



# Sovereign Borrowing Outlook 2022 and Beyond

SUERF BAFFI Bocconi e-Lecture  
27 June 2022, 15:00-16:30 CET

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## Outline

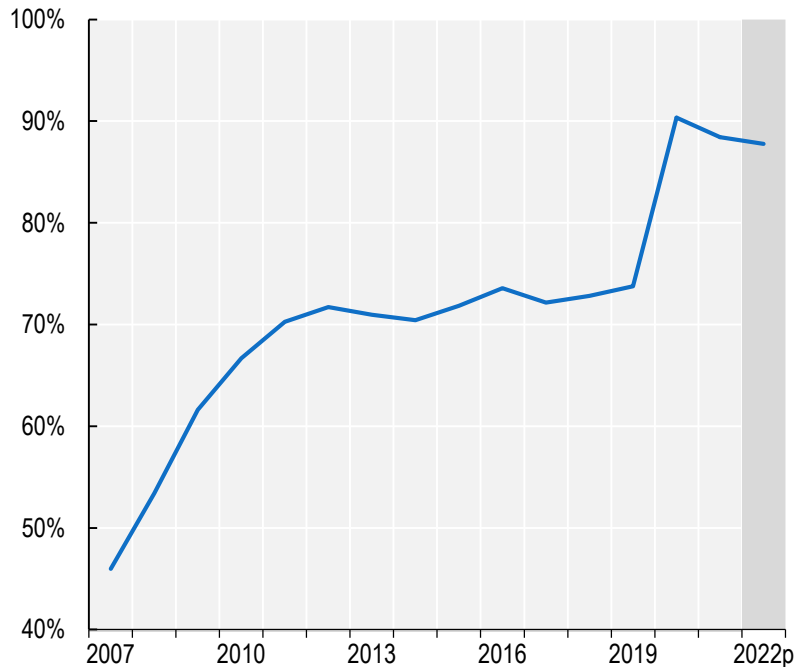
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- Main features of sovereign borrowing in the coming out of the pandemic
- Downside risks to the outlook
- Near and medium-term policy considerations for sovereign debt management

