2. Emerging market government securities: Long-term trends and developments since the pandemic

Over the last few decades, sovereigns of emerging market and developing economies have increasingly turned to capital markets to meet their financing needs. With the growth in marketable debt and supported by strengthened macroeconomic frameworks, local bond markets have deepened and public debt management capacity has improved in many of these economies. Drawing on the lessons learned from the several previous sovereign debt crises, many countries have also made important improvements in their public debt risk management systems. Despite these advances, the COVID-19 pandemic has demonstrated that sovereign debt markets for emerging economies are still highly vulnerable to global risks.

Using transaction level data from 107 countries, this chapter examines issuance trends of government securities in emerging market and developing economies since 2000. It first looks at currency, rating and maturity composition of debt issuance from 2000 to 2019. It then provides novel insights about the impact of the COVID-19 pandemic on debt issuance conditions for these countries.

2.1. Introduction

Over the last few decades, sovereigns in emerging market and developing economies have increasingly turned to financial markets to meet their financing needs, with consequent growth in marketable debt.[1] In particular, local currency bond markets, despite room for improvement, have deepened over the last decade, helped by a favourable global funding environment. As advisory efforts of multilateral institutions have increased and broadened significantly, public debt and risk management capacity has improved in many of these economies thanks to the lessons learned from the several previous sovereign debt crises, and improved macroeconomic frameworks. Nevertheless, emerging economies' sovereign debts are still highly vulnerable to global risks, as recent developments have shown. The COVID-19 pandemic has led to extraordinary volatility in the components of debt dynamics including economic growth, interest rates, and exchange rates in emerging market and developing economies, in addition to the surge in governments' borrowing needs.

Against this backdrop, this chapter presents an overview of issuance trends in emerging market and developing economies (hereafter 'emerging markets' or 'EMs') governments' securities, from 2000 to 2019 and provides novel insights about the impact of the COVID-19 pandemic on emerging markets debt issuance conditions. The chapter uses a dataset comprising a total of 83 695 sovereign government securities issued by 107 countries between January 2000 and May 2020 (see annex for details of the methodology used).

Key findings

- Annual gross issuance of central government securities by emerging market and developing economies has more than doubled from less than USD 1 trillion in 2000 to around USD 2.5 trillion in 2019. Total issuance of securities by emerging market sovereigns was USD 37.4 trillion between 2000 and 2019, almost three quarters of which has been issued since the 2008 financial crisis.
- Regional composition of EM debt has changed significantly over the past two decades. While the share of Latin American and the Caribbean region in total issuance has halved, China has become the largest issuer by nearly tripling its share. Both the MENA region and Emerging Asia have more than doubled their shares and Sub-Saharan Africa has quadrupled its share since 2000.
- On average, domestic currency issuance by EM sovereigns account for 90% of total issuance between 2000 and 2019, reflecting deeper local currency bond markets. At the regional level, currency composition has leaned gradually towards local currency in Emerging Asia over the period, while foreign currency issuance in Sub-Saharan Africa and MENA countries has increased notably in recent years.
- In terms of maturity profile, sovereign issuers with investment grade credit ratings succeeded in lengthening the average maturity of their issuance from 2000 to 2019, whereas market conditions have been more volatile for non-IG issuers, with maturities shortening somewhat over the same period. Overall, refinancing risk has increased as the share of total outstanding debt due in the next three years has increased more than 20 percentage points over the last two decades and was 33% in 2019.
- Since the 2008 financial crisis, EM sovereign credit ratings have drifted downwards. Specifically, EMs received a total of 401 downgrades, compared to 240 upgrades between 2008 and 2019.This trend has accelerated since the COVID-19 outbreak. There was 42 downgrades in the first five months of 2020, compared to the highest full-year total of 44 in 2016 and 2017.

Among the different rating categories, B-grade sovereign issuers have seen the majority of the downgrades since the outbreak of the COVID-19 pandemic.

- The pandemic initially caused sharp fluctuations in capital flows to EMs, leading to deterioration in borrowing conditions, though to different extents, among different country groups. In total, EM sovereigns raised more than USD 1 trillion in financial markets between January-May 2020, 19% higher than the historical average over the same period. Upper middle-income countries accounted for 56% of the total issuance, low middle-income countries for 29%, and low-income countries (LICs) only for 0.5%.
- Suffering from a flight to safety and consequent decreased investor interest, low-income issuers have been hit hardest by the pandemic. In the first five months of this year, the net amount of bond issuance by LICs, was around two-thirds of the previous five years' average. Moreover, they have significantly increased their dependence on short-term debt during this period.

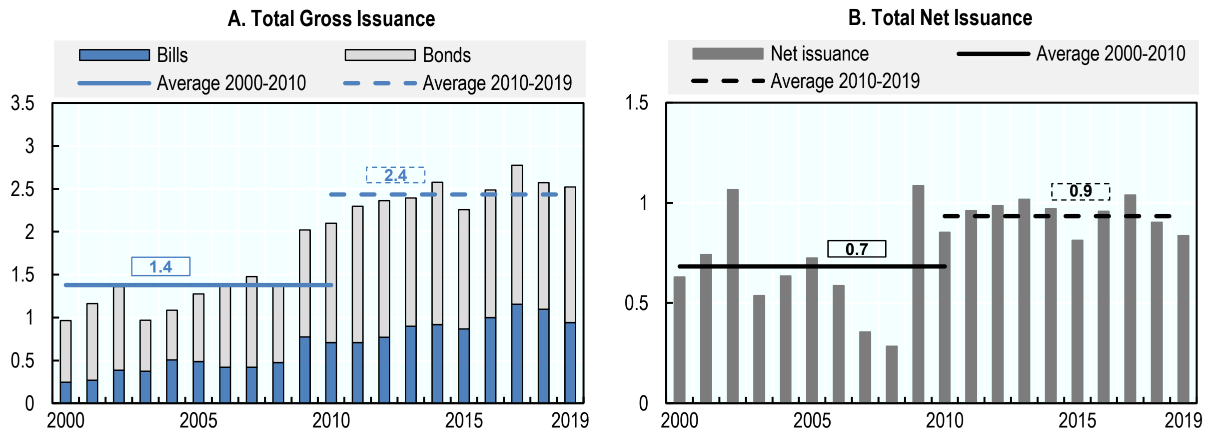
2.2. Issuance of marketable debt by emerging market economies from 2000 to 2019

The importance of debt markets for emerging market sovereigns has increased significantly over the past two decades. From 2000 to 2019, annual issuance of central government securities more than doubled from less than USD 1 trillion to over USD 2.5 trillion (Figure 2.1). In particular, local currency bond markets have improved significantly over the last decade, helped by the favourable global funding environment. At the same time, multilateral institutions have stepped up their local currency bond market (LCBM) advisory efforts through various programs and initiatives (IMF WB, 2020[1]). Policymakers in several EMs have introduced macroprudential tools, improved public debt and risk management capacity and financial regulations that underpin the development of local currency bond markets in many of these economies in view of the lessons learned from the several sovereign debt crises (Kose, 2020[2]). At the same time, many EMs with chronic and high inflation history have gained inflation credibility by successfully implementing inflation targeting regimes. Both the prolonged economic expansion experienced in EMs over the last decade and the change in monetary regimes behind inflation stabilisation have contributed to the dissipation of 'original sin' (Ottonello and Diego, 2019[3]). Nevertheless, the sustainability of rapidly growing issuance amounts has been vulnerable to the risk of shifts in global risk sentiment.[2] In both gross and net terms, annual issuance of emerging market securities contracted considerably in 2003, 2008, and 2015.[3]

Despite a relative decline in gross issuance over the past three years, central government borrowing on public debt markets remains substantial. The low interest rate environment following monetary easing from major central banks and consequent low returns on advanced economy sovereign bonds have led to increasing availability of debt capital flowing to emerging and developing economies. Net issuance, which indicates new exposures in the market, has been positive in every year over the period, even during the GFC.

