Liquidity: Tapering versus Fundamentals

Debt Management in Developing Countries: New Frontiers and Ongoing Challenges

Debt DMF Stakeholders' Forum

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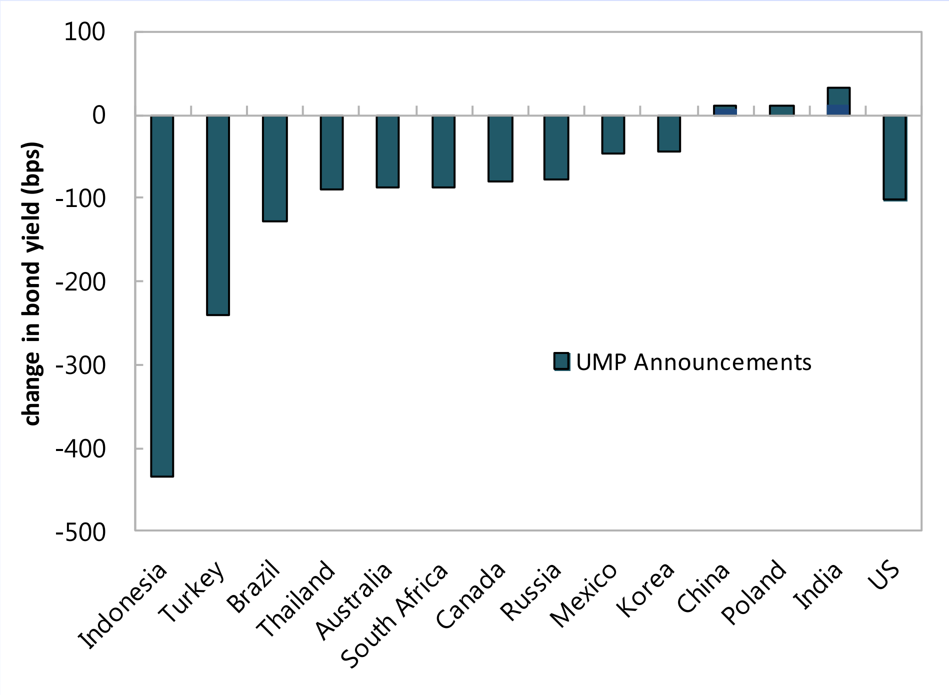
Road Map

- Unconventional monetary policy*
- Global outlook and exit from UMP
- Return of economic fundamentals

*Defined as all actions by monetary authorities other than changes in the policy rate.

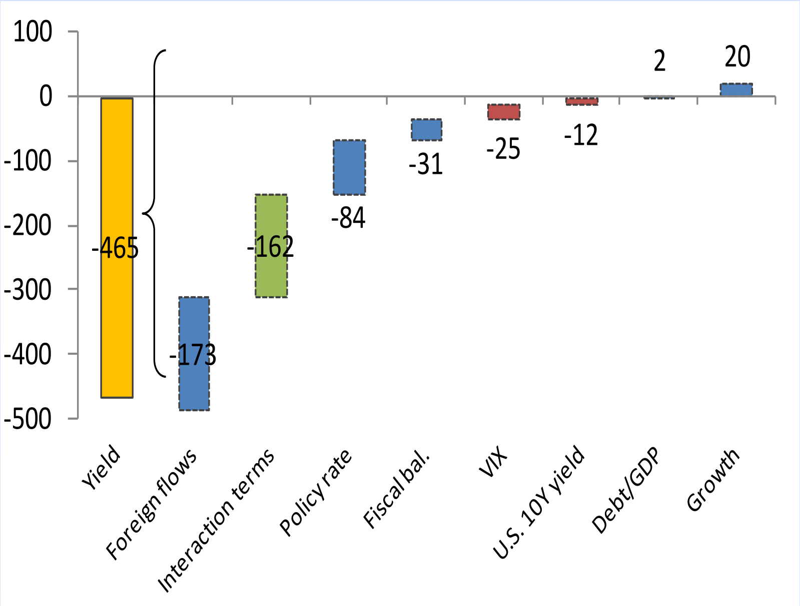
UMP Compressed Spreads in Emerging Markets

Sum of Changes in 10Y Sovereign Bond Yields Following U.S. Large Scale Asset Purchase Announcements



