

# OECD *Multilingual Summaries*

## OECD Sovereign Borrowing Outlook 2014

Summary in English



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### *OECD sovereign issuers continue to face major challenges in a complex environment*

Government securities issuers are grappling with concerns about increased market and liquidity risks, higher long-term interest rates and obstacles to global economic growth. There are questions about when, how fast and how central banks will begin to exit from unconventional monetary policy (UMP) programmes. Issuance is complicated in countries where large public deficits and very high debt ratios have not begun to decline, since the huge legacy of public debt continues to expose governments to potential shifts in confidence when credible medium-term fiscal consolidation plans are not in place. There are concerns over legacy risks from incomplete financial sector reforms and the possible adverse impact on market liquidity of (pending) new regulations. In response, many debt management offices (DMOs) have had to adjust their issuance strategies and sales procedures. Some have also introduced new debt instruments, or are planning to do so.

### *Borrowing peaked in 2012 and will drop in 2014, but debt ratios remain high and growing*

Although the combined gross borrowing needs of OECD governments appear to have peaked in 2012 at USD 11 trillion, OECD debt managers continue to face considerable funding challenges while government debt ratios are still rising. Total OECD gross borrowing requirements are expected to have fallen slightly in 2013, to USD 10.8 trillion. They are projected to drop further in 2014, to around USD 10.6 trillion, but with a relatively high level of redemptions. Net borrowing is estimated to fall to USD 1.5 trillion in 2014, while government debt ratios for the OECD as a whole are expected to grow.

In this context, raising considerable volumes of funds at the lowest cost, with acceptable rollover risk from maturing debt that has to be refinanced, remains a challenge. Many OECD debt managers continue to rebalance their portfolios by issuing more long-term instruments and moderating bill issuance.

### *Key findings*

- Borrowing should drop in 2014, but debt ratios will remain high. For a group of selected major OECD countries, general government debt in 2014 is expected to reach the highest level since World War II.
- For 2013 and 2014, the share of short-term bonds issued is expected to remain in the range 45-46%, well below the pre-crisis share of almost 49%.
- The share of long-term debt in government portfolios is estimated at around 87% in 2013 and is expected to reach 88.1% in 2014.
- Long-term government bond yields across advanced major economies are highly correlated historically.
- Sovereign refinancing needs for the OECD as a whole pose a significant challenge and will reach about 29% of its outstanding long-term debt in the next 3 years.
- There is no shortage in the aggregate supply of safe sovereign assets, particularly if a broader measurement for sovereign risk is used. Rather than applying the “triple-A standard”, government debt rated AAA, AA or A should also be considered safe.

- DMOs have expressed concerns about the pressure on existing primary dealer systems and the impact of (forthcoming) regulations on liquidity in primary and secondary government securities markets.
- Changes in central banks' UMP stance may lead to highly volatile government bond markets. Exit measures (including the pace of tapering) must be carried out with great prudence, clear communication to the market and proper two-way communications between central bankers and government issuers.

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