

PDM NETWORK *Newsletter*

APRIL 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.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	1	Communication Corner	6
PAPERS	1	NEW WEBSITE AREA	6
OTHER WEB RESOURCES	4	E-MAIL NOTIFICATION SERVICE FOR	
NETWORK NEWS	4	PARTNERS	6
Events, Courses	5	Participating Institutions in PDM	
UPCOMING	5	Network	7
NEW	5	Some Figures	7
PREVIOUSLY SIGNALLED	5		
PAST EVENTS WITH DOCUMENTATION	6		

New Documents

PAPERS

Understanding Inflation-Indexed Bond Markets (2009)

Campbell John Y. (Harvard University and NBER), Shiller Robert J. (Cowles Foundation and NBER), Viceira Luis M. (Harvard Business School and NBER)

This paper documents a massive decline in long-term real interest rates from the 1990s until 2008, followed by a sudden spike in these rates during the financial crisis of 2008. Breakeven inflation rates, calculated from inflation-indexed and nominal government bond yields, stabilized until 2008, when they showed dramatic declines. The paper asks to what extent movements in short-term real interest rates, bond risks, and liquidity and other institutional factors explain these developments. [...]

Inflation Bets or Deflation Hedges? The Changing Risks of Nominal Bonds (2009)

Campbell John Y. (Harvard University and NBER), Sunderam Adi (Harvard Business

School), Viceira Luis M. (Harvard Business School and NBER)

The covariance between US Treasury bond returns and stock returns has moved considerably over time. While it was slightly positive on average in the period 1953–2005, it was particularly high in the early 1980's and negative in the early 2000's. This paper specifies and estimates a model in which the nominal term structure of interest rates is driven by five state variables: the real interest rate, risk aversion, temporary and permanent components of expected inflation, and the covariance between nominal variables and the real economy. The last of these state variables enables the model to fit the changing covariance of bond and stock returns. [...]

Global Liquidity, Risk Premiums and Growth Opportunities (2009)

De Nicolò Gianni (IMF), Ivaschenko Iryna (IMF)

This paper constructs new indicators of liquidity for equity, bond and money markets in major advanced and emerging market countries, documents their evolution and comovements,

and assesses the extent to which such measures are determinants of selected spreads and proxy measures of countries' growth opportunities. Three main results obtain. First, there is evidence of an historical increase in market liquidity since the early 1990s, in part as a result of advances in international financial integration, but markets have been increasingly exposed to global systemic liquidity shocks. [...]

Domestic Financial Development in Emerging Economies: Evidence and Implications (2009)

Dorrucci Ettore (ECB), Meyer-Cirkel Alexis (J. W. Goethe University and ECB), Santabárbara Daniel (Banco de España and ECB)

We construct, on the basis of an original methodology and database, composite indices to measure domestic financial development in 26 emerging economies, using mature economies as a benchmark. Twenty-two variables are used and grouped according to three broad dimensions: (i) institutions and regulations; (ii) size of and access to financial markets and (iii) market performance. This new evidence aims to fill a gap in the economic literature, which has not thus far developed comparable time series including both emerging and mature economies. [...]

The Financial Crisis and its Impact on Developing Countries (2009)

Griffith-Jones Stephany (UNDP), Ocampo José Antonio (UNDP)

This working paper has been commissioned by the Poverty Group, Bureau for Development Policy at UNDP, to identify the transmission mechanisms of the financial crisis from developed to developing countries and to provide broad policy recommendations at the national, global and regional level. The paper identifies three mechanisms that play a key role in spreading the consequences of the financial crisis to the developing world: remittances, capital flows and trade. [...]

What Determines the Size of Bank Loans in Industrialized Countries? The Role of Government Debt (2009)

De Bonis Riccardo (Bank of Italy), Stacchini Massimiliano (Bank of Italy)

Given the importance of banking intermediation, this paper investigates the determinants of the size of bank loans in 18 OECD countries in the period 1981-1997. The aim of the paper is to show that the ratio of government debt to GDP has a negative effect on the level of bank credit. Second, countries with a German legal origin have higher ratios of loans to GDP than common law countries. [...]

