



Sovereign Issuers

Entering International Markets:

Cross Country Experience

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Overview

- New trends
- Preconditions and recent experience
- Considerations for issuing externally



New trends





New Trend - Growing Investor Interest in the 'last frontier'

- **Sharp increase in portfolio investor interest in LICs**
- **Drivers:**
 - Debt relief restored debt sustainability in many countries
 - Sustained record of good macroeconomic performance
 - Diversification and “high yield”
- **Improved growth prospects and stability have catalyzed demand and increased country interest in tapping external markets**

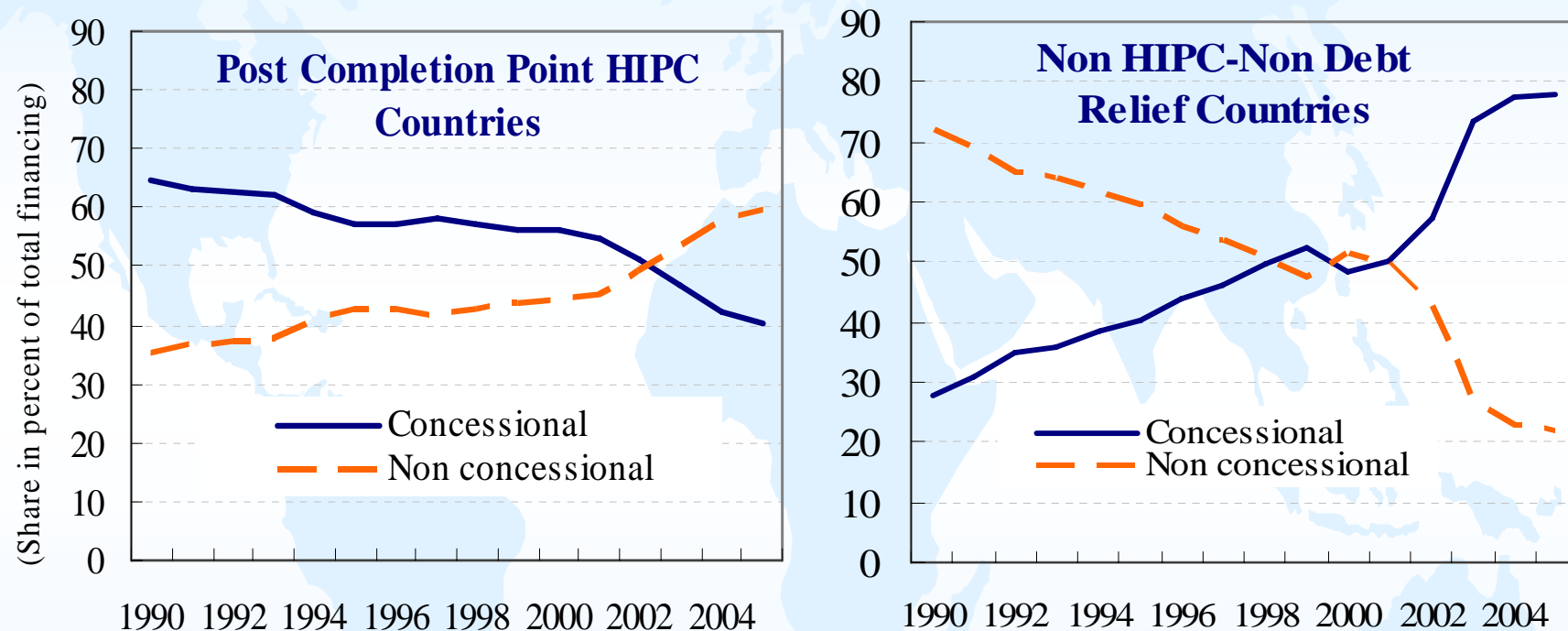


New Trend - LICs as an Asset Class

- Growing number of first-time external issuers
- Foreign investment in local markets also growing rapidly
- **But, as countries integrate more with global markets, the importance of debt and risk management increases**



Reverse Trends - African Post-HIPC vs. Non-HIPC Countries



- While post completion point African HIPC countries concessional financing has gradually declined and non-concessional has increased, African non-HIPC countries financing has exhibited the reverse trends during 1990-2005.



