

Asia Bond Monitor Highlights

Key Trends

- Investor sentiment soured as the global economic outlook weakened due to the outbreak of the coronavirus disease (COVID-19).
- Governments and central banks globally took decisive fiscal and monetary policy actions to mitigate the negative economic impact of the pandemic.
- Between 28 February and 29 May, the 2-year local currency (LCY) bond yield fell in nearly all emerging East Asian markets in line with the shift to more accommodative monetary stances.¹ On the other hand, 10-year bond yield movements diverged owing to market-specific factors.
- Equity markets in the region fell, domestic currencies weakened, and risk premiums increased for most markets in the region, reflecting worsening economic conditions and weakening investor sentiment.
- Rising risk aversion and declining investor sentiment also led to capital outflows from most markets, resulting in a decline in the foreign holdings' share of government bonds as investors sought safe-haven assets. More recently, as some markets have gradually relaxed quarantine measures, investor sentiment has begun to improve.
- Emerging East Asia's LCY bond market expanded to USD16.3 trillion at the end of March, growing 4.2% quarter-on-quarter and 14.0% year-on-year. Government bonds dominated the region's bond market, accounting for 60.6% of the region's total outstanding bonds at the end of the first quarter of 2020.
- Under the ASEAN+3 Multi-Currency Bond Issuance Framework, two new corporate bonds were issued in Cambodia in April.² RMA (Cambodia) Plc. issued a 5-year KHR80 billion bond and Prasac Microfinance Institution Plc. raised KHR127.2 billion from the sale of a 3-year bond. Both issues were guaranteed by the Credit Guarantee and Investment Facility.

Risks to Financial Stability

- Risks remain heavily tilted to the downside due to uncertainty about COVID-19 and its economic effects.
- Other risks include rising trade tensions between the People's Republic of China and the United States and financial volatility due to capital outflows from emerging markets.

Special Section: COVID-19 and Financial Sector

- This issue of the *Asia Bond Monitor* includes a special section with discussion boxes that explore how the financial sector can help fund the fight against COVID-19.
- Two boxes discuss the use of pandemic bonds and social bonds to mobilize private sector resources to mitigate the negative economic impact on developing Asia of COVID-19 and other disasters.³
- Another box examines how financial technology can reach vulnerable groups during high-stress periods and promote inclusiveness and resilience.
- The final box discusses the role of the government in designing market-specific policies to ensure the smooth functioning of the financial sector as a provider of liquidity during the pandemic.

Theme Chapter: Financial Architecture and Innovation

- The theme chapter investigates the link between financial architecture and innovation by summarizing a study on whether banks or capital markets are more conducive to innovation.
- The study finds that a market-based financial system is more conducive to innovation than intermediary-based financial system, while also highlighting the importance of developing a well-functioning financial system in promoting innovation.

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 ASEAN+3 comprises the 10 member economies of the Association of Southeast Asian Nations (ASEAN) plus the People's Republic of China, Japan, and the Republic of Korea.

³ Developing Asia comprises the 46 developing member economies of the Asian Development Bank.