

Indian bonds seen most at risk

Pak coup casts cloud over sub-continent debt

HONG KONG, Oct 13: The coup in Pakistan is likely to have only a limited impact on the Asian sovereign debt market with Indian bonds most at risk, bond analysts said today. "The only major impact would be if they (the Pakistanis) made threatening noises over Kashmir again," said Scott Wilson, sovereign bond analyst at Warburg Dillon Read in Singapore, reports Reuters.

But Wilson noted that even during the recent Kashmiri crisis the Indian bond spreads only widened around 15 basis points.

"This morning at the Hong Kong open there was no reaction on the Indian debt market," said one Asian bond trader at a US investment bank.

But Indian bonds do tend to be fairly illiquid and any reaction may not come for some time.

"The market is likely to adopt a wait-and-see attitude. Tension will no doubt increase, but whether this translates into anything, it's too early to tell," said Ivan Lee, head of fixed income research at Salomon Brothers in Hong Kong.

Indian finance firm ICICI's ICICIBO 7.55 per cent bond due 2007 is the market benchmark for the sub-continent, and it is trading at around 320 basis points over US Treasuries.

Pakistan itself has two floating-rate notes and two sovereign bonds worth a total of \$750 million dollars. By December 2000 some \$470 million dollars of this debt is due to mature.

The bonds are rated Caa-1 by Moody's Investors Service and CC by Standard and Poor's Corp — both speculative grades. S&P also has Pakistan's foreign currency issuer ratings on "Selective Default".

A principal repayment on the Pakistan five-year \$150 million sovereign eurobond is due on December 22.

A Pakistan finance ministry official told the news agency in August that interest payments falling due on the eurobond in September and November would be paid in full, but the repayment of principal on the Western governments, market analysts said.

The impoverished South Asian country finalised agreements with international banks earlier this year negotiated new arrangements with foreign creditors in the midst of a financial crisis, triggered partly by economic sanctions from the United States and a drying up of capital flows to the country.

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Facing depleting international reserves despite a freeze on all foreign currency deposits, Pakistan negotiated new terms on the bond due in December.

Its efforts were complicated by demands from the IMF and Western government creditors that the country renege on payments on a \$300 million loan from the International Monetary Fund that was under scrutiny even before the coup attempt.

The rescheduling of \$877 million in commercial loans has not reached closure," said Ashok Bhatia, primary sovereign analysts for Pakistan at Standard & Poor's. "That is the reason the country's foreign currency issuer ratings remain as SD (selective default)."

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Loans worth billions at risk

A report from New York says: Pakistan risked losing billions of dollars in much-needed foreign loans resuscitated earlier this year after a military coup yesterday threatened to alienate investors and Western governments, market

IMF programme, which is a precondition for the Paris Club rescheduling of loans," said Bhatia.

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