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'Bonds issue should be in local currencies'

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MALAYSIA and Japan have agreed that bonds issued by the region's private sector should be in local currencies under the Asian Bond Market Initiative (ABMI).

Japanese Vice Finance Minister Takayoshi Taniguchi said while Asian countries have not made any concrete decisions on whether the bonds should

be issued in local currencies or in US dollars, the two countries concurred that eventually, local-currency bonds are preferred.

"At this point in time no concrete decision has been worked out. For example, Thai Prime Minister Thaksin Shinawatra has been advocating for the Asian Bond Fund (ABF), which will focus on investing in regional government bonds that are US dollar-denominated. But Thailand also agreed

that local-currency bonds are ultimately preferred," Taniguchi told reporters in Kuala Lumpur yesterday.

"The final scheme (under the ABMI) is not fixed or established yet. There are many ways to address this issue. For example, there is a suggestion to issue baht-denominated bonds in Japan as one of the ways to

nurture the regional bond market and this is being considered.

"We also heard that the Asian Development Bank has been given the approval by the Thai authorities to issue baht-denominated bonds in Thailand and the Japan Bank of International Corp also wants to do it hopes it will be given the approval," he said.

Taniguchi noted that the general practice has been to issue US dollar-denominated bonds, but he quickly added that going forward, it is important to see bonds denominated in local currencies being issued.

Analysts had said for the bond fund to work, the debt should be in local currencies so that governments are not exposed to the risk of default in case of devaluation. However, it was reported that many smaller creditor countries like Singapore and Hong Kong may be unwilling to support the Asian bond fund if it involved them having to hold bonds denominated in weaker regional currencies.

The ABMI was mooted by the 10-country Association of South-East Asian Nations (Asean) plus Japan, China and South Korea (Asean+3) to provide a regional source of funds for the Asian private sector and to prevent the recurrence of the Asian financial crisis in 1997-1998.

Japan is a strong supporter of the ABMI as well as Malaysia, which has been instrumental in promoting the setting up of the initiative.

On the realisation of the AbmiI, Taniguchi said: "We do not know when exactly this market is going to be fostered as it depends on the six groups working on the ABMI.

"If everything moves quickly, perhaps within this year, we could expect the findings of their report to be released. Based on those findings and study results, as we continue to monitor the development standards of each

country's capital market, we also push forward this work further. I am sure that things will become more concrete as we go forward," he added.

Taniguchi is on a working visit to Malaysia to discuss on nurturing the ABMI.

He said in his earlier meeting with Second Finance Minister Datuk Dr Jamaludin Jarjis yesterday, the latter has expressed Malaysia's interest to host the next Asean+3 high-level seminar. The previous seminar was held in Tokyo in March this year.

"Nothing has been decided yet (on the venue and date of the next seminar), but Malaysia has suggested that perhaps it could host the second meeting. We (Japan) responded by saying that we would like to put more thought to that," he said.

Taniguchi also met with Bank Negara Malaysia Governor Tan Sri Dr Zeti Akhtar Aziz, in which both concurred that the internationalisation of the yen should be further promoted.

"This is what Prime Minister Datuk Seri Dr Mahathir Mohamad has been calling for. Today, the key currency of the world is the US dollar, followed by euro. The share of yen circulating throughout the world is still rather low and we would like to see this change," he said.