

Comment on: Monetary Policy in a World of High Debt

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- ***Motivation and Summary of Findings***
- **Relevant Stylized Facts in the Region**
- **Further Queries and Comments (*for future researches*)**

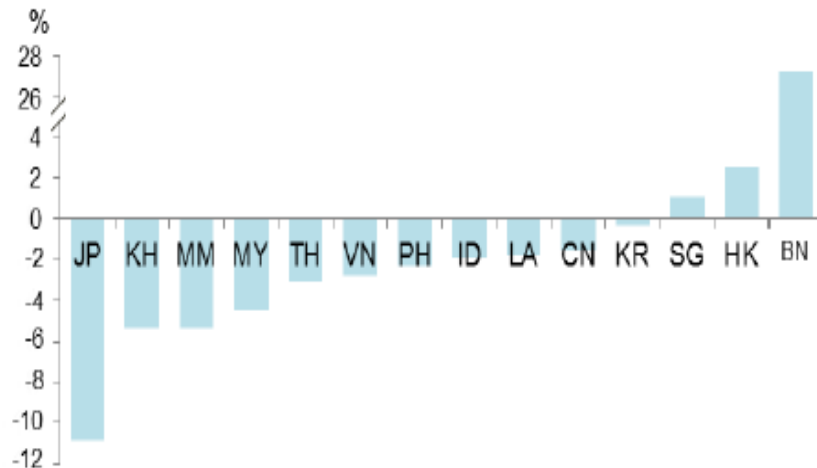
- **“ Higher uncertainty about debt sustainability, and accordingly about future inflation and future taxation affect all decision....” (Blanchard (2013)).**
- **Global economies experienced multiple speed of recoveries.**
- **Countries are facing multiple equilibrium positions.**
- **Monetary policy may have been overburdened to support growth.**

- **Four Key Blocks of Basic Model:**
 - **Macro (IS/PC); Asset Price; Debt; and Monetary Policy**
- **This study places the importance of pursuing fiscal consolidation efforts locally and globally.**
- **Amid the fiscal consolidation efforts in the globalized world, the debt-problem and associated monetary policy trade-offs become even more challenging domestically.**
- **While each type of debt presents its own challenges, the focus of the paper is on government debt and sovereign risks.**
- **Level of debt and spill-overs from systematically important economies.**

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Figure 21: Fiscal Position and Gross Central Government Debt/GDP Ratio (end-2012 or latest)

Fiscal position

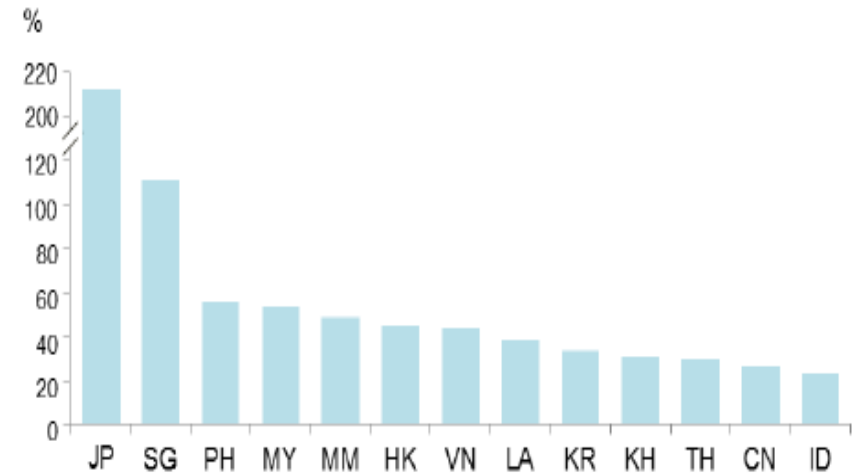


Notes:

Data for Japan, Singapore and Myanmar refer to the estimated fiscal position projected for FYE 2012/13. For Thailand, the data refer to the estimated fiscal position for FYE 2011/12. Data for Hong Kong SAR refer to the fiscal position for the first three quarters of FYE 2012/13. For Brunei Darussalam and Lao PDR, the data refer to FYE 2011 and FYE 2011/2012, respectively. Fiscal data for Korea excludes social security funds.

Source: National authorities

Gross Central government debt



Notes:

Data refer to end-December 2012 actual or estimates, with the exception of Korea and Hong Kong SAR (3Q '12), Lao PDR and Vietnam (Dec '11). Data for Myanmar refer to the Union Government and State-owned Enterprises, while data for Hong Kong SAR refer to the consolidated government debt which includes government debt and government bonds issued under Government Bond Program. Data for Singapore includes investment under the Central Provident Fund. Data for Lao PDR and Cambodia refers to central government external debt.

