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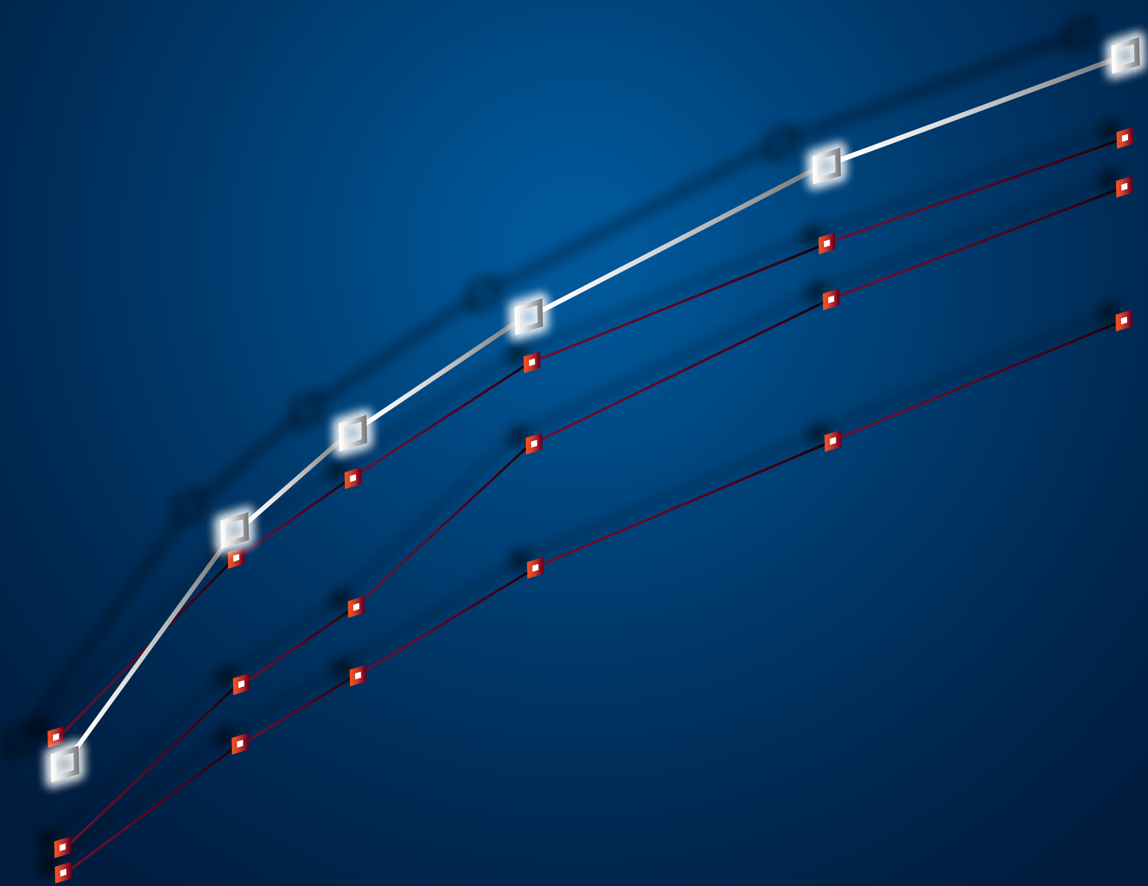
ASIA BOND MONITOR

MARCH 2011



Asian Development Bank

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The *Asia Bond Monitor* (ABM) reviews recent developments in East Asian local currency bond markets along with outlook, risks, and policy challenges. It covers the 10 Association of Southeast Asian Nations (ASEAN) 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

- Financial markets have been gripped by potentially destabilizing factors, ranging from rapidly rising food and commodity prices to political uncertainty in the Middle East. At the same time, however, most emerging East Asian economies have continued to grow rapidly.

- The combination of these factors has led to a steady stream of policy rate hikes in recent months throughout emerging East Asia.

- Recent developments have had a two-fold effect on the region's government bond yield curves: both flattening and shifting yield curves upward in most markets. This flattening trend has occurred in spite of continued capital inflows.

- Total local currency (LCY) bonds outstanding grew by 13.6% year-on-year (y-o-y) to USD5.2 trillion in 4Q10, driven more by corporate bonds (20.3%) than by government bonds (10.8%).

- The overall y-o-y growth rate of the market in 4Q10 presents a pattern of more balanced growth. The emerging East Asian bond market excluding the People's Republic of China (ex-PRC) grew 11.6% y-o-y in 4Q10.

- The PRC's overall bond market grew 15.1% y-o-y in 4Q10. However, the bond markets of Viet Nam, Malaysia, and Singapore grew even more rapidly at y-o-y rates of 34.2%, 18.9%, and 15.9%. Additionally, Thailand's growth rate was an impressive 14.4%.

- The growth of the PRC's government bond market declined to 10.3% y-o-y in 4Q10 from 15.6% in the previous quarter, while large increases in issuance from the central banks of Malaysia and Thailand limited the decline of the growth rate of the region's government bond market ex-PRC to 11.8% y-o-y in 4Q10 from 12.5% in 3Q10.

- The PRC's corporate bond market grew an impressive 37.2% y-o-y in 4Q10, however, this was exceeded by growth of 41.4% y-o-y in Viet Nam. The corporate bond markets of Singapore (30.9%), Indonesia (29.8%), and the Republic of Korea (11.1%) also exhibited solid growth in 4Q10.

- Almost all emerging East Asian corporate bond markets share a similar, interesting structure: the top 6–8 companies in each market issue bonds in very large amounts, with the remaining top 30–50 issuers in each market offering much smaller amounts. This results in an asymptotic curve for the distribution of bonds outstanding. This trend is most pronounced in the corporate bond markets of the PRC and Thailand.

- LCY bond issuance for 2010 as a whole totaled USD3.8 trillion in emerging East Asia, a 10.2% increase over 2009. Issuance in 4Q10 declined by 20.4% y-o-y and 27.6% q-o-q, but this was offset by substantial issuance earlier in 2010.

- Foreign participation in the region's LCY bond market continued to expand in 4Q10, as foreign investors hunted for yield and anticipated appreciation of the underlying currencies.

- G3 currency bond issuance from emerging East Asia in 2010 hit USD87.2 billion in 2010, a 38% increase over issuance of USD63.2 billion in 2009. G3 currency issuance remained robust in the early months of 2011, reaching USD12.3 billion by mid-March.

- The major risks to the region's outlook at present are rapidly rising prices for food, oil, and commodities, and the possibility that central banks will continue to raise their policy rates in 2011. The "risk on–risk off" behavior of the market could add to these risks and the volatility of the outlook.

Bond Market Developments in the Fourth Quarter of 2010

Size and Composition

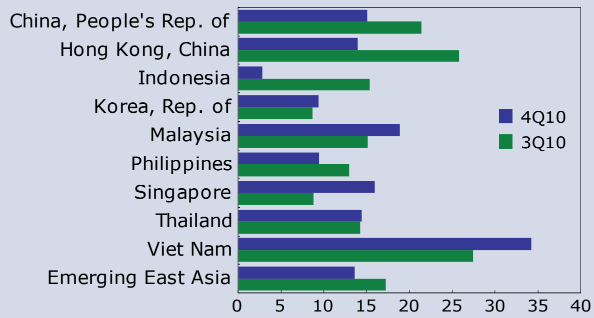
Total LCY bonds outstanding in emerging East Asia rose by 13.6% y-o-y in 4Q10 to USD5.2 trillion, driven mainly by corporate bonds, which grew 20.3%. Government bonds rose 10.8%.[1]

Emerging East Asia's local currency (LCY) bond market growth rates for 4Q10 are strong, positive numbers, although they represent a decline from the total market's year-on-year (y-o-y) growth rates of 17.2% in 3Q10 and 16.2% in 4Q09 **(Figure 1)**. The 4Q10 growth rates do, however, represent a pattern of more broadly-based market growth for emerging East Asia than had been the case in previous quarters.

The LCY bond market of emerging East Asia excluding the People's Republic of China (ex-PRC) grew 11.6% y-o-y in 4Q10, compared with 11.7% in 3Q10, while the PRC market's growth rate of 15.1% in 4Q10 was down from 21.4% in 3Q10. The y-o-y growth rate for the PRC's government bond market in 4Q10 was 10.3%, or 1.5 percentage points lower than that of the government bond market for emerging East Asia ex-PRC. Large increases in issuance by the central banks of Malaysia and Thailand pushed growth rates for the government bond sector in these markets up to double-digit levels. In the Philippines, new issuance and hugely successful debt exchanges in 4Q10 resulted in y-o-y growth of 10.1% for its government bond market **(Table 1)**.

While the PRC's large corporate bond market grew 37.2% y-o-y in 4Q10, this was exceeded by rapid y-o-y growth of the corporate bond market of Viet Nam (41.4%). Meanwhile, Singapore (30.9%), Indonesia (29.8%), and the Republic of Korea (11.1%) all saw significant growth in their respective corporate bond markets in 4Q10.

Figure 1: Growth of LCY Bond Markets in 3Q10 and 4Q10 (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 local currency base and do not include currency effects.
3. Emerging East Asia growth figure is based on end-December 2010 currency exchange rates and do not include currency effects.
4. For Singapore, corporate bonds outstanding quarterly figures are based on *AsianBondsOnline* estimates.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); Republic of Korea (Bank of Korea and *KoreaBondWeb*); 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).

These trends are even more evident when growth is reviewed on a quarter-on-quarter (q-o-q) basis. The emerging East Asian bond market grew 1.2% on a q-o-q basis in 4Q10. The emerging East Asian bond market ex-PRC grew 1.7% q-o-q in 4Q10, compared with only 0.8% in the PRC. The q-o-q growth rates of the government bond markets of both the PRC and emerging East Asia ex-PRC were essentially flat. However, the q-o-q growth rate of the corporate bond market of emerging East Asia ex-PRC was 3.8%, compared with 3.6% for the PRC.

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

Table 1: Size and Composition of LCY Bond Markets

	4Q09		3Q10		4Q10		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
							4Q09		4Q10		4Q09		4Q10	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD 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
China, People's Rep. of (PRC)														
Total	2,567	100.0	2,991	100.0	3,052	100.0	6.3	16.0	0.8	15.1	6.3	16.0	2.1	18.9
Government	2,113	82.3	2,377	79.5	2,408	78.9	4.9	8.0	0.02	10.3	4.9	8.0	1.3	14.0
Corporate	454	17.7	614	20.5	644	21.1	13.6	77.5	3.6	37.2	13.6	77.5	4.9	41.8
Hong Kong, China														
Total	144	100.0	161	100.0	164	100.0	12.1	55.8	1.6	14.0	12.1	55.8	1.4	13.7
Government	70	48.3	87	53.6	87	53.2	29.5	242.2	0.8	25.5	29.5	242.1	0.6	25.2
Corporate	74	51.7	75	46.4	77	46.8	(0.4)	3.3	2.5	3.2	(0.5)	3.2	2.3	2.9
Indonesia														
Total	99	100.0	112	100.0	106	100.0	7.3	19.4	(4.4)	2.8	10.3	41.2	(5.3)	7.5
Government	89	90.5	101	89.7	94	88.0	6.8	19.2	(6.2)	(0.03)	9.8	41.0	(7.1)	4.5
Corporate	9	9.5	12	10.3	13	12.0	12.1	21.2	11.3	29.8	15.2	43.3	10.2	35.7
Korea, Rep. of														
Total	1,016	100.0	1,122	100.0	1,149	100.0	0.5	15.0	1.2	9.4	1.7	24.4	2.5	13.1
Government	444	43.7	496	44.2	492	42.8	(4.3)	11.4	(2.0)	7.2	(3.2)	20.5	(0.7)	10.8
Corporate	572	56.3	626	55.8	657	57.2	4.6	18.0	3.7	11.1	5.9	27.6	5.0	14.8
Malaysia														
Total	185	100.0	234	100.0	247	100.0	1.4	10.3	4.7	18.9	2.4	11.6	5.5	33.0
Government	101	54.6	137	58.4	145	59.0	(0.5)	10.9	5.7	28.5	0.5	12.2	6.5	43.7
Corporate	84	45.4	97	41.6	101	41.0	3.7	9.6	3.3	7.4	4.8	10.9	4.2	20.1
Philippines														
Total	63	100.0	73	100.0	73	100.0	3.4	8.1	0.2	9.4	6.0	11.3	0.3	15.3
Government	55	87.9	64	88.0	64	88.4	2.3	3.1	0.7	10.1	4.9	6.2	0.8	16.0
Corporate	8	12.1	9	12.0	8	11.6	12.4	66.5	(3.7)	4.8	15.3	71.4	(3.6)	10.5
Singapore														
Total	141	100.0	166	100.0	179	100.0	(1.5)	8.4	4.9	15.9	(1.2)	10.4	7.6	26.9
Government	88	62.5	97	58.6	103	57.7	0.9	18.3	3.3	7.0	1.2	20.4	5.9	17.1
Corporate	53	37.5	69	41.4	76	42.3	(5.3)	(4.8)	7.3	30.9	(5.0)	(3.0)	10.0	43.3
Thailand														
Total	177	100.0	217	100.0	225	100.0	2.5	20.5	2.7	14.4	2.7	25.5	3.7	27.0
Government	141	79.8	176	81.3	183	81.4	3.3	21.0	2.8	16.7	3.5	26.0	3.8	29.6
Corporate	36	20.2	40	18.7	42	18.6	(0.5)	18.8	2.2	5.3	(0.3)	23.7	3.1	16.9
Viet Nam														
Total	12	100.0	15	100.0	15	100.0	(2.4)	(4.2)	2.8	34.2	(5.8)	(9.4)	2.8	27.2
Government	11	90.6	14	91.3	14	90.1	(4.6)	(9.5)	1.4	33.5	(7.9)	(14.4)	1.4	26.5
Corporate	1	9.4	1	8.7	2	9.9	26.1	116.9	17.4	41.4	21.8	105.2	17.3	34.0
Emerging East Asia (EEA)														
Total	4,404	100.0	5,090	100.0	5,209	100.0	4.4	16.2	1.2	13.6	4.9	19.2	2.3	18.3
Government	3,113	70.7	3,547	69.7	3,590	68.9	3.5	11.2	0.1	10.8	3.8	13.2	1.2	15.3
Corporate	1,292	29.3	1,542	30.3	1,619	31.1	6.7	30.5	3.7	20.3	7.4	36.4	5.0	25.3
EEA Less PRC														
Total	1,837	100.0	2,099	100.0	2,157	100.0	1.8	16.6	1.7	11.6	2.9	23.8	2.8	17.4
Government	1,000	54.4	1,171	55.8	1,182	54.8	0.7	18.5	0.1	11.8	1.8	26.2	1.0	18.2
Corporate	837	45.6	929	44.2	975	45.2	3.3	14.3	3.8	11.2	4.3	21.2	5.0	16.4
Japan														
Total	9,621	100.0	11,211	100.0	11,723	100.0	1.5	3.6	1.5	6.3	(2.1)	1.0	4.6	21.8
Government	8,656	90.0	10,134	90.4	10,609	90.5	1.7	3.7	1.7	6.9	(1.9)	1.1	4.7	22.6
Corporate	964	10.0	1,077	9.6	1,114	9.5	(0.1)	2.7	0.4	0.7	(3.7)	0.1	3.4	15.5

LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. For Singapore, corporate bonds outstanding quarterly figues are based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY—USD rates are used.
4. For LCY-base, total emerging East Asia growth figures are based on end-December 2010 currency exchange rates and do not include currency effects.
5. Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); Japan (Japan Securities Dealers Association); Republic of Korea (Bank of Korea and *KoreaBondWeb*); 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).

The expansion of the emerging East Asian corporate bond market ex-PRC was driven in 4Q10 by double-digit q-o-q growth rates in Indonesia and Viet Nam, substantial 7.3% growth in Singapore, and moderate growth in the Malaysian and Korean corporate bond markets.

Total government bonds outstanding in emerging East Asia rose by 10.8% y-o-y in 4Q10—led by Viet Nam; Malaysia; Hong Kong, China; and Thailand.

Growth in the government bond markets of Malaysia and Thailand in 4Q10 was driven primarily by issuance from Bank Negara Malaysia and the Bank of Thailand for sterilization purposes, rather than issuance by their respective treasuries or other government agencies. Thus, the total stock of government sector bonds in Malaysia and Thailand grew 28.5% and 16.7% y-o-y, respectively. The q-o-q growth rate for Malaysian government bonds in 4Q10 was 5.7%, the highest in the region; the q-o-q growth rate for government bonds in Thailand was a more modest 2.8%. The only other government bond market to experience significant growth in 4Q10 on a q-o-q basis was Singapore, which expanded 3.3%, while its y-o-y growth in 4Q10 was 7.0%. The growth of the Singapore government bond market reflected an absence of amortization of long-term Singapore Government Securities (SGS) in 4Q10 amid substantial issuance of short-term SGS bills.

Growth in the government bond market of Hong Kong, China was negligible in 4Q10 on a q-o-q basis, due to a sharp drop in issuance by the Hong Kong Monetary Authority (HKMA) and very limited new issuance of so-called Special Administrative Region (SAR) bonds by the government of Hong Kong, China under its Institutional Bond Issuance Programme. The high y-o-y growth rate of Hong Kong, China's government bond market was driven by large issuances of Exchange Fund Bills and Notes (EFBNs), as well as issuances of SAR bonds earlier in the year.

Philippine government bonds outstanding in 4Q10 increased by 10.1% y-o-y and 0.7% q-o-q, reflecting a number of factors, including the government's efforts to lengthen the maturity structure of its bonds and a slowdown in transactions during the Christmas season in the Philippines. More recently, during an offer period extending from 22 February to 1 March, the Bureau of the Treasury accepted PHP104.0 billion (USD2.4 billion) of bids for Retail Treasury Bonds (RTBs). In Thailand, the government issued a 50-year bond in early March worth THB3.5 billion (USD116 million).

The more interesting movements in government bond markets in 4Q10, however, seem to have been (i) the PRC, in which the total stock of government sector bonds outstanding grew 10.3% y-o-y while remaining essentially unchanged on a q-o-q basis; (ii) the Republic of Korea, where the stock of government sector bonds declined by 2.0% q-o-q; and (iii) Indonesia, where the stock of government sector bonds was flat on a y-o-y basis and declined 6.2% q-o-q.

The slowing growth rate of the PRC government bond sector in 4Q10 was driven by a sharp reduction of new short-term bill issuance by the People's Bank of China (PBOC), a trend that has been in place since 3Q10, as well as a reduction of the growth rate for long-dated PBOC bonds. This resulted in the outstanding amount of PBOC bonds and bills shrinking by 8.0% q-o-q and 3.5% y-o-y in 4Q10, even as treasury bonds grew by 16.1% y-o-y and bonds issued by policy banks grew by 16.0% y-o-y. The reduction of the PBOC's overall issuance in 4Q10, especially the sharp reduction of short-term issuance, is part of the PBOC's efforts to tighten its monetary policy in the last months of 2010, a trend that is likely to continue into 2011.

In the Republic of Korea in 4Q10, government sector bonds grew 7.2% y-o-y, but fell by 2.0% on a q-o-q basis, reflecting a sharp reduction in issuance by both the Korean government and the Bank of Korea. In Indonesia, there was limited new government bond issuance in 4Q10 as the government completed its domestic issuance program earlier in the year. Furthermore, Bank

Indonesia has been paring back its issuance of *Sertifikat* Bank Indonesia (SBI) to discourage foreign inflows into the Indonesian bond market, as well as other segments of the financial sector, in an effort to manage the inflationary pressures facing the economy. Bank Indonesia raised its policy rate by 25 basis points to 6.75% in early February, but does not appear eager to raise it any further. Thus, while central government bonds outstanding rose by 10.2% y-o-y in 2010, they fell by 0.6% on a q-o-q basis. Outstanding SBIs, however, fell by 23.0% y-o-y and 20.5% q-o-q in 4Q10.

The corporate bond market in emerging East Asia expanded 20.3% y-o-y in 4Q10, led by Viet Nam, the PRC, Singapore, and Indonesia.

In 4Q10, the corporate bond markets of Viet Nam, the PRC, Singapore, and Indonesia grew at y-o-y rates of 41.4%, 37.2%, 30.9%, and 29.8%, respectively. On a q-o-q basis, the Viet Nam corporate bond market also grew the most among markets in the region at 17.4%. Indonesia's market saw the next largest increase at 11.3%, followed by Singapore at 7.3%. The PRC corporate bond market grew by only 3.6% q-o-q, just behind the Republic of Korea at 3.7%.

The PRC corporate bond market's y-o-y growth rate has slowed dramatically from a 77.5% expansion in 4Q09. At that time, the various segments of the PRC corporate bond market were growing at high double-digit levels, both on a y-o-y and q-o-q basis, and the medium-term note (MTN) market was growing by an astounding 415.7% y-o-y. All of these growth rates had moderated by 4Q10. MTNs still rose an impressive 57.0% y-o-y and commercial paper by 43.2% in 4Q10, but state-owned corporates and commercial bank bonds grew by only 22.1% and 3.6% y-o-y, respectively. In fact, MTNs only grew 5.0% q-o-q in 4Q10, while the outstanding value of commercial paper actually shrank 2.6% q-o-q and commercial bank bonds were flat. The only growth sector among PRC corporate bonds in 4Q10 were local corporate bonds—mainly corporate entities owned by local governments—which grew 13.6% q-o-q, compared with 4.4% q-o-q for state-owned corporates.

The two most interesting corporate bond markets in 4Q10 were those of Indonesia and Singapore, which both doubled their y-o-y and q-o-q growth rates from 2Q10. Most of Indonesia's IDR14.2 trillion of issuance in 4Q10 came from banks and other financial institutions. Singapore's SGD6.0 billion of issuance was led by a SGD2.5 billion bond offering from DBS Bank, and SGD500 million of new issuance each from Keppel Corp, Keppel Land, and the Land Transport Authority.

The Republic of Korea's corporate bond market, which reached USD657 billion in size at the end of 4Q10, ranked fourth in the region in terms of q-o-q growth. This large and complex market comprises three major sectors: (i) special public bonds issued by government-owned companies; (ii) bank debentures issued by commercial banks, excluding bonds issued by their non-bank subsidiaries; and (iii) private corporate bonds, which include securities companies, other types of specialized financial companies, and private industrial corporations. Private corporate bonds were the largest sub-sector at the end of 4Q10, amounting to USD257.0 billion and with growth rates of 22.9% y-o-y and 13.5% q-o-q. If the Republic of Korea's private corporate bonds were treated as a separate market, they would be larger than any other corporate bond market in emerging East Asia ex-PRC. They would also have been the second-most rapidly growing corporate bond market in the region on a q-o-q basis in 4Q10, exceeded only by Viet Nam's q-o-q growth rate.

Growth in both the Malaysian and Thai corporate bond markets was notable in 4Q10. However, 4Q10 issuance can be explained by a relatively small number of transactions in each case. The leading contributors to Malaysia's MYR25.6 billion of issuance in 4Q10 were new bonds issued by Senai Desaru Expressway (MYR5.6 billion), Cagamas (MYR2.5 billion), Pengurusan Air SPV (MYR2.2 billion), CIMB Bank (MYR2.0 billion), and Malaysia Airports Capital (MYR1.5 billion).

The major new corporate issues to come out of Thailand in 4Q10 included multiple issues from energy conglomerate PTT, as well as issues from Siam Cement, Charoen Pokphand Foods, Krung Thai Bank, and Don Muang Tollway, among others.

Structure of the LCY Corporate Bond Market

Almost all emerging East Asian corporate bond markets share a very interesting structure. In each market, the top 6–8 companies have issued in very large amounts, whether in terms of bonds issued in large sizes or simply large amounts of bonds, with the remaining 30–50 issuers in each market offering much smaller amounts. In some markets, the bonds outstanding of the seventh or eighth largest issuer might only be one-tenth the amount outstanding of the largest issuer. This results in an asymptotic curve for the distribution of issuers when bonds outstanding of the leading issuers in each market are graphed in a scattergram format **(Figure 2)**. The most asymptotic distribution curves are those of the PRC and Thailand:

(i) In the case of the PRC, this reflects the large bond issues of the "Super AAAs"—the very large government-owned transport, infrastructure, and oil companies—as well as large state-owned banks such as Bank of China, ICBC, and Industrial Bank.

(ii) In the case of Thailand, the asymptotic curve reflects the very large issuance amounts of energy conglomerate PTT, which is followed by Siam Cement in terms of issue size. The next three largest issuers are banks: (i) Bank Ayudhya; (ii) Krung Thai Bank; and (iii) PTT Exploration and Product, a PTT subsidiary.

The curves for the Philippines and Singapore are less asymptotic:

(i) In the Philippines, most of the corporate bond issuers are private companies in capital-intensive businesses—banking, real estate development, and energy—that require large amounts of debt financing for business expansion.

(ii) In Singapore, the slight upward bulge reflects a more diverse and well-developed corporate sector in terms of product lines and growth prospects, as well as the sudden acceleration of corporate bond issuance in the second half of 2010.

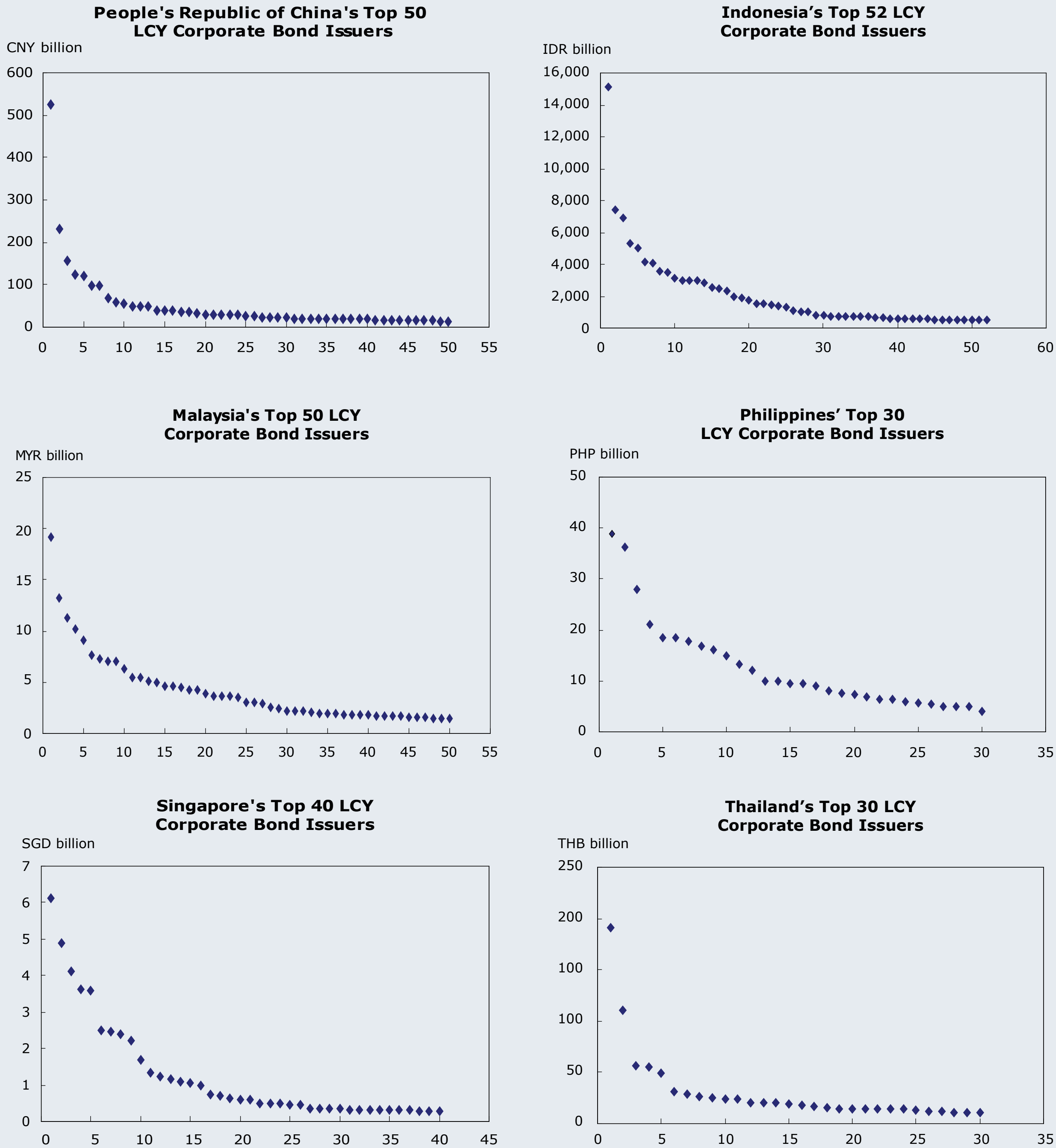
Two scattergram graphs are presented for the Republic of Korea. **Figure 3a** is for the 50 largest corporate bond issuers, and **Figure 3b** is for the 50 largest privately-owned corporate bond issuers:

(i) Figure 3a is less asymptotic than Figure 3b due to the presence of a number of government-owned banks that are major issuers of bonds in broadly similar amounts.

(ii) Figure 3b removes these banks and all other government-owned companies, resulting in a highly asymptotic curve. The list of top corporate bond issuers in the Market Summary for the Republic of Korea in the final section of this report shows that the top half-dozen private issuers, most of which are securities companies, issue in very large amounts. Meanwhile, other leading private companies in the industrial and services sectors issue in much more modest amounts, with little relationship to the size of the company.

(iii) Steel company POSCO is the 41st largest private sector issuer of bonds, while the chaebol SK Holdings is the 47th largest. Other household-name chaebol rank well below number 50 as issuers of corporate bonds.

Figure 2: Scattergrams of Top LCY Corporate Bond Issuers in Select Countries in Emerging East Asia



LCY = local currency.
Source: People's Republic of China (*ChinaBond*); Indonesia (Indonesia Stock Exchange); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Bloomberg LP); and Thailand (Bloomberg LP).

Figure 3a: Scattergram of the Republic of Korea's Top 50 LCY Corporate Bond Issuers

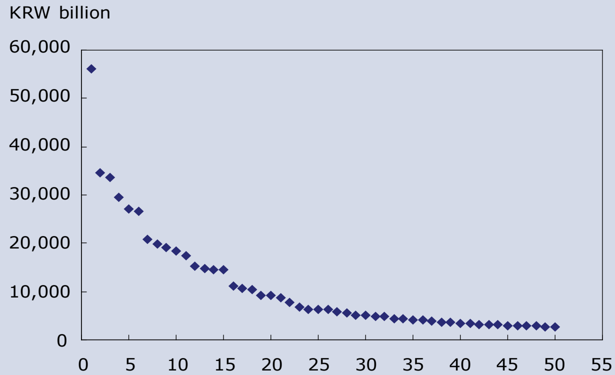
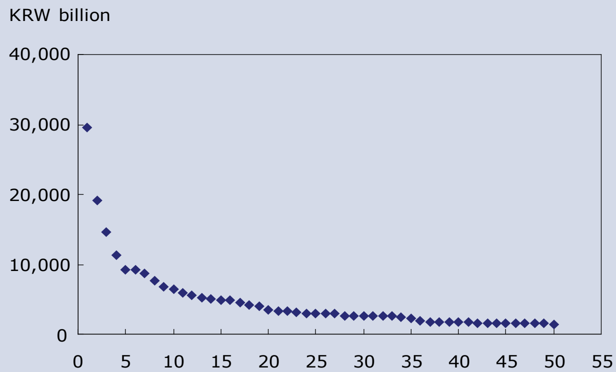


Figure 3b: Scattergram of the Republic of Korea's Top 50 Privately-Owned Corporate Bond Issuers



LCY = local currency.
Source: *KoreaBondWeb*.

Ratio of Bonds Outstanding to Gross Domestic Product

The overall ratio of bonds outstanding to GDP in emerging East Asia fell slightly in 4Q10.

The ratio of emerging East Asia's LCY bonds outstanding to gross domestic product (GDP) stood at 57.4% at the end of 4Q10, down slightly from 58.7% at the end of 3Q10 **(Table 2)**. This reflected a drop in the ratio of government bonds to GDP to 39.5% at the end of 4Q10 from 40.9% at end-3Q10. Meanwhile, the ratio of corporate bonds to GDP remained unchanged in 4Q10 at 17.8%. The two markets that experienced

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

	4Q09	3Q10	4Q10
China, People's Rep. of			
Total	51.4	52.7	50.7
Government	42.3	41.9	40.0
Corporate	9.1	10.8	10.7
Hong Kong, China			
Total	68.8	73.2	72.8
Government	33.3	39.2	38.7
Corporate	35.6	33.9	34.1
Indonesia			
Total	16.6	16.1	14.9
Government	15.0	14.5	13.1
Corporate	1.6	1.7	1.8
Korea, Rep. of			
Total	111.3	112.4	115.2
Government	48.6	49.7	49.3
Corporate	62.6	62.7	65.8
Malaysia			
Total	93.5	96.4	98.6
Government	51.0	56.3	58.2
Corporate	42.4	40.1	40.4
Philippines			
Total	37.9	38.3	37.4
Government	33.3	33.7	33.1
Corporate	4.6	4.6	4.3
Singapore			
Total	74.2	73.5	75.5
Government	46.4	43.1	43.6
Corporate	27.8	30.4	31.9
Thailand			
Total	65.3	66.3	66.8
Government	52.1	53.9	54.4
Corporate	13.2	12.4	12.4
Viet Nam			
Total	13.4	15.6	15.1
Government	12.2	14.2	13.6
Corporate	1.3	1.4	1.5
Emerging East Asia			
Total	57.7	58.7	57.4
Government	40.8	40.9	39.5
Corporate	16.9	17.8	17.8
Japan			
Total	190.0	195.7	198.4
Government	171.0	176.9	179.6
Corporate	19.0	18.8	18.8

GDP = gross domestic product, LCY = local currency.
Notes:
1. Data for GDP is from CEIC. 4Q10 GDP figures for the Republic of Korea was carried over from 3Q10.
2. For Singapore, corporate bonds outstanding quarterly figures are based on *AsianBondsOnline* estimates.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); Japan (Japan Securities Dealers Association); Republic of Korea (Bank of Korea and *KoreaBondWeb*); 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).

the largest increases in their respective ratio of bonds to GDP in 4Q10 were the Republic of Korea and Malaysia. The Republic of Korea's ratio rose 2.8 percentage points to 115.2%, while Malaysia's ratio rose 2.2 percentage points to 98.6%. The third-highest rise in the ratio of bonds to GDP was in Singapore, whose ratio rose by 2 percentage points to reach 75.5%. Malaysia and Singapore experienced increases in their respective ratios of bonds to GDP in both their government and corporate bonds sectors. The only other market to experience a rise in its ratio of bonds to GDP was Thailand, whose ratio rose by 0.5 percentage points to 66.8%, due entirely to a modest rise in its ratio of government bonds to GDP.

Other markets experienced a fall in their ratios of bonds to GDP in 4Q10. The largest such decline was in the PRC bond market, whose ratio fell by 2 percentage points to 50.7%, reflecting modest declines in both the government-bonds-to-GDP and corporate-bonds-to-GDP ratios.

Issuance

LCY bond issuance in emerging East Asia for 2010 as a whole totaled USD3.8 trillion, a 10.2% increase over 2009.

Annual LCY bond issuance in emerging East Asia for 2010 as a whole totaled USD3.8 trillion, a 10.2% increase over 2009. Government bond issuance in 2010 grew 12.3% y-o-y to USD3.1 trillion and corporate bond issuance rose by 1.1% to USD634.0 billion. Quarterly issuance was highly volatile during the year, rising to more than USD1.0 trillion in both 1Q10 and 3Q10, compared with USD937 billion in 2Q10 and USD747 billion in 4Q10.

The increase in total issuance to nearly USD1.1 trillion in 1Q10 was driven by a rise in central bank issuance to an all-time high of slightly under USD800 billion **(Figure 4a)**. Central bank issuance then sank to somewhat lower levels in 2Q10 and 3Q10, before falling further to USD394 billion in 4Q10, its lowest level since 1Q09. Issuance by government entities (excluding central banks) and issuance by corporates rose from 1Q10 to 3Q10, before falling in 4Q10 **(Figure 4b)**. Corporate issuance of USD147 billion in 4Q10 was approximately 75% of the total quarterly issuance of government entities excluding central banks.

