PDM NETWORK *Monthly Newsletter*

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Dear Subscriber, this newsletter lists all papers, reports, courses and other events concerning public debt management recently uploaded by the PDM Network Secretariat in the site **www.publicdebtnet.org**. The documents which the PDM Network Secretariat have found most interesting are highlighted with a gray background.

Please note that, starting from this issue, the PDM Network Monthly Newsletter will be published every two months (September, November, and so on). This change is aimed at improving the quality of the service offered. We are also working on updating the organization of the material and the user interface of the website.

The PDM Network Secretariat welcomes cooperation on information published on the website. Please feel free to **suggest any documents, news and events** that you think are relevant to the management of public debt at the following email address: **publicdebtnet.dt@tesoro.it**.

Contents

New Documents

Papers, Articles & Books

Core Topics in Public Debt Management

OECD Sovereign Borrowing Outlook 2016
OECD

Abstract: The OECD Sovereign Borrowing Outlook provides regular updates on trends and developments associated with sovereign borrowing requirements, funding strategies, market infrastructure and debt levels from the perspective of public debt managers. **In 2016, sovereign borrowing in the OECD area**, which had risen rapidly as result of the policy response to the global financial crisis, **has declined owing to fiscal consolidation**. However, net borrowing remains positive. Moreover, redemption profiles of outstanding medium- and long-term **central government**

debt remain challenging over the next few years. In order to address roll-over risk, debt managers aim to lengthen and smooth out the redemption profile. Since the onset of the global financial crisis, unconventional monetary policies, new regulations and structural changes in the investor base have affected the government bond markets' liquidity, which has remained an important source of concern. Finally, Governments have been facing additional pressure from investors and other stakeholders to increase the transparency of operations and policies.

Primary Market

Domestic banks as lightning rods? Home bias during Eurozone crisis (2016)

Orkun Saka - Cass Business School, City University London

Abstract: Governments and domestic banks in Europe have attracted too much criticism lately due to heightening inclination of banks to hold more local sovereign debt in the midst of the crisis, which has been interpreted as an evidence of financial repression or moral suasion. By using a novel dataset on bank-level exposures of sovereign and private debt covering the entire Eurozone crisis, the author first confirms that **sovereign debt has been reallocated from foreign to domestic banks at the peak of the crisis.** Furthermore, this reallocation has been especially visible for banks as opposed to other domestic agents. However, in contrast with the previous literature emphasizing only the increasing home bias in sovereign debt, the author shows that such reallocation also occurred (even to a larger extent) in banks' private exposures. Finally, the author presents a clear information channel and demonstrate that foreign banks –free from moral suasion- with more branches in crisis countries have increased their exposures to these countries during crisis. Overall, **the evidence is only compatible with the argument of rising informational asymmetries between domestic and foreign banks**.

Sustainability of Sukuk and conventional Bond during financial crisis: Malaysia's capital market (2016)

Wahida Ahmad Rafisah Mat - Researchgate Association

Abstract: It is well known that the recent global financial crisis has adversely affected the world's economy and in particular the banking industry. Islamic finance (sukuk) has also not been spared, although it has been enjoying tremendous growth since its debut in the 1970s. It had not shown any sign of slowing down until the recent global financial crisis. Sukuk has a different underlying structure and provisions in comparison to conventional bonds and it is a challenge to evaluate its sustainability during the recent global financial crisis. **This paper attempts to investigate the sustainability of sukuk issuance as well as conventional finance during the recent economic downturn by focusing on the Malaysian debt capital market.** Malaysia's sukuk market has grown remarkably in recent years, surpassing the outstanding amount of conventional debt securities issued in the domestic market. Despite the global economic downturn, Malaysia is still considered one of the leaders in sukuk issuance and has in fact proved to be an innovator in the development of sukuk structure. This paper examines three variables concerning the sustainability of sukuk and conventional bond issuance for the period 1990-2009; (i) GDP, (ii) foreign exchange, and (iii) market liquidity. By using ordinary least squares regression, **the findings reveal that both sukuk and conventional bond issuance in Malaysia consider foreign exchange to be the major cause of bond issuance.** On the other hand, unlike sukuk, conventional bond issuance does not consider the economic condition as proxied by GDP and market liquidity as a driving force. These imply insensitivity of the issuance of conventional bond compared to sukuk with regards to current economic conditions.

Pricing Sovereign Contingent Convertible Debt (2016)

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

Abstract: In this paper the authors develop a pricing model for sovereign contingent convertible bonds (S-CoCo) with payment standstills triggered by a sovereign's credit default swap CDS spread. One innovation is the modeling of CDS spread regime switching which is prevalent during crises. Regime switching is modeled as a hidden Markov process and is integrated with a stochastic process of spread levels to obtain S-CoCo prices through simulation. The paper goes a step further and uses the pricing model in a Longstaff-Schwartz. American option pricing framework to compute state contingent S-CoCo prices at some risk horizon, thus facilitating risk management. Dual trigger pricing is also discussed using the idiosyncratic CDS spread for the sovereign debt together with a broad market index. Extensive numerical results are reported using S-CoCo designs for Greece, Italy and Germany with both the pricing and contingent pricing models.

The ghost of a rating downgrade : what happens to borrowing costs when a

government loses its investment grade credit rating? (2016)

Marek Hanusch, Shakill Hassan,Yashvir Algu, Luchelle Soobyah, Alexander Kranz - World Bank, South African Reserve Bank, World Bank,South African Reserve Bank,Dell Inc.

Abstract: Since the global financial crisis and the end of the commodity super-cycle, weak growth and countercyclical fiscal policy have contributed to deteriorating public finances in many countries across the globe. **As public debt burdens rose, credit ratings deteriorated and a number of countries have been downgraded from investment to sub-investment ('junk') grade.** Rating downgrades continue to haunt countries in a world of low growth. This paper examines the effect of such downgrades on short-term government borrowing costs, using a sample of 20 countries between 1998 and 2015. **The analysis suggests that a downgrade to sub-investment grade by one major rating agency increased Treasury bill yields by 138 basis points on average.** Should a second rater follow suit, Treasury bill rates increase by another 56 basis points (although this effect is not statistically significant).
The analysis does not detect any equivalent impacts for local currency ratings, even though T-bills tend to be issued in domestic currency, although this may be due to sample limitations and is therefore not conclusive.

Euro currency risk and the geography of debt flows to peripheral European monetary union members (2016)

Eylem Ersal-Kiziler, Ha Nguyen - University of Wisconsin, World Bank

Abstract: The pattern of debt flows to peripheral European Monetary Union members seems puzzling: they are mostly indirect and channeled through the large countries of the European Monetary Union. This paper examines to what extent the introduction of the euro and the elimination of the intra-area currency risk can explain this puzzle. A three-country dynamic stochastic general equilibrium framework with endogenous portfolio choice and two currencies is developed. In the equilibrium, the core members of the European Monetary Union emerge as the main group of lenders to the peripheral European Monetary Union members. **Outside lenders are pushed from the periphery debt markets because of currency risk.** The model generates a pattern of debt flows consistent with the data despite the absence of any exogenous frictions or market segmentations.

Secondary Market

The Market Impact of the Involvement of the EU/ECB/IMF in Crisis-Affected Countries During the European Sovereign Debt Crisis (2016)

Dimitrios V Kousenidis - Aristotle University of Thessaloniki

Abstract: This paper examines whether the release of news about policy interventions by the troika (EU/ECB/IMF) in the crisis-affected EU countries (Cyprus, Greece, Ireland, Italy, Portugal, and Spain) and about the policy responses of these countries' governments had impacts on the return and risk of stocks in the financial and real-economy sectors of these countries. **The results indicate that the involvement of the troika managed to reverse some of the unfavourable market effects of the crisis.** Moreover, the policy response of national governments was found to have stronger effects in the markets of the affected countries implying that investors likely waited for the response of the national governments before they reacted to the policy actions of the troika. **The simultaneous release of news from the troika and from national governments had adverse effects on the returns and risk of the firms in the real economy sectors, suggesting that, cross-news announcements conveyed negative information in the markets.** The implications of these results are discussed in the paper.

The Changing International Network of Sovereign Debt and Financial Institutions (2016)

Mardi H. Dungey ; David John Harvey ; Vladimir Volkov - University of Tasmania

Abstract: In this paper the authors develop a theoretical and empirical framework to model the international connections between financial institutions and sovereign debt markets. By allowing for both good and poor returns on the investments of financial institutions in real economy firms and the potential for haircuts in sovereign debt-markets the authors show how shock transmission and the default probabilities of these entities are affected through a network of these institutions. To model the financial network empirically, directional edges are established via Granger causality tests between CDS spreads, while the weights of the edges are obtained from variance decompositions. The empirical framework nests both tests of contagion and changes in the structure of the network itself. **The network is found to be "robust but fragile" meaning that either a large enough single shock, or a number of small contemporaneous shocks can result in the propagation of crises.** Between 2003 and 2013 for a global model of 67 financial institutions and 40 sovereigns the authors show

that the completeness of the network changes substantially, reflecting changes in both the number and strengths of the links between them. The resulting changes in the probability of default for sovereigns and institutions demonstrate the fragility of the combined system when under stress from alternative sources.

