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Sovereign Debt 2017: Asia-Pacific Borrowing Of US\$2.6 Trillion Is Likely This Year

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Sovereign Debt 2017: Asia-Pacific Borrowing Of US\$2.6 Trillion Is Likely This Year

S&P Global Ratings projects that the 21 Asia-Pacific (APAC) sovereigns it rates will borrow an equivalent of US\$2.6 trillion from long-term commercial sources in 2017. This would be less than the long-term commercial debt issuance in 2016, as a further decline in Japanese borrowing offset increases elsewhere. Some 81% (or US\$2.1 trillion) of the sovereigns' gross long-term commercial borrowings will be for refinancing maturing debt, resulting in estimated net long-term commercial borrowings of US\$493 billion (see tables 1 through 3 and chart 1 for more detail).

Consequently, we project that APAC sovereigns' commercial debt stock will reach an equivalent of US\$15.1 trillion by the end of 2017, little changed from 2016. Including bilateral and multilateral debt, the total stock in 2017 will reach US\$15.4 trillion, similar to that in 2016.

Overview

- We forecast rated sovereign borrowing from commercial sources to decline slightly to US\$2.6 billion in 2017, from US\$2.8 billion registered in 2016.
- We project China's share of borrowing to increase as the government pursues fiscal policy to support economic growth. We project new borrowing by the Japanese government to fall on continuing improvements in fiscal performance.
- Absolute debt levels continue to increase. We forecast that total outstanding sovereign debt in Asia-Pacific at year-end 2017 will be US\$15.4 trillion, marginally above the level in 2016.

We project the share of commercial sovereign debt rated 'AAA' will stand at 4.6% of total commercial debt in 2017 (see chart 2). At the same time, the share of debt in the 'BBB' category and below is set to account for about 13%. The share of noncommercial official debt (bilateral and multilateral) in total long-term sovereign debt is set to remain at 2.5%--little changed from the past two years.

By our estimates, Pakistan and Japan will face the highest debt-rollover ratios (including short-term debt) of rated APAC sovereigns, reaching 66% and 24% of GDP this year, respectively (see chart 3). The debt-rollover ratios for infrequent issuers with small but lumpy debt obligations can be very low if they have little or no debt maturing in a given year and if those issuers do not have a significant amount of short-term debt. The rollover ratios of sovereigns that have a higher proportion of official debt tend to be lower, because official debt typically has longer maturities than commercial debt.

Table 1

| Sovereign Commercial Issuance And Debt | | | | | |
|--|-------|-------|-------|-------|-------|
| (Bil. US\$) | 2013 | 2014 | 2015 | 2016 | 2017 |
| Gross long-term commercial borrowing | 2,442 | 2,547 | 2,611 | 2,831 | 2,588 |
| Of which amortization of maturing long-term debt | 126 | 1,641 | 1,970 | 2,142 | 2,094 |
| Of which net long-term commercial borrowing | 2,316 | 906 | 641 | 689 | 493 |

Table 1

| Sovereign Commercial Issuance And Debt (cont.) | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| (Bil. US\$) | 2013 | 2014 | 2015 | 2016 | 2017 |
| Total commercial debt stock (year end) | 13,823 | 14,162 | 13,668 | 15,015 | 15,068 |
| Of which short-term debt | 2,136 | 2,428 | 1,692 | 1,874 | 1,844 |
| Of which debt with original maturity greater than one year | 11,687 | 11,734 | 11,976 | 13,141 | 13,224 |
| Gross long-term commercial borrowing (% GDP) | 10.6 | 10.6 | 10.9 | 11.5 | 10.1 |
| Of which amortization of maturing long-term debt (% GDP) | 0.5 | 6.8 | 8.3 | 8.7 | 8.1 |
| Of which net long-term commercial borrowing (% GDP) | 10.0 | 3.8 | 2.7 | 2.8 | 1.9 |
| Total commercial debt stock (year end) (% GDP) | 59.7 | 59.1 | 57.2 | 60.7 | 58.6 |
| Of which short-term debt (% GDP) | 9.2 | 10.1 | 7.1 | 7.6 | 7.2 |
| Of which debt with original maturity greater than one year (% GDP) | 50.5 | 48.9 | 50.2 | 53.2 | 51.4 |