In total, governments of emerging and developing economies raised USD 37.4 trillion of debt from the markets between 2000 and 2019, almost three-quarters of which was issued since the 2008 financial crisis. In terms of security types, bonds were the primary form of issuance during the period analysed, while the use of short-term instruments has increased significantly, especially in recent years. Specifically, bonds accounted for 64% of annual issuance on average during the 2000-2019 period, albeit the share considerably decreased from 74% in 2000 to 62% in 2019 (Figure 2.1). In terms of interest rate composition, the proportions of fixed rate, zero coupon and floating rate issues were 49%, 43%, and 8%, respectively.

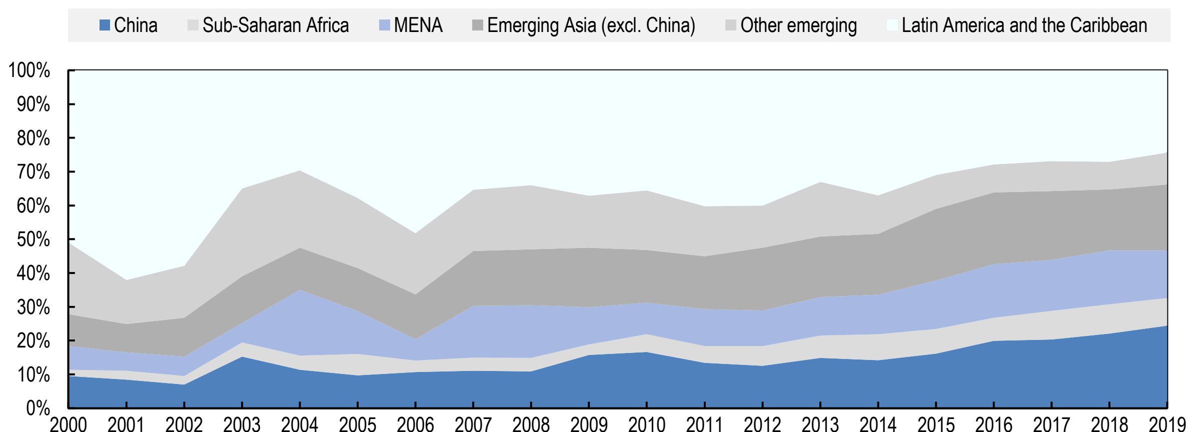
Figure 2.1. Gross and net annual sovereign debt issuance amounts in EMs (2019 USD, trillion)



Source: OECD calculations based on data from Refinitiv.

Since 2000, the regional composition of EM debt has changed significantly (Figure 2.2). Emerging Asia accounted for the highest share of issuance in 2019. The region increased its issuance from 19% in 2000 to 44% in 2019. During the same period, China nearly tripled its share of total emerging economy issuance. Even excluding China, where the debt build-up has been particularly pronounced, debt issuance in Emerging Asia has risen to record highs. Also, the MENA region has more than doubled its share. The largest relative increase has taken place in Sub-Saharan Africa, which has quadrupled its share since 2000, reaching 8% in 2019. A corresponding decrease has taken place primarily in the Latin America and the Caribbean region, where the share decreased from 51% to 24%. It should be noted, however, that Brazil and Mexico have remained among the top five issuers.

Figure 2.2. Regional composition of emerging market sovereign debt issuance



Source: OECD calculations based on data from Refinitiv.

2.3. Issuance trends in sovereign marketable debt

2.3.1. Currency composition of debt issuance

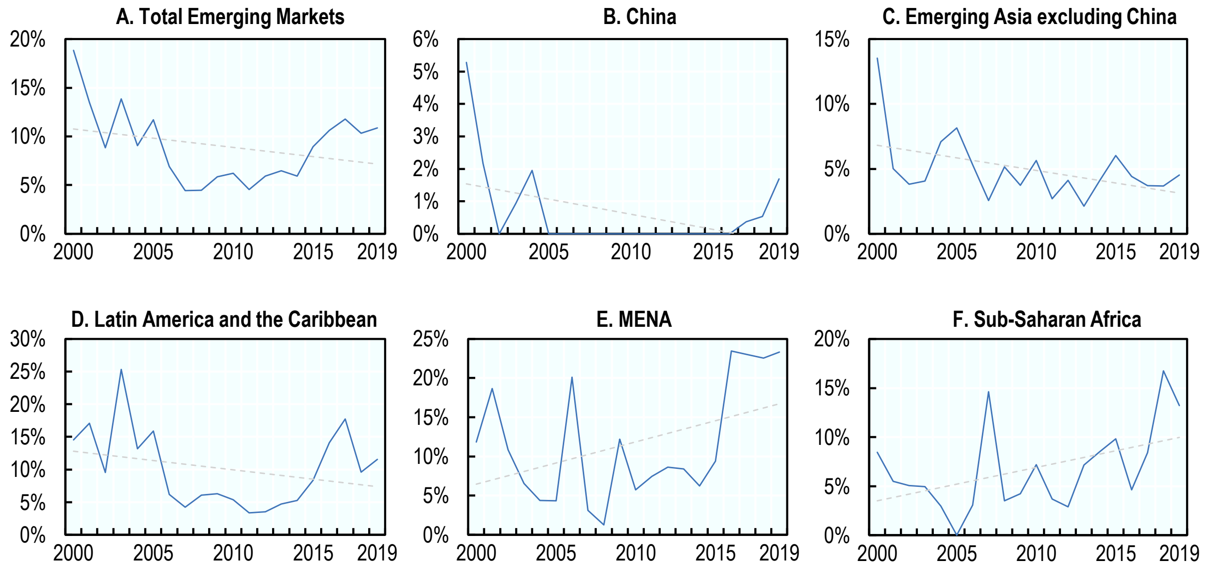
On average, domestic currency issuance by emerging economies accounted for 90% of total issuance between 2000-2019 (Figure 2.3). In particular, between 2007 and 2012, the ratio rose to 95% and started falling afterwards. When excluding bills the 2000-2019 average is 87%, reflecting the larger share of domestic currency issuance in short-term debt. A closer look at regional data reveals that Emerging Asia accounts for the largest share of the local currency bond market. Even excluding China, where foreign currency issuance has been negligible, share of local currency issuance in Emerging Asia has increased significantly over the past two decades. Contrarily, Latin America and the Caribbean, Sub-Saharan Africa and MENA increased the share of foreign currency issuance over the period, albeit with significant volatility between years.

