

3. The international debt securities market

Net issuance of international debt securities hit an all-time high of \$460.4 billion in the fourth quarter of 2003 (Table 3.1). The rise was primarily due to sharply increased fund-raising by euro area nationals, both in

Main features of net issuance in international debt securities markets								
In billions of US dollars								
	2002	2003	2002	2003				Stocks at end-Dec 2003
	Year	Year	Q4	Q1	Q2	Q3	Q4	
Total net issues	1,010.8	1,467.1	183.7	356.7	348.9	301.2	460.4	11,681.4
Money market instruments ¹	1.6	74.9	-10.2	55.4	3.7	-32.9	48.8	569.5
Commercial paper	23.7	83.3	-3.0	46.8	13.3	-25.4	48.7	417.9
Bonds and notes ¹	1,009.2	1,392.2	193.9	301.3	345.1	334.2	411.6	11,111.9
Floating rate issues	199.0	-37.4	39.7	-41.6	-27.7	-14.5	46.4	2,383.9
Straight fixed rate issues	800.1	1,408.5	156.8	342.6	372.2	344.4	349.3	8,366.0
Equity-related issues	10.1	21.1	-2.7	0.3	0.6	4.3	15.9	361.9
Developed countries	945.6	1,363.9	171.4	330.7	316.2	279.9	437.1	10,404.5
United States	329.6	271.0	48.8	55.1	29.2	88.3	98.4	3,078.3
Euro area	479.3	770.1	99.9	211.9	208.1	125.6	224.5	5,014.0
Japan	-22.4	-0.2	-10.2	-3.0	-1.8	-3.4	8.0	271.3
Offshore centres	8.1	16.4	4.7	2.8	4.1	0.4	9.1	134.0
Emerging markets	36.2	64.2	10.5	13.7	13.3	18.9	18.3	635.8
Financial institutions	833.6	1,187.8	168.4	274.1	247.7	255.5	410.5	8,546.5
Private	698.3	989.0	131.8	225.9	199.5	212.6	350.9	7,235.4
Public	135.4	198.9	36.6	48.2	48.2	42.9	59.6	1,311.2
Corporate issuers	55.0	109.9	2.0	16.1	32.0	20.9	40.9	1,497.0
Private	53.3	95.2	-3.5	10.6	29.7	17.9	37.0	1,234.2
Public	1.7	14.7	5.5	5.4	2.3	3.1	3.9	262.8
Governments	101.3	146.8	16.2	57.1	53.8	22.8	13.1	1,130.7
International organisations	20.9	22.6	-3.0	9.4	15.3	2.0	-4.2	507.1
<i>Memo: Domestic CP²</i>	-102.6	-36.5	22.8	13.6	-28.9	-36.8	15.6	1,893.5
<i>Of which: US</i>	-91.4	-81.3	23.8	-15.7	-41.9	-22.3	-1.4	1,288.8

¹ Excluding notes issued by non-residents in the domestic market. ² Data for the fourth quarter of 2003 are partly estimated.

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; national authorities; BIS. Table 3.1

