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Highlights of international banking and financial market activity[1]

The BIS, in cooperation with central banks and monetary authorities worldwide, compiles and disseminates several datasets on activity in international banking and financial markets. The latest available data on the international banking market refer to the fourth quarter of 2007. The discussion on international debt securities and exchange-traded derivatives draws on data for the first quarter of 2008, and that on over-the-counter derivatives refers to the second half of 2007.

The international banking market

Activity in the international banking market continued to expand in the fourth quarter of 2007, despite the ongoing tensions in the interbank market. A significant portion of this increase was accounted for by new credit to emerging markets. In addition, there were large movements in reporting banks' liabilities to key emerging markets; while some central banks reduced their holdings of reserves in commercial banks, Middle East oil exporters deposited record amounts in banks abroad, as did the banking sector in China. Developments concerning international banking activity in the mature economies, and movements in the data related to the ongoing turmoil in financial markets, are discussed in detail in the special feature on page 31. The following discussion provides an overview of the changes in BIS reporting banks' positions vis-à-vis emerging economies during the second half of 2007.

Banks channel credit into emerging economies

Credit to borrowers in emerging economies surged in the fourth quarter of 2007, with record expansions in BIS reporting banks' claims on borrowers in Asia-Pacific and Africa and the Middle East (Graph 1). Total claims booked by BIS reporting banks grew by $1.2 trillion (21% growth year over year), the fifth consecutive quarterly expansion of $1 trillion or more. Claims on emerging economies accounted for a relatively large $232 billion (or 20% of the total

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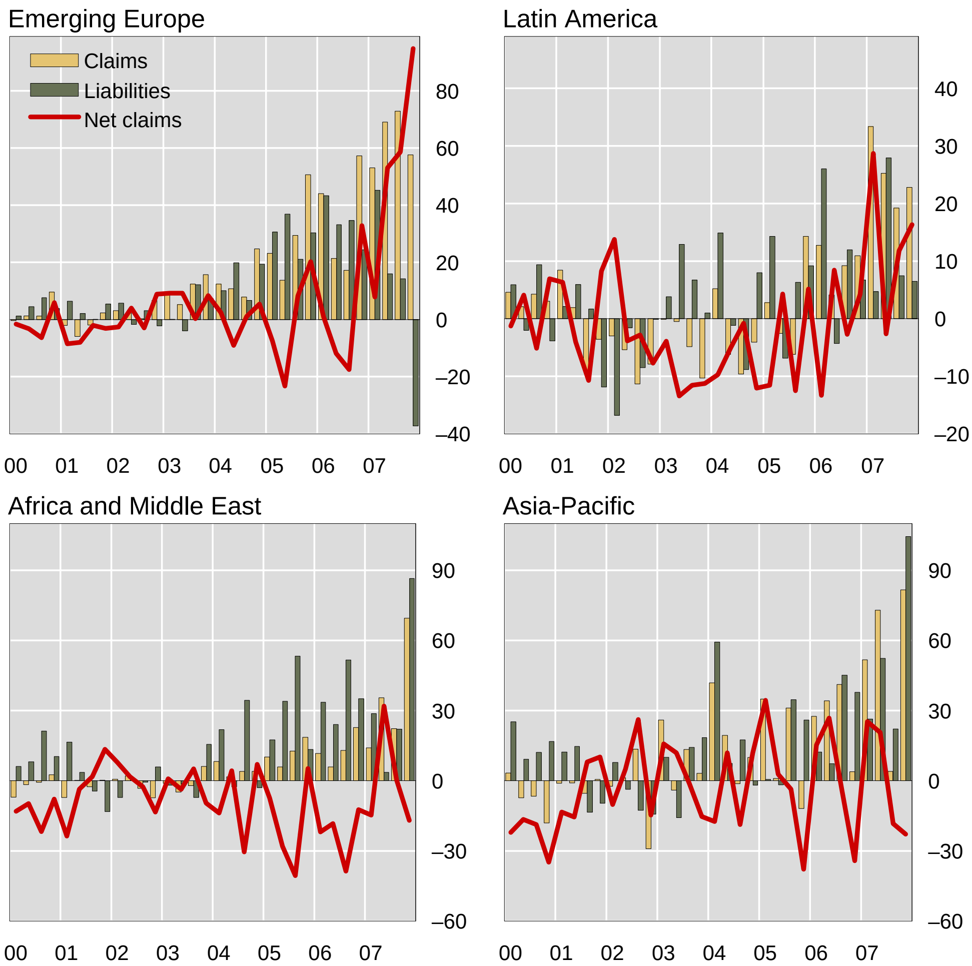
[1] Queries concerning the banking statistics should be addressed to Patrick McGuire and Goetz von Peter and queries concerning international debt securities and derivatives statistics to Naohiko Baba.

Banking flows to emerging markets[1]

In billions of US dollars



[1] Exchange rate adjusted quarterly changes in BIS reporting banks' positions vis-à-vis emerging markets aggregated by region (panel headings). Net claims are claims minus liabilities.

Source: BIS locational banking statistics. Graph 1

expansion), driving total claims on these borrowers to $2.6 trillion, or 7% of total claims (from 6% in the previous quarter and 5% in early 2005).

Oil-exporting countries

Surge in credit to oil-exporting countries ...

