PDM NETWORK *Monthly Newsletter*

n. 6/ June 2016

ISSN 2239-2033

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 this is the last monthly edition of the newsletter. As usual, the newsletter will not be released in August. ***From September 2016 onwards, the PDM Network Monthly Newsletter will be published on a bimonthly basis every odd month*** (September, November, January, March, May, July, 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

Primary Market

Information Choice and Amplification of Financial Crises **(2016)**
Toni Ahnert; Ali Kakhbod - Government of Canada - Bank of Canada; Massachusetts Institute of Technology

Abstract: In this paper the authors propose an amplification mechanism of financial crises based on the information choice of investors. Adverse news about the solvency of a debtor raises the value of private information and therefore induces the acquisition of information. Informed investors rely more on private information and refuse to roll over debt more often than

uninformed investors. This amplifies the probability of a debt crisis. To enhance financial stability, a policymaker can use taxes and subsidies to affect information acquisition. The authors also derive implications about the magnitude of amplification and discuss how these can be tested.

Is the Supply of Long-Term Debt Independent of the Term Premia? Evidence from Portugal (2016)

Antonio Afonso; Manish Kumar Singh - University of Lisbon; University of Barcelona

Abstract: An important assumption in the statistical analysis of the financial market effects of the central bank's large scale asset purchase program is that the `long-term debt stock variables were exogenous to term premia'. The authors test this assumption for a small open economy in a currency union over the period 2000M3 to 2015M10, via the determinants of short term financing relative to long-term financing. Empirical estimations indicate that the maturity composition of debt does not respond to the level of interest rate or to the term structure. These findings suggest a lower adherence to the cost minimization mandate of debt management. However, the authors find that volatility and relative market size respectively decrease and increase short-term financing relative to long-term financing, while it decreases with an increase in government indebtedness.

Secondary Market

Is the sovereign debt market efficient? Evidence from the US and German sovereign debt markets (2016)

Bachar Fakhry,Christian Richter - University of Bedfordshire Business School

Abstract: This paper analyses the efficient market hypothesis. It proposes a new method of testing the efficient market hypothesis based on the idea of Shiller (1979). Using a GARCH model, the authors test whether the excess volatility in the German and US sovereign debt markets is an indication of inefficient markets during different periods. The results indicate that omitting structural breaks may lead to wrong results. The authors find that although both debts were efficient during some periods and inefficient during other periods of time. Taking all periods together the financial markets appear to be inefficient. Hence, the general outcome was that both financial markets are not efficient markets.

Pricing sovereign credit risk of an emerging market (2016)

Gonzalo Camba-Méndez; Konrad Kostrzewa; Anna Marszal; Dobromił Serwa - European Central Bank; Narodowy Bank Polski

Abstract: In this paper the authors analyze the market assessment of sovereign credit risk in an emerging market using a reduced-form model to price the credit default swap (CDS) spreads thus enabling us to derive values for the probability of default (PD) and loss given default (LGD) from the quotes of sovereign CDS contracts. The authors compare different specifications of the models allowing for both fixed and time varying LGD, and the authors use these values to analyze the sovereign credit risk of Polish debt throughout the recent global financial crisis. Our results suggest the presence of a low LGD and a relatively high PD for Poland during the crisis. The highest PD is in the months following the collapse of Lehman Brothers. The derived measures of sovereign risk are strongly linked with the level of public debt and with another measure of PD from a structural model. Correlations between our PD values and the CDS spreads heavily depend on the maturity of the sovereign CDS.