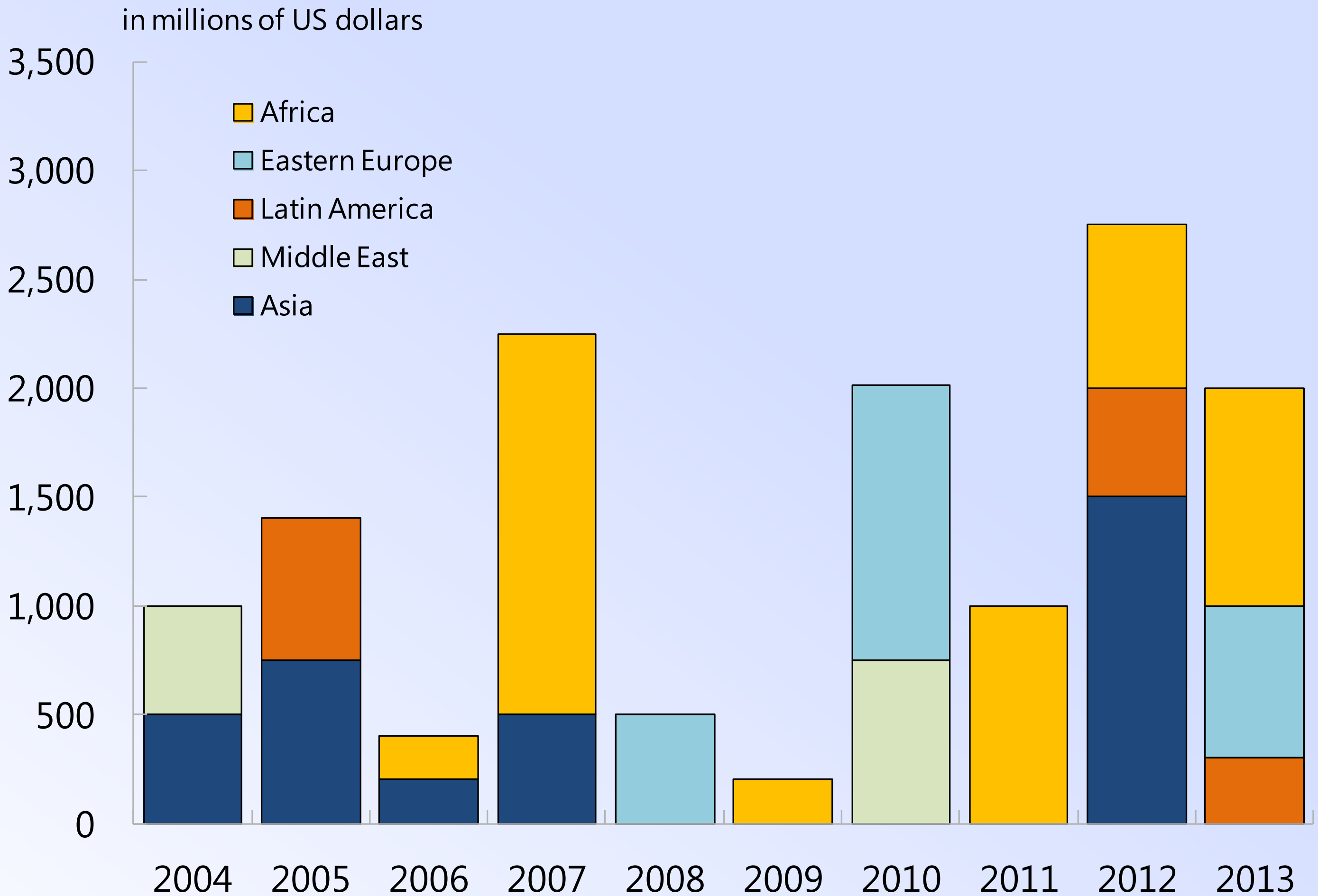
Source: IMF staff estimates.
Note: Changes in yields computed in the day following each announcement, then summed over all announcements.

Local currency yield tightening
(Dec. 08- Dec. 12, in basis points)



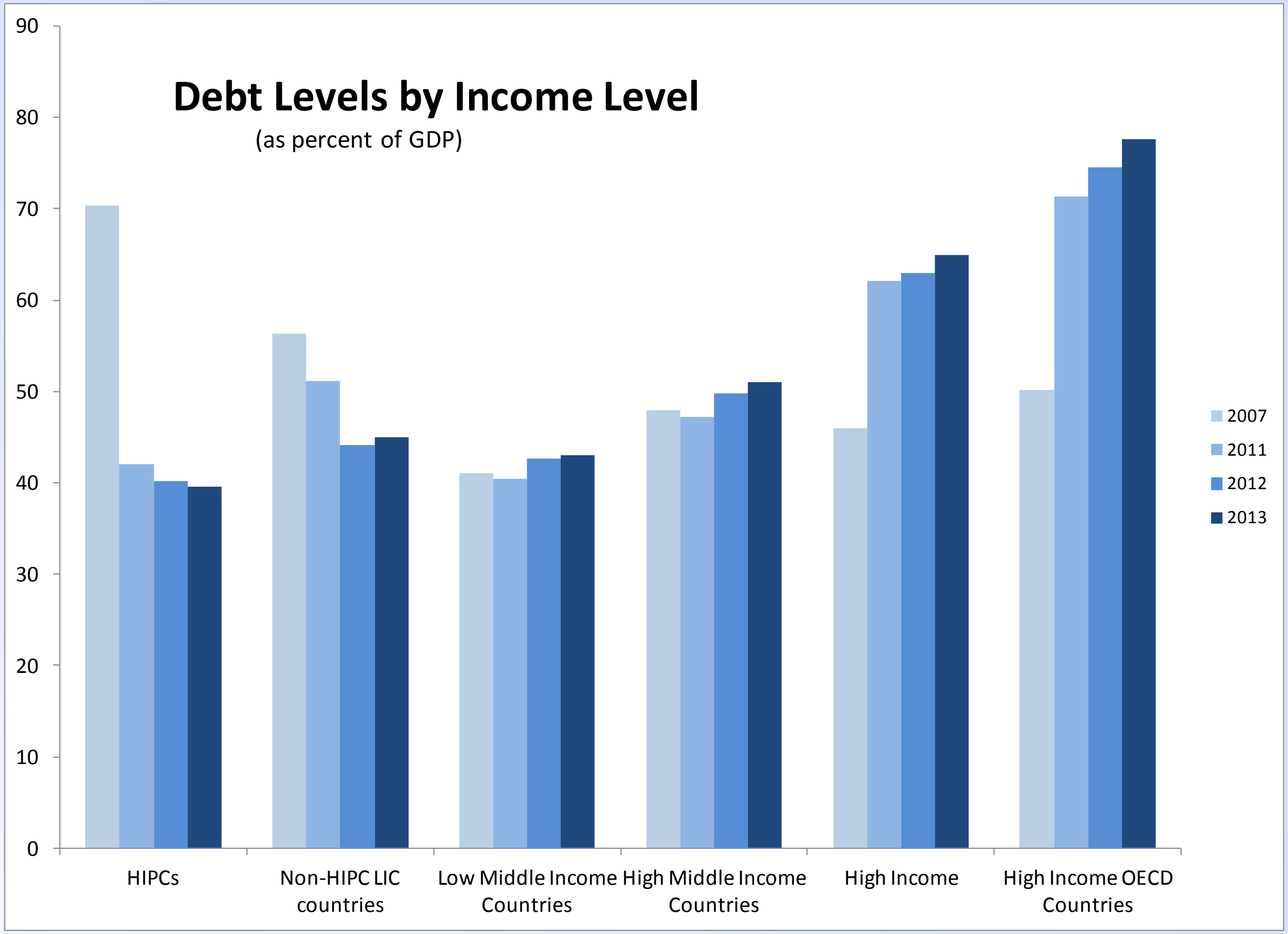
Sources: Bloomberg and IMF staff estimations.
Note: The set of countries is: India, Indonesia, Korea, Malaysia, Taiwan, Thailand, Philippines, Colombia, Brazil, Chile, Mexico, Hungary, Poland, Russia, Israel, South Africa, and Turkey.

