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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, **signaling to the Network Secretariat** any documents, news and events of interest at **publicdebtnet.dt@tesoro.it**.

Contents

New Documents

Papers

Core Topics

Public Debt Management (2012)
Enrique Cosío-Pascal – PublicDebtFinance

Abstract: This text draws in many aspects from the author's professional experience as an official of the Ministry of Finance in Mexico, as an international civil servant with UNCTAD, as well as an online e-lecturer for UNITAR on e-learning courses related to the subject.

Primary Market

Reprofiling Sovereign Debt (2014)
Buchheit Lee C. - Cleary Gottlieb Steen & Hamilton LLP - New York Office; Gulati G. Mitu - Duke University; Tirado Ignacio - Universidad Autónoma de Madrid

Abstract: The IMF staff's 2013 proposal to reprofile (i.e., stretch out for a short period without haircutting principal or interest) the maturing debt of a country that has lost market access is a sensible policy in cases where the IMF is uncertain whether the country's debt stock is sustainable.

The motivation for the policy is to avoid situations, such as occurred during the Eurozone debt crisis, in which Fund resources are used to bail-out commercial creditors in full. But a debt reprofiling is a species of debt restructuring and as such is susceptible to holdout creditor behavior. By allowing a small portion of its loans to the debtor country to be used to neutralize some or all of the additional credit risk caused by the reprofiling, the IMF could minimize holdout creditors in these operations. The authors propose a technique for minimizing the risk that certain creditors may elect to decline a reprofiling proposal, no matter how lenient its terms.

Secondary Market

Financial indicators signalling correlation changes in sovereign bond markets (2014)

De Santis Roberto A. - European Central Bank; Stein Michael - University of Duisburg-Essen

Abstract: The authors use a Smooth Transition Conditional Correlation GARCH (STCC-GARCH) model applied to the euro area monetary policy rates and sovereign yields of Italy, Spain and Germany at 5-year maturity to estimate the threshold level of the signals above which the sovereign bond market moves to a crisis regime. The authors show that the threshold to a crisis regime for Italy and Spain is reached when (i) their 5-year sovereign yield spreads amount to 80-90 basis points; (ii) their 5-year CDS spreads amount to 120-130 basis points or (iii) the 5-year spread between the Kreditanstalt für Wiederaufbau (KfW) bond and the German Bund amounts to 25 basis points. Using impulse responses, the authors nd that the STCC-GARCH with the KfW-Bund spread has leading properties, a feature corroborated by the fact that this indicator suggested a shift to a crisis regime already in August 2007 and has been signaling an improvement of the situation already in the autumn of 2012. An out-of-sample forecast of the STCC-GARCH model is also provided, which is both a novelty and a further robustness check for the stability of the model.

Flight-to-Liquidity Flows in the Euro Area Sovereign Debt Crisis (2014)

García Juan Ángel - European Central Bank; Gimeno Ricardo - Bank of Spain

Abstract: In periods of market stress, portfolio reallocations in bond markets reflect both safety and liquidity concerns. Using sovereign and national agency bonds, the authors construct indicators of liquidity premia in major euro area bond markets; the authors document the weakening of the correlation between core and periphery market liquidity during the euro area sovereign bond crisis; and the authors identify several episodes of significant flight-to-liquidity (FTL) flows above and beyond flight-to-safety (FTS) spells in the period 2009-13. The authors show that FTL flows led to significant inverse moves in sovereign bond yields in euro area core and periphery markets. Moreover, FTL flows triggered declines in core and periphery stock markets and are associated with lower macroeconomic confidence in the euro area as a whole, which underscores the importance of FTL episodes for investors and policymakers alike.

Explaining Sovereign Spreads in the Euro Area: The Role of Contagion, Fiscal Sustainability and Multipla Equilibria (2014)

Capaldi Sergio - Intesa Sanpaolo Bank

Abstract: Several recent contributions on the euro crisis have highlighted the presence of discontinuity points in the link between sovereign spreads and economic fundamentals. The most puzzling evidence is the relatively stable environment that has characterized the sovereign bond market despite growing macroeconomic imbalances in the euro area. The abrupt surge in yields has been interpreted as an expression of various form of "contagion" that led the financial market to reassess the risk profile of sovereign bonds. On the ground of the theory of sovereign crisis the authors propose an empirical model that explains the outbreak of the crisis and brings new evidence on the role played by debt sustainability in the contagion to other peripheral bond markets. The empirical evidence broadly confirms the role played by various form of contagion but hands back the responsibility of the euro crisis mainly in the hands of the policy makers both at domestic and at the European level. Fiscal sustainability presides over the switching between regimes characterized by different sensitivities of the financial markets to economic news. The deterioration of the fiscal outlook caused by fiscal profligacy and the recapitalization of ailing banks together with the lack of growth-enhancing structural reforms and the wrongly timed ECB's rate hikes in 2011 seem to be the ultimate causes of the near collapse of the Euro area.

The interest-rate sensitivity of the demand for sovereign debt. Evidence from OECD countries (1995-2011)? Evidence from the eurozone (2014)

Grande Giuseppe - Bank of Italy; Masciantonio Sergio - Bank of Italy; Tiseno Andrea - Bank of Italy

Abstract: Public debt levels in advanced economies have increased dramatically over recent years and they could put considerable upward

pressure on market yields. Using a novel identification approach based on financial accounts and focusing on panel regressions for 18 advanced economies over the period 1995-2011, this paper estimates the long-term slope of the demand function for government securities in a reduced-form setting. The authors find that public debt does matter: each percentage point increase in the public debt to GDP ratio raises 10-year rates by about 2 basis points. The potential drag on public debt sustainability caused by the feedback loop of public debt on higher interest rates should not therefore be overlooked.

Multilateral debt

Do IMF-Supported Programs Catalyze Donor Assistance to Low-Income Countries? (2014)

Gündüz Yasemin Bal - International Monetary Fund; Crystallin Masyita - World Bank

Abstract: This study explores whether IMF-supported programs in low-income countries (LICs) catalyze Official Development Assistance (ODA). Based on a comprehensive set of ODA measures and using Propensity Score Matching approach to address selection bias, the authors show that programs addressing policy or exogenous shocks have a significant catalytic impact on both the size and the modality of ODA. Moreover, the impact is greatest when LICs are faced with substantial macroeconomic imbalances or large shocks. Nevertheless, when countries attracting similar donor assistance before shocks are matched results for bilateral ODA turn insignificant, suggesting that the catalytic impact is attributed primarily to multilateral ODA.

Does conditionality in IMF-supported programs promote revenue reform? (2014)

Crivelli Ernesto - International Monetary Fund; Gupta Sanjeev - International Monetary Fund

Abstract: This paper studies whether revenue conditionality in Fund-supported programs had any impact on the revenue performance of 126 low- and middle-income countries during 1993-2013. The results indicate that such conditionality had a positive impact on tax revenue, with strongest improvement felt on taxes on goods and services, including the VAT. Revenue conditionality matters more for low-income countries, particularly those where revenue ratios are below the group average. Moreover, revenue conditionality appears to be more effective when targeted to a specific tax. These results hold after controlling for potential endogeneity, sample selection bias, and when revenues are adjusted for economic cycle.

Does Lower Debt Buy Higher Growth? The Impact of Debt Relief Initiatives on Growth (2014)

R. Marcelino Sandra - International Monetary Fund; Hakobyan Ivetta - International Monetary Fund

Abstract: In 1996, the IMF and the World Bank introduced the Heavily Indebted Poor Countries Initiative—a comprehensive debt relief program aimed at reducing the external debt burden of eligible countries to sustainable levels, provided they carry out strong programs of macroeconomic adjustment and structural reforms designed to promote growth and reduce poverty. Now that the HIPC Initiative is nearly completed, this paper investigates whether the initiative managed to spur growth, either directly or indirectly through investment. In contrast to earlier studies, the authors conclude that there is some evidence of positive effects of the HIPC Initiative on growth. Such evidence suggests that the HIPC Initiative and MDRI have helped HIPC-eligible countries to reach higher growth, but it remains unclear whether this is through higher investment or another channel. Also, the analysis illustrates that it is hard to disentangle pure debt-relief effects from other concurrent factors.

Developing Domestic Bond Markets

The Development of Local Capital Markets: Rationale and Challenges (2014)

Laeven Luc - International Monetary Fund

Abstract: Capital markets can improve risk sharing and the efficiency with which capital is allocated to the real economy, boosting economic growth and welfare. However, despite these potential benefits, not all countries have well developed capital markets. Moreover, government-led initiatives to develop local capital markets have had mixed success. This paper reviews the literature on the benefits and costs of developing local capital markets, and describes the challenges faced in the development of such markets. The paper concludes with a set of policy recommendations emerging from this literature.