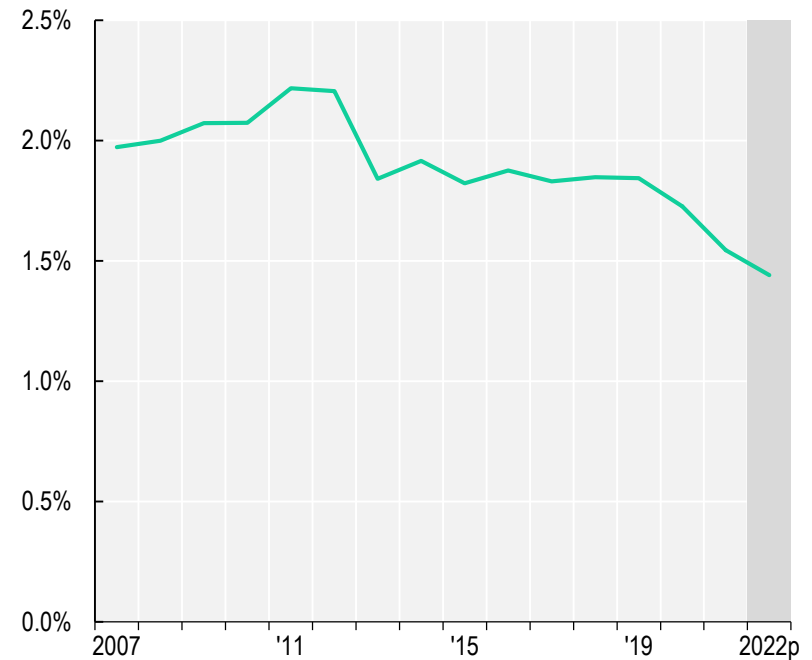


# Going into the crises

OECD countries  
Central government marketable debt, % of GDP



OECD countries  
Net general government interest payments, % of GDP



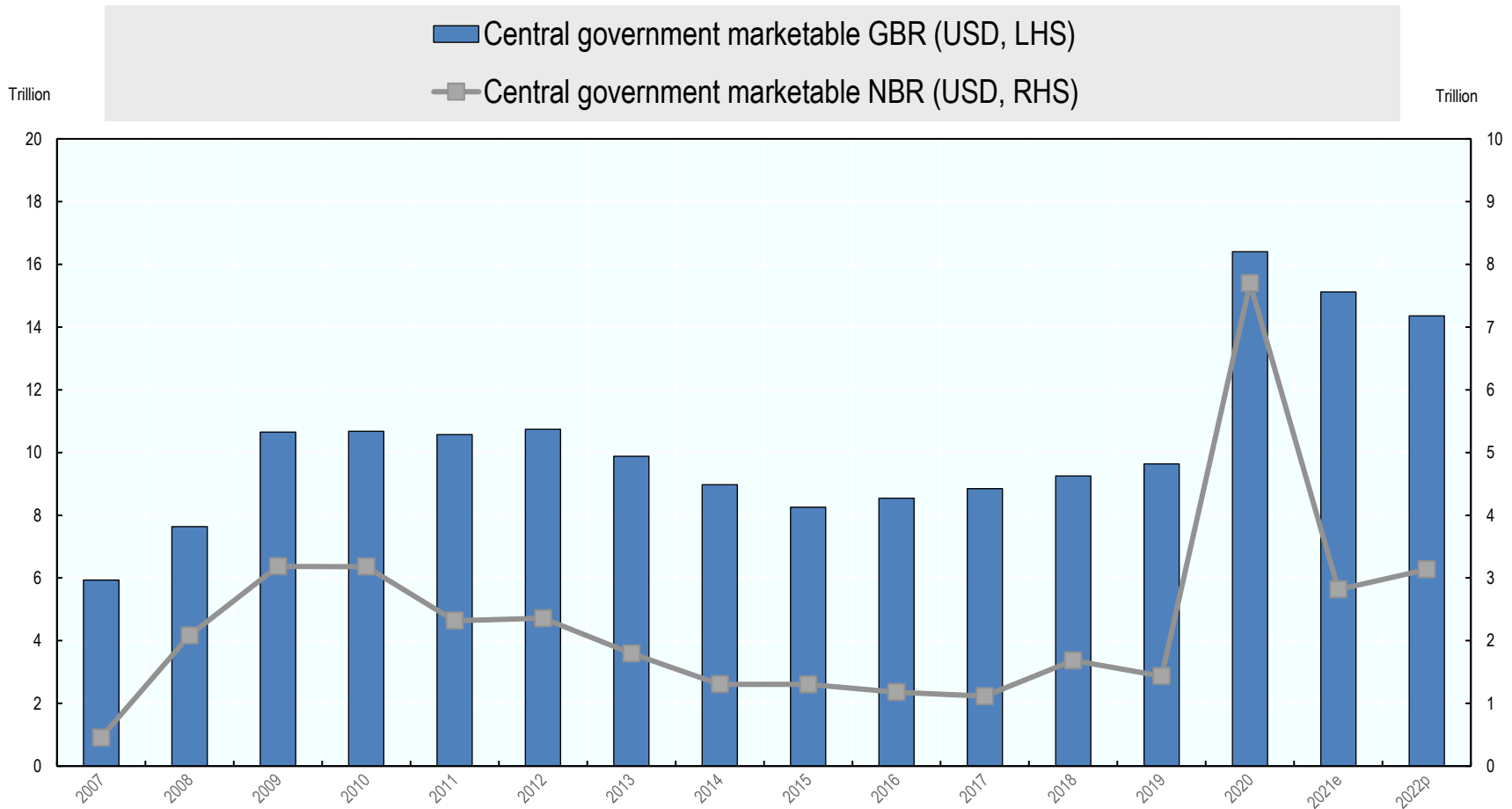
Note: Shaded areas are projections.

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

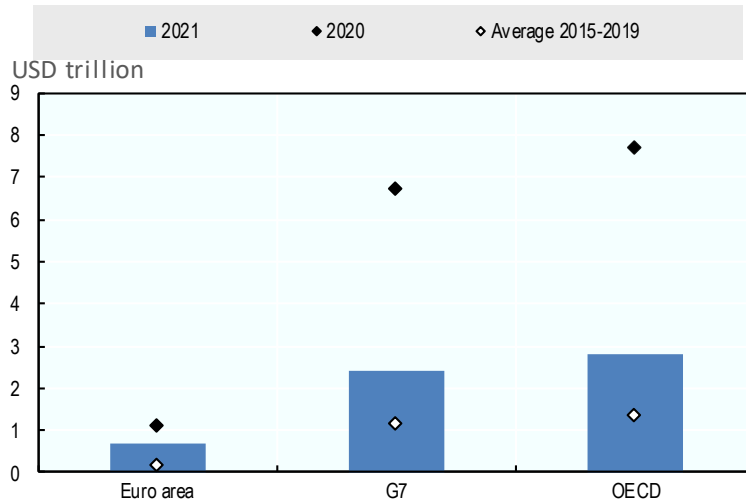


Source: 2021 Survey on Central Government Marketable Debt and Borrowing; OECD Economic Outlook (December 2021); IMF World Economic Outlook Database (October 2021); Refinitiv, national authorities' websites and OECD calculations.

