

Corporate Bond Markets in a Time of Unconventional Monetary Policy

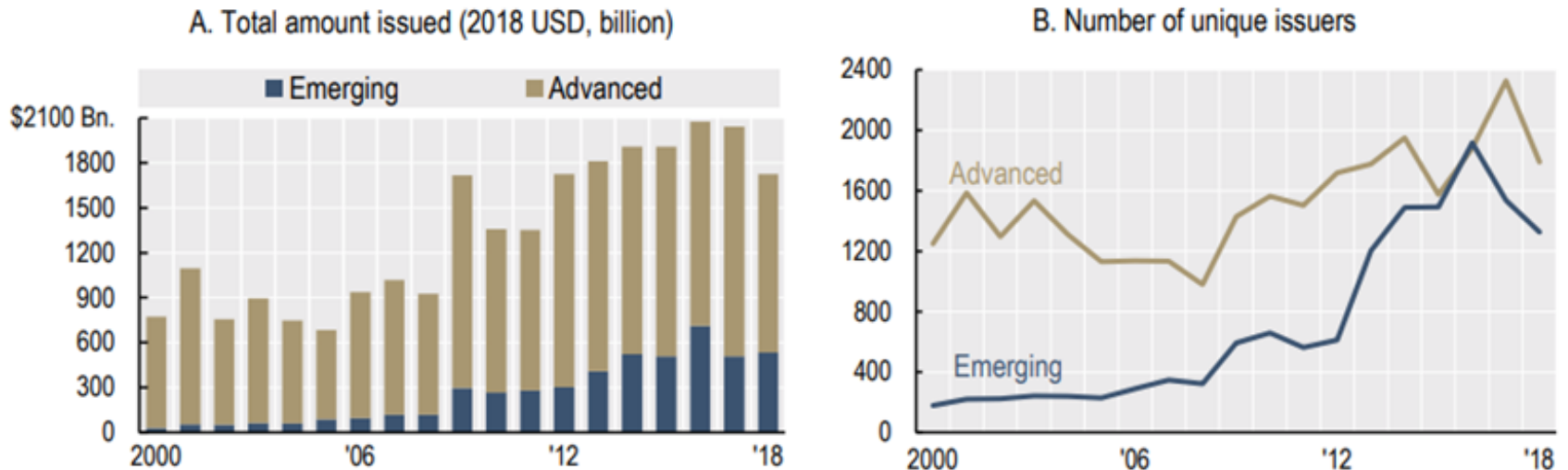
2019 ECMI ANNUAL CONFERENCE

6 November 2019, Brussels

Mats Isaksson
Head of Corporate Governance and Corporate Finance
OECD

Global trends in corporate bond issuance

Corporate bond issuance by non-financial companies (in real terms, 2018 USD, billion), and number of issuers

