PDM NETWORK *Monthly Newsletter*

n. 9/October 2014

ISSN 2239-2033

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

Secondary Market

International asset allocations and capital flows : the benchmark effect **(2014)**

Raddatz Claudio - Central Bank of Chile; Schmukler Sergio L. - World Bank; Williams Tomás - Universitat Pompeu Fabra

Abstract: This paper studies channels through which well-known benchmark indexes impact asset allocations and capital flows across countries. The study uses unique monthly micro-level data of benchmark compositions and mutual fund investments during 1996-2012. Benchmarks have important effects on equity and bond mutual fund portfolios across funds with different degrees of activism. Benchmarks explain, on average, around 70 percent of country allocations and have significant impact even on active funds. Benchmark effects are important after controlling for industry, macroeconomic, and country-specific, time-varying effects. Reverse causality does not drive the results. Exogenous, pre-announced changes in benchmarks result in movements in asset allocations mostly when these changes are implemented (not when announced). By impacting country allocations, benchmarks affect capital flows across countries

through direct and indirect channels, including contagion. They explain apparently counterintuitive movements in capital flows, generating outflows from countries when upgraded and with large market capitalization and better relative performance.

Do the Type of Sukuk and Choice of Shari'a Scholar Matter? (2014)

Godlewski Christophe J. - University of Strasbourg; Turk Rima - International Monetary Fund; Weill Laurent - University of Strasbourg

Abstract: Sukuk, the shari'a-compliant alternative mode of financing to conventional bonds, have expanded considerably over the last decade. The authors analyze the stock market reaction to two key features of this financial instrument: sukuk type and characteristics of the shari'a scholar certifying the issue. The authors use the event study methodology to measure abnormal returns for a sample of 131 sukuk from eight countries over the period 2006-2013 and find that Ijara sukuk structures exert a positive influence on the stock price of the issuing firm. The authors observe a similar positive impact from shari'a scholar reputation and proximity to issuer. Overall our results support the hypotheses that the type of sukuk and the choice of scholars hired to certify these securities matter for the market valuation of the issuing company.

U.S. Investment in Global Bonds: As the Fed Pushes, Some EMEs Pull (2014)

Burger John D. - Loyola University Maryland; Sengupta Rajeswari - Development Research (IGIDR) Warnock Francis E. - University of Virginia; Cacdac Warnock Veronica - University of Virginia

Abstract: The authors analyze reallocations within the international bond portfolios of US investors. The most striking empirical observation is a steady increase in US investors' allocations toward emerging market local currency bonds, unabated by the global financial crisis and accelerating in the post-crisis period. Part of the increase in EME allocations is associated with global "push" factors such as low US long-term interest rates and unconventional monetary policy as well as subdued risk aversion/expected volatility. But also evident is investor differentiation among EMEs, with the largest reallocations going to those EMEs with strong macroeconomic fundamentals such as more positive current account balances, less volatile inflation, and stronger economic growth. The authors also provide a descriptive analysis of global bond markets' structure and returns.

Legal Issues and Conventions

Innovative Market-Based Responses to Public Debt Crises (2014)

Hatzakis Emmanuel D - UBS Wealth Management Americas

Abstract: In this paper the authors examine the process of public debt default, including its causes, events leading up to it, policy responses and their varying degrees of success, as well as factors that determine future access to debt markets by defaulted public entities. Finally, the authors review innovative approaches to preventing, or, at least, alleviating the effects of, public debt crises, some of which have already been used by public borrowing entities, including default and restructuring cases, while some have only been proposed. In our study, the authors analyze well-known default and restructuring episodes, and review the relevant research from the vast body of literature in the area.

Puerto Rico and the Bankruptcy Clause (2014)

Lubben Stephen J. - Seton Hall University

Abstract: Puerto Rico has about $72.6 billion in outstanding debt, and its public corporations have about $24.8 billion of that debt. But Puerto Rico's public corporation are not permitted to file for municipal bankruptcy under chapter 9 of the Bankruptcy Code. To solve this problem, Puerto Rico recently enacted an insolvency statute, commonly called the "Recovery Act," which is a practical blend of chapters 9 and 11 of the U.S. Bankruptcy Code. The new law provides a framework to restructure the public corporations' debts. Immediately after the Recovery Act was signed into law, bondholders filed two lawsuits against it. The suits contend that the Recovery Act violates the Bankruptcy Clause, which the plaintiffs argue gives the federal government the exclusive right to legislate on bankruptcy. Indeed, the plaintiffs even call for the court to recognize the existence of a "Dormant Bankruptcy Clause," like its better-known relative in the Commerce Clause. The plaintiffs also make a companion argument that the federal Bankruptcy Code supersedes the new Puerto Rican law, despite the exclusion of the Commonwealth's municipal entities from the Code's chapter 9. In short, the bondholders argue that Congress intended to preclude Puerto Rico and its divisions from any bankruptcy process whatsoever, and the Act interferes with that purpose. None of these arguments stands up to much scrutiny. This paper explains why.

[Sovereign Debt and the 'Contracts Matter' Hypothesis](#) (2014)

Weidemaier Mark C. - University of North Carolina; Gulati G. Mitu - Duke University

Abstract: The academic literature on sovereign debt largely assumes that law has little role to play. Indeed, the primary question addressed by the literature is why sovereigns repay at all given the irrelevance of legal enforcement. But if law, and specifically contract law, does not matter, how to explain the fact that sovereign loans involve detailed contracts, expensive lawyers, and frequent litigation? This Essay makes the case that contract design matters even in a world where sovereign borrowers are hard (but not impossible) to sue. The authors identify a number of gaps in the research that warrant further investigation.

Argentina's Default on Rescheduled Debt: Different Perspectives (2014)

Sinapi Christine - Burgundy School of Business; Ashta Arvind - Burgundy School of Business; Pilkington Marc - University of Burgundy

Abstract: Argentina's "default" of its rescheduled debt has brought out the multiple vested interests or stakeholders involved. This includes not only Argentina and the vulture funds which are insisting on prioritized full payments, but also the majority bondholders who agreed to rescheduling and the trustee Bank. The many different court processes instigated have shown that legal jurisdiction is also a vested business interest of different countries, notably the US in this case. The paper also looks at other stakeholders including Argentinian businesses, the International Capital Markets Association and the United Nations. In fact, the authors find that with international capital, the authors need global governance mechanisms. The paper is written as a pedagogical note for students, and researchers can skip the introduction.

The Missing Element of a Single Limb Voting Procedure: Fair and Equitable Treatment Standard in Sovereign Debt Restructuring (2014)

Li Yanying - Leiden University

Abstract: Contractual Framework to Address Collective Action Problems in Sovereign Debt Restructuring". Among other things, the staff paper advocates in favor of a single Collective Action Clause ("CAC") with a menu of voting procedures, including (1) a series-by-series voting procedure, (2) a two-limb aggregated voting procedure, and (3) a single-limb voting procedure with the possibility for "sub-aggregation". The single-limb voting procedure in option (3) will enable contract terms to be amended on the basis of a single vote across all affected instruments, thereby disallowing a creditor or a group of creditors to obtain a blocking position in a particular series. In the view of the author, the single-limb voting procedure resembles the cram-down procedure in the U.S. municipality bankruptcy law, with the exception of one missing element. Whereas the cram-down procedure contains a safeguard provision that ensures minimum protection for each impaired dissent creditor class through the prohibition of unfair discrimination and fair and equitable treatment principle, the single-limb voting procedure is silent about creditor protection in this context. In searching for a safeguard provision for the single-limb voting procedure, the author discovers the similarities between the safeguard provision for cram-down procedures and the fair and equitable treatment principle under investment treaties, and argues that investment arbitration could serve as an appropriate forum to develop a safeguard provision for the single-limb voting procedure.

