guidelines in issuing government bonds for FY2015

In planning for government fundraising strategy in FY2015, PDMO will take into account the several factors as follows:

- The result of estimated vs. actual revenues collected will be analyzed against actual government spending in order to develop more effective funding strategy and reduce the impact of volatility for government revenues and expenses on benchmark bond issuances.
- Market demand are regularly assessed through frequent dialogue between PDMO, MOF Outright PDs and market participants at market dialogues which are held on a quarterly basis (one-on-one meeting) and yearly basis (one-on-group meeting).
- Assessment of interest rate trends, economic condition and bond issuance plan between MOF and BOT.
- Funding instrument analysis will be taken into account in determining appropriate methods for each source of funding.

PDMO will incorporate information and feedback from market participants to determine funding strategy for FY2015, and also propose this plan to various working committees for the further approval. The first quarter of FY2015's government bond schedule will be announced by the end of September 2014.

PDMO would like to take this opportunity to thank the representatives from the BOT, SEC, ThaiBMA, MOF Outright PD, and investors of the Thai Bond Market in taking part in this PDMO Market Dialogue. The meeting will be periodically and consistently held to exchange and share ideas on funding strategy and to promote the further development of Thai bond market.