2. Japan’s Approaches to the Indian Bond Markets

We shall examine the approaches that Japan should adopt with respect to the Indian bond markets.
First, the history of the Indian bond market will be reviewed from both domestic and international perspectives. Secondly, study will be made on four proposals as to how Japan can contribute to the invigoration of the Indian bond market by introducing specific case studies and focusing on the advantages of each proposal.

2.1 History of Bond Issuances in Foreign Currencies by Indian Financial Institutions and Corporations

(1) Before Asian Currency Crisis

A. History of Issuances in Foreign Currencies (excluding Samurai bonds)

Bond issuances in India occurring before the Asian currency crisis were concentrated mostly in financial institutions with ties to the government. The term was generally centered around 7 years with the majority denominated in US dollars. In addition, forms of issuances were varied such as the Yankee 100-year bond issuance and ICICI issuance of subordinated bonds in 1997.

【Table 7】Breakdown of Bonds Denominated in Foreign Currencies in India (Before Asian Currency Crisis)（excluding Samurai bonds）

Issuer	Issue type	Mkt type	type	Closing date	Mty date	Yrs to Mty	Currency	Cur Amt m	US$ equiv nominal Amt m	Iss price	Final coupon	Spread at Lch (bp)
Industrial Development Bank of India - IDBI	FRN	E		07 Jul 1994	07 Jul 1999	5 years	US$	100.000	100.000	99.7300	3-mth Libor+1.00%	
Essar Gujarat Ltd	FRN	E		15 Jul 1994	15 Jul 1999	5 years	US$	200.000	200.000	100.0000	6-mth Libor+2.65%	
Essar Gujarat Ltd	FRN	E		08 Sep 1994	15 Jul 1999	4 yrs 10m	US$	50.000	50.000	100.0000	6-mth Libor+2.65%	
Industrial Finance Corp of India Ltd - IFCI	FRN	E		15 Aug 1995	15 Aug 2002	7 years	US$	100.000	100.000	99.6500	6-mth Libor+0.875%	
Industrial Development Bank of India - IDBI	FRN	E		20 Sep 1995	20 Sep 2002	7 years	US$	250.000	250.000	99.5700	6-mth Libor+0.75%	
Reliance Industries Ltd	FX	E		27 Sep 1995	27 Sep 2005	10 years	US$	150.000	150.000	99.8300	8.1250	190.00
SCICI Ltd	FRN	E		10 Oct 1995	10 Oct 2002	7 years	US$	150.000	150.000	99.5700	6-mth Libor+0.80%	
SBI European Bank Ltd (London)	FRN	E		30 Nov 1995	30 Nov 1996	1 year	US$	30.000	30.000	100.0000	6-mth Libor+0.20%	
Industrial Credit & Investment Corp of India	FX	E		07 Feb 1996	07 Feb 2003	7 years	US$	150.000	150.000	99.4040	7.1250	170.00
Indian Railway Finance Corp	FRN	E		28 Mar 1996	28 Mar 2003	7 years	US$	50.000	50.000	100.0000	6-mth Libor+1.15%	
Indian Railway Finance Corp	FRN	E		11 Apr 1996	28 Mar 2003	7 years	US$	20.000	20.000	100.0000	6-mth Libor+1.15%	
Reliance Industries Ltd	FX	FP	YK	24 Jun 1996	24 Jun 2016	20 years	US$	100.000	100.000	99.7910	10.3750	325.00
Reliance Industries Ltd	FX	FP	YK	24 Jun 1996	24 Jun 2026	30 years	US$	100.000	100.000	99.9640	9.3750	
SCICI Ltd	FX	E		29 Jul 1996	30 Jul 2001	5 years	US$	150.000	150.000	99.9440	8.0000	125.00
Reliance Industries Ltd	FX	E		06 Aug 1996	06 Aug 2046	50 years	US$	100.000	100.000	99.2950	10.5000	350.00
Great Eastern Shipping Co Ltd (GE Shipping)	FRN	E		30 Oct 1996	30 Oct 2003	7 years	US$	50.000	50.000	99.8500	6-mth Libor+1.35%	
Reliance Industries Ltd	FX	FP	YK	16 Jan 1997	15 Jan 2097	100 years	US$	100.000	100.000	99.1290	10.2500	355.00
Reliance Industries Ltd	FX	FP	YK	16 Jan 1997	15 Jan 2027	30 years	US$	214.000	214.000	100.0000	8.2500	175.00
Industrial Credit & Investment Corp of India Ltd	FRN	E	SU	26 Mar 1997	26 Mar 2007	10 years	US$	100.000	100.000	100.0000	6-mth Libor+0.80%	
Industrial Development Bank of India - IDBI	FRN	E		24 Apr 1997	24 Apr 2004	7 years	US$	150.000	150.000	99.4600	6-mth Libor+0.60%	
CESC Ltd	FRN	E		06 May 1997	06 May 2007	10 years	US$	70.000	70.000	100.0000	6-mth Libor+1.50%	
Tata Engineering & Locomotive Co Ltd	FX	FP		16 Jul 1997	15 Jul 2007	10 years	US$	200.000	200.000	99.5980	7.8750	168.00
Indian Railway Finance Corp	FRN	E		31 Jul 1997	31 Jul 2004	7 years	US$	150.000	150.000	100.0000	6-mth Libor+0.75%	
Power Finance Corp Ltd	FX	E		31 Jul 1997	31 Jul 2009	12 years	US$	100.000	100.000	99.9600	7.5000	135.00
Industrial Credit & Investment Corp of India	FX	FP		15 Aug 1997	15 Aug 2007	10 years	US$	150.000	150.000	99.3740	7.5500	160.00
Tata Electric Companies Ltd	FX	E		19 Aug 1997	19 Aug 2007	10 years	US$	150.000	150.000	99.6110	7.8750	160.00
Tata Electric Companies Ltd	FX	E		19 Aug 1997	19 Aug 2017	20 years	US$	150.000	150.000	99.3540	8.5000	193.00

FX＝Fixed rate, FRN=Floating Rate Note, D=Domestic Public Placement, DP=Domestic Private Placement, E=Euro Public Placement, EP=Euro Private Placement, F=Foreign Public Placement, FP=Foreign Private Placement, G=Global Public Placement, GP=Global Private Placement, YK=Yankee, SU=Subordinate

(Source) Bondware

B. Issuances of Samurai Bonds

The first issuance of Samurai bonds in India occurred in 1988 and consisted of a 10-year issue for JPY 20 billion conducted by the ONGC (Oil and Natural Gas Corporation of India). This was followed by another by the IDBI (Industrial Development Bank of India) bond issuance. Before the outbreak of the economic crisis in India in 1991, there were 5 issuances involving 2 issuers.

In both cases, although the enterprises concerned have been privatized, at the time of issuance, it was the government who owned the share entirety and Japanese investors bought these as sovereign issues.

These issuances were followed by the economic crisis in India in 1991 and the Asian currency crisis in 1997. In such an environment, it was not until exactly 15 years later in February 2006 that the next Samurai bond issuance took place. This consisted of a Samurai bond issuance conducted by the Export-Import Bank of India (EXIM Bank).

【Table 8】Breakdown of All Samurai Bonds in India

Date of Issuance	Issuer	No.	Issuance Amount	Term	Coupon	Underwriters	Lead Trustee/FA
1988/08/24	ONGC	1	JPY 20 billion	10Yr	5.9%	(Lead): Nomura / (Co-lead): Daiwa, Nikko, Yamaichi	BOT
1989/04/05	ONGC	2	JPY 20 billion	10Yr	5.5%	(Lead): Nomura / (Co-lead): Yamaichi, Nikko, Daiwa	BOT
1989/10/13	IDBI	1	JPY 20 billion	10Yr	5.7%	(Lead): Daiwa / (Co-lead): Nikko, Nomura, Yamaichi	IBJ
1990/12/04	ONGC	3	JPY 30 billion	10Yr	8.5%	(Lead): Nikko / (Co-lead): Nomura, Daiwa, Yamaichi	Sanwa
1991/02/08	IDBI	2	JPY 30 billion	10Yr	8.2%	(Lead): Nomura / (Co-lead): Daiwa, Nikko, Yamaichi	Fuji
2006/02/22	EXIM Bank	1	JPY 23 billion	5Yr	1.75%	(Lead): Mizuho / Nikko Citigroup	FA: Mizuho CB

(Source) Bondware

(2) After the Asian Currency Crisis

A. Shift in Credit Ratings in India and Trends of Foreign Investors

At one point in time, both Moody's and S&P had rated India's sovereign rating unsuitable for investment, and time was necessary to get back to the foreign bond markets after the Asian currency crisis.

