PDM NETWORK *Monthly Newsletter*

n. 5/May 2015

ISSN 2239-2033

Dear Partner, this *Newsletter* contains a list of the ***latest uploaded resources*** both in the documentation and in the event areas of the PDM Network website (**www.publicdebtnet.org**). The PDM Network has its main objective in the joint cooperation among its participants regarding the quantity and quality of information available on the website. So far, it is very appreciated a stronger collaboration in this field, **signaling to the Network Secretariat** any documents, news and events of interest at **publicdebtnet.dt@tesoro.it**.

Contents

New Documents

Papers

Secondary Market

Capital inflows and euro area long-term interest rates (2015)

Carvalho Daniel - Banco de Portugal; Fidora Michael - European Central Bank

Abstract: Capital flows into the euro area were particularly large in the mid-2000s and the share of foreign holdings of euro area securities increased substantially between the introduction of the euro and the outbreak of the global financial crisis. The authors show that the increase in foreign holdings of euro area bonds in this period is associated with a reduction of euro area long-term interest rates by about 1.55 percentage points, which is in line with previous studies that document a similar impact of foreign bond buying on US Treasury yields. These results are relevant both from a euro area and a global perspective, as they show that the phenomenon of lower long-term interest rates due to foreign bond buying is not exclusive to the United States and foreign inflows into euro area debt securities may have added to increased risk appetite and hunt-for-yield at the global level.

Central bank operating frameworks and collateral markets (2015)

Study Group of the Committee on the Global Financial System and the Markets

Abstract: Collateral markets have become increasingly important as demand for collateral assets has increased in recent years, driven by changing market practices and an evolving regulatory landscape. This report explores whether and how the design of central banks' operational frameworks influences private collateral markets, including collateral availability, pricing, related market practices, and market performance under stress. It studies these issues by reviewing available information from a range of sources, including central bank case studies as well as surveys and interviews with private sector participants in collateral markets.[...]

Euro Area Government Bonds: Integration and Fragmentation During the Sovereign Debt Crisis (2015)

Ehrmann Michael - Bank of Canada; Fratzscher Marcel - DIW Berlin

Abstract: The paper analyzes the integration of euro area sovereign bond markets during the European sovereign debt crisis. It tests for contagion (i.e., an intensification in the transmission of shocks across countries), fragmentation (a reduction in spillovers) and flight-to-quality patterns, exploiting the hetero skedasticity of intraday changes in bond yields for identification. The paper finds that euro area government bond markets were well integrated prior to the crisis, but saw a substantial fragmentation from 2010 onward. Flight to quality was present at the height of the crisis, but has largely dissipated after the European Central Bank's (ECB's) announcement of its Outright Monetary Transactions (OMT) program in 2012. At the same time, Italy and Spain became more interdependent after the OMT announcement, providing our only evidence of contagion. While this suggests that countries have been effectively ring-fenced, and Italy and Spain benefited from the joint reduction in yields following the OMT announcement, the high current degree of fragmentation poses difficult challenges for policy-makers, since it leads to an unequal transmission of the ECB's monetary policy to the various countries.

Repo Market

The Importance of Being Special: Repo Markets During the Crisis (2015)

Corradin Stefano - European Central Bank; Maddaloni Angela - European Central Bank

Specialness is a measure of the scarcity premium of procuring a specific security. The authors analyze the impact of security-specific supply and demand on specialness. After controlling for the auction cycle on the supply of the bonds, the authors show that specialness is higher for highly demanded bonds - in the repo and in the cash market - and for bonds with lower available supply. The ECB outright purchases provide a natural experiment to analyze the impact on the scarcity premium of a big buy-to-hold investor on bonds. The authors find evidence of both a stock and a flow effect of the purchases. These effects are amplified when purchases involve bonds already in high demand. The impact of the purchases on specialness is conditional on the amount of the same security already bought. Very special bonds have a higher probability to be underlying a fail-to-deliver transaction.

Legal Issues and Conventions

A Framework for a Formal Sovereign Debt Restructuring Mechanism: The KISS Principle (Keep it Simple, Stupid) and Other Guiding Principles (2015)

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

Abstract: Given the ongoing work on a multilateral restructuring process for sovereign debt in the UN, consideration of the content and implementation of a sovereign debt restructuring mechanism (SDRM) is timely. The framework and content of the SDRM proposed here differs from earlier proposals in several important respects. For the classification and supermajority voting of claims in the approval a restructuring plan, it would mimic the structure and operation of the model collective action clauses (Model CACs) proposed by the International Capital Markets Association. Restructuring under a qualified sovereign debt restructuring law (QSDRL) would be guided by four principles: (i) observe the KISS (keep it simple, stupid) principle, (ii) follow the Model CACs, (iii) limit the discretion of an administrator of a proceeding, and (iv) address only major current problems. A convention would oblige each adopting state to recognize and enforce a restructuring plan approved under a QSDRL of another adopting state. This obligation would be subject to exceptions along the lines of those under the New York Convention on arbitral awards. The QSDRL would employ novel methods of binding creditors under an approved restructuring plan. [...]

Holdout Creditor Litigation: An Assessment of Legislative Initiatives to Counter Aggressive Sovereign Debt Creditor Litigators (2015)

Iversen Astrid - University of Oslo

Abstract: This research paper concerns legislation enacted in Belgium, the UK and within the Euro zone countries. At the heart of my research is the following question: do these legislative initiatives succeed in 1) discouraging minority creditors from refusing to take part in restructuring processes,

including debt relief initiatives, and 2) limiting creditor lawsuits against defaulting sovereign debtors? The paper will also look at recent legal developments that have arisen since the Argentine economic crisis in 2001, and examine whether these developments are likely to affect the above-mentioned legislation. In order to answer the research question, the paper will examine sovereign debt contracts (including sovereign bonds) in the international credit market and how these are enforced within different jurisdictions. It will further examine how different countries seek to limit the possibility of enforcing certain contract rights within their jurisdiction through national legislation.

[Regulatory change and monetary policy](#) (2015)

Working group of the Committee on the Global Financial System and the Markets

Abstract: Financial regulation is evolving, as policymakers seek to strengthen the financial system in order to make it more robust and resilient. Changes in the regulatory environment are likely to have an impact on financial system structure and on the behaviour of financial intermediaries that central banks will need to take into account in how they implement monetary policy.

