ASIA BOND MONITOR

MARCH 2010

Asian Development Bank

ASIA BOND MONITOR

MARCH 2010

Asian Development Bank

Printed in the Philippines.

Printed using vegetable oil-based inks on recycled paper manufactured through a totally chlorine-free process.

Cataloging-In-Publication Data

ISBN 978-971-561-889-2
Publication Stock No. RPT101438

Asia Bond Monitor—March 2010
Mandaluyong City, Phil.: Asian Development Bank, 2010.

1. Regionalism 2. Subregional cooperation 3. Economic development 4. Asia
I. Asian Development Bank.

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 4444
Fax +63 2 636 2444
www.adb.org

The *Asia Bond Monitor* (ABM) reviews recent developments in East Asian local currency bond markets along with the outlook, risks, and policy challenges. It covers the 10 Association of Southeast Asian Nations member countries plus the People's Republic of China; Hong Kong, China; and the Republic of Korea (ASEAN+3).

The ABM is a part of the Asia Bond Market Initiative (ABMI), an ASEAN+3 initiative supported by the Asian Development Bank and funded by the Government of Japan.

Download the ABM at:
www.asianbondsonline.adb.org/documents/abm_mar_2010.pdf

How to reach us: Asian Development Bank
Office of Regional Economic Integration
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 632 6688
Fax +63 2 636 2183
E-mail asianbonds_info@adb.org

The *Asia Bond Monitor* March 2010 was prepared by ADB's Office of Regional Economic Integration and does not necessarily reflect the views of ADB's Board of Governors or the countries they represent.

Contents

Emerging East Asian Local Currency Bond Markets: **A Regional Update**

Highlights

- As the global economic recovery continues to strengthen and Asia posts a strong rebound in economic activity, emerging East Asian[1] financial markets have stabilized and are attracting investor interest.

- Total local currency (LCY) bonds outstanding in emerging East Asia grew 16.5% in 2009 to reach USD4.4 trillion. Government bonds grew 11.2%, some of which financed the fiscal stimulus packages that helped the region's economies to recover. Corporate bonds outstanding in emerging East Asia grew 31.6% in 2009 and have become a significant feature of the LCY bond market. Still, in the past several years, the growth of government bonds has outpaced corporate bonds.

- Total bonds outstanding outside of the People's Republic of China (ex-PRC) grew 17.3% in 2009. Government bonds outstanding ex-PRC grew 18.7%, while corporate bonds ex-PRC rose 15.6%.

- The expanding PRC bond market grew 16.0% in 2009 on an LCY basis due to an acceleration in the growth rate of the PRC corporate bond market from 52.8% in 2008 to 77.5% in 2009, driven by the issuance of medium-term notes (MTNs), issuance by companies in provinces and major cities, and commercial bank bonds. The PRC's dominant government bond market posted an annual growth rate of 8.0%.

- New issuance in the emerging East Asia LCY bond market grew 39.3% in 2009. Government bond issuance (excluding central bank issuance) grew 46.7%, with corporate bond issuance up 41.8%.

- Foreign currency bond issuance from the region grew dramatically in 2009. New issuance of G3-denominated bonds rose to a record USD63.2 billion, up 90% from 2008.

- Most government bond yield curves in the region steepened in 2009, reflecting a combination of (i) supply concerns, (ii) buildup of public debt, and (iii) strong recovery in other asset markets.

- Higher-grade corporate bond spreads have tightened, while risk premiums for lower-rated corporate bonds rose over certain sections of their respective curves.

- Foreign investors' holdings in the region's bond markets are rising due to (i) Asia's quick economic recovery, (ii) appreciation pressures on the region's currencies, and (iii) higher returns in several markets.

- Risks to the market outlook include (i) a reversal in recovery in developed economies, (ii) premature monetary or fiscal tightening, and (iii) potentially destabilizing capital inflows.

- Emerging East Asia's share of the global bond market rose to 6.7% at end-September 2009, compared with a mere 2.1% in 1996.

[1] In this report emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.

Introduction: **Global and Regional Market Developments**

As the global economic recovery strengthens and financial markets stabilize, the external environment facing emerging East Asian[1] economies has turned more favorable. The after-effects of the global economic and financial crisis may linger—with the Greek debt crisis providing a quick reminder of the vulnerabilities remaining. Nonetheless, the global economic recovery appears to be broad-based (led by a strong rebound in Asia), with financial markets staging a turnaround. These trends are evident in 10-year government bond yields **(Figure A)**; declining corporate bond spreads **(Figure B)**; and the rapid rise of MSCI indexes, especially those for Asia **(Figure C)**. Within the region, these trends were especially evident in the sharp decline last year of both JP Morgan EMBI sovereign stripped spreads **(Figure D)**, sovereign credit default spreads **(Figure E)** and credit default spreads for selected Organization for Economic Co-operation and Development (OECD) and Asian economies **(Figure F)**.

The improvement in the external environment combined with ongoing fiscal stimulus and continuing accommodative monetary policies helped the region's growth regain traction in 2009. The People's Republic of China (PRC) posted robust 8.7% gross domestic product (GDP) growth in 2009, followed by Viet Nam at 5.3% and Indonesia at 4.6%.

The economic recovery and return to export growth has led to a sudden reversal of portfolio investment inflows back to East Asian asset markets. The recovery in portfolio equity inflows has been significant, while foreign investors are also raising their exposure to local currency (LCY) denominated debt.

Inflation has picked up from low levels, spurred by a rise in food and energy prices, but remains manageable as the recovery gathers steam. Some central banks in the region have hiked reserve requirements, while others have raised policy rates from historically low levels.

Risks to the market outlook in the region are balanced, but remain subject to uncertainty. These include (i) a reversal in recovery in developed economies, (ii) a premature tightening of monetary policies and hasty exit from fiscal stimulus packages, and (iii) potentially destabilizing capital inflows.

Emerging East Asia's LCY bond market recorded another year of substantial growth in 2009, rising 16.5% year-on-year (y-o-y). Growth in the government bond market was more balanced, as the PRC's government sector showed steady growth along with government debt markets in Thailand, Indonesia, Singapore, Republic of Korea (Korea), and Malaysia. All of these markets registered double-digit growth in 2009. In addition, the corporate bond market, led by the PRC and the Philippines, is growing rapidly. G3 currency bond issuance from the region was impressive, with issuance rising to USD63.2 billion in 2009.

At end-September 2009 (the most recent data available), emerging East Asia's share of the global bond market rose to 6.7%, compared with a mere 2.1% before the onset of the 1997/98 Asian financial crisis **(Table A)**. LCY-denominated Asian bonds are emerging as an asset class and are attracting both domestic and foreign investors searching for yield and diversified portfolios.

In 2010, growth momentum in government bond markets is expected to continue as economic recovery gains traction. The LCY corporate bond market is also expected to show steady growth as an additional funding source for domestic companies and an attractive investment alternative for investors.

[1] In this report emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.

Figure A: 10-year Government Bond Yields (% per annum)

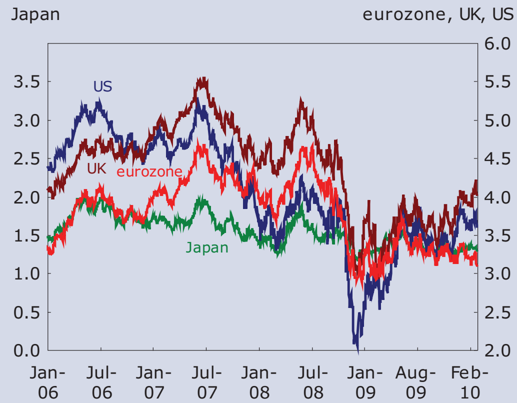


Figure D: JPMorgan EMBI Sovereign Stripped Spreads[3]

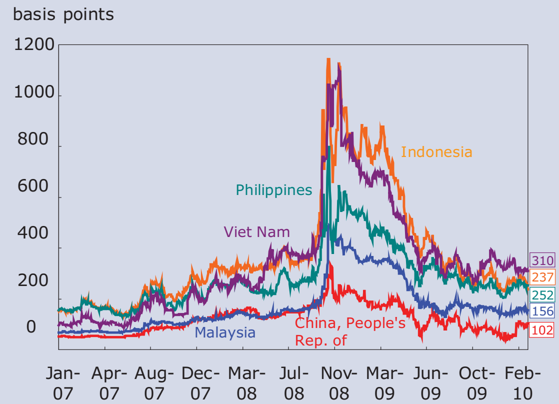


Figure B: Corporate Bond Spreads[1]

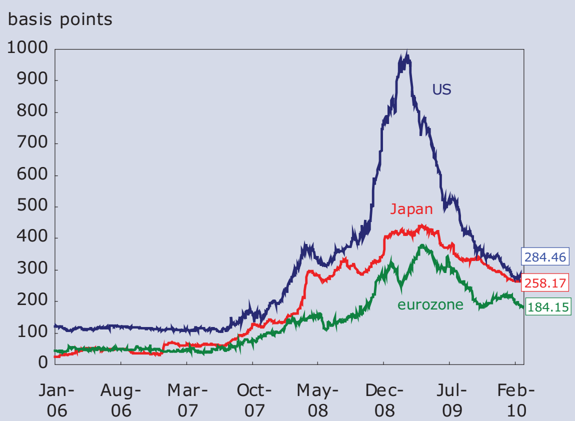


Figure E: Credit Default Swap Spreads (senior 5-year)[3]

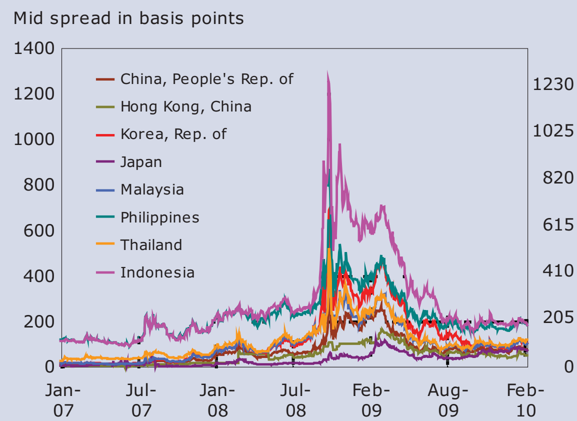


Figure C: MSCI Indexes (January 2007 = 100)[2]

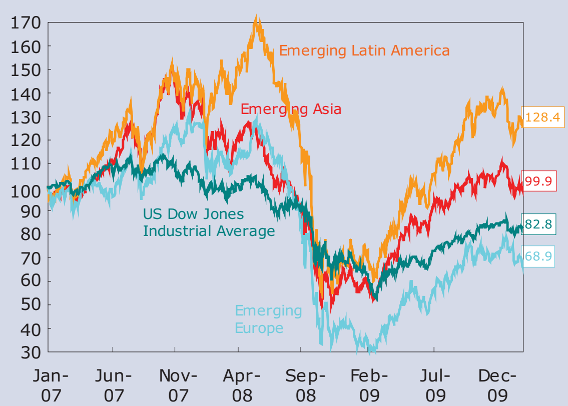
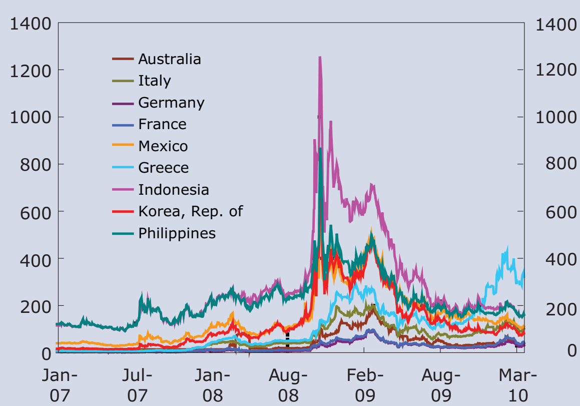


Figure F: Credit Default Swap Spreads for Select OECD and Asian economies



EMBI = Emerging Market Bond Index, OECD = Organization for Economic Co-operation and Development, UK = United Kingdom, US = United States.
[1]Bond spread refers to the difference between yields of 5-year bonds issued by BBB-rated finance companies and yields of sovereign benchmark bonds of the same tenor. [2]Includes People's Republic of China; India; Indonesia; the Republic of Korea; Malaysia; Pakistan; Philippines; Taipei,China; and Thailand. [3]USD based on sovereign bonds.
Source:
Morgan Stanley Capital International (MSCI) Barra, Thomson DataStream, and Bloomberg LP.

Table A: Bonds Outstanding in Major Markets (USD billion)

	3Q09		4Q96	
	LCY Bonds Outstanding	% of World Total	LCY Bonds Outstanding	% of World Total
United States	25,105	40.0	10,926	42.8
Japan	9,831	15.7	4,456	17.4
France	3,188	5.1	1,303	5.1
Germany	2,927	4.7	1,888	7.4
UK	1,566	2.5	678	2.7
Emerging East Asia	4,209	6.7	537	2.1
of which: PRC	2,415	3.9	62	0.2
Emerging East Asia excl. PRC	1,794	2.9	475	1.9
of which: Korea, Rep. of	1,001	1.6	283	1.1
of which: ASEAN-6	665	1.1	158	0.6
Indonesia	90	0.1	7	0.0
Malaysia	181	0.3	81	0.3
Philippines	59	0.1	28	0.1
Singapore	150	0.2	25	0.1
Thailand	172	0.3	18	0.1
Viet Nam	13	0.0	—	—
Memo Items:				
Brazil	1,227	2.0	299	1.2
India	554	0.9	81	0.3
Russia	43	0.1	43	0.2

— = data not available.
LCY = local currency, PRC = People's Republic of China.
Note:
Emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.
Source: Bank for International Settlements and *AsianBondsOnline*.

Bond Market Developments in the Fourth Quarter of 2009

Size and Composition

The total amount of bonds outstanding in emerging East Asia's[1] local currency (LCY) bond market rose to USD4.4 trillion at the end of 4Q09 for a year-on-year (y-o-y) increase of 16.5%.

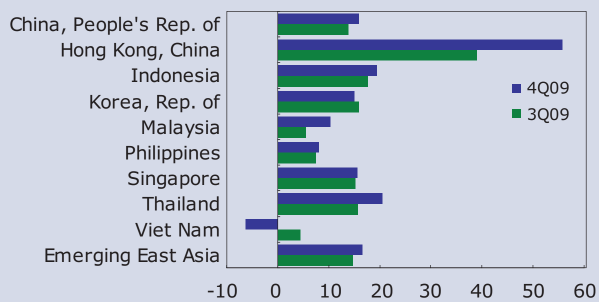
Total bonds outstanding in emerging East Asia's LCY bond market grew 16.5% y-o-y in 4Q09 to reach USD4.4 trillion **(Table 1)**. At the same time, the market's q-o-q growth rate was 4.4% in 4Q09. Growth of the emerging East Asian bond market excluding the People's Republic of China (ex PRC) was 17.3%, somewhat higher than the regional growth rate of 16.5%. This reflects broad-based and strong y-o-y growth in Hong Kong, China (55.8%); Thailand (20.5%); Indonesia (19.4%); Singapore (15.6%); and the Republic of Korea (Korea) (15.0%) **(Figure 1a)**.

The PRC's corporate and government bond markets grew 16.0% y-o-y in 2009 on an LCY basis, compared to 13.9% y-o-y as of end-3Q09. This reflected recovery in the growth of the PRC's government bond sector to 8.0% y-o-y for 2009, compared to 5.7% y-o-y at the end of 3Q09. The recovery of the PRC's dominant government bond market occurred alongside the corporate bond market's y-o-y growth rate of 77.5% at the end of 2009, down from 87.7% at the end of 3Q09. The moderation in the corporate bond sector's growth primarily reflects a slowdown in the explosive growth of the medium-term note (MTN) sector to 415% y-o-y at the end of 2009 compared to 910% at the end of 3Q09.

The broadly-based 2009 growth trends for LCY bond markets other than the PRC have influenced both government and corporate bond markets. In Indonesia, the government and corporate bond markets grew 19.2% and 21.2% y-o-y, respectively. In Thailand, the annual growth rates of the government bond market and the corporate bond market were well matched at 21.0% and 18.8%, respectively. Similar trends of balanced corporate and government bond market growth can be seen in Malaysia where in 2009 the government bond and corporate bond markets grew 10.9% and 9.6%, respectively. The y-o-y growth trends for the government and corporate bond markets of emerging East Asia ex-PRC as a whole were 18.7% and 15.6%, respectively. The size of the Viet Nam market, however, fell 6.3% in 2009, due to a 9.8% decline in the size of its government bond market.

In spite of the y-o-y gains, growth on a q-o-q basis was essentially flat in Korea and Malaysia,

Figure 1a: Growth of Emerging East Asian Local Currency Bond Markets in 3Q09 and 4Q09 (y-o-y %)



y-o-y = year on year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
3. Emerging East Asia growth figure is based on end-December 2009 currency exchange rates and do not include currency effects.
Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

[1]In this report emerging East Asia comprises the People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Thailand; and Viet Nam.

Table 1: Size and Composition of Emerging East Asian Local Currency Bond Markets

	4Q08		3Q09		4Q09		Growth Rate (LCY-base %)				Growth Rate (USD-base %)			
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	4Q08		4Q09		4Q08		4Q09	
							q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)														
Total	2,213	100.0	2,415	100.0	2,567	100.0	4.4	22.5	6.3	16.0	4.7	31.0	6.3	16.0
Government	1,957	88.4	2,015	83.4	2,113	82.3	2.6	19.4	4.9	8.0	3.0	27.7	4.9	7.9
Corporate	256	11.6	400	16.6	454	17.7	20.2	52.8	13.6	77.5	20.6	63.4	13.6	77.4
Hong Kong, China														
Total	92	100.0	129	100.0	144	100.0	0.0	(6.2)	12.1	55.8	0.2	(5.6)	12.1	55.8
Government	20	22.0	54	41.8	70	48.3	8.7	15.4	29.5	242.2	8.9	16.1	29.5	242.1
Corporate	72	78.0	75	58.2	74	51.7	(2.2)	(10.9)	(0.4)	3.3	(2.0)	(10.4)	(0.4)	3.2
Indonesia														
Total	69	100.0	90	100.0	98	100.0	5.7	(2.7)	7.3	19.4	(10.5)	(19.3)	9.4	42.7
Government	62	90.6	82	90.9	89	90.5	7.2	(2.2)	6.8	19.2	(9.3)	(18.9)	8.9	42.4
Corporate	6	9.4	8	9.1	9	9.5	(6.3)	(7.7)	12.1	21.2	(20.6)	(23.4)	14.3	44.7
Korea, Rep. of														
Total	817	100.0	1,001	100.0	1,021	100.0	1.4	7.0	0.5	15.0	(3.9)	(20.5)	2.0	25.1
Government	368	45.1	460	45.9	446	43.7	0.6	(0.4)	(4.3)	11.4	(4.7)	(26.0)	(2.9)	21.1
Corporate	448	54.9	542	54.1	575	56.3	2.0	14.1	4.6	18.0	(3.3)	(15.2)	6.2	28.3
Malaysia														
Total	166	100.0	181	100.0	185	100.0	(3.0)	5.7	1.4	10.3	(3.5)	1.0	2.2	11.0
Government	90	54.3	101	55.6	101	54.6	(6.1)	(0.5)	(0.5)	10.9	(6.6)	(4.9)	0.3	11.6
Corporate	76	45.7	80	44.4	84	45.4	0.9	14.2	3.7	9.6	0.4	9.1	4.6	10.2
Philippines														
Total	57	100.0	59	100.0	63	100.0	2.8	12.6	3.4	8.1	2.1	(2.0)	6.7	11.1
Government	52	92.2	53	88.9	56	87.9	2.1	10.4	2.3	3.1	1.4	(3.9)	5.5	6.0
Corporate	4	7.8	7	11.1	8	12.1	12.0	46.6	12.4	66.5	11.2	27.5	16.0	71.1
Singapore														
Total	127	100.0	150	100.0	150	100.0	(0.7)	4.1	(0.4)	15.6	(0.8)	4.2	(0.2)	18.2
Government	73	57.3	87	57.9	88	58.7	3.0	6.6	0.9	18.3	2.8	6.8	1.1	20.9
Corporate	54	42.7	63	42.1	62	41.3	(5.2)	0.9	(2.2)	12.1	(5.3)	1.0	(2.0)	14.6
Thailand														
Total	141	100.0	172	100.0	177	100.0	(1.6)	4.3	2.5	20.5	(4.1)	1.2	2.7	25.4
Government	112	79.5	136	79.2	141	79.8	(3.4)	3.6	3.3	21.0	(6.0)	0.5	3.5	25.8
Corporate	29	20.5	36	20.8	36	20.2	6.5	7.2	(0.5)	18.8	3.7	4.0	(0.3)	23.6
Viet Nam														
Total	13	100.0	13	100.0	12	100.0	8.5	46.7	(2.8)	(6.3)	3.0	34.4	(6.1)	(11.4)
Government	13	95.5	12	93.8	11	92.0	8.8	45.0	(4.7)	(9.8)	3.3	32.9	(8.0)	(14.7)
Corporate	0.6	4.5	0.8	6.2	0.9	8.0	2.0	94.7	26.8	68.4	(3.2)	78.4	22.5	59.3
Total Emerging East Asia														
Total	3,696	100.0	4,209	100.0	4,417	100.0	2.8	14.8	4.4	16.5	1.3	8.9	4.9	19.5
Government	2,749	74.4	2,998	71.2	3,114	70.5	1.9	13.6	3.5	11.2	0.8	11.5	3.9	13.3
Corporate	947	25.6	1,211	28.8	1,303	29.5	5.4	18.3	6.8	31.6	2.6	1.9	7.6	37.6
Less PRC:														
Total	1,483	100.0	1,794	100.0	1,850	100.0	0.7	5.4	1.9	17.3	(3.5)	(13.0)	3.1	24.8
Government	792	53.4	983	54.8	1,001	54.1	0.4	2.0	0.7	18.7	(4.0)	(15.0)	1.8	26.5
Corporate	691	46.6	811	45.2	849	45.9	1.0	9.6	3.5	15.6	(2.8)	(10.6)	4.7	22.9
Japan														
Total	9,512	100.0	9,831	100.0	9,612	100.0	0.2	1.1	1.5	3.7	17.3	24.4	(2.2)	1.0
Government	8,550	89.9	8,829	89.8	8,648	90.0	0.3	1.1	1.7	3.8	17.3	24.4	(2.1)	1.1
Corporate	962	10.1	1,001	10.2	964	10.0	(0.5)	1.1	(0.04)	2.8	16.4	24.4	(3.8)	0.2

q-o-q = quarter-on-quarter, y-o-y = year-on-year.

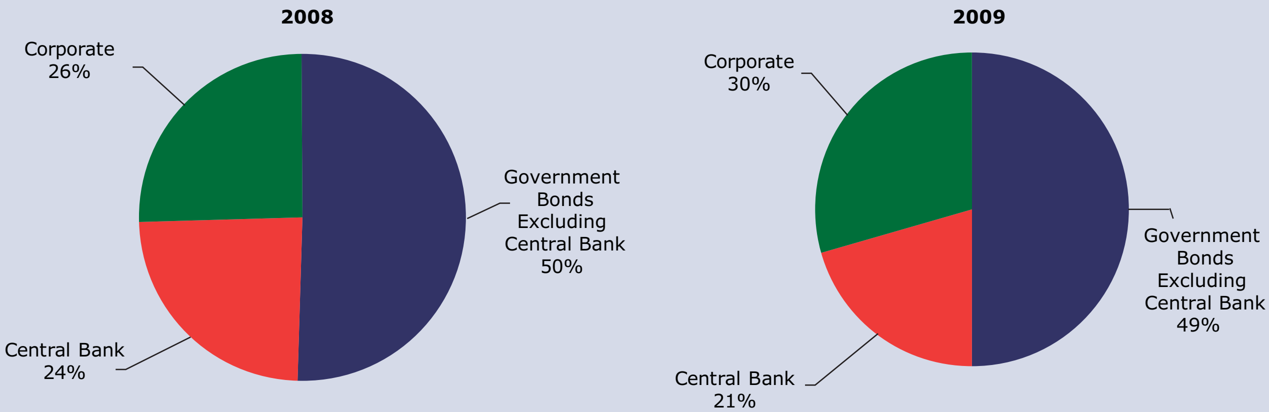
Notes:

1. For Singapore, corporate bonds outstanding quarterly figures are based on *AsianBondsOnline* estimates.
2. Corporate bonds include issues by financial institutions.
3. Bloomberg LP end-of-period LCY—USD rates are used.
4. For LCY base, total emerging East Asia growth figures are based on end-December 2009 currency exchange rates and do not include currency effects.

Source:

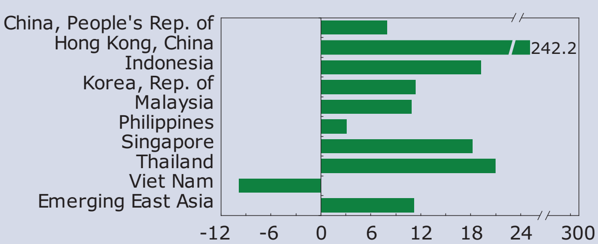
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Figure 1b: Emerging East Asian Local Currency Bond Market



Notes:
1. Corporate bonds include issues by financial institutions.
2. Bloomberg LP end-of-period LCY—USD rates are used.
Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

Figure 2: Growth of Emerging East Asian Local Currency Government Bond Markets in 4Q09
(y-o-y %)



y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
3. Emerging East Asia growth figure is based on end-December 2009 currency exchange rates and do not include currency effects.
Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

and even declined slightly in Singapore and Viet Nam. This leveling-out trend was strongest in the region's government bond market on q-o-q basis.

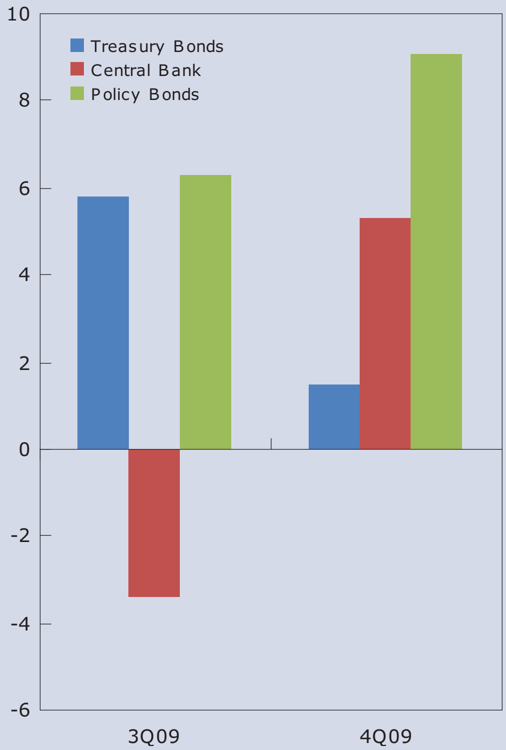
Government bonds excluding central bank accounted for 49% of total bonds outstanding in 2009 **(Figure 1b)**, central banks 21%, and corporates 30%.

Growth in government bond markets in 4Q09 was led by Hong Kong, China; Thailand; Indonesia; and Singapore.

The main drivers of government bond market growth in 4Q09 vs. 4Q08 were Hong Kong, China (242.2%); Thailand (21.0%); Indonesia (19.2%); and Singapore (18.3%) **(Figure 2)**. The government bond markets of Korea and Malaysia also grew a substantial 11.4% and 10.9%, respectively. The Philippine market grew only 3.1% and Viet Nam's market actually shrank 9.8%.

On a q-o-q basis, however, the story is quite different. The PRC government bond market modestly accelerated its q-o-q growth rate in 4Q09 to 4.9% from 3.1% in 3Q09, which contributed to regional government bond market growth of 3.5%

Figure 3: PRC Government Bond Market Growth Rates (q-o-q %)



PRC = People's Republic of China, q-o-q = quarter-on-quarter.
Source: *AsianBondsOnline.*

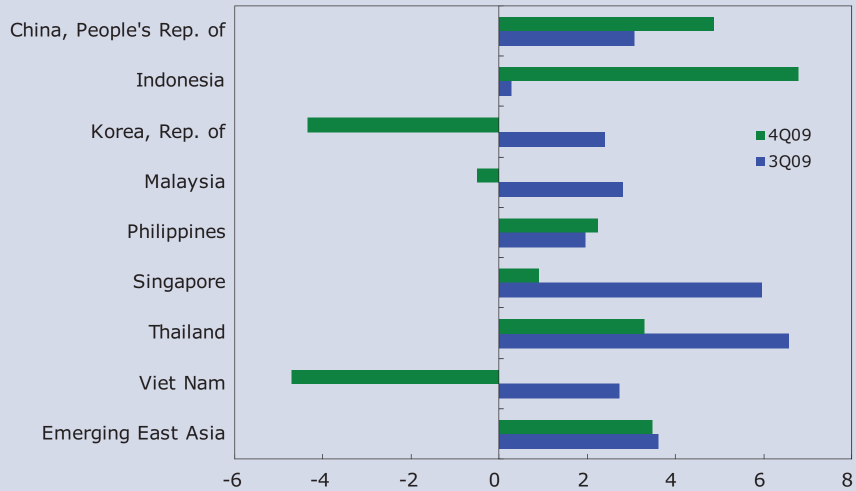
q-o-q in 4Q09. Without the PRC, the regional government bond market grew only 0.7% in 4Q09. The principal reason for this improvement in the PRC government bond market's growth rate was the recovery of the central bank segment—bills issued by the People's Bank of China (PBOC). In 3Q09, central bank paper declined 3.4% on a q-o-q basis, but recovered to rise 5.3% in 4Q09. At the same time, the policy bank segment of the government bond market accelerated its growth rate on a q-o-q basis from 6.3% in 3Q09 to 9.1% in 4Q09, even as the growth rate for treasuries and other government bonds declined to 1.5% in 4Q09 from 5.8% in 3Q09 **(Figure 3)**. At the end of 4Q09, policy bank bonds outstanding amounted to USD652 billion, which was slightly larger than the USD620 billion of outstanding PBOC bills and bonds, but smaller than the USD841 billion in bonds of other government entities. The bulk of PBOC paper outstanding was in the form of bills.

The emerging East Asian government LCY bond market ex-PRC only grew 0.7% q-o-q in 4Q09, which was down sharply from the q-o-q growth rate of 4.8% in 3Q09. The substantial y-o-y growth rates for individual government bond markets were achieved in the earlier part of 2009. Most individual government bond markets ex-PRC grew only marginally in 4Q09 on a q-o-q basis **(Figure 4)**. The two exceptions were the government bond markets of Hong Kong, China, which grew 29.5% q-o-q; and Indonesia, which grew 6.8%.