Foreign-bond issuance came to an end in 1998, when Moody's rated the bonds as speculative grade. Preceding the upgrade to the sovereign rating investment grade in January 2004, foreign-bond issuance was revived by the ICICI (listed on the NYSE) which was rated Baa3 (see Table 9).

In other words, India's foreign-bond issuance was interrupted between 1997 and 2003. As shown in Table 10, "Shift of Credit Ratings in India," India's foreign-bond issuance has been essentially swayed by Moody's rating upgrades and downgrades.

In contrast to the period before the currency crisis, the term for bond issuance has seen a sharp decline in 7-year bonds, with investors focusing on the medium-term zone of 3 to 5 years.

Two of Japan's rating institutions, Japan Credit Rating Agency, Ltd. (JCR) and Rating and Investment Information, Inc. (R&A) deserve special mention for continuing to grant investment grade rating during this time. Apparently, the debate on the necessity of Asian rating institutions having different perspectives from Moody's and S&P can also be considered as highly significant.

Since that time, together with the recovery of India's economy and the restoration of its rating to investment grade (Moody's; Jan. 2004), spreads have continued to narrow down lately.

After India's rating was restored to investment grade, not only investors in Europe and the US but those in Singapore and Hong Kong, as well, actively purchased India-issued US-dollar-denominated bonds and euro-denominated bonds. However, Japanese investors, who are traditionally conservative, were also impacted by the Argentinean crisis of September 2001, and on the grounds of the lack of the former investment grade from the S&P, engaged in extremely limited purchase of India's issues.

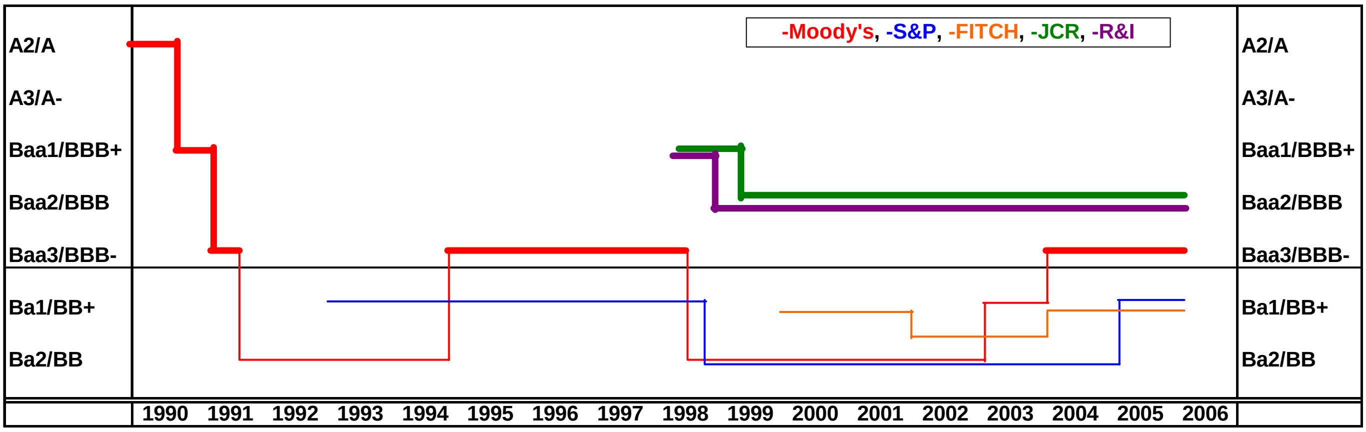
Then in early 2005, the "India Boom" occurred in Japan. This brought with it a shift in investor sentiment from investment in solely China, which had been the dominant trend until then, to a more diversified approach into the so-called BRICs. Even so, in 2005, this boom was confined to investment in Indian equity funds by individual investors with only very limited inflow of money from Japanese institutional investors into Indian issues.

【Table 9】List of Foreign Bond Issuances (excluding Samurai bonds)

Issuer	Issue type	Mkt type	Programme type	Closing date	Mty date	Yrs to Mty	Currency	Cur Amt m	Iss price	Final coupon	Spread at Lch (bp)
ICICI Bank Ltd	FX	E		22 Oct 2003	22 Oct 2008	5 years	US$	300.000	99.9430	4.7500	
Industrial Development Bank of India - IDBI	FX	E		03 Mar 2004	03 Mar 2009	5 years	US$	300.000	99.6530	4.7500	185.00
National Thermal Power Corp Ltd - NTPC	FX	E		10 Mar 2004	10 Mar 2011	7 years	US$	200.000	99.3700	5.5000	205.00
Export-Import Bank of India	FX	E		14 Jul 2004	14 Jul 2009	5 years	US$	250.000	99.4470	5.3750	185.00
ICICI Bank Ltd	FX	E		18 Aug 2004	18 Aug 2009	5 years	US$	300.000	99.4680	5.0000	168.00
State Bank of India	FX	E	EMTN	08 Dec 2004	08 Dec 2009	5 years	US$	400.000	99.5740	4.7500	117.50
Industrial Development Bank of India - IDBI	FX	E		23 Dec 2004	23 Dec 2009	5 years	US$	250.000	99.6950	5.1250	162.80
Indian Railway Finance Corp	FX	E		23 Mar 2005	23 Mar 2010	5 years	YEN	13,000.000	100.0000	1.4300	77.50
State Bank of India (London)	FX	E		05 Aug 2005	05 Aug 2010	5 years	EUR	100.000	100.0000	3.5000	
Bank of India (London)	FX	E	EMTN	04 Oct 2005	04 Oct 2010	5 years	US$	250.000	99.7620	5.3750	130.80
ICICI Bank Ltd (Singapore)	FX	E		16 Nov 2005	16 Nov 2010	5 years	US$	500.000	99.5720	5.7500	130.00
State Bank of India (London)	FRN	E	EMTN	23 Dec 2005	23 Dec 2010	5 years	US$	100.000	100.0000	6-mth Libor+0.60%	

EMTN=Euro MTN Program (Source: Bondware)

