

The Current Landscape

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Outline

- ▶ Think of a number - US Debt
- ▶ Measurement matters - institutional and instrument coverage, valuation
- ▶ The wider public sector balance sheet - non-debt liabilities and government assets
- ▶ Other key factors - maturity, currency and residency
- ▶ The QE Impact on Sovereign Debt

Seymour Durst - a man obsessed with Sovereign Debt





UNITED STATES DEBT CLOCK

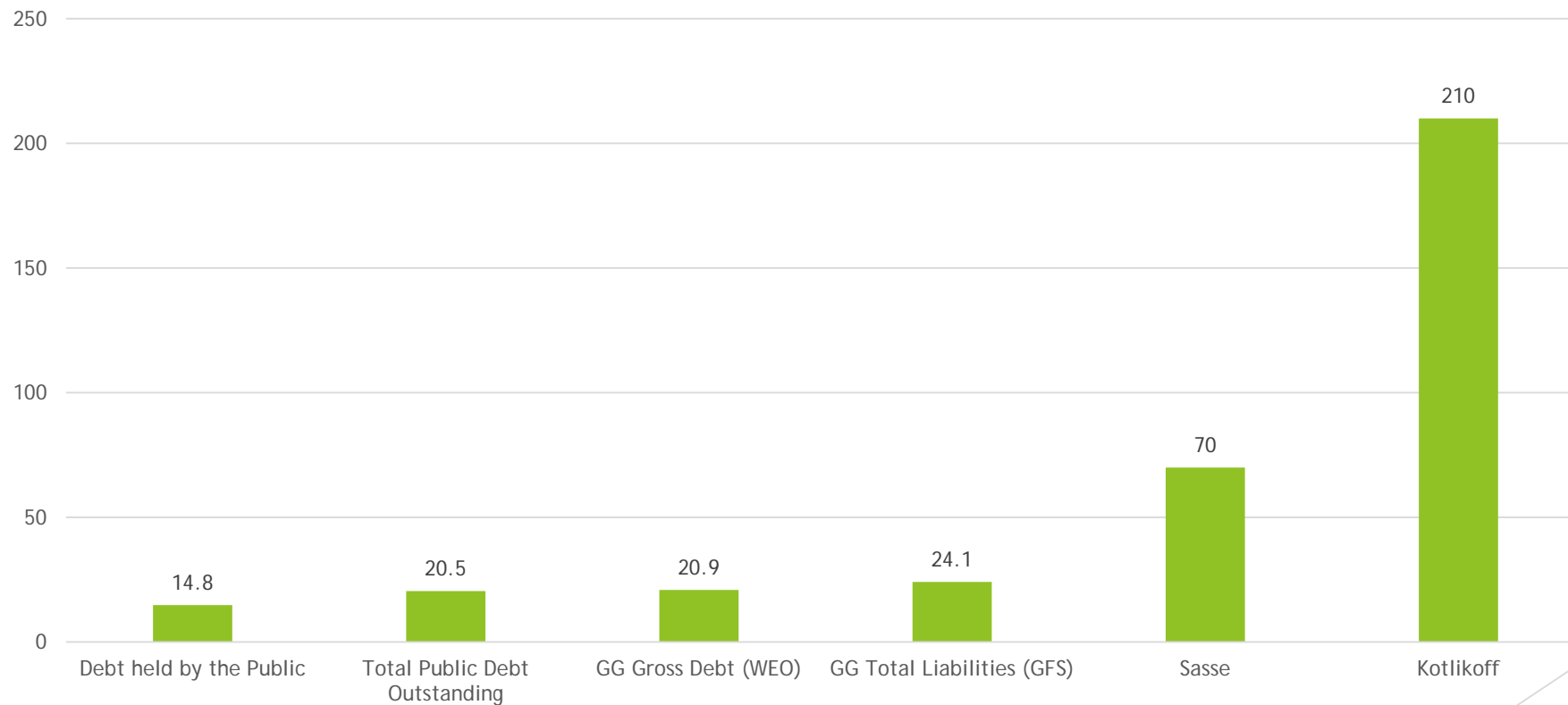
\$ 21,283,549,549,181

The United States is one of the world's most eager consumers of national debt. Due to the high volume of new US national debt being added on an irregular basis, this clock is regularly updated. *Last update: 24 July 2018*

Source: USA.gov website. US national debt statistics include Intragovernmental Holdings and allowance of one day delay in banks reporting to the US Treasury.