The rapid growth of Hong Kong, China's bond market has been primarily driven by issuance of Exchange Fund Bills and Notes (EFBNs) issued by the Hong Kong Monetary Authority (HKMA) for monetary policy purposes. In July 2009, Hong Kong, China's Legislative Council approved the Special Administrative Region's Institutional Issuance Program. Under the program, Hong Kong, China's government can issue debt amounting to HKD100 billion over the next few years, with the aim of ensuring a steady supply of public-debt paper, meeting demand of institutional and retail investors, and providing a benchmark for the pricing of corporate debt. Bonds issued under the program are liabilities of the Government of the Hong Kong Special Administrative Region, unlike EFBNs, which are backed by foreign reserves under Hong Kong, China's currency board system. Following the initial sale in September 2009 of HKD3.5 billion of bonds under the program, HKD2.0 billion of 5-year bonds and HKD2.5 billion of 10-year bonds were issued in November and January, respectively.

In Indonesia, the Ministry of Finance in November cancelled its remaining treasury bond auctions for the year, stating that it had met its 2009 gross issuance target of IDR144.54 trillion. The government limited its domestic borrowing to moderate market interest rates and issued over USD4.0 billion in foreign currency bonds in 2009, which was followed by an additional USD2.0 billion issue in January of this year. The overall growth

Figure 4: Growth of Emerging East Asian Local Currency Government Bond Markets in 3Q09 and 4Q09 (q-o-q %)



q-o-q = quarter-on-quarter.
Notes:
1. Calculated using data from national sources.
2. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
3. Emerging East Asia growth figure is based on end-December 2009 currency exchange rates and do not include currency effects.
Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

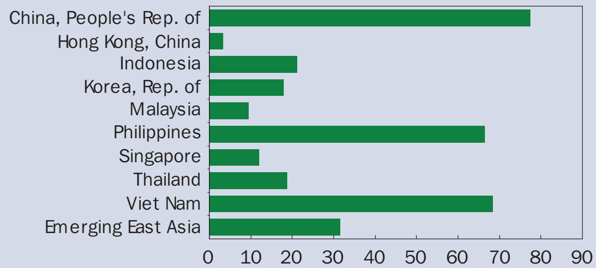
rate of 19.2% y-o-y for total government sector bonds was driven by the 44.3% increase in bills issued by Bank Indonesia known as *Sertifikat Bank Indonesia* (SBI).

In 4Q09, the Korean government LCY bond market grew 11.4% y-o-y, but declined 4.3% q-o-q. The Korean government bond market rose to a high of USD454 billion at the end of November before falling slightly to USD446 billion at the end of December.

The size of the Philippine government LCY bond market stood at PHP2.56 trillion (USD56.0 billion) at the end of December, with little growth over the last year as the government issued aggressively in the international bond market. In Malaysia, the government issued MYR3.5 billion of Government Investment Issues (GII) in October and MYR3.0 billion of Malaysian Government Securities (MGS) in November. Additionally, the government re-opened a number of previously-issued securities in the last quarter of 2009.

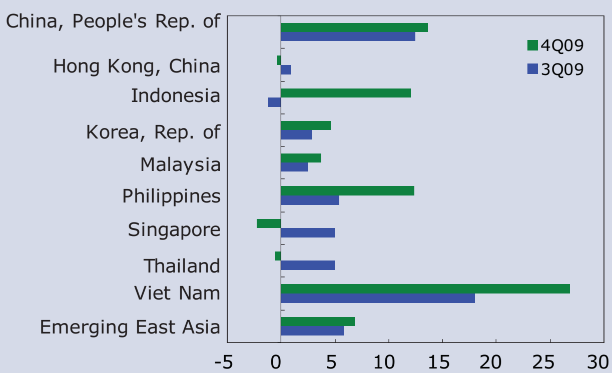
The q-o-q growth rate for the Thai market was 3.3% in 4Q09, with no major new developments in terms of market structure during the last quarter of 2009. In February 2010, however, the Thai Cabinet approved the issuance of THB100 billion of government savings bonds with a 6-year maturity. The bonds will be offered at a premium over current market yields with a step-up coupon rate. In Singapore, in October the government issued SGD2.2 billion of Singapore Government Securities (SGS) maturing in 2014. Finally, in 4Q09 the Vietnamese government issued VND200 billion of government bonds, VND1.4 trillion of treasury bills, and VND255 billion of Vietnam Development Bank bonds.

Figure 5: Growth of Emerging East Asian Local Currency Corporate Bond Markets in 4Q09 (y-o-y %)



y-o-y = year on year.
Notes:
1. For Singapore, corporate bonds outstanding figure are based on *AsianBondsOnline* estimates.
2. Calculated using data from national sources.
3. Corporate bonds include issues by financial institutions.
4. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
5. Emerging East Asia growth figure is based on end-December 2009 currency exchange rates and do not include currency effects.
Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

Figure 6: Growth of Emerging East Asian Local Currency Corporate Bond Markets in 3Q09 and 4Q09 (q-o-q %)



q-o-q = quarter-on-quarter.
Notes:
1. For Singapore, corporate bonds outstanding quarterly figures are based on *AsianBondsOnline* estimates.
2. Calculated using data from national sources.
3. Corporate bonds include issues by financial institutions.
4. Growth rates are calculated from local currency (LCY) base and do not include currency effects.
5. Emerging East Asia growth figure is based on end-December 2009 currency exchange rates and do not include currency effects.
Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Monetary Authority of Singapore, and Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

The corporate bond market in emerging East Asia continued to grow steadily in 4Q09, led by Viet Nam, the PRC, the Philippines, and Indonesia.

The PRC's corporate bond market remained the most rapidly growing in the region on a y-o-y basis in 4Q09 **(Figure 5)**, despite a moderation in the PRC corporate bond market's growth rate to 77.5% from 87.7% in 3Q09. The moderation resulted from a cooling of growth in the MTN segment. On a q-o-q basis, the MTN sector grew 16.2% in 4Q09, compared to 25.3% in 3Q09 and 73.7% in 2Q09. However, growth in other sectors of the corporate bond market accelerated in 4Q09: commercial paper rose 29.2% y-o-y, compared to a decline of 8.1% in 3Q09; local corporate bonds (bonds issued by corporates in provinces and major cities) rose 14.6% q-o-q, compared to 11.2% in 3Q09; and state-owned corporate bonds rose 16.3%, compared to 9.6% in 3Q09. Commercial bank bonds were flat in 4Q09 after having risen at double-digit rates for most of 2009 when issuance of subordinated debt bonds helped banks maintain adequate capital adequacy standards in the face of rapid loan growth.

However, Viet Nam's corporate bond market posted the fastest growth in the region on a q-o-q basis **(Figure 6)**. Issues during 4Q09 included Viet Nam Technological and Commercial Joint Stock Bank's (Techcombank) raising of VND2.1 trillion of senior unsecured bonds in October and Vincom Joint Stock Company's (VINCOM JSC) sale of VND1 trillion of 3-year bonds in December.

The Indonesian corporate bond market staged a q-o-q recovery in 4Q09, growing nearly as fast as the Philippine market. Indonesian corporate sector issuance in 4Q09 included subordinated debt bonds from Bank Mandiri (IDR3.5 trillion) and Bank Rakyat Indonesia (IDR2.0 trillion). In the Philippines, two of the larger issues were JG Summit's PHP9.0 billion bond and Energy Development Corporation's PHP12.0 billion bond.

The LCY corporate bond markets of Indonesia, the Philippines, and Viet Nam are relatively small. Therefore, the impressive growth rates came from very small bases. The interesting point to watch in coming quarters will be whether these rapid growth rates in some of the smaller markets can be sustained.

The more developed corporate bond markets of Korea and Thailand grew roughly 18% y-o-y in 4Q09, while the Malaysian corporate bond market grew at a slower pace of 9.6%. Korea's top LCY corporate bond issues included KRW2.58 trillion of bank bonds issued by Hana, Woori, and IBK; as well as KRW520 billion of bonds issued by Korea Electric Power (KEPCO). In Thailand, Krung Thai Bank sold THB13.0 billion of subordinated debt, Thanachart Capital sold THB9.0 billion of 5-year senior unsecured bonds, and Thai Military Bank sold THB5.3 billion of 10-year bonds. Additionally, Siam Cement, Thailand's biggest industrial conglomerate, sold THB10 billion of bonds in October.

Subordinated Bank Bonds. One important segment of the regional market is the market for subordinated bonds issued by financial institutions, which can be counted as Tier II capital under the capital adequacy rules of the Bank for International Settlements.

Most subordinated bonds issued by banks in the region have been "Lower Tier II" bonds. They are ordinary subordinated bonds with no provisions for missing interest payments under certain defined conditions without constituting an event of default. The top ten subordinated bank bond issues in six of the major East Asian subdebt bond markets are presented in **Table 2.** The largest amount of subdebt bonds outstanding (USD equivalent) is in the PRC (USD103.6 billion), followed by Korea (USD32.1 billion), Malaysia (USD7.8 billion), and Thailand (USD3.3 billion). Subdebt bonds outstanding in the Philippines and Indonesia are USD2.5 billion and USD1.2 billion, respectively.

The growth rate of the subdebt bond market may slow later this year if banks begin to issue larger amounts of new equity to (i) help stabilize their capital adequacy ratios, following the rapid increase of their loan books over the last year; and (ii) provide additional equity to offset any deterioration of asset quality.

Ratio of Bonds Outstanding to Gross Domestic Product

The ratio of LCY bonds outstanding to GDP for emerging East Asia rose slightly in 4Q09 to 58.7% from 57.8% in 3Q09.

The largest increase in the LCY-debt-to-GDP ratio occurred in Hong Kong, China, where it rose to 68.4% in 4Q09 from 61.4% in 3Q09 **(Table 3)**. The LCY-debt-to-GDP ratio also rose in most other markets in the region. However, the increases in Thailand and Malaysia were marginal. The ratio of bonds outstanding to GDP fell in Korea, Singapore, and Viet Nam in 4Q09.

Issuance

LCY bond issuance in 2009 totaled USD3.34 trillion, a 39.3% increase over 2008.

Central bank issuance for 2009 as a whole was USD2.00 trillion—or 60.0% of total issuance for 2009 **(Table 4a)**. Government bond issuance was USD726 billion—or 21.7% of the total—and corporate bond issuance was USD613 billion—or 18.4% of the total. Government bond issuance (excluding central banks) grew by 46.7% on an LCY basis for the year as a whole. The growth rates for issuance by corporates and central banks were more moderate at 41.8% and 36.0%, respectively.

Total issuance in emerging East Asia in 4Q09 amounted to USD911 billion, with central bank issuance of USD576 billion accounting for 63% of the total, compared to 21% for government issuances and 16% for corporate bonds **(Table 4b)**. Of the total of USD576 billion in central

Table 2: Subdebt Bond Tables

People's Republic of China			
Issuer	**Coupon** (%)	**Amount** (CNY billion)	
China Development Bank	5.00	30	
China Development Bank	4.07	30	
China Construction Bank	4.00	28	
Agricultural Bank of China	4.00	25	
Industrial and Commercial Bank of China	4.00	24	
Bank of China	4.00	24	
Agricultural Bank of China	3.30	20	
China Development Bank	3.82	20	
China Development Bank	5.42	20	
China Development Bank	4.17	20	
Subtotal - Top 10 bank subdebt issues		241	(USD35.30 billion)
Total bank (commercial and policy bank) subdebt		707	(USD103.56 billion)
Total commercial bank bonds		588	(USD86.19 billion)
Total policy bank bonds		4,450	(USD651.79 billion)

Note:
CNY6.8271—USD1.00 as of 31 December 2009
Source: *ChinaBond*.

Republic of Korea			
Issuer	**Coupon** (%)	**Amount** (KRW billion)	
Kookmin Bank	5.70	1,544	
Kookmin Bank	6.46	1,000	
Woori Bank	6.66	1,000	
Woori Bank	5.05	800	
NACF	6.76	750	
Shinhan Bank	5.95	700	
Industrial Bank of Korea	6.36	600	
NACF	5.90	596	
Shinhan Bank	7.02	510	
Hana Bank	5.43	500	
Subtotal - Top 10 bank subdebt issues		8,000	(USD6.91 billion)
Total bank subdebt		37,149	(USD32.08 billion)
Total commercial bank bonds (excl. IFDs)		132,443	(USD114.37 billion)
Memo Item: KDB Industrial Finance Debentures (IFDs)		34,980	(USD30.21 billion)

Note:
KRW1158.05—USD1.00 as of 31 December 2009.
Source: Bloomberg LP.

Indonesia			
Issuer	**Coupon** (%)	**Amount** (IDR billion)	
Bank Mandiri	11.85	3,500	
Bank Rakyat Indonesia	13.50	2,000	
Bank Pan Indonesia	11.60	1,500	
Bank Mega	11.50	1,000	
Bank NISP Tbk	11.10	600	
Bank Rakyat Indonesia	13.50	500	
Bank Permata Tbk	12.25	500	
Bank Global International	14.88	400	
Bank Muamalat	0.25	400	
Bank UOB Buana	22.05	297	
Subtotal - Top 10 bank subdebt issues		10,697	(USD1.13 billion)
Total bank subdebt		11,293	(USD1.19 billion)
Total commercial bank bonds		26,529	(USD2.80 billion)

Note:
IDR9480—USD1.00 as of 31 December 2009.
Source: Bloomberg LP.

Malaysia			
Issuer	**Coupon** (%)	**Amount** (MYR billion)	
Maybank	4.00	1.50	
Maybank	5.00	1.50	
CIMB	4.90	1.50	
Public Bank	4.73	1.40	
Bumiputra-Commerce	7.30	1.38	
RHB	5.00	1.30	
Public Bank	5.10	1.20	
Maybank	6.30	1.10	
CIMB	6.70	1.00	
CIMB	7.20	1.00	
Subtotal - Top 10 bank subdebt issues		12.88	(USD 3.75 billion)
Total bank subdebt		26.68	(USD 7.76 billion)
Total commercial bank bonds		35.88	(USD 10.43 billion)

Note:
MYR3.439—USD1.00 as of 31 December 2009.
Source: Bloomberg LP.

Continued on next page

Table 2 continued

Philippines			
Issuer	**Coupon** (%)	**Amount** (PHP billion)	
Banco de Oro Unibank Inc.	8.50	10	
Banco de Oro Unibank Inc.	7.00	10	
Metropolitan Bank and Trust Co.	7.00	9	
Rizal Commercial Banking Corp.	7.00	7	
Land Bank of the Philippines	7.25	7	
Development Bank of the Philippines	7.75	7	
Philippine National Bank	8.50	6	
Philippine National Bank	10.00	5	
Bank of the Philippine Islands	8.45	5	
China Banking Corp.	8.25	5	
Subtotal - Top 10 bank subdebt issues		70	(USD1.52 billion)
Total bank subdebt		114	(USD2.48 billion)
Total commercial bank bonds		146	(USD3.16 billion)

Note:
PHP46.10—USD1.00 as of 31 December 2009.
Source: Bloomberg LP.

Thailand			
Issuer	**Coupon** (%)	**Amount** (THB billion)	
Krung Thai Bank PCL	5.00	21	
Kasikorn Bank PCL	5.25	17	
Krung Thai Bank PCL	4.80	13	
Kasikorn Bank PCL	4.25	12	
Bank of Ayudhya	4.75	12	
Krung Thai Bank PCL	4.60	10	
Siam City Bank PCL	5.50	10	
Thanachart Bank PCL	5.10	5	
Thanachart Bank PCL	5.25	4	
Thanachart Bank PCL	5.25	2	
Subtotal - Top 10 bank subdebt issues		106	(USD3.17 billion)
Total bank subdebt		111	(USD3.33 billion)
Total commercial bank bonds		354	(USD10.61 billion)

Note:
THB33.39—USD1.00 as of 31 December 2009.
Source: Bloomberg LP.

bank issuance in the region, 66% originated in the PRC and Hong Kong, China. The share of central bank and monetary authority issuance as a portion of a local market's total in 4Q09 was highest in Hong Kong, China (97.8%); Indonesia (97.8%); and Thailand (76.4%). The Bangko Sentral ng Pilipinas (BSP) does not issue LCY bonds, but does have a small amount of foreign currency bonds outstanding. The Monetary Authority of Singapore issues bonds (SGS) in the name of the Government of Singapore. The State Bank of Vietnam does not issue bonds, but has a miniscule amount of bills outstanding. Treasury bills are the more significant short-term money market instrument in Viet Nam. The State Treasury of Viet Nam issues treasury bills to develop the country's monetary market and to raise funds to finance its budget deficit. In the remaining three markets—the PRC, Korea, and Malaysia—central bank issuance accounted for roughly 48% of total issuance in 4Q09. The share of central bank issuance as a portion of total issuance was unusually high for Indonesia in 4Q09, due to minimal treasury bond issuance.

The increase in y-o-y growth rates for total issuance in Indonesia, Malaysia, and Singapore was substantial in 4Q09, rising by 80.7% in Indonesia, 24.3% in Malaysia, and 72.0% in Singapore.

The y-o-y increase in PRC issuance was also strong, rising from 69.8% in 3Q09 to 76.2% in 4Q09. The most important driver in the PRC market was issuance by the PBOC, which rose 196% in 4Q09. Over the past year, the PBOC has increased bill issuance and reduced bond issuance. This is discussed in more detail in the section on money market trends **(Table 5)**. PBOC bills outstanding in 4Q09 grew 34.5%, while PBOC bonds outstanding fell almost 60%, resulting in a tripling of the PBOC bills-to-bonds ratio from 1.01 at the end of 4Q08 to 3.34 at the end of 4Q09.

Table 3: Size and Composition of Emerging East Asian Local Currency Bond Markets (% of GDP)

	2008	3Q09	2009
China, People's Rep. of			
Total	48.1	50.9	52.3
Government	42.5	42.5	43.0
Corporate	5.6	8.4	9.2
Hong Kong, China			
Total	42.8	61.4	68.4
Government	9.4	25.7	33.0
Corporate	33.4	35.7	35.3
Indonesia			
Total	15.7	15.9	16.6
Government	14.3	14.4	15.0
Corporate	1.5	1.4	1.6
Korea, Rep. of			
Total	100.5	113.8	113.4
Government	45.3	52.3	49.6
Corporate	55.1	61.6	63.8
Malaysia			
Total	78.0	94.0	94.2
Government	42.3	52.3	51.4
Corporate	35.6	41.7	42.8
Philippines			
Total	36.3	37.4	38.0
Government	33.4	33.2	33.4
Corporate	2.8	4.1	4.6
Singapore			
Total	68.5	83.0	81.9
Government	39.3	48.0	48.0
Corporate	29.2	34.9	33.8
Thailand			
Total	54.0	65.1	65.2
Government	42.9	51.6	52.1
Corporate	11.0	13.5	13.2
Viet Nam			
Total	15.7	13.8	13.2
Government	15.0	13.0	12.2
Corporate	0.7	0.9	1.1
Total Emerging East Asia			
Total	53.0	57.8	58.7
Government	39.4	41.2	41.4
Corporate	13.6	16.6	17.3
Japan			
Total	171.0	184.0	188.5
Government	153.7	165.2	169.6
Corporate	17.3	18.7	18.9

Note:
2009 GDP is from CEIC except for the Republic of Korea which is from the *World Economic Outlook Database, October 2009, International Monetary Fund.*
Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury and Bloomberg LP); Singapore (Singapore Government Securities, Monetary Authority of Singapore and Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Table 4a: Annual Local Currency-Denominated Bond Issuance (Gross)

	2008 (USD billion)	2009 (USD billion)	Growth Rate (%)
Total Emerging East Asia	2,398	3,340	39.3
Government	1,965	2,726	38.7
Central Bank	1,470	2,000	36.0
Treasury and Other Govt	495	726	46.7
Corporate	433	613	41.8

Notes:
1. Corporate bonds include issues by financial institutions.
2. Bloomberg LP end-of-period LCY—USD rates are used.
3. Growth figures are based on end-December 2009 currency exchange rate and do not include currency effects.

Source: *AsianBondsOnline.*

In the Philippines, the y-o-y growth rate fell from 6.5% in 3Q09 to 5.6% in 4Q09 as the Philippines sold dollar bonds.

In Thailand, y-o-y issuance growth rates were negative in both 3Q09 and 4Q09.

In Korea, most types of government sector bonds outstanding peaked at the end of November and fell slightly at the end of December. Thus, it is not surprising that Korea's q-o-q issuance fell 23.2% in 4Q09. Negative q-o-q growth rates were also observed in the PRC, Malaysia, Philippines, Thailand, and Viet Nam in 4Q09. Meanwhile, q-o-q issuance growth rates were positive in 4Q09 only in Hong Kong, China; Indonesia; and Singapore.

Figure 7a depicts the issuance of central bank bonds versus the trend in issuance of central government bonds (i.e., central government entities other than the central bank). **Figure 7b** shows issuance trends for central government issuance versus corporate bond issuance. Finally, **Figure 7c** shows emerging East Asian (ex PRC) total LCY bond issuance versus total yuan bond issuance in the PRC.

These three graphs clearly depict a fall-off in government issuance (excluding central banks) in 4Q09, confirming that the bulk of issuance for financing economic stimulus programs and raising funds to plug fiscal deficits **(Figure 8)** occurred in the second and third quarters of 2009 to take

Table 4b: Local Currency Denominated Bond Issuance (Gross)

	LCY billion		USD billion		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	4Q09	% share	4Q09	% share	4Q09		4Q09	
					q-o-q	y-o-y	q-o-q	y-o-y
China, People's Rep. of (PRC)								
Total	2,347	100.0	344	100.0	(20.8)	76.2	(20.8)	76.2
Government	1,876	79.9	275	79.9	(23.2)	96.4	(23.2)	96.4
Central Bank	1,098	46.8	161	46.8	(25.4)	196.0	(25.4)	195.9
Treasury and Other Govt	778	33.2	114	33.2	(20.0)	33.2	(20.0)	33.2
Corporate	471	20.1	69	20.1	(9.6)	24.9	(9.6)	24.9
Hong Kong, China								
Total	1,725	100.0	222	100.0	31.7	354.0	31.6	353.8
Government	1,688	97.9	218	97.9	33.8	374.7	33.7	374.5
Central Bank	1,686	97.8	217	97.8	34.0	374.1	34.0	373.9
Treasury and Other Govt	2	0.1	0.3	0.1	(42.9)	—	(42.9)	—
Corporate	36	2.1	5	2.1	(23.7)	50.3	(23.8)	50.2
Indonesia								
Total	695,158	100.0	73	100.0	75.2	80.7	78.6	115.8
Government	682,368	98.2	72	98.2	73.5	79.7	76.9	114.6
Central Bank	679,836	97.8	72	97.8	80.9	79.0	84.4	113.8
Treasury and Other Govt	2,532	0.4	0.3	0.4	(85.5)	—	(85.2)	—
Corporate	12,790	1.8	1.3	1.8	265.4	155.8	272.6	205.6
Korea, Rep. of								
Total	165,936	100.0	143	100.0	(23.2)	51.6	(22.1)	64.9
Government	104,561	63.0	90	63.0	(30.1)	116.3	(29.1)	135.2
Central Bank	78,230	47.1	68	47.1	(32.3)	185.7	(31.3)	210.8
Treasury and Other Govt	26,331	15.9	23	15.9	(22.7)	25.6	(21.5)	36.6
Corporate	61,376	37.0	53	37.0	(7.7)	0.5	(6.3)	9.3
Malaysia								
Total	65	100.0	19	100.0	(16.3)	24.3	(15.6)	25.0
Government	43	65.5	12	65.5	(29.6)	12.7	(29.0)	13.4
Central Bank	31	48.0	9	48.0	(13.1)	43.2	(12.3)	44.1
Treasury and Other Govt	11	17.5	3	17.5	(53.8)	(28.9)	(53.4)	(28.4)
Corporate	23	34.5	7	34.5	30.6	54.4	31.7	55.4
Philippines								
Total	139	100.0	3	100.0	(42.7)	5.6	(40.9)	8.6
Government	97	70.0	2	70.0	(58.2)	(10.8)	(56.8)	(8.3)
Central Bank	0	0.0	0	0.0	—	—	—	—
Treasury and Other Govt	97	70.0	2	70.0	(58.2)	(10.8)	(56.8)	(8.3)
Corporate	42	30.0	1	30.0	317.5	84.8	330.9	89.9

Continued on next page

Table 4b continued

	LCY billion		USD billion		Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	4Q09	% share	4Q09	% share	4Q09		4Q09	
					q-o-q	y-o-y	q-o-q	y-o-y
Singapore								
Total	57	100.0	40	100.0	19.7	72.0	19.9	75.9
Government	54	95.8	39	95.8	22.0	65.9	22.2	69.6
Central Bank	0	0.0	0	0.0	—	—	—	—
Treasury and Other Govt	54	95.8	39	95.8	22.0	65.9	22.2	69.6
Corporate	2	4.2	2	4.2	(15.9)	1000.9	(15.7)	1025.7
Thailand								
Total	2,173	100.0	65	100.0	(20.2)	(22.6)	(20.1)	(19.5)
Government	1,917	88.2	57	88.2	(22.6)	(24.4)	(22.5)	(21.4)
Central Bank	1,660	76.4	50	76.4	(15.8)	(31.4)	(15.7)	(28.7)
Treasury and Other Govt	256	11.8	8	11.8	(49.1)	124.4	(49.0)	133.4
Corporate	256	11.8	8	11.8	3.9	(5.5)	4.1	(1.7)
Viet Nam								
Total	8,355	100.0	0.5	100.0	(39.8)	(66.0)	(41.9)	(67.8)
Government	4,655	55.7	0.3	55.7	(60.0)	(80.9)	(61.4)	(81.9)
Central Bank	0	0.0	0.0	0.0	(100.0)	—	(100.0)	—
Treasury and Other Govt	4,655	55.7	0.3	55.7	(53.0)	(80.9)	(54.6)	(81.9)
Corporate	3,700	44.3	0.2	44.3	65.5	1750.0	59.8	1650.3
Total Emerging East Asia								
Total	—	—	911	100.0	(6.7)	79.9	(6.3)	86.6
Government	—	—	766	84.1	(6.7)	100.7	(6.3)	107.9
Central Bank	—	—	576	63.3	(1.8)	137.4	(1.4)	148.9
Treasury and Other Govt	—	—	189	20.8	(19.0)	36.4	(18.8)	38.5
Corporate	—	—	145	15.9	(6.4)	16.4	(5.9)	20.9
Less PRC:								
Total	—	—	567	100.0	4.7	82.3	5.5	93.5
Government	—	—	491	86.6	6.1	103.1	6.8	(67.0)
Central Bank	—	—	416	73.3	11.9	120.5	12.6	(57.1)
Treasury and Other Govt	—	—	75	13.3	(17.5)	41.5	(16.8)	(100.0)
Corporate	—	—	76	13.4	(3.4)	9.6	(2.2)	17.5
Japan								
Total	47,621	100.0	511	100.0	(0.9)	31.9	(4.5)	28.6
Government	43,676	91.7	469	91.7	(0.0)	33.5	(3.7)	30.2
Central Bank	0	0.0	0	0.0	—	—	—	—
Treasury and Other Govt	43,676	91.7	469	91.7	(0.0)	33.5	(3.7)	30.2
Corporate	3,945	8.3	42	8.3	(9.5)	16.1	(12.9)	13.2

— = data not applicable, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Corporate bonds include issues by financial institutions.
2. Bloomberg LP end-of-period LCY—USD rates are used.
3. For LCY base, total emerging East Asia growth figures are based on end-December 2009 currency exchange rates and do not include currency effects.
Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bloomberg LP); Republic of Korea (Bank of Korea); Malaysia (Bloomberg LP); Philippines (Bloomberg LP); Singapore (Bloomberg LP); Thailand (Bank of Thailand); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Table 5: Government Bills-to-Bonds Ratios of Emerging East Asian Local Currency Bond Markets

	4Q08		3Q09		4Q09		Government Bills to Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	4Q08	3Q09	4Q09	4Q09 q-o-q	4Q09 y-o-y	4Q09 q-o-q	4Q09 y-o-y
China, People's Rep. of (PRC)													
Total	1,405.8	100.0	1,358.6	100.0	1,400.2	100.0				3.1	(0.4)	3.1	(0.4)
Total Bills	436.5	31.0	524.8	38.6	588.2	42.0	0.45	0.63	0.72	12.1	34.8	12.1	34.8
Treasury Bills	82.1	5.8	110.1	8.1	111.7	8.0	0.13	0.17	0.17	1.4	36.0	1.4	36.0
Central Bank Bills	354.3	25.2	414.7	30.5	476.6	34.0	1.01	2.39	3.34	14.9	34.5	14.9	34.5
Total Bonds	969.3	69.0	833.7	61.4	812.0	58.0				(2.6)	(16.2)	(2.6)	(16.2)
Treasury Bonds	619.5	44.1	660.5	48.6	669.4	47.8				1.4	8.1	1.4	8.1
Central Bank Bonds	349.8	24.9	173.2	12.8	142.5	10.2				(17.7)	(59.2)	(17.7)	(59.3)
Hong Kong, China													
Total	20.3	100.0	53.7	100.0	69.6	100.0				29.5	242.2	29.5	242.1
Total Bills	11.7	57.6	44.3	82.5	59.9	86.1	1.36	4.70	6.18	35.2	411.7	35.2	411.5
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Central Bank Bills	11.7	57.6	44.3	82.5	59.9	86.1	1.36	4.93	6.66	35.2	411.7	35.2	411.5
Total Bonds	8.6	42.4	9.4	17.5	9.7	13.9				2.9	12.4	2.8	12.4
Treasury Bonds	0.0	0.0	0.5	0.8	0.7	1.0				57.1	—	57.1	—
Central Bank Bonds	8.6	42.4	9.0	16.7	9.0	12.9				0.1	4.2	0.1	4.1
Indonesia													
Total	62.3	100.0	81.7	100.0	88.8	100.0				6.5	19.2	8.6	42.4
Total Bills	16.8	26.9	25.3	30.9	30.0	33.8	0.37	0.45	0.51	16.5	49.7	18.8	78.8
Treasury Bills	0.9	1.4	2.4	3.0	2.6	2.9	0.02	0.04	0.04	5.1	146.7	7.2	194.7
Central Bank Bills	15.9	25.5	22.8	27.9	27.4	30.9	—	—	—	17.8	44.3	20.1	72.3
Total Bonds	45.5	73.1	56.5	69.1	58.8	66.2				2.0	8.0	4.0	29.0
Treasury Bonds	45.5	73.1	56.5	69.1	58.8	66.2				2.0	8.0	4.0	29.0
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—
Korea, Rep. of													
Total	285.9	100.0	361.1	100.0	373.1	100.0				1.8	20.0	3.3	30.5
Total Bills	12.9	4.5	34.8	9.6	38.1	10.2	0.05	0.11	0.11	7.7	171.8	9.4	195.6
Treasury Bills	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Central Bank Bills	12.9	4.5	34.8	9.6	38.1	10.2	0.16	0.42	0.41	7.7	171.8	9.4	195.6
Total Bonds	273.0	95.5	326.3	90.4	335.1	89.8				1.1	12.8	2.7	22.7
Treasury Bonds	194.8	68.1	243.7	67.5	242.5	65.0				(2.0)	14.4	(0.5)	24.5
Central Bank Bonds	78.2	27.4	82.6	22.9	92.6	24.8				10.4	8.8	12.1	18.4
Malaysia													
Total	87.5	100.0	99.2	100.0	99.5	100.0				(0.5)	13.1	0.3	13.8
Total Bills	13.4	15.3	11.9	12.0	9.9	9.9	0.18	0.14	0.11	(17.9)	(26.8)	(17.2)	(26.3)
Treasury Bills	1.2	1.4	1.2	1.3	1.3	1.3	0.02	0.01	0.01	0.0	0.0	0.8	0.6
Central Bank Bills	12.1	13.9	10.7	10.8	8.6	8.7	—	—	—	(20.0)	(29.5)	(19.3)	(29.1)
Total Bonds	74.1	84.7	87.3	88.0	89.6	90.1				1.9	20.3	2.7	21.0
Treasury Bonds	74.1	84.7	87.3	88.0	89.6	90.1				1.9	20.3	2.7	21.0
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—
Philippines													
Total	50.6	100.0	50.8	100.0	53.4	100.0				1.9	2.6	5.2	5.4
Total Bills	16.3	32.1	12.8	25.2	13.5	25.3	0.47	0.34	0.34	2.4	(19.2)	5.7	(17.0)
Treasury Bills	16.3	32.1	12.8	25.2	13.5	25.3	0.47	0.34	0.34	2.4	(19.2)	5.7	(17.0)
Central Bank Bills	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Total Bonds	34.4	67.9	38.0	74.8	39.9	74.7				1.7	12.9	5.0	16.0
Treasury Bonds	34.4	67.9	38.0	74.8	39.9	74.7				1.7	12.9	5.0	16.0
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—