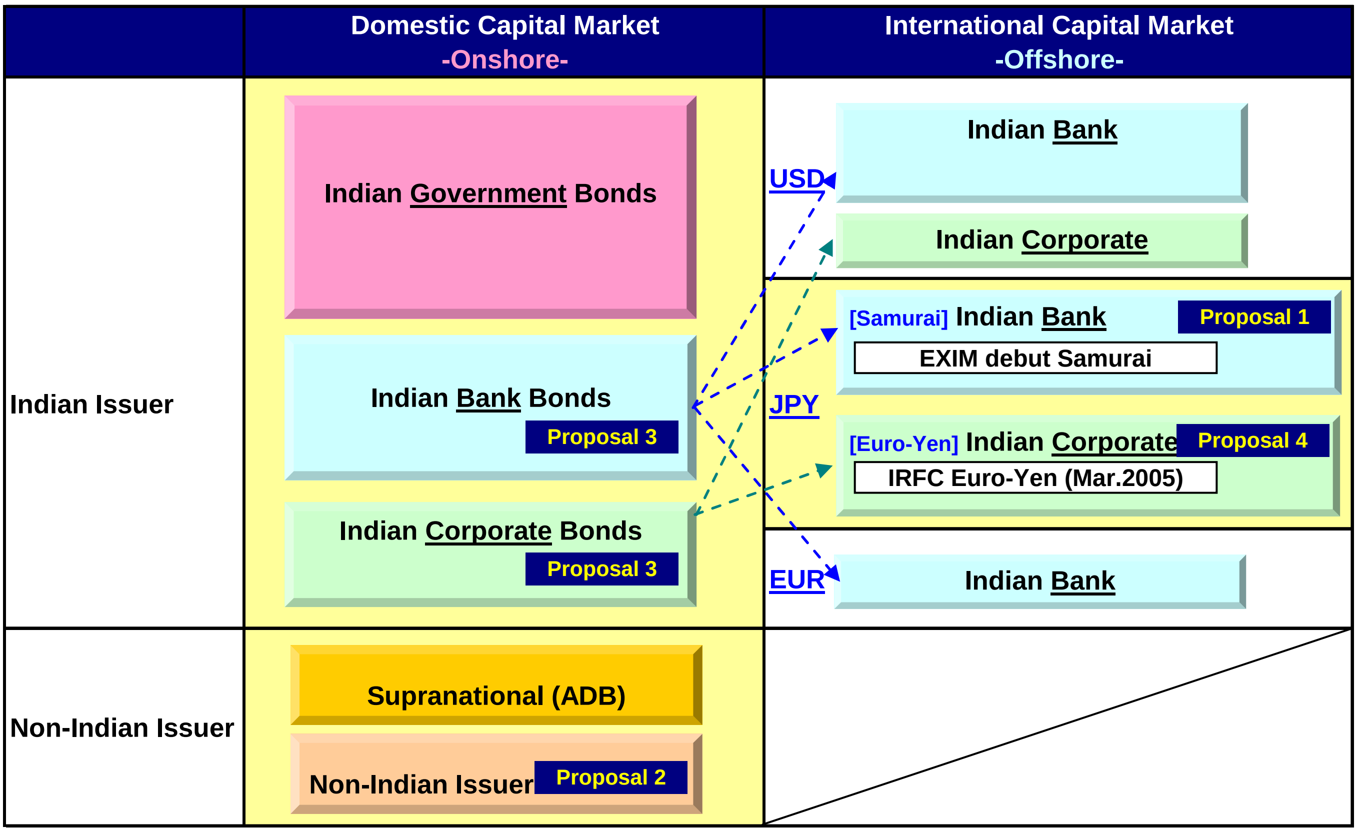
◆ 【Table 10】Shift of Credit Ratings in India



(Source: Prepared by Mizuho Securities based on reference material from various credit rating agencies)

2.2 Prospects of Specific Products

【Table 11】



（Source: Prepared by Mizuho Securities）

The left side of the above table represents India's domestic bond markets, the right side its international (offshore) bond markets, the upper section Indian issuers (the majority of the issuers are the India government, followed by Indian financial institutions and some companies), and the bottom section non-Indian issuers [Asian Development Bank (ADB) and other international organizations]. The matrix shaded yellow indicates the areas in which Japan's government and financial institutions could possibly make specific contributions to the vitalization of India's bond markets.

Below are four specific proposals.

(1) Support Indian issuers' foreign-bond issues, particularly Samurai bonds (Proposal 1 in the table above).
(2) Promote non-Indian issuers' bond issues denominated in local currency (Proposal 2 in the table above).
(3) Promote Indian issuers' bond issues denominated in local currency (Proposal 3 in the table above).
(4) Support Indian issuers' foreign-bond issues, particularly Euro-Yen bonds (Proposal 4 in the table above).

Presented next for each proposal are actual cases of the bond issuance of India and other countries and the related significance of such cases.

2.3 Proposal ① Issuance of Samurai Bonds (Export-Import Bank of India)

The issuance of Samurai bonds conducted by the Export-Import Bank of India ("EXIM Bank") in February 2006 serves as a good example of the revitalization of the Indian bond market because in the Japanese market, which boasts the largest presence of institutional investors in Asia, the issuance of Samurai bonds represents an expansion of the class of investors and a diversification of the measures available to raise funds.

(1) Summary of Issue: First Issue of Samurai Bonds by EXIM Bank

Date of Issuance	Issuance Amount	Term	Coupon	Lead Underwriters	Remarks
2006/2/22	JPY 23 billion	5Yr	1.75% (J L+62bp)	Mizuho Securities / Nikko Citigroup	First issue of India's Samurai bonds in 15 years

Fiscal Agent (FA): Mizuho Corporate Bank

Rating: Moody's: **Baa3** stable / S&P: **BB+** stable / JCR: **BBB** stable (= same as ratings for Indian sovereign debt)

Subscription Date: February 22, 2006 / Redemption Date: February 22, 2011

(2) Significance

Despite the India Boom occurring in recent years, this issuance of India's Samurai bonds represents the first of its kind in 15 years since 1991.

Also, this issuance became the "First Samurai Resurrection Bond" from among the "BRICs" nations. As a result, more than 70% of the total amount has been sold to investors in Japan (pension funds, insurance companies and banks) and in keeping, this issuance can be said to be highly significant in that in addition to the investment into Indian equities originating from individual investors that has been taking place thus far, "this has provided institutional investors in Japan with a genuine opportunity to channel funds into India."

Several other Indian issuers are also expressing interest in issuing Samurai bonds, and the success of the EXIM Bank's issuance of Samurai bonds should do much to bolster the confidence of Indian issuers with respect to funding in the Japanese market.

2.4 Proposal ② Bond Issuance and on-lending Conducted by International Organizations

In the context of the growing importance of Asian Bond Markets Initiative (ABMI), there has been more and more activity among the countries of Asia involving the issuance of bonds by international organizations that are denominated in local currencies. Such issuances of bonds by international organizations are contributing to the greater utilization of the bond markets of various countries by expanding the base of issuers as well as investors.

Although funds procured are frequently used for on-lending, such on-lending is considered advantageous from the borrower-side, because the borrowing is made in local currencies and does not entail any exchange risks. Also, due to the creditworthiness of international organizations, it is expected that long-term bonds can be issued for on -lending to clients with the need for long-term borrowing and to large-scale projects, should there be restrictions on the amount that could be extended to a single company,.

As indicated in Table 12 below, in India, in February 2004, the ADB was the first international organization to conduct a successful issuance of bonds denominated in the Indian rupee.

【Table 12】Bond Issuances Denominated in Asian Currencies by International Organizations: (excluding NTD/HKD)