Increasing share of local currency debt, especially in Emerging Asia, suggests deepening of local currency bond markets and an improvement in currency risk exposures in EMs where sudden reversals of capital flows have caused several debt crises in the past.[4] Deepening the financial market in a given country contributes to its ability to withstand volatile capital flows, helps reduce current account imbalances and reduces the reliance on foreign borrowing and the risks linked to currency mismatch (IMF WB, 2020[1]). Clearly, it is relevant for public debt management. A debt management strategy, building benchmark programs and liquid government securities, can contribute to development of local markets. At the same time, a deepening of local bond markets can improve the ability of the government to prepare a forward-looking debt management strategy and manage market risks. More generally, an increased local currency share in debt reduces the currency mismatch of the sovereign balance sheet, and the impact of currency fluctuations on debt service. However, it should be noted that build-up of private debt may pose a significant exposure risk to EMs if the private debt turns public through government interventions, especially if it is largely denominated in a foreign currency.

The distribution of bond ownership among different categories of investors may also be an important factor contributing to vulnerabilities in global capital flows.[5] Recent empirical studies indicate that the increase in local currency denominated securities has been accompanied by a growing share of debt held by non-resident investors (Arslanalp and Tsuda, 2014[4]). The share of non-resident investors' holdings in EM sovereign debt has grown significantly since the global financial crisis and reached 43 percent in 2018 (Kose, 2020[2]). In Emerging Asia, for example, the share of foreign holdings of local currency sovereign bonds reached 39% in Indonesia, and over 25% in the Philippines and Malaysia (ADB, 2020[5]). In addition to the deepening of local currency debt markets in EMs and the inclusion of bonds issued by some sovereigns in benchmark bond indices, the search for yield among investors that is driven by low interest rates in advanced economies has also contributed to this development.[6] However, it should be noted that high shares of debt held by non-resident investors might cause exchange rates of those EMs to depreciate more, as investors flee to safety in global sell-off episodes (Borris, 2018[6]; Hofmann, Shim and Shin, 2020[7]).

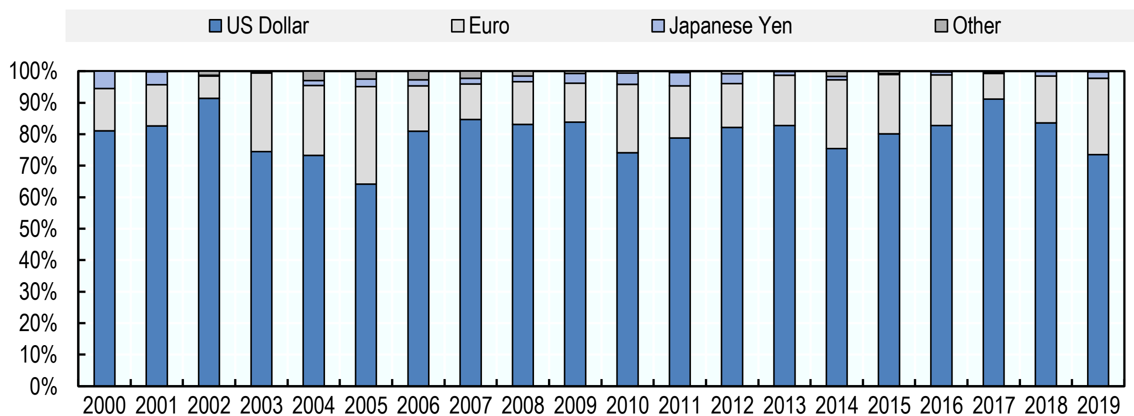
As illustrated in Figure 2.4, the US dollar has remained the dominant foreign currency between 2000 and 2019. With the euro, the two major currencies have made up an average of 97% of annual foreign currency issuance in emerging economies over the period. The third largest foreign currency is the Japanese yen, which has averaged 2.1%.

Figure 2.3. Share of foreign currency bonds in total sovereign debt issuance by region



Source: OECD calculations based on data from Refinitiv.

Figure 2.4. Currency composition of emerging market foreign currency sovereign issuance by year

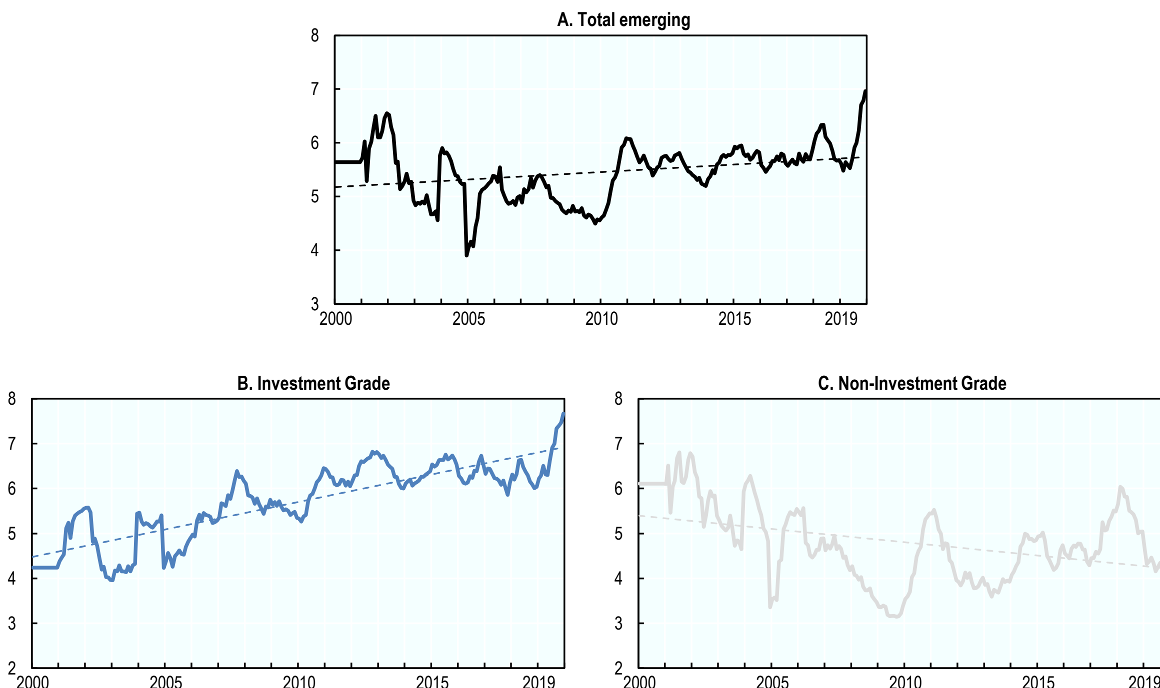


Source: OECD calculations based on data from Refinitiv.