Continued on next page

Table 5 continued

	4Q08		3Q09		4Q09		Government Bills to Bonds Ratio			Growth Rate (LCY-base %)		Growth Rate (USD-base %)	
	Amount (USD billion)	% share	Amount (USD billion)	% share	Amount (USD billion)	% share	4Q08	3Q09	4Q09	4Q09		4Q09	
										q-o-q	y-o-y	q-o-q	y-o-y
Singapore													
Total	72.8	100.0	87.1	100.0	88.1	100.0				0.9	18.3	1.1	20.9
Total Bills	25.0	34.3	35.0	40.2	37.1	42.1	0.52	0.67	0.73	5.7	45.1	5.9	48.4
Treasury Bills	25.0	34.3	35.0	40.2	37.1	42.1	0.52	0.67	0.73	5.7	45.1	5.9	48.4
Central Bank Bills	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Total Bonds	47.8	65.7	52.1	59.8	51.0	57.9				(2.3)	4.2	(2.1)	6.6
Treasury Bonds	47.8	65.7	52.1	59.8	51.0	57.9				(2.3)	4.2	(2.1)	6.6
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—
Thailand													
Total	97.8	100.0	120.5	100.0	125.2	100.0				3.7	23.1	3.9	28.0
Total Bills	25.5	26.1	33.1	27.5	35.8	28.6	0.35	0.38	0.40	8.1	35.0	8.3	40.4
Treasury Bills	2.3	2.4	8.4	7.0	6.2	4.9	0.04	0.13	0.10	(26.5)	155.0	(26.4)	165.2
Central Bank Bills	23.2	23.7	24.7	20.5	29.7	23.7	1.22	1.00	1.19	19.9	22.9	20.1	27.8
Total Bonds	72.3	73.9	87.4	72.5	89.4	71.4				2.1	18.9	2.3	23.7
Treasury Bonds	53.3	54.5	62.8	52.1	64.6	51.5				2.7	16.5	2.9	21.2
Central Bank Bonds	19.0	19.4	24.6	20.4	24.8	19.8				0.6	25.7	0.8	30.8
Viet Nam													
Total	7.0	100.0	5.8	100.0	5.0	100.0				(11.4)	(25.1)	(14.4)	(29.1)
Total Bills	1.8	25.0	0.7	11.9	0.3	7.0	0.33	0.13	0.08	(47.8)	(79.0)	(49.6)	(80.1)
Treasury Bills	0.6	8.5	0.6	10.2	0.3	5.1	0.11	0.12	0.06	(55.6)	(54.7)	(57.1)	(57.1)
Central Bank Bills	1.2	16.5	0.1	1.7	0.1	1.9	—	—	—	0.0	(91.4)	(3.5)	(91.9)
Total Bonds	5.3	75.0	5.1	88.1	4.6	93.0				(6.5)	(7.1)	(9.7)	(12.1)
Treasury Bonds	5.3	75.0	5.1	88.1	4.6	93.0				(6.5)	(7.1)	(9.7)	(12.1)
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—
Total Emerging East Asia													
Total	2,090.1	100.0	2,218.6	100.0	2,302.9	100.0				3.4	7.9	3.8	10.2
Total Bills	559.8	26.8	722.7	32.6	812.9	35.3	0.37	0.48	0.55	12.2	43.6	12.5	45.2
Treasury Bills	128.5	6.1	170.6	7.7	172.6	7.5	0.12	0.14	0.14	0.9	33.1	1.2	34.3
Central Bank Bills	431.3	20.6	552.2	24.9	640.3	27.8	0.95	1.91	2.38	15.7	46.7	16.0	48.4
Total Bonds	1,530.3	73.2	1,495.9	67.4	1,490.0	64.7				(0.9)	(5.0)	(0.4)	(2.6)
Treasury Bonds	1,074.7	51.4	1,206.4	54.4	1,221.1	53.0				0.7	10.5	1.2	13.6
Central Bank Bonds	455.7	21.8	289.5	13.0	269.0	11.7				(7.5)	(41.9)	(7.1)	(41.0)
Less PRC:													
Total	684.3	100.0	860.0	100.0	902.7	100.0				3.8	23.9	5.0	31.9
Total Bills	123.3	18.0	197.9	23.9	224.6	24.9	0.22	0.30	0.33	12.6	73.2	13.5	82.2
Treasury Bills	46.3	6.8	60.5	7.0	60.9	6.7	0.10	0.11	0.11	(0.2)	28.0	0.7	31.5
Central Bank Bills	77.0	11.3	137.4	16.0	163.7	18.1	0.73	1.18	1.30	18.2	99.3	19.1	112.7
Total Bonds	561.0	82.0	662.1	77.0	678.1	75.1				1.2	13.2	2.4	20.9
Treasury Bonds	455.2	66.5	545.9	63.5	551.6	61.1				(0.2)	13.6	1.1	21.2
Central Bank Bonds	105.8	15.5	116.2	13.5	126.4	14.0				7.6	11.4	8.8	19.4
Japan													
Total	7,473.2	100.0	7,693.3	100.0	7,525.9	100.0				1.6	3.3	(2.2)	0.7
Total Bills	188.3	2.5	247.5	3.2	273.2	3.6	0.03	0.03	0.04	14.6	48.8	10.4	45.1
Treasury Bills	188.3	2.5	247.5	3.2	273.2	3.6	0.03	0.03	0.04	14.6	48.8	10.4	45.1
Central Bank Bills	0.0	0.0	0.0	0.0	0.0	0.0	—	—	—	—	—	—	—
Total Bonds	7,284.9	97.5	7,445.7	96.8	7,252.6	96.4				1.2	2.1	(2.6)	(0.4)
Treasury Bonds	7,284.9	97.5	7,445.7	96.8	7,252.6	96.4				1.2	2.1	(2.6)	(0.4)
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0				—	—	—	—

— = not applicable, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Bloomberg LP end-of-period LCY—USD rates are used.
2. For LCY base, total emerging East Asia growth figures are based on end-December 2009 currency exchange rates and do not include currency effects.
3. Total figures per market refer to bills and bonds issued by the central government and the central bank. It excludes bonds issued by policy banks and state-owned enterprises. Bills are defined as securities with original maturities of less than one year
Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange and Bank Indonesia); Republic of Korea (Bloomberg LP); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore); Thailand (Bank of Thailand and Bloomberg LP); Viet Nam (Bloomberg LP); and Japan (Japan Securities Dealers Association).

Figure 7a: Government and Central Bank Bond Issuance[1]

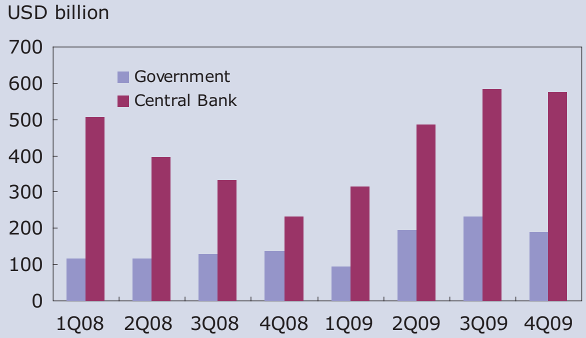


Figure 7b: Government (excluding Central Bank) **and Corporate Bond Issuance**[1]

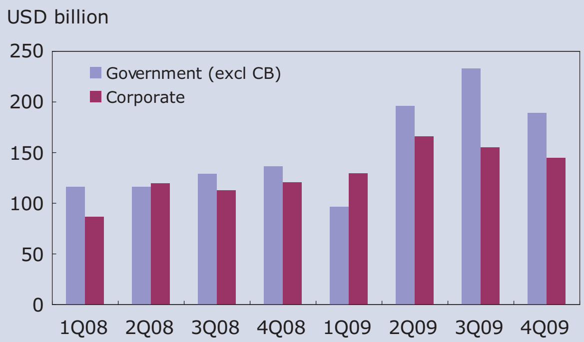
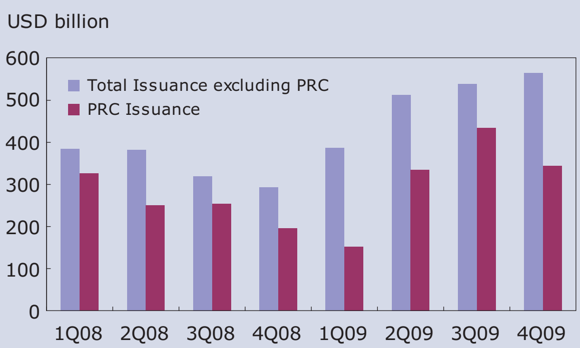
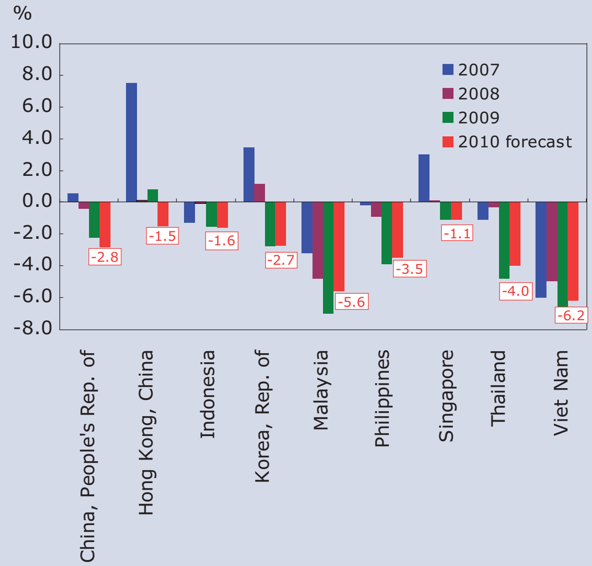


Figure 7c: Total Local Currency Bond Issuance



CB = Central Bank, PRC = People's Republic of China.
[1]These data include both bonds and bills issued by governments and central banks as well as commercial paper issued by corporate entities.
Source:
People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Bloomberg LP); Republic of Korea (Bank of Korea and *KoreaBondWeb*); Malaysia (Bloomberg LP); Philippines (Bloomberg LP); Singapore (Bloomberg LP); Thailand (Bank of Thailand); and Viet Nam (Bloomberg LP).

Figure 8: Fiscal Balance (% of GDP)

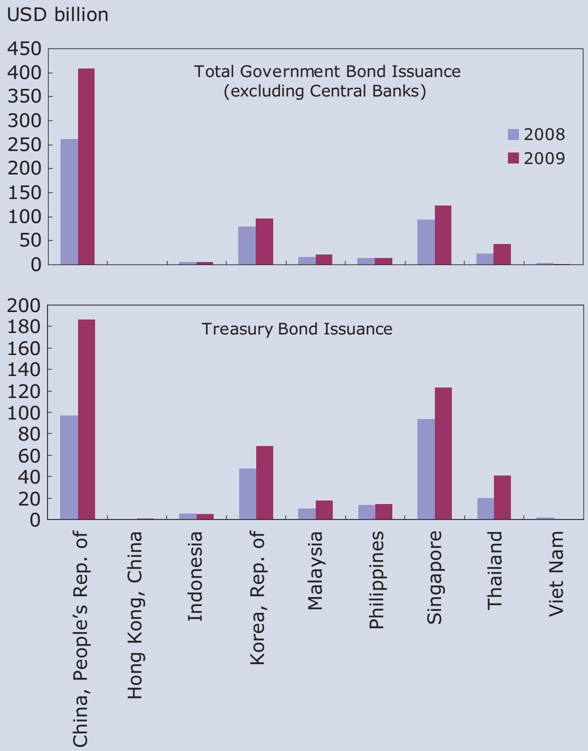


Note:
Data for Hong Kong, China based on estimates from *Budget 2010—2011*. Data for the Republic of Korea based on estimates from *IMF World Economic Outlook, October 2009*. Data for other markets are official figures as released by national authorities.
Source:
People's Republic of China (Ministry of Finance and CEIC); Hong Kong, China (Hong Kong Monetary Authority and Budget.gov.hk); Indonesia (Indonesia Debt Management Office); Republic of Korea (*IMF World Economic Outlook,* October 2009); Malaysia (Bank Negara Malaysia and Ministry of Finance); Philippines (Bangko Sentral ng Pilipinas and Bureau of the Treasury); Singapore (Monetary Authority of Singapore and Ministry of FInance); Thailand (Bank of Thailand); and Viet Nam (Viet Nam Ministry of Finance and General Statistics Office of Viet Nam).

advantage of low interest rates and substantial liquidity in the market. **Figure 9** displays this trend of government bond issuance on an annualized basis, comparing issuance for all of 2009 and 2008. Furthermore, Figure 9 provides issuance for two categories of government debt.

Issuance of government bonds for 2009 as a whole rose 55% for the PRC and 22% for Korea. In 4Q09, issuance rose by 33.2% and 25.6% y-o-y, respectively.

Figure 9: Total Government Bond Issuance and Treasury Bond Issuance



Note:
Total government bond issuance includes issuance of treasuries and other government bonds except for central bank bonds.
Source: *AsianBondsOnline.*

Figure 10a: Government Bond Turnover Ratios[1]

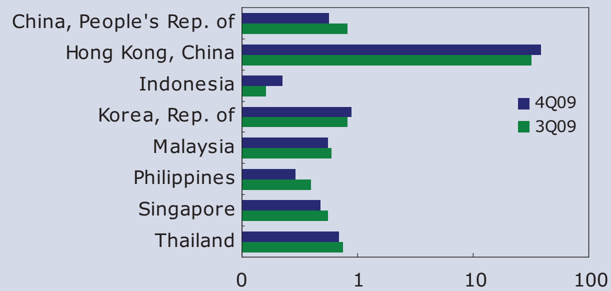
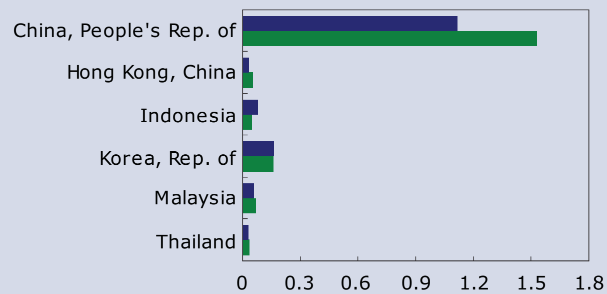


Figure 10b: Corporate Bond Turnover Ratios[1]



[1]Calculated as local currency (LCY) trading volume (sales amount only) divided by average LCY value of outstanding bonds during each 3-month period. Figure 10a is based on a logarithmic scale.
Source: People's Republic of China (*ChinaBond*); Hong Kong, China (Hong Kong Monetary Authority); Indonesia (Indonesia Stock Exchange); Korea (*KoreaBondWeb*); Malaysia (Bank Negara Malaysia); Philippines (Bureau of the Treasury); Singapore (Monetary Authority of Singapore and Singapore Government Securities); and Thailand (Bank of Thailand and Thai Bond Market Association).

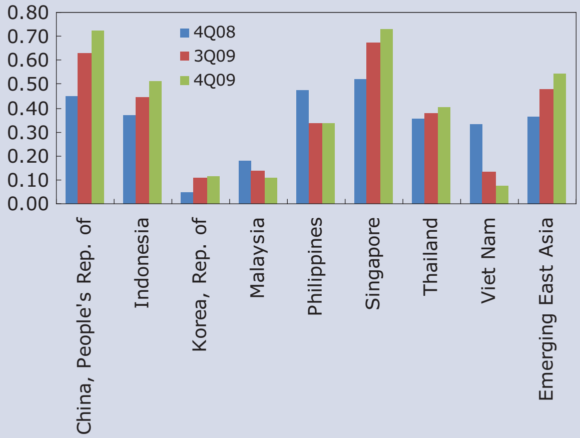
Bond Turnover Ratios

One consequence of higher issuance in 4Q09 was a rise in bond turnover ratios in several markets.

Asian government bond market liquidity can be characterized as moderately good. However, corporate bonds are largely illiquid, except in the PRC and Korea.

Government bond turnover ratios rose for Hong Kong, China; Indonesia; and Korea **(Figure 10a)**. Government bod turnover in Hong Kong, China is high as monetary authorities issue paper to manage capital flows. Turnover ratios for other government bond markets, however, fell. The countries where government bond turnover ratios fell the most were the PRC, Philippines, and Singapore. In the corporate bond market, turnover ratios in 4Q09 fell in most markets **(Figure 10b)**. However, corporate turnover is high in the PRC due to heavy issuance, which is mainly traded in the interbank market.

Figure 11: Total Bills-To-Bonds Ratios



Note:
Total bills comprise central bank bills plus treasury bills. Bonds comprise long-term bonds (more than 1 year in maturity) issued by central governments and central banks.
Source: *AsianBondsOnline.*

Money Market Trends and Bills-To-Bonds Ratios

The bills-to-bonds ratio for most emerging East Asian markets rose during 4Q09, driven mainly by a rise in the ratio of central bank bills to bonds (rather than the ratio of treasury bills to bonds).

The rise in the bills-to-bonds ratio in most emerging Asian markets reflected an acceleration of the growth rate of central bank bills on both a y-o-y and q-o-q basis for most markets that issue central bank bills, including the PRC; Hong Kong, China; Indonesia; Korea; and Thailand **(Figure 11)**. The rise in the central bank bills-to-bonds ratio was also driven by negative growth rates for central bank bonds outstanding (as opposed to central bank bills) on both a q-o-q and y-o-y basis in markets that issue central bank bonds.

The only market to see an overall decline in its growth rate for central bank bills on both a q-o-q and y-o-y basis in 4Q09 was Malaysia. Meanwhile, the y-o-y growth rate for central bank bills in Indonesia declined to 44.3% in 4Q09, compared to 88.7% in 3Q09. The q-o-q growth rate for Indonesia's central bank bills rose, however, from –5.2% in 3Q09 to 17.8% in 4Q09.

The region's overall ratio of treasury bills to treasury bonds was virtually unchanged on a q-o-q basis at 0.14 in 4Q09. This reflected primarily the stability of the treasury bills-to-bonds ratios in the Philippines, PRC, Indonesia, and Malaysia, which were 0.34, 0.17, 0.04, and 0.01, respectively. Meanwhile, the rise in the treasury bills-to-bonds ratio of Singapore from 0.67 in 3Q09 to 0.73 in 4Q09 broadly matched the decline of the Thai treasury bills-to-bonds ratio from 0.13 to 0.10 over the same period.

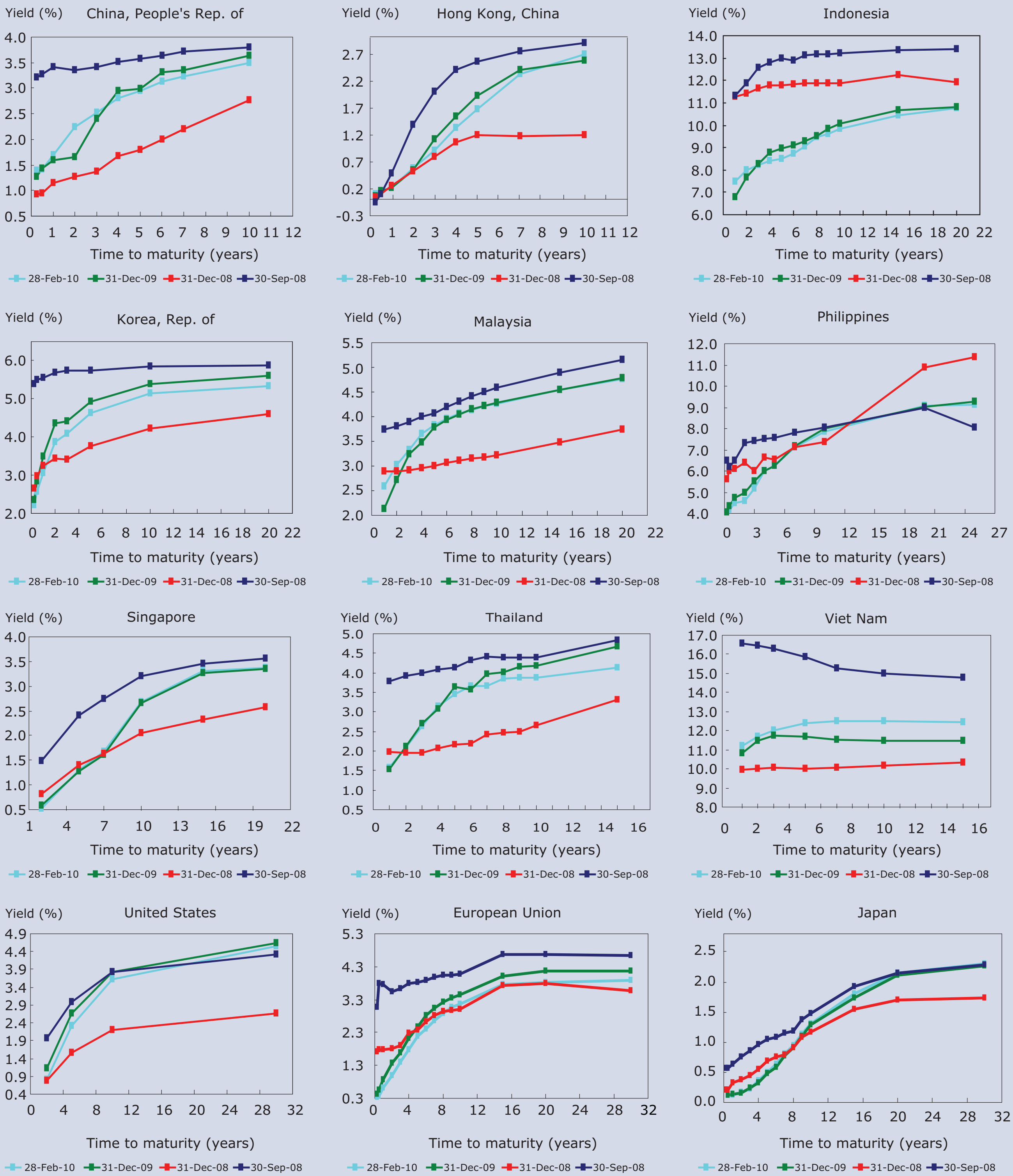
These two trends resulted in a sharp rise in the total bills-to-bonds ratio for the region as a whole from 0.48 to 0.55 between 3Q09 and 4Q09, continuing a trend that has been in place since the end of 2008. The only markets to have seen a decline in their total bills-to-bonds ratio since the end of 2008 were Malaysia, Viet Nam, and the Philippines. The Philippine bills-to-bonds ratio fell from the end of 4Q08 through 3Q09, but then was virtually unchanged in 4Q09.

Government Bond Yields

Most government bond yield curves in the region steepened in 2009, reflecting a combination of supply concerns, buildup of public debt, and strong recovery in other asset markets.

The government bond market yield curves that steepened at their longer-ends—hovering near post-Lehman levels as of the end of 2009—were the PRC; Hong Kong, China; Korea; Thailand; Singapore; and Malaysia **(Figure 12)**. However, this trend for Malaysia is more pronounced in the belly rather than the long-end of the curve as the long-end flattened somewhat in the second half of 2009. Also, the longer-end of the Thai curve flattened significantly between end-December 2009 and end-February 2010. In most of these

Figure 12: Benchmark Yield Curves—Local Currency Bonds



Source: Based on data from Bloomberg LP.

cases, the very short-end of the curve at end-February 2010 was still low and either at the same level as end-December 2009 or just slightly above it.

The major exception to this overall steepening trend is Indonesia, whose government bond yield curve has fallen well below its end-2008 levels. This seems to reflect a relatively stable level of rupiah bond issuance over the last 2 years, as the Indonesian government has worked hard to limit the expansion of the budget deficit and placed around one-half of its bond issuance in the USD market in both 2008 and 2009. Nevertheless, the Indonesian curve has steepened at its newly acquired lower level for bond yields, given the fact that Indonesian bond yields remain among the highest in the region. The steepness of the Indonesian LCY bond yield curve also seems to reflect the sharp reduction of policy rates over the last year, which has resulted in much lower short-term yields.

The Philippine yield curves in February 2010 and December 2009 were well below their immediate post-Lehman levels of September 2008 for maturities under 10 years and below end-December 2008 levels for maturities under 6 years. Yields for maturities between 10 and 20 years remain roughly at post-Lehman levels. Yields for maturities above 20 years remain below end-December 2008 levels, but above September 2008 levels. This trend likely reflects (i) market concerns over the financing requirement for a budget deficit projected to remain above 3% of GDP in 2010, and (ii) uncertainty over the outcome of the upcoming presidential election in May. Philippine government LCY bond issuance rose only 9.0% y-o-y in 2009 as the government issued USD3.25 billion offshore to take pressure off of the domestic market.

Finally, Viet Nam's yield curve shifted upward at end-December 2009 and end-February 2010 relative to its levels at end-December 2008. Viet Nam's recent dollar bond issuance appears to have helped to contain any further rise in yields for the time being. Viet Nam's end-December 2009 yield curve was nevertheless well below the immediate post-Lehman levels of September 2008.

These trends have resulted in a very mixed picture for changes in the yield spread between 2- and 10-year bonds for the period between end-December 2009 and end-February 2010 **(Figure 13)**. The 2- versus 10-year yield spread has risen for Hong Kong, China; Korea; the Philippines; Singapore; and Viet Nam; but has fallen for the PRC, Indonesia, Malaysia, and Thailand. The fall in the yield spreads for the PRC, Indonesia, and Malaysia likely reflects an increase since end-December 2009 of yields for 2-years or less. In the case of Thailand, it would seem to reflect the decline in yields at the longer-end of the Thai curve since the end of 2009.

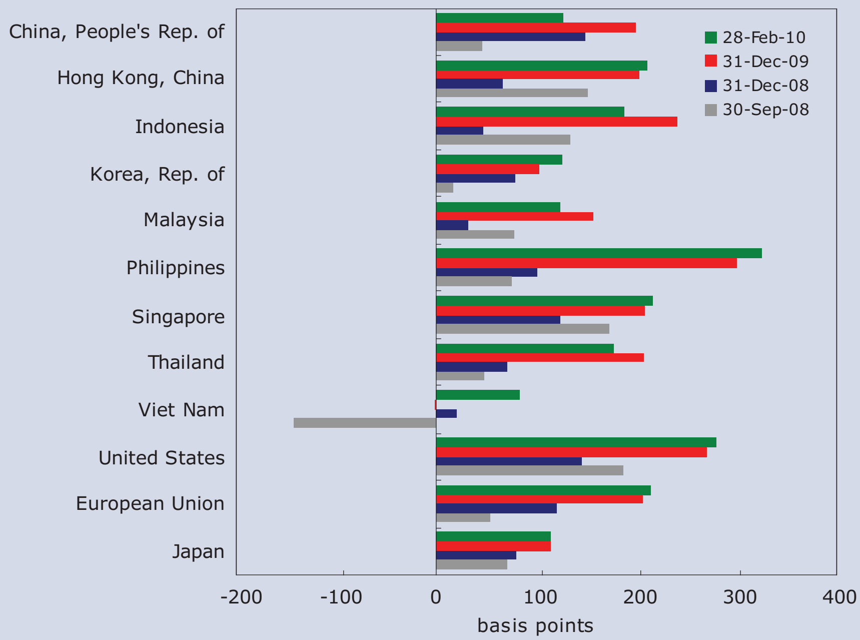
Yields on government bonds could rise further in 2010, given the uptick in inflation in recent months **(Figure 14)**. As growth gains traction, authorities will be looking at the most appropriate timing for normalizing accommodative monetary policies and the unusually low policy rates of the last year **(Figure 15)**. Malaysia's central bank raised its policy rate to 2.25% at the beginning of March. The People's Bank of China's has accepted mildly higher PBOC bill yields since January. Viet Nam increased its policy interest rate in December of last year, but has left it unchanged since then.

Corporate Bond Credit Spreads

Higher-grade corporate bond spreads have tightened, while risk premiums for lower-rated corporate bonds rose over certain sections of their respective curves.