Risk Management Models

The Term Structure of CDS Spreads and Sovereign Credit Risk (2013)

McGill University - Desautels Faculty of Management

Abstract: The shape of the term structure of credit default swap spreads is an informative signal about the relative importance of global and domestic risk factors to the time variation of sovereign credit spreads. A model illustrates how global shocks determine spread changes when the slope is positive, while a negative slope indicates that domestic shocks are relatively more important. These theoretically motivated results are empirically validated using a geographically dispersed panel of 44 countries. Overall, the results suggest that both global risk factors and country-specific fundamentals are important sources of sovereign credit risk. They simply matter at different times.

Managing Default Risk

Zabai Anna – BIS

Abstract: High sovereign debt in advanced economies has recently revived the debate about the role of coordination problems and self-fulfilling beliefs as drivers of sovereign default risk. The author shows how default risk can be decomposed in a solvency-risk component and a coordination-risk component. The author then studies how fiscal policy can be effective in managing the risk of coordination and characterises how the shape of the optimal policy is affected by the presence of this risk: making the deficit contingent on interest rate movements is more effective in managing default risk than using non-contingent fiscal targets.

Derivatives

Benchmark tipping in the global bond market

Kreicher Lawrence – BIS, McCauley Robert N – BIS, Wooldridge Philip – BIS
Abstract: The authors analyse the turnover of fixed income derivatives in seven currencies to test the hypothesis that market participants increasingly use contracts based on private rather than government rates to hedge and to take positions. In the US dollar money market, private benchmarks long ago displaced government benchmarks. In the bond markets, evidence from organised exchanges and the Triennial Central Bank survey on over-the-counter (OTC) markets suggests that the benchmark is tipping from government bond futures to private interest rate swaps. The global financial crisis seems only to have interrupted this process in the US dollar bond market, the European sovereign bond strains may have accelerated it in the euro bond market; and the policy to clear centrally OTC trades does not seem to be impeding it. Cross-sectional analysis of 35 bond markets identifies bond market size and GDP per capita as key determinants of the existence of government bond futures. Based on these results, one may expect successful introduction of government bond futures in China and Brazil even as such contracts continue to lose ground in today's major markets.

Institutional Arrangements for Debt Management

Non-Defaultable Debt and Sovereign Risk (2014)

Hatchondo Juan Carlos - Indiana University; Martinez Leonardo - International Monetary Fund; Onder Yasin Kursat - Central Bank of Turkey

Abstract: In this paper the authors quantify gains from introducing non-defaultable debt as a limited additional financing option into a model of equilibrium sovereign risk. The authors find that, for an initial (defaultable) sovereign debt level equal to 66 percent of trend aggregate income and a sovereign spread of 2.9 percent, introducing the possibility of issuing non-defaultable debt for up to 10 percent of aggregate income reduces immediately the spread to 1.4 percent, and implies a welfare gain equivalent to a permanent consumption increase of 0.9 percent. The spread reduction would be only 0.1 (0.2) percentage points higher if the government uses nondefaultable debt to buy back (finance a "voluntary" debt exchange for) previously issued defaultable debt. Without restrictions to defaultable debt issuances in the future, the spread reduction achieved by the introduction of non-defaultable debt is short lived. The authors also show that allowing governments in default to increase non-defaultable debt is damaging at the time non-defaultable debt is introduced and inconsequential in the medium term. These findings shed light on different aspects of proposals to introduce common euro-area sovereign bonds that could be virtually non-defaultable.

The Economic Adjustment Programme for Portugal 2011-2014 (2014)

European Commission

Abstract: This report provides a general overview and assessment of the performance of the Portuguese economy under the EU/IMF Economic Adjustment Program for Portugal and the remaining challenges ahead. The Program, which covered the period 2011-2014, provided official sector financing by the European Union, the euro-area Member States and the IMF of some EUR 78 billion, for Portugal's possible fiscal financing needs and support to the banking system. One third was to be financed by the European Union under the European Financial Stabilization Mechanism (EFSM), another third by the European Financial Stability Facility (EFSF), and the remaining third by the IMF under an Extended Fund Facility. [...]

Coordination with other Policies and Operations

Global Risks and Collective Action Failures: What Can the International Community Do? (2014)

Ötker-Robe İnci - International Monetary Fund

Abstract: What do climate change, global financial crises, pandemics, and fragility and conflict have in common? They are all examples of global risks that can cross geographical and generational boundaries and whose mismanagement can reverse gains in development and jeopardize the well-being of generations. Managing risks such as these becomes a global public good, whose benefits also cross boundaries, providing a rationale for collective action facilitated by the international community. Yet, as many public goods, provision of global public goods suffer from collective action failures that undermine international coordination. This paper discusses the obstacles to addressing these global risks effectively, highlighting their implications for the current juncture. It claims that remaining gaps in information, resources, and capacity hamper accumulation and use of knowledge to trigger appropriate action, but diverging national interests remain the key impediment to cooperation and effectiveness of global efforts, even when knowledge on the risks and their consequences are well understood. The paper argues that managing global risks requires a cohesive international community that enables its stakeholders to work collectively around common goals by facilitating sharing of

knowledge, devoting resources to capacity building, and protecting the vulnerable. When some countries fail to cooperate, the international community can still forge cooperation, including by realigning incentives and demonstrating benefit from incremental steps toward full cooperation.

The Impact of the Global Financial Crisis on Banking Globalization (2014)

Claessens Stijn - International Monetary Fund; van Horen Neeltje - De Nederlandsche Bank

Abstract: Although cross-border bank lending has fallen sharply since the crisis, extending our bank ownership database from 1995-2009 up to 2013 shows only limited retrenchment in foreign bank presence. While banks from OECD countries reduced their foreign presence (but still represent 89% of foreign bank assets), those from emerging markets and developing countries expanded abroad and doubled their presence. Especially advanced countries hit by a systemic crisis reduced their presence abroad, with far flung and relatively small investments more likely to be sold. Poorer and slower growing countries host fewer banks today, while large investments less likely expanded. Conversely, faster host countries' growth and closeness to potential investors meant more entry. Lending by foreign banks locally grew more than cross-border bank claims did for the same home-host country combination, and each was driven by different factors. Altogether, our evidence shows that global banking is not becoming more fragmented, but rather is going through some important structural transformations with a greater variety of players and a more regional focus.

Lessons from the European Financial Crisis (2014)

Pagano Marco - University of Naples Federico II

Abstract: This paper distils three lessons for bank regulation from the experience of the 2009-12 euro-area financial crisis. First, it highlights the key role that sovereign debt exposures of banks have played in the feedback loop between bank and fiscal distress, and inquires how the regulation of banks' sovereign exposures in the euro area should be changed to mitigate this feedback loop in the future. Second, it explores the relationship between the forbearance of non-performing loans by European banks and the tendency of EU regulators to rescue rather than resolving distressed banks, and asks to what extent the new regulatory framework of the euro-area "banking union" can be expected to mitigate excessive forbearance and facilitate resolution of insolvent banks. Finally, the paper highlights that capital requirements based on the ratio of Tier-1 capital to banks' risk-weighted assets were massively gamed by large banks, which engaged in various forms of regulatory arbitrage to minimize their capital charges while expanding leverage. This argues in favor of relying on a set of simpler and more robust indicators to determine banks' capital shortfall, such as book and market leverage ratios.