Finally, **Figure 4c** tracks issuance in the PRC and all regional markets excluding the PRC on a quarterly basis from 2008 to the end of 2010. The data series show that the PRC's total issuance rose more rapidly than issuance from the rest of emerging East Asia between 1Q09 and 3Q09, before declining in 4Q09 and 1Q10. The PRC's issuance was approximately the same in 2Q10 and 3Q10, before declining again sharply in 4Q10. Issuance for the rest of the region excluding the PRC rose sharply in 1Q10, before falling in 2Q10 and rising slightly again in 3Q10, and then falling back in 4Q10 to a level roughly comparable to that of 2Q10.

Total issuance in emerging East Asia in 4Q10 of USD747 billion represented a 20.4% decrease from USD905 billion in 4Q09, and a 27.6% decrease from USD1.0 trillion in 3Q10 **(Table 3)**. The largest decrease occurred in the government bond sector, which fell by 23.7% y-o-y in 4Q10, driven primarily by a 32.6% y-o-y decrease in issuance by central banks and monetary authorities. Issuance by treasuries and other central government agencies rose slightly by 2.0% y-o-y. Meanwhile, corporate issuance also fell for the region as a whole, but by a much smaller amount of 3.1% y-o-y.

The fall-off in issuance by central banks and monetary authorities in 4Q10, however, masks large disparities among various markets. Issuance by central banks actually increased by 147.4% y-o-y in the case of Malaysia and by 74.5% y-o-y in the case of Thailand. However, y-o-y issuance by central banks and monetary authorities declined sharply in the PRC; Hong Kong, China; Indonesia; and the Republic of Korea.

Figure 4a: Government (including SOE) **and Central Bank Bond Issuance**[1]

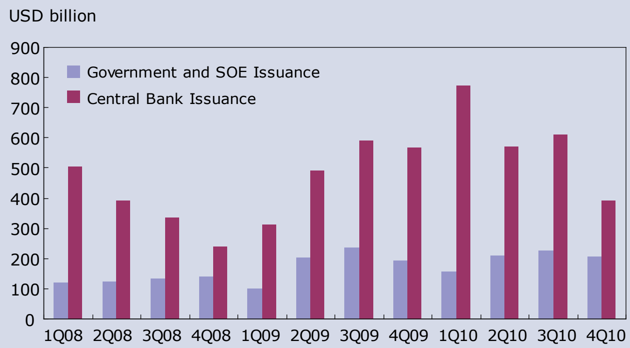


Figure 4b: Government (including SOE) **and Corporate Bond Issuance**[1]

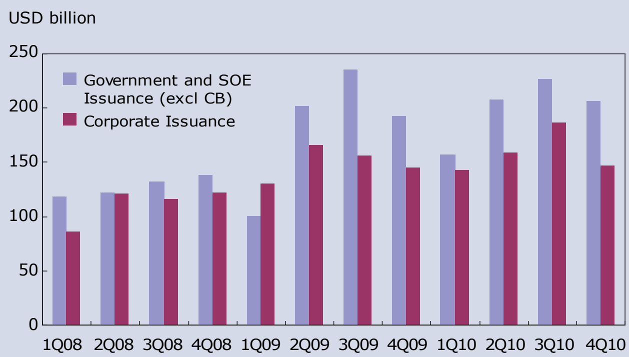
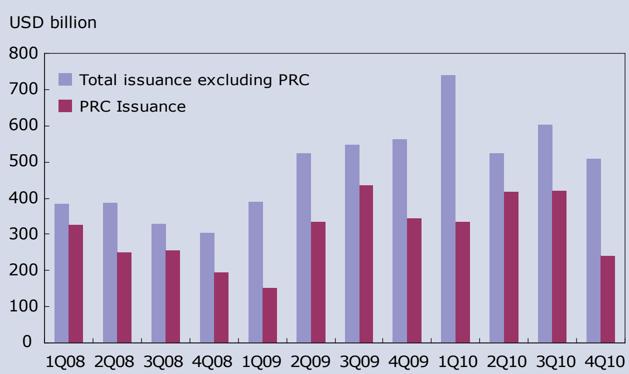


Figure 4c: Total LCY Bond Issuance



CB = central bank, LCY = local currency, PRC = People's Republic of China, SOE = state-owned enterprise.
[1]These data include both bonds and bills issued by governments and central banks as well as commercial paper issued by corporate entities. In the PRC, government issuance (including SOE) includes policy bank bond issuance.
Source: *AsianBondsOnline*.

The PBOC's issuance fell by 68.4% q-o-q and 63.4% y-o-y, although most of this cutback was in the bills sector as the PBOC sharply reduced liquidity in 4Q10 to combat inflationary pressures in general and to reduce the availability of funding for property speculation in particular. The PBOC continued these efforts into 2011 with a 25 basis points hike to 6.06% for its lending rate and a 25 basis points hike to 3.00% for its deposit rate. The Bank of Korea also cut its issuance by 42.7% q-o-q and 58.1% y-o-y in 4Q10 to quell rising inflationary pressures. More recently, the Bank of Korea raised its policy rate by 25 basis points to 2.75% on 13 January and by another 25 basis points to 3.0% on 10 March.

Bank Indonesia's issuance declined 30.0% q-o-q and 73.6% y-o-y in 4Q10, mainly as a result of regulations promulgated in the second half of the year that reduced the frequency of auctions and required a 1-month holding period for SBIs. In November, Bank Indonesia stopped issuing 3-month SBIs and, instead, began offering term deposit instruments to banks with excess liquidity and limited foreign holdings. These term deposit facilities were only being offered to banking institutions. In January, Bank Indonesia announced that it would no longer issue SBIs with maturities of less than 9 months, while extending the tenor of its term deposit facilities to 5 months in January and then to 6 months in February. Furthermore, Bank Indonesia raised its reference rate by 25 basis points on 4 February to 6.75% to curb inflation, which rose to 7.0% y-o-y in January.

Issuance by treasuries and other central government agencies (excluding central banks and monetary authorities) was essentially flat for the region as a whole in 4Q10. This trend has been in place since 2Q10, as governments in the region phase out their economic stimulus programs. Issuance of treasuries and other types of central government bonds fell 50.7% q-o-q in Thailand, 33.8% q-o-q in Malaysia, 36.3% q-o-q in the Republic of Korea, and 67.0% q-o-q in Indonesia. Treasury and policy bank issuance in the PRC dropped by a relatively modest 7.2% q-o-q in 4Q10, but still managed to rise 13.1% y-o-y. The

Table 3: LCY-Denominated Bond Issuance (gross)

	LCY billion		USD billion		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	4Q10	% share	4Q10	% share	4Q10		4Q10	
					q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)								
Total	1,585	100.0	240	100.0	(43.7)	(32.5)	(43.0)	(30.2)
Government	1,282	80.9	194	80.9	(42.3)	(31.7)	(41.6)	(29.4)
Central Bank	402	25.4	61	25.4	(68.4)	(63.4)	(68.0)	(62.2)
Treasury and Other Govt	880	55.5	133	55.5	(7.2)	13.1	(6.0)	16.8
Corporate	303	19.1	46	19.1	(48.9)	(35.6)	(48.3)	(33.5)
Hong Kong, China								
Total	1,321	100.0	170	100.0	(30.0)	(23.4)	(30.2)	(23.6)
Government	1,272	96.3	164	96.3	(31.0)	(24.6)	(31.1)	(24.8)
Central Bank	1,268	95.9	163	95.9	(31.1)	(24.8)	(31.2)	(25.0)
Treasury and Other Govt	5	0.3	0.6	0.3	28.6	125.0	28.3	124.5
Corporate	49	3.7	6	3.7	10.3	34.9	10.1	34.6
Indonesia								
Total	179,227	100.0	20	100.0	(32.1)	(70.7)	(32.8)	(69.4)
Government	165,027	92.1	18	92.1	(34.7)	(72.5)	(35.3)	(71.3)
Central Bank	154,445	86.2	17	86.2	(30.0)	(73.6)	(30.6)	(72.5)
Treasury and Other Govt	10,582	5.9	1	5.9	(67.0)	(26.5)	(67.4)	(23.1)
Corporate	14,200	7.9	2	7.9	23.5	19.5	22.3	24.9
Korea, Rep. of								
Total	128,015	100.0	114	100.0	(20.9)	(22.9)	(19.9)	(20.2)
Government	47,598	37.2	42	37.2	(40.8)	(54.5)	(40.1)	(52.9)
Central Bank	32,780	25.6	29	25.6	(42.7)	(58.1)	(42.0)	(56.7)
Treasury and Other Govt	14,818	11.6	13	11.6	(36.3)	(43.7)	(35.5)	(41.8)
Corporate	80,417	62.8	71	62.8	(1.2)	31.0	0.1	35.4
Malaysia								
Total	119	100.0	39	100.0	4.0	55.3	4.8	73.8
Government	94	78.6	31	78.6	0.6	80.1	1.4	101.4
Central Bank	82	69.0	27	69.0	8.4	147.4	9.3	176.8
Treasury and Other Govt	11	9.5	4	9.5	(33.8)	(39.4)	(33.3)	(32.2)
Corporate	26	21.4	8	21.4	18.4	3.3	19.3	15.6
Philippines								
Total	304	100.0	7	100.0	68.3	118.7	68.5	130.5
Government	304	100.0	7	100.0	73.2	212.4	73.4	229.3
Central Bank	0	0.0	0	0.0	—	—	—	—
Treasury and Other Govt	304	100.0	7	100.0	73.2	212.4	73.4	229.3
Corporate	0	0.0	0	0.0	—	—	—	—

continued on next page

Table 3 continued

	LCY billion		USD billion		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	4Q10	% share	4Q10	% share	4Q10		4Q10	
					q-o-q	y-o-y	q-o-q	y-o-y
Singapore								
Total	61	100.0	47	100.0	(1.1)	7.1	1.4	17.3
Government	55	90.7	43	90.7	(1.1)	1.3	1.5	10.9
Central Bank	0	0.0	0	0.0	—	—	—	—
Treasury and Other Govt	55	90.7	43	90.7	(1.1)	1.3	1.5	10.9
Corporate	6	9.3	4	9.3	(1.4)	146.7	1.2	170.0
Thailand								
Total	3,286	100.0	109	100.0	9.8	51.1	10.9	67.8
Government	3,027	92.1	101	92.1	9.4	57.9	10.4	75.3
Central Bank	2,897	88.2	96	88.2	15.7	74.5	16.8	93.7
Treasury and Other Govt	130	3.9	4	3.9	(50.7)	(49.5)	(50.3)	(43.9)
Corporate	259	7.9	9	7.9	15.3	0.7	16.5	11.7
Viet Nam								
Total	11,222	100.0	0.6	100.0	29.7	23.0	29.7	16.5
Government	9,522	84.9	0.5	84.9	42.1	99.4	42.1	89.0
Central Bank	0	0.0	0.0	0.0	—	—	—	—
Treasury and Other Govt	9,522	84.9	0.5	84.9	42.1	99.4	42.1	89.0
Corporate	1,700	15.1	0.1	15.1	(12.8)	(60.9)	(12.9)	(63.0)
Emerging East Asia (EEA)								
Total	—	—	747	100.0	(27.6)	(20.4)	(27.0)	(17.5)
Government	—	—	600	80.4	(28.9)	(23.7)	(28.3)	(21.0)
Central Bank	—	—	394	52.7	(35.8)	(32.6)	(35.4)	(30.6)
Treasury and Other Govt	—	—	207	27.7	(10.4)	2.0	(9.1)	7.2
Corporate	—	—	147	19.6	(22.1)	(3.1)	(21.2)	0.9
EEA Less PRC								
Total	—	—	507	100.0	(16.3)	(13.0)	(15.8)	(9.8)
Government	—	—	406	80.1	(19.9)	(19.2)	(19.5)	(16.3)
Central Bank	—	—	333	65.7	(20.8)	(20.3)	(20.7)	(18.2)
Treasury and Other Govt	—	—	73	14.5	(15.5)	(13.5)	(14.1)	(6.8)
Corporate	—	—	101	19.9	2.3	25.8	3.5	31.9
Japan								
Total	49,588	100.0	611	100.0	(0.9)	4.1	2.0	19.4
Government	45,623	92.0	562	92.0	0.0	4.5	3.0	19.8
Central Bank	0	0.0	0	0.0	—	—	—	—
Treasury and Other Govt	45,623	92.0	562	92.0	0.0	4.5	3.0	19.8
Corporate	3,965	8.0	49	8.0	(10.7)	0.5	(8.1)	15.3

— = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Corporate bonds include issues by financial institutions.
2. Bloomberg LP end-of-period LCY—USD rates are used.
3. For LCY-base, emerging East Asia growth figures are based on end-December 2010 currency exchange rates and do not include currency effects.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia, Indonesia Debt Management Office and Indonesia Stock Exchange); Japan (Japan Securities Dealers Association); Republic of Korea (Bank of Korea); Malaysia (Bank Negara Malaysia); Philippines (Bloomberg LP); Singapore (Singapore Government Securities and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

only government in the region that reported any significant increase in treasury bond issuance in 4Q10 was the Philippines, where the issuance of central government securities rose by 73.2% q-o-q and 212.4% y-o-y.

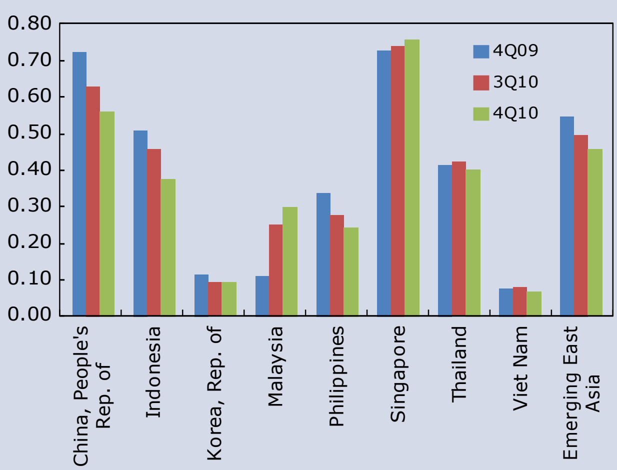
Money Market Trends and Bills-to-Bonds Ratios

The region's overall bills-to-bonds ratio continued to fall in 4Q10, due to declines in the ratios of both central bank and treasury bills to bonds in most markets.

The total bills-to-bonds ratio for five of the eight emerging East Asian markets presented in **Figure 5** fell in 4Q10 on a q-o-q basis. Furthermore, the bills-to-bonds ratio for Hong Kong, China fell to 6.21 in 4Q10 from 6.49 in 3Q10. Hong Kong, China is not presented in Figure 5 because its ratio of bills to bonds is significantly higher than that of other markets in the region.

The region's ratio of central bank bills to bonds fell to 1.92 in 4Q10 from 2.13 in 3Q10, due to the sharp decline of the PRC's ratio of central bank bills to bonds to 2.36 in 4Q10 from 2.76 in 3Q10 **(Table 4)**. The ratio of central bank bills to bonds also fell modestly in Thailand, although it rose slightly in Hong Kong, China and the Republic of Korea. The stock of central bank bills grew by 5.6% q-o-q in Thailand in 4Q10; 20.8% in Malaysia, which issues no central bank bonds, but does issue central bank bills; and by only 0.2% in Hong Kong, China. However, central bank bonds in Thailand grew by 9.3% q-o-q, resulting in the decline of its central bank bills-to-bonds ratio. In the PRC, central bank bills fell by 11.8% q-o-q in 4Q10, while central bank bonds rose by a modest 2.8% q-o-q, resulting in the decline of the PRC's central bank bills-to-bonds ratio. The sharp decline in SBI issuance over the course of 2010 contributed to the decline of Indonesia's ratio of total bills to bonds from 0.46 in 3Q10 to 0.38 in 4Q10.

Figure 5: Total Bills-To-Bonds Ratios



Note:
Total bills comprise central bank bills plus treasury bills. Bonds comprise long-term bonds (more than 1 year in maturity) issued by central governments and central banks.
Source: *AsianBondsOnline*.

The region's overall ratio of treasury bills to bonds remained unchanged in 4Q10 at 0.12, reflecting the modest pace of treasury bond and bill issuance as governments wound down their fiscal stimulus programs in the second half of 2010. However, the ratio for the region as a whole disguises modest changes that occurred in the treasury bills-to-bonds ratio in each market. The treasury bills-to-bonds ratio rose slightly in the PRC and Singapore, and fell slightly in the Philippines, Thailand, and Viet Nam.

The modest pace of central bank issuance—outside of Malaysia and Thailand—suggests that governments in the region may be turning to administrative measures to counter capital flows. The Korean government, for example, announced in November that it would reimpose a 14% withholding tax on interest income in early January, as well as a 20% tax on capital gains from Korean Treasury Bonds (KTBs) and Monetary Stabilization Bills/Bonds (MSBs).

Table 4: Government Bills-to-Bonds Ratios of LCY Bond Markets

	4Q09		3Q10		4Q10		Government Bills-to-Bonds-Ratio			Growth Rate (LCY-base %) 4Q10		Growth Rate (USD-base %) 4Q10	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	4Q09	3Q10	4Q10	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)													
Total	1,400	100.0	1,523	100.0	1,521	100.0				(1.4)	5.1	(0.1)	8.6
Total Bills	588	42.0	588	38.6	546	35.9	0.72	0.63	0.56	(8.3)	(10.2)	(7.1)	(7.2)
Treasury Bills	112	8.0	101	6.6	111	7.3	0.17	0.13	0.14	8.6	(3.7)	10.0	(0.5)
Central Bank Bills	477	34.0	486	31.9	435	28.6	3.34	2.76	2.36	(11.8)	(11.8)	(10.7)	(8.8)
Total Bonds	812	58.0	935	61.4	975	64.1				3.0	16.2	4.3	20.1
Treasury Bonds	669	47.8	759	49.8	791	52.0				3.0	14.4	4.3	18.2
Central Bank Bonds	143	10.2	176	11.6	184	12.1				2.8	24.8	4.1	28.9
Hong Kong, China													
Total	70	100.0	87	100.0	87	100.0				0.8	25.5	0.6	25.2
Total Bills	60	86.1	75	86.6	75	86.1	6.18	6.49	6.21	0.2	25.6	0.1	25.3
Treasury Bills	0	0.0	0	0.0	0	0.0	—	—	—	—	—	—	—
Central Bank Bills	60	86.1	75	86.6	75	86.1	6.66	8.29	8.34	0.2	25.6	0.1	25.3
Total Bonds	10	13.9	12	13.4	12	13.9				4.7	24.9	4.5	24.6
Treasury Bonds	1	1.0	3	2.9	3	3.5				23.1	—	22.9	—
Central Bank Bonds	9	12.9	9	10.5	9	10.3				(0.4)	0.3	(0.6)	0.0
Indonesia													
Total	89	100.0	101	100.0	94	100.0				(6.2)	(0.03)	(7.1)	4.5
Total Bills	30	33.8	32	31.4	26	27.3	0.51	0.46	0.38	(18.4)	(19.2)	(19.2)	(15.5)
Treasury Bills	3	2.9	3	3.3	3	3.5	0.04	0.05	0.05	(0.5)	20.6	(1.5)	26.1
Central Bank Bills	28	30.9	28	28.1	22	23.8	—	—	—	(20.5)	(23.0)	(21.3)	(19.5)
Total Bonds	59	66.2	69	68.6	68	72.7				(0.6)	9.8	(1.6)	14.7
Treasury Bonds	59	66.2	69	68.6	68	72.7				(0.6)	9.8	(1.6)	14.7
Central Bank Bonds	0	0.0	0	0.0	0	0.0				—	—	—	—
Korea, Rep. of													
Total	369	100.0	424	100.0	422	100.0				(1.7)	10.5	(0.5)	14.2
Total Bills	38	10.3	36	8.5	37	8.7	0.11	0.09	0.09	(0.05)	(6.7)	1.2	(3.5)
Treasury Bills	0	0.0	0	0.0	0	0.0	—	—	—	—	—	—	—
Central Bank Bills	38	10.3	36	8.5	37	8.7	0.42	0.33	0.34	(0.05)	(6.7)	1.2	(3.5)
Total Bonds	332	89.7	388	91.5	386	91.3				(1.9)	12.5	(0.7)	16.3
Treasury Bonds	241	65.3	280	66.0	277	65.6				(2.4)	11.0	(1.1)	14.7
Central Bank Bonds	90	24.5	108	25.5	109	25.8				(0.7)	16.4	0.5	20.3
Malaysia													
Total	100	100.0	136	100.0	145	100.0				5.7	29.8	6.5	45.2
Total Bills	10	10.0	28	20.2	33	23.0	0.11	0.25	0.30	19.9	197.5	20.9	232.7
Treasury Bills	1	1.3	1	1.0	1	1.0	0.01	0.01	0.01	4.2	4.2	5.0	16.5
Central Bank Bills	9	8.8	26	19.2	32	22.0	—	—	—	20.8	225.3	21.7	263.9
Total Bonds	90	90.0	109	79.8	112	77.0				2.1	11.1	2.9	24.3
Treasury Bonds	90	90.0	109	79.8	112	77.0				2.1	11.1	2.9	24.3
Central Bank Bonds	0	0.0	0	0.0	0	0.0				—	—	—	—
Philippines													
Total	53	100.0	61	100.0	61	100.0				0.7	9.2	0.9	15.1
Total Bills	13	25.3	13	21.7	12	19.6	0.34	0.28	0.24	(8.8)	(15.2)	(8.7)	(10.7)
Treasury Bills	13	25.3	13	21.7	12	19.6	0.34	0.28	0.24	(8.8)	(15.2)	(8.7)	(10.7)
Central Bank Bills	0	0.0	0	0.0	0	0.0	—	—	—	—	—	—	—
Total Bonds	40	74.7	48	78.3	49	80.4				3.4	17.5	3.5	23.8
Treasury Bonds	40	74.7	48	78.3	49	80.4				3.4	17.5	3.5	23.8
Central Bank Bonds	0	0.0	0	0.0	0	0.0				—	—	—	—

continued on next page

Table 4 continued

	4Q09		3Q10		4Q10		Government Bills-to-Bonds-Ratio			Growth Rate (LCY-base %) 4Q10		Growth Rate (USD-base %) 4Q10	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	4Q09	3Q10	4Q10	q-o-q	y-o-y	q-o-q	y-o-y
Singapore													
Total	88	100.0	97	100.0	103	100.0				3.3	7.0	5.9	17.1
Total Bills	37	42.1	41	42.5	44	43.2	0.73	0.74	0.76	4.8	9.6	7.5	20.0
Treasury Bills	37	42.1	41	42.5	44	43.2	0.73	0.74	0.76	4.8	9.6	7.5	20.0
Central Bank Bills	0	0.0	0	0.0	0	0.0	—	—	—	—	—	—	—
Total Bonds	51	57.9	56	57.5	59	56.8				2.2	5.0	4.8	15.0
Treasury Bonds	51	57.9	56	57.5	59	56.8				2.2	5.0	4.8	15.0
Central Bank Bonds	0	0.0	0	0.0	0	0.0				—	—	—	—
Thailand													
Total	125	100.0	160	100.0	167	100.0				3.3	19.7	4.3	32.9
Total Bills	37	29.3	48	29.8	48	28.6	0.42	0.42	0.40	(0.7)	16.8	0.3	29.6
Treasury Bills	6	4.9	5	3.2	2	1.4	0.10	0.06	0.03	(53.4)	(65.3)	(53.0)	(61.5)
Central Bank Bills	31	24.4	42	26.6	45	27.2	1.28	1.34	1.30	5.6	33.4	6.6	48.1
Total Bonds	89	70.7	112	70.2	119	71.4				5.0	21.0	6.0	34.3
Treasury Bonds	65	51.5	80	50.4	84	50.4				3.3	17.1	4.3	29.9
Central Bank Bonds	24	19.1	32	19.8	35	21.0				9.3	31.5	10.3	45.9
Viet Nam													
Total	5.0	100.0	6.1	100.0	6.1	100.0				(0.4)	28.2	(0.5)	21.5
Total Bills	0.3	7.0	0.5	7.5	0.4	6.4	0.08	0.08	0.07	(14.7)	17.1	(14.7)	11.0
Treasury Bills	0.3	5.1	0.5	7.5	0.4	6.4	0.06	0.08	0.07	(14.7)	60.3	(14.7)	51.9
Central Bank Bills	0.1	1.9	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Total Bonds	4.6	93.0	5.6	92.5	5.7	93.6				0.7	29.0	0.7	22.2
Treasury Bonds	4.6	93.0	5.6	92.5	5.7	93.6				0.7	29.0	0.7	22.2
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—
Emerging East Asia (EEA)													
Total	2,300	100.0	2,594	100.0	2,606	100.0				(0.7)	8.6	0.4	13.3
Total Bills	814	35.4	860	33.2	821	31.5	0.55	0.50	0.46	(5.6)	(2.9)	(4.6)	0.8
Treasury Bills	173	7.5	166	6.4	175	6.7	0.14	0.12	0.12	4.1	(3.4)	5.6	1.5
Central Bank Bills	641	27.9	694	26.8	645	24.8	2.41	2.13	1.92	(8.0)	(2.8)	(7.1)	0.6
Total Bonds	1,486	64.6	1,734	66.8	1,785	68.5				1.8	14.8	2.9	20.1
Treasury Bonds	1,221	53.1	1,408	54.3	1,449	55.6				1.7	13.3	2.8	18.7
Central Bank Bonds	266	11.6	325	12.5	336	12.9				2.2	21.8	3.4	26.6
EEA Less PRC													
Total	900	100.0	1,072	100.0	1,085	100.0				0.4	13.8	1.2	20.5
Total Bills	226	25.1	273	25.5	275	25.4	0.33	0.34	0.34	0.1	15.7	0.8	21.8
Treasury Bills	61	6.8	65	6.1	64	5.9	0.11	0.10	0.10	(2.9)	(3.0)	(1.2)	5.2
Central Bank Bills	165	18.3	208	19.4	211	19.4	1.34	1.40	1.38	1.1	22.9	1.4	28.0
Total Bonds	674	74.9	799	74.5	810	74.6				0.4	13.2	1.4	20.1
Treasury Bonds	551	61.2	650	60.6	657	60.6				0.2	12.0	1.1	19.2
Central Bank Bonds	123	13.7	149	13.9	153	14.1				1.4	18.4	2.5	23.8
Japan													
Total	7,536	100.0	8,825	100.0	9,240	100.0				1.7	6.9	4.7	22.6
Total Bills	274	3.6	357	4.0	370	4.0	0.04	0.04	0.04	0.7	17.9	3.7	35.2
Treasury Bills	274	3.6	357	4.0	370	4.0	0.04	0.04	0.04	0.7	17.9	3.7	35.2
Central Bank Bills	0	0.0	0	0.0	0	0.0	—	—	—	—	—	—	—
Total Bonds	7,262	96.4	8,468	96.0	8,870	96.0				1.7	6.5	4.7	22.1
Treasury Bonds	7,262	96.4	8,468	96.0	8,870	96.0				1.7	6.5	4.7	22.1
Central Bank Bonds	0	0.0	0	0.0	0	0.0				—	—	—	—

— = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Bloomberg LP end-of-period LCY—USD rates are used.
2. For LCY-base, total emerging East Asia growth figures are based on end-December 2010 currency exchange rates and do not include currency effects.
3. Total figures per market refer to bills and bonds issued by the central government and the central bank. It excludes bonds issued by policy banks and state-owned enterprises. Bills are defined as securities with original maturities of less than 1 year.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bank Indonesia and Indonesia Stock Exchange); Japan (Japan Securities Dealers Association); Republic of Korea (Bloomberg LP); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore); Thailand (Bloomberg LP); and Viet Nam (Bloomberg LP).

Foreign Holdings

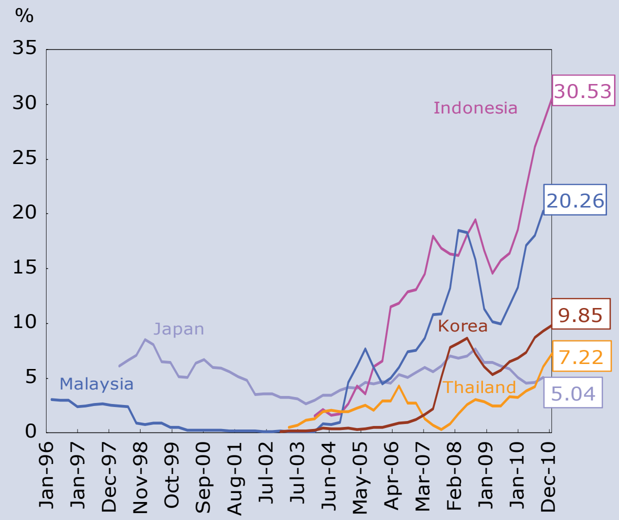
Foreign holdings of local domestic bonds continued to rise in 4Q10.

Foreign holdings of emerging East Asian LCY bonds soared in 4Q10 as investors chased yields and sought additional gains from the anticipated appreciation of regional currencies.

At the end of December, foreigners held 30.5% of Indonesia's government debt, reflecting the continuation of high yields on Indonesian government securities **(Figure 6)**. Foreign holdings of Malaysian debt rose to 20.3% at the end of September, compared with 18.1% at the end of June, due to rising yields during the year and prospects for a stronger ringgit.

The Republic of Korea saw a substantial rise in foreign holdings of its debt in late 2010, reflecting the (i) removal of the withholding tax on foreign investment in Korean debt in May 2009; and (ii) improving performance of the KTB futures market, making it easier for market participants to hedge their investment positions. However, Parliament's November approval of the re-imposition of withholding and capital gains taxes has slowed in flows in recent months.

Figure 6: Foreign Holdings of LCY Government Bonds in Select Asian Economies



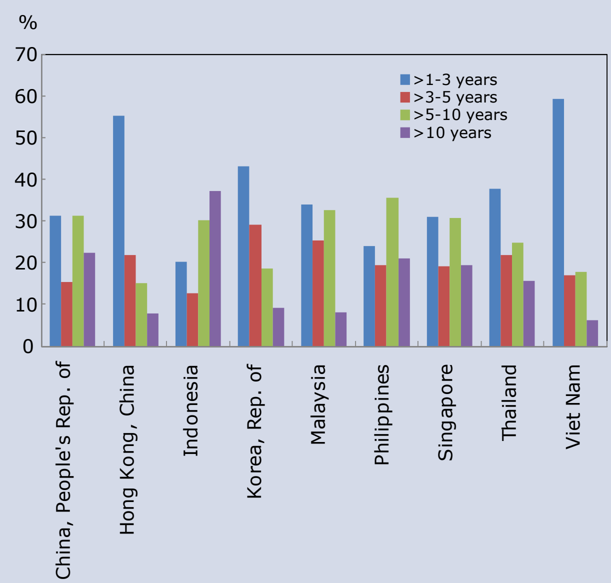
LCY = local currency.
Note: Data for Japan and Malaysia as of September 2010; Indonesia, Republic of Korea, and Thailand as of December 2010.
Source: *AsianBondsOnline*.

Maturity Profiles

The maturity profiles for emerging East Asia bond markets have generally lengthened over the last year.

Maturities in government bond markets are concentrated at the shorter-end of the yield curve in Hong Kong, China; Republic of Korea; Malaysia; Thailand; and Viet Nam **(Figure 7)**. Maturities of 10 years or more comprise less than 15% of total bonds outstanding in the 5 government bond markets listed above except for Thailand (15.7%). In comparison, the PRC, Philippines, and Singapore have a proportionally larger share of their bonds outstanding in maturities greater than 10 years. Indonesia has structured its government

Figure 7: Government Maturity Profiles
(individual maturities as % of total)



Source: *AsianBondsOnline*.

debt so that maturities of more than 10 years are the largest segment of its market.

The PRC has a large proportion of its government debt—22.3% of the total—in maturities of 10 years or more. The Philippines has 21.1% of its government bonds outstanding in maturities of 10 years or more, slightly more than Singapore, which has issued 19.3% of its debt in maturities of 10 years or more. The long-end of the Philippine government bond market curve significantly lengthened during the course of 4Q10 due to a bond exchange program conducted on 16 December. Under the program, the Philippines accepted PHP173 billion of eligible government bonds with an average maturity of 6.7 years, and issued PHP199 billion of new peso bonds, comprising a mix of 10- and 25-year maturities, with an average maturity of 22.5 years. Of the newly issued bonds, PHP166 billion worth had maturities of 25 years and paid a coupon of 8.125%, while the remaining PHP33 billion were issued with a maturity of 10 years and a coupon of 5.875%.

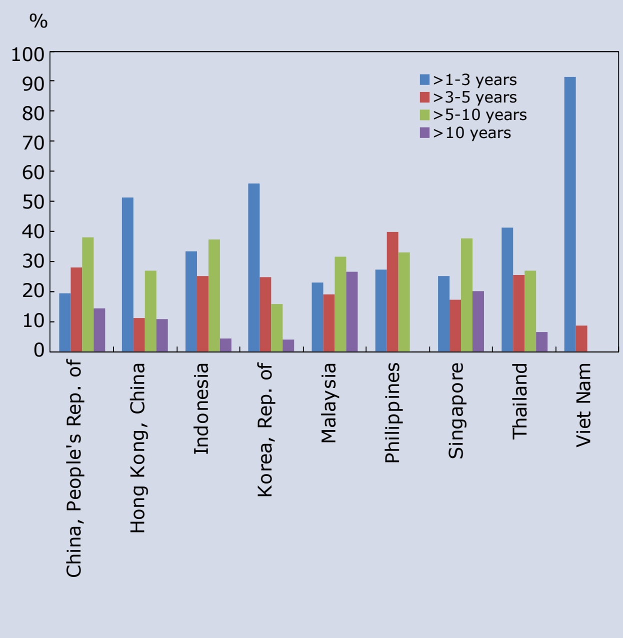
Maturity structures in the LCY corporate bond markets of emerging East Asia are highly diverse **(Figure 8)**. There is a great deal of similarity in the maturity structures of the corporate and government bond markets of Hong Kong, China; Republic of Korea; Singapore; and Viet Nam.

Thailand is something of a middling case. The maturity structures of Thai government and corporate bonds are roughly similar for maturities up to 10 years. However, 15.7% of Thai government bonds had maturities of 10 years or more at end-December, while this was the case for only 6.5% of Thai corporate bonds.

A disproportionately large amount of total issuance in the government and corporate bond markets of Hong Kong, China; the Republic of Korea; and Viet Nam consists of 1–3 year maturities. Singapore's government and corporate bonds, however, have a much more balanced maturity structure. In fact, maturities of 10 years or more account for about 20% of both government and corporate bonds in Singapore.

The only market in emerging East Asia where corporate bonds account for a significantly larger share of total bonds outstanding at the end of the credit curve than government bonds is Malaysia's, where corporate bonds with maturities of 10 years or more account for about 26% of total corporate bonds outstanding. The main reason for the long-dated structure of the Malaysian corporate bond market appears to be a combination of the availability of *sukuk* (Islamic bonds), which are long-dated instruments, and the large proportion of infrastructure company issuance in the Malaysian market. However, only 8% of Malaysian government bonds have maturities of 10 years or more. This mismatch at the long-end of the curve and the fact that about one-third of Malaysian government bonds are short-dated (maturities of 1–3 years) are the principal reasons Malaysian corporate and government bonds are categorized as having different maturity structures.

Figure 8: Corporate Maturity Profiles
(individual maturities as % of total)



Source: *AsianBondsOnline*.

The principal difference between the maturity structures of Philippine government and corporate bonds is a complete absence of long-dated bonds in the corporate market. The situation in Indonesia is roughly the same; few corporate bonds have maturities greater than 10 years. In the case of the PRC, bonds with maturities of 10 years or more account for 22.3% of government bonds, but only 14.5% of corporate bonds.

Bond Turnover Ratios

Bond turnover ratios for most emerging East Asian LCY bond markets—both government and corporate—fell in 4Q10.

