

PDM NETWORK *Newsletter*

MARCH 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.

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New Documents

PAPERS

Fiscal Sustainability and Policy Implications for the Euro Area (2009)

Balassone Fabrizio, Cunha Jorge, Langenus Geert, Manzke Bernhard, Pavot Jeanne and others

In this paper the authors examine the sustainability of euro area public finances against the backdrop of population ageing. They critically assess the widely used projections of the Working Group on Ageing Populations (AWG) of the EU's Economic Policy Committee and argue that ageing costs may be higher than projected in the AWG reference scenario.[...]

Public Debt and Financial Development (2009)

Hauer David (IMF)

The authors examine the role of public debt in financial development. The literature has highlighted its supportive role through providing collateral and benchmark. They contrast this "safe asset" view to a "lazy banks" view: developing banking sectors that lend mainly to the public sector may develop more slowly,

because it could make banks profitable but inefficient. Results from country-level and bank-level regressions are more supportive of the "lazy banks" view, but the "safe asset" view seems to play a role at moderate levels of public debt held by banks. There is also evidence of a harmful interaction between public debt and financial repression.

Do Credit Rating Agencies Add Value? Evidence from the Sovereign Rating Business (2008)

Cavallo Eduardo, Powell Andrew (Inter-American Development Bank), Rigobon Roberto (Massachusetts Institute of Technology)

If rating agencies add no new information to markets, their actions are not a public policy concern. But as rating changes may be anticipated, testing whether ratings add value is not straightforward. This paper argues that ratings and spreads are both noisy signals of fundamentals and suggest ratings add value if, controlling for spreads, they help explain other variables. [...]

The Forgotten History of Domestic Debt (2008)

Reinhart Carmen M., Rogoff Kenneth S. (Harvard University and the NBER)

There is a rich scholarly literature on sovereign default on external debt. Comparatively little is known about sovereign default on domestic debt. Even today, cross-country data on domestic public debt remains curiously exotic, particularly prior to the 1980s. We have filled this gap in the literature by compiling a database on central government public debt (external and domestic). The data span 1914 to 2007 for most countries, reaching back into the nineteenth century for many. [...]

This Time is Different: A Panoramic View of Eight Centuries of Financial Crises (2008)

Reinhart Carmen M., Rogoff Kenneth S. (Harvard University and NBER)

This paper offers a "panoramic" analysis of the history of financial crises dating from England's fourteenth-century default to the current United States sub-prime financial crisis. Our study is based on a new dataset that spans all regions. It incorporates a number of important credit episodes seldom covered in the literature, including for example, defaults and restructurings in India and China. As the first paper employing this data, our aim is to illustrate some of the broad insights that can be gleaned from such a sweeping historical database. [...]

Trend and Cycle in Bond Premia (2008)

Piazzesi Monika, Schneider Martin (Stanford & NBER)

Common statistical measures of bond risk premia are volatile and countercyclical. This paper uses survey data on interest rate forecasts to construct subjective bond risk premia. Subjective premia are less volatile and not very cyclical; instead they are high only around the early 1980s. The reason for the discrepancy is that survey forecasts of interest rates are made as if both the level and the slope of the yield curve are more persistent than under common statistical models. [...]

The Next (but not new) Frontier for Sovereign Default (2008)

Reinhart Carmen M. (University of Maryland and NBER)

There is a view today that "this time it's different" for emerging markets. Governments are reducing their dependence on external debt and relying more on domestic debt financing for the first time! Furthermore, emerging market

governments are increasingly issuing long-term domestic debt. Indeed, often this change in government debt management patterns is taken as evidence of graduation from "serial default." In this new world, debt crises in emerging markets will be a thing of the past, and the IMF is plainly out of business. [...]

In Search of a Theory of Debt Management (2008)

Faraglia Elisa (London Business School), Marcet Albert (Institut d'Anàlisi Econòmica), Scott Andrew (CEPR and London Business School)

A growing literature integrates theories of debt management into models of optimal fiscal policy. One promising theory argues that the composition of government debt should be chosen so that fluctuations in the market value of debt offset changes in expected future deficits. This complete market approach to debt management is valid even when the government only issues non-contingent bonds. [...]

The Subprime Credit Crisis and Contagion in Financial Markets (2008)

Longstaff Francis A. (UCLA Anderson School and NBER)

We conduct an empirical investigation into the pricing of subprime asset backed CDOs and their contagion effects on other markets. Using data for the ABX subprime indexes, we find strong evidence of contagion in the financial markets. These contagion effects spread first from lower-rated ABX indexes to higher-rated ABX indexes, and then from the subprime markets to the Treasury bond and stock markets. Surprisingly, ABX index returns forecast stock and Treasury bond returns by as much as three weeks ahead during the crisis. [...]

A Model of Sovereign Debt in Democracies (2008)

Alichi Ali (IMF)

This paper develops and empirically tests a political economy model of sovereign debt. The main incentive for repaying sovereign debt is to maintain access to international capital markets. However, in a democracy, one generation may choose default regardless of its consequences for future generations. An old generation with little concern for its country's access to capital markets can force a default on debt if it has the majority of voters. On the other hand, if the younger generation is more numerous, it can force repayment of previously defaulted debt. Other voter heterogeneities, such as in income, can generate similar results. [...]