Sovereign Default, Debt Restructuring, and Recovery Rates: Was the Argentinean "Haircut" Excessive? (2015)

Edwards Sebastian - UCLA Anderson Graduate School of Business

Abstract: The author uses data on 180 sovereign defaults to analyze what determines the recovery rate after a debt restructuring process. Why do creditors recover, in some cases, more than 90%, while in other cases they recover less than 10%? The author finds support for the Grossman and Van Huyk model of "excusable defaults": countries that experience more severe negative shocks tend to have higher "haircuts" than countries that face less severe shocks. The author discusses in detail debt restructuring episodes in Argentina, Chile, Uruguay and Greece. The results suggest that the haircut imposed by Argentina in its 2005 restructuring (75%) was "excessively high." The other episodes' haircuts are consistent with the model.

Active Debt Management

Reforming the Slovak Public Sector (2015)

Demmou Lilas – OECD; W.R. Price Robert – Consultant

Abstract: Improving public sector efficiency can help to meet two conflicting objectives: ensuring fiscal consolidation and maintaining room for growth-friendly spending. However, the public sector lags on the application of e-government and e-procurement, insufficiently prioritizes spending, and suffers from budget fragmentation, lack of coordination between ministries and perceived corruption. The regulatory framework could also be more business friendly and the judicial system more efficient. Boosting public sector efficiency requires broad based reforms. Sequencing will be important for the effectiveness of this comprehensive reform effort, and therefore the government should put an initial emphasis on human resource management and the improvement of administrative capacity.

Coordination with other Policies and Operations

Comparative assessment of macroprudential policies (2015)

Bruno Valentina - American University; Shim Ilhyock - Bank for International Settlements; Shin Hyun Song - Bank for International Settlements

Abstract: This paper provides a comparative assessment of the effectiveness of macroprudential policies in 12 Asia-Pacific economies, using comprehensive databases of domestic macroprudential policies and capital flow management (CFM) policies. The authors find that banking sector CFM polices and bond market CFM policies are effective in slowing down banking inflows and bond inflows, respectively. The authors also find some evidence of spillover effects of these policies. Finally, regarding the interaction of monetary policy and macroprudential policies, our empirical findings suggest that macroprudential policies are more successful when they complement monetary policy by reinforcing monetary tightening, than when they act in opposite directions.

Drivers of Sovereign Recovery Risk (2015)

Müller Marcel - Karlsruhe Institute of Technology (KIT); Uhrig-Homburg Marliese - Karlsruhe Institute of Technology (KIT)

Abstract: What determines the recovery of sovereign bond holders in the face of a credit event? This paper studies empirical determinants for sovereign recovery risk. Guided by theoretically backed hypotheses the authors use a sample of 102 past restructurings and empirically test the relation between haircut sizes and their economic drivers. The authors find a significant linkage of the haircut size to a debtor's ability to repay as well as his willingness. Distinguishing between excusable and strategic defaulters in a new way enables us to empirically show that punishment is of markedly increased effectiveness amongst the strategic cohort. Based on these results the authors develop a forecasting-model for predicting haircuts conditional on the restructurings taking place within the year ahead and assess the performance of the model by applying it to a sample of the 45 restructurings observed from 1991 to present.

Human Capital Formation and Public Debt: Growth and Welfare Effects of Three Different Deficit Policies (2015)

Greiner Alfred - Bielefeld University

Abstract: In this paper the authors analyze an endogeneous growth model with human capital that results from public educational spending. The authors allow for public debt and analyze three different debt policies: a balanced government budget, a slight deficit policy where debt grows but less than GDP, and a strong deficit policy where debt grows at the same rate as GDP. The authors find that the balanced budget policy and the policy with a slightly growing public debt are equivalent as concerns long-run economic growth. Further, those two rules yield higher growth than a debt policy where public debt grows at the same rate as GDP, unless the government is a creditor. As concerns welfare, it can be demonstrated that a strong deficit policy yields lower welfare than a balanced budget and a slight deficit, unless initial debt ratios are low and the intertemporal elasticity of substitution is high. Finally, it is demonstrated that there may exist an inverted U-shaped relation between welfare and deficit financed educational spending.

(Not) Dancing Together: Monetary Policy Stance and the Government Spending Multiplier (2015)

Belinga Vincent; Ngouana Constant Lonkeng

Abstract: This paper provides estimates of the government spending multiplier over the monetary policy cycle. The authors identify government spending shocks as forecast errors of the growth rate of government spending from the Survey of Professional Forecasters (SPF) and from the Greenbook record. The state of monetary policy is inferred from the deviation of the U.S. Fed funds rate from the target rate, using a smooth transition function. Applying the local projections method to quarterly U.S. data, the authors find that the federal government spending multiplier is substantially higher under accommodative than non-accommodative monetary policy. Our estimations also suggest that federal government spending may crowd-in or crowd-out private consumption, depending on the extent of monetary policy accommodation. The latter result reconciles—in a unified framework—apparently contradictory findings in the literature. The authors discuss the implications of our findings for the ongoing normalization of monetary conditions in advanced economies.

An Overview of Islamic Finance (2015)

Hussain Mumtaz - International Monetary Fund; Shahmoradi Asghar - International Monetary Fund; Turk Rima - International Monetary Fund

Abstract: Islamic finance has started to grow in international finance across the globe, with some concentration in few countries. Nearly 20 percent annual growth of Islamic finance in recent years seems to point to its resilience and broad appeal, partly owing to principles that govern Islamic financial activities, including equity, participation, and ownership. In theory, Islamic finance is resilient to shocks because of its emphasis on risk sharing, limits on excessive risk taking, and strong link to real activities. Empirical evidence on the stability of Islamic banks, however, is so far mixed. While these banks face similar risks as conventional banks do, they are also exposed to idiosyncratic risks, necessitating a tailoring of current risk management practices. The macroeconomic policy implications of the rapid expansion of Islamic finance are far reaching and need careful considerations.

Rethinking Financial Deepening : Stability and Growth in Emerging Markets (2015)

Sahay Ratna - International Monetary Fund; Čihák Martin - International Monetary Fund; N'Diaye Papa - International Monetary Fund; Barajas Adolfo - International Monetary Fund; Bi Ran - International Monetary Fund

Abstract: Islamic finance has started to grow in international finance across the globe, with some concentration in few countries. Nearly 20 percent annual growth of Islamic finance in recent years seems to point to its resilience and broad appeal, partly owing to principles that govern Islamic financial activities, including equity, participation, and ownership. In theory, Islamic finance is resilient to shocks because of its emphasis on risk sharing, limits on excessive risk taking, and strong link to real activities. Empirical evidence on the stability of Islamic banks, however, is so far mixed. While these banks face similar risks as conventional banks do, they are also exposed to idiosyncratic risks, necessitating a tailoring of current risk management practices. The macroeconomic policy implications of the rapid expansion of Islamic finance are far reaching and need careful considerations.

