

3. The international debt securities market

Demand for international financing slowed further during the third quarter of 2001 against the backdrop of the global economic downturn. In that quarter, net issuance in the international debt securities market fell almost 40% to \$169 billion (Table 3.1). It declined across the maturity spectrum, as well as across economic areas and business classifications. Net issuance by financial institutions fell particularly sharply, continuing a pattern documented in the last *BIS Quarterly Review*. Gross announced issuance in the international bond and note markets declined from \$533 billion to \$423 billion over the same period (Table 3.2).

Total repayments of international bonds and notes remained strong during the third quarter of 2001. The \$207 billion of repayments brought aggregate repayments for the first three quarters of the year to \$642 billion, the largest amount ever for a three-quarter period. This reflected both the steady increase in overall issuance in recent years, and a desire amongst borrowers with early redemption options to seek lower borrowing costs by refinancing their debt. Gross issuance of straight fixed rate issues fell sharply during the third quarter while that of floating rate issues actually increased slightly, suggesting that borrowers may have been more optimistic about additional declines in interest rates than lenders.

Net issuance continues to decline across the maturity spectrum

The global economic downturn led to a continuation of the decline in net issuance in the international debt securities market during the third quarter of 2001. This decline was seen across the maturity spectrum. At the short end, net issuance was actually negative for the second quarter in a row, with the outstanding stock of international money market instruments down by \$46 billion (Graph 3.1, left-hand panel). This followed a \$26 billion fall during the second quarter. The stock of commercial paper (CP) sold on the international market, the largest component of international money market instruments, fell by \$12 billion in the third quarter, the largest contraction ever recorded. In the US domestic CP market, there was an even sharper contraction, with the outstanding stock declining by \$58 billion, adding to the \$131 billion fall during the first half of the year.

Global downturn leads to decline in issuance ...

... especially of short-term instruments ...

Main features of net issuance in international debt securities markets

In billions of US dollars

	1999	2000		2001			Stocks at end-Sep 2001	
	Year	Year	Q3	Q4	Q1	Q2		Q3
Total net issues	1,241.2	1,246.0	317.5	312.6	325.3	277.4	168.7	7,085.1
Money market instruments ¹	135.6	152.1	42.3	46.6	2.2	- 26.2	- 46.3	416.4
<i>Commercial paper</i>	49.1	55.2	17.6	23.3	22.3	10.1	- 12.0	241.4
Bonds and notes ¹	1,105.6	1,093.8	275.1	265.9	323.0	303.5	214.9	6,668.6
<i>Floating rate issues</i>	293.6	358.7	78.0	90.3	85.7	70.5	72.8	1,700.4
<i>Straight fixed rate issues</i>	780.8	718.0	196.2	166.2	233.5	222.5	139.4	4,710.1
<i>Equity-related issues</i>	31.2	17.1	0.9	9.4	3.8	10.5	2.7	258.1
Developed countries	1,164.0	1,162.7	294.6	299.1	312.9	253.6	157.5	6,134.0
<i>United States</i>	483.2	465.5	140.0	121.2	153.1	119.8	94.6	2,124.6
<i>Euro area</i>	516.2	559.8	137.8	138.1	146.6	100.7	61.4	2,521.2
<i>Japan</i>	2.4	- 27.4	- 8.4	- 5.4	- 5.5	2.1	- 6.4	272.3
Offshore centres	11.2	18.9	6.8	6.6	7.4	5.6	4.1	91.5
Emerging economies	40.9	42.0	13.5	- 0.7	6.8	12.7	- 3.9	469.4
International institutions	25.1	22.3	2.6	7.6	- 1.8	5.5	10.9	390.2
Private sector	1,020.1	980.6	239.5	252.0	264.8	216.6	116.4	5,291.2
<i>Financial institutions²</i>	867.4	799.5	188.2	201.0	221.7	160.1	98.7	4,255.4
<i>Corporate issuers</i>	152.7	181.1	51.4	51.1	43.1	56.5	17.7	1,035.9
Public sector ³	196.0	243.0	75.3	53.0	62.2	55.3	41.4	1,403.6
<i>Central government</i>	37.5	51.3	8.7	- 3.6	8.5	7.7	- 2.9	498.2
<i>State agencies and other</i>	158.5	191.7	66.6	56.5	53.7	47.5	44.2	905.4
Memo: Domestic CP ⁴	361.6	256.2	40.3	124.8	- 53.8	- 63.8	- 59.2	1,894.5
<i>of which: US</i>	232.8	208.3	35.6	42.5	- 63.1	- 67.9	- 58.5	1,412.6