The Greek Crisis: Origins and Implications (2014)

Galenianos Manolis - University of London

Abstract: The conventional wisdom is that the Greek and Eurozone crises are the result of fiscal profligacy, which has justified austerity as the primary policy to exit the crisis. This interpretation of the crisis fits the case of Greece and, to a lesser extent, Portugal, but cannot explain why Ireland and Spain had to request assistance, given that prior to 2008 they had lower deficits and public debt than most Eurozone countries. The features that set the four peripheral countries apart from the rest of the Eurozone are the large current account deficits they all experienced before 2008. This observation suggests that the origins of the Eurozone crisis are to be found in external rather than fiscal imbalances. The implication is that the exclusive policy focus on reducing fiscal deficits is misguided and the four peripheral countries should be helped to reduce external deficits by recovering competitiveness.

Public Debt, Fiscal Decisions and Political Power (2014)

Waśniewski Krzysztof - Andrzej Frycz Modrzewski Krakow University

Abstract: The present paper treats the issue of economic foundations, on which political power rests, and the specific problem of public debt in the developed countries. Starting from the general question: "Why do rich governments borrow so much?" the paper develops a model of political power based on the possession of capital, and on the transformation of public possession into private property rights. Empirical investigation follows, in a sample of 21 countries, demonstrating that there is an objectively existing transfer of capital from public borrowing to private property rights; that transfer is connected mostly to the property of non-productive assets, and goes beyond the easily inferable relation to net exports. That the transfer from public borrowing to private property rights is strongly correlated with the relative dispersion or concentration of power in the political system. The authors are witnessing a progressive withdrawal of public finance and public borrowing as a means of transferring capital, with a simultaneously growing idiosyncrasy (cross-sectional variance) of fiscality.

Policy and Spillover Analysis in the World Economy: A Panel Dynamic Stochastic General Equilibrium Approach (2014)

Vitek Francis - International Monetary Fund

Abstract: This paper develops a structural macro econometric model of the world economy, disaggregated into forty national economies. This panel dynamic stochastic general equilibrium model features a range of nominal and real rigidities, extensive macro financial linkages, and diverse spillover transmission channels. A variety of monetary policy analysis, fiscal policy analysis, spillover analysis, and forecasting applications of the estimated model are demonstrated. These include quantifying the monetary and fiscal transmission mechanisms, accounting for business cycle fluctuations, and generating relatively accurate forecasts of inflation and output growth.

The impact of liquidity regulation on banks

Banerjee Ryan N. – BIS Mio Hitoshi – BIS

Abstract: To the best of our knowledge, this is the first study to estimate the effect of liquidity regulation on bank balance sheets. It takes advantage of the fact that not all banks were made subject to tighter liquidity regulation by the UK Financial Services Authority (FSA) in 2010. Under this new regulation a subset of banks operating in the UK were required to hold a sufficient stock of high quality liquid assets (HQLA) to withstand two scenarios of stressed funding conditions. The authors find that banks adjusted both their asset and liability structures to meet tighter liquidity requirements. Banks increased the share of HQLA and funding from more stable UK non-financial deposits while reducing the share of short-term intra-financial loans and short-term wholesale funding. The authors do not find evidence that the tightening of liquidity regulation had an impact on the overall size of bank balance sheets or a detrimental impact on lending to the non-financial sector either through reduced lending supply or higher interest rates on loans. Overall, in response to tougher liquidity regulation, banks replaced claims on other financial institutions with cash, central bank reserves and government bonds – and so reduced the interconnectedness of the banking sector without affecting lending to the real economy.

Monetary Policy

Monetary Policy and Debt Fragility (2014)

Cooper Russell - The Pennsylvania State University; Camous Antoine - European University Institute

Abstract: The valuation of government debt is subject to strategic uncertainty, stemming from investors' sentiments. Pessimistic lenders, fearing default, bid down the price of debt. This leaves a government with a higher debt burden, increasing the likelihood of default and thus confirming the pessimism of lenders. This paper studies the interaction of monetary policy and debt fragility. It asks: do monetary interventions mitigate debt fragility? The answer depends in part on the nature of monetary policy, particularly the ability to commit to future state contingent actions. With commitment to a state contingent policy, the monetary authority can indeed overcome strategic uncertainty. Under discretion, debt fragility remains.

Official Financial Flows, Capital Mobility, and Global Imbalances (2014)

Bayoumi Tamim - International Monetary Fund; Gagnon Joseph - Peterson Institute for International Economics; Saborowski Christian - International Monetary Fund

Abstract: The authors use a cross-country panel framework to analyze the effect of net official flows (chiefly foreign exchange intervention) on current accounts. The authors find that net official flows have a large but plausible effect on current account balances. The estimated effects are larger with instrumental variables (42 cents to the dollar on average compared to 24 without instruments), reflecting a possible downward bias in regressions without instruments owing to an endogenous response of net official flows to private financial flows. The authors consistently find larger impacts of net official flows when international capital flows are restricted and smaller impacts when capital is highly mobile. A further result is that there is an important positive effect of lagged net official flows on current accounts that the authors believe operates through the portfolio balance channel.

Impact of Fed Tapering Announcements on Emerging Markets (2014)

Mishra Prachi - International Monetary Fund; Moriyama Kenji - International Monetary Fund; N'Diaye Papa - International Monetary Fund; Nguyen Lam - International Monetary Fund

Abstract: This paper analyzes market reactions to the 2013–14 Fed announcements relating to tapering of asset purchases and their relationship to macroeconomic fundamentals and country economic and financial structures. The study uses daily data on exchange rates, government bond yields, and stock prices for 21 emerging markets. It finds evidence of markets differentiating across countries around volatile episodes. Countries with stronger macroeconomic fundamentals, deeper financial markets, and a tighter macro prudential policy stance in the run-up to the tapering announcements experienced smaller currency depreciations and smaller increases in government bond yields. At the

same time, there was less differentiation in the behavior of stock prices based on fundamentals.

Minimising monetary policy (2010)

Stella Peter – BIS

Abstract: The response of leading central banks to the current financial crisis has raised the magnitude of the financial and governance risks they face. An evaluation of the financial strength of a number of those banks suggests that they are in little danger of being forced by financial losses to alter their policies. Governance risks cannot be dismissed so lightly. In engaging extensively in unorthodox policies - bearing similarities to fiscal policy - a number of central banks have risked a critical examination of their governance structures and thereby potentially jeopardised their monetary policy independence. In order to forestall this risk to monetary policy, it is argued that unconventional policies be placed under a separate governance structure that would allow them to be brought under greater political control and accountability while preserving the operational independence of monetary policy.

