

EMERGING ASIAN BOND MARKETS REGISTER STRONG GROWTH IN 2010 - ADB REPORT

MANILA, PHILIPPINES (29 March 2011) – Emerging East Asia's local currency bond markets expanded by 13.6% to \$5.2 trillion in 2010, driven by strong growth in corporate bonds that helped to offset a decline in issuance by central banks and some governments in the last quarter of 2010.

The latest edition of the Asian Development Bank's (ADB) quarterly *Asia Bond Monitor* shows that growth has been broad-based. The region's local currency bond markets, excluding the People's Republic of China (PRC), expanded by 11.6% year-on-year in 2010. Meanwhile, total bonds outstanding in the PRC, the region's largest market, grew 15.1% year-on-year to reach \$3.1 trillion.

"The broadening of overall bond market growth within emerging East Asia and the expansion of the corporate market demonstrate the opportunities that are increasingly available to investors in local bond markets," said Iwan Azis, Head of ADB's Office of Regional Economic Integration (OREI).

Emerging East Asia comprises the PRC; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

Total local currency corporate bonds outstanding grew by 20.3% year-on-year to reach \$1.6 trillion in 2010, mainly driven by growth in the corporate bond markets of Viet Nam, the PRC, Singapore, Indonesia, and the Republic of Korea. An analysis of corporate bond markets by country shows that the top 6 - 8 firms in each market issue bonds in very large sizes, while the remaining 30 - 50 issuers generally offer much smaller amounts. This results in an asymptotic curve for the distribution of corporate bonds outstanding by firm.

Emerging East Asia's local currency government bond market expanded in the last quarter of 2010 by 10.8% year-on-year to \$3.6 trillion, accounting for about 70% of the total outstanding bonds, and was driven by growth in Malaysia, Thailand, and Viet Nam. On a quarter-on-quarter basis, however, the region's government bond market grew by only 0.1% in the last quarter of 2010.

Growth in the region has been marked by improving maturity profiles for many individual corporate and government bond markets. This reflects improving structural fundamentals as lengthened duration will attract a greater diversity of investors.

Local currency issuance totaled \$3.8 trillion in emerging East Asia in 2010, a 10.2% increase over 2009. Government bond issuance expanded 12.3% to reach \$3.1 trillion, while corporate issuance grew 1.1% to \$634 billion.

Foreign participation in the region's local bond markets continued to expand as investors hunted for yield and anticipated gains from appreciation of the underlying currencies. For example, foreigners held 30.5% of Indonesian government debt at the end of 2010.

The major risks to the market outlook are upward inflationary pressures due to rising commodity and oil prices, and the possibility of further interest rate hikes. The "risk on-risk off" behavior of global markets could also add to these risks and the volatility of the outlook.

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. In 2010, it approved a total of \$13.8 billion in financing operations through loans, grants, guarantees, equity investments, and technical assistance projects. ADB also mobilized cofinancing amounting to \$3.7 billion.

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Media Inquiries

Philip Wood
Tel: (632) 632 4132
Mob: (63) 918 939 9058
E-mail: pwood@adb.org

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