*Preconditions and recent
experience of first-time
issuers*

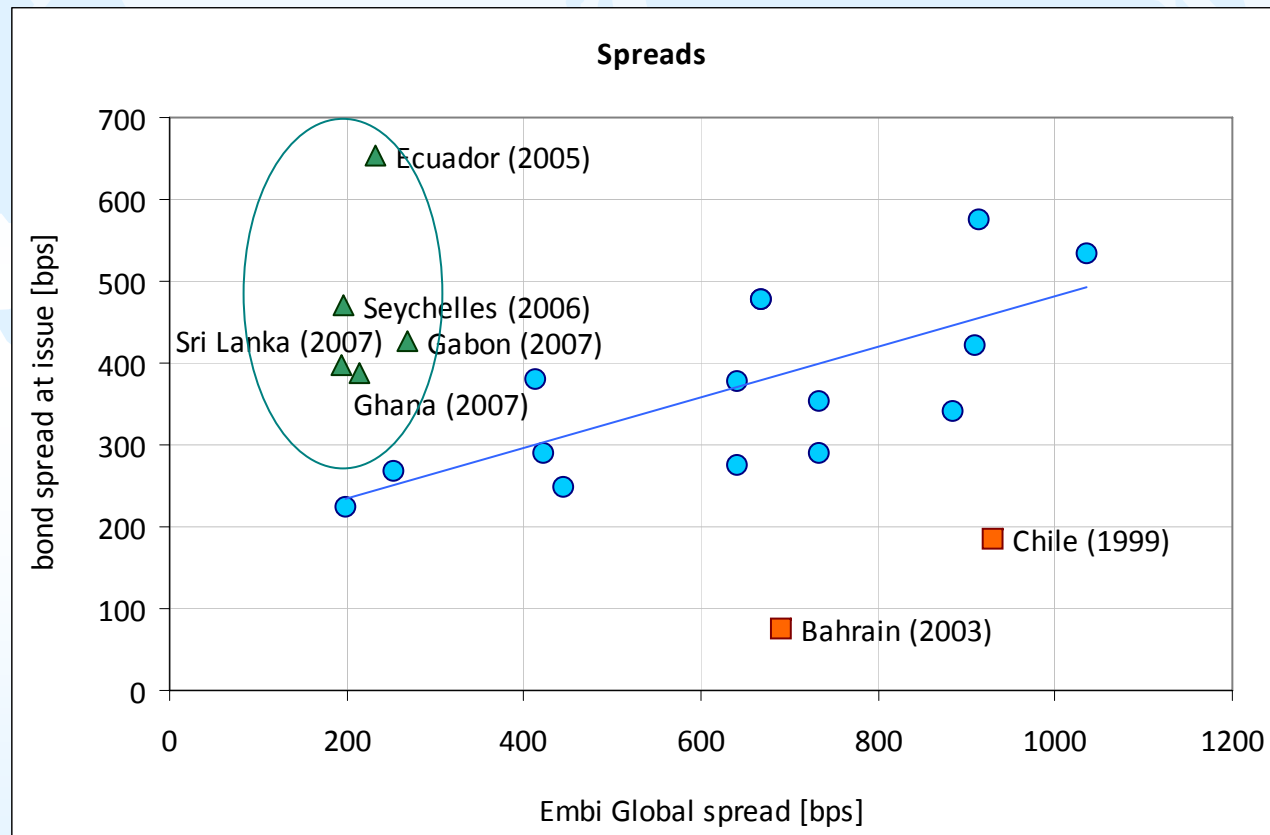


Preconditions

- **Favorable country prospects**
 - Growth, inflation, current account, fiscal stance
 - Sustainable levels of debt
 - Track record of servicing of existing public debt
 - Policy transparency and adequate data dissemination
- **Supportive external environment**
 - Investor interest
 - Sufficient risk appetite
 - Demand for diversification



