

The Political Economy of Sovereign Debt Issues

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In Brief: Argument and Contributions

- Primary markets drive the actual cost of debt financing.
 - Secondary rates and ratings downgrades don't matter much if the government doesn't issue new debt.
- Global market liquidity conditions the importance of domestic politics.
 - More risk-averse investors are more discerning about political risk.
- Political institutions and events affect timing of issuance.
 - In general, "Democratic advantage."
 - But: Elections can disrupt issuance.

- Regime Type
 - H1: More democratic states are more likely to issue sovereign bonds.
 - H2: As interest rates on U.S. Treasury bonds increase, the magnitude of the “democratic advantage” in sovereign bond issuance increases.
- Elections
 - H3: As interest rates on U.S. Treasury bonds increase, governments are less likely to issue bonds in advance of elections.

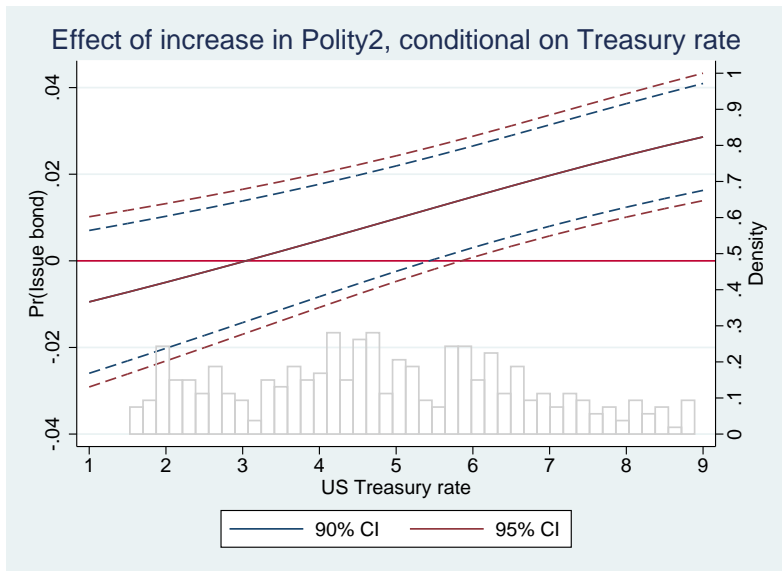
- Timing: When do governments issue bonds?
- Our new data:
 - From 1990-2015: 150,000 issues by 76 countries (excluding US)
 - Median country issues 12 times/year, in 7 months/year
- Note: Most common form of government financing

- DV: Issuance by country-month (0/1)
- Political covariates:
 - Democracy (-10 to 10) (PolityIV)
 - Impending election in next month (0/1) (V-Dem)
- Global liquidity: Interest on US 10-yr constant maturity T-bonds
- Controls:
 - Baseline: Peer issues, GDPpc, Growth, KAOpen, Customs balance, Public debt
 - Full: Δ XR, Pegged XR, Oil rents, Δ CPI, IMF program, Sovereign default
- Model: Probit with country FE, Issued this year?, Quarter, Quadratic time trends, clustered robust SEs

Confirmed: “Democratic Advantage” in Issuance

VARIABLES	(1) No controls	(2) Baseline controls	(3) Full controls	(4) Int'l environ.
Democracy	0.056** (0.024)	0.057** (0.028)	0.061** (0.028)	-0.066 (0.045)
US Treasury rate				-0.236*** (0.054)
Democ. * US Treasury				0.021*** (0.006)
Controls	None	Baseline	Full	Full
Observations	18,252	13,215	12,869	12,869
Log likelihood	-7797	-5782	-5514	-5450
Pseudo-R2	0.383	0.361	0.375	0.382

