

## Box 3

**FIXED RATE AND VARIABLE RATE LONG-TERM DEBT SECURITIES ISSUED BY EURO AREA RESIDENTS**

In January 2005 the ECB started to publish new data on the breakdown of long-term debt securities issued by euro area residents, making the distinction between fixed rate and variable rate instruments. In this respect, according to the ECB statistical guidelines<sup>1</sup>, variable rate issues include all issues where the coupon is periodically re-fixed by reference to an independent interest rate, including indexed coupons. The new data are available from January 1999 (December 1998 for outstanding amounts).

The new data are a useful instrument for analysing developments in debt securities issuance. They provide information for the analysis of the pass-through of monetary policy to the financing of the various sectors and facilitate the analysis of the sensitivity of the cost of funding to interest rate changes. Moreover, the data may also give an indication of borrowers' expectations with regard to the evolution of short-term interest rates.

According to the new statistics, more than two-thirds of total debt securities outstanding are currently fixed rate long-term debt securities, while the remaining are mostly variable rate long-term debt securities (see Table). Over time, the relative importance of variable rate long-term debt securities has increased, from 15% of total debt securities outstanding at the end of 1998 to 20% at the end of November 2004. This has been mainly due to the increased issuance of variable rate long-term debt securities by financial corporations – i.e. monetary financial institutions (MFIs) and non-monetary financial corporations – and, to a lesser extent, also by non-central government issues. By contrast, the proportion of variable rate issues has decreased for non-financial corporations and the central government sector since 1998.

The share of variable rate long-term debt securities issued by **MFIs** has increased from 19% of total debt securities outstanding at the end of 1998 to 32% at the end of November 2004. Over recent periods, issuers may have had recourse to this instrument to finance the increasing share of variable rate loans granted by MFIs in several countries.

The issuance of variable rate long-term debt securities by **non-monetary financial corporations** has also increased considerably over recent years and their share amounted to more than 40% of total debt securities outstanding at the end of November 2004, compared with only 7% at the end of 1998. Increasing net issuance of variable rate debt securities may partly reflect the fact that some of the largest mortgage-backed securities markets have developed in countries where loans to households for house purchase are predominantly granted at variable rates. In this respect, non-monetary financial corporations have issued variable rate long-term debt securities to match the interest payment flows of assets and liabilities. While much of the issuance in this sector relates to securitisation of mortgage loans, it also includes some debt securities issued indirectly by non-financial corporations through financing subsidiaries.

<sup>1</sup> See Annex XIX of Guideline ECB/2003/2 of 6 February 2003 concerning certain statistical reporting requirements of the European Central Bank and the procedures for reporting by the national central banks of statistical information in the field of money and banking statistics.

## Debt securities issued by euro area residents

	Amounts outstanding <sup>1)</sup> (EUR billions, unless otherwise indicated)		Annual growth rates <sup>2)</sup> (percentage changes)				
	end-Dec. 1998	end-Nov. 2004	2000	2001	2002	2003	2004
<b>Total economy</b>	6,034	9,337	7.6	7.1	7.0	6.8	7.0
<i>of which (% of total):</i>							
fixed rate long-term debt securities	74	68	6.6	6.0	5.9	5.2	5.0
variable rate long-term debt securities	15	20	11.2	13.4	12.3	9.0	16.7
short-term debt securities	9	10	12.4	7.4	5.5	14.1	3.0
<b>Monetary financial institutions</b>	2,241	3,577	10.5	7.4	6.1	5.1	8.0
<i>of which (% of total):</i>							
fixed rate long-term debt securities	72	54	4.3	2.4	2.8	2.1	3.1
variable rate long-term debt securities	19	32	19.1	22.3	14.3	8.3	18.5
short-term debt securities	8	11	35.1	4.9	3.9	12.1	1.8
<b>Non-monetary financial corporations</b>	196	740	29.2	28.8	28.3	26.2	14.7
<i>of which (% of total):</i>							
fixed rate long-term debt securities	89	56	22.8	18.1	15.1	15.3	6.8
variable rate long-term debt securities	7	42	108.2	107.0	86.3	54.8	29.9
short-term debt securities	5	1	17.6	34.3	7.4	1.1	-11.9
<b>Non-financial corporations</b>	293	607	15.5	27.1	10.2	9.0	4.1
<i>of which (% of total):</i>							
fixed rate long-term debt securities	66	69	11.0	27.1	19.8	12.6	3.6
variable rate long-term debt securities	16	13	21.1	25.1	-5.5	-13.4	10.1
short-term debt securities	16	16	27.9	31.0	-7.1	5.7	0.9
<b>Central government</b>	3,203	4,166	3.2	2.3	4.2	4.6	4.9
<i>of which (% of total):</i>							
fixed rate long-term debt securities	75	82	6.7	5.2	4.8	4.4	5.7
variable rate long-term debt securities	12	7	-6.4	-13.4	-8.0	-9.2	0.5
short-term debt securities	10	10	-8.3	2.6	11.8	19.2	4.8
<b>Other general government</b>	102	248	5.7	15.9	27.7	25.9	17.4
<i>of which (% of total):</i>							
fixed rate long-term debt securities	89	74	-0.6	12.3	22.7	22.6	14.6
variable rate long-term debt securities	7	24	61.6	38.5	57.7	42.8	26.5
short-term debt securities	4	2	26.7	18.5	7.2	-2.0	24.0

Source: ECB.

1) Zero-coupon long-term debt securities, which include valuation effects, are not shown separately in this table. Therefore, the proportion of long-term debt securities and that of short-term debt securities may not add up to 100.

2) Annual averages; latest figure for 2004 is November.

In contrast to financial corporations, the share of outstanding variable rate long-term debt securities issued by **non-financial corporations** has decreased slightly from 16% of total debt securities outstanding to 13% between end-1998 and end-November 2004. However, since the beginning of 2004, it appears that corporate borrowers have preferred to issue long-term debt securities at variable rates to lock in low financing costs at the short end of the yield curve.

The share of outstanding variable rate long-term debt securities issued by the **central government** sector, amounting to only 7% of total debt securities outstanding at the end of November 2004, has also decreased over recent years. Net issues of variable rate long-term debt securities have indeed been negative throughout most of the review period. This development reflects, to a large extent, the fact that the Treasury in Italy has progressively substituted variable rate issues in favour of fixed rate issues, in the context of a structural debt management policy since the mid-1990s. The large share of variable rate borrowing in this country has to be seen against the background of the period of higher interest rates prior to the

beginning of Stage Three of EMU. In an environment of price stability, the decrease in the term premium for fixed rate issues has facilitated substitution in favour of fixed rate issues in the long-term segment of the market.

In contrast to the central government sector, the share of outstanding variable rate debt securities issued by the **other general government** sector has risen from less than 10% at the end of 1998 to nearly 25% at the end of November 2004. This suggests that the other general government sector may have sought to take advantage of the period of low short-term interest rates to reduce interest payments on their outstanding debt.