Coming to Terms:  
The Politics of Sovereign Debt Denomination  
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Drawing on our novel database of approximately 240,000 bond issues in primary markets by 131 countries (1990-2016), we note a very significant change that has emerged over the last 15 years. As of 2016, over 90 percent of all non-OECD sovereign bonds are issued in domestic currency. Many developing countries have come to avoid “original sin,” the long-standing claim that—by virtue of their status as developing nations—most sovereigns have little choice but to issue debt in foreign currencies. At the same time, while developed country governments continue to issue debt at longer maturities, developing countries are increasingly issuing in short maturities, often less than one year. Hence, it appears many developing country borrowers can trade off between domestic currency denomination and debt maturity, reducing their currency exposure but increasing their rollover risk. In this paper, we seek to explain the political economy of borrowing strategies. We hypothesize that developing countries trade off across terms in part because of political considerations. Left-leaning governments, for example, are more worried about having their hands tied by borrowing in foreign currencies, so they will be more likely to sacrifice maturity for currency. Consistent with our previous work, we highlight the relationship of global market trends to these choices: the market's appetite for domestic-currency/short-maturity terms has endured even in periods of global capital scarcity. To explain this, we look to a secular learning process: in an environment where the supply of and demand for developing country debt has exploded, countries’ debt management offices (DMOs) responsible for sovereign issues and international market actors have found ways to coordinate on a concept of palatable sovereign risk.