Issuing in Foreign Currency

The Impact of Time and Regime on External Debts of Pakistan: An Empirical Study (2016)

Rizwan Raheem Ahmed; Jolita Vveinhardt; Ahmad Nawaz - Indus University; Lithuanian Sports University; Principal Consultant

Abstract: The focus of this research is in the area of Financing/Loans acquired by Pakistan over the decades. This study is very important for forecasting the future of Pakistan’s financial strength. The data was collected from the State Bank of Pakistan, period from 1949 to 2010. The findings from this research provide the evidence that the external debts are growing in a very fast rate, which will create a great hurdle in coming future for Pakistan. The main conclusions drawn from this research is that the external debts are growing at an average rate of 14.40% per year and also demonstrated that if external debts increase by PKR 1 million in a year, in the next year it will increase by PKR 1.155 million. This research recommends that the outstanding debt can be taken care a special attention when fiscal and monetary policies are made in which external debt repayment should be given high importance along with the strict control over corruption. Government must introduce easy trade policies, which may boost up the exports in order to generate balance of trade, which may help in repaying the external debts.

Legal Issues and Conventions

[Pricing Contract Terms in a Crisis: Venezuelan Bonds in 2016] (2016)
Elena Carletti; Paolo Colla; G. Mitu Gulati; Steven Ongena - Bocconi University; Duke University School of Law; University of Zurich

Abstract: As of this writing in June 2016, the markets are predicting Venezuela to be on the brink of default. On June 1, 2016, the 6 month CDS contract traded at about 7000bps which translates into a likelihood of default of over 90%. Our interest in the Venezuelan crisis is that its outstanding sovereign bonds have a unique set of contractual features that, in combination with its near-default status, have created a natural experiment. This experiment has the potential to shed light on one of the long standing questions that sits at the intersection of the fields of law and finance, the question of the degree to which financial markets price contract terms. The authors find evidence to suggest that at least within the confines of a near-default scenario, the markets are highly sensitive to even small differences in contract language.

[Puerto Rico Debt Crisis: Trying to Reconcile Sanchez-Valle with the Puerto Rico Bankruptcy SCOTUS Opinions: Some Preliminary Thoughts] (2016)
Pedro A. Malavet - University of Florida

Abstract: The Supreme Court of the United States issued its long awaited opinion in Sanchez-Valle v. Commonwealth of Puerto Rico last Thursday, June 9, 2016. (Case no. 15-108, 579 U.S. ___ (2016). The six-justice majority ruled, in an opinion authored by Justice Kagan, that although "Puerto Rico today has a distinctive, indeed exceptional status as a self-governing commonwealth" (slip op. at 12) it lacks the "inherent sovereignty" (slip op. at 8) possessed by states and Indian tribes (slip op. at 9) to prosecute criminal offenses. Accordingly, prosecutions for the same criminal acts by both federal and local authorities on the island violate the Double Jeopardy Clause of the Fifth Amendment to the Constitution of the United States. Without referencing the Insular Cases of the 1901 Term, the majority described Puerto Rico's political status after the Spanish American War and the Treaty of Paris that ended it as that of a territorial possession under the Territorial (or Territory) Clause of the Constitution of the United States (U.S. Const., Art. IV, § 3, cl. 2). In cases dating to the early part of the 20th century, the court "reasoned that whereas 'a State does not derive its powers from the Unites States,' a territory does: The Philippine courts 'exert[ed] all their powers by authority of' the Federal Government." (Slip op. at 11, citing Grafton v. United States, 206 U.S. 333, 354 (1907) brackets and internal quotes original). The same rule was applied to Puerto Rico in Puerto Rico v. Shell Co. (P.R.), Ltd., 302 U.S. 253, 265 (1937). In Sanchez-Valle, the Supreme Court concludes that "Puerto Rico's transformative constitutional moment [that created the Commonwealth in 1952] does not lead to a different conclusion." [....]

