FISKALRAT
Austria

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SESSION II – ROUND TABLE ON THE IMPLEMENTATION OF GDP-LINKED BONDS

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Disclaimer: The views expressed in this talk are those of the author and should not be attributed to the Austrian Fiscal Advisory Council or the Austrian Treasury

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Debt management objectives are key

- **Todays Best Practice**: WB/IMF Guidelines for public debt management:

„ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk"

- in this context a "**narrow**" **definition of risk** is employed
  - Macro stabilization: tax smoothing (Barro 1979) or budget smoothing (Goldfajn, 1998; Lloyd-Ellis and Zhu, 2001; Giavazzi and Missale, 2004) is not reflected

➡ Sole focus on "micro portfolio optimization objective"

- If **macro stabilization** (objective or risk definition) is considered, GDP-linked instruments become "efficient"

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Key players/steps in the implementation

- Strong influence of **international institutions** by setting benchmarks (e.g. „Stockholm Principles") and alternative performance indicators reflecting „fiscal insurance" (e.g. Faraglia et al. 2008)
- Despite mainly being independent units, DMOs follow the objectives of the **treasuries**.
- Important role of intermediaries

➡ **IOs, treasury and intermediaries have to be on board!**

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Main implementation issues/obstacles

- GDP is a **statistical concept**
  - Measurement is following a **time sensitive rule book** (e.g. ESA)
    - e.g. changing treatment of R&D investments ESA 95 vs. ESA 2010
  - Metric is prone to **revisions**
    - Publication lags
    - No final data,…
- **Supranational institutions** are needed!
- Additional debt instruments are **hard** and **costly to implement**
  - Especially true for countries like AT: Increases liquidity premium for other instruments,… but hedging potential could be used via derivatives, in particular SWAPs
  - Draw from experience with inflation-indexed bonds

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Use existing instruments to replicate features

- „First best“ GDP-linked bonds,
- „Second best“: **Variable rate debt** can hedge against economic shocks. e.g.
  - **inflation-linked debt** : hedge against demand and monetary policy shocks
  - **Euribor-linked debt**: hedge against demand and supply shocks
- Fenz and Holler (2017) identify strong hedging potential for both instruments for Austria over the period 1999 to 2016

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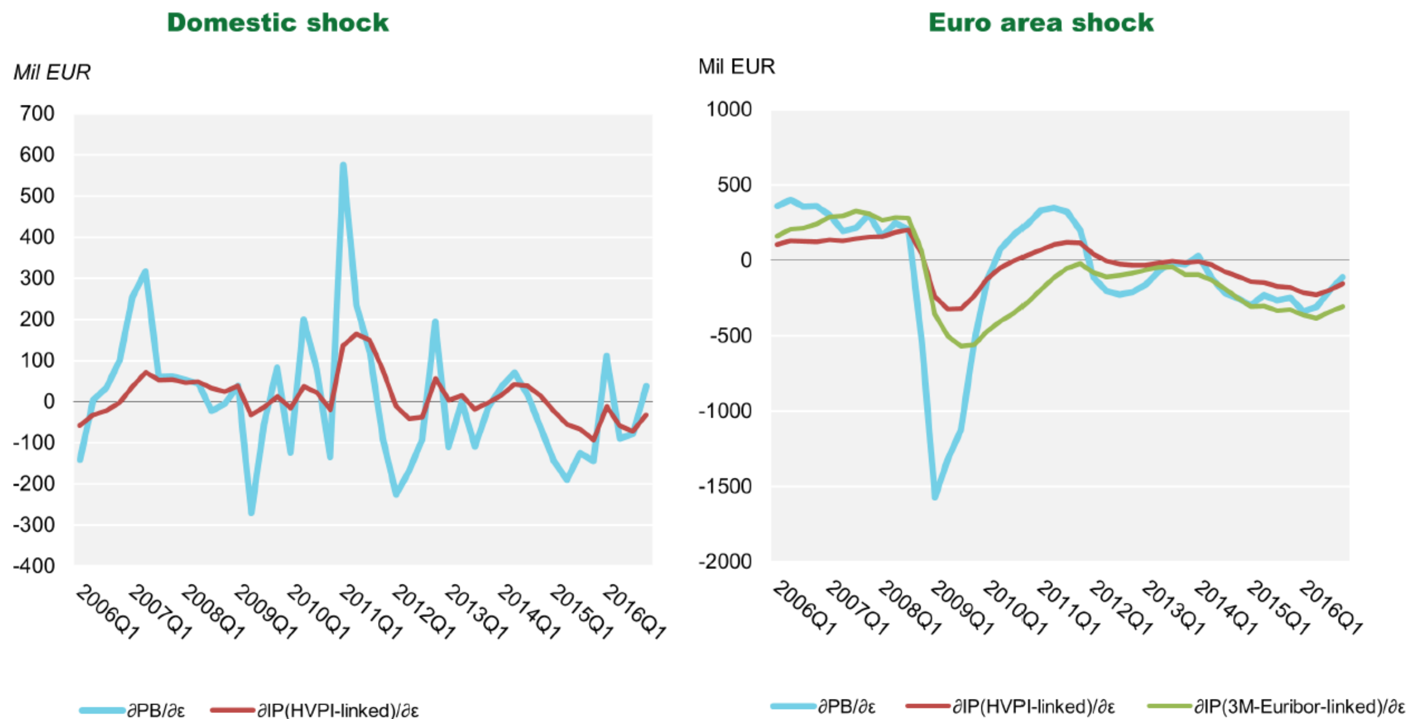
Results Fenz and Holler 2017

