

EUROZONE CRISIS THREATENS EMERGING EAST ASIA'S BOOMING BOND MARKETS

MANILA, PHILIPPINES (10 September 2012) – Emerging East Asia's local currency bond markets have expanded to nearly \$6 trillion, but policymakers in the region should brace themselves for further shock and volatility from the global financial markets, says a report published by the Asian Development Bank (ADB).

“Our local currency bond markets are emerging as a safe haven in the midst of the crisis, but we should not be complacent,” said Iwan J. Azis, Head of ADB's Office of Regional Economic Integration, which produced the *Asia Bond Monitor* report.

“Volatile markets can deter long-term investment and hurt the economy by making it costlier for governments and companies to raise funds. Moreover, uncertain market reaction to policy action is undermining the predictability and thus the effectiveness of conventional policymaking,” Mr. Azis said.

Greater regional participation in emerging East Asia's bond markets and cooperation are needed to counter the volatility from external shocks and to strengthen regional financial safety nets.

A special section in the *Asia Bond Monitor* assessing the performance of the local bond markets of the People's Republic of China (PRC), Indonesia, the Republic of Korea, Malaysia, the Philippines, and Thailand shows that the spillover of the Lehman Brothers' collapse and the ongoing eurozone crisis in many markets has been significant and may well continue. These spillover impacts will be felt not only in the bond markets but in other financial markets in the region too, including through foreign exchange rates.

The *Asia Bond Monitor* notes that despite the uncertainty and volatility in global financial markets, the bond markets in the region continue to expand, with \$5.9 trillion in paper outstanding at the end of June, 1.9% more than at the end of March and 8.6% more than at the end of June 2011.

Overall, corporate bond market growth is still outpacing the expansion of the government bond markets, as corporate bond yields have fallen and tighter bank lending has encouraged firms to tap the capital markets. As of the end of June, there were \$2.0 trillion in corporate bonds outstanding, 15.2% higher than a year earlier, while the \$3.9 trillion government bond market was only 5.5% bigger.

Bond yields in many markets, like the PRC, Indonesia, and Viet Nam started to edge up in July and August after having fallen in the first half of the year, reflecting growing uncertainty in the global economy.

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The risks to the markets are growing. Those risks include worsening investor sentiment as global economic outlook dims, volatile capital flows, and excessive government bond sales to finance stimulus measures.

The quarterly *Asia Bond Monitor* assesses the bond markets of the PRC; Hong Kong, China; Indonesia; the Republic of Korea; Malaysia; the Philippines; Singapore; Thailand; and Viet Nam.

The PRC is still emerging East Asia's largest bond market with \$3.5 trillion in bonds outstanding at the end of June, 1.5% more than three months earlier and 6.9% more than a year earlier. On a quarter-on-quarter basis, the fastest growing markets in the region were Viet Nam, Thailand, and Indonesia, which expanded 10.5%, 4.1% and 3.6%, respectively.

Regional issuance in the second quarter of this year totaled \$875 billion, a 12% increase versus the first quarter, largely due to increased government bond issuance and, to a lesser extent, central bank issuance. The PRC was the largest contributor to this growth, selling \$200 billion in treasury bonds in the second quarter, up 70.3% on quarter and 27.0% higher on year.

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 2011, ADB approvals including cofinancing totaled \$21.7 billion.