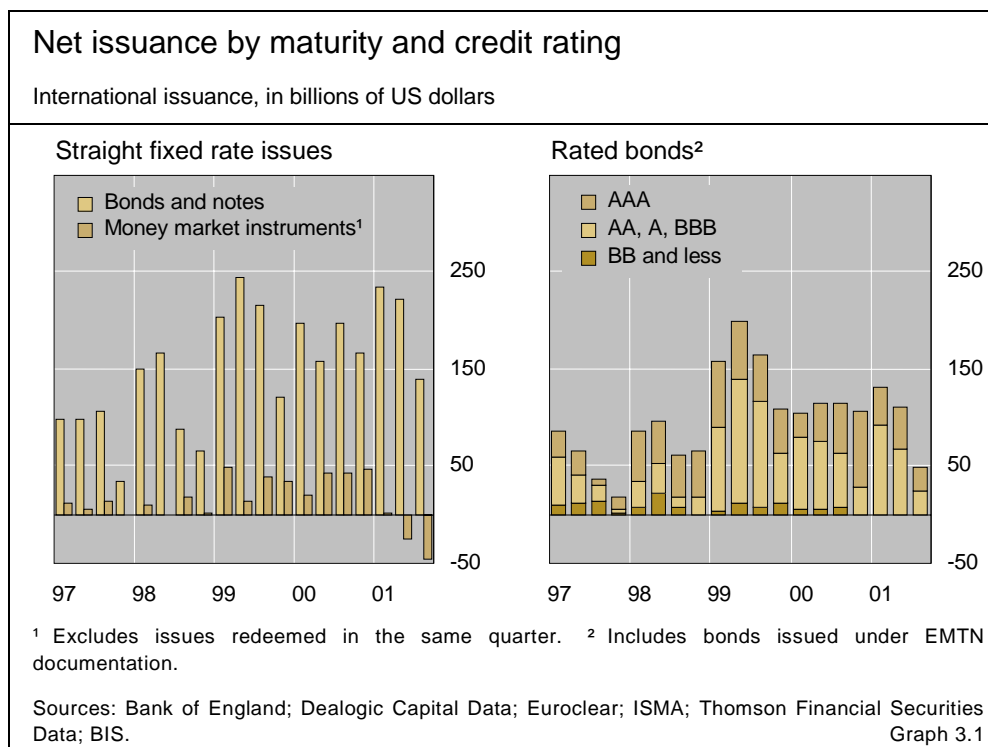
¹ Excluding notes issued by non-residents in the domestic market. ² Commercial banks and other financial institutions. ³ Excluding international institutions. ⁴ Data for the third quarter of 2001 are partly estimated.

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

Net issuance of longer-term securities (bonds and notes) also declined sharply during the third quarter of 2001, following a smaller decline during the previous quarter. At \$215 billion, long-term net issuance fell 33% from the recent peak attained during the first quarter of the year. Net issuance of straight fixed rate issues saw the largest contraction in absolute terms between the second and third quarters, declining 37% to \$139 billion. This was associated with a sharp drop in announcements of straight fixed rate issues in the international bond and note market, from \$382 billion in the second quarter of 2001 to \$276 billion in the third. Gross and net issuance by European borrowers fell especially sharply.