Credit to borrowers in Africa and the Middle East surged in the fourth quarter of 2007 (Graph 1, bottom left-hand panel). Total cross-border claims grew by $70 billion, the largest quarterly expansion vis-à-vis this region on record. Banks in the reporting area, primarily those in the euro area and the United Kingdom, channelled a combined $23 billion to borrowers in the United Arab Emirates, $10 billion to those in Saudi Arabia and $6 billion to those in Kuwait. Meanwhile, banks in the United States, which do not provide a country breakdown for their positions vis-à-vis Middle East oil exporters, also reported a rise of $15 billion in their aggregate claims.

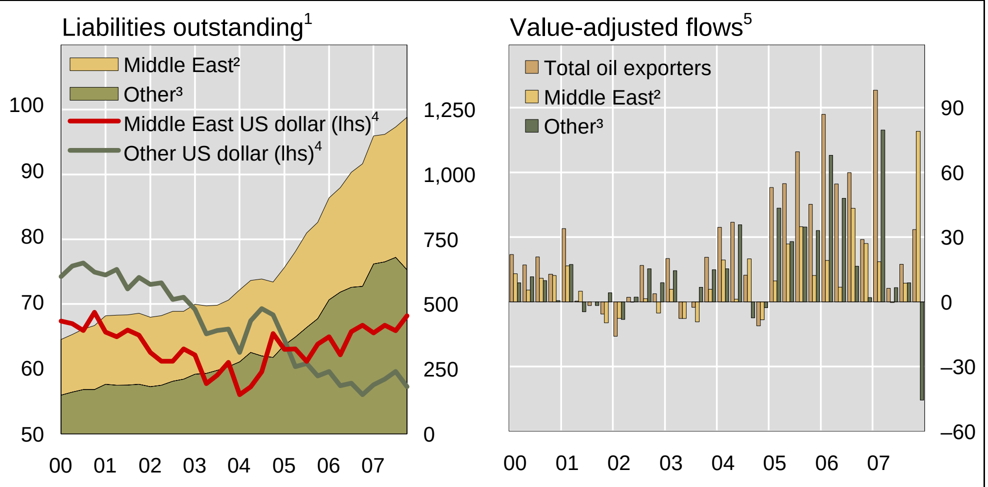
... offset by greater recycling of petrodollars

At the same time, residents of Middle East oil-exporting countries deposited significant amounts in offshore banks in the fourth quarter of 2007 (Graph 2), driving an overall net outflow from the region. BIS reporting banks' total liabilities grew by $80 billion, the largest quarterly increase in deposits vis-à-vis these countries on record. Much of this was US dollar-denominated, pushing up the estimated US dollar share of reporting banks' total liabilities to residents of these countries to 68% (from 66% in the previous quarter), the highest level since end-2000.[2] Banks in the United Kingdom and the euro area (primarily in the Netherlands) reported a $66 billion increase in liabilities, mainly to banks in Saudi Arabia and the United Arab Emirates.

In contrast to Middle East oil exporters, residents of Russia significantly reduced their deposits with banks in Europe (Graph 2, right-hand panel). BIS reporting banks' total liabilities to Russia fell by $55 billion, the largest withdrawal on record for that country, and only the third in five years. Banks in the euro area (primarily in Germany, France and Belgium) and in the United Kingdom all reported significant decreases. Overall, total euro-denominated liabilities fell by $21 billion and US dollar-denominated liabilities by $39 billion, leaving the estimated overall US dollar share of reporting banks' total liabilities to Russian residents at 45%, the lowest level since at least end-1993, when data on these positions became available. At least part of this overall reduction in the fourth quarter seemed to be the result of actions by the Russian central bank. Data on holdings of foreign exchange reserves reported by Russia to the IMF indicate that reserves held in banks abroad dropped by more than $17 billion in the fourth quarter (and by an additional $39 billion in the first quarter of 2008), while Russia's holdings of securities grew by $92 billion.

Deposit placements by oil-exporting countries

In billions of US dollars



[1] Stock of BIS reporting banks' liabilities to oil-exporting countries, expressed at constant Q4 2007 exchange rates. Lines represent the share of liabilities denominated in US dollars. [2] Bahrain, Egypt, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, Syria, the United Arab Emirates and Yemen. [3] Algeria, Angola, Ecuador, Indonesia, Kazakhstan, Mexico, Nigeria, Norway, Russia and Venezuela. [4] Based on data from the subset of countries which provide a currency breakdown. [5] Exchange rate adjusted quarterly change in liabilities.

Source: BIS locational banking statistics. Graph 2

[2] Roughly 17% of the total liabilities to Middle East oil exporters are reported by countries which do not provide a currency breakdown.

Asia-Pacific

Credit to residents of Asia-Pacific was also exceptionally strong in the fourth quarter of 2007 (Graph 1, bottom right-hand panel). Claims on the region grew by $82 billion, again the largest quarterly increase for this region on record, with $36 billion in new claims on residents of Korea. Banks in the United States reported a $15 billion increase in claims on banks in Korea in the fourth quarter (and a similar increase in liabilities), following a decrease of roughly the same size in the previous quarter. Greater international debt securities claims ($11 billion) on Korean entities, booked primarily by banks in the United Kingdom and in offshore centres, also contributed to overall claim growth. Elsewhere in the region, growth of credit to borrowers in India and China was also strong in the fourth quarter, rising by $18 billion and $9 billion respectively.

