

3. The international debt securities market

The global economic slowdown seems to have dampened demand for new international financing even in a market with receptive investors. Net issuance in the international debt securities market fell to \$260 billion during the second quarter of 2001, down 15% from \$305 billion in the previous quarter (Table 3.1). The second quarter witnessed a decline in net issuance of longer-term securities (bonds and notes) and a continuation of the slowdown of net issuance of money market instruments. There was a particularly sharp fall in net issuance by financial institutions. The main exception to the pattern of retrenchment was emerging market borrowers as a group, whose net issuance continued to recover during the second quarter of 2001 from an unusually depressed final quarter of 2000.

In sharp contrast to the behaviour of net borrowing, gross announced issuance of international bonds and notes, at \$543 billion, remained strong during the second quarter of 2001 (Table 3.2). In fact, gross issuance for the first six months of the year was an all-time high. Much of the gross issuance in the two quarters was apparently driven by a demand for refinancing, with total repayments surging to a record amount over the same period. The refinancing might have reflected a desire amongst borrowers to lock in relatively low long-term financing costs at a time when access to commercial paper markets was difficult for low-quality issuers.

Slower economic growth leads to declining net issuance

Net issuance of longer-term securities declines ...

Net issuance of longer-term securities (bonds and notes) fell to \$249 billion during the second quarter of 2001 from \$290 billion in the first. There was a particularly sharp fall in net floating rate issues, which declined by 27% to \$57 billion, the lowest level since the final quarter of 1998. There was also a marked decline in the net issuance of straight fixed rate bonds and notes over the same time period, from \$208 billion to \$184 billion. Gross issuance of straight fixed rate bonds and notes also fell during the second quarter of 2001, but nevertheless remained near its all-time high (Graph 3.1, left-hand panel).

The fact that declining net issuance of bonds and notes was accompanied by a narrowing of credit spreads in long-term debt markets (see the

Main features of net issuance in international debt securities markets

In billions of US dollars

| | 1999 | 2000 | | | | 2001 | | Stocks at end-June 2001 |
|---|---------|---------|-------|-------|-------|--------|--------|-------------------------|
| | Year | Year | Q2 | Q3 | Q4 | Q1 | Q2 | |
| Total net issues | 1,230.1 | 1,233.9 | 319.8 | 304.5 | 323.2 | 305.1 | 259.7 | 6,698.8 |
| Money market instruments ¹ | 66.4 | 86.5 | 24.4 | 14.9 | 45.9 | 15.5 | 10.3 | 356.1 |
| <i>Commercial paper</i> | 44.3 | 49.3 | 10.6 | 12.1 | 27.1 | 16.2 | 7.0 | 245.1 |
| Bonds and notes ¹ | 1,163.7 | 1,147.4 | 295.4 | 289.7 | 277.3 | 289.5 | 249.3 | 6,342.7 |
| <i>Floating rate issues</i> | 334.1 | 386.2 | 110.1 | 89.9 | 102.6 | 77.5 | 56.6 | 1,645.7 |
| <i>Straight fixed rate issues</i> | 798.5 | 743.7 | 181.5 | 198.8 | 164.7 | 208.3 | 183.7 | 4,449.9 |
| <i>Equity-related issues</i> | 31.1 | 17.6 | 3.8 | 1.0 | 10.0 | 3.8 | 9.0 | 247.1 |
| Developed countries | 1,153.6 | 1,151.8 | 303.1 | 282.3 | 309.5 | 293.6 | 238.5 | 5,780.5 |
| <i>Euro area</i> | 508.2 | 555.6 | 149.3 | 129.9 | 145.1 | 136.5 | 94.0 | 2,332.3 |
| <i>Japan</i> | 2.7 | – 29.9 | – 1.3 | – 9.0 | – 6.3 | – 6.4 | – 0.8 | 267.3 |
| <i>United States</i> | 482.2 | 465.7 | 111.8 | 138.4 | 124.2 | 149.4 | 118.0 | 2,009.7 |
| Offshore centres | 11.1 | 18.8 | 3.8 | 6.7 | 6.7 | 7.2 | 5.5 | 86.3 |
| Emerging economies | 40.8 | 41.5 | 6.3 | 13.3 | – 0.9 | 6.4 | 9.9 | 464.1 |
| International institutions | 24.6 | 21.7 | 6.7 | 2.2 | 7.9 | – 2.2 | 5.7 | 367.9 |
| Private sector | 1,010.8 | 970.8 | 276.6 | 228.4 | 262.0 | 247.9 | 200.7 | 4,995.2 |
| <i>Financial institutions²</i> | 657.6 | 669.3 | 185.4 | 135.6 | 184.0 | 153.2 | 110.7 | 3,268.2 |
| <i>Corporate issuers</i> | 353.2 | 301.5 | 91.2 | 92.8 | 78.0 | 94.6 | 90.0 | 1,727.0 |
| Public sector ³ | 194.7 | 241.4 | 36.5 | 73.9 | 53.3 | 59.4 | 53.3 | 1,335.8 |
| <i>Central government</i> | 37.0 | 50.5 | 12.7 | 8.3 | – 3.5 | 6.6 | 7.7 | 483.8 |
| <i>State agencies and other</i> | 157.7 | 190.9 | 23.8 | 65.6 | 56.9 | 52.8 | 45.6 | 852.0 |
| <i>Memo: Domestic CP⁴</i> | 341.7 | 256.3 | 72.1 | 39.7 | 114.8 | – 56.9 | – 66.9 | 1,916.6 |
| <i>of which: US</i> | 232.8 | 208.3 | 54.9 | 35.6 | 42.5 | – 63.1 | – 67.9 | 1,471.1 |

