

***FPRI***

# **ASIAN BOND STATUS REPORT**

**By**

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## Why ASIAN BOND?

- To channel long term savings to match long-term investments needed in the region
- To eliminate the double mismatch (maturity and currency) and stabilizing capital inflows and outflows
- To channel long term funds within Asia and allow fund users to borrow in their own currencies

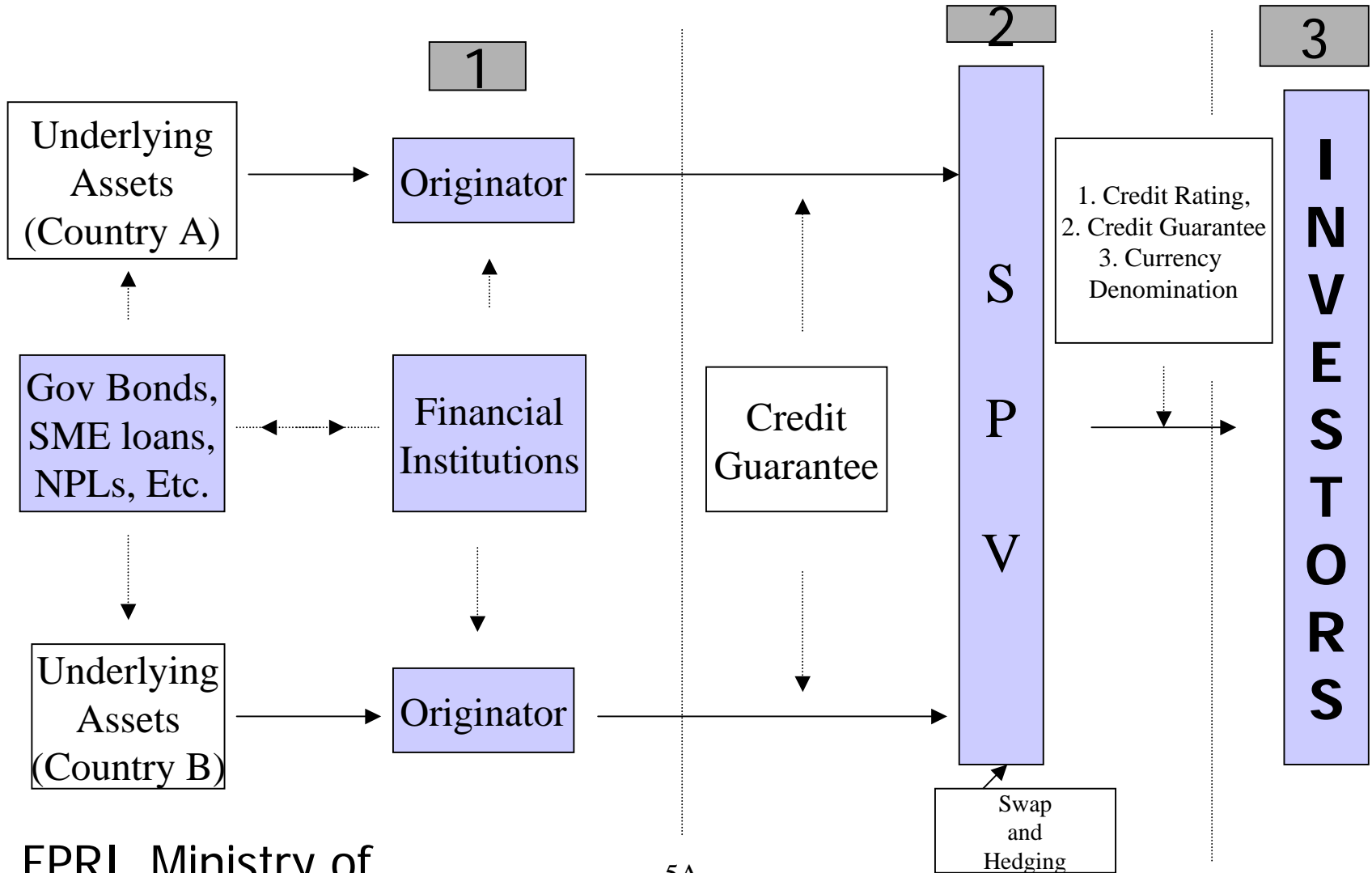
## **When to start ASIAN BOND?**

- NOW and during the next 5 years because:
  - East Asian countries have high savings and current account surplus and probably continue to do so for most countries.
  - Net external debt is getting smaller (gross debt minus foreign assets of banking system) and will eventually become net creditors in the next 5 yrs.
  - Strong financial cooperation among East Asian countries (e.g. Chiang Mai Initiative)

