

Description for the general public – the reasons for conducting the research

The debate on optimal way of financing for companies has been present in the economy for many years. One can assume that there are two main ways of obtaining financial resources by companies, namely bank credit and financial markets through the issuance of shares or corporate bonds. Countries in the world differ significantly as far as this characteristic is concerned. Anglo-Saxon countries are traditionally more focused on capital market based sources of financing. On the contrary, most economies in Europe rely on bank lending. Our ambition is to give a valuable contribution to the debate.

We will focus on the determinants that are vital for the development of corporate bond market. It is to emphasize that the approach of using this instrument is really diversified among developed countries and reflects the differences between Anglo-Saxon and Continental Europe, that are described above. The size of corporate bonds market in relation to GDP in 2013 for the United Kingdom was 140%, while the same indicator for Germany amounted for 58%.

The subprime crisis has triggered an interesting discussion on the need of diversification and increasing role of capital markets in the European Union. The new political initiative, namely European capital market union is now under consideration and consultation. The main areas that EU authority describes in the Green Paper and plans to work on are: improving access to financing for companies in Europe, especially for SMEs and long-term projects; diversifying the sources of funding from investors, particularly by using equity instruments, but also corporate bond market; making the markets work more effective and improving connections between potential investors and entrepreneurs. The European capital market union as a new concept shapes the broader context of our planned research. Studying and understanding the mechanisms of particular bond markets may help to draw general conclusions and formulate recommendations for institutional reforms both in Poland and European Union.

From our point of view, the most interesting case to study as far as corporate bond markets are concerned is emerging East Asia, especially: China, Hong-Kong, Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam. Analysis of the East Asian markets is interesting mainly because of the fact that it turned out that these markets were relatively more resilient in comparison to the other parts of the world during the subprime crisis. The depth of the output decline in Asia was smaller by 2.8 percentage point and the recovery to the pre-crisis output level was around 3 quarters quicker than in the case of other countries.

Secondly, East Asian countries experienced financial crisis in 1997. It is often treated as an crucial point in their regulations and policy towards financial system. It turned out that eventually this hard experience became a source of resilience after the subprime crisis. East Asian emerging economies were strongly dependent on bank credits before 1997. The pressure on excessive bank lending associated with underdeveloped deposit base created an environment for significant external capital inflows. Banks in East Asia were financing their domestic lending activities externally, short-term and in foreign currency. Abrupt capital outflow and depreciation of local currencies led to serious problems of banking sector and the whole economy. Developed corporate bonds market as a tool of diversification and substitution for credits may bring a substantial contribution to the stability of financial system. This mechanism was quite creatively described by Alan Greenspan in his speech in 1999. In the analysis of Asian financial crisis of 1997 he claimed that capital markets may act as a 'spare tyre' for the economy.

Our main task in the proposed research will be to understand which conditions have to be fulfilled to provide the economy with the appropriate 'spare tyre'. As said before, Asian corporate bond markets will serve for us a source of data for analysis. At the very beginning the research on institutional policy and general market trends will be conducted. It is to emphasize that Asian countries put a lot of effort to boost their corporate bond markets. Among the most important initiatives one has to underline two projects prepared by Executives' Meeting of East Asia-Pacific Central Banks (EMEAP), namely Asian Bond Funds 1 and 2 (ABF 1 and 2). They were related to promoting the regional markets. Another vital project was Asian Bond Market Initiative (ABMI) implemented by ASEAN (Association of South-East Asian Nations). Among the activities of ABMI were: strengthening the market infrastructure through launching the guarantee institution, regional clearing center and development of domestic rating agencies. Empirical studies showed that ABF, ABF2 and ABMI had a positive impact on the probability of bond issuance by the companies. The growth of this probability was estimated for 0.06 (P. Mizen, S. Tsoukas, 2013). Market data confirms the success of aforementioned policy projects. One can observe a substantial bond market's upswing in Asia between 1998 and 2008. The whole market noticed an increase of 217% in the period. This indicator for sovereign bonds market amounted for 275.3 and for corporate bonds market – 65.7% (B. N. Bhattacharyay, 2011).

Initial literature studies will let us build two macroeconomic multiple regression models with the certain number of independent variables. The first one will refer to the determinants of Asian corporate bond market's development in the period 1997-2007, while the second one will be created in order to analyze the situation after the subprime crisis. Among the variables that will be taken into account (and some of them will be eventually used in the models) are: size of the economy (GDP), development level of the economy (GDP per capita), level and variance of interest rates, size and concentration of banking sector, development stage of asset manager firms, variation of monthly/weekly exchange rates, absence of public sector funding needs, tradition and quality of legal system, corporate governance quality and transparency, the concentration of companies in the economy, absence of public sector funding needs, level of sovereign bonds development, local credit rating agencies development. After preparing the models, the qualitative research based on chosen cases of East Asian economies will be done as an additional appendix to the main analysis.

The final result of the whole scientific project will consist of two parts. Firstly, one will find the analysis of mechanisms of corporate bonds markets in emerging East Asian economies in two aforementioned periods. Secondly, we will add case based research concerning the policy projects tailored for bond markets as well as potential threats and obstacles that may arise during the dynamic growth of corporate debt instruments issuance.