First time issuers pay a premium

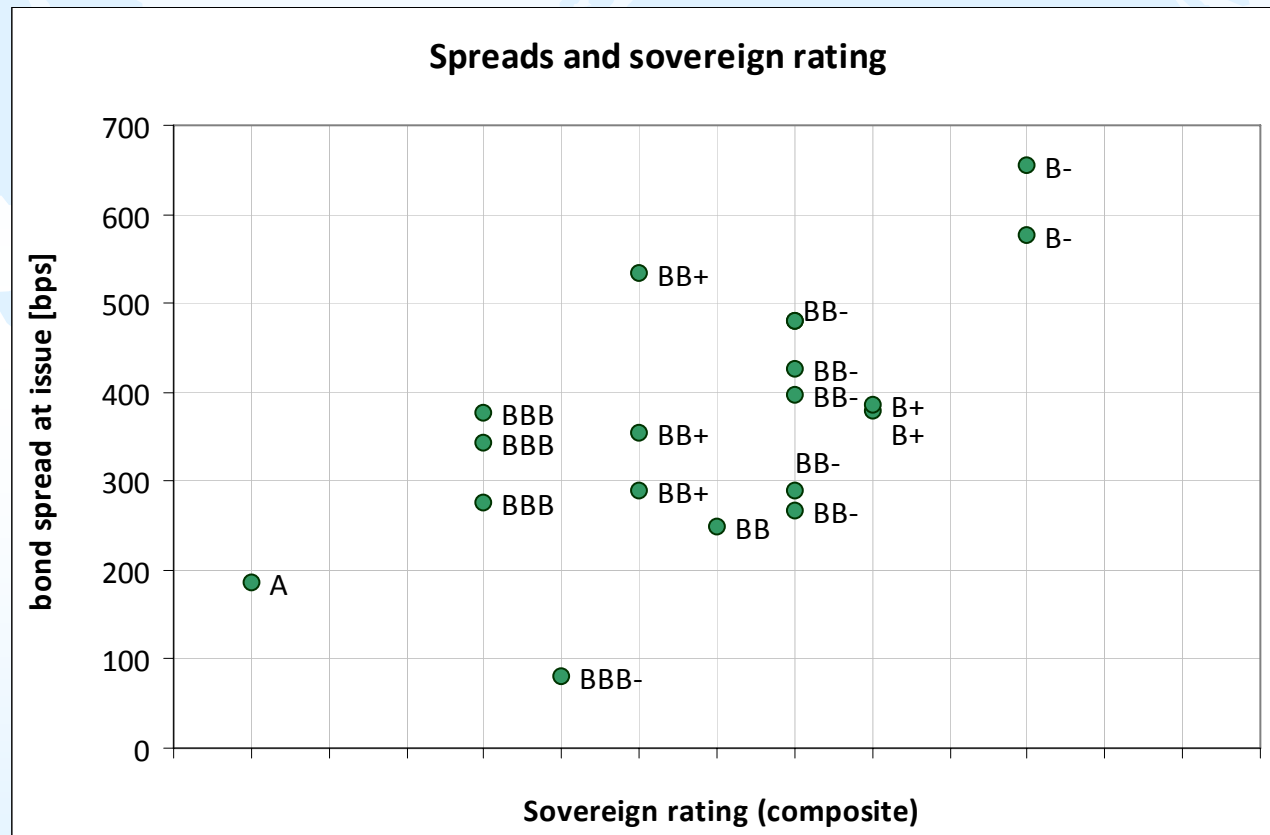


Source: Bloomberg, Dealogic.