Issuer	Gtr	Closing date	Mty date	Yrs to Mty	Currency	Cur Amt m	US$ equiv nominal Amt m	Iss price	Final coupon
Asian Development Bank		01 Sep 1995	01 Sep 2002	7 years	WON	80,000.000	105.146	100.0000	12.1500
International Finance Corp - IFC		10 Apr 1997	10 Apr 2002	5 years	PSO	2,600.000	98.775	100.0000	10.2500
International Bank for Reconstruction & Development - World Bank		11 Apr 1997	11 Apr 2002	5 years	PSO	4,000.000	151.961	101.4140	10.2500
European Bank for Reconstruction & Development - EBRD		22 Mar 1997	22 Apr 1998	1 yr 1m	PSO	3,000.000	113.928	100.8500	9.0000
International Bank for Reconstruction & Development - World Bank		23 Apr 1997	23 Apr 2002	5 years	WON	23,500.000	26.316	100.0000	9.8000
European Bank for Reconstruction & Development - EBRD		02 May 1997	02 May 2002	5 years	WON	23,700.000	26.439	100.2500	10.0000
International Finance Corp - IFC		28 Oct 1998	29 Oct 2001	3 years	S$	300.000	178.147	99.4460	4.5000
Nordic Investment Bank		31 Mar 1999	31 Mar 2004	5 years	S$	150.000	87.108		4.1250
Nordic Investment Bank		30 Mar 1999	30 Mar 2004	5 years	S$	150.000	87.108		4.7500
European Bank for Reconstruction & Development - EBRD		08 Apr 1999	08 Apr 2004	5 years	S$	150.000	87.108	99.8000	4.1250
Nordic Investment Bank		29 Jul 1999	31 Mar 2004	4 yrs 8m	S$	50.000	29.427	99.4710	4.1250
International Finance Corp - IFC		23 Sep 1999	23 Sep 2004	5 years	S$	100.000	59.659	100.0000	4.2800
African Development Bank - AfDB		11 Jul 2001	11 Jul 2004	3 years	S$	129.000	70.801	100.0000	2.6400
TelecomAsia Corp pcl	IFC	15 Oct 2002	03 Feb 2011	8 yrs 4m	BHT	6,750.000	155.476	100.0000	-
Asian Development Bank		27 Feb 2004	27 Feb 2014	10 years	RUP	5,000.000	110.619	100.0000	5.4000
Asian Development Bank		23 Jun 2004	25 Jun 2007	3 years	S$	200.000	117.592	100.0000	1.8450
Asian Development Bank		10 Nov 2004	10 Nov 2009	5 years	M$	400.000	105.263	100.1800	3.9400
International Finance Corp - IFC		13 Dec 2004	02 Dec 2007	3 years	M$	500.000	131.579	100.0000	0.0000
International Bank for Reconstruction & Development - World Bank		12 May 2005	12 May 2010	5 years	M$	760.000	200.000	100.0000	0.0000
Asian Development Bank		24 May 2005	24 May 2010	5 years	BHT	4,000.000	101.042	100.0000	3.8700
Central American Bank for Economic Integration - CABEI		06 Jul 2005	06 Jul 2010	5 years	S$	100.000	59.119	100.0000	2.6400
International Finance Corp - IFC		14 Oct 2005	14 Oct 2015	10 years	RMB	1,130.000	139.644	100.0000	3.4000
Asian Development Bank		14 Oct 2005	14 Oct 2015	10 years	RMB	1,000.000	123.579	100.0000	3.3400
Asian Development Bank		09 Nov 2005	10 Nov 2010	5 years	PSO	2,500.000	45.102	65.3100	0.0000

(Source) Bondware

Sections (1) and (2) below introduce press releases on the following: (1) "Summary of Issue" provided by ADB at time of issuance of Indian rupee denominated bonds and (2) "Summary of Issue" provided by Japan Bank for International Cooperation ("JBIC") at time of issuance of Thai baht denominated bonds and the significance of such bond issuances.

In line with the advantageous points indicated above, by promoting international organizations to issue bonds, further revitalization of the Indian bond market will become possible in the future.

(1) Proposal ②-①

Issuance of Bonds Denominated in Indian Rupee by Asian Development Bank (ADB)

~ First Issuance of Bonds Denominated in Indian Rupee by an International Organization and Non-Indian Issuer ~

(Source：ADB/Feb. 27, 2004)

In February 2004, the Asian Development Bank (ADB) became the first international organization to conduct an issuance of bonds denominated in the Indian rupee. At the same time, this was also the first such issuance conducted by a non-Indian issuer. The term was 10 years and the issuing amount was Indian Rupee (INR) 5 billion. The issuing price was 100% and the coupon was 5.4%, which was 17bp over government bonds. It was listed for public trading on the NSE, with HSBC and ICICI Securities acting as lead arrangers and the Bank of India and Union Bank of India participating in the syndicate. 60% of the investors were local banks, 21% were life insurers and 19% were mutual funds.

◆Potential deal study on JBIC

Following the Indian rupee (INR) bond issuance in February 2004, it was anticipated that INR bond issuances would also be conducted by the International Finance Corporation (IFC), JBIC and others. In the case of JBIC, it was assumed that it would choose one of the two courses consisting either of the regular course of fund on -lending in US dollar floating rate or on-lending in local currency. In India's case, in consideration of the government preference for on-lending in local currency rather than swapping into US dollars, it seems more attractive for JBIC to choose the scenario of on-lending the INR funds to Japanese companies. The use of the funds was to be consistent with the so-called "Japan Interest" (i.e., to benefit Japanese companies). Japanese companies that were making inroads into India could easily borrow money over the medium term from Japanese and local banks up to a period of about 5 years, due to the banks' abundant liquidity. However, there were also restrictions on the amount that banks could extend to a single company, with the upper limit of the loan at 15% of capital. Thus, it was anticipated that JBIC's on-lending in this manner would prove advantageous with respect to the borrowing conducted in the long-term intended for large-scale projects.

(2) Proposal ②-②

JBIC Issues Thai Baht Bonds
~ First Asian Currency Bond Issue under ABMI ~

(Source：JBIC／Sep. 1, 2005, Sep.15, 2005)

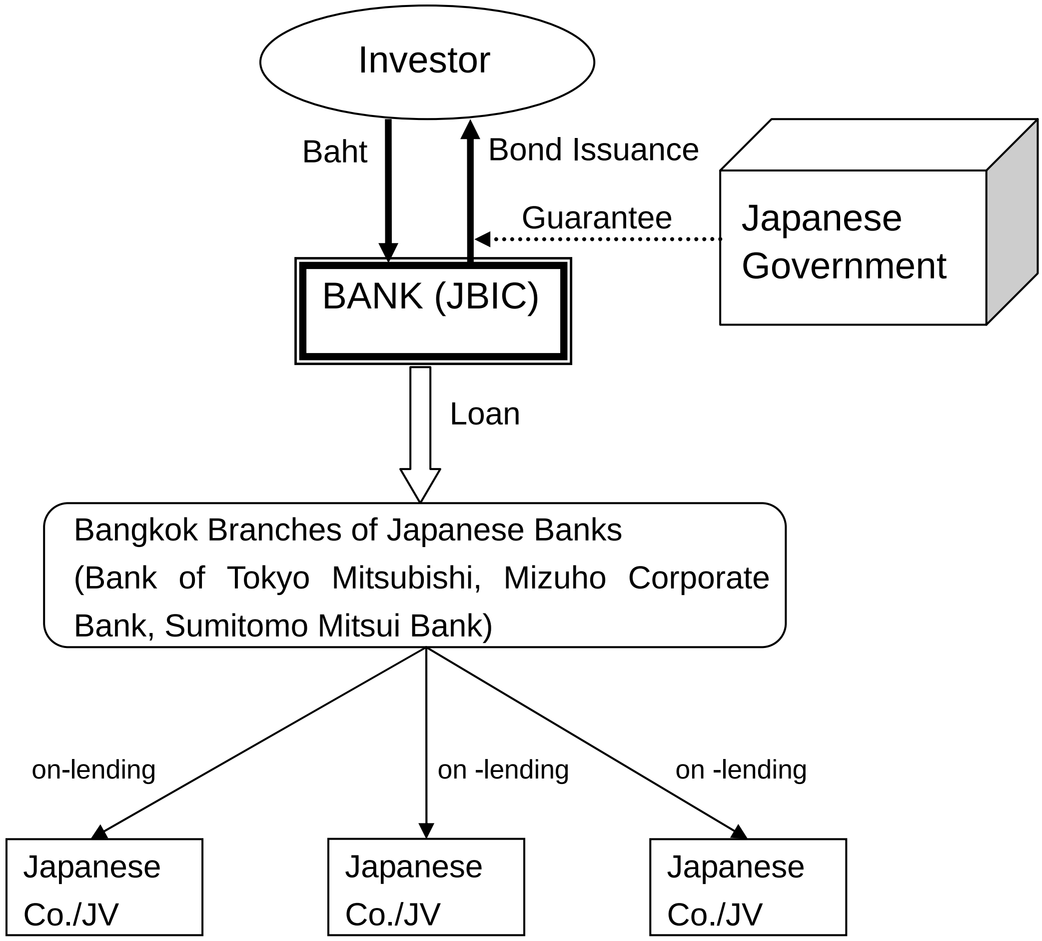
A. Summary of Issue

Amount	: 3.0 billion THB
Market	：Thai market
Maturity	：5 years (bullet repayment due on September 7, 2010)
Coupon Rate	：4.78%
Issue Price	：100%
Guarantor	：Government of Japan
Listing	：The Thai Bond Dealing Centre
Syndicate	: Citicorp Securities and Siam Commercial Bank (Lead Arrangers), Capital Nomura Securities and TISCO Securities (Co-Managers)

B. Significance

The baht bonds were issued under the Asian Bond Markets Initiative (ABMI) being promoted by the Japanese government under the framework of ASEAN+3 (Japan, China, Korea). This is the first Asian currency bond issuance undertaken by the Japanese issuer in line with the ABMI. This is the first Asian currency bond issuance by a foreign government or government agency in line with the ABMI.