Legal Issues and Conventions

Identifying Speculative Bubbles: A Two-Pillar Surveillance Framework (2014)

Jones Brad - International Monetary Fund

Abstract: In the aftermath of the global financial crisis, the issue of how best to identify speculative asset bubbles (in real-time) remains in flux. This owes to the difficulty of disentangling irrational

investor exuberance from the rational response to lower risk based on price behavior alone. In response, I introduce a two-pillar (price and quantity) approach for financial market surveillance. The intuition is straightforward: while asset pricing models comprise a valuable component of the surveillance toolkit, risk taking behavior, and financial vulnerabilities more generally, can also be reflected in subtler, non-price terms. The framework appears to capture stylized facts of asset booms and busts—some of the largest in history have been associated with below average risk premia (captured by the 'pricing pillar') and unusually elevated patterns of issuance, trading volumes, fund flows, and survey-based return projections (reflected in the 'quantities pillar'). Based on a comparison to past boom-bust episodes, the approach is signaling mounting vulnerabilities in risky U.S. credit markets. Policy makers and regulators should be attune to any further deterioration in issuance quality, and where possible, take steps to ensure the post-crisis financial infrastructure is braced to accommodate a re-pricing in credit risk.

Impact and implementation challenges of the Basel framework for emerging market, developing and small economies (2014)

Bis - The Basel Consultative Group - Bank for International Settlements

Abstract: This Working Paper assesses the potential impact and implementation challenges of specific standards issued by the Basel Committee in the context of emerging market, developing and small economies. Additionally, it outlines practical steps that can be taken by authorities in these jurisdictions to implement global standards and enhance their supervisory approaches. The report captures the main findings and recommendations by the Basel Consultative Group (BCG), the main outreach group established by the Basel Committee to enhance the understanding of key supervisory and regulatory issues worldwide. It responds to a request from the G20 and the Financial Stability Board (FSB) for the Committee to monitor and report on such issues, without prejudice to the G20 commitment for globally-agreed regulatory reforms to be implemented.

Risk Management Models

A Unified Model of Political Risk (2014)

Graham Benjamin A. T. - University of Southern California; Johnston Noel P. - University of Oxford; Kingsley Allison - University of Vermont

Abstract: Political risk is a complex phenomenon. This complexity has incentivized scholars to take a piecemeal approach to understanding it. Nearly all scholarship has targeted a single type of political risk (expropriation) and, within this risk, a single type of firm (MNCs) and a single type of strategic mechanism through which that risk may be mitigated (entry mode). Yet "political risk" is actually a collection of multiple distinct risks that affect the full spectrum of foreign firms, and these firms vary widely in their capabilities for resisting and evading these risks. The authors offer a unified theoretical model that can simultaneously analyze: the three main types of political risk (war, expropriation, and transfer restrictions); the universe of private foreign investors (direct investors, portfolio equity investors, portfolio debt investors, and commercial banks); and the three most relevant strategic capabilities (information, exit, and resistance). The authors leverage the variance among foreign investors to identify effective firm strategies to manage political risk. By employing a simultaneous and unified model of political risk, the authors also find counterintuitive insights on the way governments trade-off between risks and how investors use other investors as risk shields.

The Information Value of Sovereign Credit Rating Reports (2014)

Agarwal Sumit - National University of Singapore; Chen Vincent Y. S. - National University of Singapore
Sim Geoffrey - Credit Suisse; Zhang Weina - National University of Singapore

Abstract: In this paper the authors examine the information value of sovereign credit rating reports issued by Moody's in the sovereign credit default swaps (CDS) markets across 70 countries from 2003 to 2013. The authors find that the reports contain useful information beyond credit ratings, especially for the debt-related content. There is also a drop in investors' confidence in CRA's financial risk assessment after the 2009 Eurozone sovereign debt crisis. After decomposing the report content into the expected and surprise components, the authors find that both components contain useful information for the CDS markets. Overall, our study reveals important information value of sovereign credit rating reports for the sovereign CDS markets.

How much of bank credit risk is sovereign risk? Evidence from the eurozone (2014)

Liy Junye - ESSEC Business School; Zinna Gabriele - Bank of Italy

Abstract: In this paper the authors model the term structures of sovereign and bank credit default swaps by using a multivariate credit risk model. First, the probability of joint defaults of large Eurozone sovereigns (systemic risk) is

separated from that of sovereign-specific defaults (country risk). Then, individual banks' exposures to each type of sovereign risk, as well as bank-specific credit risk, are quantified. Banks' exposures to each type of sovereign risk vary with their size, holdings of sovereign debt, and expected government support. On average, 45% of French and Spanish banks', but only 30% of Italian and 23% of German banks' credit risk is sovereign risk. Furthermore, short- to medium-term contracts are particularly informative on sovereign systemic risk.

Derivatives

Sovereign Debt Renegotiation and Credit Default Swaps (2014)

Salomao Juliana - University of Minnesota

Abstract: A credit default swap (CDS) contract provides insurance against default. After a country defaults, the country and its lenders usually negotiate over the share of the defaulted debt to be repaid. This paper incorporates CDS contracts into a sovereign default model and demonstrates that the existence of a CDS market results in lower default probability, higher debt levels, and lower financing costs for the country. Since the CDS payout is not automatically triggered by losses from renegotiations, the lender needs to be compensated for lower expected insurance payments. This leads to higher debt repayment in renegotiation, decreasing the benefits of defaulting, and hence allowing the country to borrow more at lower rates. Uncertainty over the insurance payout when the debt is renegotiated explains why in the data, as the output declines, the CDS spread becomes lower than the bond spread. Furthermore, this pricing dynamic during a debt crisis can be used to infer market perceptions of the probability of the CDS paying out after a renegotiation. The model is calibrated to Greek data, the results show that increasing CDS levels from 0 to 5% of debt lowers the unconditional default probability from 2.6% to 2.0% per year with no impact on debt level. Further increasing the CDS to 40% of debt increases the equilibrium debt level by 15%.

Market Signals and the Cost of Credit Risk Protection: An Analysis of CDS Settlement Auctions (2014)

Zanforlin Luisa - International Monetary Fund; Kanazawa Nobuyuki - Cornell University

Abstract: In this paper the authors study the link between the probability of default implied by Credit Default Swaps (CDS) spreads and the final prices of the defaulted bonds as established at the CDS settlement auctions. The authors observe that the post-default recovery rates at the observed spreads imply markets were often “surprised” by the credit event. The authors find that the prices of the bonds that are deliverable at the auctions imply probabilities of default that are systematically different than the default probabilities estimated prior to the event of default using standard methodologies. The authors discuss the implications for CDS pricing models. The authors analyze the discrepancy between the actual and theoretical CDS spreads and the authors find it is significantly associated both to the CDS market microstructure at the time of the settlement auction and to the general macroeconomic background. The authors discuss the potential for strategic bidding behavior at the CDS settlement auctions.

Institutional Arrangements for Debt Management

The identification of fiscal and macroeconomic imbalances - unexploited synergies under the strengthened EU governance framework (2014)

Kamps Christophe - European Central Bank; De Stefani Roberta - European Central Bank; Leiner-Killinger Nadine - European Central Bank; Rüffer Rasmus - European Central Bank; Sondermann David - European Central Bank

Abstract: In the light of the lessons learned from the euro area sovereign debt crisis, the EU fiscal and macroeconomic governance framework was overhauled in 2011. Against this background, this paper analyses whether the broadened surveillance of fiscal and macroeconomic indicators under the strengthened governance framework would have facilitated the identification of emerging imbalances, had it been in place before the crisis. The findings suggest that the strengthened governance framework would have given earlier signals about emerging excessive fiscal and macroeconomic imbalances. Euro area countries thus would have been obliged to take preventive and corrective action at an earlier stage, provided that the stricter rules had been effectively implemented. At the same time, the paper concludes that the increased reliance of the EU fiscal governance framework on unobservable magnitudes such as the structural budget balance, which are difficult to measure in real time, will continue to impede the timely identification of underlying fiscal imbalances. It is suggested that the new macroeconomic imbalance procedure could have given earlier indications about the emergence of excessive macroeconomic imbalances, which in turn posed risks for fiscal sustainability. Looking forward, these preliminary findings suggest possible synergies between the, until now largely unrelated, fiscal and macroeconomic governance frameworks.

[An Outline of a Progressive Resolution to the Euro-Area Sovereign Debt Overhang: How a Five-Year Suspension of the Debt Burden Could Overthrow Austerity]() (2014)

Sotiropoulos Dimitris P - The Open University; Milios John - National Technical University of Athens; Lapatsioras Spyros - University of Crete

Abstract: The present study puts forward a plan for solving the sovereign debt crisis in the euro area (EA) in line with the interests of the working classes and the social majority. Our main strategy is for the European Central Bank (ECB) to acquire a significant part of the outstanding sovereign debt (at market prices) of the countries in the EA and convert it to zero-coupon bonds. No transfers will take place between individual states; taxpayers in any EA country will not be involved in the debt restructuring of any foreign eurozone country. Debt will not be forgiven: individual states will agree to buy it back from the ECB in the future when the ratio of sovereign debt to GDP has fallen to 20 percent. The sterilization costs for the ECB are manageable. This model of an unconventional monetary intervention would give progressive governments in the EA the necessary basis for developing social and welfare policies to the benefit of the working classes. It would reverse present-day policy priorities and replace the neoliberal agenda with a program of social and economic reconstruction, with the elites paying for the crisis. The perspective taken here favors social justice and coherence, having as its priority the social needs and the interests of the working majority.

