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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**.

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New Documents

Papers

Primary Market

Understanding Long-Term Japanese Government Bonds' Low Nominal Yields (2014)

Akram Tanweer - ING Investment Management; Das Anupam - Mount Royal University

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

gives the Government of Japan the ability to service its debt and enables the Bank of Japan (BOJ) to keep JGBs' nominal yields low by ensuring that short-term interest rates are low and by using various other tools of monetary policy. The argument that short-term interest rates and monetary policy are the primarily drivers of long-term interest rates follows Keynes's (1930) insights.

Sovereign Debt Maturity Under Asymmetric Information (2013)

Perez Diego - Stanford University

Abstract: This papers studies the optimal choice of sovereign debt maturity when investors are unaware of the government's willingness to repay. Under a pooling equilibrium there is a wedge between the borrower's true default risk and the default risk priced in debt, and the size of this wedge differs with the maturity of debt. Long-term debt becomes less attractive for safe borrowers since it pools more default risk that is not inherent to them. In response, safe borrowers issue low levels of debt with a shorter maturity profile - relative to the optimal choice under perfect information - and risky borrowers mimic the behavior of safe borrowers to preclude the market from identifying their type. In times of financial distress, the default risk wedge of long-term debt relative to short-term debt increases which makes borrowers reduce the amount of debt issuance and shorten its maturity profile, a fact that is observed among emerging economies. Under this framework, debt buybacks can be optimal when there is an overestimation of the country's risk perception in the market that was not present when long-term debt decisions were made.

Secondary Market

The Impact of Textual Sentiment on Sovereign Bond Yield Spreads: Evidence from the Eurozone Crisis (2014)

Liu Sha - Trinity College Dublin

Abstract: This study examines the relation between textual sentiment, the concentration/volume of news, and sovereign bond yield spreads, specifically in Greece, Ireland, Italy, Portugal and Spain during the European sovereign debt crisis (January 2009 to December 2012). The results are consistent with the story that investors of sovereign bonds respond to rising negative sentiment accompanied by an increased concentration/volume of news. If the change of the interaction measures increases by 1 unit and other factors remain unchanged, the change of yield spreads would move upwards by approximately 18 to 32 basis points, putting downward pressure on prices. Negative sentiment and the number of news stories respectively and collectively help predict the widening of yield spreads. A higher negative sentiment level is strongly associated with more news stories being reported, suggesting that "no news is good news." Overall, textual sentiment conveys potential pricing-relevant information over and above the traditionally identified factors.

The Price of Risk in Sovereign Latin-American Debt: A Term-Structure Perspective (2013)

Audzeyeva Alena - Keele University

Abstract: This study investigates the term-structure of sovereign emerging market yield spreads by decomposing it into the default risk component and the residual risk premium for Eurobonds of Mexico, Colombia and Brazil. We find that the risk premium tends to increase with maturity and account for the majority of the yield spread at all maturities for all three countries. The predominantly large, non-flat risk premium curve considerably modifies the yield spread term-structure which is implied by expected default losses. The risk premium and also its share within the yield spread both however vary considerably over time. The variation in risk premium changes is driven by common global and regional market risks. The relative impact of common market factors differs at short, medium and long maturities which is important in explaining risk premium dynamics that varies with bond maturity.

The impact of news and the SMP on realized (co)variances in the eurozone sovereign debt market (2014)

Beetsma Roel - University of Amsterdam; de Jong Frank - Tilburg University; Giuliodori Massimo - University of Amsterdam; Widijanto Daniel - BNG Vermogensbeheer

Abstract: In this paper we use realized variances and covariance based on intraday data from Eurozone sovereign bond market to measure the dependence structure of euro zone sovereign yields. Our analysis focuses on the impact of news, obtained from the Euro intelligence new sash, on the dependence structure. More news raises the volatility of interest rates of financially distressed countries and decreases the covariance of distressed countries' yields with German bond yields, suggesting a fight-to-quality effect. Common news about the euro crisis and news about specific countries itself tend to raise the covariance of yields between distressed countries, indicating potential crisis spill-over effects. However, we do not detect spillover effects from news about third countries to the covariance between other country pairs. Bond purchases by the ECB under its Securities Markets Programme (SMP) mitigate the negative crisis spillovers among the distressed countries and reduce the fight-to-safety from the distressed countries to Germany.

Legal Issues

Borrowing By Any Other Name: Why Presidential 'Spending Cuts' Would Still Exceed the Debt Ceiling (2014)

Buchanan Neil H. - George Washington University Law School; Dorf Michael C. - Cornell Law School

Abstract: On three occasions since mid-2011, the United States has come perilously close to exhausting its borrowing authority under a statutory limit commonly called the "debt ceiling." In prior work, the current authors argued that, in the event that the debt ceiling is reached, the President will face a "trilemma" in which any realistic action he takes — defaulting on government obligations, raising taxes, or issuing debt in excess of the statutory ceiling — would unconstitutionally usurp legislative power. We argued that in such circumstances, violating the debt ceiling would be the "least unconstitutional option." Nonetheless, most pundits and politicians, including the President, appear to assume that if the debt ceiling is reached, default would be necessary. Here, we observe a previously unnoticed deficiency in this assumption: Default would not only usurp congressional power to set spending levels; it would not even satisfy the debt ceiling, because failure to pay money due government obligees is a kind of borrowing, both for statutory and constitutional purposes. A "loan" taken from the lender involuntarily is hardly better than consensual borrowing. The government could avoid this result only by expressly repudiating its obligations, but to do that would violate even the very narrow construction of Section 4 of the Fourteenth Amendment advanced by those who treat default as the necessary consequence of congressional failure to raise the debt ceiling.

Risk Management Models

On bank credit risk: systemic or bank-specific? Evidence from the US and UK (2014)

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

In this paper we develop a multivariate credit risk model that accounts for joint defaults of banks and allows us to determine how much of banks' credit risk is systemic. We find that the US and the UK differ not only in the evolution of systemic risk, but also in their banks' systemic exposures. In both countries, however, systemic credit risk varies substantially over time, represents about half of total bank credit risk on average and leads to high risk premia. Furthermore, the results suggest that sovereign and bank systemic risk are closely interlinked in the UK.

Institutional Arrangements for Debt Management

Sovereign Default and State-Contingent Debt (2013)

Brooke Martin - Bank of England; Mendes Rhys - Bank of Canada; Pienkowski Alex - Bank of England; Santor Eric - Bank of Canada

Abstract: The Latin American debt crises in the 1980s and the Asian crisis in the late 1990s both provided impetus for reforming the framework for restructuring sovereign debt. In the late 1980s, the Brady plan established the importance of substantive debt relief in addressing some crises. A decade later, as the Asian crisis faded, the G10 and major emerging market economies worked together to increase the flexibility of IMF lending and promoted the wider use of collective action clauses in foreign law bonds.
More recently, the banking crisis of 2008-09 has led to the implementation of an ambitious financial sector reform agenda to reduce the risk of such a crisis occurring again. But reforms to reduce the incidence and cost of sovereign debt crises, such as those experienced in the euro area, have proceeded more slowly.
The international community has a role to play in addressing this gap. In that regard, this paper is intended to stimulate debate on the problems in the current practices for sovereign debt restructuring and puts forward some proposals to improve the functioning of sovereign debt markets.
The Bank of Canada and the Bank of England have collaborated on these issues in the past.