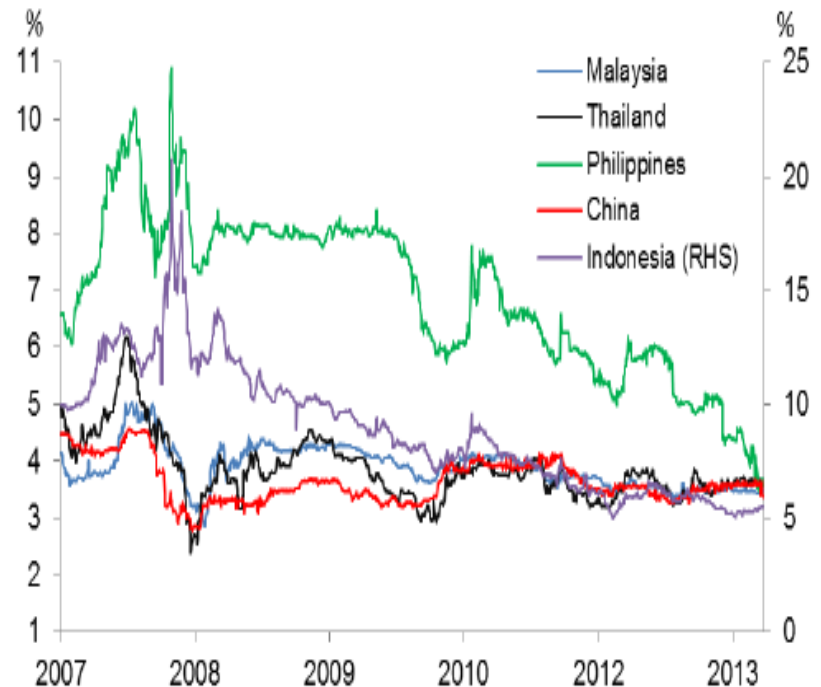
Source: National authorities

- Tail risks in global financial markets receded, underpinned by extraordinary policy support (liquid financial market) → bringing down regional yields (some to all time low)...

Figure 20: 10Y Sovereign Bond Yield (up to 22 Mar '13)



Source: Thomson Reuters Datastream



Source: Thomson Reuters Datastream

- Accommodative global monetary policy may help lower financing costs through lower interest payments.
- AMRO estimates on one ASEAN economy, for example, show that on average the annual fiscal saving in 2009-2011 due to lower global interest rates amounted to about 1.0 percent of GDP.
- Fiscal space? Cyclical versus Structural.

Table: Fiscal Saving in an ASEAN economy due to Lower Global Interest Rates (% of GDP)

	2009	2010	2011	Average
Interest rate effect on external debt	0.86	0.74	0.64	0.75
Interest rate effect on domestic debt	0.21	0.16	0.28	0.22
Total Effects	1.07	0.89	0.92	0.96

Source: AMRO Staff Calculation

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- **Overall versus Composition (external versus domestic debt)**
- **Does type of investor (holding the bond) matter?**
- **Understanding the role of the cross-border financial flows: international bank lending and debt (sovereign)**
- **Endogeneity and interplay of the shocks/adjustments**

Non-Resident Holdings of Corporate and Sovereign Bonds

Figure 35: Cumulative NR Net Portfolio Inflows (Oct '09 – Oct '12), Selected Economies