2.3.2. Average maturity of sovereign debt issuance and refinancing risk

While sovereigns in EMs have increased their borrowings from the financial markets, term-to-maturities of sovereign debt issuance have been quite volatile, with the average of 5.5 years in the period under review (Figure 2.5). Issuance maturities are usually affected by liquidity conditions in global financial markets as well as macroeconomic conditions in the issuer country. A closer look at maturities by rating categories reveals different trends for investment and non-investment grade issuers. Sovereign issuers with investment grade managed to lengthen the average maturity of their issuance over the period from 2000 to 2019. On the other hand, maturity conditions have been more volatile for non-investment grade issuers, and somewhat deteriorated over the same period. The yearly average maturity of non-investment grade sovereign borrowing declined from 7.5 to 6 years between 2000 and 2019. At the height of the GFC in 2009 average maturity of issuance shortened to 3.1 years.

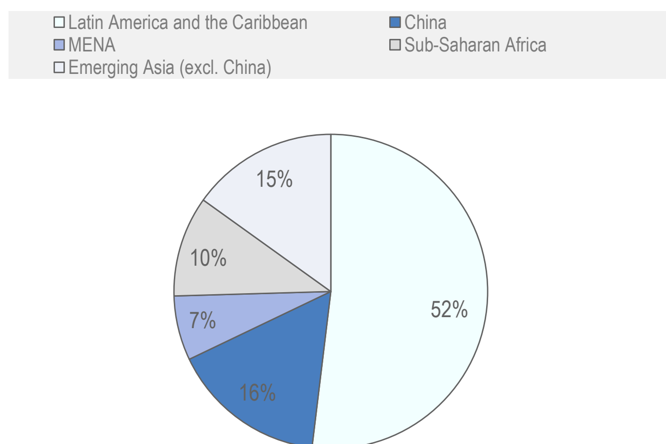
Figure 2.5. Maturity trends – average value weighted maturity, rolling 12 months



Source: OECD calculations based on data from Refinitiv.

The significant increase in issuance of government securities with shorter maturities implies a cumulative increase in debt repayments and a challenging debt repayment profile. Figure 2.6 presents the share of outstanding amounts by region.

Figure 2.6. Outstanding amount of sovereign debt as of year-end 2019 by region



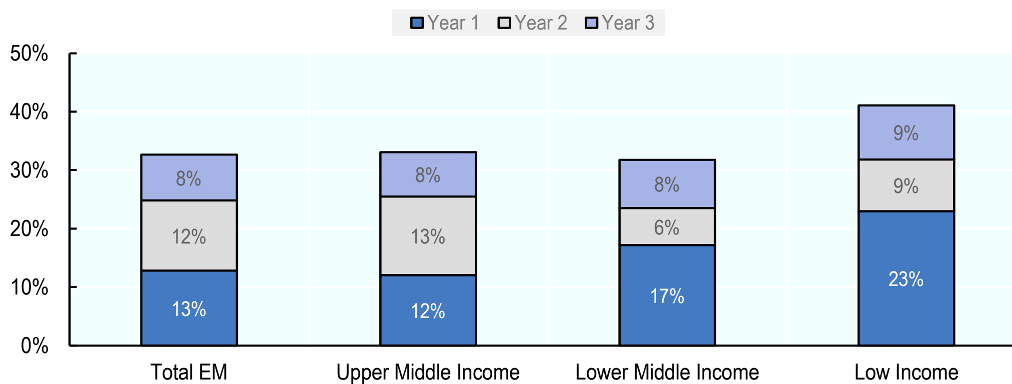
Source: OECD calculations based on data from Refinitiv.

Figure 2.7 presents outstanding amount of government securities due within the subsequent three years as of the end of 2019. Debt due in the next three years as a share of total outstanding EM debt has

increased by more than 20 percentage points over the last two decades, and was 33% in 2019. The ratio is much higher in LICs where debt due in the next 36 months was 41% in 2019. This increases the refinancing risk as many countries will seek to roll over their debts in the coming years. In the case of a continued low interest rate environment and ample global liquidity, governments may be able to secure cheap refinancing, but lower rated countries remain vulnerable to sudden stops in investor demand and flights to safety, as the COVID-19 pandemic has demonstrated.

Policy makers in EMs must also consider the amount of private sector debt coming due, taking careful note of potential crowding out issues as well as a source of implicit contingent liabilities. A recent study showed that non-financial companies in emerging markets need to repay or refinance USD 1.4 trillion within 3year years. The amount due within 3 years represents a record 50% of the total sum outstanding (Celik, Demirtas and Isaksson, 2020[8]).

Figure 2.7. Outstanding amount of sovereign debt due within 3 years as of end 2019

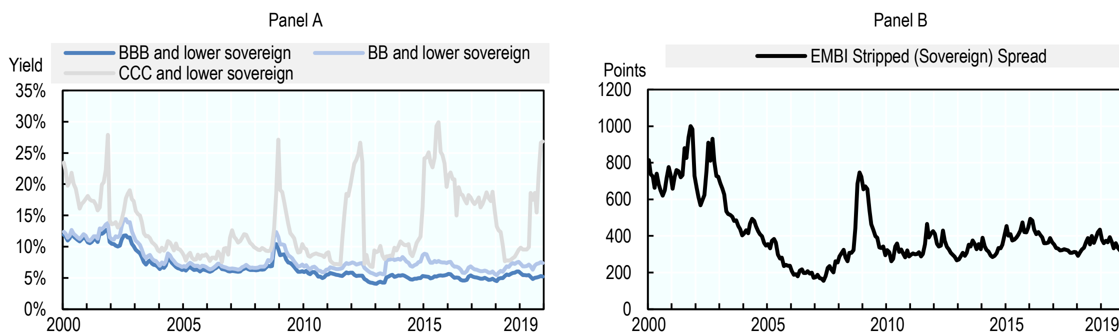


Source: OECD calculations based on data from Refinitiv.

2.3.3. Cost and credit quality of EM sovereign debt

An important contributing factor to the rise in EM sovereign debt has been the prolonged low interest rate environment, especially since 2008, which has encouraged both borrowers and lenders to take on more risk. While funding conditions have been broadly favourable, there have been several spikes in the market pricing of EM default risk during the period under review. A closer look at the yields on EM external government securities shows that bonds in the non-investment grade category, in particular CCC and lower graded sovereign bonds are more vulnerable to changes in global sentiment.

