Sovereign borrowing outlook for 2022 and beyond: Navigating shocks and uncertainty with high debt

Cláudia Braz

Disclaimer: The views expressed here are my own and do not necessarily represent those of Banco de Portugal or the European System of Central Banks.
The report is very rich in terms of content and benefits from an unique database.

1. Sovereign borrowing outlook for OECD countries

2. ESG practices and challenges from a public debt management perspective

3. Sovereign debt issuance trends in emerging-market economies
Rapidly changing circumstances are very challenging for those that have to elaborate forward looking reports...

Budget balance (% of GDP)

|------|------|------|------|------|------|------|------|------|------|
| Change in budget balance: 2020-2023 (pp of GDP)

Source: OECD Economic Outlook database.

Note: 'OECD' corresponds to a simple average based on countries budget balance ratios to GDP.

... but the implications regarding fiscal balances are not problematic so far.
The prospects for debt ratios are also not deteriorating, in spite of high heterogeneity and uncertainty.

Public debt (% of GDP)

High debt countries may even record a faster reduction in debt ratios but gross financing needs are substantial.

Source: OECD Economic Outlook database.
A couple of weeks ago, financial markets reacted adversely, penalising more vulnerable countries

Fragmentation risks subsist:

- Financial markets reaction is unstable
- Many factors concur to debt sustainability risks
- The legacy of fiscal misconduct is significant

✓ Prudent fiscal policies (3 T's)
✓ Fiscal rules

Sovereign spreads to 10-year German bonds (%)

- Beginning of the pandemic
- Beginning of the war
The impact of higher interest rates will be gradual and differentiated between countries, depending on the respective debt structure.

Debt structure:

- Fixed/variable rate (inflation indexation)
- Maturity
- Holders
- Currency

The ‘leeway’ associated to reducing interest payments (observed in the last years) will cease to exist.
A suggestion for the next report 😊: collection of information on cash-buffers available for DMO’s

---

**Breakdown in the change of the euro area debt ratio**  
(pp of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>Interest payments</th>
<th>Growth (denominator) effect</th>
<th>Primary deficit</th>
<th>Deficit-debt adjustments</th>
<th>Total change in debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**Differences between GG deficit and central government NBR:**

- Sectoral perimeter
- National accounts *versus* cash-basis
- Changes in cash-buffer
- Other debt instruments

---

*Note: GBR = standardised gross borrowing requirement; NBR = net borrowing requirement.*

*Source: 2021 Survey on Central Government Marketable Debt and Borrowing; OECD Economic Outlook (December 2021); IMF World Economic Outlook Database (October 2021); Refinitiv, national authorities’ websites and OECD calculations.*
Thank you for the attention!