Alternative Measures of US Sovereign Debt

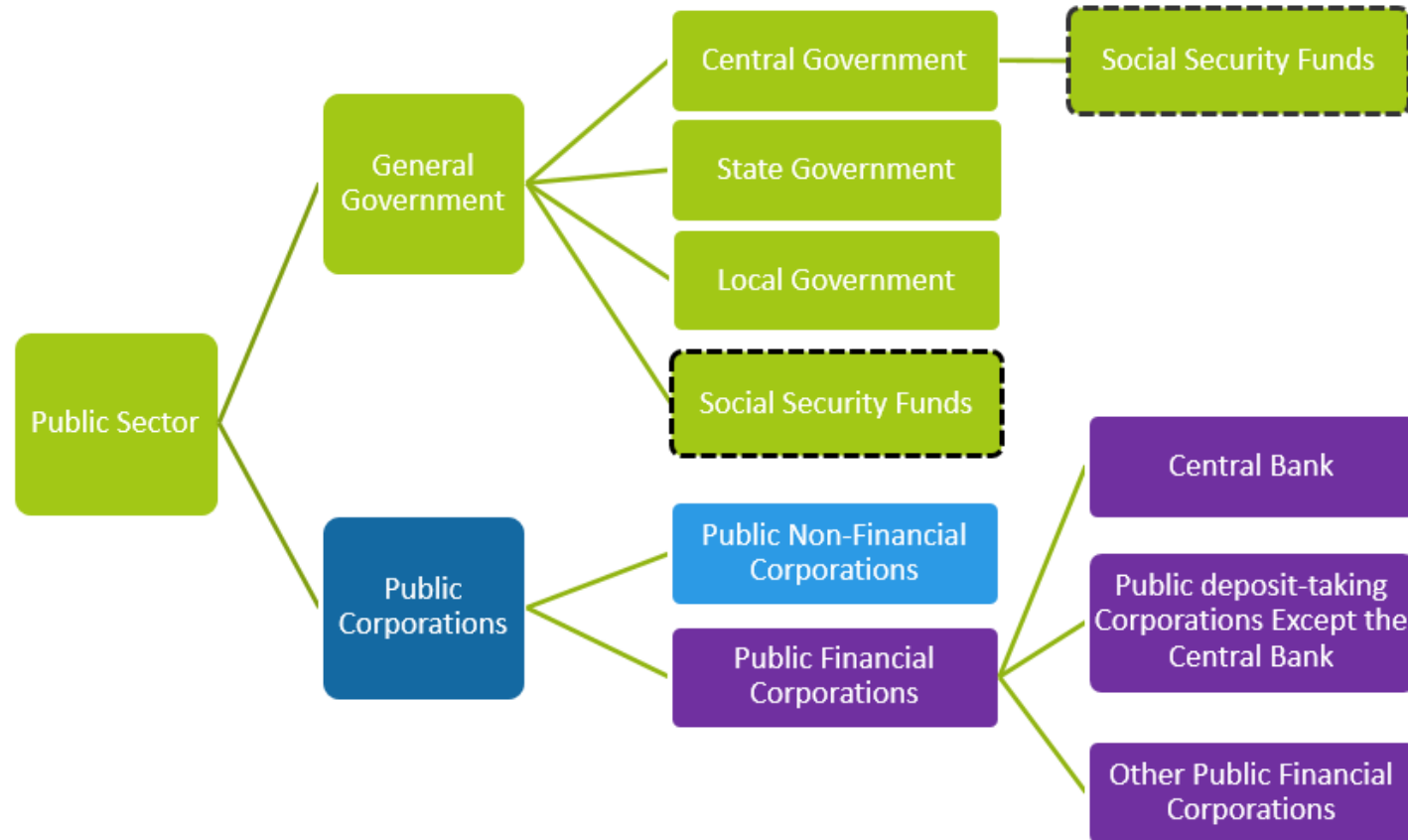
End 2017 US\$ Trillions



Key Factors when discussing Sovereign Debt

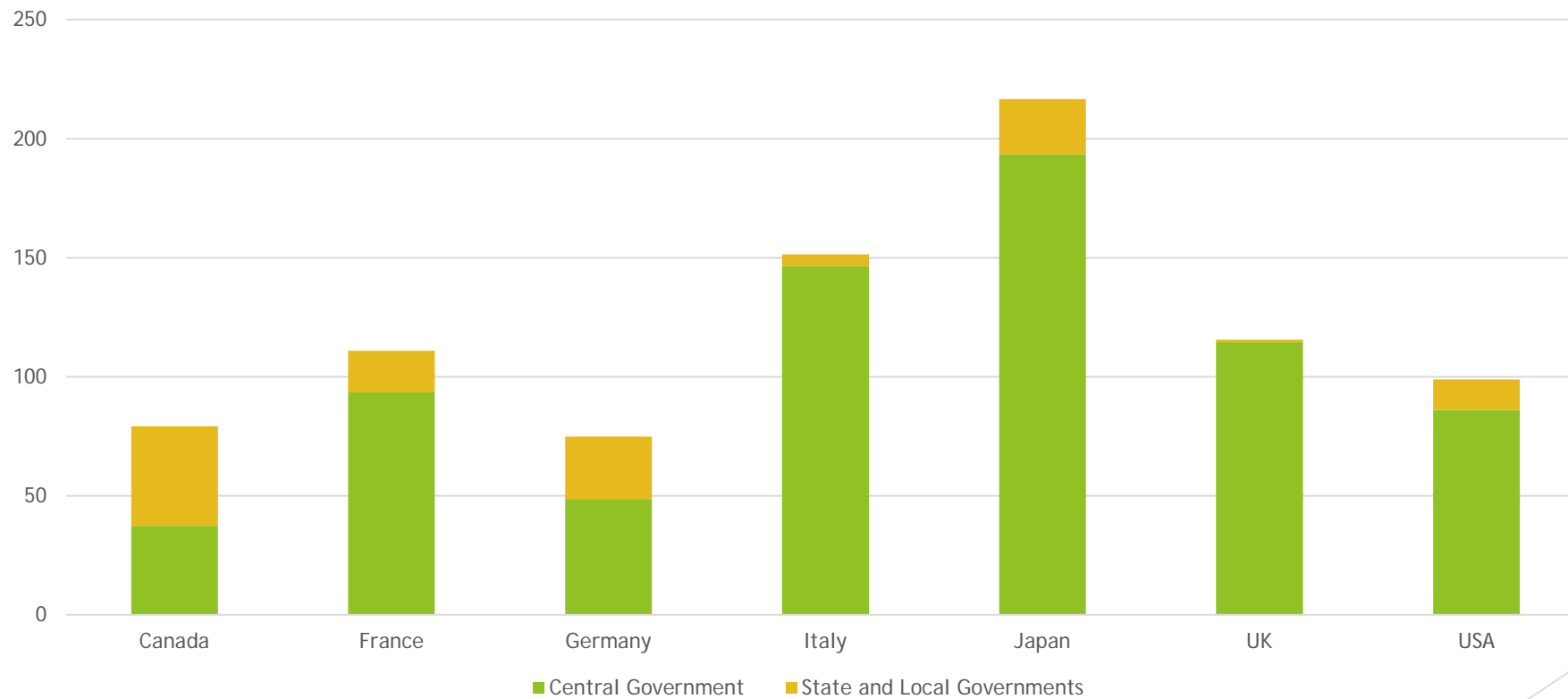
- ▶ Institutional Coverage - what parts of the government are being measured?
- ▶ Instrument Coverage - what kinds of liabilities are included?
- ▶ Valuation - how is debt valued?