The loan will provide baht funds for Japanese firms conducting business operation in Thailand to finance their capital investments and related long-term working capital through Bangkok branches of Japanese commercial banks. Among ASEAN member countries, Thailand is increasingly becoming home to manufacturing industry clusters. This cluster effect has increased the country’s presence as a production base. This has reaffirmed the importance of the country as a strategic base for Japanese firms seeking to enhance their global business development and such firms are increasing their investments in Thailand, in light of the economic partnership agreement (EAP) between Japan and Thailand and the progress being made toward a comprehensive economic partnership agreement between Japan and ASEAN. Thus local currency financing without exchange rate risk is expected to meet the extensive financial needs of local Japanese affiliates.



2.5 Proposal ③ Credit-Enhancement of Bonds Denominated in Indian Rupee (INR)

Since ratings are required for the issuance of INR denominated bond market, the majority of the bonds are offered through private placement. Local banks are presently restricted in their guarantee activity, but if such restrictions on guarantee are relaxed, this would enable the creation of a market for guaranteed bonds among local Indian banks, and the scope of issuers could be expanded to include small and medium size businesses. (Refer to APPENDIX for "List of INR-Denominated Bond Issuances")

On the other hand, when focusing on the bond issuance of Japanese companies that have established a presence in India, there are cases where such issuances can be accompanied by a guarantee provided by JBIC or insurance provided by Nippon Export and Investment Insurance (NEXI).

In other Asian countries, in 2004, Thailand witnessed the debut of ① JBIC Guaranteed Bonds and ② NEXI insured bonds. Due to the rarity of Japanese issues available, they were sold to local investors in Thailand.

Japanese companies who have set up operations overseas look to procuring funds in local currency from the point of view of avoiding exchange rate risk. In many cases, fund procurement by Japanese companies in Asia depends on loans from banks. If they are able to raise funds through the bond market, they will be able to diversify their methods of funding. In addition, funding through the bond market can be an effective way of preparing for emergency situations, such as the Asian currency risk.

However, even highly creditworthy foreign-affiliated companies are not necessarily well-recognized in local bond markets. Therefore, bond issuance often requires the guarantee and insurance coverage of the aforementioned two organizations, by which contribution to the invigoration of a country's bond market is also made possible.

Sections (1) and (2) below introduce press releases on the following: (1) "Summary of Issue" at time of issuance of Thai baht denominated bonds guaranteed by JBIC and the significance of such issuance and (2) "Summary of Issue" at time of issuance of Thai baht denominated bonds covered by NEXI's Overseas Untied Loan Insurance and the significance of such issuance.

In line with the advantageous points indicated above, by promoting bonds provided with JBIC's guarantee and NEXI's Overseas Untied Loan Insurance in the future, it would become possible to further revitalize the Indian bond market and at the same, to diversify the measures for funding of Japanese companies which have expanded overseas.

(1) Proposal ③-①

Guarantee for Baht-Denominated Bond Issued by Japanese Affiliate in Thailand
~ First Bond Issue Guarantee under the ABMI ~

(Source: JBIC/June 21, 2004)

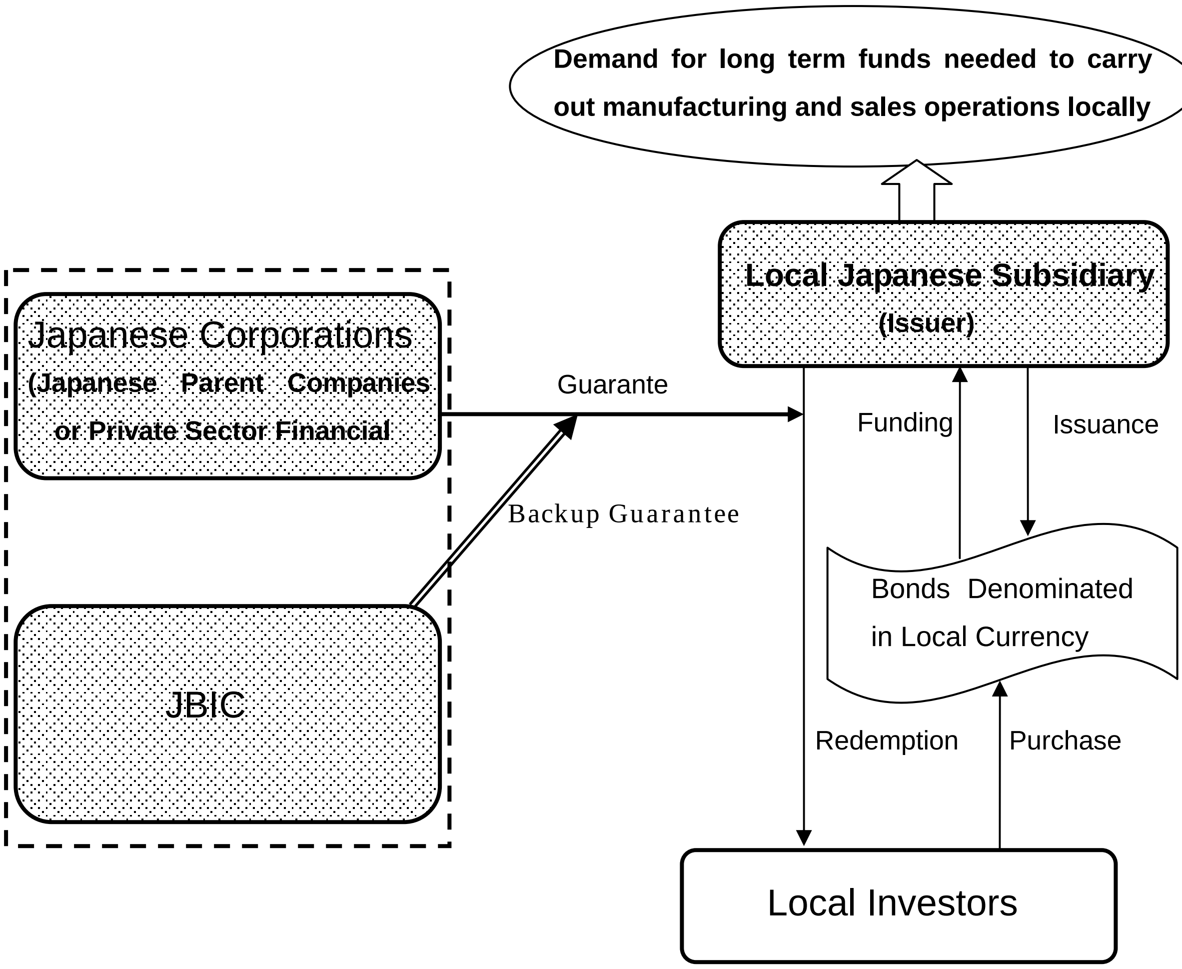
A. Summary of Issue

JBIC signed an agreement providing a guarantee for a baht-denominated debenture issued by TRI PETCH ISUZU SALES CO., LTD ("TIS"), a Thai joint venture of Mitsubishi Corporation and Isuzu Motors. Under this agreement, JBIC will provide a secondary guarantee on the principal amount for a primary guarantee on the principal and interest amount offered in a 3.5 billion-baht (equivalent to 10 billion yen) corporate debenture issue of TIS by Mitsubishi Corporation, one of TIS's parent companies. The funds raised from this issue will be used for manufacturing and sales Isuzu-brand pickup trucks in Thailand. This is the first debenture issue of TIS in the Thai capital market.

