

Highlights

- As the global economic recovery continues to strengthen and Asia posts a strong rebound in economic activity, emerging East Asian¹ financial markets have stabilized and are attracting investor interest.
- Total local currency (LCY) bonds outstanding in emerging East Asia grew 16.5% in 2009 to reach USD4.4 trillion. Government bonds grew 11.2%, some of which financed the fiscal stimulus packages that helped the region's economies to recover. Corporate bonds outstanding in emerging East Asia grew 31.6% in 2009 and have become a significant feature of the LCY bond market. Still, in the past several years, the growth of government bonds has outpaced corporate bonds.
- Total bonds outstanding outside of the People's Republic of China (ex-PRC) grew 17.3% in 2009. Government bonds outstanding ex-PRC grew 18.7%, while corporate bonds ex-PRC rose 15.6%.
- The expanding PRC bond market grew 16.0% in 2009 on an LCY basis due to an acceleration in the growth rate of the PRC corporate bond market from 52.8% in 2008 to 77.5% in 2009, driven by the issuance of medium-term notes (MTNs), issuance by companies in provinces and major cities, and commercial bank bonds. The PRC's dominant government bond market posted an annual growth rate of 8.0%.
- New issuance in the emerging East Asia LCY bond market grew 39.3% in 2009. Government bond issuance (excluding central bank issuance) grew 46.7%, with corporate bond issuance up 41.8%.
- Foreign currency bond issuance from the region grew dramatically in 2009. New issuance of G3-denominated bonds rose to a record USD63.2 billion, up 90% from 2008.
- Most government bond yield curves in the region steepened in 2009, reflecting a combination of (i) supply concerns, (ii) buildup of public debt, and (iii) strong recovery in other asset markets.
- Higher-grade corporate bond spreads have tightened, while risk premiums for lower-rated corporate bonds rose over certain sections of their respective curves.
- Foreign investors' holdings in the region's bond markets are rising due to (i) Asia's quick economic recovery, (ii) appreciation pressures on the region's currencies, and (iii) higher returns in several markets.
- Risks to the market outlook include (i) a reversal in recovery in developed economies, (ii) premature monetary or fiscal tightening, and (iii) potentially destabilizing capital inflows.
- Emerging East Asia's share of the global bond market rose to 6.7% at end-September 2009, compared with a mere 2.1% in 1996.

¹In this report emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.