Spreads and Sovereign Ratings

Cost of issue (spread) strongly depends on the sovereign credit rating

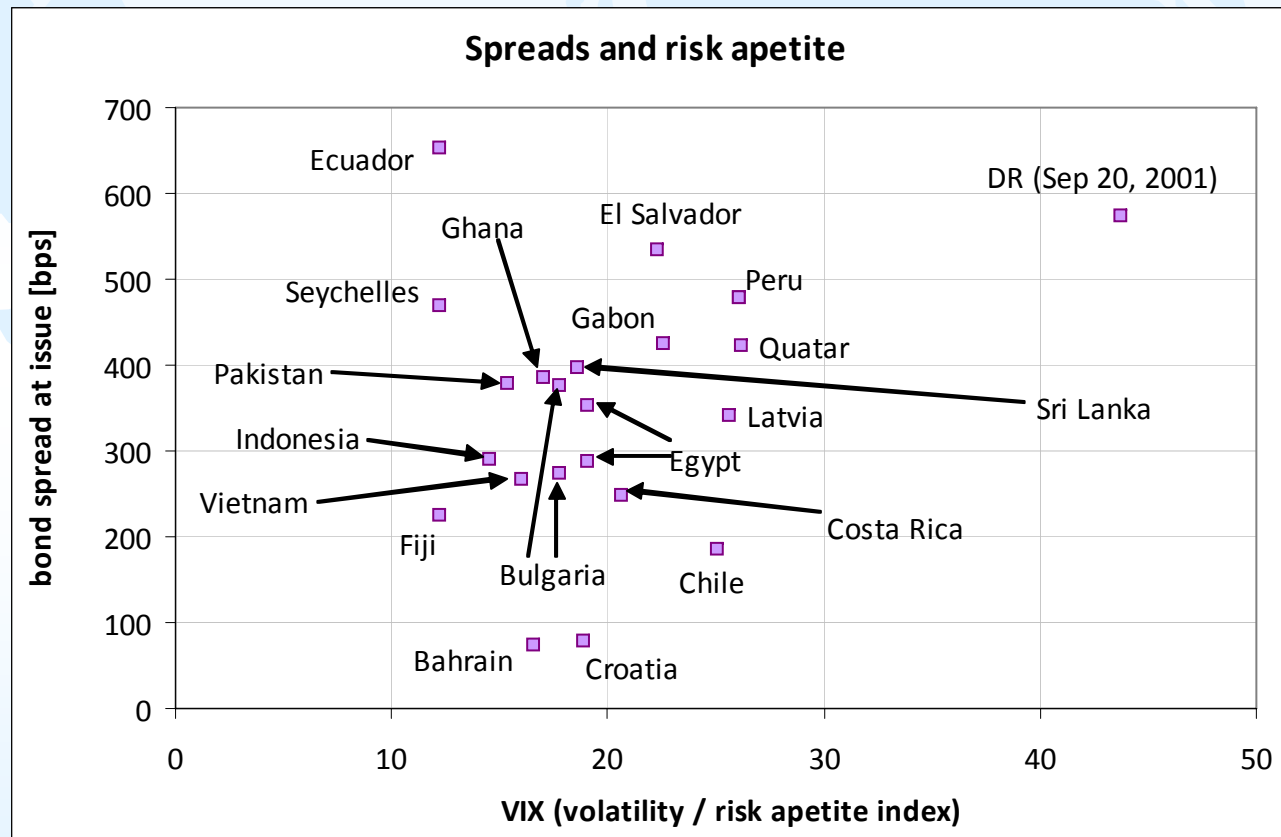


Source: Bloomberg, Dealogic.



Market Access and Risk Appetite

Most issuers access markets when risk appetite is high



Low VIX – high risk appetite / low volatility

Source: Bloomberg, Dealogic.



Recent debut bond issues

Country	Date	Size (\$ mln)	Size (% GDP)	Maturity	Spread at issue	Yield at issue
Pakistan	Feb-04	500	0.52%	5	370	6.864
Indonesia	Mar-04	1000	0.39%	10	277	6.968
Vietnam	Oct-05	750	1.42%	10	268	7.247
Ecuador	Dec-05	650	1.75%	10	623	11.061
Fiji	Sep-06	150	5.00%	5	225	7.252
Seychelles	Sep-06	200	28.64%	5	470	9.296
Ghana	Sep-07	750	4.99%	10	387	8.500
Sri Lanka	Oct-07	500	1.85%	5	397	8.472
Gabon	Dec-07	1000	9.80%	10	426	8.200
Georgia	Apr-08	500	6.46%	5	474	7.500



Recent debut bond issues

Country	Date	Spread at issue	VS similarly rated peers	1st week spread change	Latest spread (April 8)
Pakistan	Feb-04	370	-115	14	558
Indonesia	Mar-04	277	-85	35	306
Vietnam	Oct-05	268	-51	-17	274
Ecuador	Dec-05	623	311	-22	563
Fiji	Sep-06	225	-26	8	524
Seychelles	Sep-06	470	166	3.2	563
Ghana	Sep-07	387	-30	-50	443
Sri Lanka	Oct-07	397	181	33	803
Gabon	Dec-07	426	151	-63	399
Georgia	Apr-08	474	47	-44 (one day)	



Considerations for issuing externally



Why Do Countries Issue Internationally

- Benefits of international issuance:
 - Supplements domestic savings
 - Diversifies external financing sources
 - Obtains longer maturities
 - Establishes a pricing benchmark
 - Closer international market monitoring



But external borrowing also introduces new risks

- Refinancing risk can be higher due to abrupt changes in market conditions
 - Exchange rate exposure
 - Terms of trade swings
 - External financing conditions
- Market discipline can be faster and harsher than official sector conditionality
- Over borrowing can lead to debt sustainability problems



**Careful planning and execution
can improve the risk-return
tradeoffs**



Explicitly plan for the use of proceeds

- Balance sheet operations
 - Retire existing high cost and/or short maturity debt; Paris club debt
 - Resolve debt in arrears
 - Reduce domestic debt
- Financing specific projects (infrastructure)
- General government purposes (ex ante riskiest)



Link size and structure to use of proceeds -- “best practice”

- Size of debut issue primarily a function of near term financing needs (use of proceeds)
- Average maturity chosen to minimize risks rather than to save on yield
- If proceeds used for projects, consider longer maturity
- To minimize risks stemming from large repayment humps, consider amortization



Lay the groundwork early to develop a stable investor base

- Get ratings from 2 agencies
- Begin regular non-deal roadshows to familiarize investors with the country and key authorities
- Build an investor relations capability
 - Data transparency
 - Contact lists
 - Improved website
 - Work on improving scope and quality of data