

Growth in Emerging East Asian Local Currency Bond Markets Up 14% in 2005, says *Asia Bond Monitor*

BANGKOK (24 March 2006)—Growth in emerging East Asian local currency bond markets slowed in 2005, with fiscal consolidation and higher revenues reducing the need for new government issuance, according to a report issued today by the Asian Development Bank (ADB). Higher interest rates and volatile trading conditions also contributed to the growth moderation.

Emerging East Asian local currency bond markets expanded in absolute size and, importantly, as a percentage of GDP in 2005, with the volume of outstanding local currency bonds reaching \$1.7 trillion, up 14% from 2004, according to the March edition of *Asia Bond Monitor*. The rate of growth was down from 20% in 2004 and 22% in 1997–2003.

The report examines local currency bond market development and, in this issue, how emerging East Asia compares worldwide in terms of market deepening. Emerging East Asia is defined as the Association of Southeast Asian Nations member countries, plus the People's Republic of China (PRC); Hong Kong, China; and the Republic of Korea.

“Bond markets are deepening worldwide, but emerging East Asia is moving ahead at a faster rate,” said Masahiro Kawai, Head of ADB’s Office of Regional Economic Integration (OREI) and Special Advisor to the ADB President.

“What this means is that we are moving together toward providing deeper, more active and accessible bond markets, which offer both greater funding options and investment opportunities throughout the region,” he said.

Government issuance rose in US dollar terms in PRC (21%), the Philippines (16%), and Viet Nam (38%), but fell in rest of the region. South Korea experienced the sharpest slowdown with growth falling to 12% from 50% in 2004, according to the report.

Corporate bonds outstanding also grew 14% in 2005, down from 20% growth in 2004 and an average of 19% annual growth from 1997 to 2003.

While most governments attempted to stimulate corporate bond markets—particularly as infrastructure projects increased corporate demand for long-term funds—higher interest rates in several markets contributed to a reluctance by corporations to increase debt, the report notes.

Still, governments across the region are continuing to promote product innovation and are working to improve market access for bond issuers and investors alike.

Asia Bond Monitor’s special section on financial market deepening examines how rapidly East Asian banking sector, equity and bond markets are growing both in size and composition when compared with countries outside the region. Overall, emerging East Asian economies compare well against international benchmarks, based on a statistical comparison of banking sectors and equity and bond markets during the period just before the 1997 Asian financial crisis and 2002–2004.

Contrary to common perceptions, the report found, for example, that adjusted for per capita income levels, emerging East Asia's banking sectors show a high degree of deepening, particularly compared with some developed markets. In terms of equity markets, Hong Kong, China; Malaysia; and Singapore clearly outperformed developed economies.

Emerging East Asia's bond market deepening is less impressive than its banking sectors and equity markets, with only Malaysia showing above-average performance. Still, emerging East Asia's bond markets—particularly corporate bond markets—have been deepening over time relative to the international benchmark, *Asia Bond Monitor* found.

To help speed bond market development across emerging East Asia, *Asia Bond Monitor* cites three key policy challenges facing governments:

- Deepen bond market liquidity. As a policy priority Governments should take steps to improve liquidity, by increasing price transparency. Measures include establishment of “bond pricing platforms” to set price guidance for both liquid and illiquid issues, and encouragement of more immediate transaction disclosure.
- Increase timely information about issuers. Governments should consider steps to improve the quality of credit rating agencies, and induce them to report more frequently. They should also require issuers to increase the reporting frequency of materially important information to the bond market.
- Expand investor base and diversity. Governments should take steps to encourage new investor classes, including international financial intermediaries and local institutional investors, to enter the market – without undue concentration by such investment groups. More equal treatment regarding transaction-related requirements and taxation would encourage wider investor diversification.

“These challenges are well recognized by governments, and initiatives, both regionally and in specific markets, are being undertaken to tackle them,” said Mr. Kawai. “It is through efforts such as the ASEAN+3 process that we can work together to bolster bond market development to help our economies grow and integrate with stability.”

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