Institutional Coverage



Institutional Coverage

G7 Shares of Total GG Debt by subsector
(Percent of GDP, 2016)



Instrument Coverage

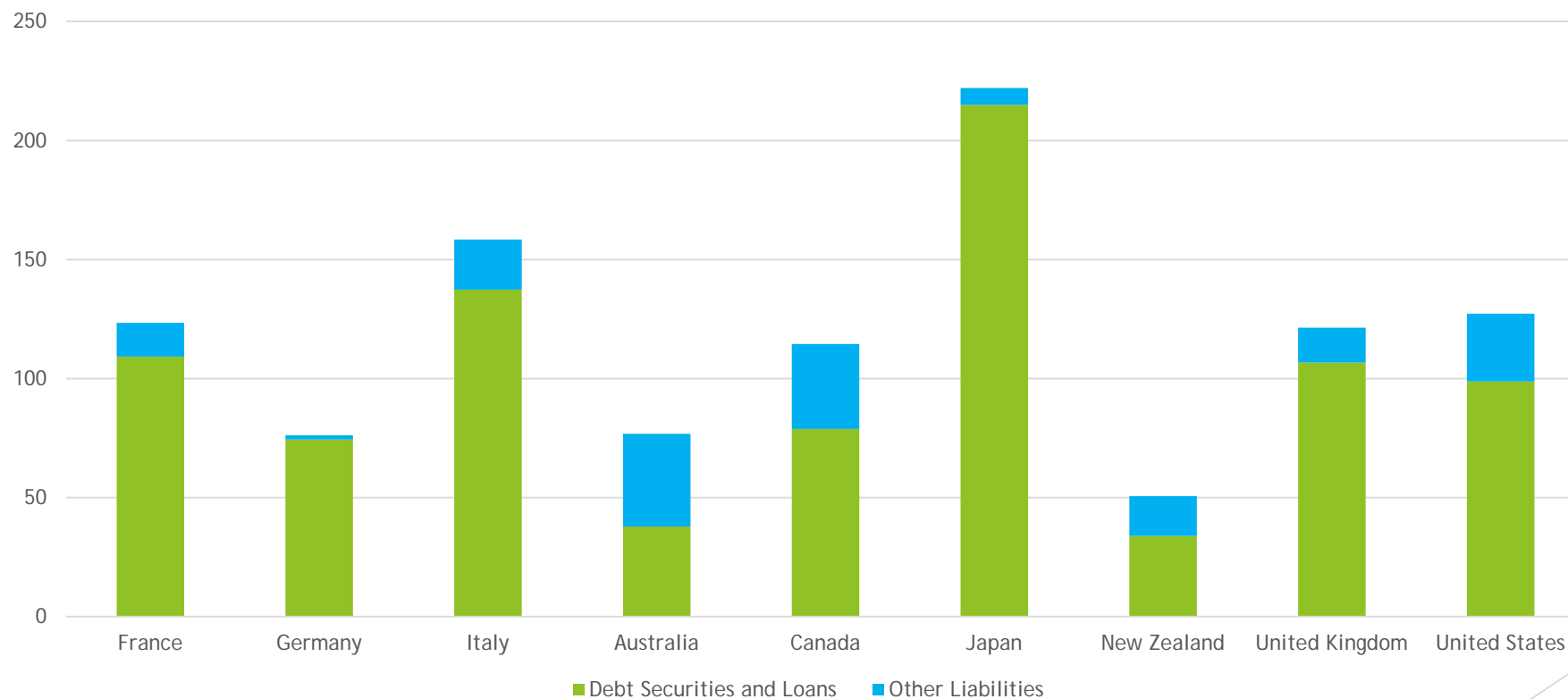
- ▶ Traditional focus on debt securities and loans
- ▶ Recognition among many economists that there are other types of liabilities
 - ▶ Currency and Deposits (included in Maastricht Debt)
 - ▶ Other accounts payable
 - ▶ Pension related liabilities