Gross issuance in the international bond and note markets							
In billions of US dollars							
	2002	2003	2002	2003			
	Year	Year	Q4	Q1	Q2	Q3	Q4
Total announced issues	2,100.6	2,883.9	490.4	758.8	755.4	655.1	714.6
Bond issues	1,165.2	1,610.4	266.2	436.2	424.2	341.8	408.2
Note issues	935.5	1,273.5	224.3	322.6	331.2	313.3	306.4
Floating rate issues	603.2	512.3	157.0	123.3	126.9	116.9	145.1
Straight fixed rate issues	1,454.7	2,283.7	325.2	617.3	611.9	511.3	543.1
Equity-related issues ¹	42.8	87.9	8.2	18.2	16.6	26.8	26.4
US dollar	985.9	1,167.0	218.9	332.8	281.8	283.0	269.4
Euro	806.7	1,289.9	184.9	330.6	369.6	272.7	317.0
Yen	88.3	102.9	24.5	23.3	26.0	24.5	29.1
Other currencies	219.7	324.0	62.2	72.0	78.0	74.9	99.1
Financial institutions	1,632.0	2,281.7	401.3	581.8	569.4	535.4	595.1
Private	1,361.4	1,919.9	320.7	488.6	467.5	454.3	509.5
Public	270.6	361.8	80.6	93.2	101.9	81.1	85.6
Corporate issuers	211.4	269.8	40.2	56.5	78.1	66.5	68.6
Of which: telecoms	45.9	51.1	10.1	23.5	6.6	8.0	13.0
Private	186.4	218.8	31.1	39.7	69.9	53.1	56.1
Public	25.1	51.0	9.0	16.8	8.3	13.4	12.5
Governments	172.9	240.4	31.1	81.6	79.2	38.8	40.7
International organisations	84.3	92.0	17.9	38.9	28.6	14.3	10.2
Completed issues	2,100.2	2,861.9	495.6	717.7	727.4	682.0	734.8
<i>Memo: Repayments</i>	<i>1,091.0</i>	<i>1,469.7</i>	<i>301.7</i>	<i>416.4</i>	<i>382.3</i>	<i>347.8</i>	<i>323.1</i>

¹ Convertible bonds and bonds with equity warrants.

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS.

Table 3.2

bonds and notes and in commercial paper. Net issuance by both financial institutions and corporate issuers picked up, whereas it declined for governments. The fourth quarter capped a year in which borrowing in euro-denominated securities made significant gains, both in absolute terms and relative to other markets.

Emerging market borrowers continued to place large amounts of new debt – more than in any fourth quarter since 1996. This probably reflected an ongoing search for yield by international investors amidst the continuing narrowing of credit spreads that characterised the period. In Asia, there was substantial new net issuance by the Chinese government and financial institutions, while Russian financial institutions and the Polish government drove net borrowing in eastern Europe. Brazilian entities were prominent among Latin American borrowers.

A greater willingness on the part of international investors to take on risk was also evident in other sectors of the international securities markets. On the back of a buoyant stock market, issues of equity-related debt securities picked up markedly after more than a year and a half of stagnation. International

equity issuance grew sharply as well, particularly out of Asian countries such as China and Thailand.

Euro market gains on the back of euro area issuance

Fund-raising in the euro soars in 2003 ...

A striking trend apparent in both the fourth quarter and the year overall was the growth in euro-denominated borrowings, which accounted for more than half of all net international debt securities issuance in 2003. Fund-raising in the fourth quarter was well above the third quarter figure and more than twice as high as that for the fourth quarter of 2002; for the year as a whole, the net placement of euro-denominated debt securities, at \$834 billion, was almost 60% higher than in 2002. By comparison, US dollar-denominated net issuance of \$150 billion in the fourth quarter of 2003 was double that of the fourth quarter of 2002, while for the year as a whole it was only 10% higher, at \$463 billion (Table 3.3).

What factors underlay the growth in euro-denominated issuance (Graph 3.1)? Some of the increase simply reflects the 20% appreciation of the euro vis-à-vis the dollar in 2003. Indeed, when measured in terms of the euro, the increase in net terms in 2003 was about half the unadjusted figure, at some 30%. Another important factor was an increased tendency of euro area nationals to come to the market; these borrowers naturally tend to issue in the euro (84% of their net borrowing was euro-denominated in 2003). Euro area nationals placed \$224.5 billion for the fourth quarter, more than double the