These estimates account only for the 21 APAC sovereigns rated by S&P Global Ratings (see ratings list in table 5). Our estimates focus on debt that is issued by a central government in its own name, and exclude local government and social security debt as well as debt issued by other public bodies and government-guaranteed obligations (in most cases). In terms of commercial debt instruments, our estimates for long-term borrowing include bonds with maturities of more than one year issued either on publicly listed markets or sold as private placements, as well as commercial bank loans.

In addition to commercial debt, some of the estimates we use in this study include official bi- and multilateral debt. We do not include government debt that may be issued by central banks for monetary policy purposes in some countries. All reported forecast figures are our own estimates, and do not necessarily reflect the issuers' projections. Our estimates are based on our expectations regarding central government deficits, our assessment of governments' potential extra-budgetary funding needs, and our estimates of debt maturities. Estimates that we express in dollars are subject to exchange rate variations.

Given the size of Japan's outstanding debt, its government debt issuance dominates the statistics for the region. We estimate that outstanding commercial debt issued by the Japanese government will amount to approximately 63% of the total in APAC at the end of 2016. We expect that Japan will account for 60% of this year's long-term commercial borrowing by central governments in APAC.

The Japanese government has been addressing the refinancing risk of its large debt stock, as reflected by the high rollover ratio, by gradually extending the maturity of its outstanding debt. In fiscal 2017, Japan intends to increase the average maturity of its bond issuance to nine years and five months, approximately two months more than in the previous fiscal year.

Japan expects to increase Japanese Government Bond (JGB) issuance in fiscal 2016 (ending March 2017) compared with the previous fiscal year. It had initially expected to continue a downward trend in JGB issuance in fiscal 2016 for the third year in a row. However, the economy weakened in mid-2016; global uncertainties emanating from the surprise Brexit vote led to fiscal measures for supporting growth. In addition, Japan also had to increase spending to fund the necessary rebuilding after the April 2016 Kumamoto earthquakes. We expect new issuance of long-term debt in 2017 to decline from 2016.

Partly as a result of Japan's lower new issuance of debt in 2017, China--the next largest borrower in Asia-Pacific--will see an increase in its share of commercial borrowing to 14% this year from 12% in 2016. Another reason for the bigger Chinese share of borrowing is our expectation that the government will continue to maintain a relatively large fiscal deficit this year to support growth as it pushes for more corporate deleveraging and capacity reductions in oversupplied industries.

The share of borrowing for the next largest borrower, India, is also likely to rise to 4.3%. Like in Japan, we expect India to have a higher issuance level in 2017 following declines in 2015 and 2016. This reflected the weaker-than-expected growth in fiscal 2016 after the surprise currency reforms implemented last year.

