

**Sovereign Borrowing:
What to Expect about Private Access to International Capital Markets?**

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joint with

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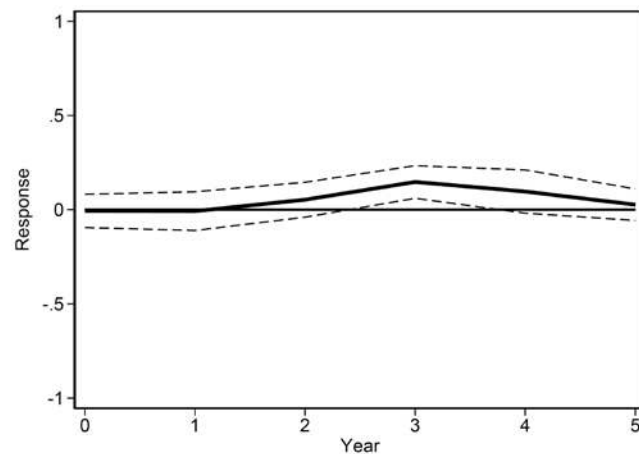
and

Shiyi Wang (Southwestern University of Finance and Economics)

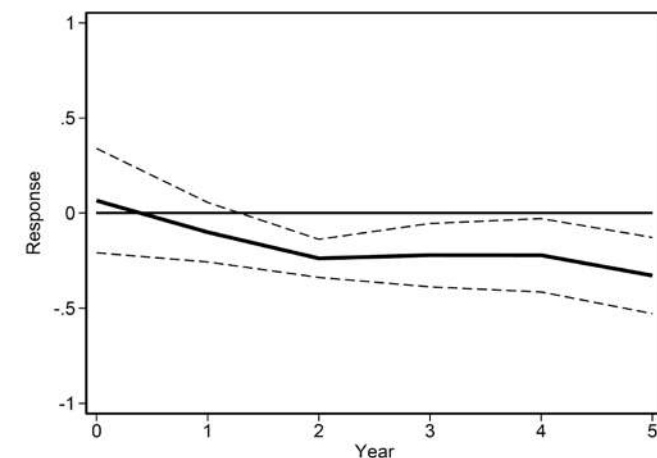
Sovereign Borrowing and Private Access to International Capital Markets

- Following the start of the Covid-19 pandemic, government debt sharply increased, with inflation erupting in 2021.
- To reduce the impact of higher energy and food prices, policymakers provided fiscal support and subsidies. Fiscal deficits sharply increased.
- Governments can borrow in domestic financial markets. But domestic markets are illiquid and segmented. In these markets, government issuance crowds out the corporate sector borrowing, affecting economic growth adversely.
- In contrast, international markets are considered highly integrated and liquid. In this environment, government borrowing should not affect corporate borrowing.
- Below, we show Jordà's Local Projections to capture the response of international private issuance to an increase of 1\$ of international government issuance.

Local Projections: Advanced Countries



Local Projections: Emerging Countries

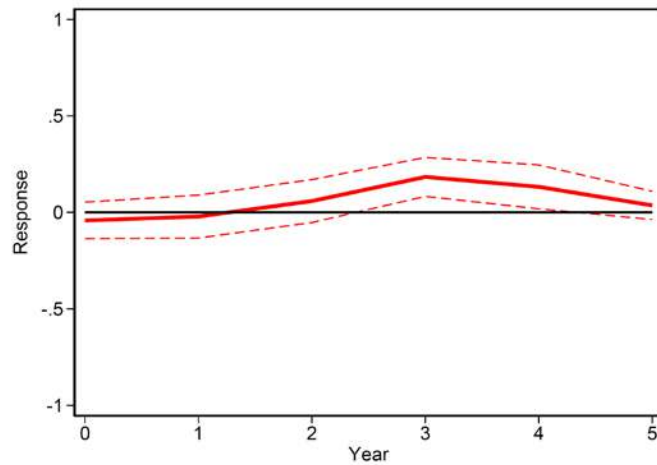
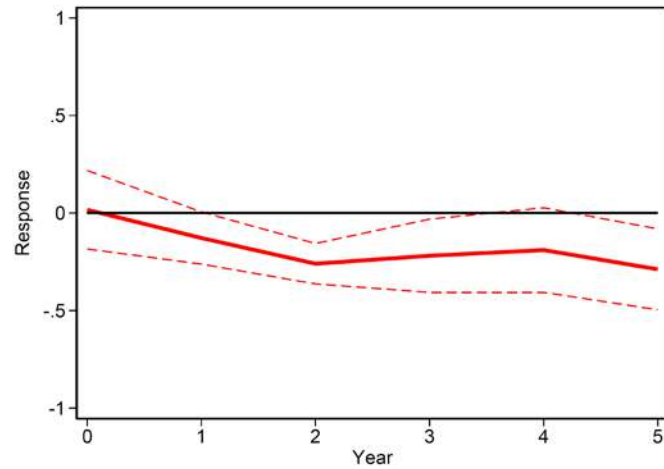


- But financial fractures appear transitorily even in International Capital Markets. Is there crowding out?

Financial Center Liquidity

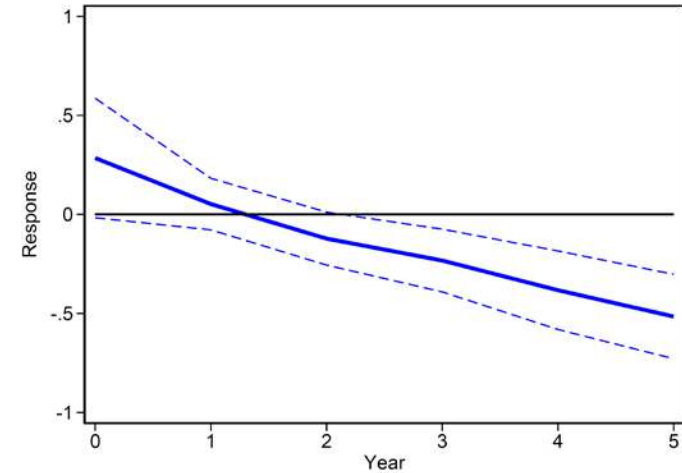
- We first examine cycles of high and low global liquidity using the leverage of the US broker-dealer sector from the US Flows of Funds published by the Federal Reserve.

