

Strong Asian Growth and Asian Bond Markets Initiative

OECD-ADBI 11th Roundtable on Capital Market Reform in Asia
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Tokyo, Japan

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World Economic Outlook

	Real GDP Growth Rate(%)				Consumer Prices (%)				Unemployment Rate (%)				Current Account [above: Percent of GDP%] [below: Billions of U.S. dollars]				General Government Fiscal Balances Percent of GDP(%)				
	2008	2009	2010	2011	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010	2007	2008	2009	2010	2014
Japan	<i>-1.2</i>	<i>-5.3</i>	<i>1.7</i>	<i>2.2</i>	0.0	1.4	-1.1	-0.8	3.8	4.0	5.4	6.1	4.8 [211.0]	3.2 [157.1]	1.9 [96.9]	2.0 [105.6]	-2.5	-5.8	-10.5	-10.2	-8.0
United States	<i>0.4</i>	<i>-2.5</i>	<i>2.7</i>	<i>2.4</i>	2.9	3.8	-0.4	1.7	4.6	5.8	9.3	10.1	-5.2 [-726.6]	-4.9 [-706.1]	-2.6 [-369.8]	-2.2 [-324.7]	-2.8	-5.9	-12.5	-10.0	-6.7
Germany	<i>1.2</i>	<i>-4.8</i>	<i>1.5</i>	<i>1.9</i>	2.3	2.8	0.1	0.2	8.4	7.4	8.0	10.7	7.5 [250.3]	6.4 [235.3]	2.9 [94.2]	3.6 [120.2]	-0.5	-0.1	-4.2	-4.6	0.0
France	<i>0.3</i>	<i>-2.3</i>	<i>1.4</i>	<i>1.7</i>	1.6	3.2	0.3	1.1	8.3	7.9	9.5	10.3	-1.0 [-25.9]	-2.3 [-64.8]	-1.2 [-30.4]	-1.4 [-40.0]	-2.7	-3.4	-7.0	-7.1	-4.7
Italy	<i>-1.0</i>	<i>-4.8</i>	<i>1.0</i>	<i>1.3</i>	2.0	3.5	0.7	0.9	6.1	6.8	9.1	10.5	-2.4 [-51.2]	-3.4 [-78.8]	-2.5 [-52.4]	-2.3 [-50.9]	-1.5	-2.7	-5.6	-5.6	-5.3
United Kingdom	<i>0.5</i>	<i>-4.8</i>	<i>1.3</i>	<i>2.7</i>	2.3	3.6	1.9	1.5	5.4	5.5	7.6	9.3	-2.7 [-75.5]	-1.7 [-46.5]	-2.0 [-44.7]	-1.9 [-45.8]	-2.6	-5.1	-11.6	-13.2	-6.8
Canada	<i>0.4</i>	<i>-2.6</i>	<i>2.6</i>	<i>3.6</i>	2.1	2.4	0.1	1.3	6.0	6.2	8.3	8.6	1.0 [14.5]	0.5 [7.6]	-2.6 [-34.3]	-1.8 [-26.5]	1.6	0.1	-4.9	-4.1	0.0
Advanced Economies	<i>0.5</i>	<i>-3.2</i>	<i>2.1</i>	<i>2.4</i>	<i>3.4</i>	<i>0.1</i>	<i>1.3</i>	<i>1.5</i>	5.4	5.8	8.2	9.3	-0.9 [-365.3]	-1.3 [-533.1]	-0.7 [-261.7]	-0.4 [-166.2]	-1.2	-3.5	-8.9	-8.1	n.a.
Major advanced economies	0.3	-3.6	1.3	-	2.1	3.2	-0.1	1.1	5.5	5.9	8.2	9.4	-1.3 [-403.4]	-1.5 [-496.2]	-1.1 [-340.5]	-0.8 [-261.1]	-2.2	-4.6	-10.1	-9.0	-5.7
Euro area	<i>0.6</i>	<i>-3.9</i>	<i>1.0</i>	<i>1.6</i>	2.1	3.3	0.3	0.8	7.5	7.6	9.9	11.7	0.3 [34.4]	-0.7 [-92.7]	-0.7 [-82.1]	-0.3 [-36.4]	-0.6	-1.8	-6.2	-6.6	-3.5
Newly Industrialized Asian economies	<i>1.7</i>	<i>-1.2</i>	<i>4.8</i>	<i>4.7</i>	2.2	4.5	1.0	1.9	3.4	3.4	4.5	4.4	5.7 [103.6]	4.4 [76.1]	6.4 [98.0]	5.9 [96.0]	3.7	0.9	-2.8	-2.3	n.a.
Emerging and developing economies	<i>6.1</i>	<i>2.1</i>	<i>6.0</i>	<i>6.3</i>	<i>9.2</i>	<i>5.2</i>	<i>6.2</i>	<i>4.6</i>	n.a.	n.a.	n.a.	n.a.	4.3 [664.5]	3.9 [724.6]	2.0 [355.6]	2.8 [548.1]	n.a.	n.a.	n.a.	n.a.	n.a.
Developing Asia	<i>7.9</i>	<i>6.5</i>	<i>8.4</i>	<i>8.4</i>	5.4	7.5	3.0	3.4	n.a.	n.a.	n.a.	n.a.	7.0 [413.8]	5.9 [423.9]	5.0 [381.5]	5.2 [438.6]	n.a.	n.a.	n.a.	n.a.	n.a.
China	<i>9.6</i>	<i>8.7</i>	<i>10.0</i>	<i>9.7</i>	4.8	5.9	-0.1	0.6	n.a.	n.a.	n.a.	n.a.	11.0 [371.8]	9.8 [426.1]	7.8 [371.5]	8.6 [451.2]	n.a.	n.a.	n.a.	n.a.	n.a.
Commonwealth of Independent States	<i>5.5</i>	<i>-7.5</i>	<i>3.8</i>	<i>4.0</i>	9.7	15.6	11.8	9.4	n.a.	n.a.	n.a.	n.a.	4.2 [71.7]	4.9 [108.1]	2.9 [48.0]	4.4 [79.6]	n.a.	n.a.	n.a.	n.a.	n.a.
World	<i>3.0</i>	<i>-0.8</i>	<i>3.9</i>	<i>4.3</i>	4.0	6.0	2.5	2.9	n.a.	n.a.	n.a.	n.a.	n.a. [299.2]	n.a. [191.5]	n.a. [93.9]	n.a. [381.9]	n.a.	n.a.	n.a.	n.a.	n.a.

