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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 in Debt Management

Optimal Maturity Structure of Sovereign Debt in Situation of Near Default (2014)

Desgranges Gabriel - Cergy-Pontoise University; Rochon Céline - International Monetary Fund

Abstract: This paper the authors study the relationship between default and the maturity structure of the debt portfolio of a Sovereign, under uncertainty. The Sovereign faces a trade-off between a future costly default and a high current fiscal effort. This results into a debt crisis in case a large initial issuance of long term debt is followed by a sequence of negative macro shocks. Prior uncertainty about future fundamentals is then a source of default through its effect on long term interest rates and the optimal debt issuance. Intuitively, the Sovereign chooses a portfolio implying a risk of default because this risk generates a correlation between the future value of long term debt and future fundamentals. Long term debt serves as a hedging instrument against the risk on fundamentals. When expected fundamentals are high, the Sovereign issues a large amount of long term debt, the expected default probability increases, and so does the long term interest rate.

Primary Market

Are Sovereign Wealth Funds contrarian investors? (2014)

Ciarlone Alessio - Bank of Italy; Miceli Valeria – DISEIS

Abstract: This paper investigates the determinants of the investment activity of Sovereign Wealth Funds (SWFs) at a macro level, with special emphasis on the possible reaction to a financial crisis in a potential target economy. The analysis relies upon a specially built proprietary database, which encompasses 1,903 acquisition deals spanning the period 1995-2010 and involving 29 out of the 69 existing SWFs. According to a three-step modelling approach, the authors find that this class of investors prefers to invest in countries with a higher degree of economic development, larger and more liquid financial markets, institutions that offer better protection of legal rights, and a more stable macroeconomic environment. Most importantly, and in stark contrast with the existing empirical literature on other major institutional investors, SWFs seem to engage in 'contrarian' investment behaviour, i.e. increasing their acquisitions in countries where crises hit. The results are shown to be valid if the authors consider both the likelihood of a country being the target of SWFs' investments and the amount SWFs choose to invest in each country. Capital flows stemming from SWFs' acquisition activity worldwide may therefore eventually have a stabilizing effect on local markets during periods of financial turmoil, protecting the targeted countries from foreign shocks instead of propagating them globally.

Secondary Market

An update on EMU sovereign yield spread drivers in time of crisis: A panel data analysis (2014)

Gómez-Puig Marta - Universitat de Barcelona; Sosvilla-Rivero Simón - Universidad Complutense de Madrid; Ramos-Herrera María del Carmen - Universidad Complutense de Madrid

Abstract: In this paper the authors empirically investigate the determinants of EMU sovereign bond yield spreads with respect to the German bund. Using panel data techniques, the authors examine the role of a wide set of potential drivers. To our knowledge, this paper presents one of the most exhaustive compilations of the variables used in the literature to study the behaviour of sovereign yield spreads and, in particular, to gauge the effect on these spreads of changes in market sentiment and risk aversion. The authors use a sample of both central and peripheral countries from January 1999 to December 2012 and assess whether there were significant changes after the outbreak of the euro area debt crisis. Our results suggest that the rise in sovereign risk in central countries can only be partially explained by the evolution of local macroeconomic variables in those countries. Besides, without exception, the marginal effects of sovereign spread drivers (specifically, the variables that measure global market sentiment) increased during the crisis compared to the pre-crisis period, especially in peripheral countries.

European government bond market integration in turbulent times (2014)

Abad Pilar - University Rey Juan Carlos; Chuliá Helena - University of Barcelona

Abstract: In this paper the authors investigate the dynamics of European government bond market integration during the financial crisis and, subsequently, during the European sovereign debt crisis. Based on the approach developed by Bae et al. (2003), the authors adopt an intuitive measure of integration: the higher the number of joint extreme price rises or falls, the higher the degree of integration. The authors also analyze the underlying determinants of the dynamics of integration using a binomial logistic regression. Our results reveal that the level of integration of European government bond markets with the euro area has changed over time, with notable differences between the financial and the European sovereign debt crises. The authors find that the Euribor, unexpected monetary policy announcements from the ECB and both regional and international volatility play an important role in determining the level of integration, and that, in general, the relevance of these factors does not change between the financial and the sovereign debt crises.

The Bond Market: An Inflation-Targeter's Best Friend (2014)

Rose Andrew K. - University of California, Berkeley

Abstract: This paper explores the relationship between inflation and the existence of a publicly-traded, long-maturity, nominal, domestic-currency bond market. Bond holders suffer from inflation and could be a potent anti-inflationary force; I ask whether their presence is apparent empirically. I use a panel data approach, examining the difference in inflation before and after the introduction of a bond market. My primary focus is on countries with inflation targeting regimes, though I also examine countries with hard fixed exchange rates and other monetary regimes. Inflation-targeting countries with a bond market experience inflation approximately three to four percentage points lower than those without a bond market. This effect is economically and statistically significant; it is also insensitive to a variety of estimation strategies, including using political and fiscal instrumental variables. The existence of a bond market has little effect on inflation in other monetary regimes, as do indexed or foreign-denominated bonds.

Multilateral Debt

A Constrained Choice? Impact of Concessionality Requirements on Borrowing Behavior (2014)

Ahokpossi Calixte - International Monetary Fund; Allain Laurence - International Monetary Fund; Bua Giovanna - University of Milan

Abstract: This paper uses the propensity matching score approach to assess the impact of the IMF's debt limits policy (DLP) on borrowing behavior in countries eligible to borrow from its concessional lending window. The paper finds that countries under the DLP borrow significantly higher amounts of concessional resources. However, there is no evidence that the DLP significantly impacts the level of non-concessional borrowing nor the terms of such borrowing. This result is confirmed by the heterogeneity analysis, suggesting that the level of development, rather than concessionality requirements, is the key driver of non-concessional borrowing.

Risk Management Models

Risk Profiles for Re-Profiling the Sovereign Debt of Crisis Countries (2014)

Consiglio Andrea - University of Palermo; Zenios Stavros A. - University of Cyprus

Abstract: This paper uses a risk-management approach to re-profile the sovereign debt of countries facing debt crises. Using scenario analysis the authors develop a risk measure of the sovereign's debt -- Conditional Debt-at-Risk -- and an optimization model is used to trace risk profiles that tradeoff expected cost of debt financing against the Conditional Debt-at-Risk. The risk profiles are particularly informative for crisis countries, as they allow us to identify, with high-probability, debt unsustainability. The authors develop risk profiles for two Eurozone countries with excessive debt, Cyprus and Italy, both in their current form and under various forms of restructuring or rescheduling, and show how to assess debt sustainability. The authors also develop the risk profiles for a proposal to impose "debt sanctions" in the Ukrainian crisis and show that the (financial) impact could be substantial.

Systemic Risk Spillovers in the European Banking and Sovereign Network (2014)

Betz Frank - European Union; Hautsch Nikolaus - University of Vienna; Peltonen Tuomas A. - European Central Bank (ECB); Schienle Melanie - Leibniz University Hannover

Abstract: In this paper the authors propose a framework for estimating network-driven time-varying systemic risk contributions that is applicable to a high-dimensional financial system. Tail risk dependencies and contributions are estimated based on a penalized two-stage fixed-effects quantile approach, which explicitly links bank interconnectedness to systemic risk contributions. The framework is applied to a system of 51 large European banks and 17 sovereigns through the period 2006 to 2013, utilizing both equity and CDS prices. The authors provide new evidence on how banking sector fragmentation and sovereign-bank linkages evolved over the European sovereign debt crisis and how it is reflected in network statistics and systemic risk measures. Illustrating the usefulness of the framework as a monitoring tool, the authors provide indication for the fragmentation of the European financial system having peaked and that recovery has started.