¹ Excluding notes issued by non-residents in the domestic market. ² Commercial banks and other financial institutions. ³ Excluding international institutions. ⁴ Data for the second quarter of 2001 are preliminary.

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

Overview (Section1)) suggests that the decline was driven by a weakening of the demand for funds by borrowers during the second quarter of 2001. The behaviour of gross bond issuance across rating categories is consistent with this demand side story. Announced issuance declined during the second quarter of 2001 across all rating categories (Graph 3.1, right-hand panel), while the proportion of issuance in each category remained approximately the same as in the previous quarter. Thus, the decline in net issuance of longer-dated securities does not appear to be the result of decreased market access even for lower-rated borrowers. The share of bond announcements in the non-investment grade remained at 1% of the total, and that of announced AAA issues near 20%.

... as the demand for funds weakens ...

In contrast to the long-term securities market, the behaviour of issuance in the money market reveals the effect of both demand side and supply side forces. Net issuance of money market instruments in the international market declined further during the second quarter of 2001 to \$10 billion from \$16 billion in the previous quarter, with net issuance of commercial paper (CP), the largest component of money market instruments, falling by 57% to

... leading also to a fall in money market financing

\$7 billion over the same period. There was also a continued contraction of domestic CP markets. Net domestic issuance in the United States fell by \$68 billion between the first and second quarters of 2001, the largest ever decline. As noted in the previous issue of the *BIS Quarterly Review*, a number of credit downgrades, which prevented some firms from accessing the CP market, had previously contributed to a decline in net CP issuance. The protracted fall in net CP issuance suggests that this factor is continuing to have an impact on the market, in addition to the generalised decrease in the demand for funds associated with the global economic slowdown.

Borrowing by financial institutions falls sharply

Fall in net issuance by financial institutions accounts for overall decline

Net issuance of international debt securities by the private sector fell from \$248 billion to \$201 billion between the first and second quarters of 2001. This decline accounted for most of the overall fall in total net issuance in the international debt securities market over this period. The contraction is almost entirely attributable to reduced issuance by financial institutions: during the second quarter of 2001, net issuance by financial institutions totalled \$111 billion, down by 28% from the first quarter of 2001 and 40% compared