Systemic Banking Crises: A New Database (2008)

Laeven Luc (IMF and CEPR), Valencia Fabian (IMF)

This paper presents a new database on the timing of systemic banking crises and policy responses to resolve them. The database covers the universe of systemic banking crises for the period 1970-2007, with detailed data on crisis containment and resolution policies for 42 crisis episodes, and also includes data on the timing of currency crises and sovereign debt crises. The database extends and builds on the Caprio, Klingebiel, Laeven, and Noguera (2005) banking crisis database, and is the most complete and detailed database on banking crises to date. [...]

The Argentinian Debt: History, Default and Restructuring (2008)

Damill Mario, Frenkel Roberto, Rapetti Martin

The authors believe that the study of the Argentinean foreign debt is easy to justify. For almost three decades, Argentina's foreign debt was continuously one of the main concerns of economic policy in the country. Despite this, both the record amount of the defaulted debt and the novel characteristics of its restructuring surprised many observers. Therefore, the processes that led to the default on the debt and its subsequent restructuring warrant examination. [...]

Why the Code of Conduct for Resolving Sovereign Debt Crises Falls Short (2008)

Herman Barry (Columbia University)

Numerous authors have proposed policy initiatives to bring more predictability and fairer outcomes into sovereign debt workouts for non-HIPCs (in some cases also aiming to improve on the HIPC process), ranging from sovereign bankruptcy regimes modeled on national corporate bankruptcy systems, to arbitration processes, to standing availability of mediation services (see Kaiser, 2008). Others have proposed informal guidelines or a "code of good conduct" to which debtors and creditors might subscribe as a way to reduce uncertainty about how debt restructuring would proceed. The latter will be the focus of this paper.

Italian Public Debt Since National Unification. A Reconstruction of the Time Series (2008)

Francesca Maura, Pace Angelo (Bank of Italy)

The paper presents the results of a reconstruction of the Italian public debt series since national unification. Computations use today's statistical methodology to obtain a database consistent with the national accounts. The reference sector is general government, not the state sector, as in many previous studies; the definition refers to consolidated gross debt (within and across subsectors). The database includes monthly times series for overall debt and its breakdowns by instrument and subsector. Given their frequency and length, the new data might be a useful tool for economic historians and students of public economics. [...]

Coordination of Public Debt Management and Running Monetary Policy in Croatia (2007)

Raspudic Golomejic Zorica (Croatian National Bank)

This paper deals with the issue of the coordination of public debt management and running monetary policy in Croatia, and draws attention to the importance of this kind of coordination for macroeconomic stability. Particular attention is paid to the management of public debt and the running of monetary policy in Croatia as practiced to date, and the problems that have arisen the while. Also given are the most important measures that the Croatian National Bank has taken to make it easier to manage the public debt and achieve better coordination with the Finance Ministry. There is more detailed discussion of the introduction of open market operations, the most important step taken towards better coordination of the running of monetary policy and the management of the public debt. [...]

The Structured Bond Market in Thailand (2007)

Japan Bank for International Cooperation (JBIC)

This research paper aims to unveil the snapshot of structured bond market in Thailand (including government policy, legal and regulatory framework, and market infrastructure) and the impediments to its market development perceived by the market participants, and to make a policy recommendation, so that the structured bond market could be developed further. [...]

Emerging Market Sovereign Spreads, Global Financial Conditions and U.S. Macroeconomic News (2007)

Özatay Fatih (TOBB University of Economics and Technology), Özmen Erdal (Middle East Technical University) Sahinbeyoglu Gülbin (Central Bank of the Republic of Turkey)

This paper investigates the impact of global financial conditions, US macroeconomic news and domestic macroeconomic fundamentals on the evolution of EMBI spreads for a panel of 18 emerging market (EM) countries using daily data. To this end, we employ not only the conventional panel data estimation procedures but also the recently developed common correlated effects panel mean group method which incorporates heterogeneity by allowing country-specific coefficients whilst accounting for the effects of common global shocks such as contagion. [...]

Government Debt and Financial Markets: Pro-Cycle Effects in Northern Italy during the XVIth and the XVII Centuries (2006)

De Luca Giuseppe (University of Milan)

Beginning with the first decades of the sixteenth century, the principal states of northern Italy along with other states, leaders in the 'financial revolution', both on and off the peninsula) faced the problem of long-term public financing by introducing innovations that notably increased collection of monies and tied financial capital to the state organization. These were – even with some differences – the progressive substitution of the emission [...]

Indonesia's Medium-term Development Plan and Public Debt Sustainability (2005)

Ishikawa Sumio (JBIC)

This paper examines the recent macroeconomic development in Indonesia, which is under the process of transition toward a new stage, and reviews Indonesia Medium-term Development Plan (2004-2009) with its impact on the public debt sustainability. [...]