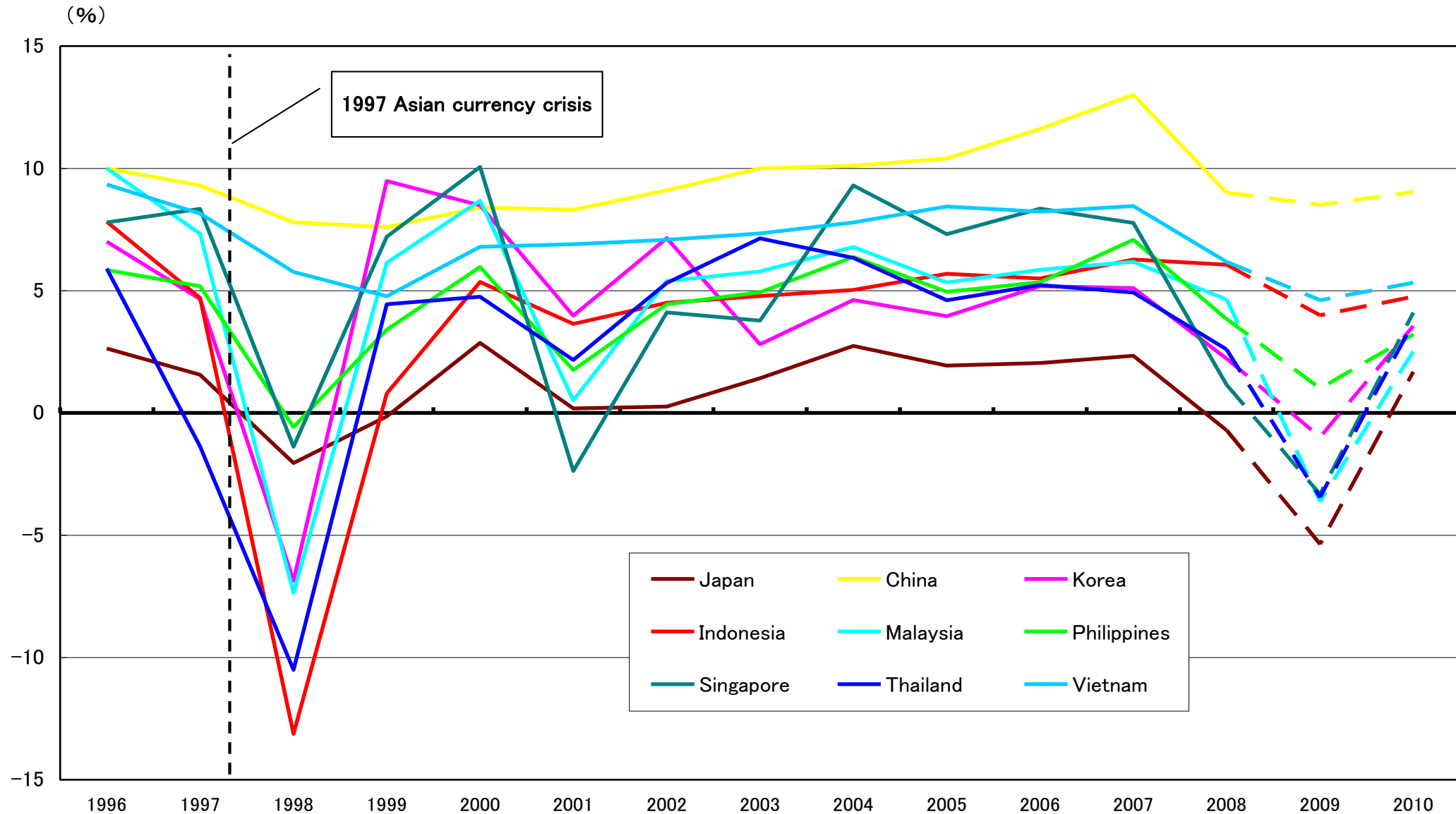
(※1) Newly Industrialized Asian economies: Hong Kong, Korea, Singapore, Taiwan Province of China

(※2) The numbers written in italics are based on the update. The others are based on the WEO (October, 2009).

(Main Assumptions)

(1) Established policies of national authorities are assumed to be maintained. (2) Exchange rates: ① Real effective exchange rates are assumed to remain constant at their average levels during the period November 19–December 17, 2009. ② Average rates 2009: 1 euro=1.373 U.S. dollar, 1 U.S. dollar=94.9 yen, 2010: 1 euro=1.409 U.S. dollar, 1 U.S. dollar=93.2 yen. (3) Average price of oil: 61.53 U.S. dollar a barrel in 2009, 76.50 U.S. dollar in 2010. (4) Interest rates: LIBOR on six-month U.S. dollar deposits will average 1.2% (2009) and 1.4% (2010), LIBOR on three-month euro deposits will average 1.2% (2009) and 1.6% (2010), and LIBOR on six-month Japanese yen deposits will average 0.7% (2009) and 0.6% (2010).