Gross issuance in the international bond and note markets

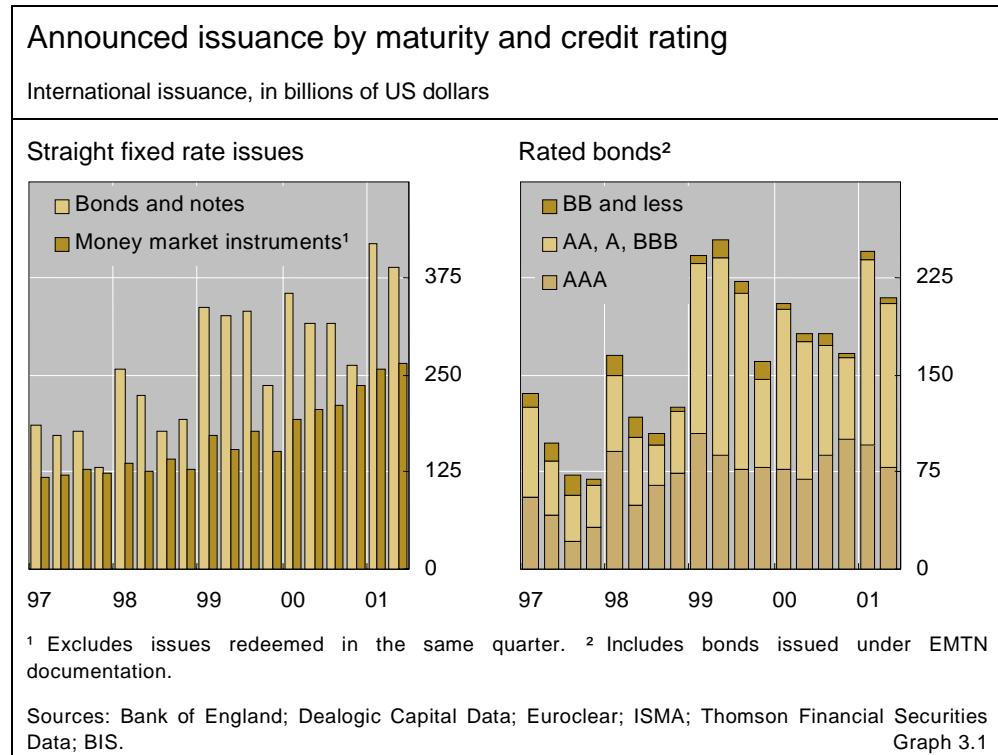
In billions of US dollars

| | 1999 | 2000 | | | | 2001 | |
|--|---------|---------|-------|-------|-------|-------|-------|
| | Year | Year | Q2 | Q3 | Q4 | Q1 | Q2 |
| Total announced issues | 1,766.6 | 1,933.2 | 484.5 | 502.2 | 438.3 | 570.2 | 543.3 |
| Floating rate issues | 483.8 | 624.2 | 157.0 | 168.3 | 161.0 | 139.9 | 138.9 |
| Straight fixed rate issues | 1,230.7 | 1,252.4 | 315.5 | 317.4 | 263.5 | 418.3 | 387.9 |
| Equity-related issues ¹ | 52.1 | 56.5 | 11.9 | 16.5 | 13.8 | 12.1 | 16.6 |
| US dollar | 775.4 | 859.2 | 206.6 | 240.7 | 194.9 | 263.1 | 249.2 |
| Euro | 677.8 | 647.8 | 153.1 | 150.7 | 157.2 | 214.6 | 193.9 |
| Yen | 118.9 | 204.4 | 76.0 | 51.1 | 28.1 | 36.4 | 51.3 |
| Other currencies | 194.6 | 221.8 | 48.7 | 59.8 | 58.1 | 56.1 | 48.9 |
| Private sector | 1,374.6 | 1,500.5 | 397.3 | 380.1 | 347.8 | 427.7 | 408.5 |
| <i>Financial institutions</i> ² | 900.0 | 1,021.3 | 251.8 | 249.6 | 243.9 | 274.1 | 253.0 |
| <i>Corporate issuers</i> | 474.6 | 479.2 | 145.5 | 130.5 | 103.9 | 153.5 | 155.5 |
| <i>of which: telecoms</i> | 84.3 | 115.7 | 46.7 | 25.0 | 19.3 | 49.2 | 32.4 |
| Public sector | 314.2 | 362.0 | 66.7 | 107.7 | 75.2 | 125.7 | 111.6 |
| <i>Central government</i> | 94.0 | 93.0 | 18.7 | 23.7 | 4.7 | 28.5 | 20.8 |
| <i>State agencies and other</i> | 220.2 | 269.0 | 48.0 | 84.0 | 70.5 | 97.2 | 90.8 |
| International institutions | 77.8 | 70.7 | 20.4 | 14.5 | 15.3 | 16.9 | 23.2 |
| Completed issues | 1,771.0 | 1,935.0 | 485.2 | 500.8 | 474.1 | 559.1 | 520.2 |
| Repayments | 607.3 | 787.6 | 189.8 | 211.1 | 196.7 | 269.6 | 270.8 |

¹ Convertible bonds and bonds with equity warrants. ² Commercial banks and other financial institutions.

Sources: Bank of England; Dealogic Capital Data; Euroclear; ISMA; Thomson Financial Securities Data; BIS.

Table 3.2



with the final quarter of 2000. In contrast, net non-financial corporate issuance fell only slightly between the first and second quarters of 2001, from \$95 billion to \$90 billion. That net issuance by non-financial corporations did not fall further is perhaps surprising given the reduced financing needs of telecommunications companies. Gross issuance by telecoms fell to \$32 billion during the second quarter of 2001 from \$49 billion in the previous one.