Net issuance of international debt securities by region and currency¹

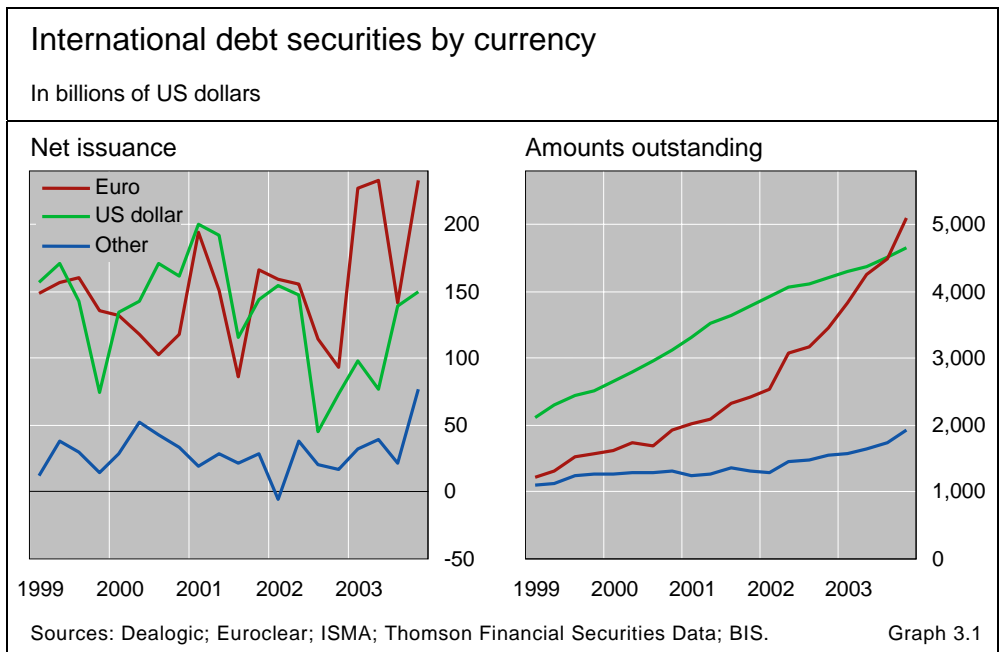
In billions of US dollars

Region/currency		2002	2003	2002	2003			
		Year	Year	Q4	Q1	Q2	Q3	Q4
North America	US dollar	297.0	216.3	48.2	38.0	25.9	71.4	81.0
	Euro	39.7	51.9	0.4	16.1	6.3	14.9	14.6
	Yen	-7.4	-2.8	-2.5	0.0	-1.8	-1.6	0.6
	Other	12.1	25.4	4.5	1.8	7.6	6.4	9.6
European Union	US dollar	68.4	150.6	16.5	39.7	31.1	42.4	37.3
	Euro	463.3	744.2	92.5	203.8	212.5	117.2	210.8
	Yen	-26.2	-9.0	-2.7	-4.5	-3.2	-3.5	2.1
	Other	86.1	116.6	13.9	28.8	27.1	17.6	43.2
Others	US dollar	53.7	96.3	8.5	20.2	19.3	25.1	31.8
	Euro	19.7	38.2	0.9	7.1	14.4	8.9	7.8
	Yen	-9.7	7.6	-3.3	-1.6	1.9	-1.8	9.2
	Other	14.1	31.7	6.9	7.2	7.8	4.2	12.4
Total	US dollar	419.1	463.3	73.1	97.9	76.3	138.9	150.1
	Euro	522.7	834.3	93.8	227.0	233.1	141.0	233.2
	Yen	-43.3	-4.2	-8.5	-6.1	-3.1	-6.9	11.9
	Other	112.3	173.8	25.2	37.9	42.6	28.2	65.2

¹ Based on the nationality of the borrower.

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS.