The decline of bond turnover ratios in most markets in 4Q10 appears to reflect the decline in issuance for the region as whole in 4Q10, which fell by 27.6% q-o-q, resulting in growth of bonds outstanding of only 1.2% q-o-q. On the other hand, the turnover ratio for the government bond market of Hong Kong, China rose from 34.7 in 3Q10 to 49.6 in 4Q10 **(Figure 9a)**. Hong Kong, China's high government bond turnover ratio is simply on a different scale from that of any other market in emerging East Asia due to the unique nature of EFBNs, which are instruments of monetary policy. EFBNs are not used as instruments to finance the government budget deficit, but can be used as margin collateral for stock options and futures trading.

Along with other government bond markets in the region, the Philippines' turnover ratio rose to 1.3 in 4Q10 from 0.99 in 3Q10. This increase likely reflects the aforementioned debt exchange transaction in December. The only other market to experience a (slight) rise in its government bond turnover ratio was Thailand's, which can be attributed entirely to the dramatic 15.7% q-o-q growth of central bank bond issuance in 4Q10.

Corporate bond turnover ratios fell for most markets in 4Q10 **(Figure 9b)**. This seems to reflect a moderation of corporate bond market growth from 23.7% y-o-y in 3Q10 to 20.3% in 4Q10, as well as a corresponding decline in the q-o-q growth rates for most corporate bond markets. The most dramatic decline in q-o-q corporate bond market growth in 4Q10 was in the PRC. The second-largest corporate bond market in the region saw its q-o-q growth rate fall to 3.6% in 4Q10 from 10.9% in 3Q10. The only corporate bond market to experience a rise in its bond turnover ratio in 4Q10 was Hong Kong, China's, which only saw a 2.5% q-o-q rise in corporate bonds outstanding in 4Q10. Interestingly, 51.1% of Hong Kong, China's corporate issues are short-dated (1–3 years), which would seem to make them less attractive to buy-and-hold investors.

Figure 9a: Government Bond Turnover Ratios[1]

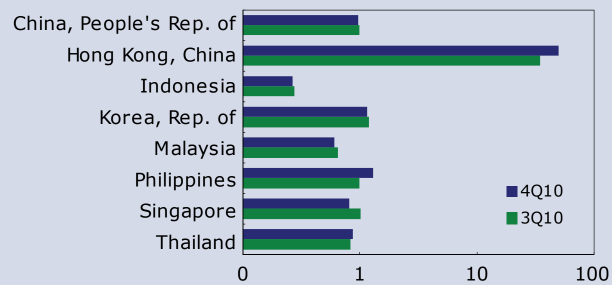
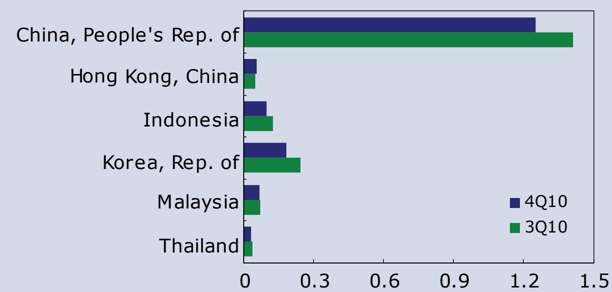


Figure 9b: Corporate Bond Turnover Ratios[1]



Notes:
1. Government and corporate bond turnover ratios are calculated as local currency (LCY) trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period.
2. Figure 9a is based on a logarithmic scale.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Republic of Korea (*KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore and Singapore Government Securities); and Thailand (Bank of Thailand and Thai Bond Market Association).

Government Bond Yield Curves

Yield curves for LCY government bonds have flattened for most markets since the beginning of the year amid market concerns over rising inflationary pressures and the fear of further policy rate hikes.

In 2010, government bond yield curves in the region flattened, especially at the longer-end of the curve, and in some cases shifted downward, reflecting strengthened demand for East Asian government bonds. This bullish flattening in 2010 can be attributed to four factors: (i) attractive yields and strong growth prospects for the region, (ii) reserve diversification among central banks and monetary authorities, (iii) continued appreciation of regional currencies against the US dollar for most of the year, and (iv) the availability of better hedging and risk management products **(Figure 10)**. The most dramatic cases of a downward shift in yield curves in 2010 took place in Indonesia, the Philippines, and the Republic of Korea. Yield curves shifted downward—except at the very short-end of the curve—in Malaysia and Thailand as well. In Singapore, yields fell for 2- and 15-year maturities, but rose slightly for 7-year maturities.

The only cases in which government bond yields at year-end 2010 had risen above their end-2009 levels were the PRC and Hong Kong, China at the long-end of the curve, Thailand and Malaysia at the short-end, Singapore for some maturities in the belly of the curve, and Viet Nam at the long-end of its curve. The rise in PRC yields at the short-end was exceptional, with increases of almost 200 basis points on the back of gradual tightening of monetary policy during the course of the year.

Between end-December 2010 and 11 March 2011, however, the trend of rising short-term yields accelerated, resulting in a further flattening of most government bond yield curves in the region, and an upward shift along most of the curve in many cases. Most curves are flattening, but they are doing so by shifting upward. This is the opposite of 2010's overall trend in which curves flattened while shifting downward, with long-term yields falling relative to short-term yields.

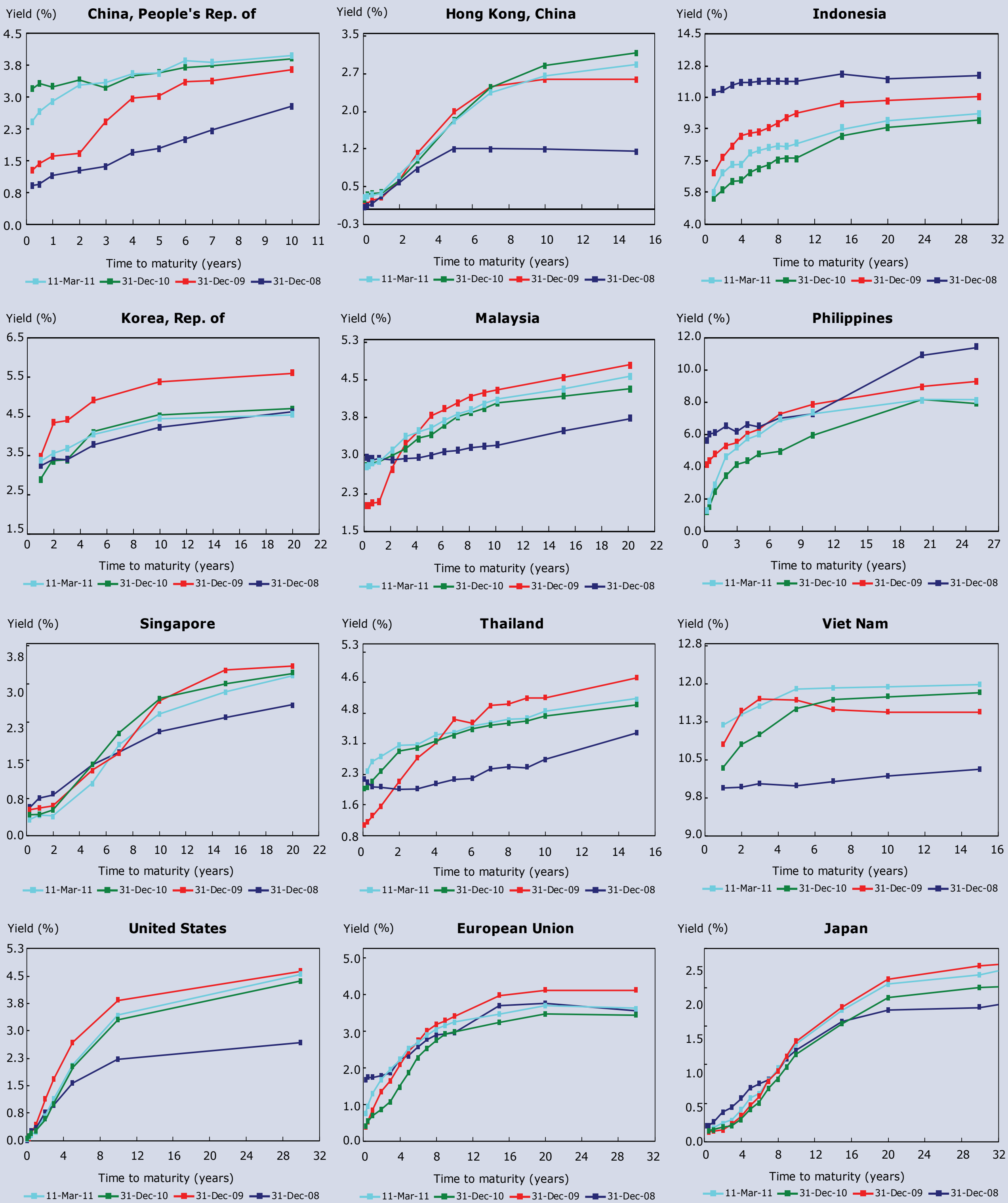
The PRC curve steepened, rather than flattened, between end-December and 11 March, as yields fell sharply at the short-end of the curve, while rising slightly at the long-end. Singapore's yields fell along its entire curve. However, they fell by 38 basis points for the 5-year maturity, while falling less for most longer-dated maturities, resulting in a modest steepening of the Singapore curve between its belly and longer-end.

The yield spread between 2-year and 10-year maturities tightened in most markets between the end of December and 11 March. The only exceptions to this trend were the PRC and the Philippines, where yield spreads widened during this period **(Figure 11)**.

The Philippine curve is another exception to the overall flattening trend observed between end-December and 11 March. Yields in the belly of the curve for maturities between 7 and 10 years rose dramatically by over 100 basis points, while yields at the short- and long-end rose much less. This reflects the fact that bonds at the short- and long-ends of the curve are held mostly by retail and institutional investors, respectively, and are rarely traded. Bonds with maturities between 7 and 10 years, however, are actively traded by banks and much more liquid, and have experienced a much larger rise in yields over the last several months.

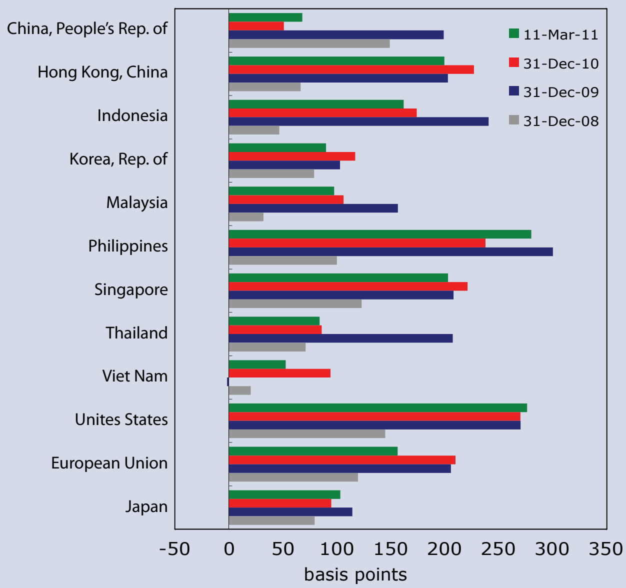
Government bond yields are generally expected to rise further this year on the back of rising inflation rates **(Figure 12)** and further expected hikes in policy interest rates for many markets in emerging East Asia **(Figure 13)**. Indonesian inflation rose to 7.02% y-o-y in January from just under 7.00% in December, before falling back to 6.84% in February. Hong Kong, China's inflation rate in January rose to 3.6% from 3.1% in December; inflation in Viet Nam rose to 12.3% in February from 12.1% in January; and inflation in the Republic of Korea rose to 4.5% in February from 4.1% in January

Figure 10: Benchmark Yield Curves—LCY Bonds



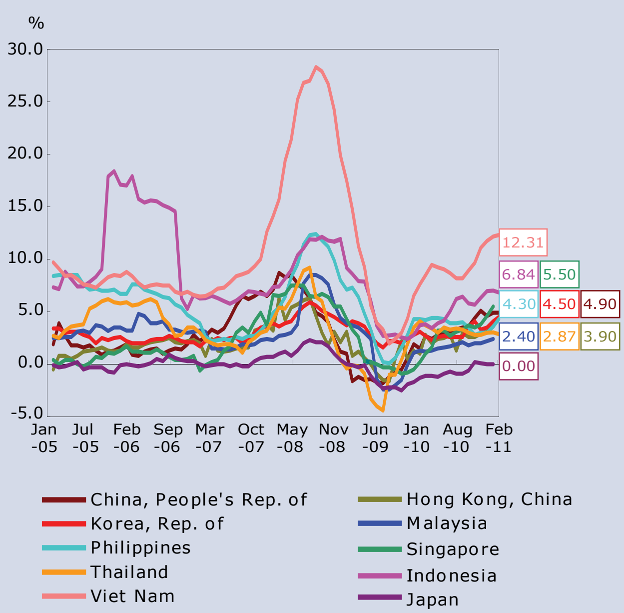
LCY = local currency.
Source: Based on data from Bloomberg LP.

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



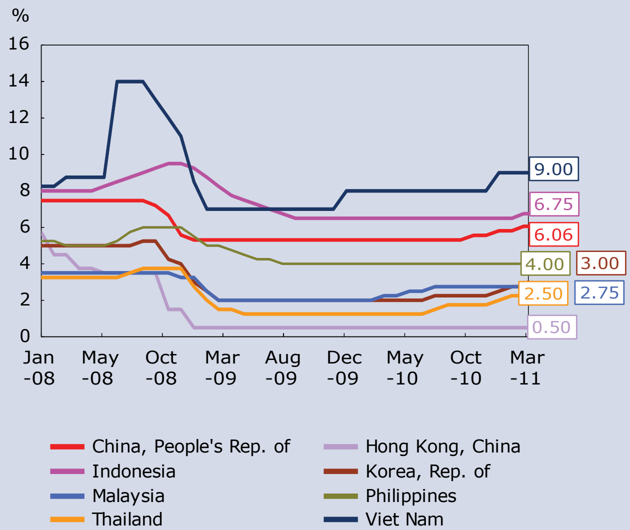
Source: Based on data from Bloomberg LP.

Figure 12: Headline Inflation Rates (February 2011)



Note: Inflation for Hong Kong, China; Japan; Malaysia; and Singapore are January figures.
Source: Bloomberg LP.

Figure 13: Policy Rates



Note: Data as of 11 March 2011.
Source: Bloomberg LP except for Viet Nam (State Bank of Viet Nam).

and 3.5% in December. Thai inflation in February fell to 2.87% from 3.03% in January; Malaysian inflation rose to 2.4% in January from 2.2% in December. Singapore's inflation rate rose to 5.5% in January, its highest level in 5 years. The PRC's inflation rate in February remained at its January level of 4.9%.

Philippine inflation rose to 4.3% in February from 3.6% in January, which was still within the 3.0%–5.0% target band of Bangko Sentral ng Pilipinas (BSP). A BSP spokesman has said that the Philippine central bank is closely monitoring the situation and is prepared to take appropriate action if necessary. The Bank of Thailand has stated that it is still monitoring inflationary pressures, and will raise interest rates further if necessary.

The PBOC raised its policy rate a number of times in 2010, while also increasing its required reserve ratios for banks. On 8 February, the PBOC raised its 1-year lending rate by 25 basis points to 6.06% and its 1-year deposit rate to 3.0%. Bank Indonesia raised its policy rate by 25 basis points to 6.75% on 4 February, shortly after the rise in Indonesia's January inflation rate had been announced.

The Bank of Korea and Bank Negara Malaysia raised their policy rates two and three times, respectively, during the course of 2010, ending the year with policy rates of 2.5% and 2.75%. Bank Negara Malaysia left its key policy rate unchanged at its last meeting on 11 March, while the Bank of Korea raised its policy rate by 25 basis points on 13 January and again on 10 March, bringing the new rate to 3.0%. The Bank of Thailand raised its policy rate by 25 basis points on three separate occasions in 2010 to finish the year with a policy rate of 2.0%. On 12 January, the Bank of Thailand raised its policy rate by a further 25 basis points to 2.25%, and did so again on 9 March to 2.5%.

In November, the State Bank of Vietnam (SBV) raised its three key policy rates—the base rate, refinancing rate, and discount rate—by 100 basis points each to 9.0%, 9.0%, and 7.0%. The SBV raised its refinancing rate by 200 basis points to 11.0% on 17 February, and, more recently, raised it again by 100 basis points to 12.0% on 8 March. The SBV also raised its reverse repurchase rate by 100 basis points to 12.0% on 22 February.

Corporate Credit Spreads

High-grade credit spreads tightened in 2010 compared with their end-2009 levels, while credit spread movements of lower-rated bonds differed a great deal from market to market.

Credit spreads on high-grade corporate bonds (rated AAA) tightened between end-December 2009 and end-December 2010 along the entire length of the credit curve for the PRC, Republic of Korea, and Thailand **(Figure 14a)**. In Malaysia, however, credit spreads widened modestly along the entire length of the curve over the same period. The shape of these curves, however, remained broadly the same, simply shifting downward for the PRC and Republic of Korea, while shifting upward in the case of Malaysia. In Thailand, credit spreads at end-2010 fell from their end-2009 levels along the entire length of the credit curve, except for the very short- and long-ends, where they remained almost the same as they were at end-2009.

Since the end of 2010, credit spreads for AAA-rated corporate bonds in the Republic of Korea, Malaysia, and Thailand have generally tightened along most of their respective curves. The PRC credit curve, however, has widened significantly along its entire length and shifted upwards.

Trends for lower-rated corporate bonds **(Figure 14b)** have been unique over the last year for each of the four markets for which data is available:

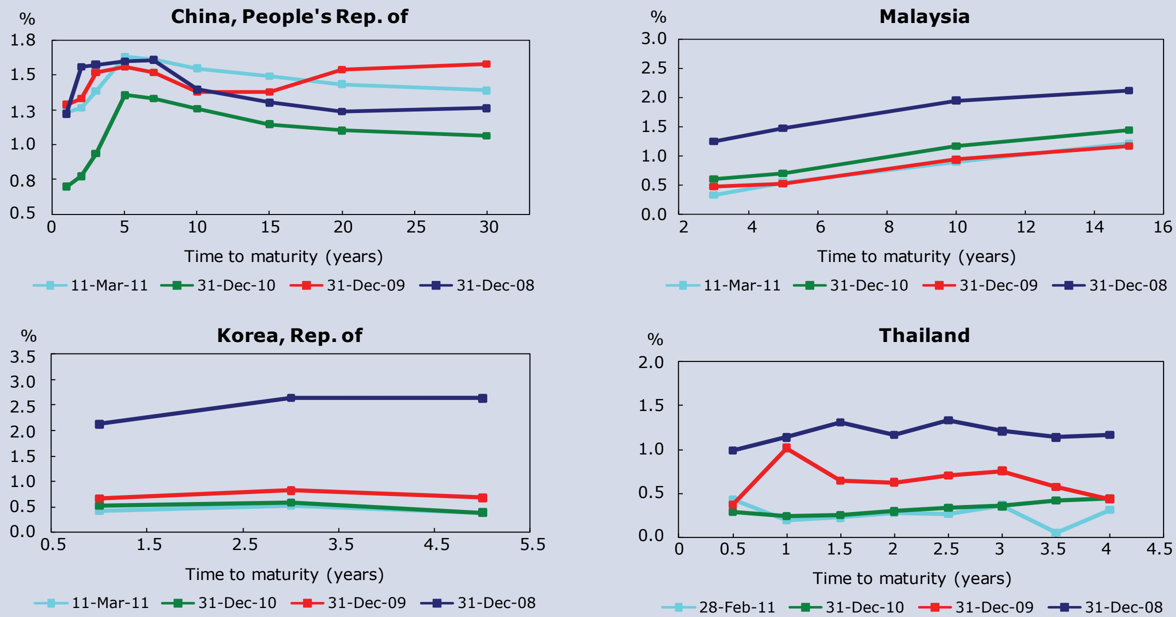
(i) In the PRC, credit spreads for lower-rated bonds as of 11 March were essentially unchanged from end-December 2010, after having fallen sharply over the course of 2010 from their end-2009 levels, especially at the shorter-end of the curve.

(ii) In the Republic of Korea, credit spreads for lower-rated corporate bonds tightened further between end-December and 11 March, after having tightened slightly over the course of 2010.

(iii) In Malaysia, credit spreads on lower-rated corporate bonds widened slightly along most of the credit curve between end-2009 and end-2010, and continued to widen further between end-December and 11 March.

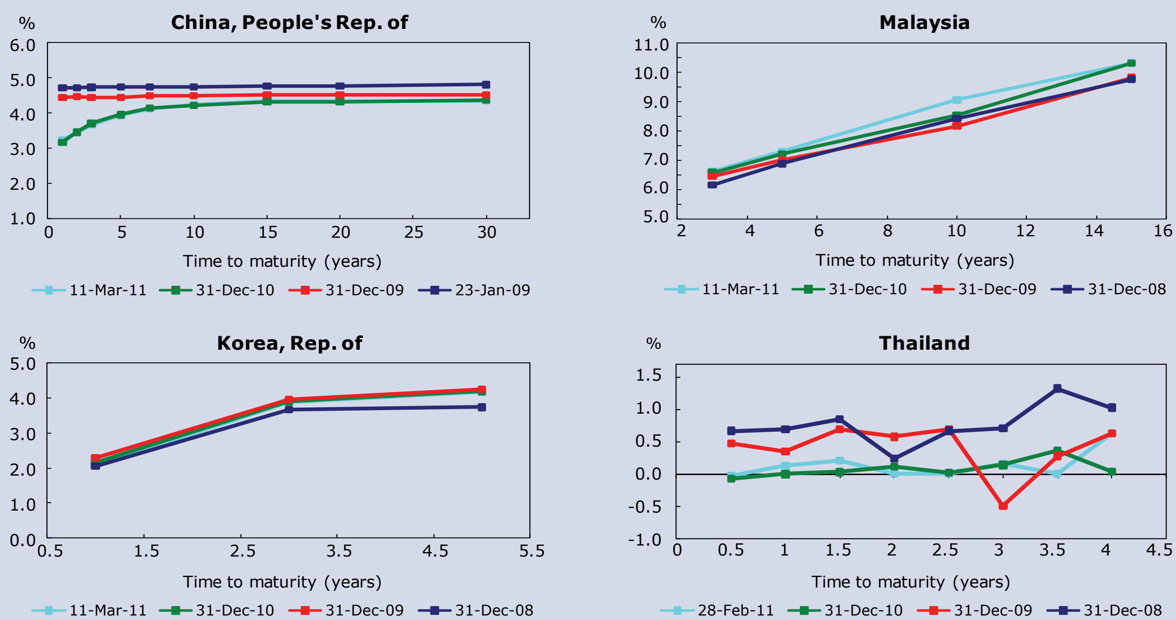
(iv) In Thailand, credit spreads tightened between end-2009 and end-2010, except for maturities of 3 and 3.5 years. Between end-December and end-February, credit spreads widened slightly at the short-end of the curve, as well as for maturities above 4 years, but tightened at most other points on the curve.

Figure 14a: Credit Spreads—LCY Corporates Rated AAA vs. Government Bonds



LCY = local currency.
Note:
1. Credit spreads are obtained by subtracting government yields from corporate indicative yields.
Source: People's Republic of China (*ChinaBond*); Republic of Korea (*KoreaBondWeb*); Malaysia (Bank Negara Malaysia); and Thailand (ThaiBMA).

Figure 14b: Credit Spreads—Lower Rated LCY Corporates vs. AAA



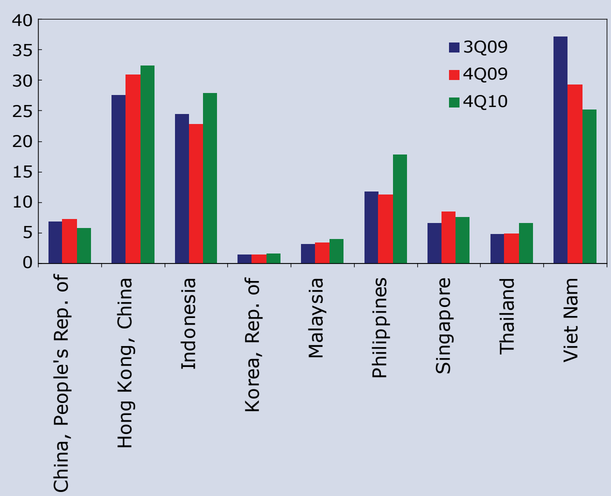
LCY = local currency.
Notes:
1. For the People's Republic of China, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
2. For Malaysia, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
3. For the Republic of Korea, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as BBB+.
4. For Thailand, credit spreads are obtained by subtracting corporate indicative yields rated as AAA from corporate indicative yields rated as A.
Source: People's Republic of China (*ChinaBond*); Republic of Korea (*KoreaBondWeb*); Malaysia (Bank Negara Malaysia); and Thailand (ThaiBMA).

Ratio of Equity Market Capitalization to Corporate Bonds Outstanding

The ratio of equity market capitalization to corporate bonds outstanding recovered in most emerging East Asian markets in 4Q10.

The recovery of the ratio of equity market capitalization to corporate bonds outstanding in 4Q10 **(Figure 15)** reflects the importance of corporate bond markets in the capital markets of emerging East Asia. The higher this ratio the greater the state of the local corporate bond market's underdevelopment. The highest ratios in Figure 15 are for Hong Kong, China; Indonesia; the Philippines; and Viet Nam, reflecting the fact that these are the four least-developed corporate bond markets in the region. The Republic of Korea, Malaysia, and Thailand have the most developed corporate bond markets and, hence, the lowest ratios. What is most interesting, however, is that the ratios for the PRC and Singapore dropped significantly in 4Q10. While this may reflect sluggishness in the PRC stock market in the second half of the year, it also signals that the PRC corporate bond market has been growing at high double-digit rates for several years now. In addition, Singapore's corporate bond market experienced robust growth in the second half of the year. Although the y-o-y growth rate of the PRC's corporate bond market has dropped considerably from levels close to 100% in recent years, it still expanded 37.2% y-o-y in 4Q10. At the same time, Singapore's corporate bond market's growth rose to 30.9% y-o-y in 4Q10.

Figure 15: Ratios of Equity Market Capitalization to Corporate Bonds Outstanding



Source: Bloomberg LP and *AsianBondsOnline* calculations.

G3 Bond Currency Issuance

G3 currency issuance from emerging East Asia in 2010 reached USD87.2 billion, a 40% increase over 2009, while 2011 could be another record year for G3 currency bond issuance.[2]

For the full-year 2010, G3 currency issuance from emerging East Asia reached USD87.2 billion, which was up by about 40% from 2009 **(Table 5)**. The largest G3 currency issuance in the region came from the Republic of Korea with USD28.4 billion, of which the top three bonds in terms of issue size were all from the Export–Import Bank of Korea totalling USD3.3 billion. Hong Kong, China came in second at USD18.6 billion, led by Hutch Whampoa's USD2.0 billion perpetual bond, a USD1.6 billion 10-year bond sold by Bank of China (Hong Kong), and Sinochem's USD1.5 billion 10-year bond. The PRC recorded USD16.0 billion of G3 currency issuance, spearheaded by Evergrande's high-yield 5-year bond of USD1.4 billion (13.0% coupon) and China Overseas Finance's USD1.0 billion 10-year bond.

G3 currency issuance in the Philippines amounted to USD8.1 billion in 2010, most of which came from the Philippine government, including (i) two sovereign bonds issued in October totaling USD3.2 billion under the government's US dollar bond exchange program, and (ii) a *samurai* bond issued in March worth JPY100 billion (USD1.1 billion). Indonesia raised USD6.8 billion worth of G3 currency bonds, the largest being the Indonesian government's

[2] G3 currencies include the euro, Japanese yen, and US dollar.

Table 5: G3 Currency Bond Issuance (2010 and 1 January—11 March 2011)

2010		
Issuer	**USD million**	**Issue Date**
People's Republic of China	**15,950**	
Evergrande 13% 2015	1,350	27-Jan-10
China Overseas Finance 5.5% 2020	1,000	10-Nov-10
Sino-Ocean Land Capital 8.0% Perpetual	900	27-Jul-10
Agile Property 8.875% 2017	650	28-Apr-10
Franshion Capital 6.8% Perpetual	600	12-Oct-10
MCE Finance 10.25% 2017	600	17-May-10
Others	10,850	
Hong Kong, China	**18,634**	
Hutch Whampoa 6.0% Perpetual	2,000	28-Oct-10
Bank of China (Hong Kong) 5.55% 2020	1,600	11-Feb-10
Sinochem 4.5% 2020	1,500	12-Nov-10
PHBS 6.625% Perpetual	1,000	29-Sep-10
Bank of China (Hong Kong) 5.55% 2020	900	19-Apr-10
Hongkong Electric Finance 4.25% 2020	750	14-Dec-10
Others	10,884	
Indonesia	**6,784**	
Indonesia Sovereign 5.875% 2020	2,000	19-Jan-10
Indonesia Sovereign (*Samurai*) 1.6% 2020	717	12-Nov-10
Indosat 7.375% 2020	650	29-Jul-10
Others	3,417	
Republic of Korea	**28,353**	
Export-Import Bank of Korea 5.125% 2020	1,250	29-Jun-10
Export-Import Bank of Korea 4.125% 2015	1,000	9-Mar-10
Export-Import Bank of Korea 4.0% 2021	1,000	20-Oct-10
Polyvision 0.0% 2013	990	1-Oct-10
Korea Development Bank 3.25% 2016	900	9-Sep-10
Korea Finance Corp. 3.25% 2016	750	20-Sep-10
Korea National Oil Corp. 2.875% 2015	700	9-Nov-10
Others	21,763	
Malaysia	**1,950**	
1Malaysia *Sukuk* 3.928% 2015	1,250	4-Jun-10
Others	700	
Philippines	**8,084**	
Philippines Sovereign 4.0% 2021	2,242	6-Oct-10
Philippines Sovereign (*Samurai*) 2.32% 2020	1,070	2-Mar-10
Philippines Sovereign 6.375% 2034	950	6-Oct-10
Others	3,822	
Singapore	**4,111**	
DBS Bank 2.375% 2015	1,000	14-Sep-10
Others	3,111	
Thailand	**2,350**	
Bangkok Bank 4.8% 2020	800	18-Oct-10
Others	1,550	
Viet Nam	**1,000**	
Viet Nam Sovereign 6.75% 2020	1,000	29-Jan-10
Emerging East Asia Grand Total	**87,217**	
Memo Items:		
India	**13,023**	
Novelis 8.75% 2020	1,400	17-Dec-10
ICICI Bank 5.75% 2020	1,000	16-Nov-10
State Bank of India (London) 4.5% 2015	1,000	27-Jul-10
Others	9,623	
Sri Lanka	1,573	
Others	9,623	
Sri Lanka	**1,573**	

1 January—11 March 2011		
Issuer	**USD million**	**Issue Date**
China, People's Rep. of	**4,000**	
CNOOC Finance 4.25% 2021	1,500	26-Jan-11
Country Garden 11.125% 2018	900	23-Feb-11
CNOOC Finance 5.75% 2041	500	26-Jan-11
West China Cement 7.5% 2016	400	25-Jan-11
Shimao Property 11.0% 2018	350	8-Mar-11
China South City Holdings 13.5% 2016	250	14-Jan-11
ICBC Asia 0.87% 2012	100	18-Jan-11
Hong Kong, China	**595**	
Hopson Development 11.75% 2016	300	11-Jan-11
Texhong Textile Group 7.625% 2016	200	19-Jan-11
Others	95	
Indonesia	**248**	
Lippo Karawaci 9% 2015	125	10-Feb-11
Others	123	
Korea, Rep. of	**5,796**	
Korea Development Bank 4.0% 2016	750	9-Mar-11
Hyundai Capital 4.375% 2016	700	27-Jan-11
Export-Import Bank of Korea 1.05% 2015	483	17-Feb-11
KT Corp. (*Samurai*) 1.58% 2013	427	26-Jan-11
Woori Bank (*Samurai*) 1.82% 2013	320	1-Feb-11
Kia Motors 1.912% 2014	300	25-Feb-11
Cyprus Investments 3.165% 2014	290	7-Feb-11
Woori Bank (*Samurai*) 1.57% 2012	253	1-Feb-11
Busan Bank (*Samurai*) 1.79% 2012	199	17-Feb-11
Kia Motors 2.2115% 2016	150	25-Feb-11
Samsung Total Petrochemicals 1.413% 2014	140	22-Feb-11
Hotel Lotte 1.111% 2014	100	28-Feb-11
KEPCO 1.314% 2014	100	18-Feb-11
Korea Development Bank 1.245% 2012	100	31-Jan-11
Korea Water Resources 1.303% 2014	100	18-Jan-11
Others	1,384	
Malaysia	**0**	
Philippines	**600**	
Energy Development Corp. 6.5% 2021	300	20-Jan-11
SMC Global Power Holdings 7.0% 2016	300	28-Jan-11
Singapore	**1,060**	
SingTel 4.5% 2018	600	8-Mar-11
Stats ChipPac 5.375% 2016	200	12-Jan-11
Others	260	
Thailand	**0**	
Viet Nam	**0**	
Emerging East Asia Grand Total	**12,299**	
Memo Items:		
India	**2,942**	
Essar Energy 4.25% 2016	550	1-Feb-11
Bank of India 6.25% 2021	500	16-Feb-11
Rural Electrification Corp. 4.25% 2016	500	25-Jan-11
Bank of Baroda 5.0% 2016	500	24-Feb-11
Canara Bank (London) 5.125% 2016	350	9-Mar-11
Export-Import Bank of India (*Samurai*) 1.88% 2021	242	11-Mar-11
ICICI Bank (Singapore) 2.063% 2014	200	24-Feb-11
State Bank of India (London) 2.453% 2016	100	21-Jan-11
Sri Lanka	**0**	

Note: The Philippines' USD2.2 billion 2021 bond and USD950 million 2034 bond were part of a dollar bond exchange program. In addition, the Philippines two sovereign global peso bond issuances—a PHP54.77 billion (USD1.24 billion) 25-year bond in January and a PHP44.1 billion (USD1 billion) 10-year bond in September—and Petron's 7-year global peso bond of PHP20 billion (USD454 million) issued in November are not included in this table.
Source: Bloomberg LP, newspaper and wire reports.

USD2.0 billion 10-year bond and a JPY60 billion *samurai* bond (USD717 million). Singapore issued USD4.1 billion of G3 currency bonds, led by DBS Bank's USD1.0 billion 5-year bond issue. In Thailand, total G3 currency issuance stood at USD2.4 billion, of which USD800 million was a 10-year bond of Bangkok Bank. Finally, Malaysia and Viet Nam sold G3 currency bonds last year amounting to USD2.0 billion and USD1.0 billion, respectively.

Between 1 January and 11 March, G3 currency issuance from emerging East Asia surged to USD12.3 billion. The largest issuance in the region came from the Republic of Korea with USD5.8 billion, led by the Korea Development Bank's USD750 million 5-year bond, Hyundai Capital's USD700 million 5.5-year bond, and *samurai* bond issues (USD1.2 billion) from KT Corp and two local banks—Busan Bank and Woori Bank. The PRC had the second-largest G3 currency issuance in the region at USD4.0 billion, with CNOOC Finance selling a USD1.5 billion 10-year bond and a USD500 million 30-year bond. In the Philippines, Energy Development Corp, and SMC Global Power Holdings both sold G3 currency bonds worth USD300 million. In Hong Kong, China, a total of USD595 million was raised from the sale of G3 currency bonds, led by Hopson Development's high-yield USD300 million 5-year bond (11.75% coupon). G3 currency issuance totalled USD1.1 billion in Singapore, spearheaded by Singtel's USD600 million bond in early March and Stats ChipPac's USD200 million 5-year bond in January. G3 currency issuance amounted to USD248 million in Indonesia.

Bond Market Returns

Returns on LCY bonds for most markets in the region were buoyant in 2010.

