The outlook for the development of fixed-income securities markets in Asian Pacific Rim has markedly improved. However, several important obstacles continue to hamper the expansion of these markets. This is the main conclusion of a new study, "Emerging bond markets in the Dynamic Asian Economies", just published by the OECD in the context of the informal dialogue between OECD members and six non-member economies: Hong Kong, Korea, Malaysia, Singapore, Taiwan and Thailand (referred to as the "Dynamic Asian Economies").

The report observes that hitherto the issue of bonds has been insignificant in the DAEs, with the exception of Malaysia and Korea. Furthermore, even in countries where relatively large volumes of bonds have been issued, there has been little secondary market activity, bonds often being held to maturity by one holder.

However, governments in the region have started to promote actively the development of their bond markets. They have done so for various reasons. Several governments have embarked on large infrastructure projects, with the financing being sought in part through the bond markets. An additional reason for the new development is that the existence of a bond market can provide governments with an additional instrument of monetary policy. Finally, the authorities are seeking to diversify new venues for private savings, which have increased substantially in line with the rise of prosperity in the region.

The small size and low turnover on many Asian bond markets has five main causes. The strongest impediment for growth of an active secondary market is the existence in the DAEs of administered or controlled interest rates, particularly in Korea, Malaysia and Thailand. The effective yields of the bonds are below free-market levels, with the result that the securities are only held by captive holders, i.e. financial institutions which are required to do so to fulfill reserve and liquidity requirements.
Asian bond markets are also still immature because of the predominance of the banking system over the securities markets. Banks appear to have lobbied successfully in favour of regulations that sustain their dominant position, such as the requirement that corporate bond issues be collateralised or guaranteed by a financial institution. Other reasons why bond markets are underdeveloped are: statutory limitations on the volume of bond issues by an individual company, high minimum denominations (which prevent purchase by small investors) and lack of a developed bond market infrastructure.

The OECD study concludes that any local government aspiring to develop its bond markets should target these obstacles as a matter of high priority.

Journalists may obtain a copy of the report from the OECD Press Division, 2 rue André Pascal, 75775 Paris cedex 16 (Tel 45 24 80 88 or 80 89).