Table 3.3

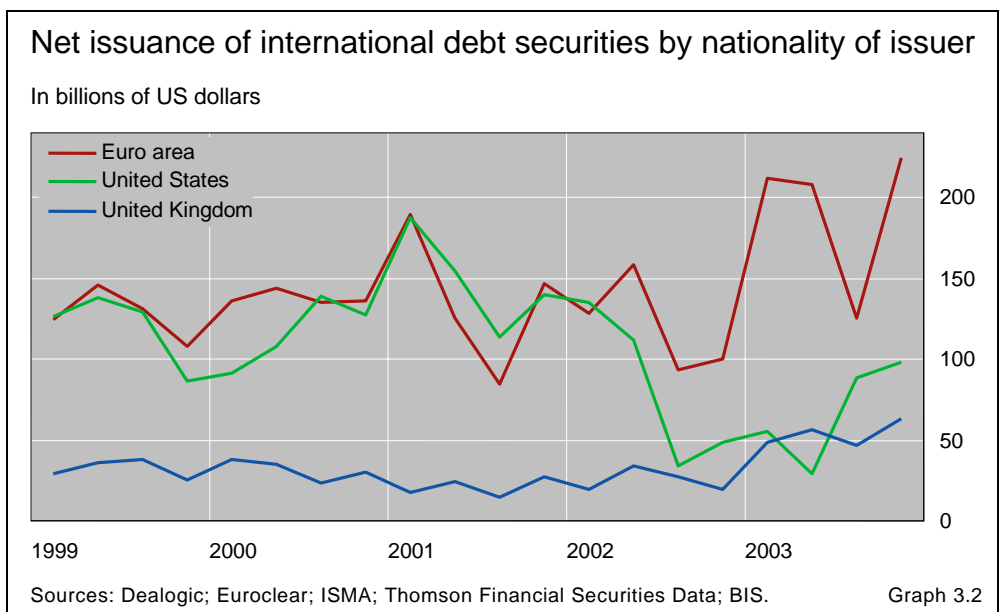


amount for the fourth quarter of 2002. This left 2003 fund-raising 61% ahead of the previous year's total (Graph 3.2). Among euro area nationals, new net issuance from Germany, Spain and France was particularly strong.

By industry sector, euro-denominated borrowing was dominated by euro area financial institutions. While financial institutions accounted for around three quarters of all euro-denominated net issuance by euro area nationals in 2003, nearly 90% of the increased year-on-year growth in fourth quarter euro-denominated euro area fund-raising came from that sector. Securities placements by both public and private financial institutions' grew significantly.

... as European financial institutions come to the market

There was also evidence of an increasing internationalisation of euro issuance. Borrowing by nationals outside the euro area accounted for 22% of net euro issuance in the fourth quarter of 2003, compared with around 4%



Euro-denominated issuance also gains popularity outside the euro area

in the fourth quarter of the previous year. Even though the full year-on-year contrast is less stark, at 22% for 2003 versus 20% for 2002, fund-raising in the euro by non-euro area residents has clearly kept pace with the rapid growth of the market for euro-denominated instruments. Traditional issuers in currencies other than the euro appear to be encountering a growing demand for euro-denominated paper; there have been reports of international asset managers looking to increase their euro holdings in an effort to diversify their currency exposure.

Fund-raising strong in US dollars and other currencies

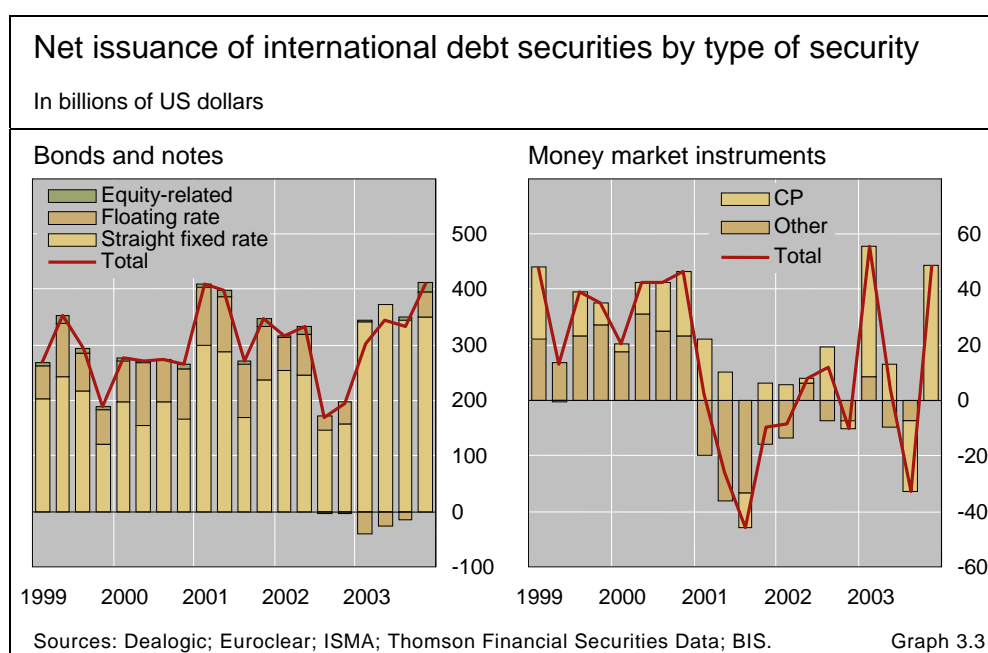
While euro-denominated securities played a dominant role, borrowing in other currencies was hardly weak in the fourth quarter of 2003. US dollar net issuance, at \$150 billion, was more than twice that of the fourth quarter of 2002, borrowing in yen, at \$11.9 billion, was positive for the first time in more than a year and a half, and activity in other currencies was also up by around 55% year on year (Table 3.3).