UMP Facilitated Foreign Bond Issuance by LICs



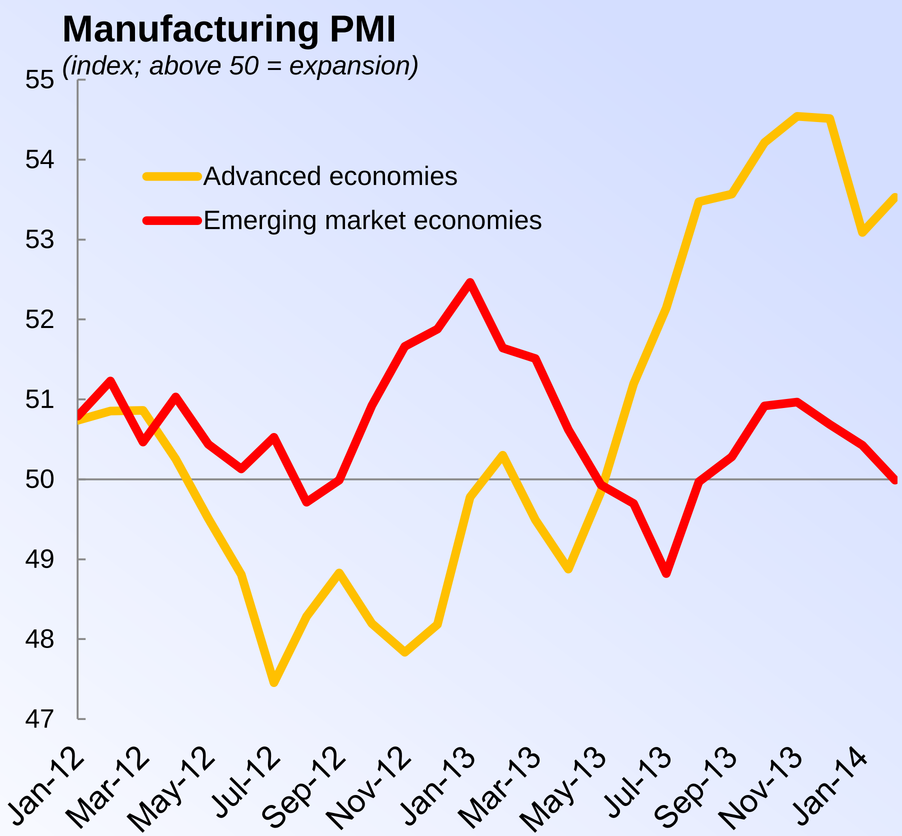
Source: Dealogic and IMF staff calculations.