[Sovereign Debt Restructuring: A Contract Theory Perspective] (2016)
Francis Chukwu - University of Amsterdam

Abstract: The story of sovereign debt restructuring has been one mixed fortunes. While sovereign debt restructuring based on contractual approach has shown remarkable success, certain challenges (particularly holdout disruption) continue to beset it. Market players and other stakeholders in international finance have made some efforts to contain these challenges. However, they do not appear to have been laid to rest. Recent history of sovereign debt restructuring appears to show that these challenges are rooted in a classical theoretical approach to sovereign debt restructuring. But, remedies and proposals to contain them have been sought almost exclusively from positive law (by positive law I refer to the bare body of man-made laws consisting of codes, regulations, and statutes enacted or imposed within a political entity such as a state or nation and stripped of underlying theoretical legal norms). The pith of this paper is to present an alternative way of looking at contractual sovereign debt restructuring – legal (contract) theory. This perspective from contract theory presents an alternative approach to sovereign debt restructuring based on a theoretical enquiry into the contractual relationships that underlie sovereign debt transactions. This enquiry should lead to a formulation of normative principles of sovereign debt in context; and from these principles positive rules of law may be extrapolated to address issues arising from sovereign debt restructuring, based on the product of the enquiry. This is in contrast with the current approach to contractual sovereign debt restructuring where barefaced ex ante positive law of contract (mostly domestic) is applied to sovereign debt restructuring with little or no regard as to whether the legal norms that inform the positive law also underpin the sovereign debt relationship.

Institutional Framework

[Making the debt a priority in the 2016 presidential campaign] (2016)
Fix the Debt Association

Abstract: The campaign to fix the debt is a dynamic and nonpartisan national movement to put USA on a better fiscal and economic path.

America's growing national debt profoundly threatens its economic future, and achieving a comprehensive and bipartisan solution remains Fix the Debt's primary purpose. The 2016 presidential election is key to achieving it. Individuals seeking America's highest office must distinguish themselves by showing how they will address the many challenges we face – including fixing the debt. Making the debt a political priority for candidates and gaining acceptance of the need for tough and politically unpalatable choices is not easy […]

Organisation of Debt Management Offices

A Separate Debt Management Office (2013)

Charan Singh - Indian Institute of Management (IIMB)

Abstract: In the aftermath of recent global crisis, the issue of separation of monetary policy, fiscal policy and debt management has re-emerged. In many countries, during the period of crisis, scope of fiscal policy was expanded and debt to GDP ratios increased significantly. Consequently, debt management, in general, became difficult and coordination between monetary and debt management assumed significance. Historically, a number of countries with liberalized financial markets and high levels of government debt sought to adopt professional debt management techniques to save cost and to provide policy signals to the market. In India, traditionally, management of debt is diffused in different layers of different governments. The setting up of separate debt management office (DMO) will help to establish transparency, and assign specific responsibility and accountability on the debt manager. This could lead to an integrated and more professional management of all government liabilities, with a focussed mandate to operate on sound economic and commercial principles. The strategy could ensure that resources are available to the government at competitive market rates of interest prompting expenditure prioritization and fiscal discipline in budget making.

Accounting, Transparency and Accountability

Manual on government deficit and debt (implementation of ESA 2010) 2016 edition (2016)

Eurostat

Abstract: This new edition of the Manual on Government Deficit and Debt, focuses on some methodological aspects which were closely considered in 2015 in the context of a specific Eurostat Task Force on methodological issues, composed by experts in EDP statistics, Government Finance Statistics and National Accounts from Eurostat, EU Member States and other institutions.

Monetary Policy

Monetary Policy Implementation and Volatility Transmission along the Yield Curve : The Case of Kenya (2016)

Emre Alper ; R. Armando Morales ; Fan Yang - International Monetary Fund

Abstract: This paper analyzes the degree to which volatility in interbank interest rates leads to volatility in financial instruments with longer maturities (e.g., T-bills) in Kenya since 2012, year in which the monetary policy framework switched to a forward-looking approach, relative to seven other inflation targeting (IT) countries (Ghana, Hungary, Poland, South Africa, Sweden, Thailand, and Uganda). Kenya shows strong volatility transmission and high persistence similar to other countries in transition to a more forward-looking monetary policy framework. These results emphasize the importance of a strong commitment to an interbank rate as an operational target and suggest that the central bank could reduce uncertainty in short-term yields significantly by smoothing out the overnight interest rates around the policy rate.