Governing by Panic: The Politics of the Eurozone Crisis (2014)

Woodruff David - London School of Economics & Political Science

Abstract: The Eurozone's reaction to the economic crisis beginning in late 2008 involved both efforts to mitigate the arbitrarily destructive effects of markets and vigorous pursuit of policies aimed at austerity and deflation. To explain this paradoxical outcome, this paper builds on Karl Polanyi's account of how politics reached a similar deadlock in the 1930s. Polanyi argued that democratic impulses pushed for the protective response to malfunctioning markets. However, under the gold standard the prospect of currency panic afforded great political influence to bankers, who used it to push for austerity, deflationary policies, and the political marginalization of labor. Only with the achievement of this last would bankers and their political allies countenance surrendering the gold standard. The paper reconstructs Polanyi's theory of "governing by panic" and uses it to explain the course of the Eurozone policy over three key episodes in the course of 2010-2012. The prospect of panic on sovereign debt markets served as a political weapon capable of limiting a protective response, wielded in this case by the European Central Bank (ECB). Committed to the neoliberal "Brussels-Frankfurt consensus," the ECB used the threat of staying idle during panic episodes to push policies and institutional changes promoting austerity and deflation. Germany's Ordoliberalism, and its weight in European affairs, contributed to the credibility of this threat. While in September 2012 the ECB did accept a lender-of-last-resort role for sovereign debt, it did so only after successfully promoting institutional changes that severely complicated any deviation from its preferred policies.

One Size Does Not Fit All. A Non-Linear Analysis of European Monetary Transmission (2014)

Cifarelli Giulio - University of Florence; Paladino Giovanna – IntesaSanpaolo

Abstract: This paper investigates the interest rate pass-through in eight European countries analyzing their short-run and long-run monetary transmission mechanisms. The authors investigate the relationship between the Euribor and the long-run interest rate on loans to non-financial corporations and allow for a mark-up which can be affected by country specific funding conditions and/or stochastic structural breaks. The authors detect significant differences across countries. Cointegration between the Euribor and the long-term bank loan interest rates holds for Germany, France, and the Netherlands, where banks seem to apply a constant mark-up. In the remaining countries of he sample the long-run pass-through is directly affected by changes in banks' cost of funding, due to shifts in the spread between domestic and German long-term government bond interest rates. The selection of the country specific ESTAR/LSTAR parameterization of the short-run dynamics detects a high degree of heterogeneity. The transition variables vary from the government bond spreads, in countries which were involved in the European debt crisis via sovereign bond market contagion, to the VXO index and to the Euribor monthly volatility.

The Determinants of Long-Term Japanese Government Bonds' Low Nominal Yields (2014)

Akram Tanweer - Voya Investment Management
Das Anupam - Mount Royal University

Abstract: During the past two decades of economic stagnation and persistent deflation in Japan, chronic fiscal deficits have led to elevated and rising ratios of government debt to nominal GDP. Nevertheless, long-term Japanese government bonds' (JGBs) nominal yields initially declined and have stayed remarkably low and stable since then. This is contrary to the received wisdom of the existing literature, which holds that higher government deficits and indebtedness shall exert upward pressures on government bonds' nominal yields. This paper seeks to understand the determinants of JGBs' nominal yields. It examines the relationship between JGBs' nominal yields and short-term interest rates and other relevant factors, such as low inflation and persistent deflationary pressures and tepid growth. Low short-term interest rates, induced by monetary policy, have been the main reason for JGBs' low nominal yields. It is also argued that Japan has monetary sovereignty, which gives the government of Japan the ability to meet its debt obligations. It

enables the Bank of Japan to exert downward pressure on JGBs' nominal yields by allowing it to keep short-term interest rates low and to use other tools of monetary policy. The argument that current short-term interest rates and monetary policy are the primary drivers of long-term interest rates follows Keynes's (1930) insights.

Euro Area Monetary Policy Shocks: Impact on Financial Asset Prices During the Crisis? (2014)

Jardet Caroline - Banque de France; Monks Allen - Central Bank of Ireland

Abstract: The authors use high-frequency intraday interest rate data to measure euro area monetary policy shocks on the days of ECB interest rate announcements between 2002 and 2013. In line with Gürkaynak et al. (2005), the authors look at monetary policy shocks along two time dimensions: one related to the current level of short-term interest rates and a second related to expectations for the future path of these rates. The authors undertake regression analysis in order to determine the impact of monetary policy shocks on euro-denominated financial asset prices and confirm that shocks related to the future path of monetary policy are an important driver, particularly for longer-term bond yields. The authors find that this relationship has changed for certain asset classes since the onset of the crisis, notably the sovereign bonds of stressed euro area countries. These findings highlight the changed nature of the monetary policy transmission mechanism for some euro area countries during the sovereign debt crisis.

Optimal monetary policy, asset purchases, and credit market frictions (2014)

Schabert Andreas - University of Cologne

Abstract: This paper examines how credit market frictions affect optimal monetary policy and if there is a role for central bank asset purchases. The authors develop a sticky price model where money serves as the means of payment and ex-ante identical agents borrow/lend among each other. The credit market is distorted as borrowing is constrained by available collateral. The authors show that the central bank cannot implement the first best allocation and that optimal monetary policy mainly aims at stabilizing prices when only a single instrument is available. The central bank can however mitigate the credit market distortion in a welfare enhancing way by purchasing loans at a favorable price, which relies on rationing the supply of money.

Unraveling the Monetary Policy Transmission Mechanism in Sri Lanka (2014)

Ghazanchyan Manuk - International Monetary Fund

Abstract: In this paper the authors examine the channels through which innovations to policy variables— policy rates or monetary aggregates—affect such macroeconomic variables as output and inflation in Sri Lanka. The effectiveness of monetary policy instruments is judged through the prism of conventional policy channels (money/interest rate, bank lending, exchange rate and asset price channels) in VAR models. The timing and magnitude of these effects are assessed using impulse response functions, and through the pass-through coefficients from policy to money market and lending rates. Our results show that (i) the interest rate channel (money view) has the strongest Granger effect (helps predict) on output with a 0.6 percent decrease in output after the second quarter and a cumulative 0.5 percent decline within a three-year period in response to innovations in the policy rate; (ii) the contribution from the bank lending channel is statistically significant (adding 0.2 percentage point to the baseline effect of policy rates) in affecting both output and prices but with a lag of about five quarters for output and longer for prices; and (iii) the exchange rate and asset price channels are ineffective and do not have Granger effects on either output or prices.

Unconventional Monetary Policy and Long-Term Interest Rates (2014)

Wu Tao - International Monetary Fund

Abstract: This paper examines the transmission mechanism through which unconventional monetary policy affects long-term interest rates. I construct a real-time measure summarizing market projections of the magnitude and duration of the Federal Reserve's Large Scale Asset Purchases (LSAP) program, and analyze the determination of term premiums and expectations of future short-term interest rates in a sample spanning more than two decades. Empirical findings suggest that the LSAP has effectively lowered the long-term Treasury bond yields, through both "signaling" and "portfolio balance" channels. On the other hand, the Fed's "forward guidance" also leads to gradual extension of market projections for the duration of the LSAP program, thereby enhancing the LSAP's effect to keep term premiums low. Estimation results also reveal a diminished effectiveness of the LSAP during QE III. Finally, model simulations underscore the importance of policy transparency in minimizing unnecessary market turbulence and ensuring a timely and smooth exit of the unconventional monetary policy stimulus.

