

PDM NETWORK *Newsletter*

JULY 2009

Dear Partner, this *Newsletter* contains a list of the latest uploaded resources both in the documentation and in the event areas of the PDM Network website (www.publicdebt.net.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 publicdebt.net.dt@tesoro.it.

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New Documents

PAPERS

Optimal Public Debt Management under Credit Frictions (2009) Yared Pierre (Columbia University)

Abstract: This paper develops a theory of public debt management in which some households cannot borrow. The author considers a constant aggregate endowment economy in which the government finances exogenous stochastic public spending shocks with uniform lump sum taxes and state-contingent public debt. Households are heterogeneous with respect to their constant endowment. Ricardian Equivalence holds if public debt is high but not if it is low since some households are borrowing constrained and public debt is traded at a premium. [...]

Recovery Before Redemption: A Theory of Delays in Sovereign Debt Renegotiations (2009)

Benjamin David (State University of New York), Wright Mark L. J. (University of California)

Abstract: Negotiations to restructure sovereign debts are protracted, taking on average almost 8 years to complete. In this paper the authors construct a new database (the most extensive of its kind covering ninety recent sovereign defaults) and use it to document that these negotiations are also ineffective in both repaying creditors and reducing the debt burden countries face. Specifically, they find that creditor losses average roughly 40 per-cent, and that the average debtor exits default more highly indebted than when they entered default. [...]

The Term Structure of Inflation Expectations (2009)

Adrian Tobias (Federal Reserve Bank of New York), Wu Hao (Federal Reserve Bank of New York)

Abstract: This paper presents estimates of the term structure of inflation expectations, derived from an affine model of real and nominal yield curves. The model features stochastic covariation of inflation with the real pricing

kernel, enabling the authors to extract a time-varying inflation risk premium. They fit the model not only to yields, but also to the yields' variance-covariance matrix, thus increasing identification power. [...]

Ten Lessons on Debt Market Development (2009)

Mu Yibin (World Bank and Harvard University)

Abstract: Recent financial crises, such as in East Asia in the late 1990s, in Latin America during the 1980s, in Mexico in 1994, and in Russia in 1998, have led to recognition, by both policy makers and academics, of the importance of a sound domestic debt market in supporting financial and economic growth and stability. The current global financial crisis has reinforced this view. [...]

A Common European Government Bond (2008)

European Primary Dealers Association (EPDA)

Abstract: Recent years have seen important steps taken towards market integration and greater efficiency in European government bond markets. At the same, and with the euro area increasing in size, European government bond markets remain fragmented. The 10th anniversary of European Economic and Monetary Union is therefore an appropriate time to reflect not only on the success of a common European currency but also to consider the gains that can be won through further market integration. As such, it presents an opportunity to study and debate larger scale initiatives such as a possible common European government debt instrument.[...]

Lending to the Borrower from Hell: Debt and Default in the Age of Philip II, 1556-1598 (2008)

Drelichman Mauricio (The University of British Columbia and CIFAR), Voth Hans-Joachim (ICREA/Universitat Pompeu Fabra and CREI)

Abstract: Philip II of Spain accumulated debts equivalent to 60% of GDP. He also failed to honor them four times. We ask what allowed the sovereign to borrow much while defaulting often. Earlier work emphasized either banker irrationality or the importance of sanctions. Using new archival data, we show that neither interpretation is supported by the evidence. What sustained lending was the ability of bankers to cut off Philip II's access to smoothing services.[...]

Public Debt and its Determinants in Low Income Countries - Results from 7 Country Case Studies (2008)

Bandiera Luca (World Bank)

Abstract: This paper examines the determinants of public debt dynamics in Low Income Countries (LICs) over the period 1990-2003. Debt dynamics in LICs are influenced not only by macroeconomic variables but also by the composition of debt and the provision of debt relief over time. The study considers a sample of 17 LICs from Africa, Asia and Latin America and reports detailed case studies for 7 LICs, which consider not only the debt dynamics, but also the specific episodes of marked policy change or structural factors that contributed to the accumulation or reduction of total public debt. [...]

Dollarization and Maturity Structure of Public Securities: The Experience of Bolivia (2008)

Vesperoni Esteban (IMF and University of Maryland), Orellana Walter (Banco Central de Bolivia)

Abstract: The public debt profile has improved in Bolivia in recent years, with regard to both the maturity structure and the currency composition. This paper analyzes changes in the public debt profile in Bolivia since 2000, and the role played by macroeconomic factors and the debt management strategy adopted by the authorities. The authors find that both played an important role, in particular the strengthening of the fiscal and international reserves positions and the appreciation of the Boliviano; and regulations promoting the use of the domestic currency.[...]

A Benchmark for Public Debt: The Brazilian Case (2008)

Silveira Veiga Cabral Rodrigo (Brazilian Public Debt Strategic Planning Department), de Lourdes Moreira Lopes Mariana (Brazilian National Treasury), Baghdassarian William (Brazilian National Treasury), Alves Luiz Fernando - (Brazilian Public Debt Department), Ferreira de Souza Junior Pedro Ivo (Brazilian National Treasury), Loureiro A. dos Santos Antonio Tiago (Brazilian Public Debt Department)

Abstract: Public debt management has gained prominence over the last years. The pursuit of an adequate public debt composition is critical to the objective of minimizing long term financing costs, while ensuring the maintenance of

prudent risk levels. In this sense, the authors devise a benchmark for the public debt, defined as a long term, optimal debt structure, to serve as a guide for short and medium term borrowing strategies. The proposed benchmark builds on stochastic finance methods to construct an efficient frontier for public debt. [...]