Sovereign Debt Rising Except in HIPC

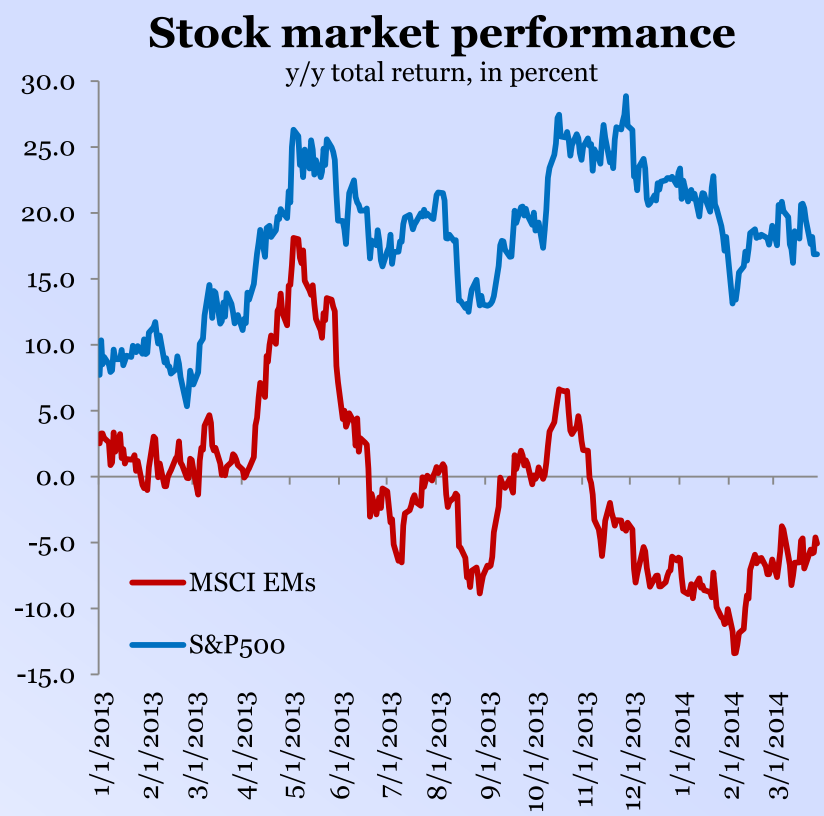


Source: IMF staff estimates.

Growth Outlook and Risks: DMs and EMs trading places



Source: WEO (IMF)