... and sub-AAA
bonds

Net issuance of rated bonds decreased across all rating categories during the third quarter of 2001. Net issuance in the AAA category declined 42% to \$25 billion while net issuance in the other investment grade categories fell 63%



to \$24 billion. As noted in the Overview, there was a steady increase in credit spreads over the course of the third quarter. This suggests that, in the light of deteriorating economic conditions globally, market participants had grown more pessimistic in their subjective assessments of default probabilities. Nonetheless, the sharp fall in benchmark yields over the course of the third quarter led to a marked decline in total corporate borrowing costs. That corporate issuance did not rise in response to lower borrowing costs is consistent with the view that the current decline in issuance reflects the impact of the global economic downturn on the demand for funds by borrowers, rather than a tightening in credit conditions on the part of lenders.

Borrowing by the private sector falls particularly sharply

Net issuance by the private sector continued to decline during the third quarter of 2001: at \$116 billion, it was 46% below the previous quarter's amount and 56% off the recent peak value attained during the first quarter of the year. The third quarter decline in private sector issuance by itself accounted for most of the total fall in net issuance in the international debt securities market. Since the mid-1990s there has been only one other two-quarter fall of a larger proportion. This was the decline in 1998 (from \$177 billion in the second quarter of that year to \$58 billion in the fourth) associated with the Russian economic crisis.

A continuation of the fall in net issuance by financial institutions during the third quarter of 2001 was the main cause of the reduction in borrowing by the private sector. At \$99 billion, net issuance by financial institutions was

Most of the decline in issuance reflects a decline in private sector borrowing ...

... mainly by financial institutions

Gross issuance in the international bond and note markets

In billions of US dollars

	1999	2000		2001			
	Year	Year	Q3	Q4	Q1	Q2	Q3
Total announced issues	1,628.1	1,706.6	441.8	384.0	550.8	532.5	423.2
Floating rate issues	416.1	520.5	133.1	128.2	133.7	132.1	138.8
Straight fixed rate issues	1,159.9	1,129.5	292.2	242.1	405.0	382.1	276.3
Equity-related issues ¹	52.1	56.5	16.5	13.8	12.1	18.3	8.1
US dollar	723.1	794.1	216.9	179.5	257.5	255.5	219.8
Euro	639.6	582.2	136.5	134.4	214.4	191.3	129.9
Yen	78.1	128.8	33.5	19.2	27.5	36.0	32.1
Other currencies	187.4	201.5	54.8	51.0	51.4	49.7	41.3
Private sector	1,265.0	1,319.2	338.3	303.6	410.2	397.1	293.0
Financial institutions ²	1,047.9	1,083.8	277.9	248.8	331.4	307.1	245.1
Corporate issuers	217.2	235.5	60.4	54.8	78.8	90.1	47.8
of which: telecoms	83.0	114.7	24.5	19.0	49.2	31.9	15.6
Public sector	286.2	318.2	89.1	65.9	123.7	112.6	110.2
Central government	93.6	92.5	23.5	4.5	28.5	20.8	13.2
State agencies and other	192.6	225.7	65.6	61.3	95.2	91.8	97.0
International institutions	76.9	69.2	14.4	14.5	17.0	22.7	20.0
Completed issues	1,632.7	1,708.2	440.3	419.9	539.2	522.0	421.8
Repayments	527.1	614.4	165.2	153.9	216.2	218.5	206.9