Subnational Bond Markets

Supplementary guidance for subnational PEFA assessments (2013)

PEFA Secretariat - PEFA (Public Expenditure and Financial Accountability)

Abstract: A sound public financial management system is essential for the effective implementation of policies and the achievement of intended outcomes by supporting aggregate fiscal discipline, the strategic allocation of resources and efficient service delivery. This is true not only at the national, but also at the sub-national level, given the increasing importance of provincial and local government structures in resource allocation and the provision of services to communities. In order to ensure a consistent and appropriate application of the indicators and a sound basis for the interpretation of the findings at a sub-national level, the PEFA program has produced these practical Guidelines for assessors […]

Contingent Liabilities

Contingent Liabilities risk management: A credit risk analysis framework for Sovereign Guarantees and on-lending.

[Country experiences from Colombia, Indonesia, Sweden, and Turkey](#) (2016)
Fritz Florian Bachmair - World Bank Treasury Government Debt and Risk Management Unit

Abstract: Sovereign credit guarantees and government on-lending can catalyze private sector investment and fulfill specific policy objectives. However, contingent liabilities stemming from guarantees and contingent assets stemming from on-lending expose governments to risk. Prudent risk management, including risk analysis and measurement, can help identify and mitigate these risks. This paper proposes a four-step structure for analyzing and measuring credit risk: (i) defining key characteristics to determine the choice of a risk analysis approach; (ii) analyzing risk drivers; (iii) quantifying risks; and (iv) applying risk analyses and quantification to the design of risk management tools. This structure is based on an assessment of approaches discussed in academia and applied in practice. The paper demonstrates how the four steps of credit risk management are applied in Colombia, Sweden, and Turkey. It also discusses how the proposed framework is applied in Indonesia as it develops a credit risk management framework for sovereign guarantees. Country experiences show that although sovereign risk managers can draw on insights from credit risk management in the private sector, academic literature, and practices in other countries, approaches to risk management need to be highly context-specific. Key differentiating factors include characteristics of the guarantee and on-lending portfolio, the sovereign's specific risk exposure, the availability of market information and data, and resources and capacity in the public sector. Developing a sound risk analysis and measurement framework requires significant investments in resources, capacity building, and time. Governments should view this process as iterative and long-term.

Best Practices Publications

DMFAS programme strategic plan 2016 - 2019 strengthening the foundations for effective debt management (2016)
DMFAS Debt management and financial analysis system programme - United Nations Conference on Trade and Development (UNCTAD)

Abstract: The Addis Ababa action agenda stresses the intention of the international community to assist developing countries to strengthen their debt management capacities, and encourages international institutions to provide assistance to debtor countries in this regard. The strategic plan establishes a forward-looking program for the DMFAS Programme to deliver high quality, very relevant technical assistance to developing countries in response to their debt management needs over the four-year period 2016-2019.

Public Debt in Macroeconomic Analysis

Debt Management Performance Assessment : Kyrgyz Republic (2016)
World Bank Group

Abstract: The Kyrgyz Republic became a parliamentary democracy in 2010 following political turmoil and ethnic unrest. Kyrgyz Republic's economy has been resilient; however, the growth momentum of the past few years has been declining due to the difficult global economic environment and regional conflicts' spillover effects on the country. While the shift provided a drive for critical fiscal reforms, financial sector reforms turned out to be challenging. The country successfully completed a three-year arrangement under the Extended Credit Facility in 2014. During the period, macro-economic stability was restored, and growth picked up. Inflation was kept below 10 per cent throughout the program. However, deepening economic crisis in Russia, adverse weather and the initial impact of the accession to the Eurasian Economic Union were the key contributing factors to the worsening outlook in 2015. Weaker demand in Russia and Kazakhstan adversely affect the exports and re-export sectors. Remittances from workers in Russia and Kazakhstan, which contribute about 30 percent of the country's economy, have slowed down, and are expected to decline by more than 10 percent in 2015.

