

Unifying government bond markets in East Asia

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Abstract

As foreign exchange reserve holdings by central banks in East Asia have risen, so too have outstanding central bank debts issued to sterilise these reserve holdings. This paper argues that the domestic bond markets of East Asia would benefit from the re-funding of central bank debt instruments with government bonds. It examines balance sheets of East Asian central banks, showing that foreign exchange reserve holdings have grown to a multiple of outstanding currency or currency plus bank reserves (the monetary base). It demonstrates that the gap has been filled to a varying extent by a central bank liability. It proposes a conversion of these central bank liabilities into government debt to market participants and a central bank liability to the government. The increase in the size and therefore potentially the liquidity of the government bond market is measured.

¹ Views expressed are those of the author and not those of the Bank for International Settlements.