



The Role of ILBs for Sovereigns The Case of Israel

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The name is Bond....Indexed Bond!



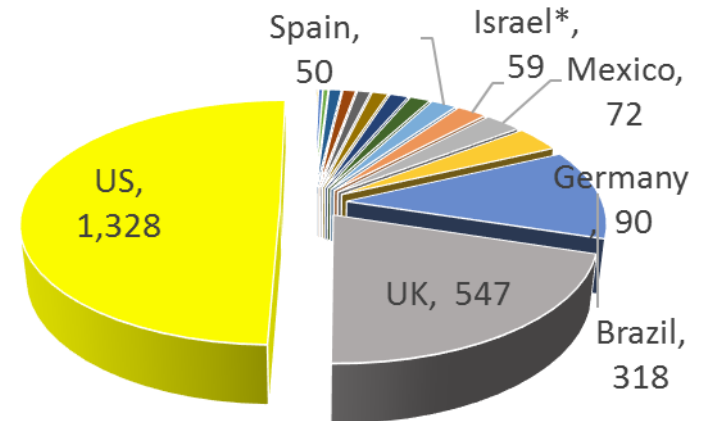
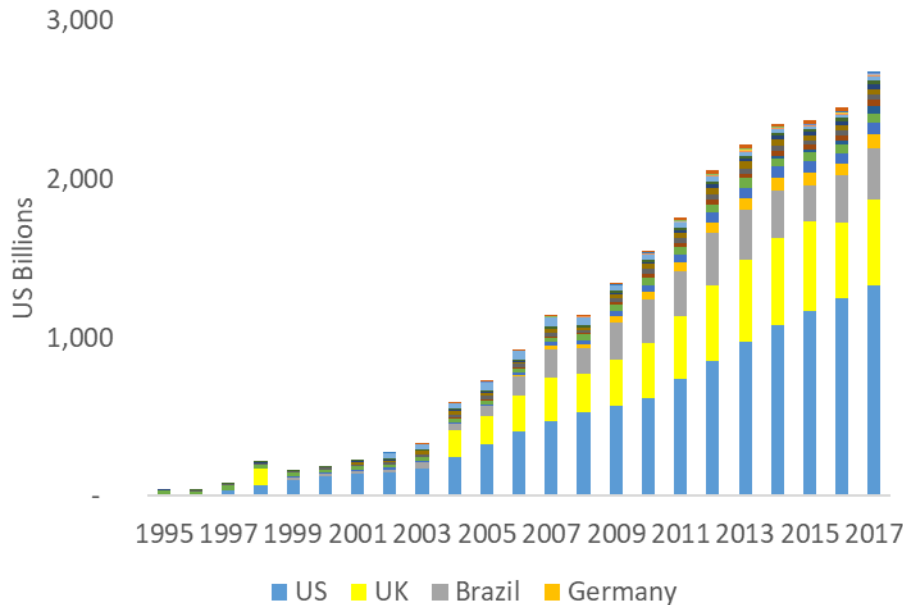
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Fact #1

There is an Increasing Trend of Inflation-linked Bond Issuance Globally



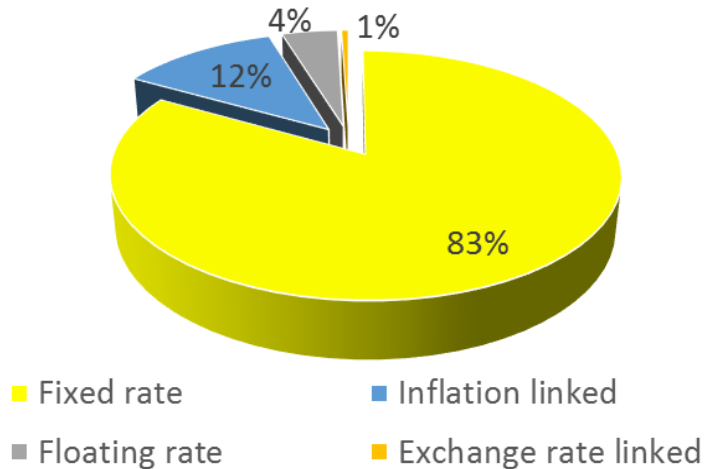


Fact #2

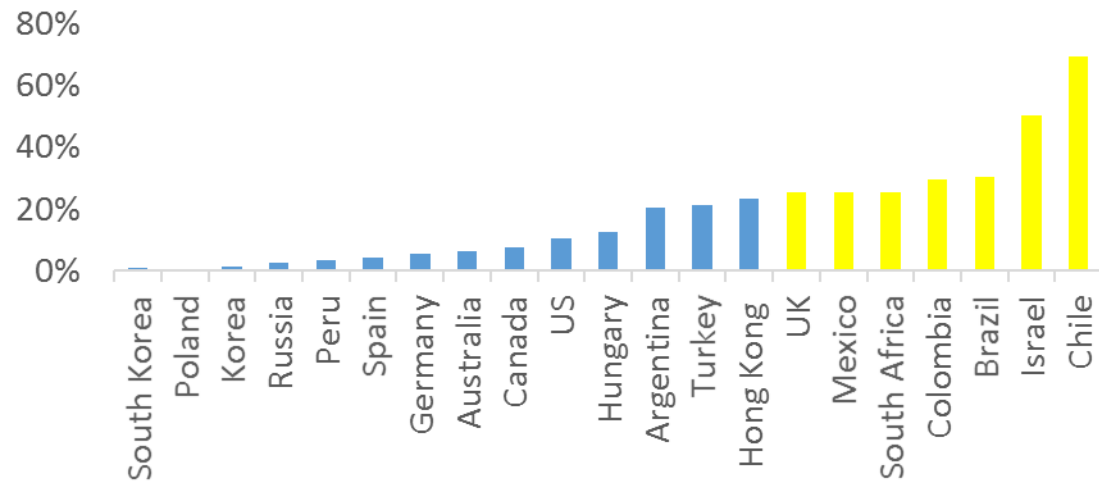
Despite Increasing Trend, Share of Inflation-Linked Bonds Remains Relatively Low Globally