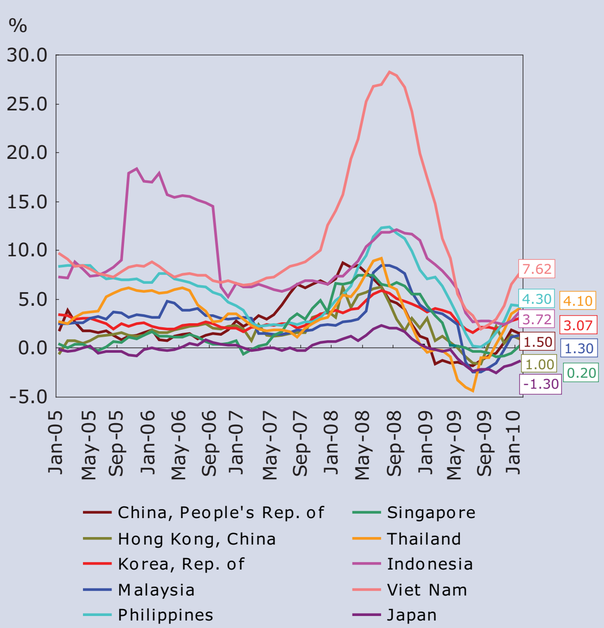
Credit spreads on higher-grade corporate bonds—rated AAA—fell between end-December and end-February, especially at the shorter-end of the curve, for all four of the markets presented in **Figure 16a**. In Korea, credit spreads fell along the entire length of the relatively short-dated curve. This resulted in a downward shift of the Korean curve, with credit spreads for maturities beyond 2

Figure 13: Yield Spreads Between 2- and 10-Year Government Bonds



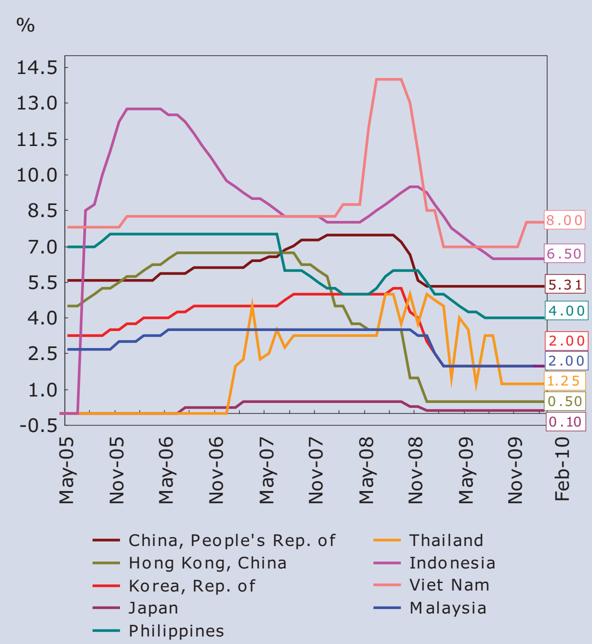
Source: Bloomberg LP.

Figure 14: Headline Inflation Rates (January 2010)



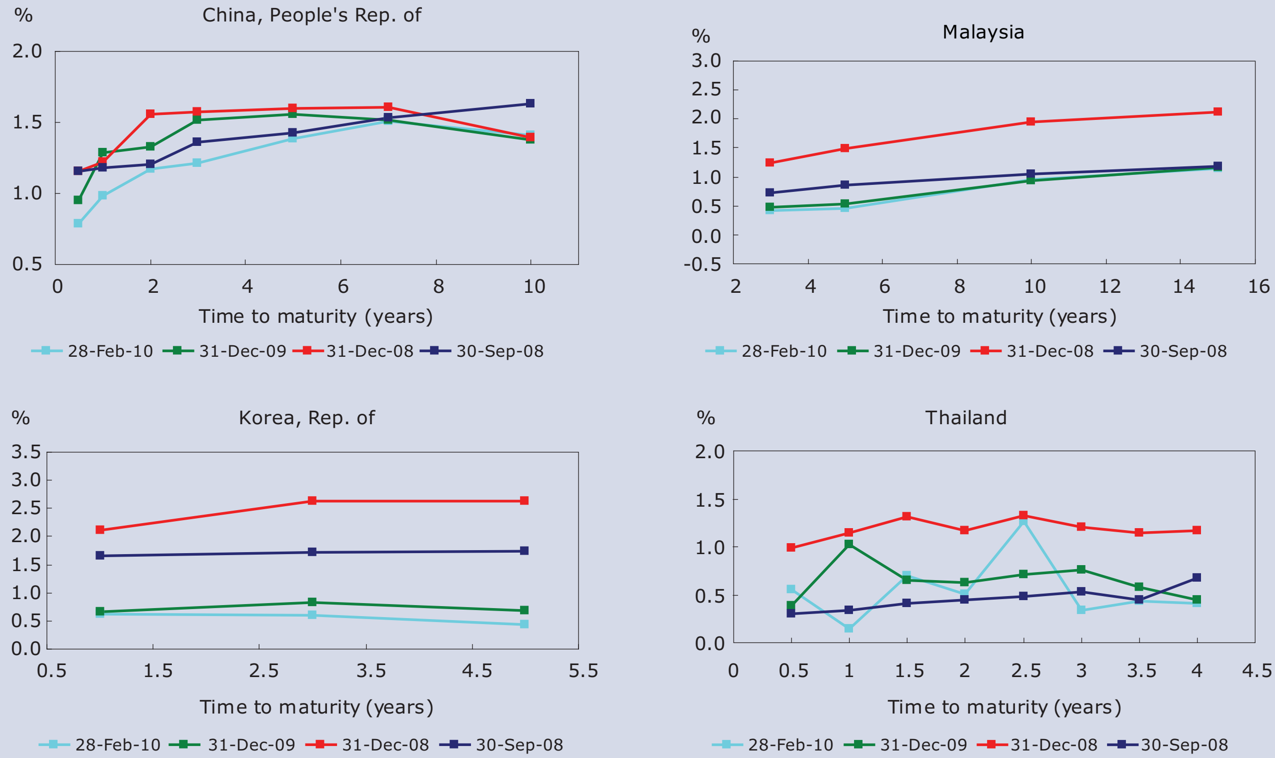
Source: Bloomberg LP.

Figure 15: Policy Rates (February 2010)



Source: Bloomberg LP except for Viet Nam (State Bank of Viet Nam).

Figure 16a: Credit Spreads—Local Currency Corporates Rated AAA vs. Government Bonds



Note:
Credit spreads are obtained by subtracting the government yields from corporate indicative yields.
Source: People's Republic of China (*ChinaBond*); Republic of Korea (*KoreaBondWeb*); Malaysia (Bank Negara Malaysia); and Thailand (ThaiBMA).

years being significantly lower than maturities of less than 2 years.

The Malaysian curve flattened at its short-end, but steepened slightly for credit spreads between 5 and 10 years. The Thai credit spread curve resumed its previous zig-zag pattern, with spreads for 1-year maturities falling and spreads for 2.5-year maturities rising. This contrasts with Thai credit spreads at the end of 2009, when the credit spread curve for AAA-rated credits actually flattened over its relatively short length.

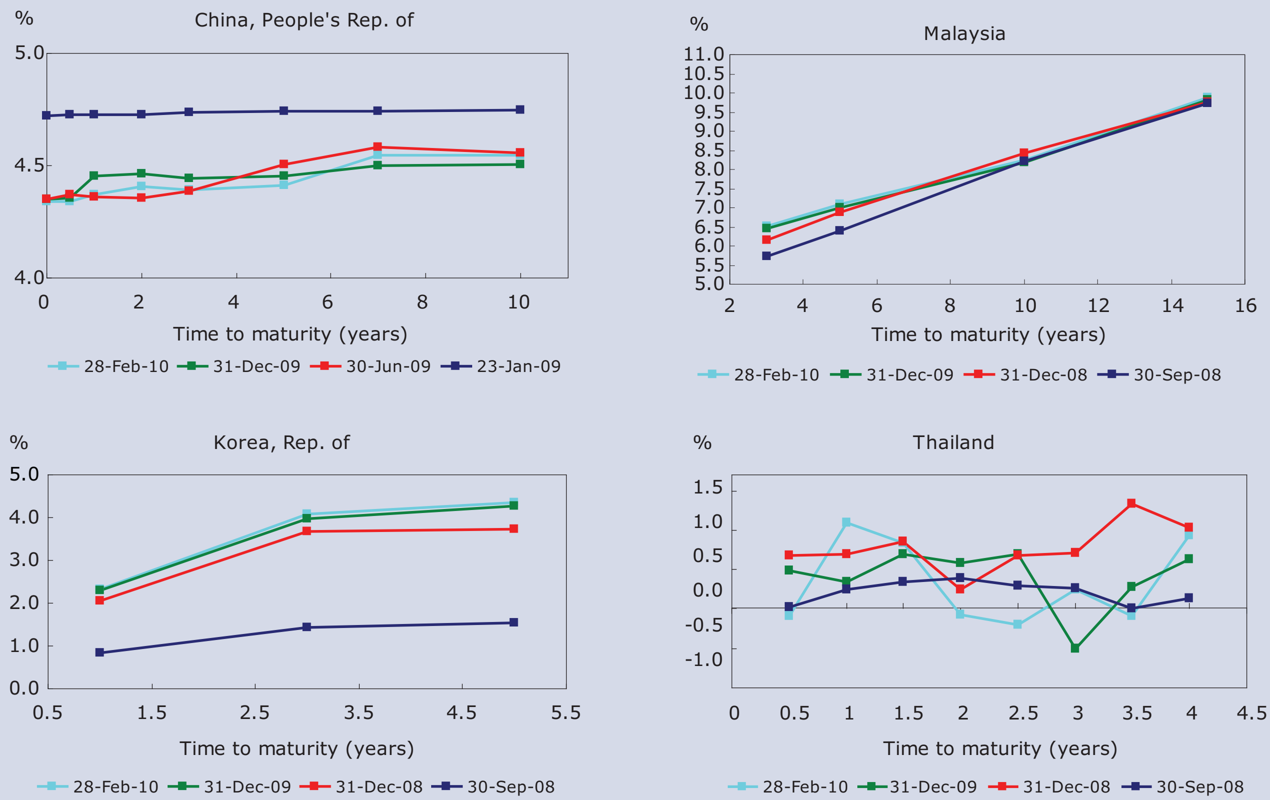
The credit spread curve for the PRC steepened for maturities under 2 years. It steepened somewhat less for maturities between 3 and 7 years, before falling for maturities beyond 7 years.

Credit spreads for corporate bonds rated between BBB and AAA generally rose between the end of December and the end of February **(Figure 16b)**. However, the performance of each of the four high-yield markets discussed below was quite distinctive:

- Credit spreads in the PRC market fell from the short-end of the credit spread curve to the belly, while rising along the longer-end of the curve. Credit spreads of less than 1 year were largely unchanged.

- Credit spreads along the entire Korean curve rose, resuming the trend in place between end-December 2008 and end-December 2009, when credit spreads rose along the entire curve.

Figure 16b: Credit Spreads—Lower Rated Local Currency Corporates vs. AAA



Notes:
1. For the People's Republic of China, credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as BBB.
2. For Malaysia, credit spreads are obtained by subtracting the corporate indictive yields rated as AAA from corporate indicative yields rated as BBB.
3. For the Republic of Korea, credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as BBB+.
4. For Thailand, credit spreads are obtained by subtracting the corporate indicative yields rated as AAA from corporate indicative yields rated as A.

Source: People's Republic of China (*ChinaBond*); Republic of Korea (*KoreaBondWeb*); Malaysia (Bank Negara Malaysia); and Thailand (ThaiBMA).

- Credit spreads on Malaysian high-yield bonds rose mostly at the shorter-end of the curve compared to end-December 2009 levels. These credit spreads, however, were still above levels for September and December 2008.

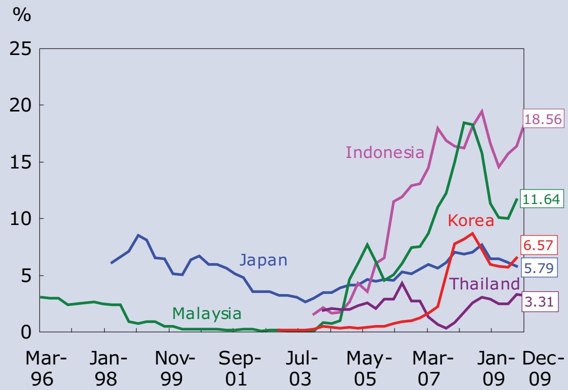
- The most complex case is Thailand. The traditionally zig-zag pattern of its credit spread curve was retained between end-December and end-February, but credit spreads with maturities under 1.5 years rose dramatically above both end-2009 and end-2008 levels.

Foreign Holdings

Foreign investors' holdings in the region's bond markets are rising.

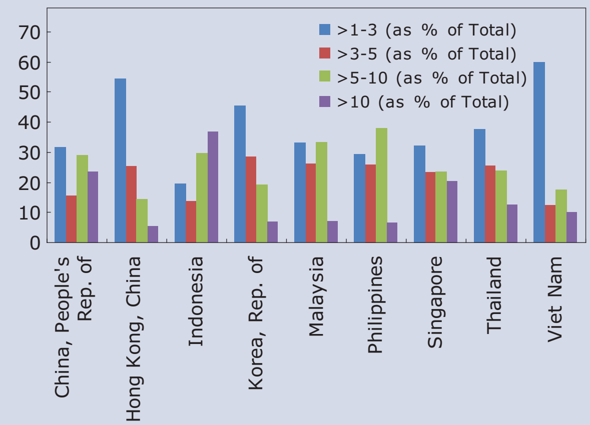
This rise in foreign investors' holdings reflects (i) Asia's quick economic recovery, (ii) appreciation pressures on the region's currencies, and (iii) higher returns in several markets **(Figure 17)**. The rapid growth of G3 currency issuance in 2009 has also focused attention on the region's overall bond market, especially with many corporate issuers increasingly tapping the LCY bond market.

Figure 17: Foreign Holdings of Local Currency Government Bonds (December 2009)



Note:
Data for Japan, Republic of Korea, and Malaysia as of September 2009.
Source: *AsianBondsOnline.*

Figure 18: Maturity Profile
(individual maturities as % of total)



Source: *AsianBondsOnline*.

Maturity Profile

The maturity profile in most emerging East Asian bond markets—defined as debt securities with maturities exceeding 1 year—favors the shorter-end of the profile.

Maturities in the emerging East Asian market have been concentrated at the shorter-end of the market especially in Hong Kong, China; Viet Nam; and Korea **(Figure 18)**. These three markets, as well as Malaysia and the Philippines, have 10% or less of their bonds outstanding in maturities of more than 10 years. Thailand's long-dated maturities are just slightly above 10% of the total. Indonesia, on the other hand, has structured almost 40% of its total bonds outstanding to have maturities of more than 10 years.

Other markets have concentrated their maturities in the 3–5 year and 5–10 year ranges. The maturity structures of the PRC and Singapore are more balanced than that of other markets at the present time, with a relatively large portion of their maturities in both the 5–10 year and 10 year and above ranges.

However, most markets significantly increased the portion of their government and central bank bills in the market, while reducing the corresponding portion of government and central bank liabilities in the bond markets (obligations with maturities exceeding 1 year).

G3 Currency Bonds

Issuance of G3 currency bonds in emerging East Asia in 2009 totaled USD63.2 billion.

The amount of G3 currency bonds issued in emerging East Asia in 2009 (USD63.2 billion) almost doubled total issuance in 2008 (USD33.3 billion) **(Table 6)**. This upsurge in G3 currency issuance reflects the return of investor appetite for bonds of major Asian governments, corporations, and financial institutions, as well as the low level of US interest rates and a renewed search for yield. The low level of US interest rates allowed many banks and corporations in Korea to issue bonds at coupons of 5% or lower. Singapore's Temasek issued a 10-year bond at 4.3% in October, and Malaysia's Petronas issued 10-year bonds in August of last year at a coupon of 5.25%.

Table 6: G3 Currency Bond Issuance (Jan 2009—Dec 2009)

Issued in 1H09		
Issuer	**USD million**	**Issue Date**
Republic of Korea	**18,651**	
Korea Sovereign 5.75% 2014	1,500	16-Apr-09
Korea Sovereign 7.125% 2019	1,500	16-Apr-09
KDB 8.0% 2014	2,000	23-Jan-09
KEXIM 8.125% 2014	2,000	20-Jan-09
Kookmin Covered Bond 7.25% 2014	1,000	14-May-09
IBK 7.125% 2014	1,000	23-Apr-09
KHNP 6.25% 2014	1,000	17-Jun-09
Hana Bank 6.5% 2012	1,000	9-Apr-09
Posco 8.75% 2014	700	26-Mar-09
Shinhan Bank 6.0% 2012	500	29-Jun-09
SK Telecom 1.75% 2014	333	7-Apr-09
Kookmin Bank 5.875% 2012	300	11-Jun-09
KNOC 3.86438% 2012	270	15-Jun-09
KCC Corporation 3.5% 2014	250	6-May-09
SK Telecom 3.61438% 2012	220	29-Apr-09
KNOC 4.40875% 2012	220	4-Feb-09
KDB 5.75% 2012	200	13-May-09
NACF 8.5% 2014	180	5-Feb-09
Korea Water Resources 3.25188% 2012	130	24-Apr-09
KDB 5.15% 2010	125	2-Feb-09
KEXIM 4.9% 2010	122	28-Apr-09
Korea Expressway 3.21438% 2012	120	13-May-09
Others	3,981	
People's Republic of China	**1,000**	
Petrochina 2.0825% 2012	1,000	12-May-09
Hong Kong, China	**1,320**	
KCRC 5.125% 2019	750	18-May-09
China Construction Bank 0.58563% 2010	170	24-Mar-09
Techtronic 8.5% 2014	150	30-Apr-09
Others	250	
Philippines	**2,500**	
Philippines Sovereign 8.375% 2019	1,500	14-Jan-09
PSALM 7.25% 2019	1,000	19-May-09
Indonesia	**3,650**	
Indonesia Sovereign 10.375% 2014	1,000	4-Mar-09
Indonesia Sovereign 11.625% 2019	2,000	4-Mar-09
Sovereign *Sukuk* 8.8% 2014	650	23-Apr-09
Singapore	**123**	
Olam International 1.2821% 2013	123	4-Mar-09
Emerging East Asia Grand Total	**27,244**	
Memo Items:		
India	**90**	
Sri Lanka	**300**	
Sri Lanka Sovereign 6.07625% 2011	184	16-Mar-09
Sri Lanka Sovereign 6.08375% 2011	116	29-Jun-09

Issued in 2H09		
Issuer	**USD million**	**Issue Date**
Republic of Korea	**11,862**	
KEXIM 5.875% 2015	1,500	14-Jul-09
KNOC 5.375% 2014	1,000	30-Jul-09
Woori Bank 7.0% 2015	800	31-Jul-09
Korea National Housing 4.875% 2014	750	10-Sep-09
Korea Expressway 4.5% 2015	700	22-Oct-09
NACF 5.0% 2014	500	30-Sep-09
Korea Electric Power 5.5% 2014	500	21-Jul-09
Korea Gas Corp. 6.0% 2014	500	16-Jul-09
Others	5,612	
People's Republic of China	**1,050**	
Sinochem 1.4306% 2014	500	28-Dec-09
Country Garden 11.75% 2014	300	10-Sep-09
Lumena Resources 12.0% 2014	250	21-Oct-09
Hong Kong, China	**5,050**	
Hutchison 4.625% 2015	2,000	11-Sep-09
Hutchison 5.75% 2019	1,000	11-Sep-09
Noble Group 6.75% 2020	850	29-Oct-09
HKMC 3.5% 2014	500	4-Aug-09
Others	700	
Philippines	**3,622**	
PSALM 7.39% 2024	1,179	2-Dec-09
Philippines Sovereign 6.375% 2034	1,000	23-Oct-09
Philippines Sovereign 6.5% 2020	750	20-Jul-09
SM Investments 6.0% 2014	500	22-Sep-09
Others	193	
Indonesia	**4,795**	
PLN (Majapahit Hldg) 7.75% 2020	1,250	6-Nov-09
PT Adaro 7.625% 2019	800	22-Oct-09
PLN 8.0% 2019	750	3-Aug-09
PT Bukit Mutiara 8.0% 2010	580	30-Dec-09
Indonesia Sovereign (*Samurai*) 2.73% 2019	370	29-Jul-09
Bumi 12.0% 2016	300	13-Nov-09
Indika Energy 9.75% 2016	230	5-Nov-09
Others	515	
Malaysia	**4,500**	
Petronas 5.25% 2019	3,000	12-Aug-09
Petronas *Sukuk* 4.25% 2014	1,500	12-Aug-09
Singapore	**5,092**	
Temasek 4.3% 2019	1,500	26-Oct-09
Olam International 6.0% 2016	500	16-Oct-09
OCBC 4.25% 2019	500	18-Nov-09
PSA International 4.625% 2019	500	11-Sep-09
Temasek 5.375% 2039	500	23-Nov-09
Others	1,592	
Emerging East Asia Grand Total	**35,971**	
Memo Items:		
India	**4,572**	
ICICI Bank 5.5% 2015	750	25-Nov-09
SBI 4.5% 2014	750	23-Oct-09
Tata Steel 4.5% 2014	547	20-Nov-09
Sesa Goa 5.0% 2014	500	30-Oct-09
Sterlite Industries 4.0% 2014	500	29-Oct-09
Others	1,525	
Sri Lanka	**690**	
Sri Lanka Sovereign 7.4% 2015	500	22-Oct-09
Sri Lanka Sovereign 5.33188% 2011	190	18-Aug-09

Source: Compilation from newspaper and wire reports.

The G3 currency market is also satisfying investors searching for higher yields. Two important examples of this were the USD1.25 billion bond from Indonesian state-owned power producer PLN in November, which carried a coupon of 7.75%; and an USD1.18 billion issue from Philippine power sector holding company PSALM in December, with a coupon of 7.39%. Both of these transactions offered coupons that were 100 basis points or more higher than straight sovereign bonds, while providing investors the comfort of buying a quasi-sovereign instrument. The recovery of G3 currency bond issuance in 2009 was impressive, but G3 issuance is still small compared to total LCY bond issuance in emerging East Asia, even when removing central bank bond issuance to make the numbers more comparable **(Figure 19)**.

Nevertheless, G3 currency issuance has retained its rapid pace of 2009 into the early months of 2010. G3 issuance through the end of February reached USD15 billion, or slightly above the USD13.9 billion issued in G3 currencies in 4Q09. This new surge in issuance reflected large sovereign issues from Indonesia and the Philippines, including the JPY100 billion *samurai* bond of the Philippine sovereign; a new USD1 billion issue from the Export–Import Bank of Korea; as well as a number of interesting high-yield bonds such as the USD350 million issue of Indonesian private power producer Star Energy, which bears a coupon of 11.5%.

Foreign currency bonds outstanding at the end of 2009 totaled USD235 billion, representing a 15.0% increase over end-2008 **(Table 7)**. The largest market for such bonds is Korea, which accounts for 31.8% of the total. The most rapidly growing foreign currency bond market in 2009 was Indonesia, which grew 37.4% y-o-y. The second most rapidly growing market was Singapore, which grew 32.4%. Much of the debt issued in Singapore was from government-linked companies and financial institutions. Foreign currency bonds increased in Korea and the Philippines in 2009 by broadly similar percentages, 15.8% and 17.6%, respectively. Most Indonesian bonds issued were from the government or government-owned entities, while in Korea the issuers were more broadly based.

Figure 19: G3 Currency Bond Issuance vs. Local Currency Bond Issuance
(excl. Central Bank)

LCY = local currency.
Note:
G3 refers to the European Union, Japan, and the United States.
Source: *AsianBondsOnline.*

Bond Market Returns

Returns on LCY bonds rose at the end of 2009 on an annual basis compared to the lackluster returns in the first half of 2009.

The Asian Bond Fund (ABF) Pan-Asian Bond Index **(Table 8)** rose by 5.0% at the end of 2009 from 4.14% at the end of 2008, much higher than the almost negligible return of 0.15% for the first half of 2009.

However, this recovery was narrowly based, driven by a spectacular return of 35.61% for Indonesia and more modest returns of 9.73% for Korea and 11.88% for the Philippines. Returns for the PRC and Hong Kong, China were negative; while returns were almost negligible for Thailand and Malaysia, and only 3.06% for Singapore.

Table 7: Foreign Currency Denominated Bonds Outstanding (USD billion)

	4Q08	% share	2Q09	% share	4Q09	% share
China, People's Rep. of (PRC)						
Total	20	100.0	21	100.0	23	100.0
Government	13	64.4	13	61.0	13	58.0
Banks and FIs	5	23.4	5	22.7	6	24.7
Corporate	2	12.2	3	16.3	4	17.3
Hong Kong, China						
Total	16	100.0	16	100.0	17	100.0
Government	2	9.8	2	10.0	2	9.6
Banks and FIs	10	63.0	10	60.5	12	69.1
Corporate	4	27.3	5	29.5	4	21.4
Indonesia						
Total	14	100.0	18	100.0	20	100.0
Government	13	87.5	16	90.0	17	84.1
Banks and FIs	1	4.5	1	3.6	1	3.2
Corporate	1	8.1	1	6.4	2	12.6
Korea, Rep. of						
Total	64	100.0	70	100.0	75	100.0
Government	6	9.7	9	12.6	10	12.8
Banks and FIs	26	39.7	28	39.6	30	40.5
Corporate	33	50.6	33	47.8	35	46.7
Malaysia						
Total	23	100.0	21	100.0	22	100.0
Government	4	16.5	2	11.7	2	7.9
Banks and FIs	7	27.7	7	31.6	6	25.7
Corporate	13	55.8	12	56.7	15	66.4
Philippines						
Total	34	100.0	35	100.0	40	100.0
Government	31	89.9	32	90.8	36	90.5
Banks and FIs	1	2.1	1	2.0	1	2.0
Corporate	3	7.9	3	7.2	3	7.5

	4Q08	% share	2Q09	% share	4Q09	% share
Singapore						
Total	23	100.0	22	100.0	30	100.0
Government	0	0.0	0	0.0	0	0.0
Banks and FIs	14	60.6	13	59.2	18	59.1
Corporate	9	39.4	9	40.8	12	40.9
Thailand						
Total	8	100.0	7	100.0	7	100.0
Government	2	21.8	1	20.8	1	19.7
Banks and FIs	2	28.6	2	25.4	2	24.2
Corporate	4	49.6	4	53.8	4	56.1
Viet Nam						
Total	1	100.0	1	100.0	2	100.0
Government	1	100.0	1	100.0	2	94.3
Banks and FIs	0	0.0	0	0.0	0	0.0
Corporate	0	0.0	0	0.0	0	5.7
Total Emerging East Asia						
Total	204	100.0	210	100.0	235	100.0
Government	71	34.6	77	36.4	82	34.9
Banks and FIs	64	31.5	64	30.6	74	31.5
Corporate	69	33.9	69	33.0	79	33.6
Less PRC:						
Total	184	100.0	189	100.0	212	100.0
Government	58	31.4	64	33.7	69	32.5
Banks and FIs	60	32.4	60	31.5	68	32.2
Corporate	67	36.2	66	34.9	75	35.3

FIs = financial institutions.
Source: Bloomberg LP.

Table 8: iBoxx Asia Bond Fund Index Family Returns

Market	Modified Duration (years)	2008 Returns (%) LCY Total Return Index	2008 Returns (%) USD Unhedged Total Return Index	1H09 Returns (%) LCY Total Return Index	1H09 Returns (%) USD Unhedged Total Return Index	2009 Returns (%) LCY Total Return Index	2009 Returns (%) USD Unhedged Total Return Index
China, People's Rep. of	4.76	11.91	18.71	(0.48)	(0.60)	(0.64)	(0.69)
Hong Kong, China	3.41	10.22	10.85	(2.09)	(2.09)	(0.76)	(0.82)
Indonesia	4.87	3.22	(12.30)	9.62	16.89	20.22	35.61
Korea, Rep. of	3.54	11.46	(18.20)	0.29	(0.84)	1.94	9.73
Malaysia	4.55	7.58	2.89	(1.64)	(3.16)	0.48	1.64
Philippines	3.98	1.63	(12.55)	5.07	3.95	9.00	11.88
Singapore	5.13	6.75	6.80	(0.41)	(1.16)	0.48	3.06
Thailand	4.75	16.88	13.72	(3.91)	(1.82)	(3.47)	0.73
Pan-Asian Index	4.32	n.a.	4.14	n.a.	0.15	n.a.	5.00
HSBC ALBI	5.75	n.a.	0.97	n.a.	0.26	n.a.	6.13
US Govt. 1–10 years	3.90	n.a.	10.95	n.a.	(2.50)	n.a.	(1.38)

ALBI = Asian Local Bond Index, LCY = local currency, n.a. = not applicable, US = United States.
Notes:
1. The Asia Bond Fund (ABF) indices contain only government debt and government-guaranteed debt obligations.
2. Market bond indices are from iBoxx Index Family. 2009 returns year-to-date are as of 31 December 2009.
3. Annual return is computed for each year using natural logarithm of end-of-year index value/beginning year index value.
4. Duration as of 31 December 2009.
Source: *AsianBondsOnline* and Bloomberg/EFFAS for US Government Bond Index.

The LCY bond market returns for Indonesia and Korea, in particular, appear to have been supported by the recovery of each market's currency in 2009 **(Table 9)**. The Indonesian rupiah, in particular, rose 17.8% y-o-y against the US dollar in 2009, while the Korean won rose 8.4%. The y-o-y appreciation of the Philippine peso was only 2.7%, but the peso's q-o-q increase of 3.2% was the largest of any regional currency in 4Q09. The Singapore dollar rose almost as much on a y-o-y basis (2.2%), but rose only 0.2% on a q-o-q basis.

Finally, returns on LCY bonds remained significantly lower than gains in the region's equity markets. The rise of the ABF Pan-Asian Bond Index in 2009 by 5.0% pales in comparison to the 60.3% rise of the MSCI Far East Ex-Japan Index (65.0% in USD terms) **(Table 10)**. The star performer was Indonesia, whose bourse rose 90.3% in LCY terms and 120.8% in USD terms. Indonesia was followed by Singapore and Thailand in LCY terms, whose stock market indexes both rose roughly 63% y-o-y; and then by the PRC, whose key index rose 58.9%. The weaker performers were Hong Kong, China; Korea; and the Philippines; with gains of between 55% and 57%.