Repo Market

The U.S. bilateral Repo market: lessons from a new survey (2016)

Viktoria Baklanova Cecilia Caglio Marco Cipriani Adam Copeland - U.S.Treasury - Office of financial research

Abstract: Authors provide aggregate statistics on U.S. dealers' bilateral repurchase agreements and economically equivalent securities lending activities. The data were collected from the U.S.-affiliated securities dealers of nine bank holding companies under a voluntary pilot program run by the Office of Financial Research (OFR) and the Federal Reserve System with input from the Securities and Exchange Commission. They found that the majority of this activity involves the delivery or receipt of U.S. Treasuries, with equities a distant second. The most common maturity is one day. Finally, rates are widely dispersed across asset classes.

Multilateral Debt

Input to revision of the low-income country debt sustainability framework (2015)

Matthew Martin - Development Finance International (DFI) on behalf of UK Department for International Development (DFID)

Abstract: This report has been commissioned by DFID, to strengthen the evidence base and inform policy development on debt sustainability in developing countries. **It provides input to improve the Joint IMF-World Bank Debt Sustainability Framework for LICs, which will feed into the forthcoming review of the DSF.** The paper begins by drawing lessons from past debt crises. They reflected universal over-optimism on commodity prices, ambitious spending plans including "high return" infrastructure projects, and access by relatively poor countries to market related funds. Past procedures for resolving debt crises were initially cumbersome, slow, fragmented and not based on considerations of debt sustainability. The paper then analyses what has changed since the crises, finding that **in spite of important positive steps, the architecture for debt sustainability remains precarious.** These trends have led to a rapid rise in debt in many countries. The paper analyses their sustainability, using thresholds from earlier work for DFID and endorsed by LIC policymakers. It finds that 22 of 28 DFID focus countries have unsustainable or borderline debt, with average levels unsustainable in Africa and Asia alike. The most negative trends are concentrated in countries widening their access to less concessional financing, and which are most "vulnerable"[…]

Ghana - Economic Governance and Poverty Credit, and Seventh and Eighth Poverty Reduction Support Credits Projects (2016)

The World Bank

Abstract: Ratings for the Economic Governance and Poverty Credit Project for Ghana of were as follows : outcome was moderately satisfactory, risk to development outcome was high, Bank performance was moderately satisfactory, and Borrower performance was also moderately satisfactory. Ratings for the Seventh and Eighth Poverty Reduction Support Credits Project for Ghana of were as follows : outcome was moderately unsatisfactory, risk to development outcome was high, Bank performance was moderately unsatisfactory, and Borrower performance was also unsatisfactory. Some of the lessons learned include: **Ghana again became a substantially indebted country that must direct a substantial share of its revenues to debt servicing,** and it did so within a decade after a major debt relief under the Heavily Indebted Poor Countries (HIPC) Debt Initiative. This highlights the importance of prudent macro fiscal management in post-HIPC countries, and emphasizes that the World Bank has to place in its policy lending for helping its clients to preserve borrowing space. **Adequate macroeconomic management is a critical precondition of budget support.**

Sri Lanka -Competitiveness, Transparency and Fiscal Sustainability Development Policy Financing (2016)

The World Bank

Abstract: This program document describes the Development Policy Financing (DPF) operation to the Democratic Socialist Republic of Sri Lanka as a stand-alone single tranche operation for an amount of US 100 million dollar.

Sierra Leone - Fourth, Fifth, and Sixth Governance Reform and Growth Grant Projects (2016)

The World Bank

Abstract: The Fourth, Fifth, and Sixth Governance Reform and Growth Grant Projects of Sierra Leone had a moderately satisfactory

outcome. **The program's development objective was to improve the allocation and efficiency of public spending to support poverty reduction, to strengthen domestic resource mobilization and management, and to increase public sector reforms.** Lessons learned include: as there are limits to harmonization beyond which diminishing returns set in, it should be practiced pragmatically, engagement of Ministries beyond the central agencies of Government requires a strong mechanism at the center to ensure effective implementation and in a country short of management capacity, a detailed M&E framework is not likely to be sustainable.

Legal Issues and Conventions

Sovereign Debt: Now What? (2016)

Anna Gelpern - Georgetown University Law Center

Abstract: The sovereign debt restructuring regime looks like it is coming apart. Changing patterns of capital flows, old creditors' weakening commitment to past practices, and other stakeholders' inability to take over, or coalesce behind a viable alternative, have challenged the regime from the moment it took shape in the mid-1990s. By 2016, its survival cannot be taken for granted. Crises in Argentina, Greece, and Ukraine since 2010 exposed the regime's perennial failures and new shortcomings. **Until an alternative emerges, there may be messier, more protracted restructurings, more demands on public resources, and more pressure on national courts to intervene in disputes that they are ill-suited to resolve.** Initiatives emanating from wildly different actors — the United Nations General Assembly, the International Monetary Fund, the International Capital Market Association and the Jubilee coalition, among others — reflect broad-based demand for reform. Now is the time to reconsider the institutional architecture of sovereign debt restructuring, along with the norms and alliances that underpin it. **In this symposium essay, the author suggests broad criteria for evaluating a successor regime, and offer a package of incremental measures to advance sustainability, fairness, and accountability.**

Creating a framework for Sovereign Debt restructuring that works (2015)

Martin Guzman and Joseph E.Stiglitz - Columbia Business School

Abstract: Recent controversies surrounding sovereign debt restructurings show **the weaknesses of the current market---based system in achieving efficient and fair solutions to sovereign debt crises.** This article reviews the existing problems and proposes solutions. It argues that improvements in the language of contracts, although beneficial, cannot provide a comprehensive, efficient, and equitable solution to the problems faced in restructurings—but there are improvements within the contractual approach that should be implemented. Ultimately, the contractual approach must be complemented by a multinational legal framework that facilitates restructurings based on principles of efficiency and equity. Given the current geopolitical constraints, **in the short---run authors advocate the implementation of a "soft law" approach, built on the recognition of the limitations of the private contractual approach and on a set of principles** – most importantly, the restoration of sovereign immunity – over which there may be consensus. They suggest that in a context of political economy tensions it should be impossible. For a government to sign away the sovereign immunity either for itself or successor governments. The framework could be implemented through the United Nations, or it could prompt the creation of a new institution.

Don't Cry for Argentina (or Other Sovereign Borrowers): Lessons from a Previous Era of Sovereign Debt Contract (2016)

Benjamin Remy Chabot; Veronica Santarosa - Federal Reserve Bank of Chicago; University of Michigan Law School

Abstract: Recent court rulings effectively barred Argentina from international capital markets until she honored previous sovereign debt contracts. These rulings have been criticized by some in the legal community for possibly harming New York's standing as a preeminent capital market and hindering developing countries' ability to borrow. This article asks whether such criticism is warranted and notes that a similar enforcement mechanism was employed by the London Stock Exchange before World War I to deny sovereign borrowers in breach of their contracts access to international capital markets. **The pre-World War I era provides us with clues into how the sovereign debt market could evolve in the wake of the Argentina rulings.** In contrast to the dire warnings, capital markets have historically worked well when sovereign borrowers face sanctions. **The existence of sanctions gave sovereign borrowers the means to credibly signal their intent to repay.** By including contract clauses that made default costly, historical sovereign borrowers of less than pristine reputation were able to signal their good intentions and enjoy the benefits of cheap access to world capital markets.

[Sovereign Collateral as a Trojan Horse: Why Do We Need an LCR (2016)]

Christian Friedrich Carl Buschmann; Christian Schmaltz - Frankfurt School of Finance & Management Gemeinnützige GmbH; University of Aarhus

Abstract: Sovereign bonds are crucial for both sovereign funding and bank funding. Banks borrow in repo transactions against sovereign creditworthiness rather than their own creditworthiness. However, Basel III's current LCR does not protect banks against sovereign bond distress. Accordingly, currently compliant banks can be exposed to a neglected liquidity risk stemming from distressed sovereign debt moving through the collateral channel. This unaccounted risk can translate into a system wide liquidity shock. To gauge the potential damage caused by such a shock, the authors have developed, based on banks' home sovereign exposures and a bundle of simplifying assumptions, a model in which sovereign distress triggers bank distress. **Authors' model shows how deteriorating sovereign collateral can lead to an overall liquidity squeeze and noncompliance with Basel III's liquidity standards.** Since this risk is highly material, we conclude that LCR should address this event, and we call for an altered version - LCR+. **LCR+ is the current LCR adjusted for the liquidity impact of sovereign distress.** As envisioned, LCR+ could have better protected banks against the non-acceptance of Greek and Irish collateral by requiring them to maintain an additional reserve against such an event.