Debt and Credit Quality in Central America, Panama, and the Dominican Republic (2016)
Guillermo LaGarda; Jordi Prat; Marco Solera - Boston University; Inter-American Development Bank (IDB)

Abstract: Credit quality has long been associated with the level of indebtedness. But the sole fact that there are countries with high creditworthiness and large stocks of debt suggests that indebtedness is just one of many factors which determine credit quality. In this paper the authors investigate the role that economic fundamentals have on risk perception of public debt, through both direct and indirect effects. Countries are grouped into four clusters, each corresponding to a different stage of development in their economic fundamentals. The authors find that the effect of the debt burden on credit quality is conditional on the current level of economic fundamentals and the degree to which they are improving. A transition to stronger fundamentals would

require moving to a better cluster but would ease pressure on any debt adjustment necessary to improve creditworthiness. Consequently, there are two types of approaches countries in CAPDR could focus on to improve credit quality. On the one hand, there are a set of actions which could be carried out in the short run to move within a particular group or cluster-fiscal toolkit. On the other hand, there are actions, which in the medium term may enable a country to transition to a group with better credit perception-structural changes.

Do Fiscal Multipliers Depend on Fiscal Positions? (2016)

Raju Huidrom; M. Ayhan Kose; Jamus Jerome Lim; Franziska Ohnsorge - World Bank

Abstract: This paper analyzes the relationship between fiscal multipliers and fiscal positions of governments using an Interactive Panel Vector Auto Regression model and a large dataset of advanced and developing economies. Our methodology permits us to trace the endogenous relationship between fiscal multipliers and fiscal positions while maintaining enough degrees of freedom to draw sharp inferences. The authors report three major results. First, the fiscal multipliers depend on fiscal positions: the multipliers tend to be larger when fiscal positions are strong (i.e. when government debt and deficits are low) than weak. For instance, the long run multiplier can be as large as unity when fiscal position is strong, while it can be negative when the fiscal position is weak. Second, these effects are separate and distinct from the impact of the business cycle on the fiscal multiplier. Third, the state-dependent effects of the fiscal position on multipliers is attributable to two factors: an interest rate channel through which higher borrowing costs, due to investors' increased perception of credit risks when stimulus is implemented from a weak initial fiscal position, crowd out private investment; and, a Ricardian channel through which households reduce consumption in anticipation of future fiscal adjustments.

Global Economic Prospects, June 2016 : Divergences and Risks (2016)

World Bank Group

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.

Kenya Economic Update, March 2016 : Kazi ni kazi - Informal Should Not Be Normal (2016)

World Bank Group

Abstract: This update comes in the wake of three game changing and mutually reinforcing trends. First, monetary policy in the United States (U.S.) will determine the direction of capital flows and currency stability. Second, the persistent decline in commodity prices will determine winners and losers and third, the cooling and rebalancing of the Chinese economy is likely to see a recalibration and change in the direction of trade. Kenya's growth will depend on the net impact of these global trends on the one hand and the domestic policy response on the other. Growth in 2015 is estimated at 5.6 percent, and is projected to rise to 5.9 percent in 2016 and 6 percent in 2017. The economy has created more jobs in the recent years, but these are low productivity mainly in the informal services sector and are not associated with higher value added. In the next ten years, nine million youth will enter the labor market, a majority will continue to find jobs in the informal sector. To improve productivity of these jobs, policy interventions can be geared towards increasing access to broad skills beyond formal education, creating linkages between formal and informal firms, and helping small scale firms enter local and global value chains. To encourage private sector growth and create better jobs, the business environment must improve. Finally, Kenya can leverage the changes in the global economy to recalibrate its trade as a platform for structural change and

provide the impetus for higher levels of growth and creation of productive jobs.

