

ASIA'S LOCAL BOND MARKETS EXPAND 18.8%, FOREIGN INVESTMENT SOARS - REPORT

MANILA, PHILIPPINES (4 October 2010) – Local currency bond markets in emerging East Asia had grown by an annual 18.8% as of the end of June, with \$4.8 trillion in paper outstanding, according to the Asian Development Bank's (ADB) [latest quarterly Asia Bond Monitor](#).

This large expansion was driven by a 24.4% year-on-year growth in the corporate bond market, which has become an increasingly important source of funding for private sector investment.

Emerging East Asian bond markets – comprising those of the People's Republic of China (PRC); Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam – have also seen strong foreign investment.

High offshore and onshore demand for emerging East Asia's local currency bonds has reduced the premiums paid on corporate debt over government benchmark bonds and contributed to a flattening in government bond yield curves.

"Emerging East Asia is experiencing strong foreign portfolio capital inflows as investors chase higher returns in local markets," said Iwan Azis, Head of ADB's Office of Regional Economic Integration.

According to the most recent data, foreigners held 27.4% of Indonesian government debt, 18.1% in Malaysia and 7.4% of sovereign debt in Korea. While much of that investment has come from outside Asia, some has also come from within the region. The PRC's holdings of Korean Treasury Bonds (KTBs), for example, soared to W4.0 trillion at the end of June from only W1.9 trillion at the end of December 2009, and now account for about 10% of foreign holdings of KTBs.

"The risks to the outlook for Asia's local currency bond markets are now tilted to the downside. Nevertheless, a slowdown in the developed economies, volatile capital inflows and inflationary pressures are still threats," said Mr. Azis.

Growth in the size of local currency bond markets was led by Hong Kong, China (43.3%), Viet Nam (35.8%), PRC (22.5%), and Thailand (18.4%). The strong growth of the Hong Kong, China market was due mainly to the heavy issuance of Exchange Fund Bills and Notes by the Hong Kong Monetary Authority for monetary policy purposes.

At the end of June, the size of the PRC's local currency bond market was \$2.85 trillion. The government bond market grew by 17.0% over that period while the corporate bond market expanded a much larger 52.7%.

Governments in the region have continued with policy reforms and other innovations to deepen domestic markets, expand cross-border transactions, and lengthen maturity profiles. For instance, the PRC in August allowed foreign financial institutions greater access to its inter-bank bond market, the Indonesia central bank is pushing for issuance of longer-dated paper, and Korea introduced regulations to enhance trading of KTB futures.

Local currency bond issuance totaled \$938 billion in the second quarter, up 6.5% on year, but 11.7% lower than in the first quarter due to a dip in central bank issuance. Total central bank bill and bond sales fell 25.7% quarter-on-quarter due to reduction in sterilization activities.

Meanwhile, emerging East Asia's sales of bonds denominated in US dollars, euros, and yen are on track to match, if not exceed, the record \$63.2 billion of issuance in 2009. In the first half of 2010, sales reached \$31.8 billion, with an additional \$14.5 billion sold from July to mid-August.

ADB, based in Manila, is dedicated to reducing poverty in Asia and the Pacific through inclusive economic growth, environmentally sustainable growth, and regional integration. Established in 1966, it is owned by 67 members – 48 from the region. In 2009, it approved a total of \$16.1 billion in financing operations through loans, grants, guarantees, a trade finance facilitation program, equity investments, and technical assistance projects. ADB also mobilized cofinancing amounting to \$3.2 billion.

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