Banks in China deposit funds in banks abroad

Greater overall lending was outstripped by a large increase in deposits placed by residents in BIS reporting banks, yielding a net outflow of funds from the region. BIS reporting banks' liabilities to residents of China (primarily banks) grew by $61 billion in the third quarter of 2007, and by $72 billion in the fourth, the two largest quarterly increases for China on record. Banks in the United Kingdom and the euro area reported a combined increase of $38 billion in liabilities, while banks in the Asian offshore centres (Hong Kong SAR and Singapore) reported an even larger increase of $77 billion. These placements were mostly denominated in US dollars, pushing the US dollar share of BIS reporting banks' total liabilities to China to 77% at end-2007, from 64% at end-June 2007.[3]

In contrast to China, BIS reporting banks' liabilities to residents of India fell noticeably in the second half of 2007. Overall, liabilities declined by $42 billion, or 46%, from their end-June level of $90 billion. Only about half of this was denominated in US dollars, thus boosting the US dollar share of BIS reporting banks' liabilities vis-à-vis India to 67% (from 64% in the previous quarter and 55% at end-2006), the highest level since 1993.[4] This overall reduction in reporting banks' liabilities to India seemed to be at least in part related to activity conducted by the central bank. Data on holdings of foreign exchange reserves reported by India to the IMF show that reserves held in banks outside the country decreased by $36 billion in the second half of 2007, and by a further $10 billion in the first quarter of 2008.

Emerging Europe and Latin America

Credit to borrowers in emerging European countries continued to expand at a rapid pace in the second half of 2007. Cross-border claims on the region grew by no less than $130 billion (42% year on year), to stand at $899 billion.

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[3] These figures are based on positions reported by banks in those countries which provide a full currency breakdown, and in Hong Kong SAR, which provides a breakdown of US dollar positions only. In the fourth quarter of 2007, roughly 13% of reporting banks' total liabilities to China were reported by banks in countries which provide no information on the currency breakdown.

[4] In the fourth quarter of 2007, roughly 16% of reporting banks' total liabilities to India were reported by countries that provide no information on the currency breakdown.

Record net inflow of funds to emerging Europe

Greater credit, augmented by reduced liabilities to Russia (discussed above), contributed to a net inflow of $95 billion to the region in the fourth quarter, the largest on record (Graph 1, top left-hand panel). While two thirds of the overall net flow of funds was accounted for by Russia, several countries, including Poland, Ukraine, Turkey, Romania and Slovakia, attracted over $4 billion in net flows each, with the only substantial reduction in gross cross-border claims reported vis-à-vis residents of Cyprus ($3 billion).

Similarly, cross-border claims on Latin America also expanded in the fourth quarter, driving a net inflow of funds into the region. The rate of growth in total claims reached 34% year on year, in contrast to the negative growth seen as recently as 2005. As a result, the region has become a net borrower (with respect to international banks) for the first time since 2003. Claims on banks in Latin America, expanding at a rate of 75% per annum, accounted for nearly half of the inflow of $23 billion in the fourth quarter (Graph 1, top right-hand panel). Overall, banks channelled funds to borrowers in Brazil, Mexico and Chile, the largest borrowers in the region, with more than half (52%) of the new claims on Brazil being in the form of international debt securities.

Foreign claims on emerging economies from the creditor perspective

The expansion in claims on emerging economies evident in the BIS locational statistics is also reflected in the consolidated statistics.[5] Indeed, emerging markets attracted 92% of the overall increase in foreign claims (UR basis) in the fourth quarter of 2007. Credit to emerging markets (UR) expanded by $402 billion to stand at $4 trillion (or 14%) of BIS reporting banks' total foreign claims (up from 12% in early 2007).[6] Across regions, foreign claims on emerging Europe and Asia-Pacific expanded the most, accounting for 44% and 24%, respectively, of new credit to emerging markets.

Those banking systems with the most extensive local presence in emerging markets have also contributed most to the recent growth of foreign claims.[7] Graph 3 shows the national banking systems with the greatest foreign claims on various emerging market regions. Foreign claims (IB basis) on emerging Europe, at $1.5 trillion, are booked primarily by Austrian, German and Italian banks, reflecting both greater cross-border credit and foreign bank acquisitions (Graph 3, top left-hand panel). The three banking systems

