ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT OECD

PDM NETWORK

Italian Treasury Public Debt
Ministry of Economy and Finance

PDM NETWORK *Newsletter* **N.9/OCTOBER 2009**

Dear Partner, this *Newsletter* contains a list of the latest resources uploaded both in the documentation and in the event areas of the PDM Network website (www.publicdebtnet.org). The PDM Network has its main objective in the joint cooperation among its participants regarding the quantity and quality of information available on the website. So far, it is very appreciated a stronger collaboration in this field, **signalling to the Network Secretariat** any documents, news and events of interest at publicdebtnet.dt@tesoro.it.

Contents

New Documents

PAPERS

What Determines Bond Market Development in Sub-Saharan Africa? (2009)

Adelegan Olatundun Janet (International Monetary Fund), Radzewicz-Bak Bozena (International Monetary Fund)

Abstract: This study empirically analyzes the determinants of bond market development in a cross Section of 23 sub-Saharan African (SSA) countries between 1990 and 2008. It considers the Stage of development and the size of the bond market, as well as the historical, structural, institutional and macroeconomic factors driving bond market development in SSA. The study finds that the savings constraint is a key impediment to domestic bond markets development as well as financial market deepening, as it results in a low level of financial intermediation by the banks. Overall, the results show that a confluence of factors matters for the Development of domestic bond markets in SSA; these include structure of the economy, Investment profile, law and order, size of the

banking sector, the level of economic Development, and various macroeconomic factors. Policy implications include increased efforts to strengthen the investment environment and the need for a regional approach to bond market development.

How Large are the Effects of Tax Changes? (2009)

Favero Carlo A. (University of Bocconi ; IGIER; CEPR), Giavazzi Francesco (University of Bocconi ; IGIER; CEPR)

Abstract: The authors use the time series of shifts in U.S. Federal tax liabilities constructed by Romer and Romer to estimate tax multipliers. Differently from the single-equation approach adopted by Romer and Romer, our estimation strategy (a Var that includes output, government spending and revenues, inflation and the nominal interest rate) does not rely upon the assumption that tax shocks are orthogonal to each other as well as to lagged

values of other macro variables. Their estimated multiplier is much smaller: One, rather than three at a three-year horizon. When we split the sample in two sub-samples (before and after 1980) the authors find, before 1980, a multiplier whose size is never greater than one, after 1980 a multiplier not significantly different from zero. Following the findings in Bohn (1998), the authors also experiment with a model that includes debt and the non-linear government budget constraint. The authors find that, while in general not very important, the non-linearity that arises from the budget constraint makes a difference after 1980, when the response of fiscal variables to the level of the debt becomes stronger.

Understanding Financial Crises – Some Implications for Financial and Debt Policy (2009)

Calvo Guillermo (Columbia University)

Abstract: The central objective of this note is to present a simple explanation of recent financial crises and,on that basis, to discuss some policy options for individual countries. Systemic policies are not discussed. More emphasis will be put on understanding the nature of these crises than on providing a list of policies. The note starts in Section II with a discussion of the current crisis,which has come to be known as the subprime crisis. The central point is that there is essentially nothing new under the sun. The level of financial sophistication has undoubtedly increased, but the subprime crisis is just the latest in a long series of bank runs. Section II will also discuss the impact of the subprime crisis on emerging market economies. It will offer an interpretation of a remarkable phenomenon that, surprisingly, is ignored in much of the debate, namely, that emerging markets today are, on average, faring relatively well. Section III will offer a brief summary of current research on emerging market crises, which highlights the role of balance sheet imbalances. [.....]

Primary Balance, Public Debt And Fiscal Variables In Postsocialist Members Of The European Union (2009)

Izák Vratislav (University of Economics, Prague)

Abstract: The primary balance has influenced the unit costs of debt servicing in 10 postsocialist members of the EU. The effects of the GDP growth and the inflation are equally robust and significant. The coefficients of lagged debt are at variance with the expectations from Bohn´s 1998 paper, and one cannot speak until now about the corrective actions of fiscal authorities in these countries. Only Poland has had on average a higher real long-term interest rate than the growth rate. Other countries could stabilize their debt-GDP ratio by running a primary deficit. But comparing the level of investment with profits only in Slovenia one can speak about the dynamic inefficiency. Especially in the Czech Republic and Slovakia the relationship between debt and deficit is blurred by highnegative stock-flow adjustments.