Despite the increasing use of the euro, the US dollar continues to be the currency of choice for most borrowers outside North America, the European Union and Japan. As much as 60% of the fourth quarter net issuance by such borrowers was in US dollars, 15% was in euros, and around one quarter was in other currencies. For the year as a whole, 61% of funds raised by these borrowers were in US dollars, and 20% were in euros.

Borrowers opt for short-term, variable rate finance

Issuers look to the short end of the yield curve

Another characteristic of fourth quarter activity was increasing reliance on short-term debt, as borrowers chose the lower rates available at the short end of a yield curve that was steeper than earlier in the year (Graph 3.3). Net



issuance of money market instruments (including commercial paper) was \$48.8 billion, as against -\$10.2 billion in the fourth quarter of 2002. This difference was also reflected in the full-year comparison (\$74.9 billion in 2003 versus \$1.6 billion in 2002).

Relatively low rates at the short end probably also stimulated floating rate finance. At \$46.4 billion, this form of debt gained ground in the fourth quarter, accounting for 11% of overall bond and note issuance. In all the previous quarters of the year, issuers in the international debt securities markets had in aggregate redeemed variable rate instruments.

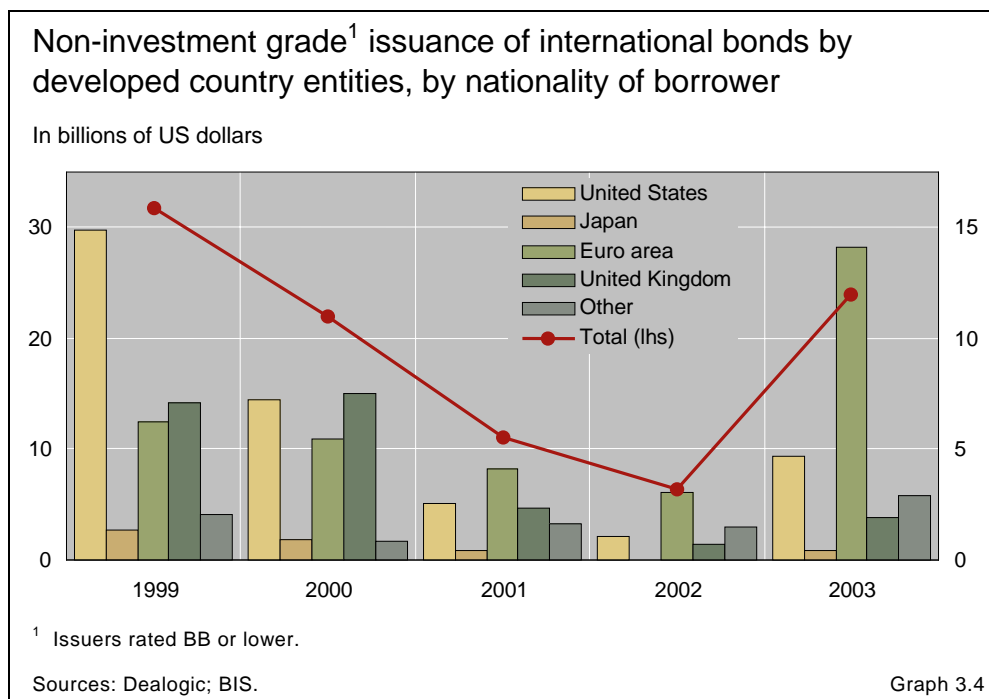
Private corporate borrowing takes a high-yield turn