Organization of Debt Management Offices

Issues and Conflicts Pertaining to Debt and Monetary Management (2014)

Mishra Shobhan Krishan - Bits Pilani Hyderabad Campus

In India, traditionally, a large component of government's debt was incurred at low rates of interest. High debt countries may face the risk of crisis of self-fulfilling debt. Throughout the world, debt management is distinct from monetary management. The establishment of Debt Management Office (DMO) has been a topic of debate for quite some time. By separating the debt from monetary management, policy makers expect the central bank to emerge as a bank which focuses mainly on controlling inflation. Establishment of a DMO may consolidate all debt management functions in a single agency. However, it may be difficult to rely upon such an independent agency new to the scene of debt management in times of crisis.

Coordination with other Policies and Operations

[Tanzania economic update : raising the game - can Tanzania eradicate extreme poverty?](#) (2013)

Morisset Jacques - The World Bank

Abstract: This economic update discusses a bold new way of lessening extreme poverty by transferring cash directly to the most vulnerable people. In Tanzania, the success of a similar program piloted by the Tanzania Social Action Fund (TASAF), which includes conditional cash transfers as well as public works for productive infrastructure, is also very encouraging as shown by an independent evaluation.

[Sovereign Rating Downgrades and Bank Lending Supply](#) (2014)

Adelino Manuel - Duke University; Ferreira Miguel A. - Nova School of Business and Economics

Abstract: In this paper we study the impact of sovereign rating downgrades on private credit. We exploit the asymmetric impact of sovereign downgrades on the ratings of banks at the sovereign bound versus banks below the bound due to sovereign ceiling policies followed by credit rating agencies. We find that sovereign downgrades lead to greater reductions in loan amounts and greater increases in loan spreads of banks at the sovereign bound relative to otherwise similar banks below the bound. Lending to foreign borrowers is also significantly affected, confirming a causal interpretation of the results. We show that the lending supply effects can be attributed to the bank's limited ability to access wholesale and long-term funding. Our findings suggest that sovereign creditworthiness has important effects on the supply of bank lending to the private sector.

[The negative feedback loop between banks and sovereigns](#) (2014)

Angelini Paolo - Bank of Italy; Grande Giuseppe - Bank of Italy; Panetta Fabio - Bank of Italy

Abstract: More than four years since the outbreak of the sovereign debt crisis in the euro area the banking systems of several countries remain exposed to the vagaries of government bond markets. The paper analyzes the different channels through which sovereign risk affects banking risk (and vice versa), presents some new evidence on bank-sovereign links, and discusses policy options for addressing the related risks.

[Recovery from Financial Crises: Evidence from 100 Episodes](#) (2014)

Reinhart Carmen M. - Harvard University; Rogoff Kenneth S. - Harvard University

Abstract: They examine the evolution of real per capita GDP around 100 systemic banking crises. Part of the costs of these crises owes to the protracted nature of recovery. On average, it takes about eight years to reach the pre-crisis level of income; the median is about 6 ½ years. Five to six years after the onset of crisis, only Germany and the US (out of 12 systemic cases) have reached their 2007-2008 peaks in real income. Forty-five percent of the episodes recorded double dips. Postwar business cycles are not the relevant comparator for the recent crises in advanced economies.

[Financial Sector Policy in Practice : Benchmarking Financial Sector Strategies around the World](#) (2014)

Maimbo Samuel Munzele - The World Bank; Melecky Martin - The World Bank

Abstract: Policy makers use financial sector strategies to formulate a holistic policy for their national financial sectors. This paper examines and rates financial sector strategies around the world based on how well they formulate development targets, arrangements for systemic risk management, and implementation plans. The strategies are also rated on whether they consider policy trade-offs between financial development and systemic risk management. The rated strategies are then benchmarked against a wide range of country characteristics. The analysis finds that the scope and quality of national strategies for the financial sector are influenced by the country's type of legal system, its level of income and macroeconomic stability, the existing financial depth and inclusion, the share of foreign ownership in the national financial sector, and the experience of past financial crises. Giving due consideration to policy trade-offs, particularly between financial development and systemic risk management, remains the weakest part of these strategies. Countries with civil- and religious-based law and those with a higher share of foreign ownership in their financial system address the policy trade-offs more often.

[Financial development in Asia : beyond aggregate indicators](#) (2014)

Didier Tatiana - The World Bank; Schmukler Sergio L. - The World Bank

Abstract: This paper documents the major trends in financial development in Asia since the early 1990s and the spillovers to firms. It compares Asia

with advanced and emerging countries and uses both aggregate and disaggregate indicators. Financial systems in Asia remain less developed than in advanced countries but more developed than in Eastern Europe and Latin America. Bond and stock markets play a larger role and institutional investors have gained importance. Nonetheless, capital-raising activity has not expanded. A few large companies capture most of the issuances. Many secondary markets remain illiquid. The public sector captures a significant share of bond markets. The largest advancements in Asia occurred in China and India. But still in these countries, few large companies use capital markets to expand and grow, becoming much larger than nonuser firms. In sum, Asia's financial systems remain less developed than aggregate measures suggest, with few spillovers to many firms.

Exchange Rate Management and Crisis Susceptibility: A Reassessment (2014)

Ghosh Atish R. - International Monetary Fund; Ostry Jonathan D. - International Monetary Fund; Qureshi Mahvash S. - International Monetary Fund

Abstract: This paper revisits the bipolar prescription for exchange rate regime choice and asks two questions: are the poles of hard pegs and pure floats still safer than the middle? And where to draw the line between safe floats and risky intermediate regimes? Our findings, based on a sample of 50 EMEs over 1980-2011, show that macroeconomic and financial vulnerabilities are significantly greater under less flexible intermediate regimes—including hard pegs—as compared to floats. While not especially susceptible to banking or currency crises, hard pegs are significantly more prone to growth collapses, suggesting that the security of the hard end of the prescription is largely illusory. Intermediate regimes as a class are the most susceptible to crises, but "managed floats"—a subclass within such regimes—behave much more like pure floats, with significantly lower risks and fewer crises. "Managed floating," however, is a nebulous concept; a characterization of more crisis prone regimes suggests no simple dividing line between safe floats and risky intermediate regimes

Monetary Policy

Market Set-Up in Advance of Federal Reserve Policy Decisions (2014)

Dijk Dick van - Erasmus University Rotterdam; Lumsdaine Robin L. - American University; van der Wel Michel - Erasmus University Rotterdam

Abstract: This paper considers the uncertainty associated with upcoming Federal Open Market Committee (FOMC) announcements and the extent to which the market begins to set up for such announcements well before they actually occur. We demonstrate that markets set up well in advance of known announcement days; as a result, there is often less uncertainty in the period immediately preceding an FOMC announcement, despite greater volume of activity, as the market has already incorporated anticipated signals. We consider the relative importance of both macro announcements and central bank officials' speeches and congressional testimony in shaping market expectations. We find substantial evidence of anticipatory effects; these results are particularly relevant as the Fed develops its communication strategy to achieve an orderly exit from its program of quantitative easing.

