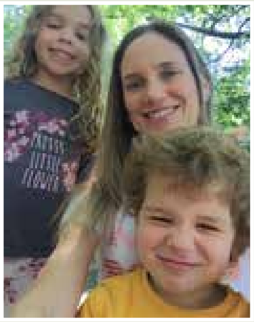
ASK AN ECONOMIST



Paulina Restrepo-Echavarria is an economist at the Federal Reserve Bank of St. Louis, where she has worked since 2014. Her research focuses on international macroeconomics—in particular, the direction of capital flows and sovereign default—and on search and matching models of the labor and marriage market. Outside of work, she enjoys reading and exercising. For more of her research, see https://research.stlouisfed.org/econ/restrepo-echavarria.

Restrepo-Echavarria and her children.

Q: Do oil-producing countries have difficulties repaying their debts?

A: People may think that countries with a lot of oil do not default on their sovereign debt, but that is not the case. Given that big oil-producing countries sometimes hold a significant amount of public debt, this issue is very relevant and is an important one to study. Among the top 25 net oil exporters, for instance, the average public debt from 1979 to 2010 was about 50 percent of GDP.[1] All but eight of those 25 countries defaulted during that period, with the amount of time in default ranging from two years (Kuwait) to 25 years (Sudan).

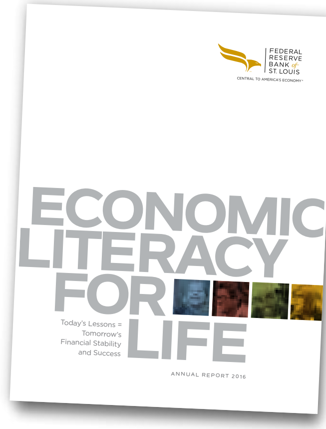
In a recent paper with Franz Hamann and Enrique G. Mendoza, we examined the effect of having oil on sovereign risk, i.e., investors' perception of the risk in lending to the country.[2] We found that possessing oil can have two different effects on sovereign risk. If a country produces more oil relative to the total size of its economy, then the country is viewed by investors as less risky. This result is very intuitive. Producing more oil means a country has a greater ability to repay its debt and, therefore, has a lower risk of sovereign default.

However, we also found that if a country has more oil underground, then it is viewed by investors as more risky in the long run. This result may seem counterintuitive, but having a large stock of oil may increase a country's ability to withdraw from international financial markets, thereby raising the likelihood of default. At some point, defaulting may become more beneficial to a country than repaying its debt as long as it can still sell oil on international markets. This is the main result of our paper, which is quite surprising for a lot of people.

[1] For figures showing average public debt to GDP and default episodes for these countries, see Arias, Maria A. and Restrepo-Echavarria, Paulina. "Sovereign Default and Economic Performance in Oil-Producing Economies." Economic Synopses, No. 20, 2016.

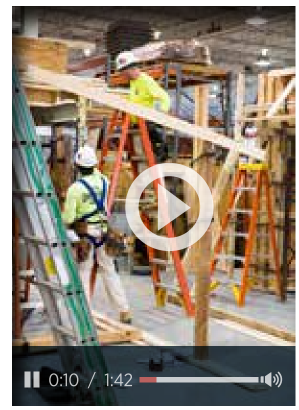
[2] Hamann, Franz; Mendoza, Enrique G.; and Restrepo-Echavarria, Paulina. "Commodity Prices and Sovereign Default: A New Perspective on the Harberger-Laursen-Metzler Effect." Unpublished manuscript, 2016.

ECONOMIC LITERACY FOR LIFE: READ, WATCH, LISTEN



The heart of the Federal Reserve Bank of St. Louis' annual report this year is a series of essays about the importance of educating one and all about the basics of economics and personal finance. The articles also explore our many resources that make for easy learning on these topics, whether in the classroom, at home or in the office. The accompanying short videos and podcasts show how people are doing just that.

The annual report also includes messages from the chair of our board of directors and from our president and CEO. In addition, photos and "by the numbers" provide a snapshot of the St. Louis Fed's work and people.



"Economic Literacy for Life: Today's Lessons=Tomorrow's Financial Stability and Success" can be read online at **www.stlouisfed.org/annual-report/2016**. The short videos and podcasts can also be accessed there, as can a quiz if you want to test your knowledge of basic economics and personal finance.

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BANKING COMPETITIVE ANALYSIS | ST. LOUIS FED

The St. Louis Fed has unveiled multiple updates to CASSIDI®, its database for competitive analysis of U.S. banking markets. CASSIDI (Competitive Analysis and Structure Source Instrument for Depository Institutions) offers information on banking market definitions and structures, bank holding company subsidiaries, and bank and thrift branches. It also includes a tool to see how a potential merger or acquisition might change a banking market's concentration.

Users of CASSIDI will now enjoy:

- quicker access to the latest banking market information,
- expanded mapping functionality and customization,
- an improved user interface, and
- more robust search and reporting tools.

CASSIDI was created by the St. Louis Fed in 2006. The database is used by the U.S. Department of Justice, all 12 Federal Reserve banks and the Fed's Board of Governors to evaluate potential bank mergers and acquisitions. It is available for use by the public free of charge at **https://cassidi.stlouisfed.org**.

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