Accounting, Transparency and Accountability

[Adjusting the budget balance for the business cycle: the EU methodology]() (2014)

Mourre Gilles - European Commission; Astarita Caterina - European Commission; Princen Savina - European Commission

Abstract: The cyclically-adjusted budget balance (CAB) is the backbone of the EU framework of fiscal surveillance, both in its preventive and corrective arms. The concept corresponds to the budget balance prevailing if the economy was running at potential. After correcting for the one-off and temporary measures, it is called structural budget balance and used to assess the fiscal policy stance. This paper presents the EU methodology for computing the CAB. It derives the new value of the budgetary semi-elasticities following the recent revision of individual revenue and expenditure elasticities by the OECD and shows the effect of the revised elasticities on the CAB.

Coordination with other Policies and Operations

[Sovereign Risk and the 'Macroprudential' Illusion]() (2014)

Whalen Christopher - Kroll Bond Rating Agency

Abstract: Looking back at 2014, capital requirements for banks have increased, liquidity rules have been promulgated, but all without any real focus on the twin causes of the 2008 crisis – namely securities fraud and inadequate disclosure of off balance-sheet leverage. Regulators have even coined the term “macroprudential” to describe a method of managing both markets and whole economies, as though top down management of democratic, free-market societies were actually possible. Seen from another perspective, 2014 was also the year in which public sector debt continued to increase. Governments from Washington to London and Tokyo steadfastly pretend that the accumulation of public and private debt, and related monetary expansion, is not a problem. At the same time, global regulators and their political sponsors in the major industrial nations steadfastly refuse to tackle the difficult problem of eliminating debt that is demonstrably uncollectible.

[Theory of Optimum Financial Areas: Retooling the Debate on the Governance of Global Finance]() (2014)

Jones Erik - Johns Hopkins University; Underhill; Geoffrey R. D. - University of Amsterdam

Abstract: This article examines the institutional preconditions for stable financial integration in a 'theory of optimal financial areas' (OFA). This theory is modelled on the theory of optimal currency areas that has been used to inform the process of monetary integration. Where it differs from optimum currency area (OCA) theory is in focusing on capital mobility and cross-border financial transactions rather than concentrating on exchange rates or macroeconomic adjustment. The authors contend that OCA theory misdirects both the analysis and the policy response: it is more pertinent to ask what makes for financial stability under conditions of market integration than what makes for stable currencies and smooth macroeconomic adjustment. The article proposes six 'criteria' that should be met in order to stabilize an integrated financial ‘market geography’. Three of these criteria relate to the technical substructure of markets, and include a shared risk free asset, centralized sovereign debt management, and common market infrastructures for

communication, clearing, settlement and depository. […]

The Road to Redemption: Policy Response to Crises in Latin America (2014)

Vegh Carlos A. - Johns Hopkins University; Vuletin Guillermo - Brookings Institution

Abstract: This paper analyzes the fiscal and monetary policy responses to crises in Latin America over the last 40 years. The authors argue that, on average, Latin American countries have "graduated" in terms of their policy responses in the sense that they have been able to switch from procyclical to counteryclical policy responses. This average response, however, masks a great deal of heterogeneity with some countries (such as Chile, Brazil, and Mexico) leading the graduation process and others (like Argentina and Venezuela) still showing procyclical policy responses. The authors further show that countercyclical policy responses have been effective in reducing the duration and intensity of crises. Finally, the authors relate our analysis to the current crisis in the Eurozone and argue that, like in many instances in Latin America, procyclical fiscal policy has increased the duration and intensity of the crisis.

Structural reforms at the zero bound (2014)

Vogel Lukas - European Commission

Abstract: This paper uses the European Commission's QUEST macroeconomic model to analyze the impact of structural reforms on economic activity in an environment in which the zero bound on monetary policy rates is temporarily binding. The simulations suggest that although such reforms can have a negative impact on economic activity in the short run, these effects tend to be small and short-lived when a variety of transmission channels are considered. The results also do not support the idea that postponing structural reforms improves economic conditions, in such and environment.

An Overview of Macroprudential Policy Tools (2014)

Claessens Stijn - International Monetary Fund

Abstract: Macroprudential policies – caps on loan to value ratios, limits on credit growth and other balance sheets restrictions, (countercyclical) capital and reserve requirements and surcharges, and Pigouvian levies – have become part of the policy paradigm in emerging markets and advanced countries alike. But knowledge is still limited on these tools. Macroprudential policies ought to be motivated by market failures and externalities, but these can be hard to identify. They can also interact with various other policies, such as monetary and microprudential, raising coordination issues. Some countries, especially emerging markets, have used these tools and analyses suggest that some can reduce procyclicality and crisis risks. Yet, much remains to be studied, including tools' costs ? by adversely affecting resource allocations; how to best adapt tools to country circumstances; and preferred institutional designs, including how to address political economy risks. As such, policy makers should move carefully in adopting tools.

Das Public Kapital: How Much Would Higher German Public Investment Help Germany and the Euro Area? (2014)

Elekdag Selim - International Monetary Fund; Muir Dirk - International Monetary Fund

Abstract: Given the backdrop of pressing infrastructure needs, this paper argues that higher German public investment would not only stimulate domestic demand in the near term and reduce the current account surplus, but would also raise output over the longer-run as well as generate beneficial regional spillovers. While time-to-build delays can weaken the impact of the stimulus in the short-run, the expansionary effects of higher public investment are substantially strengthened with an accommodative monetary policy stance—as is typical during periods of economic slack. The current low-interest rate environment presents a window of opportunity to finance higher public investment at historically favorable rates.

Monetary Policy

Inflation Targeting in India: Select Issues (2014)

Singh Charan - Indian Institute of Management (IIMB), Bangalore

Abstract: The adoption of inflation targeting in India has been a much debated topic which also becomes a challenge for the emerging economy. Though inflation targeting has already been adopted in many emerging and advanced countries, acceptability in India is a matter of concern. The paper argues that an emerging country like India needs to consider the composition of consumer price index; state of macro econometric models; and young demographics, unemployment rate and lack of social security before adopting inflation targeting. To modernize the monetary policy framework, India could consider introducing regular review of the regional economy; instituting a Monetary Policy

Committee; and separating debt from monetary management, the paper argues.

[Anchoring of Inflation Expectations after Adverse Supply Shocks](#) (2014)

Aguilar Ana María - Banco de México; Cuadra Gabriel - Banco de México; Ramírez Claudia - Banco de México; Sámano Daniel - Banco de México

Abstract: In order to create an environment of low and stable inflation in Mexico it has been necessary to generate a framework for the conduction of monetary policy focused on preserving an environment of price stability along with fiscal discipline. In this context, this paper describes some structural achievements to control inflation that have been attained in Mexico. In addition, it shows empirical evidence in favor of the anchoring of inflation expectations, particularly those for the medium and long term, being recently strengthened. It presents an analysis considering three episodes in which inflation in Mexico was subject to different supply shocks, and it finds that of the episodes analyzed, which were within the period 2004-2012, it was during the episode observed in 2012 when inflation expectations showed greater stability, which suggests a strengthening of the credibility of the Bank of Mexico's commitment to price stability.

Global Monetary Tightening: Emerging Markets Debt Dynamics and Fiscal Crises (2014)

Escolano Julio - International Monetary Fund; Kolerus Christina - International Monetary Fund; Ngouana Constant Lonkeng - International Monetary Fund

Abstract: This paper finds that tightening global financial conditions can worsen emerging economies' public debt dynamics through an increasing interest rate-growth differential, particularly if coupled with high global risk aversion. Latin America and emerging Europe are the regions most likely to be adversely affected. In addition, historical evidence—analyzed by means of a Poisson count model—suggests that the frequency of sovereign debt crises increases in emerging economies at the early stage of U.S. monetary tightening cycles, at times in which the term spread also rises. The timing may be related to abrupt switches of expectations about the future course of policy in the early stages of tightening cycles.

Spillovers from United States Monetary Policy on Emerging Markets: Different This Time? (2014)

Chen Jiaqian - International Monetary Fund; Mancini-Griffoli Tommaso - International Monetary Fund; Sahay Ratna - International Monetary Fund

Abstract: The impact of monetary policy in large advanced countries on emerging market economies—dubbed spillovers—is hotly debated in global and national policy circles. When the U.S. resorted to unconventional monetary policy, spillovers on asset prices and capital flows were significant, though remained smaller in countries with better fundamentals. This was not because monetary policy shocks changed (in size, sign or impact on stance). In fact, the traditional signaling channel of monetary policy continued to play the leading role in transmitting shocks, relative to other channels, affecting longer-term bond yields. Instead, the authors find that larger spillovers stem more from structural factors, such as the use of new instruments (asset purchases). The authors obtain these results by developing a new methodology to extract, separate, and interpret U.S. monetary policy shocks.

Fiscal Policy and Budget Management

Vertical Fiscal Imbalances and the Accumulation of Government Debt (2014)

Aldasoro Iñaki - International Monetary Fund; Seiferling Mike - International Monetary Fund

Abstract: Delegating fiscal decision making power to sub-national governments has been an area of interest for both academics and policymakers given the expectation that it may lead to better and more efficient provision of public goods and services. Decentralization has, however, often occurred on the expenditure and less on the revenue side, creating "vertical fiscal imbalances" where sub-national governments' expenditures are not financed through their own revenues. The mismatch between own revenues and expenditures may have consequences for public finance performance. This study constructs a large sample of general and subnational level fiscal data beginning in 1980 from the IMF's Government Finance Statistics Yearbook. Extending the literature to the balance sheet approach, this paper examines the effects of vertical fiscal imbalances on government debt. The results indicate that vertical fiscal imbalances are relevant in explaining government debt accumulation suggesting a degree of caution when promoting fiscal decentralization. This paper also underlines the role of data covering the general government and

its subectors for comprehensive analysis of fiscal performance.