Fiscal Policy and Budget Management

Spillover Effects of Taxes on Government Debt: Spatial Panel Approach (2014)

Kopczewska Katarzyna - University of Warsaw; Kudła Janusz Adam - University of Warsaw; Walczyk Konrad - Warsaw School of Economics; Kocia Agata Agnieszka - University of Warsaw; Kruszewski Robert - Warsaw School of Economics

Abstract: It is claimed that tax policy is neither time- nor space-independent due to cross-border tax base mobility that induces spillovers. In other words, fiscal shocks in one country are supposed to have impact on fiscal policies in other countries. This paper verifies this question in two ways. Firstly, a theoretical model is introduced to analyze effects of tax rates adjustment on government debt. Secondly, an empirical spatial econometric study is performed to evaluate impact of capital, labor and consumption taxes on public debt in 34 European countries in 2002-2011. The authors found strong spatial spillovers. Our results show the consumption tax rate and, to a lesser degree, the capital tax rate significantly affect the sovereign debt, and that the global relations play a leading role (i.e. dominate the local ones) in shaping fiscal policy.

Optimal Government Debt Maturity (2014)

Debortoli Davide - Universitat Pompeu Fabra; Nunes Ricardo Cavaco - Federal Reserve Board; Yared Pierre - Columbia Business

Abstract: This paper develops a model of optimal government debt maturity in which the government cannot issue state-contingent bonds and cannot commit to fiscal policy. If the government can perfectly commit, it fully insulates the economy against government spending shocks by purchasing short-term assets and issuing long-term debt. These positions are quantitatively very large relative to GDP and do not need to be actively managed by the government. Our main result is that these conclusions are not robust to the introduction of lack of commitment. Under lack of commitment, large and tilted positions are very expensive to finance ex-ante since they exacerbate the problem of lack of commitment ex-post. In contrast, a flat maturity structure minimizes the cost of lack of commitment, though it also limits insurance and increases the volatility of fiscal policy distortions. The authors show that the optimal maturity structure is nearly flat because reducing average borrowing costs is quantitatively more important for welfare than reducing fiscal policy volatility. Thus, under lack of commitment, the government actively manages its debt positions and can approximate optimal policy by confining its debt instruments to consols.

Are Current Tax and Spending Regimes Sustainable in Developing Asia? (2014)

Lee Sang-Hyop - University of Hawaii, Manoa; Mason Andrew - University of Hawaii, Manoa

Abstract: Changes in population age structure matter for public finances because the beneficiaries of public programs are primarily children and the elderly. This paper projects government spending on education, health care, and social protection in developing Asia up to 2050 using the National Transfer Accounts data set, United Nations' population projections, and other long-range projections for real gross domestic product (GDP) to estimate likely fiscal burdens as a result of demographic changes and economic growth. The share of GDP devoted to public spending on health care and social protection will increase as demographic change and economic growth are mutually reinforcing. On the contrary, the share devoted to public spending on education will decline in Asia and the Pacific as a decline in fertility and the share of the school-age population dominates the increase in per capita benefits. The magnitude and the pattern by program, however, vary substantially as demographic change, growth, and the current level of public spending are quite different across economies. Social spending in the Republic of Korea; the People's Republic of China; and Taipei, China is projected to more than double as a share of GDP by 2050, while it will be more modest in other areas of Asia and the Pacific.

Government Spending and Inclusive Growth in Developing Asia (2014)

Hur Seok-Kyun - Chung-Ang University, Seoul

Abstract: This paper assesses the effects of fiscal policy on both equity and growth, specifically whether it is possible to design fiscal spending so that it enhances equity without sacrificing economic growth and vice versa. A cross-country panel vector auto regression (PVAR) using the World Development Indicators confirms the growth effects of individual fiscal spending items as anticipated whereas distributional effects were either temporarily positive or negligible for most fiscal items. However, compared with Organization for Economic Co-operation and Development members, spending on public health and public education appeared to alleviate income inequality significantly in the Asian Development Bank members. This implies that fiscal expenditure policies may contribute more to inclusive growth in developing economies than in advanced ones.

[Fiscal Devaluation in a Monetary Union](#) (2014)

Engler Philipp - Free University of Berlin; Ganelli Giovanni - International Monetary Fund; Tervala Juha - University of Helsinki; Voigts Simon - Free University of Berlin

Abstract: Using a DSGE model calibrated to the euro area, the authors analyze the international effects of a fiscal devaluation (FD) implemented as a revenue-neutral shift from employer's social contributions to the Value Added Tax. The authors find that a FD in 'Southern European countries' has a strong positive effect on output, but mild effects on the trade balance and the real exchange rate. Since the benefits of a FD are small relative to the divergence in competitiveness, it is best addressed through structural reforms.

Designing a Fiscal Framework for a Prospective Commodity Producer: Options for Lebanon (2014)

Jarmuzek Mariusz - International Monetary Fund; Mesa Puyo Diego - International Monetary Fund; Nakhle Najla - International Monetary Fund

Abstract: Lebanon is expected to have gas resources in its Mediterranean basin, and these could turn the country into a natural gas producer over the next decade. Lebanon's economy and institutions will thus need to adapt to the challenges and opportunities that such change will bring. In this paper, the authors address how Lebanon's fiscal framework will need to be reformulated to take into account potential resource revenue. Designing a fiscal regime appropriately is an absolute prerequisite to make sure the government can receive a fair share of the resources while investors face appropriate incentives to invest and develop the sector. This step should be followed by setting macro-fiscal anchors and supporting institutions. The prospective framework should initially be focused on ensuring fiscal sustainability and intergenerational equity, given the estimated relatively short horizon of Lebanon's gas resources. Strong institutional arrangements also need to underpin the prospective framework, to ensure that the pace of resource wealth's use is set in line with Lebanon's capacity constraints.

Political Budget Cycles: Evidence from Italian Cities (2014)

Alesina Alberto F. - Harvard University; Paradisi Matteo - Harvard University

Abstract: The introduction of a new real estate tax in Italy in 2011 created a well designed natural experiment to test the strategic choice of fiscal variables (a tax rate) in relation to elections. We find substantial evidence of "political budget cycles", with municipalities choosing lower tax rates when close to elections. The evidence on political budget cycles is stronger in localities in the South of Italy. The well documented lower level of "social capital" in this region may account for less attention and lower control of politicians. Cities with large preexisting deficits did not set lower rates before elections, presumably because the deficit was a salient political problem and incumbents did not want to look as aggravating it.

Contingent Liabilities (CLs)

How Do Countries Measure, Manage, and Monitor Fiscal Risks Generated by Public-Private Partnerships? Chile, Peru, South Africa, Turkey (2014)

Aslan Cigdem - World Bank; Duarte David - Ministry of Finance, Chile

Abstract: This working paper examines how four countries with active public-private partnership projects manage the costs and risks of financial obligations generated by these investments throughout the lifetime of the contracts. The paper seeks to complement the existing literature with a practitioner's point of view while exploring if and how these countries monitor and evaluate the fiscal risks generated by the portfolio of public-private partnerships (as well as individual projects).

Public Debt in Macroeconomic Analysis

Debt Sustainability in the Case of External Debt. An Analysis Based on Italy's Treasury Auctions (2014)

Cafiso Gianluca - University of Catania

Abstract: The objective of this paper is to assess whether external debt makes a difference for public debt stabilization, where external debt is considered through the non-residents' holdings according to a Balance of Payments perspective. The analysis is empirical and considers the case of Italy, one of the world's largest debt issuer. The authors study the potential effects on the interest rate resulting from the auctions of government bonds to account for the effective cost borne by the Treasury. Our results point towards the irrelevance of the composition of the investor base for debt stabilization.

Dealing with Financial Crises: How Much Help from Research? (2014)

Pagano Marco - University of Naples Federico II

Abstract: Has economic research been helpful in dealing with the financial crises of the early 2000s?