Eurobonds: Legal Design Features (2016)

Michael Waibel - University of Cambridge

Abstract: In light of proposals for Eurobonds, **this article explores central legal features of the Eurobond proposals.** Section I focuses on the development of the law governing sovereign bonds and assesses the potential, but limited role of international law to Eurobonds. Section II considers the equal treatment of bondholders, looking at the two potential sources of non-discrimination obligations for sovereign bonds and their relevance to Eurobonds. Section III turns to **two crucial design features of Eurobonds -** which existing proposals mostly address only in passing: **(i) which legal entity issues Eurobonds; and (ii) what form of debt mutualization Eurobonds involve.**

Evolution or Intelligent Design? The Variation in Pari Passu Clauses

Stephen J. Choi ; G. Mitu Gulati ; Robert E. Scott - New York University School of Law; Duke University School of Law; Columbia University - Law School

Abstract: Standard doctrine presumes that sophisticated parties choose their terminology carefully because they want courts or counterparts to understand what they intended. The implication of this "Intelligent Design" model of behavior is that courts should pay careful attention to the precise phrasing of contracts. Using a study of the sovereign bond market, **the authors examine the Intelligent Design model as applied to standard-form contracting.** In NML v. Argentina, the New York courts attached importance to the precise phrasing of the boilerplate contracts at issue. The decision was promptly condemned in the industry for its supposedly erroneous mode of contract interpretation. Utilizing data on how industry contracting practices responded to the decision, the authors ask whether the market response indicates that parties in fact intended for the small variations in their contract language to embody a particular meaning. **The authors find the data points toward a model closer to random evolution rather than intelligent design.**

Puerto Rico's Debt Dilemma and Pathways towards Sovereign Solvency (2016)

Stephen Park ; Tim R Samples - University of Connecticut - School of Business; University of Georgia - Terry College of Business

Abstract: Puerto Rico, as a quasi-sovereign U.S. territory, is confronting a debt crisis of unparalleled legal complexity. This article analyzes the collective action problems in sovereign debt finance in the context of Puerto Rico's quasi-sovereign debt dilemma. **The authors examine how sovereign debtors engage with their private creditors in the absence of a formal bankruptcy regime** and show how various legal incentives, imperatives, and constraints shape the degree and form of creditor engagement. Drawing on this conceptual framework, this article analyzes the role of these factors in the market-based debt restructuring by the Puerto Rico Electric Power Authority (PREPA) and hypothesizes how these factors may influence the statutory restructuring process underway under the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA). Despite the idiosyncratic aspects of Puerto Rico's debt crisis, **the potential pathways for debtor-creditor cooperation in Puerto Rico provide valuable insights** on the various ways that law influences debtor-creditor cooperation in sovereign debt finance beyond the enforcement of state-based public regulation and contract-based private legal commitments.

[Restructuring Sovereign Debt after NML v. Argentina] (2016)

Lee C. Buchheit ; G. Mitu Gulati - Cleary Gottlieb Steen & Hamilton LLP - New York Office; Duke University School of Law

Abstract: The decade and a half of litigation that followed Argentina's sovereign bond default in 2001 ended with a great disturbance in the Force. **A new creditor weapon had been uncloaked: The prospect of a court injunction requiring the sovereign borrower to pay those creditors that decline to participate in a debt restructuring ratably with any payments made to those creditors that do provide the country with debt relief.** For the first time holdouts succeeded in fashioning a weapon that could be used to injure their erstwhile fellow bondholders, not just the sovereign issuer. Is the availability of this new weapon limited to the aggravated facts of the Argentine default or has it now moved permanently into the creditors' arsenal? Only time (and future judicial decisions) will tell. In the meantime, however, sovereigns will occasionally find themselves in financial distress and their debts will occasionally need to be restructured. Venezuela already casts this chilly shadow over the sovereign debt market. **If, in a galaxy not too far away, sovereign debt workouts are to have any chance of an orderly completion, a method must be found to neutralize this new weapon.** Judging by the secondary market prices of different series of Venezuelan sovereign bonds, large amounts of money are being wagered that it cannot be done.

[The Pricing of Non-Price Terms in Sovereign Bonds: The Case of the Greek Guarantees] (2016)

Stephen J. Choi ; G. Mitu Gulati - New York University School of Law

Abstract: In March 2012, Greece conducted one of the biggest and most brutal sovereign debt restructurings ever, asking holders of Greek government bonds to take net present value haircuts of near 80 percent. Greece forced acquiescence to its terms from a large number of its bonds by using a variety of legal strong-arm tactics. With the vast majority of Greek bonds, the tactics worked. **There were, however, thirty-six bonds guaranteed by the Greek state, which, because of the weakness of the underlying companies, were effectively obligations of the Greek state. Yet, on these thirty six bonds, even though Greece desperately needed every euro of respite it could get, no restructuring was even attempted.** Why not? The answer we received was that the guarantees escaped the restructuring because their contractual provisions made them much harder to restructure than the ordinary Greek government bonds. **Assuming this contract-based claim to be true, the foregoing, in combination with the Euro area crisis of 2010–2014 throws up an opportunity to test the extent to which markets price legal differences in bond contract terms.** The authors report evidence that the markets did price in at least some of the advantage that guaranteed bonds had over ordinary sovereign bonds in the months immediately prior to the March 2012 restructuring.

Risk Management Models

[Beyond Spreads: Measuring Sovereign Market Stress in the Euro Area] (2016)

Carlos Garcia-de-Andoain; Manfred Kremer - European Central Bank (ECB)

Abstract: In this paper the authors develop a novel composite indicator to measure sovereign bond market stress in the euro area. **The indicator integrates measures of credit risk, volatility and liquidity into an overall measure of sovereign market stress.** An application to the spillover literature suggests that stress mainly originates from a few countries, but that spillover patterns also vary over time.

Institutional Framework

[The Case for an Independent Fiscal Institution in Japan] (2016)

George Kopits - Woodrow Wilson Center

Abstract: In response to the recent financial crisis and the ensuing buildup in public indebtedness, an increasing number of advanced economies have created independent fiscal institutions (IFIs) to improve the quality of public finances and to strengthen the credibility of government policy. A review of Japan's fiscal policymaking over the past decades suggests that **Japan would greatly benefit from establishing an IFI in line with internationally accepted standards of good practice.** Such an institution could help correct critical weaknesses in policymaking and anchor expectations, especially if introduced as part of a fiscal framework with a medium-term perspective.

[Ghana - Economic Management Strengthening Project] (2016)

The World Bank

Abstract: The objective of the Economic Management Strengthening Project is to strengthen the Government of Ghana's institutional capacity for revenue and expenditure management. There are five

components to the project, the first component being strengthening Ghana revenue authority's business intelligence system. The overall objective of this component is to improve tax compliance, integrate income assessment regardless of source and location, simplify the processes, and align with international tax rules. The second component is the Strengthening Debt Management. The objective of this component is to strengthen the MoF's capacity to manage public debt with a high degree of transparency as well as to improve treasury management and forecasting. This component complements PAs 4 and 5 of the DPO. The third component is the strengthening capacity in public investment management. The overall objective is to develop and institutionalize a functional, transparent process for public investment programming that is applied across the Government. Such a process will help to improve the contribution of public investment to growth and economic development in Ghana. The fourth component is the improving the governance of State-owned Enterprises (SOEs). To improve SOE governance, the project will support reforms aimed at (a) consolidating the state's ownership role through an equity study and preparatory work for setting up a single entity responsible for overseeing SOEs; (b) establishing the SOE single entity; and (c) piloting corporate governance improvements in five SOEs. A brief description of each of the subcomponents is provided below, including the activities to be supported by the proposed project. This component complements PAs 6 and 7 under the DPO. Finally, the fifth component is the project management.

Accounting, Transparency and Accountability

A new database on general government debt (2015)

Christian Dembiermont Michela Scatigna Robert Szemere and Bruno Tissot - BIS Bank for International Settlements

Abstract: The authors present a new data set on credit to the general government sector for 26 advanced and 14 emerging market economies. The main benefit of these new BIS series for "public debt" is that they provide data with similar characteristics from across the globe, facilitating cross-country comparisons. Another distinctive feature is that the data set contains series expressed in both nominal and market value terms, allowing for a wide range of analyses. Lastly, the statistical concepts are identical to those underlying the BIS data set on credit to the private non-financial sector, published since 2013. Taken together, the data sets can thus provide a useful picture of the aggregated indebtedness of all non-financial sectors.

Coordination with Other Policies and Operations

Ambiguity and Time-Varying Risk Aversion in Sovereign Debt Markets (2016)

Christoph Grosse Steffen; Maximilian Podstawski - German Institute for Economic Research (DIW Berlin)

Abstract: This paper introduces changes in the level of ambiguity as a complementary source of time-varying risk aversion. The authors show in a consumption-based asset pricing model with simultaneously risky and ambiguous assets that a rise in the level of ambiguity raises investors' risk aversion. The effect is quantified in an application to European sovereign debt markets using a structural VAR to achieve identification in the data. The authors proxy for ambiguity using a measure of macroeconomic uncertainty and decompose empirically credit default swaps (CDS) for Spain and Italy into three shocks: fundamental default risk, risk aversion, and uncertainty. **The authors find that shocks to uncertainty significantly increase international investors' risk aversion, accounting for about one fifth of its variation at a five week horizon, and have a significant and economically relevant impact on sovereign financing premia.**

Monetary Policy

Impact of the asset purchase programme on euro area government bond yields using market news (2016)

Roberto A. De Santis - European Central Bank

Abstract: Assessing the impact of the Asset Purchase Programme (APP) by the European Central Bank (ECB) on euro area sovereign yields is challenging, because the monetary policy announcement in January 2015 was already implicitly communicated to the market in the second half of 2014. Therefore, to identify the APP for the euro area, the authors rely upon Bloomberg news on euro area APP. The econometric results suggest that the impact of APP on euro area long-term sovereign yields is sizeable, albeit the programme was announced at a time of low financial distress. Most of the impact took place before the purchases took place with the vulnerable countries benefiting most.