On the Sustainable Development Goals and the Role of Islamic Finance (2015)

Ahmed Habib - Durham University; Mohieldin Mahmoud - World Bank Group; Verbeek Jos - World Bank; Aboulmagd Farida - World Bank

Abstract: The Sustainable Development Goals, the global development agenda for 2015 through 2030, will require unprecedented mobilization of resources to support their implementation.
Their predecessor, the Millennium Development Goals, focused on a limited number of concrete, global human development targets that can be monitored by statistically robust indicators. The Millennium Development Goals set the stage for global support of ambitious development goals behind which the world must rally. The Sustainable Development Goals bring forward the unfinished business of the Millennium Development Goals and go even further.

Because of the transformative and sustainable nature of the new development agenda, all possible resources must be mobilized if the world is to succeed in meeting its targets.
Thus, the potential for Islamic finance to play a role in supporting the Sustainable Development Goals is explored in this paper. Given the principles of Islamic finance that support socially inclusive and development promoting activities, the Islamic financial sector has the potential to contribute to the achievement of the Sustainable Development Goals.
The paper examines the role of Islamic financial institutions, capital markets, and the social sector in promoting strong growth, enhanced financial inclusion, and intermediation, reducing risks and vulnerability of the poor and more broadly contributing to financial stability and development

Monetary Policy

Critique of accommodating central bank policies and the 'expropriation of the saver' (2015)

Bindseil Ulrich - European Central Bank; Domnick Clemens - Kreditanstalt für Wiederaufbau; Zeuner Jörg - Kreditanstalt für Wiederaufbau

Abstract: In parts of the German media, with the support of a number of German economists, the ECB's low nominal interest rate policy is criticised as unnecessary, ineffective and as expropriating the German saver. This paper provides a review of the relevant arguments. It is recalled that returns on savings are anchored to the real rate of return on capital. Good monetary policy tries to avoid being a source of disturbance in itself, and may be able to smooth the effects of temporary external shocks, but beyond that cannot structurally improve the real rate of return on capital. Against this general background, the paper critically analyses a number of recent arguments as to why low interest rate policies could actually be counterproductive. Finally, the paper reviews what can be done about the medium to long-term real rate of return on capital, which remains in any case the basic issue for the saver, focusing on the specific case of Germany. The key policies identified relate to demographics, education, labour markets, infrastructure and technology. Low growth dynamics in the coming decades and correspondingly low real rates of return on investments are not inevitable.

Interest rates, money, and banks in an estimated euro area model (2015)

Christoffel Kai - European Central Bank; Schabert Andreas - University of Cologne

Abstract: This paper examines monetary transmission and macroeconomic shocks in a medium scale macroeconomic model with costly banking estimated for euro area data. In addition to data on measures of real activity and prices, the authors include data on bank loans, loan rates, and reserves for the estimation of the model with Bayesian techniques. The authors find that loans and holdings of reserves affect banking costs to a small but significant extent. Furthermore, shocks to reserve holdings are found to contribute more to variations in the policy rate, inflation and output than shocks to the feedback rule for the policy rate. Hence, holdings of central bank money, which is typically neglected in the literature, plays a substantial role for macroeconomics dynamics. The analysis further shows that exogenous shifts in banking costs hardly play a role for fluctuations in real activity and prices, even during the recent financial crisis.

Monetary Policy and Foreign Exchange Management: Reforming Central Bank Functions in Myanmar (2015)

Nijathaworn Bandid - Thai Institute of Directors; Chaikhor Suwatchai - Bank of Thailand; Chotika-arpa Suppakorn - Bank of Thailand; Sakkankosone Suchart - Bank of Thailand

Abstract: Myanmar's macroeconomic policy framework does not adequately support the new functions of the Central Bank of Myanmar. The monetary policy regime is deficient and institutions that complement the working of a market-based economy lacking. This paper identifies 10 priority areas for reform to allow the central bank to effectively perform its emerging new functions in support of economic growth and stability. This is a three-front effort: dismantle nonmarket arrangements, especially in the finance sector; implement a monetary policy framework and operational procedures, including financial markets development; and enhance central bank policy capacity. The latter includes elevating the policy process, central banking functions, and institutional roles to match the tasks of a modern monetary authority in a market-based economy.

The Monetary Policy of the European Central Bank (2002-2015)

Micossi Stefano – Assonime

Abstract: This Special Report examines the policies pursued by the European Central Bank (ECB) since the inception of the euro. The ECB was originally set up to pursue price stability, with an eye also to economic growth and financial stability as subsidiary goals, once the primary goal was secured. The application of a single monetary policy to a diverse economic area has entailed a pronounced pro-cyclicality in its real economic effects on the eurozone periphery. Later, monetary policy became the main policy instrument to tackle financial instability elicited by the failure of Lehman Brothers and the sovereign debt crisis in the eurozone. In the process, the ECB emerged as the lender of last resort in the sovereign debt markets of participating countries. Persistent economic depression and deflation eventually brought the ECB into the uncharted waters of unconventional policies. That the ECB could legally perform all of these tasks bears witness to the flexibility of the TFEU

and its Statute, but its tools and operating procedures were stretched to their limit. In the end, the place of the ECB amongst EU policy-making institutions has been greatly enhanced, but has entailed repeated intrusions into the broader domain of economic policies – not least because of its market intervention policies – whose consequences have yet to be ascertained.

Issuance of Central Bank Securities: International Experiences and Guidelines (2015)

Gray Simon - International Monetary Fund; Pongsaparn Runchana - International Monetary Fund

Abstract: The paper discusses the reasons for central bank (CB) issuance of securities, and reasons for choosing different approaches e.g. in maturities and target market. It provides evidence on the range of different approaches taken by those CBs which do issue, as well as suggesting reasons why some CBs do not; and provides operational guidelines on the major building blocks of the issuance of CB securities.

Fiscal Policy and Budget Management

Lack of confidence, the zero lower bound, and the virtue of fiscal rules (2015)

Schmidt Sebastian - European Central Bank

Abstract: In the presence of the zero lower bound, standard business cycle models with a Taylor-type monetary policy rule are prone to equilibrium multiplicity. A drop in confidence can drive the economy into a liquidity trap without any change in fundamentals. Using a prototypical sticky-price model, I show that Ricardian fiscal spending rules that prevent real marginal costs from declining in the face of a confidence shock insulate the economy from such expectations-driven liquidity traps.

Assessing Fiscal Risks in Bangladesh (2015)

Medina Leandro - International Monetary Fund

Abstract: This paper identifies, quantifies, and assesses fiscal risks in Bangladesh. By performing sensitivity analysis and using stochastic simulations, it measures risks arising from shocks to GDP growth, the exchange rate, commodity prices, and interest rates. It also analyzes specific fiscal and institutional risks, such as those related to the pension system, the issuance of guarantees, the state-owned commercial banks, and the external borrowing and debt management strategy. The paper finds that fiscal aggregates are particularly sensitive to shocks to commodity prices and exchange rates. Other factors that could affect fiscal aggregates are the unfunded pension system and the limited institutional capacity.