Table 9: Appreciation (Depreciation) of Emerging East Asian Currencies (%)

Currency	2007	2008	3Q09		4Q09	
	y-o-y	y-o-y	y-o-y	q-o-q	y-o-y	q-o-q
CNY	6.7	6.7	0.3	0.1	(0.02)	(0.01)
HKD	(0.3)	0.6	0.2	0.0	(0.04)	(0.04)
IDR	(4.3)	(18.7)	(0.8)	5.5	17.8	1.9
KRW	(0.6)	(29.7)	1.5	7.9	8.4	1.5
MYR	6.5	(4.5)	(0.7)	1.4	0.6	0.8
PHP	17.3	(13.9)	(1.1)	1.0	2.7	3.2
SGD	6.5	0.1	1.9	2.9	2.2	0.2
THB	6.9	(3.1)	1.1	1.9	3.9	0.2
VND	0.2	(8.8)	(7.2)	(0.2)	(5.5)	(3.5)
JPY	6.3	20.8	16.9	7.1	(2.6)	(3.8)

q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note: Appreciation (depreciation) is computed as follows: -ln (end-of-period rate/start-of-period rate) x 100.
Source: Bloomberg LP.

Table 10: MSCI Index Returns

Market	2008 Returns (%)		1H09 Returns (%)		2009 Returns (%)	
	LCY terms	USD terms	LCY terms	USD terms	LCY terms	USD terms
China, People's Rep. of	(52.23)	(51.94)	35.10	35.10	58.89	58.80
Hong Kong, China	(53.16)	(52.88)	32.56	32.56	55.28	55.20
Indonesia	(50.76)	(57.57)	44.65	54.46	90.27	120.75
Korea, Republic of	(40.62)	(55.87)	24.60	23.19	56.63	69.42
Malaysia	(40.77)	(43.39)	24.45	22.50	46.25	47.78
Philippines	(46.77)	(53.79)	30.10	28.54	55.79	60.24
Singapore	(49.50)	(49.55)	30.59	30.00	63.02	67.29
Thailand	(48.72)	(50.34)	39.10	42.00	63.00	70.04
Far East ex-Japan Index	(48.14)	(51.96)	31.80	31.66	60.32	65.01
MSCI USA	n.a.	(38.58)	n.a.	2.39	n.a.	24.20

LCY = local currency, n.a. = not applicable.
Notes:
1. Market indices are from MSCI country indexes. 2009 returns are year-to-date as of 31 December 2009.
2. Far East ex Japan includes People's Republic of China; Hong Kong, China; Indonesia; Republic of Korea; Malaysia; Philippines; Singapore; Taipei,China; and Thailand.

Source: *AsianBondsOnline* and Bloomberg LP.

Policy and Regulatory Developments

People's Republic of China

Relaxation of Rules on Insurance Companies' Bond Investments

The China Insurance Regulatory Commission (CIRC) in October raised the limit on PRC insurers' corporate bond investments from 30% of their assets to 40%. Still, insurers' investments in bonds are limited to the bonds of large state-owned enterprises; Hong Kong, China-listed "red chips"; and companies with "H-share" issuance. In addition, the bonds that insurers may invest in must be rated BBB or higher. The CIRC also lifted the requirement that insurers' bond investments be limited to companies that have been profitable for the prior 3 years, requiring instead that the issuer's average yearly profit in the prior 3 years be higher than the yearly interest payments on the issuer's bonds.

Domestic Bank Participation in Bond Trading on Exchanges

In early November, three large state-owned banks—the Bank of Communications (BOC), China Construction Bank (CCB), and the Industrial and Commercial Bank of China (ICBC)—received approval from the China Banking Regulatory Commission (CBRC) to engage in exchange-based bond trading. In addition to approval from regulators, the banks also need approval from the stock exchanges. At the time of this writing, the BOC and CCB have already received approval from the Shanghai Stock Exchange.

To provide a bridge between the PRC's two primary venues for bond trading—the interbank market and stock exchanges—CBRC and the China Securities Regulatory Commission (CSRC) jointly issued preliminary rules in January permitting listed banks to trade bonds on the country's stock exchanges. The interbank bond market is much larger than the exchange-traded market. Regulations for the entry of domestically-listed banks into exchange-based bond trading were released in early July.

Banks' participation in exchange-based bond trading is aimed at strengthening demand for the bonds of listed companies and increasing confidence in the successful distribution of their bonds on the exchanges.

HSBC Becomes First Foreign Bank to Underwrite Domestic Issue

In November, HSBC (China) became the first foreign bank in the People's Republic of China (PRC) to participate in the underwriting of a domestic, CNY-denominated issue. The issue was a Bank of Shanghai dual-tranche senior finance bond, comprising a 3-year CNY2.0 billion tranche paying a fixed interest rate of 3.65% and a CNY3.0 billion floater paying interest of 92 basis points above the 1-year deposit rate. The joint lead managers for the issue were ICBC and Citic Securities. HSBC joined 25 other domestic banks and financial institutions in underwriting the issue.

First Structured Medium-Term Note Issued

Also in November, the first structured medium-term note (MTN) in the PRC was issued by the Shandong Zhu Cheng SME Collective, a group of eight small- and medium-sized enterprises (SMEs), each of which is responsible for a portion of the total issue. The CNY500 million issue consisted of a CNY300 million senior tranche and a CNY200 million subordinated tranche. The senior tranche is guaranteed by China Bond Insurance and rated AAA by New Century, a domestic rating agency, while the subordinated tranche is rated AA-. Individually, the SMEs in the collective have domestic credit ratings of BBB or higher. The issuance of the subordinated tranche represents the first such offering in the SME and MTN bond markets.

The PRC Launches 50-year Bond, Extending the Yield Curve

The PRC's Ministry of Finance in late November sold the country's first 50-year treasury bond, which is the country's longest-dated issue. The CNY20 billion issue pays a coupon of 4.3%. Before the issuance of the 50-year bond, the longest-maturity government bond was a 30-year bond. The 50-year bond was well received by long-term investors, particularly insurers and pension funds, as bids totaled nearly twice the amount offered.

Hong Kong, China

Institutional Issuance Program Bonds

In July, Hong Kong, China's Legislative Council approved the Special Administrative Region's Institutional Issuance Program. Under the program, the government is authorized to issue debt amounting to HKD100 billion over the next few years, with the aim of helping develop the domestic bond market and providing a benchmark for the pricing of corporate debt. Bonds issued under the program are liabilities of the Government of the Hong Kong Special Administrative Region, unlike exchange fund bills and notes (EFBNs), which are backed by foreign reserves under Hong Kong, China's currency board system.

Following the initial sale in September of HKD3.5 billion of bonds under the program, HKD2.0 billion of 5-year bonds and HKD2.5 billion of 10-year bonds were issued in November 2009 and January 2010, respectively.

Issuance of PRC Treasury Bonds in Hong Kong, China

The PRC's Ministry of Finance reported in October 2009 that its CNY6 billion treasury bond offering in Hong Kong, China attracted subscriptions three times the offered amount. The sale is seen as part of the PRC's efforts to broaden the international use of the yuan and further develop the bond market of Hong Kong, China.

Indonesia

Scrapping of Double Taxation on Transactions in Islamic Financial Markets

In September, Indonesia's parliament passed a revised law on value-added taxes. The revision in the law scrapped the double taxation on transactions in Islamic financial markets. The law will come into effect in April 2010.

Auction of Islamic Bonds

Beginning in mid-October, the Indonesian Finance Ministry commenced holding regular auctions of government *shari'a*-compliant debt instrument known as *sukuk*. The issuance of *sukuk* will follow the sale-and-lease structure of *ijarah*. The underlying assets to be used in the auction of *sukuk* will be state properties approved by the House of Representatives.

Secondary Reserve Requirement

Effective 24 October 2009, banks were required to set aside 2.5% of IDR deposits as a secondary reserve requirement for unexpected liquidity needs. This raised banks' reserve requirement with Bank Indonesia (BI) to 7.5%. The secondary reserve requirement may be held in the form of treasury bonds, treasury bills, *Sertifikat Bank Indonesia* (SBI), or excess reserves.

New Regulation to Prevent Tax Evasion

In January, a new rule to prevent tax evasion came into effect. The new regulation requires more detailed information from bond issuers to determine whether they are entitled to withholding tax rates below the standard rate of 20%. Borrowers setting up an offshore unit in a jurisdiction with a lower tax rate and a double taxation treaty with Indonesia need to prove the unit was not set up for the sole purpose of reducing their tax burden. This new regulation applies to both new issues and existing bonds.

Republic of Korea

Amendments to the Enforcement Decrees of the Banking Act and the Financial Holding Companies Act

In October, amendments to the enforcement decrees of the Banking Act and the Financial Holding Companies Act took effect. These amendments cover (i) management participation by a non-financial entity (NFE), (ii) approval of an NFE's bank ownership, (iii) approval of a private equity fund's bank ownership, and (iv) public pension funds' exemption from NFE restrictions.

Amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act

In December, amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act (FSCMA) took effect with the aim of promoting corporate restructuring and mergers and acquisitions. These amendments include provisions on (i) incorporation of special purpose acquisition companies, (ii) fund valuation and fund sales commission, (iii) independent third-party valuation on mergers, and (iv) investment of private equity funds in restructuring and social overhead capital enterprises.

Bank of Korea and Bank of Japan Agree to Extend Measure to Increase Size of the KRW–JPY Swap Arrangement

In January, the Bank of Korea and the Bank of Japan decided to extend an agreement increasing the size of their bilateral KRW–JPY swap arrangement—from USD3 billion to USD20 billion—until 30 April 2010. The increase in the size of the bilateral swap arrangement was originally valid from 12 December 2008 to 30 April 2009.

Malaysia

Corporate Debt Restructuring Committee Revises Eligibility Criteria

The Corporate Debt Restructuring Committee (CDRC) has revised its eligibility criteria to allow more companies to seek assistance from the CDRC in restructuring their debt obligations. Under the revised eligibility criteria, companies seeking to resolve their debt obligations under CDRC must fulfill the following criteria:

(i) aggregate indebtedness of MYR30 million or more;

(ii) at least two financial creditors;

(iii) not in receivership or liquidation, except in cases where receivers have been appointed over certain specified assets and the directors remain in control over the companies' overall operations; and

(iv) difficulties in servicing debt obligations, which may not include having already defaulted, provided criteria (i) and (ii) are met.

Also, the revised criteria also extends the eligibility of any company listed on Bursa Malaysia that has been classified as PN17 (Main Market) or GN3 (ACE Market) irrespective of the amount of debt outstanding.

Securities Commission Provides Issuer Eligibility Guidelines for Structured Warrants

On 3 August, the approval for the issuance and listing of structured warrants was transferred from the Securities Commission of Malaysia (SC) to Bursa Malaysia. However, the SC will continue to evaluate and register structured warrants prospectuses, and has issued eligibility guidelines to assess the suitability of structured warrants issuers. The SC requires structure warrant issuers to submit a declaration that they comply with the requirements pertaining to issuer's risk management measures, sales and marketing practices, and internal control procedures. The declaration is to be submitted to the SC one month prior to the submission of a prospectus for structured warrants issues for registration.

Government Plans to Introduce Goods and Services Tax in 2011

To increase its revenue base and help reduce the budget deficit, the Malaysian government is planning to introduce a new goods and services tax (GST) in 2011. The proposed 4% GST is expected to generate MYR1 billion in revenue per year. However, 40 basic goods and services including foodstuffs, residential accommodation, education, health services, public transportation, domestic water, and electricity supply will be exempted from the GST to protect the welfare of low-income groups. The GST has been successfully implemented in 140 countries. Among member countries of the Association of Southeast Asian Nations (ASEAN), only Brunei, Malaysia, and Myanmar have not implemented a GST.

Philippines

Monetary Board Aligns Rediscount Rate with Reverse Repurchase Rate

Bangko Sentral ng Pilipinas' (BSP) Monetary Board decided on 28 January to raise the peso rediscount rate by 50 basis points to 4.0% effective 1 February in a sign that the BSP has started to unwind its stimulus measures. The peso rediscount rate was previously held at 3.5% to ensure the orderly operation of domestic financial markets amid the global crisis. The overnight borrowing, or reverse repurchase facility, and the overnight lending, or repurchase facility, remained at 4.0% and 6.0%, respectively.

Philippine Stock Exchange Tightens Rules on Short-Term Lending

The Philippine Stock Exchange (PSE) released Guidelines on Safeguards Against Securities Borrowing and Lending Program Violations and Expected Minimum Response by Trading Participants on 19 February. PSE identified the seven possible violations as follows: (i) the unauthorized lending of a client's securities, (ii) denial of the beneficial owner's right to vote, (iii) failure to share lending fees to beneficial owners of securities, (iv) breach of foreign ownership limits, (v) failure to manage collateral received resulting in loss of possible income, (vi) requiring unreasonably large value of collateral, and (vii) failure to properly distribute manufactured dividends. Violators are levied fines of between PHP10,000 and PHP50,000, while grave offenses can result in the suspension of the trading participant.

The guidelines will take effect on 5 March.

Singapore

Amendments to Government Securities Act Provide More Power to the Central Bank

On 11 January, Parliament passed the Government Securities (Amendment) Bill 2009 that provides the central bank more regulatory powers and the flexibility to manage the government bond market. When in force, the bill will provide the Monetary Authority of Singapore (MAS) regulatory powers over the primary dealers of bonds. MAS now has the power to inspect, suspend, and revoke appointments of primary dealers. The amendment will authorize MAS to redeem its Singapore Government Securities (SGS) before maturity at market price, if it deems necessary. MAS will also be allowed to enter into securities lending arrangements involving SGS with primary dealers. The amount MAS can lend, however, is limited to its own holdings. When MAS holdings are not enough to meet primary dealers' demand for SGS, the government can issue new SGS to MAS, which MAS can lend on an overnight basis.

MAS Ends Swap Facility

MAS allowed its USD30 billion swap facility with the US Federal Reserve to lapse on 1 February as a result of improving wholesale funding market conditions.

Thailand

Bank of Thailand Releases Financial Sector Master Plan Phase II

In November, the Thai Economic Cabinet, Ministry of Finance, and Bank of Thailand released the second phase of the Financial Sector Master Plan (FSMP), which aims to boost the efficiency of financial institutions over the period 2010–2014. The plan includes reducing system-wide operating costs, promoting competition and financial access, and strengthening financial infrastructure. An FSMP Implementation Committee will be formed once the cabinet approves the principles stipulated in the plan.

Thailand Lifts Capital Outflow Controls

In February, Thailand further relaxed foreign exchange regulations pertaining to investments abroad, foreign exchange hedging transactions, and corporate treasury centers. Thai firms are now allowed to freely make direct investments overseas. The size of portfolio investments allocated to investors and under the supervision of the Securities and Exchange Commission (SEC) has been expanded from USD30 billion to USD50 billion. Exporters and importers in Thailand can now unwind their foreign exchange hedging transactions without seeking permission. Also, an existing firm can set up a corporate treasury center and transfer foreign currencies between the treasury center and its affiliated firms located in Thailand. In addition, Thailand has raised the limit on the purchase of immovable properties overseas for Thai individuals from USD5 million per year to USD10 million per year and is allowing Thai companies to lend up to USD50 million to non-affiliated companies overseas.

Viet Nam

Viet Nam to Lift Ceiling on Foreign Ownership Ratio in Local Businesses

The Viet Nam State Securities Commission (SSC) is expected to release a decision raising the ceiling on the foreign ownership ratio in local business to 49%. While the maximum level of foreign ownership in public companies will increase from 30% to 49% of total chartered capital, the increase will not apply to credit institutions. For foreign-owned member funds, 100% foreign ownership will be allowed.

Regulations to Tighten Establishment of Commercial Banks

The State Bank of Viet Nam (SBV) is drafting more detailed ground rules on the establishment of new joint stock commercial banks. The new regulations would lift the freeze on and tighten rules for establishing new banks. SBV froze the establishment of new commercial banks in August 2008 to stop the proliferation of weak banks.

Viet Nam to Carry Out Further State-Owned Enterprise Reforms

The Vietnamese government is set to implement reforms on the equitization of state-owned enterprises following the Asian Development Bank's award of up to USD630 million to support the reform effort. Since 1992, the government has arranged 5,660 state-owned enterprises, of which 379 were transformed into single-member limited liability firms; 3,896 were equitized; 197 were transferred; 155 were sold; 30 were leased; 532 were merged with other firms; and 471 were dissolved. The government still holds 100% equity in 1,500 enterprises and is planning to improve the efficiency, profitability, and transparency of a number of large state-owned corporations.

Market Summaries

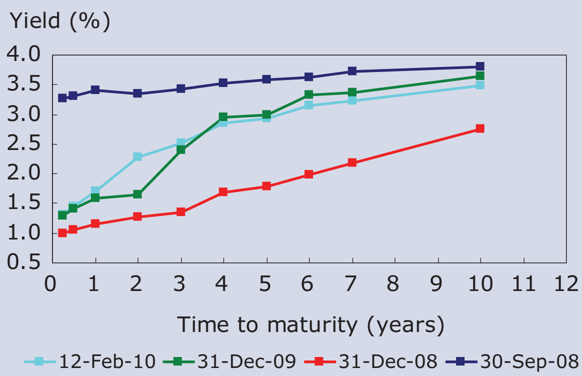
People's Republic of China—Update

Yield Movements

Yields on government bonds have increased significantly from their December 2008 levels. Yields for maturities ranging from 3 months to 3 years rose compared to their end-December 2009 levels, but fell for longer maturities. At the short-end of the curve, the most pronounced yield increase was that of the 2-year bond, which rose 63 basis points, while yields from the middle to the long-end of the curve declined between 5 and 18 basis points **(Figure 1)**.

Due to the surge in yields on 2-year bonds, and the decline in the yields of longer dated bonds, the spread between 2- and 10-year government bonds decreased from 199 basis points at end-December 2009 to 121 basis points as of 12 February. Given that yield levels were elevated compared to their levels in December 2008, the upward movements of the curve, particularly at the shorter end, reflects ongoing concerns over monetary tightening and inflation, as well as investors' focus on equities, property, and other asset classes.

Figure 1: People's Republic of China's Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

For the full year 2009, the PRC's gross domestic product (GDP) grew a higher-than-expected 8.7% year-on-year (y-o-y), fuelled by a surge in bank lending that had been encouraged by the government earlier in the year. On a quarterly basis, the country registered GDP growth of 10.7% y-o-y in 4Q09, compared with growth rates of 9.1% in 3Q09, 7.9% in 2Q09, and 6.2% in 1Q09.

New loans extended during 2009 totaled CNY9.58 trillion, which was nearly double the government's annual target of CNY5.0 trillion. In 4Q09, however, new loans amounted to CNY927.54 billion. This compares with new loan totals of CNY1.28 trillion in 3Q09, CNY2.79 trillion in 2Q09, and CNY4.58 trillion in 1Q09. M2 money supply, meanwhile, grew 27.68% in December, compared to growth rates of 29.74% and 29.51% in November and October, respectively.

The slowdown in loan growth was partially due to guidance from the China Banking Regulatory Commission (CBRC) aimed at decreasing the pace of commercial bank lending and limiting the flow of funds towards property and equity markets, both of which were showing increasingly attractive returns. The fall-off in 4Q09 loans was also due to the adoption of policies to restrain investment in steel, cement, and other sectors in which investment is deemed to be overly concentrated. While the total amount of new loans extended in 4Q09 was markedly lower than loan figures in the prior three quarters, the quarterly total for 4Q09 masked a sequential rise in lending in the quarter: new loans in December totaled CNY379.8 billion, compared to November's CNY294.76 billion and October's CNY252.98 billion.

Table 1: Size and Composition of Local Currency Bond Market in the People's Republic of China

	Amount (billion)								**Growth Rate** (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	CNY	USD	CNY	USD	CNY	USD	CNY	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	16,483	2,415	16,687	2,444	17,218	2,522	17,525	2,567	13.9	4.5	1.2	3.2	16.0	6.3	1.8
Government	13,753	2,015	13,853	2,029	14,214	2,082	14,424	2,113	5.7	3.1	0.7	2.6	8.0	4.9	1.5
Treasury Bonds	5,655	828	5,629	824	5,746	842	5,741	841	18.3	5.8	(0.5)	2.1	17.8	1.5	(0.1)
Central Bank Bonds	4,020	589	4,081	598	4,070	596	4,233	620	(16.4)	(3.4)	1.5	(0.3)	(12.0)	5.3	4.0
Policy Bank Bonds	4,078	597	4,143	607	4,398	644	4,450	652	19.0	6.3	1.6	6.2	21.2	9.1	1.2
Corporate	2,729	400	2,834	415	3,004	440	3,102	454	87.7	12.5	3.8	6.0	77.5	13.6	3.3
Policy Bank Bonds															
China Development Bank	2,939	431	2,994	439	3,134	459	3,201	469	14.8	6.2	1.9	4.7	18.3	8.9	2.1
Export-Import Bank of China	373	55	373	55	438	64	438	64	38.1	10.3	0.0	17.4	38.8	17.4	0.0
Agricultural Dvt. Bank of China	766	112	776	114	826	121	811	119	28.5	4.8	1.3	6.4	24.8	5.9	(1.8)

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Treasury bonds include savings bonds and local government bonds.
3. Bloomberg end-of-period LCY—USD rate is used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Source: *ChinaBond* and Bloomberg LP.

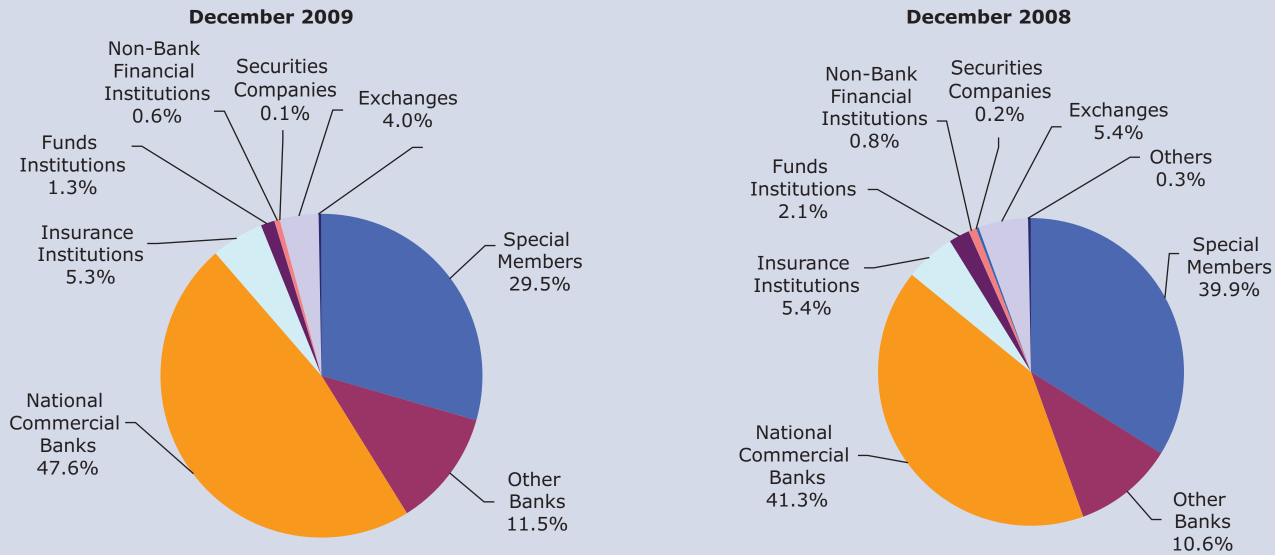
In January 2010, the People's Bank of China (PBOC) increased banks' reserve ratios by 0.5 percentage points—the first such increase since 2008—and accepted higher yields on 3-month and 1-year bills in two successive auctions. These measures were followed by an additional 0.5 percentage point increase in banks' reserve ratios in February. New loans for January 2010 alone, which amounted to CNY1.39 trillion, far exceeded the total for the whole of 4Q08 despite the measures taken to moderate loan growth.

Consumer price inflation, which had been negative for much of 2009, climbed from -0.5% y-o-y in October to 0.6% and 1.9% in November and December, respectively. Inflation then moderated to 1.5% in January before rising to 2.7% in February. Commercial and residential property prices in 70 large and medium-sized cities rose 10.7% y-o-y in February from 9.8% in the previous month. However, new loans extended in February amounted to CNY700 billion, down from CNY1.39 trillion in January. These and other steps taken to tighten liquidity are indicative of policymakers' cautious approach towards managing the country's economic recovery.

Size and Composition

The PRC's outstanding amount of local currency (LCY) bonds stood at CNY17.525 trillion at the end of 4Q09, representing a y-o-y rise of 16.0% and a q-o-q increase of 6.3% **(Table 1)**. Government bonds outstanding increased 4.9% q-o-q, and 8.0% y-o-y, while corporate bonds rose 13.6% q-o-q and 77.5% y-o-y. All three major categories of government bonds—treasury, central bank, and policy bank—posted single-digit gains on a q-o-q basis. However, policy bank and treasury bonds had positive double-digit growth rates on a y-o-y basis, while central bank bonds declined 12.0%.

Figure 2: Treasury Bonds Investor Profile



Note:
Special members include the People's Bank of China (PBOC), Ministry of Finance, policy banks, China Government Securities Depository Trust and Clearing Co., and China Securities Depository and Clearing Corporation.

Source: *ChinaBond*.

Treasury Investor Profile

Banks remain the largest category of treasury bond investors in the country, holding a larger share of these bonds in 2009 compared to their share in the previous year **(Figure 2)**. As of December 2009, banks as a group held 59.1% of treasury bonds outstanding compared to their December 2008 share of 51.9%. As was the case at end-September, the share of Treasury bonds held by all other investor classes—most notably institutional investors such as insurance companies—fell compared to their holdings at the end of 2008.

Corporate Bonds

There was remarkable expansion in the outstanding amount of PRC corporate bonds in 2009 **(Table 2)**, which to a large extent mirrored the growth of new loans during the year. At the end of 2009, medium-term notes (MTNs) outstanding had grown 415.7% y-o-y. Local corporate bonds outstanding grew 137.9% y-o-y, while the bonds of commercial banks and state-owned corporations increased 51.4% and 38.0%, respectively. Meanwhile, commercial paper increased 8.5% y-o-y. In terms of bonds outstanding at the end of 2009, MTNs represented the largest issuer category, with CNY862.2 billion of notes outstanding. The second- and third-largest categories were state-owned corporations (CNY720.2 billion) and commercial banks (CNY588.4 billion).

The emergence of MTNs as the largest sector of the corporate bond market is extraordinary given that MTN issuance only began in earnest in 2Q08. As noted in previous issues of the Asia Bond Monitor, the growth of MTNs was due to an apparent shift from the traditional issuance windows towards the MTN window, under which the issuance approval process tends to be quicker. The MTN window is regulated by the National Association of Financial Market Institutional Investors (NAFMII).

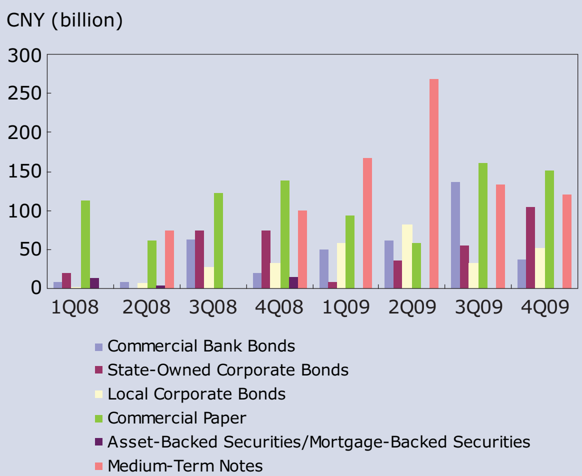
Compared to 3Q09, corporate bond issuance in 4Q09 was marked by a fall-off in MTN and

Table 2: Corporate Bonds Outstanding in Key Sectors (CNY billion)

	Amount								Growth Rates (%)				
									q-o-q				y-o-y
	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q09	2Q09	3Q09	4Q09	4Q09
Commercial Bank Bonds	314.5	327.5	384.5	388.7	437.7	486.4	589.2	588.4	12.6	11.1	21.1	(0.1)	51.4
State-Owned Corporate Bonds	376.1	376.6	446.6	521.9	526.5	565.3	619.3	720.2	0.9	7.4	9.6	16.3	38.0
Local Corporate Bonds	92.8	100.2	125.2	158.4	196.9	295.7	328.8	376.9	24.3	50.1	11.2	14.6	137.9
Commercial Paper	371.6	313.4	344.8	420.3	409.4	384.3	353.1	456.1	(2.6)	(6.1)	(8.1)	29.2	8.5
Asset/Mortgage-Backed Securities	37.2	43.4	43.4	55.1	56.6	55.4	46.0	39.9	2.7	(2.1)	(16.9)	(13.4)	(27.7)
Medium-Term Notes	0.0	73.5	73.5	167.2	340.8	592.1	742.1	862.2	103.8	73.7	25.3	16.2	415.7

q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Source: *ChinaBond.*

Figure 3: Corporate Bond Issuance in Key Sectors



Source: *ChinaBond.*

commercial paper issuance, as well as a steep decline in commercial bank bond issuance **(Figure 3)**.

The decline in MTN issuance in 4Q09 was not unexpected in view of the heavy volume of MTN issuance in the prior three quarters. Nevertheless, MTN issuance levels in 4Q09 remained substantial compared to 3Q09 levels, when issuance fell off its 2Q09 peak.

One reason for the decline in commercial bank bond issuance in 4Q09 was the adoption of measures to curb lending in the latter half of 2009. However, in the first 3 quarters, there was an increased issuance of commercial bank bonds, largely in the form of subordinated debt, as banks boosted their capital positions to keep up with their rapidly expanding loan books.

In contrast to the q-o-q decline in MTN issuance and commercial bank bonds in 4Q09, issuance by state-owned corporations in 4Q09 was almost double the amount of the previous quarter and marked the highest level of quarterly issuance for this issuer category over the past 8 quarters. Local corporate bond issuance was also higher in 4Q09 compared to 3Q09, but was still below 1Q09 and 2Q09 levels.

Policy, Institutional, and Regulatory Developments

HSBC Becomes First Foreign Bank to Underwrite Domestic Issue

In November, HSBC, through its PRC unit, became the first foreign bank in the PRC to participate in the underwriting of a domestic, CNY-denominated issue. The issue was a Bank of Shanghai dual-tranche senior finance bond comprising a 3-year CNY2.0 billion tranche paying a fixed interest rate of 3.65% and a CNY3.0 billion floater paying interest of 92 basis points above the 1-year deposit rate. The joint lead managers for the issue were ICBC and Citic Securities. HSBC joined 25 other domestic banks and financial institutions in underwriting the issue.