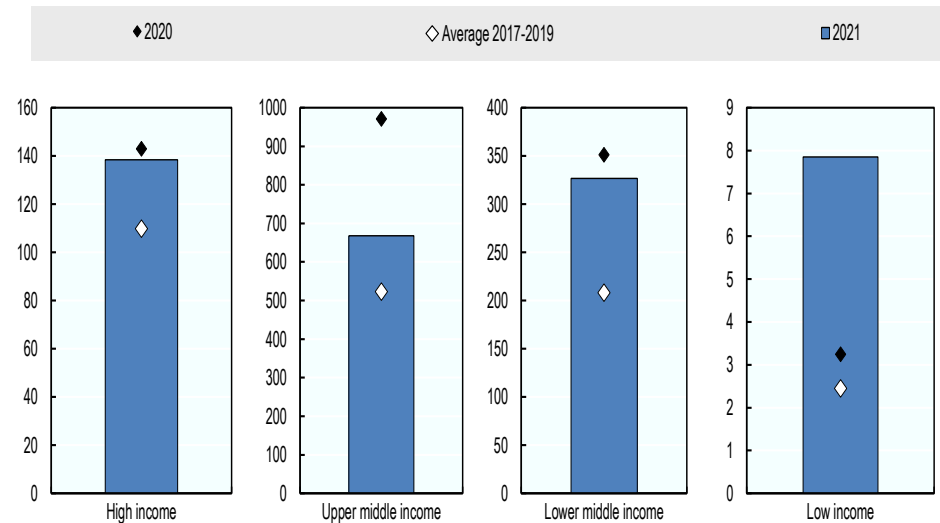


# New borrowings fall dramatically in 2021, but remain higher than historical averages

Panel A: OECD area  
Central government net borrowing requirements



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



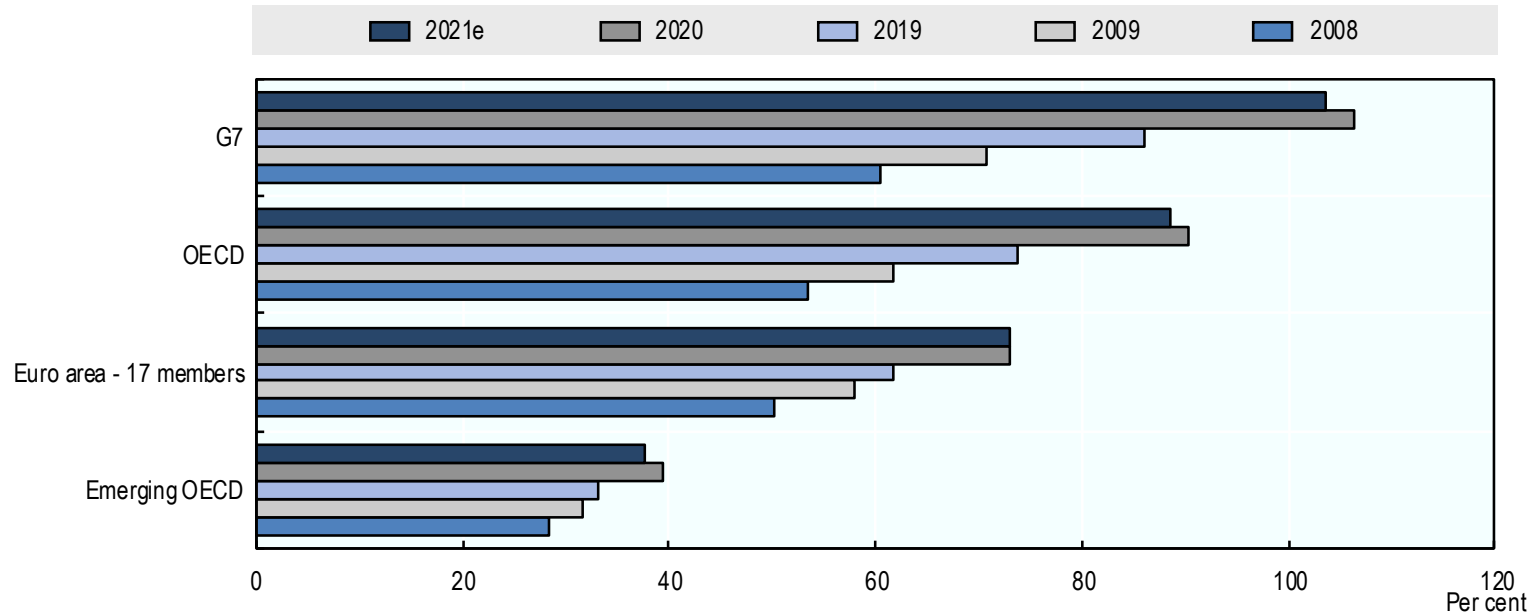
Note: Panel A: Issuance amounts are nominal.

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



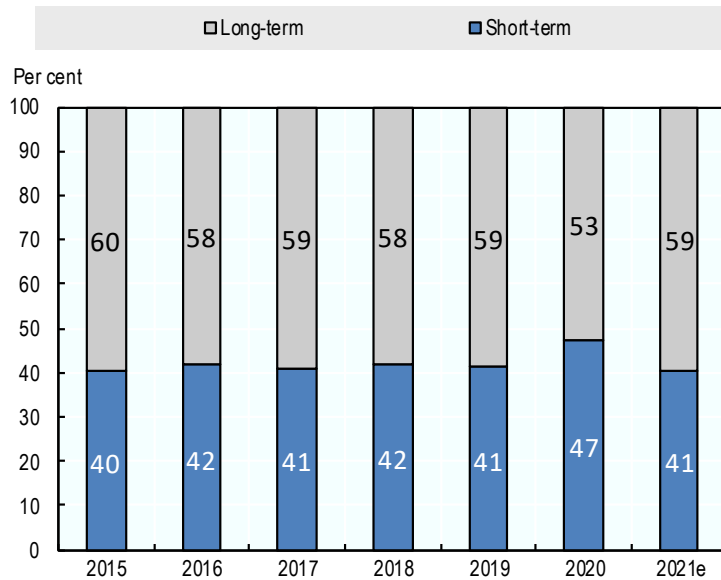
Source: 2021 Survey on Central Government Marketable Debt and Borrowing; OECD Economic Outlook (December 2021); IMF World Economic Outlook Database (October 2021); Refinitiv, national authorities' websites and OECD calculations.



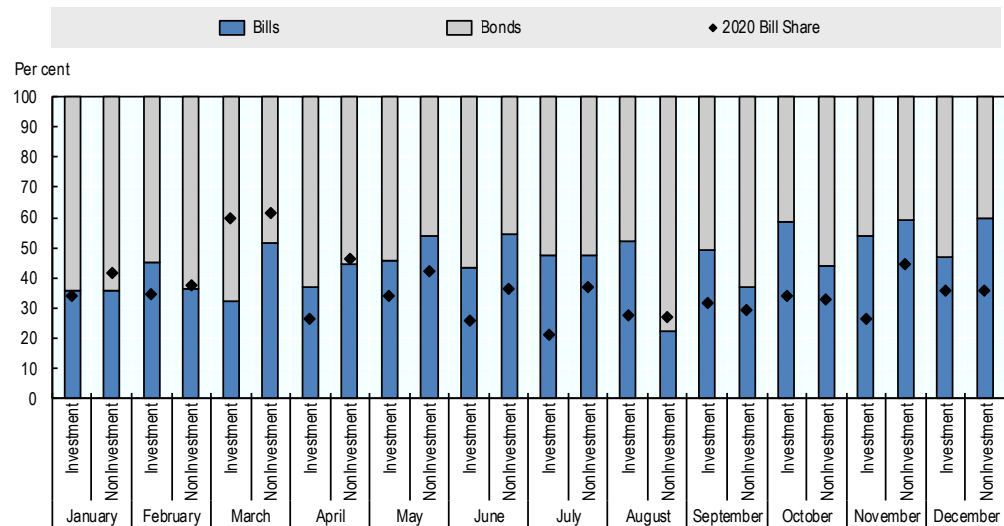
# Borrowing maturities head back towards long-term debt instruments in many countries