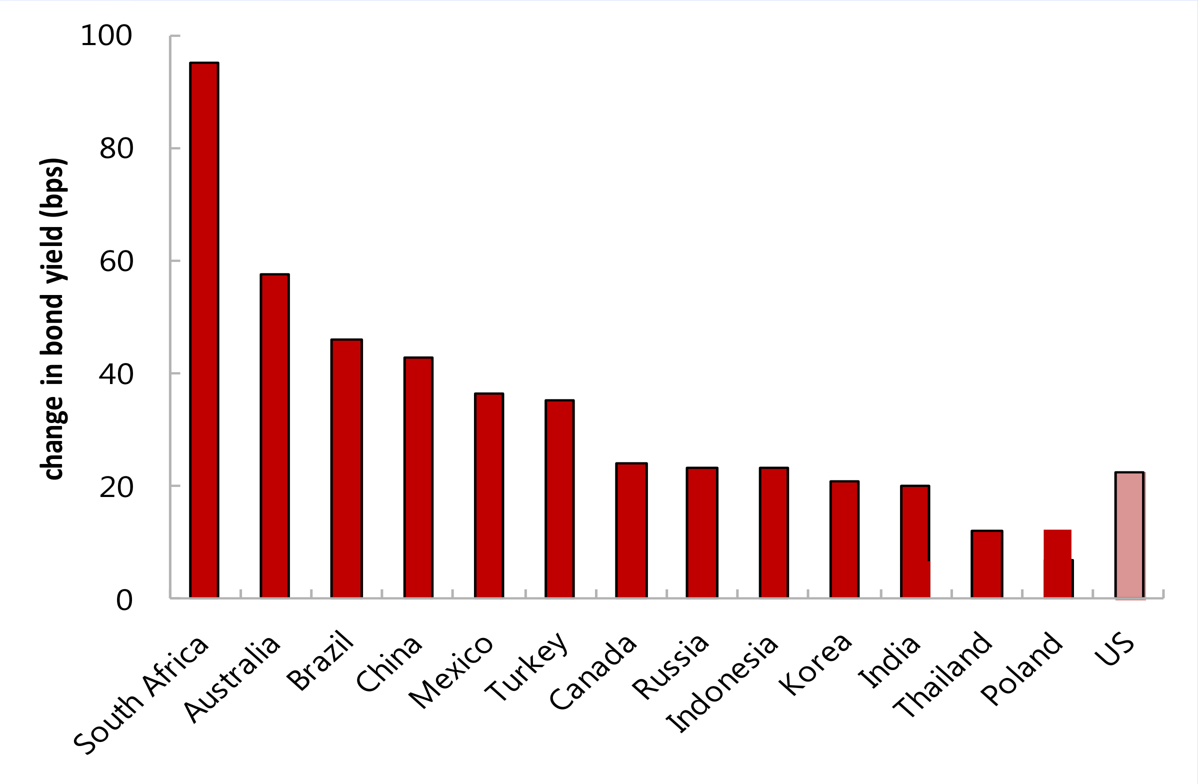


Source: Bloomberg

Tapering Pushed up EM Bond Yields

Effect of Tapering Announcements on EM Bond Yields

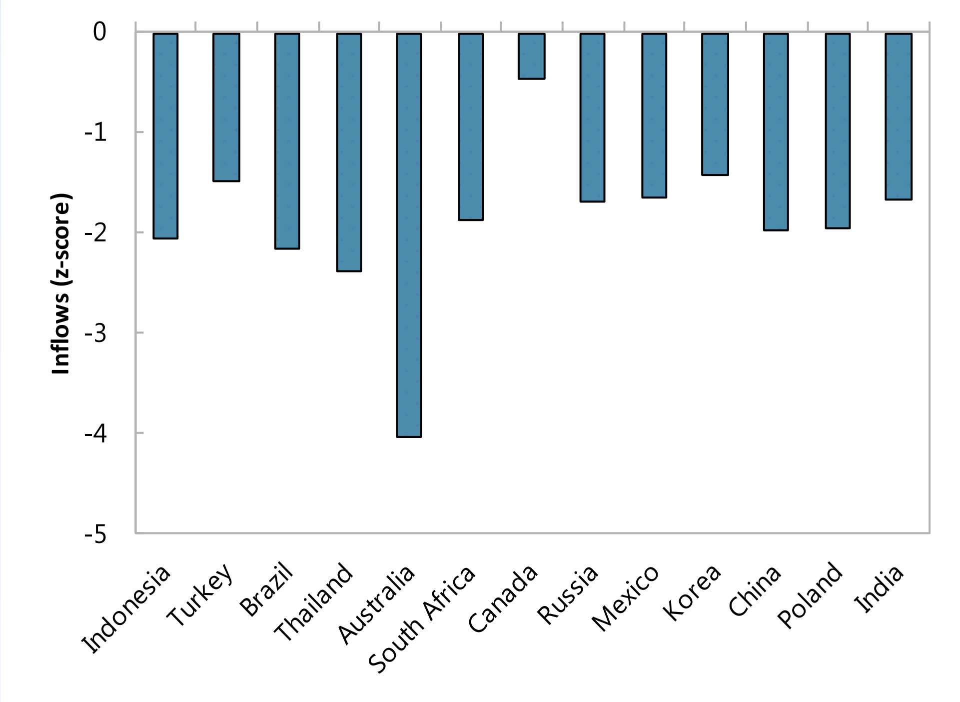
(In basis points)



Source: IMF staff estimates.
Note: Changes in yields are computed in the day following each announcement, then summed. Tapering announcements occurred on May 22 and June 19, 2013.