On the whole, the answer is negative, although there are bright spots. Economists have largely failed to predict both crises, largely because most of them were not analytically equipped to understand them, in spite of their recurrence in the last 25 years. In the pre-crisis period, however, there have been important exceptions – theoretical and empirical strands of research that largely laid out the basis for our current thinking about financial crises. Since 2008, a flurry of new studies offered several different interpretations of the US crisis: to some extent, they point to potentially complementary factors, but disagree on their relative importance, and therefore on policy recommendations. Research on the euro debt crisis has so far been much more limited: even Europe-based researchers – including CEPR ones – have often directed their attention more to the US crisis than to that occurring on their doorstep. In terms of impact on policy and regulatory reform, the record is uneven. On the one hand, the swift and massive liquidity provision by central banks in the wake of both crises is, at least partly, to be credited to previous research on the role of central banks as lenders of last resort in crises and on the real effects of bank lending and monetary policy. On the other hand, economists have had limited impact on the reform of prudential and security market regulation. In part, this is due to their neglect of important regulatory choices, which policy-makers are therefore left to take without the guidance of academic research-based analysis.

A Model-Based Analysis of Spillovers: The Case of Poland and the Euro Area (2014)

Andrle Michal - International Monetary Fund; Garcia-Saltos Roberto - International Monetary Fund; Ho Giang - International Monetary Fund

Abstract: This paper studies economic and financial spillovers from the euro area to Poland in a two-country semi-structural model. The model incorporates various channels of macro financial linkages and cross-border spillovers. The authors parameterize the model through an extensive calibration process, and provide a wide range of model properties and evaluation exercises. Simulation results suggest a prominent role of foreign demand shocks (euro area and global) in driving Poland’s output, inflation and interest rate dynamics, particularly in recent years. Our model also has the capability for medium-term conditional forecasting and policy analysis.

Historical Evolution of Debt Management

The Making of a Continental Financial System: Lessons for Europe from Early American History (2014)

Gaspar Vitor - International Monetary Fund

Abstract: Alexander Hamilton was the first U.S. Treasury Secretary from 1789 to 1795. When he started, the Federal Government was in default. During his tenure, U.S. Treasuries became the ultimate safe asset. He successfully managed expectations, achieved debt service reduction, and stabilized financial panics. He delivered sound public finances and financial stability. In the end, the U.S. possessed a modern financial system able to finance innovation and growth. At a time when Europe is working its way out of the sovereign debt crisis and implementing Banking Union and Financial Union, it is worthwhile to search for lessons from early U.S. history.

A Distant Mirror of Debt, Default, and Relief (2014)

Reinhart Carmen M. - Harvard University; Trebesch Christoph - University of Munich and CESifo

Abstract: The authors take a first pass at quantifying the magnitudes of debt relief achieved through default and restructuring in two distinct samples: 1979-2010, focusing on credit events in emerging markets, and 1920-1939, documenting the official debt hangover in advanced economies that was created by World War I and its aftermath. The authors examine the economic performance of debtor countries during and after these overhang episodes, by tracing the evolution of real per capita GDP (levels and growth rates); sovereign credit ratings; debt servicing burdens relative to GDP, fiscal revenues, and exports; as well as the level of government debt (external and total). Across 45 crisis episodes for which data is available the authors find that debt relief averaged 21 percent of GDP for advanced economies (1932-1939) and 16 percent of GDP for emerging markets (1979-2010), respectively. The economic landscape after a final debt reduction is characterized by higher income levels and growth, lower debt servicing burdens and lower government debt. Also ratings recover markedly, albeit only in the modern period.

Articles in reviews/in books

Legal Issues and Conventions

United States Sovereign Debt: A Thought Experiment on Default and Restructuring (2012)

Mooney Jr. Charles W. - University of Pennsylvania Law School

Abstract: This chapter adopts the working assumption that it is conceivable that at some time in the future it would be in the interest of the United States to restructure its sovereign debt (i.e., to reduce the principal amount). It addresses in particular U.S. Treasury Securities. The chapter first provides an overview of the intermediated, tiered holding system for book-entry Treasuries. For the first time the chapter then explores whether and how — logistically and legally — such a restructuring could be effected. It posits the sort of dire scenario that might make such a restructuring advantageous. It then outlines a novel scheme of exemptions and certifications that would enable the U.S. to selectively default as to only some of its debt owed to certain holders — this, even though the U.S. cannot actually know who holds the vast majority of its Treasury Securities. Next, the chapter outlines three alternative approaches to a restructuring. Under two of the approaches a fraction of the debt would be replaced by "Prosperity Shares" — non-debt securities that would provide creditors with a share of future upside economic growth.[...]

Fiscal Policy and Budget Management

The assessment of fiscal effort (2014)

European Central Bank

Abstract: Sound fiscal policies in all euro area Member States are a prerequisite for the smooth functioning of EMU. The EU fiscal framework calls for government budgets to be close to balance or in surplus over the medium term and for excessive deficits (above 3% of GDP) to be avoided or, if they have occurred, to be corrected promptly. In this context, the assessment of a country's fiscal policy is based on compliance with nominal deficit targets and on whether the required government action – its fiscal effort – to achieve these targets on a sustainable basis in a given time period has been sufficient.[...]

Early warning indicators for fiscal stress in European budgetary surveillance (2014)

European Central Bank

Abstract: The sovereign debt crisis has demonstrated that fiscal sustainability concerns can become virulent not only in the long run, but also in the short run. In the medium to long term, the assessment of a government's solvency is crucial. Solvency requires a government's inter temporal budget constraint to be fulfilled, meaning that the net present value of its future primary balances must be at least as high as that of outstanding government debt.[...]

The impact of cost-containment policies on health expenditure: Evidence from recent OECD experiences (2014)

Moreno Serra Rodrigo – OECD

Abstract: Many governments have enacted health cost-containment policies in recent years, and many are currently considering further reform alternatives to tackle growing health spending and promote efficiency in the health system, particularly in light of ...[...]

The Swedish pension system after twenty years: Mid-course corrections and lessons (2014)

Weaver Ken – OECD; Willén Alexander

Abstract: Elements of the Swedish pension reform enacted in the 1990s have served as a model for reform initiatives in a number of other countries. Sweden's experience suggests that a Notional Defined Contribution (NDC) pension reform can be sustained in a [...]

Evaluating the capability of the UK Treasury, 1990-2013 (2014)

Allen Richard – OECD

Abstract: The strength of the United Kingdom's central finance agency (H.M. Treasury) has been attributed to its broad and powerful influence on policy issues; the high intellectual standards of its staff; the relatively clear division between the "official.[...]

Estimates of uncertainty around Australian budget forecasts (2014)
Clark Jhon – OECD; Gibbons Caroline – OECD; Morrisey Susan - OECD

In this article, past forecast errors are used to construct confidence intervals around Australian Government Budget forecasts of key economic and fiscal variables. These confidence intervals provide an indication of the extent of uncertainty around [...]

Public Debt in Macroeconomic Analysis

The impact of the economic crisis on euro area labour markets (2014)
European Central Bank

Abstract: The economic crisis has had a heavy impact on euro area labour markets. A notable feature of the crisis throughout its duration has been the considerable degree of cross-country heterogeneity of labor market adjustments – with some economies emerging relatively unscathed, while others have seen steep and persistent increases in unemployment.