Monetary policy and financial stability: what role in prevention and recovery? (2014)

Borio Claudio – BIS

Abstract: If the criteria for an institution's success are diffusion and longevity, then central banking has been hugely successful. But if the criterion is the degree to which it has achieved its goals, then the evaluation has to be more nuanced. Historically, those goals have included a changing mix of financial and monetary stability. Attaining monetary and financial stability simultaneously has proved elusive across regimes. Edging closer towards that goal calls for incorporating systematically long-duration and disruptive financial booms and busts – financial cycles – in policy frameworks. For monetary policy, this means leaning more deliberately against booms and easing less aggressively and persistently during busts. What is ultimately at stake is the credibility of central banking – its ability to retain trust and legitimacy.

On the economics of committed liquidity facilities (2014)

L. Bech Morten – BIS; Keister Todd - Rutgers University

Abstract: We study the effects of the new Basel III liquidity regulations in jurisdictions with a limited supply of high-quality liquid assets. Using a model based on Bech and Keister (2013), we show how introducing a liquidity coverage ratio in such settings can have significant side effects, leading to a large liquidity premium and pushing the short-term interest rate to the floor of the central bank's rate corridor. Adding a committed liquidity facility allows the central bank to mitigate these effects. By pricing committed liquidity appropriately, the central bank can determine either the equilibrium liquidity premium or the quantity of liquid assets held by banks, but not both. We argue that the optimal pricing arrangement will depend on local market conditions.

Fiscal Policy and Budget Management

[Terms of Trade and Fiscal Sustainability when the Sovereign Exploits a Natural Resource]() (2013)

Andrian Leandro - Inter-American Development Bank; Oviedo Marcelo - Inter-American Development Bank

Abstract: When it comes to assess the sustainability of fiscal policy and public debt in Andean countries, two idiosyncratic facts of fiscal revenues have to be considered. First, fiscal revenues coming from natural resources represent up to 44% of total fiscal revenues, producing a strong correlation between terms of trade and the overall fiscal balance, ranging from 0.79 in Ecuador to 0.90 in Peru. Second, in most of Andean countries, it is the sovereign who exploits the natural resource by its own and who extends transfers to the private sector according to the results of that exploitation. Under these conditions, terms-of-trade shocks that could threaten the sustainability of a prevailing fiscal policy affect the fiscal balance through both direct and indirect mechanisms. A highly useful tool to discern the final effect of these and other shocks on the sustainability of fiscal policy is a general equilibrium model. This paper offers such a tool which is proven to be an appropriate resource for future evaluations of fiscal policy in Andean countries. Calibrations of the model to Peru and Colombia are used to explore variants of fiscal reactions that these two countries could have employed to withstand the effects of the negative terms-of-trade shock that Latin America experienced in 2009.

Real Exchange Rate Appreciation in Emerging Markets: Can Fiscal Policy Help? (2014)

Badia Marialuz Moreno - International Monetary Fund; Segura-Ubiergo Alex - International Monetary Fund

Abstract: A number of emerging markets have experienced substantial real exchange rate appreciation in recent years, generating concerns about competitiveness and prompting policymakers to respond with a combination of mitigating policies. This paper shows that fiscal policy can play a role in alleviating these pressures. Using a sample of 28 emerging market economies over 1983-2011, we estimate a dynamic model of the real exchange rate and find that a permanent fiscal adjustment may reduce appreciation pressures over the long term. Furthermore, the composition of public spending matters, with reductions in current spending playing a key role. To illustrate the importance of these findings, the paper focuses on the case of Brazil. Our results suggest that maintaining fiscal discipline while increasing public investment in Brazil is likely to ease real appreciation pressures, highlighting the importance of tackling long-standing budget rigidities.

Subnational Bond Markets

Race to the Debt Trap? - Spatial Econometric Evidence on Debt in German Municipalities (2014)

Fossen Frank M. - Free University of Berlin; Freier Ronny - German Institute for Economic Research (DIW Berlin)

Abstract: Through an inter temporal budget constraint, jurisdictions may gain advantages in tax and spending competition by 'competing' on debt. While the existing spatial econometric literature focuses on tax and spending competition, very little is known about spatial interaction via public debt. This paper estimates the spatial interdependence of public debt among German municipalities using a panel on municipalities in the two largest German states from 1999 to 2006. We find significant and robust interaction effects between debt of neighboring municipalities, which we compare to spatial tax and spending interactions. The results indicate that a municipality increases its per capita debt by 16-33 Euro as a reaction to an increase of 100 Euro in neighboring municipalities.

Sub-National Credit Risk and Sovereign Bailouts: Who Pays the Premium? (2014)

Jenkner Eva - International Monetary Fund; Lu Zhongjin - Columbia University,New York

Abstract: Studies have shown that markets may underprice sub-national governments' risk on the implicit assumption that these entities would be bailed out by their central government in case of financial difficulties. However, the question of whether sovereigns pay a premium on their own borrowing as a result of (implicitly or explicitly) guaranteeing sub-entities' debt has been explored only little. We use an event study approach with separate equations for two levels of government to test for a simultaneous increase in sovereign risk premia and decrease in sub-national risk premia—or a de facto transfer of risk from the latter to the former—on the day a sovereign bailout is announced. Using daily financial market data for Spain and its autonomous regions from January 2010 to June 2013, we find support for our risk transfer hypothesis. We estimate that the Spanish sovereign's spread may have increased by around 70 basis points as a result of the central government's support for fiscally distressed comunidades autónomas.

Public Debt in Macroeconomic Analysis

Stock Market Impact of Sovereign Credit Rating Announcements: The Case of GIIPS and BRIC Countries During the European Sovereign Debt Crisis of 2009-2013 (2013)

Paterson Alexander - Stockholm School of Economics; Gauthier Delphine - Stockholm School of Economics

Abstract: In this study, we analyze the effects of sovereign credit rating reviews on national stock market performances in GIIPS and BRIC countries during the European Sovereign Debt Crisis of 2009-2013. Through an event study, we test the Null Hypothesis that cumulative abnormal returns on national stock market indices are zero and find that sovereign debt downgrades produce negative cumulative abnormal returns for GIIPS countries, the effect being larger for small economies compared to big economies. Negative reviews are found to have more impact than actual downgrades; positive reviews are not proven to be of influence in this study. Furthermore, we find that S&P's announcements carry more weight in the stock markets than competing Credit Rating Agencies. The analysis also shows an evolution of the Credit Rating Agencies' impact throughout the crisis, with decreasing effects towards the second half of the period of interest.

German Economic Models, Transnationalization and European Imbalances (2014)

Trautwein Hans-Michael - Carl von Ossietzky Universität Oldenburg; Körner Finn Marten - ZenTra - Center for Transnational Studies

Abstract: Germany's net exports and macroeconomic policy stance are controversial issues in current debates about the Eurozone debt crisis. This paper shows that both are characteristics of what has been described in a variety of political economy literatures as the German socio-economic model. We argue that the model has evolved in three stages, from the economic miracle of the post-war era through the era of "Germany Inc." and Bundesbank hegemony to the present transnationalization of German industries and finance. The three stages of the German model – or Models D, mark I-III – correspond closely to the exchange rate regimes of Bretton Woods, the European Monetary System and European Monetary Union (EMU). We describe them in three analogous settings that specify their different working conditions under the respective exchange-rate regime, following a chronology of success, dynamic instability and transformation. We point out that, while the German economy has under-gone substantial changes, there are two different mindsets of model thinking in Germany that have been remarkably persistent in public debate. We refer to these two mindsets as ordoliberalism and neo-mercantilism. Ordoliberalism is the normative mindset of policy speakers and academic economists, whereas neo-mercantilism is the practical mindset of policymakers and business leaders. We discuss the differences and complementary uses of these modes of German model thinking and draw attention to their flaws and inadequacies at the present stage of European integration and transnationalization of the German economy.

