Sovereign Debt Financing Prospects, Risks, Sustainability and Demography

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„With answers just a tap away, it‘s about guessing the right question to ask.“

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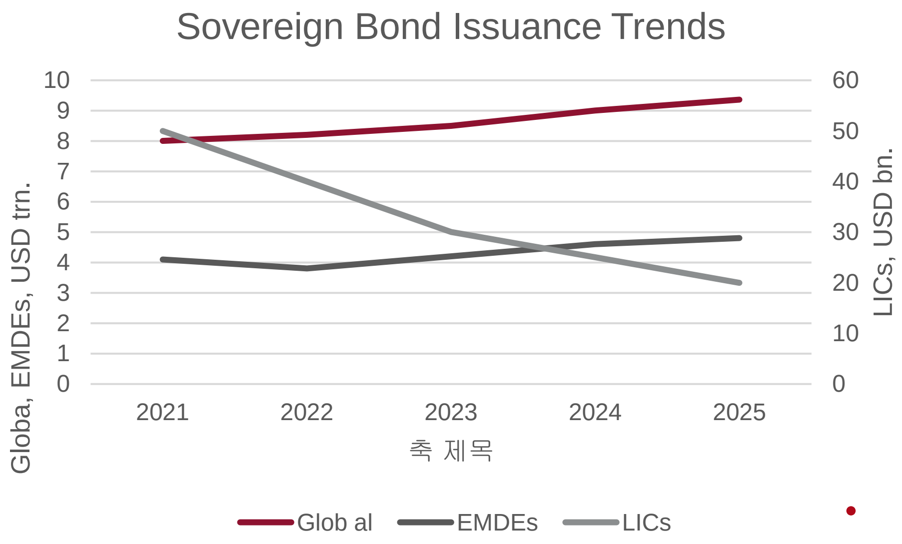
Outline

Trends – Forget Low For Long And Savings Glut



Source: OECD, IMF/WB, S&P Global, calcs

- 2024 estimated from Q1-Q3 trends
- 2025 forecasted based on S&P growth forecast and IMF data
- LIC bit guesstimate from IMF/WB data

- Some rating upgrades in EMDEs, i.e. Cyprus, Ireland, Spain
- Downgrades e.g. Baltics, USA on political developments as opposed to financial disstress
- No upgrades in LICs from 2022 found

LICs‘ declining debt issuance is below 1% growing global debt issuance. Over half of LICs likely to face financial distress. Globally, LICs debt financing is not constraint financially.

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The 4-Res Of The World’s Logistics And Wider Consequences

Source: Z. Pozsar, Credit Swiss, War and Industrial Policy, 2022

1. **re-arm** (to defend the world order)
2. **re-shore** (to get around blocades)
3. **re-stock and invest** (commodities)
4. **re-wire the grid** (energy transformation)

1. **Commodity intensive**
2. **Capital intensive**
3. **Interest rate insensitive**
4. **Uninvestible for „the East“**

- EU defense spending plans, German fiscal defense package, EU joint debt plan and easing of budget constraints represent together around 1,5 trn. Euro, appx. 7% of EU GDP. The EU sovereign and EU int. Institution‘s issuance howevrs between 250-500 bn. Euro, total EU debt issuance between 1300-1700 bn. Eury. (Bloomberg).
- The rest of the world spends up to 2,3 trn. USD on defense annually. The potential increase of spending is likely going to be one decimal number fraction of the EU plans.
- Significant part of spending increase, not only of defense ones, green deal etc. is not driven by simple profitability.

Who is going to produce all these goods given the green deal global unemployment rate is below global NAIRU?

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The problem of financing LICs is not a financial one but a political one. If there is a will there is a path to the solution.

What matters in our changing times is a longer-term sustainability of developer countries and EMDEs finances.

Given that most of estimates indicate that the relevant players in global economy outputs are below their capacity constraints, but at the same time their levels of unemployment are below NAIRU, active labor force numbers should matter.