Coordination with other Policies and Operations

Institutions for Macro Stability in Brazil: Inflation Targets and Fiscal Responsibility (2014)

Afonso José Roberto - Sao Paulo School of Economics-FGV; Araújo Eliane Cristina - Universidade Estadual de Maringa

Abstract: Monetary and fiscal institutions have played a decisive role in the stabilization of the Brazilian economy since the mid-1990s. Brazil's experience of designing and managing institutions to this end is likely to be of interest to other emerging and low- or middle income economies. In Brazil institutional reforms were predominantly made in response to a succession of internal and, particularly, external crises. Indeed, perhaps nowhere in the world has inflation received as much attention from economists as in Brazil. The consequent accumulation of theoretical and practical knowledge resulted in a wealth of theories about the nature of Brazilian inflation. As such, the Brazilian experience offers many lessons to be learned, both in the sense of what could be done and what is better avoided. When it abandoned the exchange rate anchor, Brazil was one of the first emerging economies to adopt a system of inflation targets. In the area of fiscal policy, a succession of institutional changes – from changes in the budget and management of the public debt to the fiscal adjustment of regional governments – culminated in the adoption of the Fiscal Responsibility Law shortly after the introduction of new monetary and exchange policies. However, consolidation of the new currency, the Real, and accelerated growth shortly after the turn of the century, followed by the global financial crisis, meant that the agenda of structural reforms was abandoned. New aspects were introduced to economic policy, such as a strong link between the growth of public debt and

credit supply. Recent stagnation, with repeated years of low growth, inflation pushing at the ceiling of its target, and primary surplus below its target, sets new challenges for the Brazilian economy.

Interactions between Monetary Policy and Fiscal Policy (2014)

Afonso Antonio - Technical University of Lisbon – ISEG; Balhote Raquel - Technical University of Lisbon – ISEG

Abstract: Using a panel data set of 14 EU countries from 1970 to 2012, the authors study the type of monetary and fiscal policies of both authorities, and assess how they are influenced by certain economic variables and events (the Maastricht Treaty, the Stability and Growth Pact, the Euro and crises). Results show that inflation has a significant impact on monetary policy, and that governments raise their primary balances when facing increases in debt. Another goal is to characterise the type of interactions established between central banks and national governments, i.e. if their policies complement one another, or whether there is a more dominant one. Still, our results point to the lack of evidence concerning central banks' response to fiscal policy.

Inspecting the Mechanism Leverage and the Great Recession in the Eurozone (2014)

Philippe Martin - Sciences Po Spire; Thomas Philippon - Massachusetts Institute of Technology

Abstract: In this paper the authors provide a first comprehensive account of the dynamics of Eurozone countries from the creation of the Euro to the Great recession. The authors model each country as an open economy within a monetary union and analyze the dynamics of private leverage, fiscal policy and spreads. Our parsimonious model can replicate the time-series for nominal GDP, employment, and net exports of Eurozone countries between 2000 and 2012. The authors then ask how periphery countries would have fared with: (i) more conservative fiscal policies; macro-prudential tools to control private leverage; (iii) a central bank acting earlier to limit sovereign spreads; and (iv) the possibility to recoup the competitiveness they lost in the boom. To perform these counterfactual experiments, the authors use U.S. states as a control group that did not suffer from a sudden stop. The authors find that periphery countries could have stabilized their employment if they had followed more conservative fiscal policies during the boom. This is especially true in Greece. For Ireland, however, given the size of the private leverage boom, such a policy would have required buying back almost all of the public debt. Macro-prudential policy would have been helpful, especially in Ireland and Spain. However, in presence of a spending bias in fiscal rules, macro-prudential policies would have led to less prudent fiscal policies in the boom. Central bank actions would have stabilized employment during the bust but not public debt. Finally, if these countries had been able to regain in the bust the competitiveness they lost in the boom, they would have experienced a shorter and milder recession.

The international monetary and financial system: a capital account historical perspective (2014)

Borio Claudio – BIS; James Harold – BIS; Song Shin Hyun – BIS

Abstract: In analysing the performance of the international monetary and financial system (IMFS), too much attention has been paid to the current account and far too little to the capital account. This is true of both formal analytical models and historical narratives. This approach may be reasonable when financial markets are highly segmented. But it is badly inadequate when they are closely integrated, as they have been most of the time since at least the second half of the 19th century. Zeroing on the capital account shifts the focus from the goods markets to asset markets and balance sheets. Seen through this lens, the IMFS looks quite different. Its main weakness is its propensity to amplify financial surges and collapses that generate costly financial crises – its "excess financial elasticity". And assessing the vulnerabilities it hides requires going beyond the residence/non-resident distinction that underpins the balance of payments to look at the consolidated balance sheets of the decision units that straddle national borders, be these banks or non-financial companies. The authors illustrate these points by revisiting two defining historical phases in which financial meltdowns figured prominently, the interwar years and the more recent Great Financial Crisis.

Traditional and matter-of-fact financial frictions in a DSGE model for Brazil: the role of macroprudential instruments and monetary policy (2014)

de Carvalho Fabia A. – BIS; Castro Marcos R. – BIS; Costa Silvio M. A. – BIS

Abstract: This paper investigates the transmission channel of macroprudential instruments in a closed economy DSGE model with a rich set of financial frictions. Banks' decisions on risky retail loan concessions are based on borrowers' capacity to settle their debt with labor income. The authors also introduce frictions in banks' optimal choices of balance sheet composition to better reproduce banks' strategic reactions to changes in funding costs, in risk perception and in the regulatory environment. The model is able to reproduce not only price effects from macroprudential policies, but also quantity effects. The model is estimated with Brazilian data using Bayesian techniques. Unanticipated changes in

reserve requirements have important quantitative effects, especially on banks' optimal asset allocation and on the choice of funding. This result holds true even for required reserves deposited at the central bank that are remunerated at the base rate. Changes in required core capital substantially impact the real economy and banks' balance sheet. When there is a lag between announcements and actual implementation of increased capital requirement ratios, agents immediately engage in anticipatory behavior. Banks immediately start to retain dividends so as to smooth the impact of higher required capital on their assets, more particularly on loans. The impact on the real economy also shifts to nearer horizons. Announcements that allow the new regulation on required capital to be anticipated also improve banks' risk positions, since banks achieve higher capital adequacy ratios right after the announcement and throughout the impact period.

A policy model to analyze macroprudential regulations and monetary policy (2014)

Alpanday Sami - Bank of Canada; Cateauz Gino - Bank of Canada; Mehx Cesaire - Bank of Canada

Abstract: The authors construct a small-open-economy, New Keynesian dynamic stochastic general-equilibrium model with real-financial linkages to analyze the effects of financial shocks and macroprudential policies on the Canadian economy. Our model has four key features. First, it allows for non-trivial interactions between the balance sheets of households, firms and banks within a unified framework. Second, it incorporates a risk-taking channel by allowing the risk appetite of investors to depend on aggregate economic activity and funding conditions. Third, it incorporates long-term debt by allowing households and businesses to pay back their stock of debt over multiple periods. Fourth, it incorporates targeted and broader macroprudential instruments to analyze the interaction between macroprudential and monetary policy. The model also features nominal and real rigidities, and is calibrated to match dynamics in Canadian macroeconomic and financial data. The authors study the transmission of monetary policy and financial shocks in the model economy, and analyze the effectiveness of various policies in simultaneously achieving macroeconomic and financial stability. The authors find that, in terms of reducing household debt, more targeted tools such as loan-to-value regulations are the most effective and least costly, followed by bank capital regulations and monetary policy, respectively.

Bank Ownership and Credit Growth in Emerging Markets During and After the 2008–09 Financial Crisis — A Cross-Regional Comparison (2014)

Chen Guodong - University of Michigan; Wu Yi - International Monetary Fund

Abstract: This paper examines bank credit growth in emerging markets before, during, and after the 2008-09 financial crisis using bank-level data, focusing on the role of bank ownership. Credit growth by foreign banks lagged behind that of domestic banks in 2009 in Asia, and in 2010 in Latin America and emerging Europe. State-owned banks instead played a counter-cyclical role during the crisis in particular in Latin America and emerging Europe, and credit by state owned banks also grew faster than that of private banks after the crisis in Latin America. Expansionary monetary policy on average led to higher credit growth. Banks in Latin America and Asia that relied more on retail funding had higher credit growth, in particular during the crisis. Better-capitalized banks and banks with more liquid assets also had faster credit growth. Finally, banks in countries with stronger banking regulation had higher credit growth during the crisis.