# What should be ASIAN BOND?

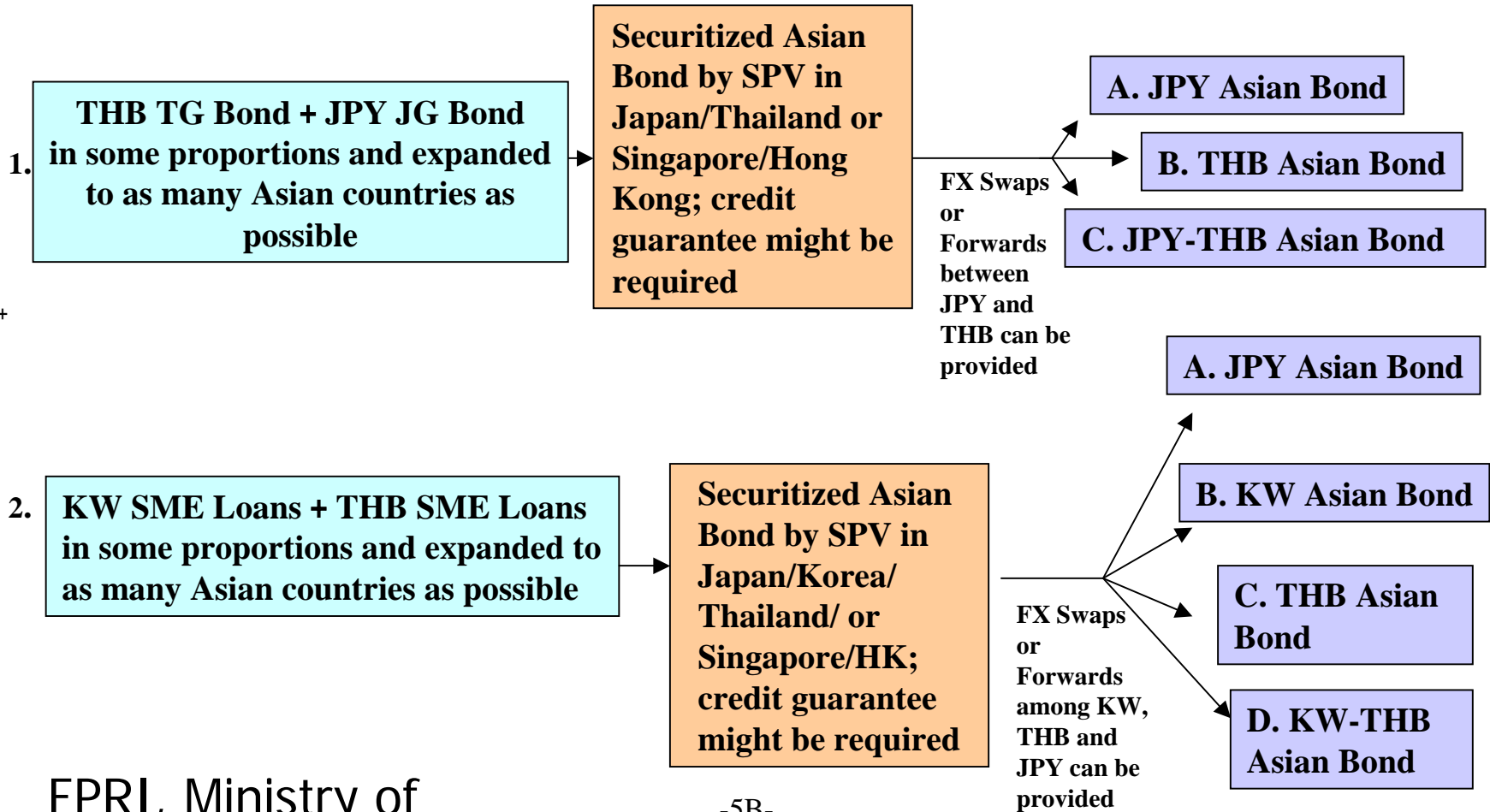
Type of Currency	Type of Bond	
	Straight	Securitized
Local Currencies	YES	YES
Major Currencies (YEN, USD, EURO)	YES	NO
Mixed Currencies	-	NO