“Fiscal Illusions”

Arbitrage opportunities between narrow and wider measures of debt - keep headline debt issuance down by accumulating accounts payable (arrears) or storing up future problems (pensions)

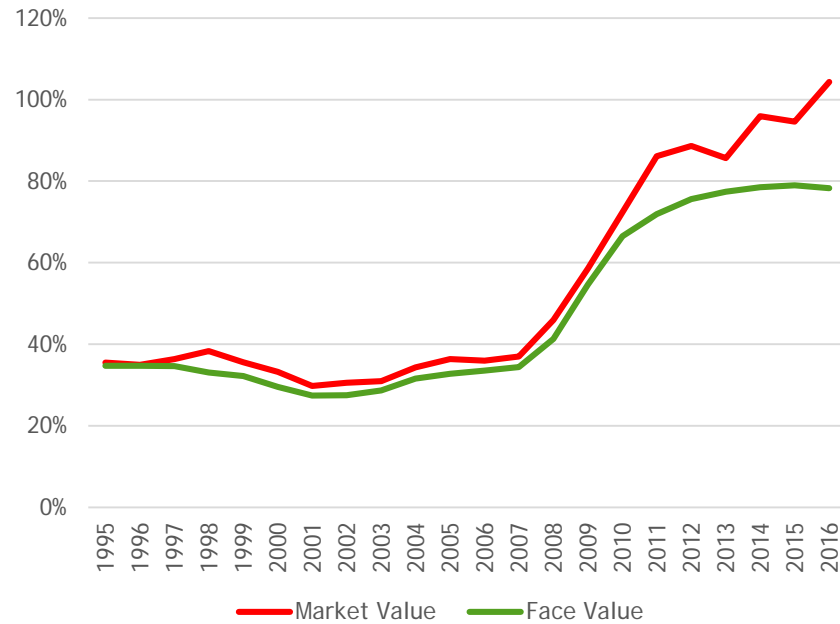
Instrument Coverage

Debt Securities and Loans vs Other Liabilities
(Percent of GDP, 2016)

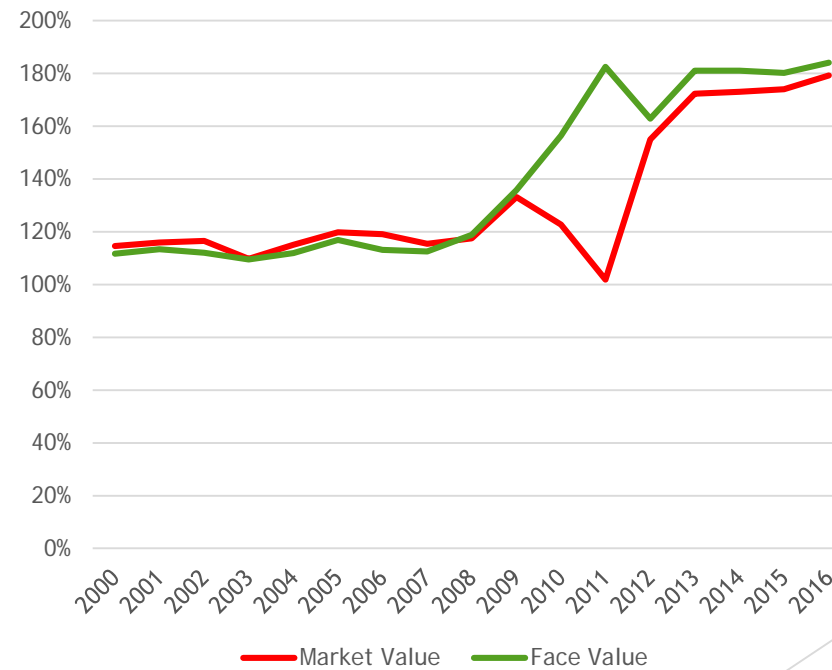


Valuation

UK Central Government Debt Securities (Percent of GDP)