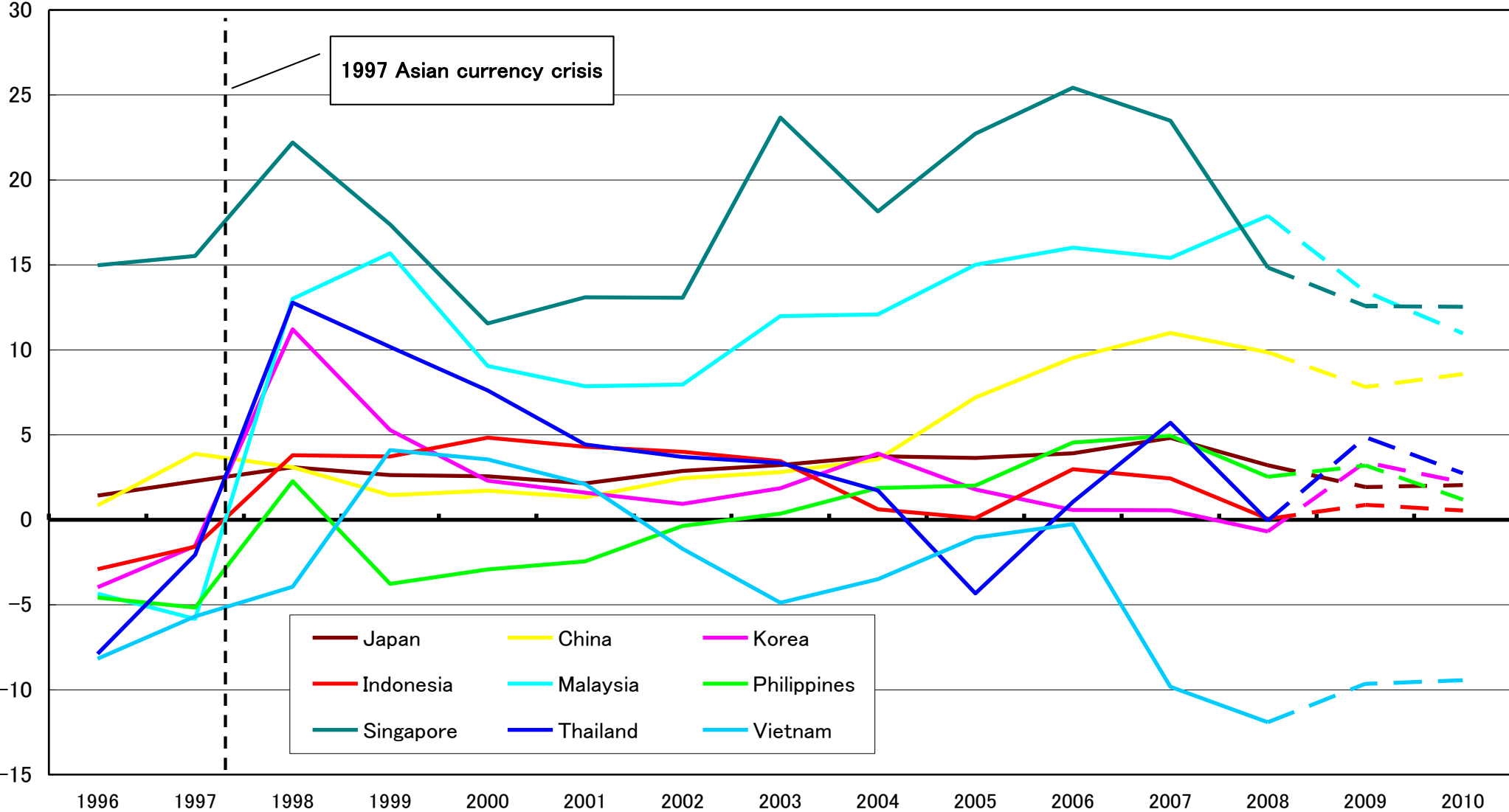
Real GDP Growth Rate



(Source) IMF, World Economic Outlook, October 2009

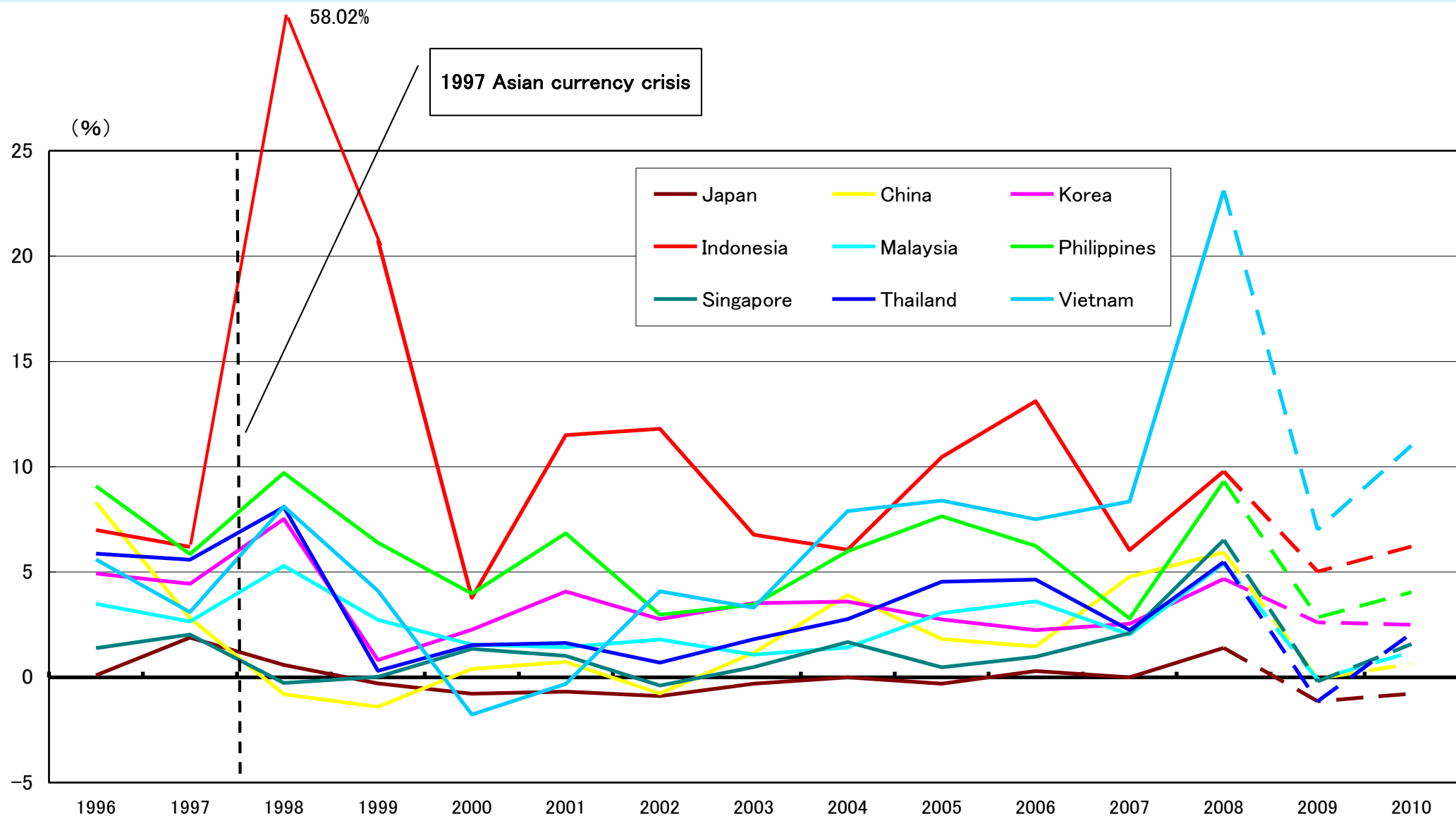
Current Account Balance / GDP

(%)