Monetary Policy

Developing an underlying inflation gauge for China (2014)

Amstad Marlene – BIS; Huan Ye – BIS; Ma Guonan – BIS

Abstract: The headline consumer price inflation (CPI) is often considered too noisy, narrowly defined, and/or slowly available for policymaking. On the other hand, traditional core inflation measures may reduce volatility but do not address other issues and may even exclude important information. This paper develops a new underlying inflation gauge (UIG) for China which differentiates between trend and noise, is available daily and uses a broad set of variables that potentially influence inflation. Its construction follows the works at other major central banks, adopts the methodology of a dynamic factor model that extracts the lower frequency components as developed by Forni et al. (2000) and draws on the experience of the People's Bank of China in modelling inflation. The paper is the first application of this type of dynamic factor model for inflation to any large emerging market economy. Our UIG for China is less noisy but still closely tracks the headline CPI. It does not suffer from the excess volatility reduction that plagues traditional core inflation measures and instead provides additional information. Finally, when forecasting the headline CPI, our UIG for China outperforms traditional core measures over different samples.

The European Public Debt Refinancing Program - Why the ECB Quantitative Easing Should Envisage Euro-Zone Government Bonds (2014)

Minenna Marcello - Bocconi University

Abstract: The credit risk exposure of the German banking system is growing again after the 2009 peak and its subsequent reduction. This column comments it through the lens of the Target2 net balances in connection with the capital flows experienced by the Eurozone (EZ) balance of payments. Several aspects arise. LTRO program launched at the end of 2011 served to deleverage the EZ banks. This happened by mutualizing the German banks' credit risk on the Euro system and by transferring on the EZ peripheral countries the risks of their national public debts. Moreover the German massive lending activities are part of a more general vendor financing scheme that in a first phase was structured substantially within the EZ while now is moving outside European borders. These dynamics have been considered by the ECB in the recent (September 4) unconventional monetary policy measures. The forthcoming Quantitative Easing (QE) will envisage purchases by the Central Bank of Asset Backed Securities (ABS) "simple and transparent" of high and medium-high quality but only insofar as the ABS will not have as an underlying assets credit granted outside Europe. This measure would hence exclude the possibility for the German banking system of mutualizing on the Euro system the credit risk arising from the new world-wide vendor financing scheme. The QE would also provide for the purchase of Covered bonds by the ECB. [...]

Dynamic Debt Deleveraging and Optimal Monetary Policy (2014)

Benigno Pierpaolo - Luiss Guido Carli, Rome; Eggertsson Gauti B. - Brown University; Romei Federica - European University Institute, Italy

Abstract: This paper studies optimal monetary policy under dynamic debt deleveraging once the zero bound is binding. Unlike the existing literature, the natural rate of interest is endogenous and depends on macroeconomic policy. Optimal monetary policy successfully raises the natural rate of interest by creating an environment that speeds up deleveraging, thus endogenously shortening the duration of the crisis and a binding zero bound. Inflation should be front loaded. Fiscal-policy multipliers can be even higher than in existing models, but depend on the way in which public spending is financed.

The retail bank interest rate pass-through: The case of the euro area during the financial and sovereign debt crisis (2014)

Darracq Pariès Matthieu - European Central Bank; Moccero Diego - European Central Bank; Krylova Elizaveta - European Central Bank; Marchini Claudia - European Central Bank

Abstract: This paper analyses the cross-country heterogeneity in retail bank lending rates in the euro area and presents newly developed pass-through models that account for the riskiness of borrowers, the balance sheet constraints of lenders and sovereign debt tensions affecting interest rate-setting behaviour. Country evidence for the four largest euro area countries shows that downward adjustments in policy rates and market reference rates have translated into a concomitant reduction in bank lending rates. In the case of Spain and Italy, however, sovereign bond market tensions and a deteriorating macroeconomic environment have put upward pressure on composite lending rates to non-financial corporations and households. At the same time, model simulations suggest that higher lending rates have propagated to the broader economy by depressing economic activity and inflation. As a response to increasing financial fragmentation, the ECB has introduced several standard and non-standard monetary policy measures. These measures have gone a long way towards alleviating financial market tensions in the euro area. However, in order to ensure the adequate transmission of monetary policy to financing conditions, it is essential that the fragmentation of euro area credit markets is reduced further and the resilience of banks strengthened where needed. Simulation analysis confirms that receding financial fragmentation could help to boost economic activity in the euro area in the medium term.

Monetary analysis and the global financial cycle: an Asian central bank perspective (2014)

Filardo Andrew – BIS; Genberg Hans – BIS; Hofmann Boris – BIS

Abstract: EM Asia has seen a transformation of its monetary policy environment over the past 2 decades. By far, the most relevant change has been the maturing of its financial systems and the growing relevance of the global financial cycle: financial inclusion has spread, financial markets have deepened and financial globalisation has linked domestic markets closer to international markets. One consequence of the maturing of the financial systems has been the weakening of the traditional case for the monetarist view of the roles of monetary and credit aggregates in the conduct of monetary policy: velocity has been unstable in ways similar to that in the advanced economies decades earlier; yet, longer-term monetary growth correlations with inflation are evident. In addition, the maturing of the financial systems has elevated concerns of financial stability, as both a source of shocks and as something central banks have a responsibility for. These developments have been further complicated by monetary policy spillovers from the advanced economies. The challenge now is how best to integrate mandates for financial stability into monetary policy frameworks, both conceptually

and practically. Moreover, the exchange rate choice is particularly relevant in EM Asia. While managed exchange rate regimes in EM Asia have been implemented with mixed success, the risks associated with the choice can be seen through the lens of aggregates based on central bank balance sheets. The size and growth of central bank balance sheets suggest an ongoing build-up in risks.[...]

News and Monetary Shocks at a High Frequency: A Simple Approach (2014)

Matheson Troy - International Monetary Fund; Stavrev Emil - International Monetary Fund

Abstract: In this paper the authors develop a simple approach to identify economic news and monetary shocks at a high frequency. The approach is used to examine financial market developments in the United States following the Federal Reserve's May 22, 2013 taper talk suggesting that it would begin winding down its quantitative easing program. Our findings show that the sharp rise in 10-year Treasury bond yields immediately after the taper talk was largely due to monetary shocks, with positive economic news becoming increasingly important in subsequent months.

Monetary Policy Effectiveness in China: Evidence from a FAVAR Model (2014)

Fernald John - Federal Reserve Bank of San Francisco; Spiegel Mark M. - Federal Reserve Bank of San Francisco; Swanson Eric T. - University of California at Irvine

Abstract: They use a broad set of Chinese economic indicators and a dynamic factor model framework to estimate Chinese economic activity and inflation as latent variables. They incorporate these latent variables into a factor-augmented vector autoregression (FAVAR) to estimate the effects of Chinese monetary policy on the Chinese economy. A FAVAR approach is particularly well-suited to this analysis due to concerns about Chinese data quality, a lack of a long history for many series, and the rapid institutional and structural changes that China has undergone. They find that increases in bank reserve requirements reduce economic activity and inflation, consistent with previous studies. In contrast to much of the literature, however, they find that central-bank-determined changes in Chinese interest rates also have substantial impacts on economic activity and inflation, while other measures of changes in credit conditions, such as shocks to M2 or lending levels, do not once other policy variables are taken into account. Overall, their results indicate that the monetary policy transmission channels in China have moved closer to those of Western market economies.