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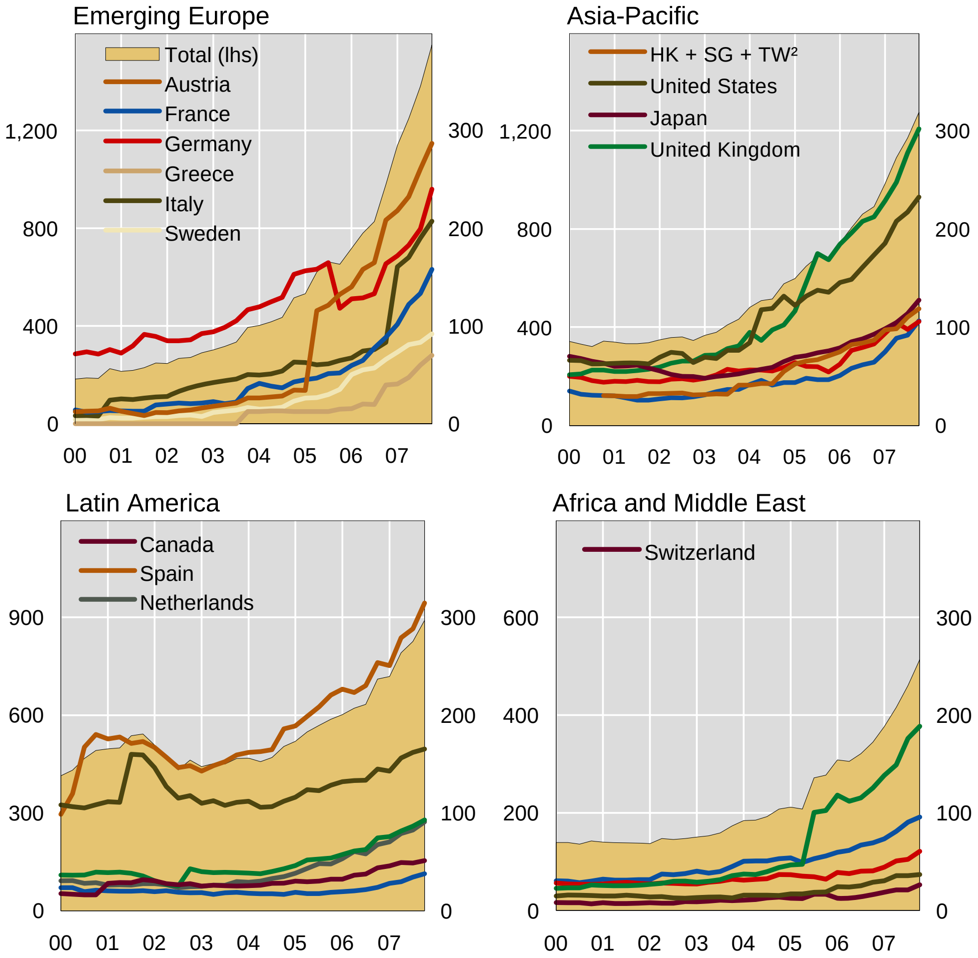
[5] The consolidated banking statistics are compiled according to the nationality of reporting banks, net out inter-office positions, and are available on an immediate borrower (IB) and an ultimate risk (UR) basis. Those available on a UR basis take into account third-party guarantees by allocating claims back to the residence of the ultimate obligor.

[6] Consolidated data are not adjusted for exchange rate changes, as currency breakdowns are not reported. The depreciation of the US dollar in recent quarters tends to overstate end-of-period stocks of other currencies when expressed in dollars.

[7] Since foreign claims include local claims booked by local offices of foreign banks, they are considerably larger ($4 trillion, UR basis) than BIS reporting banks' cross-border claims on emerging markets ($2.6 trillion). Local claims account for a stable 55% of worldwide foreign claims on emerging markets, a higher share than for claims on advanced economies (44%). Local lending is particularly prevalent in Latin America (71% of total foreign claims, booked mostly by Spanish banks), followed by emerging Europe (55%), Asia-Pacific (50%) and Africa and the Middle East (41%).

Foreign claims on emerging markets[1]

In billions of US dollars



[1] Consolidated foreign claims (IB basis) on emerging markets grouped into four regions (panel headings), as reported by banks of the nationalities shown in the legends. Foreign claims consist of cross-border claims and local claims (ie claims booked by local offices of foreign banks). Foreign claims include loans and securities, but exclude contingent exposures such as credit commitments and guarantees. [2] Hong Kong SAR, Singapore and Taiwan (China) combined.

Source: BIS consolidated banking statistics on an IB basis. Graph 3

combined also accounted for half of the $302 billion of new credit extended to this region since mid-2007. Exposures of Greek and Swedish banks to emerging Europe have tripled since 2005, although from a lower level.

In the other three regions, the geographical proximity of bank headquarters appears to play a lesser role. UK and US banks combined have booked 45% of foreign claims on Asian emerging markets and nearly 40% of new credit since mid-2007. UK banks alone accounted for as large a share of foreign claims on Africa and the Middle East, both in claims outstanding and in recent flows. Similarly, in Latin America, Spanish banks make up 36% of foreign claims and 34% of recent flows, predominantly in the form of local claims.

The international debt securities market

Net issuance of bonds and notes decreases further …

Borrowing in the international debt markets remained broadly stagnant in the first quarter of 2008 amid the continued turmoil in financial markets. Net issuance of bonds and notes decreased to $360 billion, below even the level recorded in the third quarter of 2007, when the recent turmoil first hit global financial markets. That said, signs of recovery were evident in such segments as investment grade bonds and money market instruments. In particular, net issuance of money market instruments surged from –$24 billion to $153 billion in the first quarter of 2008, the largest net issuance on record.

… but recovery is evident in investment grade bonds and money market instruments

The fall in net issuance in bonds and notes came chiefly from the euro-denominated segment, which had rebounded in the fourth quarter of 2007. Net issuance of euro-denominated bonds and notes declined to $105 billion in the first quarter of 2008, almost half the level of the previous quarter. The most substantial decline was observed in Spain, followed by Ireland and France. For these countries, the fall was accounted for mostly by private financial institutions, possibly due in part to weakness in housing-related markets.