Medium-Term Fiscal Multipliers during Protracted Recessions (2014)

Dell'Erba Salvatore - International Monetary Fund; Koloskova Ksenia - International Monetary Fund; Poplawski-Ribeiro Marcos - International Monetary Fund

Abstract: The paper examines the consequences of fiscal consolidation in times of persistently low growth and high unemployment by estimating medium-term fiscal multipliers during protracted recessions (PR) in a sample of 17 OECD countries. Based on Jorda's (2005) local projection methodology, the authors find that cumulative fiscal multipliers related to output, employment and unemployment at five-year horizons are significantly above one during PR episodes. These results suggest that medium-term fiscal consolidation plans to reduce public debt burdens should proceed gradually if economic activity remains below trend for a prolonged period.

Does Participatory Budgeting Improve Decentralized Public Service Delivery? (2014)

Beuermann Diether W. - Inter-American Development Bank; Amelina Maria - Inter-American Development Bank

Abstract: This paper provides the first experimental evaluation of the participatory budgeting model showing that it increased public participation in the process of public decision making, increased local tax revenues collection, channeled larger fractions of public budgets to services stated as top priorities by citizens, and increased satisfaction levels with public services. These effects, however, were found only when the model was implemented in already-mature administratively and politically decentralized local governments. The findings highlight the importance of initial conditions with respect to the decentralization context for the success of participatory governance.

Fiscal Policy and Inclusive Growth in Advanced Countries: Their Experience and Implications for Asia (2014)

Heshmati Almas - Sogang University, Republic of Korea; Kim Jungsuk - Sogang University, Republic of Korea; Park Donghyun - Asian Development Bank

Abstract: Advanced economies have a significantly longer history of using fiscal policy to tackle inequality and promote inclusive growth than those in developing Asia. Therefore, as developing Asia explores the more active use of fiscal policy for inclusive purposes, it can learn from the experiences of advanced countries. Those experiences clearly suggest that fiscal policy can have a significant effect on inequality which provides some cause for optimism about its equity-promoting potential. Nevertheless, that optimism should be tempered by the different circumstances of advanced versus developing economies along with the need for developing Asia to maintain fiscal sustainability and economic growth.

Fiscal Resources for Inclusive Growth (2014)

Das-Gupta Arindam - Goa Institute of Management, India

Abstract: This paper develops a framework to assess the growth and distribution effects of fiscal resources. Resources are classified as debt, other capital receipts, foreign aid and other unilateral grants, non-tax revenue, including resource rents, seigniorage, and taxes. The framework is used to assess the fiscal resource bases of economies in developing Asia to the extent permitted by available data. Although there is great diversity in the amount of resources raised in terms of the importance of different revenue sources and in the sophistication of revenue administrations, the analysis suggests that in order to expand their relatively low fiscal resource bases, developing Asian economies need to pay greater attention to non-tax revenue and to taxes other than broad-based taxes on income and consumption, such as property taxes and corrective taxes.

Incomplete integration and contagion of debt distress in economic unions (2014)

Karayalcin Cem - Florida International University; Onder Harun - The World Bank

Abstract: This paper compares different fiscal integration schemes on the basis of their ability to finance public investments and resilience to debt distress and contagion. Complete integration schemes, where a central authority chooses the level of public investments with productivity-enhancing externalities across different jurisdictions, are shown to be superior to incomplete integration schemes, where member governments choose public investments unilaterally. As a result, equilibrium income is greater for citizens of member states under a complete integration scheme. Moreover, complete integration schemes are shown to be more resilient to idiosyncratic shocks and more effective in limiting contagion of debt distress. This is mainly because the central authority can credibly borrow more without risking default than member states

taken together can and it can "transfer resilience" across them if needed. These findings inform discussions on structural aspects of secular stagnation in Europe by emphasizing a potential challenge in the institutional design of fiscal responsibilities.

Subnational Bond Markets

Local Government Debt and Economic Growth in China (2014)

Wu Yanrui - University of Western Australia

Abstract: China's local government debt (LGD) has recently become the focus of economic policy debates. However, information about LGD and its impact on economic growth in the Chinese economy is scarce. This paper attempts to present an empirical investigation of the impact of China's LGD on economic growth. It is probably the first of its kind to focus on China and thus contributes to the general literature on the relationship between government debt and economic growth. The paper first provides an assessment of LGD in China's regional economies, using recently released auditing statistics and other available secondary information. It then applies conventional growth analysis methods to examine the impact of LGD on regional growth in China. Various scenario and sensitivity analyses are also conducted, to accommodate the inadequacy and potentially poor quality of debt statistics.

Public Debt in Macroeconomic Analysis

Measuring financial conditions in major non-euro area economies (2014)

Wacker Konstantin M. - World Bank; Lodge David - European Central Bank; Nicoletti Giulio - European Central Bank

Abstract: In this paper, the authors develop financial conditions indices (FCIs) for 3 industrialized (US, Japan, UK) and 5 emerging (China, Brazil, Russia, India, Turkey) economies. The FCIs are formed as the principal component of a range of financial series for each country and are constructed to account for fluctuations in the business cycle. We show that these FCIs can help predict growth developments and thereby provide a potential leading indicator for the external environment of the Euro area. While the authors draw upon established methodological considerations in the literature, our main contribution lies in providing FCIs which are available for a broad set of countries, including many emerging economies, and whose movements can intuitively be interpreted. This latter fact allows us to track developments in the 8 investigated financial markets over the last decade.

Model of the United States economy with learning MUSEL (2014)

Baumann Ursel - European Central Bank; Dieppe Alistair - European Central Bank; González Pandiella Alberto – OECD; Willman Alpo - The University of Kent

Abstract: The model presented here is an estimated medium-scale model for the United States (US) economy developed to forecast and analyze policy issues for the US. The model is specified to track the deviation of the medium run developments from the balanced-growth-path via an estimated CES production function for the private sector, where factor augmenting technical progress is not constrained to evolve at a constant rate. The short-run deviations from the medium run are estimated based on three optimizing private sector decision making units: firms, trade unions and households. The authors assume agents optimize under limited-information model-consistent learning, where each agent knows the parameters related to his/her optimization problem. Under this learning approach the effect of a monetary policy shock on output and inflation is more muted but persistent than under rational expectations, but both specifications are broadly comparable to other US macro models. Using the learning version, the authors find stronger expansionary effects of an increase in government expenditure during periods of downturns compared to booms.

Was the Cyprus Crisis Banking or Sovereign Debt? (2014)

Panayi Efrosyni - University of Cyprus; Zenios Stavros A. - University of Cyprus

Abstract: The complexity of the Cyprus crisis makes answering the question of the title difficult, while the policy implications make the question important. However, the answer to this question unavoidably points the finger to those responsible, and as a result the quest for an answer is clouted by political considerations. In this paper the authors use a systematic analysis of the data to find answers. Relying on literature of Early Warning Systems the authors build a model to determine: (1) When did it become apparent that the Cyprus economy was headed for a crisis, and (2) Could the crisis have been averted if either public finances or banking sector balance sheets were managed differently? The results show, first, that there were indeed early warning signals for the crisis. These came as early as 2009-2010, much before the Cyprus sovereign was cutoff from international markets. Second, there were signals for a banking crisis starting in 2009-2010, and

signals for a sovereign debt crisis starting in 2010-2011. Both sovereign and banks were headed for a crisis, independently of each other, although, of course confounding factors were also present.

Saving Europe? The Unpleasant Arithmetic of Fiscal Austerity in Integrated Economies (2014)

Mendoza Enrique G. - University of Pennsylvania; Tesar Linda L. - University of Michigan; Zhang Jing - Federal Reserve Bank of Chicago

Abstract: What are the macroeconomic effects of tax adjustments in response to large public debt shocks in highly integrated economies? The answer from standard closed-economy models is deceptive, because they underestimate the elasticity of capital tax revenues and ignore cross-country spillovers of tax changes. Instead, the authors examine this issue using a two-country model that matches the observed elasticity of the capital tax base by introducing endogenous capacity utilization and a partial depreciation allowance. Tax hikes have adverse effects on macro aggregates and welfare, and trigger strong cross-country externalities. Quantitative analysis calibrated to European data shows that unilateral capital tax increases cannot restore fiscal solvency, because the dynamic Laffer curve peaks below the required revenue increase. Unilateral labor tax hikes can do it, but have negative output and welfare effects at home and raise welfare and output abroad. Large spillovers also imply that unilateral capital tax hikes are much less costly under autarky than under free trade. Allowing for one-shot Nash tax competition, the model predicts a "race to the bottom" in capital taxes and higher labor taxes. The cooperative equilibrium is preferable, but capital (labor) taxes are still lower (higher) than initially. Moreover, autarky can produce higher welfare than both Nash and Cooperative equilibria.