Fiscal Policy and Budget Management

A Surplus of Ambition: Can Europe Rely on Large Primary Surpluses to Solve its Debt Problem? (2014)

Eichengreen Barry - University of California, Berkeley; Panizza Ugo - The Graduate Institute, Geneva

Abstract: IMF forecasts and the EU's Fiscal Compact foresee Europe's heavily indebted countries running primary budget surpluses of as much as 5 percent of GDP for as long as 10 years in order to maintain debt sustainability and bring their debt/GDP ratios down to the Compact's 60 percent target. The authors show that primary surpluses this large and persistent are rare. In an extensive sample of high- and middle-income countries there are just 3 (nonoverlapping) episodes where countries ran primary surpluses of at least 5 per cent of GDP for 10 years. Analyzing a less restrictive definition of persistent surplus episodes (primary surpluses averaging at least 3 percent of GDP for 5 years), the authors find that surplus episodes are more likely when growth is strong, when the current account of the balance of payments is in surplus (savings rates are high), when the debt-to-GDP ratio is high (heightening the urgency of fiscal adjustment), and when the governing party controls all houses of parliament or congress (its bargaining position is strong). Left wing governments, strikingly, are more likely to run large, persistent primary surpluses. In advanced countries, proportional representation electoral systems that give rise to encompassing coalitions are associated with surplus episodes. The point estimates do not provide much encouragement for the view that a country like Italy will be able to run a primary budget surplus as large and persistent as officially projected.

Identifying fiscal sustainability challenges in the areas of pension, health care and long-term care policies (2014)

Directorate-General for Economic and Financial Affairs - European Commission

Abstract: This paper presents a horizontal assessment framework used by the Commission services to identify structural-fiscal reforms that are deemed necessary to address fiscal sustainability challenges in the Member States. It describes the steps to ascertain the extent to which there is a policy challenge in ensuring progress towards fiscal sustainability and which policy dimensions merits closer scrutiny, taking into account the country-specific circumstances in the fields of, respectively: i) pension policy; ii) health care policy; and, iii) long-term care policy. The areas under scrutiny concern the design of national policies in the above-mentioned policy fields and are under the direct control of the Member States' governments. These

areas are explicitly mentioned, in relevant cases, in the policy coordination process at EU level, the European Semester.

Budget Institutions in Low-Income Countries: Lessons from G-20 (2014)

Gupta Sanjeev - International Monetary Fund; Ylaoutinen Sami - Ministry of Finance, Finland

Abstract: This paper presents twelve budget institutions that can support planning and delivery of credible fiscal strategies in the fiscal policy-making process. The resulting framework is applied to seven low-income countries and the status of their budget institutions compared to the G-20 advanced and emerging market economies. The paper then presents recommendations for designing and implementing appropriate fiscal strategy for low-income countries. Particular attention is paid to prioritization and sequencing of reform efforts.

Procyclical and Countercyclical Fiscal Multipliers: Evidence from OECD Countries (2014)

Riera-Crichton Daniel - Department of Economics, Bates College; Vegh Carlos A. - Johns Hopkins University; Vuletin Guillermo - Brookings Institution

Abstract: Using non-linear methods, the authors argue that existing estimates of government spending multipliers in expansion and recession may yield biased results by ignoring whether government spending is increasing or decreasing. In the case of OECD countries, the problem originates in the fact that, contrary to one's priors, it is not always the case that government spending is going up in recessions (i.e., acting countercyclically). In almost as many cases, government spending is actually going down (i.e., acting procyclically). Since the economy does not respond symmetrically to government spending increases or decreases, the "true" long-run multiplier for bad times (and government spending going up) turns out to be 2.3 compared to 1.3 if the authors just distinguish between recession and expansion. In extreme recessions, the long-run multiplier reaches 3.1.

Subnational Bond Markets

Political Bonds: Political Hazards and the Choice of Municipal Financing Instruments (2014)

Aneja Abhay - Stanford University; Moszoro Marian W. - University of California; Spiller Pablo T. - University of California

Abstract: A combined treatment of public finance and political governance is herein proposed. The authors study the link between the choice of rule-based public contracts and political hazards using the municipal bond market. While general obligation bonds are serviced from all municipal revenue streams and offer elected officials financial flexibility, revenue bonds limit the discretion that political agents have in repaying debt as well as the use of revenues from the projects financed by the debt. Using a theoretical framework proposed in Moszoro and Spiller (2012), the authors predict that public officials choose revenue bonds when elections are very contested to signal trustworthiness and transparency in contracting to the voter. The authors test this hypothesis on municipal finance data that includes 6,500 bond issuances nationwide as well as election data on over 400 cities over twenty years. The authors provide evidence that in politically contested cities, mayors are more likely to issue revenue bonds. The correlation is economically significant: a 10 basis points increase in the victory margin of winning candidates typically decreases the probability of debt being issued as a revenue bond by than almost 3%. The authors test a few additional hypotheses that strengthen the argument that the choice of revenue bonds is a political risk adaptation of public agents so as to lower the likelihood of successful political challengers.

Public Debt in Macroeconomic Analysis

Growth, Debt, and Inequality (2014)

Marchionne Francesco - Nottingham Business School; Parekh Sunny - University of Birmingham

Abstract: After the 2009 global recession, many papers identified a non-linear inverted U-shaped relationship between economic growth and sovereign debt. However, their results are mixed regarding the exact turning point and, recently, the direction of its causality. According the traditional view, the authors assume debt-to-growth causality and show that the mixed results depend on the heterogeneity of the non-linear debt-growth relationship. In our sample of 27 countries over the period 1994-2010, countries with higher Gini index, our measure of income inequality, show lower threshold points upon which further increases in debt reduce growth but a higher sensitivity of growth to debt changes. Hence, the more distributionally fair countries are, the more fiscally virtuous they should be to growth. The policy implication is that more equal income distribution policies reduce (increase) economic growth in (not) highly indebted countries.

Optimal Level of Government Debt: Matching Wealth Inequality and the Fiscal Sector (2014)

Vogel Edgar - European Central Bank

Abstract: In this paper the authors calibrate an incomplete markets large scale OLG model to the US

income and wealth distribution and examine the effects of alternative government debt levels and adjustment policies on macroeconomic aggregates and welfare. The authors find that the government should hold negative debt. Due to the high degree of wealth and income dispersion ex ante lifetime utility increases with increasing wages (falling interest rates) by around 6% of lifetime consumption at optimal debt levels. The optimal level depends on the adjustment policy can vary by up to 70% of GDP (between -180% and -110%). With lower government debt, high income/wealth agents are always worse off. Adjusting transfers benefits the lowest income/wealth group. The largest gains are, however, experienced by agents in the middle of the income/wealth distribution: they benefit from higher wages and transfers but do not lose too much capital income.

The Role of Government Debt in Economic Growth (2014)

Afonso Antonio - Technical University of Lisbon; Alves José Ricardo - Technical University of Lisbon

Abstract: In this paper the authors study the effect of public debt on economic growth for annual and 5-year average growth rates, as well as the existence of non-linearity effects of debt on growth for 14 European countries from 1970 until 2012. The authors also consider debt-to-GDP ratio interactions with monetary, public finance, institutional and macroeconomic variables. Our results show a negative impact of -0.01% for each 1% increment of public debt, although debt service has a 10 times worse effect on growth. In addition, the authors find average debt ratio thresholds of around 75%. Belonging to the Eurozone has a detrimental effect of at least -0.5% for real per capita GDP, and the banking crisis is the most harmful crisis for growth.

Debt and economic growth in the European Union: what causes what? (2014)

Ferreira Cândida - University of Lisbon

Abstract: This paper contributes to the empirical investigation of the causality relations between real GDP growth and the growth of three debt categories, namely public, foreign and private debt, in the universe of the 28 European Union countries during the past decade. By using panel Granger causality estimations, the authors find non-statistically significant causality between foreign debt and economic growth and the limited importance of the causality between private debt and real GDP growth. On the contrary, the results obtained show statistically relevant bidirectional causality relations between public debt and economic growth, and this is true before and after the outbreak of the recent financial crisis. Moreover, there is clear evidence of economic growth's contribution to the decrease in public debt.