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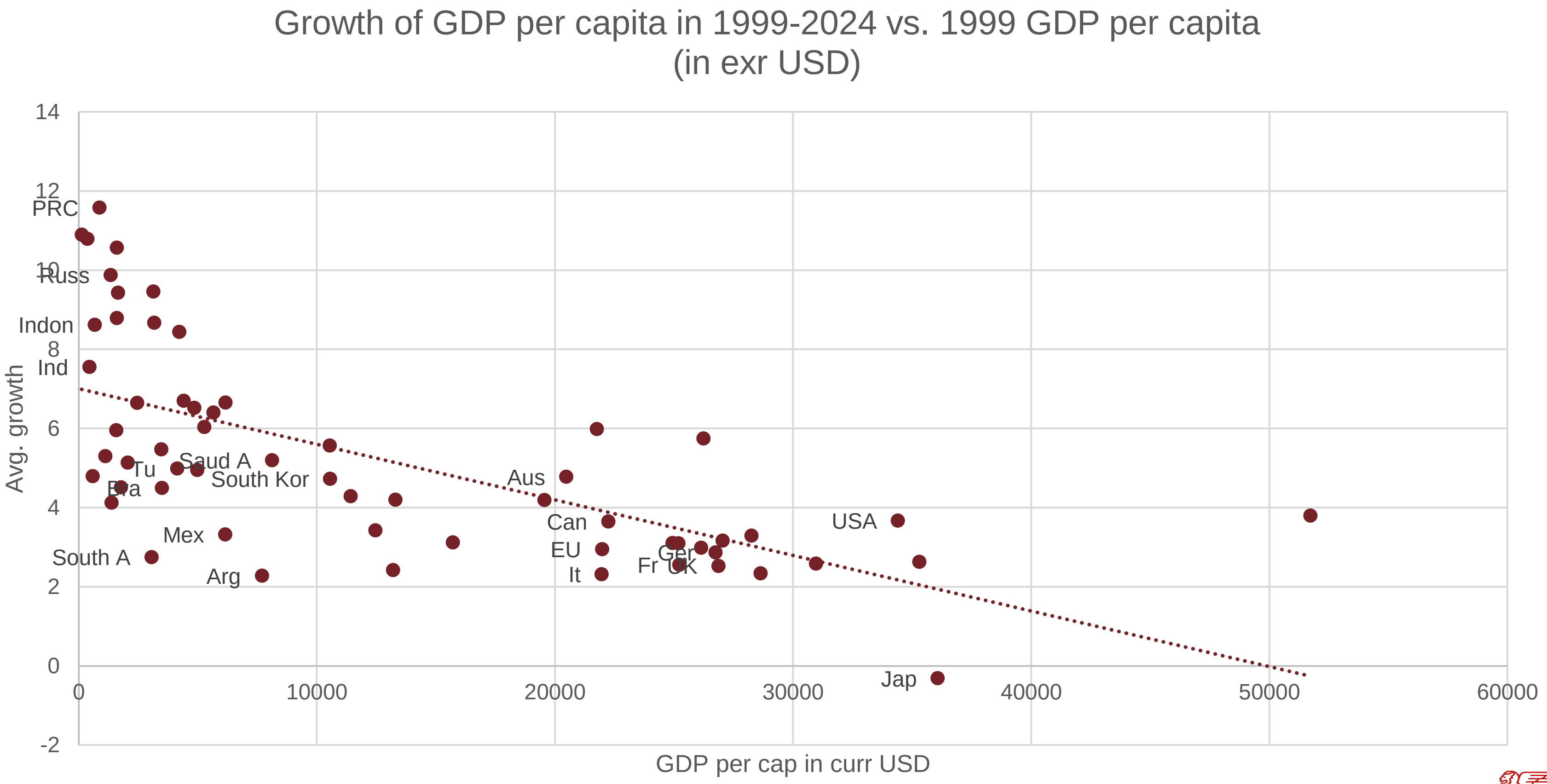
Historical Context Of G20 Development



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G20 is not that successful group in the wider context. The use of real GDP data wouldn‘t change the picture.

G20 Expected Demographic Trends

Sloupec1	Arg	Aus	Bra	Can	PRC	Fr	Ger	Ind	Indon	It
Population 2024 (millions)	46,7	27,3	216,4	41,3	1411,8	64,9	84,4	1449,9	279,8	59,0
Population 2050 (millions)	53,2	32,1	231,2	47,0	1312,5	63,5	80,9	1670,0	309,6	54,4
Active Population Ratio 2024 (%)	60,0	65,5	62,0	65,0	67,0	51,2	58,2	55,0	67,5	50,1
Active Population Ratio 2050 (%)	55,0	60,0	55,0	58,0	60,0	45,0	50,0	58,0	63,8	43,2
Annual Active Population Growth 2024-2050 (%)	0,2	0,3	-0,2	0,1	-0,7	-0,6	-0,7	0,8	0,0	-0,6

Sloupec1	Jap	Mex	Russ	Saudi A	South A	South K	Tur	UK	USA	EU
Population 2024 (millions)	123,2	129,4	146,1	37,3	62,0	51,7	85,6	68,6	341,8	453,3
Population 2050 (millions)	104,8	141,0	135,5	44,5	73,1	47,2	93,0	73,5	380,0	447,2
Active Population Ratio 2024 (%)	60,0	60,0	62,0	58,0	57,0	62,3	53,0	58,0	62,0	48,5
Active Population Ratio 2050 (%)	50,0	55,0	55,0	55,0	55,0	53,1	50,0	52,0	58,0	45,0
Annual Active Population Growth 2024-2050 (%)	-1,3	0,0	-0,7	0,5	0,5	-0,9	0,1	-0,2	0,2	-0,4

Source: Eurostat, EIU, KOSIS, Business-Indonesia, UN World Population Prospects, calcs.