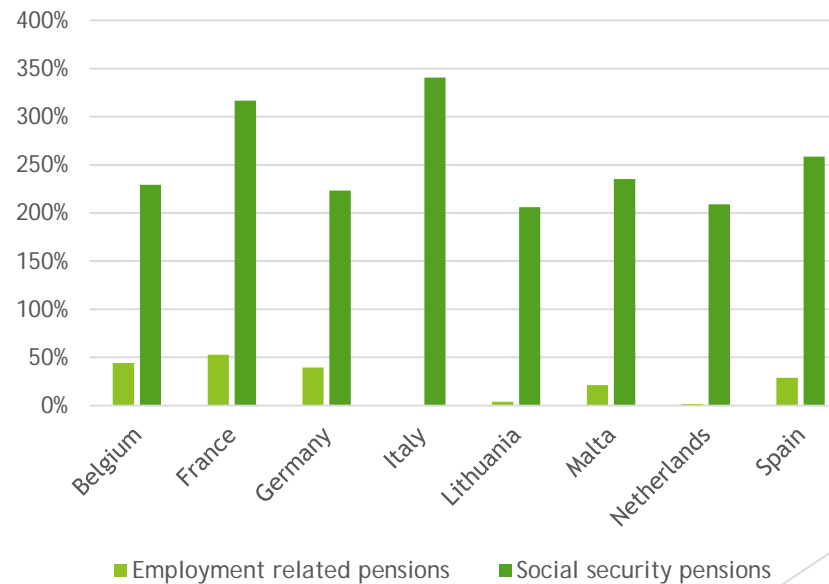
Greece - Central Government Debt Securities (Percent of GDP)



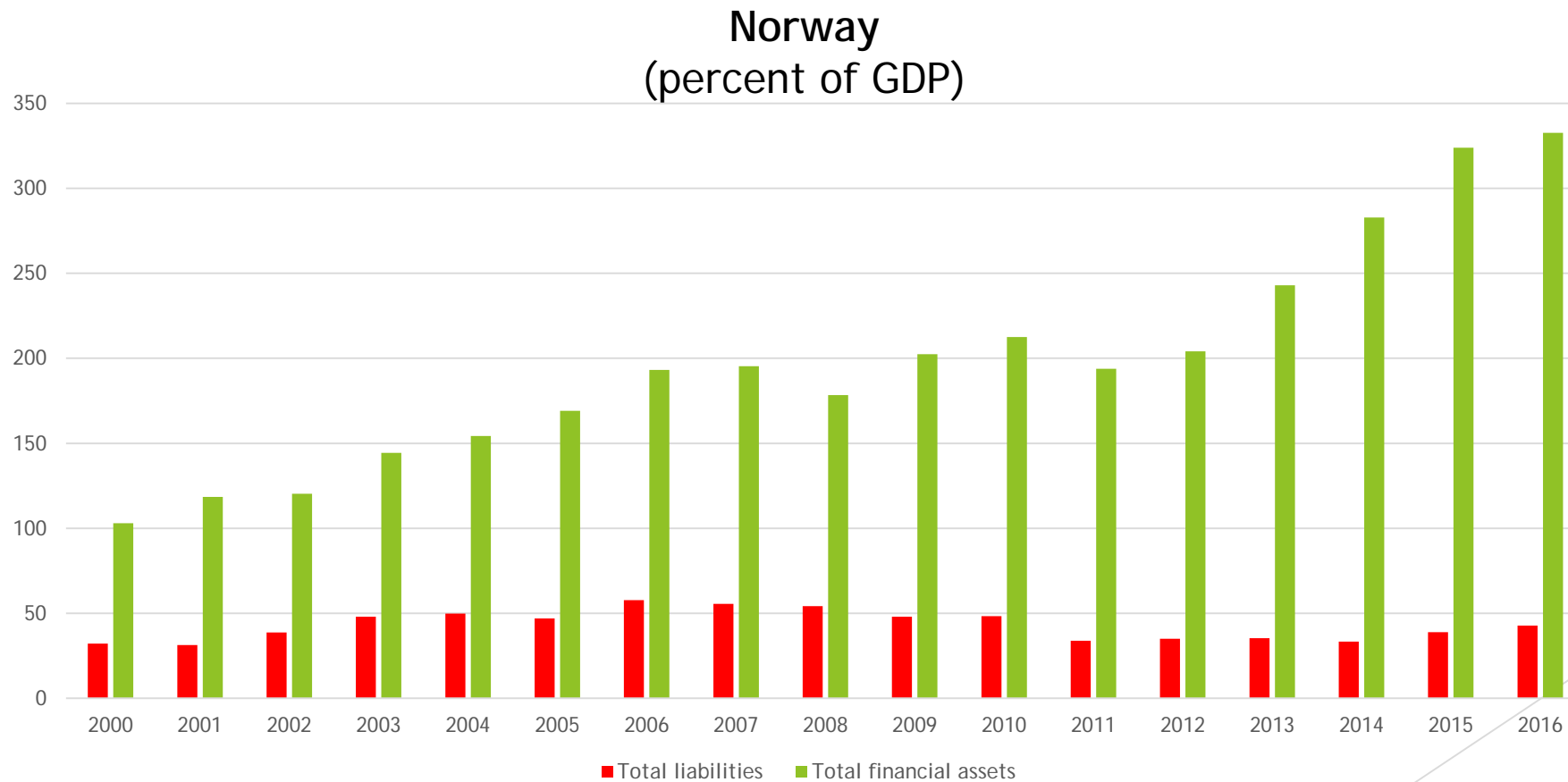
Debt is only part of the wider public sector balance sheet