Conditional forecasts and scenario analysis with vector autoregressions for large cross-section (2014)

Bańbura Marta - European Central Bank; Giannone Domenico - LUISS, Rome; Lenza Michele - European Central Bank

Abstract: This paper describes an algorithm to compute the distribution of conditional forecasts, i.e. projections of a set of variables of interest on future paths of some other variables, in dynamic systems. The algorithm is based on Kalman filtering methods and is computationally viable for large models that can be cast in a linear state space representation. The authors build large vector auto regressions (VARs) and a large dynamic factor model (DFM) for a quarterly data set of 26 euro area macroeconomic and financial indicators. Both approaches deliver similar forecasts and scenario assessments. In addition, conditional forecasts shed light on the stability of the dynamic relationships in the euro area during the recent episodes of financial turmoil and indicate that only a small number of sources drive the bulk of the fluctuations in the euro area economy.

Growth Surprises and Synchronized Slowdowns in Emerging Markets––An Empirical Investigation (2014)

Fayad Ghada - International Monetary Fund; Perrelli Roberto - International Monetary Fund

Abstract: Output growth has slowed in several emerging markets since 2011—a remarkable feature for a non-crisis period in EMs. Such synchronized slowdowns were largely unanticipated by scholars and forecasters alike. In this paper the authors attempt to shed light on the main drivers of growth surprises and synchronized slowdowns in emerging markets post-global financial crisis. The authors find that lower trading partner demand was a key external factor in explaining these events during 2011–13, and that changes in external financing conditions have yet to play a role in EMs' growth. On the domestic front, the withdrawal of the fiscal stimulus put in place right after the Lehman collapse is a relevant aspect in these episodes, compounding the effect of the weaker external demand. Idiosyncratic factors, such as structural bottlenecks with the potential to impair growth in a more lasting fashion, also seem to partly explain these events, as reflected in the larger residuals found in regression-based estimates for certain countries.

The Effect of the Global Financial Crisis on OECD Potential Output (2014)

Ollivaud Patrice - OECD, France; Turner David - OECD, France

Abstract: This paper estimates potential output losses from the global financial crisis by comparing recent OECD published projections with a counter-factual assuming a continuation of pre-crisis productivity trends and a trend employment rate which is sensitive to demographic trends. Among the 19 OECD countries which experienced a banking crisis over the period 2007-11, the median loss in potential output in 2014 is estimated to be 3¾ per cent, compared to 2¾ per cent among all OECD countries. The crisis hit does, however, vary widely across countries, being more than 10% for several smaller European, mainly euro area, countries. The largest adverse effects come from lower trend productivity, which is a combination of both lower total factor productivity and lower capital per worker. Despite large increases in structural unemployment in some countries, the contribution of lower potential employment to the crisis hit is limited because the adverse effect on labor force participation is generally much less than might have been expected on the basis of previous severe downturns. This may partly reflect pension reforms and a tightening up of early retirement pathways. Pre-crisis conditions relating to over-heating and financial excesses, including high inflation, high investment, large current account deficits, low real interest rates, high total economy indebtedness and more rapid growth in capital-per-worker are all correlated with larger post-crisis potential output losses. This suggests that underlying the potential output losses was a substantial misallocation of resources, especially of capital, in the pre-crisis boom period. On the other hand, more competition-friendly product market regulation is associated with smaller crisis-related losses of potential output, suggesting it facilitates a reallocation of resources across firms and sectors in the aftermath of an adverse shock and so helps to mitigate its consequences.

International Financial Integration and Crisis Contagion (2014)

Devereux Michael B. - University of British Columbia
Yu Changhua - University of International Business and Economics

Abstract: International financial integration helps to diversify risk but also may increase the trans-mission of crises across countries. We provide a quantitative analysis of this trade-off in a two-country general equilibrium model with endogenous portfolio choice and collateral con- straints. Collateral constraints bind occasionally, depending upon the state of the economy and levels of inherited debt. The analysis allows for different degrees of financial integration, moving from financial autarky to bond market integration and equity market integration. Financial integration leads to a significant increase in global leverage, doubles the probability of balance sheet crises for any one country, and dramatically increases the degree of 'contagion' across countries. Outside of crises, the impact of financial integration on macro aggregates is relatively small. But the impact of a crisis with integrated international financial markets is much less severe than that under financial market autarky. Thus, a trade-off emerges between the probability of crises and the severity of crises. Financial integration can raise or lower welfare, depending on the scale of macroeconomic risk. In particular, in a low risk environment, the increased leverage resulting from financial integration can reduce welfare of investors.

Historical Evolution of Debt Management

The Public Finance and the Economic Growth in the First Portuguese Republic (2014)

Ferraz Martins Nuno - Coimbra University, Portugal; Portugal Duarte António - Coimbra University, Portugal

Abstract: The end of the 19th century was marked by several events which were extremely important to Portugal. The consequences of these events would later be responsible for the fall of the Monarchy and, thus, for the birth of the Republic. The first Republic was officially proclaimed on the 5th October 1910, and had a relatively short lifetime. This regime was later abolished by a military dictatorship. During most of its duration, the First Republic was marked by economic, financial, political and social instability. However, the Portuguese economic scenario started to change and improved by the end of this regime and, consequently, before the beginning of the Military Dictatorship, which ended up taking advantage of the 'new' and more favorable economic situation of the country. Additionally the authors find evidence that in the first two civil years of the Military Dictatorship, the real GDP grew sharply and above our prediction, and the public debt as percentage of GDP, had a more significant reduction then predicted.

How Much is A Lot? Historical Evidence on the Size of Fiscal Adjustments (2014)

Escolano Julio - International Monetary Fund; Jaramillo Laura - International Monetary Fund; Mulas-Granados Carlos - International Monetary Fund; Terrier Gilbert - International Monetary Fund

Abstract: The sizeable fiscal consolidation required to stabilize the debt-to-GDP ratios in several countries in the aftermath of the global crisis raises a crucial question on its feasibility. To answer this question, the authors rely on historical evidence from a sample of 91 adjustment episodes of countries

during 1945–2012 that needed and wanted to adjust in order to stabilize debt to GDP. The authors find that, in at least half the cases, countries improved their cyclically adjusted primary balances by close to 5 percent of GDP. The authors also observe that, while countries typically make substantial efforts to stabilize debt, once this objective is achieved, they tend to ease their primary balances and do not necessarily get back to their initial lower debt-to-GDP ratio. The authors find that consolidations tended to be larger when the initial deficit was high and adjustment efforts were sustained over time. Fiscal adjustments also tended to be larger when accompanied by an easing of monetary conditions and, to a lesser extent, by an improvement in credit conditions.

Articles in reviews/in books

Institutional Arrangements for Debt Management

The Eurozone Crisis, Institutional Change, and 'Political Union' (2013)

Lindseth Peter L. - University of Connecticut School of Law

Abstract: This contribution reflects on the prospects of various forms of "political union" in the EU in the wake of the Eurozone crisis. To do so, it uses a theory of institutional change operating along three dimensions: functional, political, and cultural/ideological. [...]

Books

Coordination with other Policies and Operations

Well Begun but Not Yet Done : Progress and Emerging Challenges for Poverty Reduction in Vietnam (2014) **Downloadable**

Kozel Valerie - The World Bank

Summary: This book presents the key findings from a new poverty assessment for Vietnam, led jointly by the World Bank and the Vietnam Academy of Social Sciences (VASS).

Deleveraging, What Deleveraging? The 16th Geneva Report on the World Economy (2014) **Downloadable**

Buttiglione Luigi - Brevan Howard Investment Products; Lane Philip R. - Trinity College Dublin; Reichlin Lucrezia - London Business School; Reinhart Vincent - Morgan Stanley

Summary: The world has not yet begun to deleverage its crisis-linked borrowing. Global debt-to-GDP is breaking new highs in ways that hinder recovery in mature economies and threaten new crisis in emerging nations – especially China. The latest Geneva Report on the World Economy argues that the policy path to less volatile debt dynamics is a narrow one, and it is already clear that developed economies must expect prolonged low growth or another crisis along the way.

