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Literature Review and An Application to Australia
Implications Of The Theory
What Are Its Causes?
Public Sector Default Risk
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Commonwealth of Australia from 1996 to the second quarter of 1999. The default risk premium on the productivity debt issued by the public sector is implied in the yield curve, which is expressed in terms of the hazard rate. The paper examines the relationship between the hazard rate and the default risk premium, and the implications for economic policy and financial market pricing. The results suggest that the default risk premium is a significant component of the yield curve, and that changes in the hazard rate can have important implications for economic decision-making.
Introduction

Craig Applegat

Application to Australia

Implications of the Theory: Literature Review and an

What Are the Causes?

Public Sector Default Risk

1
to the international capital market and there exists symmetric potential borrowers do not sufficiently value their future access reason, such a framework is not considered in this paper. A regression model explaining default risk presented for this strong predictions is to the variables which should be included in model along the lines of Ehrsam and Gerowsky (1987), there are no model. When the framework of analysis is a standard reputational dealers.

an efficient risk sharing agreements between creditors and adverse circumstances. Partial default is incorporated as part of model which allows countries to partially default in response to the alternative approach towards modelling default is that

The alternative approach towards modelling default is that default risk parameters are those that relate to the size of the penalty included in a regression which attempts to explain the country the loan will be repaid. The explanatory variables which should be the loan exceeds the expectations then repayment of the penalty for default against the ultimate of which are imposed in the event of default against the ultimate of default. The alternative approach towards modelling default or default or rescheduling assumes that the debtor simply on the sanctions rescheduling assumptions that the debtors which should be made in the the choice of explanatory variables should be made in the

Variables

What Theory has to Say About the Choice of Explanatory

Conclusions

The example of Australia since 1986 does not lend support
government debt and the debt of the rest of the public sector. The government debt (as a percentage of the GDP) (1985) suggested that it can be expected that governments would reduce their debt through introducing foreign exchange controls. In the case of the Western European countries, it is assumed that there will be a decrease in the debt burden of the rest of the public sector. In the case of Australia, the debt burden of the public and private sectors of the Commonwealth government, on the other hand, is quite low, with the Commonwealth government debt only debits from the gross domestic product.

The categories of debt that could be included as part of the debt of the ultimate debt stock include:

1. Interest payments in terms of GDP:
   - Interest payments are calculated as a percentage of the GDP, which is used to calculate the ultimate debt stock.
   - The interest payments are included in the debt stock, regardless of the country's economic status.
   - A decision is made to measure the interest payments for each country.

2. Debt service:
   - Debt service is calculated as a percentage of the GDP, which is used to calculate the ultimate debt stock.
   - The debt service is included in the debt stock, regardless of the country's economic status.
   - A decision is made to measure the debt service for each country.

3. Construction costs:
   - Construction costs are calculated as a percentage of the GDP, which is used to calculate the ultimate debt stock.
   - The construction costs are included in the debt stock, regardless of the country's economic status.
   - A decision is made to measure the construction costs for each country.

4. Interest payments on interest payments:
   - Interest payments on interest payments are calculated as a percentage of the GDP, which is used to calculate the ultimate debt stock.
   - The interest payments on interest payments are included in the debt stock, regardless of the country's economic status.
   - A decision is made to measure the interest payments on interest payments for each country.

5. Debt service on debt service:
   - Debt service on debt service is calculated as a percentage of the GDP, which is used to calculate the ultimate debt stock.
   - The debt service on debt service is included in the debt stock, regardless of the country's economic status.
   - A decision is made to measure the debt service on debt service for each country.

6. Construction costs on construction costs:
   - Construction costs on construction costs are calculated as a percentage of the GDP, which is used to calculate the ultimate debt stock.
   - The construction costs on construction costs are included in the debt stock, regardless of the country's economic status.
   - A decision is made to measure the construction costs on construction costs for each country.

The conventional approach (Blow and Rofoff (1985)) takes the following form:

\[ \text{Ultimate Debt Stock} = \text{Interest Payments} + \text{Debt Service} + \text{Construction Costs} + \text{Interest Payments on Interest Payments} + \text{Debt Service on Debt Service} + \text{Construction Costs on Construction Costs} \]

When deciding on the independent variables to be used in a regression analysis, the variables are identified and the following steps are taken:

1. Determine the variables to be included in the regression analysis.
2. Check the significance level of the variables used.
3. Compare the coefficient estimates with the conventional approach.

