Sovereign Borrowing Outlook 2022 and Beyond

SUERF BAFFI Bocconi e-Lecture
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Outline

• Main features of sovereign borrowing in the coming out of the pandemic
• Downside risks to the outlook
• Near and medium-term policy considerations for sovereign debt management
Going into the crises

Note: Shaded areas are projections.
Source: OECD Sovereign Borrowing Outlook 2022; OECD Economic Outlook 110.

1) Non-inflationary, consistently expansionary.
OECD government market borrowings remain higher than pre-pandemic levels, but are showing some signs of stabilisation.

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.
New borrowings fall dramatically in 2021, but remain higher than historical averages

Panel A: OECD area
Central government net borrowing requirements

Panel B: EMEs
Net debt issuance by EME governments (USD billion)

Note: Panel A: Issuance amounts are nominal.
Source: For Panel A: 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; For Panel B: OECD calculations based on data from Refinitiv.
Impact of the COVID-19 on central government debt-to-GDP ratio in the OECD area

Marketable debt-to-GDP: 2008 financial crisis vs COVID-19 shock

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.
Borrowing maturities head back towards long-term debt instruments in many countries

**Maturity composition of sovereign borrowing**

**Panel A: OECD area**

**Panel B: EMEs**

Source: For Panel A: 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; For Panel B: OECD calculations based on data from Refinitiv.
The average term-to-maturity of outstanding debt for the OECD area has almost fully returned to a pre-pandemic level.

Average term-to-maturity of outstanding marketable debt in selected OECD countries

Source: 2021 Survey on Central Government Marketable Debt and Borrowing.
Cost of borrowing has risen in parallel with rising inflationary pressures

Volume share of fixed-rate bond issuance by yield category

Panel: OECD

Panel: EMEs (USD denominated bonds)

Source: OECD calculations based on data from Refinitiv.
Twin crises, triple pressures

- **Twin crises: COVID-19 and the war in Ukraine**
- **Pressure 1:** General surge in government borrowing and future borrowing needs
  - COVID-19
  - Financing the green transition
  - Demographic shifts
- **Pressure 2:** Inflation
  - Supply chain disruptions → further inflationary pressures (notably food/energy)
  - Interest rate increases in a high-debt environment
  - Shifting investor base, yield-sensitivity
- **Pressure 3:** A high degree of uncertainty
  - Exacerbates the two existing pressures
  - How long will the war and sanctions last, and what will the geopolitical landscape look like? What will be the cost of reconstruction?
  - Is the pandemic over from a public finance perspective?
  - What is the nature of the inflation we are facing?
Refinancing needs has elevated as a result of

**OECD area**
Debt redemptions of government marketable debt, as a percentage of debt stock

**EMEs**
Debt redemptions of government marketable debt, as a percentage of debt stock

Source: Refinitiv and OECD calculations
Deteriorating credit conditions in some EMEs

Changes in EME sovereign credit ratings

Evolution of credit quality for a selected group of EMEs

Source: Refinitiv and OECD calculations
A turning of the tide?

US and Euro Area 10-year sovereign bond yields and 5-year market inflation expectations

- US 10-year sovereign bond yield
- Euro Area 10-year sovereign bond yield
- US market expected inflation rate
- Euro Area market expected inflation rate

Note: Inflation expectations are 5 years.
Source: OECD Sovereign Borrowing Outlook 2022; Refinitiv.

Change in 10-year benchmark yields between December 2021 and April 2022 (percentage points)
Downside risks to the outlook

– Rising risks to the inflation outlook
– Pace of monetary policy tightening
– The war in Ukraine and its spillovers
– Emergence of new COVID-19 outbreaks
Risks on the horizon: emerging market debt distress?

Emerging market local currency bond yield spreads over US 10-yr

Share of foreign currency issuance by emerging market group

Source: OECD Sovereign Borrowing Outlook 2022; Refinitiv.
## Implications and lessons learned from the pandemic

### Key lessons learned from the COVID-19 crisis

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<thead>
<tr>
<th>Lesson</th>
<th>Percentage</th>
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<tr>
<td>Need to maintain short-term funding market</td>
<td>30</td>
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<td>Established communication with investors</td>
<td>28</td>
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<td>Having different borrowing methods</td>
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<td>The need to hold excess cash balances as a buffer</td>
<td>21</td>
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<td>Yield curve extension</td>
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<td>Others</td>
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### Potential implications of the pandemic on public debt management

<table>
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<th>Implication</th>
<th>Percentage</th>
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<td>More emphasis on investor relations</td>
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<tr>
<td>Adaption of a business continuity/recovery plan</td>
<td>18</td>
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<td>Boosting or establishing a cash buffer</td>
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<td>Issuance of new securities</td>
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<td>Lengthening average maturity</td>
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<td>Review of communication with central banks as major investors</td>
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<td>Review of primary dealership systems</td>
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<tr>
<td>Reassessment of issuance techniques</td>
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<td>Others</td>
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Near and medium-term policy considerations for sovereign debt management

- Debt managers should remain vigilant, closely monitor the resilience of market intermediaries and co-ordinate with the relevant authorities to promptly address possible stressed market conditions.
- They may benefit from tools such as security lending facilities, **flexibility** in their approach to issuance and maintaining contingency buffers to be able to absorb possible stress in markets.
- They may also explore new borrowing instruments to support financing capacity.
Publications, events and other projects:

OECD Sovereign Borrowing Outlook, [www.oecd.org/finance/oecdsovereignborrowingoutlook.htm](http://www.oecd.org/finance/oecdsovereignborrowingoutlook.htm)


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