The fourth quarter was a robust one for non-financial private corporate issues of international debt securities generally. Net issuance of \$37 billion outpaced that in all other quarters of the year (Table 3.1). The number also compared favourably with net redemptions in the fourth quarter of 2002.

The strong investor demand for high-yielding paper and the resulting decline in credit spreads fuelled continued strong activity by lower-rated developed country entities in the fourth quarter. Gross issuance of high-yield international bonds – those with ratings lower than BBB– from a major rating agency – was very buoyant at \$5 billion in the fourth quarter, capping a strong year in which issuance (at \$24 billion) was nearly four times that of 2002. High-yield was another segment where euro area nationals were particularly active borrowers in 2003, at \$14 billion up by more than four times over 2002 (Graph 3.4).

High-yield issuance by euro area nationals is particularly strong

Issuance of equity-related bonds – convertible bonds and bonds with equity warrants – had a renaissance in the fourth quarter. On the back of



generally buoyant stock markets, activity in this category picked up sharply in the fourth quarter of 2003 after more than a year of stagnation to score more than \$15.9 billion on a net basis.

Asian markets drive fourth quarter emerging market borrowing

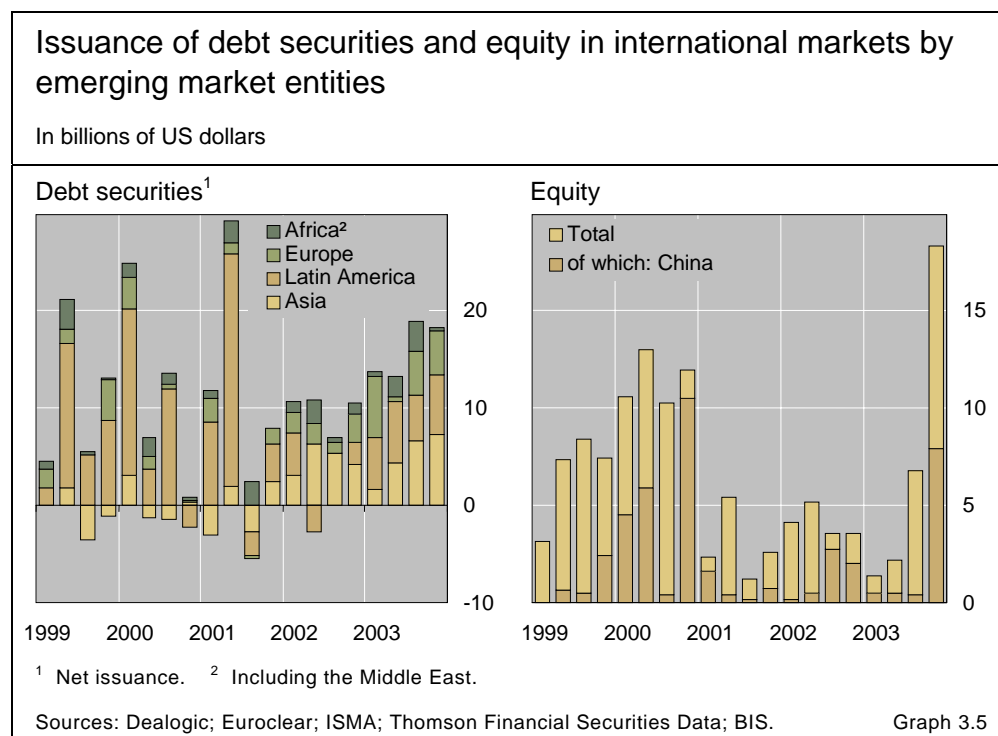
Continued robust emerging market borrowing ...

