

CORPORATE ISSUANCE DRIVES ASIA'S LOCAL BOND MARKETS TO \$5 TRILLION - REPORT

MANILA, PHILIPPINES (29 November 2010) - A rapid rise of corporate bond issuance in emerging East Asia has driven the growth in the region's local currency bond markets to just over \$5 trillion.

The latest edition of the Asian Development Bank's (ADB) quarterly *Asia Bond Monitor* shows there were \$1.556 trillion in corporate bonds outstanding at the end of September, 23.8% more in local currency terms than a year earlier and 5.7% more than at the end of June.

"Companies are taking the opportunity to raise money in Asia's local currency bond markets because of the growing demand from investors, particularly overseas investors," said Iwan Azis, Head of ADB's Office of Regional Economic Integration, which produced the report. "Foreign interest has risen, given Asia's favorable growth fundamentals, lower interest rates in mature markets, and despite administrative measures in some countries to limit capital inflows."

Local currency government bonds in emerging East Asia totaled \$3.550 trillion, 14.6% higher year-on-year and 1.9% higher quarter-on-quarter. The slower growth came with many countries now paring their fiscal stimulus packages and with some central banks opting to slow sterilizing bond sales.

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

The fastest growing corporate bond markets at the end of September were the PRC and Indonesia, both of which grew 10.9% on a quarter-on-quarter basis, followed by Singapore's corporate bond market, which grew 7.1% quarter-on-quarter. Growth of the PRC market reflected the strength of the medium-term note and commercial paper markets coupled with a recovery in issuance by state-owned enterprises.

Growth in the Indonesian and Singaporean corporate markets, reflected growing interest by foreign investment funds in these markets, which has helped improve the liquidity of these markets this year.

"What we are seeing is a fundamental change in the investor make-up in emerging East Asia's bond markets. Having now become familiar with these markets, foreign investors are likely to see them as a core part of their portfolios," said Mr. Azis.

The Annual Bond Market Liquidity Survey, conducted by AsianBondsOnline and released along with the quarterly *Asia Bond Monitor*, showed liquidity in emerging East Asia's bond markets continues to increase due to rising foreign investor interest in the markets and increasing investor diversity.

Efforts to consolidate bond issues and increase the size of benchmark offerings in Singapore, Korea and the Philippines also helped.

The survey of 112 respondents, conducted from mid-August to mid-October, showed market players across the region still see greater investor and trader diversity as the most important issue to increase liquidity. The availability of hedging mechanisms, foreign exchange regulations and market access were also deemed important.

For the corporate bond markets, participants said issues that needed to be tackled were investor diversity, tax treatment and hedging mechanisms.

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 2009, it approved a total of \$16.1 billion in financing operations through loans, grants, guarantees, a trade finance facilitation program, equity investments, and technical assistance projects. ADB also mobilized cofinancing amounting to \$3.2 billion.

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