Amount Outstanding:

\$22 trillion USD



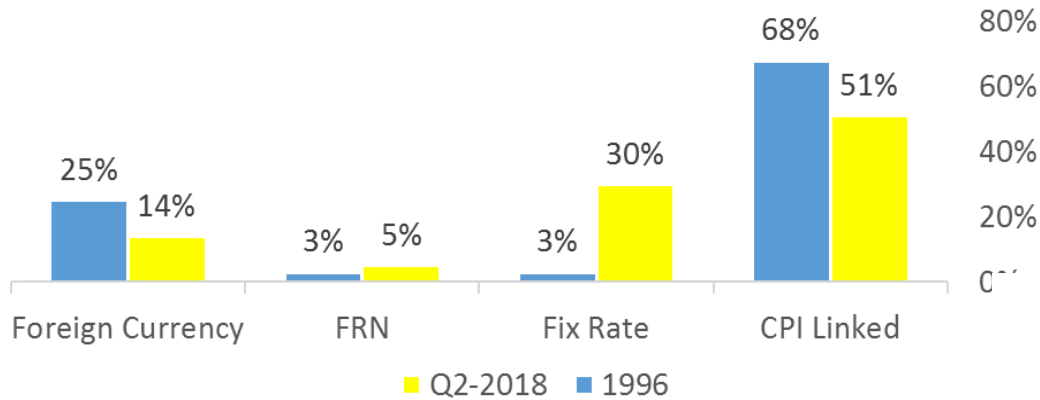
For 14 out of 21 Countries, Share Of Linkers is Below 25%



The Israeli Story



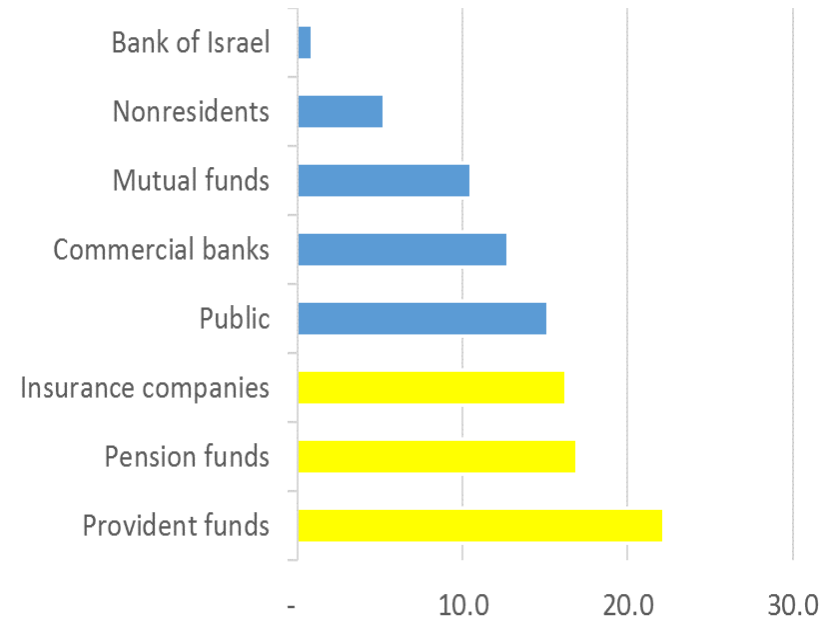
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- On-The-Run Tenors: 10Y, 30Y
- Off-The-Run: All tenors use switch auctions
- Both principal and interest are CPI-linked
- Indexation: Calculated by

Israel's Central Bureau of Statistics

- No floor limit*



Long-term-saving holdings = 55%

What are the Considerations ?



| Pros | Cons |
|--------------------------------------|--|
| Diversified source of funding | Less liquid |
| Efficient debt portfolio | Cannibalization between ILBs and nominal bonds |
| Cyclical benefits | Volatility in interest payments, deficits and debt |
| Correlation with government revenues | Complexity in terms of pricing |
| Positive credibility feedback | Technical features of the price index ratio |
| Natural buyers | |
| Investors' portfolio diversification | |



Breakeven Inflation

$$\text{Breakeven Inflation} \approx \frac{1 + \text{Nominal yield}}{(1 + \text{Real yield})^t} - 1$$