## Maturity composition of sovereign borrowing

Panel A: OECD area



Panel B: EMEs

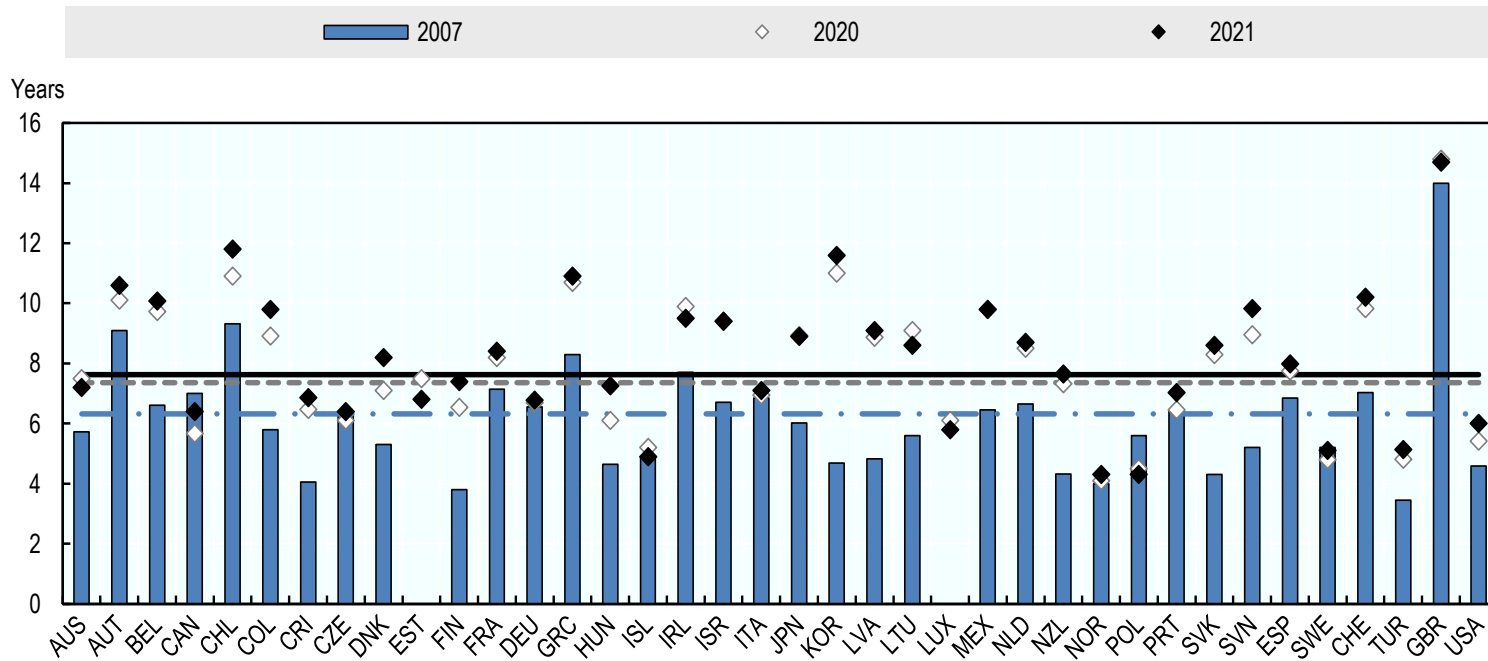


Source: For Panel A: 2021 Survey on Central Government Marketable Debt and Borrowing; OECD Economic Outlook (December 2021); IMF World Economic Outlook Database (October 2021); Refinitiv, national authorities' websites and OECD calculations; For Panel B: OECD calculations based on data from Refinitiv.