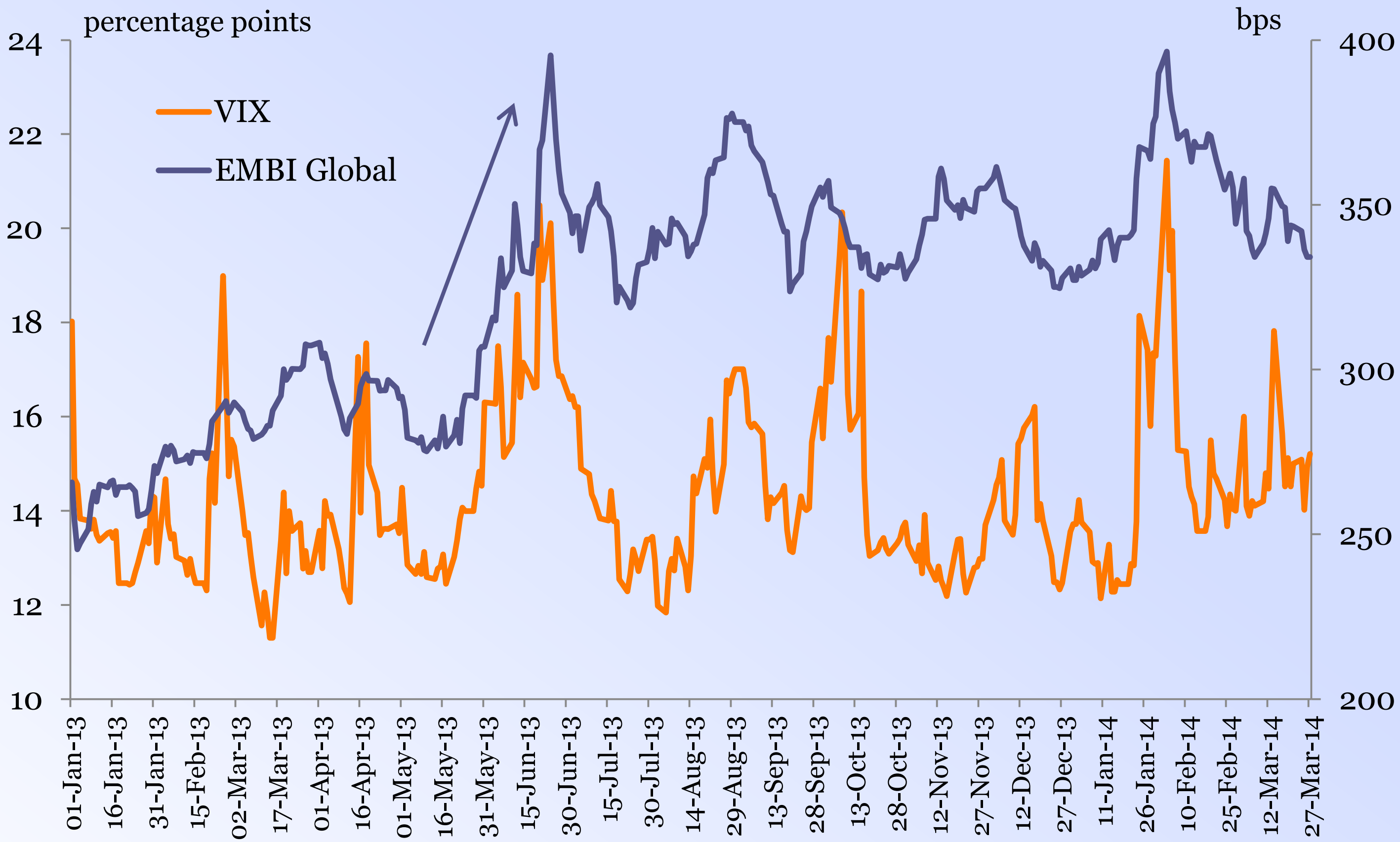
And Caused Capital Outflows

Measure of Capital Outflows Following U.S. Tapering Announcements



Source: EPFR Global and IMF staff estimates.
Note: Z-scores represent the difference of average capital flows (equity and bond) in the month after first U.S. tapering announcement (May 22, 2013) relative to flows since 2009, normalized by the standard deviation of flows.