[Sovereign borrowing outlook for OECD countries, 2007 to 2016] **(2016)**
The Organisation for Economic Co-operation and Development - OECD

Abstract: This report examines sovereign borrowing needs in OECD countries from 2007 to 2016. It first looks at the net and gross borrowing needs of OECD governments in the context of ongoing fiscal consolidation. It then considers recent trends in central government marketable debt in the OECD and general government debt ratios for selected OECD countries, as well as current interest rates and the possible medium to long-term effect of negative interest rates. The report examines the relationship between monetary policy and debt management decisions, the role of public institutions as investors in sovereign bonds and growing concerns about secondary market liquidity.

[World Bank East Asia and Pacific Economic Update, April 2016 : Growing Challenges] **(2016)**
World Bank

Abstract: In the past 6 months, developing East Asia and Pacific has faced a challenging external environment, but growth has generally remained resilient. Over the next 3 years, growth is expected to ease modestly. China will continue its gradual shift to a more sustainable growth path. Some economies will be affected by low commodity prices and weaker external demand. This outlook is subject to elevated risks. Countries should prioritize monetary and fiscal policies that reduce their exposure to risks and strengthen market confidence. In China, there is a need to reduce leverage. In several countries, action is required to enhance transparency, strengthen accountability, and redefine the role of the state. Efforts to reduce barriers to trade should be redoubled, with a particular focus on non-tariff measures and regulatory barriers, including to trade in services. The region must increase its readiness to benefit from the digital revolution, and in particular develop the essential "analog complements" to digital technologies.

[2016 Economic Reform Programmes of Albania, the Former Yugoslav Republic of Macedonia, Montenegro, Serbia, Turkey, Bosnia and Herzegovina and Kosovo] **(2016)**
European Commission - European Commission

Abstract: Economic governance has become one of the three fundamental pillars in the enlargement process over the past years, mirroring moves in the EU to strengthen economic policy monitoring and multilateral surveillance under the European Semester. In its 2013 and 2014 enlargement strategies, the Commission outlined a new approach to economic governance. This new approach implies an important change in the economic policy dialogue with enlargement partners with a view to giving clearer guidance on the reforms needed to foster macroeconomic stability, ensure fiscal sustainability, and support long-term growth and competitiveness. In this spirit, the 2015 Economic and Financial Dialogue between the EU and the Western Balkans and Turkey included, for the first time, all enlargement countries, and provided targeted policy guidance for each of them. The dialogue was based on a revamped set of medium-term Economic Reform Programmes (ERP) submitted by enlargement countries, containing their macroeconomic and fiscal policy framework as well as structural reform plans to boost competitiveness and long-term growth.

[Debt Sustainability Issues in the Central and Eastern European Countries] **(2016)**
Bettina Bökemeier; Andreea Maria Stoian - Bielefeld University; Bucharest Academy of Economic Studies

Abstract: The aim of this study is to investigate debt sustainability in ten Central and Eastern European countries over 1997-2013. Following Burger (2012), the authors calculate the stabilized debt using the estimates of a fiscal reaction function for a balanced panel with fixed effects. Comparing the stabilized, the effective debt ratios and the historical averages, the authors can assess debt sustainability in short and in long run. The authors find that current debt ratio as of 2015 for Bulgaria and Romania is not sustainable. The debt dynamics of Bulgaria is stable whilst for Romania's case the debt trajectory indicates unstable dynamics. As for historical averages of debt ratios, Bulgaria could encounter debt sustainability issues also in the long run.

[Debt-Growth Linkages in EMU Across Countries and Time Horizons] **(2016)**
Marta Gómez-Puig; Simón Sosvilla Rivero - University of Barcelona; University of Madrid

Abstract: This paper contributes to the literature by empirically examining whether the influence of public debt on economic growth differs between the short and the long run and presents different patterns across euro-area countries. To this end, the authors use annual data from both central and peripheral countries of the European Economic and Monetary Union

(EMU) for the 1960-2012 period and estimate a growth model augmented for public debt using the Autoregressive Distributed Lag (ARDL) bounds testing approach. Our findings tend to support the view that public debt always has a negative impact on the long-run performance of EMU countries, whilst its short-run effect may be positive depending on the country.