Figure 4.1: Demand shock-induced reaction of primary balance and interest payments



Source: own calculations.

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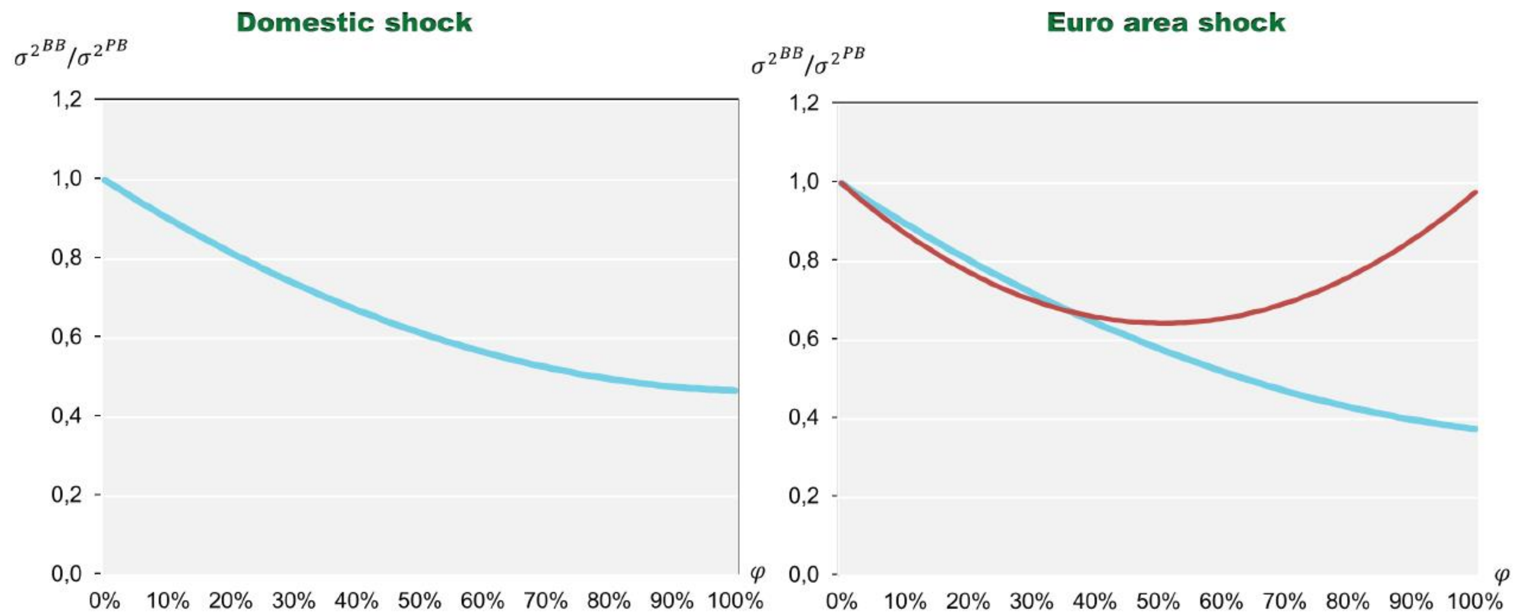
Results Fenz and Holler 2017

Figure 4.2: Demand shock-induced variance of the budget balance



Source: own calculations.

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Thank you for your attention

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