The Euro Trap: On Bursting Bubbles, Budgets, and Belief (2014)

Werner Sinn Hans - Institute for Economic Research

Summary: This book offers a critical assessment of the history of the euro, its crisis, and the rescue measures taken by the European Central Bank and the community of states.

Web Resources

Primary Market

World Bank Issues 300 million Chinese Renminbi Bond
The World Bank
The World Bank (International Bank for Reconstruction and Development, IBRD, rated Aaa/ AAA) has announced that it has issued another bond in the offshore Renminbi market. This is the World Bank's first issuance in that market with a maturity of under one year.

World Bank Issues a 5 million USD Callable Step-Up Green Bond
The World Bank
On September 25, 2014 the World Bank (International Bank for Reconstruction and Development, IBRD, rated Aaa/AAA), issued a USD 30 million 10-year callable step-up green bond targeted at Morgan Stanley Wealth Management clients. Morgan Stanley was the sole lead manager for this green bond transaction.

Post Trading

Statistics on payment, clearing and settlement systems in the CPMI countries - Figures for 2013
BIS
This is an annual publication that provides data on payments and payment, clearing and settlement systems in the CPSS countries. This version of the statistical update contains data for 2013 and earlier years. There are detailed tables for each individual country as well as a number of comparative tables.

Multilateral Debt

AFRODAD welcomes the UN resolution on debt restructuring
Afrodad
The African Forum and Network on Debt and Development (AFRODAD) welcomes the historic adoption by the UN General Assembly of the G77 + China draft resolution, "A/68/L.57/Rev2: Towards the establishment of a multilateral legal framework for sovereign debt restructuring processes." The Resolution voted on the 9th of September 2014, was passed with a large majority; 124 UN Member States voted in favour, 41 abstained, and only 11 voted against. The UN has a membership of 193 countries. The vote gives UN member states a mandate to work towards an open and inclusive intergovernmental framework for sovereign debt restructuring.

Burundi: 2014 Article IV Consultation, Fifth Review Under the Three-Year Arrangement Under the Extended Credit Facility; [...] - IMF Country Report No. 14/293
International Monetary Fund
This paper is for the periodic consultation with the member country [...]

Jamaica: Fifth Review Under the Extended Fund Facility and Request for Modification of Performance Criteria-Staff Report; Press Release -IMF Country Report No. 14/295
International Monetary Fund
This report shows a gradual economic recovery, [...]

Guinea: Requests for Disbursement Under the Rapid Credit Facility and for Modification of Performance Criteria Under the Extended Credit Facility Arrangement [...] -IMF Country Report No. 14/298
International Monetary Fund
Guinea is suffering from an outbreak of Ebola, which has become a humanitarian crisis with a significant economic impact. [...]

Sri Lanka: First Post-Program Monitoring Discussion-Staff Report; Press Release; and Statement by the Executive Director for Sri Lanka -IMF Country Report No. 14/289
International Monetary Fund
Sri Lanka's economy has navigated recent market turbulence relatively well.Growth has remained solid, inflation is in mid-single digits, and the current account deficit has narrowed. From mid-May, the exchange rate came under pressure as market expectations of U.S. [...]

St. Kitts and Nevis: Ninth and Final Review Under the Stand-By Arrangement [...] - IMF Country Report No. 14/297
International Monetary Fund
Program performance: Substantial strides have been made under the government's home-grown economic program. [...]

Republic of Yemen: 2014 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility- [...] - IMF Country Report No. 14/276
International Monetary Fund
This paper is for the periodic consultation with the member country [...]

Government and World Bank Joint Review to ensure timely development results
The World Bank
The World Bank and the Government of Bangladesh have concluded a Joint Tripartite Portfolio Review of selected World Bank supported projects in Bangladesh.

Legal Issues and Conventions

Update on financial regulatory factors affecting the supply of long-term investment finance
Financial Stability Board
The Financial Stability Board released an update on financial regulatory factors affecting the supply of long-term investment finance. In February 2013, the FSB provided an initial report to G20 Finance Ministers and Central Bank Governors which identified Basel III, over-the-counter (OTC) derivatives market reforms, and the regulatory and accounting framework for different types of institutional investors as reforms that may affect the provision of long-term investment finance. In August 2013, the FSB provided an update to G20 Ministers and Governors and outlined next steps in the work.

Review of the EU Financial Regulatory Framework
The Peterson Institute for International Economics
Transcript of testimony before the UK House of Lords, London, September 9, 2014 .

Derivatives

ASIC and MAS sign World-First Memorandum of Understanding on Authorities' Access to OTC Derivatives Trade Repository Data
MAS - Monetary Authority of Singapore
17 Sep 2014 - The Australian Securities and Investments Commission (ASIC) and the Monetary Authority of Singapore (MAS) have entered into a Memorandum of Understanding (MOU) to allow trade repositories licensed in one jurisdiction to provide relevant data to the authority in the other jurisdiction. Through this MOU, ASIC and MAS express their intent to cooperate with each other in the interest of fulfilling their respective responsibilities and mandates by facilitating each authority's access to relevant trade repository data, while ensuring the confidentiality of the information is appropriately protected. [...]

Feasibility study on approaches to aggregate OTC derivatives data
Financial Stability Board
The Financial Stability Board published a feasibility study of the various options for a mechanism to produce and share globally-aggregated OTC derivatives data, taking into account legal technical issues and the aggregated trade repository data that authorities need to fulfill their mandates. The report compares three basic options: 1) a physically centralized aggregation mechanism; 2) a logically centralized aggregation mechanism; and 3) the collection of raw data from individual databases by individual authorities that that then aggregate data within their own systems. The report finds that aggregation Options 1 and 2 are highly preferable to Option 3.

ESMA consults on draft guidelines clarifying the definition of derivatives under MiFID
ESMA
The European Securities and Markets Authority (ESMA) has published a consultation paper on future guidelines clarifying the definition of derivatives as financial instruments under the current Markets in Financial Instruments Directive (MiFID I). Comments should reach ESMA by January 5th 2015.

UPDATED FAQ: 2014 Credit Derivatives Definitions & Standard Reference Obligations
ISDA
This Frequently Asked Questions ("FAQ") document explains the derivatives industry's standards in regard to operational processing for certain credit derivative transactions [...]

2014 ISDA Credit Derivatives Definitions Implementation Summary Document
ISDA
The 2014 Definitions are an update to the 2003 ISDA Credit Derivatives Definitions and relevant supplements (the "2003 Definitions"), which currently form the basis of the documentation for most CDS transactions. The 2014 Definitions are a complete overhaul of the 2003 Definitions. Many completely new provisions have been added, and existing provisions have been updated and amended. The 2014 Definitions therefore represent a new standard for CDS contracts.[...]

Institutional Arrangements for Debt Management

How Robust is the Eurozone's Political Economy?
The European Financial Review
On paper, the Stability Pact places clear obligations on national governments to reduce their annual deficit and debt, and to do so promptly or face big cash penalties. However, this technocratic agreement ignores the fact that each government is democratically accountable to its citizens as well as to the European Commission. This puts pressure on the European Commission to fudge the obligations it places on national governments in order to maintain the momentum for further European integration.

Strengthening the Contractual Framework to Address Collective Action Problems in Sovereign Debt Restructuring
International Monetary Fund
This paper identifies contractual reforms designed to address collective action problems in sovereign debt restructuring. Since any decisions regarding the design of contractual provisions will need to be made by the sovereign issuer and its creditors, it is recognized that the Fund's primary role will be to facilitate agreement on the design and use of these provisions.

ESMA Revised Technical Advice on an EU Creditworthiness Assessment for Sovereign Debt
ESMA
The European Securities and Markets Authority (ESMA) has published revised technical advice on the appropriateness of the development of a European creditworthiness assessment for sovereign debt. The technical advice has been revised to reflect amended figures for the outstanding sovereign ratings in the EU and two re-classifications of the solicitation status of EU sovereign ratings.