“Democratic Advantage” Varies with Global Liquidity

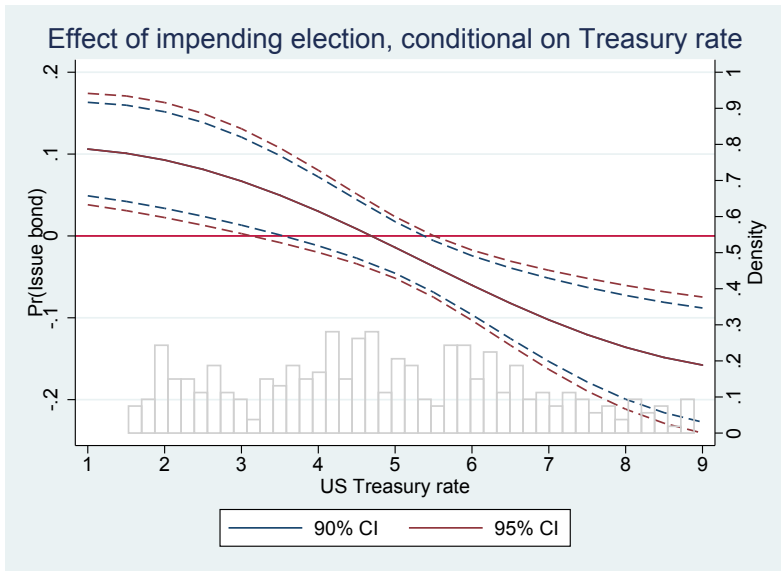


Effect of Elections Varies with Global Liquidity

VARIABLES	(1) No controls	(2) Baseline controls	(3) Full controls	(4) Intl environ.
Impending election	-0.003 (0.066)	-0.001 (0.084)	0.026 (0.089)	0.910** (0.360)
US Treasury rate				-0.247*** (0.041)
Impending elect. * US Treasury				-0.194*** (0.067)
Controls	None	Baseline	Full	Full
Observations	14,004	9,597	9,275	9,275
Log likelihood	-6275	-4336	-4032	-3989
Pseudo-R2	0.349	0.330	0.355	0.362

- Sample includes democracies only

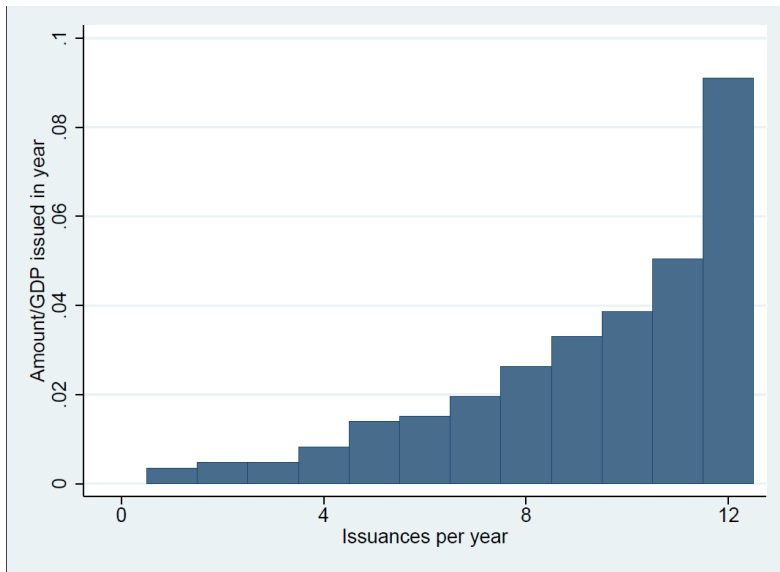
Effect of Elections Varies with Global Liquidity



- Robustness
 - $DV = \text{Amount issued/mo.}$
 - Additional controls: Multilateral sources of financing, CBI
 - Dichotomous democracy
 - Replace US T-bond rate with German or Japanese rates
 - Alternative empirical strategies
 - OLS/Conditional logit/RE probit
 - Multiple imputation
- Null effects
 - Partisanship of incumbent
 - Partisan change after election
 - System of government (parliamentary vs non)

- Primary (not secondary) capital markets drive costs of debt issuance.
 - Replicate general “democratic advantage.”
- Global market liquidity affects salience of political risks.
 - “Democratic advantage” varies with global market conditions.
 - Elections disrupt issuance when investors are risk-averse, but lead to more issuance when investors are risk-tolerant.
- Future work: How do politics affect trade-offs across yield, maturity, and currency?

