Welcoming Remarks by Mr Takeuchi[1]

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2nd PDM Network Public Debt Management Conference

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Good morning ladies and gentlemen.

It is my great pleasure to welcome you all - those of you who are with us today in Rome and those who are joining us virtually - to the second PDM Network Public Debt Management Conference. This conference reflects the collaborative work across the members of the Public Debt Management Network (PDM Network).

The OECD and the Italian Treasury established the PDM Network eighteen years ago, in 2004, and we were glad to welcome the World Bank into the group in 2013. Together, the Network's members aim to share and disseminate sound practice and recent developments in public debt management, including through conferences like this one and via the Network's website and communications. I would like to thank especially the Italian Treasury's Public Debt Directorate, which acts as the PDM Network Secretariat, for its efforts to support the Network and its activities.

This is the second PDM Network research conference. With these meetings, we hope to bring together a wide variety of stakeholders—including academics, investors, policy-makers and practitioners—to address the challenges arising from effective public debt management. So much has happened since we last met in Paris in 2019 : Today's conference is taking place against the backdrop of the global pandemic, the war in Ukraine and geo-economic challenges.

We live in an age of uncertainty and risk. Some say this is the age of "permacrisis", where one challenge is seamlessly followed by the next. Looking back, we have faced the largest financial crisis since the 1930s, the worst pandemic since 1919, and now the most serious geopolitical crisis in Europe since the end of the Cold War. Crisis always poses additional challenges to sovereign debt management. Often, sudden and massive increases in government borrowing needs occur when financial markets are volatile. For example, the 2008-2009 financial crisis, and the policy response to it, implied drastically increased additional borrowing requirements. The impact of that crisis lifted debt-to-GDP ratios by more than 15 percentage points between 2007 and 2009 in the OECD area.

The pandemic has brought about additional and unprecedented challenges for public debt management. The upsurge in government spending and reduced revenue collection mean that the gross borrowing needs

[1] Disclaimer: Opinions expressed in this speech are personal and do not necessarily represent those of the OECD.

of governments have risen significantly. The pandemic's impact on public finances has been more dramatic than the 2008 financial crisis. It lifted OECD area debt-to-GDP ratio by more than 16 percentage points only in 2020.

We now face the impacts of the war in Ukraine. Russia's war against the people of Ukraine and the pain and suffering it is causing, are deeply distressing. First and foremost, this is a terrible humanitarian crisis inflicted on the people of Ukraine. The war also poses challenges for policy makers. Coupled with the expectation of a change in the global liquidity conditions, the war has further heightened uncertainty. It is posing challenges for policy makers by simultaneously threatening economic growth and exacerbating already-rising inflation. In March, the OECD estimated that global economic growth will be more than 1 percentage point lower this year as a result of this conflict. Inflation, already high at the start of the year, could rise by about a further 2.5 percentage points on aggregate across the world.

These developments continue to affect public debt management through borrowing needs, borrowing instruments, market liquidity conditions, investor base and investor behaviour. Policy makers must address these challenges while also ensuring their economies are on a sustainable path for implementing the structural transformations needed to address the digital transformation of our economies, persistent inequalities, and the existential threat of climate change. Debt managers and financial policy makers are facing these challenges at a time when sovereign debt is at a nearly all-time highs across advanced economies and emerging markets. Levels continue to rise, exceeding 100 percent of GDP in some cases, including in Japan and Italy.

We are moving away from the long era of low interest rates and stable market conditions that created a favourable funding environment for sovereign issuers in most jurisdictions. These conditions enabled governments to finance borrowing requirements at low cost. They, in part, facilitated the hard work of debt managers who need to urgently respond to the COVID-19 crisis. With the strong support of accommodative monetary policies implemented by the major central banks, this massive amount of borrowing and the sudden changes in the borrowing plans were carried out smoothly, without undermining the functioning of bond markets. Since 2019, the outstanding level of marketable debt for OECD governments increased by more than USD 10 trillion to USD 50 trillion in 2021, and is projected to reach USD 53 trillion in 2022. As a percentage of GDP, central government marketable debt for the OECD area is expected to gradually decline from 90% in 2020 to 88% in 2022. This is driven inter alia by stabilised borrowing needs and low interest payments. These estimations for 2022, made before the war in Ukraine, are now subject to the economic effects of the war, as well as the monetary and fiscal policy responses.

Today's reality is shifting, and possibly becoming more challenging for the effective management of public debt: Global liquidity is tightening, and the need to search for yield is becoming less intense. Despite the extended maturities of new issuance, debt redemption profiles are expected to be elevated. Governments' debt service to the markets constitutes one-quarter of the public debt in emerging market economies and one-third in OECD countries. In many countries, the high refinancing burden from maturing debt is combined with continued budget deficits.

Today’s challenges require a collective and coherent policy response, which allows governments to develop sustainable borrowing strategies, while also managing a high debt stock. Sovereign debt should be managed with a forward-looking approach. This entails consideration of medium and long-term risks as well as costs. In this respect, research on modelling of public debt dynamics, scenario analyses and optimal debt strategy provide valuable insights and improve our understanding of the impacts of potential shocks. This in turn, enables policy makers to build more resilient debt portfolios; develop risk mitigation techniques such as liquidity buffers and; communicate such adjustments with market and related stakeholders.

This second research conference of the PDM Network is therefore very timely. It showcases high-quality papers tackling some of these challenging issues. Research scholars, policy makers and industry practitioners are joining us today to present their high quality, original theoretical/applied empirical papers. Also, prominent academics, high-level officials of international organizations as well as national authorities, industry executives working in the field of public debt and allied areas, are here with us.

I am sure everyone is looking forward to the presentations and the dialogue during the policy panel sessions today and tomorrow. I would like to thank the Italian Treasury for hosting this year’s conference, as well as our team from the OECD Secretariat and the World Bank for their support in organising it. In addition, I would also thank the authors for submitting their papers and participating this conference.

I hope that the conference convenes today will enable us to reconnect, exchange insights, gain fresh perspectives and advance solutions on the key issues related to debt management and government bond markets.

I wish you all excellent conference and fruitful discussions during these two days. Thank you.