Stagnation was also evident across an array of other currency denominations. Net issuance of dollar-denominated bonds and notes decreased from $204 billion to $180 billion in the first quarter of 2008, while that of yen-denominated bonds and notes dropped from $14 billion to $6 billion. In the meantime, gross issuance of yen-denominated bonds by non-Japanese issuers in the Japanese local market (samurai bonds) continued to be active at $7 billion in the first quarter of 2008, up from $5 billion in the previous quarter.

The breakdown by nationality showed that the decrease in overall net issuance of bonds and notes was particularly marked in the countries hit by falling euro-denominated issuance mentioned above, ie Spain, Ireland and France (Graph 4, left-hand panel). The United Kingdom and the United States also showed pronounced declines. In contrast, countries such as Switzerland, Australia and Germany showed an increase.

By sector, both financial institutions and corporate issuers in the developed countries slowed net issuance, from $346 billion to $239 billion and from $85 billion to $54 billion respectively. In particular, net issuance of bonds and notes by private financial institutions in developed countries fell markedly, from $332 billion to $208 billion. In contrast, international institutions increased net issuance from $5 billion to $22 billion.

Gross issuance of investment grade bonds increases substantially

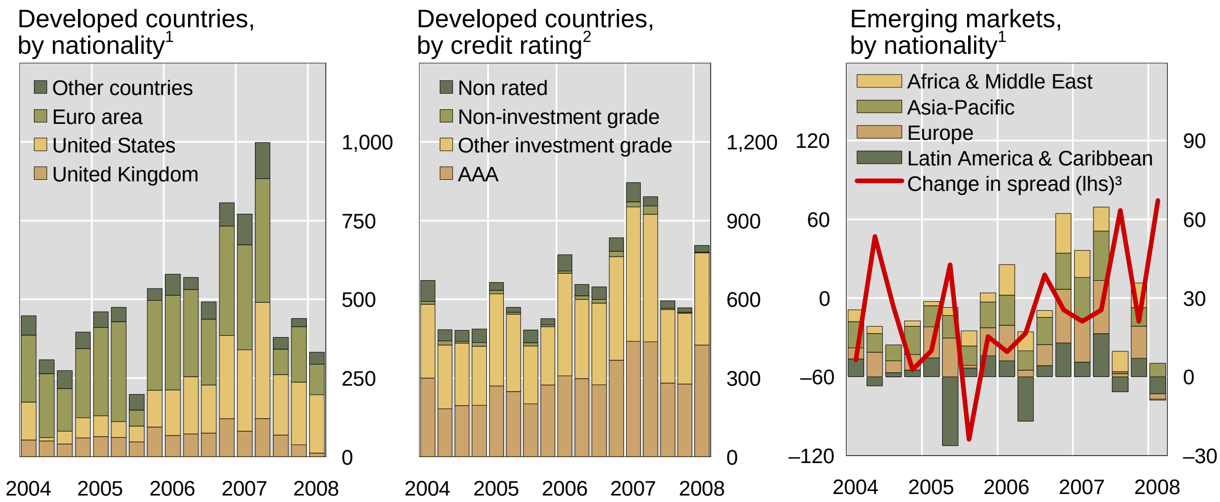
By credit quality class (for which only gross figures are available), there was a clear distinction in issuance patterns between investment grade and non-investment grade bonds (Graph 4, centre panel). Gross issuance of AAA-rated and other investment grade bonds increased to $426 billion and $352 billion from $278 billion and $270 billion respectively. The $426 billion of AAA-rated bond issuance is 59% higher than the five-year average up to 2007. Conversely, gross issuance of non-investment grade bonds declined further to $2 billion, a level not seen since the fourth quarter of 2002.

Mortgage-backed bonds continue to decline

Mortgage-backed bonds continued on a significant downtrend in the first quarter of 2008. Gross issuance of mortgage-backed bonds fell from the previous quarter’s $71 billion to $33 billion, the lowest level since the third

International bond and note issuance

In billions of US dollars and basis points



[1] Net issuance. [2] Announced bond issuance. [3] Quarterly change in spread of JPMorgan EMBI Global Composite index, in basis points.

Sources: Dealogic; Euroclear; Thomson Financial; Xtrakter Ltd; BIS. Graph 4

quarter of 2003. By nationality, the Netherlands recorded the largest decline, followed by the United States, Canada and Spain. Under these circumstances, the US government-sponsored agencies began to play a larger role in the international debt market. For example, Federal Home Loan Banks and Fannie Mae issued $97 billion and $60 billion in the first quarter of 2008, respectively, the highest gross issuance ever.

In the emerging economies, net issuance of bonds and notes fell into negative territory in the first quarter of 2008, coinciding with a significant widening of emerging market bond spreads, which had narrowed in the fourth quarter of 2007 (Graph 4, right-hand panel). The decline was particularly marked in emerging Europe, followed by Latin America and Africa and the Middle East.