Fiscal Decentralisation in Colombia (2015)

Bousquet Guillaume – OECD ; Daude Christian – OECD ; de la Maisonneuve Christine – OECD

Abstract: Colombia has engaged in a sustained process of fiscal decentralisation over the past decades. This paper analyses three aspects of fiscal performance for Colombia’s departments. First, it studies the sustainability aspects of subnational finances by estimating a fiscal reaction function. Evidence is presented that the current framework is conducive to fiscal sustainability, especially after the reforms in the late 1990s and early 2000s. Second, the paper analyses the impact of transfers and oil and mining royalties and the effort to raise own tax revenues at the departmental level. Overall, there is little evidence of a negative effect of transfers from the central government on departmental tax revenue, the so-called "fiscal fatigue". Finally, the paper presents evidence of a limited degree of risk sharing of departmental idiosyncratic shocks, as transfers from the central government are mostly pro-cyclical. This Working Paper relates to the 2014 OECD Economic Survey of Colombia. (www.oecd.org/eco/surveys/economic-survey-colombia.htm)

Reforming Fiscal Governance in the European Union (2015)

Andrle Michal - International Monetary Fund; Bluedorn John - International Monetary Fund; Eyraud Luc - International Monetary Fund; Kinda Tidiane - International Monetary Fund; Brooks Petya Koeva - International Monetary Fund

Abstract: Successive reforms have brought many positive elements to the European Union’s fiscal framework. But they have also increased its complexity. The current system involves an intricate set of fiscal constraints, which hampers effective monitoring and public communication. Compliance has also been weak. This note discusses medium-term reform options to simplify the framework and improve compliance. Based on model simulations and practical considerations, it argues for moving to a two-pillar approach, with a single fiscal anchor (public debt-to-GDP) and a single operational target (an expenditure growth rule, possibly with an explicit debt correction mechanism) linked to the anchor.

Subnational Bond Markets

The Great Wall of Debt: The Cross Section of Chinese Local Government Credit Spreads (2015)

Ang Andrew - Columbia Business School; Bai Jennie - Georgetown University; Zhou Hao - Tsinghua University

Abstract: Issued by local government financing vehicles and backed mostly by land sales, chengtou bonds are an important source of financing for

Chinese local governments. The authors identify large heterogeneity in chengtou bond yields, even though they are guaranteed by the central government. Factors reflecting China's aggregate credit risk and monetary policy are priced in the cross section. Reflecting the nature of their collateral, real estate variables are important drivers of chengtou bond yields, as are other macro fundamentals and liquidity characteristics. The authors find a significantly positive relation between chengtou yields and an index of local government corruption.

Sub-National Government's Risk Premia: Does Fiscal Performance Matter? (2015)

Sola Sergio - International Monetary Fund; Palomba Geremia - International Monetary Fund

Abstract: This paper examines the determinants of sub-national governments risk premia using secondary market data for U.S., Canada, Australia and Germany. It finds that, as for central governments, fiscal fundamentals matter in the pricing of risk premia, and sub-national governments with higher public debt and larger deficits pay higher premia. However, this relationship is not uniform across countries. Market pricing mechanisms are less effective in presence of explicit or implicit guarantees from the central government. Specifically, the authors show that in pricing risk premia of sub-national governments, markets are less responsive to fiscal fundamental when sub-national governments depend on high transfers from the central government, i.e., when there is some form of implicit guarantee from the center. Using primary market data, the paper also looks at whether transfer dependency from the central government influences sub-national governments' incentive to access markets. The authors show that high transfer dependency lowers the probability of sub-national governments to borrow on capital markets.

Public Debt in Macroeconomic Analysis

Financial exposure to the euro area before and after the crisis: Home bias and institutions at home (2015)

Floreani Vincent Arthur - The World Bank; Habib Maurizio Michael - European Central Bank

Abstract: This paper investigates whether global investors are over or under exposed to- wards the euro area and the role of home bias and institutions at home in shaping this exposure. According to a simple benchmark from standard portfolio theory, euro area investors - in particular those from euro area low-rating economies - are overexposed to euro area securities. Instead, investors outside the EU are under exposed to euro area securities in their total portfolio, proportionally to their degree of home bias, but not in their foreign portfolio. Nevertheless, once the authors account for gravity factors, the largest foreign investors overweigh euro area securities, especially debt of euro area high rating economies. Crucially, this overexposure was resilient to the euro area crisis. Moreover, the authors show that institutions at home are important to explain exposure to euro area securities. In particular, the higher the standards of governance at home, the greater the exposure to the euro area debt.

Information, Insurance and the Sustainability of Sovereign Debt (2015)

Phan Toan - University of North Carolina

Abstract: In an influential paper, Bulow and Rogoff (1989) prove that in a competitive financial market, the threat of credit exclusion alone cannot sustain repayment of sovereign debt, as the defaulting government can still enter cash-in-advance insurance contracts. However, their result relies on an important assumption: symmetric information. This short paper shows that if a debtor government has some private information about the underlying distribution of future economic shocks, then debt repayment is sustainable in equilibrium. This is true even if there is only one period with private information, and even if default does not have a spillover effect to any other relationship. The intuition is that a default is a signal of a bad distribution of future shocks, leading to a higher risk premium on future financial contracts.

Nominal Sovereign Debt (2015)

Phan Toan - University of North Carolina

The difficulty of sustaining sovereign debt in standard reputation models is well known (Bulow and Rogoff, 1989). Can reputation then sustain nominal sovereign debt (i.e., debt issued in the debtor country's currency) that is subject to not only default risk but also the risk of opportunistic inflation? Under the standard assumption of incomplete markets, I show that the answer is yes. Nominal debt and counter-cyclical inflation allow more hedging against economic fluctuations than real savings does. Thus, the loss of either repayment or monetary reputation severely affects the government's ability to smooth consumption. The model offers a simple explanation for the Bulow and Rogoff critique, and at the same time helps explain why most sovereign bond issuances (including those from emerging markets) have been nominal. The model also predicts that it is optimal for a government to simultaneously borrow (issue bonds) and save (accumulate foreign reserves), as observed in data.

