Bond Market Developments in the First Quarter of 2014

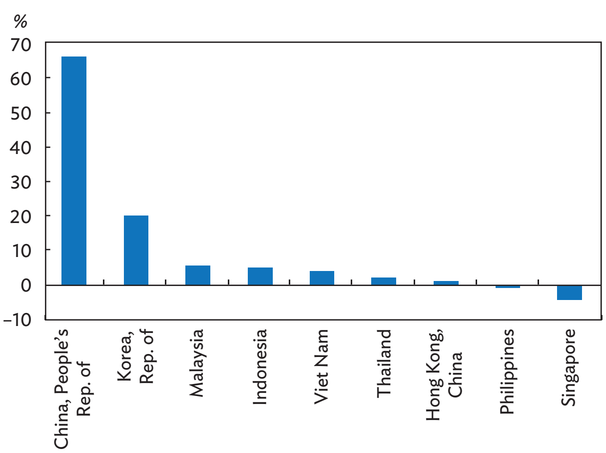
The outstanding size of the emerging East Asian local currency bond market reached US$7.6 trillion at end-March 2014.

Total local currency (LCY) bonds outstanding in emerging East Asia increased to US$7.6 trillion at end-March 2014 on 2.1% quarter-on-quarter (q-o-q) growth in 1Q14, down slightly from 2.6% growth in 4Q13.[3]

The People's Republic of China (PRC) accounted for nearly two-thirds of 1Q14's growth **(Figure 1)**. On a q-o-q basis, the PRC bond market expanded 2.2%, driven by a rapid rise in the stock of policy bank bonds and corporate bonds. The PRC remained the largest LCY bond market in emerging East Asia with total outstanding bonds of US$4.7 trillion, accounting for 61.5% of total LCY bonds in the region.

The Republic of Korea, with bonds outstanding of US$1.6 trillion at end-March, contributed one-fifth of the region's LCY bond market q-o-q growth in 1Q14. The Korean LCY bond market's 1.9% growth rate was driven mainly by increases in central government bonds and industrial finance debentures, as well as modest increases in central bank bonds and corporate bonds.

Figure 1: Contribution to Quarter-on-Quarter Growth



Source: Based on *AsianBondsOnline* calculations.

[3] Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

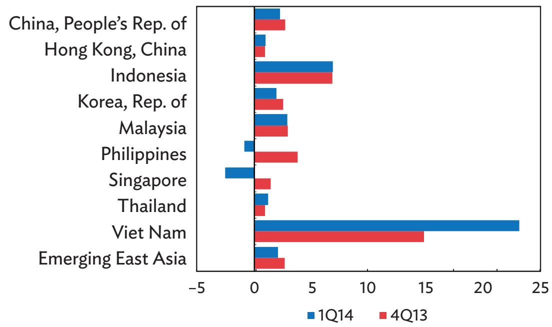
Malaysia, the third-largest LCY bond market in the region at a total size of US$322 billion at end-March, accounted for 5.8% the region's growth in 1Q14. Malaysia's 2.8% q-o-q growth rate was mostly driven by increases in central government bonds and corporate bonds.

While Viet Nam posted the highest q-o-q growth rate in emerging East Asia in 1Q14 at 23.0%, its contribution only accounted for 4.3% of the region's growth in 1Q14. Viet Nam's LCY bond market grew significantly due to the robust expansion of its government bond market, which was led by a notable rise in central bank bills. The State Bank of Viet Nam (SBV) issued a record-high VND173.8 trillion (US$8.2 billion) in SBV bills in 1Q14 to mop-up excess liquidity and help curb inflation. Meanwhile, Viet Nam's corporate bond market contracted in 1Q14 due to the absence of any corporate issuance since 1Q13.

Indonesia was the second fastest growing bond market in the region in 1Q14 with growth of 6.8% q-o-q **(Figure 2a)**. This stemmed mainly from growth in its government bond sector as the government successfully implemented a frontloading policy in which the bulk of its financing requirements will be met through the issuance of government securities in the first 6 months of the year. As of 25 March, the government had met nearly half of its funding requirements for the year, including foreign currency (FCY) bond issuance. The government either awarded in full or issued more than its targeted amount for most auctions of conventional bonds in 1Q14. On the other hand, all of Indonesia's *sukuk* (Islamic bond) auctions missed their target except for one auction. Also, in March, the government raised IDR19.3 trillion from the sale of 3-year retail *sukuk*.

Thailand and Hong Kong, China reported q-o-q growth rates of 1.2% or less, while the LCY bond markets of the Philippines and Singapore contracted in 1Q14. In the Philippines, the decline in the size of its LCY bond market was due to negative growth in the government sector. In 1Q14, the Bureau of the Treasury rejected most of its auctions for Treasury bills and awarded less than its targeted amount in other auctions as investors sought higher yields on rising inflationary expectations.

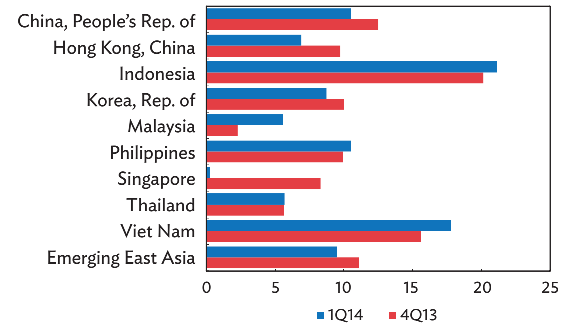
Figure 2a: Growth of LCY Bond Markets in 4Q13 and 1Q14 (q-o-q, %)



LCY = local currency, q-o-q = quarter-on-quarter.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-March 2014 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, 1Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For the Republic of Korea, 1Q14 government bonds outstanding data based on February 2014 data of The Bank of Korea. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 1Q14 corporate bonds outstanding data based on Bank of Thailand's February 2014 estimate. For Japan, 1Q14 government and corporate bonds oustanding data carried over from February 2014.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

Figure 2b: Growth of LCY Bond Markets in 4Q13 and 1Q14 (y-o-y, %)



LCY = local currency, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from LCY base and do not include currency effects.
3. Emerging East Asia growth figures are based on end-March 2014 currency exchange rates and do not include currency effects.
4. For Hong Kong, China, 1Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For the Republic of Korea, 1Q14 government bonds outstanding data based on February 2014 data of The Bank of Korea. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 1Q14 corporate bonds outstanding data based on Bank of Thailand's February 2014 estimate. For Japan, 1Q14 government and corporate bonds oustanding data carried over from February 2014.

Sources: People's Republic of China (*ChinaBond* and Wind); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

On a year-on-year (y-o-y) basis, growth in the region's LCY bond market moderated to 9.5% in 1Q14 **(Figure 2b)**. All markets recorded positive growth on a y-o-y basis, led by Indonesia (21.1%), Viet Nam (17.8%), the Philippines and the PRC (10.5% each), and the Republic of Korea (8.7%).

While growth in the region's LCY bond market remained positive in 1Q14, the pace of growth was slower on both a q-o-q and y-o-y basis. This slowdown may have been due to uncertainties generated by the United States (US) Federal Reserve beginning to taper its asset purchases in January. Although most markets priced in the effects of quantitative easing tapering during the second half of last year, expectations of a rise in US interest rates pose a drag to the growth of LCY bond markets in emerging East Asia.

Both the government and corporate bond sectors contributed to the growth of the region's LCY bond market in 1Q14. The government sector rose 2.2% q-o-q and 8.0% y-o-y in 1Q14 to reach US$4.6 trillion at end-March **(Table 1)**. Government bonds continued to dominate the region's LCY bond market in 1Q14 with a 59.9% share of total LCY bonds.

At end-March 2014, the stock of central bank bills and treasury bonds recorded positive growth, while the stock of treasury bills and central bank bonds contracted on both a q-o-q and y-o-y basis. Hong Kong, China has the largest stock of central bank bills in the region at US$88 billion **(Figure 3)**. Meanwhile, the PRC has the largest stock of treasury bonds in emerging East Asia at US$1.2 trillion.

The emerging East Asian LCY corporate bond market grew 1.9% q-o-q and 11.7% y-o-y to reach US$3.1 trillion at end-March. All corporate bond markets posted positive growth except for Indonesia and Singapore, which both contracted on a q-o-q basis, and Viet Nam, which contracted on a q-o-q and y-o-y basis.

In Indonesia, corporate bond issuance had a slow start in 2014, with new corporate debt issuance only commencing