Chart 1

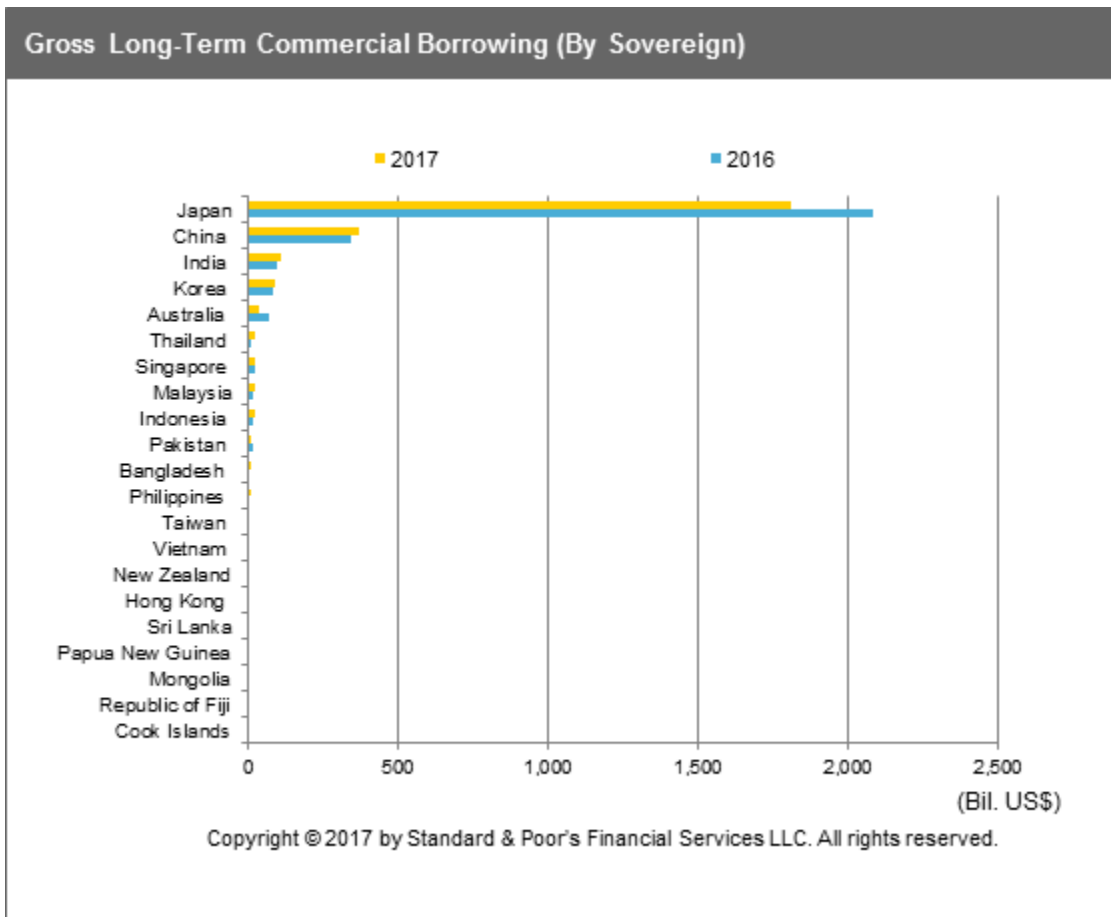


Chart 2

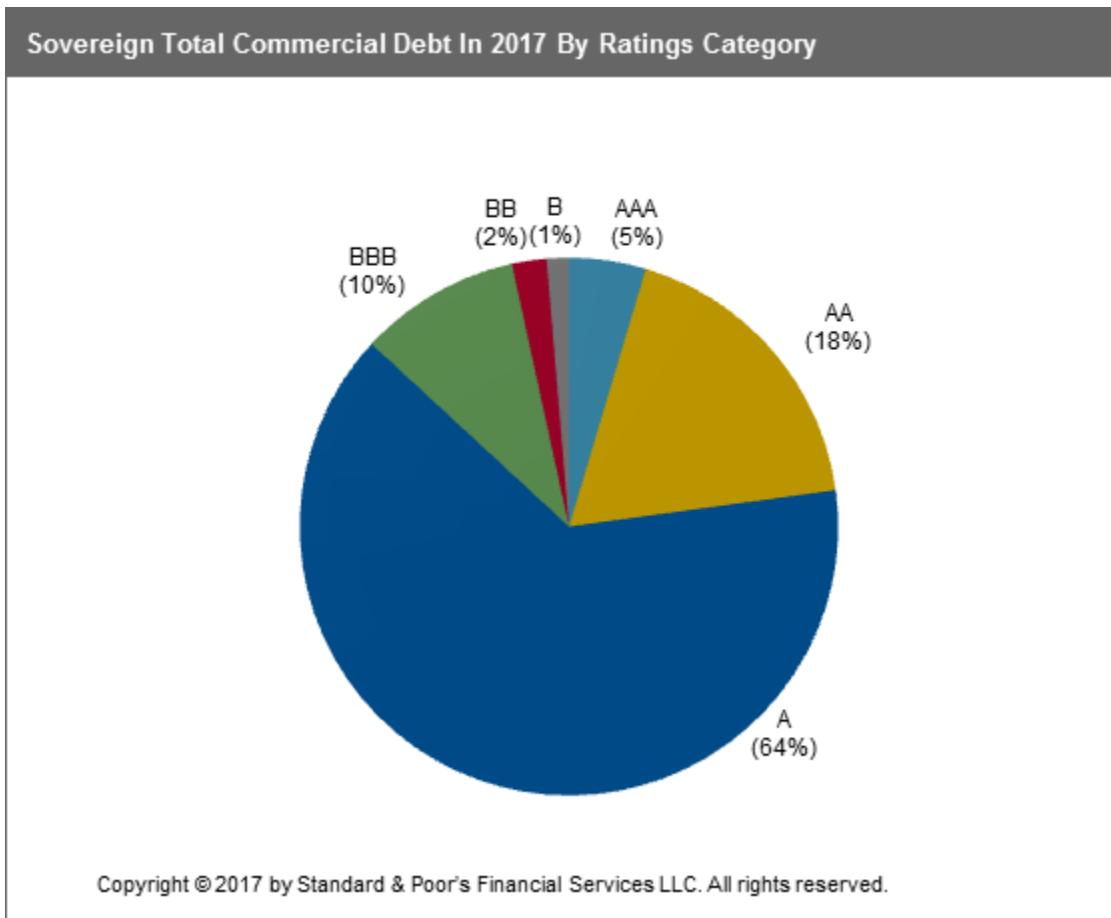


Chart3

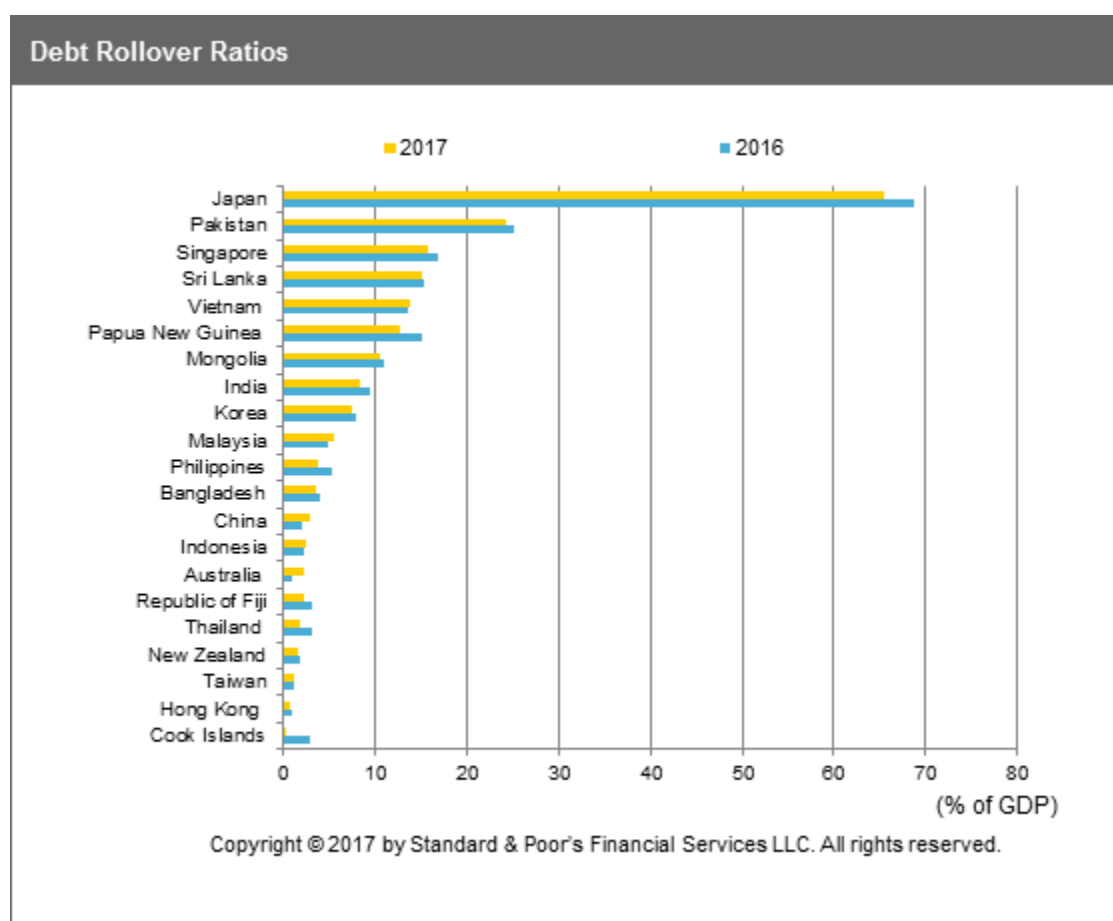


Table 2

| Asia-Pacific Gross Commercial Long-Term Borrowing | | | | | | |
|---|--------|--------|--------|--------|--------|-------------------------------|
| (Bil. US\$) | 2013 | 2014 | 2015 | 2016 | 2017 | Share of 2016 total borrowing |
| Australia | 57.5 | 75.2 | 80.2 | 75.0 | 42.3 | 1.6 |
| Bangladesh | 3.1 | 4.3 | 3.5 | 7.9 | 10.2 | 0.4 |
| China | 254.6 | 269.0 | 337.0 | 346.1 | 371.4 | 14.4 |
| Cook Islands | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Hong Kong | 0.0 | 4.9 | 4.9 | 3.7 | 4.9 | 0.2 |
| India | 194.0 | 219.4 | 143.7 | 102.4 | 112.1 | 4.3 |