- ▶ Non debt liabilities can be significant
- ▶ Unfunded public pensions (either national / state pensions or government employee pensions)
- ▶ Contingent liabilities also relevant to discussions of sovereign debt

Accrued to Date Liabilities -
Government Unfunded Employment-
Related and Social Security pensions
(Percent of GDP, 2015)



Government assets may also be important



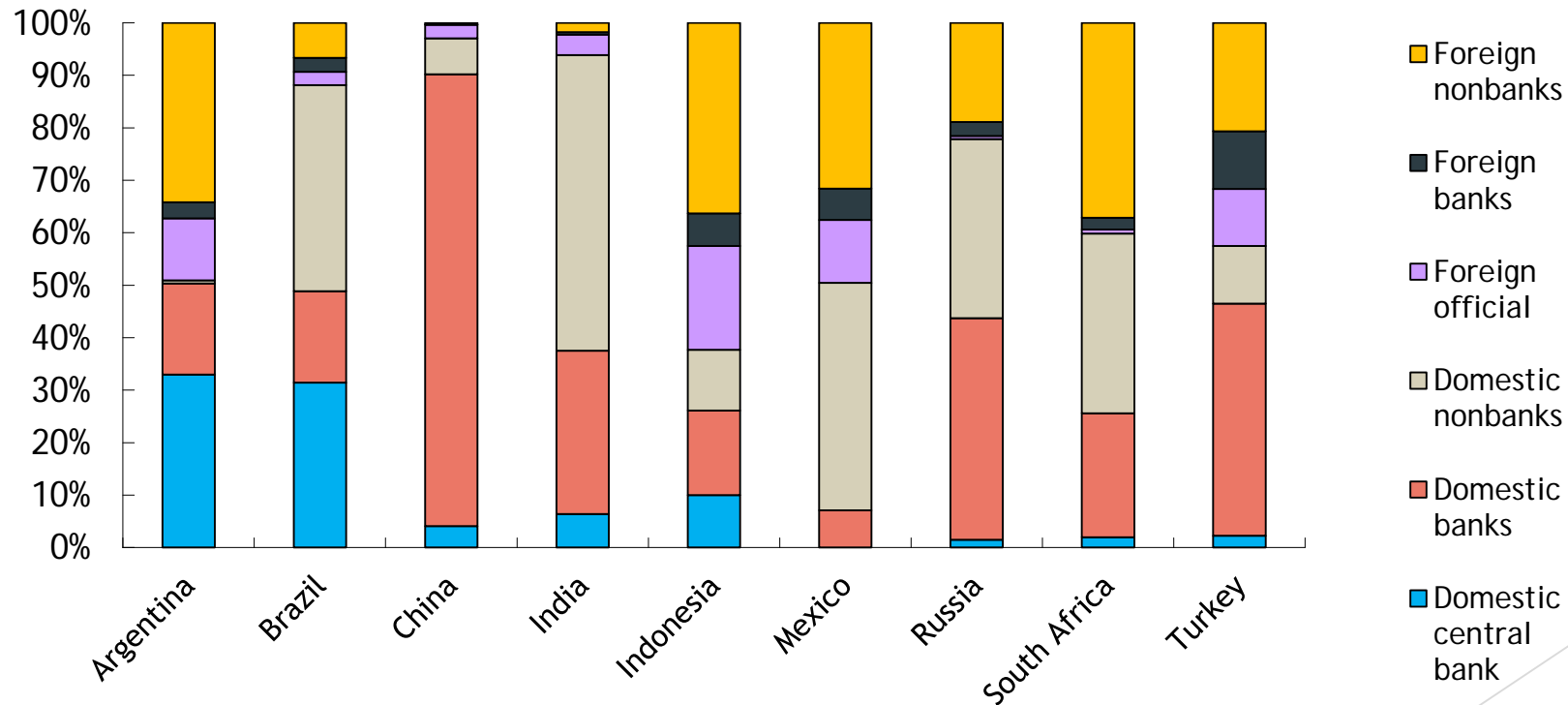
Other Key Factors

- ▶ Currency of issuance
 - ▶ Last decade (2007-2017) has seen increased share of government debt securities across 24 major emerging markets issued in domestic currency (63.8 to 66.5%) but still lots of F/X denominated debt and countries exposed to F/X movements and US interest rate policies
- ▶ Maturity profiles
 - ▶ Over same period average maturity (across 17 emerging markets has increased) - from 6.9 to 8.3 years
- ▶ Creditor Base - External versus domestic debt
 - ▶ Still large amounts of external debt, held by non-residents and / or in foreign currency. Residency helps to explain why high debt levels in Japan and Singapore are viewed differently to debt elsewhere, compared to other countries with much lower headline levels of debt.

Creditor base

Full understanding of sovereign debt aided by understanding creditor base. Harder to track, shifts more quickly and important for domestic financial stability (Bank-sovereign linkages) and external funding risks (sudden stops)

Investor base of EM General Government Debt at end-2017 (% of total)



How does QE change our understanding of sovereign debt?

- ▶ Significant amounts of sovereign debt now held by the Central Bank in QE countries
 - ▶ Bank of Japan - ¥457 trillion yen of Japanese Government Securities
 - ▶ Bank of England Asset Purchase Facility Fund - £435 billion of UK Gilts
 - ▶ Federal Reserve - \$2.4 trillion of Federal Government Securities (and further \$1.7trillion of Fannie Mae / Freddie Mac securities)
- ▶ For government, there has been no change - debt acquired by NCBs remains government debt
- ▶ For the public sector, including the NCB, QE has transformed debt securities into a different kind of liability - central bank reserves (and are these really liabilities?)

Conclusions

- ▶ Definitions and terminology are important
- ▶ Institutional coverage, instrument coverage and valuation all impact on sovereign debt
- ▶ Non-debt liabilities are often very large
- ▶ Government / public sector also own considerable assets, so net measures (e.g. net debt, net worth) may tell a rather different story than gross debt
- ▶ Currency of issuance, time to maturity or residency of creditors may all be more important than the level of debt in triggering a debt crisis