Table 1: Size and Composition of LCY Bond Markets

	1Q13		4Q13		1Q14		Growth Rate (LCY-base %)				Growth Rate (US$-base %)			
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	1Q13		1Q14		1Q13		1Q14	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)														
Total	4,260	100.0	4,724	100.0	4,702	100.0	4.0	17.8	2.2	10.5	4.4	19.5	(0.5)	10.4
Government	2,828	66.4	3,073	65.0	3,056	65.0	1.7	8.3	2.1	8.2	2.0	9.8	(0.5)	8.1
Corporate	1,432	33.6	1,652	35.0	1,646	35.0	9.1	42.4	2.3	15.0	9.4	44.4	(0.4)	14.9
Hong Kong, China														
Total	184	100.0	195	100.0	196	100.0	3.6	7.2	1.0	6.9	3.5	7.2	0.9	7.0
Government	100	54.7	108	55.7	109	55.5	7.6	10.5	0.5	8.5	7.4	10.5	0.5	8.6
Corporate	83	45.3	86	44.3	87	44.5	(0.7)	3.5	1.5	5.0	(0.9)	3.5	1.5	5.1
Indonesia														
Total	119	100.0	108	100.0	123	100.0	5.9	13.9	6.8	21.1	6.6	7.1	14.4	3.8
Government	98	83.0	90	83.3	104	84.5	6.2	11.6	8.3	23.3	6.8	4.9	16.0	5.6
Corporate	20	17.0	18	16.7	19	15.5	4.8	26.9	(0.4)	10.7	5.4	19.2	6.7	(5.2)
Korea, Rep. of														
Total	1,453	100.0	1,641	100.0	1,649	100.0	3.1	10.5	1.9	8.7	(1.2)	12.7	0.5	13.5
Government	560	38.6	626	38.2	637	38.6	2.2	3.5	3.1	8.9	(2.1)	5.6	1.7	13.7
Corporate	893	61.4	1,015	61.8	1,012	61.4	3.7	15.4	1.2	8.6	(0.7)	17.6	(0.3)	13.4
Malaysia														
Total	322	100.0	312	100.0	322	100.0	(0.4)	9.0	2.8	5.5	(1.5)	8.0	3.2	0.0
Government	190	59.1	182	58.5	188	58.4	(1.7)	7.1	2.7	4.2	(2.8)	6.1	3.0	(1.2)
Corporate	132	40.9	130	41.5	134	41.6	1.6	12.1	3.0	7.5	0.4	11.0	3.4	1.8
Philippines														
Total	98	100.0	101	100.0	99	100.0	(1.4)	12.5	(0.9)	10.5	(0.9)	18.3	(1.8)	0.6
Government	85	86.7	87	86.8	84	84.6	(1.8)	11.5	(3.3)	7.8	(1.3)	17.2	(4.2)	(1.8)
Corporate	13	13.3	13	13.2	15	15.4	1.1	19.8	15.0	27.9	1.6	25.9	13.9	16.4
Singapore														
Total	239	100.0	242	100.0	237	100.0	5.2	14.5	(2.6)	0.3	3.7	16.1	(2.1)	(1.1)
Government	148	62.0	150	61.9	146	61.6	6.4	13.7	(3.0)	(0.3)	4.8	15.3	(2.6)	(1.7)
Corporate	91	38.0	92	38.1	91	38.4	3.4	16.0	(1.8)	1.2	1.9	17.6	(1.4)	(0.1)
Thailand														
Total	295	100.0	275	100.0	281	100.0	1.2	11.8	1.2	5.7	5.8	17.8	2.1	(4.6)
Government	232	78.6	214	77.7	217	77.2	0.3	10.2	0.7	3.8	4.8	16.1	1.5	(6.3)
Corporate	63	21.4	62	22.3	64	22.8	4.6	18.2	3.1	12.6	9.4	24.5	4.1	1.7
Viet Nam														
Total	30	100.0	29	100.0	35	100.0	20.8	53.3	23.0	17.8	20.3	52.7	23.0	16.8
Government	29	96.5	28	97.6	35	98.3	21.8	64.6	23.9	20.0	21.3	63.9	23.9	19.0
Corporate	1	3.5	0.7	2.4	0.6	1.7	(1.6)	(47.2)	(12.6)	(43.1)	(2.0)	(47.4)	(12.6)	(43.6)
Emerging East Asia														
Total	6,999	100.0	7,626	100.0	7,644	100.0	3.6	15.1	2.1	9.5	2.9	16.8	0.2	9.2
Government	4,271	61.0	4,558	59.8	4,575	59.9	1.9	8.2	2.2	8.0	1.7	9.8	0.4	7.1
Corporate	2,728	39.0	3,068	40.2	3,069	40.1	6.2	27.5	1.9	11.7	4.8	29.5	0.0	12.5
Japan														
Total	10,819	100.0	9,990	100.0	10,335	100.0	0.8	3.4	1.4	4.7	(7.2)	(9.1)	3.5	(4.5)
Government	9,927	91.8	9,203	92.1	9,534	92.2	1.1	4.3	1.5	5.2	(6.9)	(8.3)	3.6	(4.0)
Corporate	891	8.2	787	7.9	801	7.8	(2.0)	(5.5)	(0.1)	(1.5)	(9.8)	(16.8)	1.9	(10.1)

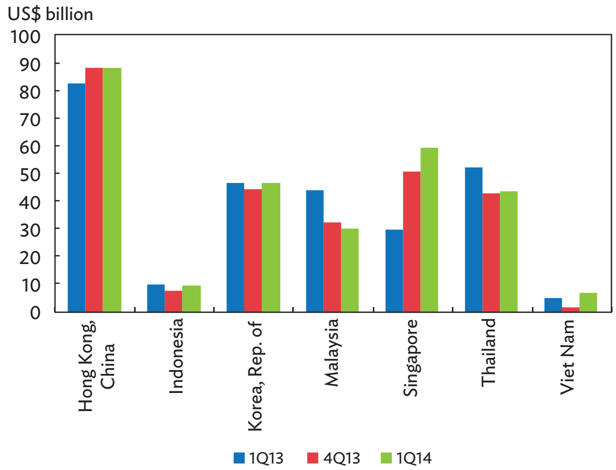
( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. For Hong Kong, China, 1Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For the Republic of Korea, 1Q14 government bonds outstanding data based on February 2014 data from The Bank of Korea. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 1Q14 corporate bonds outstanding data based on Bank of Thailand's February 2014 estimates. For Japan, 1Q14 government and corporate bonds oustanding data carried over from February 2014.
2. For the People's Republic of China, corporate bonds data for commercial paper and medium-term notes were revised to include data from *Wind*.
3. Corporate bonds include issues by financial institutions.
4. Bloomberg LP end-of-period LCY—US$ rates are used.
5. For LCY base, emerging East Asia growth figures based on end-March 2014 currency exchange rates and do not include currency effects.
6. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Sources: People's Republic of China (*ChinaBond* and *Wind*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Figure 3: Central Bank Bills Outstanding



Notes:
1. The People's Republic of China ceased issuance of central bank bills in 3Q13.
2. The Philippines has no central bank bills outstanding.
Source: *AsianBondsOnline*.

in mid-February. Eight corporate firms, mostly financing companies, issued bonds in Indonesia in 1Q14.

The Philippine corporate bond market recorded the highest q-o-q growth rate in the region in 1Q14, rising 15.0%. A total of eight corporate firms raised a combined US$2.2 billion. These firms locked-in their debt at lower costs in anticipation of higher borrowing costs later this year. In addition, Bangko Sentral ng Pilipinas (BSP) began adopting a tightening bias in its monetary policy by raising domestic banks' reserve requirement ratio by 1 percentage point following Monetary Board meetings in both March and May.

As a percentage of gross domestic product (GDP), the size of the emerging East Asian LCY bond market was relatively stable in 1Q14 at 58.4% compared with a share of 58.2% in 4Q13 **(Table 2)**. The share of bonds to GDP, however, was up from 56.8% a year earlier. The Republic of Korea and Malaysia had the largest shares of bonds to GDP in 1Q14 at 126.1% and 107.2%, respectively.

Foreign investor interest in emerging East Asian LCY government bonds remained strong despite uncertainties relating to Federal Reserve monetary policy.

The share of foreign holdings in emerging East Asian LCY government bond markets continued to rise in

Table 2: Size and Composition of LCY Bond Markets
(% of GDP)

	1Q13	4Q13	1Q14
China, People's Rep. of			
Total	49.9	50.3	50.6
Government	33.1	32.7	32.9
Corporate	16.8	17.6	17.7
Hong Kong, China			
Total	69.3	71.1	71.8
Government	37.9	39.6	39.8
Corporate	31.4	31.5	32.0
Indonesia			
Total	13.7	14.4	15.0
Government	11.4	12.0	12.6
Corporate	2.3	2.4	2.3
Korea, Rep. of			
Total	116.0	125.5	126.1
Government	44.7	47.9	48.7
Corporate	71.3	77.6	77.4
Malaysia			
Total	105.2	103.8	107.2
Government	62.2	60.7	62.5
Corporate	43.0	43.1	44.6
Philippines			
Total	37.1	38.7	38.0
Government	32.2	33.6	32.2
Corporate	4.9	5.1	5.8
Singapore			
Total	83.2	82.5	80.8
Government	51.5	51.1	49.7
Corporate	31.6	31.4	31.0
Thailand			
Total	74.5	75.7	77.2
Government	58.6	58.7	59.7
Corporate	15.9	16.9	17.6
Viet Nam			
Total	18.7	16.9	20.4
Government	18.0	16.5	20.0
Corporate	0.7	0.4	0.3
Emerging East Asia			
Total	56.8	58.2	58.4
Government	34.6	34.8	34.9
Corporate	22.1	23.4	23.4
Japan			
Total	215.7	219.9	227.5
Government	197.9	202.6	209.9
Corporate	17.8	17.3	17.6

GDP = gross domestic product, LCY = local currency.
Notes:
1. Data for GDP is from CEIC. 1Q14 GDP figures carried over from 4Q13 except for the People's Republic of China, Indonesia, and Viet Nam.
2. For Hong Kong, China, 1Q14 corporate bonds outstanding data based on *AsianBondsOnline* estimates. For the Republic of Korea, 1Q14 government bonds outstanding data based on February 2014 data from The Bank of Korea. For Singapore, corporate bonds outstanding data based on *AsianBondsOnline* estimates. For Thailand, 1Q14 corporate bonds outstanding data based on Bank of Thailand's February 2014 estimate. For Japan, 1Q14 government and corporate bonds oustanding data carried over from February 2014.

Sources: People's Republic of China (*ChinaBond* and Wind); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

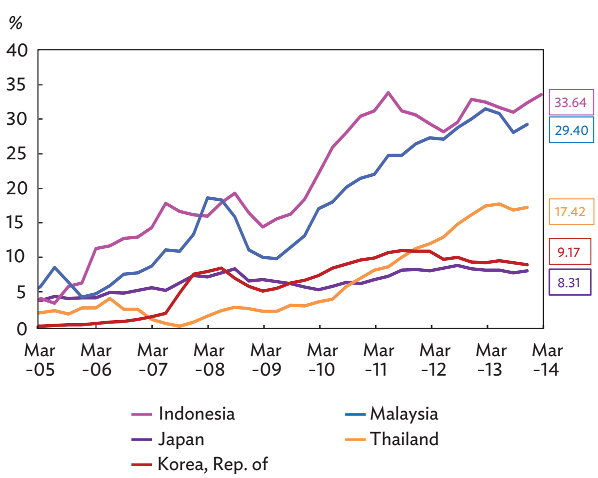
4Q13 despite uncertainties relating to the timing of the Federal Reserve's eventual policy rate hike **(Figure 4)**. The shares of foreign holdings in Malaysia and Thailand's LCY bond markets continued to rise in 4Q13, while this share declined marginally in the Republic of Korea. Foreign investor interest in Indonesian government bonds remained strong as foreign holdings share rose to 33.6% at end-March. The increase was brought about by positive market sentiments amid improving macroeconomic fundamentals.