On the Bi-Directional Causal Relationship between Public Debt and Economic Growth in EMU Countries (2015)

Gómez-Puig Marta - University of Barcelona; Rivero Simón Sosvilla - Complutense University of Madrid

Abstract: New evidence is presented on the possible existence of bi-directional causal relationships between public debt and economic growth in both central and peripheral countries of the European

Economic and Monetary Union. The authors test for heterogeneity in the bi-directional Granger-causality across both time and space during the period between 1980 and 2013. The results suggest evidence of a "diabolic loop" between low economic growth and high public debt levels in Spain after 2009. For Belgium, Greece, Italy and the Netherlands debt has a negative effect over growth from an endogenously determined breakpoint and above a debt threshold ranging from 56% to 103% depending on the country.

[Uncertainty Shocks and Non-Fundamental Debt Crises: An Ambiguity Approach](#) (2015)

Steffen Christoph Große - German Institute for Economic Research

Abstract: This paper develops a theory of sovereign debt crises driven by uncertainty shocks that are modeled as changes in investors' confidence in the macroeconomic fundamental of the economy. Due to defaultable government debt, uncertainty feeds into investors' beliefs about the fiscal sustainability of public debt. The inherent indeterminacy is resolved using maxmin preferences in view of ambiguity averse investors. An uncertainty shock raises the price of issuing debt which in turn affects the optimal tax and borrowing decision of the government. Within a critical zone of indebtedness, uncertainty shocks may lead to non-fundamental default events which share important features and partly endogenize sun-spot driven self-fulfilling crises. The quantitative effects of the mechanism are explored using an estimated business cycle model where a bank-sovereign nexus propagates uncertainty shocks to the macro economy. Forecasters' disagreement is used to identify the non-fundamental share of sovereign yields. The model attributes a sizeable share of sovereign yields to time-variation in uncertainty. Other model predictions are shown to be consistent with impulse responses obtained from a VAR analysis for a panel of Euro area countries.

A Network Analysis of Sectoral Accounts: Identifying Sectoral Interlinkages in G-4 Economies (2015)

de Almeida Luiza Antoun - Goethe University, Frankfurt am Main, Germany

Abstract: The recent financial crisis highlighted that balance sheet exposures can be a major shock transmission channel. Using sectorial accounts data in combination with data from the Coordinated Portfolio Investment Survey, International Investment Position, and BIS this paper estimates bilateral exposures between financial and non-financial sectors in three different financial instruments within and across G-4 economies (Euro Area, Japan, U.K. and U.S.). The generated financial networks represent a powerful tool for assessing financial stability, as they allow for the identification of systemically important sectors. The analysis suggests that after the financial crisis bilateral exposures in debt securities have increased, while exposures in loans and equities have declined. Shock simulations reveal that the vulnerability of the financial sector to the government sector has increased considerably since the outbreak of the financial crisis.

When Should Public Debt Be Reduced? (2015)

Ostry Jonathan D. - International Monetary Fund; Ghosh Atish R. - International Monetary Fund; Espinoza Raphael - University College London

Abstract: What considerations should guide public debt policy going forward? Should debt be reduced to achieve normative anchors (such as 60 percent of GDP), should it be increased further to finance a big public investment push, or should the existing debt be serviced forever? The authors argue that, for countries with ample fiscal space (little risk of encountering a fiscal crisis), raising distortive taxes merely to bring the debt down is a treatment cure that is worse than the disease. High public debt of course is costly, but it is a sunk cost only made worse by efforts to pay down the debt through distortionary taxation. Living with the debt is the welfare-maximizing policy. In decisions vis-à-vis the big push for public investment, golden-rule considerations remain salient, with due account taken of the additional servicing costs (and associated distortive taxation) from the resulting buildup of public debt.

Every cloud has a silver lining. The sovereign crisis and Italian potential output (2015)

Gerali Andrea - Bank of Italy; Locarno Alberto - Bank of Italy; Notarpietro Alessandro - Bank of Italy; Pisani Massimiliano - Bank of Italy

Abstract: This paper evaluates the direct and indirect effects of the sovereign debt crisis on Italy's potential output. The direct effects are captured by the increase in the interest rate paid by Italian borrowers in the second half of 2011, the indirect effects by the policy responses to the crisis (fiscal consolidation and structural reforms). Using a New Keynesian dynamic general equilibrium model, the authors compute potential output as the "natural" level of output in the absence of nominal price and wage rigidities. The evaluation posits a no-crisis scenario in line with the pre-2011 potential output projections and government budget rules. The authors find first that the fiscal and financial shocks that caused the 2011-2013 recession subtracted 1.6 percentage points from potential output growth, while the structural reforms in 2013 have limited the reduction in output capacity to about 1.4 points; second, that the structural reforms have a long-run growth-enhancing impact on potential output of around 3 points from now to 2030; and third, that once budget balance is achieved in the medium term, reductions in either labor or capital income taxes would boost potential output growth by about 0.2 points per year.

Gambling for Redemption and Self-Fulfilling Debt Crises (2015)

Conesa Juan Carlos - Stony Brook University; Kehoe Timothy J. - University of Minnesota

Abstract: The authors develop a model for analyzing the sovereign debt crises of 2010–2013 in the Eurozone. The government sets its expenditure-debt policy optimally. The need to sell large quantities of bonds every period leaves the government vulnerable to self-fulfilling crises in which investors, anticipating a crisis, are unwilling to buy the bonds, thereby provoking the crisis. In this situation, the optimal policy of the government is to reduce its debt to a level where crises are not possible. If, however, the economy is in a recession where there is a positive probability of recovery in fiscal revenues, the government may optimally choose to "gamble for redemption," running deficits and increasing its debt, thereby increasing its vulnerability to crises.

Sovereign debt and reserves with liquidity and productivity crises (2015)

Corneli Flavia - Bank of Italy; Tarantino Emanuele - University of Mannheim

Abstract: During the recent financial crisis developing countries have continued to accumulate both sovereign reserves and debt. To account for this empirical fact, the authors model the optimal portfolio choice of a country that is subject to liquidity and productivity shocks. The authors determine the equilibrium level of debt and its cost through a contracting game between a country and international lenders. Although raising debt increases the sovereign exposure to liquidity and productivity crises, the simultaneous accumulation of reserves can mitigate the negative effects of such crises. This mechanism rationalizes the complementarity between debt and reserves.

Historical Evolution of Debt Management

Debt into Growth: How Sovereign Debt Accelerated the First Industrial Revolution (2015)

Ventura Jaume - Universitat Pompeu Fabra; Voth Hans-Joachim - University of Zurich

Abstract: Why did the country that borrowed the most industrialize first? Earlier research has viewed the explosion of debt in 18th century Britain as either detrimental, or as neutral for economic growth. In this paper, the authors argue instead that Britain's borrowing boom was beneficial. The massive issuance of liquidly traded bonds allowed the nobility to switch out of low-return investments such as agricultural improvements. This switch lowered factor demand by old sectors and increased profits in new, rising ones such as textiles and iron. Because external financing contributed little to the Industrial Revolution, this boost in profits in new industries accelerated structural change, making Britain more industrial more quickly. The absence of an effective transfer of financial resources from old to new sectors also helps to explain why the Industrial Revolution led to massive social change – because the rich nobility did not lend to or invest in the revolutionizing industries, it failed to capture the high returns to capital in these sectors, leading to relative economic decline.