Investment Cycles and Sovereign Debt Overhang (2009)

Aguiar Mark (University of Rochester and NBER), Amador Manuel (Stanford University and NBER), Gopinath Gita (Harvard University and NBER)

The paper characterizes optimal taxation of foreign capital and optimal sovereign debt policy in a small open economy where the government cannot commit to policy, seeks to insure a risk averse domestic constituency, and is more impatient than the market. Optimal policy generates long-run cycles in both sovereign debt and foreign direct investment in an environment in which the first best capital stock is a constant. The expected tax on capital endogenously varies with the state of the economy and investment is distorted by more in recessions than in booms, amplifying the effect of shocks. [...]

Debt Relief Effectiveness and Institution Building (2009)

Presbitero Andrea F. (Università Politecnica delle Marche, MoFiR and CeMaFiR)

The history of debt relief is now particularly long, the associated costs are soaring and the outcomes are at least uncertain. This paper reviews and provides new evidence on the effects of recent debt relief programs on different macroeconomic indicators in developing countries, focusing on the Highly Indebted Poor Countries. [...]

Sovereign Risk Premia (2008)

Borri Nicola (Boston University), Verdelhan Adrien (Boston University)

Emerging countries tend to default when their economic conditions worsen. If bad times in an emerging country correspond to bad times for the US investor, then these foreign sovereign bonds are particularly risky and should offer high returns. The paper explores how this mechanism plays out in the data and in a general equilibrium model of optimal borrowing and default. [...]

A Structural Model of Sovereign Debt Issuance: Assessing the Role of Financial (2008)

Erce Aitor (Banco de España)

The role that domestic and international financial conditions have in shaping developing countries' governments' debt structure is structurally estimated using data on individual bond issuance. The structural model, which employs financial and demographic conditions to achieve identification, is used to estimate three key characteristics of sovereign bonds: issue size, maturity and spread. [...]

Recent Episodes of Sovereign Debt Restructurings. A Case-Study Approach (2008)

Díaz-Cassou Javier (Banco De España), Erce-Domínguez Aitor (Banco De España), Vázquez-Zamora Juan J. (Banco De España)

Sovereign debt restructurings do constitute a recurrent phenomenon in emerging and developing economies. Consequently, the international community has repeatedly explored options to increase the predictability and orderliness of debt workouts, of which the debate on the Sovereign Debt Restructuring Mechanism (SDRM) proposed by the IMF in 2002 is the most recent example. [...]

The Role of the IMF in Recent Sovereign Debt Restructurings: Implications for the Policy of Lending into (2008)

Díaz-Cassou Javier (Banco De España), Erce-Domínguez Aitor (Banco De España), Vázquez-Zamora Juan J. (Banco De España)

This paper analyzes the role played by the IMF in eight recent sovereign debt restructurings from a comparative perspective: Argentina (2001-2005), the Dominican Republic (2004-2005), Ecuador (1999-2000), Pakistan (1998-2001), the Russian Federation (1998-2001), Serbia (2000-2004), Ukraine (1998-2000) and Uruguay (2004). The objective of the authors is to identify the various dimensions of the IMF's potential involvement during those processes, and to extract some relevant policy implications to reform the Policy of Lending Into Arrears. [...]

Decomposing the Yield Curve (2008)

Cochrane John H. (University of Chicago and NBER), Piazzesi Monika (Stanford University)

The authors construct an affine model that incorporates bond risk premia. By understanding risk premia, they are able to use a lot of information from well-measured risk-neutral dynamics to characterize real expectations. They use the model to decompose the yield curve into expected interest rate and risk premium components. [...]

Islamic Bond Issuance—What Sovereign Debt Managers Need to Know (2008)

Jobst Andreas (IMF), Kunzel Peter (IMF), Mills Paul (IMF), Sy Amadou - (IMF)

Recent years have witnessed a surge in the issuance of Islamic capital market securities (sukuk) by corporates and public sector entities amid growing demand for alternative investments. As the sukuk market continues to

develop, new challenges and opportunities for sovereign debt managers and capital market development arise. [...]

