APPENDIX - Literature Review What drives bond yields - Part 5: US fiscal trends



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Table 1 - Impact of increased government debt on bond yields

Paper	Authors & year	Countries	Time period	Impact on real yields^	Comments
The Effect of Government Debt on Interest Rates	Gamber & Seliski (2019)	US	1976 to 2007	+2 to +3 bps	Look at the relationship between projected debt and expected interest rates.
Federal Government Debt and Interest Rates	Engel & Hubbard (2005)	US	1976 to 2003	+3 bps	Looked at the link between five-year ahead debt expectations and five-year ahead 10-year Treasury yields.
Government Debt and Long-Term Interest Rates	Kinoshita (2006)	19 OECD countries	1971 to 2004	+2 to +4 bps	Average effects from cross- country panel regression
Fiscal Deficits, Public Debt, and Sovereign Bond Yields	Baldacci & Kumar (2010)	31 AEs & EMs	1980 to 2008	+30 bps	Impact on yields of a 1ppt increase in debt for high debt economies
World Public Debt and Real Interest Rates	Ford & Laxton (1995)	9 OECD countries	1978 to 1993	+14 bps to +25 bps	Looked at relationship between global debt and individual government borrowing costs
The Economic Effects of Long-Term Fiscal Discipline	Gale and Orszag (2002)	Lit review	Lit review	Lit review	Reviewed nearly 60 studies and found quite mixed results in terms of the sign and size of the relationship between fiscal variables and bond yields.
					However, noted that the consistency and strength of findings was enhanced when forward looking measures of deficits were used.

^{^ -} Increase in (real) 10-year government bond yields for a 1ppt rise in government debt to GDP unless stated otherwise

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Table 2 - Impact of increased government deficits on bond yields

Paper	Authors & year	Countries	Time period	Impact on real yields	Comments
Fiscal Deficits, Public Debt, and Sovereign Bond Yields	Baldacci & Kumar (2010)	31 AEs & EMs	1980 to 2008	+30 bps	Impact on yields of a 1ppt increase in debt for high deficit economies
Fiscal Discipline and the Cost of Public Debt Service: Some Estimates for OECD Countries	Ardagna, Caselli & Lane (2006)	16 OECD countries	1960 to 2002	+10 bps	Looked at impact on yields of a 1ppt increase in the primary deficit.
					Impact is non-linear. That is, yields are only affected for countries with above average levels of debt.
					Yields increase due to both higher global and domestic government debt.
Fiscal Policy and the Term Structure of Interest Rates	Dai & Philippon (2006)	US	1970 to 2023	+35 bps	Around one-third of the impact is due to increases in risk premia
Can U.S. Treasury Markets Add and Subtract?	G'omez-Cram, Kung & Lustig (2023)	US	1997 to 2002	+31 bps	Impact on yields of a 1ppt increase in budget deficit