Investors' search for yield also appears to have supported the robust growth in emerging market borrowing. Backed by continuing benign financing conditions, issuance by emerging market entities remained brisk in the fourth quarter of 2003. Total net issuance stood at \$18.3 billion, of which the largest part was raised by entities in Asia (Graph 3.5).

... supported by Chinese entities ...

Fund-raising activity in international markets by Chinese entities was quite significant in the fourth quarter. Following an upgrade by Moody's in October from A3 to A2, the People's Republic of China returned to the international bond markets, after an absence of two and a half years, by launching a \$1 billion 10-year bond and a €400 million five-year bond. The issue reflected the Chinese government's efforts to ease other Chinese borrowers' access to international capital markets by establishing a pricing benchmark. The government had little need for foreign currency funding, given its rapid accumulation of foreign exchange reserves in recent quarters (see the Overview on page 1). Chinese financial institutions were also active in the market, with net borrowing amounting to \$1.7 billion. The country's largest state-owned commercial bank, Industrial and Commercial Bank of China, raised the largest amount: over \$500 million through its notes programme.

Mirroring developments in international debt securities markets, Chinese entities also tapped international capital markets to the tune of a remarkable



\$7.9 billion in the form of international equity instruments in the fourth quarter. The largest IPO (initial public offering) of the year was carried out by China Life, the country's largest life insurer, when it raised \$3.9 billion in Hong Kong and New York on 12 December. Boosted by this strong Chinese activity, international equity issues by emerging market entities totalled a record high of \$18.3 billion (Graph 3.5).

Other Asian entities took advantage of the benign financing conditions as well. The Republic of the Philippines raised \$1.3 billion in international debt securities markets through issuance of three bonds on very attractive terms. Net borrowing in Asia was further supported by buoyant activity by the Taiwanese corporate sector (\$2.0 billion) as well as Malaysian and Korean financial institutions (\$1.3 billion and \$2.0 billion respectively).

... as well as other Asian entities

In Latin America, net fund-raising picked up slightly in the fourth quarter, driven by increased Brazilian and Mexican borrowing. The Federative Republic of Brazil issued a \$1.5 billion seven-year note on 22 October, and Mexican borrowing rebounded as a result of greater activity by both the government and the corporate sector. On 14 October, the United Mexican States tapped the market for \$1 billion, issuing a 10¼-year dollar-denominated bond. An even larger issue was launched by the state-owned oil company Pemex, which monetised its entire 5% holding in the Spanish oil company Repsol YPF SA through a \$1.4 billion seven-year convertible bond. In addition to its heavy recourse to international debt securities markets, Pemex has also recently raised substantial amounts in the domestic market as well as in that for international syndicated credits (see the box on page 29).

Brazilian borrowers remain active

Other Latin American sovereigns were also present in the market. After an unusually high level of borrowing in the third quarter, the Bolivarian Republic of Venezuela continued to be active in the market in the fourth quarter. On 23 October, planned issuance of another \$350 million of a 10-year bond, of which \$700 million had already been placed in September, was increased to \$470 million as a result of favourable market conditions. A new 15-year bond with a face value of \$1 billion was launched only a month later. Another large sovereign placement was made by the Republic of Peru, which came to the market with a \$500 million 30-year bond in November after being absent for eight months.

Borrowing in emerging Europe was driven by Russian financial institutions and the Polish government. Sberbank, a state-owned Russian bank, raised \$1 billion in October with a three-year floating rate note shortly after an upgrade by Moody's of Russian sovereign debt to investment grade. The Republic of Poland raised \$1 billion with a 10¼-year bond in October, as favourable market conditions prompted higher issuance than the targeted \$500–750 million.