Amount, by Months Issued per Year

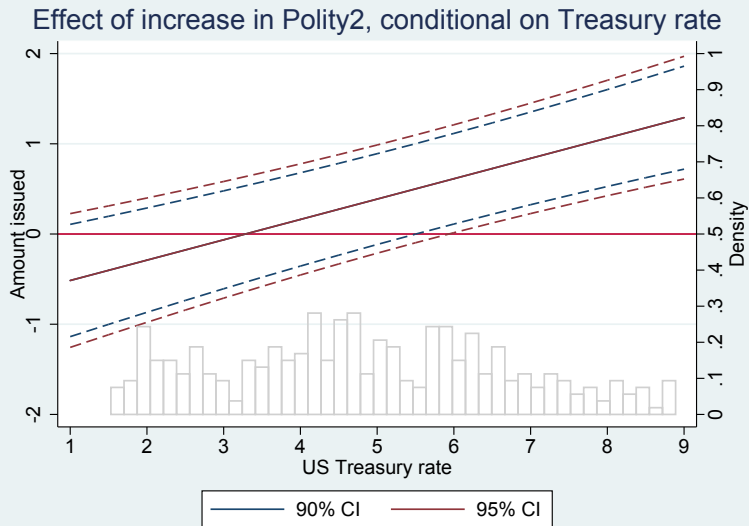


Results Robust to DV = Amount Issued per Mo.

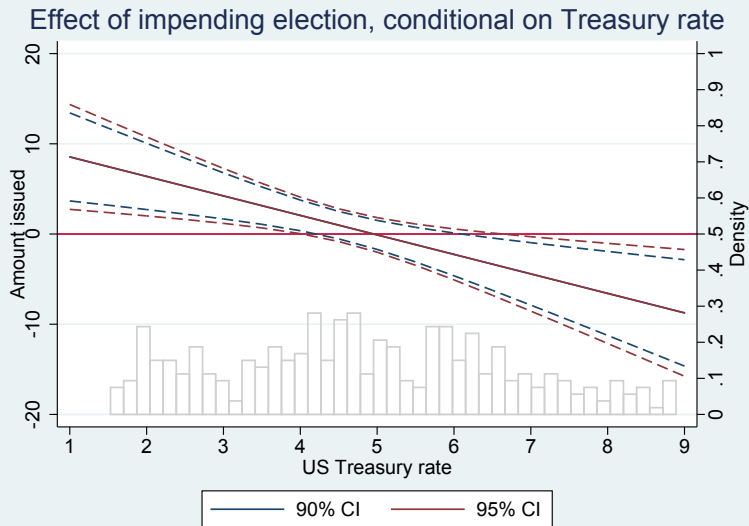
VARIABLES	(1) Democracy	(2) Elect.
Democracy	-0.741* (0.409)	-0.119 (0.210)
US treasury rate	-2.332*** (0.478)	-1.818*** (0.368)
Democ. * US Treasury	0.226*** (0.049)	
Impending election		10.710*** (3.720)
Impending elect. * US Treasury		-2.161*** (0.785)
Full controls	Yes	Yes
Observations	13,896	9,963

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Amount: "Democratic Advantage" varies with Global Liquidity



Amount: When Global Liquidity Low, Elections Disrupt Issuance



Null Findings on Democratic Mechanism Tests

VARIABLES	(1) HRV	(2) Xconst	(3) Liberal	(4) All
Democracy	0.077** (0.033)	0.157*** (0.056)	0.067* (0.036)	0.183*** (0.068)
HRV	-0.192*** (0.074)			-0.192** (0.079)
Exec. const.		-0.312** (0.158)		-0.444** (0.185)
Liberal rule			-0.238 (0.828)	1.344 (1.144)
MSCI peer issuance	1.302*** (0.390)	0.635* (0.334)	0.677** (0.326)	1.219*** (0.394)
Quarter	-0.175*** (0.022)	-0.177*** (0.018)	-0.180*** (0.018)	-0.170*** (0.022)
Controls	Full	Full	Full	Full
Observations	10,204	12,665	12,869	10,024
Log likelihood	-4345	-5428	-5513	-4260
Pseudo-R2	0.384	0.373	0.375	0.384

