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  Association of Southeast Asian Nations
ASEAN  Association of Southeast Asia
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


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.