

Comments on
“Interest Rate Shocks and
the Composition of Sovereign Debt”
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IMF-CARF (University of Tokyo)-Waseda
University Debt Conference

Kozo UEDA (Waseda University)

Summary

- Motivations
 - Coexistence of domestic and external debt
- Model features
 - Endogenous debt
 - Endogenous default
 - Financially constrained domestic banks

Mechanism

- Smaller default incentive for domestic debt
 - Bank capital damaged (-> lose election)
 - (banks also want to avoid default -> negotiation?)
- Issuing domestic debt
 - Lower finance cost (:: smaller default p)
 - Crowding out K (banks choose B or K)

Impressions

- Neat
 - Perspective
 - Parsimonious
 - Insightful

Comment 1

- What is domestic debt?
 - Bonds owned by domestic banks
 - Do NOT foreign investors invest in bonds denominated in the domestic currency?

Comment 2

- Does domestic debt crowd out K/I?
- In Japan, **loan demand** is weak.
 - Shifts to bond holding
 - Rather, crowding in?
 - Domestic debt -> gov spending
- IS balance (net lending) in the private sector
 - Not just financial development

Minor Comments 3

- What differs from Arellano, Atkeson, and Wright (2016)
- Should't be negative?

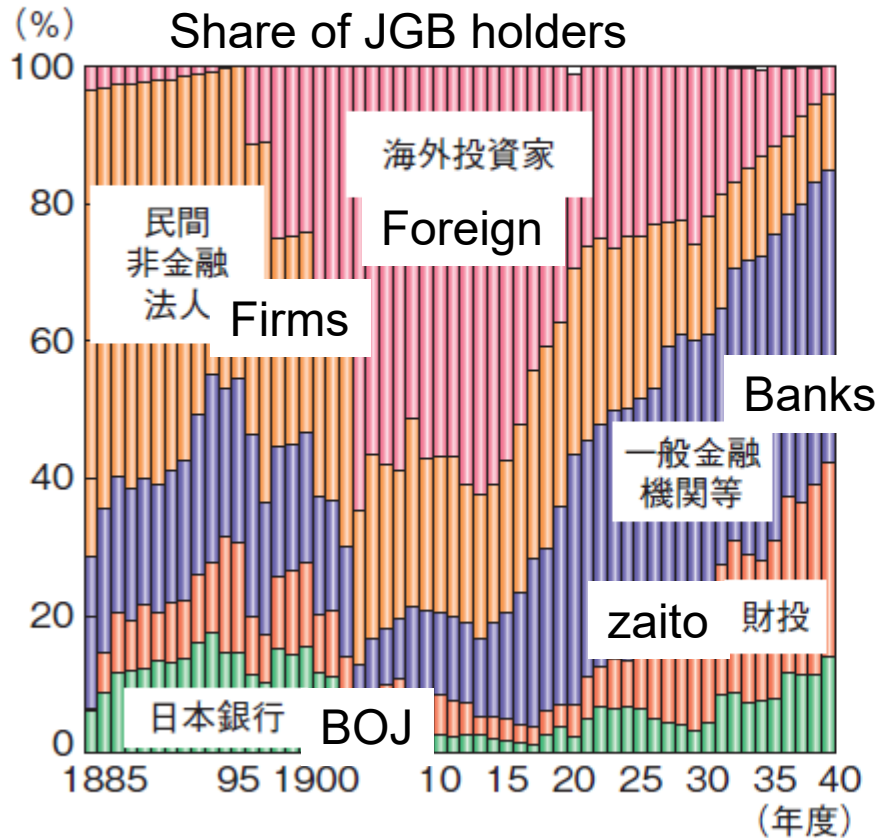
$$G + \delta_t \lambda B_t + \delta_t^* \lambda B_t^* = \tau_t w_t L_t + \delta_t q_t (B_{t+1} + (1 - \lambda) B_t) + \delta_t^* q_t (B_{t+1}^* + (1 - \lambda) B_t^*), \quad (14)$$

Foreign Investors' Share: Back to History

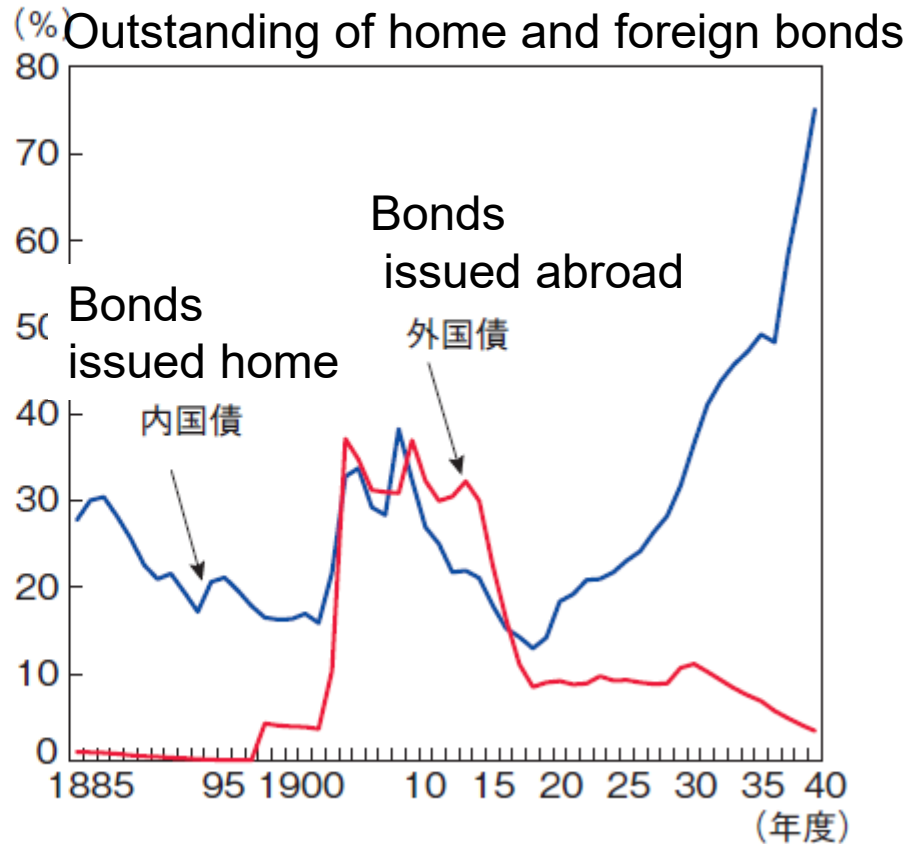
End of 19th century to pre WWII

コラム1-8図 19世紀末から第二次世界大戦前までの国債保有比率

(1) 保有者別の国債保有比率



(2) 内国債と外国債の残高 (対GNP比)



(備考) 大川・高松・山本 (1974)、藤野・寺西 (2000) により作成。

Source: Cabinet Office “Annual Report on the Japanese Economy and Public Finance” (2013)