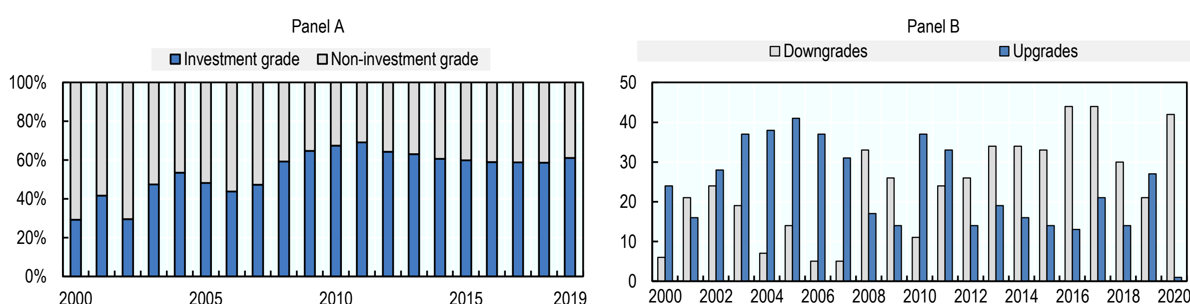
Figure 2.8. Yields and spreads on external EM government securities



Source: Factset and Refinitiv.

In terms of credit quality, the share of investment grade bond issuance in total emerging economy issuances has more than doubled since 2000 (Figure 2.9). As of 2019, investment grade issuances made up 61% of total issuance in emerging economies. China plays a large part in this development. Its share of total rated issuance increased from 9% to 24% between 2000-2019. Since China has been rated investment grade throughout this period, this has a large impact on the below trend. However, even excluding China, the average share of investment grade issuance in emerging economies has increased from 40% in the 2000-09 period to 54% in the 2010-19 period. The improvement throughout the global financial crisis is both a reflection of the difficulty of non-investment grade countries to access debt markets and the fact that two new sovereigns were upgraded to investment grade in 2009 (i.e. Brazil and Peru).[7] However, it should be noted that, the search for yield continued to support higher-yielding, sub investment-grade emerging market bonds.

Figure 2.9. Share of investment grade rated bonds, and rating changes in total emerging market sovereign debt issuance



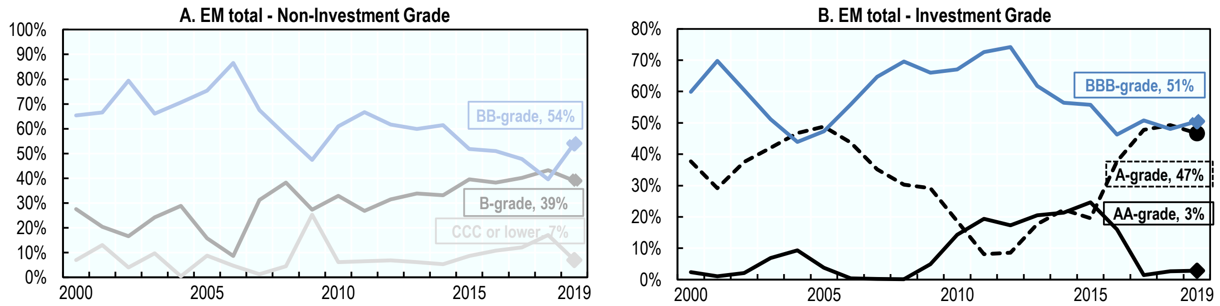
Source: OECD calculations based on data from Refinitiv.

Note: Above ratings are based on Moody's, S&P and Fitch and observed on a monthly basis, a change in rating by one agency is counted as 1 in the above chart, meaning that if all three agencies change their ratings in one month, it is counted as 3. When there is more than one change per agency in a month, the lower rating has been chosen, except in the case where the lowest rating is a default rating.

Emerging economies remain vulnerable to deterioration in global investor sentiment and global economic conditions. Sovereign credit ratings drifted upwards between 2000 and 2007. Between 2000 and 2007, a total of 252 upgrades (monthly observations) were given to emerging economies, two and a half times more than the 101 downgrades. The balance changed significantly after the GFC, after which downgrades significantly outpaced the upgrades. Specifically, emerging economies have received a total of 401 downgrades, compared to 240 upgrades since 2008.

The most important rating change is that on the threshold between investment grade and non-investment grade, since an investment grade rating can grant access to a significantly expanded pool of investors operating with risk restrictions. For example, a number of countries including Bulgaria, India, Kazakhstan and Russia obtained investment grade status in 2004 and thus gained access to a considerably wider pool of potential investors. Similarly, going from investment grade to non-investment grade (so-called "fallen angels") can lead to a significant contraction in available capital. Using the same methodology, Figure 2.10 Panel A shows the development in movements around that threshold. The number of downgrades to non-investment grade was particularly high in 2002, 2012, 2016 and 2017. As of December 2019, BBB rated bonds constituted 51% of EM sovereign investment-grade issuance, averaging 59% over the 2000-2019 period. So far in 2020, only one emerging economy, South Africa, has been downgraded from investment grade to non-investment grade. The share of BB-rated bonds (the highest non-investment grade rating) in non-investment grade bond issuance, which decreased from 65% in 2000 to 47% in 2009, amounted to 54% in 2019.

Figure 2.10. Composition of the investment and non-investment grade categories



Source: OECD calculations based on data from Refinitiv.

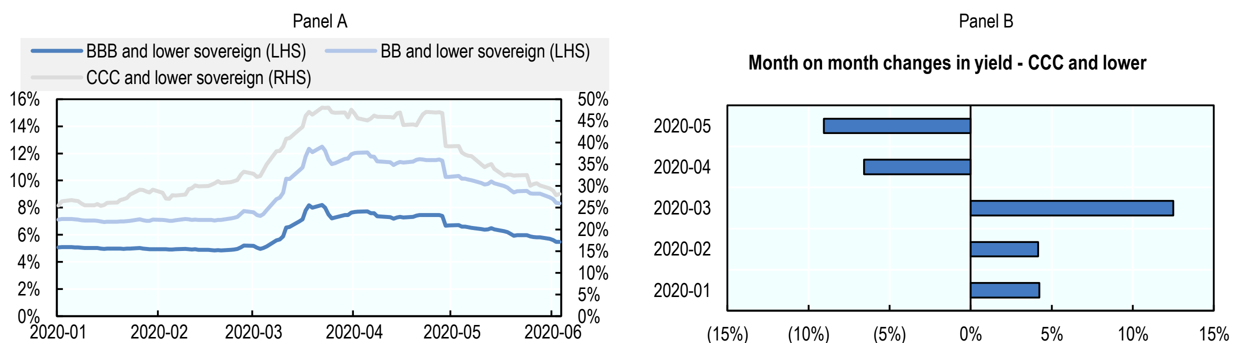
2.4. Initial impact of the pandemic on emerging sovereign debt markets

2.4.1. Issuance conditions in recent months

As outlined in Chapter 1, the COVID-19 pandemic poses unprecedented economic and financial stability challenges. Following the outbreak, emerging market investor sentiment deteriorated sharply and market volatility spiked, resulting in a poor financing environment for emerging markets (Figure 2.11). During this period, there have been 42 downgrades, compared to the highest full-year total of 44 in 2016 and 2017 (as of June 1st 2020). B-grade sovereign issuers saw the majority of the downgrades with 22 downgrades (52% of the total) within this category. In the analysed period, the number of downgrades per upgrade has never been higher than 3.4 (in 2016) and the average during 2000-2019 was 1.25. The first five months of 2020 were unique in that 42 downgrades were accompanied by only 1 upgrade (in January).