The Origins of Argentina's Litigation and Arbitration Saga, 2002-2014

Porzecanski Arturo C. - American University

Abstract: The voluminous and protracted litigation and arbitration saga featuring the Republic of Argentina (mostly as defendant or respondent, respectively) has established important legal and arbitral precedents, as illustrated by three cases involving Argentina which were appealed all the way up to the U.S. Supreme Court and were settled in 2014. At first glance, the scale of Argentina-related litigation activity might be explained by the sheer size of the government's 2001 default, the largest-ever up to that point. However, its true origins are to be found in the unusually coercive and aggressive way that the authorities in that country went about defaulting on and restructuring their sovereign debt obligations. The mass filing of arbitration claims, in turn, was prompted by Argentina's radical and seemingly irreversible changes to the "rules of the game" affecting foreign strategic investors, which clashed with commitments prior governments had made in multiple bilateral investment treaties. In sum, a major deviation from best practices as understood and settled in the early 2000s, which codified how economic policy adjustments are to be made in a way that minimizes damage to the investment climate, preserves access to the international capital markets, and promotes rapid and sustainable economic growth, lies at the root of Argentina's litigation and arbitration saga during 2002-2014.

Books

Coordination with other policies and operations

Measuring Wealth and Financial Intermediation and Their Links to the Real Economy (2015)
Hulten Charles R - University of Maryland; Reinsdorf Marshall B. - International Monetary Fund

Summary: Measuring Wealth and Financial Intermediation and Their Links to the Real Economy identifies measurement problems associated with the financial crisis and improvements in measurement that may prevent future crises, taking account of the dynamism of the financial marketplace in which measures that once worked well become misleading.

Ukraine: What Went Wrong and How to Fix It (2015)
Åslund Anders - The Peterson Institute for International Economics

Summary: Ukraine has been wracked by a year of unprecedented political, economic, and military turmoil. Russian military aggression in the east and a legacy of destructive policies and corruption have created an imminent existential crisis for this young democracy. Yet Ukraine also has a great opportunity to break out of economic underperformance. In this study, Anders Åslund, one of the world's leading experts on Ukraine, traces Ukraine's evolution as a market economy starting with the fall of communism and examines the economic impact of its recent difficulties. Åslund argues that Ukraine must undertake sweeping political, economic, social, and government reforms to achieve prosperity and independence. For its part, the West must abandon its hesitant approach and provide broad economic assistance to help Ukraine transform itself.

Web Resources

Primary Market

World Bank Launches New Green Growth Bond 07/2023
The World Bank
The World Bank is pleased to announce the launch of a new investment solution designed for retail investors in Italy: the Green Growth Bond 07/2023.

Repo Market

Takehiro Sato: Toward further development of the Tokyo financial market issues on repo market reform
BIS
Keynote speech by Mr Takehiro Sato, Member of the Policy Board of the Bank of Japan, at the Futures Industry Association Japan (FIA Japan) Financial Market Conference 2015, Tokyo, 13 May 2015.

Multilateral Debt

Chad : Enhanced Heavily Indebted Poor Countries (HIPC) Initiative Completion Point Document - Multilateral Debt Relief Initiative (MDRI) : chair summary
The World Bank
This report is a chair summary from the Multilateral Debt Relief Initiative (MDRI) for Enhanced Heavily Indebted Poor Countries Initiative Completion Point Document that took place on April 28, 2015. Directors noted that sufficient assurances have been given by creditors to commit enhanced HIPC Initiative assistance on an irrevocable basis, while encouraging agreement on debt relief with all remaining creditors. Directors also expressed broad support for solid progress in Chad’s macroeconomic framework since 2013, including a significant fiscal consolidation, and encouraged continued vigilance.

Islamic Republic of Afghanistan: Staff Monitored Program-Press Release; and Staff Report - IMF Country Report No. 15/140
International Monetary Fund
In Afghanistan political and security uncertainties and an inadequate policy response led to lower growth and emergence of important fiscal and banking vulnerabilities in 2014.[...]

Chad: Enhanced Heavily Indebted Poor Countries Initiative - Completion Point Document And Multilateral Debt Relief Initiative
International Monetary Fund
This paper discusses the status of Chad under Enhanced Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI).[...]

Kyrgyz Republic: Request for a Three-Year Arrangement Under the Extended Credit Facility-Staff Report; and Press Release
International Monetary Fund
Performance under the previous Extended Credit Facility (ECF) arrangement, which expired last July, was good. Macroeconomic stability was restored, fiscal consolidation was stronger than planned, monetary policy was enhanced through a new interest rate-based framework, and supervision was strengthened in the financial sector. [...]

Risk Management Models

ESMA Risk Dashboard - No. 2, 2015
ESMA
The European Securities and Markets Authority (ESMA) issued its second Risk Dashboard 2015 for the EU's securities markets, covering the first quarter of 2015 (1Q15). In 1Q15, EU systemic stress remained at previous levels. Contagion, liquidity, and credit risk remained high but stable while market risk increased after having partially materialised already in the previous quarter. The weak economic prospects, together with an intensified geopolitical uncertainty both inside and outside the EU led to an increase in volatility for most markets, signalling increasing market concerns. Going forward, key risk concerns in the EU include high asset valuations driven by search-for-yield, weak economic prospects, resurgence of public debt policy issues in a number of EU Members States, although to various degrees, and economic and geopolitical uncertainty in the EU’s vicinity.[...]

Derivatives

ESMA fosters derivatives market transparency
ESMA
The European Securities and Markets Authority announced that the European Union's derivatives markets are becoming more transparent through the public availability of harmonized aggregate data reported to the six trade repositories registered with ESMA under EMIR, which allows market participants to monitor the extent, dynamics and trends of derivatives trading in the European Union, including identifying what has been traded on and off-venue.

Update on reporting and record keeping rules for OTC derivatives
HKMA
The Hong Kong Monetary Authority (HKMA) and the Securities and Futures Commission (SFC) released conclusions on the further consultation on mandatory reporting and related record keeping obligations under the new over-the-counter (OTC) derivatives regime. Proposals on certain aspects of the reporting regime were revised after taking into account market feedback.