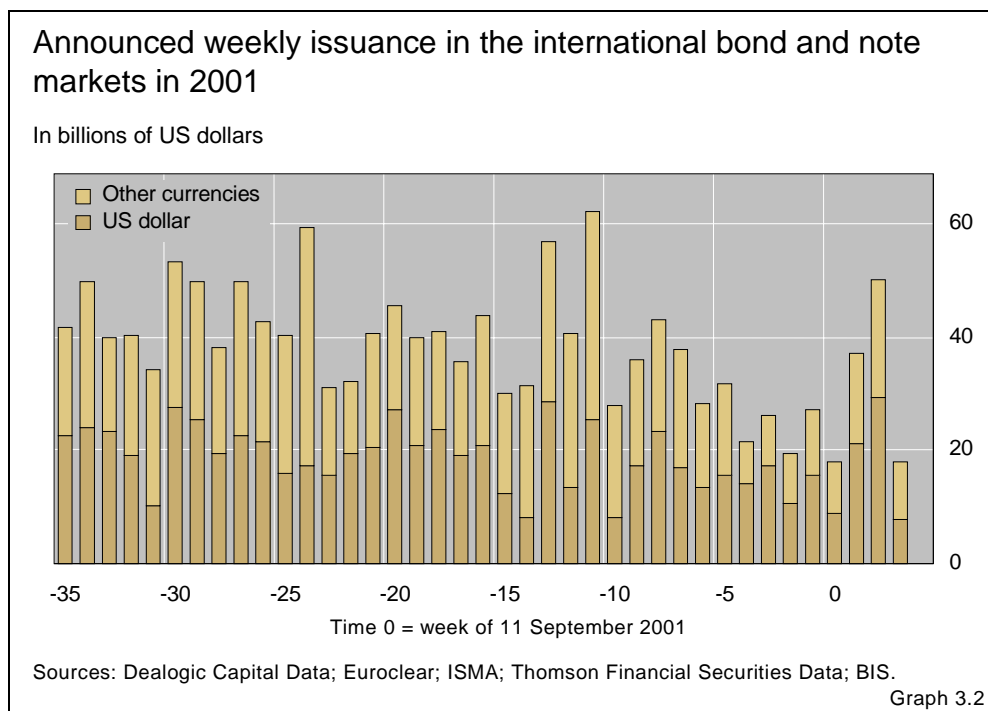
¹ Convertible bonds and bonds with equity warrants. ² Commercial banks and other financial institutions.

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

Table 3.2

\$61 billion less than the previous quarter's amount and only 45% of the recent peak issuance attained during the first quarter of the year. The decline in net issuance probably reflected the perception among financial institutions of a generalised fall in the demand for loans. During the second quarter, the decline had been driven by the reduced financing needs of US and German financial institutions. During the third quarter the decline spread to other European developed countries and Japan.

Net issuance by non-financial corporations also fell substantially between the second and third quarters of 2001, from \$57 billion to \$18 billion. Corporate issuance had been on a downward trend during the third quarter, paralleling the general trend in announcements in the international bond and note market that reached a low point during the week of 11 September (Graph 3.2). Surprisingly, announcements recovered sharply in the three weeks following the terrorist attacks, with particularly strong issuance by corporations in the AAA rating category. An example of a relatively large flotation in the days following the terrorist attacks was the \$5 billion offering in two tranches by Bristol-Myers Squibb, a AAA borrower, that priced at a relatively narrow spread of about 100 basis points. Likewise, General Electric Capital brought two AAA issues to market in the week following that of the terrorist attacks, raising \$4.7 billion.



Net issuance by the public sector also fell over the same period, but to a smaller degree. This mostly reflected the reduced borrowing needs of central governments, whose net issuance fell from \$8 billion in the second quarter to -\$3 billion in the third. Net issuance by government-sponsored agencies also declined slightly over the same period, from \$48 billion to \$44 billion. In contrast, gross issuance by government-sponsored agencies rose from \$100 billion to \$112 billion. The increase is mainly accounted for by the activities of US agencies, whose gross long-term issuance climbed to a record \$88 billion in the third quarter from \$79 billion in the previous one. The desire of the US housing agencies to acquire benchmark status for their issues, coupled with a surge in mortgage refinancing in the United States, contributed to the rise in gross issuance.

US agencies continue to be active borrowers

Economic downturn and turmoil hit developing countries

Net issuance in the international debt securities market by emerging market borrowers actually turned slightly negative by \$4 billion during the third quarter of 2001. This is perhaps not surprising given the impact of the global economic downturn on the perceived export earnings of emerging markets and the turmoil that hit some of these countries in July. Net borrowing fell across all regions, with net issuance by Latin American and Caribbean issuers declining the most between the second and third quarters of 2001, from \$7.4 billion to -\$3.8 billion. This was mostly because of a sharp decrease in net issuance by Mexican borrowers. Net borrowing by Asian and Pacific emerging markets also fell over the same period, from \$1.8 billion to -\$3.5 billion, reversing last quarter's gains by these borrowers.