Euro Area Sovereign Risk During the Crisis (2009)

Sgherri Silvia (International Monetary Fund) , Zoli Edda (International Monetary Fund)

Abstract: While the use of public resources is critical to cushion the impact of the financial crisis on the euro-area economy, it is key that the entailed fiscal costs not be seen by markets as undermining fiscal sustainability. From this perspective, to what extent do movements in euro area sovereign spreads reflect country-specific solvency concerns? In line with previous studies, the paper suggests that euro area sovereign risk premium differentials tend to comove over time and are mainly driven by a common time-varying factor, mimicking global risk repricing. Since October 2008, however, there is evidence that markets have become progressively more concerned about the potential fiscal implications of national financial sectors' frailty and future debt dynamics. The liquidity of sovereign bond markets still seems to play a significant (albeit fairly limited) role in explaining changes in euro area spreads.

Institutions, Public Debt and Foreign Finance (2009)

Gennaioli Nicola (Stockholm University), Martin Alberto (Universitat Pompeu Fabra), Rossi Stefano (Stockholm School of Economics)

Abstract: The authors study the role of domestic financial institutions in sustaining capital flows to the private and public sector of a country whose government can default on its debt. As in recent public debt crises, in their model public defaults weaken banks' balance sheets, disrupting domestic financial markets. This effect leads to a novel complementarity between private capital inflows and public borrowing, where the former sustain the latter by boosting the government's cost of default. The authors' key message is that, by shaping the direction of private capital flows, financial institutions determine whether financial integration improves or reduces government discipline. The authors explore the implications of this complementarity for financial

liberalization and debt-financed bailouts of banks. The authors present some evidence consistent with complementarity.

Managing Local Public Debt in Transition Countries: An Issue of Self-Control (2009)

Dafflon Bernard (University of Fribourg), Beer-Tóth Krisztina

Abstract: One and a half decades after the end of a centralised regime in Central and Eastern Europe, the policy literature on local debt management in transition economies reveals that there is a general confusion about the appropriate use of debt finance at the municipal level. The literature is mainly concerned with institutional borrowing restrictions and sanctions against excessive debt. Both emphasise the responsibility of the centre and consider local government unable to pursue a sound financial management without central patronage. Breaking with traditional focus on budget responsibility. the discipline, this study advocates budget are necessary Favourable credit ratings and compliance with legal norms but not sufficient conditions for municipalities to borrow. Successful financial management requires a more proactive attitude in which local governments adjust their investment policy to their financial capacity, assessing the costs and benefits of each investment project.

Debt Sustainability and Economic Growth in Egypt (2009)

El-Mahdy Adel M., Torayeh Neveen M.

Abstract: The persistence growth of Egypt's public domestic debt has raised concerns regarding its impact on economic growth and fears are being express about the debt sustainability. Utilizing data for the period 1981-2006, the results obtained from cointegration model reveal that the public domestic debt in Egypt has a robust negative impact on growth. The sustainability of debt was examined used some algebra methods. The results suggested that the recent path of debt followed in Egypt was sustainable. For debt to remain sustained in future, substantial fiscal reforms are needed and policies should be adopting to maintain an increasing growth-interest rate differential.

Public Debt, Money Supply, and Inflation: A Cross-Country Study (2009)

Kwon Goohoon (International Monetary Fund), McFarlane Lavern (International Monetary Fund), Robinson Wayne (International Monetary Fund)

Abstract: This paper provides comprehensive empirical evidence that supports the predictions of Sargent and Wallace's "unpleasant monetarist arithmetic" that an increase in public debt is typically inflationary in countries with large public debt. Drawing on an extensive panel data set, we find that the relationship holds strongly in indebted developing countries, weakly in other developing countries, and generally does not hold in developed economies.

Political institutions and debt crises (2009)

Van Rijckeghem Caroline (Sabanci University, Istanbul) Weder Beatrice (University of Mainz and CEPR)

Abstract: This paper shows that political institutions matter in explaining defaults on external and domestic debt obligations. We explore a large number of political and macroeconomic variables using a non-parametric technique to predict safety from default. The advantage of this technique is that it is able to identify patterns in the data that are not captured in standard probit analysis. We find that political factors matter, and do so in different ways for democratic and non-democratic regimes, and for domestic and external debt. In democracies, a parliamentary system or sufficient checks and balances almost guarantee the absence of default on external debt when economic fundamentals or liquidity are sufficiently strong. In dictatorships, high stability and tenure play a similar role for default on domestic debt.

