
GDP indexed bonds: An idea whose time has come

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Benefits of GDP-linked bonds for borrowing countries

- Stabilize Government spending and limit procyclicality in good and bad times
 - Reduce likelihood of defaults and debt crises
 - Could benefit both emerging and developed economies
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Benefits of GDP-linked bonds for investors

- Opportunity to take position on countries' growth rates. Provide valuable diversification opportunity
 - Lower frequency of defaults and crises, which can be costly and result in large losses
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Benefits of GDP-linked bonds for the global financial system

- Externalities:
 - For other investors
 - For other issuers
 - For multilaterals
 - Justifies public action to help initially develop this instrument
 - Possible roles for IFI's
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Ways forward on addressing concerns:

- Investors

- Sufficient liquidity and scale
- Potential problems of GDP measurement being overstated
- Initial issues of pricing

- Issuers

- Perceived benefits to exceed additional cost
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An idea whose time has come

- Large investor appetite for EM risk and abundant liquidity in financial markets
 - Financial markets innovative in creating instruments that offer antecedents for GDP-linked bonds
 - Favourable experience with Argentine warrants
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Central Government Debt--Internal 1	Dec-05	Set-2005	Dec-04	% change Dec 05/Set-05	% change Dec 05/Dec-04
Brazil	539,707	557,889	419,339	-3.3	28.7
%GDP	65.5	65.0	60.0		
Chile	5,139	4,964	6,172	3.5	-16.7
%GDP	4.1	4.1	5.5		
Colombia	9,120	8,972	9,774	1.6	-6.7
%GDP	17.0	16.8	23.0		
Peru 2	7,688	7,086	6,439	8.5	19.4
%GDP	17.8	16.7	15.9		

Source: National Central Banks

1 US\$ dollars million

2 Public sector debt

Central Government Debt--External 1	Dec-05	Set-2005	Dec-04	% change Dec 05/Set-05	% change Dec 05/Dec-04
Brazil	81,493	78,556	94,236	3.7	-13.5
<i>%GDP</i>	<i>11.7</i>	<i>11.6</i>	<i>11.9</i>		
Chile	4,233	4,503	4,949	-6.0	-14.5
<i>%GDP</i>	<i>3.4</i>	<i>3.8</i>	<i>4.8</i>		
Colombia	10,566	10,265	11,286	2.9	-6.4
<i>%GDP</i>	<i>19.7</i>	<i>19.2</i>	<i>26.5</i>		
Peru 2	22,279	22,481	24,466	-0.9	-8.9
<i>%GDP</i>	<i>51.6</i>	<i>53.1</i>	<i>60.5</i>		

Source: National Central Banks

1 US\$ dollars million

2 Public sector debt