# 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.

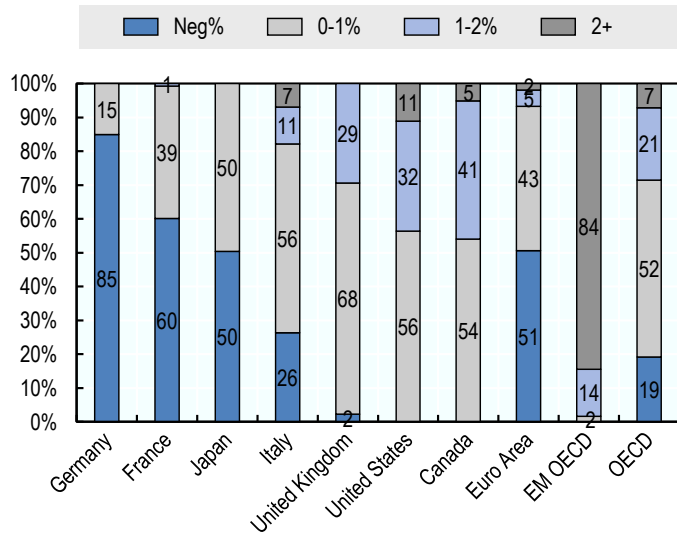




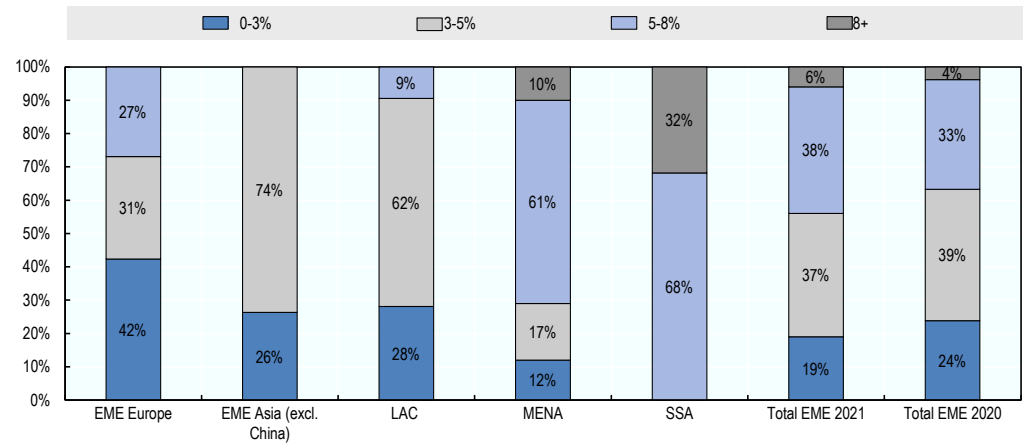
# Cost of borrowing has risen in parallel with rising inflationary pressures

## 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

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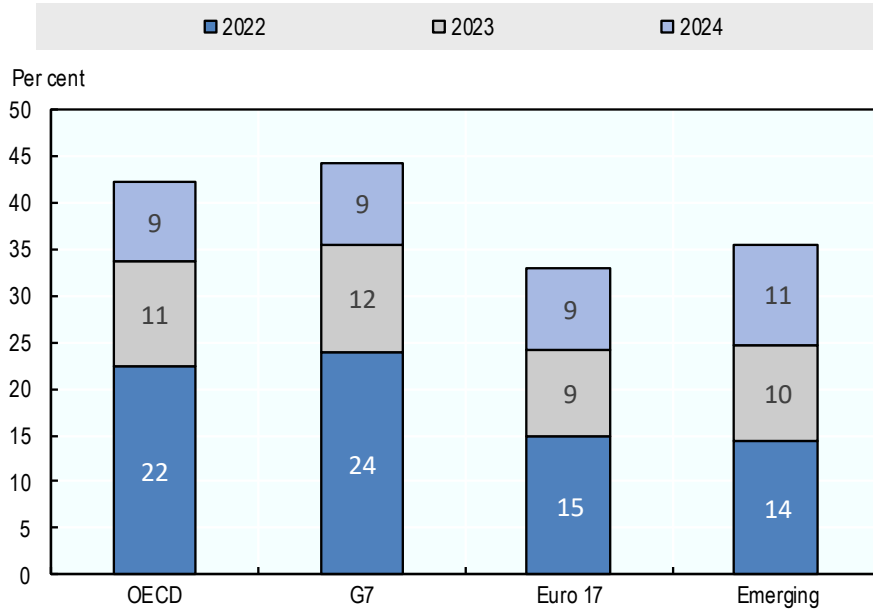
- **Twin crises: COVID-19 and the war in Ukraine**
- **Pressure 1:** General surge in government borrowing and future borrowing needs
  - COVID-19
  - Financing the green transition
  - Demographic shifts
- **Pressure 2:** Inflation
  - Supply chain disruptions → further inflationary pressures (notably 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