B. Significance

Japanese firms operating in Asian countries need to fund their business operations in local currencies to avoid exchange risks. However, their funding instruments are limited in many of these countries, as undeveloped securities markets make it difficult for them to issue local currency securities. Since even Japanese firms with good credit standing do not necessarily have high name recognition in local securities markets, there is a need for JBIC, a Japanese governmental financial agency, to complement their efficient bond issuances. To meet such needs of Japanese local firms operating in Asian countries, JBIC is supporting this firm in its efficient bond issuance in the local capital market by utilizing its guarantee facility.

The Government of Japan proposed the ABMI in December 2002. As part of efforts to advance ABMI, JBIC launched a new guarantee facility intended for local currency-denominated corporate bonds by Japanese firms operating locally. This is the first guarantee JBIC has provided through this facility.



(2) Proposal ③-②

Underwriting of Insurance for Bond Issuances in Local Currencies by Japanese Companies ~ First Instance of Assistance Based on ABMI ~

(Source: NEXI/April 8, 2004)

A. Summary of Issue

Type of Insurance	: Overseas Untied Loan (guarantee obligation) Insurance
Policyholder / Insured Party	: Mizuho Corporate Bank
Subject of Insurance	: Principal of JPY 2.7 billion + interest
Coverage Ratio	: Emergency risk 95%, Credit risk 95%
Period of Coverage	: 3 years
Issuer of Corporate Bond	: ISUZU (Thailand) Co., Ltd.
Financial Advisor	: TISCO Securities Co., Ltd.

B. Significance

Fund raising for Japanese corporations operating in Asia depend mostly on bank loans guaranteed by the parent company or remittance from the parent company. In these situations, when issue of bonds in local currency is facilitated, means for fund raising are diversified. As a result, even if the bank's liquidity declines, a company operating locally can raise funds. Also by enabling medium and long term fund raising in local currency, exchange risks in their business will be eliminated.

With insurance provided by NEXI to back bonds issued by Japanese companies in Asia, funding can be made easier for these Japanese companies and greater vitality can be brought to local investment. Accordingly, this move will contribute to the development of the Asian Bond Market Initiative.

2.6 Proposal ④ Credit-Enhanced Bonds Denominated in Foreign Currencies

India's commercial banks engage in short-term funding. Deposit maturity of banks in India as at 2004 is as follows. Within 1year:38%, 1-3years:34%, 3-5 years:20% and 5 years or more: 8%. For this reason, it is difficult to accommodate long-term fund needs, owing to Asset Liability Management (ALM)-related problems. This makes it natural to utilize the bond markets for such needs.

Although there are many foreign bond issuances including a 100-year bond by Reliance, generally the cap is 5 to 7 years. For the composition of long-term (10 years or more) or ultra-long-term bonds, it will be beneficial to issue credit-enhanced bonds with the credit enhancement of the World Bank, ADB, IFC and other international organizations, or JBIC and NEXI, in international bond markets with large investor bases, such as those for Samurai, global, and euro bonds.

Particularly in Japan, the need for long-term bonds, coupled with long-term low-interest-rate policy, is strong.

Actual cases of bond issuance employing credit enhancement include those in the Philippines featured in the table below.

【Table 13】Credit-Enhanced Bonds in the Philippines

	JBIC (Japan Bank for International Cooperation)	NEXI (Nippon Export and Investment Insurance)	ADB (Asian Development Bank)
Launch	June 2000	Dec. 2001	Dec. 2002
Issuer	Philippine National Oil Company –Energy Development Corporation (PNOC-EDC)	Republic of the Philippines	PSALM (Power Sector Assets & Liabilities Management Corp.)
Counter -Guarantor	Republic of the Philippines	-	Republic of the Philippines
Guarantor /Insurer	JBIC	NEXI Overseas United Loan Insurance	ADB
Type	Samurai Bond / Private Placement	Samurai Bond / Private Placement	Euro Yen Bond
Amount	JPY22bn	JPY50bn	JPY61.75bn (2-tranche) Tr. A) JPY24.75bn / Tr. B) JPY37bn
Tenor	10 year	10 year	Tr. A) 18 year / Tr. B) 20 year
Coupon	N.A	1.8845%	Tr. A) 3.2% at Re-offer Price 99.457 Tr. B) 3.55% at Re-offer Price 99.645
Arranger	Nomura / Mitsubishi -Tokyo	Mizuho (formerly Fuji)	Nomura
Cover Ratio	1) Principal: 100% 2) Interests: 100% for year 6-10 only	1) Political Risk: 97.5% of Principal & Interests 2) Commercial Risk: 90.0% of Principal & Interests	1) Principal: 100% 2) Interests: Tr. A) 100% for year 9-18 only Tr. B) 100% for year 11-20 only

Sections (1) and (2) below introduce press releases on the following: (1) “Summary of Issue” at time of issuance of Yen denominated bonds guaranteed by JBIC and the significance of such issuance and (2) “Summary of Issue” at time of issuance of Yen denominated bonds covered by NEXI’s Overseas Untied Loan Insurance and the significance of such issuance.

By promoting bonds provided with guarantee by JBIC, ADB, and IFC and covered with NEXI’s Overseas Untied Loan Insurance in the future, it would become possible to expand the base of investors, by raising the recognition of Indian banks and companies to overseas investors, including Japan, which in turn is expected to facilitate bond issuance henceforth.

(1) Proposal ④-①

JBIC Guarantees Private Placement Bonds by Philippine National Oil Company – Energy Development Corporation

~ First Bond Guarantee by JBIC ~

(Source: JBIC/June 15, 2000)

1. Main Features of the Bond Guaranteed by JBIC

(1)	Issuing Corporation	: Philippine National Oil Company - Energy Development Corporation ("PNOC-EDC") (See below for a profile of PNOC-EDC)
(2)	Guarantor	: The Government of the Republic of the Philippines (100% guarantee of principal and interest) and JBIC (See below for partial guarantee)
(3)	Lead Managers	: Nomura Securities Co., Ltd., Bank of Tokyo Mitsubishi Ltd., and Tokyo Mitsubishi Securities Co., Ltd.,
(4)	Place of Issue	: Tokyo
(5)	Purchaser	: Qualified Institutional Investors
(6)	Amount	: 22 billion yen
(7)	Use of Funds	: Funds necessary for PNOC-EDC's geothermal development projects to improve the geothermal heat recycling capacity and for environmental policy related issues
(8)	Maturity	: 10 years
(9)	Principal Redemption Method	: Lump sum redemption
(10)	Date of Signing	: June 15, 2000
(11)	Funding Date	: June 26, 2000 (scheduled)

2. Outline of JBIC's Guarantee

(1)	Guarantee Coverage	: Any non-payment of principal and interest from the Philippine Government-guaranteed bond (except for the interest for the first five years)
(2)	Effective Date of the Guarantee	: June 26, 2000 (scheduled)

3. Profile of the Bond Issuer

(1)	Company Name	: Philippine National Oil Company - Energy Development Corporation ("PNOC-EDC")
(2)	Date of Establishment	: March 1976
(3)	Business Operations	: Development of geothermal and other non-oil energy resources

B. Significance

This guarantee is extended under the framework of the second stage of the New Miyazawa Initiative, which aims to encourage the flow of private funds to Asian region. This is also the first guarantee of bonds provided by JBIC since the extension of guarantees to public bond offerings became a part of its international financial operations at the time of JBIC's establishment. The extension of this guarantee will support PNOC-EDC in procuring funds from the international capital markets and it is also expected to facilitate the recycling of long-term private sector funds and further revitalize the Tokyo bond market. Also, since the Philippines is promoting structural reform in the power sector under the auspices of multilateral institutions and JBIC, this project is important as it supports the diversification of domestic energy use.