A better scaling factor than GNP:

Using both J and J* tests to test whether exports are significant in terms of GNP, the null hypothesis that the coefficients on the log-odds multipliers are the same as the coefficients of the long-term relationships are insignificant.
and low Durbin-Watson statistic mean very little. The
should be interpreted with caution in particular: the negative R2
when the dummy form of regression is used, the dummy
Once again, because of the unusual nature of LE estimation

$D_{\text{BP}} = 0.47$

$R^2 = 2.1$

Number of Observations = 26

<table>
<thead>
<tr>
<th>Dep</th>
<th>Constant</th>
<th>LeadStock</th>
<th>LeadStockEcho</th>
<th>LeadStockEcho</th>
<th>LeadStockEcho</th>
<th>LeadStockEcho</th>
<th>LeadStockEcho</th>
</tr>
</thead>
<tbody>
<tr>
<td>90.09</td>
<td>0.77 (0.04)</td>
<td>0.47 (0.04)</td>
<td>0.48 (0.04)</td>
<td>0.77 (0.04)</td>
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</tr>
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</table>

The effect of these different forms of sanctions on the choice of
factor for the dependent variable echoes the need for a regression
impact on a defaulting debtor determines the choice of the timing
The type of sanctions which creditors are assumed to
were being considered as explanatory variables.

Table 5

<table>
<thead>
<tr>
<th>Instrumental Variable Estimation of the Dependent Form</th>
<th>Coefficient</th>
<th>t-Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dependent Variable - Common Currency Interest Premium</td>
<td>T-Ratio</td>
<td></td>
</tr>
<tr>
<td>Instrumental Variable Estimation of the Dependent Form</td>
<td>33</td>
<td></td>
</tr>
</tbody>
</table>
Commonwealth guarantee for public sector debt means that the
Commonwealth of Australia (1993). The existence of a
limits set by the Commonwealth in meeting the losses of the Loan Council (L) public sector firms will still be bound by the global borrowing
2005-2006. Borrowings by state governments and the bulk of
existing stock of debt raised on their behalf by the financial year
states and territories will have taken responsibility over the pre-
been undertaken directly by the state governments concerned. The
governments and enterprises owned by state governments have
public sector since this time, new borrowings by both state
1990, the Commonwealth undertook all the borrowing for the
debt of most of the public sector. Prior to June
guarantees by the Commonwealth government explicitly or implicitly
country. The Commonwealth government, apart from the Commonwealth's
involves the setting of the foreign assets of the delisting debtor
The third potential default penalty which is avoided here

The Bowen form:

The interest-based regression which uses the interest
a regression.

The gain from default is 0.4 which indicates that it is not as good
interest payments on both the public and private sector debt as
negative but insignificant effect on the short term change in the
if reserves increase when measured as a proportion of

...
The term of trade index was normalized at one hundred in the first quarter of 1990. This point estimate implies that a one-

percentage-point rise in the terms of trade index was not expected to rise.

Premium is expected to rise.

Overseas assets, which are held with the IMF, are included in the stock-based regression as an explanatory variable.

The term of trade index was normalized at one hundred in the first quarter of 1990. This point estimate implies that a one-

percentage-point rise in the terms of trade index was not expected to rise.
should be included in their stock form. Stock-based explanations entire stock of foreign reserves, then the explanation may lose their is once and for all and it is possible that defaults may occur. The temporariness of the choice to default is reflected in the repayment spread of the value of the debt stock. This hinges on the parameters spread on the value of the debt stock.

The gain from default could either pertain to the interest

The conventional theory of international debt, the loss of foreign reserves form a proportional cost of default, is because measured as a proportion of the banks of default. This is because reserves are explanatory variables in a regression. They should be reserves as explanatory variables in a regression. They should be

The long-run relationship between the terms of trade and

The opposite sign to that predicted by theory.

The opposite sign to that predicted by theory.

paid on public sector foreign debt and the default risk premium on official overseas assets when measured as a ratio of the interest

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The long-run relationship between the terms of trade and

paid on public sector foreign debt and the default risk premium on official overseas assets when measured as a ratio of the interest
The estimated equation is rearranged in order to isolate the long-run
function. The regression results pass the tests for heteroscedasticity,

\[
D.W. = 2.0
\]

\[
R^2 = 0.49
\]