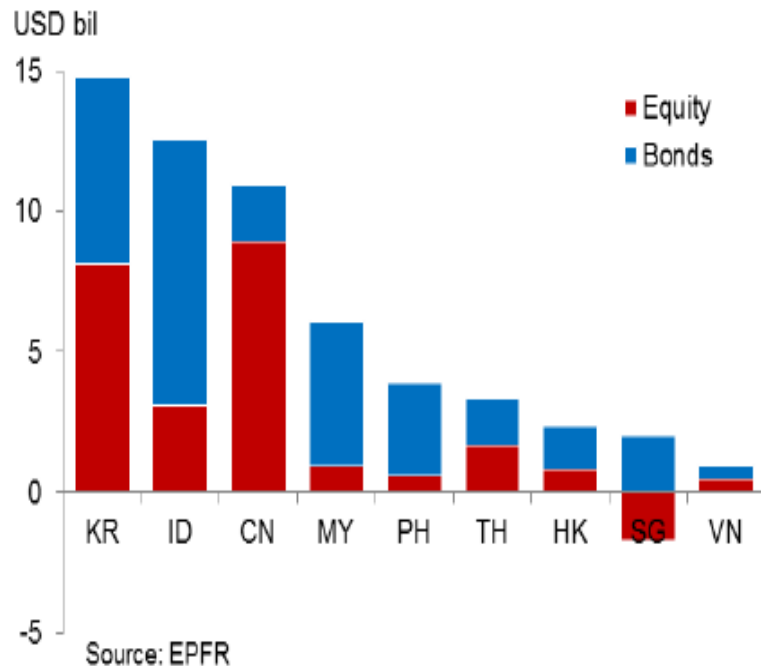
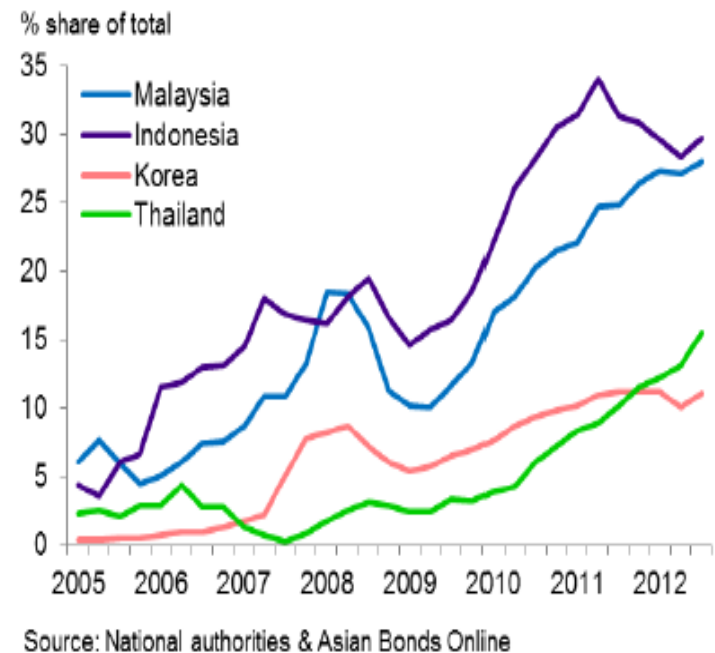
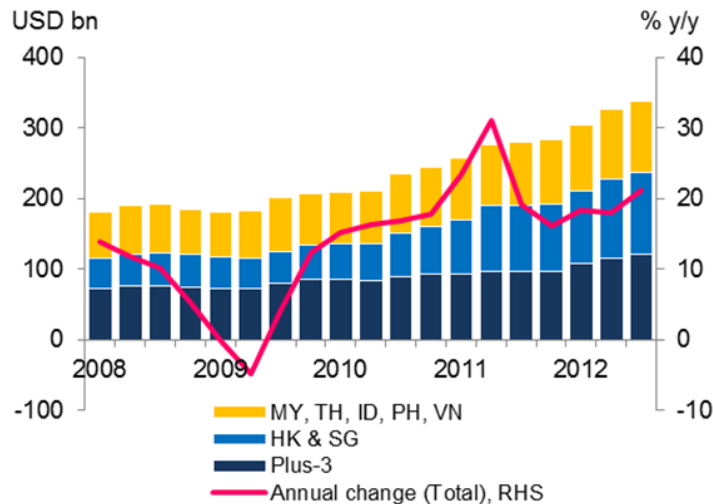


Figure 36: NR Holdings of Government Debt Securities, Selected Economies



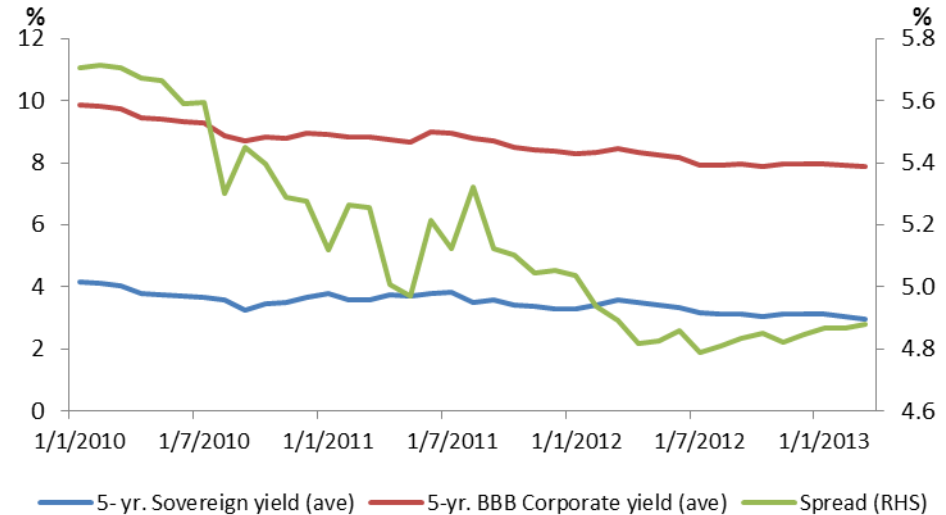
- *With the reduction in global tail risks, there could be upward pressure on government bond yields as investors move into higher yielding, riskier assets.*
- *Sudden surge and sharp reversal of risk appetite towards Asia would undermine regional financial stability.*

