

The *Asia Bond Monitor* (ABM) reviews the development of emerging East Asian local currency bond markets. It examines market size and composition, market liquidity, and yields and returns. Recent policy reforms are also highlighted. The ABM covers the Association of Southeast Asian Nations member countries plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

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Emerging East Asian Local Currency Bond Markets: A Regional Update

Highlights

Bond Market Development in 2005 and Outlook for 2006

- Emerging East Asian local currency bond markets increased in absolute size as well as in percentage of GDP in 2005.
- However, 2005 growth for both government and corporate bond markets was moderate relative to growth in 2004.
- Fiscal consolidation reduced government bond market growth in most major emerging East Asian economies, with the key exception of the PRC.
- Turnover ratios in government bond markets remained relatively stable in 2005, while those in corporate bond markets generally fell from their already low levels.
- Despite the general increase in short-term interest rates, all emerging East Asian yield curves flattened.
- With declining bond prices—and despite rising yields—2005 bond index returns were down on average from 2004 in many markets.
- Going forward, the key policy challenges for bond market development include increasing bond market liquidity, providing timely information about issuers to investors, and diversifying the investor base.

Financial Deepening in Emerging East Asia—An International Perspective

- While financial deepening is advancing worldwide, emerging East Asia compares well with the international benchmark, and generally outperforms the rest of the world.
- Adjusted for per capita income levels, most emerging East Asia's banking sectors—particularly in PRC, Malaysia, and Thailand—show a degree of deepening well above the international norm, particularly compared with some developed markets.
- In terms of equity market deepening, Hong Kong, China; Malaysia; and Singapore clearly outperform developed economies while all other emerging East Asian markets fall in the average performance category.
- Emerging East Asia's bond market deepening is less impressive than its banking sectors as well as equity market deepening, with only Malaysia showing above-average performance. Still, emerging East Asia's bond markets, particularly corporate bond markets have been deepening over time relative to the international benchmark.
- The financial sectors of emerging East Asian economies remain somewhat unbalanced in favor of banks, but this is true for most economies, not only among emerging markets, but among developed markets as well.

Acronyms and Abbreviations

ABF	Asian Bond Fund
ABM	Asia Bond Monitor
ABMI	Asian Bond Markets Initiative
ADB	Asian Development Bank
ALBI	Asian Local Bond Index
ARIC	Asia Regional Information Center
ASEAN	Association of Southeast Asian Nations
BAPEPAM	Indonesia Capital Market Supervisory Agency
BIBOR	Bangkok Interbank Offered Rate
BIS	Bank for International Settlements
BOT	Bank of Thailand
CAGAMAS	National Mortgage Corporation
CHIBOR	China Interbank Offer Rate
CSI	contractual savings institution
EU	European Union
FIE	Fixed Income Exchange
GDP	gross domestic product
HIBOR	Hong Kong Interbank Offered Rate
IFS	International Financial Statistics
IMF	International Monetary Fund
JBIC	Japan Bank for International Cooperation
JIBOR	Jakarta Interbank Offered Rate
KLIBOR	Kuala Lumpur Interbank Offer Rate
KORIBOR	Korea InterBank Offered Rate
LCY	local currency
OECD	Organisation for Economic Co-operation and Development
PHIBOR	Philippine Interbank Offered Rate
RICA	Revised Investment Company Act
RMBS	residential mortgage-backed securities
SIBOR	Singapore Interbank Offered Rate
SME	small- and medium-sized enterprise
ThaiBMA	Thai Bond Market Association
TIBOR	Tokyo Interbank Offered Rate
YTD	year-to-date

Note: To conform with market practice, the Asia Bond Monitor uses three-letter official ISO currency codes rather than ADB's standard symbols.

Definitions of Government and Corporate Debt in Local Currency Bond Markets

The Bank for International Settlements (BIS) International Financial Statistics (IFS) database maintains data on domestic debt securities for 40 markets, primarily Organisation for Economic Co-operation and Development (OECD) countries along with some emerging markets.

AsianBondsOnline generally follows the definitions of government debt utilized in the BIS IFS database. Debt securities data include all long-term bonds and notes, treasury bills, and other short-term notes. Government debt in domestic bond markets includes only obligations of the central government, local governments, and the central bank of each specific market.

According to the BIS definition, domestic debt securities are defined as those that have been issued by residents in domestic currency and targeted at domestic investors. AsianBondsOnline adjusted the BIS statistics to include securities issued by foreign issuers in domestic currency and includes these amounts in total outstandings. Any issues in local currency targeted for foreign investors are also added to total outstandings. For example, "Samurai" bonds are included as part of the total for Japan, as are issues of nonresident issuers in financing hubs such as Singapore.

Corporate issuers therefore include both public and private companies—including international entities. Financial institutions are also included under corporate debt and include public and private sector banks and other financial institutions. A wholly or majority-owned government entity operating commercially or as part of the financial system is therefore defined as corporate debt, as are bonds issued by ADB and other multilateral institutions.