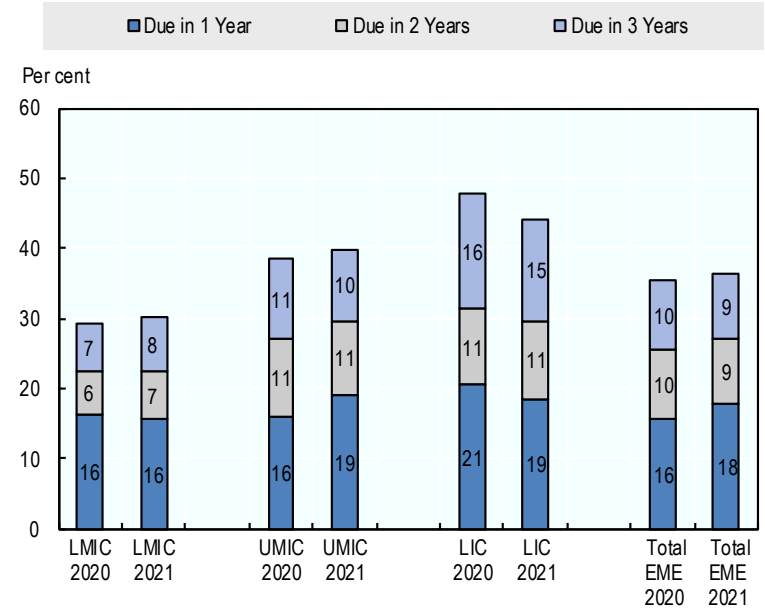
## OECD area

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

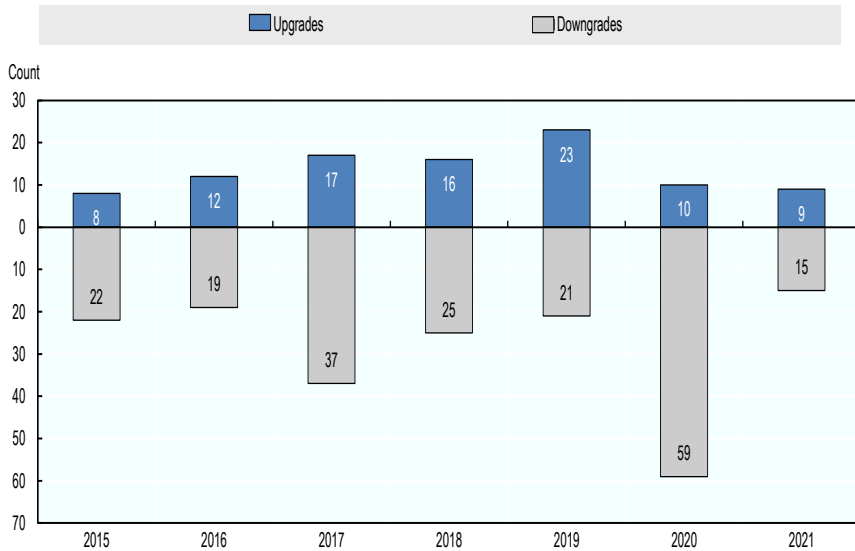


Source: Refinitiv and OECD calculations

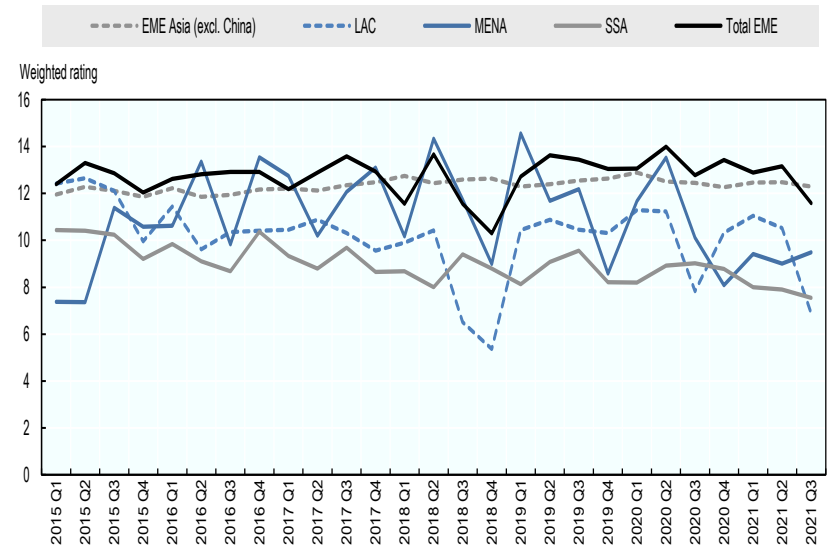


# Deteriorating credit conditions in some EMEs

## Changes in EME sovereign credit ratings



## Evolution of credit quality for a selected group of EMEs

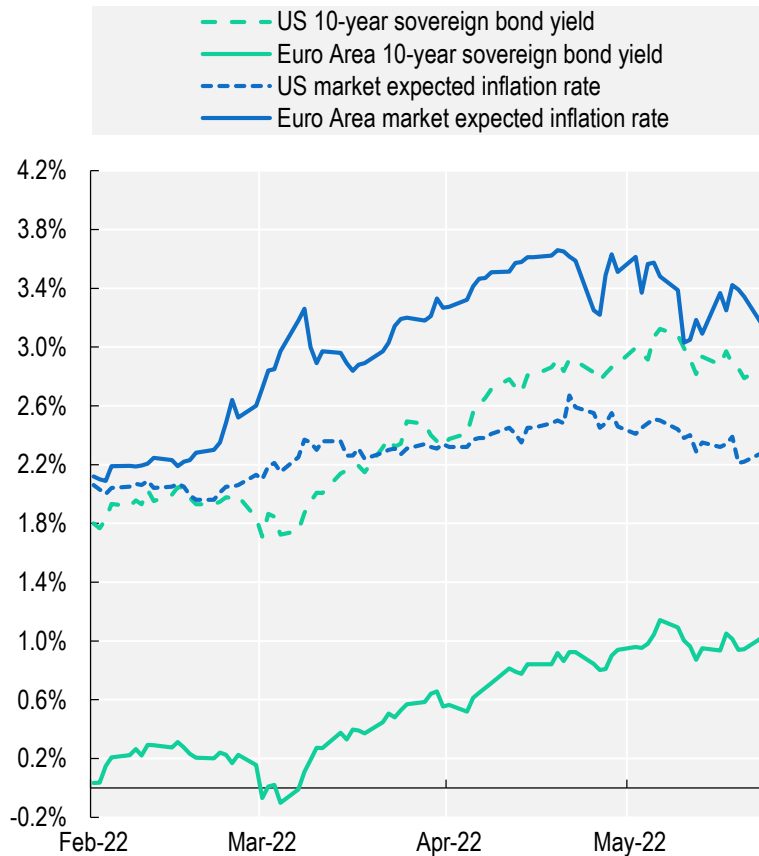


Source: Refinitiv and OECD calculations



