

## **ASIA'S CORPORATE BONDS DRIVE MARKET GROWTH, ADB REPORT SAYS**

**MANILA, PHILIPPINES (15 September 2009)** – Local currency bond markets in emerging East Asia grew rapidly in the first half of 2009 as governments continued to fund economic stimulus packages. Notably, corporate bonds have become a significant driver of overall market growth as the region recovers from global recession, according to the latest issue of the *Asia Bond Monitor* from the Asian Development Bank (ADB).

This trend toward greater corporate issuance will likely continue in the near term as companies seek alternative sources of finance to bank loans with investors now returning to the market searching for higher returns.

"The anniversary of the Lehman Brothers collapse is a reminder to companies to look beyond bank finance," said Jong-Wha Lee, ADB's Chief Economist and Head of its Office of Regional Economic Integration, which produced the *Asia Bond Monitor*. "Emerging East Asia's local currency bond markets have shown strong resilience and have emerged as an important source of funding for both governments and companies during these volatile times."

US financial services firm, Lehman Brothers, filed for bankruptcy protection on 15 September, 2008, due to its heavy exposure to sub-prime mortgages, triggering turmoil across international financial markets.

At the end of June, emerging East Asia had \$3.94 trillion in local currency bonds outstanding, 5.2% more in local currency terms than at the end of March and 12.8% more than at the end of the first half of 2008. Emerging East Asian bond markets comprise those in the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.

Government issuance jumped 59.8% in the second quarter of the year from the first quarter, and was 38.0% higher than in the second quarter of 2008. Corporate issuance rose 26.8% on quarter and leapt 90.6% on year.

Despite the overall growth, Asia's bond markets remain highly segmented. While government and corporate markets in some countries have seen hefty year-on-year growth, others have expanded much more slowly, or even declined.

The steepening of government yield curves also led to aggressive issuance of short-term bills by finance ministries and central banks in some countries. While this allows governments and central banks to pay lower interest rates, it also boosts the stock of short-term debt and increases future refinancing or rollover risks.

State-owned enterprises remain the dominant players in many of the region's local currency corporate bond markets, with banks, infrastructure, and energy companies as primary issuers.

The PRC bond market - the second largest in Asia after Japan – expanded 14.8% from June 2008, with outstanding corporate bonds up a massive 90.9%. This was largely due to an explosion in issuance of medium-term notes.

Across emerging East Asian markets, credit spreads on higher-rated securities in most corporate bond markets have tightened compared with September 2008 levels. For lower-rated corporate credits, investors still demand substantial risk premiums. The lack of a more diverse corporate debt market, including a weak high-yield segment, remains a major shortcoming of local currency bond markets in the region.

"The uneven development suggests the region still has much work ahead to ensure the bond markets play their full role as an alternative source of funding to the equity markets and as a viable investment for the region's vast savings," 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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