A run for your money

Developing countries in Latin America and Asia can borrow for longer.

PERU is not an obvious investment darling. For much of its existence, the country has been in a state of default. As recently as 1990 the inflation rate was 7,500%. Yet in the past few years Peru has persuaded creditors to lend it money for ever-longer periods in its own currency. It issued its first 20-year local-currency bond in 2006; its debut 30-year bonds followed a year later. Earlier this year Peru was able to issue 300m soles ($105.2m) of 32-year local-currency bonds. Investors in these bonds are compensated for the risk of inflation by yields of just 6.9%, a once unthinkable prospect.

Peru is not alone. Anxious to wean themselves off flighty foreign funding after the crises of the 1990s, many emerging-market governments sought to build up local-currency bond issuance. Extending the maturity of bonds is the next step. In 2007 around 40% of Peru's local-currency debt was short-term (ie, maturing in less than a year). That had fallen to 30% by 2009, according to the Bank for International Settlements. In Mexico average maturities have gone from 1.5 years in 2000 to seven years a decade later, says Gerardo Rodríguez, who heads the country's debt office.

Asian countries are also trying to lock in yield-seeking investors. The Philippines is pursuing a number of debt swaps, offering to buy back shorter-dated debt in return for longer-dated issues. It hopes to stretch the country's average debt maturity from ten years to 25 years. In Indonesia, bonds maturing in 2011-13 were exchanged in July for bonds maturing in 2031.

Improving growth prospects and lower public debt than many rich-world issuers have allowed Asian and Latin American countries to lengthen maturities. (Europe's emerging markets have proved unable to do the same.) So too has a more professional approach to debt management. For instance, Uruguay created a debt agency in 2005. In the years that followed, it skewed its borrowing to the long end of the yield curve because it expected slower GDP growth, says Carlos Steneri, who heads the country's public-debt agency.

Domestic savings pools have deepened over the past decade to absorb the supply of local debt issues. The number of retail investors is rising as people become richer. Pension reform has led to the creation of funds that are flush with cash and need assets to match their long-term, local-currency liabilities. Most of Peru's 32-year bonds were reportedly picked up by local pension funds. Demand from such institutions explains why Latin America, with its more developed social-security net, is ahead of emerging Asia in extending its debt.

But a well-developed local market seems also to attract foreign investors. In Mexico a quarter of the long-dated local debt is held by foreigners. In the year to July, inflows to emerging-market debt funds have more than doubled to $21.6 billion from the previous year, according to EPFR Global, a financial-data firm. Whether investors are getting enough compensation for the risk of holding long-term emerging-market debt is questionable. But for issuers in a crowded sovereign-debt market, it means fewer trips to the well.

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