# A turning of the tide?

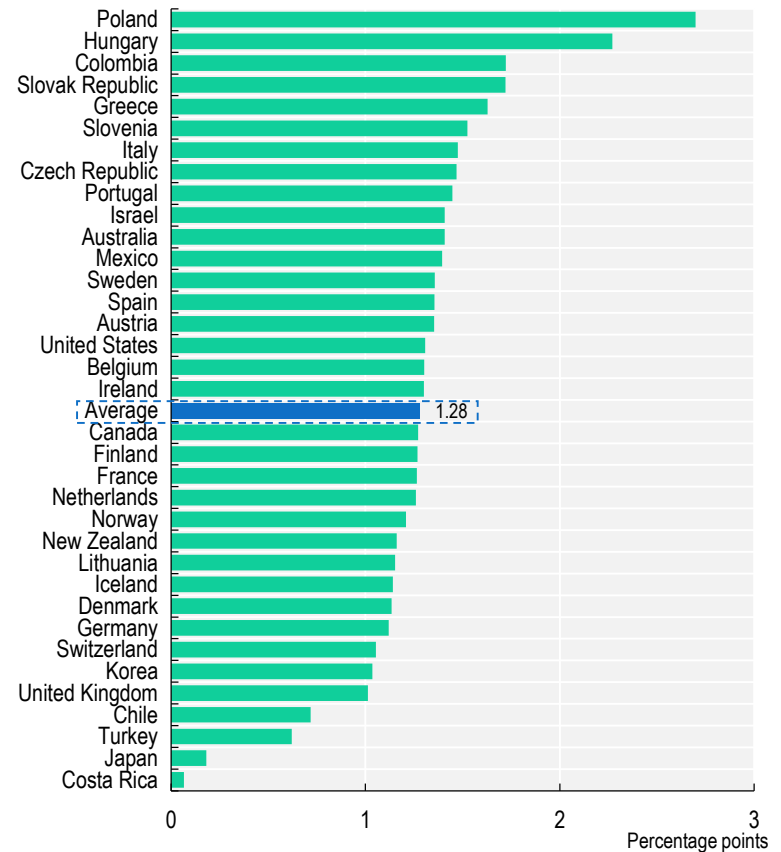
US and Euro Area 10-year sovereign bond yields and 5-year market inflation expectations



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

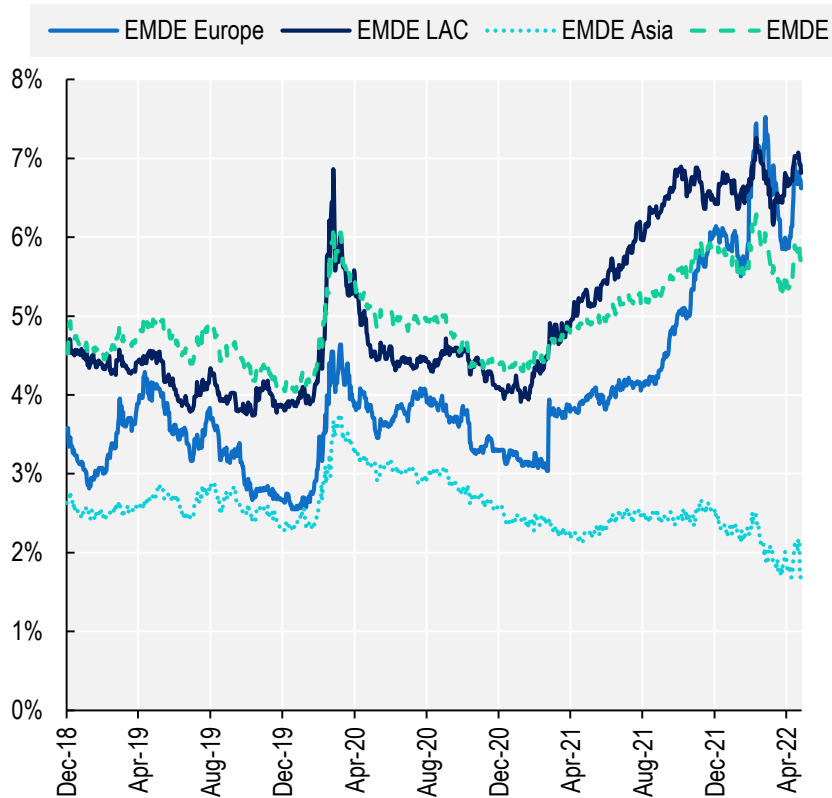
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- Rising risks to the inflation outlook
- Pace of monetary policy tightening
- The war in Ukraine and its spillovers
- Emergence of new COVID-19 outbreaks