Euro Crisis or Public Debt Crisis? With a Remedy for the Latter Case (2012)
Sarcinelli Mario - University of Rome I

Abstract: The European crisis did not originate with the Euro but with the excessive public debt of peripheral Eurozone countries. The 'great moderation' that had kept the euro sheltered from the storms proved a boon, because it granted the currency the status of a sound asset, but it was also a bane because it had led euro holders to believe that the euro area had implicitly reached such a degree of cohesion as to make a Greek or Italian government security almost as sound as a German one. If awareness of reality had dawned sooner, interest rates on the peripheral countries' public debt would have been considerably higher and government leaders might have woken up sooner from the dream of governing a country that could outlast any storm thanks to its ample private wealth, despite its massive public debt.

Web Resources

Primary Market

ESMA publishes updated data on performance of the Credit Rating Agencies
ESMA
The European Securities and Markets Authority (ESMA) has published its latest set of semi-annual statistical data on the performance of credit ratings, including transition matrices and default rates. This latest dataset covers the period from 1 January to 30 June 2014 and is available in the Central Rating Repository (CEREP). CEREP provides information on credit ratings issued by the Credit Rating Agencies (CRAs) which are either registered or certified in the European Union. It allows investors to assess, on a single platform, the performance and reliability of credit ratings on different types of ratings, asset classes and geographical regions over a given time period. CEREP is updated on a twice-yearly basis with statistics covering the preceding 6-month period, the reporting periods are January to June and July to December.

Sukuk development and financial stability
BIS
by Zeti Akhtar Aziz: This recent decade has witnessed the accelerated development of the global sukuk market. The global sukuk market which has now reached USD$270 billion outstanding is evolving to become a distinct platform for fostering greater international economic and financial linkages.[...]

Post Trading

ESMA Announces Post-Trading Consultative Working Group
ESMA
The European Securities and Markets Authority announced the composition of its Post-Trading Standing Committee Consultative Working Group.

Multilateral Debt

IMF Releases Report on Response to the Financial Crisis: an IEO assessment
International Monetary Fund
The report assesses the Fund's actions to help contain the crisis and navigate the global recovery, assist individual economies to cope with the impact of the crisis, and identify and warn about future risks.

World Bank Endorses New Strategy for Palestinian Territories and Approves US$62 million for Reconstruction in Gaza
The World Bank
The World Bank Group Board of Executive Directors has endorsed a new two-year assistance strategy for the Palestinian territories that focuses on supporting state building through service delivery and job creation. A US$62 million package of grants for reconstruction in Gaza was also approved.

Fitch's Ratings 2014 – African Development Bank
African Economic Outlook
Update on African Development Bank rating by Fitch.

Leaders Commit Billions in Major New Development Initiative for the Horn of Africa
The World Bank
Leaders of global and regional institutions have begun an historic trip to the Horn of Africa to pledge political support and major new financial assistance for countries in the region, totaling more than $8 billion over the coming years.

Solomon Islands - Economic Reform and Recovery Development Policy Operation
The World Bank
The Economic Reform and Recovery Development Policy Operation of Solomon Islands has an objectives of the operation are aligned with the Government's Economic and Financial Reform Program and include: i) improved management of public expenditure and debt; ii) strengthened management of extractive industries; and iii) better conditions for private sector investment. This stand-alone operation supports continued progress of the Solomon Islands Government's economic reform agenda in the context of a recent major natural disaster. The operation follows a successful programmatic series of two development policy operations, and precedes a possible further programmatic series of operations planned for 2015, following elections in November 2014 and finalization of a new Economic and Financial Reform Plan.

Cash Management

Cash management reform in Indonesia : making the state money work harder
The World Bank
During the last decade, a body of common practices has emerged among developing countries on the legal, institutional and procedural foundations to support efficient cash management. These common practices have been reviewed and documented in guidance notes and publications on international practices issued by multilateral institutions like the International Monetary Fund (IMF), the World Bank (WB), and the Organization for Economic Co-operation and Development (OECD).

Legal Issues and Conventions

ICMA Quarterly Report - October 2014
ICMA
The International Capital Market Association's Assessment of Market Practice and Regulatory Policy October 2014. It outlines developments in the main areas in which the Association is currently engaged namely: response to the financial crisis, sovereign bond markets, short-term markets, primary markets, secondary markets, asset management and market infrastructure.

Republic of Korea: Financial Sector Assessment Program-Detailed Assessment of Compliance on the IOSCO Objectives and Principles of Securities Regulation -IMF Country Report No. 14/309
International Monetary Fund
The Korean authorities have made significant progress since the last FSAP in revising the securities regulatory framework, with the current framework achieving good overall compliance with the International Organization of Securities Commissions (IOSCO) Principles. [...]

GA requests UNCTAD to provide technical expertise in support of the elaboration of a legal framework for sovereign debt restructuring processes
UNCTAD
Under UN GA Draft Resolution A/C.2/69/L.4 of 14 October 2014, UNCTAD has been entrusted with the task of sharing its expertise on sovereign debt in accordance with its general mandate. UNCTAD is the UN focal point on debt issues.

Active Debt Management

Tongan Economy Set to Receive Additional Boost
The World Bank
The World Bank's Board of Executive Directors today approved US$5 million for the Second Economic Support Development Policy Operation, which will support the Kingdom of Tonga's continued economic growth through further strengthening government finances, boosting economic resilience, and improving business conditions.

Risk Management Models

Recovery of financial market infrastructures
BIS
The purpose of this report is to provide guidance for financial market infrastructures (FMIs) and authorities on the development of recovery plans. All systemically important FMIs should have a comprehensive and effective recovery plan, as required by the CPSS-IOSCO Principles for financial market infrastructures (PFMI), because the disorderly failure of such an FMI could lead to severe systemic disruptions.[...]

The 2014 EU-Wide Bank Stress Test Lacks Credibility
The Peterson Institute for International Economics
by Morris Goldstein: On October 26, 2014, the European Central Bank (ECB) and the European Banking Authority (EBA) released the results of the latest EU-wide stress test and the accompanying asset quality review (AQR)[...]

Institutional Arrangements for Debt Management

Global perspectives on sovereign debt restructuring
BIS
Global perspectives on sovereign debt restructuring Comments by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, Kampala, 7 August 2014.

Accounting, Transparency and Accountability

Supplements to the Statistical Bulletin - Monetary and Financial Indicators - Financial Accounts, No. 58 – 2014
Bank of Italy
This series of the Supplements to the Statistical Bulletin, published once a year, contains detailed information on local Monetary and Financial Indicators. [...]

DMFAS - Upcoming mission calendar
UNCTAD
The updated list of missions by UNCTAD's Debt Management Financial Analysis System (DMFAS) Programme over the period November and December 2014 is published on the UNCTAD website.

European Commission assesses economic consequences of country-by-country reporting requirements set out in Capital Requirements Directive
European Commission
The Commission adopted a report containing a general assessment of the economic consequences of country-by-country reporting (CBCR) by banks and investment firms under Article 89 of Directive 2013/36/EU (CRD IV).

The key objective of the Commission's report is to assess whether CBCR leads to significant negative economic effects.[...]

[Bridging tables between the accounting balance sheet items of the NCBS and the ECB and the items to be reported for statistical purposes]
European Central Bank
In this report the bridging tables provide guidance to NCBs and the ECB on how to derive from their own accounting balance sheets the statistical information that must be reported to comply with Article 3 (concerning MFI balance sheet statistics) of Guideline ECB/2014/151. [...]

