

Liquidity of China's Government Bond Market: Measures and Driving Forces

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Summary

We construct a daily liquidity index of China's government bond market using transaction data from the national interbank market over the past twenty years. The index is a composite of popular price-based and quantity-based metrics of liquidity. The composite indexes, obtained by averaging across different metrics or by applying principal component analysis, both point to a better liquidity condition after 2010. Market liquidity swings appear to be highly correlated with domestic funding liquidity and financial market volatility, but display less correlation to global macrofinancial indicators. Our findings suggest measures that encourage foreign participation and foreign capital inflows could help to improve government bond liquidity.