Accounting, Transparency and Accountability

Handbook on Securities Statistics
International Monetary Fund
The importance of securities markets in intermediating financial flows, both domestically and internationally, underscores the need for relevant, coherent, and internationally comparable statistics. [...]

Main Economic Indicators, Volume 2015 Issue 5
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.

National Accounts of OECD Countries, Financial Balance Sheets 2014
OECD
The National Accounts of OECD Countries, Financial Balance Sheets includes financial stocks (both financial assets and liabilities), by institutional sector (non-financial corporations, financial corporations, general government, households and non-profit institutions serving households, total economy and rest of the world) and by financial instrument.

Supplements to the Statistical Bulletin - Monetary and Financial Indicators - The Financial Market, No. 23 – 2015
Bank of Italy
This series of the Supplements to the Statistical Bulletin, contains detailed information on local Monetary and Financial Indicators. [...]

Supplements to the Statistical Bulletin - Monetary and Financial Indicators - The Public Finances, borrowing requirement and debt, No. 24 - 2015
Bank of Italy
This series of the Supplements to the Statistical Bulletin, contains detailed information on local Monetary and Financial Indicators. [...]

Coordination with other policies and operations

Eighth Meeting of the Financial Stability Board - Regional Consultative Group for the Americas
Financial Stability Board
The Financial Stability Board's Regional Consultative Group for the Americas held its eighth meeting in Mexico to discuss, among other topics, vulnerabilities in the global financial system, the draft Total Loss Absorbing Capacity standard, recent work of the Basel Committee on Banking Supervision and the FSB's work program concerning market-based finance and asset management activities.

Financial Stability Report - May 2015
EIOPA
The European Insurance and Occupational Pensions Authority released its 2015 Financial Stability Report. EIOPA observes that the risks identified in the previous Report (December 2014) remain broadly unchanged: a weak macroeconomic environment, protracted low interest rates and increased credit risks continue to affect the (re)insurance and occupational pension sectors of the European Economic Area.

OECD Economic Surveys: Slovenia 2015
OECD
This OECD Economic Survey of Slovenia examines recent economic developments, policies and prospects. Special chapters cover raising competitiveness and sustainable growth and the economic consequences of ageing.

What have we learned from the crises of the last 20 years?
Federal Reserve System
Federal Reserve Vice Chairman Stanley Fischer delivered a speech entitled "What Have We Learned From the Crises of the Last 20 Years?" at the International Monetary Conference in Toronto, Canada.

Albania: Fourth Review Under the Extended Arrangement and Request for Modification and Waiver of Applicability of Performance Criteria-Staff Report; and Press Release - IMF Country Report No. 15/129
International Monetary Fund
All end-December 2014 and continuous performance criteria (PCs) and most indicative targets (ITs) were met, with comfortable margins.[...]

Colombia: 2015 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Colombia
International Monetary Fund
Prudent macroeconomic policies have underpinned Colombia’s strong growth during the last few years, which exceeded that of most Latin American peers. Last year, the economy posted real growth of 4.6 percent, and average inflation remained near the center of the target range.[...]

G-7 Leaders' Declaration
The White House
The G7 heads of state and government have issued a joint declaration following the G7 Summit in Germany on 7-8 June 2015. The G7 leaders have highlighted commitments to: 1)Finalizing the proposed common international standards on total loss absorbing capacity (TLAC) for global systemically important banks (G-SIBs) by November 2015 following completion of impact assessment exercises; 2) Strengthening regulation and oversight of the shadow banking sector, including the implementation of the G20 shadow banking roadmap; 3) Finalizing concrete and feasible recommendations for the G20/OECD Base Erosion and Profit Shifting (BEPS) Action Plan by the end of 2015 and a commitment to encourage the G20 and OECD to establish a targeted monitoring system to ensure effective implementation; 4) Providing updates on national action plans for

beneficial ownership transparency to combat tax evasion, corruption and other activities related to illicit flows of finance; and 5) Working with developing countries on the international tax agenda to help build up their tax administration capabilities.

[Luxembourg: 2015 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Luxembourg]
International Monetary Fund
Luxembourg's main challenge is to strengthen an economic model that has served it well. Growth was close to 3 percent in 2014, and is projected at 2½ percent in 2015, with continued strong job creation. The model emphasizes maintaining fiscal stability and openness, practicing conservative prudential oversight, and responding to investor needs.[...]

[OECD Economic Surveys: New Zealand 2015]
OECD
This 2015 OECD Economic Survey of New Zealand examines recent economic developments, policies and prospects. Special chapters cover sustaining the economic expansion and making growth more inclusive.

[Peru remains one of the best performing economies in Latin America, with solid macroeconomic fundamentals, strong policy frameworks, and visible gains in poverty reduction. - IMF Country Report No. 15/133]
International Monetary Fund
Peru remains one of the best performing economies in Latin America, with solid macroeconomic fundamentals, strong policy frameworks, and visible gains in poverty reduction. [...]

[Portugal: 2015 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Portugal - IMF Country Report No. 15/126]
International Monetary Fund
The recovery is addressing flow imbalances from past current account and fiscal deficits, but stock vulnerabilities from public, private, and external debt remain high.[...]

[Republic of Belarus: 2015 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Belarus - 15/136]
International Monetary Fund
Belarus' economic model continues to make it highly vulnerable to economic shocks. This was illustrated once more by the turbulence in foreign exchange and debt markets late last year, to which the authorities initially responded with administrative measures before allowing partial exchange rate adjustment.[...]

[Republic of Korea: 2015 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for the Republic of Korea - IMF Country Report No. 15/130]
International Monetary Fund
The outlook remains challenging from both a cyclical and structural standpoint. The hoped-for output recovery has not materialized—domestic demand remains sluggish and inflation low and external uncertainties have increased. [...]

[Republic of Kosovo: 2015 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Republic of Kosovo - IMF Country Report No. 15/131]
International Monetary Fund
The remittances-fueled growth is set to continue in the near term, but deep challenges remain in view of Kosovo's narrow export and productive base, low employment ratios, and incomes that are among the lowest in Europe. Fiscal Policy: Following very generous pre-electoral promises, gradual fiscal adjustment is required to preserve the credibility of the fiscal rule and safeguard low public debt levels. [...]

[Republic of Lithuania: 2015 Article IV Consultation-Press Release; and Staff Report - IMF Country Report No. 15/138]
International Monetary Fund
Lithuania's economic comeback over the past five years has been impressive. Real GDP has surpassed its previous peak and external and internal imbalances have been corrected. [...]

[Rwanda: Third Review Under the Policy Support Instrument-Press Release; and Staff Report - IMF Country Report No. 15/141]
International Monetary Fund
Rwanda continues to face the challenge of sustaining high growth in a context of uncertain donor flows, while avoiding the build-up of imbalances. [...]