Public Debt and Economic Growth: a Granger Causality Panel Data Approach(2009)

Cândida Ferreira (Technical University of Lisbon)

Abstract: This paper analyses the Granger-causality relationship between the growth of the real GDP per capita and the public debt, here represented by the ratio of the current primary surplus/GDP and the ratio of the gross Government debt/GDP. Using OECD annual data for 20 countries between 1988 and 2001, we adapt the methodology recently applied by Erdil and Yetkiner (2008) and we conclude that there is clear Granger causality and that it is always bi-directional. In addition, our findings point to a heterogeneous behaviour across the different countries. These results have important policy implications since not only does public debt restrain economic growth, but also real GDP per capita growth influences the evolution of public debt.

Government financial liabilities beyond public sector net debt (2009)
Fenella Maitland-Smith (Bank of England)

Abstract: This article clarifies the scope of liabilities used to calculate public sector net debt before focussing on the liabilities that are not included. National accounting principles are compared with international accounting standards for governments and businesses. The current public reporting of non-public sector net debt liabilities in the UK is considered, with particular attention being paid to future spending under the private finance initiative, unfunded pension schemes, and government guarantees.

The Relationship between Public and Private Saving in Spain: Does Ricardian Equivalence Hold? (2009)
De Castro Francisco (Banco de Espana), Fernández José Luis (Banco de Espana)

Abstract: This paper aims to test the validity of the Ricardian proposition for the Spanish economy from three different approaches: a) by testing its theoretical implications on the stability of national saving and the relationship between fiscal and current account balances, b) by carrying a number of tests on different structural consumption equations and, c) by testing this hypothesis in consumption functions stemming from the Euler equations derived from a consumer's maximization problem. Our results lean toward rejection of the Ricardian proposition, although some degree of substitution between public and private saving is detected. In terms of policy implications, these results would suggest that there is some room for fiscal policy to exert its countercyclical role in the case of Spain. However, the effectiveness of such a policy might be limited in a context of rising debt ratios that trigger sustainability concerns and make consumers increasingly Ricardian.

Lifecycle derivatives and retirement income assurance using long-term debt(2009)
Bowden Roger J.

Abstract: As life tables continue to lengthen, a world-wide paradigm shift to defined contribution – but undefined rewards – has left pensioners exposed to performance, credit, and longevity risk. However, relatively risk-free defined benefit schemes can be designed off the back of high-grade debt issuance programmes by public long-term asset vehicles, as an infrastructure–retirement double play. Derivatives can be used to enhance coupons and to correctly align risk preferences as between income while still alive and bequests. Variable lifetime reinvested coupon options and annuity swaps utilize market pricing to provide unambiguous pricing benchmarks and a necessary underpinning of lifecycle planning certainty. The result is a flexible mix of private and public provision of old age income assurance, one that exploits the externalities of a well-designed system of public debt.

The Fragile Panacea of Debt Relief for Developing Countries (2005)
Green Keith

Abstract: The subject of debt relief for low income and highly indebted countries has risen to the fore of public debate in recent months. I review a brief history of major debt relief for low-income countries including the recent HIPC initiative and I discuss some factors that should be taken into consideration that would impact the usefulness of debt forgiveness on the affected countries. Finally, I conclude that debt relief is effective only in certain circumstances and needs to be applied with care.

Trading of Derivatives by Public Administrations: A Project of Accounting Transparency (2009)
Oldani Chiara (University of Viterbo "La Tuscia")

Abstract: The financial and risk management are integral parts of public debt management, and are common in Western countries; the use of innovative financial securities for these purposes, such as interest rate swaps, forces sovereign states to behave in a more credible way, from a financial point of view, and moves toward a greater degree of transparency of accounting rules. The Governmental Accounting Standard Board (GASB) project to improve the transparency of present accounting rules for these innovative securities goes in the direction of introducing proper risk management and better market procedures, in order to increase financial stability in the interest of all market players.

BOOKS

Economic Survey of Pakistan 2008-2009 - External and Domestic Debt
Askari Syed Jaffer
Publisher: Finance Ministry of Pakistan

Sustainability of public debt (2009)
Afonso António
Editors: Neck, R. and Sturm, J.-E.