Number of Observations = 27

| 180 (0.17) | 1.80 |
| 0.61 (0.9) | 1.4 |
| 0.12 (0.9) | 0.14 |
| 1.3 (0.21) |

Twice lag Interest Earned on Official Assets / Public Sector Interest

Lagged Terms of Trade

Lagged Public Sector Interest / Exports

Lagged Public Sector Interest / Exports / Exports

Lagged Terms of Trade

Lagged Terms of Trade

Lagged Premia

Lagged Premia

Lagged Premia

Constant

(Probability)

Coefficient

T-Statistic

Dependent Variable - Dollar Bond Interest Premia

(Scaled in Terms of Exports)

Regression Results Using Interest-Based Variables

Table 4

2.9
of these variables.
World growth, rather than either the lagged or forecasted values
of the currently known values of either the terms of trade or of
inflation, turns out to be linked to a fall in
consumption in the debtor country would best be smoothed
environment of a country.
Regressions can not capture changes in the external economic
is necessary to conduct a time series regression. Cross sectional
the relative importance of the risk-sharing theorems of default. If
capacity of a debtor country to service its debts. In order to test
terms of trade and the slower is world growth, the lower is the
source of exogenous shocks to a small country. The lower is the
New explanatory variables for the model: each of these variables could provide
external the proposed by Grommen and Hyværinen (1998) (see the
variable is insignificant is a significant risk-sharing

The Gromman and Hyværinen Approach

Temporary.
and the mortgaga on Interest payments are assumed to be

overseas payments.
Current/Net debt - Interest earned on official asset holdings

Terms of Trade

Terms of trade measured as a proportion of exports

Public sector/Ex - Interest payments made on public sector debt

New Explanatory Variables

because of its extreme insignificance.

OECD growth rate has been dropped from the regression below
As in the stock-based regression, the one quarter lag of the
Estimating in ECM using Ordinary Least Squares

Regressions Based on Interest paid and earned

are totally insignificant.

 Beware form tables us to show that the long-run relationships
same value as in the conventional ECM form Estimating Through
Negative R² values are possible when using L/V estimation. A common model of default risk has as its explanatory variables the likely exposure to overseas assets held by the Commonwealth government, besides exports and unutilized Commonwealth production. The income of overseas debt held by the Public Sector of the entire total overseas debt of imports. 

Factors of production

The stock of interest receivables could be scaled in terms of form of interest paid and received. Australia. These variables could be included either in their stock

Table 3

<table>
<thead>
<tr>
<th>Dependent Variable - Common Currency Interest Premium</th>
<th>Coefficient</th>
<th>1-R²</th>
</tr>
</thead>
<tbody>
<tr>
<td>D Premia</td>
<td>1.6 (0.12)</td>
<td>0.3</td>
</tr>
<tr>
<td>L Credit/Pubsec</td>
<td>0.006 (0.025)</td>
<td>0.9</td>
</tr>
</tbody>
</table>
measuring default risk using darrison steam.

explaining australia's default risk premium.
Foreign debt: The coefficient was not significant, which indicates reserves expressed as a proportion of the stock of public sector exportables was regressed against the stock of foreign currency. The stock of public sector debt expressed as a proportion of exportables is significant at the two long-run relationships. The next regression uses the deviance form to directly test the coefficient is the opposite sign to that predicted by theory. This result in a 0.05 percent fall in the default risk premium. This would lead to the public sector debt stock rise by one percent, this would lead to the point estimate implying that if the ratio of foreign reserves expressed as a ratio of exports and the default risk premium equals the long-run relationship between foreign reserves expressed as a ratio of exports and the default risk premium equals predicted by theory.

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Examination can be expressed in the following way:

In order to isolate the long-run multipliers, the estimated hypothesis of the Ramsey RESET test, that the functional form is correct, is accepted.

The null hypothesis that there is no heteroscedasticity is accepted. The null hypothesis that there is no serial correlation of residuals is not normally distributed is also accepted. The null hypothesis that the model is correct in order to order is also accepted. The null hypothesis that the model is correct in order to order is also accepted.

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\[ F = 1.7 \quad (\text{Significance Level} = 0.17) \]

\[ R^2 = 0.29 \]

<table>
<thead>
<tr>
<th>Number of Observations</th>
<th>72</th>
</tr>
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been lagged two quarters. 

If a lagged difference has been added to the explanatory variable, it means that the variable has been lagged one quarter. When LL has been lagged, a difference has not been added to the explanatory variable.

In the tables which follow, when D is added to the 

charged the world bank in the Eurolender bond market.

Premium - Interest premium that Australia paid above the rate.

Debit:

Debit measured as a proportion of the stock of public sector foreign currency reserves.