| Indonesia | 25.8 | 29.2 | 37.0 | 19.6 | 22.8 | 0.9 |
| Japan | 1717.6 | 1677.3 | 1767.5 | 2082.3 | 1812.1 | 70.0 |
| Korea | 47.4 | 94.7 | 96.6 | 87.4 | 90.1 | 3.5 |
| Malaysia | 25.9 | 30.3 | 25.0 | 22.2 | 24.6 | 0.9 |
| Mongolia | 1.6 | 1.3 | 1.0 | 0.2 | 0.3 | 0.0 |
| New Zealand | 9.1 | 6.5 | 8.5 | 5.3 | 5.3 | 0.2 |
| Pakistan | 17.7 | 38.8 | 39.7 | 18.3 | 10.8 | 0.4 |
| Papua New Guinea | 0.0 | 0.8 | 0.5 | 0.3 | 0.3 | 0.0 |
| Philippines | 11.2 | 11.1 | 11.6 | 9.1 | 10.1 | 0.4 |

Table 2

| Asia-Pacific Gross Commercial Long-Term Borrowing (cont.) | | | | | | |
|---|--------|--------|--------|--------|--------|-------------------------------|
| Republic of Fiji | 0.1 | 0.1 | 0.2 | 0.0 | 0.1 | 0.0 |
| Singapore | 19.2 | 28.1 | 29.8 | 26.9 | 25.6 | 1.0 |
| Sri Lanka | 6.4 | 5.7 | 9.2 | 3.4 | 3.7 | 0.1 |
| Taiwan | 31.0 | 35.5 | 2.8 | 3.8 | 7.0 | 0.3 |
| Thailand | 15.4 | 12.4 | 6.7 | 11.2 | 28.2 | 1.1 |
| Vietnam | 5.0 | 2.9 | 5.6 | 5.9 | 5.8 | 0.2 |
| Breakdown by foreign currency rating category | | | | | | |
| | 2013 | 2014 | 2015 | 2016 | 2017 | Share of 2017 total borrowing |
| AAA | 76.6 | 108.2 | 114.9 | 105.6 | 72.7 | 2.8 |
| AA | 342.1 | 405.8 | 444.9 | 442.6 | 473.8 | 18.3 |
| A | 1743.5 | 1707.6 | 1792.5 | 2104.5 | 1836.7 | 71.0 |
| BBB | 220.6 | 242.8 | 162.0 | 122.7 | 150.4 | 5.8 |
| BB | 33.9 | 36.4 | 46.1 | 33.3 | 38.9 | 1.5 |
| B | 25.7 | 46.6 | 50.6 | 22.3 | 15.2 | 0.6 |
| CCC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Table 3