Russia obtains investment grade status

A sharp fall in net borrowing by South African entities was behind the reduced fund-raising in the Africa and Middle East region. This was only partly offset by a \$750 million 20-year bond issued by the State of Israel, as part of its funding programme guaranteed by the US Agency for International Development, and a \$700 million seven-year floating rate note issued by the State of Qatar (through a financing vehicle: Qatar Global Sukuk QSC), the

Qatar launches largest Islamic financing issue to date

highest-rated sovereign credit in the Middle East. The latter was Qatar's first Islamic bond¹ and the largest Islamic financing issue to date. Conventional investors took 48% of the final allocation, which was upsized from the target of \$500 million as a result of strong demand.

Emerging market borrowing strong in 2003

Issuance in 2003 at highest level since Asian crisis

The fourth quarter concluded a year of strong borrowing activity by emerging market entities in international debt securities markets. Total net borrowing in 2003 amounted to \$64.2 billion, the highest level since 1997. By far the largest amount, \$14.2 billion, was accounted for by Brazilian entities (Table 3.4).

The US dollar remains the preferred currency, with 80% of gross issuance being dollar-denominated, although in emerging Europe issuance of euro- and dollar-denominated international debt securities was evenly balanced.

Emerging market borrowers move early in 2004

Strong borrowing activity in early 2004 ...

Prompted by low borrowing costs, the beginning of 2004 has seen notable front-loading activity by emerging market borrowers, especially in Latin America and emerging Europe. Partial data from Dealogic Bondware show that announced issuance of bonds in January 2004 amounted to \$18.9 billion, the highest monthly figure since the Asian crisis and more than 30% above that of January 2003.

... led by Latin American sovereigns ...

Latin American sovereigns have been particularly active in early 2004. Large placements, often of longer-maturity securities that meet investors' search for yield, have been launched by the Federative Republic of Brazil

Net issuance of international debt securities by selected emerging market entities in 2003, by currency and nationality of borrower					
In billions of US dollars					
	US dollar	Euro	Yen	Other currencies	Total
Brazil	18.2	-1.6	-2.3	0.0	14.2
Korea	4.5	1.3	1.4	0.6	7.8
Taiwan, China	6.9	0.0	0.2	0.0	7.0
Russia	5.4	0.4	0.0	0.0	5.9
Poland	0.9	4.5	0.2	0.0	5.5
Mexico	4.2	1.1	-0.3	0.4	5.5
Philippines	4.0	0.3	-0.4	0.0	3.9
South Africa	2.0	0.8	0.0	-0.1	2.6
China	1.5	0.5	-0.3	0.6	2.3
Israel	2.0	0.0	0.0	0.0	2.1
Venezuela	2.7	-0.8	0.0	0.0	1.9

Sources: Dealogic; Euroclear; ISMA; Thomson Financial Securities Data; BIS. Table 3.4

¹ An Islamic bond is one that complies with Islamic law (sharia), which does not allow interest payments. Investors are instead redeemed via a share of the profit from the bonds sold.

(\$1.5 billion 30-year bond), the United Mexican States (\$1 billion five-year floating rate note and £500 million 20-year bond) and the Bolivarian Republic of Venezuela (\$1 billion 30-year bond). Other sovereigns with less frequent presence in the market have also taken advantage of the beneficial financing conditions. The Republic of Chile, the Republic of Costa Rica and the Government of Jamaica all wrapped up their entire 2004 external financing needs in January or early February.

Borrowing activity by emerging Europe in early 2004 has also been substantial, although much more concentrated on fewer sovereigns that have raised large amounts. As early as 14 January, the Republic of Turkey locked in the low funding costs by issuing a \$1.5 billion 30-year bond. In early February, this was followed up by a €1 billion 10-year bond less than two weeks after the Republic of Hungary covered one third of its financing need for 2004 through a similar placement. An even larger issue of a €1.5 billion five-year bond, however, had already been launched on 15 January by the Republic of Poland under its EMTN programme.

... and sovereigns in emerging Europe