The Asian Bond Fund (ABF) Pan-Asian Bond Index gained 10.2% in 2010, led by Indonesia (23.7%), Philippines (19.7%), Malaysia (15.6%), and Thailand (15.4%) **(Table 6)**. This performance reversed sharply between end-December 2010 and 11 March 2011, with year-to-date losses

Table 6: iBoxx Asia Bond Fund Index Family Returns

Market	Modified Duration (years)	2009 Returns (%)		2010 Returns (%)		2011 YTD Returns (%)	
		LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index	LCY Total Return Index	USD Unhedged Total Return Index
China, People's Rep. of	5.83	(0.64)	(0.69)	1.55	5.06	0.45	0.68
Hong Kong, China	3.89	(0.76)	(0.82)	2.04	1.79	0.71	0.47
Indonesia	5.58	20.22	35.61	19.30	23.70	(1.60)	0.76
Korea, Rep. of	3.94	1.94	9.73	8.00	10.64	0.77	1.71
Malaysia	4.54	0.48	1.64	5.16	15.64	0.39	1.80
Philippines	5.11	9.00	11.88	14.30	19.67	(2.94)	(2.51)
Singapore	5.48	0.48	3.06	2.51	11.34	1.63	2.27
Thailand	4.91	(3.47)	0.73	5.38	15.41	0.05	(0.90)
Pan-Asian Index	4.84	—	5.00	—	10.21	—	0.85
HSBC ALBI	7.87	—	6.13	—	11.49	—	0.74
US Govt. 1-10 years	3.95	—	(1.38)	—	5.26	—	0.38

— = not applicable, ALBI = Asian Local Bond Index, LCY = local currency, US = United States, YTD = year-to-date.
Notes:
1. The Asian Bond Fund (ABF) indices contain only government debt and government-guaranteed debt obligations.
2. Market bond indices are from iBoxx Index Family. Returns for 2011 are year-to-date as of 11 March 2011.
3. Annual returns are computed for each year using natural logarithm of end-of-year index value/beginning year index value.
4. Duration as of 11 March 2011.
Source: *AsianBondsOnline* and Bloomberg LP.

Table 7: MSCI Index Returns

Market	2009 Returns (%)		2010 Returns (%)		2011 YTD Returns (%)	
	LCY terms	USD terms	LCY terms	USD terms	LCY terms	USD terms
China, People's Rep. of	58.89	58.80	2.58	2.32	(0.29)	(0.48)
Hong Kong, China	55.28	55.20	19.98	19.67	(1.43)	(1.62)
Indonesia	90.27	120.75	25.82	31.19	(3.72)	(1.17)
Korea, Republic of	56.63	69.42	22.11	25.29	(5.08)	(4.19)
Malaysia	46.25	47.78	19.33	32.51	(1.96)	(0.56)
Philippines	55.79	60.24	23.47	30.29	(8.52)	(8.13)
Singapore	63.02	67.29	8.08	18.45	(5.02)	(4.13)
Thailand	63.00	70.04	36.36	50.81	(0.58)	(1.60)
Far East ex-Japan Index	60.32	65.01	12.50	16.69	(2.92)	(2.85)
MSCI USA	—	24.20	—	13.18	—	3.62

— = not applicable, LCY= local currency, MSCI = Morgan Stanley Capital International, YTD = year-to-date.
Notes:
1. Market indices are from MSCI country indexes. 2011 returns are year-to-date as of 11 March 2011.
2. Far East ex-Japan includes People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Taipei,China; and Thailand.
Source: *AsianBondsOnline* and Bloomberg LP.

in the Philippines (2.5%) and Thailand (0.9%), and only modest gains in the Republic of Korea (1.7%), Malaysia (1.8%), and Singapore (2.3%). Other markets were essentially flat. The Pan-Asian index as a whole was also essentially flat through 11 March, rising only 0.9%.

The MSCI equity index gained 12.5% in LCY terms and 16.7% in US dollar terms in 2010 **(Table 7)**. Thai equities were the best performer in 2010, gaining 50.8% in US dollar terms, followed by Malaysia (32.5%), Indonesia (31.2%), and the Philippines (30.3%). All emerging East Asian equity markets—except the PRC and Hong Kong, China—performed better in US dollar terms than in LCY terms.

However, the performance of Asian equity markets sharply deteriorated between end-December and 11 March. The market as a whole fell by 2.8% in US dollar terms and 2.9% in LCY terms over this period. All markets reported losses, with the largest losses coming from the Philippines and the smallest losses coming from the PRC. Losses were generally less when expressed in US dollar terms than when expressed in LCY terms, except for the PRC; Thailand; and Hong Kong, China.

The region's FCY markets followed a somewhat different trend. Most of the region's currencies achieved substantial gains in 2010 vis-à-vis the US dollar, led by the Japanese yen (13.7%), Malaysian ringgit (11.7%), Thai baht (10.5%), and Singapore dollar (9.0%) **(Table 8)**.

The region's FCY markets, however, still remained robust in mid-March. As of 11 March, the Japanese yen had risen 10.1% on a y-o-y basis, followed by the Singapore dollar (9.8%), Malaysian ringgit (8.8%), and Thai baht (7.3%). The Vietnamese dong, on the other hand, had fallen 9.0% y-o-y. The strong y-o-y performances of the Singapore dollar and Malaysian ringgit were accompanied by strong q-o-q performances of 1.2% and 0.8%, respectively. The strongest q-o-q performance, however, was that of the Indonesian rupiah, which rose 2.4% q-o-q, compared with its y-o-y return of 4.6%.

Table 8: Appreciation-Depreciation of Emerging East Asian Currencies (%)

Currency	2009	2010	As of 11 March 2011	
	y-o-y	y-o-y	y-o-y	q-o-q
CNY	0.01	3.5	3.8	0.5
HKD	(0.1)	(0.2)	(0.4)	(0.2)
IDR	16.8	5.4	4.6	2.4
KRW	7.9	2.8	0.8	0.2
MYR	1.2	11.7	8.8	0.8
PHP	2.9	5.6	4.6	0.3
SGD	1.8	9.0	9.8	1.2
THB	4.0	10.5	7.3	(1.0)
VND	(5.5)	(5.4)	(9.0)	(6.8)
JPY	(2.6)	13.7	10.1	(0.9)

q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Appreciation-depreciation is equal to -LN(end-of-period rate/ start-of-period rate).
2. For 11 March 2011 q-o-q figures, appreciation-depreciation is equal to -LN(11 March 2011 rate/end-4Q10 rate).
Source: Bloomberg LP.

Policy and Regulatory Developments

People's Republic of China

PBOC Hikes Reserve Requirement Ratios

The People's Republic of China (PRC) has implemented a series of increases in the reserve requirement ratios for financial institutions, reflecting continued concerns over inflation and the pace of credit growth. New loans granted in 2010 exceeded the official target of CNY7.5 billion to reach CNY7.95 billion. By mid-March, the People's Bank of China (PBOC) had hiked the reserve requirement ratio six times—by 50 basis points each time—since November 2010. These hikes effectively brought the reserve requirement rate to 20.5% for several major banks, 20.0% for other large financial institutions, and 18.0% for small and medium-sized financial institutions.

Bank Clients Allowed to Invest in Currency Swaps

On 31 January, the State Administration of Foreign Exchange (SAFE) issued a circular that will allow banks to offer currency swap products to their corporate clients, effective 3 March. Prior to this, currency swaps were only available on the interbank market. Under the new guidelines, banks that have been trading currency swaps for at least 1 year may offer the facility to their clients.

Hong Kong, China

Bank of China Offers Renminbi Repos

On 20 February, Bank of China announced that it would begin offering renminbi repurchase and lending facilities in Hong Kong, China. According to the bank, the launch of these facilities will spur the development of new CNY-denominated products and facilitate renminbi settlements.

Indonesia

State Firms to Purchase Government Bonds in the Event of Sudden Capital Outflows

In January, the Ministry of Finance and the State Enterprises signed a memorandum of understanding requiring state-owned firms to act as stand-by purchasers of government bonds in the event of sudden capital outflows. Under the scheme, a bond stabilization fund will be created to help protect the economy in case of sudden capital flight. The government has appointed 13 major state companies and financial institutions to participate in the bond stabilization fund: four banks (Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia, and Bank Tabungan Negara), and nine non-bank and insurance companies (including Jaminan Kredit Indonesia and Asuransi Kredit Indonesia).

BI Implements Measures to Minimize the Risk of Capital Flight

In January, Bank Indonesia (BI) re-introduced a measure that limits overseas short-term borrowing by Indonesian banks to 30% of their capital. Also, BI announced that it will require Indonesian banks to increase their foreign exchange reserves deposited with the central bank as part of measures to absorb foreign exchange liquidity. BI will require banks to increase their foreign exchange reserves to 5.0% of foreign exchange deposits in March and 8.0% in June.

Republic of Korea

Withholding Tax Re-Imposed on Foreign Investors' LCY Government Bond Holdings

The government re-imposed a 14% tax on interest income and a 20% tax on capital gains from Korean Treasury Bonds (KTBs) and Monetary Stabilization Bonds (MSBs) held by foreign investors, effective 1 January. This was made following the passage of legislation in December calling for the restoration of the withholding tax in order to mitigate capital flow volatility and minimize systemic risks to the domestic economy.

New Measures to Stabilize Prices and Combat Inflation

In January, the government announced new measures to help mitigate spikes in prices and curb inflationary pressures. Among these measures were the lowering of import tariffs and the provision of financial and tax incentives to private and public sector entities in support of price stabilization.

Regulatory Measures to Enhance Derivatives Trading Introduced

New regulatory measures to improve the trading of derivatives products were introduced in January by the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS), together with the Korea Exchange (KRX) and the Korea Financial Investment Association (KOFIA). These measures aim to reduce settlement risk, mitigate shocks in the market, and enhance financial soundness.

Malaysia

International Islamic Liquidity Management Corporation Established

In October, Bank Negara Malaysia (BNM), 10 other central banks, and two multilateral organizations established the International Islamic Liquidity Management Corporation (IILM) to assist financial institutions offering Islamic financial services to manage their liquidity and enhance institutional linkages. The IILM initiative will facilitate cross-border investment flows by issuing short-term, multi-currency liquidity instruments beginning in December 2011.

Malaysia was selected as the host country for the IILM. In addition to Bank Negara Malaysia, founding members include the Central Bank of Qatar, Bank of Mauritius, Saudi Arabian Monetary Agency, Central Bank of the United Arab Emirates, Central Bank of Iran, Bank Indonesia, Banque Centrale du Luxembourg, Central Bank of Nigeria, Central Bank of Sudan, Central Bank of Turkey, Islamic Development Bank, and Islamic Corporation for the Development of the Private Sector.

Bursa Malaysia, AIBIM, and Bloomberg Launch New *Sukuk* Index; Malaysia to Start Cross-Border *Sukuk* Trading in 2H11

On 21 February, Bursa Malaysia, the Association of Islamic Banking Institutions Malaysia (AIBIM), and Bloomberg LP launched the Bloomberg AIBIM Bursa Malaysia Sovereign *Sharia'h* Index (BMSSI) as part of efforts to enhance the Islamic finance platform. The new MYR-denominated *sukuk* index aims to provide a benchmark for future *sukuk* issuances, as well as a measurement of the performance of MYR-denominated government Islamic securities.

Bank Negara Malaysia also announced that its wholly-owned subsidiary, the Malaysian Electronic Clearing Corporation (MyClear), has embarked on an initiative to allow cross-border trading of Islamic bonds. Set to launch in the second half of 2011, MyClear will provide a platform for Malaysians to invest in foreign securities held by international and regional securities depositories.

Philippines

BSP Further Liberalizes Rules on FX Transactions

In November, Banko Sentral ng Pilipinas (BSP) issued Circular 698, which further liberalized the rules governing foreign exchange (FX) transactions. The circular comprised the following measures:

(i) increase the present ceiling of over-the-counter FX purchases made by residents from authorized agent banks (AABs) and AAB foreign exchange corporations without documentation for non-trade current account;

(ii) increase the present ceiling on the amount of pesos that departing non-resident tourists and Filipinos residing abroad may reconvert at airports or other ports of exit without need for proof-of-sale of FX;

(iii) increase the present ceiling on residents' purchase of FX from AABs and AAB foreign exchange corporations—from USD100,000 to USD1 million—to cover advance payment requirements for import transactions with prior BSP approval, subject to standard documentary requirements;

(iv) allow prepayment of private sector, BSP-registered foreign and FCY loans to be funded with FX from AABs and AAB foreign exchange corporations without prior BSP approval, subject to presentation of supporting documents;

(v) allow registering banks to act on requests by foreign investors for conversion into FX and outward remittances of peso funds, not to exceed the FX brought into the country less the amount used for investments actually made in the country, subject to conditions and documentary requirements; and

(vi) increase the present ceiling per investor per year—from USD30 million to USD60 million—of the amount that residents may purchase from AABs for outward investments and/or investments in Republic of the Philippines bonds and other Philippine debt papers issued offshore, including PHP-denominated instruments to be settled in FX, provided the total FX purchases for any or all of these purposes by any investor in 1 year does not exceed the prescribed limit. This increase will be complemented by the following additional measures:

(a) lift the registration requirement for outward investment in excess of USD60 million and replace this with reporting to BSP; and

(b) extend the period of inward remittance and conversion to pesos, or re-investment of proceeds and related earnings on outward investment of residents, from 2 and 7 banking days, respectively, to 30 banking days from receipt of funds abroad.

Singapore

World Bank and Finance Ministry of Singapore Launch Regional Infrastructure Finance Center of Excellence

In November, the World Bank and the Finance Ministry of Singapore launched the Infrastructure Finance Center of Excellence (IFCOE) to assist regional governments in tapping the private sector for investments in Asian infrastructure. IFCOE also aims to expand the infrastructure finance advisory work of the World Bank–Singapore Urban Hub (Singapore Hub). IFCOE is a specialized unit created under the Singapore Hub, which was established in June 2009.

Singapore Government Bonds to Trade on SGX

In January, the Finance Ministry of Singapore announced that it would allow the trading of Singapore Government Securities (SGS) on the Singapore Exchange (SGX) by June 2011. The ministry aims to provide retail investors with a safe but higher-yielding alternative to bank deposits. The SGX plans to continue enhancing its infrastructure to facilitate bond listing and trading, as well as expanding its product range to include SGS.

Funding for Proposed SGX–ASX Merger

The SGX announced in January that it has secured long-term financing from six banks to fund its proposed merger with the Australian Securities Exchange (ASX). The financing includes term loans worth SGD3.8 billion and AUD750 million from the Australia and New Zealand Banking Group (ANZ Bank), the Singapore branch of the Bank of Tokyo-Mitsubishi UFJ, DBS Bank, Oversea-Chinese Banking Corp, United Overseas Bank, and National Australia Bank. In October, ASX and SGX announced that they had agreed to merge, creating the world's fifth-largest exchange group and Asia's second-largest behind the Hong Kong Stock Exchange.

Thailand

Thai Cabinet Approves a 15% Tax on Bonds

The Thai government has approved the imposition of a 15% tax on interest and capital gains earned by foreign investors from Thai bonds in an effort to slow foreign currency (FCY) inflows and ease the baht's appreciation. Effective 13 October, foreign investors trading government, central bank, or state enterprise bonds were required to pay a withholding tax of 15%. Meanwhile, the Customs Department is considering waiving import tariffs on machinery that cannot be produced in Thailand to help exporters and small and medium-sized enterprises (SMEs) improve their productivity. State banks—Krung Thai Bank, Small and Medium Enterprise Development Bank of Thailand, Islamic Bank of Thailand, and the Export–Import Bank of Thailand—are also offering forward contracts to protect SMEs against volatility in the exchange rate. The Government Savings Bank provides SMEs a credit line of up to THB5.0 billion. Also, the Revenue Department is planning to offer local companies additional tax breaks for asset depreciation. According to the Ministry of Finance, about 10,000 SMEs need assistance as a result of the baht's recent appreciation.

BOT Relaxes Regulations on FX Transactions

The Bank of Thailand (BOT) relaxed FX regulations to increase the flexibility of Thai businesses in managing FX risk. Effective 12 October, Thai exporters were permitted to transfer FCY deposits to counterparties in Thailand for payment of goods and services, with the limit on FX transactions being increased to USD50,000 from USD20,000. Also, Thai businesses undertaking direct investment or lending abroad of USD10 million or more per year are now required to notify the BOT.

Thai Financial Regulators to Create Bond Information Center

In December, the BOT signed an agreement with the Securities and Exchange Commission, Stock Exchange of Thailand, Thai Bond Market Association, and Public Debt Management Office to create the Thailand Financial Instruments Information Center (TFIIC). TFIIC is part of the Thai government's 5-year capital market master plan, which aims to collect information on financial instruments by related sources, share the information, and provide linkages among related agencies.

Revenue Department of Thailand to Slash Corporate Income Tax

In January, the Revenue Department of Thailand considered slashing the corporate income tax rate to 18% from the current 30%. The tax department is preparing to restructure taxes in order to boost Thailand's competitiveness in advance of Thailand's membership in the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC) in 2015. The AEC will permit the free movement of goods, investment, and labor between member countries without the imposition of taxes or other barriers.

Viet Nam

SBV Sets Ceiling on Banks' Mobilizing Rates at 14.0%

In December, the State Bank of Viet Nam (SBV) reached a consensus with the General Secretary and the Viet Nam Banks Association to put a ceiling on Vietnamese dong mobilizing rates—the banks' lending rates—at 14.0% per annum. This step was taken in line with the Prime Minister's directive of stabilizing the country's money market and ensuring a sound banking system.

SBV Adjusts Interbank Average Exchange Rate

In February, the SBV adjusted the interbank average exchange rate to VND20,693 = USD1 from VND18,932 = USD1, while narrowing the trading band for the exchange rate to ±1.0% from ±3.0%. The devaluation of the Vietnamese dong came amid an effort to improve liquidity in the FX market. The last time the SBV adjusted the interbank average exchange rate was in August when it devalued the currency with the aim of trimming Viet Nam's trade deficit.

Market Summaries

People's Republic of China—Update

Yield Movements

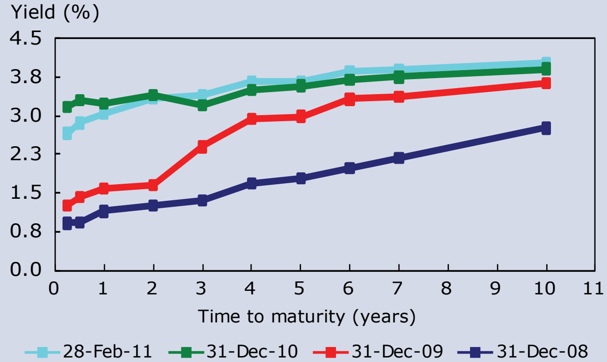
The People's Republic of China's (PRC) government bond yield curve rose and flattened in 2010, especially at the short-end of the curve, reflecting concern about inflationary pressures due to rising food prices. The People's Bank of China (PBOC) began to raise its policy rates and reserve requirement ratios in the latter part of the year in order to slow liquidity growth **(Figure 1)**.

More recently, the government bond yield curve steepened between end-December and end-February. Yields on tenors of 1 year or less fell by 21–52 basis points. The largest drop was seen in the 3-month rate, which fell 52 basis points. The long-end of the curve experienced a rise in yields, with yields for 10- and 7-year tenors rising by 15 and 12 basis points, respectively. Meanwhile, yields for the 6-year tenor rose by 16 basis points, while yields for the 5-year tenor rose by 9 basis points.

Due to a drop in short-term yields and increases in yields for longer-term bonds, the spread between 2- and 10-year government bonds increased to 70 basis points at end-February from 51 basis points at end-December.

Changes in the yield curve as well as recent market volatility, particularly at the shorter-end of the curve, are a response to efforts by the PRC to slow down inflation and credit growth. The PBOC has hiked the reserve requirement ratio six times (by 50 basis points each time) since November. The PRC also hiked its benchmark interest rates in December for the second time in 2010, raising the 1-year lending rate to 5.81% and the 1-year deposit rate to 2.75%. Inflation for the year peaked in November, reaching 5.1%, before slowing slightly in December to 4.6%. However, inflation picked up again in January, reaching

Figure 1: People's Republic of China's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

4.9%, driven mostly by rising food costs. The January inflation figure also reflects a re-weighting of the basket used to calculate inflation, with an increase in housing-related items such as rent and utilities, while other categories in the basket received a smaller weighting. The PRC again hiked benchmark interest rates by 25 basis points on 8 February, bringing the 1-year lending rate to 6.06% and the 1-year deposit rate to 3.0%.

New loans for full-year 2010 hit CNY7.95 billion, exceeding the government's target of CNY7.5 billion and raising concerns about the pace of credit growth. The M2 measure of money supply also showed an uptick in 2010, including growth rates of 19.7% in December and 19.5% in November. The recent efforts of the PBOC to tighten the money supply have had an effect, with M2 money supply growth slowing to 15.7% in February.

The rise in property prices has also prompted some concern, with the PRC government unveiling a number of measures to reduce speculation.

Table 1: Size and Composition of the LCY Bond Market in the People's Republic of China

	Amount (billion)								Growth Rates (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10	Nov-10	Dec-10		
	CNY	USD	CNY	USD	CNY	USD	CNY	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	20,013	2,991	19,896	2,983	20,176	3,026	20,165	3,052	21.4	3.6	(0.6)	1.4	15.1	0.8	(0.1)
Government	15,905	2,377	15,744	2,360	15,943	2,391	15,908	2,408	15.6	1.9	(1.0)	1.3	10.3	0.02	(0.2)
Treasury Bonds	6,398	956	6,444	966	6,544	982	6,663	1,008	13.1	5.4	0.7	1.6	16.1	4.1	1.8
Central Bank Bonds	4,442	664	4,208	631	4,232	635	4,085	618	10.5	(6.3)	(5.3)	0.6	(3.5)	(8.0)	(3.5)
Policy Bank Bonds	5,064	757	5,092	763	5,167	775	5,160	781	24.2	5.5	0.6	1.5	16.0	1.9	(0.1)
Corporate	4,108	614	4,151	622	4,233	635	4,257	644	50.5	10.9	1.0	2.0	37.2	3.6	0.6
Policy Bank Bonds															
China Development Bank	3,662	547	3,672	551	3,738	561	3,680	557	24.6	5.8	0.3	1.8	15.0	0.5	(1.5)
Export–Import Bank of China	509	76	518	78	518	78	553	84	36.3	5.9	1.7	0.0	26.1	8.6	6.8
Agricultural Dvt. Bank of China	892	133	902	135	912	137	927	140	16.5	4.1	1.1	1.1	14.3	3.9	1.7

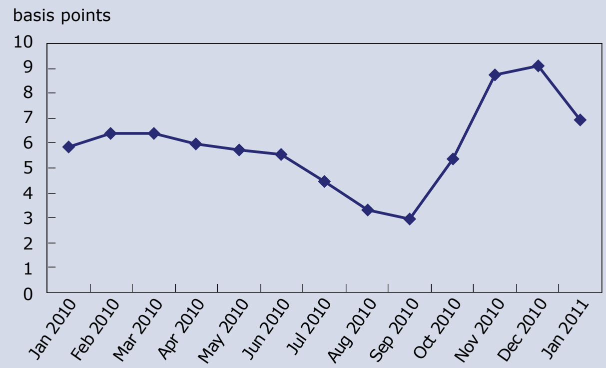
LCY = local currency, m-o-m = month on month, q-o-q = quarter on quarter, y-o-y = year on year.
Notes:
1.Calculated using data from national sources.
2.Treasury bonds include savings bonds and local government bonds.
3.Bloomberg LP end-of-period LCY–USD rate is used.
4.Growth rates are calculated from LCY base and do not include currency effects.
Source: *ChinaBond and* Bloomberg LP.

Property prices posted their fourth straight month-on-month (m-o-m) increase in December, rising by 0.3%. On a y-o-y basis, property prices rose 6.4%.

Tighter monetary conditions in 4Q10 led to significant volatility in the bond market. **Figure 2** presents the historical bid–ask spreads for government bonds. Bid–ask spreads were at their tightest in September 2010, before rising dramatically in 4Q10.

Size and Composition

Figure 2. PRC Government Bonds Historical Bid-Ask Spreads



PRC = People's Republic of China.
Source: Wind.

The amount of outstanding local currency (LCY) bonds in the PRC market reached CNY20.2 trillion at the end of December, representing a y-o-y increase of 15.1% and a quarter-on-quarter (q-o-q) rise of 0.8% **(Table 1)**.

Government bonds outstanding increased by 10.3% y-o-y as of end-December and were flat on a q-o-q basis, while corporate bonds rose 37.2% y-o-y and 3.6% q-o-q. In the government sector, treasury bonds and policy bank bonds expanded 16.1% and 16.0%, respectively, while central bank bonds declined by 3.5% y-o-y. On a q-o-q basis, growth rates in 4Q10 were down from the previous quarter, with treasury bonds and central bank bonds posting growth rates of 4.1% and 1.9%, respectively. Furthermore, central bank bonds declined by 8.0% q-o-q in 4Q10.

Interest Rate Swaps

Table 2 provides information on the total notional amount traded in interest rate swaps (IRSs) during February 2010–January 2011. Based on the table, much of the market in IRSs is concentrated in shorter-term benchmark rates, the 7-day repurchase (repo) rate, and the overnight Shanghai Interbank Offered Rate (SHIBOR). In terms of market size, the IRS based on the 7-day repo rate accounts for 56% of the total market, while the IRS for the SHIBOR accounts for 39%. The IRS based on the 7-day repo rate is a key instrument helping banks to manage funding costs since banks can tap the repo market for short-term funding needs. Among the various repo market tenors, the 7-day repo remains the most popular.

Table 2: PRC Interest Rate Swaps (IRS)—Market Notional Values

Benchmark	Total Notional Amount (CNY100 Million)	% of Total Notional Amount
7-Day Repo Rate	899	56.0%
SHIBOR Overnight	354	22.1%
SHIBOR 3-Month	270	16.8%
SHIBOR 3-Months 10-Day	0	0.0%
SHIBOR 1-Week	0	0.0%
1-Year Term Deposit Interest Rate	79	4.9%
1-Year Lending Interest Rate	3	0.2%
3-Year Lending Interest Rate	0	0.0%
Total	**1,606**	**100.0%**

PRC = People's Republic of China, SHIBOR = Shanghai Interbank Offered Rate.
Source: Chinamoney.

Corporate Bonds

With the exception of asset- and mortgage-backed securities, and commercial bank bonds, the remaining key sectors of the corporate bond market grew by double digits in 4Q10. Medium-term notes (MTNs) grew by 57.0% y-o-y, while commercial paper and local corporate bonds posted y-o-y growth rates of 43.2% and 51.1%, respectively. State-owned corporate bonds (or SOE bonds) grew by 22.1% y-o-y, and commercial bank bonds grew 3.6%. In contrast to these other sectors, the amount of asset- and mortgage-backed securities has been on a steady decline, with no new issuance since 4Q08.

On a q-o-q basis, all sectors showed slower growth rates in 4Q10 compared with the prior quarter, with the exception of local corporate bonds **(Table 3)**. Local corporate bonds expanded by 13.6% in 4Q10 from 8.6% growth in 3Q10. Growth of MTNs slowed to 5.0% in 4Q10 from 12.0% in 3Q10. Commercial paper showed the greatest change between quarters, declining 2.6% in 4Q10 compared with positive growth of 9.0% in 3Q10. Commercial bank bonds grew at an anemic rate of 0.1% in 4Q10, the same growth rate posted in 3Q10.

MTNs had consistently enjoyed double-digit q-o-q growth rates for the past few quarters prior to 4Q10, reflecting continued strong corporate sector demand and improved access to MTNs facilitated by the relatively quick issuance approval processes. The MTN market's slowing growth rate in 4Q10 seems to reflect the PBOC's tightening of monetary policy in recent months and the prospect of rising interest rates in the near term.

Possibly as a reflection of tighter monetary conditions, issuance for all sectors except commercial paper experienced a q-o-q decline in 4Q10 **(Figure 3)**. Monetary conditions continue to be challenging in 2011 as evident by recent news that a planned China Development Bank bond issuance was reduced in size by one-half to CNY10 billion and offered with a much higher yield than was offered by the bank in most of its issues over the past year.

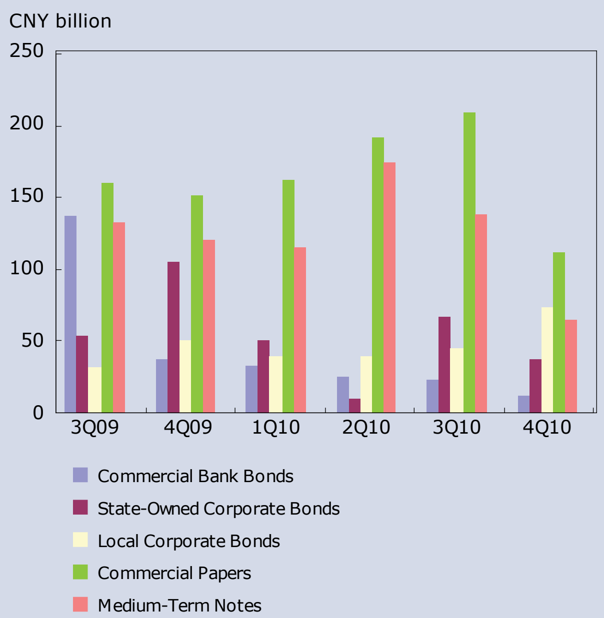
Looking at the PRC's top issuers **(Table 4)**, it is clear that only a handful of issuers dominate the corporate bond market. The top 50 corporate bond issuers account for CNY2.5 trillion, which is more than half of the outstanding corporate bond market. Furthermore, issuer size rapidly begins

Table 3: Corporate Bonds Outstanding in Key Sectors

	Amount (CNY billion)						Growth Rates (%)					
							q-o-q					y-o-y
	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	4Q09	1Q10	2Q10	3Q10	4Q10	4Q10
Commercial Bank Bonds	589.2	588.4	589.6	608.5	609.0	609.5	(0.1)	0.2	3.2	0.1	0.1	3.6
State-Owned Corporate Bonds	619.3	720.2	771.1	781.1	842.6	879.6	16.3	7.1	1.3	7.9	4.4	22.1
Local Corporate Bonds	328.8	376.9	420.0	461.7	501.3	569.4	14.6	11.4	9.9	8.6	13.6	51.1
Commercial Papers	353.1	456.1	508.8	615.4	670.6	653.0	29.2	11.5	21.0	9.0	(2.6)	43.2
Asset/Mortgage-Backed Securities	46.0	39.9	31.1	26.5	21.9	18.2	(13.4)	(22.1)	(14.8)	(17.2)	(16.8)	(54.3)
Medium-Term Notes	742.1	862.2	976.4	1,151.2	1,289.5	1,353.6	16.2	13.2	17.9	12.0	5.0	57.0

q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Source: *ChinaBond.*

Figure 3: Corporate Bond Issuance in Key Sectors



Source: *ChinaBond.*

to drop further down the rankings. In fact, out of the CNY2.5 trillion of outstanding corporate bonds issued by the top 50 corporates, CNY1.5 trillion (61%) is from the top 10 corporate issuers.

State-owned companies (defined as majority-owned by the government) dominate the corporate bond market in the PRC. Out of the top 50 corporate bond issuers, 42 are state-owned, with a total of CNY2.3 trillion worth of bonds outstanding. All eight of the companies that are not state-owned are listed on stock exchanges.

The largest sector in the corporate bond market is transportation **(Figure 4)**. However, the transportation sector is highly skewed as it is dominated by a single issuer, the Ministry of Railways, which accounts for more than half of the transportation sector's outstanding bonds. Following closely in terms of bonds outstanding are the banking sector and the capital goods sector. A large portion of bonds issued within the banking sector is closely related to the banks'

Table 4: Top 50 Issuers of LCY Corporate Bonds in the People's Republic of China

Issuer	Bonds Outstanding		State-Owned	Privately-Owned	Listed Company	Sector
	LCY Bonds (CNY billion)	LCY Bonds (USD billion)				
1.Ministry of Railways	526.0	79.61	Yes	No	No	Transportation
2.State Grid Corporation of China	233.0	35.27	Yes	No	No	Public Utilities
3.China National Petroleum Corporation	158.0	23.91	Yes	No	No	Energy
4.Bank of China	124.9	18.91	Yes	No	Yes	Banking
5.China Construction Bank	120.0	18.16	Yes	No	Yes	Banking

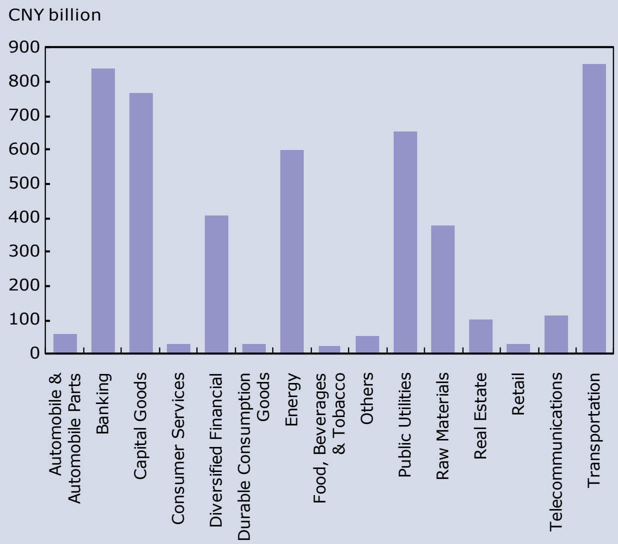
continued on next page

Table 4 continued

Issuer	Bonds Outstanding		State-Owned	Privately-Owned	Listed Company	Sector
	LCY Bonds (CNY billion)	LCY Bonds (USD billion)				
6.Petrochina Company Limited	97.5	14.76	Yes	No	Yes	Energy
7.Industrial and Commercial Bank of China	97.0	14.68	Yes	No	Yes	Banking
8.Industrial Bank	68.0	10.29	No	Yes	Yes	Banking
9.China Petroleum and Chemical Corporation	58.5	8.85	Yes	No	Yes	Energy
10.Aluminum Corporation of China	55.0	8.32	Yes	No	Yes	Raw Material
11.Agricultural Bank of China	50.0	7.57	Yes	No	Yes	Banking
12.Bank of Communications	50.0	7.57	No	Yes	Yes	Banking
13.China Telecom Corporation Limited	50.0	7.57	Yes	No	Yes	Telecomm
14.China Guodian Corporation	38.0	5.75	Yes	No	No	Public Utilities
15.China United Network Communications Corporation Limited	38.0	5.75	No	Yes	Yes	Telecomm
16.Shenhua Group Corporation Limited	37.9	5.74	Yes	No	No	Energy
17.Citic Grouop	37.0	5.60	Yes	No	No	Capital Goods
18.China Southern Power Grid Co., Ltd.	36.0	5.45	Yes	No	No	Public Utilities
19.Shougang Group	33.0	4.99	Yes	No	No	Capital Goods
20.China Huaneng Group	30.0	4.54	Yes	No	No	Public Utilities
21.China Merchants Bank	30.0	4.54	No	Yes	Yes	Banking
22.China Three Gorges Project Corporation	28.5	4.31	Yes	No	No	Public Utilities
23.China Minsheng Bank	28.3	4.28	No	Yes	Yes	Banking
24.China Guangdong Nuclear Power Holding Co., Ltd.	27.8	4.21	Yes	No	No	Public Utilities
25.China Power Investment Corporation	27.6	4.18	Yes	No	No	Public Utilities
26.State-owned Capital Operation and Management Center of Beijing	25.0	3.78	No	Yes	Yes	Banking
27.Huaxia Bank	24.0	3.64	Yes	No	Yes	Banking
28.China Citic Bank	22.5	3.41	Yes	No	Yes	Raw Material
29.Wuhan Iron and Steel (Group) Corporation	22.0	3.33	Yes	No	Yes	Capital Goods
30.China Metallurgical Group Corporation	21.3	3.22	Yes	No	No	Capital Goods
31.China Resources National Corporation	20.5	3.10	Yes	No	No	Capital Goods
32.Tianjin Infrastructure Construction Investment (Group) Co., Ltd.	20.2	3.06	Yes	No	No	Capital Goods
33.Aviation Industry Corporation of China	20.0	3.03	No	Yes	Yes	Banking
34.Bank of Beijing	20.0	3.03	Yes	No	No	Transportation
35.Beijing Infrastructure Investmenet Co., Ltd.	19.0	2.88	No	Yes	Yes	Banking
36.Shanghai Pudong Development Bank	18.8	2.85	Yes	No	Yes	Capital Goods
37.Metallurgical Corporation of China Ltd.	18.4	2.78	Yes	No	No	Public Utilities
38.China Datang Corporation	18.2	2.75	Yes	No	No	Diversified Financial
39.Shanghai Chengtou Corporation	18.2	2.75	Yes	No	No	Retail
40.Cofco Limited	18.1	2.74	Yes	No	Yes	Capital Goods
41.China State Construction Engineering Corp., Ltd.	16.2	2.45	Yes	No	Yes	Banking
42.China Everbright Bank	16.0	2.42	Yes	No	No	Transportation
43.Capital Airports Holding Company	15.9	2.41	Yes	No	No	Capital Goods
44.China Minmetals Corporation	15.8	2.39	Yes	No	No	Capital Goods
45.China North Industries Group Corporation	15.2	2.30	Yes	No	No	Transportation
46.Jiangsu Communication Holding Company	15.1	2.29	Yes	No	Yes	Transportation
47.China Cosco Holdings Company Limited	15.0	2.27	Yes	No	Yes	Capital Goods
48.China Railway Construction Company Ltd.	15.0	2.27	Yes	No	No	Diversified Financial
49.State Development and Investment Corporation	14.5	2.19	Yes	No	No	Capital Goods
50.Anshan Iron and Steel Group Corporation	14.0	2.12	Yes	No	Yes	Raw Material
Total Top 50	**2539.0**	**384.28**				

LCY = local currency.
Source: Bloomberg LP, *ChinaBond,* and Wind.