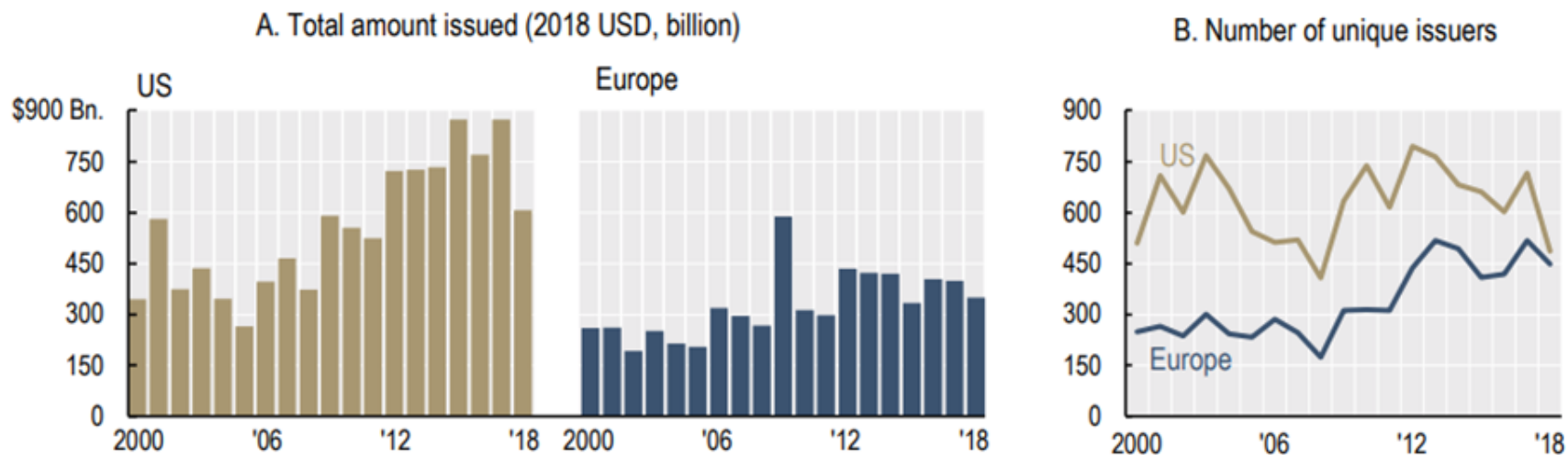


Source: OECD (2019), Corporate Bond Markets in a Time of Unconventional Monetary Policy, Thomson Reuters Eikon.

- Significant increase in the use of corporate bonds since the 2008 financial crisis.
- Both in terms of volume raised and the number of issuing companies
- 2000-2007: 864 billion/year. 2008-2018: USD 1.7 trillion/year
- Greatest growth rate from low levels in emerging markets

Trends in Europe & US

Corporate bond issuance by US and European non-financial companies

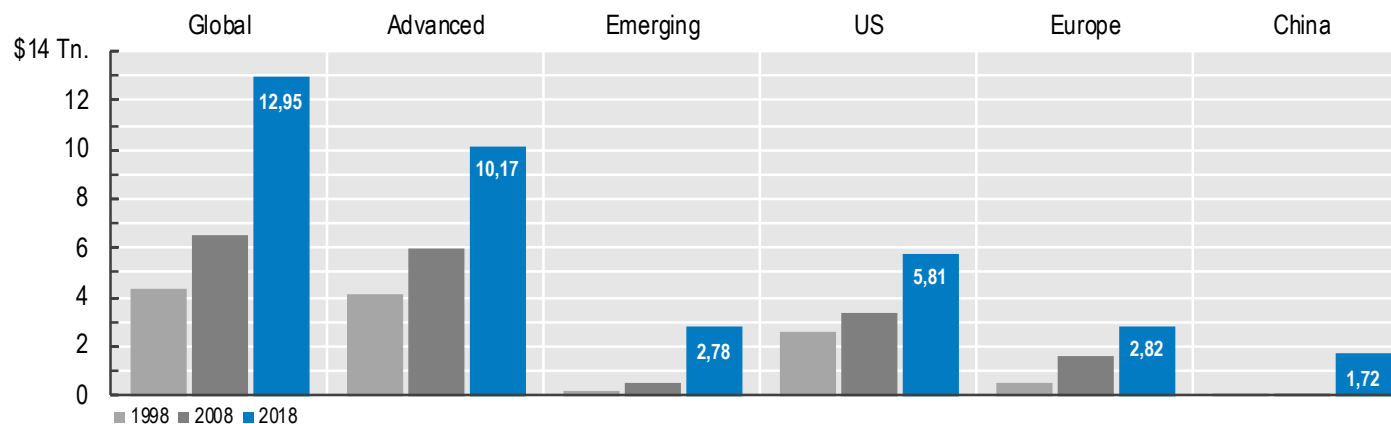


Source: OECD (2019), Corporate Bond Markets in a Time of Unconventional Monetary Policy, Thomson Reuters Eikon.