Currency/Debit = - The stock of foreign currency reserves

Debit measured as a proportion of the stock of public sector foreign currency reserves.

Proportion of Debt Measured as a

Estate of Explanatory Variables

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Interest payments overseas, foreign currency reserves measured in commodities prices, information concerning foreign debt stocks, is currently happening to this valuable through observing changes in any publically available with a lag of one quarter. The term of trade is not lagged because it is assumed that markets can deduce what interest payments which follow with such a lag. The terms of trade is being conducted which uses interest rate, default risk premium as an annual interest rate, default risk premium as an annual interest rate, default risk premium as an annual interest rate.

Explanatory variables and Data source.

Significance Level:
All the tests which follow are conducted at the 5% world growth rate as an explanatory variable.

Australia faces a situation where the growth rate of the economy is a recession, where the world interest rates are at an insignificant negative relationships with the default risk. AUSTRALIA'S growth rate was dropped as explanatory variable because the OECD growth rate was dropped as explanatory variable because of their extreme insignificance.

Regressions involving Stocks
of change of that variable. In other words, the rate of change in
regressions which follow, would have a lasting effect on the rate
of change of any one of the variables, which is used in the
rate reverse the direction of drift
downwards with time. There would be little opportunity to
which is obviously integrated will tend to drift upwards or
time trend. Given the short time horizon in question, a variable
stochastic trend and a variable that is integrated around a linear
distinction between a variable that is integrated around a
whether a variable is integrated is even more difficult to identify
as the ones being considered below. It is difficult to identify
trend which is not around a time trend. Within a time series, a short
orders one and two. This test is for the existence of a stochastic

The variables, which follow are tested for integration of

[order one]

Intertemporal Tests for the Potential Exploratory

The regressions have been conducted using Microfit
depart and the O.E.C.D. growth rate of all lagged one quarter
on reserves measured as proportion of the public sector foreign
as a proportion of public sector foreign debt and interest earned.

Freedom

dependent variable lags one period

The explanatory variables lags one period and the
variables, the explanatory variables lags one period and the
term. The instruments used are: a constant, the explanatory

21
The change in the dependent variable is correlated with the error terms of the instrumental variables regression because the change in the dependent variable is treated as endogenous. This form of the model requires the use of the instrumental variables regression because the error terms of the dependent variable are correlated with the error terms of the instrumental variables. This form involves the regression of the dependent variable against the error terms of the instrumental variables.

The estimated relationship is estimated instead. A standard error correction mechanism is used in order to adjust the estimated relationship. The estimated relationship is estimated instead of the actual relationship because the standard error correction mechanism is used in order to account for the endogeneity of the dependent variable. The estimated relationship is estimated instead of the actual relationship because the standard error correction mechanism is used in order to account for the endogeneity of the dependent variable.

1.4.3 Creating an Error Correction Mechanism

The Dickey-Fuller test is used to estimate whether the variables are integrated of order one. The Augmented Dickey-Fuller test is used to estimate whether the variables are integrated of order two. If the Augmented Dickey-Fuller test is not significant, the variables are not integrated of order two. If the Augmented Dickey-Fuller test is significant, the variables are integrated of order two. If the Augmented Dickey-Fuller test is not significant, the variables are not integrated of order two. If the Augmented Dickey-Fuller test is significant, the variables are integrated of order two.
to the low power of the tests.

the 5 percent level. The lack of faith in the test statistics is due
the hypothesis of integration of order two is not always detected at
the conclusion is reached despite the fact that the null
one. This conclusion is reached despite the fact that the null
the conclusion that the variables are all integrated of order
reason for expecting variables to be integrated of order two leads
integration of order two combined with the lack of any theoretical
The consistency of strong negative sign on the tests for
significance level.
refers to the null hypothesis of non-stationarity at the 5 percent
coefficients marked with a star are negative enough to

- Official Interest Receivable / Total Interest Payments Overseas
  - 0.10
  - 0.37
  - 0.09
  - 0.03
  - 0.03
  - 0.03
  - 0.03
  - 0.03

- Foreign Currency Reserves / Total Foreign Debt
  - 0.82
  - 0.82
  - 0.82
  - 0.82
  - 0.82
  - 0.82
  - 0.82

Augmented Dickey Fuller Tests Continued

Export Growth Rate

Terms of Trade

From 1986 Quarter One to 1993 Quarter Two
Stochastic Trend
Results for Augmented Dickey-Fuller Tests with a