Meanwhile, the shares of foreign holdings in LCY corporate bonds in Indonesia and the Republic of Korea continued to pale in comparison with that of their respective government bond sectors **(Figure 5)**. This is due to the fact that corporate bonds in both markets are highly illiquid and that most investors are of the buy-and-hold variety. The share of foreign holdings in Indonesian LCY corporate bonds was stable at 6.6% at end-March, while the share of foreign holdings in LCY corporate bonds in the Republic of Korea remained negligible.

Emerging East Asian bond markets continued to experience net foreign capital inflows in 1Q14.

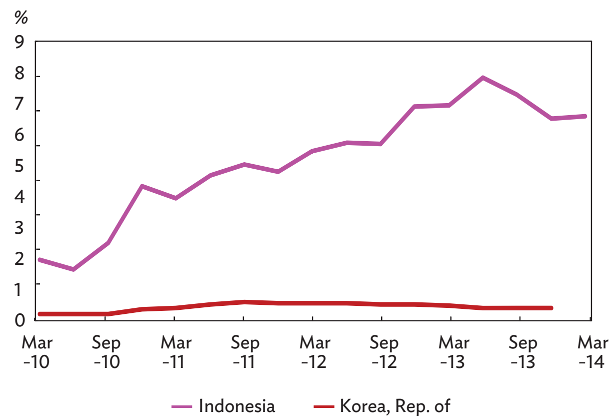
Emerging East Asian bond markets remained attractive as foreign funds continued to pour in during 1Q14 as investors' risk appetite returned. Foreign bond flows have recovered from the outflows in the second half of 2013. Throughout the January–April period, foreign bond inflows increased in all markets, with the exception of Thailand, which recorded net foreign outflows in January and the Republic of Korea in February **(Figure 6)**.

Figure 4: Foreign Holdings of LCY Government Bonds in Select Asian Economies (% of total)



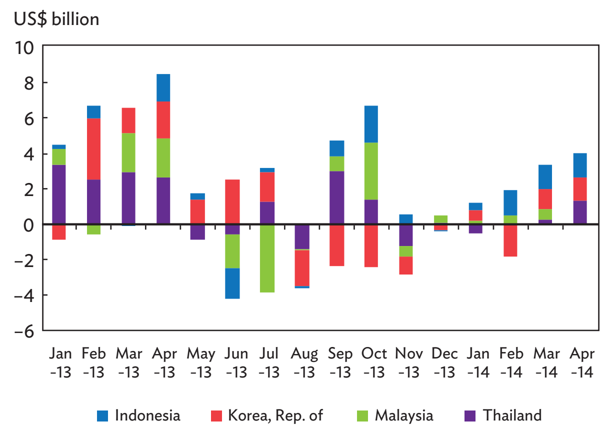
LCY = local currency.
Note: Data as of end-December 2013, except for Indonesia as of end-March 2014.
Source: *AsianBondsOnline*.

Figure 5: Foreign Holdings of LCY Corporate Bonds in Indonesia and the Republic of Korea (% of total)



LCY = local currency.
Note: For Indonesia, data as of end-March 2014. For the Republic of Korea, data as of end-December 2013.
Source: Based on data from Otoritas Jasa Keuangan and The Bank of Korea.

Figure 6: Foreign Inflows in Select Emerging East Asian Bond Markets



Notes:
1. The Republic of Korea and Thailand provides data on bond flows. For Indonesia and Malaysia, month-on-month changes in foreign holdings of LCY government bonds were used as a proxy for bond flows.
2. Data as of April 2014 except for Malaysia as of March 2014.
3. Figures were computed based on end-April 2014 exchange rates to avoid currency effects.

Sources: Indonesia Debt Management Office, Financial Supervisory Service, Bank Negara Malaysia, and Thai Bond Market Association.

Box: Bond Market in Kazakhstan—Developments and Challenges

Introduction

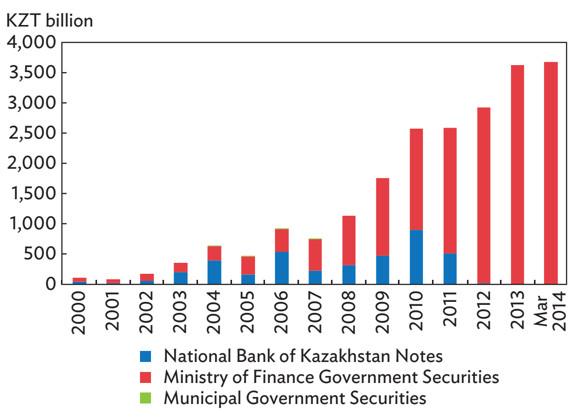
The local currency (LCY) bond market in Kazakhstan has grown at a rapid pace from only US$15.8 billion at end-December 2006 to US$55.2 billion at end-March 2014. Compared with bond markets in emerging East Asia, the size of Kazakhstan's bond market is about double that of Viet Nam and half that of Indonesia.[a] However, while its bond market's aggregate size is relatively small, in absolute terms, Kazakhstan's corporate bond market is larger than the three smallest corporate bond markets in emerging East Asia: Indonesia, the Philippines, and Viet Nam. In contrast to the bond markets in emerging East Asia where the government sector tends to be bigger, Kazakhstan's corporate sector dominates its bond market, accounting for nearly two-thirds of total LCY bonds at end-March.

Government Bond Market

Kazakhstan's LCY government bond market comprises both government securities issued by the Ministry of Finance and short-term securities issued by the National Bank of Kazakhstan **(Figure B1)**. The government bond market's growth in recent years has come entirely from securities issued by the central government.

In the 1990's, government securities were mostly short-term in nature. The government commenced issuance of 12-month maturities only in the second half of 1996. A 24-month tenor was issued 1 year later. In 1998, borrowings by the national government from the National Bank of Kazakhstan were converted into long-term debt securities with a 10-year maturity. The 10-year maturity is currently the longest-dated security in Kazakhstan.

Figure B1: Outstanding Size of LCY Government Bond Market in Kazakhstan

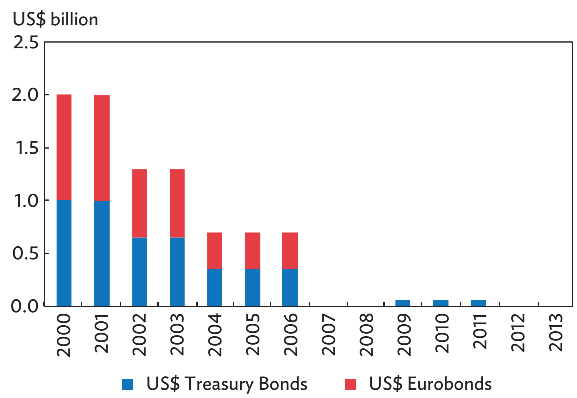


LCY = local currency.
Sources: National Bank of Kazakhstan, Kazakhstan Stock Exchange, and Bloomberg LP.

Kazakhstan's LCY government bond market has shown impressive growth since 2000. Total outstanding LCY government bonds have risen from just KZT109 billion (US$0.8 billion) at end-December 2000 to KZT3,684 billion at end-March 2014. This represents an annual average growth rate of 30.4%.

The government also had foreign currency (FCY) bonds outstanding in 2000 **(Figure B2)**. However, the most recent Eurobond issues matured in 2007 and the most recent US$-denominated government securities matured in 2012. Therefore, Kazakhstan does not currently have any FCY government bonds outstanding.

Figure B2: Outstanding Size of FCY Government Bond Market in Kazakhstan



FCY = foreign currency.
Sources: National Bank of Kazakhstan, Kazakhstan Stock Exchange, and Bloomberg LP.

The National Bank of Kazakhstan also issues short-term bank certificates, with maturities ranging from 7 days to 1 year, for the purpose of managing the money supply.

Corporate Bond Market

The passage of the Law on the Securities Market in 1997 paved the way for corporate firms to tap the domestic debt market. Since then, the corporate bond market has seen rapid growth supported mainly by economic reforms and a much broader domestic investor base that includes increased demand from pension funds and insurance companies **(Figure B3)**.

[a] Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

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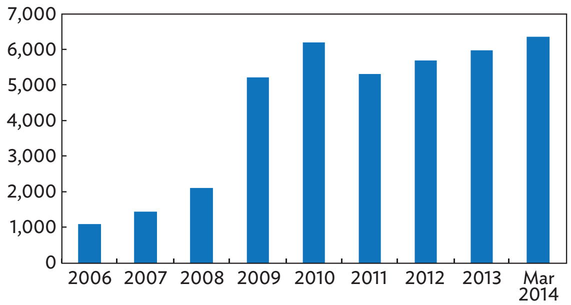
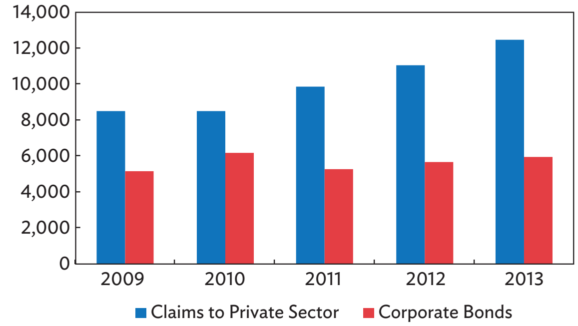
Box *continued*

Figure B3: Outstanding Size of LCY Corporate Bond Market in Kazakhstan



LCY = local currency.
Note: 1Q14 corporate bonds outstanding based on *AsianBondsOnline* estimate.
Sources: National Bank of Kazakhstan, Kazakhstan Stock Exchange, and Bloomberg LP.

Figure B4: Banking System Claims on Private Sector vs. Corporate Bonds Outstanding



Note: 1Q14 corporate bonds outstanding based on *AsianBondsOnline* estimate.
Source: National Bank of Kazakhstan.

Corporate bonds listed on the Kazakhstan Stock Exchange (KASE) are required to be rated by one of the three main international rating agencies, or by a local rating agency such as Rating Agency of the Almaty Regional Financial Center, Expert RA Kazakhstan, and KZ Rating Agency.