- US pre-2008 annual average USD 401 bn. Post 2008 annual average USD 668 bn. (66% increase).
- Europe pre-2008 annual average USD 250 bn. Post 2008 annual average USD 385 bn. (54 % increase)
- Europe has seen a larger increase than US in the **number** of unique issuers

Rapid increase in outstanding amount

Total outstanding amount of corporate bonds issued by non-financial companies (2018 USD, trillion)

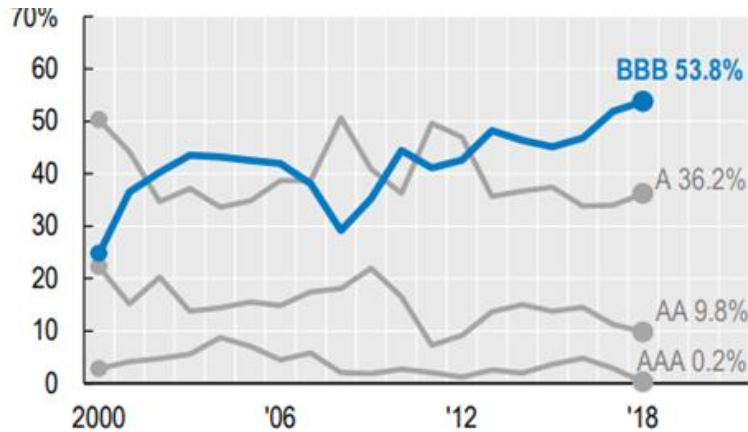


Source: OECD (2019), Corporate Bond Markets in a Time of Unconventional Monetary Policy, Thomson Reuters Eikon.

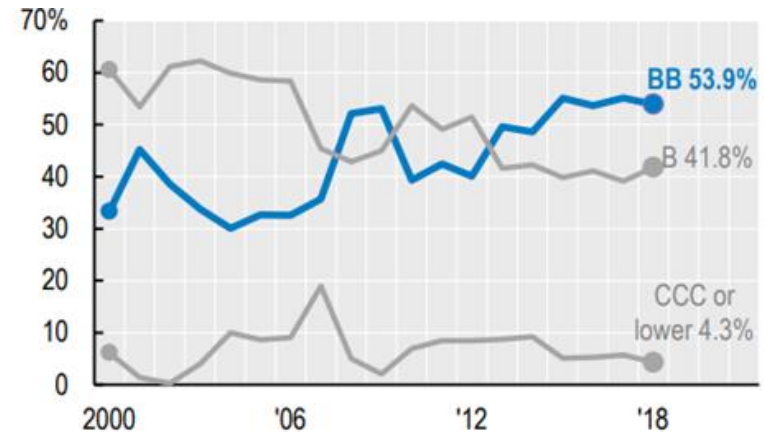
- The outstanding amount of corporate bonds issued by non-financial companies reached almost USD 13 trillion at the end of 2018. This is twice the amount in real terms that was outstanding in 2008.
- European issuers account for approximately 20% of the outstanding amount. And US issuers for about 45%.
- Total repayments/refinancing needs in 3 years - about USD 4 trillion.

