

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	<p>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.</p> <p>However, noted that the consistency and strength of findings was enhanced when forward looking measures of deficits were used.</p>

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

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	<p>Looked at impact on yields of a 1ppt increase in the primary deficit.</p> <p>Impact is non-linear. That is, yields are only affected for countries with above average levels of debt.</p> <p>Yields increase due to both higher global and domestic government debt.</p>
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?	Gómez-Cram, Kung & Lustig (2023)	US	1997 to 2002	+31 bps	Impact on yields of a 1ppt increase in budget deficit