

3. The international debt securities market

The rebound in US economic activity during the first quarter of 2002 was not associated with a global increase in the demand for international financing. Net issuance in the international debt securities market during the first quarter was \$210 billion (Table 3.1), 23% below the level attained in the previous quarter

Main features of net issuance in international debt securities markets								
In billions of US dollars								
	2000	2001	2001				2002	Stocks at end-Mar 2002
	Year	Year	Q1	Q2	Q3	Q4	Q1	
Total net issues	1,241.1	1,067.0	326.3	291.6	177.3	271.8	209.6	7,412.5
Money market instruments ¹	152.1	-78.9	2.2	-26.2	-45.6	-9.3	-8.4	387.2
<i>Commercial paper</i>	55.2	26.9	22.3	10.1	-12.0	6.5	5.5	247.3
Bonds and notes ¹	1,088.9	1,145.9	324.1	317.8	222.9	281.1	218.0	7,025.3
<i>Floating rate issues</i>	356.8	301.7	85.5	70.2	73.9	72.1	45.3	1,772.3
<i>Straight fixed rate issues</i>	715.4	808.6	234.7	238.0	142.9	193.1	169.6	4,980.3
<i>Equity-related issues</i>	16.7	35.5	3.9	9.6	6.1	15.9	3.1	272.7
Advanced economies	1,160.9	990.2	312.1	252.2	163.9	262.0	191.4	6,438.5
<i>United States</i>	465.3	481.1	151.9	121.2	93.7	114.2	105.3	2,323.1
<i>Euro area</i>	559.4	424.6	146.8	95.4	66.2	116.2	72.6	2,616.6
<i>Japan</i>	-25.9	-14.0	-4.1	0.3	-6.5	-3.7	-9.7	246.7
Offshore centres	15.0	21.0	7.1	5.4	4.6	3.9	2.6	92.6
Emerging economies	42.4	39.8	8.9	28.4	-2.2	4.6	8.1	493.4
International institutions	22.8	16.1	-1.8	5.7	11.0	1.2	7.5	388.1
Private sector	973.0	803.2	264.8	215.3	122.0	201.2	134.1	5,514.4
<i>Financial institutions²</i>	800.4	641.7	221.5	159.4	101.7	159.1	132.8	4,457.2
<i>Corporate issuers</i>	172.6	161.6	43.3	55.9	20.3	42.1	1.2	1,057.3
Public sector ³	245.3	247.7	63.3	70.7	44.4	69.3	68.1	1,510.0
<i>Central government</i>	52.6	38.3	9.4	23.3	-2.3	8.0	16.4	529.7
<i>State agencies and other</i>	192.7	209.5	54.0	47.5	46.7	61.4	51.6	980.3
<i>Memo: Domestic CP⁴</i>	255.0	-140.1	-57.1	-63.3	-50.9	31.2	-78.3	1,827.7
<i>of which: US</i>	208.3	-161.2	-63.1	-67.9	-58.5	28.3	-63.3	1,377.6

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 first quarter of 2002 are partly estimated.

Sources: Bank of England; 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							
	2000	2001	2001				2002
	Year	Year	Q1	Q2	Q3	Q4	Q1
Total announced issues	1,707.7	2,027.9	554.5	562.0	419.9	491.5	523.7
Floating rate issues	521.0	556.5	134.5	135.4	139.0	147.5	129.2
Straight fixed rate issues	1,130.2	1,403.9	407.5	408.9	269.7	317.7	385.1
Equity-related issues ¹	56.5	67.5	12.4	17.7	11.1	26.2	9.4
US dollar	794.5	982.0	259.9	286.6	224.0	211.5	270.1
Euro	582.7	719.6	215.2	187.5	123.8	193.2	182.5
Yen	129.1	120.6	27.7	36.8	32.0	24.2	16.0
Other currencies	201.4	205.7	51.8	51.2	40.1	62.6	55.1
Private sector	1,322.6	1,479.5	411.7	398.7	294.1	375.0	372.8
<i>Financial institutions</i> ²	1,090.4	1,178.8	332.8	309.1	244.5	292.3	317.1
<i>Corporate issuers</i>	232.2	300.7	78.8	89.6	49.5	82.7	55.8
<i>of which: telecoms</i>	115.3	134.6	49.5	30.2	15.9	39.0	11.6
Public sector	316.0	473.7	125.9	140.4	105.8	101.7	122.8
<i>Central government</i>	92.9	108.5	31.4	49.4	13.4	14.2	30.8
<i>State agencies and other</i>	223.1	365.2	94.5	90.9	92.3	87.4	91.9
International institutions	69.2	74.6	17.0	22.9	20.0	14.8	28.1
Completed issues	1,709.5	2,025.6	543.0	551.0	430.6	501.1	487.2
<i>Memo: Repayments</i>	620.5	879.7	218.9	233.2	207.7	219.9	269.3

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

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

Table 3.2

and 36% below that of the first quarter of 2001. With gross announced issuance a relatively strong \$524 billion (Table 3.2), net issuance was kept low because of a surge in repayments to \$270 billion, a record amount.

