Executive Summary

Global investment sentiment waned amid the sharp economic downturn triggered by the coronavirus disease (COVID-19). The governments and central banks of many economies launched fiscal stimulus packages and eased monetary policies to mitigate the economic impact of COVID-19.

Emerging East Asian markets shifted to a more accommodative monetary environment, leading to a decline in short-term interest rates. The 2-year bond yield in nearly all regional markets trended downward between 28 February and 29 May. On the other hand, long-term interest rates, proxied by the 10-year bond yield, diverged based on economy-specific trends.

The outbreak of COVID-19 soured investment sentiment in emerging East Asia. Equity markets suffered losses and currencies depreciated against the United States dollar for most markets in the region during the review period. Credit spreads widened for nearly all markets as risk aversion heightened. Global investors flocked to safe-haven assets, pushing down the share of foreign holdings in most of the region’s local currency (LCY) bond markets.

More recently, as some governments have gradually eased quarantine measures, investment sentiment has somewhat recovered, leading to a recovery in some markets.

However, the risks to the global outlook remain heavily tilted to the downside. Uncertainty about the trajectory of COVID-19 is the overriding risk factor. Other risk factors include trade tensions between the People’s Republic of China and the United States and financial volatility due to capital outflows from emerging markets.

Emerging East Asia’s local currency bonds outstanding climbed to USD16.3 trillion in the first quarter of 2020.

LCY bonds outstanding in emerging East Asian markets expanded in the first quarter (Q1) of 2020, reaching a total of USD16.3 trillion at the end of March, with growth accelerating to 4.2% quarter-on-quarter (q-o-q) and 14.0% year-on-year (y-o-y) from 2.4% q-o-q and 12.6% y-o-y in the fourth quarter of 2019.

Government bonds outstanding, which dominate the region’s bond market, rose to USD9.9 trillion and accounted for 60.6% of the region’s aggregate bond stock at the end of March. Corporate bonds reached USD6.4 trillion, or 39.4% of the total.

The People’s Republic of China remained home to the largest bond market in the region, accounting for 76.6% of the region’s total bond stock at the end of March. The share of the region’s second-largest bond market in the Republic of Korea stood at 12.5%. Bond markets in member economies of the Association of Southeast Asian Nations (ASEAN) accounted for an aggregate 9.1% share.

As a share of gross domestic product, emerging East Asia’s LCY bonds outstanding rose to 87.8% at the end of March, up from 83.2% at the end of December and 80.2% at the end of March 2019.

Total LCY bond issuance in the region reached USD1,671.5 billion in Q1 2020, growing 19.7% q-o-q and 22.1% y-o-y. Government bond issuance reached USD918.9 billion, growing 32.9% q-o-q and 12.6% y-o-y. Corporate bond issuance reached USD752.5 billion, which represented q-o-q growth of 6.8% and y-o-y growth of 36.2%.

Under an initiative to strengthen bond market linkages among ASEAN+3 markets, two new corporate bonds were issued in Cambodia through the ASEAN+3 Multi-Currency Bond Issuance Framework in April. RMA (Cambodia) Plc., a retail and distribution company, raised KHR80 billion from the sale of a 5-year bond. The issuance marked Cambodia’s first bond guaranteed by the Credit Guarantee and Investment Facility and the first issuance by a nonfinancial corporation. Also in April, Prasac Microfinance Institution Plc. raised KHR127.2 billion from the sale of a 3-year bond, the largest

---

1 Emerging East Asia comprises the People’s Republic of China; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.
2 LCY bond statistics for the Association of Southeast Asian Nations include the markets of Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Viet Nam.
3 ASEAN+3 comprises the 10 member economies of ASEAN plus the People’s Republic of China, Japan, and the Republic of Korea.
corporate issuance to date in Cambodia. The issuance was the second bond in Cambodia to be guaranteed by the Credit Guarantee and Investment Facility.

The June issue of the Asia Bond Monitor includes a special section on how the financial sector can help fund the fight against COVID-19 and a theme chapter on the relationship between financial architecture and innovation.

**Box 1: COVID-19—Impact on Capital Markets**

Box 1 explains how the outbreak of COVID-19 has caused volatility and dried up liquidity in capital markets. This box discusses the disruptive impact of the pandemic on global financial markets—especially primary, secondary, and repo markets. Although central bank interventions have helped, greater coordination among central banks and more systematic solutions could have led to better outcomes.

**Special Section on COVID-19 and the Financial Sector**

**Box 2: Pandemic Bonds—An Option for Fighting COVID-19**

Box 2 explores the negative impact of COVID-19 on public finances caused by increased spending and falling revenues. Governments can mobilize more resources by issuing pandemic bonds to finance pandemic-related expenditures. At a broader level, the bond market is likely to play a significant role in bridging governments’ financing gaps.

**Box 3: Social Bonds and the COVID-19 Crisis**

This box discusses the rising attention directed to social bonds in 2020 in response to the COVID-19 pandemic. Aggregate issuance of social bonds had reached nearly USD12 billion by 12 May, compared to USD16 billion raised in all of 2019. This box documents the major social and sustainability bond issuances in 2020 to date. These bonds have funded projects that support health services, unemployment alleviation, and small and medium-sized enterprises.

**Box 4: Fintech for Inclusive Growth and Pandemic Resilience**

The financial sector can promote inclusive growth and broaden access to financial services by capitalizing on financial technology (fintech). This box discusses how fintech can provide financial services to financially underserved and vulnerable groups amid the COVID-19 pandemic. Improved coordination between policy makers and the fintech sector is needed to better support households and businesses, and to provide liquidity.

**Box 5: Financing Firms During the COVID-19 Pandemic**

This box explains how the COVID-19 pandemic has seriously disrupted financial markets and therefore firms’ ability to obtain financing. While a well-functioning financial system can lessen the impact of COVID-19 on the finances of firms, it alone is not sufficient. Adjustments to credit provision can help, such as keeping borrowing costs low and delaying repayments, but these measures must also be balanced against financial stability. Governments can contribute to financial stability through liquidity provision and by reconsidering government finances.

**Theme Chapter on Financial Architecture and Innovation**

The theme chapter examines the link between financial architecture and innovation. It highlights the importance of a sound and efficient financial system in fostering a viable innovation environment. The theme chapter features a study, summarized in a discussion box, that explores whether financial intermediaries (e.g., banks) or capital markets (e.g., equity and debt markets) are more conducive to innovation. Using a global sample, the study finds that a market-based financial system is more conducive to innovation, measured by both innovation quantity and quality. The evidence thus strengthens the case for developing a well-balanced financial system in the region.