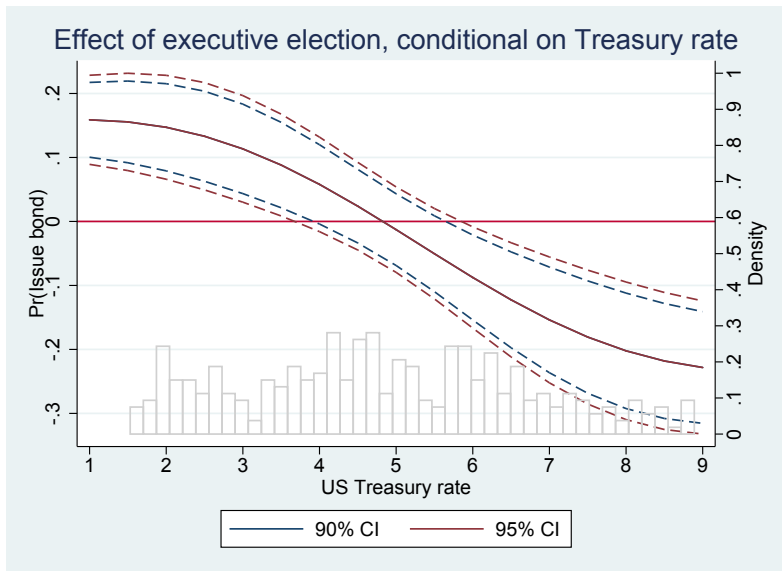
*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Robust across Systems of Government

VARIABLES	(1) Any election	(2) Exec. elect.	(3) Leg. elect.
US Treasury rate	-0.293*** (0.066)	-0.292*** (0.066)	-0.296*** (0.066)
Election	0.675 (0.468)	1.498** (0.637)	0.345 (0.581)
Parliamentary system	-0.909 (0.630)	-0.906 (0.628)	-0.896 (0.629)
Elect. * US Treasury	-0.157 (0.098)	-0.330*** (0.124)	-0.063 (0.117)
Elect. * Parl.	-0.001 (0.630)	-0.453 (1.231)	0.125 (0.753)
Parl. * US Treasury	0.066 (0.097)	0.061 (0.098)	0.067 (0.097)
Elect. * Parl. * UST	0.010 (0.127)	0.192 (0.288)	-0.058 (0.143)
Controls	Baseline	Baseline	Baseline
Observations	9,597	9,597	9,597
Log likelihood	-4282	-4280	-4283
Pseudo-R2	0.338	0.338	0.338