The decline in net issuance since the fourth quarter of 2001 probably overstates the change in demand for international financing. BIS estimates suggest that the attacks on 11 September led to the postponement of about \$50 billion of issuance from the third quarter to the fourth. On the assumption that repayments were not similarly affected by the attacks, net issuance during the fourth quarter was artificially strong. Adjusting for this factor, net issuance in the international debt securities market was relatively stable over the last two quarters as the reduced funding needs of telecoms operators and auto manufacturers were partly offset by increased net issuance by central governments and emerging economies.

The first quarter of 2002 witnessed shifts in the maturity structure of international debt obligations, as an unreceptive commercial paper market led some borrowers to lengthen the maturity of their debt. Indeed, the stock of outstanding domestic commercial paper in the United States fell by \$63 billion during the first quarter, while the outstanding stock of international money market instruments declined for the fourth quarter in a row.

Issuance by private sector borrowers in advanced economies remains depressed

The decline in net issuance of international debt securities between the fourth quarter of 2001 and the first quarter of this year can be attributed entirely to the behaviour of borrowers in the advanced economies. Net issuance by borrowers based in the euro area declined the most in absolute terms, from \$116 billion to \$73 billion, while net issuance by borrowers based in the United States fell from \$114 billion to \$105 billion. Net issuance by Japanese borrowers was negative for the third quarter in a row. The decline, at \$10 billion, was almost entirely due to Japanese financial institutions.

A sharp fall in private sector borrowing ...

A sharp drop in private sector borrowing was the main cause of declining net issuance by the advanced economies. Globally, net issuance by financial institutions fell to \$133 billion, 40% below the recent peak value attained during the first quarter of 2001. Net issuance by non-financial corporations essentially dried up, falling by 97% to \$1 billion, indicating that in the aggregate a substantial part of gross issuance was used for refinancing.

The reduced funding needs of telecoms operators and auto manufacturers also played a role. Gross long-term issuance by telecoms declined from \$39 billion in the fourth quarter of 2001 to \$12 billion in the first quarter of 2002, while gross long-term issuance by auto manufacturers fell from \$27 billion to \$20 billion. In contrast, public sector net issuance, at \$68 billion, remained strong as a surge in borrowing by central governments to \$16 billion approximately offset a 16% decline in net issuance by state agencies.

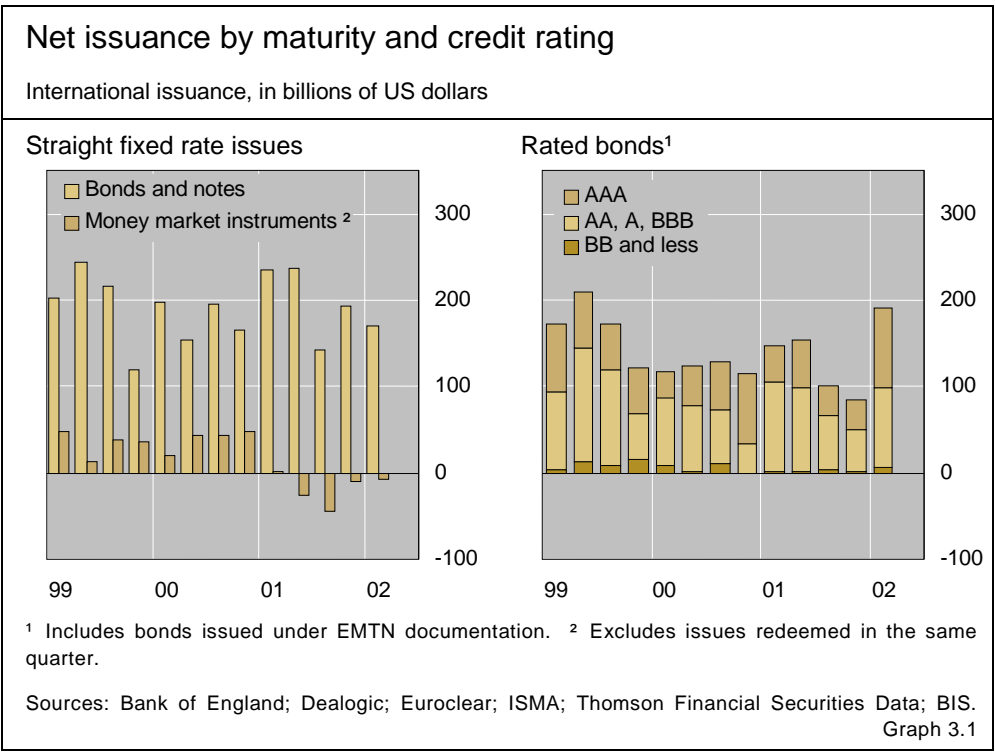
The relative strength of issuance during the fourth quarter of 2001 should be viewed in the context of the previous impact of the global economic slowdown on the demand for international financing. Net issuance in the international debt securities market during the first quarter of 2002 was well below the levels which prevailed before the onset of the global slowdown. The fact that net issuance has not returned to more normal rates suggests that businesses around the world remain hesitant to undertake significant new fixed investment.