Figure 4. LCY Corporate Bonds Outstanding by Sector (CNY billion)



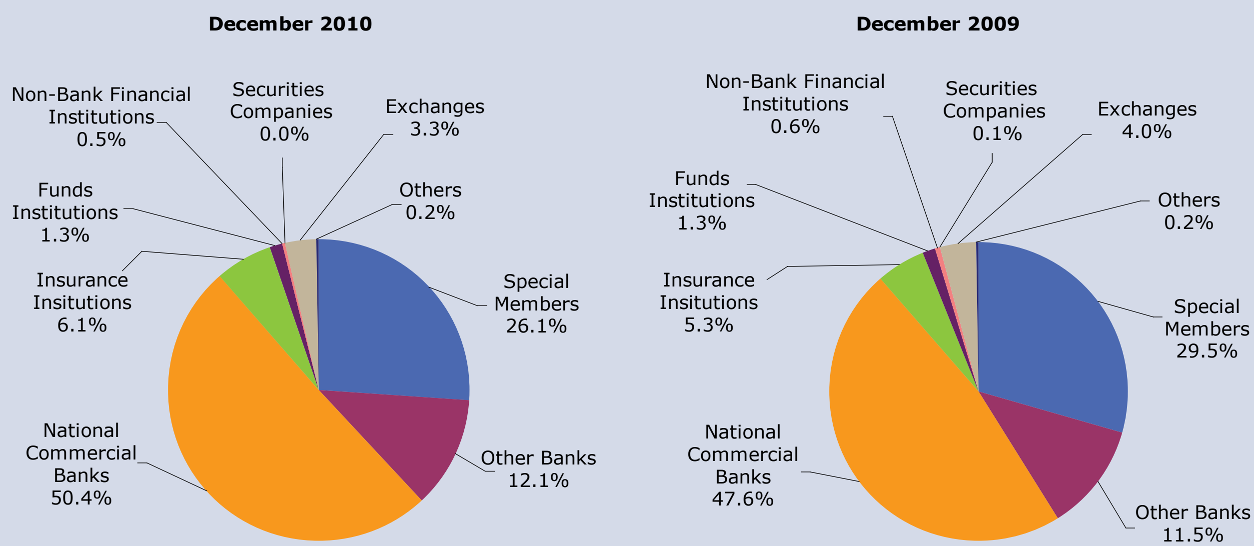
LCY = local currency.
Note: Others includes Commercial & Specialized Services, Family & Personal Goods, Food & Main Products Retail, Insurance, Media, Pharmaceutical, BioTech & Life Sciences, Semi-Conductor/Semi-Conductor Production Equipments, Software & Services, Technology, Hardware & Equipments
Source: Wind & *ChinaBond*.

capital-raising efforts through the issuance of subordinated debt that can be classified as Tier 2 capital. Banks in the PRC have been using Tier 2 capital to support their loan-making activities, which grew at a rapid pace in 2010 and exceeded the PBOC's official loan target. The capital goods sector follows as the third largest component of outstanding corporate bonds.

Investor Profile

Treasury Bonds. Banks remained the largest category of investors in the PRC Treasury bond market, holding a larger share of these bonds at end-December 2010 (62.5%) than end-December 2010 (59.1%) **(Figure 5)**. The share held by special members dropped to 26.1% in December 2010 from 29.5% a year earlier. Special members comprise the PBOC, Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Co., and China Securities Depository and Clearing Corporation.

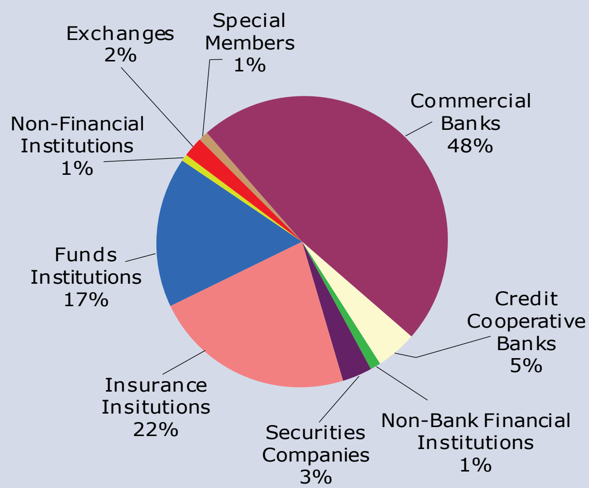
Figure 5: Treasury Bonds Investor Profile



Source: *ChinaBond*.

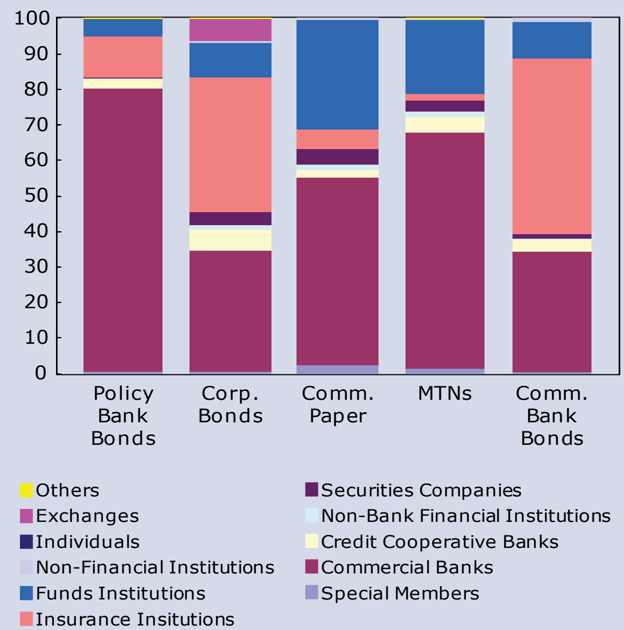
Corporate Bonds. In terms of the investor profile for coporate bonds, the largest holders are banks, which hold 63% of outstanding corporate bonds, followed by insurance institutions which hold 22%. **(Figure 6)**

Figure 6: Corporate Bonds Investor Profile



Source: Chinabond.

Figure 7: Investor Profile across Bond Categories



MTNs = medium-term notes.
Source: *ChinaBond*.

Figure 7 presents the investor profile across different bond categories. Based on the graph, banks are the largest holders when it comes to treasury bonds and policy bank bonds. In particular, banks hold roughly 80% of outstanding policy bank bonds. On the other hand, insurance institutions are the largest holders of commercial bank bonds.

Rating Changes

Following Moody's Investors Service ratings upgrade for the PRC in November, Standard & Poor's (S&P) upgraded the FCY long-term and LCY long-term sovereign ratings of the PRC by one notch to AA- on 16 December, with a stable outlook for both **(Table 5)**. S&P cited the PRC's substantial foreign exchange reserves, strong fiscal position, and growth prospects as reasons for the upgrade. S&P also said that it might raise its ratings further if structural reforms led to sustained economic growth and average income levels improved.

Table 5: Selected Sovereign Ratings and Outlook for the PRC

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Aa3	AA-	A+
Outlook	Positive	Stable	Stable

FCY = foreign currency, LT = long-term, PRC = People's Republic of China.
Source: Rating agencies

Policy, Institutional, and Regulatory Developments

PBOC Hikes Reserve Requirement Ratio of Banks

Since November, the PRC has implemented a series of increases in the reserve requirement ratios for financial institutions, reflecting continued concerns over inflation and the pace of credit growth. New loans granted in 2010 exceeded the official target of CNY7.5 billion to reach CNY7.95 billion.

By mid-March, the PBOC had hiked the reserve requirement ratio six times—by 50 basis points each time—since November 2010. These hikes effectively brought the reserve requirement rate to 20.5% for several major banks, 20.0% for other large financial institutions, and 18.0% for small and medium-sized financial institutions.

CSRC Grants Additional QFII Licenses

On 12 January, the China Regulatory Securities Commission (CRSC) announced that it had issued three additional licenses in December under the Qualified Foreign Institutional Investor (QFII) scheme. The licenses were issued to BMO Investments Inc., Julius Bear & Co. Ltd., and KTB Asset Management. As of end-2010, 106 institutions had been granted QFII licenses.

Draft on QFII Index Futures Trading Issued

On 25 January, the CSRC issued a draft regulation for foreign investors under the QFII program allowing them to trade local stock index futures. Under the rules, foreign investors, like local investors, can only trade the index futures for hedging purposes. There will also be limits on trading volume, and the number of investors under the QFII program will be restricted by a quota.

PRC Implements Additional Property Measures

The State Council announced on 26 January that it would increase the minimum down payment for second-home buyers from 50% to 60%. The State Council also asked local governments to set price targets for property. Two days later, the PRC approved a property tax trial scheme in Shanghai and Chongqing. In Shanghai, the property tax will be 0.6% for all taxable residential properties, but will be reduced to 0.4% for houses with a purchase price of less than twice the average price of commercial homes. In Chongqing, only homes with a purchase price of more than twice the average will be taxed. In addition, the Ministry of Finance announced that residential properties sold within 5 years of purchase will be subject to transaction taxes.

Bank Clients Allowed to Invest in Currency Swaps

On 31 January, the State Administration of Foreign Exchange (SAFE) issued a circular that will allow banks to offer currency swap products to their corporate clients, effective 3 March. Prior to this, currency swaps were only available on the interbank market. Under the new guidelines, banks that have been trading currency swaps for at least 1 year may offer the facility to their clients.

PBOC Implements Individualized Reserve Requirement Ratios on Some Banks

On 10 February, the PBOC imposed a differentiated reserve requirement ratio on several small and medium-sized financial institutions. Under such a scheme, the financial institutions will have individualized reserve requirement ratios.

CPI Basket Weights Changed

On 11 February, when the inflation figures for January were released, it was also announced that there were changes in the basket weights used to calculate inflation. Housing-related items such as rent and utilities saw an increase in their basket weights, while other categories received a smaller weighting.

Renminbi Forex Options to Be Traded

On 17 February, SAFE announced that it will allow the trading of renminbi foreign exchange options on 1 April. The trading of the options will be limited to hedging purposes as opposed to speculation, and only European-style call options will be allowed to be traded. Furthermore, once a party purchases an option, they are prohibited from reselling it.

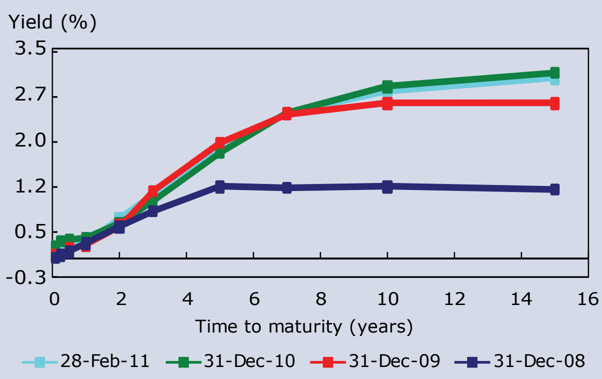
Hong Kong, China—Update

Yield Movements

The yield curve for Hong Kong, China's exchange fund bills and notes (EFBNs) rose for most maturities in 2010, but tightened by 15–17 basis points for the 3-, 4-, and 5-year maturities. However, by end-February 2011, yields at the short-end and long-end of the curve had tightened 7–10 basis points, while yields rose in the belly of the curve **(Figure 1)**. The yield on the 4-year tenor increased the most, rising 12 basis points. The spread between 2-year and 10-year maturities narrowed to 212 basis points, compared with a spread of 227 points at end-December 2010.

Consumer price inflation in Hong Kong, China accelerated to 3.6% year-on-year (y-o-y) in January, up from 3.1% in December. The higher inflation level was mainly due to higher food prices and increases in private housing rentals. Most of the major components of the composite consumer price index posted y-o-y increases in January, including food (8.2%); electricity, gas, and water (7.0%); clothing and footwear (5.0%); miscellaneous goods (3.6%); and miscellaneous services (2.7%). For 2011, the government expects inflation to continue to rise to 4.5%.

Figure 1: Hong Kong, China's Benchmark Yield Curve—EFBNs



EFBNs = Exchange Fund Bills and Notes.
Source: Bloomberg LP.

Domestic demand has proven resilient, with retail sales in December climbing 18.5% y-o-y, leading to a sixteenth consecutive month of positive growth. Also, manufacturing activity remains robust, with the HSBC Purchasing Managers' Index (PMI) for January rising to 55.2, the highest level in 9 months. (A PMI reading above 50 is indicative of an expansion of manufacturing activity.)

Hong Kong, China's gross domestic product (GDP) grew 6.2% y-o-y in 4Q10, slightly lower than the 6.7% growth realized in 3Q10. Private consumption expanded 7.1% y-o-y, an improvement over 4.9% growth in 3Q10. Merchandise export growth moderated to 8.4% y-o-y in 4Q10 after rising 20.8% in 3Q10. On a quarter-on-quarter (q-o-q) basis, the economy expanded 1.5%. For 2010 as a whole, the economy registered GDP growth of 6.8%, a turnaround from a contraction of 2.7% in 2009. The government expects GDP to grow 4.0%–5.0% in 2011.

Size and Composition

The size of Hong Kong, China's local currency (LCY) bond market climbed 14.0% y-o-y to HKD1.3 trillion (USD163.7 billion) at end-December **(Table 1)**. On a q-o-q basis, LCY bonds outstanding grew at a pace of only 1.6% in 4Q10.

Total government bonds outstanding rose 25.5% y-o-y as of end-December, while q-o-q growth was relatively flat in 4Q10. Government bonds outstanding in Hong Kong, China include exchange fund bills (EFBs), exchange fund notes (EFNs), and bonds issued under the Institutional Bond Issuance Programme (HKSAR bonds).

The growth in total government bonds outstanding was largely attributed to the growth of EFBs, which expanded 25.6% in 2010. On the other hand, the stock of EFNs remained flat at HKD69.9 billion (USD9.0 billion). HKSAR bonds outstanding rose 336.4% in 2010 to reach HKD24.0 billion (USD3.1 billion), having come from a low base of

Table 1: Size and Composition of the LCY Bond Market in Hong Kong, China

	Amount (billion)								Growth Rate (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10	Nov-10	Dec-10		
	HKD	USD	HKD	USD	HKD	USD	HKD	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	1,253	161	1,260	163	1,265	163	1,273	164	25.8	1.3	0.6	0.4	14.0	1.6	0.6
Government	672	87	674	87	674	87	677	87	61.2	0.6	0.3	0.0	25.5	0.8	0.5
Exchange Fund Bills	582	75	582	75	583	75	583	75	69.4	0.1	0.03	0.1	25.6	0.2	0.1
Exchange Fund Notes	70	9	70	9	70	9	70	9	0.9	0.0	0.0	(0.9)	0.3	(0.4)	0.4
HKSAR Bonds	20	2.5	22	3	22	3	24	3	457.1	21.9	10.3	0.0	336.4	23.1	11.6
Corporate	581	75	586	76	591	76	596	77	0.3	2.1	0.8	0.8	3.2	2.5	0.8

HKSAR = Hong Kong Special Administrative Region, LCY = local currency, m-o-m = month-on-month, 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—USD rates are used.
3.Growth rates are calculated from LCY base and do not include currency effects.
4.The amount of corporate bonds outstanding for October and November were estimated based on the compounded monthly growth rate between September and December.
Source: Hong Kong Monetary Authority and Bloomberg LP.

only HKD6.0 billion (USD0.7 billion) at the end of 2009.

In October, HKD2.0 billion in 10-year Specieal Administrative Region (SAR) government bonds were issued under the Institutional Bond Issuance Programme. An additional HKD2.5 billion in 5-year bonds were sold in December. Both of these bond issues were well received by institutional investors, with tenders reaching HKD6.3 billion and HKD6.2 billion, respectively.

Corporate bonds outstanding reached HKD595.7 billion (USD76.6 billion) at end-2010 for growth of 3.2% y-o-y and 2.5% q-o-q. The top 18 non-bank corporate issuers in Hong Kong, China accounted for about 15% of total corporate bonds outstanding as of end-December **(Table 2)**. Hong Kong, China's top corporate issuer of LCY bonds was state-owned Hong Kong Mortgage Corporation (HKMC), with bonds valued at HKD24.3 billion (USD3.1 billion). Sun Hung Kai Properties (Capital Market) Ltd. was in the second spot with outstanding bonds of HKD9.9 billion (USD1.3 billion), while CLP Power Hong Kong Financing Ltd. was in the third spot with HKD9.3 billion (USD1.2 billion).

Finance-related firms dominated the list of the top 18 non-bank corporate issuers, accounting for over 70% of the list. Seven state-owned companies were included in the list, while 11 were privately owned. Among the companies in Table 2, only one company is listed on the Hong Kong Exchange.

Offshore Renminbi Bond Market

The offshore renminbi bond market in Hong Kong, China has grown dramatically since its inception in 2009. By 23 February, cumulative renminbi bond issuance had reached CNY82 billion. Low borrowing costs and the renminbi's expected appreciation against the United States (US) dollar have attracted both lenders and investors. Outstanding renminbi deposits in Hong Kong, China reached CNY314 billion at the end of 2010, a dramatic increase from only CNY895 million at the end of 2004, the year in which renminbi deposits were first offered. Issuers in the renminbi bond

Table 2: Top 18 Non-Bank Issuers of LCY Corporate Bonds in Hong Kong China (as of 31 December 2010)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Sector
	LCY Bonds (HKD billion)	LCY Bonds (USD billion)				
1. The Hong Kong Mortgage Corporate Ltd.	24.31	3.13	Yes	No	No	Finance
2. Sun Hung Kai Properties (Capital Market) Ltd.	9.89	1.27	No	Yes	No	Finance
3. CLP Power Hong Kong Financing Ltd.	9.28	1.19	No	Yes	No	Finance
4. Kowloon-Canton Railway Corporation	6.60	0.85	Yes	No	No	Transportation
5. MTR Corporation (C.I.) Ltd.	5.20	0.67	Yes	No	Yes	Transportation
6. Swire Pacific MTN Financing Ltd.	4.80	0.62	No	Yes	No	Finance
7. Hongkong Electric Finance Ltd.	3.80	0.49	No	Yes	No	Finance
8. Cheung Kong Bond Finance Ltd.	2.95	0.38	No	Yes	No	Finance
9. Airport Authority Hong Kong	2.90	0.37	Yes	No	No	Trannsportation
10. HKCG (Finance) Limited	2.76	0.36	No	Yes	No	Finance
11. Wharf Finance Ltd.	2.29	0.30	No	Yes	No	Finance
12. Bauhinia MBS Ltd.	2.21	0.28	Yes	No	No	Finance
13. The Link Finance (Cayman) 2009 Ltd.	2.10	0.27	No	Yes	No	Finance
14. Hysan (MTN) Ltd.	1.80	0.23	No	Yes	No	Finance
15. Urban Renewal Authority	1.50	0.19	Yes	No	No	Property Development
16. Cheung Kong Finance (MTN) Ltd.	0.80	0.10	No	Yes	No	Finance
17. Hong Kong Link 2004 Ltd.	0.79	0.10	Yes	No	No	Infrastructure
18. The Hongkong Land Notes Company Ltd.	0.20	0.03	No	Yes	No	Finance
Total Top 18 Non-Bank Corporate Issuers	**84.18**	**10.83**				

LCY = local currency.
Note:
Based on Central Money Markets Unit (CMU) data on tradeable non-bank debt securities issued and still outstanding as of 21 January 2011.
Source: Hong Kong Monetary Authority.

market have included high-grade issuers such as the government of the People's Republic of China (PRC) and lower-rated institutions such as Galaxy Entertainment.

Rating Changes

On 10 November, Moody's Investors Service upgraded Hong Kong, China's government bond rating to Aa1 from Aa2 **(Table 3)**. Moody's also raised Hong Kong, China's foreign currency (FCY) bank deposit ceiling to Aa1 and the FCY bond ceiling to Aaa. Moody's assigned a positive outlook to the ratings. Moody's cited the following factors as contributing to Hong Kong, China's ratings upgrade: (i) prospects for continued and improving government financial strength; (ii) lessening vulnerability to external shocks; and (iii) favorable prospects for the PRC's economic performance in the coming years, which will provide support to economic growth and financial development in Hong Kong, China.

On 25 November, Fitch Ratings raised Hong Kong, China's FCY long-term debt to AA+ from AA. The outlook on the ratings was stable. Fitch cited Hong Kong, China's strong economic growth and the government's prudent fiscal management as the reason for the upgrade.

On 16 December, Standard & Poor's (S&P) upgraded Hong Kong, China's long-term FCY and LCY ratings to AAA from AA+. The outlook on the ratings was stable. S&P attributed the upgrade to Hong Kong, China's large net external creditor position, the government's accumulated fiscal reserves, and above-average growth potential.

Table 3: Selected Sovereign Ratings and Outlook for Hong Kong, China

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Aa1	AAA	AA+
Outlook	positive	stable	stable

FCY = foreign currency, LT = long term.
Source: Ratings agencies.

Policy, Institutional, and Regulatory Developments

Hong Kong, China Introduces Property Measures

On 19 November, the government of Hong Kong, China announced a number of measures designed to rein in housing prices, including additional stamp duties on property held for less than 6 months and higher down payments on some types of properties.

In addition to these measures, on 23 February the government announced that it would increase the available land supply for private and public housing development.

HSBC and Bank of China Offer Renminbi Cashier Checks

On 14 February, as part of the continued development of the offshore renminbi market, HSBC and Bank of China announced that they have begun issuing CNY-denominated cashier's checks on behalf of clients. HSBC's first renminbi cashier check was issued on behalf of tea seller Hung Fook Toong. Meanwhile, Bank of China is also offering renminbi cashier checks through its branches.

Bank of China Offers Renminbi Repos

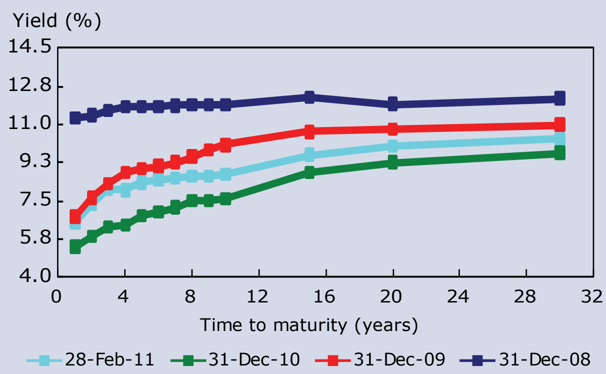
On 20 February, Bank of China announced that it would begin offering renminbi repurchase and lending facilities in Hong Kong, China. According to the bank, the launch of these facilities will spur the development of new CNY-denominated products and facilitate renminbi settlements.

Indonesia—Update

Yield Movements

Between end-December 2009 and end-December 2010, the government bond yield curve for Indonesia shifted downward across all maturities **(Figure 1)**. However, the yield curve shifted upward again between end-December 2010 and end-February, rising more at the short-end of the curve, as Bank Indonesia (BI) raised its policy rate to dampen growing inflationary pressures. Yields at the short-end of the curve were almost identical to their end-2009 levels.

Figure 1: Indonesia's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Yields from the short-end through the 10-year maturity rose more than 100 basis points by end-February from their end-December levels. The yield for the 3-year maturity climbed the most among all maturities between end-December and end-February, rising 169 basis points. Meanwhile, the 5-year and 10-year maturities rose by 152 and 113 basis points, respectively. The yield spread between the 2-year and 10-year maturities narrowed to 138 basis points by end-February from a spread of 174 basis points at end-December.

For the first time in 4 months, consumer price inflation eased, falling to 6.84% year-on-year (y-o-y) in February from 7.02% in January. On a month-on-month (m-o-m) basis, consumer price inflation slowed to 0.13% in February on account of lower food prices following improvement in the supply of some volatile food items (e.g., rice and chili peppers). However, the core inflation rate (excluding volatile items) rose to 4.36% y-o-y in February from only 4.18% in the previous month. The central bank's inflation target stands at 4.0%–6.0% for 2011.

In a meeting held on 4 February, BI's Board of Governors decided to raise its reference rate by 25 basis points to 6.75% to curb the renewed onset of inflationary pressures. This was the first rate hike since October 2008 when BI last raised its interest rate by 25 basis points to 9.5%. According to BI, it will keep a close watch on inflationary pressures and allow the rupiah's exchange rate versus the United States (US) dollar to strengthen as needed. In addition, BI will continue to implement its macro-prudential policies introduced in 2010. Subsequently, in its meeting held on 4 March, BI's Board of Governors decided to keep its reference rate steady at 6.75%.

Indonesia's gross domestic product (GDP) grew 6.9% y-o-y in 4Q10 on account of strong domestic consumption and investment. Household consumption expanded 4.4% y-o-y, while investment rose 8.7%. Most major industry sectors registered higher annual growth in 4Q10 compared with the previous quarter, led by transport and communications, which expanded 15.5% y-o-y. On a quarter-on-quarter (q-o-q) basis, however, the economy contracted 1.5% in 4Q10. For the full-year 2010, the economy recorded GDP growth of 6.1%, compared with 4.6% in 2009. For 2011, the Ministry of Finance is targeting GDP growth of 6.4% based on the 2011 State Budget.

Table 1: Size and Composition of the LCY Bond Market in Indonesia

	Amount (billion)								Growth Rate (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10	Nov-10	Dec-10		
	IDR	USD	IDR	USD	IDR	USD	IDR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	999,992	112	973,330	109	966,960	107	956,142	106	15.3	1.5	(2.7)	(0.7)	2.8	(4.4)	(1.1)
Government	896,857	101	867,994	97	856,374	95	841,325	94	13.8	0.5	(3.2)	(1.3)	(0.03)	(6.2)	(1.8)
Central Govt Bonds	645,077	72	642,984	72	642,814	71	641,215	71	13.7	3.8	(0.3)	(0.03)	10.2	(0.6)	(0.2)
Central Bank Bills	251,780	28	225,010	25	213,560	24	200,110	22	14.1	(7.1)	(10.6)	(5.1)	(23.0)	(20.5)	(6.3)
Corporate	103,135	12	105,336	12	110,586	12	114,817	13	30.7	10.9	2.1	5.0	29.8	11.3	3.8

LCY = local currency, m-o-m = month-on-month, 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–USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bank Indonesia, Indonesia Stock Exchange, and Bloomberg LP.

Size and Composition

Total local currency (LCY) bonds outstanding in Indonesia expanded 2.8% y-o-y as of end-December to reach IDR956.1 trillion (USD106.3 billion) **(Table 1)**. On a quarter-on-quarter (q-o-q) basis, however, bonds outstanding fell 4.4% in 4Q10. The negative growth in LCY bonds outstanding was due mainly to a drop in the stock of government bonds.

As of end-December, the growth in total government bonds outstanding was flat on a y-o-y basis mainly on account of a notable drop in the stock of central bank bills issued by BI in the form of *Sertifikat* Bank Indonesia (SBI). On the other hand, the stock of central government bonds (treasury bills and bonds issued by the Ministry of Finance) rose 10.2% y-o-y in 4Q10, which was still down from 13.7% growth in 3Q10. On a q-o-q basis, government bonds contracted 6.2%, with both central government bonds and central bank bills posting negative growth.

In 4Q10, issuance by the central government totaled IDR10.6 trillion (USD1.2 billion), down 26.5% compared with IDR14.4 trillion a year earlier. On a q-o-q basis, treasury issuance dropped 67.0%. Bond issues during the quarter comprised both conventional and Islamic treasury bills and bonds.

In 2010, the government was able to raise IDR161.9 trillion in bonds (gross). Issuance was reduced in the second half of the year as the budget deficit for 2010 was revised downward. According to the Ministry of Finance, the final budget deficit for 2010 was equivalent to only 0.6% of GDP, compared with an initial forecast of 2.1%.

For 2011, the Finance Ministry's Debt Management Office has chosen four state bond series (FR0055, FR0053, FR0056, and FR0054) as its benchmark bonds **(Table 2)**. The selection of the government's benchmark bonds takes into account the results of the Preference Structure of Government Securities Portfolio survey and inputs from primary dealers, as well as liquidity, outstanding amounts, and the coupon of each series. The outstanding amount of these bonds, however, added up to a relatively small IDR21.6 trillion, equivalent to only 3.4% of outstanding central government bonds as of end-December.

Table 2: Indonesian Government Benchmark Bonds for 2011

Bond Series	Outstanding Amount (IDR billion)	Coupon (%)	Maturity Date
FR0055	4,100	7.35	15-Sep-16
FR0053	6,372	8.25	15-Jul-21
FR0056	3,750	8.38	15-Sep-26
FR0054	7,722	9.50	15-Jul-31
Total Benchmark Bonds	21,944		
Total Central Government Bonds	641,215		
Benchmark Bonds as % of Total	3.42%		

Source: Indonesia Stock Exchange.

SBI Market Developments. The stock of central bank bills contracted 23.0% y-o-y in 4Q10, compared with 14.1% growth in 3Q10. Regulations imposed by the central bank in the second half of 2010 reduced the frequency of SBI auctions and required a 1-month holding period for SBIs. Subsequently, this led to a significant drop in the stock of central bank bills during the review period. On a q-o-q basis, central bank bills dropped 20.5%, after declining 7.1% in 3Q10.

In 4Q10, three SBI auctions were held, with one auction each month. SBI issuance for the quarter consisted mostly of longer-dated tenors (6- and 9-months). In November, the central bank stopped issuing 3-month SBI and instead began offering term deposit instruments to absorb excess bank liquidity and limit foreign holdings. However, these term deposit instruments were only offered to banking institutions.

In February, BI announced that it would no longer issue SBI with maturities of less than 9-months. The central bank also began issuing term deposits with tenors of more than 1 month to absorb excess liquidity. Specifically, the central bank began issuing term deposits with a 5-month maturity in January and a 6-month maturity in February.

Corporate Bond Market Trends. Corporate bonds outstanding grew 29.8% y-o-y to IDR114.8 trillion (USD12.8 billion) in 4Q10. On a q-o-q basis, corporate bonds outstanding rose by 11.3% in 4Q10. The positive growth rates on a y-o-y and q-o-q basis in corporate bonds were driven by double-digit growth rates in issuance: 19.5% y-o-y and 23.5% q-o-q.

The top 52 corporate issuers in Indonesia accounted for almost 95% of total corporate bonds outstanding as of end-December **(Table 3)**. Indonesia's top corporate issuer of LCY bonds was the state-power firm PLN, with bonds valued at IDR15.1 trillion (USD1.7 billion). Telecommunications firm Indosat followed with IDR7.5 trillion (USD0.8 billion) in outstanding LCY bonds. Bank Pan Indonesia was in the third spot with outstanding LCY bonds of IDR6.9 trillion (USD0.8 billion).

Financial institutions dominate the list of the top 52 corporate issuers in Indonesia, accounting for nearly half of the list. Financial institutions include banks, securities companies, and other specialized companies engaged in finance (e.g., pawnshop, leasing). In addition, 12 state-owned companies were on the list, with five state-owned companies in the top 10. Also, about two-thirds of the top 52 companies are listed on the Indonesia Stock Exchange. This is an indication that these firms are tapping both equity and fixed-income instruments as sources of funding. Among the companies listed in Table 3, 40 companies are privately-owned entities.

Corporate LCY bond issuance rose to IDR14.2 trillion (USD1.6 billion) in 4Q10 from IDR11.5 trillion (USD1.3 billion) in 3Q10. The corporate bond issuers in 3Q10 were mostly firms from the financial sector, except for two—Jasa Marga (toll operator) and BW Plantation. Most corporate bonds issued in 4Q10 carried coupons ranging from 8.0%–10.0%. Some notable corporate bond issues in 4Q10 are listed in **Table 4**.