| Asia-Pacific Total Commercial Debt At Year-End (Long And Short Term) | | | | | | |
|--|---------|---------|---------|---------|---------|-------------------------------------|
| (Bil. US\$) | 2013 | 2014 | 2015 | 2016 | 2017 | Share of 2017 total commercial debt |
| Australia | 264.9 | 329.9 | 322.9 | 370.0 | 376.3 | 2.5 |
| Bangladesh | 22.0 | 25.0 | 29.4 | 31.7 | 38.0 | 0.3 |
| China | 1,376.4 | 1,551.4 | 1,624.7 | 1,791.2 | 1,980.4 | 13.1 |
| Cook Islands | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Hong Kong | 1.4 | 13.6 | 14.8 | 15.1 | 18.0 | 0.1 |
| India | 813.1 | 878.9 | 1,258.4 | 1,091.5 | 1,213.6 | 8.1 |
| Indonesia | 139.8 | 159.2 | 174.0 | 203.1 | 219.4 | 1.5 |
| Japan | 9,640.7 | 9,646.6 | 8,668.8 | 9,872.6 | 9,497.1 | 63.0 |
| Korea | 437.6 | 427.1 | 474.7 | 504.0 | 543.1 | 3.6 |
| Malaysia | 163.0 | 162.9 | 145.4 | 146.1 | 154.9 | 1.0 |
| Mongolia | 3.7 | 5.1 | 5.2 | 3.9 | 4.2 | 0.0 |
| New Zealand | 60.7 | 65.6 | 50.2 | 49.0 | 46.8 | 0.3 |
| Pakistan | 104.9 | 115.8 | 132.0 | 135.6 | 140.4 | 0.9 |
| Papua New Guinea | 3.2 | 5.3 | 4.6 | 5.0 | 5.1 | 0.0 |
| Philippines | 111.9 | 113.7 | 108.6 | 108.6 | 121.5 | 0.8 |
| Republic of Fiji | 1.7 | 1.4 | 1.6 | 1.6 | 1.7 | 0.0 |
| Singapore | 316.1 | 293.1 | 297.8 | 309.3 | 301.3 | 2.0 |
| Sri Lanka | 39.2 | 44.3 | 43.8 | 47.1 | 49.1 | 0.3 |
| Taiwan | 178.2 | 165.6 | 159.6 | 166.1 | 174.6 | 1.2 |
| Thailand | 113.7 | 124.1 | 105.7 | 113.0 | 127.9 | 0.8 |
| Vietnam | 31.2 | 32.8 | 45.5 | 49.9 | 55.0 | 0.4 |

Table 3

| Asia-Pacific Total Commercial Debt At Year-End (Long And Short Term) (cont.) | | | | | | |
|--|---------|---------|---------|----------|---------|-------------------------------------|
| Breakdown by foreign currency rating category | | | | | | |
| (Bil. US\$) | 2013 | 2014 | 2015 | 2016 | 2017 | Share of 2017 total commercial debt |
| AAA | 582.4 | 636.6 | 635.4 | 694.4 | 695.5 | 4.6 |
| AA | 2,052.9 | 2,209.7 | 2,309.2 | 2,510.3 | 2,744.9 | 18.2 |
| A | 9,803.7 | 9,809.5 | 8,814.2 | 10,018.7 | 9,652.0 | 64.1 |
| BBB | 1,038.7 | 1,116.7 | 1,472.7 | 1,313.2 | 1,462.9 | 9.7 |
| BB | 193.0 | 217.0 | 248.9 | 284.7 | 312.4 | 2.1 |
| B | 152.7 | 172.0 | 187.3 | 193.2 | 200.5 | 1.3 |
| CCC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |

Table 4

| | 2016 | | | | | 2017 | | | | |
|------------------|------------------------------|------------------------------|------------------------------------|---|-------------------------------------|------------------------------------|----------------------------------|---------------------------|------------------------------------|--|
| | Commercial debt (% of total) | Short-term debt (% of total) | Foreign currency debt (% of total) | Long-term fixed-rate debt (% of total debt) | Inflation-indexed debt (% of total) | Bi-/Multilateral debt (% of total) | Rollover ratio (% of total debt) | Rollover ratio (% of GDP) | Bi-/Multilateral debt (% of total) | |
| Australia | 100.0 | 1.2 | 0.0 | 92.1 | 6.7 | 0.0 | 7.75 | 2.33 | 0.00 | |
| Bangladesh | 55.2 | 5.3 | 44.8 | 94.7 | 0.0 | 44.8 | 13.20 | 3.50 | 42.31 | |
| China | 99.1 | 8.0 | 0.9 | 92.0 | 0.0 | 0.9 | 16.24 | 2.85 | 1.62 | |
| Cook Islands | 0.0 | 0.0 | 47.7 | 100.0 | 0.0 | 100.0 | 1.68 | 0.36 | 100.00 | |
| Hong Kong | 100.0 | 0.0 | 13.2 | 71.9 | 0.0 | 0.0 | 11.49 | 0.62 | 0.00 | |
| India | 94.0 | 6.5 | 0.0 | 98.9 | 0.0 | 6.0 | 16.42 | 8.41 | 6.00 | |
| Indonesia | 77.4 | 3.8 | 44.0 | 82.4 | 0.0 | 22.6 | 8.83 | 2.50 | 22.60 | |
| Japan | 100.0 | 14.8 | 0.0 | 81.4 | 0.7 | 0.0 | 30.89 | 65.55 | 0.00 | |
| Korea | 100.0 | 10.0 | 1.3 | 87.9 | 0.0 | 0.0 | 19.97 | 7.36 | 0.00 | |
| Malaysia | 99.0 | 0.7 | 3.6 | 99.3 | 0.0 | 1.0 | 10.42 | 5.60 | 1.00 | |
| Mongolia | 69.5 | 9.4 | 51.4 | 90.6 | 0.0 | 30.5 | 16.91 | 10.55 | 30.50 | |
| New Zealand | 100.0 | 6.1 | 0.0 | 75.2 | 18.7 | 0.0 | 6.36 | 1.60 | 0.00 | |
| Pakistan | 74.6 | 26.4 | 28.2 | 1.7 | 0.0 | 25.4 | 38.62 | 24.18 | 25.40 | |
| Papua New Guinea | 75.9 | 28.9 | 32.4 | 71.1 | 0.0 | 24.1 | 30.86 | 12.74 | 29.54 | |
| Philippines | 86.6 | 4.7 | 33.7 | 86.6 | 0.0 | 13.4 | 8.96 | 3.84 | 12.78 | |
| Republic of Fiji | 65.4 | 3.3 | 34.7 | 10.4 | 0.0 | 34.7 | 4.11 | 2.19 | 34.83 | |
| Singapore | 100.0 | 9.3 | 0.0 | 88.8 | 0.0 | 0.0 | 15.33 | 15.77 | 0.00 | |
| Sri Lanka | 77.0 | 11.0 | 45.0 | 89.0 | 0.0 | 23.0 | 20.38 | 15.08 | 23.00 | |
| Taiwan | 100.0 | 2.7 | 0.0 | 100.0 | 0.0 | 0.0 | 3.86 | 1.24 | 0.00 | |
| Thailand | 94.0 | 1.9 | 6.0 | 80.2 | 3.3 | 6.0 | 5.63 | 1.89 | 5.60 | |
| Vietnam | 40.0 | 21.7 | 60.0 | 54.8 | 0.0 | 60.0 | 22.45 | 13.81 | 60.00 | |

Table 4

Central Government Rollover Ratios And Debt Structure (% Of Total Debt, Including Bi-/Multilateral) (cont.)