Macroeconomic effectiveness of non-standard monetary policy and early exit (2016)

Lorenzo Burlon; Andrea Gerali; Alessandro Notarpietro; Massimiliano Pisani - Bank of Italy

Abstract: This paper evaluates the macroeconomic effects of the Euro system's expanded Asset Purchase Programme (APP) under alternative strategies as regards (i) the unwinding of asset positions accumulated under the APP and (ii) communication of current and future paths of the policy rate (forward guidance). To this purpose, the authors simulate a New Keynesian model of the euro area. Our results are as follows. First, as the monetary authority brings forward the selling of long-term sovereign bonds, the stimulus from the APP on inflation and economic activity is correspondingly reduced. In particular, if the bonds are sold immediately after purchases end, the impact on inflation is negligible. Second, if the monetary authority communicates that it will hold the policy rate constant for one year instead of two, the APP is less effective, and the inflation increase is halved. Third, the subdued impact of the APP associated with an early exit from the programme delays the return to a standard monetary policy regime.

Fiscal Policy and Budget Management

Analyzing and managing fiscal risks - best practices (2016)

IMF - International Monetary Fund

Abstract: IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. **The report highlights countries which should make greater use of probabilistic forecasting methods when setting long-run objectives and medium-term targets for fiscal policy.** The paper illustrates how simple probabilistic tools can be used to map the uncertainty around medium-term trajectories for public debt. In combination with fiscal stress tests, these tools can provide valuable information regarding the probabilities that a country will stay within the debt ceilings embedded in their fiscal rules.[…]

Exploring risk-adjusted fiscal sustainability analysis for Asian economies (2016)

George Kopits Benno Ferrarini and Arief Ramayandi - ADB Asian Development Bank

Abstract: The paper explores risk-based fiscal analytical approaches to complement a standard debt sustainability analysis when applied under conditions of risk and uncertainty. To outline a possible road map for risk-adjusted fiscal sustainability analysis, the paper first examines the types of vulnerability faced by different emerging economies in Asia and reviews a range of stochastic methods that attempt to explicitly incorporate risk in their analysis. Drawing on international experience, authors note that the usefulness of applying a stochastic approach hinges on policy makers' capacity to identify the sources and extent of risks in assessing fiscal sustainability, which should then allow them to simulate the impact of a hypothetical corrective action on the baseline trajectory of debt or net worth and on its stochastic distribution, including fat-tail risks of default.

Fiscal Policy after the Crisis - Workshop Proceedings (2016)

Matteo Salto - European Commission

Abstract: This paper presents the proceedings of the annual Public Finance Workshop organised by the Directorate-General for Economic and Financial Affairs in Brussels on 19 January 2016 in relation with the publication of its Public Finance in EMU 2015 Report. After the double-dip recession between 2009 and 2013, growth is gradually returning to the EU and the euro area but it is still subject to downside risks. On the nominal side, both inflation and interest rates remain very low, thereby curtailing the stabilisation function of monetary policy. **After years of fiscal consolidation, budget deficits have been reduced significantly in most Member States.** Nevertheless, the crisis has taken its toll on the societies of several Member States and left us with the legacy of high public-debt ratios and increased social challenges. The workshop discusses the best options for fiscal policy in such an environment. It was organised in two sessions: Session 1: "Fiscal policy in a low-inflation context", and Session 2: "Fiscal policy after the crisis". The proceedings display the high quality contributions that were presented in each of these sessions and the discussions that followed.

Fiscal Policy with Limited-Time Commitment (2016)

Alex Clymo; Andrea Lanteri - University of Amsterdam, Duke University

Abstract: In this paper the authors consider models where the Ramsey-optimal fiscal policy under Full Commitment (FC) is time-inconsistent and define a new notion of optimal policy, Limited-Time Commitment (LTC). Successive one-period lived governments can commit to future plans over a finite horizon. The authors provide a sufficient condition on the mapping from finite policy sequences to allocations, such that LTC and FC lead to the same outcomes. The authors then show that

this condition is verified in several existing models, allowing FC Ramsey plans to be supported with a finite commitment horizon (often a single period). The authors relate the required degree of commitment to the economic environment: in economies without capital, the minimum degree of commitment required is given by the government debt maturity; in economies with capital and government balanced-budget constraints, the required commitment is given by the horizon over which the budget has to be balanced. Finally, the authors solve numerically for the LTC equilibrium of an economy where the equivalence result fails and show that a single year of commitment to capital taxes provides substantial welfare gains relative to the No-Commitment time-consistent policy.

Long-Term Fiscal Sustainability in Advanced Economies (2016)

Alan J. Auerbach - University of California

Abstract: With the Great Recession leaving nearly all advanced economies with substantially higher debt–gross domestic product ratios, **this paper re-evaluates the long-term fiscal sustainability of these economies based on current estimates of their current-policy fiscal trajectories.** Through measuring fiscal imbalance, the authors find that for many countries, short-term fiscal measures such as the debt–gross domestic product ratio and current budget deficits as a share of gross domestic product bear little relationship to the sustainability of policy. **The longer-term challenges these countries face are related much more to the future fiscal challenge of growing primary deficits, associated with the cost of providing pensions and health care in the face of growing old-age dependency ratios.** While focusing on managing the short-term debt burden may help avoid crises like the one being played out in Greece, attention and policy actions must eventually turn to the longer-term fiscal problem.

The Design of Fiscal Reform Packages : Insights from a Theoretical Endogenous Growth Model (2016)

Andrew Hodge - International Monetary Fund

Abstract: This paper studies the impact on growth, welfare, and government debt of fiscal reform packages in a theoretical model drawing together three key features of the endogenous growth literature: (i) investment in technology (in the form of human capital) offsets diminishing marginal productivity of private capital, allowing for perpetual growth in output per capita; (ii) changes in investment behavior because of cuts to distortionary tax rates impact long-run growth; and (iii) public capital has a role influencing total factor productivity and growth. A quantitative simulation using reasonable parameter values suggests that modest capital and/or labor income tax cuts and public investment increases have significant positive effects on consumer welfare but small effects on per capita income growth, where fiscal costs are offset by reductions in unproductive government spending. Capital income tax cuts and public investment increases continue to boost welfare when offset by consumption tax rises (rather than spending cuts), although the welfare benefits of modest labor income tax cuts are outweighed by the costs of a compensating consumption tax increase.

The Fiscal Multiplier in Small Open Economy : The Role of Liquidity Frictions (2016)

Jasmin Sin - International Monetary Fund

Abstract: This paper studies the fiscal multiplier using a small-open-economy DSGE model enriched with financial frictions. It shows that the multiplier is large when frictions are present in domestic and international financial markets. The reason is that in the model government bonds are more liquid than private financial assets and that entrepreneurs face liquidity constraints. **A bond-financed fiscal expansion eases these constraints and stimulates investment and hence growth.** This mechanism, however, breaks down under the assumption of perfect international capital mobility, suggesting that conventional models which ignore the presence of frictions in international capital markets tend to underestimate the fiscal multiplier.

The Supply of 'Safe' Assets and Fiscal Policy (2016)

Ludger Schuknecht - Bundesministerium der Finanzen

Abstract: This study looks at the interrelationship between fiscal policy and safe assets as there is surprisingly little analysis about this beyond fleeting references. **The study argues that from a certain point more public debt will not "buy" more safety: countries face a kind of "safe-assets Laffer curve" with a maximum amount of safe assets at some level of indebtedness.** The position and "stability" of this curve depend on a number of national and international factors, including the international risk appetite and, as a more recent factor, QE policies by central banks. The study also finds evidence of declining safe assets as reflected in government debt ratings.

A Probabilistic Approach to Fiscal Space and Prudent Debt Level : Application to Low-Income Developing Countries (2016)

Olumuyiwa S Adedeji ; Calixte Ahokpossi ; Claudio Battiati ; Mai Farid - International Monetary Fund ; Università degli studi Roma "Tor vergata"

Abstract: What constitutes fiscal space or a prudent level of debt to conduct countercyclical policy while ensuring debt sustainability? This paper addresses the question by exploring the relationship between debt dynamics, and the probabilistic distribution of the primary balance and the effective interest rate. **This proposed approach is useful in situations where the lack of relevant data makes it difficult to estimate detailed fiscal reaction functions.** Applying this approach to Low-Income Developing Countries (LIDCs) and based on various debt ceiling assumptions, the authors find that about 60 percent of these countries presently have fiscal policy space to address adverse shocks, subject to the availability of domestic and external financing. Countries with strong institutional capacity tend to have more fiscal space, and countries with weak institutional capacity, mostly countries in conflict and fragile states, tend to lack fiscal space.

Fiscal Sustainability: Conceptual, Institutional, and Policy Issues (2016)

Marek Dabrowski - CASE – Center for Social and Economic Research

Abstract: Since 2008, the world economy has been facing the consequences of the global financial crisis. As a result, many economic policy paradigms have been revised, and this process is far from complete. The policy area, which needs a fundamental rethinking (especially in advanced economies), relates to the role of public finance and fiscal policy in ensuring economic growth and financial stability. **The primary task will be to develop a new analytical approach and detailed indicators, which are necessary to provide a correct diagnosis and effective recommendations.'** What are the "safe" levels of budget deficit and public debt during "normal" or "good" times? Is there a single norm of fiscal safety?