The PRC Launches 50-year Bond, Extending the Yield Curve

The Ministry of Finance in late November sold the country's first 50-year treasury bond, which is the country's longest-dated issue. The CNY20 billion issue pays a coupon of 4.3%. Before the issuance of the 50-year bond, the longest-maturity government bond was a 30-year bond. The 50-year bond was well received by long-term investors, particularly insurers and pension funds, as bids totaled nearly twice the amount offered.

Among the reasons for the issue was to provide a benchmark for the pricing of long-dated issues. Given that institutional investors typically hold long-term bonds to maturity for asset–liability management purposes, the issue is expected to be thinly traded.

First Structured MTN Collective Issue

In November, the first structured MTN in the PRC was issued by the Shandong Zhu Cheng SME Collective, a group of eight small- and medium-sized enterprises (SMEs), each of which is responsible for a certain share of the total issue. The CNY500 million issue consisted of a CNY300 million senior tranche and a CNY200 million subordinated tranche. The issuance of the subordinated tranche is noteworthy as it represents the first such offering in the SME and MTN bond markets. The senior tranche is guaranteed by China Bond Insurance and is rated AAA by New Century, a domestic rating agency, while the subordinated tranche is rated AA-. Individually, the SMEs in the collective have domestic credit ratings of BBB or higher.

The issuance of the structured MTN is part of a larger effort to disperse the credit risk borne by the banking system. Authorities in the PRC have encouraged the establishment of credit enhancement firms such as China Bond Insurance to help broaden access to the bond market, which has mainly been restricted to large, highly-rated companies. The Shandong Zhu Cheng issue was followed by two other SME collective issues of commercial paper and MTNs. These issues are part of the first batch of wrapped, or credit-enhanced, SME collective paper.

Relaxation of Rules on Insurance Companies' Bond Investments

The China Insurance Regulatory Commission (CIRC) in October raised the limit on PRC insurers' corporate bond investments from 30% of their assets to 40%. Still, insurers' investments in bonds are limited to bonds of large state-owned enterprises; Hong Kong, China-listed "red chips"; and companies with "H-share" issuance. In addition, the bonds that insurers may invest in must be rated BBB or higher. The CIRC also lifted the requirement that insurers' bond investments be limited to companies that have been profitable for the prior 3 years, requiring instead that the issuer's average yearly profit in the prior 3 years be higher than the yearly interest payments on the issuer's bonds.

Domestic Bank Participation in Bond Trading on Exchanges

In early November, three large state-owned banks—the Bank of Communications (BOC), China Construction Bank (CCB), and the Industrial and Commercial Bank of China (ICBC)—received approval from the China Banking Regulatory Commission (CBRC) to engage in exchange-based bond trading. In addition to approval from regulators, the banks also need approval from by the stock exchanges. The BOC and CCB have already received approval from the Shanghai Stock Exchange.

To provide a bridge between the PRC's two primary venues for bond trading—the interbank market and stock exchanges—CBRC and the China Securities Regulatory Commission (CSRC) jointly issued preliminary rules in January permitting listed banks to trade bonds in the country's stock exchanges. The interbank bond market is much larger than the exchange-traded market. Regulations for the entry of domestically-listed banks into exchange-based bond trading were released in early July.

Banks’ participation in exchange-based bond trading is aimed at strengthening demand for the bonds of listed companies and increasing confidence in the successful distribution of their bonds on the exchanges.

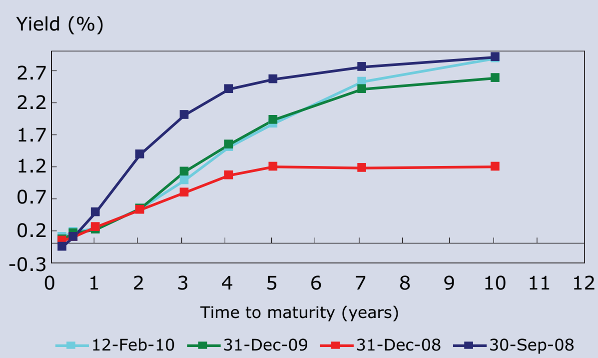
Hong Kong, China—Update

Yield Movements

Yields on Hong Kong, China's Exchange Fund Bills and Notes (EFBNs) as of 12 February, compared to their levels at end-December 2009, increased marginally at the very short-end, declined at the belly, and rose at the long-end of the curve. Yields rose slightly at the short-end, increasing between 1 basis point (1–year bills) to 3 basis points (3-month bills). At the belly of the curve, yield declines ranged from 0.6 basis points (2-year notes) to 13.6 basis points (3-year notes); while at the long-end of the curve, yields on 7- and 10-year notes rose 10.2 and 31.3 basis points, respectively.

As a result of the large rise in yields at the long-end of the curve, the spread between 2- and 10-year EFBNs, which stood at 202.8 basis points as of end-December, rose to 234.70 basis points as of 12 February. These yield movements, particularly at the short-end, reflect the low-interest environment of Hong Kong, China. The value of the Hong Kong dollar is pegged within a narrow band, to the United States (US) dollar and, consequently, short-term domestic interest rates tend to be closely aligned with US interest rates.

Figure 1: Hong Kong, China's EFBN Yield Curve



EFBN=Exchange Fund Bills and Notes.
Source: Bloomberg, LP.

Size and Composition

As of end-December, the outstanding amount of government bonds—comprising EFBNs and bonds issued under Hong Kong, China's newly-introduced Institutional Issuance Program—reached HKD540 million for a 242% year-on-year (y-o-y) increase **(Table 1)**. The rise in government bonds outstanding largely resulted from the issuance of Exchange Fund Bills by the Hong Kong Monetary Authority (HKMA) to accommodate significant bank demand. As capital has continued to flow into the Special Administrative Region, banks' reserve accounts with the HKMA have been rising, thereby increasing Hong Kong, China's monetary base and boosting demand for short-dated EFBNs. EFBNs are key instruments for liquidity management purposes since they are eligible as collateral for borrowing from the HKMA through repurchase agreements.

At end-December, the amount of Exchange Fund Bills outstanding surged 411.7% y-o-y and 35.2% quarter-on-quarter (q-o-q) to HKD464 billion. By contrast, the stock of Exchange Fund Notes at end-December grew more modestly, by 4.2% y-o-y and 0.1% q-o-q. In January, continuing a trend seen in 2009, the HKMA announced it would increase issuance of Exchange Fund Bills for the month by a total of HKD35 billion to accommodate strong bank demand.

The local currency corporate sector of Hong Kong, China's bond market, as in previous years, was restrained in 4Q09, with the outstanding amount of corporate paper rising only 3.3% y-o-y and declining 0.4% q-o-q to HKD577 billion.

Policy, Institutional, and Regulatory Developments

Institutional Issuance Program Bonds

In July, Hong Kong, China's Legislative Council approved the Special Administrative Region's Institutional Issuance Program. Under the

Table 1: Size and Composition of Local Currency Bond Market in Hong Kong, China

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	HKD	USD	HKD	USD	HKD	USD	HKD	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	996	129	1,018	131	1,054	136	1,117	144	39.0	15.4	2.2	3.5	55.8	12.1	5.9
Government	417	54	440	57	476	61	540	70	187.3	44.4	5.5	8.4	242.2	29.5	13.3
Exchange Fund Bills	343	44	366	47	402	52	464	60	333.2	56.2	6.7	9.6	411.7	35.2	15.6
Exchange Fund Notes	70	9	70	9	69	9	70	9	5.9	1.5	0.0	(0.9)	4.2	0.1	1.0
HKSAR Bonds	4	0.5	4	0.5	6	1	6	1	—	—	0.0	57.1	—	57.1	0.0
Corporate	580	75	579	75	578	75	577	74	1.4	0.9	(0.1)	(0.1)	3.3	(0.4)	(0.1)

— = not applicable, HKSAR = Hong Kong Special Administrative Region, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. The amount of corporate bonds outstanding for October and November were estimated based on the compounded monthly growth rate between September and December.

Source:
Hong Kong Monetary Authority and Bloomberg LP.

program, the government is authorized to issue debt amounting to HKD100 billion over the next few years, with the aim of helping develop the domestic bond market and providing a benchmark for the pricing of corporate debt. Bonds issued under the program are liabilities of the Government of the Hong Kong Special Administrative Region, unlike EFBNs, which are backed by foreign reserves under Hong Kong, China's currency board system.

Following the initial sale in September of HKD3.5 billion of bonds under the program, HKD2.0 billion of 5-year bonds and HKD2.5 billion of 10-year bonds were issued in November 2009 and January 2010, respectively.

Issuance of the People's Republic of China's Treasury Bonds in Hong Kong, China

The People's Republic of China's (PRC) Ministry of Finance said on 20 October 2009 that its CNY6 billion treasury bond offering in Hong Kong, China attracted subscriptions totaling three times the offered amount. The sale, which capitalizes on Hong Kong, China's role as an international financial center, is seen as part of the PRC's efforts to broaden the use of the yuan internationally and further develop Hong Kong, China's bond market.

Indonesia—Update

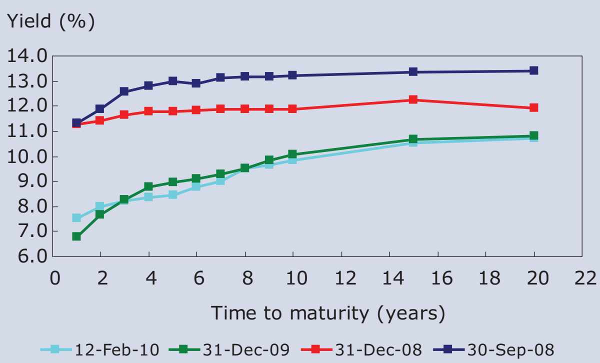
Yield Movements

Indonesia's government bond yield curve fell modestly for most maturities in mid-February from end-December levels **(Figure 1)**. Yields fell the most for 5-year maturities, shedding 51 basis points. However, the shorter-end of the curve rose 75 basis points for 1-year maturities and 33 basis points for 2-year maturities. Thus, the yield spread between 2-year and 10-year maturities narrowed to 183 basis points in mid-February from 241 basis points at end-December.

Rising yields at the short-end of the curve reflect, in part, expectations of price pressures in the near term amid renewed strength in domestic economic activity. Nonetheless, the overall downward shift in the yield curve from the belly through the end of the curve since September 2008 can be attributed to positive market sentiments related to (i) the appreciation of the Indonesian rupiah, and (ii) an improved economic outlook.

Indonesia posted 5.4% year-on-year (y-o-y) gross domestic product (GDP) growth in 4Q09, the fastest pace in 5 quarters. Full year economic growth in 2009, however, fell to 4.5% compared with 6.0% in 2008. Growth in household consumption declined to 4.9% at the end of 2009 compared to 5.3% one year earlier. However, household consumption continued to play a dominant role in GDP (58.6%). Meanwhile, government consumption climbed 15.7% in 2009. According to the Central Statistics Agency, Indonesia is coping with the global economic crisis better than neighboring countries due to strong consumer spending and the government's fiscal stimulus package. For 2010, the government's economic growth forecast is 5.5%.

Figure 1: Indonesia's Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg, LP.

Consumer price inflation in Indonesia climbed to 3.72% y-o-y in January and 3.81% y-o-y in February amid rising costs for food and commodities, particularly rice and sugar. The uptick in inflation levels, however, was still below Bank Indonesia's (BI) target inflation range for 2010 of 4.0%–6.0%. BI has held its benchmark interest rate steady at the historically low level of 6.5% since August of last year.

Size and Composition

As of end-December, the size of the local currency (LCY) bond market in Indonesia had expanded 19.4% y-o-y and 7.3% quarter-on-quarter (q-o-q) **(Table 1)** as the total volume of Indonesia's LCY bond market reached IDR930.06 trillion (USD98 billion).

Outstanding government bonds rose 19.2% y-o-y to IDR841.6 trillion in 2009 on account of strong growth in both central government bonds (issuance by the Ministry of Finance) and central bank bills (issuance by BI in the form of *Sertifikat Bank Indonesia* [SBI]). As of end-December, the stock of central government bonds had grown 10.7% y-o-y and 2.5% q-o-q. On a month-on-month (m-o-m) basis, however, central government bonds remained flat in December.

The Ministry of Finance suspended treasury issuance in mid-November after fully meeting its 2009 gross issuance target of IDR144.54 trillion. The government was able to frontload much of

Table 1: Size and Composition of Local Currency Bond Market in Indonesia

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	IDR	USD	IDR	USD	IDR	USD	IDR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	866,973	90	892,947	94	911,282	96	930,063	98	17.7	0.1	3.0	2.1	19.4	7.3	2.1
Government	788,043	82	814,245	85	832,709	88	841,612	89	19.6	0.3	3.3	2.3	19.2	6.8	1.1
Central Govt Bonds	567,367	59	574,967	60	581,758	61	581,748	61	4.7	2.6	1.3	1.2	10.7	2.5	(0.0)
Central Bank Bills	220,676	23	239,279	25	250,951	27	259,864	27	88.7	(5.2)	8.4	4.9	44.3	17.8	3.6
Corporate	78,930	8	78,701	8	78,573	8	88,452	9	1.3	(1.2)	(0.3)	(0.2)	21.2	12.1	12.6

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank Indonesia, Indonesia Stock Exchange, and Bloomberg LP.

its bond issuance early in 2009. Meanwhile, the stock of central bank bills was substantially higher, growing 44.3%, y-o-y and 17.8% q-o-q.

The government tapped various treasury instruments in 2009 to finance its budget deficit. The Revised State Budget for 2009 fixed the deficit at 2.4% of GDP (equivalent to IDR129.8 trillion). However, the actual deficit was equivalent to about 1.6% of GDP. For 2010, the budget deficit is projected to be IDR98 trillion (equivalent to 1.6% of GDP).

The government continues to issue *shari'a*-compliant debt instruments through Islamic treasury auctions, retail Islamic bonds (*sukuk)*, and global Islamic bonds. In February, the government sold IDR8.034 trillion in 3-year *sukuk* to retail investors. The retail *sukuk* carried a coupon of 8.7%. The issue was well received with bids nearly tripling the initial target of IDR3 trillion. This was the second retail *sukuk* issuance by Indonesia.

The stock of corporate bonds significantly rose this year, increasing by a notable 21.2% y-o-y and 12.1% q-o-q.

As of end-December, the top 10 corporate issuers in Indonesia accounted for about 50% of total corporate bonds outstanding **(Table 2)**. State power firm PLN was Indonesia's top corporate issuer of LCY bonds at IDR9.1 trillion. This was equivalent to 10% of total corporate bonds outstanding in 4Q09.

Telecommunications firm PT Indosat ranked second with bonds valued at IDR8.1 trillion, while toll operator Jasa Marga was third with outstanding bonds amounting to IDR4.2 trillion. Five banks made it to the top 10 list of corporate issuers, with their aggregate bonds outstanding valued at IDR16.3 trillion.

In 4Q09, corporate issuance reached more than IDR12 trillion. Of this amount, about IDR10 trillion was issued in December. Notable issues during 4Q09 are listed in **Table 3**. Data from the Capital Market and Financial Institutions Supervisory

Table 2: Top 10 Corporate Issuers as of December 2009

Top 10 Corporate Issuers	Outstanding Amount (IDR billion)
PLN	9,100
Indosat	8,090
Jasa Marga (Toll operator)	4,150
Bank Panin	3,950
Indofood Sukses Makmur	3,610
Bank Mandiri	3,500
Perum Pegadaian (Pawnshop)	3,270
Bank Tabungan Negara	3,250
Bank Ekspor Indonesia	3,050
Bank Rakyat Indonesia	2,500

Source: Indonesia Stock Exchange.

Table 3: Notable Corporate Issuance in 4Q09

Issuers	Outstanding Amount (IDR billion)
Bank Mandiri	3,500
Bank Rakyat Indonesia	2,000
Indosat	1,500
Oto Multiartha	1,200
Bank Panin	800
Pupuk Kaltim	791
Bank Tabungan Pensiunan Nasional	750
Salim Ivomas Pratama	730

Source: Indonesia Stock Exchange.

Agency (Bapepam-LK) showed that IDR26.3 trillion was raised through the issuance of bonds in 2009, which exceeded the IDR15 trillion target set by Bapepam-LK for the year.

Foreign Currency Bonds

In January of this year, the government sold USD2 billion of 10-year bonds at a yield of 6.0%, which was about 2.28 percentage points higher than comparable US treasuries. The yield on Indonesia's global bond issue was also higher than the yield on Philippine 10-year bonds, which were sold a week earlier at 5.67%. Indonesia's 10-year bond issue was 2.3 times oversubscribed with demand reaching USD4.5 billion. The government had also planned to offer 30-year bonds, but cancelled the issue.

The government still plans to issue *samurai* bonds up to a maximum of USD1.1 billion in late April this year.

Rating Changes

In January, Moody's Investor Service (Moody's) said the outlook for Indonesia's Ba2 rating remained stable. Moody's last rating action on Indonesia was taken on 16 September when it upgraded the foreign currency (FCY) and LCY sovereign debt ratings to Ba2. On 26 January, Moody's also changed the industry outlooks for 12 of the banking systems in Asia and the Pacific, including Indonesia's, from negative to stable.

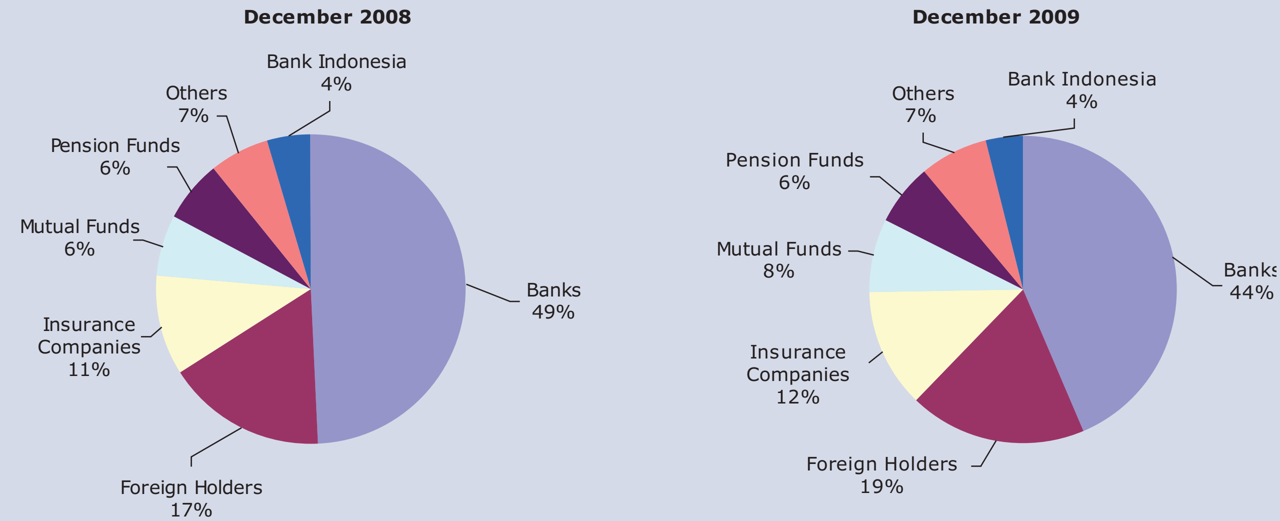
Fitch Ratings upgraded Indonesia's long-term FCY and LCY issuer default ratings to BB+ from BB on 25 January **(Table 4)**. The outlook on the ratings was stable. This brought Indonesia only one step away from reaching investment grade. Fitch also raised the country ceiling to BBB- from BB+ and affirmed the short-term FCY rating at B. According to Fitch, the rating action reflects Indonesia's relative resilience to severe global financial stress in 2008/2009, which has been underpinned by continued improvement in the country's public finances and a material easing of external financial constraints. Fitch also raised the ratings of eight local banks' foreign debt to BB+ from BB. The eight banks include PT Bank Mandiri, PT Bank Internasional Indonesia, PT Bank CIMB Niaga, PT Bank Rakyat Indonesia, PT Bank Central Asia, PT Bank Danamon, PT Bank OCBC NISP, and PT Bank UOB Buana.

Table 4: Selected Sovereign Ratings and Outlook for Indonesia

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Ba2	BB	BB+
Outlook	stable	positive	stable

FCY = foreign currency and LT = long term.
Source: Rating agencies.

Figure 3: Investor Profile for Local Currency Government Bonds



Source: Indonesia Debt Management Office.

In March, Standard and Poor's rating agency (S&P) upgraded Indonesia's long-term FCY rating by one notch to BB from BB-. S&P based this upgrade on the resilience of the Indonesian economy over the last year.

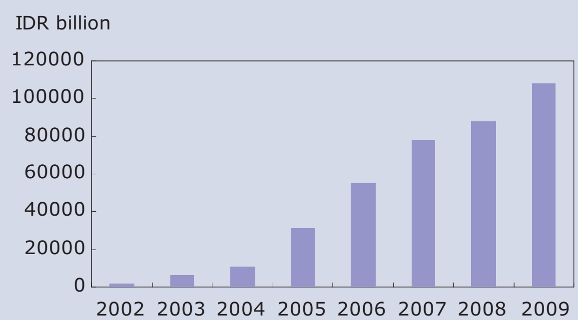
Investor Profile

As of end-December, banking institutions continued to be the major holder of Indonesian LCY government bonds, with holdings equivalent to 44% of total government bonds outstanding **(Figure 3)**. Although bank holdings still represent a significant share, this share has declined dramatically in recent years. In 2002, banks were holding as much as 82% of total government bonds outstanding.

Bonds held by foreign investors—the second-largest holder of Indonesian government bonds—increased to 19% from 17% in 2008. As of end-December, bonds held by foreign investors reached IDR108 trillion, the highest level to date **(Figure 4)**.

The share of LCY bond holdings of insurance companies and mutual funds also rose during 2009.

Figure 4: Foreign Holdings in Government Bonds



Source: Indonesia Debt Management Office.

Policy, Institutional, and Regulatory Developments

Scrapping of Double Taxation on Transactions in Islamic Financial Markets

In September, Indonesia's parliament passed a revised law on value-added taxes. The law scrapped double taxation on transactions in Islamic financial markets. The law will come into effect sometime in April 2010.

Auction of Islamic Bonds

Beginning mid-October, the Finance Ministry commenced holding regular auctions of government *shari'a*-compliant debt instrument known as *sukuk*. The issuance of *sukuk* will follow the sale-and-lease structure of *ijarah*. The underlying assets to be used in the auction of *sukuk* will be state properties approved by the House of Representatives.

Secondary Reserve Requirement

Effective 24 October 2009, banks were required to set aside 2.5% of IDR deposits as a secondary reserve requirement for unexpected liquidity needs. This raised banks' reserve requirement with Bank Indonesia to 7.5%. The secondary reserve requirement may be held in the form of treasury bonds, treasury bills, SBI, or excess reserves.

New Tax Regulation to Prevent Tax Evasion

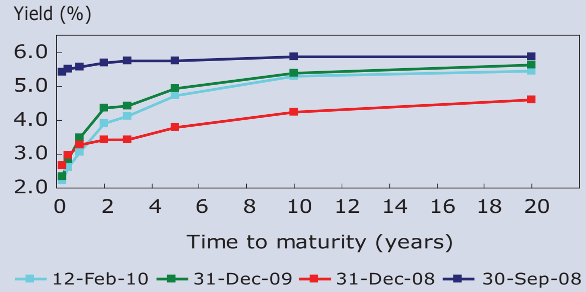
In January, a new rule to prevent tax evasion came into effect. The new regulation requires more detailed information from bond issuers to determine whether they are entitled to withholding tax rates below the standard rate of 20%. Borrowers setting up an offshore unit in a jurisdiction with a lower tax rate and with a double taxation treaty with Indonesia need to prove the unit was not set up only for the purpose of reducing taxes. This new regulation applies to both new issues and existing bonds.

Republic of Korea—Update

Yield Movements

The Republic of Korea's (Korea) government bond yields fell for all maturities in mid-February from their end-December 2009 levels **(Figure 1)**. The drop in yields was largest in the short-end through the belly of the curve, as yields for 1-, 2-, 3-, and 5-year tenors declined 42, 46, 29, and 20 basis points, respectively. At the longer-end of the curve, yields for 10- and 20-year tenors decreased by 10 and 17 basis points, respectively. The larger decline in Korea's short-term yields compared to long-term yields has resulted in a steepened yield curve.

Figure 1: Republic of Korea's Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg, LP.

In March, the Bank of Korea (BOK) held its base rate steady at 2.0%, maintaining an accommodative monetary policy stance in order to help sustain Korea's economic recovery. Expectations of the policy interest rate remaining unchanged in the coming months are seen to have contributed to the decline in yields.

Korea's 4Q09 real gross domestic product (GDP) increased 0.2% quarter-on-quarter (q-o-q), down from 3Q09 growth of 3.2%. On a year-on-year (y-o-y) basis, real GDP expanded 6.0% in 4Q09, following 0.9% growth in 3Q09. Consumer price inflation was 2.7% y-o-y in February, compared to 3.1% in January.

Size and Composition

Korea's total local currency (LCY) bonds outstanding as of December 2009 stood at KRW1,183 trillion (USD1 trillion), representing increases of 15.0% y-o-y and 0.5% q-o-q. However, Korea's bonds outstanding at the end of December were 0.7% less than end-November levels **(Table 1)**. On a y-o-y basis, total government bonds climbed 11.4% to KRW516.9 trillion (USD446 billion) as central government bonds and central bank bonds increased 15.7% and 17.6%, respectively, more than offsetting the 29.2% drop in industrial finance debentures. Compared to September, however, the amount of total government bonds fell 4.3% due to declines in central government bonds, central bank bonds, and industrial finance debentures. Total government bonds also dropped on a month-on-month (m-o-m) basis, by 2.4%, with central government bonds and central bank bonds falling 2.3% and 3.0%, respectively.

As of December 2009, corporate bonds outstanding reached KRW666 trillion (USD575 billion) for increases of 18.0% y-o-y, 4.6% q-o-q, and 0.7% m-o-m. About 35% of total corporate bonds were private non-financial corporate bonds, while private financial corporate bonds and special public corporate bonds comprised 33% and 32%, respectively, of the total corporate bond market **(Table 2)**.

In 4Q09, Korea's top LCY corporate bond issues involved banks, special purpose entities (SPEs), and an energy firm. In the banking sector, the largest LCY corporate bond issue was Hana Bank's 2-year bonds of KRW550 billion (USD475 million) at a 4.95% coupon. The largest SPE issue was made by Dream Hub, which raised KRW850 billion (USD734 million) of 3-year, asset-backed securities (ABS) at a 5.97% coupon. Korea Electric Power issued KRW330 billion (USD285 million) of 5-year bonds at a 5.28% coupon, making it the largest corporate issue in the energy sector.

Table 1: Size and Composition of Local Currency Bond Market in the Republic of Korea

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	KRW	USD	KRW	USD	KRW	USD	KRW	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	1,176,962	1,001	1,180,580	993	1,191,088	1,021	1,182,917	1,021	16.0	2.6	0.3	0.9	15.0	0.5	(0.7)
Total Government	540,357	460	521,680	439	529,480	454	516,935	446	17.1	2.4	(3.5)	1.5	11.4	(4.3)	(2.4)
Central Bank Bonds	155,327	132	149,357	126	153,897	132	149,237	129	15.9	(6.2)	(3.8)	3.0	17.6	(3.9)	(3.0)
Central Government Bonds	334,130	284	337,674	284	340,603	292	332,637	287	19.0	7.3	1.1	0.9	15.7	(0.4)	(2.3)
Industrial Finance Debentures	50,900	43	34,649	29	34,980	30	35,061	30	9.1	0.6	(31.9)	1.0	(29.2)	(31.1)	0.2
Corporate	636,605	542	658,901	554	661,608	567	665,982	575	15.1	2.9	3.5	0.4	18.0	4.6	0.7

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Central government bonds include treasury bonds, National Housing Bonds, and Seoul Metropolitan Subway bonds.
3. Bloomberg end-of-period LCY–USD rates are used.
4. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank of Korea and *KoreaBondWeb*.

Table 2: Structure of the Korean Corporate Bond Market as of end-December 2009 (KRW billion)

Total Corporate Bonds	**665,982**
Special Public Corporations	**212,657**
of which:	
Korea Housing Finance Corporation (KHFC)	28,207
Korea Deposit Insurance Corporation (KDIC)	27,691
Korea Land	19,408
Korea Electric Power Corporation (KEPCO)	16,103
Korea Highway	15,435
Small & Medium Business Corporation (SBC)	13,943
Korea Train Express	8,795
Korea Gas	8,728
Financial Debentures	**217,502**
of which:	
Kookmin Bank	36,309
Industrial Bank of Korea (IBK)	34,930
Private Non-Financial Corporations	**235,823**

Source: *KoreaBondWeb.*

The size of Korea's outstanding commercial paper market, as of September 2009, was KRW78.96 trillion (USD67.2 billion), which was down 9.9% y-o-y and 5.6% q-o-q.

Rating Changes

In January 2010, Standard & Poor's (S&P) affirmed its foreign currency (FCY) and LCY sovereign credit ratings for Korea at A/A-1 and A+/A-1, respectively. S&P also retained its stable outlook for the country **(Table 3)**. The rating agency reported that Korea's dynamic economy, sizeable foreign exchange reserves, and healthy fiscal position were helping to support its ratings. Furthermore, S&P noted that these strengths tend to balance the country's weaknesses, which stem from large contingent liabilities and limited monetary flexibility due to banks' significant short-term foreign borrowing.

Table 3: Selected Sovereign Ratings and Outlook for the Republic of Korea

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	A2	A	A+
Outlook	stable	stable	stable

FCY = foreign currency, LT = long-term.
Source: Rating agencies.

