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The Composition of Sovereign Debt: a Description

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Abstract.

Who has access to cheaper forms of borrowing: AAA-rated US corporations or developing countries? In contrast to all expectations, data from the World Bank suggests that the *average* spread on all forms of borrowing by developing countries is smaller than for top-rated US corporate bonds. Part of this phenomenon is due to official lending, which is extremely cheap, but even *average* private lending spreads are near or below zero.

The paper documents these facts (with particular care for resolving various data problems), and then looks behind the averages. Once identifying various sub-types of borrowing, I find that official and other private lending (trade-related, or at least more firm-level lending) are the main source of the surprisingly low average spreads: these two types of lending react very little to movements in international interest rates, which -- together with a not sufficiently large constant term -- makes these types of loans very cheap. This also gives an "interest rate smoothing" result for official and other private lending.

Bond and commercial bank lending shows reasonable spreads, and both move nearly one in one with world interest rates. All types of private lending significantly differ from each other in the way they incorporate country-specific or worldwide economic conditions. Moreover, low-income countries actively change their disbursement portfolio in response to world interest rates, which leads to "interest rate smoothing" of commercial bank lending rates as well.