Money market instruments record the largest net issuance ever

In sharp contrast to the continued stagnation in bonds and notes referred to above, money market instruments recorded an unprecedented surge in the first quarter of 2008. In particular, net issuance of commercial paper (CP) increased significantly, from –$88 billion to $76 billion. The largest increase was attributed to euro-denominated CP, which rose from –$65 billion to $68 billion. The main issuers were European financial institutions. This development is broadly in line with the market observation that CP investors began to recover risk tolerance, particularly towards euro-denominated CP issued by financial institutions with relatively high credit ratings.

Derivatives markets

Exchange-traded derivatives

Rebound in turnover of futures and options …

The first quarter of 2008 saw a large rebound in activity on the international derivatives exchanges. The total turnover based on notional amounts increased from the previous quarter's $539 trillion to $692 trillion in the latest quarter, the highest turnover on record. This resulted in year-on-year growth of 30%. Most of the increase was observed in derivatives on short-term interest rates. Gains in turnover were also seen in derivatives on long-term interest rates and foreign exchange. In contrast, turnover in derivatives on stock indices showed a slight decline, possibly reflecting overall weakness in stock markets in the first quarter of 2008. Furthermore, turnover in derivatives on commodities – which are not included in the above total since only the numbers of contracts are available – increased substantially, recording a year-on-year growth rate of 52%.

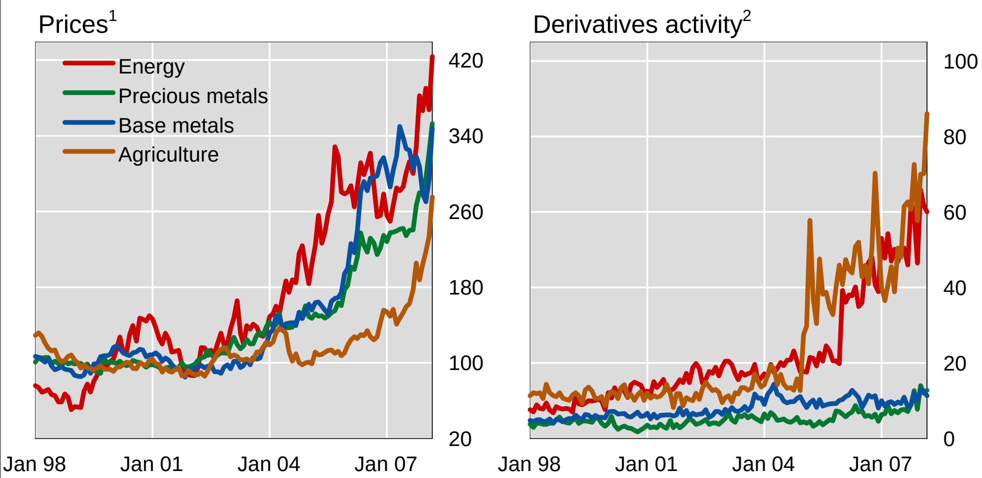
… particularly in derivatives on short-term interest rates

Turnover in derivatives on short-term interest rates rose from the previous quarter's $406 trillion to $548 trillion in the first quarter of 2008, representing a year-on-year growth rate of 32%. The increase was mostly accounted for by currency segments that had recorded a significant retreat in the fourth quarter of 2007. The US dollar and euro segments showed a substantially large rebound, while the sterling segment grew slightly. In particular, turnover in futures and options on three-month eurodollar rates picked up sharply again in the first quarter of 2008. This suggests that liquidity conditions in the term money markets might have recovered to some extent after the stressful 2007 year-end. In contrast, turnover in futures and options on federal funds rates fell, despite the policy rate cuts in the United States.

Trading recovered in the foreign exchange segment of the derivatives exchanges as well. Turnover went up from $6.0 trillion to $6.7 trillion in the first quarter of 2008, representing a year-on-year growth rate of 32%. The increase was attributed largely to the euro, yen and Swiss franc, and offset a decline in currencies such as the Canadian dollar and sterling.

On the other hand, activity in equity derivatives fell slightly in the first quarter of 2008 to $73 trillion from $75 trillion in the previous quarter, although the year-on-year growth rate was still high at 22%. By currency denomination,

Commodity prices and derivatives activity



[1] S&P GSCI Commodity Index subindices, monthly averages; 1998–2002 average = 100. [2] Exchange-traded derivatives; number of contracts traded, in millions.

Sources: Datastream; BIS. Graph 5

Korean won-denominated equity derivative contracts declined the most, followed by Indian rupee and sterling contracts. Conversely, the largest increase came from euro-denominated contracts, followed by US dollar and Canadian dollar contracts.

Commodity derivatives continue to be robust

Trading in commodity futures and options continued to be robust in the first quarter of 2008. Global turnover in commodity derivatives measured in numbers of contracts (notional amounts are not available) grew from 420 million to 489 million, representing a year-on-year growth rate of 52%. Major contributors were agricultural and energy products. In the past several years, the volume of trading activity in derivatives on agricultural and energy products has tended to move with the level of their prices substantially more than has been the case with other commodity derivatives (Graph 5).

