

CORPORATE ISSUANCE DRIVES GROWTH IN EMERGING EAST ASIA BOND MARKETS

MANILA, PHILIPPINES (26 April 2012) – Emerging East Asia’s local currency bond markets expanded 7.0% to \$5.7 trillion in 2011, driven by double-digit growth in the region’s corporate bond markets, according to the latest edition of the Asian Development Bank’s (ADB) *Asia Bond Monitor*.

“Corporate bonds should continue to grow over the next few years with banks preparing for higher capital requirements, companies seeking funding for expansion as the region’s robust growth continues, and with strong demand from domestic institutional investors – particularly pension funds and insurance companies,” said Iwan J. Azis, Head of ADB’s Office of Regional Economic Integration (OREI).

In 2011, the amount of outstanding government bonds grew by a modest 2.5% in local currency terms to \$3.8 trillion. The growth rate reflected a drop in bond sales by both governments reining in fiscal stimulus programs and by monetary authorities curtailing issuance in the early part of the year.

Meanwhile, outstanding bonds sold by banks and companies expanded by 17.1% to \$1.9 trillion. This was slower than the growth rates in 2009 or 2010 but much higher than in the middle of the last decade. The pace of corporate issuance accelerated in early 2012, suggesting a swift pace of growth this year too. Indonesia’s corporate bond markets grew the fastest at 28.0%, followed by 26.0% growth in the People’s Republic of China (PRC), and 13.4% in the Philippines.

Emerging East Asia’s contractual savings institutions – pension funds, insurance companies, and social securities institutions – have become increasingly important buyers of the region’s corporate bonds. Their demand is also set to increase as they seek higher returns and longer-dated investments than are available from government bonds.

Foreign interest in the region’s local currency bonds remained strong in most markets in 2011, although foreign holdings in Indonesia, which has the highest level of foreign holdings in the region, leveled off at end-2011.

The maturity profiles of most sovereign bond markets improved in the second half of 2011 as governments sold more longer-dated debt. By the end of 2011, for example, Indonesia, the Philippines, Singapore, and the PRC all had more than 20% of outstanding bonds in maturities of 10 years or more. Countries with a greater concentration of longer-dated debt are less vulnerable to liquidity crunches, although there are few such concerns at this time.

However, cross-border portfolio debt holdings in Asia remain low, although they have improved in recent years.

A survey of 78 investors and analysis of secondary data, also included in the report, shows bond market conditions, notably return, risks, liquidity and market infrastructure, drive investor

decisions on cross-border investments. This suggests ongoing regional collective initiatives and national reforms to develop local and regional market are crucial.

The quarterly *Asia Bond Monitor* assesses the bond markets of the PRC; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.

Last year, the fastest growing markets in the region were those of Viet Nam, Singapore, and Malaysia, which grew by 16.5%, 13.1%, and 10.4% respectively. The Philippines, PRC and Indonesia showed the fastest quarter-on-quarter pace of growth in the final three months of 2011. Government bond markets expanded the most rapidly on an annual basis in Viet Nam, Singapore, and Malaysia.

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.

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