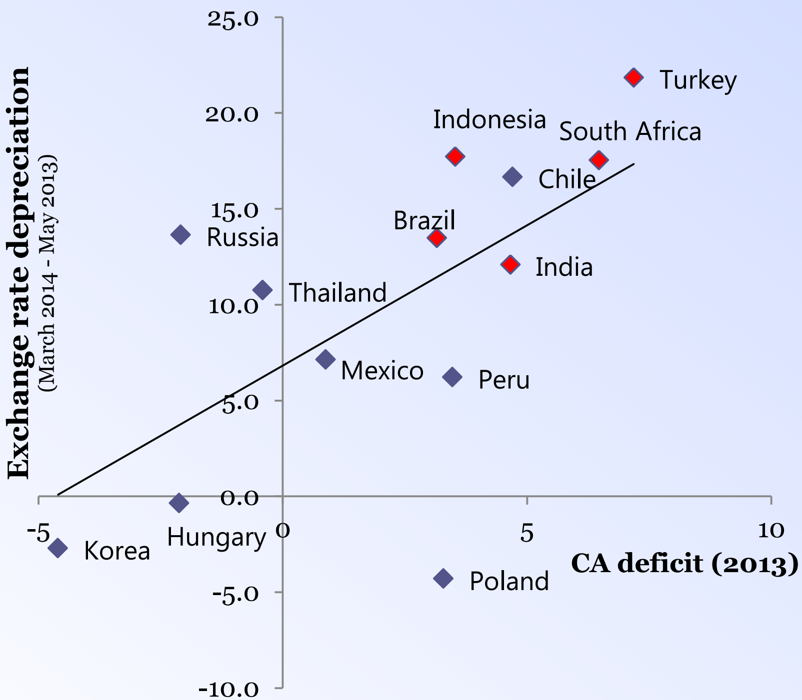
Exit from UMP is triggering Volatility



Source: Bloomberg

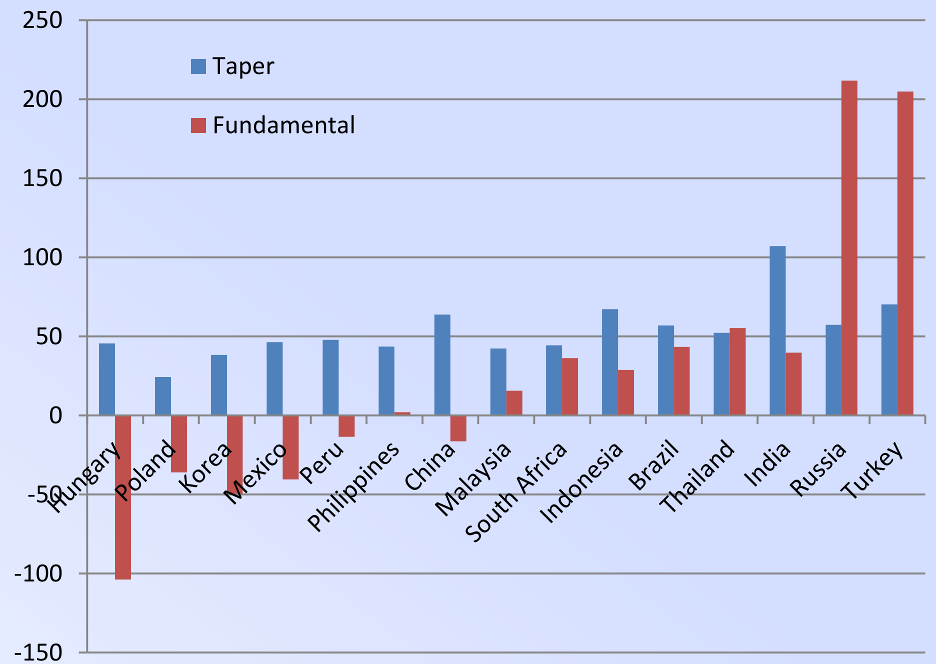
Economic Fundamentals Matter

Current account and Exchange rate
in percent of GDP and percent



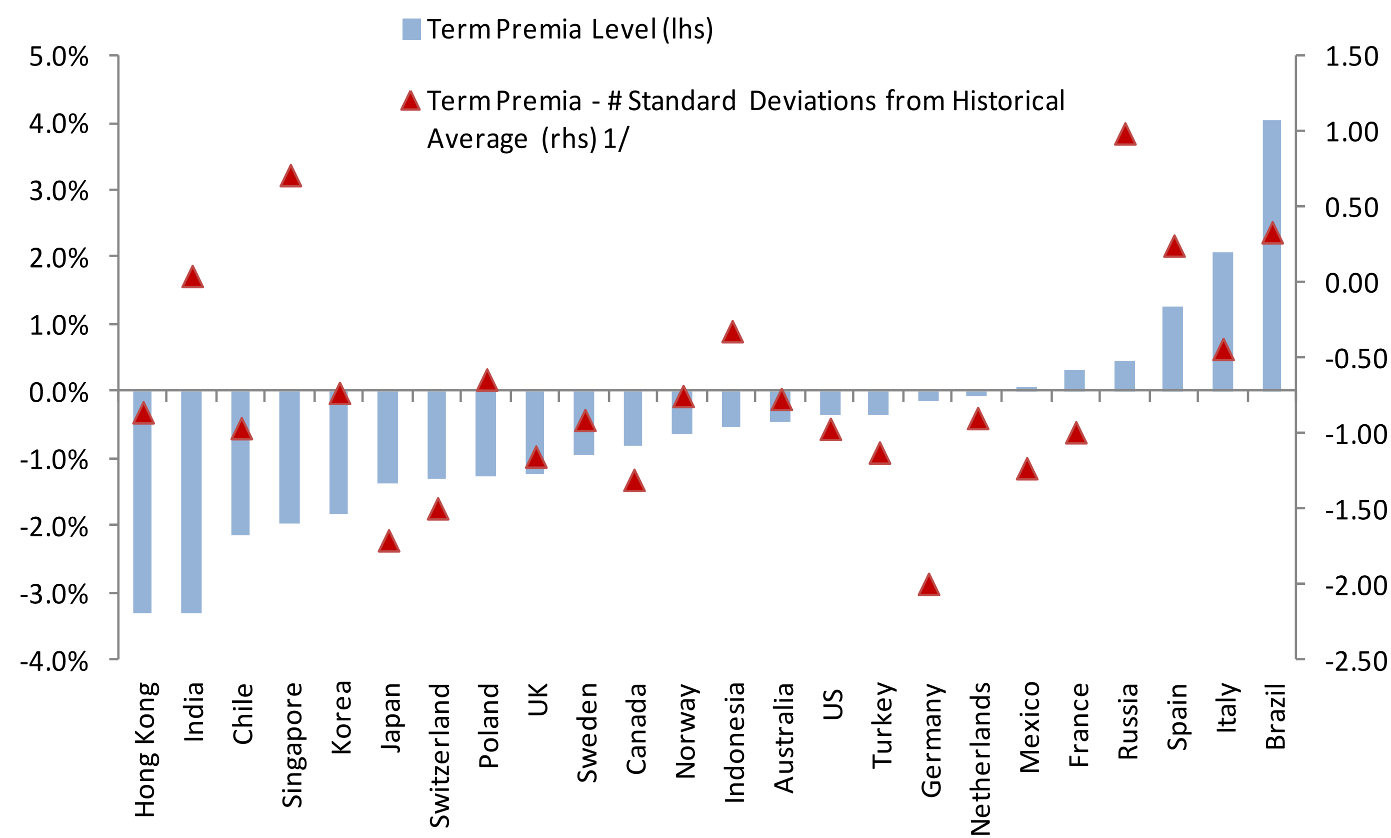
Source: Bloomberg and IMF staff calculations

Sovereign CDS (change in basis points)