OTC derivatives

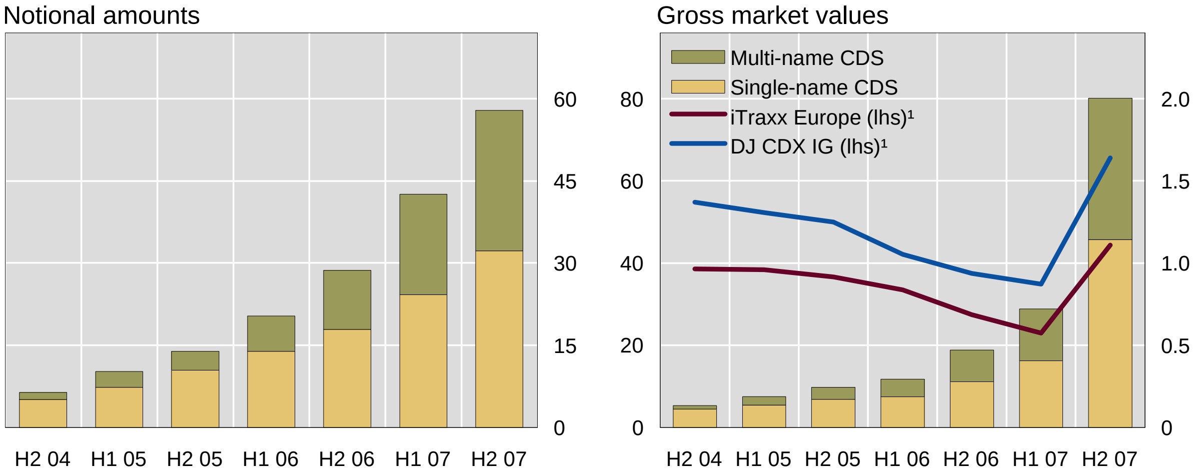
Steady growth in OTC derivatives

Despite the continued turmoil in global financial markets, the over-the-counter (OTC) derivatives market showed relatively steady growth in the second half of 2007. Growth was particularly strong in the credit segment, due possibly to heightened demand for hedging credit exposure. Notional amounts of all categories of OTC contracts increased by 15% to $596 trillion at the end of December, following a 24% increase in the first half of the year.[8] Other segments, including markets for foreign exchange, interest rates and commodity derivatives, were also robust, each recording double digit growth, while the equity segment posted a negative growth rate.

Gross market values, which measure the cost of replacing all existing contracts, increased by 30% to a total of $15 trillion at the end of December 2007. In particular, gross market values of credit default swaps (CDS) almost

Credit default swaps

In trillions of US dollars



[1] Investment grade CDS indices; five-year on-the-run mid-spread; average of daily spreads, in basis points.

Sources: JPMorgan Chase; BIS. Graph 6

[8] Growth rates for OTC derivatives refer to changes over six months.

tripled to $2 trillion. Gross credit exposures, after netting agreements, also rose, by 22% to a total of $3 trillion.

Strong growth in CDS positions amid the turmoil

Notional amounts of CDS continued to expand, by 36% in the second half of 2007 to $58 trillion, slowing from the 49% growth rate recorded in the first half of the year (Graph 6, left-hand panel). Gross market values of CDS registered a growth rate of 178% in the second half of the year, rising to $2 trillion, which was much higher than the growth rate of 53% in the first half of the year (Graph 6, right-hand panel). This unprecedented rapid growth in gross market values presumably reflected both higher valuations for existing CDS contracts and new CDS contracts in the second half of the year, amid the turmoil in global financial markets.

Notional amounts of OTC foreign exchange derivatives grew solidly at a rate of 16% in the second half of 2007, slightly below the 21% recorded in the first half. By currency, contracts with one leg denominated in US dollars, euros, yen or Swiss francs showed particularly robust growth rates of between 16 and 21%. By maturity, contracts of over five years increased substantially, by 104%. Gross market values of OTC foreign exchange derivatives in total recorded a growth rate of 34%, significantly above the 6% in the first half. By currency, euro, sterling and US dollar derivatives grew rapidly, by 73%, 50% and 32% respectively, while yen contracts fell by 5%.

For other categories, the notional amounts of OTC interest rate derivatives grew modestly, by 13%. By contrast, the notional amounts of OTC equity derivatives decelerated rapidly, from a growth rate of 15% in the first half of 2007 to –1% in the second half of the year, the lowest pace of growth since the second half of 2004.

An update on local currency debt securities markets in emerging market economies

Michael Pomerleano and Karsten von Kleist

The Committee on the Global Financial System (CGFS) released a report on local currency debt markets in June 2007 (hereafter CGFS (2007)),[①] and mandated the BIS to once a year update key statistics with a view to regularly publishing data on remaining and original maturity and on the structure of domestic debt instruments for a broader set of emerging market economies (EMEs). This box summarises the data reported for 2006 and 2007 against the backdrop of overall growth trends in local currency debt securities markets in EMEs; longer time series and detailed country data are available on the BIS website (www.bis.org/statistics/secstats.htm).

Overall, emerging local currency debt securities markets grew rapidly in the period 2005–07. Stocks of domestic debt securities, which proxy local currency debt outstanding, expanded,[②] at an annual rate of 23% in current US dollar terms (Table A, last column). Growth rates excluding exchange rate effects on outstanding stocks have been somewhat lower, reflecting the appreciation of local currencies against the US dollar. The average growth based on these adjusted changes was 18%.