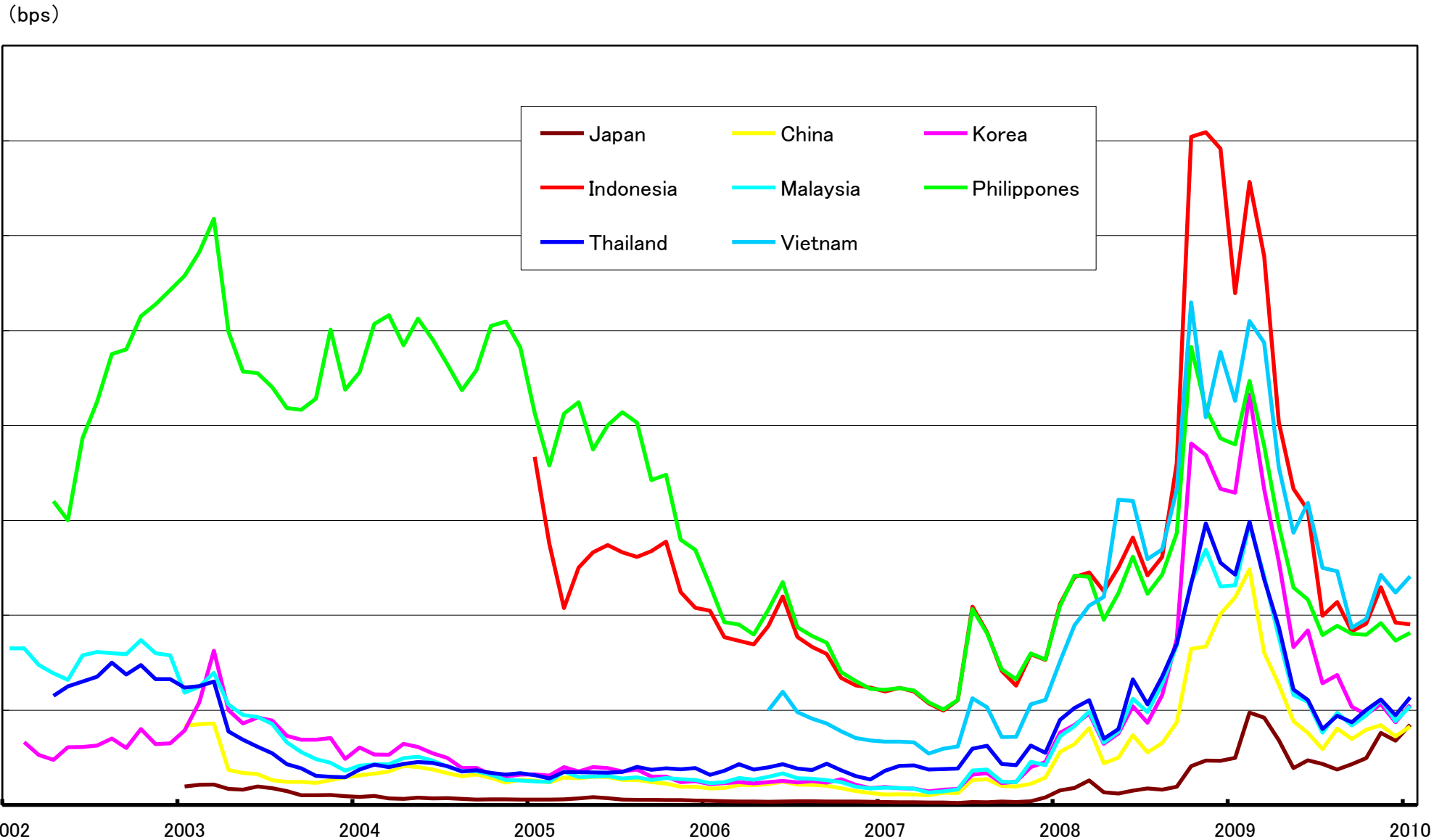
(Source) IMF, World Economic Outlook, October 2009

Consumer Price Index



(Source) IMF, World Economic Outlook, October 2009

CDS Spread of Sovereign Bond



(Source) Bloomberg

Intra-regional Export/Import Ratio

Distribution of Export Amount in Countries (%) (2008)

Partner Country Exporting Country						to U.S.	to EU	to Others	Total
	to ASEAN	to Japan	to China & HK	to Korea	to ASEAN+3				
ASEAN	25.5%	10.4%	16.6%	3.7%	56.2%	10.7%	11.4%	21.7%	100.0%
Japan	13.2%	—	21.1%	7.6%	41.9%	17.8%	14.0%	26.3%	100.0%
China & HK	7.5%	7.4%	19.8%	4.5%	39.2%	17.4%	19.0%	24.4%	100.0%
Korea	11.4%	6.4%	28.9%	—	46.7%	10.9%	12.4%	30.1%	100.0%
ASEAN+3	13.5%	6.6%	20.2%	4.4%	44.8%	15.1%	15.4%	24.7%	100.0%
U.S.	5.2%	5.1%	7.2%	2.7%	20.2%	—	21.1%	58.7%	100.0%
EU	1.4%	1.1%	2.5%	0.6%	5.6%	6.3%	66.0%	22.1%	100.0%

Source: IMF Direction of Trade Statistics

※Intra-regional export ratio of NAFTA: 48.7% (2008)

Distribution of Import Amount in Countries (%) (2008)