The demand for EM government bonds decreased sharply as investor risk aversion increased in March.[8] In particular, yields on CCC-rated sovereign bonds surged dramatically. As Panel A shows, the differential between average yields on CCC-rated sovereigns compared to BB-rated sovereigns began to narrow again following the sell-off in March and April, although the difference is still almost 20 percentage points.

Figure 2.11. Emerging market yield indices



Source: Bank of America ICE EM Indices, Refinitiv and Factset.

At the same time, in order to cope with the social and economic impact of the pandemic, several large EM economies have eased their monetary policy stance and announced fiscal measures which have increased borrowing needs. For example, several central banks have bought local currency government bonds to fight the effects of COVID-19, including Colombia, Indonesia, Mexico, Poland, South Africa, Turkey and

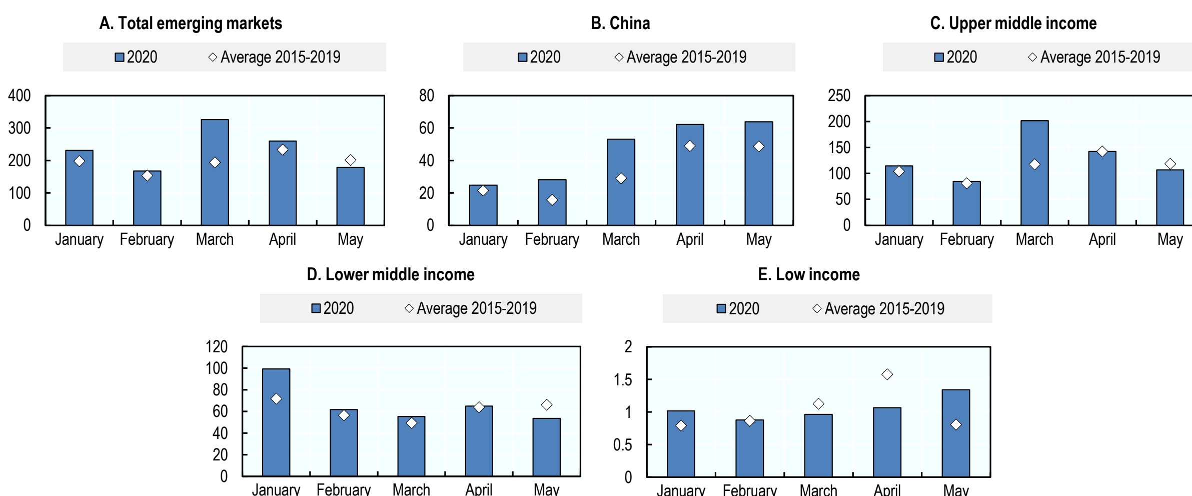
the Philippines (OECD, 2020[9]). Further policy responses are expected, depending on the duration and magnitude of financial market stress, the impact of lower oil prices, negative international demand spillovers, domestic disruptions due to the pandemic, the extent to which vulnerabilities have built up before the crisis, and the policy space available to mitigate the negative shocks (OECD, 2020[10]). So long as global economic growth remains fragile and uncertainty over debt sustainability in some emerging economies remains a focal point of investor concern, risks for emerging markets sovereign bond issuance continues to be elevated.

Against this backdrop, between January and May, EM sovereigns raised USD 1.2 trillion via issuance of securities in financial markets, 19% higher than the average issuance levels of the previous five years (Figure 2.12). The countries in the upper middle income category, a majority of which are investment grade borrowers, have had market access at reasonable rates and actively decreased their rollover risk. They increased the issuance of government securities, notably in March. In particular, although China was the first country to experience the COVID-19 outbreak, it was able to tap domestic markets to finance fiscal measures announced by the government to support economic recovery (e.g. infrastructure projects).

During this period, prevalence of foreign currency denomination has also increased. The share of foreign currency issuance in investment grade EM sovereign issuance jumped to 27% in April 2020, close to triple the average share for April between 2015 and 2019. Contrarily, for non-investment grade issuers it plummeted to below 7%, compared to an average of 24% between 2015 and 2019, reflecting a loss of international market access. It should be noted that while currencies of oil-importing economies have generally fared better in the current crisis, currencies of commodity-producing economies (such as Brazil, Colombia, Mexico, Russia, and South Africa) depreciated significantly against the US dollar in the first quarter of 2020. To help ease currency pressures, several countries signed or enhanced existing bilateral swap arrangements with major central banks (e.g. Australia, Brazil, Japan, Malaysia, Mexico, Korea, Singapore and Thailand).

Issuance by the countries in the lower middle-income category, mostly in the non-investment grade category, was slightly higher in the first five months of the year (9%) than the historical averages, despite rising interest rates. From the perspective of the trade-off between funding cost and refinancing risk, lowering rollover risks takes priority over concerns about borrowing costs when there are large downside risks stemming from potential loss of market access.

Figure 2.12. Gross central government bond issuance by region and income group (USD, billions)

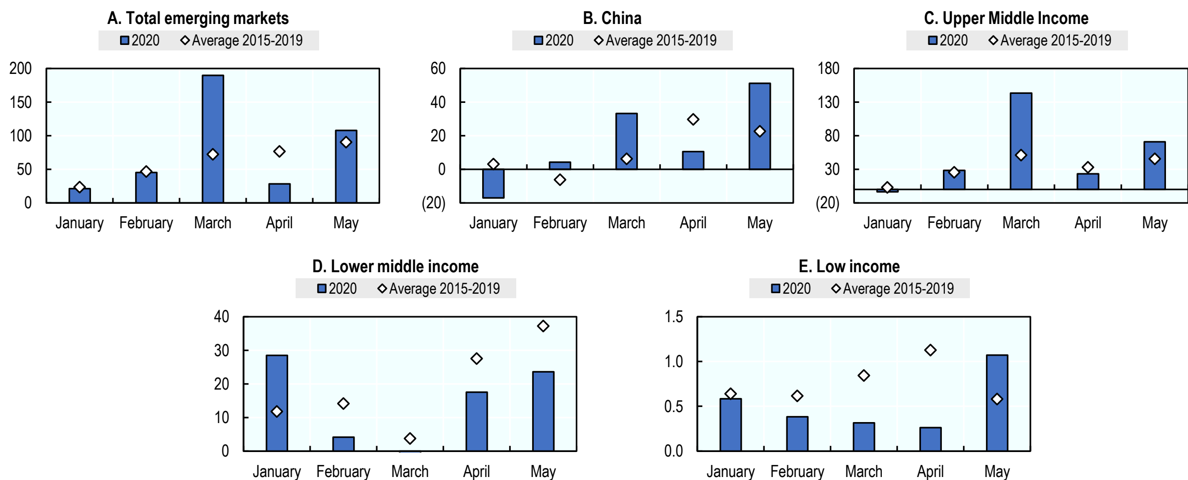


Source: OECD calculations based on data from Refinitiv.