Corporate bonds outstanding rose from KZT1,094 billion at end-December 2006 to KZT6,362 billion at end-March 2014. There was rapid growth in the period leading up to 2010. But since then the amount of total outstanding corporate bonds has remained relatively stable. The banking system still dominates the financial system; banking system claims on the private sector are double the amount of total corporate outstanding bonds **(Figure B4)**.

Size and Composition

The outstanding size of Kazakhstan's LCY bond market rose 4.4% quarter-on-quarter (q-o-q) and 13.6% year-on-year (y-o-y) in 1Q14, reaching KZT10,046 billion at end-March **(Table B1)**. Corporate securities accounted for 63.3% of total bonds outstanding, with the remaining 36.7% accounted for by government bonds.

Government Bond Market

Outstanding fixed income securities issued by Kazakhstan's central government and central bank rose 1.7% q-o-q and 17.5% y-o-y in 1Q14. Central government securities, comprising treasury bills and bonds, account for almost the entire stock of government securities. Meanwhile, outstanding short-term central bank bills have been declining over time, with a remaining stock of KZT9 billion at end-March, down from KZT102 billion a year earlier.

As of end-March, 82.2% of Kazakhstan's central government bonds had original long-term tenors (more than 5 years), 15.6% were medium-term (longer than 1 year to 5 years),

Table B1: Size and Composition of the LCY Bond Market in Kazakhstan

	Outstanding Amount (billion)						Growth Rate (%)			
	1Q13		4Q13		1Q14		1Q13		1Q14	
	KZT	US$	KZT	US$	KZT	US$	q-o-q	y-o-y	q-o-q	y-o-y
Total	**8,842**	**59**	**9,623**	**62**	**10,046**	**55**	**0.5**	**11.1**	**4.4**	**13.6**
Government	3,136	21	3,623	23	3,684	20	1.4	14.2	1.7	17.5
Central Govt. Bonds	3,034	20	3,619	23	3,675	20	4.4	37.3	1.5	21.1
Central Bank Bills	102	0.7	4	0.02	9	0.05	(45.2)	(81.0)	149.4	(91.2)
Corporate	5,706	38	6,001	39	6,362	35	4.8	26.9	(0.4)	10.7

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg LP end-of-period LCY–US$ rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. 1Q14 corporate bonds outstanding based on *AsianBondsOnline* estimate.
Sources: Kazakhstan Stock Exchange and National Bank of Kazakhstan.

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Box *continued*

and the remaining 1.8% were short-term bills (1 year or less). Meanwhile, the tenor of central bank bills range between 7 days and 1 year.

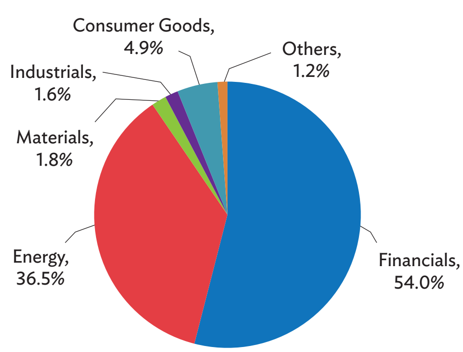
The supply of government bonds does not meet market demand. The country's strong resource base means it is not necessary for the government to issue debt to fund the budget deficit. The government is concerned about the debt service cost associated with issuance of government bonds and, hence, has limited issuance. The paucity of government bonds has hampered the development of the bond market. Strong activity in the government bond market could help further develop the corporate bond market as skills gained from trading government bonds could easily be used in the corporate sector.

Corporate Bond Market

In 1Q14, total outstanding LCY corporate bonds contracted 0.4% q-o-q, but rose 10.7% y-o-y, to KZT6,363 billion. Kazakhstan's corporate bond market is dominated by a few sectors, with about 90% of corporate bond issuance coming from the financial (54.0%) and energy (36.5%) sectors **(Figure B5)**. The share of the financial sector has steadily declined since 2010, following a crisis in the banking system, while the share of the energy sector has grown over the last 3 years. Although there are a few other sectors—including firms with business interests in consumer goods, materials, and industrials—that have tapped the bond market in recent years, their combined share accounts for only 8.3% of the total.

Regulatory requirements are reducing the demand for corporate bonds and restricting the number of enterprises that can issue in the domestic bond market. The costly process of issuing bonds is also affecting the growth of the corporate bond market. It is estimated that a 5-year corporate bond issue would cost about 10%–12% of the issued amount, while the interest rate on a 5-year bank loan for a comparable amount would be 7%–8%. The more attractive rates on corporate loans may be the result of direct lending; for example, under a government support program in 2011, bank loans to specific companies were eligible for a government subsidy of 7%. At the same time, there is no credit culture in Kazakhstan; bank lending is mostly collateralized rather than cash-flow based.

Figure B5: LCY Corporate Bonds Outstanding by Sector, March 2014



Source: Kazakhstan Stock Exchange.

Current Challenges in the Kazakhstan Bond Market

Issuing bonds can be difficult and costly

The National Bank of Kazakhstan permits banks, who are major investor in the bond market, to invest only in investment grade bonds rated by the three international ratings agencies. Given the high fees charged by an international agency, only a few corporates can afford to obtain an international rating. Also, international rating agencies normally assign ratings to companies with gross income of not less than US$100 million, which leaves out small and medium-sized companies with strong financials and potential growth. As a result, small and medium-sized sized companies find it difficult to access the bond market. Furthermore, disclosure requirements for listing approval and registration tend to be burdensome, and it takes considerable time to file a prospectus with the regulator. Foreign companies also face tighter requirements that discourage them from issuing bonds in the domestic market. To further improve access to bond markets for a wider range of companies, the process for the issuance of bonds will have to be streamlined and simplified. Rules and regulations should be made more transparent and consistent to enhance confidence in the bond market.

Lack of a liquid secondary bond market

Institutional investors (pension funds, banks, insurance companies, mutual funds) are the major investors in the government bond market.[b] They tend to buy and hold long-term government bonds to match their liabilities. This reduces the amount of bonds available for trading in the secondary market. Exacerbating this is the shortage of government bonds due to the central government's strong fiscal condition. The lack of secondary trading makes it difficult to establish a long-term, risk-free yield curve that could serve as a benchmark against which private issuers can price their bonds. The lack of a benchmark yield curve makes investors reluctant to invest in bonds and corporates reluctant to issue bonds. Hence, it is important to promote

[b] Pension funds, insurance companies, and banks are required by regulation to hold government bonds in their portfolios.

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Box *continued*

the participation of a wider range of investors in the market as greater diversity could help increase the amount of trading in the market.

Weak bond market infrastructure

Sound market infrastructure—such as efficient clearing, settlement, registration, and trading systems—is needed to facilitate trading and improve market liquidity. In Kazakhstan, the clearing and settlement system poses settlement risks to participants in the bond market. Investors can cancel a trade if it breaches their investment guidelines. Furthermore, there is a lack of direct communication between the cash settlement systems of the National Bank of Kazakhstan and the Central Securities Depository (CSD).[c] Improving market infrastructure can greatly facilitate the development of a more efficient trading environment for bonds.

The Future of Kazakhstan's LCY Bond Market

Strong interest in the development of the *sukuk* market

There is strong government interest in introducing Islamic finance to the country. Kazakhstan has amended legislation to allow for greater use of Islamic financing. The amendments provide, among other things, a legal framework for the issuance of *sukuk* (Islamic bonds) by the Government of Kazakhstan. In particular, they appear to be aimed at facilitating sovereign issuance of Islamic securities to finance toll roads in Kazakhstan. The amendments became effective in August 2011 and it is expected that the government and the central bank will adopt several sets of implementing resolutions. For the first time in Kazakhstan, the amendments permit a state body (Ministry of Finance) to act in the capacity of a special purpose vehicle in connection with the issuance of securities.

The financial regulator recently extended the legal framework originally introduced in 2009 for issuing Islamic financial products. However, this was restricted to rent certificates and participation certificates. At the same time, the framework for Islamic instruments issued outside Kazakhstan by local companies is not clear. Additionally, the legal framework for the local *Sharia'h* (Islamic law) Council has not been established; for example, there is only one Kazakh presently qualified as a member of the *Sharia'h* Council. Market operators believe that the regulator should clearly define the role of the *Sharia'h* Council in order to move this project forward.

With banks still recovering from the global financial crisis, bonds could serve as an alternative source of financing

Kazakhstan's banks have not kept pace with the growing economy, as the faster-growing sectors (large state-owned energy and mining companies) are not reliant on domestic banks. The banking sector is a key weakness of the Kazakh economy, despite recent efforts by the government and the financial regulator to recapitalize the banks and strengthen regulatory oversight. After several years of rapid expansion in the mid-2000s, the banking sector suffered a major crisis in 2008. Three large banks (BTA Bank, Alliance Bank, and Temirbank) became insolvent, were nationalized, and undertook major debt restructuring. A second default of BTA Bank took place in January 2012.

The size of the banking system, with assets worth over US$100 billion in December 2013, declined significantly as a share of gross domestic product (GDP), from 90% in 2007 to 45% in 2013, after the forced deleveraging that followed the global financial crisis. Bank lending, which had been growing rapidly prior to the crisis, collapsed in the aftermath. It has since recovered somewhat, expanding 12.8% in 2013, but lending is now mostly focused on the fast-growing consumer credit sector. The recovery in lending is mostly being led by a few small- and medium-sized banks that were relatively unaffected by the fallout from the global financial crisis. Meanwhile, the large banks generally are still holding back from lending. As a result, firms are finding it difficult to access financing at reasonable cost. The further development of the corporate bond market offers the potential to provide an additional source of financing.

[c] The National Bank of Kazakhstan settles the cash leg for banks and CSD handles this for nonbanks. CSD can settle the securities leg and be unaware that the cash leg has not settled as the purchasing bank may not have sufficient funds in the account. As a result, the trade can be cancelled, thereby increasing the number of failed trades.

Growth in CNH bonds remained strong in 1Q14.