Partner Country Importing Country						from U.S.	from EU	from Others	Total
	from ASEAN	from Japan	from China & HK	from Korea	from ASEAN+3				
ASEAN	26.4%	11.4%	14.2%	5.1%	57.1%	8.5%	9.5%	24.9%	100.0%
Japan	14.1%	—	19.1%	3.9%	37.0%	10.4%	9.2%	43.4%	100.0%
China & HK	10.9%	11.6%	15.0%	8.5%	46.1%	6.3%	9.9%	37.7%	100.0%
Korea	9.8%	15.1%	20.8%	—	45.7%	8.8%	9.6%	35.9%	100.0%
ASEAN+3	15.5%	9.6%	16.3%	5.7%	47.1%	8.0%	9.6%	35.3%	100.0%
U.S.	5.3%	6.6%	16.8%	2.3%	31.0%	—	17.3%	51.6%	100.0%
EU	1.9%	1.8%	6.2%	0.9%	10.9%	4.5%	61.9%	22.7%	100.0%

Source: IMF Direction of Trade Statistics

※Intra-regional import ratio of NAFTA: 33.7% (2008年)

Asian Bond Markets Initiative (ABMI)

Prior to the 1997 Asian Currency Crisis

- Asian currencies were pegged to the dollar and borrowing was largely short-term and in dollars. This was then used to make long-term investments in local currencies.
("Double Mismatch")
 - This led to both maturity and currency mismatches.
 - Under this fragile financial system, trust in some Asian currencies was eroded and rapid outflows of capital occurred. These movements rapidly spread to other Asian countries.

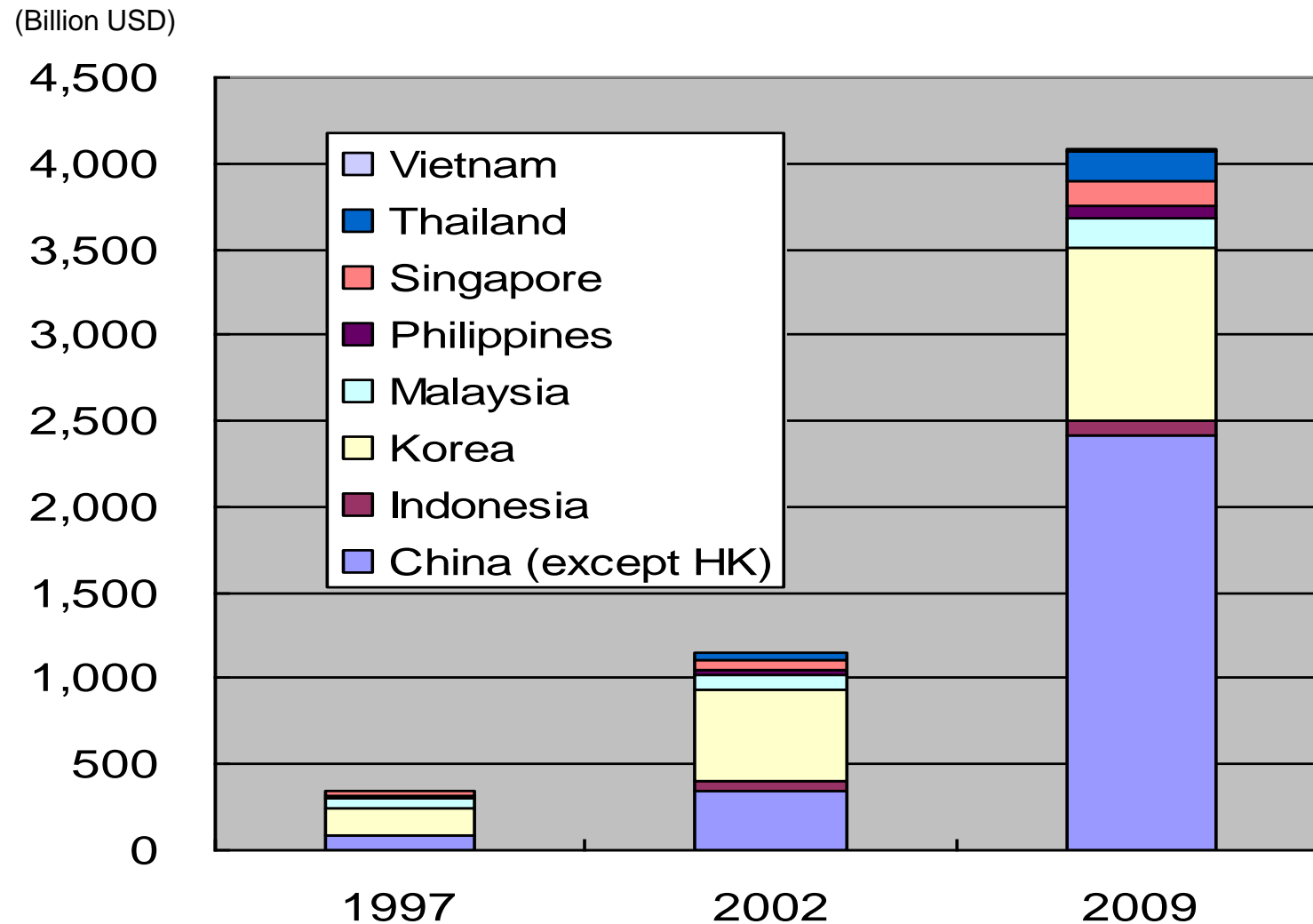
The August 2003 Asean+3 Finance Ministers Meeting in Manila

- In response to the Asian Currency Crisis, it was agreed to take measures to develop local currency-denominated bond markets in order to allow the regional private savings to be used for regional development, by facilitating necessary investment.
 - Under this initiative, The ADB and other international institutions, along with JBIC and government financial bodies, have issued local currency-denominated bonds, and financial institutions have issued securitized instruments of loan receivables. This has contributed to the diversification, and expanded the scale, of regional bond markets.

The May 2008 ASEAN+3 Finance Ministers Meeting in Madrid

- A new ABMI Roadmap was agreed, aimed at the further development of Asian bond markets
 - Alongside Asean+3 countries, measures will be taken to increase the effectiveness and liquidity of bond markets.

Size of Local Currency-denominated Bond Markets in ASEAN+3 Countries



(Note) All figures are the sum of amount outstanding of government bonds and corporate bonds.

Figure of 2009 is as of the end of September.

