

ASIA'S LOCAL BOND MARKETS EXPAND 16.5% IN 2009, MORE GROWTH TO COME - REPORT

MANILA, PHILIPPINES (25 March 2010) – Local currency bond markets in emerging East Asia expanded 16.5% in 2009, with \$4.4 trillion in paper outstanding at the end of December, and should continue to grow in 2010, according to the Asian Development Bank's (ADB) quarterly *Asia Bond Monitor*.

The main driver of growth last year was rapid expansion in markets in Hong Kong, China; Thailand; and Indonesia. The Hong Kong, China market soared 55.8% largely due to the hefty issuance of Exchange Fund Bills and Notes by the Hong Kong Monetary Authority for monetary policy purposes. The Thai and Indonesian local currency bond markets posted rapid growth rates of 20.5% and 19.4%, respectively.

"Asia's local currency bond markets expanded at a faster pace in 2009 than they did in 2008 in large part because most governments sold paper to finance spending to counter the ill effects of the global financial crisis," said Srinivasa Madhur, Senior Director in ADB's Office of Regional Economic Integration, which compiled the report.

Asia's local currency bond markets expanded 14.8% in local currency terms in 2008 versus 2007.

The issuance of local currency bonds increased by a sharp 39.3% to \$3.3 trillion in 2009. However, the 6.7% quarterly drop in government issuance in the fourth quarter suggests that sales of sovereign paper to support economic stimulus packages tailed off toward the end of 2009. Most of the issuance was done in the second and third quarters of 2009 to take advantage of low interest rates and ahead of any monetary tightening.

At the same time, sales of bonds denominated in US dollars, euros, and yen rose to a record high of \$63.2 billion from \$33.3 billion in 2008.

"Asia is enjoying a solid recovery and governments are keeping a close watch on their debt levels," said Mr. Madhur. "Nevertheless, we expect Asia's local bond markets to continue to grow in 2010 and beyond as the economic recovery gains traction and as companies in the region increasingly tap bond markets as an alternative funding source to bank loans."

The corporate bond market in the region grew 31.6% last year compared to an 11.2% annual increase in the government bond market. The expansion of the corporate market was most pronounced in the People's Republic of China (PRC) (77.5%), Viet Nam (68.4%), and the Philippines (66.5%). However, the total value of outstanding sovereign paper at \$3.114 trillion still dwarfs the \$1.303 trillion market for bonds issued by companies.

Rising demand from investors is likely to spur greater issuance of Asian local currency paper. Foreign investors' holdings rose in 2009 as buyers were keen to reap the rewards of Asia's swift recovery from the global downturn, which saw strengthening currencies and higher returns in several markets. Holdings of bonds from Indonesia and Malaysia rose the fastest.

Returns improved in the latter half of 2009 after a lackluster performance in the first half of the year. By the end of 2009, the Asian Bond Fund's Pan Asian Bond Index was posting returns of 5.0% compared with a negligible 0.15% at the end of June.

This masked a diverse performance by underlying markets. Returns on Indonesian bonds were the highest at 35.61%, while Philippine and Republic of Korea bond returns were 11.88% and 9.73%, respectively. However, returns for Thai and Malaysian bonds were negligible, and were negative in the PRC and Hong Kong, China.

ADB, based in Manila, is dedicated to reducing poverty in the Asia and Pacific region through inclusive economic growth, environmentally sustainable growth, and regional integration. Established in 1966, ADB is owned by 67 members—48 from the region. In 2009, it approved \$16.0 billion of loans, \$1.1 billion of grant projects, and technical assistance amounting to \$266.8 million.

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