Bank Pan Indonesia raised a total of IDR3.0 trillion in a bond offering in November. The proceeds from the bond issue will be used to support the bank's

Table 3: Top 52 LCY Corporate Bond Issuers (as of 31 December 2010)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (USD billion)				
1. PLN (Persero)	15,100	1.68	Yes	No	No	Energy
2. Indosat Tbk	7,450	0.83	No	Yes	Yes	Telecommunication
3. Bank Pan Indonesia Tbk	6,900	0.77	No	Yes	Yes	Bank
4. Indonesia Eximbank	5,341	0.59	Yes	No	No	Bank
5. Jasa Marga (Persero) Tbk	5,000	0.56	Yes	No	Yes	Toll Road, Airport, Harbor And Allied Products
6. Bank Tabungan Negara (Persero)	4,150	0.46	Yes	No	Yes	Bank
7. Bank Danamon Indonesia Tbk	4,050	0.45	No	Yes	Yes	Bank
8. Indofood Sukses Makmur Tbk	3,574	0.40	No	Yes	Yes	Food and Beverages
9. Bank Mandiri (Persero) Tbk	3,500	0.39	Yes	No	Yes	Bank
10. Bank Tabungan Pensiunan Nasional Tbk	3,150	0.35	No	Yes	Yes	Bank
11. Perum Pegadaian	3,000	0.33	Yes	No	No	Financial Institution
12. Telekomunikasi Indonesia Tbk	3,000	0.33	Yes	No	Yes	Telecommunication
13. Bank CIMB Niaga	2,980	0.33	No	Yes	Yes	Bank
14. Federal International Finance	2,845	0.32	No	Yes	No	Financial Institution
15. Adira Dinamika Multifinance Tbk	2,544	0.28	No	Yes	Yes	Financial Institution
16. Astra Sedaya Finance	2,460	0.27	No	Yes	No	Financial Institution
17. Oto Multiartha	2,300	0.26	No	Yes	No	Financial Institution
18. Bank Rakyat Indonesia (Persero) Tbk	2,000	0.22	Yes	No	Yes	Bank
19. Summit Oto Finance	1,900	0.21	No	Yes	No	Financial Institution
20. Bank Jabar Banten	1,750	0.19	No	Yes	Yes	Bank
21. Excelcomindo Pratama Tbk	1,500	0.17	No	Yes	Yes	Telecommunication
22. Medco Energi Internasional Tbk	1,500	0.17	No	Yes	Yes	Crude Petroleum & Natural Gas Production
23. Bank OCBC NISP Tbk	1,480	0.16	No	Yes	Yes	Bank
24. Bentoel International Investama Tbk	1,350	0.15	No	Yes	Yes	Tobacco Manufacturers
25. Berlian Laju Tanker Tbk	1,340	0.15	No	Yes	Yes	Transportation
26. Danareksa (Persero)	1,080	0.12	Yes	No	No	Others Finance
27. Bank Negara Indonesia (Persero) Tbk	1,000	0.11	Yes	No	Yes	Bank
28. Bank Mega Tbk	1,000	0.11	No	Yes	Yes	Bank
29. Pupuk Kalimantan Timur	791	0.09	No	Yes	No	Chemicals
30. Wahana Ottomitra Multiartha Tbk	775	0.09	No	Yes	Yes	Financial Institution
31. Bank DKI	750	0.08	No	Yes	No	Bank
32. Salim Ivomas Pratama	730	0.08	No	Yes	No	Plantation
33. Sarana Multigriya Finansial (Persero)	727	0.08	Yes	No	No	Financial Institution
34. BCA Finance	725	0.08	No	Yes	No	Financial Institution
35. BW Plantation	700	0.08	No	Yes	Yes	Plantation
36. Lontar Papyrus Pulp & Paper Industry	700	0.08	No	Yes	No	Pulp & Paper
37. Bakrie Telecom Tbk	650	0.07	No	Yes	Yes	Telecommunication
38. Bakrieland Development Tbk	650	0.07	No	Yes	Yes	Property And Real Estate
39. Thames Pam Jaya (Aertra Air Jakarta)	615	0.07	No	Yes	No	Water Utilities
40. Mobile-8 Telecom Tbk	607	0.07	No	Yes	Yes	Telecommunication
41. Apexindo Pratama Duta Tbk	600	0.07	No	Yes	No	Crude Petroleum & Natural Gas Production
42. Arpeni Pratama Ocean Line Tbk	600	0.07	No	Yes	Yes	Transportation
43. Bumi Serpong Damai Tbk	600	0.07	No	Yes	Yes	Property And Real Estate
44. Surya Citra Televisi	575	0.06	No	Yes	No	Advertising, Printing & Media
45. Matahari Putra Prima Tbk	528	0.06	No	Yes	Yes	Retail Trade
46. Indah Kiat Pulp & Paper Tbk	501	0.06	No	Yes	Yes	Pulp & Paper

continued on next page

Table 3 continued

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (IDR billion)	LCY Bonds (USD billion)				
47. Adhi Karya (Persero) Tbk	500	0.06	Yes	No	Yes	Building Construction
48. Ciliandra Perkasa	500	0.06	No	Yes	No	Plantation
49. Duta Pertiwi Tbk	500	0.06	No	Yes	Yes	Property And Real Estate
50. Japfa Comfeed Indonesia Tbk	500	0.06	No	Yes	Yes	Animal Feed
51. Lautan Luas Tbk	500	0.06	No	Yes	Yes	Wholesale (Durable & Non-Durable Goods)
52. Bank Permata Tbk	500	0.06	No	Yes	Yes	Bank
Total Top 52 Corporate Issuers	**108,068**	**12.01**				
Total Corporate Bonds Outstanding	**114,817**	**12.76**				
Top 52 as % of Total Corporate	**94.12%**	**94.12%**				

LCY = local currency.
Source: Indonesia Stock Exchange.

Table 4: Notable LCY Corporate Bond Issuance in 4Q10

Corporate Issuers	Amount Issued (IDR billion)
Bank Pan Indonesia Tbk	3,000
Bank Danamon Indonesia Tbk	2,800
Adira Dinamika Multifinance Tbk	2,000
Bank CIMB Niaga	1,600
Jasa Marga (Persero) Tbk	1,500
Summit Oto Finance	1,500
Others	1,800
Total	**14,200**

LCY = local currency.
Source: Indonesia Stock Exchange.

loan expansion and to strengthen its capital. The bonds consisted of the following series:

(i) 5-year bonds worth IDR540 billion, coupon of 9.0%; and
(ii) 7-year subordinated bonds worth IDR2.46 trillion, coupon of 10.5%.

Bank Danamon Indonesia also issued a total of IDR2.8 trillion in bonds in December to support its loan expansion. The bonds comprised the following tranches:

(i) 3-year bonds worth IDR1.88 trillion, coupon of 8.75%; and
(ii) 5-year bonds worth IDR921 billion, coupon of 9.0%.

Automotive financing company, Adira Dinamika Multifinance, issued IDR2.0 trillion through a five-tranche bond deal in October. The bonds consisted of the following series:

(i) 1.5-year bonds worth IDR229 billion, coupon of 7.60%;
(ii) 2-year bonds worth IDR238 billion, coupon of 8.25%;
(iii) 2.5-year bonds worth IDR577 billion, coupon of 8.70%;
(iv) 3-year bonds worth IDR284 billion, coupon of 9.0%; and
(v) 4-year bonds worth IDR672 billion, coupon of 9.25%.

Bank CIMB Niaga raised IDR1.6 trillion from the sale of subordinated bonds in December, an upsize from its original plan of IDR500 billion. The subdebt will mature in 10 years and carries a coupon of 10.85%. The proceeds from the subdebt issue will be used to strengthen the bank's capitalization.

State-owned toll road operator Jasa Marga issued IDR1.5 trillion in bonds in October to pay its debts and to finance toll road expansion. The bonds consisted of the following series:

(i) 3-year bonds worth IDR500 billion, zero coupon; and
(ii) 10-year bonds worth IDR1.0 trillion, coupon of 9.35%.

Automobile financing company Summit Oto Finance raised IDR1.5 trillion in a four-tranche bond sale. The bond issue comprised the following series:

(i) 370-day bonds worth IDR300 billion, coupon of 7.3%;
(ii) 2-year bonds worth IDR300 billion, coupon of 8.4%;
(iii) 3-year bonds worth IDR600 billion, coupon of 9.5%;
(iv) 4-year bonds worth IDR300 billion, coupon of 9.75%.

Foreign Currency Bonds

In November, the government raised JPY60 billion from an issue of *samurai* bonds. The bonds have a 10-year maturity and were issued with a coupon rate of 1.6%, or 55 basis points above the yen swap rate. This was the second issue of *samurai* bonds by Indonesia since selling JPY35 billion of 10-year *samurai* bonds in July 2009.

Investor Profile

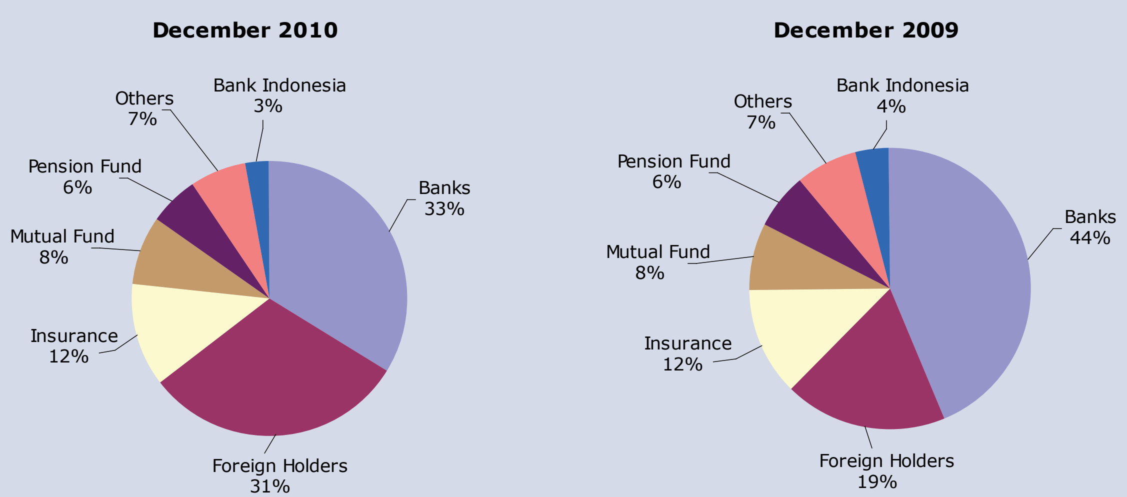
Central Government Bonds. At end-December, banking institutions remained the biggest holders of Indonesian LCY central government bonds, with 33% of total central government bonds outstanding **(Figure 2)**. However, banks' holdings have dropped significantly from 44% at end-December 2009, and from as high as 82% in 2002.

Foreign investors are the second biggest holder of Indonesian LCY central government bonds, with a share of 31% at end-December, compared with only 19% at end-December 2009. The share of foreign investors' holdings has steadily risen from only 0.48% in 2002. Foreign holders include non-resident private banks, fund/asset management firms, securities firms, insurance companies, and pension funds.

As of end-December, the share of bonds held by foreign investors in short-dated tenors (bonds with maturities of less than 1 year) rose to 10.2% from only 1.9% in 2008 and 4.5% in 2009 **(Figure 3)**. The 1-month holding period for SBIs may have led investors to shift into treasury bills. Foreign investors' holdings of long-dated tenors (maturities of more than 5 years) fell to 67.0% at end-December from 71.0% a year earlier.

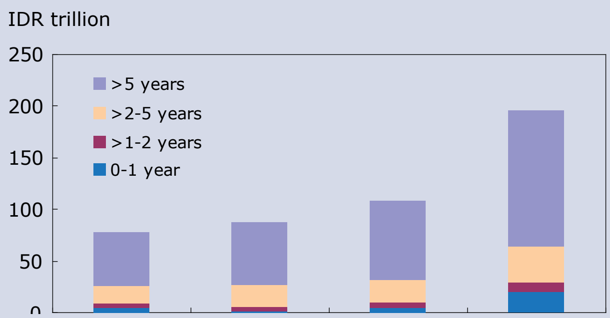
Meanwhile, the share of insurance companies, mutual funds, and pension funds' holdings of LCY

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Indonesia Debt Management Office.

Figure 3: Foreign Holdings of LCY Government Bonds by Maturity



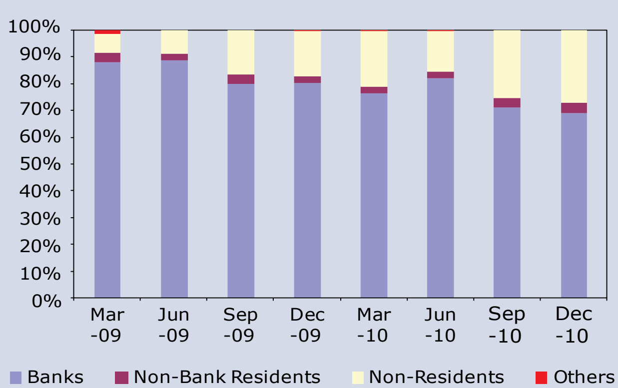
LCY = local currency.
Source: Indonesia Debt Management Office.

bonds outstanding remained flat at end-December 2010 from a year earlier.

Central Bank Bills. At end-December, banks were the major holders of SBIs, with a 69% share **(Figure 4)**. However, this was down from banks' 80% share at end-December 2009. The share of banks' holdings of SBIs reached a high of 89% in June 2009.

Foreign interest in SBIs remained strong as the share of non-residents rose significantly to 27% at end-December from only 17% in the previous year. In addition, non-bank residents' share rose to 4% at end-December from 3% a year earlier.

Figure 4: LCY Central Bank Bills Investor Profile



LCY = local currency.
Source: Bank Indonesia.

Rating Changes

On 14 October, Rating and Investment Information (R&I) affirmed Indonesia's foreign currency (FCY) issuer rating at BB+ and changed the outlook to positive from stable **(Table 5)**. R&I believes that a rating upgrade to BBB is possible once Indonesia is able to sustain balanced economic growth by boosting investment in infrastructure. The rating agency also affirmed Indonesia's FCY short-term debt rating at a-3.

Moody's Investors Service (Moody's) raised Indonesia's sovereign credit rating to one notch below investment grade. On 17 January, Moody's raised Indonesia FCY and LCY debt ratings to Ba1 from Ba2. The outlook for both ratings was stable. The rating upgrade came after Moody's conducted a review in December. Moody's cited the following reasons for the upgrade: (i) economic resilience and sustained macroeconomic balance, (ii) the government's improved debt position and the central bank's adequate FCY reserves, and (iii) improved prospects for foreign direct investment inflows.

On 24 February, Fitch Ratings (Fitch) affirmed Indonesia's long-term foreign and local currency issuer default ratings at BB+ and upgraded the outlook on both ratings to positive from stable. Fitch cited Indonesia's strong economic growth as one of the factors for the upgrade.

Table 5: Selected Sovereign Ratings and Outlook for Indonesia

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	Ba1	BB	BB+	BB+
Outlook	stable	positive	positive	positive

FCY = foreign currency, LT = long term.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

New Regulations on Reserve Requirements and Bank Lending

In November, new regulations on reserve requirements took effect to help contain inflation and boost economic growth. The primary reserve requirement was raised from 5.0% to 8.0% of deposits, while the secondary reserve requirement remained at 2.5%. In addition, a new regulation designed to give banks incentives for maintaining their loan-to-deposit ratio within a range of 78%–100% went into effect on 1 March 2011.

State Firms to Purchase Government Bonds in the Event of Sudden Capital Outflow

In early January 2011, the Ministry of Finance and the State Enterprises Ministry signed a memorandum of understanding requiring state-owned firms to act as stand-by purchasers of government bonds in the event of sudden capital outflows. Under the scheme, a bond stabilization fund will be created to help protect the economy in case of sudden capital flight. The government has appointed 13 major state companies and financial institutions to participate in the bond stabilization fund. These 13 companies comprise four banks (Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia, and Bank Tabungan Negara), and nine non-banks and insurance companies (including Jaminan Kredit Indonesia and Asuransi Kredit Indonesia).

BI Implements Measures to Minimize the Risk of Capital Flight

In January, BI re-introduced a measure that limits overseas short-term borrowing by Indonesian banks to 30% of their capital. Also, BI announced that it will require Indonesian banks to increase their foreign exchange reserves deposited with BI as part of measures to absorb foreign exchange liquidity. The central bank will require banks to increase their foreign exchange reserves to 5.0% of foreign exchange deposits in March and 8.0% in June.

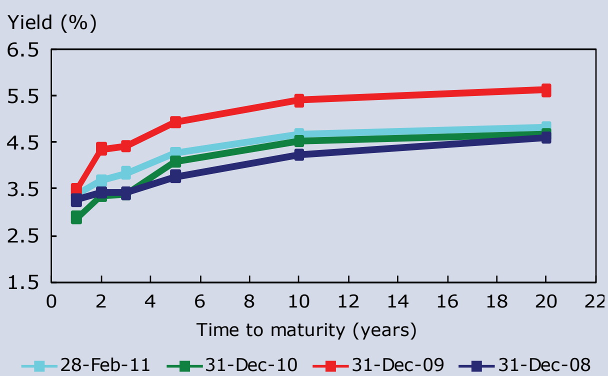
Republic of Korea—Update

Yield Movements

The government bond yield curve in the Republic of Korea shifted downward between end-2009 and end-2010. Yields, however, rose for all maturities between end-2010 and 28 February, with the yield hikes ranging from 13 basis points for the 20-year tenor to 51 basis points for the 1-year tenor **(Figure 1)**. Meanwhile, the yield spread between 2- and 10-year maturities narrowed by 17 basis points between end-2010 and 28 February. The jump in yields, which were relatively high from the short-end up to the belly of the curve, may be attributed to concerns over rising inflationary pressures and expectations of policy rate hikes.

Advance estimates of 4Q10 gross domestic product (GDP) in the Republic of Korea showed that GDP growth improved to 4.8% year-on-year (y-o-y) in 4Q10 from 4.4% in 3Q10 on the back of strong export growth. On a quarter-on-quarter (q-o-q) basis, the 4Q10 GDP growth rate stood at 0.5%, lower than the previous quarter's 0.7%. GDP growth for the full-year 2010 leveled off at 6.1%. Meanwhile, consumer price inflation accelerated to 4.5% y-o-y in February from 4.1% in January and 3.5% in December, mainly due to relatively sharp food price hikes. The Bank of Korea (BOK) raised its 7-day repurchase rate by 25 basis points to 3.0% in March, after keeping it steady in February. A previous 25-basis points hike in the policy rate was made in January.

Figure 1: The Republic of Korea's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

The Republic of Korea's local currency (LCY) bond market expanded by 9.4% y-o-y and 1.2% q-o-q to reach KRW1,293.9 trillion (USD1.1 trillion) as of end-December **(Table 1)**. The annual growth in LCY bonds outstanding was led by buoyant growth in both government and corporate bonds.

The size of the LCY government bond market grew 7.2% in 2010, but fell 2.0% q-o-q in 4Q10, leveling off at KRW554.2 trillion (USD492 billion) at end-December. Central government bonds outstanding climbed 9.0% in 2010, but declined 2.1% q-o-q in 4Q10 on the back of a 2.6% quarterly drop in the amount of outstanding Korean Treasury Bonds (KTBs). LCY bonds issued by the BOK, or Monetary Stabilization Bonds (MSBs), increased 9.6% y-o-y, but fell slightly by 0.6% on a quarterly basis. Industrial finance debentures registered declines of 20.1% y-o-y and 7.5% q-o-q.

The LCY corporate bond market in the Republic of Korea grew 11.1% y-o-y and 3.7% q-o-q to KRW739.7 trillion (USD657 billion) as of end-December. The annual growth was due largely to an increase in issuance of both private corporate and special public bonds. Private corporate bonds soared 22.9% y-o-y and 13.5% q-o-q, reaching KRW289.9 trillion (USD257 billion). Special public bonds also rose 14.6% y-o-y, but fell 2.7% from the previous quarter, leveling off at KRW243.7 trillion (USD217 billion). In contrast, financial debentures (excluding the Korea Development Bank) dropped 5.2% y-o-y and 0.7% q-o-q to KRW206.2 trillion (USD183 billion).

In 4Q10, the top three issuers of LCY corporate bonds were Industrial Bank of Korea, which sold KRW6.9 trillion worth of bonds for the quarter, Korea Finance Corporation (KRW3.8 trillion), and

Table 1: Size and Composition of the LCY Bond Market in the Republic of Korea

	Amount (billion)								**Growth Rate** (%)						
	Sep-10		**Oct-10**		**Nov-10**		**Dec-10**		**Sep-10**		**Oct-10**	**Nov-10**	**Dec-10**		
	KRW	USD	KRW	USD	KRW	USD	KRW	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	1,278,906	1,122	1,283,715	1,141	1,294,691	1,117	1,293,940	1,149	8.7	1.8	0.4	0.9	9.4	1.2	(0.1)
Total Government	565,376	496	565,092	502	565,028	487	554,223	492	4.6	1.2	(0.1)	(0.0)	7.2	(2.0)	(1.9)
Central Bank Bonds	164,470	144	164,300	146	164,080	142	163,530	145	5.9	(1.9)	(0.1)	(0.1)	9.6	(0.6)	(0.3)
Central Government Bonds	370,643	325	371,515	330	372,233	321	362,690	322	10.9	3.7	0.2	0.2	9.0	(2.1)	(2.6)
Industrial Finance Debentures	30,263	27	29,277	26	28,714	25	28,003	25	(40.5)	(10.5)	(3.3)	(1.9)	(20.1)	(7.5)	(2.5)
Corporate	713,530	626	718,623	639	729,663	629	739,717	657	12.1	2.3	0.7	1.5	11.1	3.7	1.4

LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Central government bonds include Korean Treasury bonds, National Housing bonds, and Seoul Metropolitan Subway bonds.
3. Bloomberg LP end-of-period LCY–USD rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank of Korea and *KoreaBondWeb*.

Export–Import Bank of Korea (KRW3.4 trillion). The largest issuer of special public bonds for the quarter was Korea Finance Corporation; the largest issuer of financial debentures was Industrial Bank of Korea; and the largest issuer of private corporate bonds was LH My Home 2nd Securitization Specialty Inc., which issued KRW1 trillion worth of asset-backed securities.

As of end-December, the top 50 issuers of LCY corporate bonds had total outstanding bonds of KRW548 trillion (USD487 billion), which is about 74% of the total corporate bond market in the Republic of Korea **(Table 2)**. About 67% of the top 50 are financial institutions—mostly banks and securities companies. In addition, about 48% of the top 50 are publicly listed on the Korea Exchange (KRX) and 46% are privately-owned. Korea Land & Housing Corp., a state-owned real estate entity, stood as the largest issuer of LCY corporate bonds at KRW56.1 trillion (USD50 billion).

Foreign Currency Bonds

Foreign currency (FCY) bonds outstanding in the Republic of Korea as of end-December stood at USD129.4 billion, which is 10.5% higher than in the previous year. Around 75% of these bonds were in United States (US) dollars, 10% were in Japanese yen, 5% were in euros, and another 5% were in emerging East Asian currencies.

Investor Profile

In the Republic of Korea, the general government (consisting of central government, local government, and social security funds) continued to be the largest holder of LCY government bonds, with 24% of the total as of end-December 2010 **(Figure 2)**. This was followed by insurance firms and pension funds with a combined 23% share of the total, while banks and other financial institutions held 19% and 18%, respectively. Meanwhile, foreign investors owned 10% of LCY government bonds. Compared with end-December 2009, the shares of foreign investors and financial institutions (other than banks and insurance firms/pension funds) rose by 3 and

Table 2: Top 50 Issuers of LCY Corporate Bonds in the Republic ofKorea (as of December 2010)

Issuer	Outstanding Amount		State-Owned	Privately-Owned	Listed In		Sector
	LCY Bonds (KRW billion)	LCY Bonds (USD billion)			KOSPI	KOSDAQ	
1. Korea Land & Housing Corp.	56,139	49.9	Yes	No	No	No	Real Estate
2. Industrial Bank of Korea	34,534	30.7	Yes	No	Yes	No	Bank
3. Korea Housing Finance Corp.	33,667	29.9	Yes	No	No	No	Financial
4. Kookmin Bank	29,504	26.2	No	Yes	No	No	Bank
5. Korea Deposit Insurance Corp.	27,061	24.0	Yes	No	No	No	Insurance
6. Korea Finance Corp.	26,570	23.6	Yes	No	No	No	Financial
7. Korea Electric Power Corp.	20,840	18.5	Yes	No	Yes	No	Utility
8. Daewoo Securities	19,930	17.7	Yes	No	Yes	No	Securities
9. Shinhan Bank	19,217	17.1	No	Yes	No	No	Bank
10. Woori Bank	18,502	16.4	Yes	No	No	No	Bank
11. Korea Highway	17,320	15.4	Yes	No	No	No	Infrastructure
12. Nonghyup (National Agricultural Cooperative Federation)	15,355	13.6	Yes	No	No	No	Bank
13. Hana Bank	14,696	13.1	No	Yes	No	No	Bank
14. Small & Medium Business Corp.	14,503	12.9	Yes	No	No	No	Financial
15. Woori Investment and Securities	14,433	12.8	Yes	No	Yes	No	Securities
16. Korea Investment and Securities	11,244	10.0	No	Yes	No	No	Securities
17. Korea Rail Network Authority	10,765	9.6	Yes	No	No	No	Infrastructure
18. Korea Gas Corp.	10,500	9.3	Yes	No	Yes	No	Utility
19. Tong Yang Securities	9,217	8.2	No	Yes	Yes	No	Securities
20. Shinhan Card	9,202	8.2	No	Yes	No	No	Financial
21. Hyundai Securities	8,705	7.7	No	Yes	Yes	No	Securities
22. Mirae Asset Securities	7,662	6.8	No	Yes	Yes	No	Securities
23. Hyundai Capital Services	6,810	6.1	No	Yes	No	No	Securities
24. Shinhan Financial Group	6,370	5.7	No	Yes	Yes	No	Financial
25. Export-Import Bank of Korea	6,340	5.6	Yes	No	No	No	Bank
26. Korea Railroad Corp.	6,330	5.6	Yes	No	No	No	Infrastructure
27. Standard Chartered First Bank Korea	5,853	5.2	No	Yes	No	No	Bank
28. Hana Daetoo Securities	5,543	4.9	No	Yes	No	No	Securities
29. Hyundai Card	5,169	4.6	No	Yes	No	No	Financial
30. Kiwoom Securities	5,103	4.5	No	Yes	Yes	No	Securities
31. Samsung Securities	4,938	4.4	No	Yes	Yes	No	Securities
32. SH Corp.	4,861	4.3	No	Yes	No	No	Manufacturing
33. KT Corp.	4,470	4.0	No	Yes	Yes	No	Telecoms
34. Korea Water Resources	4,331	3.8	Yes	No	Yes	No	Utility
35. Samsung Card	4,110	3.7	No	Yes	Yes	No	Financial
36. Dongbu Securities	4,084	3.6	No	Yes	Yes	No	Securities
37. Korea Student Aid Foundation	3,760	3.3	Yes	No	No	No	Education
38. Woori Financial Group	3,660	3.3	Yes	No	Yes	No	Financial
39. Korea Exchange Bank	3,520	3.1	No	Yes	Yes	No	Bank
40. Incheon Urban Development Corp.	3,491	3.1	Yes	No	No	No	Infrastructure
41. Posco	3,300	2.9	No	Yes	Yes	No	Manufacturing
42. Korean Air Lines	3,240	2.9	No	Yes	Yes	No	Air transport
43. Shinhan Investment Corp.	3,105	2.8	No	Yes	No	No	Securities
44. National Federation of Fisheries Cooperatives	3,095	2.7	Yes	No	No	No	Financial
45. GS Caltex Corp.	2,940	2.6	No	Yes	No	No	Utility
46. SK Energy	2,930	2.6	No	Yes	Yes	No	Utility
47. SK Holdings	2,920	2.6	No	Yes	Yes	No	Diversified

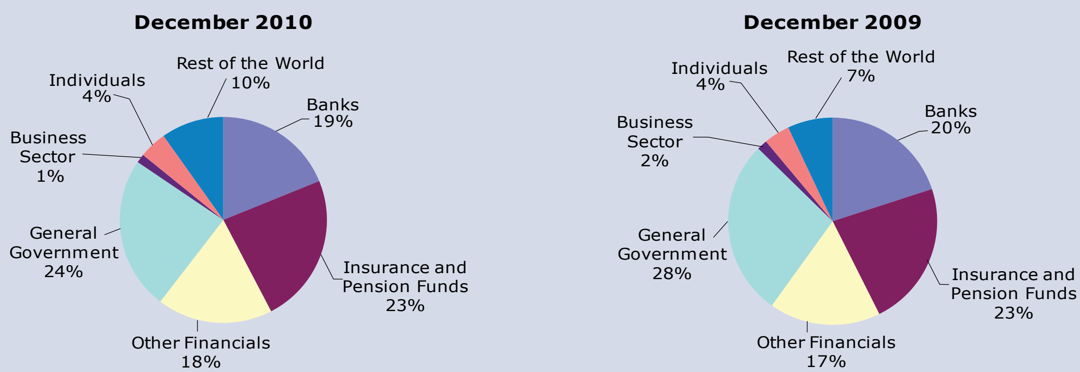
continued on next page

Table 2 continued

Issuer	Outstanding Amount		State-Owned	Privately-Owned	Listed In		Sector
	LCY Bonds (KRW billion)	LCY Bonds (USD billion)			KOSPI	KOSDAQ	
48. Kyobo Securities	2,874	2.6	No	Yes	Yes	No	Securities
49. Hyundai Steel	2,640	2.3	No	Yes	Yes	No	Manufacturing
50. Hana Financial Group	2,630	2.3	No	Yes	Yes	No	Financial
Total Top 50 LCY Corporate Issuers	**547,982**	**486.7**					
Total LCY Corporate Bonds	**739,717**	**656.9**					
Top 50 as % of Total LCY Corporate Bonds	**74.1%**	**74.1%**					

KOSPI = Korea Composite Stock Price Index, KOSDAQ = Korean Securities Dealers Automated Quotations, LCY = local currency.
Source: *AsianBondsOnline*, Bloomberg LP, and *KoreaBondWeb*.

Figure 2: Investor Profile for LCY Government Bonds in the Republic of Korea



LCY = local currency.
Source: The Bank of Korea.

1 percentage point(s), respectively. In contrast, the shares of the general government and banks dropped by 4 and 1 percentage point(s), respectively.

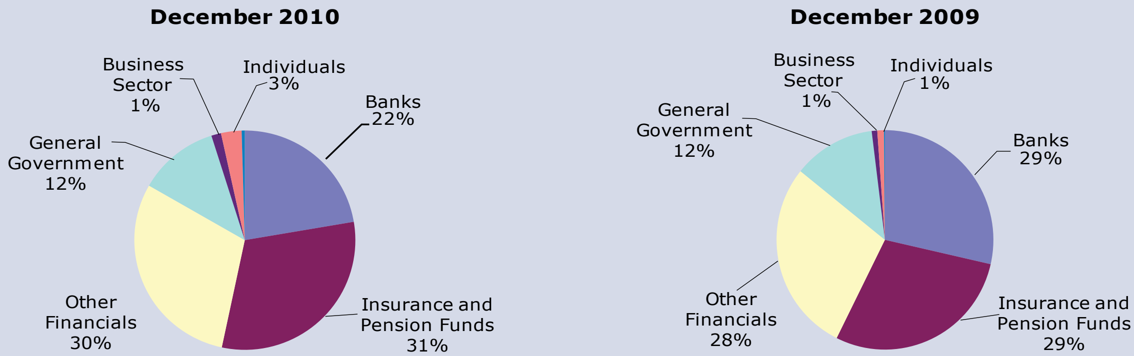
The financial sector in the Republic of Korea continues to be the dominant investor group in LCY corporate bonds **(Figure 3)**. As of December last year, banks, insurance firms/pension funds, and other financial institutions owned 22%, 31%, and 30% of total LCY corporate bonds, respectively, while the general government held 12%. Compared with December 2009, the shares of financial institutions (other than banks and insurance firms/pension funds), local individual investors, and insurance firms/pension funds climbed by 2 percentage points each. On the other hand, the share of banks plunged by 7 percentage points.

Policy, Institutional, and Regulatory Developments

Withholding Tax Re-imposed on Foreign Investors' LCY Government Bond Holdings

The government re-imposed a 14% tax on interest income and a 20% tax on capital gains from KTBs and MSBs held by foreign investors, effective 1 January. This was made following the passage of legislative bills in December calling for the restoration of the withholding tax in order to help mitigate capital flow volatility and minimize systemic risks to the domestic economy.

Figure 3: Investor Profile for LCY Corporate Bonds in the Republic of Korea



LCY = local currency.
Source: The Bank of Korea.

New Measures to Stabilize Prices and Combat Inflation

In January, the government of the Republic of Korea announced new measures to help mitigate spikes in prices and curb inflationary pressures. Among these measures were the lowering of import tariffs and the provision of financial and tax incentives to private and public sector entities that support the stabilization of prices.

Regulatory Measures to Enhance Derivatives Trading Introduced

New regulatory measures to improve the trading of derivatives products were introduced in January by the Financial Services Commission (FSC) and the Financial Supervisory Service (FSS), together with the Korea Exchange (KRX) and the Korea Financial Investment Association (KOFIA). These measures aim to reduce settlement risk, mitigate shocks in the market, and enhance financial soundness.

Macro-Prudential Stability Levy Imposed on Non-Deposit FCY Liabilities of Banks

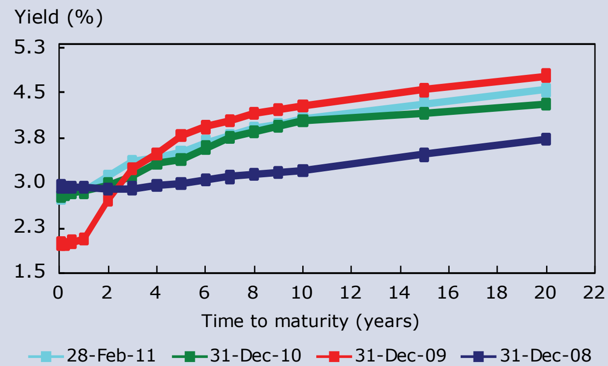
The government announced in December that it plans to impose a macro-prudential stability levy on the non-deposit FCY liabilities of local and foreign banks. This proposal was made in order to curb volatility in capital flows as well as to provide liquidity to support the domestic economy in managing external shocks. It is expected that the levy will take effect in the second half of 2011.

Malaysia—Update

Yield Movements

The yield curve for Malaysian LCY government bonds flattened between end-December 2009 and end-December 2010, with rates rising on the very short-end while falling from the belly to the longer-end of the curve. Between end-December 2010 and end-February 2011, Malaysian government bond yields fell slightly on the very short-end but rose on the rest of the curve, with the short-end and the long-end rising more than the belly. The rise in the yield curve reflects market expectations of further rate hikes given that other countries in the region—the Republic of Korea, Thailand, and Indonesia—have already increased their policy rates to combat building inflationary pressures. While Bank Negara Malaysia (BNM) decided to keep its key policy rates steady at 2.75% during its last Monetary Policy Committee meeting on 11 March, BNM has increased the statutory reserve requirement ratio to 2% from 1% **(Figure 1)**.

Figure 1: Malaysia's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Rates are also expected to rise as issuance increases in 2011. The government recently announced 29 new issuances and re-issuances of treasury bonds for the whole of 2011, compared with only 19 in the previous year. Gross issuance of Malaysian Government Securities (MGS) and Government Investment Issues (GII) amounted to MYR64.7 billion in 2010, which pales in comparison to the MYR262.1 billion worth of total bills issued by BNM last year. MGS and GII maturing in 2011 amount to MYR44.5 billion, compared with MYR23.4 billion in 2010.

Malaysia's economic growth eased to 4.8% year-on-year (y-o-y) in 4Q10, versus 5.3% in the previous quarter, due to falling external demand. Private consumption increased 6.5% y-o-y, while gross fixed capital formation rose 9.2%. Meanwhile, public sector spending shrank 0.3% y-o-y in 4Q10. Also, exports grew only 1.5% y-o-y in the last quarter of 2010, significantly lower than the 6.6% y-o-y growth posted in 3Q10. For the full-year 2010, Malaysia's gross domestic product (GDP) expanded 7.2%, rebounding from growth of only 1.7% in 2009.

During the first 9 months of 2010, the overall budget deficit was estimated to be MYR25.1 billion, or 4.5% of GDP. The government targeted a budget deficit of 5.6%–7.0% of GDP for the whole of 2010. In 2011, the government is projecting a budget deficit of 4.5% of GDP.

Meanwhile, Malaysia's consumer price inflation rose to 2.2% y-o-y in December, the highest level since May 2009, mainly driven by higher food prices. In 2010, Malaysia posted average consumer price inflation of 1.7%.

Size and Composition

Total outstanding local currency (LCY) bonds in Malaysia increased 18.9% y-o-y to MYR755.3 billion as of end-December **(Table 1)**. Outstanding LCY government bonds jumped 28.5% y-o-y to MYR445.6 billion, mainly due to the increase in outstanding central bank bills. Excluding central bank bills, outstanding government LCY bonds rose by 9.8% y-o-y. LCY corporate bonds outstanding, on the other hand, posted 7.4% y-o-y growth.

Table 1: Size and Composition of the LCY Bond Market in Malaysia

	Amount (billion)								Growth Rate (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10	Nov-10	Dec-10		
	MYR	USD	MYR	USD	MYR	USD	MYR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	721	234	748	240	743	234	755	247	15.1	3.7	3.7	(0.7)	18.9	4.7	1.7
Government	422	137	447	144	443	140	446	146	20.9	5.1	6.0	(0.8)	28.5	5.7	0.6
Central Government Bonds	340	110	346	111	349	110	347	113	10.7	2.6	1.9	0.7	11.0	2.1	(0.5)
Central Bank Bills	81	26	100	32	93	29	98	32	116.0	17.0	23.1	(6.2)	225.3	20.8	4.6
Others	1	0	1	0	1	0	1	0	(77.5)	0.0	0.0	0.0	(77.5)	0.0	0.0
Corporate	300	97	301	97	300	95	310	101	7.8	1.7	0.6	(0.6)	7.4	3.3	3.4

LCY = local currency, m-o-m = month-on-month, 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—USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" refer to Khazanah Bonds issued by Khazanah Nasional Berhad and Cagamas, Bonds and Notes, Bithaman Ajil Islamic Securities, Sanadat ABBA Cagamas, and Sanadat Mudharabah Cagamas issued by Cagamas Berhad.
Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST), and Bloomberg LP.