The decline in net issuance by financial institutions was limited to the developed countries, in particular the United States and Germany. Net issuance by financial institutions in the United States declined from \$55 billion in the first quarter of 2001 to \$35 billion in the second, and in Germany from \$32 billion to \$11 billion. In both cases, the fall in net borrowing was mostly attributable to a fall in new announcements rather than a rise in repayments.

Emerging markets buck the trend

Emerging market borrowers as a group increased their presence in the international debt securities market during the second quarter of 2001. Their net issuance increased from \$6 billion during the first quarter to \$10 billion in the second. However, given the turmoil that hit emerging economies in July (see the Overview), the return to more normal levels of issuance by these countries is unlikely to be sustained. Moreover, the increase was almost entirely accounted for by the activities of Asian borrowers, whose net issuance rose to \$1.2 billion during the second quarter after contracting by \$3.3 billion in the first. China alone accounted for \$2 billion of the increase in net borrowing

Issuance by emerging markets increases ...

with \$2.3 billion in new announcements. In contrast, Turkey was completely shut out of the international debt securities market during the second quarter.

... in some cases even in adverse market conditions

Some emerging market countries were able to float new issues, even while facing adverse market conditions. For instance, Argentina swapped \$29 billion of debt coming due for longer-term securities. In July, the Federative Republic of Brazil raised ¥200 billion with a two-year samurai deal, which was priced with a semiannual coupon of 3.75%.

European issuers avoid the dollar

Net dollar and euro issuance declines ...

The economic slowdown in North America and Europe contributed to declining net issuance of both US dollar and euro-denominated securities, which each fell by about 20%. Net dollar issuance by North American and European borrowers declined, in the latter case to a very low \$11 billion, but rose among issuers based in other regions. Net euro issuance suffered a more broad-based decline, falling across all regions.

The sharp decline of US dollar issuance by European borrowers reflected in part the reduced financing needs of telecommunications companies. Between the first and second quarters of 2001, issuance by European telecoms, which often issue dollar-denominated securities, declined sharply along with issuance by telecoms generally.

In contrast, net issuance of yen-denominated securities, after being negative for two quarters, increased strongly across all regions during the

| Net issuance of international debt securities by currency and region ¹ | | | | | | | |
|---|------------------|--------|--------|-------|-------|-------|-------|
| In billions of US dollars | | | | | | | |
| | 1999 | 2000 | | | | 2001 | |
| | | Year | Year | Q2 | Q3 | Q4 | Q1 |
| Europe | US dollar | 58.7 | 174.8 | 39.3 | 43.0 | 54.3 | 24.5 |
| | Euro | 503.0 | 406.7 | 106.8 | 74.2 | 112.6 | 119.9 |
| | Yen | 6.4 | 38.9 | 31.0 | 7.4 | – 3.5 | – 7.7 |
| | Other currencies | 75.4 | 87.3 | 15.9 | 24.5 | 26.2 | 15.9 |
| North America | US dollar | 434.5 | 380.6 | 91.1 | 116.3 | 100.5 | 121.9 |
| | Euro | 46.3 | 45.3 | 8.7 | 16.0 | 12.7 | 19.2 |
| | Yen | – 1.3 | 16.6 | 4.9 | 3.4 | 2.9 | 2.7 |
| | Other currencies | 16.5 | 15.5 | 1.0 | 3.5 | 8.4 | 4.1 |
| Others | US dollar | 52.8 | 63.0 | 17.5 | 14.1 | 7.9 | 3.9 |
| | Euro | 37.9 | 14.0 | 4.6 | 1.5 | 2.3 | 4.8 |
| | Yen | – 12.2 | – 22.4 | – 3.8 | – 2.9 | – 5.4 | – 4.5 |
| | Other currencies | 12.1 | 13.5 | 2.9 | 3.5 | 4.4 | 0.3 |
| Total | US dollar | 546.0 | 618.4 | 147.9 | 173.5 | 162.7 | 150.3 |
| | Euro | 587.2 | 466.0 | 120.1 | 91.7 | 127.5 | 143.9 |
| | Yen | – 7.0 | 33.1 | 32.1 | 7.9 | – 6.0 | – 9.4 |
| | Other currencies | 104.0 | 116.4 | 19.8 | 31.4 | 39.0 | 20.3 |

¹ Based on the nationality of the borrower.

second quarter of 2001 to reach \$11 billion. Almost 75% of the increase in net issuance can be attributed to borrowers based in Europe and Japan. In the latter case net issuance of yen-denominated securities increased from -\$3 billion to \$3 billion. This paralleled a rise in net issuance generally by Japanese borrowers during the second quarter, but total Japanese net issuance nevertheless remained negative for the quarter.