Effect of External Debt Sustainability on Economic Growth of Sudan: Using Cointegration and Error Correction Mechanism (2014)

Yagoob Adam Hessain - Xiamen University; Zhengming Qian - Xiamen University

Abstract: This paper is an attempt to develop an Error Correction Model (ECM) that, evaluates the effect of external debt sustainability on the economic growth of Sudan. Its Primary purpose, to compare the long run relationship between external debt sustainability and economic growth, estimated through Cointegration and ECM. The empirical results showed that, trade openness, inflation, capital formation, and measures of external debt sustainability, have a significant impact on the economic growth of Sudan. This result is confirmed by the estimates of both, Johansen Cointegration and Engle Granger error correction method. However, the later showed, effect of the changes in the explanatory variables, is above the equilibrium. The equilibrium level is achieved extremely slowly, as the speed of adjustment in economic growth is found to be very small.

The Role of External Debt on Economic Growth: Evidence from Pakistan Economy (2014)

Zaman Rashid - Bahria University, Islamabad; Arslan Muhammad - Bahria University, Islamabad

Abstract: External debt plays a major role in shaping the economic activity of any country. The purpose of the study is to determine the role of external debt on economic growth in Pakistan economy. The study incorporate Gross domestic product (GDP) as a measure of economic growth and gross domestic saving (GDS), gross capital formation (GCF) and external debt stock (EDS) as measure of economic debt. OLS regression model has been employed along with descriptive statistics over the time series data for 39 years. The statistical findings of the study reveal that gross capital formation (GCF) and external debt stock has significant positive effect on Pakistan GDP while gross domestic saving does not have significant impact on GDP of Pakistan.

World Saving (2014)

Grigoli Francesco - International Monetary Fund; Herman Alexander - International Monetary Fund; Schmidt-Hebbel Klaus - Pontificia Universidad Católica de Chile

Abstract: This paper presents new evidence on the behavior of saving in the world, by extending previous empirical research in five dimensions. First, it is based on a very large and recent database, covering 165 countries from 1981 to 2012. Second, it conducts a robustness analysis across different estimation techniques. Third, the empirical search is expanded by including potential saving determinants identified by theory but not previously considered in the empirical literature. Fourth, the paper explores differences in saving behavior nesting the 2008-10 crisis period and four different country groups. Finally, it also searches for commonalities and differences in behavior across national, private, household, and corporate saving rates. The results confirm in part existing research, shed light on some ambiguous or contradictory findings, and highlight the role of neglected determinants. Compared to the literature, the authors find a larger number of significant determinants of saving rates, using different estimators, for different periods and

country groups, and for different saving aggregates.

[Assessing public debt sustainability in Mauritania with a stochastic framework]() (2014)

Baghdassarian William - Henley Business School; Mele Gianluca - World Bank; Pradelli Juan - Consip SPA

Abstract: This work presents a stochastic framework for assessing public debt sustainability and applies it to the case of Mauritania.

Global Financial Transmission into Sub-Saharan Africa A Global Vector Autoregression Analysis (2014)

Canales-Kriljenko Jorge - International Monetary Fund; Hosseinkouchack Mehdi - Goethe University Frankfurt; Meyer-Cirkel Alexis - International Monetary Fund

Abstract: Sub-Saharan African countries are exposed to spillovers from global financial variables, but the impact on economic activity is more significant in more financially developed economies. Generalized impulse responses from a GVAR exercise demonstrate how the CBOE volatility index (VIX) and credit conditions around the globe impact a subset of sub-Saharan African economies and regions. The estimated relationships suggest that the effect of global uncertainty is more pervasive in exports, with the impact on economic and lending activities being mixed. The channels of transmission include the effects of global financial variables on commodity prices and on trading-partner's macroeconomic and financial variables. The analysis suggests that shocks to credit conditions in the euro area and the U.S. have not significantly affected local lending conditions or economic activity in sub-Saharan Africa during 1991-2011, except perhaps in South Africa.

Safe Debt and Uncertainty in Emerging Markets: An Application to South Africa (2014)

Saxegaard Magnus - International Monetary Fund

Abstract: This paper develops a methodology for estimating a safe public debt level that would allow countries to remain below a maximum sustainable debt limit, taking into account the impact of uncertainty. Our analysis implies that fiscal policy should target a debt level well below the debt ceiling to allow space to absorb shocks that are likely to hit the economy. To illustrate our findings the authors apply the methodology to estimate a safe debt level for South Africa. Our results suggest that South Africa's debt ceiling is around 60 percent of GDP, although uncertainty is high. Simulations suggest targeting a debt-to-GDP ratio of 40 percent of GDP would allow South Africa to remain below this debt ceiling over the medium-term with a high degree of confidence.

Historical Evolution of Debt Management

The History of the Political Economy of Public Debt (2014)

Theocarakis Nicholas J. - University of Athens

Abstract: This paper traces the different attempts to explain the role and the effects of public debt on national economies from the late 17th century to the postwar period of the 20th century. Its main emphasis lies in the treatment of public debt in the mercantilist, classical and post-classical period and ends with Lerner's concept of functional finance.

How Fiscal Policy Affects the Price Level: Britain's First Experience with Paper Money (2014)

Antipa Pamfili M. - Banque de France

Abstract: Between 1797 and 1821, Britain suspended the gold standard in order to finance the Napoleonic Wars. This measure was accompanied by large scale debt accumulation and inflation: After Napoleon's final defeat at Waterloo in 1815, the debt to GDP ratio had climbed to 226%; the price level exceeded its 1797 level by 22.3%. Under these circumstances and given that institutional settings allowed excluding the possibility of strategic default, I will show that expectations of how debt would be stabilized in the future shaped the observed evolution of the price level. Thus, my contribution establishes the importance of fiscal determinants of the price level.

Web Resources

Primary Market

World Bank Launches New Green Growth Bond' For Retail Investors In Belgium

The World Bank

The World Bank (International Bank for Reconstruction and Development, IBRD, rated Aaa/AAA) has announced the launch of a new investment solution designed for retail investors in Belgium – the Green Growth Bond. By choosing this green bond linked to an equity index, investors can benefit from the potential growth of an equity index and, at the same time, support projects with a positive climate impact financed by the World Bank.

World Bank Raises USD 4 billion in a Landmark 10-Year Global Bond

The World Bank

The World Bank (IBRD, Aaa/AAA) priced a record setting 10-year transaction today, raising USD 4 billion in a single tranche. This is the World Bank's largest 10-year benchmark ever, and its longest dated debt offering since February 2013. The transaction was significantly oversubscribed, with an order book of more than $5 billion from over 100 high quality orders from all around the world. This is the World Bank's third USD benchmark offering of its 2015 fiscal year, following successful 2- and 5-year transactions in July and September. The joint-lead managers for this global bond are BNP Paribas, J.P. Morgan, Morgan Stanley and RBC Capital Markets.

Post Trading

ESMA Announces MOU with Australian Regulators on CCPs

ESMA

The European Securities and Markets Authority (ESMA), the Australian Securities and Investments Commission (ASIC) and the Reserve Bank of Australia (RBA) have concluded a Memorandum of Understanding (MoU). The MoU establishes cooperation arrangements between the signatory authorities regarding Central Counterparties (CCPs) that are established in Australia and have applied for recognition under EMIR. The MoU is effective as of 27 November 2014. […]

Principles for CCP Recovery

ISDA

Central counterparties (CCPs) have become a crucial part of the derivatives market infrastructure, supported by regulation that requires standardized OTC derivatives to be cleared. Given the systemic importance of these entities, ISDA and its members believe particular attention needs to be paid to ensuring the risks of a CCP reaching the point of non-viability are minimized. If that point is reached, however, a clearly defined recovery plan needs to be in place that does not involve the use of public money. The ISDA Principles for CCP Recovery paper identifies the key issues that need to be addressed, and makes several recommendations on how to proceed.

Multilateral Debt

Guinea-Bissau: Request for Disbursement Under the Rapid Credit Facility-Staff Report; Press Release; and Statement by the Executive Director for Guinea-Bissau - IMF Country Report No. 14/318

International Monetary Fund

This paper discusses Guinea-Bissau's Request for Disbursement Under the Rapid Credit Facility (RCF). In 2012 and 2013, Guinea-Bissau suffered a severe balance of payments shock as the international price of raw cashew nuts—the main export product—fell by about 20 percent per year. [...]

Data and Measurement Essential to Reaching the World Banks Twin Goals

The World Bank

The report focuses on how high-quality data and accurate measurement can help achieve the twin goals of ending poverty and boosting shared prosperity.

Economic development and the effectiveness of foreign aid: A historical perspective

VOX

The effectiveness of official development aid is the subject of heated debate. This column argues that aid affects recipient economies in extremely complex ways and through multiple and changing channels. Moreover, this is a two-way relationship – realities in recipient countries affect the actions of aid agencies. This relationship is so intricate and time-dependent that it is not amenable to being captured by cross-country or panel regressions. Even sophisticated specifications with multiple breakpoints and nonlinearities are unlikely to explain the inner workings of the aid–performance connection.

Grenada: First Review Under the Extended Credit Facility Arrangement and Financing Assurances Review-Staff Report; Press Release - IMF Country Report No. 14/363

International Monetary Fund

On June 26th, 2014, the Executive Board approved a three-year arrangement for a total amount equivalent to SDR 14.04 million (about US$21.7 million, 120 percent of quota). The equivalent of SDR 2.04 million was disbursed upon approval of the arrangement. [...]