Where is U.S. Sovereign Debt Heading? A Forecasting Model (2014)

Menon Murali – Independent; Sylla Alpha – Independent

Abstract: In this paper we develop a debt-to-GDP forecasting framework incorporating the classical debt accounting relationship relating the debt-to-GDP ratio to its previous period value, the growth rate of the economy, the government cost of debt service, and the primary balance. We present a linearization of the debt buildup equation, and a parsimonious model of the evolution of the government borrowing costs and the primary balance dynamics. We apply our framework to the U.S. economy described by an unrestricted Vector Auto-Regression (VAR), and forecast the multi-year path of the federal debt load from 2010 onwards. We find that our forecasts are in good agreement with realized values of debt-to-GDP across 2010, 2011 and 2012. We also perform a scenario analysis under different assumptions for the persistence of the budget balance, and show that President Obama's 2009 budget projection was less realistic than one based on a historically observed persistence.

Assessing the Sustainability of Government Debt: On the Different States of the Debt/GDP Process (2014)

Velinov Anton - German Institute for Economic Research (DIW Berlin)

Abstract: This paper discusses the type of trajectory a country's public debt path follows. In particular, a Markov switching ADF model is used to assess the sustainability of public debt by testing whether a government's present value borrowing constraint holds. Building on the work of Raybaudi et al. (2004) and Chen (2011), the model in this paper generalizes their methodology. The number of lags and states are in principle unrestricted and all of the parameters can be switching. Debt trajectories of 16 countries are investigated using long time series on debt/GDP obtained from Reinhart and Rogoff (2011). Two different criteria are used to test the

null hypothesis of a unit root in each state. The countries with a sustainable debt path are found to be Finland, Norway, Sweden, Switzerland and the UK, while Greece and Japan are found to have unsustainable debt trajectories. The debt paths of the remaining countries are mainly characterized as being in a unit root state and are therefore labeled as uncertain. Robustness tests indicate that the model is robust to the sample size and the number of states used. Further, it is shown that the models used in this paper offer an improvement to existing models investigating this subject.

[Sovereign CDS Spreads in Europe: The Role of Global Risk Aversion, Economic Fundamentals, Liquidity, and Spillovers](#) (2014)

Heinz Frigyes Ferdinand - International Monetary Fund; Sun Yan - International Monetary Fund

Abstract: By analyzing data from January 2007 to December 2012 in a panel GLS error correction framework we find that European countries' sovereign CDS spreads are largely driven by global investor sentiment, macroeconomic fundamentals and liquidity conditions in the CDS market. But the relative importance of these factors changes over time. While during the 2008/09 crisis weak economic fundamentals (such as high current account deficit, worsening underlying fiscal balances, credit boom), a drop in liquidity and a spike in risk aversion contributed to high spreads in Central and Eastern and South-Eastern European (CESEE) countries, a marked improvement in fundamentals (e.g. reduction in fiscal deficit, narrowing of current balances, gradual economic recovery) explains the region's resilience to financial market spillovers during the euro area crisis. Our generalized variance decomposition analysis does not suggest strong direct spillovers from the euro area periphery. The significant drop in the CDS spreads between July 2012 and December 2012 was mainly driven by a decline in risk aversion as suggested by the model's out of sample forecasts.

Articles in reviews

Primary market

Did Credit Rating Agencies Cause the European Sovereign Debt Crisis? (2014)

Abrantes-Metz Rosa M. - Global Economics Group

Abstract: It must not be easy being a rating agency. Where corporate debt is concerned, the major credit rating agencies ("CRAs") are said to be too slow and lagging the market. When the topic is structured finance, the agencies are said to inflate ratings to attract business. And when the subject is European sovereign debt, those same agencies are said to be suddenly too conservative, issuing aggressive downgrades that destabilize the market and precipitate a crisis which otherwise would not have happened. (If only those CRAs remained slow laggards issuing inflated sovereign ratings, all would be well.) But, in the sovereign debt case at least, is it instead that CRAs are simply the messenger, telling us what we should have known — that certain sovereign debt service may become unsustainable. Are the CRAs the villains in this story, or are they more like the little boy who announces, "the emperor has no clothes?"

Legal issues

Bypassing Congress on Federal Debt: Executive Branch Options to Avoid Default (2014)

Schwarcz Steven L. - Duke University

Abstract: This article proposes new options for avoiding default, arguing that although the Executive Branch lacks authority to directly issue Treasury securities above the debt ceiling, it has the power to raise financing by monetizing future tax revenues. In each of the proposed options, a non-governmental special-purpose entity (SPE) would issue securities in amounts needed to repay maturing federal debt. Depending on the option, the SPE would either on-lend the proceeds of its issued securities to the Treasury Department on a non-recourse basis, secured by future tax revenues; or the SPE would use the proceeds of its issued securities to purchase rights to future tax revenues from the Treasury Department. In each case, therefore, future tax revenues would form the basis of repayment to investors.

EU Implementation of Basel III in the Shadow of Euro Crisis (2014)

Atik Jeffery - Loyola Law School Los Angeles

Abstract: This article examines the implementation path of Basel III reforms within the European Union ("EU"). Basel III is the most recent version of the Basel global standards for bank regulation, adopted in response to the 2007/2008 financial crisis. Several EU Member States, as well as the EU Commission and the European Central Bank, participated in the design of the Basel III reforms. The greater part of these reforms is packaged in the so-called Fourth Capital Requirements Directive and Regulation, or CRD IV. It is the European sovereign debt crisis, and not the 2007/2008 financial meltdown, which dominated the mind of the EU legislator — and as a result European faithfulness to Basel III has attenuated. This article identifies two species of EU departures from Basel III: (1) treating a Basel III norm as a fixed obligation and not as a minimum standard; and (2) selective adoption of Basel III norms (Basel à la carte). It then discusses the future of Basel III in the EU as the Eurozone approaches a banking union.

Derivatives

The DOs and DON'Ts of credit default swaps (CDS) in the context of the EU sovereign debt crisis (2014)

Olivares-Caminal Rodrigo; Papadakis Kiriakos E; Galazoula Olga; Kokkoris Ioannis

Abstract: The unprecedented global financial crisis and economic downturn that hit the world in 2007–2008 has resulted in the deterioration of budget deficits and has caused an overall increase of sovereign debt levels globally. The turmoil of the banking sector was mitigated by a large infusion of government financial aid, which in turn resulted in a considerable increase in the amount of sovereign debt, thereby undermining the fundamentals of sovereign debt sustainability and producing a severe deterioration in the borrowing conditions. With the European sovereign debt crisis, the structure, legality and enforceability of credit default swaps (CDS) have been tested. In this article we examine what has happened so far and where we now stand on the legal issues around these contracts. The article will focus on the unfolding of the Greek crisis, which ignited the whole debate around the sovereign CDS market in relation to the effectiveness of the instrument. Secondly, the article provides a brief overview of the legal nature of the instrument and the International Swaps and Derivatives Association, Inc. documentation. Thirdly, an analysis of the CDS market is put forward aiming at identifying how these instruments are used in practical terms, as well as the recent market trends. Finally, some concluding remarks and views regarding the future use of CDS and the do's and don'ts of CDS are provided.