CNH bonds outstanding rose to CNH397 billion in 1Q14 from CNH358 billion in 4Q13 due to significant issuances during the quarter **(Table 3)**.[4] While interest in CNH bonds was affected by negative sentiments toward the renminbi, demand remained strong. Demand was supported by issuers seeking to tap offshore renminbi funds in light of measures taken by the PRC and offshore financial centers to expand use of the renminbi. As an indicator of rising demand, CNH deposits in Hong Kong, China rose to CNH944 billion at end-March from CNH860 billion at end-December.

[4] CNH bonds are renminbi-denominated bonds issued in Hong Kong, China.

Table 3: CNH Bonds Outstanding

	1Q13		4Q13		1Q14		Growth Rate (LCY-base %)				Growth Rate (US$-base %)			
							1Q13		1Q14		1Q13		1Q14	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
Total	54	100.0	59	100.0	64	100.0	7.8	25.5	11.0	19.3	8.1	27.2	8.1	19.2
Government	14	26.1	15	26.0	17	26.0	15.1	86.9	11.2	18.9	15.5	89.5	8.3	18.8
Corporate	40	73.9	44	74.0	47	74.0	5.4	12.4	10.9	19.5	5.7	14.0	8.0	19.3

( ) = negative, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note: CNH bonds are renminbi-denominated bonds issued in Hong Kong, China. Data includes certificates of deposits and bonds issued by foreign companies.
Source: Central Money Markets Unit, Hong Kong Monetary Authority.

The PRC recently announced that it would auction CNH15 billion worth of sovereign bonds in Hong Kong, China in May, demonstrating its continued support for the internationalization of the renminbi.

Emerging East Asian LCY bond issuance exhibited a mixed performance in 1Q14.

Emerging East Asian LCY bond issuance amounted to US$851 billion in 1Q14, up 7.1% q-o-q, but down 8.2% y-o-y **(Table 4)**. The q-o-q growth in LCY bond issues came mostly from an increase in the stock of central bank bills in most markets resulting from concerns over rising inflation as well as an increase in capital flows. Hong Kong, China registered the largest quarterly increase in central bank issuance, equivalent to US$67 billion, among all economies in the region.

Other emerging East Asian economies that recorded q-o-q increases in LCY bond sales were the PRC, Indonesia, the Philippines, and Viet Nam.

Meanwhile, the y-o-y decline in emerging East Asian LCY bond issuance in 1Q14 largely stemmed from the PRC and Hong Kong, China registering annual declines of US$37 billion and US$39 billion, respectively. The region's y-o-y decline in LCY bond issuance was also partly triggered by reduced issuance in Malaysia and Thailand.

In the case of the PRC, issuance was down on a y-o-y basis as the People's Bank of China (PBOC) remained watchful of credit conditions. Issuance from banks has also declined as they have already met most of their Basel III capital-raising needs.

Central banks, monetary authorities, and national governments in emerging East Asia sold an aggregate amount of US$570 billion in government bonds in 1Q14. Nearly two-thirds of this total was issued by central banks and monetary authorities. Government bonds rose 10.9% q-o-q, with bonds issued by central banks and monetary authorities registering a 24.7% increase, more than offsetting the 7.3% drop in the issuance of treasury bonds and other central government bonds. On a y-o-y basis, however, government bond issuance in the region slipped 2.4% amid declining issuance in Hong Kong, China; Malaysia; the Philippines; and Thailand.

LCY corporate bond issuance in emerging East Asian economies totaled US$281 billion in 1Q14, up 0.2% q-o-q, but down 18.2% y-o-y. While large increases in LCY corporate bond issuance were noted in the PRC and Thailand, these were offset by decreases in the Republic of Korea and Malaysia, leading to a marginal q-o-q growth rate in the region's LCY corporate bond issuance in 1Q14.

Emerging East Asian G3 currency bond issuance remained robust in early 2014.

Emerging East Asian G3 currency bond issuance remained strong in the first 4 months of 2014 after a record performance in 2013, reaching US$66.1 billion in January–April, or almost half of the full-year 2013 amount of US$141.5 billion **(Table 5)**. The large volume of emerging East Asian G3 currency bond issues in the early part of the year can be attributed to low interest rates in G3 economies, with issuers locking in these rates amid expectations that funding costs will rise in the second half of the year.

The PRC continued to be the largest country source of G3 currency bond issuance in emerging East Asia, accounting for 43% of total issuance volume in the region in the first 4 months of the year. This was spearheaded by large bond issues coming from two energy companies (CNOOC and Sinopec), real estate and property developers, and banks. Sinopec issued the largest amount of G3 currency bonds among all PRC issuers, raising US$5 billion in April.

Table 4: LCY-Denominated Bond Issuance (gross)

	1Q13		4Q13		1Q14		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
							1Q14		1Q14	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)										
Total	335	100.0	297	100.0	298	100.0	2.9	(11.1)	0.2	(11.2)
Government	117	34.7	149	50.2	137	46.0	(5.6)	17.9	(8.1)	17.7
Central Bank	0	0.0	4	1.2	0	0.0	(100.0)	–	(100.0)	–
Treasury and Other Govt.	117	34.7	146	49.0	137	46.0	(3.3)	17.9	(5.9)	17.7
Corporate	219	65.3	148	49.8	161	54.0	11.6	(26.5)	8.6	(26.5)
Hong Kong, China										
Total	231	100.0	125	100.0	192	100.0	53.9	(17.0)	53.8	(16.9)
Government	223	96.6	119	95.4	186	97.0	56.4	(16.7)	56.4	(16.6)
Central Bank	222	96.2	119	95.1	185	96.5	56.1	(16.8)	56.1	(16.7)
Treasury and Other Govt.	0.9	0.4	0.4	0.3	1	0.5	150.0	7.1	149.9	7.2
Corporate	8	3.4	6	4.6	6	3.0	0.0	(27.3)	(0.0)	(27.2)
Indonesia										
Total	12	100.0	8	100.0	11	100.0	18.1	6.2	26.5	(9.0)
Government	10	86.8	7	89.0	10	95.6	27.0	17.0	36.0	0.2
Central Bank	3	25.8	2	20.2	3	26.6	55.3	9.7	66.4	(6.0)
Treasury and Other Govt.	7	61.0	6	68.7	7	69.0	18.6	20.1	27.1	2.9
Corporate	2	13.2	0.9	11.0	0.5	4.4	(53.3)	(64.9)	(49.9)	(69.9)
Korea, Rep. of										
Total	148	100.0	173	100.0	158	100.0	(7.5)	2.4	(8.8)	6.9
Government	60	40.4	74	42.6	74	46.9	1.8	18.8	0.4	24.0
Central Bank	39	26.3	43	25.1	44	28.0	3.4	9.2	1.9	14.0
Treasury and Other Govt.	21	14.1	30	17.5	30	18.9	(0.5)	36.7	(1.8)	42.7
Corporate	88	59.6	99	57.4	84	53.1	(14.4)	(8.7)	(15.6)	(4.7)
Malaysia										
Total	43	100.0	42	100.0	36	100.0	(14.6)	(12.0)	(14.3)	(16.6)
Government	34	78.1	28	66.1	27	73.9	(4.5)	(16.8)	(4.2)	(21.1)
Central Bank	25	57.9	19	45.8	18	48.9	(8.7)	(25.6)	(8.4)	(29.5)
Treasury and Other Govt.	9	20.2	9	20.3	9	24.9	4.9	8.5	5.3	2.8
Corporate	9	21.9	14	33.9	9	26.1	(34.1)	5.0	(33.9)	(0.5)
Philippines										
Total	5	100.0	5	100.0	6	100.0	21.2	15.6	20.1	5.3
Government	5	90.9	3	62.3	3	60.1	17.0	(23.6)	15.9	(30.4)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	–	–
Treasury and Other Govt.	5	90.9	3	62.3	3	60.1	17.0	(23.6)	15.9	(30.4)
Corporate	0.5	9.1	2	37.7	2	39.9	28.3	409.2	27.1	363.7
Singapore										
Total	75	100.0	87	100.0	77	100.0	(11.5)	3.8	(11.1)	2.4
Government	72	95.6	83	95.4	74	95.7	(11.2)	3.9	(10.8)	2.5
Central Bank	38	50.4	66	76.6	71	91.8	6.0	88.9	6.4	86.4
Treasury and Other Govt.	34	45.2	16	18.7	3	3.9	(81.5)	(91.0)	(81.4)	(91.1)
Corporate	3	4.4	4	4.6	3	4.3	(17.9)	0.8	(17.5)	(0.5)
Thailand										
Total	76	100.0	63	100.0	63	100.0	(0.6)	(8.5)	0.2	(17.4)
Government	63	82.9	51	80.9	47	74.9	(8.0)	(17.4)	(7.2)	(25.4)
Central Bank	54	71.8	37	59.8	35	56.4	(6.2)	(28.1)	(5.4)	(35.1)
Treasury and Other Govt.	8	11.1	13	21.1	12	18.5	(13.2)	51.9	(12.4)	37.1
Corporate	13	17.1	12	19.1	16	25.1	30.6	34.3	31.8	21.3

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Table 4 *continued*

	1Q13		4Q13		1Q14		Growth Rate (LCY-base %)		Growth Rate (US$-base %)	
	Amount (US$ billion)	% share	Amount (US$ billion)	% share	Amount (US$ billion)	% share	1Q14 q-o-q	1Q14 y-o-y	1Q14 q-o-q	1Q14 y-o-y
Viet Nam										
Total	9	100.0	4	100.0	12	100.0	185.0	32.8	184.9	31.8
Government	9	100.0	4	100.0	12	100.0	185.0	32.8	184.9	31.8
Central Bank	5	59.5	2	39.4	8	69.1	399.5	54.0	399.4	52.8
Treasury and Other Govt.	4	40.5	3	60.6	4	30.9	45.5	1.5	45.4	0.8
Corporate	0	0.0	0	0.0	0	0.0	–	–	–	–
Emerging East Asia (EEA)										
Total	934	100.0	803	100.0	851	100.0	7.1	(8.2)	6.0	(8.9)
Government	592	63.4	517	64.4	570	66.9	10.9	(2.4)	10.1	(3.7)
Central Bank	387	41.4	292	36.3	364	42.8	24.7	(4.5)	24.7	(5.9)
Treasury and Other Govt.	205	21.9	226	28.1	206	24.2	(7.3)	1.6	(8.8)	0.4
Corporate	342	36.6	286	35.6	281	33.1	0.2	(18.2)	(1.5)	(17.8)
Japan										
Total	540	100.0	500	100.0	494	100.0	(3.1)	0.2	(1.1)	(8.6)
Government	511	94.6	470	94.1	463	93.7	(3.5)	(0.8)	(1.6)	(9.5)
Central Bank	0	0.0	0	0.0	0	0.0	–	–	-	–
Treasury and Other Govt.	511	94.6	470	94.1	463	93.7	(3.5)	(0.8)	(1.6)	(9.5)
Corporate	29	5.4	30	5.9	31	6.3	3.3	18.3	5.3	8.0

( ) = negative, – = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. For Hong Kong, China, 1Q14 corporate bond issuance data carried over from 4Q13. For Japan, 1Q14 government and corporate bond issuance data based on AsianBondsOnline estimates. For the Republic of Korea, 1Q14 government and corporate bond issuance data based on *AsianBondsOnline* estimates. For Thailand, 1Q14 government and corporate bond issuance data taken from *ThaiBMA*.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY—US$ rates are used.
4. For LCY base, emerging East Asia growth figures are based on end-March 2014 currency exchange rates and do not include currency effects.
Sources: People's Republic of China (*ChinaBond* and Wind); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office, and Indonesia Stock Exchange); Republic of Korea (EDAILY *BondWeb* and The Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand and *ThaiBMA*); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

CNOOC was next with US$4 billion issued in the same month. The PRC's G3 currency issuance in January–April was equivalent to one-half of the country's total for 2013.