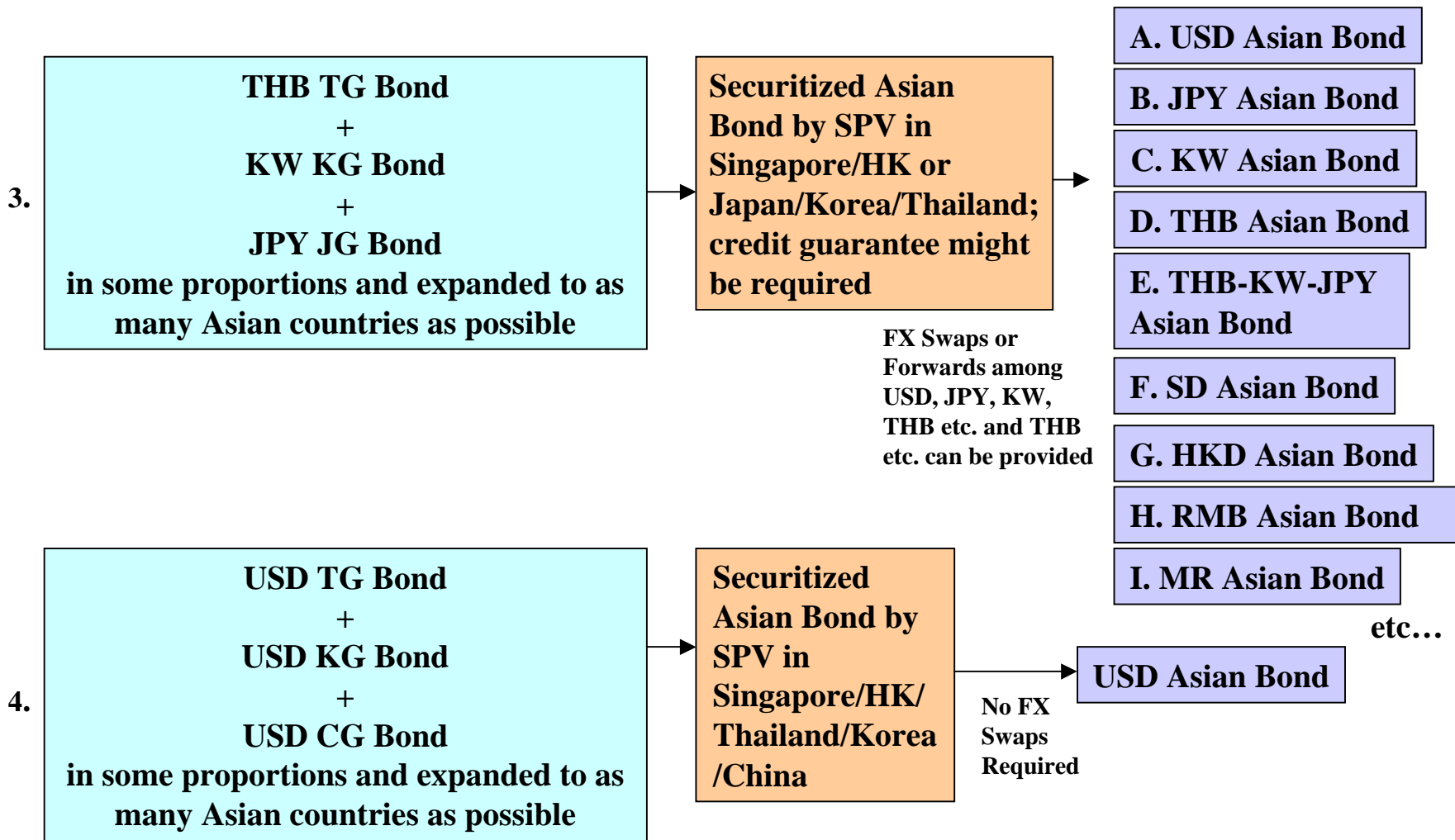
- First generation of Asian Bond to be followed by later generations with structure and features indicated as an example :





## Simple Examples of Securitized Debt Instrument that Can Be Called “Asian Bond”





## How to proceed from now?

1. An agreeable Asian Bond structure: bilateral or multilateral securitization or other alternatives?
2. Which countries are willing to participate?
3. Who can be practically acceptable issuers of underlying IOU's - sovereign, quasi-sovereign or private sector?

Continued.....

## How to proceed from now? Continue...

4. Establishing Asia based credit rating agency as well as a comprehensive credit guarantee or enhancement system
5. Changes in cross-border financing rules and regulations as well as other legal, tax and accounting changes.
6. Foreign exchange policy coordination: risk management, currency hedging mechanism, exchange control and etc.
7. Who should be underwriters, market makers and secondary market trading centers of the Asian Bond?

# How much to aim at the beginning?

- Large enough size is critical for success, at least USD4-5 billion for the first generation of Asian Bond for benchmarking purpose
- Asian Bond Fund (ABF) by the Central Banks at the beginning as a catalytic investor and later on as secondary market maker.
- Private sector participation as issuers of the underlying IOU's should be brought in as much as possible and as quickly as possible.



## Progress on ASIAN BOND:

- ACD, APEC, ASEAN + 3, EMEAP
- Initiatives by MOF, JAPAN, KOREA and Thailand
- Other Initiatives