Institutional Framework

Conflicting claims in the eurozone? Austerity's myopia and the need for a European Federal Union in a post-Keynesian eurozone center periphery model (2014)

Botta Alberto - University of Pavia

Abstract: In this paper we study the role of the eurozone's institutional design in determining the sovereign debt crisis of the peripheral euro countries by means of a post-Keynesian eurozone center/periphery model. Within this framework, three points are formally addressed: (1) the incomplete nature of the eurozone with respect to a fully-fledged federal union has significantly contributed to generating diverging trends and conflicting claims between central and peripheral eurozone countries in the aftermath of the 2007/2008 financial meltdown; (2) center/periphery diverging trends may disappear and a systemic crisis may occur should financial turbulences deepen in big peripheral economies, possibly spreading to the center; and (3) fiscal austerity does not address the core problems of the eurozone. The creation of a European federal government, capable of implementing anti-cyclical fiscal policies through a federal budget, and of a government banker constitutes the most promising solution to stabilize the macroeconomic picture of peripheral countries and to tackle the crisis. The unlimited bond-buying program recently launched by the ECB is a positive albeit mild step in the right direction away from the extreme monetarism that has shaped eurozone institutions thus far.

Coordination with other Policies and Operations

Government debt-threshold contracts (2014)

Gersbach Hans - Center of Economic Research at ETH Zurich

Abstract: Politicians tend to push the amount of public debt beyond socially desirable levels in order to increase their reelection chances. We develop a model that provides a new explanation for this behavior: office holders undertake debt-financed public projects, but postpone the timing of part of the output to the next term. This makes it difficult to replace them. As a consequence, the office holders' reelection chances rise—as does public debt. As a potential remedy for this inefficiency, we allow candidates for public office to offer government debt-threshold contracts. Such a contract contains

an upper limit for government debt and the sanction that an office holder violating this limit cannot stand for reelection. We show that such competitively offered contracts contain low debt levels that limit debt financing and improve the citizens' welfare. When negative macroeconomic events occur, government debt-threshold contracts may be violated, and the economy is stabilized.

Public Debt in Macroeconomic Analysis

The Behavior of External Debt in Asian Countries: Evidence Based on Panel Unit Root Tests (2013)

Lau Evan - Universiti Malaysia Sarawak (UNIMAS); Baharumshah Ahmad Zubaidi - University Putra Malaysia; Soon Siew-Voon - Universiti Putra Malaysia

Abstract: This article investigates the mean-reverting behavior of the external debt ratio based on a clustered of 19 Asian countries from 1981 to 2010. For this purpose, we use a government's inter temporal budget constraint (GIBC) model popularized by Hamilton and Flavin (1986). Our conclusions were drawn from panel data based tests, including the newly developed test that accounts for both cross-sectional dependency and structural breaks. Two major findings are noteworthy; first majority debt ratios in the Asian countries are affected by structural breaks. Second, we find unit root tests that do not accommodate breaks are less likely to detect mean reversion in the debt ratios. In all, our results indicate debt sustainability is a general characteristic of all the Asian countries.

The EU Debt Crisis: A Reflection on Financial Sector of the Western Balkans (2013)

Ganić Mehmed - International University of Sarajevo (IUS)

Abstract: The main objective of this article is to analyze the certain financial variables in order to have asses transmission effects of the EU debt crises on stability and efficiency of financial sector of Western Balkan (WB). Also, this study uses a cross-country comparison methodology and examines the following aspects: Capital adequacy, liquidity position and efficiency of the banking sector of the WB in pre crisis and crisis period as well as financial sector size, structure, and trends in financial developments for the WB region in pre crisis and crisis period. The paper is divided into six sections. Section 2 deals with the literature review. Section 3 contains an explanation of the data and methodology. Section 4 analyze trends in financial developments for the WB region. Section 5 gives an overview of the implications of EU debt crises for WB financial system while the focus of the section 6 is on an analysis of changes in perceptions by European bank subsidiaries in WB countries in context of the European debt crisis. The findings and discussion presented in previous sections of this article ends with conclusions that impact of EU debt crises has been transmitted on the position banking sector of WB through several sources, especially through: decline in profitability, credit growth has dropped significantly and asset quality has deteriorated markedly.

The Contagion Effects of Sovereign Downgrades: Evidence from the European Financial Crisis (2014)

Corbet Shaen - Dublic City University

Abstract: This research examines the effects of sovereign downgrades on European financial markets between 2005 and 2012. Vector Autoregression (VAR) techniques are used to investigate the presence of contagion effects after a sovereign downgrade across equity indices, five year Credit Default Swaps (CDS) and ten year government bonds of the investigated European states. Sovereign downgrades are found to be associated with an increase in equity returns, and cause significant increases in the cost of insuring debt through CDS and the yield of government debt. The Greek and Irish downgrades are to found to have significant reverberations throughout European financial markets. German CDS spreads are found to increase when a European state is downgraded, signalling their use by investors as a barometer of European-wide defaults. Though credit rating agencies clearly missed the European sovereign crisis prior to 2007, their rating downgrades are still found to cause significant effects within European financial markets.

Books

Core Topics

Emerging Issues in Financial Development: Lessons from Latin America (2013)
Didier Tatiana - The World Bank; Schmukler Sergio L. - The World Bank

Abstract: Emerging Issues in Financial Development compares the financial sector stance in Latin America with that in other developing and developed countries in order to shed light on the key obstacles for financial development. The book focuses on the main architectural issues, overall perspectives, and interconnections. Its value thus hinges on its holistic view of the development process, its broad coverage of the financial services industry (not just banking), its emphasis on comparisons and benchmarking, its systemic perspective, and its effort to incorporate lessons from financial crises.
The book presents a stock-taking exercise to ascertain where financial systems around the world lie by analyzing in detail the state of banks, capital markets, financial inclusion, and financial globalization. The book also revisits the role of public guarantees, institutional investors, macro-prudential policy, micro-systemic regulation, and systemic supervision.
The chapters in this book are written by experts in the field and yield many lessons. They raise a number of important issues, constituting an invaluable read for academics, financial sector practitioners, policy makers, and students in both developed and developing countries.

Coordination with other policies

Economy of Words (2013)
Holmes Douglas R. - Binghamton University

Abstract: Holmes examines the New York District Branch of the Federal Reserve, the European Central Bank, Deutsche Bundesbank, and the Bank of England, among others, and shows how officials there have created a new monetary regime that relies on collaboration with the public to achieve the ends of monetary policy.

Globalization in an Age of Crisis (2014)
Feenstra Robert C - University of California; Taylor Alan M. - University of Virginia

Abstract: Robert C. Feenstra and Alan M. Taylor have brought together top researchers with policy makers and practitioners whose contributions consider the ways in which the global economic order might address the challenges of globalization that have arisen over the last two decades and that have been intensified by the recent crisis.