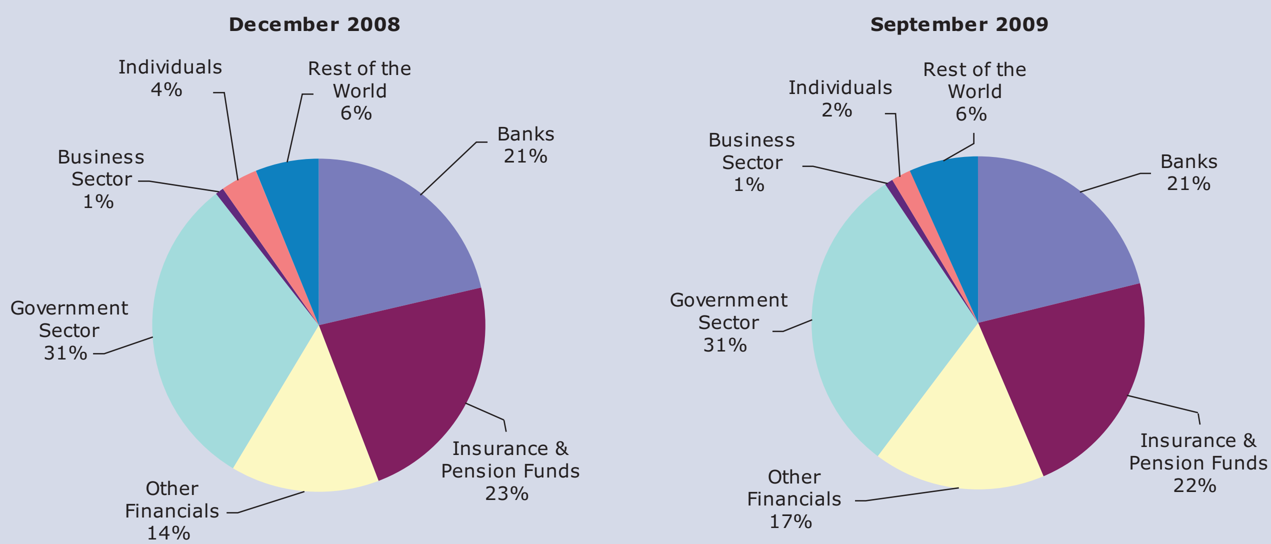
Investor Profile

As of September 2009, the financial sector in Korea owned about three-fifths of the country's total LCY government bonds, with insurance and pension funds, banks, and other financial institutions holding 22%, 21%, and 17% of government bonds, respectively **(Figure 2)**. The remaining bondholders included the government, individuals, non-financial corporations (i.e., business sector), and the rest of the world with shares of 31%, 2%, 1%, and 6%, respectively. Compared to end-December 2008, individuals' bond holdings fell by 2 percentage points, while the share of other financial institutions rose by 3 percentage points.

As of September 2009, banks, insurance firms/pension funds, and other financial institutions were the top bondholders of LCY corporate bonds in Korea, with shares of 31%, 29%, and 27%, respectively **(Figure 3)**. Other bondholders included the government (12%) and business sector (1%). Compared to end-2008, the shares of other financial institutions and the government climbed by 7 percentage points and 1 percentage point, respectively, while the share of banks fell by 6 percentage points. The shares of insurance firms/pension funds and individuals registered a drop of one 1 percentage point apiece.

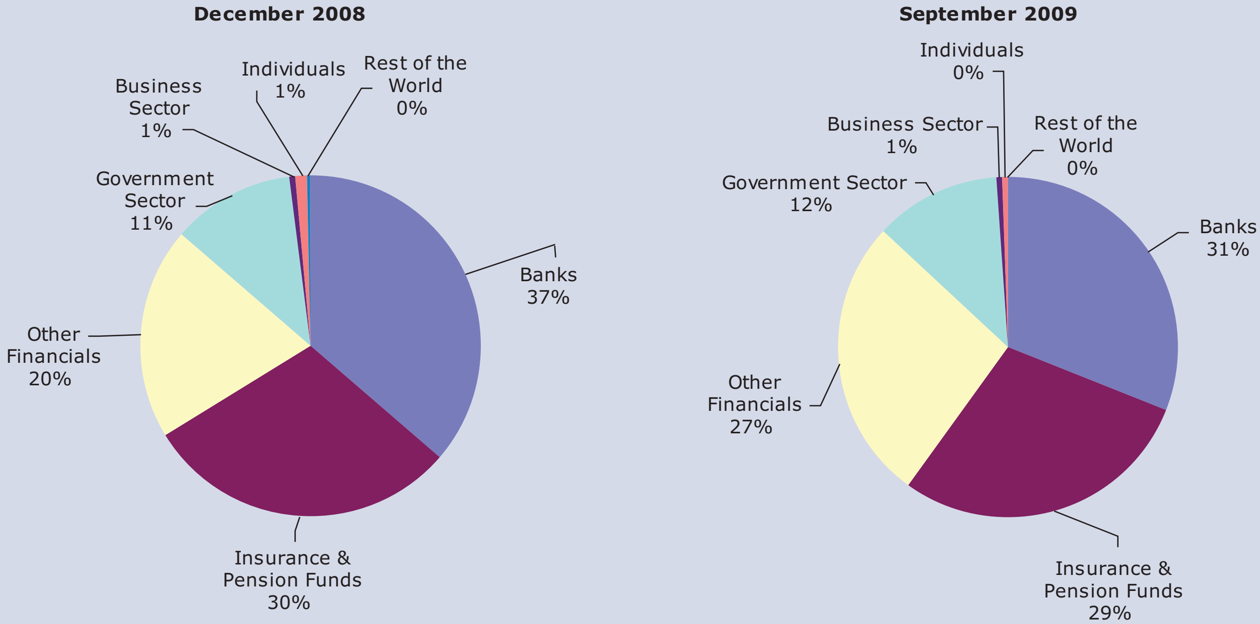
As of September 2009, financial institutions, other than banks and insurance firms/pension funds, held the largest share of commercial paper at 72%, which is 5 percentage points higher than in December 2008 **(Figure 4)**. The share of the business sector stood at 14% in both periods, while the share of banks fell to 8% in September 2009 from 13% in December 2008. Individuals and insurance firms/pension funds held shares of 5% and 1%, respectively, in both periods.

Figure 2: Investor Profile for Local Currency Government Bonds in Korea



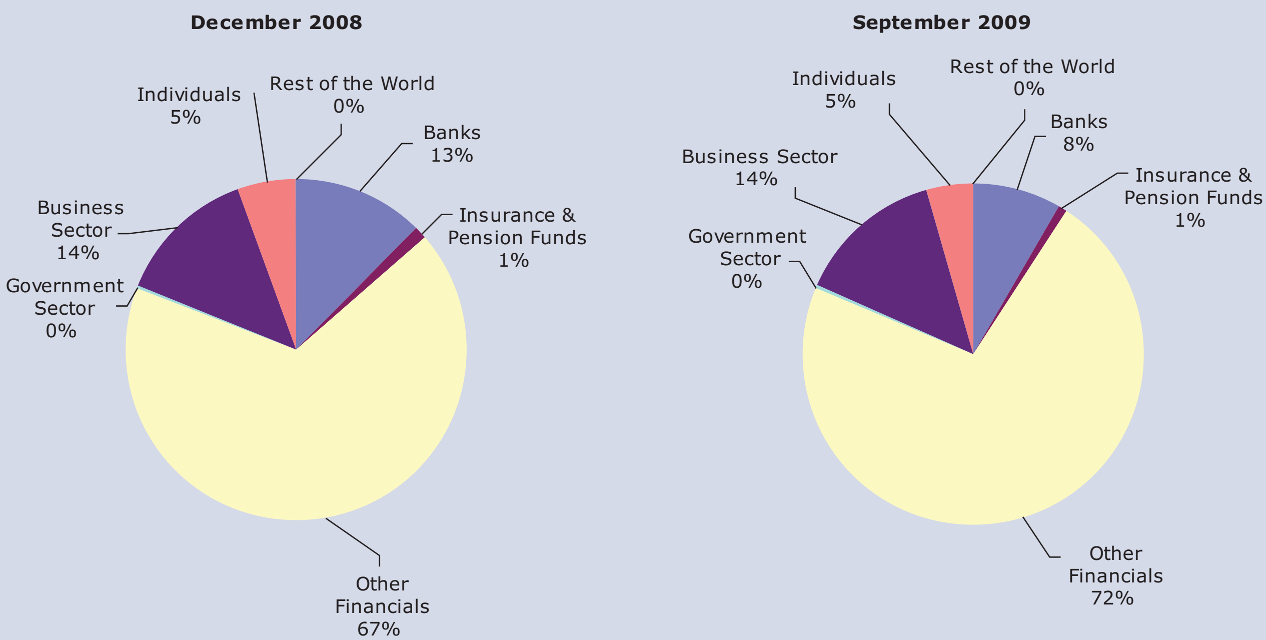
Source: Bank of Korea

Figure 3: Investor Profile for Local Currency Corporate Bonds



Source: Bank of Korea.

Figure 4: Investor Profile for Commercial Paper



Source: Bank of Korea.

Policy, Institutional, and Regulatory Developments

Bank of Korea and Bank of Japan Agree to Extend Measure to Increase Size of the KRW–JPY Swap Arrangement

In January, BOK and the Bank of Japan (BOJ) extended an agreement increasing the size of their bilateral KRW–JPY swap arrangement—from USD3 billion to USD20 billion—until 30 April 2010. The increase in the size of the bilateral swap arrangement was originally valid from 12 December 2008 to 30 April 2009.

Amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act

In December 2009, amendments to the Enforcement Decree of the Financial Investment Services and Capital Markets Act (FSCMA) took effect with the aim of promoting corporate restructuring and mergers and acquisitions. These amendments include provisions on (i) incorporation of special purpose acquisition companies, (ii) fund valuation and fund sales commission, (iii) independent third-party valuation on mergers, and (iv) investment of private equity funds in restructuring and social overhead capital enterprises.

Amendments to the Enforcement Decrees of the Banking Act and the Financial Holding Companies Act

In October 2009, amendments to the enforcement decrees of the Banking Act and the Financial Holding Companies Act took effect. These amendments cover (i) management participation by a non-financial entity (NFE), (ii) approval of an NFE's bank ownership, (iii) approval of a private equity fund's bank ownership, and (iv) public pension funds' exemption from NFE restrictions.

Malaysia—Update

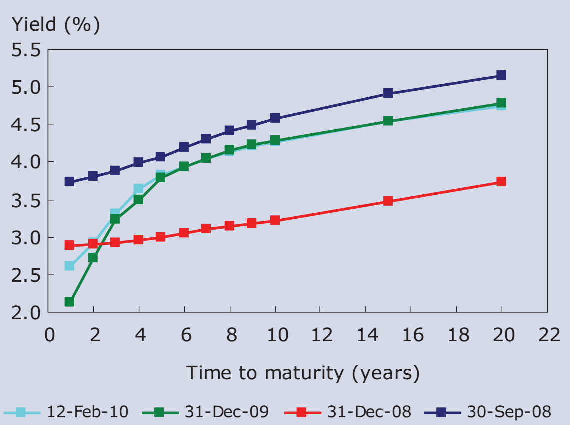
Yield Movements

Malaysian government bond yields increased at the short-end of the curve between end-December 2009 and mid-February, while the middle and long-end of the curve remained unchanged **(Figure 1)**. Yields in the belly and in the long-end of the curve, however, have risen from their end-December 2008 levels and are almost near their end-September 2008 levels (post-Lehman Brothers collapse). Expectations of monetary tightening have had the effect of flattening the longer-end of the Malaysian government bond yield curve.

Malaysia's economy grew 4.5% year-on-year (y-o-y) in 4Q09, driven by both domestic and external demand. Private consumption increased 1.7% y-o-y in 4Q09, while public sector spending posted 1.3% y-o-y growth as fiscal stimulus gained momentum during the quarter. For the full-year 2009, Malaysia's GDP contracted 1.7%, compared to the government's forecast of a 3.0% contraction for the year. The government expects economic growth to return in 2010.

Malaysia's consumer price inflation in December rose to 1.1% y-o-y and then to 1.3% y-o-y in January, after staying in negative territory over the June–November period. Full-year inflation for 2009 was reported at 0.6%, lower than the government's target range of 1.0%–2.0%. For 2010, the central bank once again expects modest inflation and forecasts a range of 1.0%–2.0%.

Figure 1: Malaysia's Benchmark Yield Curve–Local Currency Government Bonds



Source: Bloomberg, LP.

On 4 March, Bank Negara Malaysia (BNM) raised its benchmark rate by 25 basis points to 2.25%. The increase was widely expected as the BNM had earlier expressed the need for the normalization of rates as the economy recovers, given that a prolonged low-interest rate regime could lead to financial imbalances. The overnight policy rate was kept at its historic low of 2.0%, where it has remained since February 2009, amidst the threat of an economic downturn. According to BNM's policy statement, the monetary policy will remain accommodative and supportive of economic growth.

On 23 October, Malaysia announced its budget for 2010, forecasting a reduction in the budget deficit—as a percentage of GDP—from 7.4% in 2009 to 5.6% in 2010.

Size and Composition

Total local currency (LCY) bonds outstanding for Malaysia at the end of 2009 rose to MYR635.3 billion, up 10.3% y-o-y. Government and corporate LCY bonds outstanding grew 10.9% and 9.6%, respectively, in 2009 **(Table 1)**. Total central government bonds outstanding increased 19.9% y-o-y as bond issuance surged to fund the government's MYR60 billion stimulus package.

On a quarter-on-quarter (q-o-q) basis, total LCY government bonds outstanding declined 0.5% as outstanding BNM bills dropped 19.8% q-o-q. Total LCY corporate bonds outstanding increased 3.7% q-o-q.

Table 1: Size and Composition of Local Currency Bond Market in Malaysia

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	MYR	USD	MYR	USD	MYR	USD	MYR	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	626.6	180.7	631.1	185.1	638.0	187.8	635.3	184.7	5.5	2.7	0.7	1.1	10.3	1.4	(0.4)
Government	348.6	100.5	350.4	102.8	350.6	103.2	346.9	100.9	4.7	2.8	0.5	0.1	10.9	(0.5)	(1.1)
Central Government Bonds	307.0	88.5	304.1	89.2	310.6	91.4	312.6	90.9	24.4	6.6	(0.9)	2.1	19.9	1.8	0.6
Central Bank Bills	37.4	10.8	42.0	12.3	35.7	10.5	30.0	8.7	(50.1)	(14.4)	12.3	(15.0)	(29.2)	(19.8)	(16.0)
Others	4.3	1.2	4.3	1.3	4.3	1.3	4.3	1.2	(62.7)	(42.5)	-	-	(56.0)	-	-
Corporate	278.0	80.2	280.7	82.3	287.4	84.6	288.4	83.9	6.5	2.5	1.0	2.4	9.6	3.7	0.4

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. Others refer to Khazanah Bonds issued by Khazanah Nasional Berhad and Cagamas, Bonds and Notes, Bithaman Ajil Islamic Securities, Sanadat ABBA Cagamas and Sanadat Mudharabah Cagamas issued by Cagamas Berhad.

Source: Bank Negara Malaysia, and Bloomberg LP.

Reflecting the government's effort to boost Malaysia's Islamic capital market, Islamic-based LCY corporate bonds outstanding have been steadily increasing, amounting to MYR169.76 billion by the end of 2009 from only MYR39.5 billion in 2001. Conventional LCY corporate bonds have remained stable in a range of MYR90 billion to MYR118.7 billion over the last decade **(Figure 2)**.

In the meantime, the internal structure of the Islamic bond market is changing rapidly. In 2009, Islamic medium-term notes rose 30.6% to reach MYR88.35 billion, while the stock of more traditional Islamic bonds issued by corporations (IBONDS) was almost unchanged at MYR71.46 billion. Islamic corporate papers actually declined to MYR4.03 billion while Islamic asset backed securities dropped to MYR5.92 billion **(Table 2)**.

A comprehensive regulatory and tax framework for Islamic finance, and a sound infrastructure platform has provided the impetus for *sukuk* (Islamic bond) issuance in Malaysia. In 2009, Bursa Malaysia topped the world's exchanges in terms of the value of *sukuk* listings. Since its inaugural *sukuk* listing

Figure 2. Outstanding LCY Corporate Bonds
(MYR billion)

Source: Bank Negara Malaysia.

Table 2: Breakdown of Islamic-Based Local Currency Corporate Bonds (MYR billion)

Year	IABS/ ABS-IMTN	IBONDS	ICP	IMTN
2001	-	33.29	4.46	1.75
2002	-	46.11	4.69	2.57
2003	0.99	52.09	6.21	5.43
2004	0.60	55.09	3.62	9.97
2005	3.25	62.88	4.49	16.75
2006	3.21	65.05	5.89	26.96
2007	5.55	70.99	6.46	55.07
2008	6.17	71.95	5.89	67.67
2009	5.92	71.46	4.03	88.38

Notes:
IABS = Islamic asset-backed securities - Islamic bonds issued pursuant to a securitisation transaction; ABS-IMTN = Asset-backed securities - medium-term notes issued pursuant to a securitisation transaction; IBONDS = Islamic bonds issued by corporations; ICP = Islamic commercial papers issued by corporations, IMTN = Islamic medium-term notes issued by corporations
Source: Bank Negara Malaysia.

in August 2009, the bourse has listed 12 *sukuks* totaling USD17.60 billion.

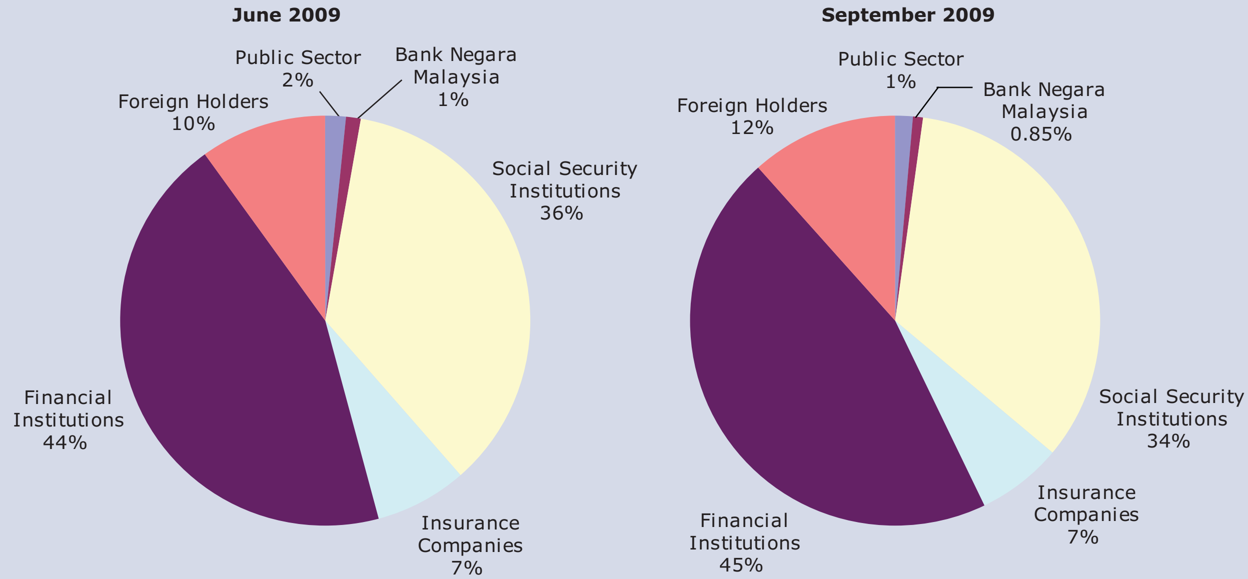
The top 20 corporate issuers in Malaysia made up about 47.7% of total corporate bonds outstanding as of end-2009 **(Table 3)**. National mortgage corporation Cagamas Berhad is the top issuer of corporate bonds with MYR16.4 billion outstanding in conventional and Islamic medium-term notes. The next two largest issuers were investment holding company Binariang GSM and government investment-holding arm Khazanah Nasional.

Table 3: Top 20 Corporate Issuers (MYR billion)

Issuer	Conventional Bonds	Islamic Bonds	Conventional MTN	Islamic MTN	Total
Cagamas	-	-	9.2	7.2	16.4
Binariang GSM	-	3.0	-	12.1	15.1
Khazanah	-	12.0	-	-	12.0
Project Lebuhraya (PLUS)	-	7.1	-	2.7	9.8
Prasarana	5.1	2.0	-	2.0	9.1
Maybank	6.1	2.5	-	-	8.6
Rantau Abang Capital Berhad	-	-	-	8.0	8.0
Malakoff Corp.	-	1.7	-	5.6	7.3
KL International Airport	1.6	5.3	-	-	6.9
Valuecap	5.1	-	-	-	5.1
1 Malaysian Development Berhad	-	-	-	5.0	5.0
Jimah Energy Ventures	-	-	-	4.8	4.8
Tanjung Bin	-	-	-	4.8	4.8
Putrajaya Holdings	-	1.1	-	3.1	4.2
YTL Power International	2.2	-	1.7	-	3.9
Tenaga Nasional Berhad	1.5	2.2	-	-	3.7
Cekap Mentari Berhad	3.5	-	-	-	3.5
CIMB Bank	3.5	-	-	-	3.5
Public Bank Berhad	1.2	-	1.9	-	3.1
Hijrah Pertama Berhad	-	2.9	-	-	2.9
Total	29.8	39.8	12.8	55.2	137.6
% of Total Corporate Outstanding					**47.7%**

MTN = medium-term note.
Source:Bank Negara Malaysia.

Figure 3: Local Currency Government Bonds Investor Profile



Source: Bank Negara Malaysia.

Investor Profile

As of end-September 2009, financial institutions were still the largest holders of Malaysian Government Securities (MGS). Financial institutions held 45% of outstanding MGS and social security institutions held 34%, down from 36% at end-June **(Figure 3)**. Foreign holdings as a percentage of total MGS outstanding increased from 10% at end-June to 12% at end-September. Meanwhile, insurance companies and the public sector held 7% and 1%, respectively, of total MGS outstanding.

Policy, Institutional, and Regulatory Developments

Corporate Debt Restructuring Committee Revises Eligibility Criteria

The Corporate Debt Restructuring Committee (CDRC) has revised its eligibility criteria to allow more companies to seek assistance from the CDRC in restructuring their debt obligations. Under the revised eligibility criteria, companies seeking to resolve their debt obligations under the CDRC must fulfill the following criteria:

(i) aggregate indebtedness of MYR30 million or more;

(ii) at least two financial creditors;

(iii) not in receivership or liquidation, except in cases where receivers have been appointed over certain specified assets and the directors remain in control over the companies' overall operations; and

(iv) difficulties in servicing debt obligations, which may not include having already defaulted, provided criteria (i) and (ii) are met.

Also, the revised criteria extends eligibility to any company listed on Bursa Malaysia that has been classified as PN17 (Main Market—the merged main board and second board of Bursa Malaysia) or GN3 (ACE market—the revamp of the Malaysian Exchange Securities Dealing and Automated

Quotation [MESDAQ]) irrespective of the amount of debt outstanding.

Government Plans to Introduce Goods and Services Tax in 2011

To increase its revenue base and help reduce the budget deficit, the Malaysian government is planning to introduce a new goods and services tax (GST) in 2011. The proposed 4.0% GST is expected to generate MYR1 billion in revenue per year. However, 40 basic goods and services, including foodstuffs, residential accommodation, education, health services, public transportation, and domestic water and electricity supply will be exempted from the GST to protect the welfare of low-income groups. The GST has been successfully implemented in 140 countries. Among member countries of the Association of Southeast Asian Nations (ASEAN), only Brunei, Malaysia, and Myanmar have not implemented a GST.

Philippines—Update

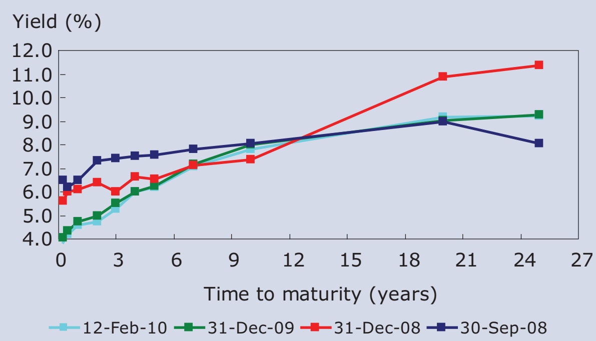
Yield Movements

Philippine government bond yields declined across all tenors between end-2009 and February 2010, except at the very long-end of the curve. Yields on 2-year bonds fell by as much as 275 basis points, while yields on 10-year debt dropped 175 basis points. In the run-up to its foreign bond issue on January 7 of this year, the Bureau of the Treasury (BTr) often declined to accept bids which it felt to be unacceptably high **(Figure 1).**

The Philippines' budget deficit widened to a record PHP298.5 billion in 2009, which was equivalent to 3.9% of gross domestic product (GDP). Increased spending to support the economy amid the global crisis and weak tax collections drove the 2009 deficit above the government's target of PHP250 billion. The government is maintaining its projected budget deficit ceiling at PHP293 billion for 2010, but will monitor the economy's performance in 1Q09 to determine whether the target needs to be adjusted.

Consumer price inflation for the month of February was 4.2% year-on-year (y-o-y), slightly less than January's rate of 4.3%. The rise in consumer prices in January has been attributed to oil and food price hikes. Headline inflation for 2009 averaged 3.2%, which was well within the government's target of 2.5%–4.5%. The inflation target for 2010 has been set by the Development Budget Coordinating Committee (DBCC) at 4.5% ±1.0 percentage point. The key overnight borrowing rate has remained at a record low of 4.0% and the overnight lending (repurchase) facility at 6.0% since July 2009. However, the peso rediscount rate was raised 50 basis points to 4.0% (effective 1 February) as BSP started to unwind its stimulus measures. Prior to this, the peso rediscount rate had been held at 3.5% from March 2009 until January 2010 to ensure the orderly operation of domestic financial markets amid the global crisis. Meanwhile, the economy expanded 1.8% y-o-y in 4Q09, while full year GDP grew at a slower rate of 0.9% after expanding 3.8% in 2008.

Figure 1: Philippines' Benchmark Yield Curve–Local Currency Government Bonds



Source: Bloomberg, LP.

Size and Composition

By the end of 2009, total government local currency (LCY) bonds stood at PHP2.56 trillion. Bonds issued by BTr and agencies owned and controlled by the government rose 12.9% and 18.2% from end-2008, respectively. However, treasury bills decreased 19.2% y-o-y in 2009, which resulted in marginal growth of 3.1% y-o-y for total government LCY bonds. On a quarterly basis, the stock of total government bonds increased 2.3% **(Table 1)**.

The National Food Authority (NFA) raised PHP9 billion worth of 10-year bonds in October for maturing loans, capital expenditures, and rice imports. However, NFA postponed its planned issuance of an additional PHP5 billion–PHP10 billion of long-term bonds from December 2009 to 1Q10, dependent upon local debt market conditions at the planned time of issue.

In November, the National Development Corporation (NDC) sold PHP3.5 billion worth of 5-year bonds, with bids reaching twice the volume offered, indicating robust investor appetite. Funds raised will be used to repair and upgrade

Table 1: Size and Composition of Local Currency Bond Market in the Philippines

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	PHP	USD	PHP	USD	PHP	USD	PHP	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	2,817	59	2,855	59	2,879	59	2,912	63	7.5	2.3	1.4	0.8	8.1	3.4	1.1
Government	2,504	52	2,538	53	2,545	52	2,560	56	3.0	2.0	1.3	0.3	3.1	2.3	0.6
Treasury Bills	607	13	639	13	620	13	622	13	(20.5)	(10.6)	5.1	(2.9)	(19.2)	2.4	0.3
Treasury Bonds	1,807	38	1,801	38	1,823	37	1,839	40	14.2	7.1	-0.4	1.2	12.9	1.7	0.9
Others	89	2	98	2	102	2	100	2	5.8	0.0	10.1	3.6	18.2	11.8	(2.0)
Corporate	313	7	318	7	335	7	351	8	65.8	5.4	1.6	5.4	66.5	12.4	5.0

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Note:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
4. "Others" includes government-guaranteed bonds such as Land Bank of the Philippines and National Power Corporation (Napocor).
Source: Bureau of the Treasury and Bloomberg LP.

irrigation facilities. Moreover, President Gloria Macapagal Arroyo signed Executive Order 824-A on 22 October to allow NDC to issue infrastructure bonds of up to PHP50 billion to finance the implementation of infrastructure projects. The National Economic and Development Authority (NEDA) and NDC will select infrastructure projects under NEDA's Medium-Term Public Investment Program (MTPIP) that wil be funded by the proceeds of the bonds.

On 18 November, the Power Sector Assets and Liabilities Management Corporation (PSALM) launched a new 2024 global bond issue of up to USD600 million and re-opened its 2019 USD bonds, inviting investors holding National Power Corporation (Napocor) bonds maturing in 2010 and 2011 to participate in a debt exchange program that allows them to swap their bonds into the new PSALM issue.

The Philippine government sold USD1.5 billion of bonds in a dual-tranche offering in January of this year that was more than six times oversubscribed. The issue comprised a USD650 million re-opening of the 2020 bonds at a yield of 5.67% and a USD850 million re-opening of the 2034 bonds at a yield of 6.66%. The sale was the first international global bond transaction in Asia in 2010, leading other Asian borrowers to tap the offshore market. Furthermore, the government successfully sold JPY100 billion worth of 10-year *samurai* bonds via private placement in late February, with a guarantee from the state-backed Japan Bank for International Cooperation (JBIC). The bonds were priced at par and carried a coupon of 2.32%. The Department of Finance (DOF) said the latest bond sale completes its planned foreign debt market issuance of USD2.5 billion for 2010.

Total LCY corporate bonds outstanding as of end-December 2009 stood at PHP351 billion for a 66.5% y-o-y rise. Of the total amount, PHP127.8 billion, or 36%, were held by local and foreign commercial banks, while the remaining 64% were held by non-financials. More corporates issued bonds in 4Q09, resulting in a 12.4% q-o-q increase in the size of the total corporate bond market.

In October, Unionbank of the Philippines issued lower Tier 2 notes worth PHP3.75 billion, while Allied Bank issued PHP3.5 billion of long-term negotiable certificates of deposit. Real estate companies Megaworld and Filinvest Land each sold PHP5 billion in November to finance their respective projects. Also, JG Summit sold PHP9 billion in 5-year bonds to support capital expenditure requirements.

Meanwhile, the geothermal company Energy Development Corporation (EDC) tapped the local bond market in December and sold PHP12 billion worth of fixed-rate bonds to investors with tenors of 5.5 and 7 years. A portion of the proceeds from the issue will be used to refinance and re-denominate EDC's Miyazawa II loan, which will mature in June 2010. The Miyazawa II loan is under the New Miyazawa Initiative, a financial support mechanism started in 1998 by the Japanese government to assist Asian countries in overcoming their economic difficulties. Also, the Manila Electric Company (Meralco) raised PHP5.5 billion in a December bond offering, which will be used for corporate funding requirements.

San Miguel Brewery remains the largest corporate issuer in the Philippines, with outstanding bonds totaling PHP38.8 billion, followed by Banco de Oro Universal Bank (PHP33.0 billion), and Meralco (PHP20.6 billion). The amount of bonds outstanding among the top 20 corporate issuers comprised 82% of the total corporate bond market at the end of 2009 **(Table 2)**.