The Republic of Korea was the second-largest country source of G3 currency bonds in the region in January–April, raising a total of US$15.6 billion, or slightly more than one-half of its total 2013 issuance, and accounting for one-quarter of the region's G3 currency bond issuance in the period under review. Banks, led by Korea Eximbank and Korea Development Bank (KDB), were the largest issuer group, contributing 60% to the country's G3 currency issuance total. Meanwhile, Hong Kong, China saw US$9.2 billion worth of G3 currency bond issues in January–April, with Bank of East Asia and AIA Group being the two largest issuers.

G3 currency bonds sold by entities domiciled in Association of Southeast Asian Nations (ASEAN) member countries totaled US$12.8 billion in January–April, of which 36% was from Indonesia, 34% from Singapore, 14% from the Philippines, 11% from Thailand, and 6% from Malaysia. Of Indonesia's issuance amount of US$4.6 billion, 87% came from the government, which raised US$4.0 billion from a dual-tranche bond sale in January. In Singapore, 80% of its G3 currency bond issuance of US$4.3 billion came from banks. In the case of the Philippines, which recorded US$1.7 billion in issuance, there were only two G3 currency bond issuers, including the government, which sold a 10-year US$1.5 billion bond at a coupon rate of 4.2%. Thailand's US$1.4 billion of G3 currency bond issuance comprised bond sales made by three companies, two of which were banks, with Siam Commercial Bank being the largest issuer.

In Malaysia, two domestic banks, Export–Import Bank of Malaysia and Maybank, dominated the issuance of G3 currency bonds, raising US$445 million and US$293 million, respectively. The largest issue size was US$300 million for a 5-year US$-denominated *sukuk*

Table 5: G3 Currency Bond Issuance (2013 and 1 January–30 April 2014)

2013		
Issuer	**US$ (million)**	**Issue Date**
China, People's Rep. of	**56,709**	
CNOOC Finance 3.0% 2023	2,000	9-May-13
Evergrande Real Estate 8.75% 2018	1,500	30-Oct-13
Sinopec Group 4.375% 2023	1,500	17-Oct-13
CNOOC Curtis Funding 4.5% 2023	1,300	3-Oct-13
Sinopec Capital 3.125% 2023	1,250	24-Apr-13
Others	49,159	
Hong Kong, China	**24,011**	
Hutchison Whampoa 3.75% Perpetual	2,367	10-May-13
Shimao Property 6.625% 2020	800	14-Jan-13
Others	20,844	
Indonesia	**12,270**	
Pertamina 4.3% 2023	1,625	20-May-13
Pertamina 5.625% 2043	1,625	20-May-13
Indonesia (Sovereign) 3.375% 2023	1,500	15-Apr-13
Indonesia (Sovereign) 4.625% 2043	1,500	15-Apr-13
Perusahaan Penerbit SBSN 6.125% 2019	1,500	17-Sep-13
Others	4,520	
Korea, Rep. of	**30,400**	
Korea Eximbank 2.0% 2020	1,369	30-Apr-13
The Republic of Korea (Sovereign) 3.875% 2023	1,000	11-Sep-13
Korea Development Bank 3.0% 2019	750	17-Sep-13
Others	27,281	
Malaysia	**4,065**	
1MDB Global Investments 4.40% 2023	3,000	19-Mar-13
Sime Darby 2.053% 2018	400	29-Jan-13
Sime Darby 3.29% 2023	400	29-Jan-13
Others	265	
Philippines	**3,858**	
San Miguel Corporation 4.875% 2023	800	26-Apr-13
JG Summit 4.375% 2023	750	23-Jan-13
Petron Corporation 7.50% Perpetual	750	6-Feb-13
Others	1,558	
Singapore	**5,925**	
Olam International 6.75% 2018	750	29-Jan-13
Global A&T Electronics 10.00% 2019	625	7-Feb-13
Stats Chippac 4.5% 2018	611	20-Mar-13
Flextronics International 5.0% 2023	500	20-Feb-13
Others	3,439	
Thailand	**3,445**	
PTT Exploration & Production 3.707% 2018	500	16-Sep-13
Others	2,945	
Viet Nam	**827**	
Emerging East Asia Total	**141,510**	
Memo Items:		
India	**14,053**	
Bharti Airtel International 5.125% 2023	1,500	11-Mar-13
Vedanta Resources 6.0% 2019	1,200	3-Jun-13
Others	11,353	
Sri Lanka	**2,441**	

1 January–30 April 2014		
Issuer	**US$ (million)**	**Issue Date**
China, People's Rep. of	**28,484**	
CNOOC Finance 4.25% 2024	2,250	30-Apr-14
Tencent 3.375% 2019	2,000	29-Apr-14
Sinopec 1.0073% 2017	1,500	10-Apr-14
CNOOC Finance 1.625% 2017	1,250	30-Apr-14
Sinopec 1.75% 2017	1,250	10-Apr-14
Others	20,234	
Hong Kong, China	**9,232**	
China Overseas Finance 2021 Zero-coupon	750	4-Feb-14
New World Development 5.25% 2021	750	26-Feb-14
Others	7,732	
Indonesia	**4,579**	
Indonesia (Sovereign) 5.875% 2024	2,000	15-Jan-14
Indonesia (Sovereign) 6.75% 2044	2,000	15-Jan-14
Alam Energy 9% 2019	225	29-Jan-14
Others	354	24-Apr-14
Korea, Rep. of	**15,578**	
Woori Bank 4.75% 2024	1,000	30-Apr-14
Hyundai Capital 1.45% 2017	900	6-Feb-14
Korea Development Bank 0.8621% 2017	750	22-Jan-14
Korea Development Bank 3.75% 2024	750	22-Jan-14
Korea Eximbank 0.99165% 2017	750	14-Jan-14
Korea Eximbank 4% 2024	750	14-Jan-14
Others	10,678	
Malaysia	**738**	
Exim Sukuk Malaysia 2.874% 2019	300	19-Feb-14
Maybank 0.669% 2019	293	6-Feb-14
EXIM Bank of Malaysia 2.66% 2019	50	17-Apr-14
Others	95	
Philippines	**1,725**	
Philippines (Sovereign) 4.2% 2024	1,500	21-Jan-14
Vista Land & Lifescapes 7.45% 2019	225	29-Apr-14
Singapore	**4,344**	
OCBC Bank 4% 2024	1,000	15-Apr-14
United Overseas Bank 3.75% 2024	800	19-Mar-14
Puma International Financing 6.75% 2021	750	31-Jan-14
DBS Bank 0.22705% 2015	265	14-Apr-14
Others	1,529	
Thailand	**1,390**	
Siam Commercial Bank 3.5% 2019	750	7-Apr-14
Kasikorn Bank 3.5% 2019	350	25-Apr-14
CP Foods 0.5% 2019	290	15-Jan-14
Viet Nam	**0**	
Emerging East Asia Total	**66,071**	
Memo Items:		
India	**4,939**	
Bank of Baroda 4.875% 2019	750	23-Jan-14
State Bank of India 3.622% 2019	750	17-Apr-14
Others	3,439	
Sri Lanka	**1,500**	

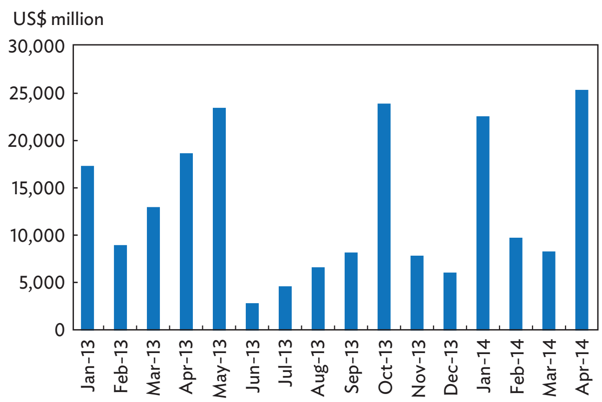
Sources: Bloomberg LP, newspaper and wire reports.

carrying a yield of 2.874% that was sold by Export–Import Bank of Malaysia via EXIM *Sukuk* Malaysia.

Meanwhile, there were no G3 currency bond sales in Viet Nam during the period under review.

Over the first 4 months of 2014, emerging East Asian G3 currency bond issuance reached a monthly peak of US$25.3 billion in April, while the second highest monthly total occurred in January at US$22.5 billion **(Figure 7)**. PRC issuers were dominant in April, accounting for US$14.9 billion, or 59% of the region's monthly total, led by the relatively large multitranche bond sales from CNOOC and Sinopec. The PRC was followed by the Republic of Korea (US$4.1 billion); Hong Kong, China (US$2.7 billion); Singapore (US$1.9 billion); Thailand

Figure 7: G3 Currency-Denominated Bond Issuance



Source: *AsianBondsOnline* calculations based on Bloomberg LP data.