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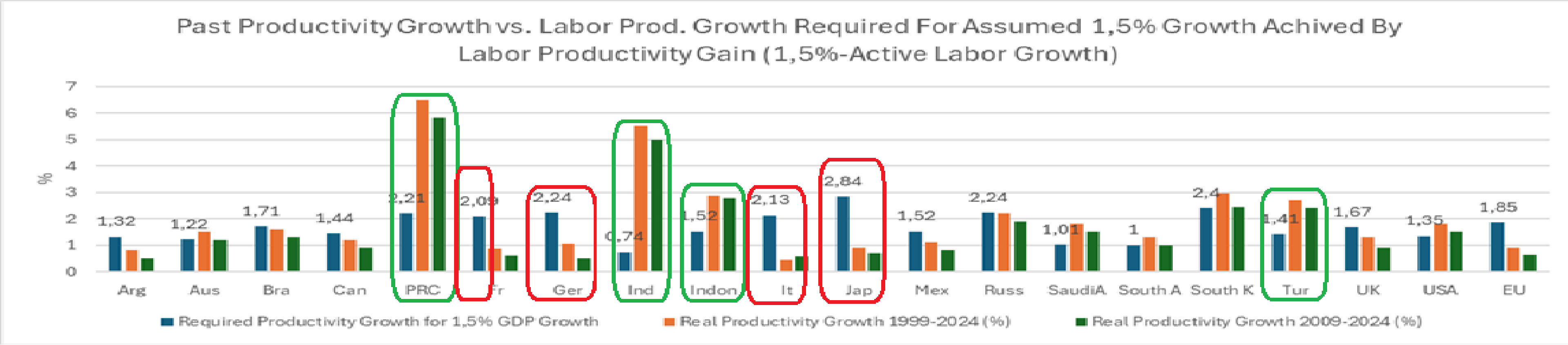
Several G20 members likely to face active labor force decline faster than 0,5% pa.

Implication For Growth In G20 – Some First Order Sensitivity



Red circle denotes economies in case of which observed long term productivity growth does not suffice to achieve even the annual 0,5% growth by labor force factor even if we assume 1,5% annual productivity gain per active laborer.

Green circle denotes economies in case of which observed long term productivity growth allows them to achieve higher than the annual 2,5% growth by labor force factor assuming 1,5% annual productivity gain per active laborer.

The chart tries to answer what kind of labor productivity economies need to achieve 1,5% growth gain by labor factor exclusively and confront that with past productivity growth indicators

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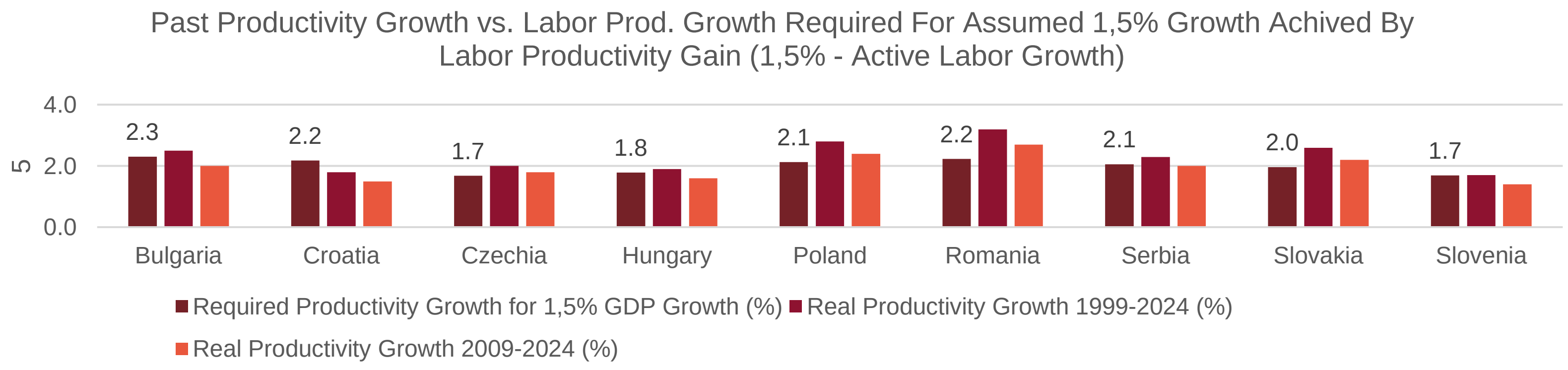
CEE (ie Generali‘s CEE) Demography - Comparison