Source: Bloomberg and IMF staff calculations

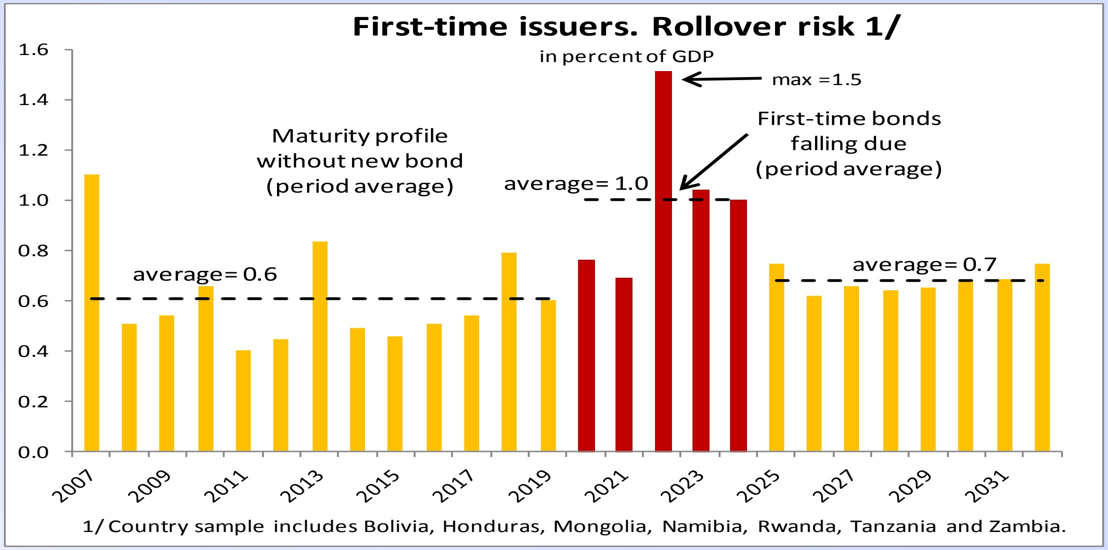
Fundamentals Imply Higher Term Premia

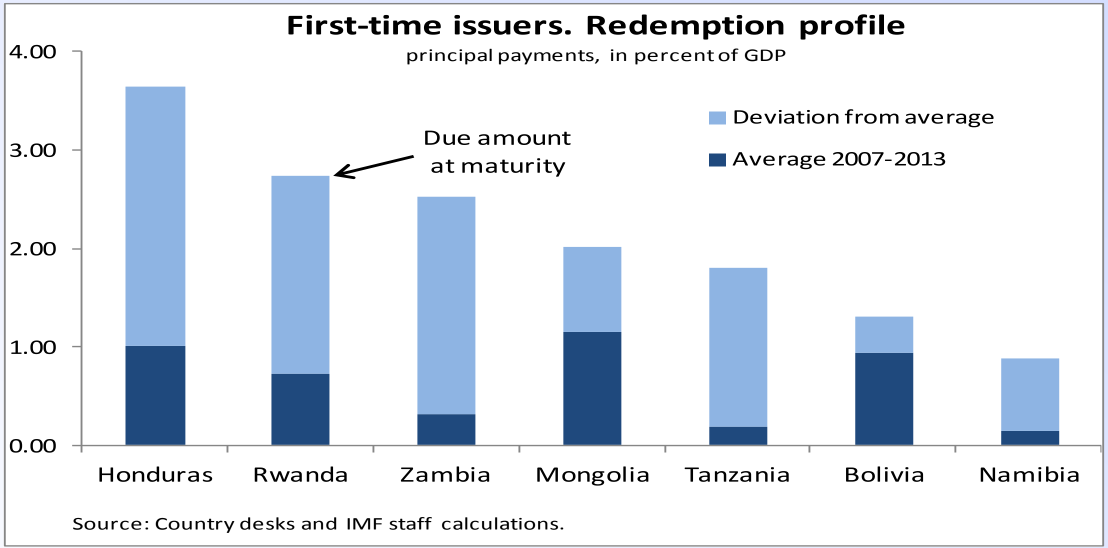


1/ The Term Premium is measured as the 5y5y Bond Yield minus 5y5y Nominal GDP growth expectations taken from the survey reported by Consensus Economics.

Source: IMF staff calculations

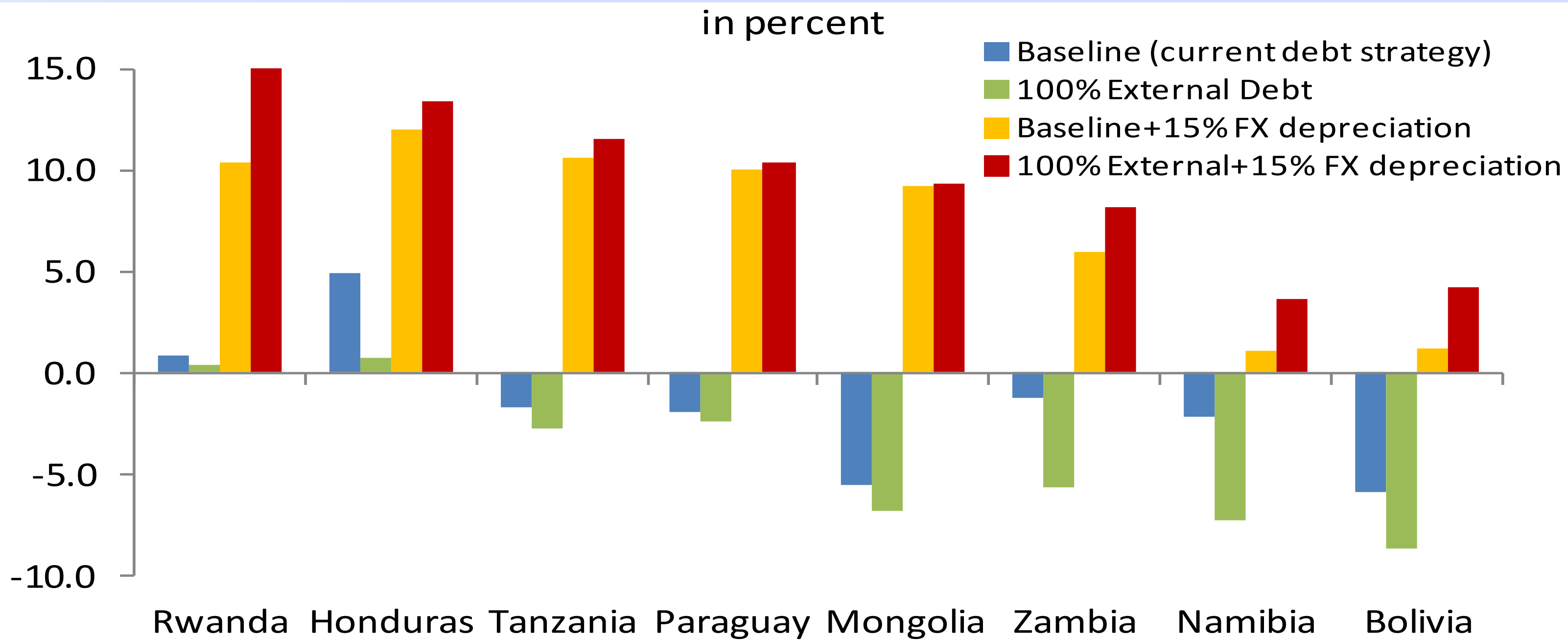
Refinancing Risks Loom





Adverse Exchange Rate Shocks require higher Growth

Selected Countries: Growth Gap 1/



Source: Country desks and IMF calculations.

Note: Growth gap is the difference between the average expected growth rate and the required (implied) growth rate that makes the debt stock remains constant at current level, over the projection period .

Thank you