Switzerland: 2015 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Switzerland - IMF Country Report No. 15/132
International Monetary Fund
Switzerland has once again had to contend with capital flow volatility. Following the exit from the exchange rate floor in mid-January 2015 and the subsequent appreciation of the franc, the Swiss economy faces exchange rate overvaluation, slower near-term growth, and deflation. [...]

Brazil: 2014 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Brazil - IMF Country Report No. 15/121
International Monetary Fund
Brazil is in a tough spot. Led by weak investment and plummeting confidence, growth, after slowing markedly since mid-2013, came to a virtual halt in 2014. [...]

Bulgaria: 2015 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for Bulgaria - IMF Country Report No. 15/119
International Monetary Fund
Since the last Article IV consultation in November 2013, a large bank failure and a weakening in the fiscal balance have tested Bulgaria's hard-won macroeconomic and financial stability. [...]

Federated States of Micronesia: 2015 Article IV Consultation-Staff Report; Press Release; and Statement by the Executive Director for the Federated States of Micronesia - IMF Country Report No. 15/128
International Monetary Fund
Raising growth and ensuring long-term fiscal sustainability remain the two critical issues of the FSM. The reform agenda, in particular, the tax reform package and growth-enhancing reforms, hinges on achieving a national consensus in a loosely federated nation.

Pragmatism, the Greek crisis, and structural reforms: What theory says
VOX
In the policy circles, there are confronting positions regarding Greece's assistance programme and the structural reforms it should implement. This column argues that the best response is pragmatism and sequential compromise. Efficiency requires an assistance programme providing the country with debt relief with an intervention of an institution such as the IMF. Thus, misconceived economic principles could bring large welfare losses for Greece and renewed financial instability in the Eurozone.

The Design and Regulation of Securities Markets: Celebrating the 30 Years Since Kyle Met Glosten and Milgrom and We Moved From Chalkies to Co-Location
VOX
Papers submitted to the Conference must address regulation or design-related aspects of financial markets, with presentations tailored for an audience of academics, senior market regulators and key industry professionals.

Why sovereigns repay debts to external creditors and why it matters
VOX
With Greece on the edge and Argentina confronting adverse legal decisions, thinking about sovereign default is a front-burner issue. This column discusses how recent experience casts light on relative merits of the two main conceptual approaches to modelling sovereign lending and default – the reputation approach and the punishment approach.

Monetary Policy

International Journal of Central Banking (IJCB)
BIS
Published quarterly, the journal features articles on central bank theory and practice, with a special emphasis on research relating to monetary and financial stability. The main objectives of the International Journal of Central Banking are: - to disseminate widely the best policy-relevant and applied research that reflects the missions of central banks around the world across a range of disciplines; and - to promote communication amongst researchers both inside and outside of central banks.

Financial Stability Review - May 2015
European Central Bank
The European Central Bank released its Financial Stability Review for May 2015. The review singles out four risks to financial stability: 1) abrupt reversal of compressed global risk premia amplified by low secondary

market liquidity; 2) weak profitability prospects for banks and insurers; 3) rise of debt sustainability concerns in the sovereign and corporate sectors; and 4) stress and contagion effects in the rapidly-growing shadow banking sector.

Mario Draghi: Structural Reforms, inflation and monetary policy
BIS
European Central Bank President Mario Draghi delivered a speech entitled "Structural Reforms, Inflation and Monetary Policy" at the ECB Forum on Central Banking in Sintra, Portugal. Draghi said the cyclical recovery has provided near-perfect conditions for governments to engage more systematically in structural reforms to anchor growth.

A parallel currency for Greece: Part I
VOX
To prevent it from defaulting on its debt, the Greek government might need to introduce a new domestic currency, in parallel to the euro. This column, the first in a two-part series, compares the current proposals for a parallel currency and discusses how such a policy instrument could promote economic recovery.

A parallel currency for Greece: Part II
VOX
Introducing a currency in parallel to the euro could help Greece repay its external debt and resume economic activity. This second column in a two-part series evaluates the different options and their effects on aggregate demand and fiscal sustainability. The authors propose a tax credit certificates programme, which they argue could generate new spending capacity and avoid the adoption of new austerity measures.

Public Debt in Macroeconomic Analysis

Global Economic Prospects
The World Bank
Changes, which in the long-run steady-state, may be good for the global economy, can cause strain and even a slowdown in the short run brought about by the challenges of transition. This is the message that underlies much of the June issue of the World Bank Group's Global Economic Prospects.

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* (19.030 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

08 June 2015 - Sweden
36th Arne Ryde Symposium - Asian Economic Panel 2015

14 June 2015 - Estonia
7th international conference "Economic Challenges in Enlarged Europe"

17 June 2015 - Radisson Blu Gautrain Hotel, Sandton, Johannesburg, South Africa
Third Commonwealth Secretariat Stakeholders' Conference on Public Debt Management

23 June 2015 - One Bishops Square, London
Fundamentals of OTC Derivative Operations and Trade Processing

01 July 2015 - One Bishops Square, London
Derivatives Products Overview

03 July 2015 - Paris
Symposium on a Sustainable Financial System

Previously signaled

03 July 2015 - London, Eba premises
Workshop on Proportionality Measures for Regulatory Purposes

06 July 2015 - United Kingdom
Public Financial Management: Issues & Solutions

13 July 2015 - Addis Ababa, Ethiopia
Third International Conference on Financing for Development

15 July 2015 - One Bishops Square, London
ISDA Master Agreement and Credit Support Annex: Negotiation Strategies

17 August 2015 - United Kingdom
Debt Sustainability & Risk Management

31 August 2015 - United Arab Emirates
Programme & Performance Budgeting

21 September 2015 - United Kingdom
Budget Execution through Strategic Financial Management

01 October 2015 - Bank for International Settlements, Basel, Switzerland
Global Financial Interconnectedness [Call for Papers]

01 October 2015 - Bank for International Settlements, Basel, Switzerland
Conference on "Global Financial Interconnectedness" [Call for Papers]

18 November 2015 - London UK
4th Annual EBA Research Workshop: Financial regulation and the real economy: a micro-prudential perspective [Call for Papers]

Communication Corner

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

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

REMINDER…

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

Some figures

On 24th June 2015, the number of total resources of the PDM Network website is 25.238 (of which 19.030 news, 2.888 papers and articles in reviews and books, and 2.429 webresources). Registered Members are 812, coming from 117 countries. 447 Partners belong to sovereign debt management institutions of emerging and advanced countries. This newsletter is sent to 588 Partners.

Special thanks

The PDM Network Secretariat is grateful to Colleen Keenan (The World Bank Treasury) for 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).