Optimal Debt Policy Under Asymmetric Risk (2016)

Julio Escolano ; Vitor Gaspar - The International Management Group - IMG ; International Monetary Fund

Abstract: In this paper the authors show that, most of the time, smooth reduction in the debt ratio is optimal for tax-smoothing purposes when fiscal risks are asymmetric, with large debt-augmenting shocks more likely than commensurate debt reducing shocks. Asymmetric risks are a feature of 200 years of data for the U.S. and the U.K.: rare but recurrent large surges of the debt-to-GDP ratio, followed by very gradual but persistent declines over long periods. More informal evidence from many other countries suggests that asymmetry is a general feature of fiscal shocks. The gradual smooth reduction in the public debt to GDP ratio is not a response to past developments. Instead it is optimal given recurrent fiscal risks and the empirical characteristics of fiscal shocks. The behavior of the debt-to-GDP ratio in the U.K. and the U.S. seems roughly compatible with the prescriptions of the tax-smoothing model.

Optimal Public Debt Redux (2016)

Santanu Chatterjee ; John Gibson ; Felix K. Rioja - University of Georgia ; Georgia State University

Abstract: In this paper the authors examine the role played by government investment in infrastructure in determining the optimal quantity of public debt in a heterogenous agent economy with incomplete insurance markets. Calibrating our model to the key aggregate and distributional moments of the U.S. economy, the authors show that, (i) the inclusion of infrastructure; and (ii) transitional dynamics between stationary states critically affect the characterization of the optimal level of public debt. Welfare comparisons between stationary equilibria indicate that it is optimal for the government to accumulate assets (public surplus). However, once transitional dynamics are accounted for and infrastructure is included in the model, the optimal share of public debt is positive and close to the current level of public debt in the U.S. These contrasting results underscore a previously ignored channel through which public investment and tax policies can generate differential trade-offs for the precautionary savings motive for households in the short run and long run. Our results also indicate that previous work in this area, by ignoring public investment, may have significantly over-estimated the optimal level of public debt for the United States.

Subnational Bond Markets

Impacts of Sovereign Rating on Sub-Sovereign Bond Ratings in Emerging and Developing Economies (2016)

Sanket Mohapatra, Manabu Nose, Dilip Ratha - Indian Institute of Management, International Monetary Fund, World Bank

Abstract: This paper explores bond-level, issuer-level, and macro-level conditions that affect the distance between sovereign credit rating and sub-sovereign debt ratings. Over three-quarters of rated foreign-currency sub-sovereign bonds issued during 1990–2013 in 47 emerging and developing countries were rated at or below the corresponding sovereign rating, thus confirming the prevalence of a sovereign ceiling. For bonds rated below the sovereign ceiling, a Tobit regression shows strong sovereign-corporate links for financial firms, publicly-owned firms, and local government entities. International bonds tend to be rated closer to the sovereign rating during riskier global financial conditions. Well-developed domestic financial markets also tend to be related to a smaller distance, likely because of stronger macro-financial links for financial issuers. About 11 to 26 percent of the bonds had ratings higher than the sovereign rating, which was achieved mainly through securitization structures. This observation is confirmed using a double-hurdle estimation that accounts for bond and firm characteristics and macroeconomic conditions. The sovereign-corporate rating relationship became significantly stronger at the peak period of the 2008-09 global financial crisis, and appears to have weakened in the subsequent years.

The Law of China's Local Government Debt Crisis: Local Government Financing Vehicles and Their Bonds (2016)

Donald C. Clarke - George Washington University Law School

Abstract: Local government financing vehicles ("LGFVs") — companies capitalized and owned by local government and established for the purpose of raising funds for municipal infrastructure construction — **emerged in China in the 1980s as a response to the severe constraints on indebtedness by local governments themselves.** The mushrooming of their number and indebtedness has sparked fears about their ability to repay the debt and the consequences of a default. In addition to taking on bank debt, a number of LGFVs have also issued bonds. While observers have questioned the value of collateral typically offered as security for the bonds, we know of no extensive analysis to date of the legal quality of the collateral: what exactly are the bondholders being promised, and what is the status of those promises in the Chinese legal system? This article is an attempt to answer that question, using data from two hand-collected samples of LGFV bond prospectuses from different regions in China in two different time periods. [...]

Public Debt and Private Firm Funding: Evidence from Chinese Cities (2016)

Yi Huang ; Marco Pagano ; Ugo Panizza - Graduate Institute of International and Development Studies; University of Naples Federico II

Abstract: In China local public debt issuance between 2006 and 2013 crowded out investment by private manufacturing firms by tightening their funding constraints, while it did not affect state-owned and foreign firms. Using novel data for local public debt issuance, the authors establish this result in three ways. First, local public debt is inversely correlated with the city-level investment ratio of domestic private manufacturing firms. Instrumental variable regressions indicate that this link is causal. Second, local public debt has a larger negative effect on investment by private firms in industries more dependent on external funding. Finally, in cities with high government debt, firm-level investment is more sensitive to internal funding, also when this sensitivity is estimated jointly with the firm's likelihood of being credit-constrained. Altogether these results suggest that, by curtailing private investment, the massive public debt issuance associated with the post-2008 fiscal stimulus sapped long-term growth prospects in China.

Contingent Liabilities

Colombia : Policy Strategy for Public Financial Management of Natural Disaster Risk (2016)

The World Bank

Abstract: Disasters resulting from natural hazards represent an important challenge for Colombia's fiscal sustainability and stability. **Colombia is one of the countries with the highest recurrence rate of disasters caused by natural hazards in Latin America.** As the country's population and economy continue to grow, so will the economic losses resulting from such events, an average of 600 disaster events are reported each year. Colombia's rate of economic growth is increasing the base of assets exposed to disaster risks, which may lead to significant increases in losses, particularly if investments in new assets are not accompanied by plans for mitigating disaster risk. **The Government of Colombia recognizes the importance of mitigating these events and has taken several steps to mainstream disaster risk management into its policy and programs,** as evinced by the National Development Plan, 'prosperity for all 2010-2014' and the Ministry of Finance and Public Credit's (MHCP) Strategic Plan for the same period. The MHCP is committed to developing strategies for reducing its contingent liabilities in relation to disasters and to

managing the fiscal risk resulting from these events. This document presents the priority policy objectives that have been established to assess, reduce, and manage fiscal risk due to natural disasters. It also describes the MHCP's efforts to progress its policy objectives in the long term. These policy objectives represent the MHCP's ex-ante policy framework regarding management of financial and fiscal disaster risk.

Public Debt in Macroeconomic Analysis

IMF survey : public debt in low-income countries: opportunities and vulnerabilities (2016)

Amr Hosny and Said Bakhache - International Monetary Fund (IMF)

Abstract: More diverse financing sources can raise new opportunities but can also pose risks, said a joint IMF-World Bank report on public debt vulnerabilities in low-income countries. While the share of low-income countries at high risk fell by almost half between 2007 and 2013, debt vulnerability has actually increased in the past two years. According to the report, which looks at 74 low-income countries, public debt trends have changed significantly over the past decade. Debt relief programs, strong growth, and high demand for commodities, drove the average debt-to-GDP ratio down from 66 percent in 2006 to around 48 percent at end-2014. […]

Bond risk premia, macroeconomic factors and financial crisis in the euro area (2016)

Juan Angel Garcí-a; Sebastian E. V. Werner - European Central Bank; Louvain School of Management

Abstract: This paper investigates the power of macroeconomic factors to explain euro area bond risk premia using (i) a large dataset that captures the nowadays data-rich environment (ii) the Elastic Net variable selection. The authors find that macroeconomic factors, in particular economic activity and sentiment indicators, explain 40% of the variability of risk premia before the crisis, and up to 55% during the financial crisis, and both for core countries (from 40% to 60%) and periphery countries (from 35% to 44%). Moreover, macroeconomic factor models clearly outperform financial indicators like the CP-factor and credit default swap (CDS) premia, even in periods of significant market turbulence.

Sovereign Debt Restructuring and Growth (2016)

Lorenzo Forni ; Geremia Palomba ; Joana Pereira ; Christine J. Richmond - International Monetary Fund

Abstract: This paper studies the effect of sovereign debt restructurings with external private creditors on growth during the period 1970-2010. The authors find that there are bad and good (or not so bad) debt restructurings for growth. While growth generally declines in the aftermath of a sovereign debt restructuring, agreements that allow countries to exit a default spell (final restructurings) are associated with improving growth. The impact can be significant. **In general, three years after restructuring, growth is about 5 percent lower compared to countries that did not face restructuring over the same period.** The exception is for final restructurings, which result in positive growth in the years immediately after the restructuring. Final restructurings tend to be better for growth because they reduce countries' debt, with the strongest effect for countries that exit restructurings with relatively low debt levels.

