Asia Bond Monitor Highlights

Local currency (LCY) government bond yield movements diverged across emerging East Asia between 28 February and 21 May due to market-specific factors.[1] Uncertainty regarding the COVID-19 pandemic and government containment efforts influenced the economic outlook in the region, affecting investment sentiment and bond yields.

The economic performance of all emerging East Asian markets improved in the first quarter (Q1) of 2021 relative to the fourth quarter (Q4) of 2020. Most economies—the People's Republic of China (PRC); Hong Kong, China; the Republic of Korea; Singapore; and Viet Nam—reported positive GDP growth in Q1 2021. Other regional markets contracted in Q1 2021 but at a slower pace than in the fourth quarter (Q4) of 2020.

Investor sentiment remained subdued amid looming uncertainties brought about by the COVID-19 pandemic and inflation fears in the United States (US). This led to volatilities in financial markets, especially in March. Equity market performances were mixed across emerging East Asia. The resurgence of COVID-19 cases in some markets triggered new social distancing restrictions that affected consumer sentiment. Exchange rates and risk premiums remained roughly stable.

The COVID-19 pandemic remains the largest downside risk. In addition to rising cases in some markets and new variants, the slow pace of the vaccine rollout is also hampering economic recovery in some regional markets. Another potential risk is the possibility of tightening liquidity conditions globally, specifically that the Federal Reserve might tighten US monetary policy in response to growing inflationary pressure.

Local currency bonds outstanding in emerging East Asia rose to USD20.3 trillion at the end of March.

Emerging East Asia's LCY bond market expanded to reach a size of USD20.3 trillion at the end of March. However, the overall growth of the bond market moderated somewhat in Q1 2021 as governments sought to balance fiscal policy and corporates weighed uncertainty over the economic recovery. On a quarter-on-quarter (q-o-q) basis, overall growth in the region's bond market slipped to 2.2% in Q1 2021 from 3.1% in Q4 2020. Similarly, growth on a year-on-year (y-o-y) basis slowed to 15.9% from 18.2%. As a share of GDP, emerging East Asia's bond market was equivalent to 96.4% of the region's economic output in Q1 2021, slightly down from 97.7% in Q4 2020.

The outstanding amount of government bonds totaled USD12.6 trillion at the end of March, representing 61.8% of emerging East Asia's total bond stock. Government bonds grew 2.1% q-o-q and 18.0% y-o-y in Q1 2021, down from the 3.6% q-o-q and 19.5% y-o-y growth in Q4 2020. The corporate bond market reached a size of USD7.8 trillion, accounting for 38.2% of the regional LCY bond stock. Corporate bond market growth was 2.4% q-o-q and 12.6% y-o-y in Q1 2021, compared with 2.2% q-o-q and 16.2% y-o-y in Q4 2020.

The PRC had the largest LCY bond market in emerging East Asia at the end of March, accounting for 77.8% of the region's bonds outstanding. The Republic of Korea had the next largest market, with a regional share of 11.7%, followed by members of the Association of Southeast Asian Nations with an aggregate share of 9.0%.[2]

New bond issuance during Q1 2021 totaled USD1.9 trillion, slightly down from USD2.0 trillion in Q4 2020. Overall issuance volume declined 1.7% q-o-q in Q1 2021, following a 14.7% q-o-q contraction in Q4 2020. On a y-o-y basis, issuance growth moderated to 8.6% in Q1 2021 from 32.3% in Q4 2020.

[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.

Recent Developments in the ASEAN+3 Sustainable Bond Market

The aggregate amount of sustainable bonds outstanding in ASEAN+3 markets reached USD301.3 billion at the end of March, accounting for nearly 20.0% of the global sustainable bond total.[3] Overall growth quickened to 13.2% q-o-q in Q1 2021 from 6.3% q-o-q in Q4 2020. Green, social, and sustainability bonds accounted for 74.6%, 11.7%, and 13.6% of the regional sustainable bond market, respectively, at the end of Q1 2021.

ASEAN markets accounted for 5.1%, 0.05%, and 15.9% of the outstanding stock of regional green, social, and sustainability bonds at the end of March. The PRC continued to dominate the regional green bond market, accounting for 70.0% of green bonds outstanding in ASEAN+3 at the end of March. At the same time, the Republic of Korea and Japan accounted for 57.4% and 40.1% of regional social bonds outstanding, and 36.3%, and 39.3% of regional sustainability bonds outstanding, respectively.

At the end of Q1 2021, corporate issuers dominated regional green and sustainability bond markets, accounting for 88.1% of green bonds and 72.5% of sustainability bonds. Public sector issuers, including governments and corporates with government links, accounted for 59.2% of social bonds outstanding. The financial sector was the largest issuing sector of regional sustainable bonds at the end of Q1 2021. A majority of regional green and social bonds were issued in LCY, while more than half of regional sustainability bonds were denominated in foreign currencies.

The June issue of the *Asia Bond Monitor* includes a box discussing how some regional markets have been using green *sukuk* (Islamic bonds) to fund environment-friendly investments. Another box analyzes how technological advances such as digital finance can facilitate the financing of sustainable investments for a green and inclusive recovery. This issue also contains a theme chapter on the governance of sustainable finance.

Box 1: Green *Sukuk* Market

Green *sukuk* are used to fund environment-friendly projects. They are similar to green bonds but are Shari'ah-compliant. The global green *sukuk* market is not as well established as the global conventional *sukuk* and green bond markets. As of 21 May, over USD10 billion of green *sukuk* had been issued by 16 entities from around the world, with 65% of the total issuance coming from Malaysia and Indonesia. Global issuance of green *sukuk* grew from 2017 to 2019 before declining in 2020. Investors in green *sukuk* come from 19 economies, led by the US, the European Union, Canada, and the United Kingdom. Since most issuances of green *sukuk* rely on international demand, 88% of them were issued in either US dollars or euros. LCY-denominated green *sukuk* in Malaysia and Indonesia mainly attract domestic investors.

Box 2: Scaling Up Sustainable Investments through Fintech

This box provides an overview of how fintech, or digital finance, solutions can facilitate sustainable investments and improve project implementation by enhancing information flows and transparency. Fintech solutions are dedicated to making financial services more efficient through internet-related technologies. Blockchain technology, a fintech application, helps address major concerns in the three key phases of an infrastructure project's life cycle: (i) inception and fundraising, (ii) realization, and (iii) operation. This box discusses blockchain-based project bonds issued through a digital crowdfunding platform as an example to show how fintech applications provide novel solutions for financing sustainable infrastructure investments.

Theme Chapter: Governing Sustainable Finance

This theme chapter discusses developments in the private and public sectors to integrate sustainability factors into financial systems and investment frameworks to mitigate sustainability risks and align finance with the United Nations Sustainable Development Goals. The study outlines some challenges such as defining sustainable finance and related financial instruments, and developing a commonly accepted taxonomy, impact matrix, and disclosure standards. Public policies and cooperation between monetary and financial authorities are needed to address these challenges.

[3] For the discussion on sustainable bonds, ASEAN+3 includes ASEAN members Indonesia, Malaysia, the Philippines, Singapore, and Thailand, plus the People's Republic of China; Hong Kong, China; Japan; and the Republic of Korea.