OTHER WEB RESOURCES

Global Financial Stability Report. GFSR Market Update (2009)

International Monetary Fund

Financial markets worldwide reflect ongoing deleveraging pressures amidst a deepening economic downturn. In spite of extensive policies, the global financial system remains under intense stress. Moreover, worsening economic conditions are producing new, large writedowns for financial institutions. In response, balance sheets are being cut back through asset sales and the retiring of maturing credits. These actions have increased downward

pressure on asset prices and reduced credit availability.[...]

Ivory Coast - Arrears Clearance Plan (2009)

ADB and ADF

This document proposes a clearance plan for Côte d'Ivoire's arrears to the Bank Group, which is fully consistent with the overall plan for the re-engagement of the country's development partners.[...]

Vietnam: Government Finance - Public Debt Law to Be Debated (2009)

Library of Congress

A draft law on public debt was discussed on March 9, 2009, in committees of Vietnam's National Assembly, as well as by the Assembly's Council on Ethnic Nationalities. The debate centers on whether or not the debts of state-owned enterprises should be included in the law's provisions on public debt management.[...]

Handbook on International Best Practices in Credit Rating (2008)

Asian Development Bank

The Asian Development Bank (ADB) has worked consistently for stability in Asian financial markets and believes bond market development will play a crucial role in achieving it. To promote development of the regional bond market, the Association of Southeast Asian Nations and the People's Republic of China, Japan, and the Republic of Korea (ASEAN+3)—under the Asian Bond Market Initiative—and ADB have provided assistance to build capacity at domestic credit rating agencies (DCRAs) and to enhance the comparability of their ratings. To that end, ADB has provided training to DCRAs on rating best practices and has prepared this Handbook on International Best Practices in Credit Rating.

Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (2008)

IDA and IMF Staffs

Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation (2008)

IDA and IMF Staffs

IMF-OECD-WB Seminar on the Response to the Crisis and Exit Strategies – Joint Statement (2008)

IMF-OECD-WB

Experts from the IMF, the OECD, and the World Bank met on 4 February in Paris to exchange

views and co-ordinate responses to the global economic crisis. [...]

NETWORK NEWS

27 March 2009 - EPDA Information: Handbook March Monthly Update

From SIFMA website

www.sifma.org/epda/handbook

Registration access to download the Handbook in order to receive the updates on a monthly basis.

1 April 2009 - Launch of CARTAC's newest online resource, the Financial Literacy Website

From CARTAC website

30 March 2009 - The Financial Review No. 368 - March 2009

From CROWN AGENTS website

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

Events, Courses

UPCOMING

NEW

3 April 2009 - Sala del Consiglio Facoltà di Economia Università degli Studi di Roma "Tor Vergata"

Public Debt Management during a recession

21 April 2009 - 21 April 2009; OECD Conference Centre, Paris, France

Special Session of the Working Party on Public Debt Management

24 April 2009 - 24 April 2009; Washington, D.C., IMF Building, room HQ2-1-280

Economic Stability and EU Convergence in Southeast Europe: Building Capacities for Policy Design and Implementation

29 April 2009 - 30 April 2009; Andaz Liverpool Street, London

European Financial Regulation and Capital Markets Forum

27 March 2009 - Brazilian Primary Result -- January/2009

From Brazil National Treasury website

27 March 2009 - The Brazilian National Treasury released the Federal Public Debt Monthly Report – February 2009

From Brazil National Treasury website

May 2009 - Paris, France

Designing Government Debt Management Strategies

May 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

3 June 2009 - 5 June 2009; Montreux Palace Hotel, Montreux, Switzerland

The International Capital Market Association Annual General Meeting and Conference

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

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**

PAST EVENT:

19 March 2009 - 20 March 2009; Paris
**Second International Financial Research
Forum**

Papers are available at the following address:
<http://www.finance-innovation.org/risk09/program.htm>

Previously signalled

7 April 2009 - 11 April 2009; South Africa
**Workshop on Domestic Debt & Auctioning
Module of CS-DRMS 2000+**

15 April - 17 April 2009; Montevideo, Uruguay
**V Annual Meeting of the Group of Latin American
and the Caribbean Debt Management Specialists**

20 April 2009 - 24 April 2009; Lagos, Nigeria
**Regional Workshop on Domestic Debt
Management and Money & Capital Market
Operations**

20 April 2009 - 29 April 2009; Papua New Guinea
**Pacific Regional Workshop on CS-DRMS and
Review Mission(Tentative)**

22 April 2009 - 23 April 2009; Washington D.C., USA
**Commonwealth Minister's Debt Sustainability
Forum**

22 April 2009 - 23 April 2009; Beijing, China
ISDA 24th Annual General Meeting

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

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

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

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**

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

The PDM Secretariat is grateful to Emmanuelle Roux, Associate Director of EPDA, for 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 Publicdebt.net.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, Storkey & Co. Ltd. ,

Some Figures...

On 2nd April 2009, the number of documents available on the PDM Network website is 625.