Composition of the investment and non-investment grade categories

Investment grade bonds



Non-investment grade bond

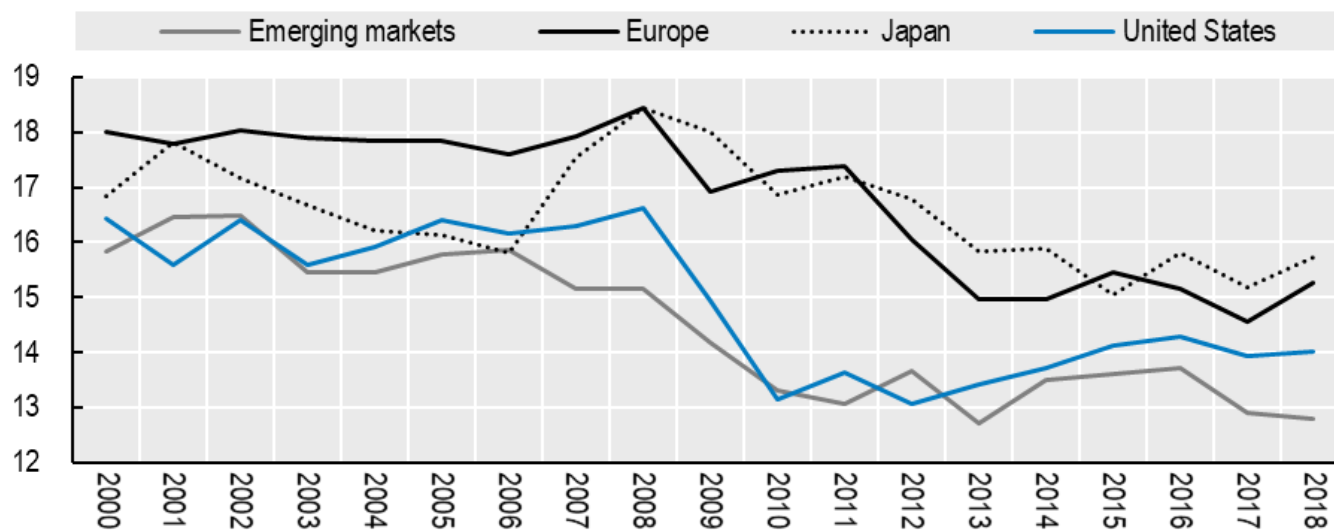


Source: OECD (2019), Corporate Bond Markets in a Time of Unconventional Monetary Policy, Thomson Reuters Eikon.

- Continuous and significant increase in BBB rated bonds within the investment grade segment. Reached almost 54% at year end 2018.
- This is the highest share that BBB issuance reached in our dataset, which goes back to 1980.

Corporate bond rating quality

Corporate bond rating index for different geographical regions

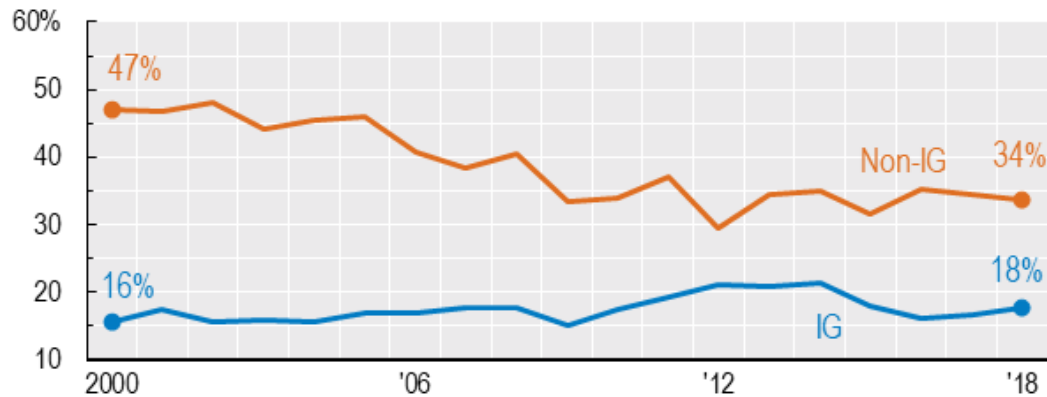


Source: OECD (2019), Corporate Bond Markets in a Time of Unconventional Monetary Policy, Thomson Reuters Eikon.

- Our “corporate bond rating index” looks at the combined effects of changes in the composition of the investment and non-investment grade segments.
- The index assigns a score of 1 to a bond if it has the lowest credit quality rating and 21 if it has the highest rating. Weighted average of individual bond scores.
- For Europe, the continued decrease is associated with the 2011 crisis.

