

East Asia Pacific central banks reinvest Asian Bond Funds

A group of East Asia Pacific central banks is closing its US-dollar denominated bond fund and transferring the investment to a local-currency bond fund in order to enhance local-currency bond market development in the region.

The Executives' Meeting of East Asia Pacific (EMEAP) central banks, a group of 11 central bank and monetary authorities in the East Asia and Pacific region, set up its Asian Bond Fund initiative in order to support local-currency bond market development and offer EMEAP member central banks a diversified regional investment product for their reserves management.

Asian Bond Fund 1 (ABF1) was established in 2003 as a stepping stone to Asian Bond Fund 2 (ABF2), and helped to develop the regional framework for EMEAP central bank co-operation. ABF1 is managed by the Bank for International Settlements (BIS) on behalf of EMEAP central banks. It invests in US dollar-denominated bonds issued by sovereign and quasi-sovereign issuers in EMEAP economies other than Japan, Australia and New Zealand. ABF2, comprising the Pan-Asia Bond Index Fund (PAIF) and eight single-market funds, is managed by private-sector fund managers with the BIS as the administrator. It invests in local currency-denominated bonds in EMEAP economies other than Japan, Australia and New Zealand.

Asian local-currency bond markets have grown steadily since the inception of ABF1, providing local-currency funding for borrowers in the region and local-currency savings vehicles for regional investors. From 2003 to 2015, issuance of local currency-denominated bonds in Asia ex Japan recorded a near eight-fold increase from around USD125 billion to more than USD1 trillion.

In April this year, the EMEAP group determined that ABF1 has achieved its original purpose and that the fund should be closed. The proceeds are being reinvested in ABF2 over the course of several months, to ensure a smooth transition and minimal market impact.

Central banks in the EMEAP group remain committed and unified in their support for the Asian Bond Fund initiative. In addition to reinvestment in ABF2, the EMEAP ABF Oversight Committee continues to evaluate other ways in which the Asian bond fund initiative can further enhance local-currency bond market development in the region.