In low-income countries, on the other hand, monthly issuance amounts were clearly below the historical averages during March and April, but improved in May. These countries, suffering from a flight to safety and consequent decreased investor interest, have been hit hardest by the pandemic.

In terms of net issuance, while the countries in the upper middle-income category have been able to issue significant amounts of new debt and thus increase net issuance, countries in lower middle-income and low-income groups have instead decreased theirs as a result of scheduled debt repayments in combination with lack of access to new borrowing.

Figure 2.13. Monthly net issuance by emerging markets sovereigns (USD, billions)



Source: OECD calculations based on data from Refinitiv.

The impact on the LICs, where the impact of COVID-19 has compounded with high debt levels, is of most significance. LICs issuance fell most sharply, despite a relative improvement in May. In the first four months of the year, the net amount of sovereign issuance by LICs was less than half of the previous five years' average. This suggests that some countries, with limited access to financial markets may be forced to limit macroeconomic policy support to weather the negative implications of the global recession. If the global economic downturn proves to be long-lasting, several of those countries could face downward revision of credit ratings and difficulty in repaying their existing debt to the markets, which would call for a need for debt restructuring (Box 2.1).

Box 2.1. Financing pressures in countries where the COVID-19 pandemic has elevated risk of debt stress

The debt build-up in emerging markets since the 2008 financial crisis has coincided with a period of slowing investment and productivity growth. Until recently, low global interest rates have mitigated near-term concerns over debt sustainability. Although institutions such as the World Bank and the IMF had raised alarms on the increasing fragility of low-income developing countries, market conditions remained benign (IMF and World Bank, 2020[11]). The COVID-19 pandemic has raised concerns over high levels of sovereign debt and debt service in some emerging economies. With the global shock causing high risk aversion and low commodity prices, a flight to safety dynamic is unfolding in emerging markets. The number of downward revisions of sovereign credit ratings and capital outflows from

emerging markets has been unprecedented (at over USD 90 billion, according to the IIF (IIF, 2020[12])). Countries with underdeveloped domestic financial markets that until weeks ago enjoyed access to international capital markets might be unable to roll over their existing debt, or repay their debt to investors. Figure 2.12 indicates the dramatic decline in sovereign bond issuance in financial markets by LICs during the first quarter of the year in comparison with the previous five years' average. At the same time, maturities of borrowings from the markets have shortened significantly. Many LICs, already about 40 percent were in debt distress before the pandemic, have started facing difficulties in repaying their debt. This emerging risk calls for the attention of the international community.

Multilateral cooperation plays a key role in providing financial support to the countries facing heavy debt repayments. The OECD has urged leaders to consider a "highly-indebted poor countries initiative on steroids" (Gurria, 2020[13]). The IMF and World Bank have already taken important steps to help financially constrained countries (IMF, April 2020[14]). On 15 April, G20 countries agreed to a "debt service standstill" from official bilateral donors, providing some direct liquidity support to the poorest countries (i.e.73 low-income countries), to which 41 had formally applied by end of June. Private creditors, including banks and bondholders, were also called upon to voluntarily defer debt service to countries which request it, but none so far have made such request. The fear of losing hard-earned market access, of potential ratings downgrades, as well as cross-default clauses have led countries to be cautious in approaching their creditors under the DSSI. In addition, the IMF approved SDR 17 billion (USD 24 billion) of emergency financing for 66 countries in the form of new concessionary lending, and cancelled six months of debt service payments on IMF loans in 25 countries. These initiatives brought a significant amount of relief, yet temporary.

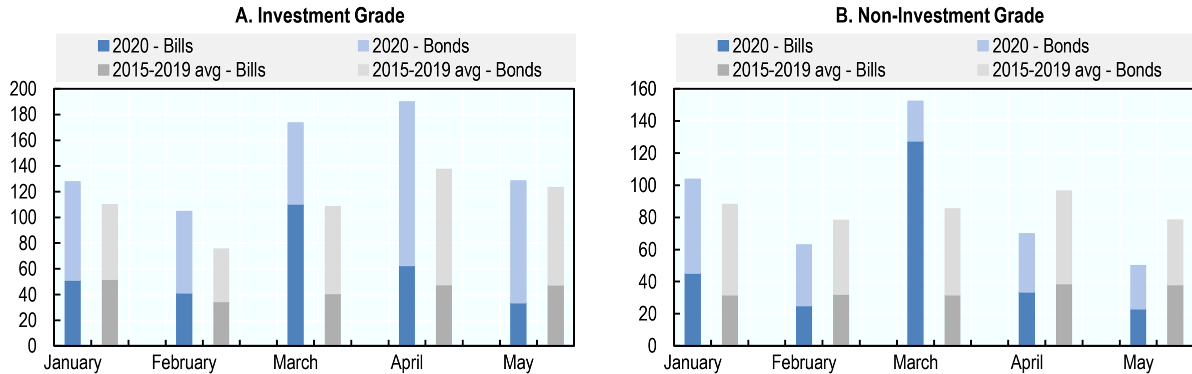
If the global economic downturn proves to be long-lasting, consequences for several LICs, and to some extent also middle-income countries, could be sizeable and they could become insolvent (Bolton et al., 2020[15]). While the immediate need is to provide urgent resources, it might be necessary to consider deeper restructuring of the debt on a case-by-case basis, should such strategies be pursued by highly indebted countries. Countries dependent on oil exports, other commodities, or tourism, are experiencing a considerable economic shock, and could see a large share of their population slip back into poverty. In addition, the global recession could, depending on how long it lasts, push debt levels beyond what can be sustained. Several affected countries, such as Zambia (whose main export, copper, experienced a 20% price decline), Ecuador (suffering from one of the worst outbreaks among developing countries), or Argentina (whose debt was already unsustainable before the COVID-19 shock) have already entered into negotiations with lenders to restructure their debt. The international financial community has an important role in ensuring temporary debt relief for vulnerable countries and avoid turning higher debt ratios into solvency problems (OECD, May 2020[16]).

2.4.2. Maturity of issuance

During the initial phase of the COVID-19 crisis, at a time of acute market distress, both investment and non-investment grade issuers increased their issuance in short-term money markets, almost all in local currency. In particular, non-investment grade issuers increased their T-bill issuance by 48% in the first five months of 2020 compared to the previous five years' average, whereas total non-investment grade issuance only increased by 3%.

While investment grade issuers gradually moved towards long-term bond issuance with the subsequent stabilisation in financial markets, brought about by monetary policy measures since end-March, bond issuance by non-investment grade issuers remained significantly lower than historical averages in April and May. If the global economic downturn proves to be long-lasting, and borrowing conditions deteriorate further, the repayment risks in non-investment grade issuers, in particular for those rated CCC or lower, would be exacerbated.

Figure 2.14. Emerging market gross issuance by maturity style (USD, billions)



Source: OECD calculations based on data from Refinitiv.