Sovereign Risk and Deposit Dynamics : Evidence from Europe (2016)

David A. Grigorian ; Vlad Manole - International Monetary Fund; Rutgers University

Abstract: The unprecedented expansion of sovereign balance sheets since the global financial crisis has given a new meaning to the term sovereign risk. Developments in Europe since early 2010 presented new challenges for the functioning of private banks in an environment of heightened sovereign risk. **This paper uses an innovative way of measuring the perception of sovereign risk and its impact on deposit dynamics during 2006–11.** Using an extension of a common market discipline framework, it shows that exposure to sovereign risk may have limited the ability of banks in Europe to attract deposits. The results are robust to inclusion of conventional measures of bank performance and the sector-wide holdings of foreign sovereign debt.

The Dynamics of Sovereign Debt Crises and Bailouts (2016)

Francisco Roch ; Harald Uhlig - International Monetary Fund; University of Chicago

Abstract: Motivated by the recent European debt crisis, **this paper investigates the scope for a bailout guarantee in a sovereign debt crisis**. Defaults may arise from negative income shocks, government impatience or a "sunspot"-coordinated buyers strike. The authors introduce a bailout agency, and characterize the minimal actuarially fair

intervention that guarantees the no-buyers-strike fundamental equilibrium, relying on the market for residual financing. The intervention makes it cheaper for governments to borrow, inducing them borrow more, leaving default probabilities possibly rather unchanged. The maximal backstop will be pulled precisely when fundamentals worsen.

Global economic prospects : divergences and risks (2016)
The World Bank

Abstract: Global growth prospects have deteriorated in 2016. Emerging market and developing economies are facing increased external headwinds, including softer growth in advanced economies. Commodity exporters are struggling with particularly challenging conditions, while commodity importers are thus far showing greater resilience.
Global growth is expected to gradually accelerate in 2017-18 but risks to the outlook are increasingly more pronounced. In addition to discussing global and regional economic developments and prospects, this edition of Global Economic Prospects includes two Special Focus essays of critical importance for emerging and developing economies: an analysis of the buildup of private debt in emerging and frontier markets and a quantitative study of uncertainties surrounding global growth. This year marks the 25th anniversary of the Global Economic Prospects. The Global Economic Prospects is a World Bank Group Flagship Report that has, since its inception in 1991, examined international economic developments and prospects, with a special focus on emerging market and developing economies. It has also included analytical essays on a wide range of topical macroeconomic, financial, and structural policy challenges faced by these economies. It is published on a semiannual basis (in January and June). The January edition includes in-depth analyses of topical policy challenges, while the June edition contains shorter analytical essays.

Economic Development in Africa Report 2016 (2016)
United Nations Conference On Trade And Development

Abstract: The Economic Development in Africa Report 2016, subtitled Debt Dynamics and Development Finance in Africa, **examines some of the key policy issues that underlie Africa's domestic and external debt**, and provides policy guidance on the delicate balance required between financing development alternatives and overall debt sustainability.

Web Resources

Primary Market

Islamic economic system promotes balance and sustainability
Green Chip Stocks
The Islamic (Sharia-compliant) economic system is neither pure socialist nor pure capitalist. Instead, it is a system of religious-ethical finance, mixing free trade with charity and ethical oversight. Islamic "bonds" are known as sukuk, and they avoid the traditional interest-paying structure used by Western bonds. Instead, they are sold to investors, who then rent them back to the issuer for a fixed rental fee. The result is a profit-sharing vehicle. It creates an exchange of tangible assets rather than a trade in debt and interest, and is halal under Sharia law. Recently, there's been growth in sukuk for renewable energy projects. Given the massive expansion of solar and wind projects in the Middle East, and the recent talk of Green Sukuk, sustainable energy looks like it's going to break through as the hot spot for this alternative investment vehicle […]

The dealers' dilemma
John Geddie - IFR International Financing Review
European governments have coped admirably with their hefty funding programmes in the crisis years, but there are alarming signs that the primary dealers that have eased this process may be struggling to keep their businesses viable […]

World Bank Approved as the First SDR Bond Issuer in China
The World Bank
The World Bank (International Bank for Reconstruction and Development, IBRD) announced that the People's Bank of China (PBOC) has approved the World Bank's inaugural issue in the Chinese domestic market of bonds denominated in Special Drawing Rights (SDRs). The World Bank is the first entity to receive such approval and it marks the launch of the SDR bond market in the world's second-largest economy.

Multilateral Debt

Morocco : Request for an Arrangement Under the Precautionary and Liquidity Line and Cancellation of the Current Arrangement-Press Release; Staff Report; and Statement by the Executive Director for Morocco - Country Report No. 16/265

International Monetary Fund

As the current Precautionary and Liquidity Line (PLL) arrangement comes to an end in July 2016, the authorities have requested a successor arrangement. They have not drawn on the past two arrangements and have successfully reduced fiscal and external vulnerabilities in recent years. [...]

United Republic of Tanzania : Staff Report for the 2016 Article IV Consultation and Fourth Review Under the Policy Support Instrument-Press Release; Staff Report; [...] Country Report No. 16/253

International Monetary Fund

This 2016 Article IV Consultation highlights that growth in Tanzania has remained strong and inflation moderate during the past two years. Real GDP grew by 7 percent in 2015, with activity particularly buoyant in the construction, communication, finance, and transportation sectors.[...]

Sierra Leone : 2016 Article IV Consultation and Fifth Review Under the Extended Credit Facility and Financing Assurances Review and Request for an Extension of the Extended Credit Facility-Press Release; Staff Report; [...] - Country Report No. 16/236

International Monetary Fund

After a dozen years of strong growth, benefiting from both improved polices and booming commodity prices, Sierra Leone has been hit by twin shocks since mid-2014: (i) the Ebola epidemic and (ii) sharply lower iron ore prices. As a result, economic outcomes have deteriorated sharply. Growth declined dramatically from 4.6 percent in 2014 to -21.1 percent in 2015. [...]

France : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for France -Country Report No. 16/227

International Monetary Fund

This 2016 Article IV Consultation highlights that economic recovery in France is solidifying. The economy is projected to expand by 1.5 percent in 2016, primarily driven by strong consumer spending. There are also signs of a cyclical recovery in investment, and the slump in residential construction appears to be bottoming out. By contrast, net exports are declining as demand from trading partners has slowed. Private sector job creation has remained lackluster, and the unemployment rate has hovered at about 10 percent.[...]

Iraq : First and Second Reviews of the Staff-Monitored Program and Request for a Three-year Stand-By Arrangement-Press Release; Staff Report; and Statement by the Executive Director for Iraq - Country Report No. 16/225

International Monetary Fund

This paper discusses Iraq’s First and Second Reviews of the Staff-Monitored Program (SMP) and Request for a Three-Year Stand-By Arrangement. The oil price decline has resulted in a massive reduction in Iraq’s budget revenue, pushing the fiscal deficit to an unsustainable level. [...]

Russian Federation : Staff Report for the 2016 Article IV Consultation-Press Release; and Staff Report - Country Report No. 16/229

International Monetary Fund

This 2016 Article IV Consultation highlights that the Russian economy contracted by 3.7 percent in 2015 owing to falling oil prices and the quasi closure of international financial markets to Russian entities. The economic contraction is nonetheless shallower than previous recessions as a stronger external position and the authorities’ economic package cushioned the shocks, helped restore confidence and stabilized the financial system. [...]

The Bahamas : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for The Bahamas - Country Report No. 16/224

International Monetary Fund

This 2016 Article IV Consultation highlights that economic growth in The Bahamas is estimated to have stalled in 2015, as a modest increase in air tourism arrivals was not sufficient to offset a contraction in domestic demand and weak exports of goods. [...]

United States : 2016 Article IV Consultation-Press Release; and Staff Report - Country Report No. 16/226

International Monetary Fund

This 2016 Article IV Consultation highlights that the United States is now in its seventh consecutive year of expansion. The unemployment rate has fallen to 4.9 percent, and household net worth is close to precrisis peaks. Nonetheless, the economy has gone through a temporary growth dip in the last two quarters. [...]

Central African Republic : 2016 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility-Press Release; Staff Report; and Statement by the Executive Director for the Central African Rep - Country Report No. 16/269

International Monetary Fund

The Central African Republic (C.A.R.) is at a turning point, with the return to democratic institutions since April 1, 2016 offering prospects of ending the cycle of violent conflicts and political instability that has beleaguered the country since end-2012 and also engineering a turnaround to rebuild its economy, reduce poverty, and exit progressively from fragility.[...]

Republic of Serbia : Fourth and Fifth Reviews Under the Stand-By Arrangement and Rephasing of the Arrangement-Press Release; Staff Report; and Statement by the Executive Director for Republic of Serbia - Country Report No. 16/287

International Monetary Fund

The program is delivering good results, particularly in achieving key macroeconomic objectives. Significant fiscal tightening and efforts to address structural weaknesses have helped boost confidence and restore growth. This has been supported by a healthy credit recovery on the back of substantial monetary policy easing as inflation has been persistently low. Notwithstanding this progress, public debt remains elevated and delays continue in some structural reforms, in part due to recent elections.