How Latin America Weathered the Global Financial Crisis (2014)
The Peterson Institute for International Economics

Abstract: Why has the economy of Latin America responded more positively than Asia, Europe or the United States after being hit by the recent global financial crisis? Three years after the worst of the crisis, Latin America's GDP is 25 percent higher than its precrisis level. José De Gregorio, Governor of the Central Bank of Chile from 2007 to 2011, tells the story of how Latin America has responded to the crisis with a perspective that only an insider can have. De Gregorio focuses on the seven largest economies of the region, Argentina, Brazil, Chile, Colombia, Mexico, Peru, and Venezuela (90 percent of the region's output). He argues that Latin America was resilient because of good macroeconomic policies, strong financial systems, and "a bit of luck."

Web Resources

Core Topics in Debt Management

Recent global developments – implications for debt management in emerging markets and developing countries
BIS
Based on the inaugural address by Mr Harun R Khan, Deputy Governor of the Reserve Bank of India, at the 2nd Meeting of SAARC Public Debt Managers' Forum, hosted by the Reserve Bank of India, Jaipur, 6 December 2013.

Multilateral Debt

IMF Executive Board Completes Third Review Under the PLL Arrangement with Morocco and Concludes 2013 Article IV Consultation
International Monetary Fund
On January 31, 2014, the Executive Board of the International Monetary Fund (IMF) completed the third review of Morocco's economic performance under a program supported by a 24-month Precautionary and Liquidity Line (PLL) arrangement and concluded the 2013 Article IV consultation with Morocco. […]

Legal Issues

Mechanistic references to credit ratings in the ESAs' guidelines and recommendations
Europa.eu
Final Report - London, Frankfurt, Paris 06 February 2014 by EBA, EIOPA and ESMA

Derivatives

Guidebook on African Commodity and Derivatives Exchanges
African Development Bank
Commodity exchanges are highly efficient platforms for buyers and sellers to meet; primarily to manage their price risks better, but also to improve the marketing of their physical products. They have significant, well-documented development benefits, making economies more inclusive, boosting the links between agriculture and finance, and making the commodity sector more efficient and competitive. Africa was home to one of the world's first commodity exchanges – in Alexandria, Egypt over 150 years ago. […]

Adverse Liquidity Effects of the EU Uncovered Sovereign CDS Ban
ISDA
On November 1, 2012, the provisions of Regulation (EU) No 236/2012 of the European Parliament and the Council of 14 March 2012 on short selling and certain aspects of credit default swaps came into effect. The regulation bans uncovered short positions in European Union (EU) sovereign debt through credit default swaps (CDS) and requires that net short positions be privately notified to the relevant national regulator and, at higher levels, be publicly disclosed.[..]

Market fragmentation is becoming a reality
ISDA
The global nature of the derivatives market has long enabled users to manage their risk efficiently. This is something ISDA has championed throughout its history, and it's been our single biggest concern over the past few years. Thankfully, the Group of 20 (G-20) nations shared this concern when setting their roadmap for derivatives reform in September 2009.[...]

Institutional Arrangements for Debt Management

Sovereign default and state-contingent debt

VOX

Recent Eurozone events have changed the perception that sovereign debt is a problem of emerging-market economies. This column highlights some major deficiencies of the current framework, and proposes two new and complementary types of state-contingent debt contracts. The first – sovereign cocos – are designed to tackle liquidity crises. The second – GDP-linked bonds – help prevent solvency crises.

ECB response to the questionnaire of the European Parliament on the troika

European Central Bank

In this report there are ECB's replies to the questionnaire of the European Parliament supporting the own initiative report evaluating the structure, the role and operations of the 'troika' (Commission, ECB and the IMF) actions in euro area programme countries.

The PADRE plan: Politically Acceptable Debt Restructuring in the Eurozone

VOX

The Eurozone will either struggle for decades with very high public debts, or it will restructure. This column introduces a new Geneva Special Report on the World Economy arguing that the restructuring option is workable and preferable. The plan – dubbed PADRE – would substantially lower EZ nations' debts without cross-nation transfers and with limited moral hazard. The financing is simple. Each EZ member's debt is reduced by the securitisation of its own share of ECB seignorage.

Accounting, Transparency and Accountability

Implementation of the Santiago Principles for Sovereign Wealth Funds: A Progress Report

Peterson Institute for International Economics

In October 2013, the International Forum of Sovereign Wealth Funds (IFSWF) released its second evaluation of progress by sovereign wealth funds (SWFs) in implementing the Santiago Principles of transparency and accountability. The report, Truman says, exaggerates the extent of implementation of the principles by SWFs associated with the IFSWF. It states that all of the funds participating in the survey have implemented each of the Santiago Principles at least partially, which is contrary to research conducted by Truman. A number of the SWFs associated with the IFSWF register very low on his SWF scoreboard and have shown little improvement. The 2013 IFSWF report does not provide the impetus necessary to promote more extensive adherence to and implementation of the principles by members and nonmembers of the IFSWF, which should be the goal of the forum.

Statistics Pocket Book, January 2014

European Central Bank

Statistics Pocket Book is updated monthly and contains the Area Euro Statistical series.

Preliminary international banking statistics at end-September 2013

BIS

The Bank for International Settlements (BIS) has released the international banking statistics at end-September 2013. [...]

Statistical Yearbook for Asia and the Pacific – 2013

UNESCAP (United Nations Economic and Social Commission for Asia and the Pacific)

The 2013 edition of the Statistical Yearbook presents concise analyses highlighting major achievements and challenges for the 53 regional ESCAP member States and the five subregions in promoting economic prosperity, social inclusion and environmental sustainability. [...]

Handbook of National Accounting: Financial Production, Flows and Stocks in the System of National Accounts

United Nations and European Central Bank

The "Handbook of National Accounting: Financial Production, Flows and Stocks in the System of National Accounts" (the Handbook) has been jointly prepared by the United Nations Statistics Division (UNSD) and the European Central Bank (ECB) Directorate General Statistics as part of a series of handbooks on national accounting being developed to assist countries and international organizations in the implementation of the System of National Accounts, 2008 (2008 SNA).

DMO's Programmes and Reports

Uruguay Debt Report – January 2014

Uruguay Ministerio de Economia y Finanza

The financial strategy for the year ahead lies within the same guidelines established in the budget law for 2010-2014, focusing on the reduction of the Central Government financial vulnerabilities within a context of continued high global uncertainty and volatility. Thus, the main focus of the Central Government's debt management strategy is to preserve low refinancing risk with a redemption profile as even as possible in the long run and maintain debt's average life. Furthermore, the Central Government stressed the continuity of the current pre-funding policy, aiming to maintain a large liquidity buffer. By the end of 2013 Central Government cash balance is near 3.3% of GDP, comfortably covering the debt service of the year ahead.

Uruguay in Focus – January2014

Uruguay Ministerio de Economia y Finanza

After a stronger than expected performance in the second quarter, the Uruguayan economy decelerated in the third quarter expanding 3.3% over the same period of last year (down from 5.6% in the previous quarter).
Consequently, GDP can be expected to expand 4.1% in 2013 (final data will be released in March) if the last quarter remains flat, consolidating 11 consecutive years of steady growth.
This performance is in line with the IMF and official projection for 2013, which estimated a real expansion of 4% for 2013. Before knowing this data market, analysts surveyed by the Central Bank estimated a real growth in the level of activity of 3.6%.