(Source) Asian Development Bank "Asian Bonds Online"

New ABMI Roadmap

Agreed at the ASEAN+3 Finance Ministers' Meeting in May 2008 in Madrid to renew a strong commitment to promote further progress of the ABMI on the occasion of its fifth anniversary

Focusing on the four key areas

- (i) Promoting issuance of local currency-denominated bonds
(e.g. infrastructure financing)
- (ii) Facilitating the demand of local currency-denominated bonds
(e.g. developments of the investment environment for institutional investors)
- (iii) Improving regulatory framework
(e.g. regulatory harmonization by applying best practices)
- (iv) Improving related infrastructure for the bond markets
(e.g. infrastructure for securities settlement)

Main Issues for Each Task Force

【TF1】

Promoting issuance of local currency-denominated bonds

- Credit guarantee and investment mechanism
- Promotion of Medium-term Note Programme
- Debt instruments for infrastructure financing
- Development of derivatives and swap markets

【TF2】

Facilitating the demand of local currency-denominated bonds

- Development of an investment environment for institutional investors
- Development of repo markets
- Enhancing cross-border transactions (Regulations on capital movement, Taxation system for nonresidents)
- Disseminating the efforts under the ABMI to institutional investors in the ASEAN+3 countries

【TF3】

Improving regulatory framework

- Strengthening the regulatory and supervisory framework
- Facilitating collaboration among securities dealers associations
- Promoting application of accounting and auditing standards broadly consistent with international standards

【TF4】

Improving related infrastructure for the bond markets

- Facilitating discussion by private sector participants on desirable regional settlement systems
- Increasing liquidity of bond markets (Developing and maintaining a benchmark yield curve)
- Fostering credit culture (Development of a credit risk database)

The Joint Media Statement of the 12th ASEAN+3 Finance Ministers' Meeting

3 May 2009, Bali, Indonesia

=Excerpt=

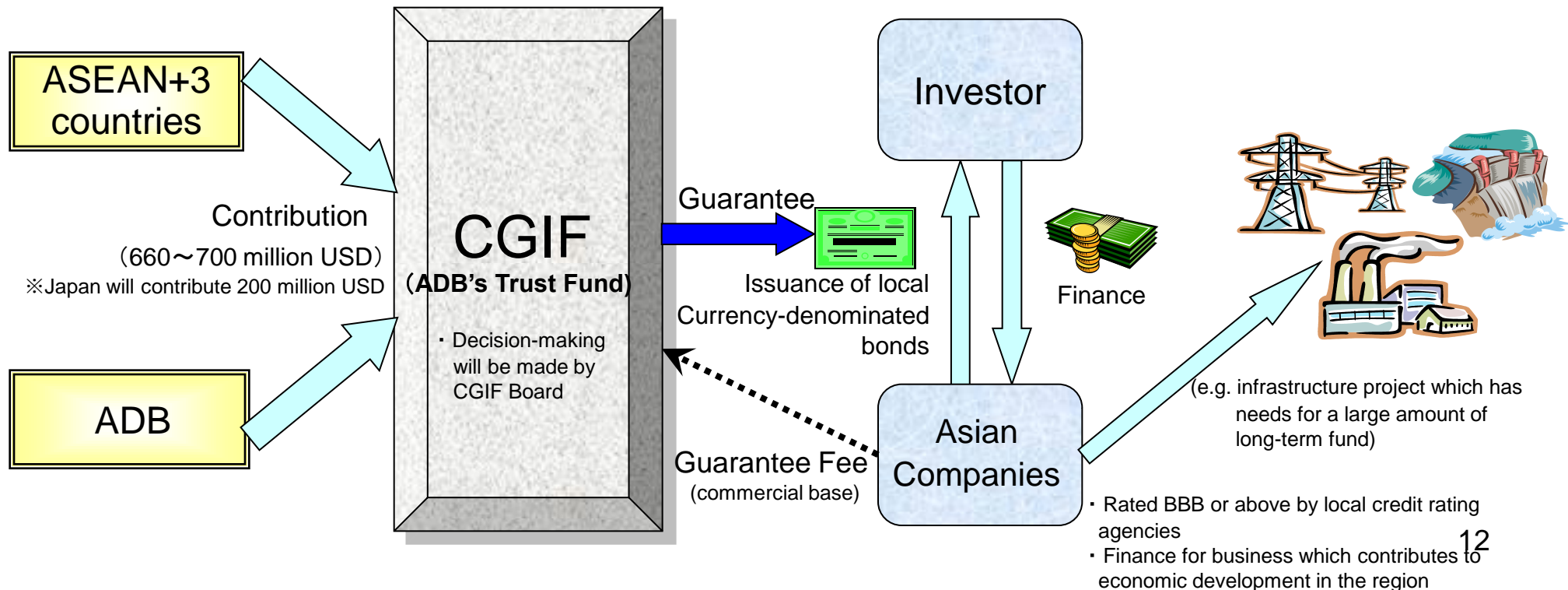
- On **the Asian Bond Markets Initiative (ABMI)**, we stressed the importance of the ABMI in promoting the local currency bond markets and enhancing the recycling of regional savings towards developing regional bond markets. We agreed to enhance the ABMI Roadmap taking into account the outcome of the London Summit.
- We endorsed the establishment of the Credit Guarantee and Investment Mechanism (CGIM) as a trust fund of the ADB with an initial capital of US\$500 million which could be increased once the demand is fully met. The objective of CGIM is to support the issuance of local currency-denominated corporate bond in our region. This initiative would contribute to developing regional bond markets. Issues regarding the establishment of CGIM such as business scope, leverage ratio and country limit are to be further discussed at the working level in order to make the mechanism to be effective by the 2010 AFMM+3(ASEAN+3 Finance Ministers' Meeting).

(Note) "CGIM" was renamed "CGIF" (Credit Guarantee and Investment Facility) thereafter.
- In addition, we agreed on the proposed provision of the Technical Assistance from ADB with regard to the pilot project on cross-border infrastructure bond issuance by the Lao government in Thailand. We also agreed to explore the possible measures to enable mutual access to securities markets in the region. We took note of the active efforts and progress made in discussions by the Group of Experts composed of private sector participants, especially on cross-border bond transactions and settlement issues.