Changes in stocks of domestic debt securities:[1] all issuers

In billions of US dollars and per cent

	2005	2006	2007	2007 stocks	Annual growth, FX-adjusted[2]	Annual growth at current exchange rates [2, 3]
Asia	406.8	432.5	653.1	3,908.9	19%	23%
Latin America	229.7	279.7	91.2	1,647.0	17%	29%
Central Europe	21.1	21.1	20.9	337.1	9%	16%
Other EMEs	28.9	21.5	15.0	381.4	7%	8%
Total	686.5	754.8	780.2	6,274.4	18%	23%

This table updates Table C3 in CGFS (2007), and includes money market instruments. The detailed country data are provided on the BIS website (www.bis.org/statistics/secstats.htm).

[1] Bonds, notes and money market instruments issued by residents and targeted at resident investors. The changes in stocks have been calculated in original local currencies by country and converted into US dollar amounts at quarterly average exchange rates, to arrive at net changes which exclude the effect of movements in the US dollar on the outstanding stock of debt. [2] Geometric average of 2005–07 growth rates. [3] In US dollar terms, at current exchange rates.

Sources: National authorities; BIS. Table A

Asia remains the region with the largest and, at an annual growth rate of 19% (FX-adjusted), fastest-growing bond markets. There were strong increases in China (34%) and India (27%) in 2007. Local debt in Asia was boosted in particular by greater debt securities issuance by central banks accumulating foreign exchange reserves. Outstanding short-term central bank sterilisation debt securities rose by a further $172 billion in China during 2006–07, compared with a $273 billion increase for 2000–05.[③] The central banks of Thailand and Indonesia issued around $13 billion and $7 billion net respectively in 2007, while Korea repaid a net $9 billion of central bank bonds.

In Latin America, domestic debt outstanding rose 29% in current US dollar terms over the period 2005–07, but only 17% in constant dollar terms. In central Europe, exchange rate appreciation also accounted for a large part of the nominal increase in outstanding debt securities. Growth in local currency terms amounted to only about 9%.

There are signs that the structure of domestic bond markets (which deal in securities with a maturity of over one year) in EMEs is converging towards that of developed countries. The share of straight fixed rate debt has risen since 2000, especially in Latin America. At the same time, the share of floating rate debt has declined. For instance, EMEs in Asia have almost totally phased out floating rate debt, which in 2000 had still accounted for 8%. As a result, exposure to movements in short-term interest rates appears reduced in many countries.

Moreover, currency-linked debt has been phased out in a number of countries in Latin America, especially Brazil, as part of macroeconomic policies aimed at reducing vulnerability to external shocks. Consequently, currency mismatches, an exacerbating factor in many earlier crises, have been substantially reduced. Even so, some countries in the survey maintain a significant share of currency-linked debt, including Peru (although the share has fallen, from a high of 42% in 2000 to 14% in 2007) and Argentina (where that form of debt has recently increased slightly to a share of 23%). In Venezuela, the share of currency-linked debt has gone up sharply. Inflation-linked bonds have, however, increased in Latin America, from 13% in 2000 to 25% in 2007.

Maturity of domestic central government debt outstanding[1]

Average original[2] and remaining maturity in years

	2005		2006		2007	
	Original	Remaining	Original	Remaining	Original	Remaining
Latin America	7.5	3.9	13.7	4.0	13.6	4.4
Of which:						
Brazil	...	2.3	...	2.6	...	3.0
Mexico	...	3.4	...	4.4	...	5.9
Asia, larger economies	10.1	7.0	11.2	6.9	10.9	7.1
Of which:						
India	14.0	10.0	16.9	10.0	14.7	10.0
Korea	6.1	4.1	6.6	4.2	7.0	4.4
Other Asia	8.0	5.5	9.1	5.6	10.1	7.0
Of which:						
Indonesia	7.6	7.6	11.5	7.1	13.3	12.7
Malaysia	8.6	5.0	8.4	5.2	10.0	5.4
Central Europe	6.6	4.0	7.4	4.4	8.1	4.6
Of which:						
Hungary	...	4.1	...	4.3	...	4.7
Poland	6.2	3.6	6.9	3.9	8.0	4.3
Other	7.9	4.4	8.3	4.4	8.2	4.0
Of which:						
Turkey	4.3	2.1	4.7	2.4	4.9	2.0
South Africa	16.0	8.1	16.8	8.3	17.3	8.3
Total	8.8	5.0	10.1	5.1	10.1	5.3

[1] This table updates Table D4 in CGFS (2007). It includes bonds, notes and money market instruments. Regional totals are based on the countries listed in Table D4 and weighted by the corresponding amounts outstanding. [2] These estimates should be regarded as indicative and may not be strictly comparable across countries. The detailed country data are available on the BIS website (www.bis.org/statistics/secstats.htm).

Sources: CGFS Working Group survey; BIS. Table B

The gradual extension of the maturity of central government domestic debt has continued through a general lengthening of the residual maturity of fixed rate bonds (Table B). In Asia, a significant lengthening of residual maturity of Indonesian debt is particularly notable. There has been a further extension in the average residual maturity in the case of Brazil (to three years) and Mexico (to six years). However, the residual maturity of Turkey’s debt has fallen to only two years.

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① “Financial stability and local currency bond markets”, *CGFS Publications*, no 28, June 2007 (www.bis.org/publ/cgfs28.htm). ② The data collected on the basis of the CGFS report include local currency issuance by non-residents. ③ CGFS (2007), Table D5.