OTHER WEB RESOURCES

Euro area and EU27 government deficit at 2.0% and 2.3% of GDP respectively (2009)
European Commission

Best Practices for Auction Systems (2009)
SIFMA EPDA

Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets (2009)
The Institute of International Finance

Pakistan Government Adds $14b to Public Debt (2009)
Khaleej Times Online - October 11, 2009

Treasury's Fall As BOE Pressures Govt Bond Markets (2009)
The Wall Street Journal - October 21, 2009

Global Financial Stability Report - Navigating the Financial Challenges Ahead (2009)
International Monetary Fund

World Economic Outlook (WEO) - Sustaining the Recovery (2009)
International Monetary Fund

Supplements to the Statistical Bulletin - Monetary and Financial Indicators - Local Government Debt n. 56 (2009)
Bank of Italy - Eurosystem

Fiscal Sustainability of Debt (2009)
Development Finance International, Commonwealth Secretariat

NETWORK NEWS

Uruguay Quarterly Report
Uruguayan Debt Management Unit

Debt Watch Caribbean n. 13
http://www.michelerobinson.net/debt_watch_newsletter

Capital Markets Weekly
http://www.crownagents.com/News/News-and-events.aspx

Central Banking Publications launches online forum
www.centralbanking.com/

Annual Reports & Guidelines: please go to the "*Information Corner*" on www.publicdebtnet.org

Events, Courses

UPCOMING

NEW

9 November 2009 - 13 November 2009; Lagos, Nigeria
Course: Analytical Tools for CBN Staff

10 November 2009 - Sidney
Course: MAFC - Managing Operational Risk

12 November 2009 - Linklaters, London
ICMA Primary Market Forum 2009

12 November 2009 - Drapers Hall, London
The Outlook for Global Emerging Markets

23 November 2009 - 25 November 2009; Adelaide
Course: KPMG & MU Treasury Management

24 March 2010 - 26 March 2010; Montego Bay, Jamaica
Caribbean Bank Insolvency Conference

PREVIOUSLY SIGNALLED

5 November 2009 - 6 November 2009; Singapore

National Asset Liability Management (Investment and risk management strategies for new market conditions)

2 December 2009 - 4 December 2009; Rome
XVIII International Tor Vergata Conference on Money, Banking, and Finance

17 December 2009 - 17 December 2009; Pôle Universitaire Léonard de Vinci PARIS LA DEFENSE (France)
4th International EIF Job Market in Finance and Accounting

29 September 2009 - On-line
Central Banking Webinar - What should central banks do to avert the next crisis?

7 September 2010 - 22 October 2010; Online
Course: Debt Rescheduling with the Paris Club

2 November 2009 - 11 December 2009; Online/Internet-based
Basic Course on Public Debt Management

5 November 2009 - 6 November 2009; Brussels, Belgium
EPDA's 4th Annual European Government Bond Conference

9 November 2009 – 18 November 2009; Lusaka, Zambia
Regional Dissemination and Training on UNCTAD - DMFAS 6.0

9 November 2009 – 11 November 2009; Palais des Nations, Geneva
Seventh International Debt Management Conference

16 November 2009 - 17 November 2009; Washington DC
Joint BIS/ECB/ World Bank Public Investors Conference 2009

30 November 2009 – 11 December 2009; Worthing, UK
Effective Domestic Debt Management

14 December 2009 - 18 December 2009; Joint Vienna Institute
Workshop on Debt Management Performance Assessment Tool and Debt Sustainability Framework

8 February 2010 - 18 March 2010; Online
Course-Advance Risk Management (UNITAR / PFT Online Course)

3 May 2010 - 17 June 2010; Online
Course-'Millennium Development Goals And Debt Management' (UNITAR / PFT Online Course)

The PDM Secretariat is grateful to **Michel Robinson**, **Uruguayan Debt Management Unit**, **EPDA**, **Brazilian MoF**, for their resource contribution.

Communication Corner

e-LEARNING COURSE MATERIALS

The PDM network website hosts material from e-learning course "Audit of Public Debt" organized by UNITAR thanks to Enrique Cosio-Pascal contribution. This course is downloadable from the learning area in the "Information corner", Section "Learning Area" and is oriented toward those auditors that would be participating to internal or external audit of public debt management.
NEW! A new link has been inserted in the Learning Area: **Henry Stewart Talks: on line seminars (Government Debt Management: Fundamentals, practical issues and recent developments.**

NEW WEBSITE AREA

The Network's website home page (public version) includes an area called **"Information corner"**. In this section, all Partners and other internet users can find organised information on specific topics of public debt management: Statistics, Bond Auctions, DMOs Programmes and Reports, Learning area, Monthly Newsletters.
NEW! From October 2009, also **Weekly Newsletters**.