Repo Market

Ahead of the curve: repo faces paralysis

Andy Hill - Investment & Pensions Europe (IPE)

As the repo market faces an uncertain future, the author looks at the ramifications of increased regulation and liquidity demands. The European repo market is in transformation. A combination of Basel III capital and liquidity requirements, monetary policy, and regulatory initiatives is driving this shift.The leverage and supplementary leverage ratios have increased the cost of holding repos to the point where netting (or matched-book trading) is necessary to remain profitable. Accordingly, banks' provision of repo pricing and liquidity has become a value-added service for clients, subsidised by profitable businesses. The concern is that the reduced effectiveness of the European repo market will have repercussions for capital markets and the real economy […]

Legal Issues and Conventions

Puerto Rico defaults on over $800M of constitutionally protected debt

Luis J.Valentin - Caribbean Business

Puerto Rico will cover only about $150 million of the $958 million in constitutionally guaranteed debt, according to the government.In all, it will miss $911 million out of the $2 billion in debt-service payments due […]

Sovereign Debt: law that approves payment to holdouts

Ricardo W.Beller Enrique V.Veramendi Agustina Maria Ranieri - Marval O'Farrell & Mairal

The bill submitted by the executive branches to allow the payment of the sovereign debt in default held by bondholders who did not accept the exchange offers made in the debt restructurings of 2005 and 2010 has been approved by the Federal Congress and published on the Official Gazette on April 1st, 2016.

Risk Management Models

Designing a better shock absorber in South Africa

The World Bank Treasury

South Africa partnered with the World Bank's Government Debt and Risk Management (GDRM) program, a World Bank Treasury initiative sponsored by the Swiss State Secretariat for Economic Affairs (SECO), to develop better benchmarks for managing South Africa's risk exposure and find a more suitable modeling tool to analyze the cost and risk factors in their debt portfolio.

Accounting, Transparency and Accountability

Reporting of government deficits and debt levels in accordance with Council Regulation (EC) N° 479/2009, as amended by Commission Regulation (EU) No 220/2014 and the Statements contained in the Council minutes of 22/11/1993

European Commission - Eurostat
Set of reporting tables revised to comply with Council Regulation (EC) N° 479/2009, as amended by Commission Regulation (EU) No 220/2014

DMOs Programmes and Reports

[Brazilian Primary Balance - May 2016]
Brazil National Treasury Secretariat
The National Treasury of Brazil has released a new issue of the monthly report National Treasury Balance. In May 2016, Central Government primary balance was a R$ 15.5 billion deficit. See the monthly report and the historical series.

JGB Newsletter - July 2016
Debt Management Policy Division - Ministry of Finance of Japan
The Ministry of Finance Japan publishes the monthly Newsletter about the Japanese Government Bonds. In the July issue, the 42nd meeting of the Advisory Council on Government Debt Management and the breakdown by JGBs (including T-Bills) Holders (end of Mar.2016).

Uruguay Quarterly Reports
Debt Management Unit - Uruguay MoF
The 37th issue of our quarterly report on the Uruguayan economy ("Uruguay in Focus") and the 29th issue of our quarterly Sovereign Debt Report are online. Highlights: Uruguay successfully launched a dual-tranche reopening of its dollar-denominated bonds maturing in 2027 and 2050, issuing a total of USD1.147mn. The transaction was heavily oversubscribed and attained historically low interest rates. […]

Monetary Policy

Blame the Fed for global market turmoil in 2016
Christopher Whalen - The National Interest
The cause of current discord is not China, but rather the U.S. Federal Reserve. Not only has the Fed created the current unstable market situation by keeping dollar interest rates too low for too long, but the fact that the Fed is out of step with other major central banks is causing markets an extra degree of anxiety. Another reason that the U.S. and EU markets are reacting badly to the old-fashioned securities run underway in China is the fact that global banks cannot deploy capital to support these markets for their own account.[…]

Global central banks continue to distort markets
Stewart Richardson - RMG wealth management LLP
It appears that central banks have distorted financial markets to such a degree that there really is very little fundamental value in buying many mainstream assets at this juncture. And yet, analyst have observed markets some rallying strongly on hopes for more central bank stimulus – policies that have failed to generate robust economic growth and only seems to be increasing inequality which seems to be at the heart of the disgruntled electorate in many developed countries. The main question has to be whether markets have started a multi week rally similar to that seen between February and April when central banks unleashed another round of stimulus.[…]

Fiscal Policy and Budget Management

Kids born in 2016 hold $42,000 in public debt
Mollie McNeill - The Heritage Foundation
The national debt per person is the nation's publicly held debt divided by the U.S. population. While this is not to suggest that every American is responsible for paying this much of the national debt, it puts a real burden on individuals. Federal debt, so large that it approaches the size of a nation's economy, slows growth and reduces personal incomes. A child born this year bears a $42,000 share of the publicly held federal debt. Before these children even take their first steps, Washington has made decisions that reduce their future economic opportunity.[…]

Public Debt in Macroeconomic Analysis

2016 CRO risk report
Alan Milligan - Journalist
To start on a positive note, the global service economy is the most robust it has been since the Great Recession of 2008. Credit Institutions are clearly less fragile today than they were in the lead up to 2008, with

international regulatory stress testing and liquidity risk policies leading the way. However, the global economic recovery has been significantly below trend compared with the previous three recession-recovery periods and as we head through 2016 the world faces greater asset volatility and material macroeconomic and geopolitical headwinds.[…]

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5 expert predictions for the global economy in 2016

James McBride - The Atlantic monthly

The world will face economic challenges on multiple fronts in 2016. As the U.S. Federal Reserve begins its monetary tightening, Europe is struggling to manage migrant and debt crises, China's financial stability is in doubt, and emerging economies are increasingly fragile. The global economy "could be doing much worse," writes the Harvard economist Kenneth Rogoff, who is a senior fellow at the Council on Foreign Relations (CFR). Low oil prices and weak currencies are keeping the European and Japanese economies afloat, but Rogoff warns of "a slowing Chinese economy, collapsing commodity prices, and the beginning of the U.S. Federal Reserve's rate-hiking cycle."[…]

European economic guide

The Economist

The Economist web interactive overview of European GDP, debt and jobs.

GCC economies face triple threat in 2016

M R Raghu - Marmore (Kuwait)

The year 2015 marked one of the worst years for oil prices and resulting government revenues; the backbone on which most of the Gulf Cooperation Countries (GCC) economies ride. For the year now taking shape, three main risks loom for the GCC economies: oil's continuing slide, the draining of liquidity, and China slowdown. In the debt markets, weaker bidding by Gulf banks is causing corporate spreads to widen gradually. Wider spreads demanded by bond investors implies a significant deterioration of liquidity in the banking sector, which adversely affects the loan market. […]

Africa in the News: UNCTAD releases report on African debt, the ANC seeks coalition partners, Zambia publishes election results

Mariama Sow - The Brookings Institution

How should African countries finance their efforts to meet the post-2015 development agenda objectives without increasing their debt to unsustainable levels? A report launched by the United Nations Conference on Trade and Development (UNCTAD), the Economic Development in Africa Report 2016: Debt Dynamics and Development Finance in Africa, argues that harnessing all financing options—external and domestic debt, as well as complementary modalities—is important for obtaining the required funding for achieving the region's development targets, which amounts to between $600 billion to $1.2 trillion according to recent estimates.

Bahrains Economic Outlook- July 2016

The World Bank

Despite plans to curb spending, Bahrain is expected to continue to run significant fiscal deficits over the next few years, currently estimated at 16.8% of GDP in 2016.

Guinea : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Guinea - Country Report No. 16/261

International Monetary Fund

The economy is recovering from the effects of the Ebola epidemic but is facing severe headwinds from the decline in commodity prices. The authorities' economic strategy for 2016–22 rests on large investments in electricity, transport, and agriculture, and aims at unlocking shared and broad-based growth. [...]

Japan : 2016 Article IV Consultation-Press Release; and Staff Report - Country Report No. 16/267

International Monetary Fund

Abenomics needs a significant policy upgrade to regain traction. Abenomics initially made good progress in revitalizing the economy, but the targets for growth, inflation, and the primary balance remain out of reach under current policies. [...]

Republic of the Marshall Islands : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Republic of the Marshall Islands - Country Report No. 16/260

International Monetary Fund

This 2016 Article IV Consultation highlights that the economy of the Marshall Islands is estimated to have expanded by about 0.5 percent in FY2015 (ending September 30), as the fishery sector recovered. Following a moderate inflation of 1.1 percent in FY2014, headline inflation dropped to –2.2 percent in FY2015 amid falling oil and utility prices. The fiscal balance is estimated to have recorded a surplus of about 3 percent of GDP in FY2014–15, owing to record-high fishing license fees. [...]

Singapore : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Singapore - Country Report No. 16/263

International Monetary Fund

Singapore's economy continues to perform well, although growth has slowed reflecting a combination of structural and cyclical factors: population aging, restrictions on foreign worker inflows, and slow productivity growth, and a difficult external environment, including the trade growth deceleration and the negative impact on domestic manufacturing of lower oil prices. [...]

Ireland : 2016 Article IV Consultation and Fifth Post-Program Monitoring-Press Release; and Staff Report

International Monetary Fund

This 2016 Article IV Consultation highlights that the rebound of the Irish economy has been exceptional. High frequency indicators suggest that growth momentum has continued in 2016. Solid job creation has reduced the unemployment rate below 8 percent. Inflation has hovered around zero as low commodity and food prices more than offset rising cost of services, particularly housing rents.[...]