(2) Proposal ④-②

Overseas Untied Loan Insurance Provided for Privately Placed Bonds Denominated in Japanese Yen Issued by the Government of the Republic of the Philippines

~ First instance of Overseas Untied Loan Insurance provided by NEXI for insuring bond issuance ~

(Source: NEXI / November 26, 2001)

A. Summary of Issue

(1) Lead Managers:
Fuji Bank (now Mizuho Corporate Bank) (Joint lead arranger and Coordinator)
Nomura Securities (Joint lead arranger)
Daiwa SMBC Securities (Co-arranger)

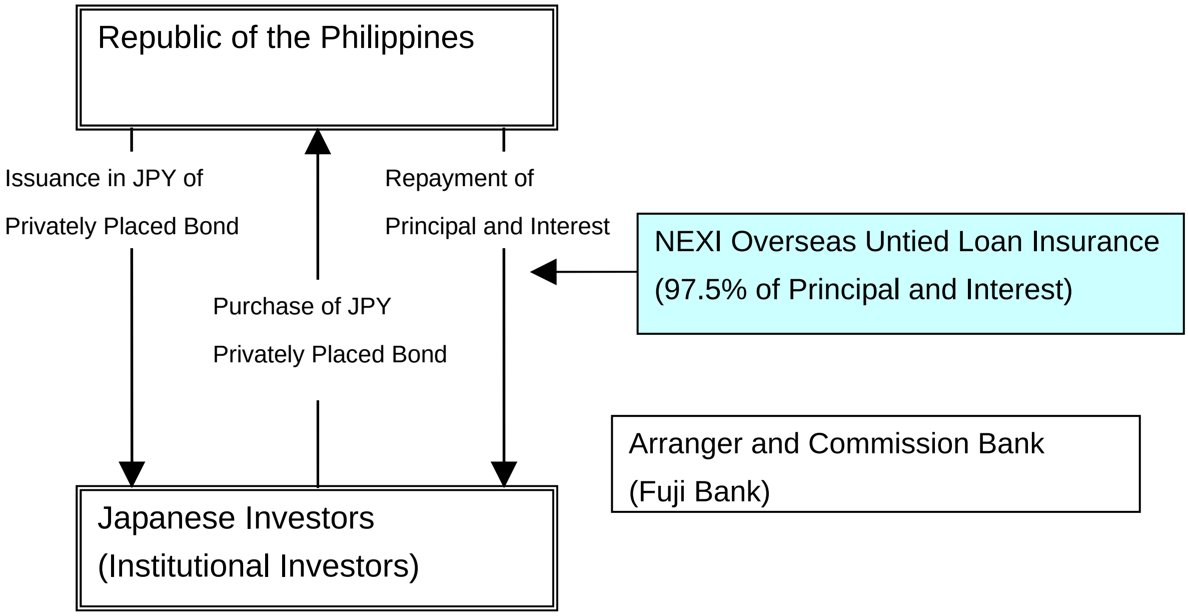
(2) Terms of Bond Issuance

Amount of Issue	: JPY 50.0 billion
Term	: 10 years
Interest Rate	: Fixed 1.8845%
Redemption	: Lump sum at maturity
Public vs. Private Offering	: Private placement to be limited to qualified institutional investors
Issuing Currency	: JPY

(3) Description of Insurance

Content of Insurance Policy	: Insurance for loan of a foreign business (loan claims, etc.)
Insured Value	: Principal of JPY 50 billion + interest
Scope of Coverage	: Emergencies and credit risk in Philippines
Percent Coverage	: Emergencies 97.5% : Credit 90.0%
Term of Insurance Coverage	: 10 years

<Scheme Diagram>



B. Significance

In a climate where investment into newly emerging markets and countries had slowed in response to the terrorist attacks in the US, NEXI facilitated the flow of private sector funds in Japan by providing insurance coverage for both emergencies and credit risk for the government of the Philippines. Also, for the Philippines, funding costs could be reduced by 3% relative to the funding costs for Samurai bonds issued by the Philippine Government. The funds were for the purpose of industrial infrastructure within the Philippines, and this action is expected to spur future trade and investment between Japan and the Philippines.

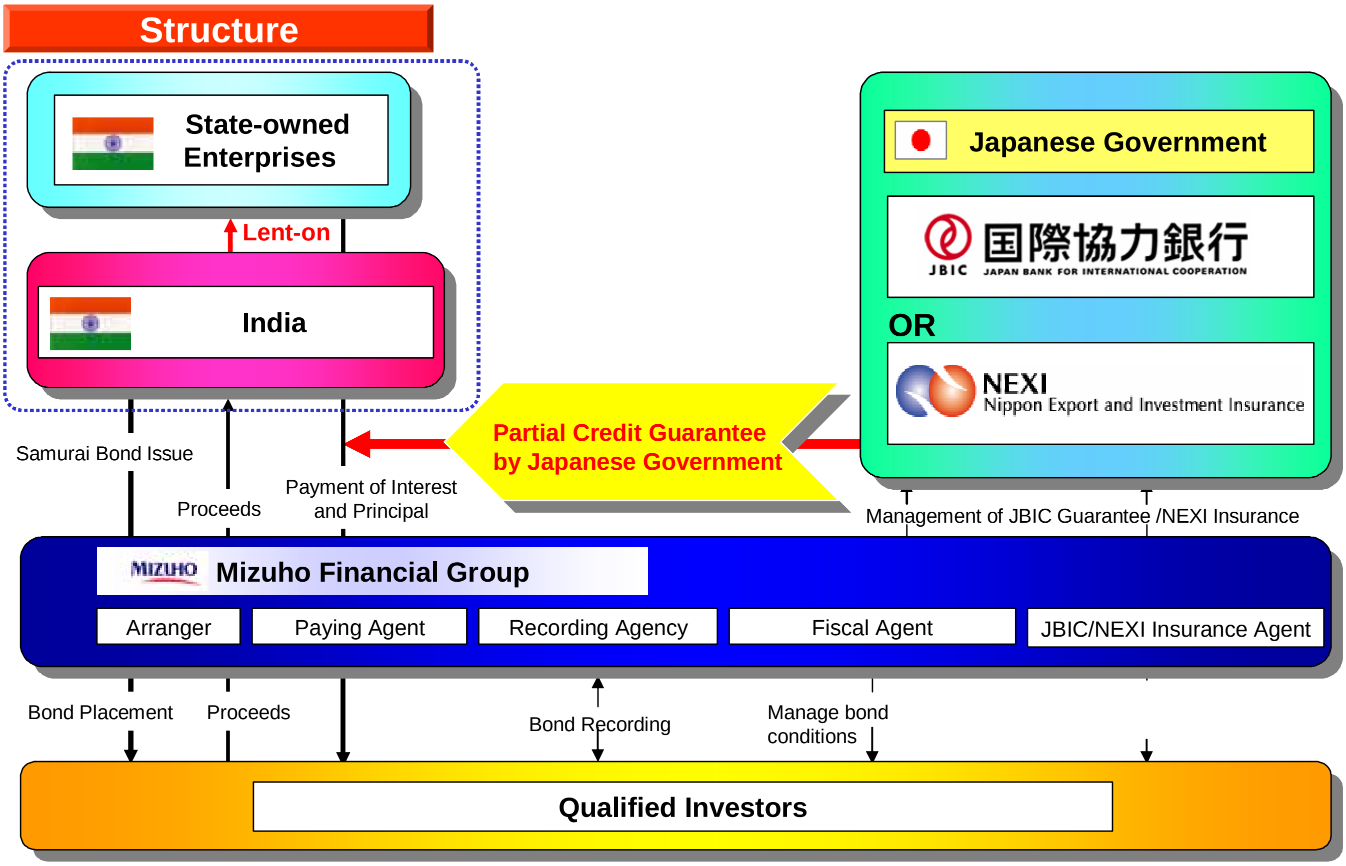
The funds raised through bond issue can be earmarked for the Philippine's domestic industrial infrastructure projects, such as for roads.

2.7 Proposal for Issuance of Indian Credit-Enhanced Bonds

Based on the above-mentioned case in the Philippines, it is proposed that long-term bonds enhanced by JBIC, NEXI or ADB credit be made available, although guarantee by the Government will also become essential. Tables 14 and 15 show how such structures work. There are deep-rooted investment needs of such bonds in Japan. Also, for the Indian side, even when guarantees fee payment is taken into consideration, such bonds would be a favorable means for long-term funding.