Decrease in bondholder rights

Covenant protection index for bonds issued by non-financial companies

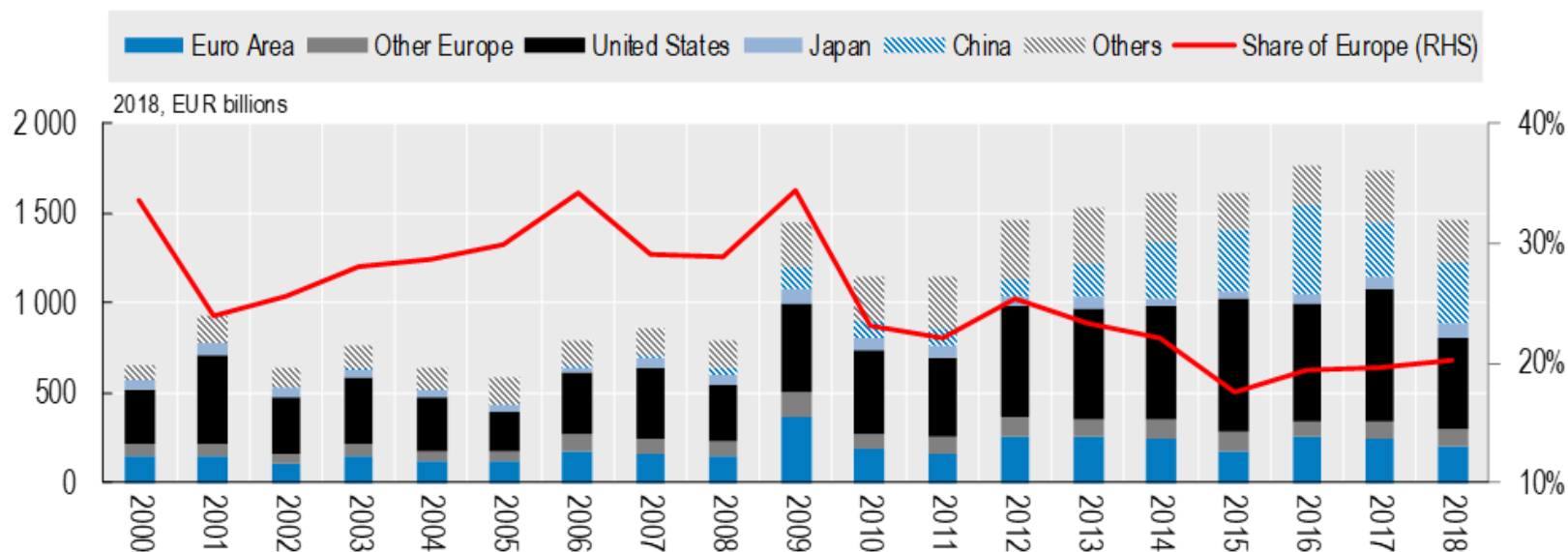


Source: OECD (2019), Corporate Bond Markets in a Time of Unconventional Monetary Policy, Mergent FISD.

- Covenants are clauses in a bond contract designed to protect bondholder rights.
- Our covenant protection index tracks the presence/absence of 27 different types of covenants in the bond contract.
- Compared to the pre-2008 period, there has been a marked decrease in the use of key covenants for non-investment grade bonds.
- As a result, the gap between covenant protection for investment grade and non-investment grade bonds has narrowed.