Country	Bulgaria	Croatia	Czechia	Hungary	Poland	Romania	Serbia	Slovakia	Slovenia
Population 2024 (Millions)	6,4	3,8	10,8	9,6	37,6	19,0	6,6	5,4	2,1
Active Labor Force Ratio 2024 (%)	71,0	65,5	80,0	75,5	73,0	68,0	65,0	77,5	76,0
Expected Population 2050 (Millions)	5,2	3,2	10,3	8,9	31,9	15,8	5,7	4,8	2,0
Expected Active Labor Force 2050 (Millions)	1,9	1,1	3,9	3,4	11,9	5,8	2,0	1,8	0,8
Expected Avg, Annual Population Growth 2024-2050 (%)	-0,8	-0,7	-0,2	-0,3	-0,6	-0,7	-0,6	-0,5	-0,2

Source: Eurostat, EIU, UN World Population Prospects, calcs.



Despite relatively fast expected fall of active labor past productivity trends do not indicate serious problems…

Comments On Other Issuess Related To Demographic Trends

- Even many richer G20 economies achieved in past productivity gains that should allow them to grow decently despite an expected decrease of their population size.
- Even EU as a whole might be able to cope with a population aging.
- In terms of aid to LICs and political issues related with that that should enable them to provide support.
- At the same time the changes in the world financial system should recognize their growing role.
- As we focus on decrease of population we should not forget that the opposite can be a problem, too. South Africa which population grows faster than real GDP and at the same time its labor active force declines is a reminder of that.
- Even the Romanian current fiscal travails and Fitch negative outlook on its BBB- rating does not look like a drama in the global context.
- The fast productivity growth stems also from the ability of CEE economies to increase labor activity ratio by appx. 1/10 over past quarter of century. This limited the effects of population loss in most of CEE economies.
- Most of CEE countries also benefited from the fast increase of their size in Eury/USD due to their ability to keep roughly stable Exchange rates despite a high inflation.
- Low debt to GDP ratia in CEE provide buffers in time of political turmoil.
- Of course ability to attract and keep investments lies behind the major part of their productivity gains.

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Short-term Help for LIC Financing Gap (appx. 90 bn. USD per year)

- Domestic resource mobilization – LICs collect 13,8% GDP from taxes. Even increase to 15% would collect gross 150 bn. USD annually (IMF study). Centralize resources and their mgmt., cash-pooling etc. Use the experience, e.g. Rwanda.
- Scale up IMF PRGT vehicle. Pool projects into portfolio to attract private financing. Leverage.
- Debt for development swaps. Decrease debt to GDP.
- Boost productivity and education to increase participation. Some involvement in a strictly non-aid frame parameters of labor force in EMDEs? It worked in CEECs, e.g. Romania, no reason not to work in other economies.
- Leverage digitalization experience (Kenya). Focus on labor intensive sectors.
- Blended financing, with WB guarantees.
- Governance and business climate improvement. Worked for Serbia for years (despite some backtracking lately).
- Involve more EMDEs. The „Generali‘s CEE“ economic size is larger than Spain and comparable with Italy. Polish economy is about the ¼ of the Indian one.
- Sell Green Deal projects in „old EU.“ Some defense co-operation possible for „new EU?“

Keep in mind the issue is much more of political than financial nature even in many EMDEs. That comprises the issue of political support for International institutions.

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Summary

1. „Low for long“ might be gone but the sovereign debt issues have been growing except LICs.
2. A sovereign debt taken on to solve many issues in Europe is not going to be used in a way bringing financial benefits. This may limit capacity of many EU members to participate.
3. LIC issue is of political nature, must find its solution in a space of politics.
4. Demographic trends are major risks for many developed economies and, less likely, for some EMDEs, e.g. CEECs.
5. It must be recognized that the productivity differences between EU and rest of the work will result in the shift or responsibilities in internation financial architecture.
6. EU must much more positively react to digital sector/AI phenomenona especially given it desperately needs the productivity increase.
7. As experienced by myself not only during preparation of these slides, AI dramatically increases the investors ability to at least note if not analyse financial risks. This may have profound consequences for economies found lacking.

A Pleasant Smiling Face To End With!

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