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

Executive Elections Drive Effects

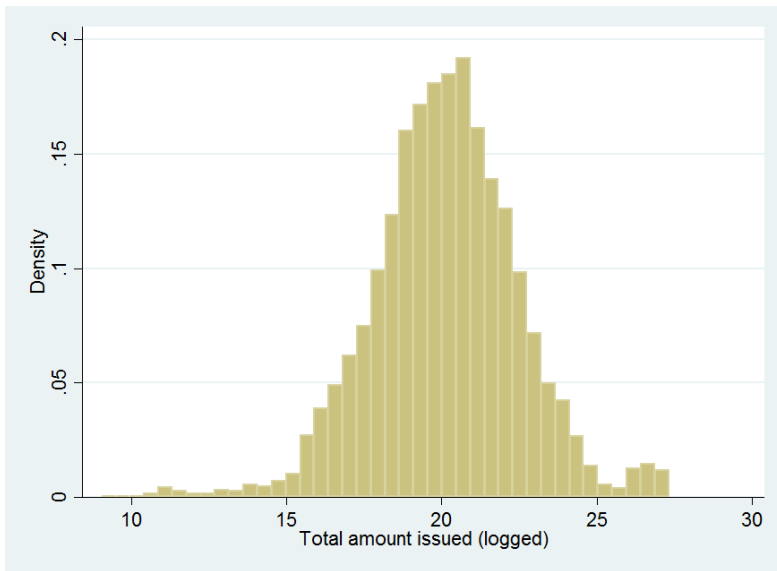


Multiple Imputation

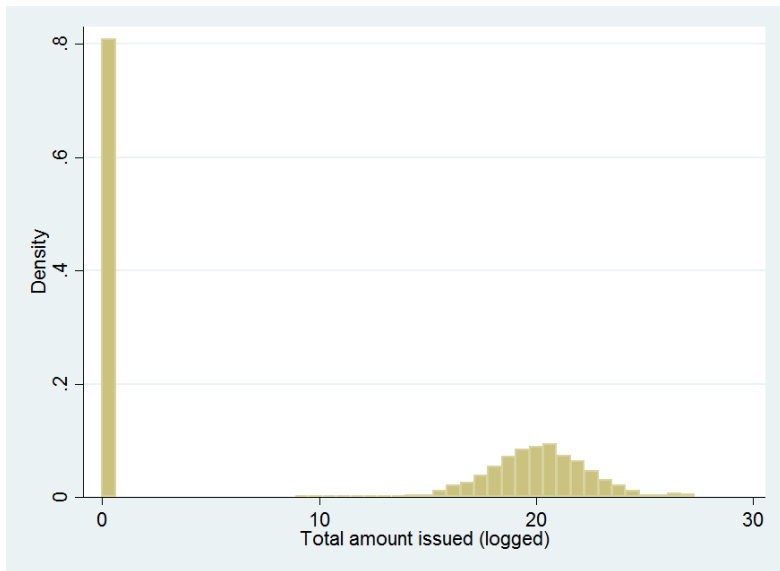
VARIABLES	(1) Democracy	(2) Elections
Democracy	-0.003 (0.027)	0.027 (0.020)
US Treasury	-0.194*** (0.038)	0.227*** (0.037)
Democ. * US Treasury	0.011*** (0.004)	
Impending election		0.561** (0.256)
Impending elect. * US Treasury		-0.129*** (0.047)
MSCI peer issuance	0.605*** (0.179)	1.257*** (0.287)
Quarter	-0.227*** (0.013)	-0.212*** (0.015)
Full controls	Yes	Yes
Observations	22,500	13,596

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

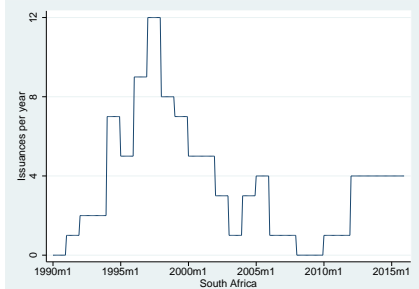
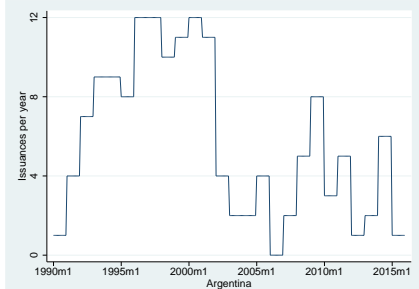
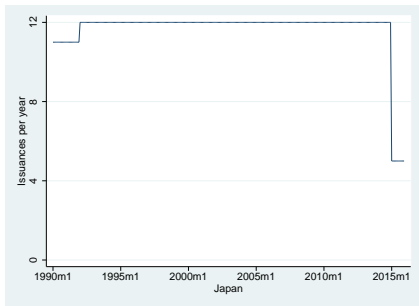
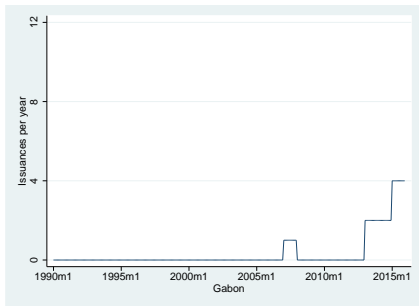
Total Amount Issued, For Months with Issues



Total Amount Issued, All Months



Examples: Variation in Issuance Timing



Histogram: Count, No. of Months Issued/Year