(US$1.1 billion); Indonesia (US$350 million); the Philippines (US$225 million); and Malaysia (US$120 million).

Government bond yields fell in most markets in emerging East Asia between end-December 2013 and end-April 2014.

Government bond yield curves fell for most tenors in most of emerging East Asia between end-December 2013 and end-April 2014. During the period under review, the entire yield curve shifted downward in the PRC, Indonesia, Thailand, and Viet Nam. Yield curves for Hong Kong, China and the Republic of Korea fell for most tenors, while the yield curve for Singapore fell at the longer-end. The Philippines was the sole market whose yield curve rose between end-December and end-April **(Figure 8)**.

The fall in yields for most markets was driven by both domestic and external factors. The Federal Reserve has maintained a gradual tapering of its bond purchase program in line with expectations that the US economy will continue to improve. This has buffeted investors' risk appetite. Meanwhile, the growth outlook in Asia has been affected by a weakening growth outlook for the PRC and deflation concerns in the eurozone. Leading economic indicators in April suggest that growth has been moderating in the PRC, while inflation in the eurozone has been below the European Central Bank target of 2.0% for an extended period of time.

The PRC's yield curve shifted downward between end-December and end-April, particularly at the shorter-end. The PRC's 10-year yield fell 24 basis points (bps) and the 6-month yield fell 69 bps. Yields fell mostly due to growth concerns, but the fall in yields at the shorter-end was also driven by easing liquidity concerns after meeting seasonal quarter-end requirements. Between end-December and mid-March, the 7-day interbank repo rate fell to 2.52% from 5.11%, before rising again to 4.17% at end-March due to seasonal requirements. The repo rates have since fallen to 2.73% as of 21 April. The PRC has yet to rapidly expand liquidity or adjust policy rates due to concerns over inflation and rising property prices **(Figures 9a, 9b)**. Thus far, the PBOC has simply reduced the reserve requirement ratios for rural banks by 2 percentage points in April, saying that the move would leave overall liquidity levels unchanged.

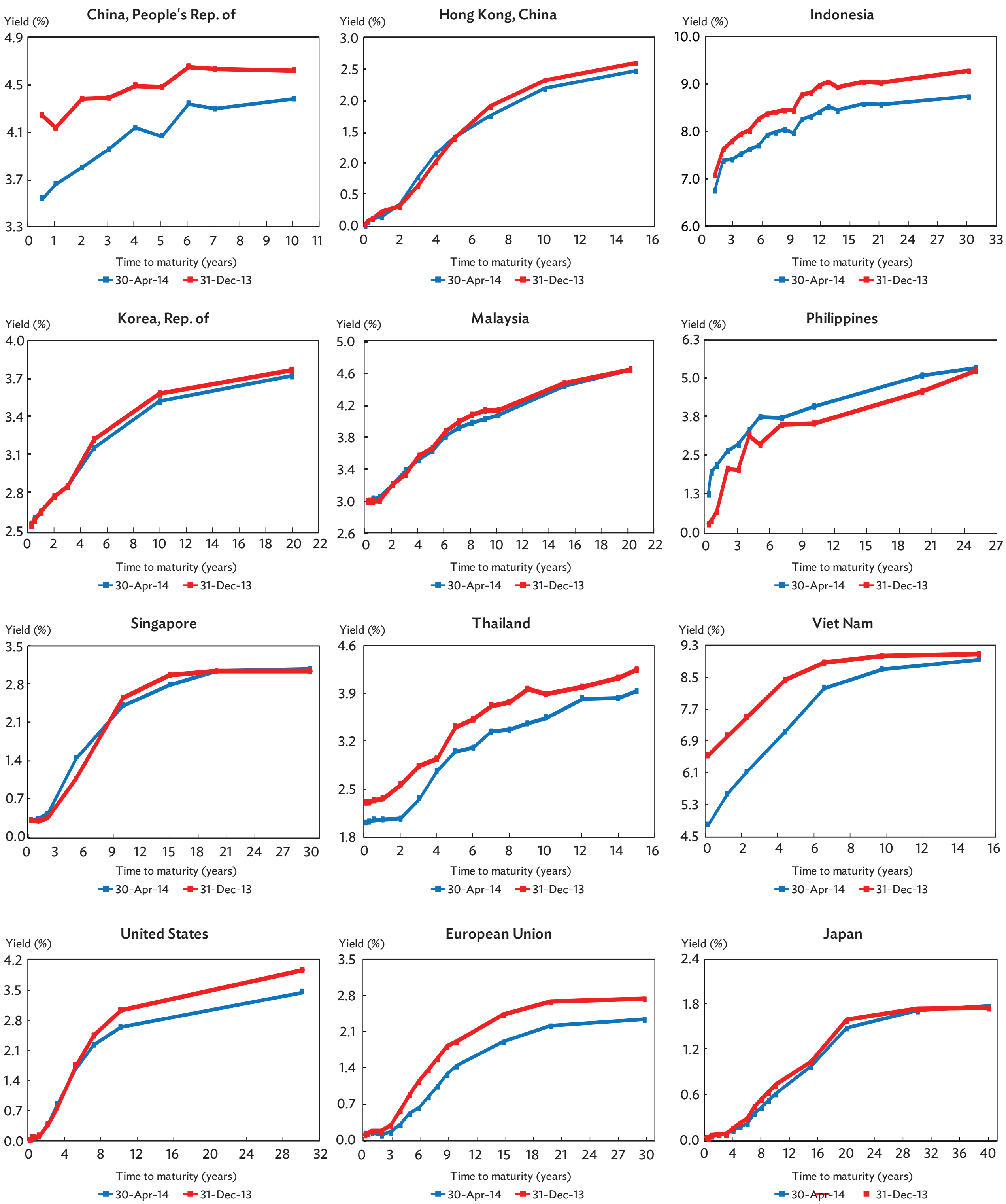
In Indonesia, the yield curve shifted downward, falling 24 bps–56 bps along the length of the curve between end-December and end-April on improving domestic economic sentiments. Bank Indonesia last hiked its policy rate by 25 bps in November 2013 in order to strengthen the rupiah on concerns of a widening current account deficit. It has since kept the policy rate steady as the economy has shown signs of improvement: inflation gradually eased from its peak in the second half of 2013 **(Figures 10a, 10b)**, the current account deficit has narrowed to US$4.2 billion in 1Q14 (equivalent to 2.1% of GDP), and the Indonesian rupiah has strengthened against the US dollar.

The downward shift in Thailand's yield curve was a response to a reduction in policy rates; Thailand was the only emerging East Asian economy to reduce policy rates in 1Q14. The Bank of Thailand reduced policy rates by 25 bps in November 2013 and by an additional 25 bps in March 2014 to 2.0%. The country's GDP growth rate slowed to 0.6% in 4Q13. In addition, Thailand's National Economic and Social Development Board revised its 2014 growth estimate to 3.0%–4.0% from 4.0%–5.0%.

Yields fell at the long-end of the curve, following yield movements in the US, in the region's more developed economies and financial markets of Hong Kong, China; the Republic of Korea; Malaysia; and Singapore. The US 10-year yield fell 38 bps between end-December and end-April, while the 10-year yield fell 13 bps in Hong Kong, China; 6 bps in both the Republic of Korea and Malaysia; and 14 bps in Singapore. However, movements in other parts of these yield curves have been mixed, with yields rising at the shorter-end and belly of the curves.

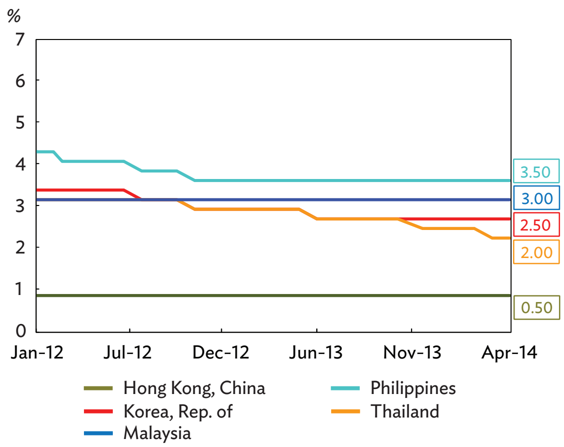
Yields for Philippine government bonds rose 8 bps–158 bps along the length of the curve between end-December 2013

Figure 8: Benchmark Yield Curves—LCY Bonds



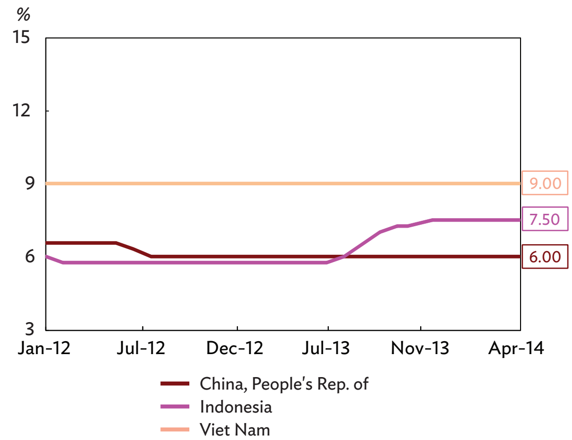
LCY = local currency.
Source: Based on data from Bloomberg LP.

Figure 9a: Policy Rates



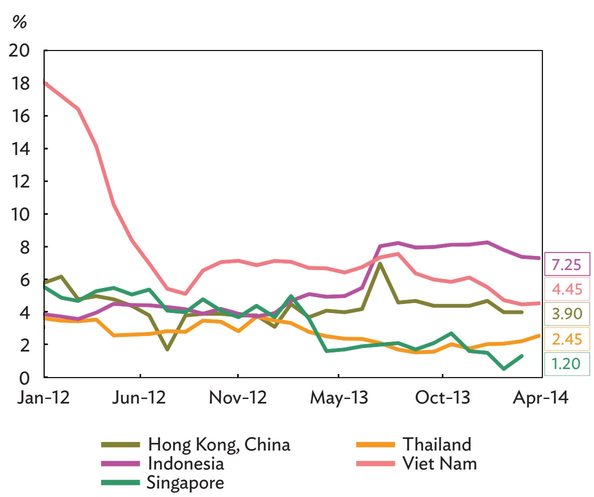
Note: Data as of end-April 2014.
Source: Bloomberg LP.