Nominal GDP targeting and the tax burden (2016)

Michael Hatcher - University of Southampton

Abstract: An overlapping generations model is set out in which monetary policy matters for distortionary taxes because unanticipated inflation has real wealth effects on households with nominal government debt. The model is used to study the tax burden under inflation and nominal GDP targeting. Nominal GDP targeting makes taxes less volatile than inflation targeting but raises average taxes. With a quadratic loss function, the expected tax burden is minimized with only indexed debt under inflation targeting, but with both indexed and nominal debt under nominal GDP targeting. Nominal GDP targeting lowers the tax burden relative to inflation targeting (except at very high indexation shares), but this conclusion hinges on risk aversion, productivity persistence and the loss function for the tax burden.

The maturity structure of Treasury Debt: how costly is mismanagement? (2013)

Jacob Berman - University of Chicago

Abstract: The global financial crisis has led to a dramatic increase in public budget deficits across most advanced economies. In the United States, the federal budget deficit as a percentage of GDP increased from 1.2% in 2007 to 10.1% in 2009. Policymakers have offered a variety of budget plans that seek to reduce these deficits by cutting outlays through changes to federal spending programs, or increasing revenue through changes to the federal tax code. However, there is a third option for reducing budget deficits that has been largely ignored. The maturity structure of public debt is a major policy decision that directly affects long-run budget sustainability. By determining the maturity structure of the United States debt portfolio, the Treasury Department has substantial control over the level and timing of these payments. […]

Historical Evolution of Public Debt Management

Hope Springs Eternal (2016)

Kim Oosterlinck - Solvay Brussels School of Economics and Management

Abstract: In 1918, the Soviet revolutionary government repudiated the Tsarist regime's sovereign debt, triggering one of the biggest sovereign defaults ever. Yet the price of Russian bonds remained high for years. Combing French archival records, Kim Oosterlinck shows that, far from irrational, investors had legitimate reasons to hope for repayment. Soviet debt recognition, a change in government, a bailout by the French government, or French banks, or a seceding country would have guaranteed at least a partial reimbursement. As Greece and other European countries raise the possibility of sovereign default, Oosterlinck's superbly researched study is more urgent than ever.

Do progressive governments undertake different debt burdens ? Partisan vs. electoral cycles (2016)

Garcia-Sanchez Isabel-Maria I.M, Josè Manuel Prado-Lorenzo, Beatriz Cuadrado-Ballesteros - Universidad de Salamanca

Abstract: Public debt has traditionally been explained mainly by two political factors: a progressive ideology and the electoral cycle. The aim of this paper is to demonstrate how these two factors influence the behavior of Spanish local governments as regards indebtedness, and also how indebtedness is influenced by the interaction of ideology and the electoral cycle. Different dependence models were estimated using panel data methodology based on a sample comprised of Spanish provincial capitals and towns with populations over 50,000, for a total of 148 town councils. The time frame corresponds to the fiscal years 1988 to 2008, inclusive. The results show that in an electoral year all politicians behave opportunistically, giving rise to an important increase in public debt in relation to municipal revenue, although progressive incumbents incur three times more debt than those of the opposite ideology. Moreover, the presence of conservative parties in government has tended to significantly attenuate this behavior in years prior to elections, whereas progressive or left-wing parties have not. It must also be noted that partisan and electoral business cycles have been mitigated since 2002, when the Budgetary Stability Law came into effect, imposing limits on the debt of subnational administrations. The empirical evidence obtained points to the need to perfect internal and external control mechanisms in order to avoid a breakdown in the stability policy and the risk of debt becoming untenable, thus achieving greater budgetary discipline.