The Czech Republic Funding and Debt Management Strategy for 2014

Czech Republic Ministry of Finance

The Minister of finance decided on 12 December 2013 about the structure and method of financing the gross borrowing requirement of the central government in the budget year 2014 and in the medium term until 2016, and approved the basic absolute and relative limits for issuance activity on the domestic and foreign financial markets and for active management of the net debt portfolio and the liquidity of treasury single accounts in individual currencies.

Debt Management Report 2012–2013

Canadian Ministry of Finance

This edition of the Debt Management Report provides a detailed account of the Government of Canada's borrowing and debt management activities for fiscal year April 1, 2012 to March 31, 2013. […]

Borrowing requirements and funding plan 2014

Belgium Federal Public Debt Agency

The Treasury expects its 2014 gross borrowing requirements to amount to EUR 38.03 billion. This represents a decrease of EUR 2.56 billion compared to the 2013 borrowing requirements which are expected to amount to EUR 40.59 billion. […]

The Australian Government Bond Market

Australian Office of Financial Management

Speech delivered by AOFM's CEO, Rob Nicholl, to the Australian Government Fixed Income Forum in Tokyo, on 11th December 2013.

Cyprus Central Government Debt – Quarterly Bulletin: 4th Quarter 2013

Cypriot MoF

Public debt management: review of operations

Monthly bulletin about Central Government Debt market

Tesoro Publico – January 2014

Monthly Central Government debt figures published by the Spanish Ministry of Finance.

Monthly Bulletin

Agence France Trèsor – January 2014

The Monthly Bulletin covers the following topics: Debt general data, Primary market, Secondary market, News brief, The French economy, International comparisons, French Government negotiable debt outstanding.

Coordination with other policies and operations

World Bank Webinar: Challenges for debt management created by large capital flows [Agenda downloadable]
The World Bank
PDM Network members and non-members are invited to participate in the upcoming webinar on the "Challenges for Debt Management Created by Large Capital Flows. How large capital flows to and from emerging markets create potential conflicts between achieving debt management and monetary policy objectives." on Wednesday, February 26, 2014 from 9:00 a.m. to 10:30 a.m. EST (Washington, D.C., time). [...]

India's Troubling Trilemma: The Reason Why Macro-Stability Is So Elusive for India
Peterson Institute for International Economics
India is on the trident of a trilemma (if that is the right metaphorical upgrade from being on the horns of a dilemma). The trilemma is that, as a competitive democracy with a weak state, India's embrace of financial globalization will make it difficult—not necessarily impossible—to maintain macroeconomic stability. Put differently, a country can retain two of these three features—competitive and imperfect democracy, global financial integration, and macroeconomic stability—but not all of them.

Three Lessons of 2013: Will Politics Continue to Dominate Economics?
Peterson Institute for International Economics
After a long period of crisis in Europe, 2013 was first year in which (with the exception of the Cyprus crisis) we have not suffered the agony of the weekend, featuring decisions taken in a rush out of fear of the response as markets in Asia open. It was the year of the end of recession in the euro area, the government shutdown in the United States, the resurgence of Japan with Abenomics and the aggressiveness of the Bank of Japan (BOJ), the disenchantment with emerging markets, the widespread disinflation, the acceleration of reforms in China, the beginning of the end of quantitative easing by the Federal Reserve, and the European banking union fiasco.

The financial crisis in Iceland and Ireland – what are the lessons five years later
BIS
Opening address by Mr Már Guðmundsson, Governor of the Central Bank of Iceland, at the half-day Central Bank of Iceland conference "The financial crisis in Iceland and Ireland: What are the lessons seen to be five years later?", Reykjavík, 28 November 2013.

Fiscal and monetary policies
BIS
Speech by Mr Yaseen Anwar, Governor of the State Bank of Pakistan, at National Defence University, Islamabad, 4 November 2013.

Striving to achieve stability – regulations and markets in the light of the crisis
BIS
Speech by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, at the Ifo Institute Munich Seminar, Munich, 27 January 2014.

Government at a Glance 2013 – OECD
OECD
Government at a Glance 2013 provides readers with a dashboard of key indicators assembled with the goal of contributing to the analysis and international comparison of public sector performance.

Monetary Policy

Regulation, supervision and the role of central banks
VOX
Maintaining financial stability is a major concern and central banks have been increasingly involved in assuring it. This column introduces a CEPR Policy Insight written by Italy's central bank governor on the post-Crisis role of central banks in financial regulation and supervision.

Tapering talk: The impact of expectations of reduced Federal Reserve security purchases on emerging markets
VOX
Fed tapering has started. A revival of last summer's emerging economy turmoil is a real concern. This column discusses new research into who was hit and why by the June 2013 taper-talk shock. Those hit hardest had

relatively large and liquid financial markets, and had allowed large rises in their currency values and their trade deficits. Good macro fundamentals did not provide much insulation, nor did capital controls. The best insulation came from macroprudential policies that limited exchange rate appreciation and trade deficit widening in response to foreign capital inflows.

Five Challenges for Janet Yellen at the Federal Reserve
Peterson Institute for International Economics - Policy Brief 13-30
Janet Yellen, who will serve as the 15th chair of the Board of Governors of the Federal Reserve System after her likely confirmation in December 2013, faces some formidable challenges as the economy and financial system continue to recover from the long-lasting effects of the global financial crisis and the accompanying Great Recession. Stockton lists five key challenges: (1) exercise caution in further scaling back the Fed's third round of large-scale asset purchases, known as quantitative easing (QE3); (2) attend to the dual mandate of the Federal Reserve—the twin objectives of achieving maximum sustainable employment and stable prices; (3) improve integration of financial stability considerations into the monetary policy framework; (4) further improve the Fed's communications and transparency; and (5) effectively lead the regulatory mission of the Federal Reserve.

The Fed Jumps the Gun Again
Peterson Institute for International Economics
For the fifth time in less than five years, the Fed has jumped the gun in starting to scale back its support of economic recovery.

Monthly Bulletin- January 2014
European Central Bank
The monthly bulletin contains information on Economic and Monetary developments [...]

Main features of the 2014 EU-wide stress test
Europa.eu
This document aims at providing banks with the main characteristics of the 2014 EU-wide stress test. A more detailed methodological document as well as the templates for the data collection will be disclosed at a later stage and discussed with the participating banks.[...]

Monetary Policy with Abundant Liquidity: A New Operating Framework for the Federal Reserve
The Peterson Institute for International Economics - Policy Brief 14-4
The amount of assets held by the Federal Reserve has dramatically increased since 2009. It recently crossed $4 trillion and will likely peak at about $4.5 trillion. This increase is the result of the Fed's large-scale asset purchase programs, which were intended to support economic growth. However, these purchases have created unprecedented amounts of liquidity in the financial system. […]

International Impacts of the Federal Reserve's Quantitative Easing Program
The Peterson Institute for International Economics
As the world's largest economy, its financial epicenter, and the issuer of the primary reserve currency, actions by the US Federal Reserve ("Fed") will inevitably affect other countries via trade and exchange rates, capital flows, and overall financial conditions. The Fed's monetary easing policies, including QE, have contributed to greater capital flows and exchange market pressures in the emerging markets (EMs). But other pull factors, notably growth in the EMs themselves, have been at least as important [..]