Credit Guarantee and Investment Facility (CGIF)

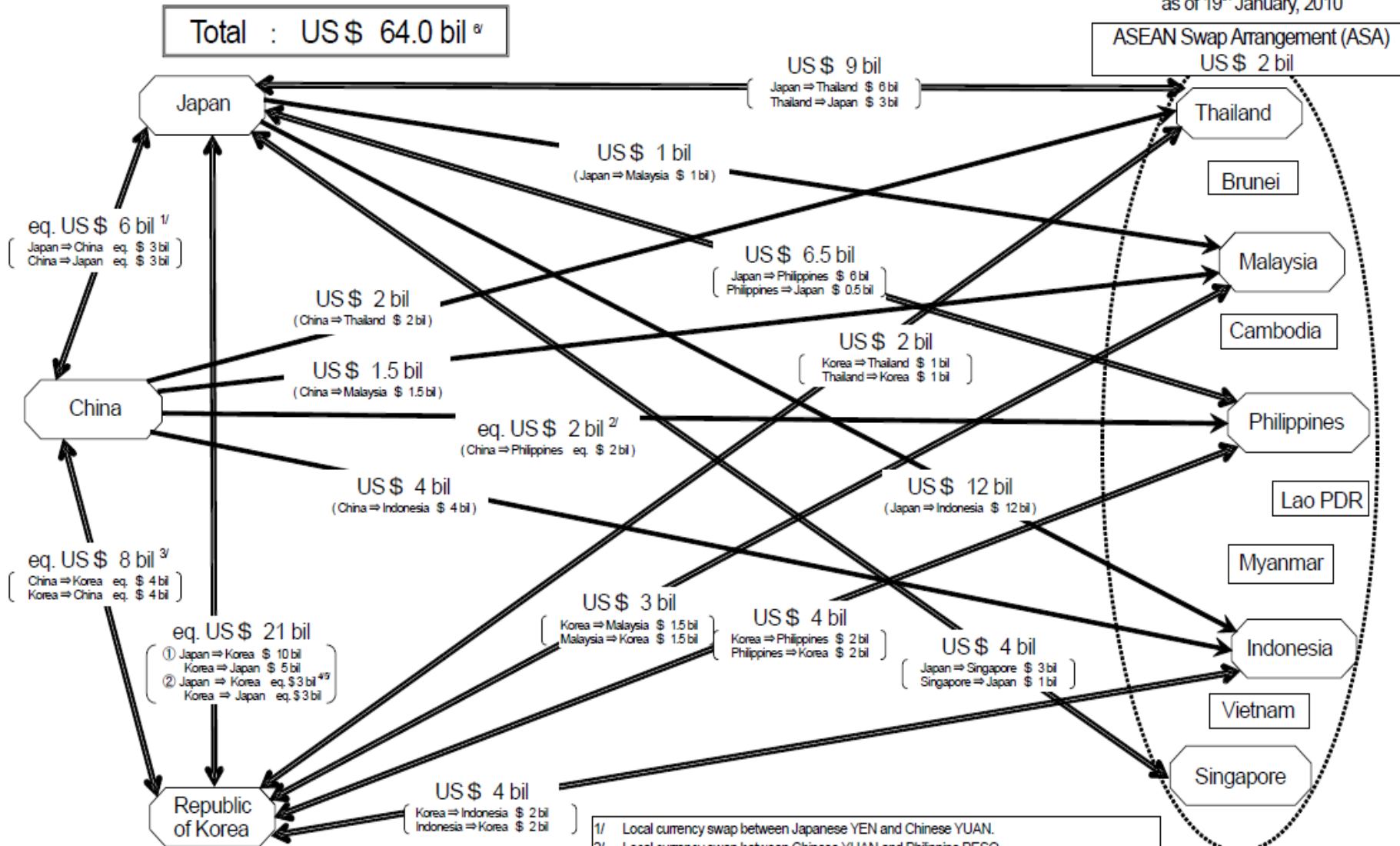
- At the ASEAN+3 Finance Ministers' Meeting in May 2009 in Bali, the Ministers agreed to establish CGIF which provides local currency-denominated bonds with guarantee in order to promote bond issuance by addressing the following issues:

- Due to conservative investment policy of institutional investors in the region, even quality companies like those rated single-A by local credit rating agencies have a difficulty in financing by bond issuance and issuance of longer-term bonds even if possible,
- Finance for SME and infrastructure development are easily influenced by credit crunch since it quite depends on indirect finance such as bank loans.



Network of Bilateral Swap Arrangements (BSAs) under the Chiang Mai Initiative (CMI)

as of 19th January, 2010

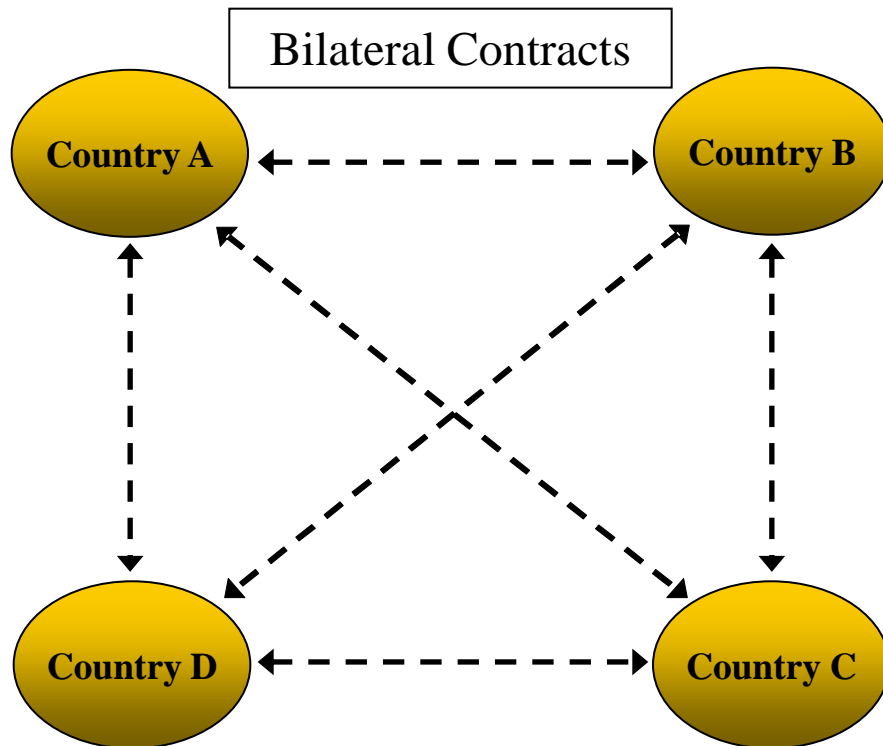


- 1/ Local currency swap between Japanese YEN and Chinese YUAN.
- 2/ Local currency swap between Chinese YUAN and Philippine PESO.
- 3/ Local currency swap between Chinese YUAN and Korean WON.
- 4/ Local currency swap between Japanese YEN and Korean WON.
- 5/ The maximum amount is increased to US\$ 20 billion equivalent until 30th April, 2010.
- 6/ The sum of US\$ 64.0 bil does not include the ASEAN Swap Arrangement (ASA).