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Annex 2.A. Methodology for data collection and classification

Primary sovereign bond market data

Primary sovereign bond market data are based on original OECD calculations using data obtained from Refinitiv that provides international security-level data on new issues of sovereign bonds. The data set covers bonds issued by emerging market sovereigns in the period from 1 January 2000 to 31 May 2020 and includes both short-term and long-term debt. Short-term debt ("bills") are defined as any security with a maturity less than or equal to 367 days. The database provides a detailed set of information for each bond issue, including the proceeds, maturity date, interest rate and interest rate structure.

The definition of emerging markets used in the present report is the IMF's classification of Emerging and Developing Economies used in the World Economic Outlook. The regional definitions are also those used by the IMF, while the income categories used (low income, lower middle income, upper middle income) are defined by the World Bank according to GNI per capita levels.

A number of bonds have been subject to reopening. For these bonds the initial data only provide the total amount (original issuance plus reopening). To retrieve the issuance amount for such reopened bonds, specific data on the outstanding amount on each reopening date for the concerned bonds have been downloaded from Refinitiv. In order to obtain the issuance amount on each relevant date, the outstanding amount on a given date has been subtracted from the outstanding amount on the following date. The reopening data only provide amounts outstanding in local currency. The calculated issuance amounts are converted on the transaction date using USD foreign exchange data from Refinitiv. To ensure consistency and comparability, the same method is used for all bonds, including those which have not been subject to reopening.

Certain bonds in the dataset have been manually excluded when they did not have any identifier (ISIN, RIC or CUSIP) and when they have not been able to be manually confirmed by comparing with official government data.

Rating data

Refinitiv provides rating information from three leading rating agencies: S&P, Fitch and Moody's. For each country that has rating information in the dataset, a value of 1 to the lowest credit quality rating (C) and 21 to the highest credit quality rating (AAA for S&P and Fitch and Aaa for Moody's) is assigned. There are eleven non-investment grade categories: five from C (C to CCC+); and six from B (B- to BB+). The ratings data are observed on a monthly basis. In the case that a country has received several ratings in one month, the lowest one is used, except when that is a default rating (SD or D for S&P and RD or DDD for Fitch). The rating in question is then assigned to each relevant bond issued by that country. In the case that there are ratings available from several agencies, their average is used. When differentiating between investment and non-investment grade bonds, if the final rating is higher than or equal to 12 it is classified as investment grade. If the final rating is below 12 but higher than or equal to 11 and at least two agencies have given a rating higher than or equal to 12, it is also classified as investment grade. All other bonds are considered non-investment grade.

Income groups

The income classifications used in this chapter are the World Bank's Lending Groups and are based on GNI per capita levels. The countries in each group are listed below along with the GNI per capita thresholds.

Low-income economies (USD 1 305 or less)	Lower-middle-income economies (USD 1 306–4 045)	Upper-middle-income economies (USD 4 046–12 535)
Afghanistan	Algeria	Albania
Burundi	Angola	American Samoa
Burkina Faso	Bangladesh	Armenia
Central African Republic	Benin	Argentina
Chad	Bhutan	Azerbaijan
Democratic Republic of the Congo	Bolivia	Belarus
Democratic People's Republic of Korea	Cabo Verde	Belize
Eritrea	Cambodia	Bosnia and Herzegovina
Ethiopia	Cameroon	Botswana
Gambia	Comoros	Brazil
Guinea	Congo	Bulgaria
Guinea-Bissau	Côte d'Ivoire	China (People's Republic of)
Haiti	Djibouti	Colombia
Liberia	Egypt	Costa Rica
Madagascar	El Salvador	Cuba
Mali	Kingdom of Eswatini	Dominica
Mozambique	Ghana	Dominican Republic
Malawi	Honduras	Ecuador
Niger	India	Equatorial Guinea
Rwanda	Kenya	Fiji
Sudan	Kiribati	Gabon
Sierra Leone	Kyrgyzstan	Georgia
Somalia	Lao People's Democratic Republic	Grenada
South Sudan	Lesotho	Guatemala
Syrian Arab Republic	Mauritania	Guyana
Tajikistan	Federated States of Micronesia	Indonesia
Togo	Moldova	Iran

Low-income economies (USD 1 305 or less)	Lower-middle-income economies (USD 1 306–4 045)	Upper-middle-income economies (USD 4 046–12 535)
Uganda	Mongolia	Iraq
Yemen	Morocco	Jamaica
	Myanmar	Jordan
	Nepal	Kazakhstan
	Nicaragua	Kosovo
	Nigeria	Lebanon
	Pakistan	Libya
	Papua New Guinea	Malaysia
	Philippines	Maldives
	Sao Tome and Principe	Marshall Islands
	Senegal	Mexico
	Solomon Islands	Montenegro
	Sri Lanka	Namibia
	Tanzania	North Macedonia
	Timor-Leste	Paraguay
	Tunisia	Peru
	Ukraine	Russia
	Uzbekistan	Saint Vincent and the Grenadines
	Vanuatu	Saint Lucia
	Viet Nam	Samoa
	West Bank and Gaza Strip	Serbia
	Zambia	South Africa
	Zimbabwe	Suriname
		Thailand
		Tonga
		Turkey
		Turkmenistan
		Tuvalu
		Venezuela

Notes

[1] Marketable debt refers to financial securities and instruments that can be bought and sold in the secondary market such as bonds and bills.

[2] Among other factors, the inclusion of an emerging market economy into an index can trigger large portfolio reallocations. Emerging market bond indices, first introduced in 1990s, have rapidly expanded during 2000s with inclusion of a number of small and large issuers (e.g. from China and Mexico to Gabon, Ethiopia and Belarus).

[3] 2003, the impact of shifting interest rate expectations in major economies and a temporary heightening of risk aversion; 2008, the impact of the global financial crisis and 2015, a spill over from the Chinese stock market turbulence. Significant exchange rate volatility in some emerging market currencies affect the valuations, in particular in the early years of the analysed period.

[4] Several studies of EM crisis suggest that many crises began with sharp currency depreciations and capital outflows, where large depreciations increased service costs on foreign currency-denominated debt and complicated debt rollovers. Examples of debt crisis following a currency crisis include Mexico in 1994, East Asia in 1997, Russia, Argentina, and Turkey, in the late 1990s and early 2000s.

[5] The literature on foreign investor participation presents mixed results concerning the impact of foreign participation on financial markets. While foreign participation in local-currency sovereign bond markets provides an additional source of financing, reduces long-term government yields and helps the development of local bond markets (Peiris, 2010[18]), it raises concerns about increased sensitivity of yields to shifts in market sentiment and, even amplifying spillovers from global shocks (Ebeke and Kyobe, 2015[17]).

[6] Domestic government bonds issued in several EM economies are currently included in the widely used global bond indices. For example, Malaysia (2007), Mexico (2010), Poland (2003), Singapore (2005), and South Africa (2012) were included in Citigroup World Government Bond Index (WGBI).

[7] Brazil lost its final investment grade rating in 2016.

[8] It should be noted that this was a global phenomenon for distressed and close to default debt, which also includes BB and lower rated corporate debt in advanced economies. For example, the total issuance by non-investment grade corporations was less than USD 5 billion in March 2020, which is only 12% of the average amount issued in the same month during the past five years.

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