Honduras: Request for a Stand-by Arrangement and an Arrangement Under the Standby Credit Facility - Staff Report; Press Release - IMF Country Report No. 14/361

International Monetary Fund

The government of President Hernandez inherited a difficult macroeconomic situation upon taking office in January 2014. [...]

Jamaica: Sixth Review Under the Extended Fund Facility and Request for Modification of Performance Criteria - Staff Report; Press Release; and Statement by the Executive Director for Jamaica - IMF Country Report No. 14/359

International Monetary Fund

Discussions centered on the preparations for the 2015/16 budget, and reforms to strengthen the financial sector and boost growth. The authorities have deepened their efforts in supporting their ambitious fiscal goals by strengthening public financial management and revenue administration, and they reiterated their resolve to continue containing the wage bill. [...]

Pakistan: Fourth and Fifth Reviews Under the Extended Arrangement and Request for Waivers of Nonobservance of Performance Criteria - IMF Country Report No. 14/357

International Monetary Fund

A 36 month, SDR 4,393 million (425 percent of quota) Extended Arrangement under the EFF was approved by the Executive Board of Pakistan on September 4, 2013 and the third review was completed on June 27, 2014, with a total of SDR 1,440 million disbursed. Fifth and sixth tranches totaling of SDR 720 million will be available upon the completion of this review.

Seychelles: First Review under the Extended Arrangement and Request for Modification of Performance Criteria-Staff Report; Press Release - IMF Country Report No. 14/356

International Monetary Fund

This report talks about the program implementation and economic fundamentals continue to be strong, but the external position Weakened in mid-2014. [...]

St. Vincent and the Grenadines: Request for Disbursement Under the Rapid Credit Facility and Purchase Under the Rapid Financing Instrument - Staff Report; Press Release -IMF Country Report No. 14/360

International Monetary Fund

On December 24, 2013, a tropical trough system impacted St. Vincent and the Grenadines. The heavy rains resulted in severe floods and landslides, with damages and losses estimated to be equivalent to about 15 percent of GDP. With most of the impact falling on infrastructure, including bridges, roads and hydroelectric facilities, emergency relief costs and rehabilitation and reconstruction expenses are opening a balance of payments gap in 2014.

Tunisia: Fifth Review Under the Stand-By Arrangement, Request for Modification of Performance Criteria, and Rephasing of Access-Staff Report; Press Release; and Statement by the Executive Director for Tunisia - IMF Country Report No. 14/362

International Monetary Fund

On June 7, 2013, the Executive Board approved a 24-month Stand-By Arrangement in an amount equivalent to 400 percent of quota (SDR 1.146 billion or about $1.75 billion). To date, SDR 716.25 million, equivalent to $1.1 billion, has been disbursed. [...]

Uganda: Third Review Under the Policy Support Instrument-Staff Report; and Press Release - IMF Country Report No. 14/344
International Monetary Fund
In Uganda the key issues supported by generally sound policies, economic performance was positive in FY2013/14. [...]

Legal Issues and Conventions

GAO Issues Report on Bank Capital Reforms
The U.S. Government Accountability Office (GAO)
The GAO issued a report titled: "Bank Capital Reforms: Initial Effects of Basel III on Capital, Credit, and International Competitiveness." The report found that jurisdictional differences in the implementation of the Basel III capital standards have arisen, but their competitive effect on internationally active banks is unclear.

Steven Maijoor Speaks on Preventing Another Financial Crisis
ESMA
European Securities and Markets Authority Chair Steven Maijoor delivered a speech entitled "Regulatory Measures to Prevent Another Crisis" at the CFA Institute in Brussels, Belgium. Maijoor expressed confidence that reforms to date have made the financial system safer.

Monitoring the effects of agreed regulatory reforms on emerging market and developing economies (EMDEs)
Financial Stability Board
The Financial Stability Board released an updated monitoring note on the effects of agreed regulatory reforms on emerging market and developing economies (EMDEs). [...]

FSB Issues Progress Report on Implementation of OTC Derivatives Market Reforms
Financial Stabiliy Board
The report published finds that, although implementation of reforms to meet these commitments is not yet complete, progress has continued to be made in reform areas across the FSB member jurisdictions and further progress is anticipated for 2015. [...]

Risk Management Models

Hearing before the Committee on Economic and Monetary Affairs of the European Parliament
European Systemic Risk Board (ESRB)
Introductory statement by Mario Draghi, Chair of the ESRB - Brussels, 17 November 2014. Mario Draghi, chair of the European Systemic Risk Board (ESRB), provided details of the ESRB's work in his introductory statement before the Committee on Economic and Monetary Affairs of the European Parliament (ECON), particularly in relation to the rebuilding confidence in the European banking system; and the operationalising macro-prudential policy in the banking sector. Draghi concluded by noting that the ESRB is due to publish a report early next year on the regulatory treatment of sovereign exposures.

ESMA Releases Risk Dashboard on EU Securities Markets
ESMA
The European Securities and Markets Authority released its Risk Dashboard for 3Q 2014. ESMA's Risk Dashboard assesses the risks associated to European financial markets looking into liquidity, market, contagion and credit risks. The Dashboard finds that in 3Q14 EU systemic stress indicators increased, after experiencing a calm 2Q14.

Derivatives

ISDA letter to the CFTC on margin requirements for uncleared swaps for swap dealers and major swap participants
Isda - November 25, 2014
ISDA provides comments regarding the recently released notice of proposed rules and advance notice of proposed rulemaking ("CFTC Margin Proposal") concerning margin requirements for non-cleared swaps and the implementation of the related statutory provisions enacted by Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). Our analysis of the proposed rules and response to the proposed rulemaking addresses three critical themes: providing for implementation without excessive disruption; addressing systemic risk in an appropriate manner; and developing a workable cross-border framework.

ISDA letter to the PRs on margin and capital requirements for covered swap entities

Isda

The International Swaps and Derivatives Association1 ("ISDA") appreciates this opportunity to provide comments to the Prudential Regulators2 (the "PRs") regarding the recently released - 2 - notice of proposed rulemaking and request for comments ("PR Margin Proposal")3 concerning margin and capital requirements for non-cleared swaps and non-cleared security-based swaps and the implementation of the related statutory provisions enacted by Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act").[...]

Institutional Arrangements for Debt Management

Perspectives from SADC on Public Debt Management and Restructuring

African Forum and Network on Debt and Development (AFRODAD)

African Forum and Network on Debt and Development (AFRODAD) is hosting a Regional Meeting on Public Debt Management and Restructuring from 18 to 19 November, 2014 in Kempton Park, South Africa. The conference is running under the theme: Perspectives from Parliamentarians and civil society in the Southern Africa Development Community (SADC).

Accounting, Transparency and Accountability

Statistical annex to European Economy - Autumn 2014

European Commission

The statistical annex of European Economy contains the main body of macroeconomic data underlying two annual publications in the series "European Economy" of the Directorate General for Economic and Financial Affairs. Tables are derived from AMECO, the macroeconomic working database of the Directorate General. [...]

DMFAS Mission Calendar Jan - Feb 2015

UNCTAD

The updated list of missions by UNCTAD's Debt Management Financial Analysis System (DMFAS) Programme over the period January & February 2015.

DMOs Programmes and Reports

Cyprus Quarterly Debt Bulletin - 3rd Quarter 2014

Cypriot MoF

Public debt management: review of operations, 3rd Quarter 2014

Public Debt Guidelines 2015

Italian Treasury

This document illustrates the Public Debt Management Guidelines for the year 2015. With the same, as is by now consolidated practice, the Treasury Department intends to inform those participating in the Government securities market regarding the issuance strategy to be followed during the next year with the aim of further highligthing the reasons behind the choices that the Treasury will make on a case-by-case basis on the sovereign debt market. […]

NEW 2015 Public Debt calendar

Italian Treasury

The Italian Treasury has published the 2015 auction calendar, which combines elements from the past and some innovative additions. The auction cycles have remained the same, as has the graphic layout used in past years: a selection of celebrative coins minted by the Italian Republic’s Mint that accompanies the succession of months with some esthetic pleasing features. Moreover the color codes are unchanged in order to distinguish between auction announcement dates (blue), auction dates (red) and auction settlement dates (black). […]

Coordination with other policies and operations

A review of the Spanish economic situation; Spains Budget for 2015

BIS

Testimony by Mr Luis M Linde, Governor of the Bank of Spain, before the Senate Budgetary Committee in connection with the Draft State Budget for 2015, Madrid, 19 November 2014.

The risk situation in the German financial system
BIS
Opening statement by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the unveiling of the Deutsche Bundesbank's Financial Stability Review, Frankfurt am Main, 25 November 2014.

The rebalancing challenge in Europe perspectives for Central, Eastern and Southeastern Europe
BIS
Opening remarks by Prof Dr Ewald Nowotny, Governor of the Central Bank of the Republic of Austria, at the Conference on European Economic Integration (CEEI) 2014, Vienna, 24 November 2014.

The global and European aspects of policy coordination
BIS
Speech by Mr Benoît Coeuré, Member of the Executive Board of the European Central Bank, at the Global Research Forum on International Macroeconomics and Finance, Washington DC, 14 November 2014.