Accounting, Transparency and Accountability

Legal Entity Identifier (LEI)
GFMA - Global Financial Markets Association
A global standardized Legal Entity Identifier (LEI) will help enable organizations to more effectively measure and manage risk, while providing substantial operational efficiencies and customer service improvements to the industry.[...]

ECB staff macroeconomic projections for the euro area - September 2014
European Central Bank
The article summarises the macroeconomic projections for the euro area for the period 2014-16. Projections for a period over such a long horizon are subject to very high uncertainty.2 This should be borne in mind when interpreting them.[...]

Statistics Pocket Book, September 2014
European Central Bank
Statistics Pocket Book is updated monthly and contains the Area Euro Statistical series.[...]

Main Economic Indicators, Volume 2014 Issue 9
OECD
The monthly Main Economic Indicators (MEI) presents comparative statistics that provide an overview of recent international economic developments for the 34 OECD countries, the euro zone and a number of non-member economies.[...]

Debt Management Performance Assessment (DeMPA)

The World Bank

The Debt Management Performance Assessment (DeMPA) is a standardized evaluation of the strengths and weaknesses in government debt management. It looks at a number of indicators of healthy performance, including how a government coordinates debt management with macroeconomic policies, forecasts its cash flow, and conducts debt management transactions. It helps establish priorities and design further reform programs. Importantly, it is often used to facilitate monitoring of performance over time through repeated assessments.

DMOs Programmes and Reports

2014-2018 Public Institution Financial Management Plan

Korean MoF

The Korean government submitted the 2014-2018 public institution financial management plan to the National Assembly on September 22. The 2014-2018 public institution financial management plan focuses on three points: 1) continuing to improve financial soundness; 2) utilizing available funds to stimulate the economy; and 3) introducing a total bond issuance limit for public corporations.[...]

The Annual Government Debt Review for 2013 has been published

Bulgarian Ministry of Finance

As of the end of 2013, the nominal value of the government debt stood at BGN 14,118.5 million, of which BGN 7,828.9 million external and BGN 6,289.6 million domestic debt. In nominal terms the government debt marked a growth of BGN 444.9 million compared to the level recorded at the end of 2012, show the data of the 2013 Annual Government Debt Review prepared by the Ministry of Finance and published in section Government Debt/Statistics. The ratio of government debt to GDP at the end of 2013 was 18.1%, which showed an increase by 0.6 p.p. compared to December 2012 (17.5%).[...]

Uruguay Debt Report - October 2014

Debt Management Unit, Uruguay

The last Macroeconomic Coordination Committee held on September decided to remove reserve requirements for foreign investors on CG local securities. To keep providing a steady supply of local benchmark bonds, a new issuance schedule for the forthcoming six-months was released. [...]

Uruguay in Focus - October 2014

Debt Management Unit, Uruguay

Uruguayan economy continues decoupling from its neighbors [...]

Coordination with other policies and operations

BIS Quarterly Review - September 2014 - International banking and financial market developments

BIS

Following a prolonged period of unusual tranquillity, volatility in financial markets ticked upwards in early August. Risk appetite took a dent, as escalating geopolitical tensions added to renewed concerns about the recovery. Equity prices fell, especially in Europe, high-yield credit spreads widened significantly, and yields of safe haven assets such as short-maturity German bunds fell into negative territory. But markets quickly rode out the turbulence. By early September, they had already recovered their losses, as worries over geopolitical tensions gave way to investors' anticipation of further monetary stimulus in the euro area.[...]

Seventh Irving Fisher Committee Conference on Central Bank Statistics

BIS

Speech given by the BIS Deputy General Manager Hervé Hannoun.

Progress on post-crisis reforms: banking supervisors and central bankers meet to discuss

BIS

The Basel Committee on Banking Supervision held a meeting to consider Basel III reform issues at the 18th International Conference of Banking Supervisors in Tianjin, China. Banking supervisors and central bankers representing more than 100 jurisdictions met to discuss a range of policy measures relating to the Basel Committee on Banking Supervision's post-crisis reform agenda. Participants also discussed the role of banking systems in promoting growth and making financial services safe so that they could support the real economy.

Philippines: 2014 Article IV Consultation-Staff Report; Press Release
IMF
Growth remains rapid, but has moderated from the 7¼ percent recorded in 2013. Remittances and accommodative monetary and financial conditions remain the primary growth drivers, despite volatile capital flows, slowing activity in the region and severe natural disasters. Inflation has picked up to over 4 percent, while the current account remains in surplus. Local financial markets were moderately impacted by the Fed's "taper talk and action," weakening the peso and equity prices. [...]

IMF Executive Board Concludes 2014 Article IV Consultation with the Philippines
IMF
On July 8, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation1 with the Philippines and considered and endorsed the staff appraisal without a meeting.[...]

Meeting of the Financial Stability Board in Cairns on 17-18 September
Financial Stability Board
At its meeting in Cairns, the Financial Stability Board (FSB) discussed vulnerabilities affecting the global financial system and reviewed work plans for completing core financial reforms: Vulnerabilities in the financial system, Ending too-big-to-fail, Shadow banking, Making derivatives markets safer, Foreign exchange benchmark reform, Accounting, auditing and disclosure.

Myanmar: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Myanmar - IMF Country Report No. 14/307
International Monetary Fund
This paper is for the periodic consultation with the member country [...]

The World Bank's first Economic Update report for the Republic of Congo
The World Bank
The World Bank has launched the first Economic Update report for the Republic of Congo which monitors the economic and financial situation in the country.

The Federal Democratic Republic of Ethiopia: 2014 Article IV Consultation [...] - IMF Country Report No. 14/303
International Monetary Fund
This paper is for the periodic consultation with the member country [...]

The Federal Democratic Republic of Ethiopia: Selected Issues Paper - IMF Country Report No. 14/304
International Monetary Fund
While Ethiopia's public sector-led development strategy has delivered strong results over the past decade, it has been facing significant challenges in recent years. [...]

Belize: 2014 Article IV Consultation-Staff Report; Press Release - IMF Country Report No. 14/280
International Monetary Fund
This paper is for the periodic consultation with the member country [...]

Austria: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Austria - IMF Country Report No. 14/278
International Monetary Fund
This paper is for the periodic consultation with the member country [...]

Angola: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Angola - IMF Country Report No. 14/274
International Monetary Fund
This paper is for the periodic consultation with the member country [...]

Democratic Republic of the Congo: 2014 Article IV Consultation- [...] - IMF Country Report No. 14/301
International Monetary Fund
This paper is for the periodic consultation with the member country [...]

Cabo Verde: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Cabo Verde - IMF Country Report No. 14/296
International Monetary Fund

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

Central African Economic and Monetary Community (CEMAC) Selected Issues - IMF Country Report No. 14/305
International Monetary Fund
In the CEMAC region, structural excess liquidity stems not only from a monetary expansion as a result of the surge in oil revenues but also from liquidity management weaknesses. [...]

Kenya: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Kenya -IMF Country Report No. 14/302
International Monetary Fund
This paper is for the periodic consultation with the member country […]

Italy: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Italy - IMF Country Report No. 14/283
International Monetary Fund
This paper is for the periodic consultation with the member country […]

Illicit Financial Flows from AFRICA-Signs of a Poor Integration into the Global Economy
Afrodad
Whether one looks at the figures in absolute or relative terms, the outflow of illicit financial flows (IFFs) from Africa is staggering. Ever since the landmark study by the African Development Bank(1) and Global Financial Integrity(2) described Africa as a net creditor to the world of some US$1.4 trillion between 1980-2009, studies have proliferated on the subject. The significance of these figures is that they demonstrate the extent to which international trade, indeed, integration into the global economy, is not proving to be a viable development option for the continent.[…]

Guatemala: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Guatemala -IMF Country Report No. 14/287
International Monetary Fund
This paper is for the periodic consultation with the member country […]

Guyana: 2013 Article IV Consultation - Staff Report; Press Release - IMF Country Report No. 14/294
International Monetary Fund
This paper is for the periodic consultation with the member country […]

Saudi Arabia: 2014 Article IV Consultation-Staff Report; Press Release - IMF Country Report No. 14/292
International Monetary Fund
This paper is for the periodic consultation with the member country […]

Eurozone recovery: there are no shortcuts
VOX
There is a growing consensus that austerity is contributing to the Eurozone's macroeconomic malaise, but also that spending cuts are needed in the long run to achieve fiscal sustainability. Some commentators have advocated a temporary tax cut financed by unsterilised ECB purchases of long-term public debt, accompanied by a commitment to future spending cuts. This column argues that such commitments are simply not credible – especially given the moral hazard problem created by central bank monetisation of debts.

