BENEFITS FOR ISSUING COUNTRIES, INVESTORS AND INTERNATIONAL FINANCIAL STABILITY

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The right time for a follow-up conversation on contingent debt
Design of the GIBs and debt dynamics

- Bonds denominated in national currency
- Principal indexed on nominal GDP
- Fixed coupon rate (not indexed on nominal GDP)
- Coupon varies with nominal GDP through the indexation of the principal

Reduce procyclicality of debt/GDP ratio, contracyclical debt service ratio
Reducing default risk by stabilizing debt ratios in the cycle and contracyclical debt service ratio

\[ d_t^i = \frac{(1 + c_{t-1}^i)(1 + x_t^i)}{(1 + g_t)} d_{t-1}^i - s_t = (1 + c_{t-1}^i) d_{t-1}^i - s_t \]
Reducing the uncertainty around debt trajectories

Note. The areas show the gap between the 5th and the 95th percentiles of 10,000 simulations.
Significant potential gains for foreign investors in the long term

Average GDP nominal growth breakdown in USD (1996-2015)

Source: IMF
Gains for issuing countries (in % of debt over GDP in the 5% worst scenarios) and for investors (in volatility of a benchmark portfolio, compared to equity)
A well suited response when tax compliance is highly sensitive to output fluctuations