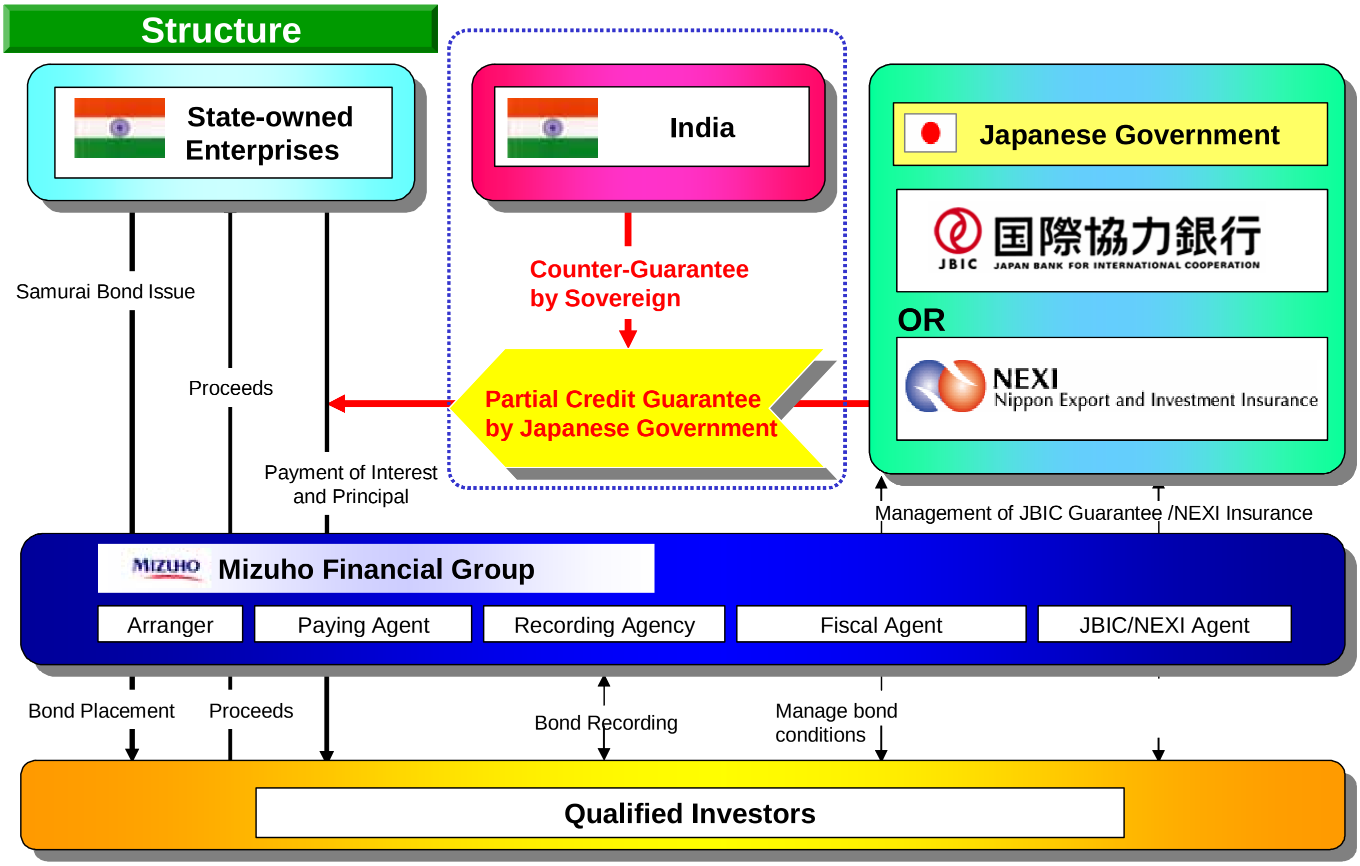
(1) A case in which the Indian government itself becomes the issuer of long-term bonds and on-lends to organizations requiring long-term funds.

【Table 14】



(2) A case in which the borrower becomes the issuer of long-term bonds and guarantee is provided by the Indian government.

【Table 15】



2.8 Summary

India has experienced brisk economic growth since introducing economic reforms in 1991. Real GDP growth rate for 2005 is expected to be posted at 8.1% and is expected to continue growing at around 8% from 2005 onward. Particular attention is being paid to India as member of the BRICs and fresh demand is expected for infrastructure and capital investment as India continues to experience sustainable economic development.

Given these conditions, when Prime Minister Koizumi visited India in April 2005, in the “Eight-fold Initiative for Strengthening Japan-India Global Partnership” signed with PM Manmohan Singh, a series of measures were agreed upon to expand and deepen economic and trade relations as well as cooperation between Japan and India. These measures are expected to help bring about fresh expansion and diversification of trade between the two countries.

On the other hand, the trend toward expansion of India-related business among Japanese companies is quite conspicuous, and in the report entitled “Survey of Expanding Overseas Business Operations by Japanese Manufacturing Companies” released by JBIC in 2005, India is also ranked second behind China as one of the leading countries in which to set up business operations over the medium and long term.

With such background, Japan will be able to contribute in many ways for revitalizing the Indian bond markets.[1] In this report, proposals for four products were attempted, which were ultimately organized as described below.

1. Support Indian issuers' foreign-bond issues, particularly Samurai bonds (Proposal 1)
   = Arrange additional Samurai bonds issued by India to expand Japanese institutional investors' investment in India.
2. Promote non-Indian issuers' bond issues denominated in local currency (Proposal 2)
   = Have international organizations issue INR-denominated bonds.
3. Promote Indian issuers' bond issues denominated in local currency (Proposal 3)
   = Have Japanese companies advancing into India issue INR-denominated bonds
   (Issue JBIC guaranteed bonds and NEXI guaranteed bonds covered by insurance).
4. Support Indian issuers' foreign-bond issues, particularly Euro-Yen bonds (Proposal 4)
   = Issue bonds guaranteed by JBIC, etc. for Indian issuers (particularly for long-term funding).

3. Financing and Bond Market Utilization for Infrastructure Development

3.1 India's Need for Funds for Infrastructure

As stated previously, for India's current government administration, the provision of infrastructure will be indispensable for its stable economic development. For that purpose, funds on the order of US$ 150 billion will be necessary over the next ten years. However, in addition to having a constant budget deficit, the government is limited in its fund raising owing to the Fiscal Responsibility and Budget Management Act (this law obligates the government to hold fiscal deficits within a specific rate of GDP).

For this reason, the development of the bond market is also crucial from the point of view of stable provision of private funds for India's long-term fund requirements for infrastructure.

3.2 Providing Funds for Infrastructure Projects in India

(1) Infrastructure Leasing & Financial Services

Infrastructure Leasing & Financial Services (IL&FS) was established in 1987 as the India's first financial institution to serve as a conduit for channeling funds for infrastructure projects. The first group of shareholders was comprised of the Central Bank of India, Unit Trust of India and Housing Development Finance Corp. Ltd. After the capital injection by International Finance Corporation, ORIX Corporation-Japan and others in 1993, IL&FS is presently a financial institution that is 60% owned by Indian financial institutions and 40% owned by foreign parties. As of the end of March 2005, after 20 years of operation, IL&FS maintains a capital account worth more than INR 7.3 billion, has asset size valued at INR 61.0 billion and is earning stable revenues. For investment in infrastructure projects, there are many cases where IL&FS has promoted the project as the core equity provider through its subsidiaries. IL&FS's investments have attracted funds from the private sector, especially from institutional investors. When selecting projects for investment, IL&FS's criteria is not whether

[1] Although it may be difficult at present, "utilization of Indian bond investment trust" can also be considered as one form of contribution in the future. Currently, marketing of Indian bond investment trust to Japanese investors poses difficulty based on the following reasons:
- Investor base is narrow since capital gain can not be anticipated, as with equities.
- Liquidity risk remains due to lack of liquidity.
- Difficulty of managing sufficient portfolio, since private bond market in India is still on a very small scale.