A new role for central banks?
BIS
Speech by Mr Thomas Jordan, Chairman of the Governing Board of the Swiss National Bank, at the Zürcher Volkswirtschaftliche Gesellschaft, Zurich, 16 January 2014.

Global economic outlook, financial reform and UK
BIS
Remarks by Mr Mark Carney, Governor of the Bank of England and Chairman of the Financial Stability Board, at the Davos CBI British Business Leaders Lunch, Davos, 24 January 2014.

Fiscal policy and Budget Management

Highlights of the Budget for FY2014
Japanese Mof
In this publication there are the Highlights of the Budget for FY2014.

Why fiscal sustainability matters

VOX

Fiscal sustainability has become a hot topic as a result of the European sovereign debt crisis, but it matters in normal times, too. This column argues that financial sector reforms are essential to ensure fiscal sustainability in the future. Although emerging market reforms undertaken in the aftermath of the financial crises of the 1990s were beneficial, complacency is not warranted. In the US, political gridlock must be overcome to reform entitlements and the tax system. In the Eurozone, creating a sovereign debt restructuring mechanism should be a priority.

Public Debt in Macroeconomic Analysis

Mozambique economic update

The World Bank

This brief provides a concise update on Mozambique's economy. Statistics indicate that Mozambique's economy registered a strong growth of 8.1 percent per annum in the third quarter of 2013. The 2014 state budget was approved with a large increase in public spending. The Bank of Mozambique has lowered policy rates to a record low, leading to growth in credit to the private sector. While the Metical remained stable against the US Dollar until the end of December, there has been a slight annual depreciation. This trend in part reflects the effects of the strengthening of the latter in international markets.

Global economic prospects : coping with policy normalization in high income countries

The World Bank

After several years of extreme weakness, high income economies appear to be improving, contributing to acceleration in global growth. Most of the acceleration is expected to come from high-income countries, as the drag on growth from fiscal consolidation and policy uncertainty eases and private-sector recoveries gain firmer footing. This report examines global conditions in this regard, including recent developments, prospects for global economic growth driven by high income economies, and the current outlook, as well as estimates of future growth in the case of developing countries.

Africa Economic Financial Brief

African Development Bank

The success of an economy depends critically on the extent to which market structure, business climate and institutions promote the allocation of inputs to more productive businesses. Correspondingly, superior firm productivity brings about business dynamism critical for a country's economic performance. Since exporters tend to be more productive than non-exporters, developing countries have actively pursued export oriented industrialization policies by encouraging manufacturing firms to export to international markets. Similarly, current thinking regarding ways of facilitating structural change in Africa emphasizes the capacity of economies to 'learn-by-exporting', through interactions with foreign customers and learning how to meet higher product standards, or through technology embodied in imports.

World Economic Situation and Prospects 2014

UNCTAD

The report is a joint product of the United Nations Department of Economic and Social Affairs UN/DESA), the United Nations Conference on Trade and Development (UNCTAD) and the five United Nations regional commissions (Economic Commission for Africa (ECA),Economic Commission for Europe (ECE), Economic Commission for Latin America and the Caribbean (ECLAC), Economic and Social Commission for Asia and the Pacific (ESCAP) and Economic and Social Commission for Western Asia (ESCWA).

Is the world recovery really strengthening?

VOX

The global economy seems to be on the mend. In this column, IMF Chief Economist Olivier Blanchard provides a quick overview of the likely developments. The key points are that the recovery is happening as expected, but it remains fragile and uneven across major economies. Normalising monetary policy poses risks for vulnerable emerging markets and deflation is a real concern for the Eurozone.

Why hasn't Japan's massive government debt wreaked havoc (yet)?

VOX

Japan's sovereign debt-to-GDP ratio is higher than any country in Europe and more than twice the OECD average. This column explains why Japan's massive government debt did not wreak havoc in the past. Robust domestic saving and a temporary inflow of foreign capital caused by the Global Crisis have prevented a crisis thus far. As both of these factors become less applicable the government faces pressure to reduce debt-to-GDP ratio can be brought under control quickly.

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* (11.100 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

14 February 2014 - Geneva, Switzerland
Conference on "The Future of Securities' Markets Regulation: Trends and Implications"

26 February 2014 - On-line
World Bank Webinar: Challenges for debt management created by large capital flows

26 February 2014 - Harbour Ave, Auckland - New Zealand
Responsibility and Accountability in the Financial Policy

03 March 2014 – UNITAR: web-based
International Players in Public Finance and Debt Management

06 March 2013 - London, UK
European Regulation: An Introduction for Capital Market Practitioners

10 March 2014 - web-based
Public Funds and their Auditing

12 March 2014 - Palais des Nations,Geneva
Working Party on the Strategic Framework and the Programme Budget, sixty-seventh session

17 March - 25 April 2014 - web-based
Negotiation of Financial Transactions

18 March 2015 - London, UK
Bond syndication practices for compliance professionals and other non-bankers

26 March 2014 - London, UK
Global Master Agreements for Repo and Securities Lending Workshop

3 – 4 April 2014 – Brussels, Belgium
Debt Management Facility (DMF) Stakeholders' Forum

29 April 2014 - Cumberland Lodge, Windsor, UK
Financial Stability: Designing and Implementing Macroprudential Policy

29 April 2014 - Cumberland Lodge, Windsor, UK
Strategic Planning and Change Management for Central Banks

05 May 2014 - on line
Golden Growth: Restoring the Lustre of the European Economic Model

30 June 2014 - United Kingdom
Strategies in Public Debt Management

14 July 2014 - United Kingdom
Public Financial Management: Issues & Solutions

Previously signaled

24 February 2014 - web-based
Debt Rescheduling with the Paris Club

24 February 2014 - web-based
Millennium Development Goals and Debt Management

25 February 2014 - Roma, via Venti Settembre 97 (Sala Conferenze)
Strategy and tactics in Public Debt Management

3 – 14 March 2014 – United Kingdom
Debt Sustainability & Risk Management

10 March 2014 - United Arab Emirates
Effective Management Skills

31 March 2014 - United Kingdom
Integrating Public Financial Management Systems: Practical Implementation

31 March 2014 - e-learning
Golden Growth: Restoring the Lustre of the European Economic Model

01 April 2014 - e-learning
Debt Management Performance Assessment (DeMPA) Training

1 – 29 April 2014 - web-based
Debt Management Performance Assessment (DeMPA) Training

08 April 2014 - Munich, Germany
ISDA 29th Annual General Meeting

Communication Corner

At the link below, Partners can find details on the *Serbia and Bangladesh* study visits held on June and July 2013 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 20th Febuary 2014, the number of total resources of the PDM Network website is 18.521 (of which 13.410 news, 2.124 papers and articles in reviews and books, 198 books and 1.678 webresources). The Members are 744, coming from 110 countries. 393 Partners belong to sovereign debt management institutions of emerging and advanced countries. This newsletter is sent to 564 Partners.

Special thanks

The PDM Secretariat is grateful to Prof. Kim Oosterlinck (Université libre de Bruxelles), El Hassan Eddez (Head of Debt Office of Morocco), Jürgen Kaiser (erlassjahr.de - Politische Koordination), Ioanna Markidou (Cypriot MoF), Lauren M. Phillips (London School of Economics) and Cedric Achille Mbeng Mezui (AfDB), 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).