

LOCAL CURRENCY BONDS IN EMERGING EAST ASIA TOP \$4 TRILLION — ADB REPORT

MANILA, PHILIPPINES (24 November 2009) – Outstanding local currency bonds in emerging East Asia stood at \$4.2 trillion at the end of September 2009, up 14.8% over 12 months and nearly eight times more than at the end of 1996, shortly before the onset of the Asian financial crisis.

The November issue of the Asian Development Bank's (ADB) *Asia Bond Monitor* attributed the increase to local currency bonds' growing role as a source of funds for companies and governments – recently to support economic stimulus packages - and to market reforms.

"The increase in emerging East Asia's outstanding bonds to above \$4 trillion is testament to the hard work of the region's governments and regulatory authorities in opening up their markets with an eye to building a regional debt market," said Jong-Wha Lee, ADB's Chief Economist and Head of the Office of Regional Economic Integration, which prepared the report.

While the gains are impressive, governments must continue efforts to develop their markets further, according to the report. Emerging East Asia—comprising the People's Republic of China (PRC); Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam—currently makes up around 6% of the global bond market, which is up from only 2% in 1996. However, this is still well below Japan's 17% and over 42% for the US.

Growth in emerging East Asian bond markets was particularly strong outside the PRC. Excluding the PRC, markets were 16% larger than at the end of September 2008. Growth in the PRC bond market moderated to 13.9% year-on-year in the third quarter from 14.8% in the April to June period.

The sharpest growth rate in the region's markets was in Hong Kong, China, which grew 39% versus a year earlier due to significant issuance of Exchange Fund Bills and Notes for monetary purposes, as well as two large sales of new Special Administrative Region issues to aid local market development. The Indonesian local currency bond market expanded 18.1%, while the Singapore dollar bond market grew 17.3%.

Government bond issuance grew fastest in Hong Kong, China; the Republic of Korea; and the PRC. Meanwhile, corporate issuance expanded the most in Viet Nam, Indonesia, and the PRC.

Although issuance has gone up, spreads have tightened, and turnover has increased since the height of the global financial crisis, risks remain to emerging East Asian bond markets, notably uncertainty about the robustness of the global recovery and inflationary pressures, premature monetary or fiscal tightening, and potentially volatile capital flows, the report said.

More work needs to be done to bolster liquidity in local bond markets, according to the *AsianBondsOnline* Annual Liquidity Survey, which accompanied the quarterly *Asia Bond Monitor*. Liquid bond markets help in the effective transmission of monetary policy and the creation of reliable pricing benchmarks.

In the survey of 106 participants conducted in June and July, respondents agreed that increasing the diversity of the investor base is key to improving liquidity. Currently, banks and

financial institutions constitute the dominant investor class in most government bond markets in Asia. Respondents also pointed to the need for better tax treatment and suitable hedging instruments.

"It's clear that despite all the developments in recent years, the region needs to further broaden the investor base, strengthen market infrastructure, and put in place a sound regulatory framework so that fixed income markets can play their full role in the region's economies," said Mr. Lee.

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, it is owned by 67 members – 48 from the region. In 2008, it approved \$10.5 billion of loans, \$811.4 million of grant projects, and technical assistance amounting to \$274.5 million.

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