Breakdown by foreign currency rating category

| | 2016 | | | | | 2017 | | | | |
|-----|------------------------------|------------------------------|------------------------------------|---|-------------------------------------|------------------------------------|----------------------------------|---------------------------|------------------------------------|--|
| | Commercial debt (% of total) | Short-term debt (% of total) | Foreign currency debt (% of total) | Long-term fixed-rate debt (% of total debt) | Inflation-indexed debt (% of total) | Bi-/Multilateral debt (% of total) | Rollover ratio (% of total debt) | Rollover ratio (% of GDP) | Bi-/Multilateral debt (% of total) | |
| AAA | 100.0 | 4.8 | 0.3 | 0.3 | 0.0 | 0.0 | 9.1 | 3.3 | 0.0 | |
| AA | 99.4 | 8.0 | 0.9 | 0.9 | 0.0 | 0.6 | 16.0 | 3.2 | 1.2 | |
| A | 100.0 | 14.5 | 0.1 | 0.1 | 0.0 | 0.0 | 32.8 | 64.2 | 0.0 | |
| BBB | 93.3 | 5.9 | 3.5 | 3.1 | 0.0 | 6.7 | 12.9 | 6.2 | 6.6 | |
| BB | 64.0 | 9.0 | 48.6 | 30.0 | 0.0 | 36.0 | 11.4 | 3.7 | 35.8 | |
| B | 75.0 | 22.2 | 32.9 | 24.7 | 0.0 | 25.0 | 31.6 | 19.9 | 25.2 | |
| CCC | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | N/A | N/A | 0.0 | |

Table 5

Sovereign Ratings In Asia-Pacific

| | Local currency ratings | Foreign currency ratings |
|------------------|------------------------|--------------------------|
| Australia | AAA/Negative/A-1+ | AAA/Negative/A-1+ |
| Bangladesh | BB-/Stable/B | BB-/Stable/B |
| China | AA-/Negative/A-1+ | AA-/Negative/A-1+ |
| Cook Islands | B+/Stable/B | B+/Stable/B |
| Hong Kong | AAA/Negative/A-1+ | AAA/Negative/A-1+ |
| India | BBB-/Stable/A-3 | BBB-/Stable/A-3 |
| Indonesia | BB+/Positive/B | BB+/Positive/B |
| Japan | A+/Stable/A-1 | A+/Stable/A-1 |
| Korea | AA/Stable/A-1+ | AA/Stable/A-1+ |
| Malaysia | A/Stable/A-1 | A-/Stable/A-2 |
| Mongolia | B-/Stable/B | B-/Stable/B |
| New Zealand | AA+/Stable/A-1+ | AA/Stable/A-1+ |
| Pakistan | B/Stable/B | B/Stable/B |
| Papua New Guinea | B+/Negative/B | B+/Negative/B |
| Philippines | BBB/Stable/A-2 | BBB/Stable/A-2 |
| Republic of Fiji | B+/Stable/B | B+/Stable/B |
| Singapore | AAA/Stable/A-1+ | AAA/Stable/A-1+ |
| Sri Lanka | B+/Negative/B | B+/Negative/B |
| Taiwan | AA-/Stable/A-1+ | AA-/Stable/A-1+ |
| Thailand | A-/Stable/A-2 | BBB+/Stable/A-2 |
| Vietnam | BB-/Stable/B | BB-/Stable/B |

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