Emerging market borrowers become net repayers of debt securities ...

Net issuance of international debt securities by currency and region¹

In billions of US dollars

Region/currency		1999	2000			2001		
		Year	Year	Q3	Q4	Q1	Q2	Q3
North America	US dollar	434.2	379.4	115.3	99.8	123.0	96.0	83.0
	Euro	47.8	44.8	17.7	10.8	20.9	14.7	7.0
	Yen	- 2.0	16.9	3.5	3.1	3.3	5.2	6.5
	Other currencies	16.8	16.3	3.8	7.8	4.9	3.1	- 1.5
Europe	US dollar	59.6	172.8	42.3	54.0	24.7	13.2	- 3.4
	Euro	514.0	412.3	83.3	104.6	129.3	104.3	53.3
	Yen	4.1	40.7	7.9	- 2.5	- 6.0	1.9	4.0
	Other currencies	76.5	89.0	25.8	24.9	18.7	10.9	11.6
Others	US dollar	52.5	63.8	14.1	8.3	3.6	19.5	7.4
	Euro	39.0	15.1	1.9	2.0	5.4	4.1	0.5
	Yen	- 13.6	- 20.3	- 2.4	- 4.6	- 3.3	4.5	- 2.1
	Other currencies	12.3	15.0	4.3	4.4	0.8	0.1	2.6
Total	US dollar	546.3	616.0	171.7	162.1	151.3	128.6	87.0
	Euro	600.8	472.2	102.9	117.4	155.6	123.0	60.8
	Yen	- 11.5	37.4	9.0	- 4.0	- 6.0	11.6	8.3
	Other currencies	105.5	120.3	33.8	37.1	24.4	14.2	12.6

¹ Based on the nationality of the borrower.

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

Table 3.3

Nevertheless, some emerging economies retained access to the international debt securities market in the third quarter. Argentina, for example, floated \$356 million using a variety of relatively small announcements, the largest being a \$74 million issue by the Province of Buenos Aires. This occurred even against the backdrop of public discussion about the restructuring of Argentine debt. Mexico, whose net borrowing declined significantly during the third quarter, had \$3.1 billion in new announcements and Brazil had \$3.5 billion.

... and their ability to access capital markets remains inconsistent

The increased uncertainty about the outlook for the emerging economies following the terrorist attacks of 11 September severely limited the access of emerging market borrowers to the international debt securities market towards the end of the third quarter. The announcements by two large Mexican borrowers that, because of worsening economic conditions, some interest payments might not be made led to a further rise in risk aversion amongst global investors. Indeed, the only significant sovereign emerging market issues to come to market after 11 September were a \$650 million offering by the Chilean government, arranged on 11 October, and a \$500 million offering by the Dominican Republic on 27 November.

Issuance in both dollars and euros falls

The global economic downturn led to a continuation of the decline in net issuance of both US dollar- and euro-denominated securities, the former falling by about 30% and the latter by about 50% between the second and third quarters of 2001. The decrease in the demand for funds appears to have been particularly marked in Europe. Net issuance of euro-denominated securities by European issuers fell by 19% between the first and second quarters and another 50% between the second and third. This contrasts with a decline of less than 33% in net issuance of dollar securities by North American borrowers over the last two quarters.

The first three quarters of 2001 witnessed a continuation of the general pattern towards smaller offerings of straight fixed rate issues (Graph 3.3). By region, the largest proportional decline over the 1997–2001 period took place in Europe, with the average announcement size for a European issue falling almost 50%. The average size of euro-denominated issues increased around the time of the introduction of the single currency, as some borrowers attempted to obtain benchmark status for their issues (see “The emergence of new benchmark yield curves” on page 48). However, more recently the size of euro offerings has declined. The average size of yen-denominated issues also fell sharply between 1997 and 2001, from \$33 million to \$16 million.

Euro-denominated issuance falls faster than issuance denominated in dollars

Trend towards smaller issue sizes continues