On a quarter-on-quarter (q-o-q) basis, total LCY bonds outstanding increased by 4.7%. Outstanding central bank bills grew 20.8% q-o-q, as issuance rose to MYR82.4 billion in 4Q10 from MYR76.0 billion in 3Q10. LCY corporate bonds outstanding increased 3.3% q-o-q.

Issuance of LCY corporate bonds amounted to MYR25.6 billion in 4Q10, 18.4% higher than the MYR21.6 billion issued in the previous quarter. Among the largest corporate LCY issuers in October–December were Senai Desaru Expressway (MYR5.6 billion), Cagamas (MYR 2.5 billion), Pengurusan Air SPV (MYR2.2 billion), CIMB (MYR2.0 billion), and Malaysia Airports Capital (MYR1.5 billion).

As of end-December, the top 50 corporate LCY issuers accounted for 68.8% of total bonds outstanding **(Table 2)**. The top two issuers of LCY corporate bonds were both state-owned: the national mortgage corporate, Cagamas, with MYR19.2 billion outstanding, followed by Khazanah Nasional with MYR13.2 billion. Meanwhile, communications company Binariang and expressway operator Project Lebuhraya ranked third and fourth with MYR11.3 billion and MYR10.3 billion in LCY bonds outstanding, respectively.

Finance companies accounted for more than half of the outstanding LCY corporate bonds in Malaysia as of end-2010 **(Figure 2)**. Transportation and communications companies followed with 16%, while utilities companies accounted for 12%.

Of the top 50 corporate issuers of LCY bonds in Malaysia in 2010, 33 were privately-owned, and 15 of these were listed on Bursa Malaysia.

Investor Profile

As of end-September 2010, financial institutions were still the largest holders of government bonds, with 43.8% of total outstanding MGS and GII, followed by social security institutions, which held 27.9%. Meanwhile, foreigner investors held 20.3% at end-September, up from an 18.1% share at

Table 2. Top 50 Corporate Issuers in Malaysia (as of 31 December 2010)

Issuer	Outstanding Amount (MYR billion)					State-Owned	Privately-Owned	Listed Company	Sector
	BONDS	IBONDS	MTN	IMTN	TOTAL				
1. Cagamas			9.42	9.76	19.18	Yes	No	No	Real Estate
2. Khazanah		13.20			13.20	Yes	No	No	Bank
3. Binariang GSM		3.17		8.28	11.30	No	Yes	No	Financial
4. Project Lebuhraya		6.57		3.68	10.25	No	Yes	Yes	Bank
5. Prasarana	5.11	2.00		2.00	9.11	Yes	No	No	Insurance
6. Maybank	6.10	1.50			7.60	No	Yes	Yes	Financial
7. Malakoff Corp		1.70		5.60	7.30	No	Yes	No	Utillity
8. Senai Desaru Expressway Bhd		1.46		5.58	7.40	No	Yes	No	Securities
9. Rantau Abang Capital Bhd				7.00	7.00	No	Yes	No	Bank
10. KL International Airport	1.60	4.76			6.36	Yes	No	No	Bank
11. CIMB Bank	5.50				5.50	No	Yes	No	Infrastructure
12. AM Bank	1.60		4.43		5.46	No	Yes	Yes	Bank
13. Valuecap	5.10				5.10	Yes	No	No	Bank
14. 1Malaysia Development Bhd.				5.00	5.00	Yes	No	No	Financial
15. Jimah Energy Ventures				4.65	4.65	No	Yes	No	Securities
16. Putrajaya Holdings		0.99		3.57	4.56	Yes	No	No	Securities
17. Bank Pembangunan Malaysia	1.00		2.60	0.90	4.50	Yes	No	No	Infrastructure
18. Tanjung Bin				4.29	4.29	No	Yes	No	Utility
19. Celcom Transmission				4.20	4.20	No	Yes	No	Securities
20. YTL Power International	2.20		1.70		3.90	No	Yes	Yes	Financial
21. Tenaga Nasional	1.50	2.15			3.65	No	Yes	Yes	Securities
22. RHB Bank	0.60		3.00		3.60	No	Yes	No	Securities
23. Danga Capital				3.60	3.60	Yes	No	No	Securities
24. Cekap Mentari	3.50				3.50	No	Yes	Yes	Financial
25. Public Bank	1.20		1.87		3.73	No	Yes	Yes	Bank
26. The Export-Import Bank of Korea			2.98		2.98	Yes	No	No	Infrastructure
27. Hijrah Pertama		2.92			2.92	No	Yes	No	Bank
28. Malaysia Airports Capital				2.50	2.50	No	Yes	No	Securities
29. CIMB Group	2.13			0.35	2.48	No	Yes	Yes	Financial
30. Kapar Energy Ventures		2.19			2.19	No	Yes	No	Securities
31. Johor Corp		2.15			2.15	Yes	No	No	Securities
32. Syarikat Bekalan Air Selangor				2.13	2.13	Yes	No	No	Manufacturing
33. Public Finance	2.88				2.88	No	Yes	No	Telecoms
34. Sime Darby				2.00	2.00	No	Yes	Yes	Utility
35. Hyundai Capital Services			2.00		2.00	No	Yes	No	Financial
36. Lion Corp	1.93				1.93	No	Yes	Yes	Securities
37. PLUS SPV				1.80	1.80	No	Yes	No	Education
38. MISC				1.80	1.80	Yes	No	Yes	Financial
39. Silterra Capital		1.80			1.80	Yes	No	No	Bank
40. Puncak Niaga	0.76	1.20			1.78	No	Yes	Yes	Infrastructure
41. Penerbangan Malaysia				1.75	1.75	Yes	No	No	Manufacturing
42. Encorp Systembilt		1.75			1.75	No	Yes	No	Air transport
43. EON Bank	0.50		1.16		1.66	No	Yes	No	Securities
44. HLCM Capital			1.65		1.65	No	Yes	No	Financial
45. GB Services			1.60		1.60	No	Yes	No	Utility
46. Industrial Bank of Korea			1.60		1.60	Yes	No	Yes	Utility

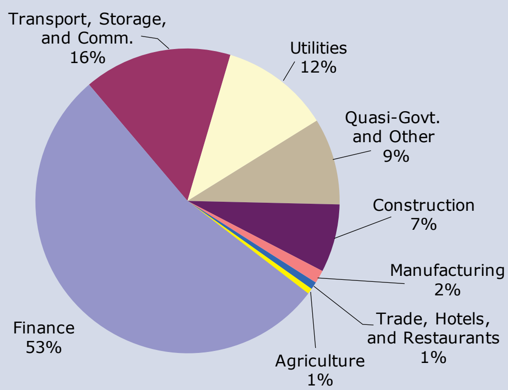
continued on next page

Table 2 continued

Issuer	Outstanding Amount (MYR billion)					State-Owned	Privately-Owned	Listed Company	Sector
	BONDS	IBONDS	MTN	IMTN	TOTAL				
47. Oversea-Chinese Banking Corporation	1.60				1.60	No	Yes	Yes	Diversified
48. OCBC Bank (Malaysia)	1.30	0.20			1.50	No	Yes	No	Securities
49. Lingkaran Trans Kota				1.45	1.45	No	Yes	Yes	Manufacturing
50. RHB Capital	0.65		0.79		1.44	No	Yes	Yes	Financial
Total for Top 50 Corporate LCY Bond Issuers			**213.24**						
Top 50 as % of Total Corporate LCY Bond Oustanding			**68.84%**						

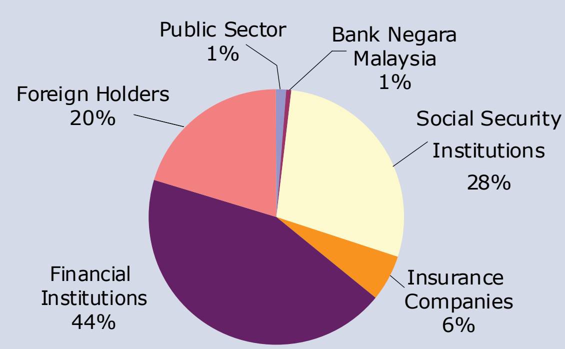
IBONDS = Islamic Bonds, IMTN = Islamic Medium-Term Notes, LCY = local currency MTN = Medium-Term Notes.
Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST).

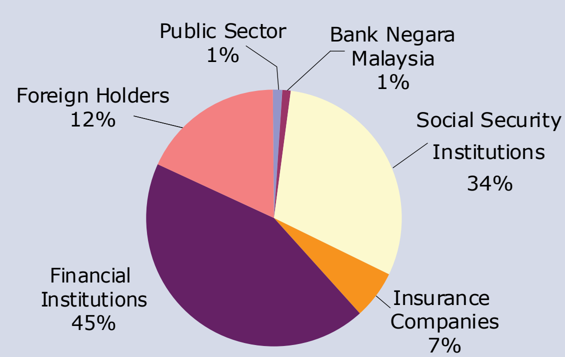
Figure 2. LCY Corporate Bond Issuers in Malaysia by Industry, December 2010



Source: Bank Negara Malaysia, Fully Automated System for Issuing/Tendering (FAST).

Figure 3. Malaysian LCY Government Bond Market Investor Profile





Source: Bank Negara Malaysia.

end-June, while insurance companies comprised 6.0% of the total **(Figure 3)**.

Rating Changes

R&I affirmed Malaysia's long-term LCY and FCY ratings as well as its short-term FCY rating in October, and posted a stable country outlook **(Table 3)**. R&I cited Malaysia's economic recovery driven by external demand and robust domestic demand.

Table 3: Selected Sovereign Ratings and Outlook for Malaysia

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	A3	A-	A-	A
Outlook	stable	stable	stable	stable

FCY = foreign currency, LT = long term.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

International Islamic Liquidity Management Corporation Established

In October 2010, Bank Negara Malaysia (BNM), 10 other central banks, and two multilateral organizations established the International Islamic Liquidity Management Corporation (IILM) to assist financial institutions offering Islamic financial services to manage their liquidity and enhance institutional linkages. The IILM initiative will facilitate cross-border investment flows by issuing short-term, multi-currency liquidity instruments beginning in December 2011.

Malaysia was selected as the host country for the IILM. In addition to BNM, founding members include the Central Bank of Qatar, Bank of Mauritius, Saudi Arabian Monetary Agency, Central Bank of the United Arab Emirates (UAE), Central Bank of Iran, Bank Indonesia, Banque Centrale du Luxembourg, Central Bank of Nigeria, Central Bank of Sudan, Central Bank of Turkey, Islamic Development Bank, and Islamic Corporation for the Development of the Private Sector.

Bursa Malaysia, AIBIM, and Bloomberg Launch New *Sukuk* Index; Malaysia to Start Cross-Border *Sukuk* Trading in 2H11

On 21 February, Bursa Malaysia, the Association of Islamic Banking Institutions Malaysia (AIBIM), and Bloomberg LP launched the Bloomberg AIBIM Bursa Malaysia Sovereign *Sharia'h* Index (BMSSI) as part of efforts to enhance the Islamic finance platform. The new MYR-denominated *sukuk* index aims to provide a benchmark for future *sukuk* issuances, as well as a measurement of the performance of MYR-denominated government Islamic securities.

BNM also announced that its wholly-owned subsidiary, the Malaysian Electronic Clearing Corporation (MyClear), has embarked on an initiative to allow cross-border trading of Islamic bonds. Set to launch in the second half of 2011, MyClear will provide a platform for Malaysians to invest in foreign securities held by international and regional securities depositories.

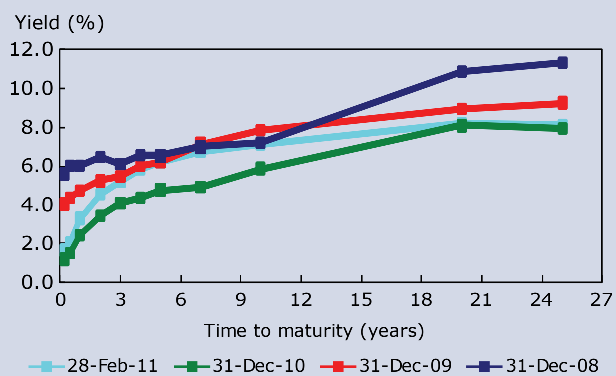
Philippines—Update

Yield Movements

The entire Philippine yield curve shifted downward between the end of 2009 and the end of 2010. Philippine government bond yields, however, have since risen for all maturities as a rise in commodity prices and transportation costs has increased concerns about future inflation **(Figure 1)**. The yields at the short-end of the curve rose between 45 and 85 basis points, while yields in the belly to the long-end of the curve climbed between 15 and 185 basis points. Yield spreads between 2- and 10-year tenors widened to 255 basis points on 28 February from 246 basis points at end-December.

The Philippine's gross domestic product (GDP) rose by 7.1% year-on-year (y-o-y) in 4Q10, following a revised 6.3% expansion in 3Q10, as business and consumer spending grew. Full-year 2010 GDP growth surged to 7.3% y-o-y, the Philippine economy's largest expansion in 34 years. Record growth rates of foreign trade and election-related stimulus spending helped the government to surpass its target of 5.0%–6.0% for 2010. The industrial and services sectors, which expanded 12.1% and 7.1% y-o-y, respectively, also fueled economic growth in 2010.

Figure 1: Philippines' Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

The Philippines' fiscal deficit for 2010 widened to PHP314.4 billion, equivalent to 3.7% of GDP. This was lower than the budgeted amount of PHP325 billion or 3.9% of GDP. The government aims to achieve a deficit-to-GDP ratio of 2% by 2013.

Consumer price inflation for the month of February rose to 4.3% y-o-y, higher than the previous month's 3.6%. The year-to-date average of 3.9% remained within the government's target range of 3.0%–5.0% for 2011. Rising inflation in February was traced mainly to higher prices of food items caused by adverse weather conditions and a continued rise in petroleum products due to political tensions in the Middle East.

The Monetary Board of Bangko Sentral ng Pilipinas (BSP) kept its key policy interest rates steady at 4.0% for the overnight borrowing (reverse repurchase [RRP]) facility and 6.0% for the overnight lending (repurchase [RP]) facility in February. The interest rates on term RRPs, RPs, and special deposit accounts were also left unchanged. The policy rates have been held steady since July 2009 to support economic activity. BSP noted the sustained increase in inflation, and reported that it is closely monitoring all risks to future inflation and is prepared to take the appropriate monetary policy actions to safeguard price stability. The next policy meeting will be held on 24 March.

Size and Composition

The size of the Philippines' local currency (LCY) bond market rose 9.4% year-on-year (y-o-y), with total volume reaching PHP3.2 trillion (USD72.8 billion) as of end-December, buoyed primarily by government borrowing **(Table 1)**. Compared with 3Q10, total LCY bonds outstanding in 4Q10 were relatively unchanged and registered only 0.2% quarter-on-quarter (q-o-q) growth, as a lack of issuance in the corporate sector offset the increase in government LCY bonds.

Table 1. Size and Composition of the LCY Bond Market in the Philippines

	Amount (billion)								**Growth Rate** (%)						
	Sep-10		**Oct-10**		**Nov-10**		**Dec-10**		**Sep-10**		**Oct-10**	**Nov-10**	**Dec-10**		
	PHP	**USD**	**PHP**	**USD**	**PHP**	**USD**	**PHP**	**USD**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	2,817	59.5	2,912	63.1	3,182	72.6	3,187	72.8	13.0	3.6	0.3	0.2	9.4	0.2	(0.3)
Government	2,504	52.9	2,560	55.5	2,799	63.8	2,818	64.3	11.8	3.8	(0.0)	0.7	10.1	0.7	0.0
Treasury Bills	607	12.8	622	13.5	578	13.2	527	12.0	(4.8)	1.9	(4.3)	(1.7)	(15.2)	(8.8)	(3.0)
Treasury Bonds	1,807	38.2	1,839	39.8	2,089	47.6	2,160	49.3	15.6	4.6	1.2	1.4	17.5	3.4	0.8
Others	89	1.9	100	2.2	132	3.0	131	3.0	47.9	—	—	—	31.5	(0.6)	(0.6)
Corporate	313	6.6	351	7.6	383	8.7	368	8.4	22.4	1.7	2.6	(3.3)	4.8	(3.7)	(2.9)

— = not applicable, LCY = local currency, m-o-m = month-on-month, 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—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" includes government-guaranteed bonds such as Land Bank of the Philippines and National Power Corporation (Napocor).

Source: Philippine Bureau of the Treasury and Bloomberg LP.

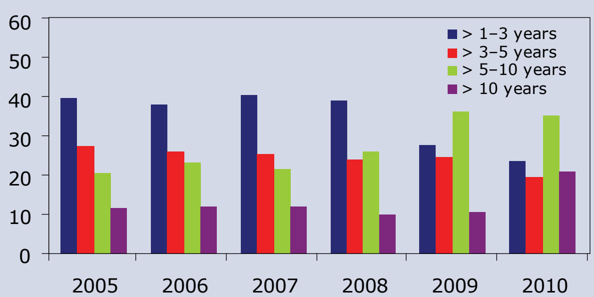
Total LCY government bonds outstanding rose 10.1% y-o-y to PHP2.8 trillion (USD64.3 billion) as of end-December, driven by a surge in treasury bonds of 17.5% y-o-y in 4Q10, as the government lengthened its debt maturity profile with a debt exchange program. Corporate sector bonds outstanding grew by 4.8% y-o-y. Meanwhile, treasury bills outstanding declined by 15.2% y-o-y to close the year at PHP527 billion (USD12 billion).

In 4Q10, the government borrowed a total of PHP304 billion (USD6.9 billion) through LCY debt issuance: PHP223.1 billion (USD5.1 billion) in treasury bonds and PHP81.3 billion (USD 1.9 billion) in treasury bills. Included among the treasury bonds were PHP199 billion (USD4.5 billion) worth of new 10- and 25-year bonds issued under the debt exchange program mentioned above. Bonds totaling PHP173 billion (USD3.9 billion) were made eligible to either be swapped for new 10- and 25-year bonds, or tendered for cash to be sourced from new subscriptions of 25-year bonds. The coupon rates of the 10- and 25-year bonds were set at 5.875% and 8.125%, respectively. The bond swap effectively extended the average maturity of the accepted bonds from 6.7 years to 22.5 years. The average coupon of the accepted bonds decreased by 0.47%, thereby reducing the government's overall funding costs.

The maturity profile of LCY government securities has changed significantly from the time the government introduced its debt exchange program in February 2006. Government borrowing in the form of 1- to 3-year tenors averaged between 38% and 41% of total LCY outstanding debt in 2005–08. This share dropped to 28% at end-2009, and 23% at end-2010. Meanwhile, the portion of bonds maturing within 5–10 years as a percentage of total LCY government debt rose from 21% in 2005 to 36% in 2010. In addition, bonds having maturities of more than 10 years comprised only 12% of total LCY government debt in 2005 before jumping to 21% by 2010. These trends reflect the government's progress in fiscal consolidation over this period **(Figure 2)**.

LCY corporate bonds rose to PHP368 billion (USD8.4 billion) as of end-December with the top 30 corporate issuers accounting for 93.6% of the total LCY corporate bond market. San Miguel Brewery remained the leader in terms of bonds outstanding with PHP38.8 billion (USD886 million) followed by Banco de Oro Unibank with PHP28.0 billion (USD639 million), and Rizal Commercial Banking Corporation with PHP21.0 billion (USD479 million) **(Table 2)**. Among LCY corporate bonds outstanding, 33.4% were issued by commercial banks, 12.7% by real estate developers, and 11.3% by a brewery company. Also, 27 out of the top 30 corporate issuers at end-December were listed companies.

Figure 2: LCY Government Securities Maturity Profile (individual maturities as % of total)



LCY = local currency.
Source: Philippine Bureau of the Treasury.

Foreign Currency Bonds

In line with the government's liability management program, the Philippines completed a USD3.1 billion bond exchange in October 2010 in which outstanding USD-denominated bonds were exchanged for new USD-denominated global bonds. The government issued USD2.2 billion in new bonds due January 2021 and USD949 million of re-opened bonds due October 2034, after inviting offshore bondholders to tender their existing holdings in exchange for longer-maturity debt. The new 2021 bonds were priced to yield 4.091%, while the re-opened 2034 bonds were priced to yield 5.276%. Bonds maturing between February 2011 and January 2017 can be exchanged for either of these bonds. Bonds maturing between January 2019 and January 2031 can be exchanged only for the re-opened bonds due October 2034. The government was able to raise USD200 million from the 2021 bonds, with the rest issued in exchange for old bonds.

The corporate sector also took advantage of positive market sentiment in 4Q10 to issue USD-denominated bonds. Banco de Oro Universal Bank sold USD300 million of bonds due April 2016 with a coupon of 3.875%, while SM Investments Corporation sold USD400 million of bonds due October 2017 with a coupon of 5.5%.

In January, SMC Global Power Holdings Corp, a wholly-owned subsidiary of San Miguel Corporation, and Energy Development Corporation (EDC) tapped the global market and each raised USD300 million in USD-denominated bonds. SMC Global issued 5-year bonds with a coupon of 7.0%, while EDC issued 10-year bonds with a coupon of 6.5%.

Rating Changes

In January, Moody's Investors Service changed the outlook on the government of the Philippines' Ba3 foreign currency (FCY) and LCY bond ratings to positive from stable on back of the Philippines' (i) strengthening trend in its external payments position, (ii) successful conduct of monetary policy, and (iii) improved prospects for economic reform policies.

Also in January, Fitch Ratings affirmed the sovereign credit ratings of the Philippines at BB for its FCY long-term issuer default rating and BB+ for its long-term LCY issuer default rating and country ceiling. Fitch Ratings also affirmed its stable outlook for the Philippines **(Table 3)**.

Table 2: Top 30 LCY Corporate Issuers in the Philippines (as of 31 December 2010)

Issuer	Amount Outstanding (PHP billion)	State-Owned	Privately-Owned	Listed Company	Type of Industry
1. San Miguel Brewery, Inc	38.80	No	Yes	Yes	Brewery
2. Banco De Oro Unibank, Inc	28.00	No	Yes	Yes	Commer Banks Non-US
3. Rizal Commercial Banking Corporation	21.00	No	Yes	Yes	Commer Banks Non-US
4. Metropolitan Bank & Trust Company	18.50	No	Yes	Yes	Commer Banks Non-US
5. Philippine National Bank	17.75	No	Yes	Yes	Commer Banks Non-US
6. Globe Telecom, Inc	16.80	No	Yes	Yes	Telecom Services
7. Petron Corporation	16.30	No	Yes	Yes	Oil Refining&Marketing
8. Ayala Corporation	16.00	No	Yes	Yes	Diversified Operations
9. Robinsons Land Corporation	15.00	No	Yes	Yes	Real Estate Oper/Develop
10. JG Summit Holdings, Inc	13.31	No	Yes	Yes	Food-Misc/Diversified
11. Manila Electric Company	12.50	No	Yes	Yes	Electric-Distribution
12. Energy Development Corporation	12.00	No	Yes	Yes	Electric-Generation
13. Bank of the Philippine Islands	10.00	No	Yes	Yes	Commer Banks Non-US
14. SM Development Corporation	10.00	No	Yes	Yes	Real Estate Oper/Develop
15. SM Investments Corporation	9.40	No	Yes	Yes	Retail-Misc/Diversified
16. First Philippine Holdings Corporation	8.99	No	Yes	Yes	Electric-Integrated
17. Allied Banking Corporation	8.00	No	Yes	Yes	Commer Banks Non-US
18. Philippine Long Distance Telephone Co.	7.50	No	Yes	Yes	Telephone-Integrated
19. Ayala Land, Inc	7.34	No	Yes	Yes	Real Estate Oper/Develop
20. SM Prime Holdings, Inc	7.00	No	Yes	Yes	Real Estate Mgmnt/Servic
21. Aboitiz Power Corporation	6.88	No	Yes	Yes	Electric-Generation
22. Megaworld Corporation	6.38	No	Yes	Yes	Real Estate Oper/Develop
23. Metrobank Card Corporation	6.30	No	Yes	No	Diversified Finan Serv
24. Manila North Tollways Corporation	5.34	No	Yes	No	Public Thoroughfares
25. China Banking Corporation	5.00	No	Yes	Yes	Commer Banks Non-US
26. Filinvest Land, Inc	5.00	No	Yes	Yes	Real Estate Oper/Develop
27. Tanduay Distillers, Inc	5.00	No	Yes	No	Beverages-Wine/Spirits
28. Manila Water Company, Inc	4.00	No	Yes	Yes	Water
29. Union Bank of the Philippines, Inc	3.75	No	Yes	Yes	Commer Banks Non-US
30. Security Bank Corporation	3.00	No	Yes	Yes	Commer Banks Non-US
Total Top 30 Corporate Issuers	**344.83**				
Total Corporate Bonds Outstanding	**368.33**				
Top 30 as % of Total Corporate Bonds Outstanding	**93.62%**				

LCY = local currency.
Source: Bloomberg LP.

Table 3: Selected Sovereign Ratings and Outlook for the Philippines

	Moody's	S&P	Fitch
FCY Long-Term Rating	Ba3	BB	BB
Outlook	positive	stable	stable

FCY = foreign currency.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

Government Issue Peso Global Bonds Anew

In January, the Philippine government took advantage of favorable market conditions and a low interest rate environment to sell USD1.25 billion (PHP54.77 billion) of 25-year peso global bonds. This issuance allowed the government to lengthen its debt maturity profile and reduce its exposure to foreign exchange risk. The bonds are PHP-denominated but will be settled offshore and payable in dollars. The conversion rate for the bonds at pricing was PHP43.777 to USD1.0. The government first sold a global peso bond in September 2010—USD1.0 billion (PHP44.1 billion) of 10-year bonds—which was the first offshore LCY bond issuance by an Asian country. The global bonds are not included in the government's official statistics for LCY bonds.

BSP Further Liberalizes Rules on Foreign Exchange Transactions

In November, BSP issued Circular 698 which further liberalized the rules governing foreign exchange (FX) transactions. The circular comprised the following measures:

(i) increase the present ceiling of over-the-counter FX purchases made by residents from authorized agent banks (AABs) and AAB foreign exchange corporations without documentation for non-trade current account;

(ii) increase the present ceiling on the amount of pesos that departing non-resident tourists and Filipinos residing abroad may reconvert at airports or other ports of exit without need for proof-of-sale of FX;

(iii) increase the present ceiling on residents' purchase of FX from AABs and AAB foreign exchange corporations—from USD100,000 to USD1 million—to cover advance payment requirements for import transactions with prior BSP approval, subject to standard documentary requirements;

(iv) allow prepayment of private sector, BSP-registered foreign and FCY loans to be funded with FX from AABs and AAB foreign exchange corporations without prior BSP approval, subject to presentation of supporting documents;

(v) allow registering banks to act on requests by foreign investors for conversion into FX and outward remittances of peso funds, not to exceed the FX brought into the country less the amount used for investments actually made in the country, subject to conditions and documentary requirements; and

(vi) increase the present ceiling per investor per year—from USD30 million to USD60 million—of the amount that residents may purchase from AABs for outward investments and/or investments in Republic Of the Philippine (ROP) bonds and other Philippine debt papers issued offshore, including PHP-denominated instruments to be settled in FX, provided the total FX purchases for any or all of these purposes by any investor in 1 year does not exceed the prescribed limit. This increase will be complemented by the following additional measures:

  (a) lift the registration requirement for outward investments in excess of the USD 60 million limit and replace this with reporting to BSP; and

  (b) extend the period of inward remittance and conversion to pesos, or re-investment of proceeds and related earnings on outward investment of residents, from 2 and 7 banking days, respectively, to 30 banking days from receipt of funds abroad.

BSP Issues Circular for Early Adoption of IFRS/PFRS 9

On 10 January, BSP issued circular 708 to provide guidelines on the adoption of International/ Philippine Financial Reporting Standards 9 (IFRS/ PFRS 9). The new accounting standards aim to revise IAS 39, which has been criticized as being too difficult to apply and whose limitations were particularly underscored during the 2008/09 global financial crisis. The highlights of IFRS/ PFRS 9 include (i) basing asset classification on the financial institution's business model versus the current practice of basing it on management's intention; (ii) reducing the number of asset categories to two, depending on asset features and the institution's business model, including (a) fair value and (b) amortized cost; and (iii) measuring at fair value through profit or loss investments in hybrid securities, overlying securitization structures, and other structured products. Upon adoption of PFRS 9 by financial institutions, the tainting rule for held-to-maturity (HTM) securities shall no longer apply. The tainting provision prohibits a financial institution from using the HTM category and requires the reclassification of the entire HTM portfolio to available-for-sale during the reporting period and for the next two years if the financial institution reclassified or sold a significant amount of HTM investments before maturity other than allowed conditions.

BSP Approves Regulations for the Establishment of Trust Corporations

BSP approved the rules and regulations governing the establishment of trust corporations through Circular 710. A trust corporation can be created and duly authorized by the Monetary Board to engage in a trust, other fiduciary business, and investment management activities. The trust corporation will have a required minimum capitalization of PHP300 million, which can increase as assets under management exceed PHP20 billion. Banks with established trust departments may spin them off into a trust corporation. A key feature of the trust corporation is the treatment of the single borrower's limit (SBL). The new rules stipulate that for a trust corporation owned by a bank or quasi-bank the assets under management of the trust corporation do not form part of the SBL calculations for the parent bank. This is in recognition that the arrangement between trustor and trustee is not a debtor–creditor relationship against which the SBL provisions apply.

PDEx Revises Rules on Listing and Settlement of Trades

In March, the Philippine Dealing and Exchange Corporation (PDEx), the sole fixed-income trading platform in the Philippines, amended its rules for the fixed-income securities market, particularly Rules 7 and 8. Rule 7, which covers enrollment of issuers and listing of securities, was revised to include the following requirements:

(i) the issuer's certificate of good standing from the Securities and Exchange Commission shall be submitted to PDEx within 3 months from the issue date of issuer's securities, and;

(ii) the securities for listing should have no restrictions on transferability to investors of different tax categories.

Meanwhile, Rule 8, which discusses the settlement of trades, was revised to include the requirement that settlement participants shall access the liquidity measures available in the market (e.g., PDEx Repurchase Agreement Program, PDEx Securities Lending Transaction Program) to ensure the settlement of all trades on the settlement date.

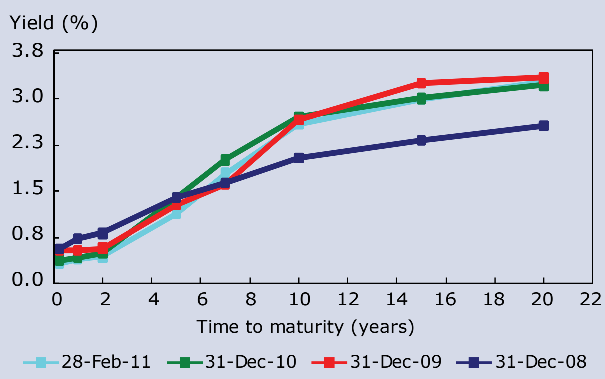
Singapore—Update

Yield Movements

The Singapore government bond yield curve steepened between end-December 2010 and end-February **(Figure 1)**. Yields fell for all tenors throughout the length of the curve except for the 20-year benchmark, which recorded an increase of 7 basis points. Yields for 5- and 7-year maturities fell by larger amounts, dropping 25 and 22 basis points, respectively. Yields for 2-, 10-, and 15-year benchmarks declined 6, 11, and 1 basis point(s), respectively. The yield spread between 2- and 10-year maturities narrowed to 216 basis points as of 28 February from a spread of 221 basis points at end-December.

Singapore's economy expanded 12.0% year-on-year (y-o-y) in 4Q10, following an increase of 10.5% y-o-y recorded in 3Q10, according to the Ministry of Trade and Industry (MTI). Singapore's expanded output in 4Q10 was driven by strong growth in the manufacturing sector, which recorded 25.5% y-o-y growth and was led by the biomedical manufacturing cluster. Meanwhile, growth in the services sector eased to 8.8% y-o-y from 10.2% in 3Q10, while the construction sector contracted by 2.0% y-o-y after recording 6.7% growth in 3Q10. For the whole of 2010, Singapore's economy expanded 14.5% y-o-y in a reversal of the 0.8% contraction in 2009. MTI expects Singapore's economic growth to remain between 4.0% and 6.0% in 2011.

Figure 1: Singapore's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

The Monetary Authority of Singapore (MAS) announced in October 2010 that it would allow a modest and gradual appreciation of the Singapore dollar's nominal effective exchange rate (S$NEER) policy trading band. MAS also said that it would slightly steepen and widen its currency's trading band, but would not change the level at which the band is centered. According to MAS, this policy stance remains supportive of Singapore's economic growth and MAS' annual inflation targets of 2.5%–3.0% for 2010 and 2.0%–3.0% for 2011.

Singapore's consumer price inflation in January accelerated to its highest level since 2008, led by higher prices for transport, housing, and food. Consumer price inflation climbed to 5.5% y-o-y in January after posting an increase of 4.6% in December. Transport costs rose 18.4% on account of higher prices for cars and petrol, housing costs increased 5.3% due to higher costs for accommodation and electricity tariffs, and food prices went up 2.8%. Consumer price inflation rose 2.8% for the whole of 2010, compared with 0.6% in 2009.

Size and Composition

The size of Singapore's local currency (LCY) bond market expanded 15.9% in 2010 to reach SGD229.3 billion (USD178.7 billion) **(Table 1)**. The y-o-y growth rate at end-December nearly doubled the 8.8% y-o-y growth rate from end-September. As of end-December, total LCY bonds outstanding rose 4.9% quarter-on-quarter (q-o-q) and 0.5% month-on-month (m-o-m).

The outstanding stock of Singapore Government Securities (SGS) rose 7.0% y-o-y as of end-

Table 1. Size and Composition of the LCY Bond Market in Singapore

	Amount (billion)								Growth Rate (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sept-10		Oct-10	Nov-10	Dec-10		
	SGD	USD	SGD	USD	SGD	USD	SGD	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	219	166	224	173	228	173	229	179	8.8	2.9	2.4	1.9	15.9	4.9	0.5
Government	128	97	130	101	131	99	132	103	4.5	–	1.6	0.9	7.0	3.3	0.8
Bills	55	41	55	42	56	42	57	44	10.5	2.6	0.7	2.2	9.6	4.8	1.8
Bonds	74	56	75	58	75	57	75	59	0.4	(1.9)	2.2	–	5.0	2.2	–
Corporate	90	69	94	72	97	73	97	76	15.5	7.4	3.6	3.4	30.9	7.3	0.2

–= data not available, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondOnline* estimates.
2. Bloomberg LP end-of-period LCY–USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.

Source: Monetary Authority of Singapore, Singapore Government Securities, and Bloomberg LP.

December to reach SGD132.3 billion, against 4.5% y-o-y growth as of end-September. SGS bills increased by 9.6% y-o-y and SGS bonds grew 5.0% y-o-y through December, with total amounts outstanding of SGD57.1 billion and SGD75.2 billion, respectively.

Growth in the issuance of SGS bills slowed to 2.5% y-o-y in 4Q10—totalling SGD53.5 billion—after having recorded double-digit growth in the first three quarters of 2010. The issuance of SGS bonds declined 27.3% y-o-y to SGD1.6 billion in 4Q10, against 25.0% y-o-y growth in 3Q10. The majority of SGS issuance in 4Q10 comprised 91-day Treasury bills, while in October only 5-year SGS (SGD1.6 million) were issued. MAS has created a highly tradable bond stock by limiting the number of bond issues outstanding to 19 and by frequently re-opening its benchmark issues.

The SGS issuance calendar for the first half of 2011 includes more than 20 issues of 3-month Treasury bills and a re-opening of benchmark bonds. Starting in February 2011, the 7-year bond will no longer be used as a benchmark bond, as the bond yield curve has been extended meaningfully beyond 10 years. Future bond issuance will concentrate liquidity on existing securities across the curve, including 2-, 5-, 10-, 15-, and 20-year bonds.

Corporate bonds outstanding amounted to SGD97.0 billion as of end-December 2010, up 30.9% y-o-y. On a q-o-q basis, corporate bonds grew 7.3%.