Sustainability of Public Debt: Some Theoretical Considerations (2008)
Greiner Alfred (Bielefeld University)

Abstract: This paper starts from the observation that the primary surplus of the government must be financed out of a country's GDP. Assuming that the interest rate on public debt exceeds the growth rate of GDP, it is demonstrated that a sustainable debt policy is not compatible with a rising public debt to GDP ratio in the long-run. Further, if the primary surplus does not positively react to a rising debt to GDP ratio, a sustainable debt policy is excluded if the initial debt ratio exceeds a certain threshold. [...]

Two Case Studies on Electronic Distribution of Government Securities: The U.S. TreasuryDirect System and The Philippine Expanded Small Investors Program (2004)

Glaessner Thomas (World Bank), Kantur Zeynep (World Bank)

Abstract: The case study on the U.S. TreasuryDirect examines the evolution of the electronic distribution systems for marketable and nonmarketable government securities, the main objectives, and the basic legal infrastructure and the preconditions enabling the system. The U.S. experience highlights that the enabling environment and infrastructure (for example, in terms of information databases such as Pay.Gov) make a large difference in terms of both the security and convenience that customers can expect in the use of the system. [...]

OTHER WEB RESOURCES

The Commission publishes the 2009 report on Public Finances in EMU (2009)

Source: European Commission

Bulgaria's End-May Public Debt Falls 1.7% M/M - Table (2009)

Source: SeeNews - The Corporate Wire

Effective Debt Management in the Global Financial Crisis Era (2009)

Source: MEFMI

Germany sees 2009 public debt at 1.7 trillion euros (2009)

Source: London South East

Analysis-Foreigners abandon JGBs, market sell-off risk rises (2009)

Source: ForexPros.com

Public debt biggest challenge facing next Lebanese cabinet (2009)

Source: The Daily Star

Towards a Solution to the Debt Crisis in California (2009)

Source: Global Research.ca

Govt bonds to come in smaller, tradeable parts (2009)

Source: Mydigitalfc

NETWORK NEWS

Developing a Medium-Term Debt Management Strategy (MTDS)—The Analytical Tool (2009)

From The World Bank and the IMF website

Statistics Bulletin 2009

From Spanish Public Treasury website

Annual Report & Accounts 2008-2009

From UK DMO website

Central Banking Publications - September Training Seminars - Cambridge

From Central Banking website

Annual Public Debt Report 2008-Annual Borrowing Plan 2009

From Brazilian National Treasury website

Annual Reports & Guidelines: please go to the "Information Corner" on www.publicdebt.net

Events & Courses

UPCOMING

NEW

18 August 2009 - New York - Global Financial Conference Center
ISDA Symposium – Credit Derivative Market Practice Changes Including a session on the Small Bang

1 September 2009 - 4 September 2009; Cambridge, Clare College
Course - Operational Risk Management in Central Banking

8 October 2009 - 9 October 2009; Palazzo Altieri, Rome, Italy
2nd Annual Opportunities in the Italian Funding Market: Securitisation & Covered Bonds

PREVIOUSLY SIGNALLED

20 July 2009 – 5 August 2009; Maseru, Lesotho
Application of Assets/Liabilities Management (ALM) framework for Debt and Reserves Management

3 August 2009 - 7 August 2009; Lagos, Nigeria
Comprehensive CS-DRMS 2000 + User Training Featuring latest version 1.3 & Security Auction System

7 September 2009 – 18 September 2009; Worthing, UK
Managing Risk and Developing a Debt Strategy

7 September 2009 - 15 October 2009; Online/Internet-based
Advance Risk Management

7 September 2009 - 16 September 2009; Slovenia, Ljubljana, Cankarjeva 18, Center of Excellence in Finance
Course - Monetary Policy and Exchange Rate Issues

7 September 2009 - 16 October 2009; Online/Internet-based
Legal Aspects of Public Debt Management

10 September 2009 – 11 September 2009; Basel, Switzerland
Monetary Policy and Financial Stability

14 September 2009 - 30 October 2009; Online Course
Effective Public Debt Management

14 September 2009 - 30 October 2009; Online/Internet-based
Debt Rescheduling with the Paris Club

5 October 2009 – 19 October 2009; Worthing, UK
Advanced CS-DRMS User Training

12 October 2009 - 13 November 2009; Online/Internet-based
Fundamentals of the Bond Market

12 October 2009 - 16 October 2009; Lagos, Nigeria
Debt Recording for Sub-national Debt Management in Nigeria

18 October 2009 - 20 October 2009; Emirates Tower Hotel, Dubai, UAE
Middle East Capital Markets

26 October 2009 - 27 November 2009; On line/Internet-based
Audit of Public Debt

30 October 2009; Washington, D.C., USA
Estrategias para el manejo de la Deuda Pública durante la Crisis

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

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

Communication Corner

NEW! GDP-indexed bond documentation

We'd like to ask our Partners a cooperation in collecting a bibliography on GDP-indexed bonds both for a professor of our Academic Circle who needs it and to enrich our Network's website documentation. Therefore if a Partner country, or another of your knowledge, has ever issued such bonds, please signal to us. The same if a Partner knows a paper or any other documentation about this topic. Thanks for your cooperation.

NEW! e-LEARNING COURSE MATERIALS

The PDM network website NOW 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 WEBSITE AREA

The Network's website home page (public version) includes a *new 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.

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 5th August 2009, the number of documents available on the PDM Network website is 772.