E-MAIL NOTIFICATION SERVICE FOR PARTNERS

We are glad to remind that a ***notification service*** is provided on the Network website for Partners. By this service, they will receive an e-mail when a new document or event is uploaded onto the website in the category of their choice (i.e. primary market, secondary market, or other categories or macro-categories). **To activate the service** Partners should access in the private area of the website and choose the "**GO**" button in the "**Mailing List**" box. They can click on the categories they are interested in and, after clicking again on "subscribe" they will receive an email whenever a new document is uploaded in the preferred category. For any assistance contact the PDM Secretariat at Publicdebtnet.dt@tesoro.it

Participating Institutions in PDM Network

OECD: Australian OFM, Austrian DMA, Belgian DMA, Belgian Central Bank, Canadian Foreign Affairs and International Trade, Czech Central Bank, Czech Mof, Danish DMO, Danish Central Bank, Dutch Central Bank, Dutch DMA, Dutch MoF, Finnish Treasury, Finnish MoF, French Central Bank, French DMA, French MoF, German Central Bank, German MoF, German FA, Greek DMA, Greek MoF, Greek Central Bank, Hungarian DMA, Hungarian MoF, Icelandic DMA, Irish NTMA, Irish MoF, Italian Central Bank, Italian Mof, Italian Development Co-operation Office, Japanese MoF, Japanese Central Bank, Luxembourg Mof, Mexican MoF, New Zealander DMO, Norwegian MoF, Polish MoF, Polish Central Bank, Portuguese Central Bank, Portuguese DMA, Slovak MoF, Slovak DMA, Spanish Central Bank, Spanish MoF, Swedish DMO, Swedish Mof, Swiss State Secretary for Economic Affairs SECO, Turkish Treasury, US GAO, , UK Central Bank, UK DMO, UK Treasury.

Non OECD: Albanian Mof, Angolan National Bank, Brazilian MoF, Brazilian Central Bank, Bulgarian MoF, Chilean Central Bank, Chinese MoF, Colombian MHCP, Cyprian Central Bank, Cyprian MoF, Dubai DMO, Dubai Government, Egyptian MoF, Estonian MoF, Ethiopian MoF, Ghanaian Central Bank, Ghanaian MoF, Hong Kong Monetary Auth., Indian Reserve Bank, Indian NIPF, Israeli MoF, Israeli Central Bank, Kenyan MoF, Latvian DMO, Lebanese MoF, Lesotho MoF, Lithuanian MoF, Macedonian MoF, Malawian Reserve Bank, Maltese Treasury, Maltese Central Bank, Moldovan MoF, Moroccan MoF, Nigerian DMO, Pakistani MoF, Papua New Guinean Treasury, Romanian MoF, Romanian Central Bank, Rwandan MoF, Singaporean MoF, Slovenian MoF, Solomon Islands MoF, South African National Treasury, Sri Lanka Central Bank, Thai MoF, Ugandan Central Bank, Uruguayan MoF.

Multilateral Institutions: OECD, European Commission, ADB, African Development Bank Group, Asian Development Bank Institute, Debt Relief International, Commonwealth Secretariat, European Central Bank, European Bank EBRD, Inter-American Development Bank, IFC, International Monetary Fund, MEFMI, WAIFEM, World Bank, UNCTAD.

Universities: Columbia University, George Washington University, Harvard University, London Business School, Stanford University, University of Bologna, University of Brussels, University of Cambridge, University of California, University of Milan, University of Molise, University of Padua, University of Rome "La Sapienza", CRIEP (Italy), University of Rome "Tor Vergata".

Others : Barclays Capital, Center of Excellence in Finance, Devfin Advisers AB, Finance for Development-FMO, ICMA, ISEDA, KFW Bankengruppe, Japan Bank for International Cooperation, McKinsey & Company, Inc. International, Michele Robinson Consult, Oxford Policy Management, Pragma Corporation, Public Debt Finance, Reykjavik Academy, Sifma-Epda, Storkey & Co. Ltd. ,

Some Figures...

On 3rd November 2009, the number of documents available on the PDM Network website is 832. The number of total current users is 386. Among them, Partners are 297, of which 143 are sovereign debt managers coming from emerging and advanced countries.