Economic outlook, monetary policy, and credit ratings
BIS
Speech by Mr Már Guðmundsson, Governor of the Central Bank of Iceland, at the Chamber of Commerce Monetary Policy Meeting, Reykjavik, 6 November 2014.

Tax Policy and the Economy
NBER
Tax Policy and the Economy publishes current academic research findings on taxation and government spending that have both immediate bearing on policy debates and longer-term interest.

Papua New Guinea: 2014 Article IV Consultation-Staff Report; Press Release - IMF Country Report No. 14/325
International Monetary Fund
This paper is the for the periodic consultation with the member country […]

OECD Economic Surveys: India 2014
OECD
OECD's 2014 Economic Survey of India examines recent economic developments, policies and prospects. Special chapters cover health, the manufacturing sector and economic participation of women.

Republic of Fiji: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for the Republic of Fiji - IMF Country Report No. 14/321
International Monetary Fund
This paper is for the periodic consultation with the member country […]

Turkey: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Turkey - IMF Country Report No. 14/329
International Monetary Fund
This paper is for the periodic consultation with the member country […]

Why Is Ukraine So Poor?
The Peterson Institute for International Economics
The first question Russians usually pose when discussing Ukraine's economy is: Why are they so poor? (Почему они такие бедные?) The question is to the point. Ukraine's economy has persistently underperformed quite spectacularly because of pervasive corruption. In 1989, Ukraine's GDP per capita was 10 percent higher than Russia's according to old Soviet statistics. Today, Russia's GDP per capita at current prices and exchange rates is about three times higher. Poland has risen even faster.

Zimbabwe: Third Review Under the Staff-Monitored Program and Successor - IMF Country Report No. 14/322
International Monetary Fund
Zimbabwe's economy is at a crossroads. The post-hyperinflation rebound has ended and the outlook is for sluggish growth in 2015.[...]

An Economic Strategy to Save Ukraine
The Peterson Institute for International Economics

Ukraine has experienced a year of unprecedented political, economic, and military turmoil. The combination of Russian military aggression in the east and a legacy of destructive policies leading to pervasive corruption has plunged the country into an existential crisis. The West, meanwhile, has been largely paralyzed with uncertainty over how to assist Ukraine without reviving Cold War hostilities. Yet all is not lost for Ukraine. The successful elections of President Petro Poroshenko in May and a new parliament in October offer an opportunity for economic reform, despite the continuing military threat. The window of opportunity is likely to be brief, however. The new government will have to act fast and hard on many fronts to succeed. Åslund lays out the strategy.

Denmark: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Denmark - IMF Country Report No. 14/331
International Monetary Fund
This paper is for the periodic consultation with the member country […]

Denmark: Financial System Stability Assessment - IMF Country Report No. 14/336
International Monetary Fund
The Danish authorities have taken important steps in recent years to improve financial system resilience. Financial regulation and supervision have been strengthened. [...]

Kingdom of the Netherlands-Netherlands: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for the Netherlands - IMF Country Report No. 14/327
International Monetary Fund
This paper is for the periodic consultation with the member country […]

Kuwait: 2014 Article IV Consultation-Staff Report; Press Release - IMF Country Report No. 14/333
International Monetary Fund
This paper is for the periodic consultation with the member country […]

Mexico: 2014 Article IV Consultation-Staff Report; and Press Release - IMF Country Report No. 14/319
International Monetary Fund
This paper is for the periodic consultation with the member country […]

Lacklustre investment in the Eurozone: The policy response
VOX
Weak investment is a key macroeconomic problem in the Eurozone, and the new European Commission has proposed an 'Investment Plan' to complement existing policy initiatives. In this column, the Commission's Chief Economist explains the key rationale behind the Investment Plan.

Managing EU Funds What We Can Learn from Slovenia
The World Bank
The experience of Slovenia, in particular, is highly relevant for the Western Balkans. The country went through a similar process of EU integration in the recent past and subsequently made the necessary adjustments to its financial recording and public finance systems, the latter having some commonalities with those of the Western Balkans.

OECD Economic Outlook, Volume 2014 Issue 2
OECD
The OECD Economic Outlook is the OECD's twice-yearly analysis of the major economic trends and prospects for the next two years.

Taking Stock: An Update on Vietnams Recent Economic Developments December 2014
The World Bank
Early signs show that Vietnam's economic recovery is on track. GDP growth picked up to a relatively brisk 6.2 %(y-o-y) in the third quarter of 2014, contributing to an overall growth rate of 5.6% for the first nine months of the year.

World Bank Group Experts say Capital Markets Key to Romania's Sustained Growth
The World Bank
Romania needs to develop deeper and more liquid financial markets in order to sustain economic growth, according to World Bank Group experts at a capital markets conference in Bucharest.

Algeria: Selected Issues Paper - IMF Country Report No. 14/342
International Monetary Fund

Although Algeria enjoys substantial fiscal savings, fiscal policy is currently on an unsustainable path. Under current projections, Algeria will deplete its financial savings in the long term, leaving future generations worse off. [...]

Republic of South Sudan: 2014 Article IV Consultation- Staff Report; Staff Statement; and Press Release - IMF Country Report No. 14/345
International Monetary Fund
This paper is for the periodic consultation with the member country […]

South Africa: Selected Issues Paper - IMF Country Report No. 14/339
International Monetary Fund
This paper estimates the potential growth rate for South Africa using several methodologies. In line with existing studies and findings for other emerging markets, it finds that South Africa's potential growth rate has declined in the post global financial crisis period. […]

Sudan: 2014 Article IV Consultation and Second Review Under Staff-Monitored Program-Staff Report; Press Release; and Statement by the Executive Director for Sudan - Country Report No. 14/364
International Monetary Fund
Sudan's economy has yet to recover from the shock of South Sudan's secession three years ago, which took away three-quarters of oil production, half of its fiscal revenues, and two-thirds of its international payments capacity. [...]

Monetary Policy

Japans economic activity, prices, and monetary policy the medium-term outlook and the expansion of monetary easing
BIS
Speech by Ms Sayuri Shirai, Member of the Policy Board of the Bank of Japan, at a meeting with business leaders, Hiroshima, 26 November 2014.

US monetary policy and its global implications
BIS
Remarks by Mr William C Dudley, President and Chief Executive Officer of the Federal Reserve Bank of New York, at the Central Bank of the United Arab Emirates, Abu Dhabi, 13 November 2014.

Stability and prosperity in Monetary Union
BIS
ECB President Mario Draghi outlined the minimum requirements needed to complete monetary union in a way that offers stability and prosperity for all its members in a speech to students of the University of Helsinki.[...]

Monetary policy in the euro area
BIS
Mario Draghi, President of the European Central Bank, today opened the Frankfurt European Banking Congress, with an analysis of the economic situation facing the euro area and of the ECB's monetary policy response.[...]

Guidelines for the Single State Monetary Policy in 2015 and for 2016 and 2017
BIS
Presentation by Ms Elvira Nabiullina, Governor of the Bank of Russia, at a meeting of the Committee on the Budget and Taxes of the State Duma of the Russian Federation, Moscow, 13 October 2014.

Monthly Bulletin, December 2014
European Central Bank
Based on the regular economic and monetary analyses, and in line with its forward guidance, the Governing Council decided at its meeting on 4 December 2014 to keep the key ECB interest rates unchanged. [...]

Japan's economy and monetary policy - Speech by Mr Haruhiko Kuroda, Governor of the Bank of Japan
BIS
In April last year, the Bank introduced the quantitative and qualitative monetary easing (QQE) to achieve the price stability target of 2 percent at the earliest possible time, with a time horizon of about 2 years.[...]

Mario Draghi Speaks on Financial Stability in the Euro Area
BIS
European Central Bank President Mario Draghi delivered a speech entitled "Safeguarding Price and Financial Stability in the Euro Area" at the Finnish Parliament in Helsinki. Draghi highlighted that, over the past crisis years, the ECB has acted forcefully to safeguard price stability and to contribute to financial stability in the euro area as a whole.

When Will the ECB Move on Monetary Stimulus?
The Peterson Institute for International Economics
The European Central Bank's (ECB) final meeting at which all participating national central bank (NCB) governors get to vote takes place on December 4. In January1 a new rotational system starts in which only 21 votes will be cast for monetary policy decision—15 NCB governors and 6 members of the ECB Executive Board.

Combatting Eurozone deflation: QE for the people
VOX
Eurozone deflation is likely to become reality when the annual inflation figure for 2014 is announced in January. This column argues that the ECB should develop a strategy that works in the Eurozone's unique financial setting, instead of following the Fed's lead. The author proposes that the ECB should pursue 'quantitative easing for the people', such as sending each adult citizen a €500 cheque.

Fiscal policy and Budget Management

Mamta Murthi: World Bank to Help Poland Resolve the "Robin Hood" Tax Issue
The World Bank
The World Bank is helping Poland design a new system called the "Robin Hood" tax system. In the first quarter of 2015 a working group composed of representatives of the Ministry of Finance, the World Bank, subnational governments and academia will be launched to share international experience in Poland.

World Bank Advises Croatia on how to Accelerate its Economic Recovery
Croatia MoF
Prospects for Croatia's strong recovery from recession and return to the pre-recession growth rates are slim unless the country vigorously moves forward in addressing the structural weaknesses of its economy, according to the World Bank's new Public Finance Review: Restructuring Spending for Stability and Growth report.