What macroeconomic policies for the Eurozone?
VOX
In a recent column, the authors suggested coordinating monetary and fiscal expansions in the Eurozone through a money-financed temporary tax cut. The effectiveness of their proposal, however, has been questioned. In this column, the authors address some of the criticisms. They argue that the counter-cyclical fiscal policies adopted by the US and the UK, together with monetary easing, had a stabilising effect on output. Moral hazard due to the more lax monetary and fiscal policies is avoidable, increasing the credibility of the future spending cuts.

Monetary Policy

Monthly Bulletin, September 2014
European Central Bank
With the Monthly Bulletin the ECB meets its legal requirement to publish reports on the activities of the ESCB at least every quarter. The Bulletin is published one week after the monthly meeting in which the Governing

Council of the ECB takes its monetary policy decision. It explains this decision and makes it more transparent by providing a detailed analysis of the current economic situation and risks to price stability.

Re-thinking the lender of last resort
BIS
Lender of last resort (LOLR) is perhaps a central bank's most controversial role. On the one hand, emergency liquidity assistance to financial institutions is a core responsibility of central banks. This is because of central banks' unique ability to create liquid assets in the form of central bank reserves, their central position within the payment system and their macroeconomic stabilization objective. On the other hand, central bank LOLR is seen as very risky; as it potentially creates moral hazard on a massive scale, exposes the central bank to large financial risks, and blurs the boundary with fiscal policy. Moreover, liquidity assistance to individual institutions is typically deeply unpopular, creating reputation risks.[...]

What were they thinking? The Federal Reserve in the run-up to the 2008 financial crisis
VOX
Since the Global Crisis, critics have questioned why regulatory agencies failed to prevent it. This column argues that the US Federal Reserve was aware of potential problems brewing in the financial system, but was largely unconcerned by them. Both Greenspan and Bernanke subscribed to the view that identifying bubbles is very difficult, pre-emptive bursting may be harmful, and that central banks could limit the damage ex post. The scripted nature of FOMC meetings, the focus on the Greenbook, and a 'silo' mentality reduced the impact of dissenting views.

Fiscal policy and Budget Management

Portugal: Fiscal Transparency Evaluation - IMF Country Report No. 14/306
International Monetary Fund
The key findings of the present Fiscal Transparency Evaluation are: • Fiscal reporting is in line with good or advanced practices, particularly in compliance with EU requirements and ESA 95 standards, but still lacks a sound conceptual accounting framework based on internationally accepted standards. [...]

Public Debt in Macroeconomic Analysis

The Economic Impact of the 2014 Ebola Epidemic: Short and Medium Term Estimates for West Africa
The World Bank
A new World Bank Group report highlights the short and medium-term impacts of the Ebola epidemic on West Africa. The report is a follow-up to the September 2014 report outlining the impacts of the crisis on Guinea, Liberia and Sierra Leone. Projections show a possible $32.6 billion loss to West Africa over the next two years

Russia Economic Report 32: Policy Uncertainty Clouds Medium-Term Prospects
The World Bank
Russia's economy is stagnating. Increasing uncertainty has impacted investor and consumer decisions. There are substantial risks to Russia's medium-term outlook. Economic recovery will need a predictable policy environment and a new model of diversified development. Prospects for further poverty reduction and shared prosperity are limited.

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* (16.136 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

23 September 2014 - InterContinental Hotel, Geneva, Switzerland
Global Forum for Derivatives Markets

13 October 2014 - Geneva, Switzerland
World Investment Forum

14 October 2014 - UN Headquarters in New York
GA Second Committee Special Event on Sovereign Debt Restructuring, 14.10.2014

20 October 2014 - e-course – World Bank
Debt Management Performance Assessment (DeMPA)

21 October 2014 - SIFMA Conference Centre - New York City
EU Regulatory Symposium

23 October 2014 - Grand Hyatt Hotel, Santiago, Chile
"Commodity Prices and Macroeconomic Policy"

24 October 2014 - Madrid, España - CEMLA
Taller sobre sistemas bancarios en economías emergentes e integración financiera regional

27 October 2014 - web-based - UNITAR
Debt Rescheduling with the Paris Club (2014)

27 October 2014 - web-based - UNITAR
Mathematics of Finance

03 November 2014 - web-based - UNITAR
Basic Course on Public Debt Management (2014)

03 November 2014 - web-based - UNITAR
Effective Public Debt Management (2014)

03 November 2014 - web-based - UNITAR
Essentials of Banking Regulation and Basel III

03 November 2014 - web-based - UNITAR
Capital Market Development & Regulation - Advanced Course

04 November 2014 - Madrid, España - CEMLA
Análisis de Estados Financieros de la Banca Central

05 November 2014 - Marina Bay Sands, Singapore
ASIFMA Annual Conference 2014: Developing Asia's Capital Markets

05 November 2014 - Mannheimer Swartling Norrlandsgatan , 21 Stockholm
ICMA Conference: MiFID II, CSDR and Secondary Bond Market Liquidity

06 November 2014 - The Langham Hotel - Chase Room - 250 Franklin Street, Boston, MA
EMTA Forum: The Economic Outlook For Venezuela (Boston)

06 November 2014 - Charlemagne building, Brussels
High Level Conference "Finance for Growth – Towards a Capital Markets Union"

06 November 2014 - Santiago, Chile
VII Reunión sobre Operaciones de Mercado Abierto

10 November 2014 - New York
2014 IIF Executive Program on Country and Sovereign Risk Management - Strategic Perspective on Sovereign Credit Risk

12 November 2014 - Geneva, Switzerland
Expert Meeting on the Impact of Access to Financial Services, Including by Highlighting Remittances on Development: Economic Empowerment of Women and Youth

14 November 2014 - Clifford Chance LLP - London
London Renminbi Markets Conference

18 November 2015 - London
Structured Products Europe: Ten years of innovation, regulation and education

24 November 2014 - United Arab Emirates
Public Financial Management: issues & solutions

26 November 2014 - ICMA - 23 College Hill - London
Global Master Agreements for Repo and Securities Lending Workshop

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

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

Previously signaled

27 October 2014 - e-learning
Municipal Finances - A Learning Program for Local Governments

30 October 2014 - Sky City, Auckland
2014 INFINZ Conference

3 November 2014 - SOFITEL Europe, Brussels
AFME 9th Annual European Government Bond Conference

11 November 2014 - 23 College Hill - London, EC4R 2RP
Bond syndication practices for compliance professionals and other non-bankers - an ICMA Workshop

17 November 2014 - United Kingdom
Debt Sustainability & Risk Management

17-18 November 2014; Basel, Switzerland
Fifth Joint BIS/World Bank Public Investors Conference

27 November 2014 - University of Geneva, Switzerland
2nd Geneva Summit on Sustainable Finance
[Call for Papers]

03 December 2014 - Washington, DC
Sovereign Debt Management Forum

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

Communication Corner

At the link below, Partners can find details on the *Thailand* 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 23rd October 2014, the number of total resources of the PDM Network website is 21.671 (of which 16.136 news, 2.483 papers and articles in reviews and books, and 2.079 webresources). The Members are 774, coming from 110 countries. 417 Partners belong to sovereign debt management institutions of emerging and advanced countries. This newsletter is sent to 590 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).