Figure 9b: Policy Rates



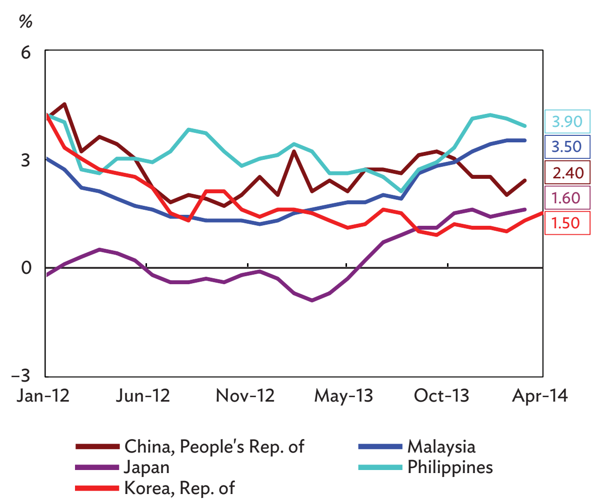
Notes:
1. Data as of end-April 2014.
2. For Viet Nam, base interest rate was used.
Source: Bloomberg LP.

Figure 10a: Headline Inflation Rates



Note: Data as of end-April 2014 except for Hong Kong, China and Singapore as of end-March 2014.
Source: Bloomberg LP.

Figure 10b: Headline Inflation Rates

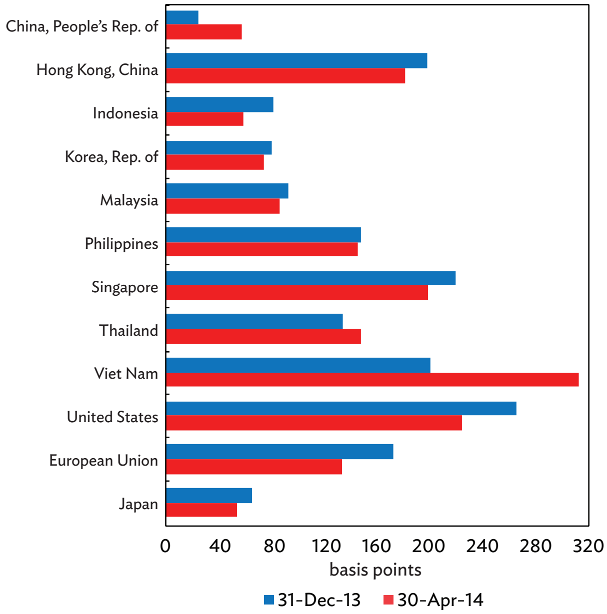


Note: Data as of end-March 2014 except for the Republic of Korea as of end-April 2014.
Source: Bloomberg LP.

and end-April 2014. The yield increases were in response to rising inflationary expectations and tightening by the BSP, which said that it expects inflation to remain within its target range of 3.0%–5.0% in 2014. However, the BSP also noted that there were risks to food, energy, and transport prices, and therefore raised banks' reserve requirement ratio by 1 percentage point in both March and May.

The 2- versus 10-year spread fell in most markets between end-December 2013 and end-April 2014, reflecting the possibility that the region's economies would slow due to weaker growth in the PRC and deflation in the eurozone **(Figure 11)**. On the other hand, in the PRC the 2- versus 10-year spread rose to 57 bps from 24 bps as rates at the shorter-end of the curve fell by a greater amount due to improved liquidity conditions. In Thailand, the larger drop in yields at the shorter-end was due to recent cuts in the short-term policy rates by Bank of Thailand.

Figure 11: Yield Spreads Between 2- and 10-Year Government Bonds



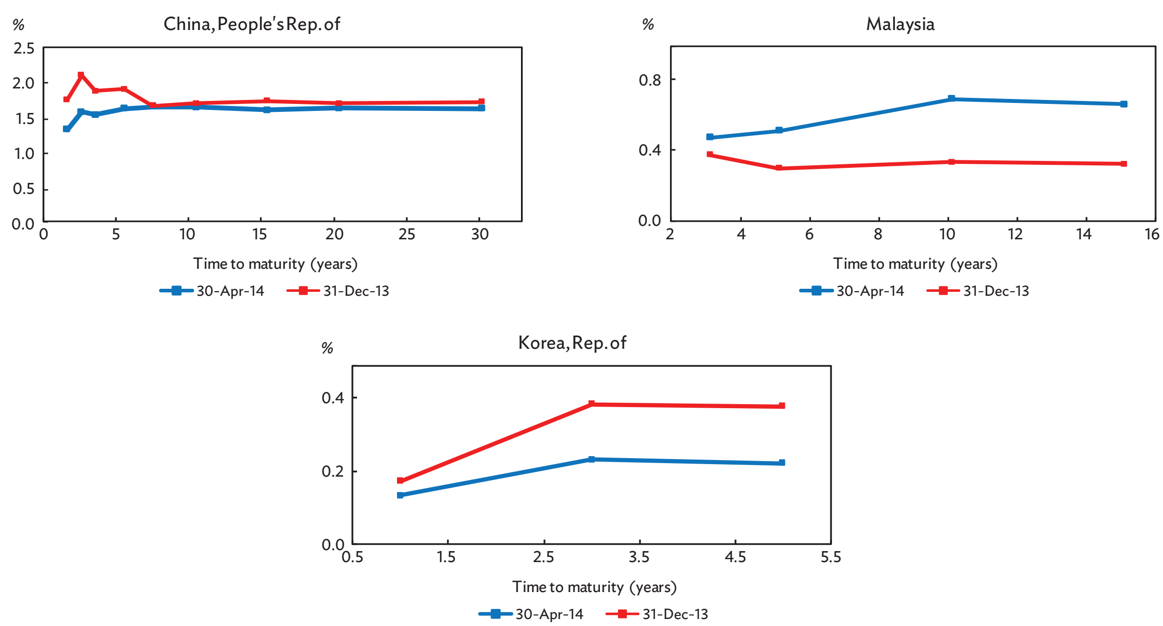
Source: Based on data from Bloomberg LP.

Corporate spread movements were mixed in January–April, reflecting idiosyncrasies in individual markets.

Credit spreads between AAA-rated corporate bonds and government bonds fell along the length of the curve in the Republic of Korea and at the shorter-end of the curve in the PRC between end-December 2013 and end-April 2014, due to improved external balances as the US economy continued to recover **(Figure 12a)**. In the PRC, improving liquidity conditions also helped reduce short-term borrowing costs. In Malaysia, credit spreads rose due to uncertainties over interest rates as consumer price increases were expected to accelerate.

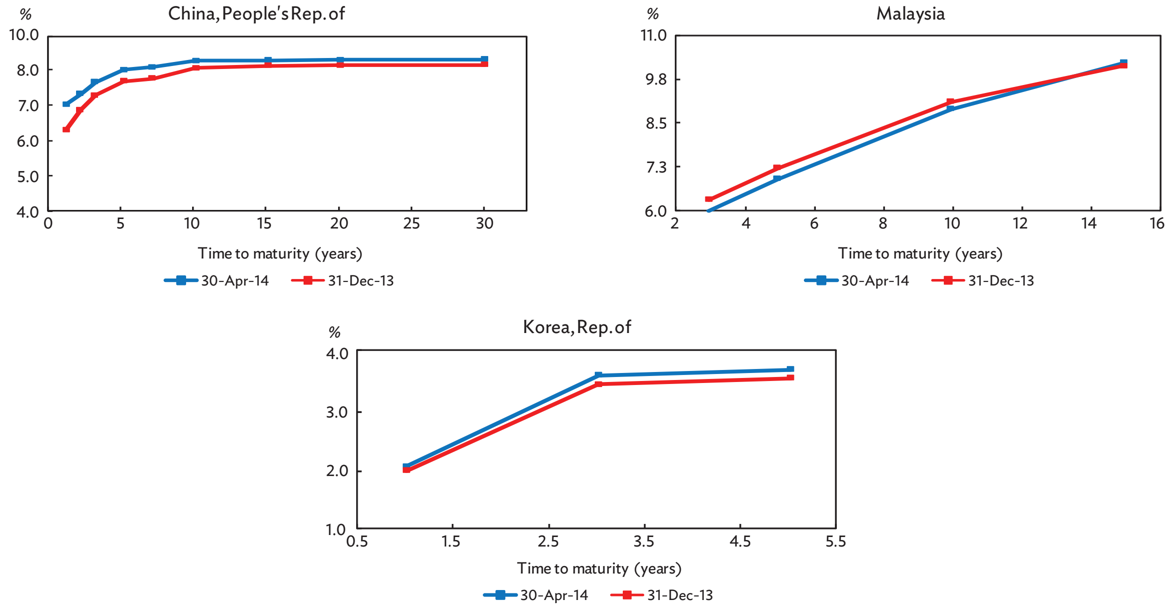
Credit spreads between lower-rated and AAA-rated corporate bonds worsened in the PRC and the Republic of Korea between end-December and end-April **(Figure 12b)**. In the PRC, lower-rated corporate bonds were affected by concerns that the PRC economy would slow. In addition, the PBOC has not engaged in broad-based economic stimulus despite concerns over falling property prices. In the Republic of Korea, rising spreads were partially due to decreased demand for lower-rated corporate bonds.

Figure 12a: Credit Spreads—LCY Corporates Rated AAA vs. Government Bonds



LCY = local currency.
Note: Credit spreads are obtained by subtracting government yields from corporate indicative yields.
Sources: People's Republic of China (*Wind*), Republic of Korea (EDAILY *BondWeb*), and Malaysia (Bank Negara Malaysia).

Figure 12b: Credit Spreads—Lower-Rated LCY Corporates vs. AAA



LCY = local currency.
Notes:
1. For the People's Republic of China and the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB+.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated AAA from corporate indicative yields rated BBB.
Sources: People's Republic of China (*Wind*), Republic of Korea (EDAILY *BondWeb*), and Malaysia (Bank Negara Malaysia).