The Philippine Dealing and Exchange Corporation (PDEx) reported that the fixed-income trading volume for government and corporate securities reached PHP2.52 trillion as of 9 December. The 2009 year-to-date volume rose by PHP585 billion, or 30%, from last year's volume and PDEx recorded PHP49.4 billion in trades for a 17% y-o-y increase. Corporate bonds issued and listed on PDEx are Ayala Corporation; Ayala Land, Inc.; Globe Telecom, Inc.; Manila Water Company, Inc.; San Miguel Brewery, Inc.; Megaworld Corporation; Energy Development Corporation; Metropolitan Bank and Trust Company; and Rizal Commercial Banking Corporation.

Table 2: Top 20 Corporate Bond Issuers as of December 2009

Rank	Issuer	Amount Outstanding (PHP billion)
1	San Miguel Brewery Inc.	38.80
2	Banco de Oro Unibank Inc.	33.00
3	Manila Electric Company	20.58
4	Metropolitan Bank & Trust	18.50
5	Philippine National Bank	17.75
6	Petron Corporation	16.30
7	Rizal Commercial Banking Corporation	16.00
8	Globe Telecom	15.80
9	Robinsons Land Corporation	15.00
10	JG Summit Holdings Inc.	13.31
11	Energy Development Corporation	12.00
12	SM Prime Holdings Inc.	11.50
13	Bank of Philippine Islands	10.00
14	SM Investments Corporation	9.40
15	Allied Banking Corporation	8.00
16	Ayala Land Inc.	7.00
17	Aboitiz Power Corporation	6.88
18	Megaworld Corporation	6.40
19	Ayala Corporation	6.00
20	Security Bank Corporation	6.00
Top 20 Total		**288.22**
Total Corporate Bonds Outstanding		**351.42**
Top 20/Total Corporate Bonds Outstanding		**82%**

Source: Bloomberg LP.

Rating Changes

In January, three major international rating agencies affirmed their respective outlook and ratings for the Philippines **(Table 3)**.

Table 3: Selected Sovereign Ratings and Outlook for the Philippines

	Moody's	S&P	Fitch
Long-Term LCY Rating	Ba3	BB-	BB+
Outlook	Stable	Stable	Stable

LCY = local currency.
Source: Rating agencies.

Moody's Investors Service has kept its stable outlook and Ba3 long-term LCY rating despite expectations that the Philippines will post the slowest economic growth in Southeast Asia this year.

Standard & Poor's has retained its stable outlook and BB- long-term LCY rating, citing the country's strong external liquidity position and its track record of resilient economic growth.

Fitch Ratings affirmed its stable outlook and BB+ long-term LCY issuer default rating, citing manageable external financing requirements in spite of weaknesses in public finances.

Policy, Institutional, and Regulatory Developments

Monetary Board Aligns Rediscount Rate with Reverse Repurchase Rate

Bangko Sentral ng Pilipinas' (BSP) Monetary Board decided on 28 January to raise the peso rediscount rate by 50 basis points to 4.0% effective 1 February in a sign that the BSP has started to unwind its stimulus measures. The peso rediscount rate was previously held at 3.5% to ensure the orderly operation of domestic financial markets amid the global crisis. The overnight borrowing, or reverse repurchase facility, and the overnight lending, or repurchase facility, remained at 4.0% and 6.0%, respectively.

PSE Tightens Rules on Short-Term Lending

The Philippine Stock Exchange (PSE) released Guidelines on Safeguards Against Securities Borrowing and Lending Program Violations and Expected Minimum Response by Trading Participants on 19 February. PSE identified seven possible violations as follows: (i) the unauthorized lending of a client's securities, (ii) denial of the beneficial owner's right to vote, (iii) failure to share lending fees to beneficial owners of securities, (iv) breach of foreign ownership limits, (v) failure to manage collateral received resulting in loss of possible income, (vi) unreasonably large value of collateral requirements, and (vii) violators failure to properly distribute manufactured dividends. Violators are levied fines of between PHP10,000 and PHP50,000, while grave situations can result in the suspension of the trading participant.

The guidelines will take effect on 5 March.

Singapore—Update

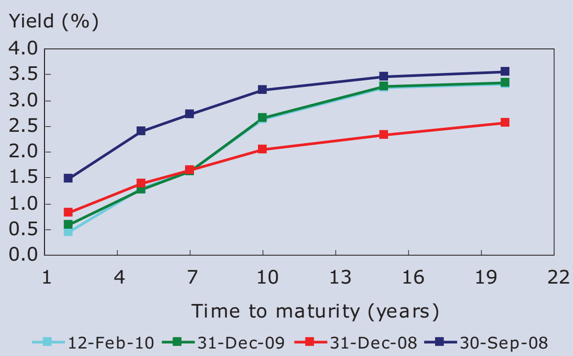
Yield Movements

As of mid-February, Singapore benchmark bond yields were largely unchanged from their end-December levels, except for a slight drop in the 2-year benchmark yield. On 1 March, the government re-opened a 15-year government bond that was auctioned in August 2009 and will mature in September 2024.

According to final data released by the Ministry of Trade and Industry (MTI) on 19 February, Singapore's gross domestic product (GDP) grew 4.0% year-on-year (y-o-y) in 4Q09, up from 0.6% growth posted in the previous quarter. For the full-year 2009, Singapore's GDP contracted 2.0%, which was well within the government's forecast of a 2.0%–2.5% contraction. The country's manufacturing sector dipped 4.1% in 2008, while the construction sector posted 16.0% growth. Service-producing industries dipped 2.2%, as most major service sectors contracted. For 2010, the government now expects the economy to grow 4.5%–6.5%, following an earlier forecast of 3.0%–5.0% growth.

Full-year inflation for 2009 was 0.6% after having been in negative territory throughout the July–December period. In January, consumer price inflation rose to 0.2% y-o-y. The government also revised its inflation forecast for 2010 downward from 2.5%–3.5% to 2.0%–3.0%. The revision is attributable to the re-basing of the consumer price index (CPI) for 2009. According to the Monetary Authority of Singapore (MAS), the current monetary policy stance remains appropriate. In October 2009, MAS decided to maintain its zero percent appreciation policy for Singapore's currency. This policy was first put in place in October 2008 in response to the weakening global economy. MAS also maintained the level and width of the exchange rate policy band. During its policy review in April 2009, MAS re-centered the exchange rate policy band. The next monetary policy meeting is scheduled for April 2010.

Figure 1: Singapore's Benchmark Yield Curve–Local Currency Government Bonds



Source: Bloomberg, LP.

Given improvements in the domestic and global economies, the government plans to unwind the stimulus policies it implemented at the height of the financial crisis. Last year, Singapore's government tapped its reserves to fund a SGD20.5 billion resilience package. The budget deficit for fiscal year (FY) 2009/2010 is estimated at SGD8.5 billion (equivalent to 3.3% of GDP), which is less than an earlier estimate of SGD14.9 billion. On 22 February, the government announced an expected budget deficit of SGD3 billion (equivalent to 1.1% of GDP) for FY 2010/2011. In terms of spending, the government will gradually phase-out the Job Credit and Special Risk Initiative schemes, but will increase spending on education, healthcare, and transport infrastructure.

Size and Composition

As of end-December 2009, the amount of total local currency (LCY) bonds outstanding was SGD211 billion, representing a 15.3% y-o-y increase from SGD182 billion in December 2008 **(Table 1)**. Government bonds outstanding increased 18.3% y-o-y to SGD124 billion, while corporate bonds outstanding rose 12.1% y-o-y. Corporate issuance in 4Q09 included Temasek's issue of SGD600 million in 20- and 30-year bonds.

Table 1: Size and Composition of Local Currency Bond Market in Singapore

	Amount (billion)								**Growth Rate** (%)						
	Sep-09		**Oct-09**		**Nov-09**		**Dec-09**		**Sep-09**		**Oct-09**	**Nov-09**	**Dec-09**		
	SGD	**USD**	**SGD**	**USD**	**SGD**	**USD**	**SGD**	**USD**	**y-o-y**	**q-o-q**	**m-o-m**	**m-o-m**	**y-o-y**	**q-o-q**	**m-o-m**
Total	212	150	210	150	208	150	211	150	15.3	5.6	(0.7)	(1.2)	15.6	(0.4)	1.5
Government	123	87	122	87	123	89	124	88	20.7	6.0	(0.2)	0.7	18.3	0.9	0.4
Bills	49	35	51	36	52	37	52	37	46.7	7.2	2.8	1.8	45.1	5.7	1.0
Bonds	73	52	72	51	72	52	72	51	7.8	5.2	(2.3)	-	4.2	(2.3)	-
Corporate	89	63	88	63	84	61	87	62	8.6	5.0	(1.3)	(4.0)	12.1	(2.2)	3.2

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Government bonds are calculated using data from national sources. Corporate bonds are based on *AsianBondOnline* estimates.
2. Bloomberg end-of-period LCY—USD rate is used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Monetary Authority of Singapore and Bloomberg LP.

At the end of December, the top 20 corporate issuers accounted for 37% of total corporate bonds outstanding **(Table 2)**.

Policy, Institutional, and Regulatory Developments

Amendments to Government Securities Act Provide More Power to the Central Bank

On 11 January, the Parliament passed the Government Securities (Amendment) Bill 2009 that provides MAS more regulatory powers and the flexibility to manage the government bond market. When in force, the bill will provide MAS regulatory powers over the primary dealers of bonds, namely, the power to inspect, suspend, and revoke appointments of primary dealers. The amendment will authorize MAS to redeem its Singapore Government Securities (SGS) before maturity at market price, if it deems necessary. MAS will also be allowed to enter into securities lending arrangements involving SGS with primary dealers. The amount MAS can lend, however, is limited to its own holdings. When MAS holdings are not enough to meet primary dealers' demand for SGS, the government can issue new SGS to MAS, which MAS can lend on an overnight basis.

Table 2: Bonds Outstanding of Top Corporate Issuers

Issuer	Outstanding Amount (SGD billion)
Housing &Development BRD (Public Housing Auth.)	5.35
Capital Land Ltd. (Real Estate)	3.67
United Overseas Bank Ltd (Banking)	3.62
SP Power Assets Ltd. (Electricity Transmission and Distribution)	2.41
Oversea-Chinese Banking (Banking)	2.20
Public Utilities Board (National Water Authority)	2.10
Land Transport Authority (Building and Contruction)	1.80
DBS Bank Ltd/Singapore (Banking)	1.61
F&N Treasury Pte Ltd (Food Service, Property, and Pub & Printing)	1.40
PSE Corp. Ltd. (Container Transhipment Hub)	1.20
Singapore Airlines (Airlines)	0.90
Ascott Capital Pte Ltd (Real Estate)	0.76
Yanlord Land Group (Real-estate Developer PRC-based)	0.71
Capitaland Treasury Ltd (Real Estate Operations)	0.70
HK Land Treasury Service (Property Investment Management)	0.70
Capitamall Trust (REITS-Shopping Centers)	0.65
Mapletree Treasury Svcs (Special Purpose Entity)	0.60
Temasek Financial (Investment Company)	0.60
City Developments (Hotels and Motels)	0.53
Keppel Land (Real Estate Developer)	0.51
Total	**32.02**
% of Total Corporate Outstanding	**36.73%**

Source: Bloomberg, LP.

MAS Ends Swap Facility

MAS allowed its USD30 billion swap facility with the US Federal Reserve to lapse on 1 February as a result of improving wholesale funding market conditions.

Government Plans to Earmark Funds to Increase Productivity

Over the next 5 years, the government plans to spend SGD1.1 billion in tax benefits, grants, and training subsidies to boost productivity. Specific measures include:

(i) expansion of the Continuing Education and Training (CET) system;

(ii) increase in maximum payouts for the Workfare Income Supplement;

(iii) implementation of the Productivity and Innovation Credit, which provides tax incentives for activities that enhance productivity such as Singapore-based research, development, and design; intellectual property acquisition and registration; investment in automation; and training costs; and

(iv) establishment of a National Productivity Fund.

Thailand—Update

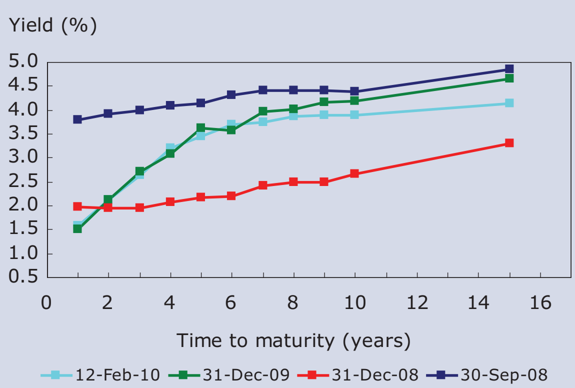
Yield Movements

Thai government bond yields dropped for most maturities between end-December 2009 and mid-February **(Figure 1)**. At the shorter-end of the curve, yields declined for 3- and 5-year maturities, narrowing 7 and 17 basis points, respectively. Meanwhile, the yield curve flattened by as much as 53 basis points from the belly through the longer-end of the curve. As a result, the spread between 2- and 10-year bonds narrowed to 178 basis points on 12 February from 207 basis points at end-December.

The downward shift in the yield curve reflects investor perceptions of modest growth in 2010 and expectations that the Bank of Thailand (BOT) will not raise the policy rate (1-day repo rate) until the second half of 2010, even though the market expects a modest rise in inflation this year. BOT's Monetary Policy Committee (MPC) maintained the repurchase rate at the current level of 1.25% in March.

Thailand's economy expanded 5.8% year-on-year (y-o-y) in 4Q09, driven by exports, but still contracted 2.3% for all of 2009. Signs of improvement were notable during the second half of the year as quarter-on-quarter (q-o-q) gross domestic product (GDP) growth recovered from −4.9% in 2Q09 to −2.8% in 3Q09, mainly due to gains in private consumption, tourism, exports, and agriculture. Thailand's GDP is expected to grow 3.5% in 2010, with government spending and private sector recovery likely to be the main forces driving the economy.

Figure 1: Thailand's Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg, LP.

Consumer price inflation stood at 3.7% y-o-y in February, a modest decline from 4.1% y-o-y in January. BOT's MPC expects that inflation will further accelerate in 2010 as the Thai government ends its subsidy measures and oil prices continue to rise. The flattening of the government bond yield curve from its belly through the longer-end indicates that investors are not factoring expectations of higher inflation data.

Size and Composition

The amount of local currency (LCY) bonds outstanding in Thailand stood at THB5.9 trillion (USD176.8 billion) at end-December, climbing 20.5% y-o-y and 2.5% q-o-q **(Table 1)**.

Government bonds in 4Q09 were up 21.0% y-o-y and 3.3% q-o-q, with the total amount outstanding valued at THB4.7 trillion. The amount of Treasury bonds, which represented half of total government bonds outstanding, grew 22.3% y-o-y, yet contracted 0.8% q-o-q, to stand at THB2.4 trillion at end-December. Similarly, state-owned enterprise and other bonds rose 6.5% y-o-y, but shrank 0.1% q-o-q. Central bank bonds stood at THB1.8 trillion for an increase of 24.2% y-o-y and 10.3% q-o-q.

On 16 February, the Thai government approved the issuance of THB100 billion of government savings bonds with a 6-year maturity. The bonds will be offered at a premium to current market yields with a step-up coupon rate. The Thai government imposed a delay on the issuance until further notice due to current domestic political uncertainties and the upcoming Songkran holidays. Subscription was initially scheduled from 29 March to 5 April.

Table 1: Size and Composition of Local Currency Bond Market in Thailand

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	THB	USD	THB	USD	THB	USD	THB	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	5,757.2	172.1	5,826.9	174.3	5,836.7	175.6	5,901.9	176.8	15.8	6.2	1.2	0.2	20.5	2.5	1.1
Government	4,561.3	136.4	4,645.5	139.0	4,639.1	139.6	4,711.9	141.1	13.1	6.6	1.8	(0.1)	21.0	3.3	1.6
Treasury Bonds	2,380.5	71.2	2,381.5	71.2	2,355.0	70.9	2,362.1	70.7	19.8	6.2	0.0	(1.1)	22.3	(0.8)	0.3
Central Bank Bonds	1,650.3	49.3	1,733.8	51.9	1,756.0	52.8	1,819.7	54.5	7.6	8.4	5.1	1.3	24.2	10.3	3.6
State Enterprises Bonds & Other Bonds	530.4	15.9	530.1	15.9	528.1	15.9	530.1	15.9	3.7	2.7	(0.1)	(0.4)	6.5	(0.1)	0.4
Corporate	1,195.9	35.8	1,181.5	35.3	1,197.5	36.0	1,190.0	35.6	27.2	5.0	(1.2)	1.4	18.8	(0.5)	(0.6)

m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Calculated using data from national sources.
2. Bloomberg end-of-period LCY—USD rates are used.
3. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bank of Thailand (BOT) and Bloomberg LP.

Proceeds from the issuance will be used to refinance loans borrowed for the Thai Khem Khaeng Program. Thai Khem Khaeng (Strong Thailand) is the government's second-stage stimulus program, with a total budget of THB1.4 trillion (USD42 billion), that aims to fund a range of social and infrastructure development projects in the transport, irrigation, health, and education sectors.

The stock of corporate bonds outstanding as of end-December rose 18.8% y-o-y to THB1.2 trillion. On a q-o-q and month-on-month (m-o-m) basis, however, total corporate bonds contracted 0.5% and 0.6%, respectively.

As of end-December, the top 10 corporate and SOE issuers in Thailand were mainly from the industrial and financial sectors, which together represented 48.6% of total LCY corporate and SOE bonds **(Table 2)**.

Krung Thai Bank, Thailand's second-largest lender, sold THB13 billion of subordinated bonds in October. The 10-year bonds carried a coupon rate of 4.8%. Proceeds will be used to refinance existing debt and provide working capital. Siam Cement, Thailand's biggest industrial conglomerate, sold THB10 billion of senior unsecured bonds in October.

Table 2: Top 10 Corporate and SOE Issuers as of December 2009

Issuer	Amount Outstanding (THB billion)
1. PTT (parent oil company)	115.2
2. Siam Cement	110.0
3. Government Housing Bank	88.1
4. Electricity Generating Authority of Thailand	80.4
5. Expressway Authority of Thailand	73.2
6. Bank of Ayudhya Public Ltd.	67.6
7. State Railway of Thailand	67.3
8. Krung Thai Bank PCL	63.3
9. Provincial Electricity Authority of Thailand	61.3
10. PTT Exploration and Production PCL	58.5
Total - Top 10	**785.0**
Total - Corp. and SOE Bond Outstanding	**1,616.7**
% of Total Corp. and SOE Bond Outstanding	**48.6**

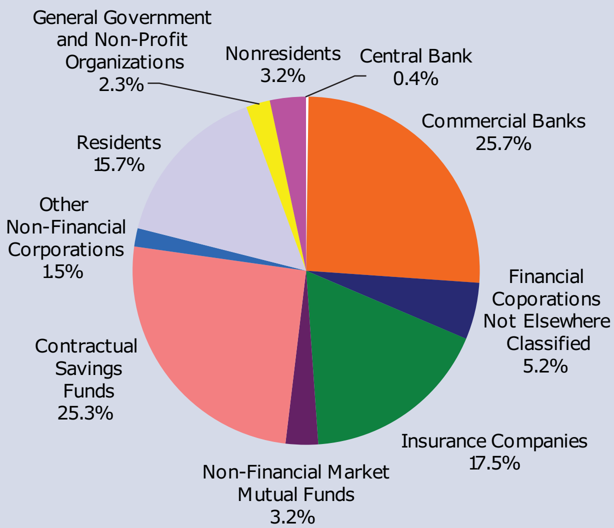
SOE = state-owned enterprise.
Source: Bloomberg LP.

The 4-year bonds carried a coupon rate of 4.15%. Proceeds will be used as part of a plan to refinance existing bonds worth THB25 billion that were due for redemption in 2009. Thanachart Capital sold THB9 billion of 5-year senior unsecured bonds with a 4.9% coupon, while Thai Military Bank sold THB5.3 billion of 10-year unsecured bonds with a 5.0% coupon.

Investor Profile

As of end-December, commercial banks remained the largest holder of Thai government bonds (25.7%), which stood at THB606.6 billion **(Figure 2)**. Contractual savings funds were the second-largest holder of government bonds with a 25.3% share, followed by insurance companies (17.5%), residents (15.7%), and financial corporations not elsewhere classified (5.2%). Non-financial market mutual funds and nonresidents each had a 3.2% share of total bonds. Meanwhile, general government and non-profit organizations, other non-financial corporations, and Thailand's central bank held shares of 2.3%, 1.5%, and 0.4%, respectively.

Figure 2: Local Currency Government Bonds Investor Profile (December 2009)



Source: Bank of Thailand (BOT).

Policy, Institutional, and Regulatory Developments

Bank of Thailand Lifts Capital Outflow Controls

In February 2010, Thailand further relaxed foreign exchange regulations pertaining to investments abroad, foreign exchange hedging transactions, and corporate treasury centers. Thai firms are now allowed to freely make direct investments overseas. The size of portfolio investments allocated to investors and under the supervision of the Securities and Exchange Commission (SEC) has been expanded from USD30 billion to USD50 billion. Exporters and importers in Thailand can now unwind their foreign exchange hedging transactions without seeking permission. Also, an existing firm can set up a corporate treasury center and transfer foreign currencies between the treasury center and its affiliated firms located in Thailand. In addition, Thailand has raised the limit for the purchase of immovable properties overseas for Thai individuals from USD5 million per year to USD10 million per year and is allowing Thai companies to lend up to USD50 million to non-affiliated companies overseas.

Bank of Thailand Releases Financial Sector Master Plan Phase II

In November 2009, the Thai Economic Cabinet, Ministry of Finance, and BOT released the second phase of the Financial Sector Master Plan (FSMP), which aims to boost the efficiency of financial institutions over the period 2010–2014. The plan includes reducing system-wide operating costs, promoting competition and financial access, and strengthening financial infrastructure. An FSMP Implementation Committee will be formed once the cabinet approves the principles stipulated in the plan.

Viet Nam—Update

Yield Movements

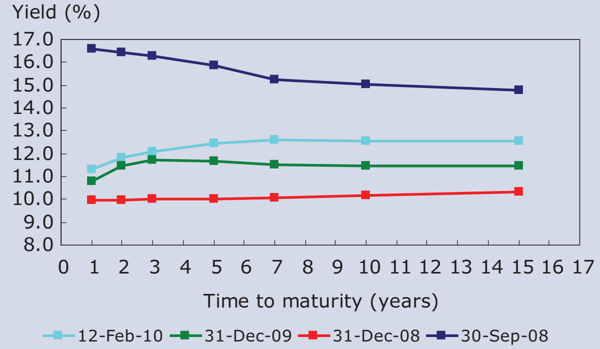
As of mid-February, the Vietnamese government bond yield curve had risen above end-December 2009 levels as yields increased across all maturities **(Figure 1)**. Yields for 2- and 10-year maturities climbed 37 basis points and 112 basis points, respectively. The yield spread between 2- and 10-year government bonds widened to 73.7 basis points on 12 February compared to a spread of –1.7 basis points at end-December 2009.

The rise in government bond yields over the December 2009–February 2010 period reflects expectations of potential monetary tightening in the face of accelerating inflation. The State Bank of Viet Nam (SBV) has kept the benchmark rate unchanged for three consecutive months this year amid accelerating inflation and rising share prices. However, in December 2009, SBV raised its benchmark rate by 1 percentage point to 8.0% for the first increase since January 2009. The refinancing rate and discount rate were also raised to 8.0% and 6.0%, respectively.

Consumer price inflation accelerated to a 6-month high of 8.46% year-on-year (y-o-y) in February as the Lunar New Year (Tet holiday) fueled price hikes. Viet Nam's economy expanded in 2009 at an annual rate of 5.32%, driven by the industry and construction, and services sectors. While Viet Nam exceeded its target of 5.0% annual growth in 2009, the figure was lower than the 6.18% growth rate recorded in 2008.

SBV implemented bold measures to stabilize the money market in the face of gold and foreign exchange speculation, and rising credit growth. SBV narrowed the trading band of the Vietnamese dong against the US dollar to ±3% from ±5%, and at the same time devalued the dong twice to an exchange rate of VND18,544–USD1. Meanwhile, credit expanded 37.7% in 2009, exceeding the cap of 30.0% set by SBV.

Figure 1: Viet Nam's Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg, LP.

Size and Composition

The total amount of local currency (LCY) bonds outstanding in Viet Nam as of December 2009 stood at VND217.6 trillion (USD11.8 billion), which represented a decline of 6.3% y-o-y **(Table 1)**. Compared to 3Q09, total bonds outstanding decreased 2.8% in 4Q09.

Government bonds, which comprised about 92% of total bonds outstanding, stood at VND200.1 trillion at end-December for a decline of 4.7% quarter-on-quarter (q-o-q) and 9.8% y-o-y. The quarterly drop in government bonds was induced by an 11.6% decline in treasury bonds to VND90.3 trillion. Meanwhile, the amount of central bank bonds remained unchanged in 4Q09 at VND1.7 trillion. Other bonds, including Viet Nam Development Bank (VDB) bonds and state-owned enterprise bonds, stood at VND108 trillion at end-December for an increase of 1.8% q-o-q and 9.0% y-o-y.

The Ministry of Finance had estimated bond issuance in 2009 of VND200 trillion. Specifically, the State Treasury's issuance needs were estimated at VND126 trillion, VDB's were VND40 trillion, and the Viet Nam Bank for Social Policies' (VBSP) were VND10 trillion. However, in 2009, actual bond

Table 1: Size and Composition of Local Currency Bond Market in Viet Nam

	Amount (billion)								Growth Rate (%)						
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09	Nov-09	Dec-09		
	VND	USD	VND	USD	VND	USD	VND	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	223,837.9	12.5	226,262.9	12.7	219,094.9	11.9	217,628.8	11.8	4.5	3.6	1.1	(3.2)	(6.3)	(2.8)	(0.7)
Government	210,053.0	11.8	210,278.0	11.8	203,110.0	11.0	200,143.8	10.8	2.9	2.7	0.1	(3.4)	(9.8)	(4.7)	(1.5)
Treasury Bonds	102,120.7	5.7	99,550.7	5.6	92,377.7	5.0	90,313.7	4.9	8.8	(1.7)	(2.5)	(7.2)	(11.9)	(11.6)	(2.2)
Central Bank Bonds	1736.0	0.1	1736.0	0.1	1736.0	0.1	1736.0	0.1	(92.7)	-	0.0	0.0	(91.4)	0.0	0.0
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds and Other Bonds	106,196.3	6.0	108,991.3	6.1	108,996.3	5.9	108,094.2	5.8	22.8	5.6	2.6	0.0	9.0	1.8	(0.8)
Corporate	13,784.9	0.8	15,984.9	0.9	15,984.9	0.9	17,484.9	0.9	35.4	18.0	16.0	0.0	68.4	26.8	9.4

– = not applicable, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.
Notes:
1. Bloomberg end-of-period LCY—USD rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bloomberg LP.

issuance was much lower than expected as the State Treasury issued VND7.0 trillion in bonds, VDB issued VND4.86 trillion, and VBSP issued VND2.0 trillion.

State-owned Petrovietnam Finance Co. (PVFC) sold VND2.8 trillion of senior unsecured bonds in October 2009. The 3-year bonds carried a 10.4% coupon. In 2010, PVFC is planning to issue USD1 billion–USD2 billion of bonds domestically and abroad to raise funds for investment.

The stock of corporate bonds in 4Q09 climbed 26.8% q-o-q and 68.4% y-o-y to VND17.5 trillion on the back of several large corporate issues. Viet Nam Technological and Commercial Joint Stock Bank (Techcombank) raised VND2.1 trillion of 3-year senior unsecured bonds in October, the largest bond issuance by a financial institution in 2009. The real estate firm, Vincom Joint Stock Company (VINCOM JSC), issued VND1 trillion of 3-year mortgage bonds in December with a 14.5% coupon.

The Vietnamese government successfully issued USD1 billion of international bonds in January. The 10-year bonds carry a coupon of 6.75%, which is higher than the 5.67% yield on Philippine sovereign bonds and the 6.06% yield on Indonesian sovereign bonds issued earlier in 2010. Of the bonds sold, 56% were placed with United States (US) investors, 28% with Asian investors, and 16% with European investors. Asset fund managers bought 73%, followed by insurers and pension funds (10%), retail investors (9%), banks (7%), and other investors (1%). Proceeds will finance various energy and transportation projects. Moody's has assigned a foreign currency (FCY) rating of Ba3 with a negative outlook.

Rating Changes

In 12 March 2010, Fitch Ratings placed Viet Nam's long-term foreign and local currency rating of BB– on Rating Watch Negative (RWN), citing weakness of the Vietnamese dong and a lack of transparency for key economic indicators, such as international reserves and balance of payments **(Table 2)**.

Table 2: Selected Sovereign Ratings and Outlook for Viet Nam

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Ba3	BB	BB-
Outlook	negative	negative	watch negative

FCY = foreign currency and LT = long term.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

Viet Nam to Lift Ceiling on Foreign Ownership Ratio in Local Businesses

The Viet Nam State Securities Commission is expected to release a decision raising the ceiling on the foreign ownership ratio in local business to 49%. While the maximum level of foreign ownership in public companies will increase from 30% to 49% of total chartered capital, the increase will not apply to credit institutions. For foreign-owned member funds, 100% foreign ownership will be allowed.

Regulations on Establishment of Commercial Banks

SBV is drafting more detailed ground rules on the establishment of new joint stock commercial banks. The new regulations would lift the freeze on and tighten rules for establishing new banks. SBV froze the establishment of new commercial banks in August 2008 to stop the proliferation of weak banks.

Viet Nam to Carry Out Further State-Owned Enterprise Reforms

The Vietnamese government is set to implement reforms on the equitization of state-owned enterprises following the Asian Development Bank's award of up to USD630 million to support the reform effort. Since 1992, the government has arranged 5,660 state-owned enterprises, of which 379 were transformed into single-member limited liability firms; 3,896 were equitized; 197 were transferred; 155 were sold; 30 were leased; 532 were merged with other firms; and 471 were dissolved. The government still holds 100% equity in 1,500 enterprises and is planning to improve the efficiency, profitability, and transparency of a number of large state-owned corporations.

Asia Bond Monitor March 2010

The Asia Bond Monitor (ABM) reviews recent developments in East Asian local currency bond markets along with the outlook, risks, and policy options. The ABM covers the 10 Association of Southeast Asian Nations member countries plus the People's Republic of China; Hong Kong, China; and the Republic of Korea.

About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.

Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
www.adb.org
ISBN 978-971-561-889-2
Publication Stock No. RPT101438

ISBN 978-971-561-889-2

Printed in the Philippines