United Arab Emirates : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the United Arab Emirates - Country Report No. 16/251

International Monetary Fund

This 2016 Article IV Consultation highlights that non-oil economic activity in the United Arab Emirates slowed to 3.7 percent in 2015. Negative effects on overall growth were partially offset by the increase in oil production. Despite the strong fiscal policy response to adjust to lower oil prices, the fiscal balance turned to a deficit of 2.1 percent of GDP, while the current account surplus declined to 3.3 percent of GDP.[...]

St. Kitts and Nevis : 2016 Article IV Consultation-Press Release; and Staff Report -Country Report No. 16/250

International Monetary Fund

This 2016 Article IV Consultation highlights that economy of St. Kitts and Nevis continued its strong growth at about 5 percent, recording the strongest growth in the region during 2013–15. Strong growth has been underpinned by construction and tourism sector activity and their favorable spillovers on the rest of the economy, supported by surging inflows from its Citizenship-by-Investment (CBI) program.[...]

Dominica : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Dominica - Country Report No. 16/244

International Monetary Fund

After tropical storm Erika in August 2015, the government has focused on infrastructure rehabilitation, social support, and the identification of financing for reconstruction. The approval of a disbursement under the RCF (SDR 6.15 million) in October 2015 has supported immediate financing needs while providing time to specify measures consistent with the fiscal consolidation targets committed to restore fiscal sustainability.[...]

Liberia : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Liberia - Country Report No. 16/238

International Monetary Fund

The Article IV discussions focused on policies to support resilience and growth on the background of a double shock hitting the Liberian economy. Just when the country was finally recovering from the Ebola epidemic, the decline in commodity prices, combined with The Article IV discussions focused on policies to support resilience and growth on the background of a double shock hitting the Liberian economy.[...]

St. Vincent and the Grenadines : 2016 Article IV Consultation-Press Release; Staff Report - Country Report No. 14/243

International Monetary Fund

Growth is recovering after the setbacks from the end-2013 floods and sluggish external demand post global financial crisis. While real GDP contracted by 0.2 percent in 2014, it is estimated to have grown by 1.6 percent in 2015, led by recovering tourism inflows and rebounding construction. Public debt—74 percent of GDP at end-2015—has steadily increased since 2008, owing largely to the impact of the global financial crisis, construction of the new international airport, and rehabilitation spending in response to three back-to-back natural disasters.[...]

[Peru : 2016 Article IV Consultation-Press Release; and Staff Report - Country Report No. 16/234]()
International Monetary Fund
This 2016 Article IV Consultation highlights that Peru has successfully navigated the commodity cycle and the 2008–09 global financial crisis, and still leads growth among large Latin American economies. Following a sharp and unexpected drop in 2014, growth picked up in 2015, reaching 3.3 percent largely owing to higher metals production and fishing, and a partial recovery in services and commerce. [...]

[Vietnam : 2016 Article IV Consultation- Press Release; Staff Report; and Statement by the Executive Director for Vietnam - Country Report No. 16/240]()
International Monetary Fund
Growth has been robust with low inflation. Sustaining this good performance and addressing key risks will require a second generation of policy upgrades. A new government took office in 2016 with a commitment to reforms that, if implemented, would place Vietnam in a sound position to achieve its ambitious development goals.

[Barbados : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Barbados - Country Report No. 16/279]()
International Monetary Fund
The economy appears to have turned the corner but a disappointing fiscal outcome has not eased concerns about debt sustainability. After protracted stagnation following the 2008 financial crisis, there was a moderate recovery in 2015 and growth is set to pick up. Notwithstanding adjustment efforts, the budget deficit remained high, mainly reflecting delayed implementation of reforms. The large funding requirements were mostly met by the central bank, the National Insurance Scheme, and growing arrears. Continued large deficits pose risks to the fixed exchange rate.

[Chad : 2016 Article IV Consultation- Press Release; Staff Report; and Statement by the Executive Director for Chad - Country Report No. 16/274]()
International Monetary Fund
Macroeconomic outcomes continue to underperform potential, due to the major impact of two exogenous shocks: the lower oil prices and the elevated regional insecurity. Oil revenues have collapsed to a fraction of their previous level and are expected to only partially and gradually recover. Spending has been significantly retrenched, but liquidity problems abound, and domestic arrears are accruing on a large scale.[...]

[Djibouti : 2015 Article IV Consultation-Press Release; and Staff Report - Country Report No. 16/248]()
International Monetary Fund
Faced with scarcity of resources, Djibouti has pursued a strategy of developing infrastructure to exploit its strategic geographic location so as to foster rapid growth, reduce poverty and create much-needed jobs. Djibouti has had to resort to non-concessional financing, which has raised its external debt. Reform is crucial to generate the revenues needed to return to a sustainable external debt and fiscal path, achieve higher growth, and reduce widespread poverty and unemployment.

[Guatemala : 2016 Article IV Consultation-Press Release; Staff Report; Informational Annex - Country Report No. 16/281]()
International Monetary Fund
Despite a political crisis, linked to the arrest of the former President and other officials on corruption charges, Guatemala's economy has coped well. Growth and the external position have been boosted by low oil prices and strong remittances, while the fiscal deficit had declined. However, progress on social objectives is lagging. There are downside risks from global uncertainties and domestic policy constraints.

[Kingdom of the Netherlands-Curaçao and Sint Maarten : 2016 Article IV Consultation Discussions-Press Release; Staff Report; and Informational Annex - Country Report No. 16/276]()
International Monetary Fund
The currency union of Curaçao and Sint Maarten has important strengths, including a high level of development, good infrastructure, and relatively low public debt. However, preserving these going forward will require surmounting some critical challenges. GDP per capita is already at high-income country levels, but the islands must combat lackluster growth and high unemployment levels by addressing weak competitiveness and improving the investment environment. [...]

Republic of Korea : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Korea - Country Report No. 16/278
International Monetary Fund
After decades of impressive economic progress, Korea's growth has slowed, and the economy is facing a number of structural headwinds, including: unfavorable demographics; heavy export reliance; pockets of corporate vulnerabilities; labor-market distortions; lagging productivity; a limited social safety net; and high household debt. Inequality and poverty are also of concern. On the positive side, Korea has considerable fiscal space to manage these challenges.

The People's Republic of China : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for The People's Republic of China - Country Report No. 16/270
International Monetary Fund
China continues its transition to a sustainable growth path. Rebalancing has progressed on many dimensions, particularly switching from industry to services and from investment to consumption, but less on reining in rapid credit growth. Reforms have advanced impressively across a wide domain, but lagged in some critical areas, and the transition to sustainable growth is proving difficult, with sizable economic and financial volatility. Vulnerabilities are still rising on a dangerous trajectory and fiscal and foreign exchange buffers, while still adequate, are eroding.

Network News

The **What's new on the website** section of the PDM Network site proposes ***a daily selection of Network News on public debt management*** from online newspapers and info providers, as well as the most recent documents and web resources uploaded on the website. Subscribers also receive weekly ***Emerging Sovereign Debt Markets News*** selected by the PDM Secretariat from the ***Thomson Reuters*** **©** information services.

Annual Reports & Guidelines

go to the *"Information Corner"* on www.publicdebtnet.org

Events and Courses

Newly uploaded

18 October 2016; Washington, DC
GDRM Day: Stocktaking Seminar for Participating Countries

19 – 20 October 2016; Washington, DC
8th Sovereign Debt Management Forum: Sovereign debt management in emerging markets: is the party over?

21 August 2016; on line
The State of Economics: Global Financial System and Procyclicality

12 September - 14 October 2016; e-learning courses
Advanced Risk Management (2016)

13 September - 16 September 2016; Christ's College Cambridge, United Kingdom
Government Debt Management: New Trends and Challenges

15 September 2016; e-learning courses
Parliaments and the Budget (Self-paced)

19 September - 21 October 2016; e-learning courses
Fundamentals of Money Creation (2016)

19 September - 21 October 2016; e-learning courses
Fundamentals of the Foreign Exchange Market (2016)

19 September - 21 October 2016; e-learning courses
Principles of Central Bank Reserve Management (2016)

Previously signaled

1 January – 31 December 2016; Several regional sites and online courses
IMF International Monetary Fund Institute for Capacity Development 2016 Training Catalog

26 September - 28 October 2016; Web Based
Global Financial Governance (2016)

3 October - 4 November 2016; on line
Debt Management Performance Assessment (DeMPA) (Facilitated)

7 – 8 November 2016; World Bank, Washington DC - Usa
Sixth Joint BIS-ECB-World Bank Public Investors Conference

Communication Corner

Since 2002, the Italian Treasury - Public Debt Office has been organizing study visits and meetings for foreign delegations coming from emerging and less developed countries, aimed at sharing the Italian experience in sovereign debt management. For further info, please contact **Publicdebtnet.dt@dt.tesoro.it**.

REMINDER…

e-LEARNING COURSE MATERIALS
The PDM network website hosts materials from the e-learning course "**ADVANCED RISK MANAGEMENT**" organized by UNITAR thanks to the authorization of the author, Mr. Enrique Cosio-Pascal.
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

As at 22nd September 2016, the number of total resources of the PDM Network website is 31,165 (of which 23,695 news, 3,384 documents and 2,928 web resources). This newsletter is sent to 608 Subscribers from emerging and advanced countries.

Special thanks

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