Financial Globalisation and Emerging Market Capital Flows (2008)

Participants at the Meeting

The focus of Deputy Governors when they met for their annual meeting at the BIS in January 2008 was on the great expansion of the role of emerging market economies (EMEs) in the international banking and capital markets. The deeper integration of EMEs is seen in the rapid growth in their gross non-official inflows and outflows. The papers written for this meeting [...]

Debt Maturity without Commitment (2008)

Niepelt Dirk (Study Center Gerzensee)

The author analyzes how lack of commitment affects the maturity structure of sovereign debt. Governments balance benefits of default induced redistribution and costs due to income losses in the wake of a default. Their choice of short-versus long-term debt affects default and rollover decisions by subsequent policy makers. The equilibrium maturity structure is shaped by revenue losses on inframarginal units of debt that reflect the price impact of these decisions. [...]

The Market Reaction to Legal Shocks and Their Antidotes: Lessons from the Sovereign Debt Market (2008)

Bradley Michael H. (Duke University), Cox James D. (Duke University School of Law), Gulati Mitu (Duke University School of Law)

In October 2000 a hedge fund holding an unpaid debt claim won an enormous victory against the debtor, the Republic of Peru, through an opportunistic interpretation of the common *pari passu* clause by a Brussels court. This development was met by charges from policy makers and practitioners that the court's decision (its novel interpretation of the *pari passu* clause) would lead to a dramatic increase in the risks of holdout litigation faced by sovereign debtors. [...]

Who is the "Sovereign" in Sovereign Debt?: Reinterpreting a Rule-of-Law Framework from the Early Twentieth Century (2008)

Lienau Odette (Harvard University)

Combining legal interpretation with political science analysis, this Article highlights the competing "statist" and "popular" conceptions of sovereignty at stake in sovereign debt issues. It argues that these two dominant approaches do

not exhaust the offerings of intellectual history and considers an alternative approach that emerged in the early twentieth century and may be of relevance again today. [...]

Fiscal Insurance and Debt Management in OECD Economies (2007)

Faraglia Elisa (London Business School), **Marcet Albert** (CSIC and CEPR), **Scott Andrew** (London Business School and CEPR)

Assuming the role of debt management is to provide hedging against fiscal shocks we consider three questions: i) what indicators can be used to assess the performance of debt management? ii) how well have historical debt management policies performed? and iii) how is that performance affected by variations in debt issuance? We consider these questions using OECD data on the market value of government debt between 1970 and 2000. [...]

Debt and Deficit Fluctuations and the Structure of Bond Markets (2007)

Marcet Albert (CSIC and CEPR), **Scott Andrew** (London Business School and CEPR)

The authors analyze the implications of optimal taxation for the stochastic behaviour of debt. They show that when a government pursues an optimal fiscal policy under complete markets, the value of debt has the same or less persistence than other variables in the economy and it declines in response to shocks that cause the deficit to increase. [...]

Debt Sustainability: Relief Target, Rule for Lending or Policy Goal for Low-Income Countries? (2007)

Martin Matthew

This paper assesses the various definitions and mechanisms used to achieve debt sustainability. Section 2 examines the basis for the definition of sustainability currently used by the international community to determine debt relief levels and monitor long-term sustainability. Section 3 examines the different methods used to assess sustainability, using equations, models and thresholds. [...]

Bond Risk Premia (2005)

Cochrane John H. (University of Chicago and NBER), **Piazzesi Monika** (UCLA and NBER)

This paper studies time variation in expected excess bond returns. We run regressions of annual excess returns on forward rates. We find that a single factor predicts 1-year excess returns on 1-5 year maturity bonds with an R^2 up to 43%. The single factor is a tent-shaped

linear function of forward rates. The return forecasting factor has a clear business cycle correlation: Expected returns are high in bad times, and low in good times, and the return-forecasting factor forecasts long-run output growth.[...]

OTHER WEB RESOURCES

Managing Public Debt: Formulating Strategies and Strengthening Institutional (2009)

IMF and World Bank Staffs

Developing a Medium-Term Debt Management Strategy (MTDS)—Guidance Note for Country Authorities (2009)

World Bank and IMF Staffs

Liberia Slashes Debt with \$1.2 billion Buyback at Steep Discount (2009)

World Bank

A Short Note on Public Debt Sustainability in Ghana (2006)

Bank of Ghana

NETWORK NEWS

Asian Capital Markets Stabilizing, But Recovery Could Be Lengthy - ADB Report

From ADB website

<http://www.adb.org/Media/Articles/2009/12859-asian-capital-markets/>

Asia Capital Markets Monitor, a new annual publication from the ADB that assesses the status and challenges for the region's markets.