Outstanding International Debt Securities by Nationality of Issuer: by Corporates



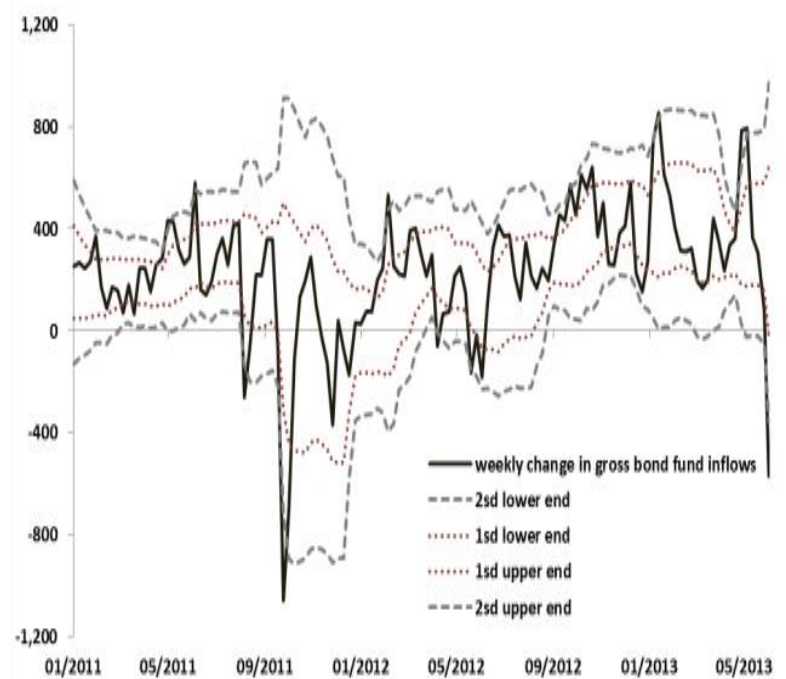
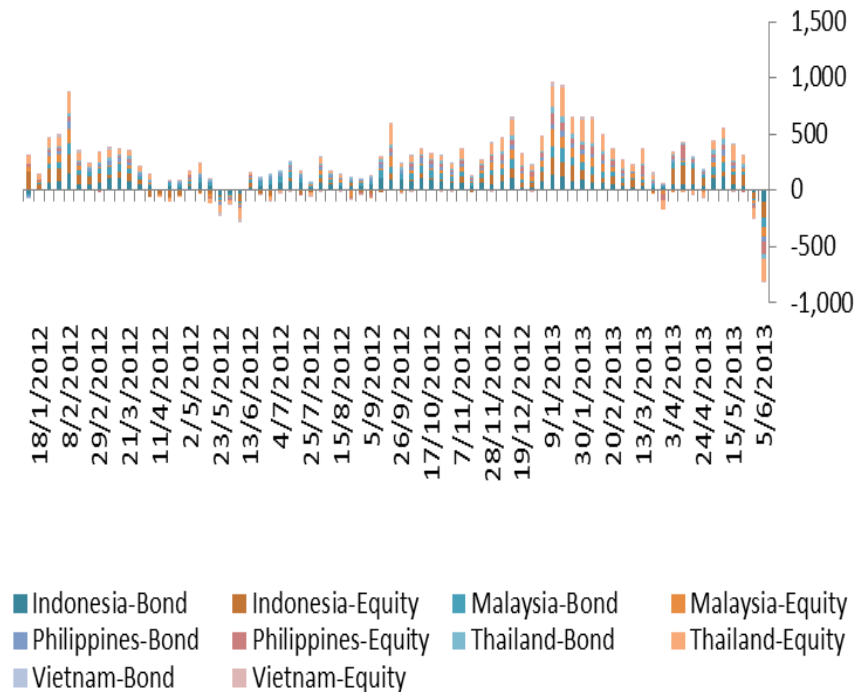
Source: BIS

Yield Compression of local currency debt for Selected Countries (Korea, Malaysia and Thailand)



- *Local corporates take advantage of ample global liquidity and issue more international debt in recent years.*

“Surge, Stop and Volatility” of Corporate Bonds in Risk-on and Risk-off Environment



Thank You