High Liquidity

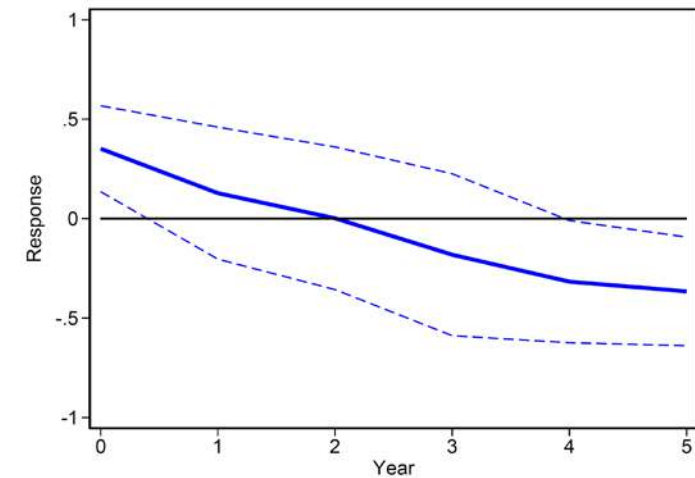


Emerging Countries

Low Liquidity



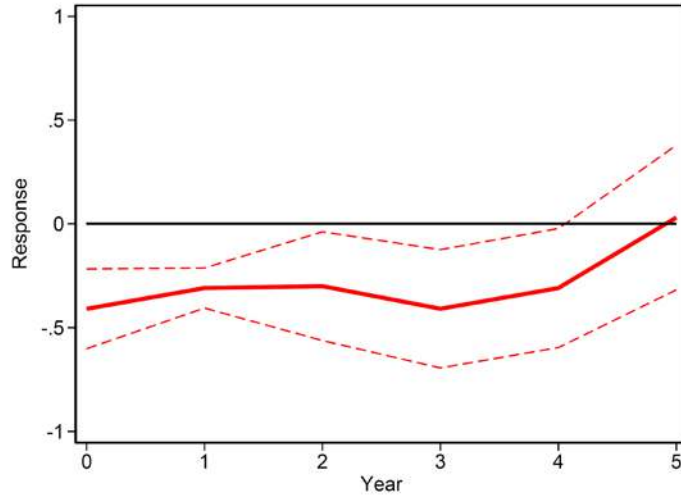
Advanced Countries



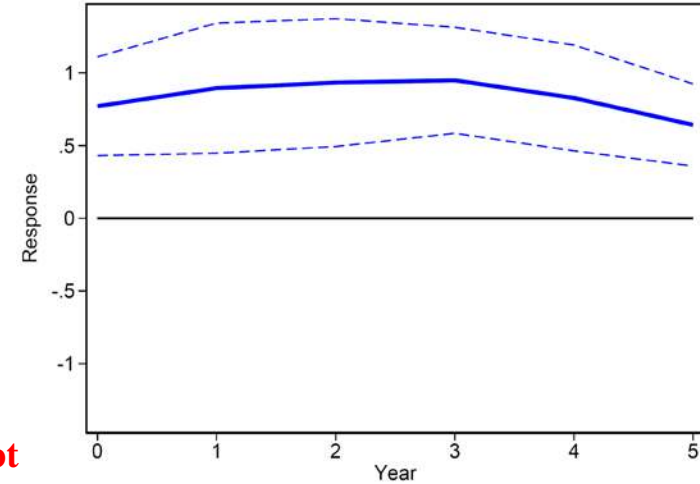
Periphery Risk

Sovereign Credit Risk

Emerging Countries: High Risk

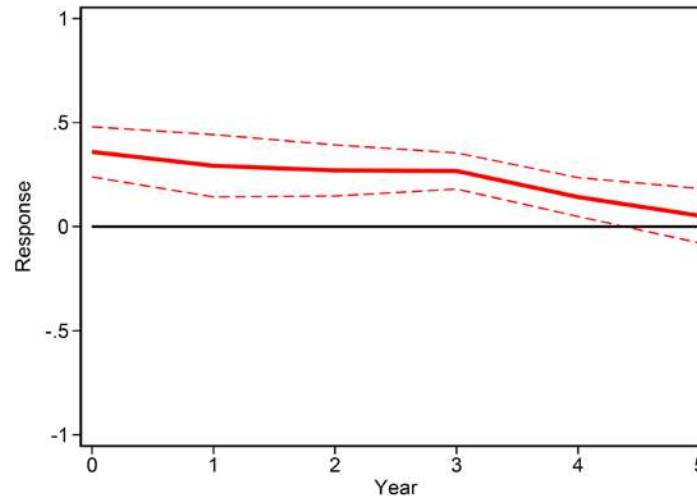


Advanced Countries: Low Risk



Sovereign Debt Risk

Advanced Economies: High Debt



- **Sovereign Credit Risk** is measured with Moody's Ratings complemented with Institutions Investors Index
- **Sovereign Debt:** We estimate the sovereign debt with all government gross primary issues and the information on maturity and types of repayment of bonds and syndicated loans. For those countries with defaults and restructurings, the original repayment characteristics of bonds and loans are modified to reflect the new characteristics of bonds and loans.