**Bond Market Development in East Asia: Issues and Challenges**

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**Abstract**

In postcrisis Asia, the development of domestic bond markets is increasingly seen as one of the key requirements to strengthen the financial sectors of East Asian countries and to reduce their vulnerabilities to future financial crises. There is a great diversity in terms of the level of bond market development across East Asian countries. Judged by several indicators of bond market development, Hong Kong, China and Singapore are ahead of other countries, followed by a second tier consisting of Korea; Malaysia; and Taipei, China and a third tier consisting of People's Republic of China, Philippines, and Thailand. Indonesia's bond market is perhaps the most nascent among East Asian bond markets. Initiatives to develop bond markets in East Asia should focus on: (i) sustaining a stable macroeconomic environment with low inflation and stable interest rates, (ii) developing a healthy government bond market that would serve as a benchmark for the corporate bond market, (iii) completing the postcrisis agenda of banking sector restructuring, (iv) improving corporate governance, (v) strengthening the regulatory framework for bond market, (vi) rationalizing tax treatment of bonds, (vii) broadening the investor base, and (viii) promoting the growth of regional bond market centers. Since at present there is a great diversity in the levels of bond market development across countries, significant country-specific deciphering of these requirements will be needed for developing country strategies for bond market development.

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