[ECB statistics: a brief overview - September 2014]
European Central Bank
The main purpose of the European statistics developed, produced and disseminated by the European Central Bank (ECB) is to support the monetary and macro-prudential policy-making and supervisory functions of the ECB, as well as the other tasks of the Euro system and the European System of Central Banks (ESCB). [...]

[Support to Audit office of Viet Nam to improve the accountability, transparency and oversight of public financial management activities]
INTOSAI Development Initiative
Guidelines for the Call for Expressions of Interest.

DMOs Programmes and Reports

[Public Debt Management Report - 2014]
Republic of Turkey - Prime Ministry - Undersecretariat of Treasury
The Turkish Treasury publishes the seventh issue of the Public Debt Management Report in line with the transparency and accountability principles of public debt management. In this report, the general framework of the public debt management as well as the developments and assessments in the field of cash, receivables and risk management in the previous year are presented to the public.[...]

Coordination with other policies and operations

[BIS and IOSCO Issue Report on Financial Market Infrastructures]
BIS
The Bank for International Settlements Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions issued a joint report on recovery of financial market infrastructures. The report provides guidance to financial market infrastructures (FMIs) such as central counterparties (CCPs) on how to develop plans to enable them to recover from threats to their viability and financial strength that might prevent them from continuing to provide critical services to their participants and the markets they serve.

[Stress Tests: The ECB released results of the Comprehensive Assessment]
European Central Bank
The comprehensive assessment is a financial health check of 130 banks in the euro area (including Lithuania), covering approximately 82% of total bank assets. The comprehensive assessment is carried out by the ECB together with the national supervisors.

[On a sound and growth-enhancing financial sector in Europe by Erkki Liikanen]
BIS
The social costs of the financial crisis – such as the losses in the GDP and the increases in unemployment – have been very high. If policymakers – in central banks and in governments – had not learned from the policy mistakes made during the Depression in the 1930s, the crisis could have been even more destructive.

[Ethics in finance and financial markets]
BIS
Address by Mr Daniel Mminele, Deputy Governor of the South African Reserve Bank, to the South African Chapter of ACI – The Financial Markets Association, Johannesburg, 28 October 2014.

[Cyprus: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Cyprus - IMF Country Report No. 14/313]
International Monetary Fund

This paper is the for the periodic consultation with the member country […]

[Singapore: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Singapore - IMF Country Report No. 14/312]
International Monetary Fund
This paper is the for the periodic consultation with the member country […]

[Managing global finance as a system]
BIS
Text of the Maxwell Fry Annual Global Finance Lecture, given by Mr Andrew G Haldane, Executive Director and Chief Economist of the Bank of England, at Birmingham University, Birmingham, 29 October 2014.

[Vietnam: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Vietnam - IMF Country Report No. 14/311]
International Monetary Fund
This paper is the for the periodic consultation with the member country […]

[Suriname: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Authorities for Suriname - IMF Country Report No. 14/316]
International Monetary Fund
This paper is the for the periodic consultation with the member country […]

Monetary Policy

[Progress through crisis? Proceedings of the conference for the 20th anniversary of the establishment of the European Monetary Institute]
European Central Bank
It would be wrong to consider the history of European integration as a smooth process. On the contrary, it has gone through several crises right from the start. [...]

[Monthly Bulletin, November 2014]
European Central Bank
Although the world economy continues to show signs of slow improvement, the recovery remains fragile and uneven in the light of increasing cyclical and structural divergence across regions and countries. [...]

Fiscal policy and Budget Management

[Tax reforms in EU Member States 2014 - Tax policy challenges for economic growth and fiscal sustainability]
European Commission
This report on Tax Reforms in EU Member States presents an overview of the reforms recently introduced by Member States in the main areas of tax policy and provides up-to-date analysis of the main challenges in each area. It also includes an indicator-based assessment, which gives an initial indication of Member States' performance in each area.[...]

[OECD Economic Surveys: Slovak Republic 2014]
BIS
OECD's 2014 Economic Survey of the Slovak Republic examines recent economic developments, policies and prospects. Special chapters cover reforming the public sector and spurring growth in lagging regions.

Public Debt in Macroeconomic Analysis

[2014 Autumn Economic forecast: Slow recovery with very low inflation]
European Commission
The European Commission's autumn forecast projects weak economic growth for the rest of this year in both the EU and the euro area. In the course of 2015, a gradual strengthening of economic activity is expected and growth is projected to rise further in 2016. All EU countries are set to register positive growth in 2015 and 2016. This is also when the lagged impact of already implemented reforms should be felt more strongly.

Historical Evolution of Debt Management

A 100-year perspective on sovereign debt composition in 13 advanced economies
VOX
There has been renewed interest in sovereign debt since the Global Crisis, but relatively little attention has been paid to its composition. Sovereign debt can differ in terms of the currency it is denominated in, its maturity, its marketability, and who holds it – and these characteristics matter for debt sustainability. This column presents evidence from a new dataset on the composition of sovereign debt over the past century in 13 advanced economies.

Sovereign-debt relief and its aftermath: The 1930s, the 1990s, the future?
VOX
To work towards resolving Europe's ongoing debt crisis this column looks to the past. From the recent emerging market debt crisis (1980s-2000s) and the interwar episode of the 1920s-1930s we learn that debt write-downs and defaults are able to be postponed but not prevented. Punishment for default is temporary, sometimes followed by a renewed surge in borrowing that leads to another crisis.

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* (16.545 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

27 October 2014 - web-based
Fundamentals of Microfinance

06 November 2014 - Peterson Institute for International Economics,Washington, DC
Global Financial Outlook: Challenges for Banks and Risks from Shadow Banks

10 November 2014 - on line
WAIFEM/UNITAR Course on Debt Sustainability Analysis

20 November 2014 - Mexico City
20th Annual Meeting of its Latin America and the Caribbean Regional Group (GRULAC)

27 November 2014 - Santiago, Chile
VI Conference on Economic and Financial Education in Latin America and the Caribbean

01 December 2014 - Washington D.C., United States
VIII LAC Debt Group Thematic Workshop

02 December 2014 - International Capital Market Association (ICMA) Limited - 23 College Hill - London
Bonds without Borders by Chris O'Malley: Book launch

02 December 2014 - Kuala Lumpur, Malaysia
Central Banking Kuala Lumpur Training Seminar Series

11 December 2014 - Capital Club Dubai - Dubai - UAE
Challenges Facing the Secondary Bond and Collateral Markets the International and GCC Perspective

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

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

Previously signaled

03 December 2014 - Washington, DC
Sovereign Debt Management Forum

08 December 2014 - Manama,Bahrain
National Asset-Liability Management Middle-East

18 December 2014 - The Bank of England, London
International Trade, Finance, and Macroeconomics: Research Frontiers and Challenges for Policy [Call for Papers]

1 January 2015 - London, UK
The New 2014 ISDA Credit Derivatives Definitions

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

Communication Corner

NEW!: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 27th November 2014, the number of total resources of the PDM Network website is 22.176 (of which 16.545 news, 2.692 papers and articles in reviews and books, and 2.121 webresources). The Members are 790, coming from 117 countries. 430 Partners belong to sovereign debt management institutions of emerging and advanced countries. This newsletter is sent to 604 Partners.

Special thanks

The PDM Network Secretariat is grateful to Colleen E. Keenan (The World Bank Treasury), Gianluca Cafiso (University of Catania) and Ioanna Markidou (Cypriot MoF) for their resource contribution.

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).