Best Practices Publications

Best Practices for Single-name Credit Default Swap Confirmations Regarding Reference Obligation or Standard Reference Obligation - November 18, 2014
ISDA
The table below sets out best practices for a Confirmation of a single-name Credit Default Swap ("CDS") transaction that incorporates either the 2014 ISDA Credit Derivatives Definitions (the "2014 Definitions") or the 2003 ISDA Credit Derivatives Definitions (the "2003 Definitions").[...]

Public Debt in Macroeconomic Analysis

Eurosystem staff macroeconomic projections for the euro area - Dicember 2014
European Central Bank
This article summarises the macroeconomic projections for the euro area for the period 2014-16. [...]

Latvia: benefiting from the euro, facing new challenges - Volume 11 | Issue 12 | November 2014
European Commission
Latvia appears to be already reaping a number of benefits from its changeover to the euro in January 2014. Enhanced competition, bank intermediation and the low-interest rate environment are bringing immediate and long-term benefits to the economy. [...]

Network News

From January 2011 the "Network News" section is present also in the *Public area* of the Network's website. The Partners can find *daily news* (16.928 items inserted by the Secretariat since January 2011) extracted from best online newspapers and info providers and classified by geographical areas.

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

Events and Courses

Newly uploaded

29 January 2015 - Hotel Metropole - 31, Place de Brouckère, 1000 Brussels Belgium
ACI and ICMA 2015 Economic Summit and New Years Event

22 January 2015 - Restaurant Pörssi – Peilisali - Fabianinkatu 14, 00130 Helsinki - Finland
Annual ICMA and NCMF Joint Seminar: Bond Markets - new products, new challenges

23 February 2015 - United Kingdom
Public Financial Management: Issues & Solutions(2015)

23 February 2015 - Web-based
E-Learning Course on Budget Formulation

Previously signaled

11 February 2015 - The Mansion House - London
Japan Securities Summit

03 March 2015 - Grand Hyatt, New York, USA
2015 Insurance and Risk Linked Securities Conference

03 March 2015 - Deutsche Nationalbibliothek (German National Library) - Adickesallee 1 - 60322 Frankfurt am Main
The 7th Annual bwf and ICMA Capital Markets Conference

Communication Corner

At the link below, Partners can find details on the *Philippines* study visit held on February 2014 at the Italian Ministry of Economy and Finance premises.

http://www.publicdebtnet.org/public/MoreAboutUs/Study/

REMINDER…

e-LEARNING COURSE MATERIALS

The PDM network website hosts materials from e-learning course "**ADVANCED RISK MANAGEMENT**" organized by UNITAR thanks to Enrique Cosio-Pascal contribution.
The four modules course is downloadable from the Reserved Area of the website in the Section "*Learning Area*". This course is oriented toward those economists and financial specialists that would be dealing with financial risk management issues.

Some figures

On 13th January 2015, the number of total resources of the PDM Network website is 22.692 (of which 16.928 news, 2.748 papers and articles in reviews and books, and 2.193 webresources). The Members are 793, coming from 117 countries. 433 Partners belong to sovereign debt management institutions of emerging and advanced countries. This newsletter is sent to 604 Partners.

Special thanks

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Participating Institutions in the PDM Network

OECD

Australian OFM, Austrian DMA, Belgian DMA, Belgian Central Bank, Canadian Foreign Affairs and International Trade, Canadian Government, Chilean Central Bank, Chilean MOF, Czech Central Bank, Czech Mof, Danish DMO, Danish Central Bank, Danish Mof, Dutch Central Bank, Dutch DMA, Dutch MoF, Finnish Treasury, Finnish MoF, French Central Bank, French DMA, French MoF, German Central Bank, German MoF, German Finance Agency, Greek DMA, Greek MoF, Greek Central Bank, Hungarian DMA, Hungarian MoF, Hungarian National Bank, Icelandic DMA, Irish NTMA, Irish MoF, Israeli MoF, Israeli Central Bank, Italian Development Co-operation Office, Italian Ministry of Foreign Affairs, Italian MoF, Italian Senate, 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, Slovenian MoF, Spanish Central Bank, Spanish MoF, Swedish DMO, Swedish Mof, Swiss State Secretary for Economic Affairs SECO, Turkish Treasury, US GAO, US Treasury, UK Central Bank, UK DMO, UK Treasury.

Non-OECD

Afghan Mof, Albanian Mof, Angolan National Bank, argentine Central Bank, Argentine MoF, Bangladeshi MoF,The Audit Board of The Republic of Indonesia, Autonomous Sinking Fund of Cameroon, Barbados Central Bank, Bosnia and Herzegovina Federal Ministry of Finance, Brazilian Central Bank, Brazilian MoF, Bulgarian MoF, Chinese MoF, Colombian MHCP, Cypriot Central Bank, Cypriot MoF, Dubai Government, Dubai MoF, Eastern Caribbean Central Bank, Egyptian MoF, Estonian MoF, Ethiopian MoF, Fiji MoF, Georgian Mof, Ghanaian Central Bank, Ghanaian MoF, Hong Kong Monetary Auth., Indian Reserve Bank, Indian NIPF, Indonesian Central Bank, Jordanian Central bank, Kenyan Central Bank, Kenyan MoF, , Latvian DMO, Lebanese MoF, Lesotho Central Bank, Lesotho MoF, Lithuanian MoF, Republic of Macedonia MoF, Malawian Reserve Bank, Maldives MoF, Maltese Treasury, Maltese Central Bank, Mauritius Ministry of Finance and Economic Development, Moldovan MoF, Moldovan Court of Accounts, Moroccan MoF, Mozambique Ministry of finance, National Analytical Centre of the Government of Kazakhstan, Nicaraguans Ministry of Finance and Public Credit, Nigerian DMO, State Bank of Pakistan, Pakistani MoF, Papua New Guinean Treasury, Paraguayan Ministry of Finance, Philippine Bureau of the Treasury, Romanian MoF, Romanian Central Bank, Romanian Court of Accounts, Rwandan MoF, Sain Kitts & Nevis MoF, Santa Lucia Ministry of Finance Economic Affairs and National Development, Serbian Mof, Singaporean MoF, Solomon Island Central Bank, Solomon Islands MoF, South African National Treasury, South Korean MoF, Bank Of Korea, Sri Lanka Central Bank, Swaziland's MoF, Tanzanian MoF, Thai Central Bank, Thai Mof, The People's Bank of China, Ugandan Central Bank, United Arab Emirates MoF and Central Bank, Uruguayan MoF, Vietnamese Mof, Zimbabwean DMO.

Multilateral Institutions

ADB-Asian Development Bank, African Development Bank Group, African Forum and Network on Debt and Development (Afrodad), Asian Development Bank Institute, CEF-Center of Excellence in Finance, Commonwealth Secretariat, Debt Relief International, European Bank EBRD, European Central Bank, European Commission, Inter-American Development Bank (IADB), International Monetary Fund (IMF), International Finance Corporation (IFC), International Monetary Fund (IMF), MEFMI, OECD, West African Institute for Financial and Economic Management (WAIFEM), World Bank, United Nations Conference on Trade and Development (UNCTAD).

Universities
Columbia University, CRIEP (Italy), Duke University's Fuqua School of Business, Harvard University, Harvard Business School, Johns Hopkins University, London Business School, Mays Business School at Texas A&M University, National Chengchi University, National University of Science and Technology, Norwegian School of Economics and Business Administration, Stanford University, The George Washington University, University "Dunarea de Jos" Galati – Romania, University of Bologna, University of Brussels, University of California, University of Chicago, University of Colorado, University of London Birkbeck, University of Maryland, University of Milan, University of Molise, University of Padua, University of Rome "La Sapienza", University of Rome "Tor Vergata", University of Tokyo, University of Tuzla, University of Vienna, University of Viterbo "La Tuscia".

Other Institutions
Afrifocus Securities; Association for Financial Markets in Europe (AFME), Barclays Capital, BE Berlin Economics GmbH, Belgrade Banking Academy, Business Monitor International Limited, Cass Business School, CCM - Carolina Capital Markets, Centre for Planning and Economic Research, Crown Agents, CfC Stanbic Bank, Colchester Global Investors, Comitè de Inversiones Extranjeras, Concorde Capital, Devfin Advisers AB, DIFC-Dubai International Financial Centre, Digital Bridge Institute, Econviews, Euromoney, Exchange Data International Limited, Finance for Development-FMO, FTI, HSBC, International Capital Market Association (ICMA), International Social-Economic Development for Africa (ISEDA), Institut d'Anàlisi Econòmica (CSIC), Japan Bank for International Cooperation, JCVP Consulting, Johannesburg Stock Exchange Limited (JSE), KFW Bankengruppe, Korea Bond Pricing, Linus Capital, MAK Azerbaijan Ltd, Mckinsey & Company, Inc. International, Michele Robinson Consult, Morgan Stanley, NEDBANK, Newstate Partners LLP, Oxford Policy Management (OPM), Pragma Corporation, Public Debt Finance, Reykjavik Academy, Századvég Economic Research, Sifma-Epda, Storkey & Co. Ltd., The ONE Campaign, Tudor Investment Corporation, United Bank For Africa (UBA) PLC., U.S. Agency for International Development (USAID).