Comparison : Current and Multilateralised CMI Framework

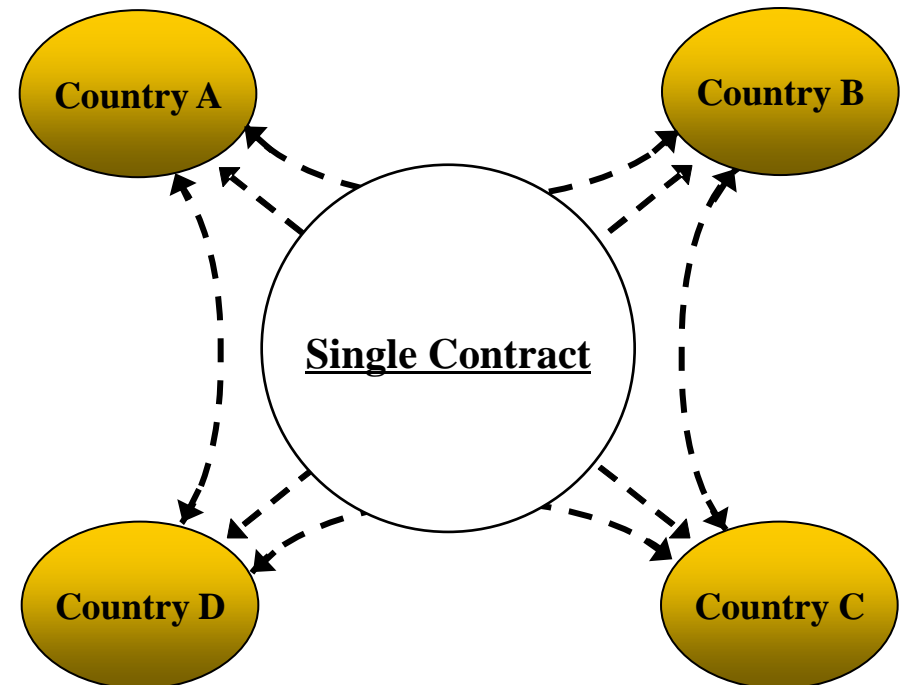
【Current CMI】

- Bilateral contracts (among 8 countries, 16 arrangements)
- Bilateral swap arrangements between Swap Providing Countries and Swap Requesting Countries



【Multilateralised CMI】

- Single contract (13 countries, 1 arrangement)
- One swap arrangement between Swap Providing Countries and Swap Requesting Countries



Contribution to the CMI Multilateralisation (CMIM)

	Financial Contribution (billion USD)		Share (%)		Maximum Swap Amount	
						IMF De-linked Portion (20%)
Plus Three	96.00		80.00		57.6	13.20
Japan	38.40		32.00		19.2	3.84
China	38.40	China (Excluding Hong Kong, China)	32.00	28.50	17.1	3.42
		Hong Kong, China		4.20	3.50	2.1
Korea	19.20		16.00		19.2	3.84
ASEAN	24.00		20.00		63.1	12.62
Indonesia	4.77		3.97		11.9	2.39
Thailand	4.77		3.97		11.9	2.39
Malaysia	4.77		3.97		11.9	2.39
Singapore	4.77		3.97		11.9	2.39
Philippines	3.68		3.07		9.2	1.84
Vietnam	1.00		0.83		5.0	1.00
Cambodia	0.12		0.10		0.6	0.12
Myanmar	0.06		0.05		0.3	0.06
Brunei	0.03		0.02		0.2	0.03
Lao PDR	0.03		0.02		0.2	0.03
Total	120.00		100.00		120.7	25.82

Joint Media Statement

Action Plan to Restore Economic and Financial Stability of the Asian Region

22 February 2009, Phuket, Thailand

=Excerpt=

In order to ensure regional market stability and to foster confidence in the markets, we stress the importance of operationalising the Multilateralisation of the Chiang Mai Initiative (CMI), and agree on the following key elements:

- The total size of Multilateralised Chiang Mai Initiative (CMIM) will be increased from the initially agreed level of US\$ 80 billion to US\$ 120 billion, the proportion of the amount of contribution between ASEAN and the Plus Three countries will be maintained at 20:80 respectively.
- The regional surveillance mechanism should be further strengthened into a robust and credible system which will facilitate prompt activation of the CMIM. An independent regional surveillance unit will be established to promote objective economic monitoring.
- After the above surveillance mechanism becomes fully effective in its function, the IMF de-linked portion may be increased above the current limit of 20 percent.

The Joint Media Statement of the 12th ASEAN+3 Finance Ministers' Meeting
3 May 2009, Bali, Indonesia

=Excerpt=

- On **the Chiang Mai Initiative (CMI)**, we have reached agreement on all the main components of the CMI Multilateralisation (CMIM), including the individual country's contribution, borrowing accessibility, and the surveillance mechanism. The agreed components of the CMIM, which is a framework of mutual assistance among ASEAN+3 countries, are consistent with its two core objectives : (i) to address short-term liquidity difficulties in the region and (ii) to supplement the existing international financial arrangements.
- We agreed to implement the CMIM before the end of this year. In this regard, we tasked our Deputies to work out the operation details and implementation plan, particularly the legal documents that will govern the CMIM.
- We agreed that an independent regional surveillance unit will be established as soon as possible to monitor and analyze regional economies and support CMIM decision-making. As a start, we agreed to establish an advisory panel of experts to work closely with the ADB and the ASEAN Secretariat to enhance the current surveillance mechanism in order to lay the surveillance groundwork for the CMIM. In addition, we welcomed Hong Kong, China, to participate in the CMIM.

Thank you.