Share of European non-financial companies

Global corporate bond issuance by non-financial companies

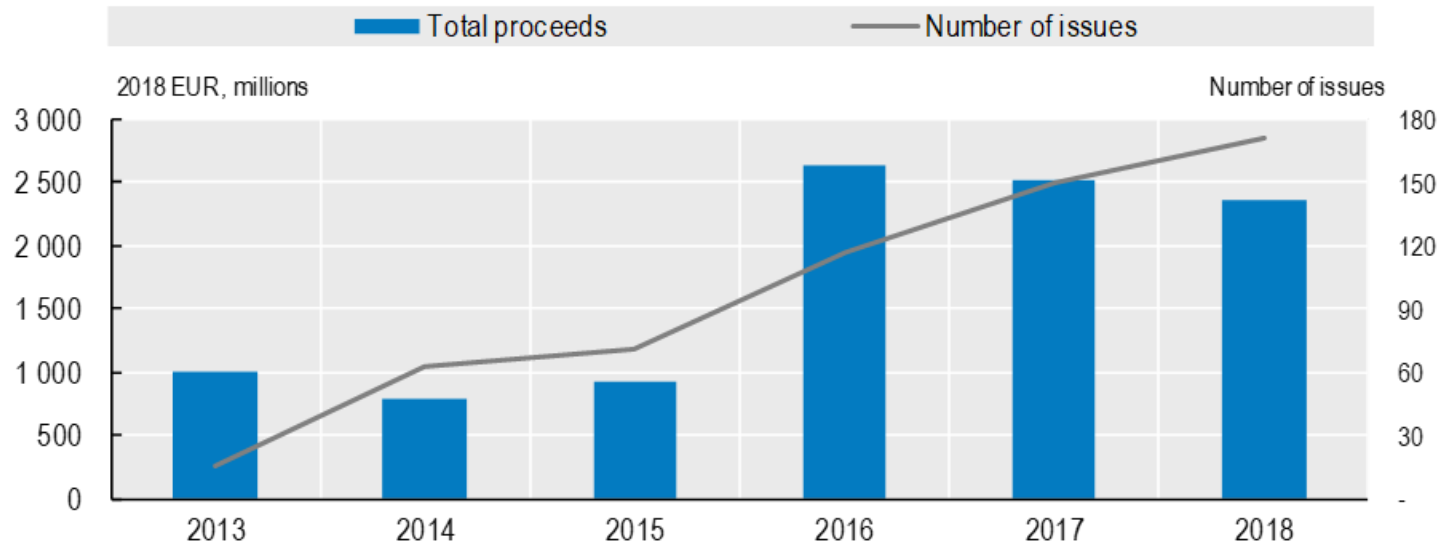


Source: OECD (Forthcoming), Capital Market Review of Italy.

- While the total issuance amount decreased to EUR 1.5 (USD 1.7) in 2018, the long-term trend has been upward in all regions.
- Since the increase in some other markets, particularly China, has been higher compared to Europe, the share of European companies in global corporate bond proceeds dropped from 29% in 2008 to 20% in 2018.

The Italian “Mini bond” market

Mini bonds issued by Italian non-financial companies

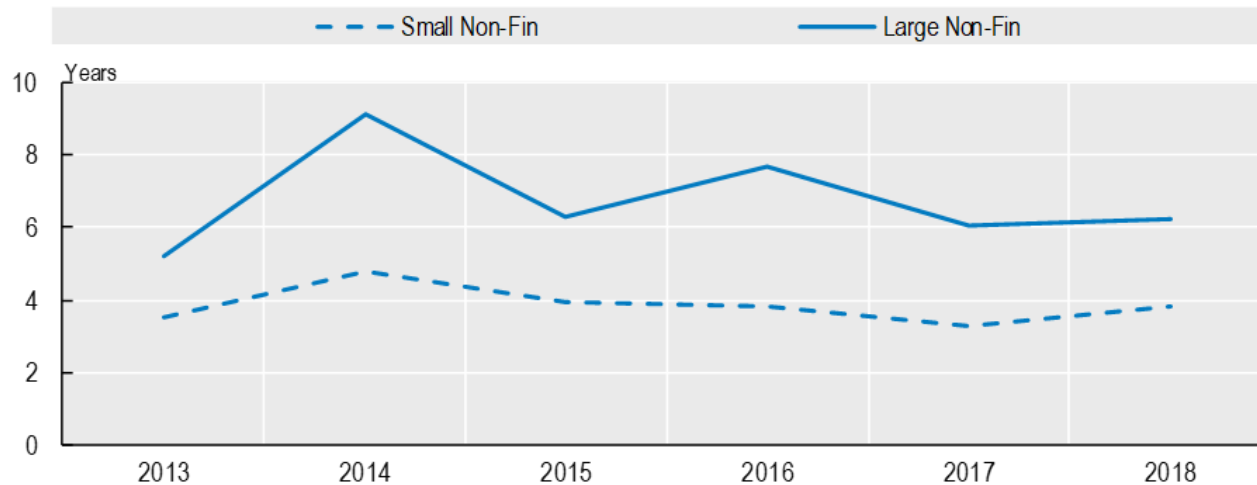


Source: OECD (Forthcoming), Capital Market Review of Italy.

- Since its inception in 2012, the so called mini bond market in Italy has shown a steady growth.
- The annual number of issuances increased from 16 in 2013 to 171 in 2018. The cumulated proceeds during the same period were EUR 10.2 billion.

Maturity profile of Italian mini bonds

Average maturities for mini bonds, large versus small issuance



Source: OECD (Forthcoming), Capital Market Review of Italy.

- In 2013, the average maturity for large issuances was almost 18 months longer than the average maturity for small issuances.
- In 2018, the difference was almost 2.5 years, with an average maturity for small issuances of 3.8 years.
- This was also significantly below the average for all non-financial corporate bonds in 2018 (10.3 years).

Thank you for your attention!

Corporate Bond Markets in a Time of Unconventional Monetary Policy

This report is part of the *OECD Capital Market Series*. More information about the series is available at:

<http://www.oecd.org/corporate/capital-markets>