From asian bonds online website

<http://asianbondsonline.adb.org/>

Macroeconomic Policy Brief Vol.1, No.1, December 2008: Addressing the Impact of the Global Financial Crisis on Asia-Pacific Economies

From United Nations ESCAP website

http://www.unescap.org/pdd/publications/me_brief/mepb_1.pdf

***The Treasury of the Republic of Latvia -
Public Report of 2008***

From Latvia Treasury website

***Perú - Programa Anual de
Endeudamiento Público y de
Administración de Deuda***

From Peru MEF website

***Morocco - Rapport De La Dette
Interieure - Rapport De La Dette
Publique***

From Morocco MEF website

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

Events, Courses

UPCOMING

NEW

22 April 2009 - 2 July 2009; different places
ISDA Conference

11 May 2009 – 22 May 2009; Worthing, UK
Introduction to CS-DRMS

13 May 2009 – 14 May 2009; Dakar, Senegal
**Africa and the Financial Crisis: An Agenda
for Action**

29 June 2009 – 8 July 2009; Kigali, Rwanda
**Training of Trainers in the World Bank /
IMF Debt Medium Term Debt Strategy
(MTDS)**

20 July 2009 – 31 July 2009; Worthing, UK
New Challenges in Debt Management

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

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

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

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

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

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

PREVIOUSLY SIGNALLED

May/June 2009 - Paris, France
**Designing Government Debt Management
Strategies**

May/June 2009 - Paris, France
Implementing a Debt Management Strategy

17 May 2009 – 20 May 2009; Hosted by the Ministry of
Finance, Republic of Slovenia
Government Borrowers Forum

18 May 2009 - 22 May 2009; Joint Vienna Institute
**Workshop on Medium-term Debt Management
Strategy**

18 May 2009 - 23 May 2009; Lagos, Nigeria
**Regional Workshop on Domestic Debt
Management and Money & Capital Market
Operations**

20 May 2009 - 22 May 2009; Slovenia, Ljubljana,
Center of Excellence in Finance
Integration of Cash and Debt Management

3 June 2009 - 5 June 2009; Montreux Palace Hotel, Montreux, Switzerland
The International Capital Market Association Annual General Meeting and Conference

22 June 2009 - 26 June 2009; Lagos, Nigeria
Seminars on Public Financial Management for Effective Aid Management for Policymakers and Parliamentarians

24 June 2009 - 26 June 2009; Johannesburg
3rd OECD Regional Workshop on African Debt Management and Bond Markets

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

21 September 2009 - 2 October 2009; Banjul, The Gambia
Post-HIPC Debt Sustainability Analysis for The Gambia

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

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

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

PAST EVENTS WITH DOCUMENTATION

3 April 2009 - 4 April 2009; Volterra, Italy
Dal Liquidity Contingency Plan a un Nuovo Modello di Tesoreria
Presentations are available at the following address:
<http://www.e-mid.it/liquidity-2009/1-e-mid-sim/153-liquidity.html?lang=it>

27 April 2009 - 28 April 2009; Columbia University in New York City
Governance, Transparency and Accountability in Financial Institutions and Regulatory Bodies
Papers are available at the following address:
<http://www0.gsb.columbia.edu/ipd/programs/item.cfm?prid=25&iyid=5&itid=1654>

The PDM Secretariat is grateful to Professor John Campbell (Harvard University, Cambridge MA) and to Dr. El hassan Eddez (Ministry of Economy and Finance of Morocco) for their resource contribution.

Communication Corner

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, 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, Commonwealth Secretariat, European Central Bank, European Bank EBRD, Inter-American Development Bank, IFC, International Monetary Fund, MEFMI, WAIFEM, World Bank, UNCTAD.

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

Some Figures...

On 6th May 2009, the number of documents available on the PDM Network website is 669.