... suggests investment demand remains weak

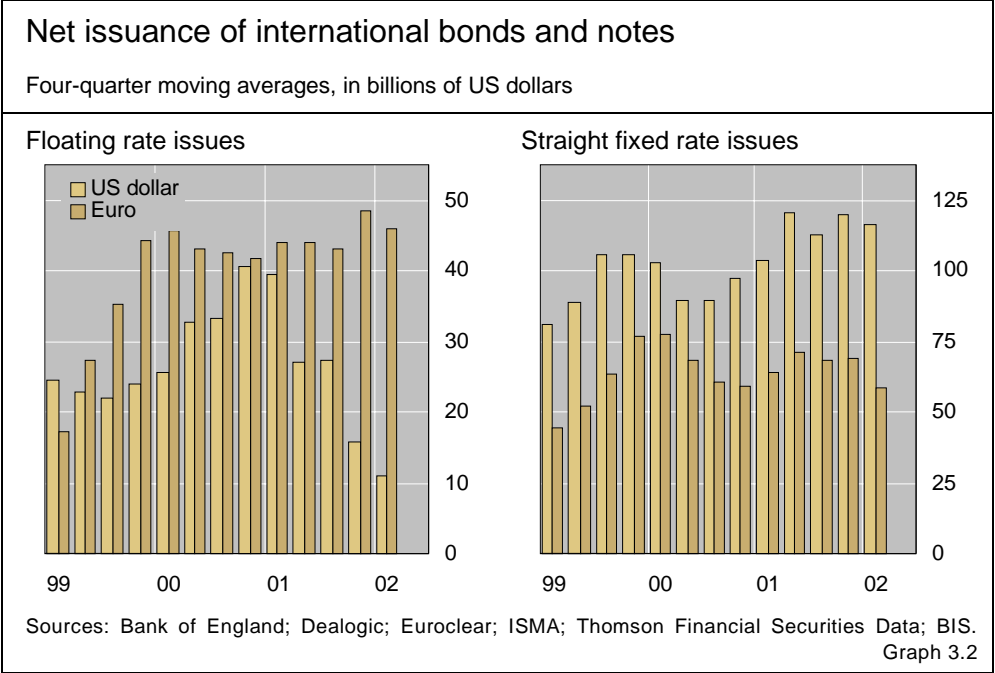
Continuing difficulties in the commercial paper market encourage longer-term issuance

Rating downgrades and the unwillingness of some banks to provide backup lending facilities (see (see discussion on pages 5–7) led to further difficulties for some traditionally large issuers in the commercial paper (CP) market during the first quarter of 2002. Money market mutual funds are the main purchasers of CP, and the amount of lower-rated CP that they can hold has long been limited by Securities and Exchange Commission regulations. The rating agencies downgraded several major issuers early in the year, effectively closing off the CP market to them. Moreover, in April a major money centre bank announced that it was pulling out of providing the backup facilities that have recently become requirements for CP programmes. In the US domestic

Continuing difficulties in the CP market ...



market, these difficulties again led to a fall in the stock of outstanding CP which, at \$1,378 billion, is 14% below the peak reached during the fourth quarter of 2000. There has been an even sharper contraction in the stock of outstanding domestic CP of non-financial corporations, which has fallen by 50% since the third quarter of 2000. The stock of international money market instruments also declined during the first quarter of 2002 for the fourth quarter in a row.