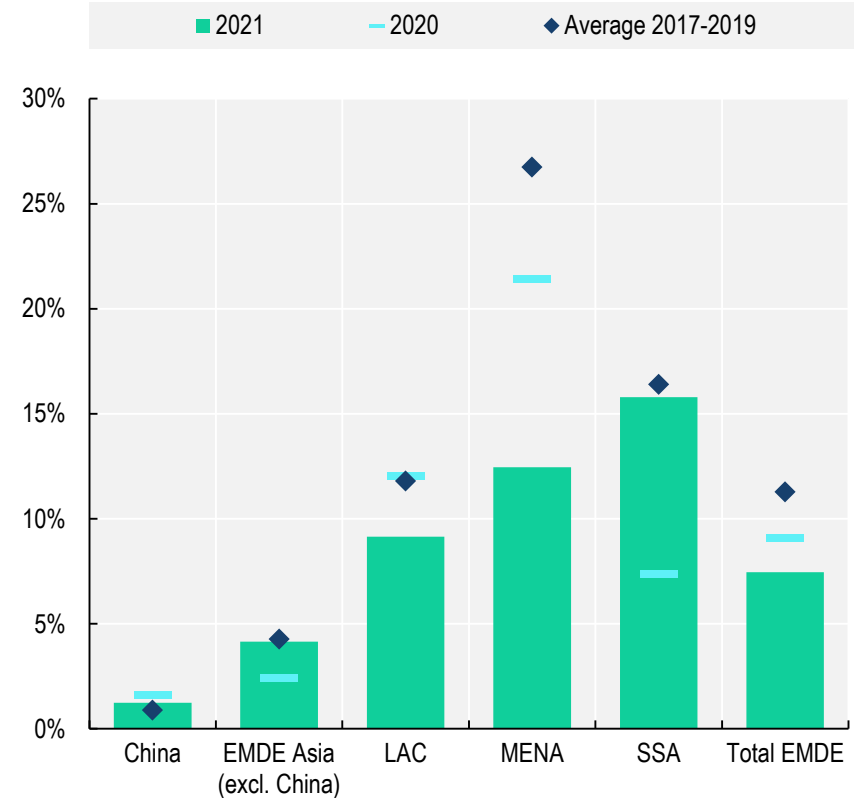


# Risks on the horizon: emerging market debt distress?

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



Share of foreign currency issuance by emerging market group

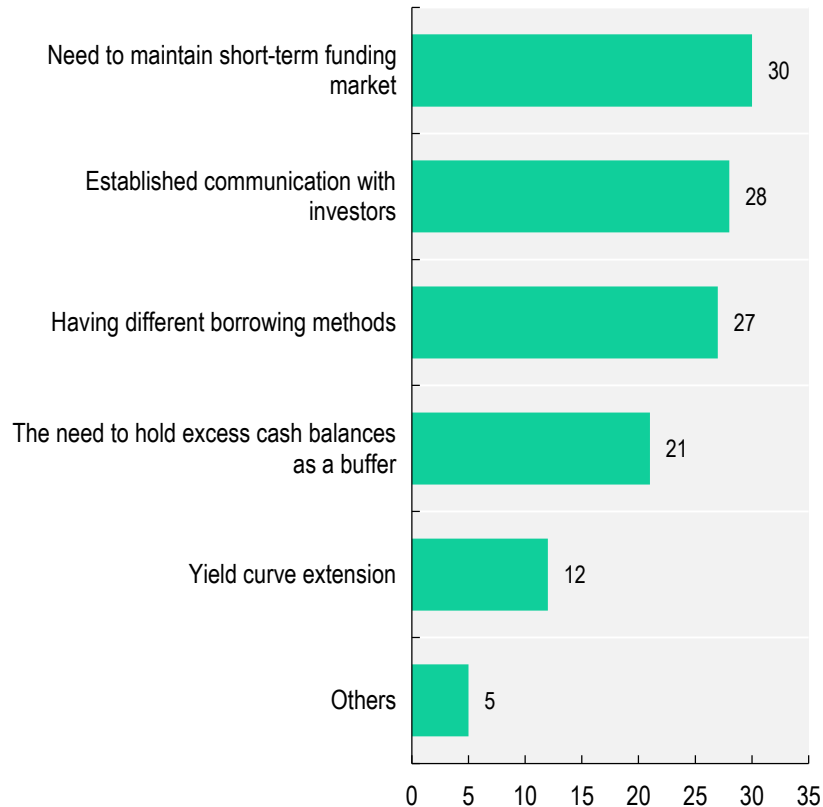


Source: OECD Sovereign Borrowing Outlook 2022; Refinitiv.

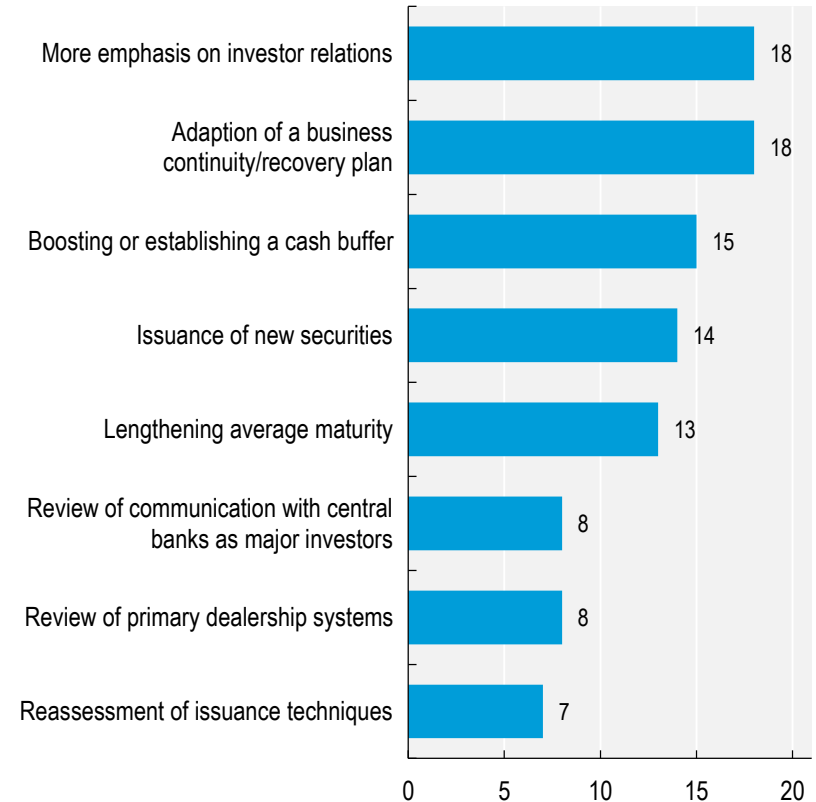


# Implications and lessons learned from the pandemic

## Key lessons learned from the COVID-19 crisis



## Potential implications of the pandemic on public debt management



Source: OECD Sovereign Borrowing Outlook 2022 (2021 OECD Survey on Primary Market Developments).





## Near and medium-term policy considerations for sovereign debt management

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- 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.



## Find us online

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### Publications, events and other projects:

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

OECD Working Papers on Sovereign Borrowing and Public Debt Management, <http://www.oecd.org/daf/fin/public-debt/oecdworkingpapersonsovereignborrowingandpublicdebtmanagement.htm>

OECD Global Forum on Public Debt Management, <https://www.oecd.org/daf/fin/public-debt/global-forum-public-debt-management.htm>

PDM Network: Public Debt Management Conference 2022, <https://www.oecd.org/daf/fin/public-debt/>

OECD Debt Transparency Initiative, <https://www.oecd.org/finance/oecd-debt-transparency-initiative.htm>

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