Total corporate bond issuance in 4Q10 climbed 146.7% y-o-y to reach SGD5.62 billion, after recording a 55.5% y-o-y increase in 3Q10. However, corporate bond issuance actually declined 1.4% q-o-q. Notable issues in 4Q10 included a total of SGD2.5 billion of bonds from DBS Bank, as well as SGD500 million bond issuances from Keppel Corp., Keppel Land, and Land Transport Authority. In January, new bonds issued included SGD200 million from CapitaMalls, SGD400 million from Great Eastern Holdings, and SGD420 million from Savu Investments.

The top 40 corporate issuers in Singapore at end-December were mainly from the financial and consumer sectors, accounting for 52% of total corporate bonds outstanding **(Table 2)**. The majority of the issuers included privately-owned corporations and three statutory boards—Housing and Development Board (HDB), Public Utilities Board, and Land Transport Authorities. HDB ranked first as the top LCY corporate issuer, with total LCY bonds outstanding of SGD6.1 billion as of end-December.

Foreign Currency Bonds

As of end-December, financial institutions had issued 62% of the total foreign currency (FCY) bonds outstanding in Singapore, while private corporations had issued the remaining amount. No SGS were issued in FCY as the government did not need to finance its expenditures through the issuance of government bonds. The majority of the FCY bonds outstanding were in USD (83.7%). All other currencies, including the EUR, GBP, HKD, JPY, MYR, and NOK, accounted for a cumulative share of 16.3% of total FCY bonds outstanding. In 4Q10, total FCY bond issuance amounted to USD966 million, including Oversea-Chinese Banking Corporation's USD500 million issue of 12-year bonds in November.

In January, StatsChiPac issued USD200 million of 5-year bonds in the international bond market. This issuance followed StatsChiPac's USD600 million issue of 5-year bonds in August 2010. Meanwhile, DBS Bank issued a total of USD150 million of 30-year bonds in January.

Policy, Institutional, and Regulatory Developments

World Bank and Finance Ministry of Singapore Launch Regional Infrastructure Finance Center of Excellence

In November, the World Bank and the Finance Ministry of Singapore launched the Infrastructure Finance Center of Excellence (IFCOE) to assist regional governments in tapping the private sector for investments in Asian infrastructure. IFCOE also aims to expand the infrastructure finance advisory work of the World Bank–Singapore Urban Hub (Singapore Hub). IFCOE is a specialized unit created under the Singapore Hub, which was established in June 2009.

Singapore Government Bonds to Trade on SGX

In January, the Finance Ministry of Singapore announced that it would allow the trading of SGS on the Singapore Exchange (SGX) by June 2011. The ministry aims to provide retail investors with a safe but higher-yielding alternative to bank deposits. The SGX plans to continue enhancing its infrastructure to facilitate bond listing and trading, as well as expanding its product range to include SGS.

Funding for Proposed SGX-ASX Merger

The SGX announced in January that it has secured long-term financing from six banks to fund its proposed merger with the Australian Securities Exchange (ASX). The financing includes term loans worth SGD3.8 billion and AUD750 million from the Australia and New Zealand Banking Group (ANZ Bank), the Singapore branch of the Bank of Tokyo-Mitsubishi UFJ, DBS Bank, Oversea-Chinese Banking Corp, United Overseas Bank, and National Australia Bank. In October, ASX and SGX announced that they had agreed to merge, creating the world's fifth-largest exchange group and Asia's second-largest behind the Hong Kong Stock Exchange.

Table 2: Top 40 Issuers of LCY Corporate Bonds in Singapore (as of 31 December 2010)

Issuer	Bonds Outstanding		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (SGD billion)	LCY Bonds (USD billion)				
1. Housing and Development Board	6.1	4.8	Yes	No	No	Financial
2. Capitaland	4.9	3.8	No	Yes	Yes	Financial
3. DBS Bank Singapore	4.1	3.2	No	Yes	Yes	Financial
4. United Overseas Bank	3.6	2.8	No	Yes	Yes	Financial
5. Temasek Financial I	3.6	2.8	No	Yes	No	Financial
6. Public Utilities Board	2.5	1.9	Yes	No	No	Utilities
7. SP Power Assets	2.5	1.9	No	Yes	No	Utilities
8. Land Transport Authority	2.4	1.9	Yes	No	No	Industrial
9. Oversea-Chinese Banking	2.2	1.7	No	Yes	Yes	Financial
10. Singapore Airlines	1.7	1.3	No	Yes	Yes	Consumer
11. F&N Treasury	1.3	1.0	No	Yes	No	Financial
12. Keppel Land	1.2	1.0	No	Yes	Yes	Financial
13. Capitamall Trust	1.2	0.9	No	Yes	Yes	Financial
14. City Developments	1.1	0.9	No	Yes	Yes	Consumer
15. Capitaland Treasury	1.1	0.8	No	Yes	No	Financial
16. PSA Corporation	1.0	0.8	No	Yes	No	Consumer
17. Mapletree Treasury Services	0.7	0.6	No	Yes	No	Financial
18. Sembcorp Financial Services	0.7	0.5	No	Yes	No	Industrial
19. Capitacommercial Trust	0.6	0.5	No	Yes	Yes	Financial
20. Singapore Press Holdings	0.6	0.5	No	Yes	Yes	Communications
21. Singtel Group Treasury	0.6	0.5	No	Yes	No	Communications
22. Ascott Capital	0.5	0.4	No	Yes	No	Financial
23. Keppel Corporation	0.5	0.4	No	Yes	Yes	Diversified
24. Singapore Post	0.5	0.4	No	Yes	Yes	Industrial
25. Hotel Properties	0.5	0.4	No	Yes	Yes	Consumer
26. ST Treasury Services	0.5	0.4	No	Yes	No	Financial
27. Asia Pacific Breweries	0.4	0.3	No	Yes	Yes	Consumer
28. Guocoland	0.4	0.3	No	Yes	Yes	Financial
29. Capitamalls Asia Treasury	0.4	0.3	No	Yes	No	Financial
30. Sengkang Mall	0.3	0.3	No	Yes	No	Financial
31. Ascendas	0.3	0.3	No	Yes	Yes	Financial
32. Queensley Holdings	0.3	0.2	No	Yes	No	Financial
33. CDL Properties	0.3	0.2	No	Yes	No	Financial
34. Olam International	0.3	0.2	No	Yes	Yes	Consumer
35. Overseas Union Enterprise	0.3	0.2	No	Yes	Yes	Consumer
36. Ruby Assets	0.3	0.2	No	yes	No	Financial
37. Singapore Power	0.3	0.2	No	Yes	No	Utilities
38. Swiber Holdings	0.3	0.2	No	Yes	Yes	Energy
39. Midpoint Properties	0.3	0.2	No	Yes	No	Financial
40. Neptune Orient Lines	0.3	0.2	No	Yes	Yes	Industrial
Total Top 40 LCY Corporate Issuers	**50.5**	**39.3**				
Total LCY Corporate Bonds	**97.0**	**75.6**				
Top 40 as % of Total LCY Corporate Bonds	**52.0%**	**52.0%**				

LCY=local currency.
Source: Bloomberg LP.

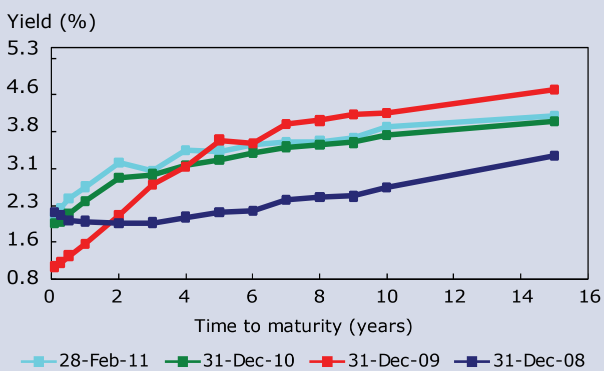
Thailand—Update

Yield Movements

Yields on Thai government bonds shifted downward in 2010 along most of the government bond curve, except at the very short-end. Between end-December and end-February 2011, however, Thai government bond yields shifted upward throughout the length of the curve **(Figure 1)**. Yields had climbed the most from the short-end to the belly of the curve, with 1-, 2- and 4-year maturities rising 30, 30, and 31 basis points, respectively. Yields along the rest of the belly of the curve rose between 10 and 20 basis points, except for the 8-year tenor, which increased 7 basis points. At the long-end of the curve, yields for the 9-, 10-, and 15-year maturities rose 10, 17, and 10 basis points, respectively. The yield spread between 2- and 10-year maturities narrowed to 73 basis points as of end-February from a spread of 86 basis points at end-December.

The Bank of Thailand (BOT) raised its 1-day repurchase rate by another 25 basis points to 2.50% on 9 March. The rate hike came on the back of increased inflationary pressures fueled by a surge in oil and commodity prices. This is the second time the BOT raised its policy rate by 25 basis points this year. On 12 January, the BOT raised its 1-day repurchase rate by 25 basis points to 2.25%. The BOT expects increases in the headline and core inflation rates to accompany sharply rising oil and commodity prices. Commercial banks responded to the policy rate hike by increasing their deposit and loan rates, while most market observers are expecting the BOT to raise its policy rate further in 2011. Thailand's consumer price inflation eased to 2.9% yeay-on-year (y-o-y) in February from 3.0% in January, as government subsidies helped curb food and fuel price increases. On a month-on-month (m-o-m) basis, consumer prices rose by 0.4%, partly on the back of fresh food price hikes. The Thai Ministry of Commerce sees consumer price inflation rising somewhat to between 3.2% and 3.7% in 2011 as price caps on some food staples, including eggs and sugar, will expire at the end of March.

Figure 1: Thailand's Benchmark Yield Curve—LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

Thailand's gross domestic product (GDP) growth continued to ease in 4Q10, slowing to a rate of 3.8% y-o-y from 6.6% in 3Q10. Thailand's economy recorded GDP growth rates of 12.0% in 1Q10 and 9.2% in 2Q10. For the whole of 2010, Thailand's GDP expanded 7.8% y-o-y, its strongest annual expansion in 15 years, on the back of solid exports and consumer spending. However, growth is expected to slow to 3.0%–5.0% in 2011 due to the strengthening baht, fluctuating oil prices, and the impact of floods on agricultural output.

Size and Composition

As of end-December, the amount of Thailand's local currency (LCY) bonds outstanding had expanded 14.4% y-o-y to THB6.8 trillion (USD225 billion), which was slightly higher than 14.2% y-o-y growth as of end-September **(Table 1)**. Total LCY bonds outstanding rose 2.7% quarter-on-quarter (q-o-q) in 4Q10, while decreasing 0.3% on a month-on-month (m-o-m) basis in December.

The outstanding stock of Thai government bonds amounted to THB5.5 trillion at end-December. Growth on a y-o-y basis was 16.7% at end-

Table 1: Size and Composition of the LCY Bond Market in Thailand

	Amount (billion)								Growth Rate (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10	Nov-10	Dec-10		
	THB	USD	THB	USD	THB	USD	THB	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	6,577	217	6,680	223	6,776	224	6,753	225	14.2	2.5	1.6	1.4	14.4	2.7	(0.3)
Government	5,350	176	5,459	182	5,531	183	5,499	183	17.3	3.3	2.0	1.3	16.7	2.8	(0.6)
Treasury Bonds	2,597	86	2,583	86	2,599	86	2,595	86	9.1	1.2	(0.5)	0.6	9.9	(0.1)	(0.2)
Central Bank Bonds	2,250	74	2,378	79	2,436	81	2,412	80	36.3	7.3	5.7	2.5	32.5	7.2	(1.0)
State-Owned Enterprise & Other Bonds	503	17	499	17	496	16	493	16	(5.2)	(2.2)	(0.9)	(0.6)	(7.1)	(2.1)	(0.6)
Corporate	1,227	40	1,221	41	1,244	41	1,253	42	2.6	(1.2)	(0.4)	1.9	5.3	2.2	0.7

LCY = local currency, m-o-m = month-on-month, 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—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank of Thailand (BOT) and Bloomberg LP.

December, which was down from 17.3% y-o-y growth at end-September. BOT bonds had the highest annual growth rate in 2010 among all categories of government bonds at 32.5%, followed by treasury bonds with an annual growth rate of 9.9%. State-owned enterprise and other bonds, however, declined 7.1% in 2010.

New issuance of government bonds climbed 57.9% y-o-y to THB3.0 trillion in 4Q10, compared with 11.7% y-o-y growth in 3Q10. The BOT accounted for 96% of total government issuance in 4Q10, amounting to THB2.9 trillion, which was up 74.5% y-o-y. BOT bills accounted for a 67% share of total BOT issuance in 4Q10. New issuance from the central government and state-owned enterprises, however, declined 47.8% (THB126 billion) and 76.1% (THB3.6 billion), respectively, on a y-o-y basis in 4Q10.

In February, the Thai Ministry of Finance announced the postponement of its planned issuance of THB100 billion of savings bonds. The reason given was that Thailand's considerable fiscal reserves obviated the need to issue more debt. According to the Public Debt Management Office (PDMO), the bonds would have had maturities of 7–12 years, with the proceeds being used to restructure the national debt.

The Thai Finance Ministry issued its longest-dated security ever in February—a 50-year government bond amounting to THB3.5 billion. Thailand is the fourth country to issue 50-year bonds after the United Kingdom, France, and the People's Republic of China. The Thai government also plans to issue a series of 50-year bonds in 3Q11 and 4Q11 in a range of between THB3 billion and THB4 billion. Proceeds will help cover the budget deficit and a portion will be used to refinance existing government debt. As of end-January, Thailand's international reserves stood at USD170 billion and had remained above USD100 billion since September 2008. Thailand expects to run a budget deficit of THB350 billion, or not more than 4.0% of GDP, for fiscal year 2012 (ending on 30 September), an improvement from a THB420 billion deficit in fiscal year 2011. The PDMO announced that it plans to focus on long-term bonds with maturities of 5, 7, 10, 15, and 30 years, together with the issuance of 50-year bonds and inflation-linked bonds, as part of the government's target to achieve a balanced budget in 5 years.

Corporate bonds outstanding stood at THB1.3 trillion (USD42 billion) as of end-December, up 5.3% y-o-y. Total corporate bonds outstanding rose 2.2% q-o-q and 0.7% m-o-m, respectively. New issuance in 4Q10 reached THB259 billion, an increase of 0.7% y-o-y and 15.4% quarter-on-quarter (q-o-q). Notable THB-denominated corporate bond issues for 4Q10 included THB14 billion from PTT PCL, THB8 billion from Charoen Pokphand Foods, and THB7 billion from Don Muang Tollway. Maturities for these bonds ranged between 3 and 10 years.

In October, the Ministry of Finance approved three foreign entities to issue THB-denominated bonds prior to 31 March. Central American Bank for Economic Integration (CABEI), ING Bank, and the Export–Import Bank of Korea (KEXIM) have received approval to issue bonds of THB4.0 million, THB10.0 million, and THB8.0 million, respectively. In February, CABEI offered a total of THB3.1 billion in three tranches. CABIE priced its 3-year bonds at 3.85%, 5-year bonds at 4.51%, and 10-year bonds at 4.88%. In early February, the Export –Import Bank of Korea raised THB2.2 billion by issuing bonds in the Thai market. In January, the Thai Ministry of Finance approved another 10 foreign entities to issue THB-denominated bonds during the period 1 January–30 June 2011. These entities are as follows:

(i) BNP Paribas (THB10 billion)
(ii) Commonwealth Bank of Australia (THB8 billion)
(iii) Citigroup Inc. (THB10 billion)
(iv) Deutsche Bank Aktiengesellschaft (THB6 billion)
(v) Industrial Bank of Korea (THB5 billion)
(vi) International Bank for Reconstruction and Development (THB5 billion)
(vii) Kommunalbanken AS (THB4 billion)
(viii) Korea Development Bank (THB8 billion)
(ix) Swedish Export Credit Corporation (THB5 billion)
(x) Westpac Banking Corporation (THB6 billion)

In November, Thailand's largest oil and gas company, PTT, raised THB4 billion of 100-year bonds, the first-ever long-tenor paper in Thai bond market history. The bonds will mature in 2110 and were priced at 5.9%. The issuance attracted five insurance companies, which took 90% of the deal, while the remainder of the bonds were purchased by a private fund and a few high net-worth individuals. The century bonds have a put option on their 50th and 75th years.

PTT also sold THB10 billion of 4- and 7-year debentures in November. The 4-year tranche was priced with a coupon of 3.2%, while the 7-year tranche was priced at 3.7%. Both were sold to retail investors. In November, PTT became the first Thai group to tap the Islamic capital market with its issuance of a MYR600 million serial *sukuk.* The Islamic bonds were sold by PTT's subsidiary, Trans Thai–Malaysia (TTM), through a special purpose vehicle called TTM *Sukuk* and with 5–15 year tenors.

The top 30 corporate issuers in Thailand at end-December were mainly from the financial and consumer sectors, which together accounted for 73% of total corporate bonds outstanding **(Table 2)**. The majority of the issuers included privately-owned corporations and listed companies. PTT ranked first as the top LCY corporate issuer, with total LCY bonds outstanding of THB191.5 billion as of end-December.

Foreign Currency Bonds

As of end-December, the amount of total foreign currency (FCY) bonds outstanding in Thailand stood at USD7.7 billion, of which private corporations had issued 43%, while financial institutions and the government had issued 39% and 19%, respectively. The majority of FCY bonds outstanding were issued in US dollars (85%), with Japanese yen accounting for the rest. In 4Q10, total FCY bond issuance amounted to

Table 2: Top 30 Issuers of LCY Corporate Bonds in Thailand (as of 31 December 2010)

Issuer	Bonds Outstanding		State-Owned	Privately-Owned	Listed Company	Sector
	LCY Bonds (THB billion)	LCY Bonds (USD billion)				
1. PTT PCL	191.5	6.4	Yes	No	Yes	Energy
2. Siam Cement PCL	110.0	3.7	Yes	No	Yes	Diversified
3. Bank of Ayudhya	56.3	1.9	No	Yes	Yes	Financial
4. Krung Thai Bank	55.4	1.8	Yes	No	Yes	Financial
5. PTT Exploration and Production Company	49.0	1.6	Yes	No	Yes	Energy
6. Charoen Pokphand Foods	30.7	1.0	No	Yes	Yes	Consumer
7. Thai Airways International	29.3	1.0	Yes	No	Yes	Consumer
8. Toyota Leasing Thailand	26.7	0.9	No	Yes	No	Consumer
9. Kasikorn Bank	25.1	0.8	No	Yes	Yes	Financial
10. Krungthai Card	24.2	0.8	Yes	No	Yes	Financial
11. DAD SPV Company LTD	24.0	0.8	Yes	No	No	Financial
12. Thai Oil	20.8	0.7	Yes	No	Yes	Energy
13. PTT Chemical	20.4	0.7	Yes	No	Yes	Basic Materials
14. Siam Commercial Bank	20.0	0.7	No	Yes	Yes	Financial
15. Advanced Info Service	19.5	0.6	No	Yes	Yes	Communications
16. Thanachart Bank	18.0	0.6	No	Yes	No	Financial
17. TMB Bank	17.3	0.6	No	Yes	Yes	Financial
18. Bangkok Expressway	15.1	0.5	No	Yes	Yes	Consumer
19. Glow Energy	15.0	0.5	No	Yes	Yes	Utilities
20. PTT Aromatics and Refining	15.0	0.5	Yes	No	Yes	Energy
21. True Corporation	14.9	0.5	No	Yes	Yes	Communications
22. Ayudhya Capital Auto Lease	14.7	0.5	No	Yes	No	Financial
23. Kiatnakin Bank	14.3	0.5	No	Yes	Yes	Financial
24. Quality Houses	14.0	0.5	No	Yes	Yes	Consumer
25. Thanachart Capital	13.5	0.4	No	Yes	Yes	Financial
26. Bangkok Mass Transit System	12.0	0.4	Yes	Yes	No	Industrial
27. CH Karnchang Public Company	12.0	0.4	No	Yes	Yes	Industrial
28. Land and Houses	11.0	0.4	No	Yes	Yes	Consumer
29. Minor International	10.9	0.4	No	Yes	Yes	Consumer
30. Central Pattana	10.7	0.4	No	Yes	Yes	Financial
Total Top 30 LCY Corporate Issuers	**911.3**	**30.3**				
Total LCY Corporate Bonds	**1,253.4**	**41.7**				
Top 30 as % of Total LCY Corporate Bonds	**72.7%**	**72.7%**				

LCY = local currency.
Source: Bloomberg LP.

USD1.5 billion, including Bangkok Bank's issuance of USD1.2 billion of 5- and 10-year bonds in the offshore bond market. Meanwhile, the Export–Import Bank of Thailand issued a total of USD250 million of 4- and 6-year bonds in 4Q10.

Investor Profile

Commercial banks remained the largest holder of Thai government bonds with a total of THB598.5 billion as of end-December **(Figure 2)**. However, commercial banks' total share decreased to 23.1% in December 2010 from 25.7% in December 2009. Contractual savings funds were the second largest holder of government bonds with a 22.6% share in December 2010, down from 25.3% from a year earlier. Insurance companies were in the third spot, increasing their share to 20.4% in December 2010 from 17.5% a year earlier. Thai residents had a share of 16.3%, followed by nonresidents (7.2%), financial corporations "not elsewhere classified" (3.1%), general government and non-profit organizations (2.3%), and the central bank (2.0%). Finally, non-financial market mutual funds had a 1.9% share, while other non-financial corporations held a 1.0% share.

Foreign holdings of Thai government bonds stood at THB187.5 billion as of end-December, an increase of 145.7% y-o-y and 19.1% q-o-q.

Rating Changes

On 28 October, Moody's upgraded the outlook for Thailand's long-term FCY and LCY government bond ratings to stable from negative **(Table 3)**. According to Moody's, the decision for the outlook change was based on Thailand's "robust economic recovery" and the "stabilization of government finances despite continuing domestic political turmoil."

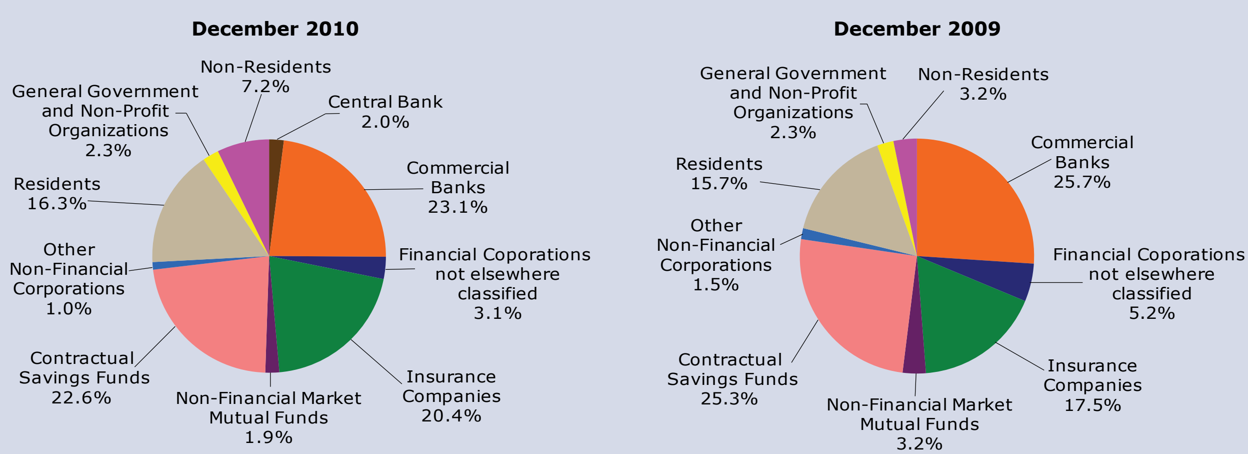
On 9 December, Standard & Poor's (S&P) raised its credit rating outlook for Thailand to stable from negative. According to S&P, the decision for the upgrade was based on Thailand's low level of

Table 3: Selected Sovereign Ratings and Outlook for Thailand

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Baa1	BBB+	BBB
Outlook	stable	stable	stable

FCY = foreign currency, LT = long term.
Source: Rating Agencies.

Figure 2: LCY Government Bonds Investor Profile



LCY = local currency.
Source: Bank of Thailand.

government debt and prudent fiscal policies. S&P affirmed Thailand's BBB+/A-2 foreign currency rating and A-/A-2 local currency sovereign credit ratings.

Policy, Institutional, and Regulatory Developments

Thai Cabinet Approves a 15% Tax on Bonds

The Thai government has approved the imposition of a 15% tax on interest and capital gains earned by foreign investors from Thai bonds in an effort to slow FCY inflows and ease the baht's appreciation. Effective 13 October, foreign investors trading government, central bank, or state enterprise bonds were required to pay a withholding tax of 15%. Meanwhile, the Customs Department is considering waiving import tariffs on machinery that cannot be produced in Thailand to help exporters and small and medium-sized enterprises (SMEs) improve their productivity. State banks—Krung Thai Bank, Small and Medium Enterprise Development Bank of Thailand, Islamic Bank of Thailand, and the Export–Import Bank of Thailand—are also offering forward contracts to protect SMEs against volatility in the exchange rate. The Government Savings Bank provides SMEs a credit line of up to THB5.0 billion. Also, the Revenue Department is planning to offer local companies additional tax breaks for asset depreciation. According to the Ministry of Finance, about 10,000 SMEs need assistance as a result of the baht's recent appreciation.

BOT Relaxes Regulations on FX Transactions

The BOT relaxed foreign exchange (FX) regulations to increase the flexibility of Thai businesses in managing FX risk. Effective 12 October, Thai exporters were permitted to transfer FCY deposits to counterparties in Thailand for payment of goods and services, with the limit on FX transactions being increased to USD50,000 from USD20,000. Also, Thai businesses undertaking direct investment or lending abroad of USD10 million or more per year are now required to notify the BOT.

Thai Financial Regulators to Strengthen Bond Information

In December, the BOT signed an agreement with the Securities and Exchange Commission (SEC), Stock Exchange of Thailand (SET), Thai Bond Market Association, and PDMO to create the Thailand Financial Instruments Information Center (TFIIC). TFIIC is part of the Thai government's 5-year capital market master plan, which aims to collect information on financial instruments by related sources, share the information, and provide linkages among related agencies.

Revenue Department of Thailand to Slash Corporate Income Tax

In January, the Revenue Department of Thailand considered slashing the corporate income tax rate to 18% from the current 30%. The tax department is preparing to restructure taxes in order to boost Thailand's competitiveness in advance of Thailand's membership in the Association of Southeast Asian Nations (ASEAN) Economic Community (AEC) in 2015. The AEC will permit the free movement of goods, investment, and labor between member countries without the imposition of taxes or other barriers.

Thailand to Allow New Securities Exchanges

In February, the SEC announced that a law is being drafted to allow new securities exchanges to compete with the SET, with the aim of lowering the cost of raising capital for domestic companies. SET, a wholly state-owned bourse, currently has a monopoly on equity and financial derivatives trading.

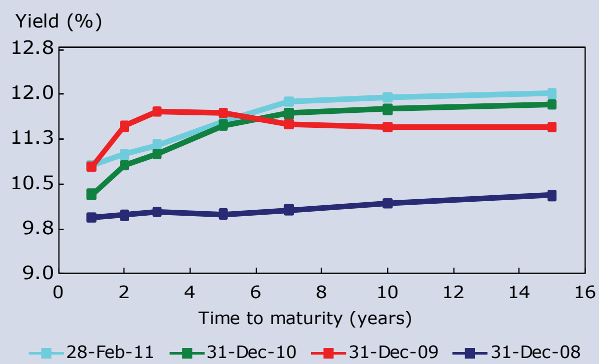
Viet Nam—Update

Yield Movements

Government bond yields in Viet Nam steepened between end-December 2009 and end-December 2010, as rates rose at the belly and the long-end of the curve. Between end-December 2010 and mid-February, Viet Nam's government benchmark yields rose for all maturities, with the curve rising more on the short-end due to inflation concerns **(Figure 1)**. Yields increased the most for the 1-year tenor, rising by 48 basis points. Yields inched up by 6 basis points for the 5-year maturity, while yields rose by 21, 19, and 17 basis points for the 7-, 10-, and 15-year maturities.

The rise in short-term yields reflects acceleration in the rate of consumer price inflation, which rose to 12.3% year-on-year (y-o-y) in February from 12.2% in January, on the back of double-digit annual hikes in food prices. The State Bank of Viet Nam (SBV) has become more active in adjusting its interest rates upward to counter rising inflation. In early November, the SBV raised its key rates—the base interest rate, the refinancing rate, and discount rate—by 100 basis points each to 9.0%, 9.0%, and 7.0%, respectively. More recently, the SBV raised its refinancing rate by another 200 basis points to 11.0% on 17 February, and another 100 basis points to 12.0% on 8 March. Also, the SBV hiked the reverse repurchase rate by 100 basis points to 12.0% on 22 February.

Figure 1: Viet Nam's Benchmark Yield Curve–LCY Government Bonds



LCY = local currency.
Source: Bloomberg LP.

The SBV adjusted the inter-bank average exchange rate to VND20,693 = USD1 from VND18,932 = USD1 on 11 February, while narrowing the trading band for the exchange rate to ±1.0% from ±3.0%. The devaluation of the Vietnamese dong came in an effort to improve the liquidity of the foreign exchange market. The last time the SBV adjusted the inter-bank average exchange rate was in August when it devalued the currency with the aim of trimming Viet Nam's trade deficit.

Viet Nam's 4Q10 real gross domestic product (GDP) growth rate stood at 7.3% y-o-y, a slight improvement over the previous quarter's 7.2% growth. For the full-year 2010, Viet Nam's economy grew by 6.8%, compared with 5.3% in 2009, as the industrial and services sectors expanded by 7.7% and 7.5%, respectively.

Size and Composition

Viet Nam's local currency (LCY) bond market expanded 34.2% y-o-y and 2.8% quarter-on-quarter (q-o-q) to reach VND299 trillion (USD15.3 billion) at end-December 2010, led by strong growth in both government and corporate bonds outstanding **(Table 1)**.

The size of the LCY government bond market stood at VND269 trillion (USD13.8 billion) at end-December, registering growth of 33.5% y-o-y and 1.4% q-o-q. Treasury bonds increased 30.6% from a year earlier, but fell slightly by 0.4% from the previous quarter, to reach VND118 trillion (USD6.1 billion). Viet Nam Development Bank bonds and state-owned enterprise bonds climbed 38.0% y-o-y and 2.8% q-o-q to VND151 trillion (USD7.7 billion).

Table 1: Size and Composition of the LCY Bond Market in Viet Nam

	Amount (billion)								Growth Rate (%)						
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10	Nov-10	Dec-10		
	VND	USD	VND	USD	VND	USD	VND	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	290,490	15	304,718	16	302,435	16	298,665	15	27.4	(1.0)	4.9	(0.7)	34.2	2.8	(1.2)
Government	265,199	14	276,628	14	272,745	14	268,975	14	25.5	0.2	4.3	(1.4)	33.5	1.4	(1.4)
Treasury Bonds	118,490	6	124,096	6	121,328	6	117,983	6	16.0	(1.6)	4.7	(2.2)	30.6	(0.4)	(2.8)
Central Bank Bonds	0.0	0	0.0	0	0.0	0	0.0	0	—	—	—	—	—	—	—
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds and Other Bonds	146,709	8	152,532	8	151,417	8	150,992	8	36.6	1.9	4.0	(0.7)	38.0	2.9	(0.3)
Corporate	25,290	1	28,090	1	29,690	2	29,690	2	51.9	(12.6)	11.1	5.7	41.4	17.4	-

— = not applicable, LCY = local currency, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Bloomberg LP end-of-period LCY–USD rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bloomberg LP.

LCY corporate bonds outstanding also surged by 41.4% y-o-y and 17.4% q-o-q to VND30 trillion (USD1.5 billion). LCY corporate issues in 4Q10 included Maritime Bank (VND1.0 trillion), Thu Duc Housing Development (VND600 billion), and Vietnam Petroleum Transport (VND100 billion).

The top 15 corporate issuers in Viet Nam comprised 93% of total corporate bonds outstanding at end-December, and most of these issuers were financial institutions, including banks and securities companies **(Table 2)**. Of the 15 top corporate issuers, 12 were listed on either the Hanoi Stock Exchange or Ho Chi Minh Stock Exchange.

Meanwhile, foreign currency (FCY) bonds outstanding at end-December stood at USD2.5 billion, 97% of which were government bonds.

Rating Changes

Moody's Investors Services, Standard & Poor's, and R&I all lowered their sovereign ratings for Viet Nam **(Table 3)**. Moody's cut Viet Nam's long-term FCY rating to B1 from Ba3 in December, and posted a negative country outlook, mainly because of heightened risk in the balance of payments position. Similarly, Standard and Poor's reduced Viet Nam's long-term FCY and LCY ratings in December to BB– from BB, and BB from BB+, respectively. Standard and Poor's also recorded a negative country outlook based on its assessment that Viet Nam's banking sector has become more vulnerable to economic and financial shocks. In February, R&I downgraded Viet Nam's FCY rating to BB- from BB and gave the country a negative outlook. R&I cited rising inflationary pressures generated by overheated domestic demand and the devaluation of the Vietnamese dong, resulting in concerns over Viet Nam's economic stability.

Table 2: Top 15 Corporate LCY Issuers in Viet Nam, (as of December 2010)

Issuer		Bonds Outstanding (VND billion)	State-Owned	Privately-Owned	Listed Company	Type of Industry
1.	Vincom	5,000.00	No	Yes	Yes	Real Estate
2.	Vietnam Techcombank	3,850.00	No	Yes	No	Finance
3.	Asia Commercial Joint Stock Bank	3,599.93	No	Yes	Yes	Finance
4.	Vietnam Commercial Bank	3,000.00	No	Yes	Yes	Finance
5.	Agribank Securities	2,000.00	No	Yes	Yes	Finance
6.	Sacombank	2,000.00	No	Yes	Yes	Finance
7.	Saigon Securities	2,000.00	No	Yes	Yes	Finance
8.	Vinpearl	1,000.00	No	Yes	Yes	Resorts/Theme Parks
9.	Vietnam Maritime Commercial Bank	1,000.00	No	Yes	No	Finance
10.	Military Bank	1,000.00	No	Yes	No	Finance
11.	Refigeration Electrical	810.42	No	Yes	Yes	Industrial
12.	Hoa Phat Group	800.00	No	Yes	Yes	Industrial
13.	Thu Duc Housing Devt Corp	600.00	No	Yes	Yes	Real Estate
14.	Kinh Bac City Devt Corp	500.00	No	Yes	Yes	Real Estate
15.	HCMC Gen Import Export & Investment	450.00	No	Yes	Yes	Trade
Total for Top 15 Corporate LCY Bond Issuers		**27,610.35**				
Top 15 as % of Total Corporate LCY Bond Outstanding		**93.0%**				

LCY = local currency.
Source: Bloomberg LP.

Table 3: Selected Sovereign Ratings and Outlook for Viet Nam

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	B1	BB-	B+	BB-
Outlook	negative	negative	stable	negative

FCY = foreign currency, LT = long term.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

SBV Allows Charter Capital Increases for One Local and Four Foreign Banks

In January, the SBV allowed for an increase in the charter capital of Saigon Hanoi Bank (SHB) to VND4,995 billion from VND3,498 billion. In December, the SBV also permitted an increase in the charter capital of the local branches of four foreign banks. The charter capital of the branches of Huanan Commercial Bank and Chinatrust Commercial Bank in Ho Chi Minh City were allowed to increase to USD65 million from USD15 million, while the Ho Chi Minh and Hanoi branches of Mizuho Corporate Bank were allowed to increase to USD134 million from USD15 million.

SBV Sets Ceiling on Banks' Mobilizing Rates at 14.0%

In December, the SBV reached a consensus with the General Secretary and the Viet Nam Banks Association to put a ceiling on Vietnamese dong mobilizing rates—the banks' lending rates—at 14.0% per annum. This step was taken in line with the Prime Minister's directive of stabilizing the country's money market and ensuring a sound banking system.

Asia Bond Monitor March 2011

The Asia Bond Monitor (ABM) reviews recent developments in East Asian local currency bond markets along with the outlook, risks, and policy options. The ABM covers the 10 Association of Southeast Asian Nations member countries plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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