... again encourage longer-term issuance

Net issuance of rated bonds rose sharply during the first quarter, increasing by 128% to a near record high of \$191 billion (Graph 3.1). Net issuance of AAA-rated bonds grew significantly between the fourth quarter of 2001 and the first quarter of this year, rising by 172% to \$93 billion, while net issuance of BBB-rated bonds expanded from \$4.8 billion to \$7.7 billion. The increased issuance in the BBB rating category is consistent with the view, expressed in the overview section, that difficulties in the CP market during the fourth quarter were associated with a continuing shift by corporate borrowers from short-term to long-term debt. Issuers in US dollars again displayed a preference for straight fixed rate paper (Graph 3.2) while issuers in the euro market maintained their preference for floating rates.

Net issuance by emerging economies recovers

Greater aggregate issuance by emerging economies ...

Net issuance in the international debt securities market by emerging economies recovered somewhat further during the first quarter of 2002, reaching \$8 billion, just short of the \$10 billion average quarterly net issuance since the onset of the Asian financial crisis. The rise in net issuance was fairly evenly spread across all regions. Gross announced issuance by emerging market borrowers increased from \$22 billion in the fourth quarter of 2001 to \$26 billion during the first quarter of 2002.

Net issuance of international debt securities by currency and region ¹								
In billions of US dollars								
Region/currency		2000	2001	2001				2002
		Year	Year	Q1	Q2	Q3	Q4	Q1
North America	US dollar	378.5	400.4	121.9	97.7	83.9	96.9	89.7
	Euro	44.5	64.4	20.9	15.5	7.2	20.9	18.0
	Yen	17.2	16.4	3.2	5.2	6.4	1.6	-3.5
	Other currencies	17.3	7.4	4.9	3.2	-1.5	0.7	3.7
Europe	US dollar	171.9	46.5	23.8	13.2	-2.7	12.2	3.2
	Euro	411.6	396.7	128.7	98.7	57.9	111.4	82.8
	Yen	40.8	-2.6	-6.0	2.1	3.9	-2.6	-13.3
	Other currencies	88.0	69.8	19.2	11.3	11.9	27.5	17.4
Others	US dollar	61.5	55.0	7.4	36.2	9.7	1.7	17.6
	Euro	15.0	12.9	5.3	4.5	0.3	2.9	3.5
	Yen	-20.3	-1.9	-3.2	4.5	-2.1	-1.0	-12.5
	Other currencies	15.0	1.9	0.2	-0.4	2.4	-0.3	3.1
Total	US dollar	611.9	501.9	153.1	147.1	90.9	110.8	110.6
	Euro	471.1	474.1	154.9	118.6	65.4	135.1	104.3
	Yen	37.7	12.0	-6.0	11.8	8.3	-2.0	-29.3
	Other currencies	120.4	79.1	24.4	14.1	12.7	27.9	24.1

¹ Based on the nationality of the borrower.

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

Table 3.3

The aggregate issuance figures hide important intraregional differences in borrowing patterns. In emerging Asia, for example, a sharp fall in net issuance by South Korean borrowers, from \$1.5 billion to -\$2.4 billion, between the fourth quarter of 2001 and the first quarter of this year was partially offset by a rise in net issuance by borrowers based in China and the Philippines. Chinese borrowers increased their net issuance from -\$0.3 billion to \$0.5 billion and borrowers in the Philippines from \$0.8 billion to \$1.7 billion. The latter figure includes two sizeable US dollar issues by the Republic of the Philippines, of \$1 billion and \$0.75 billion. In emerging Latin America, Brazil's net issuance increased by \$3.2 billion between the fourth quarter of 2001 and the first quarter of 2002 and that of Mexico by \$1.6 billion. Peru, which issued its first international bond since 1928, raised \$0.5 billion in new money and another \$0.9 billion in exchanging five outstanding Brady bonds. In contrast, net issuance by Argentine entities fell by \$2 billion and that of Venezuelan entities by \$1.0 billion.

... hides intraregional differences

Peru issues first international bond in over 70 years

Net issuance of equity-related securities at all-time low

Net issuance of equity-related securities fell to \$3 billion in the first quarter of 2002 from \$16 billion in the previous quarter. As a percentage of total announced issuance (Table 3.2), gross equity-related issuance reached an all-time low during the first quarter of 2002. Hedge funds were large holders of convertible bonds, and they suffered heavy losses on their positions in these instruments during the fourth quarter of 2001. As a consequence, these funds had a sharply reduced appetite for equity-related securities.