Overlooked Sovereign Credit Events and Partial Defaults: British Debt Sustainability in the Post-Second World War Period (2016)

Dr Garrick Hileman - Centre for Alternative Finance

Abstract: This paper investigates UK sovereign debt sustainability following the Second World War. While the UK in 1946 recorded the highest public debt-to-GDP ratio of the 20th century, the conventional view held by economists and historians is that the UK avoided a sovereign default following the Second World War. New archival evidence shows that Britain in fact 'partially defaulted' multiple times following the Second World War, and several British default instances can be further classified as 'partially excusable'. The British case illustrates the challenge of identifying and accurately classifying sovereign credit events along with the complex dynamics of sovereign debt sustainability vis-à-vis other competing policy objectives, such as geopolitical priorities.

Sovereign Debt and International Financial Control (2015)
Ali Coşkun Tuncer - London School of Economics

Summary: This book provides a history of sovereign debt, defaults and international financial control in the Middle East and the Balkans between 1870 and 1914.

Web Resources

Primary market

"It's A Seismic Shift" - Japan's Biggest Bank To Quit As JGB Primary Dealer
Tyler Durden - Zero Hedge Financial Blog
According to Nikkei, and confirmed by Bloomberg, Japan's biggest bank, Bank of Tokyo-Mitsubishi UFJ, is preparing to quit its role as a primary dealer of Japanese government bonds as negative interest rates turn the instruments into larger risks, a fallout from massive monetary easing measures by the Bank of Japan. While the role of a Primary Dealer comes with solid perks such as meetings with the Finance Ministry over bond issuance and generally being privy to inside information and effectively free money under POMO, dealers also are required to bid on at least 4% of a planned JGB issuance, which as the Nikkei reports has become an increasingly heavy burden for BTMU. [...]

Multilateral Debt

Rwanda : Fifth Review Under the Policy Support Instrument and Request for Extension, and Request for an Arrangement Under the Standby Credit Faciltity-Press Release; Staff Report; [...] - Country Report No. 16/153
International Monetary Fund
The existing PSI and new SCF arrangement will support the country's efforts to address growing external imbalances, thereby supporting continued strong growth and durable poverty reduction. The SCF arrangement adds a financing component to the existing PSI-supported program, which aims to promote private-sector led growth through safeguarding macroeconomic stability, including through external sustainability, fiscal sustainability based on continued improvements in domestic resource collection, low and stable inflation, and enhancing access to credit and deepening the financial sector.

Sri Lanka : Staff Report for the 2016 Article IV Consultation and Request for a Three-Year Extended Arrangement under the Extended Fund Facility-Press Release; Staff Report; [...] - Country Report No. 16/150
International Monetary Fund
The Sri Lankan economy has good underlying momentum but is starting to show signs of strain from a combination of unbalanced macroeconomic policies and an increasingly difficult external environment. A significant political transition has brought a new unity government to the fore. [...]

Legal Issues and Conventions

After 15 Years, a Bond Trade Now Pays Off
Gregory Zuckerman, Julie Wernau and Rob Copeland - The Wall Street Journal
Argentina returns to funding in USA Bond Markets after closing its legal dispute about old defaulted bonds.

Greek economic crisis: are sovereign bonds protected investments under Bilateral Investment Treaties? ICSID Case No. ARB/13/8

Stella Petritsi - Thomas Cooper LLP
Despite broad interpretation of "investment" in Bilateral Investment Treaties ("BITs"), an ICSID tribunal ("the Tribunal") found on 9 April 2015 that the purchase of Greek Government Bonds did not constitute an "investment" in Greece. [...]

Sovereign Lending: some distinguishing legal issues
Alex Monk - Thomas Cooper LLP
Lending to sovereign states, whether directly to state governments or to state-controlled entities, especially in emerging markets, presents a number of additional legal challenges and factors to be considered compared with corporate lending to private commercial enterprises in such countries. [...]

The case for sovereign contingent debt
Stavros Zenios & Andrea Consiglio - University of Ciprus, University of Palermo
Legal and operative innovative tools to deal with sovereign debt contingent liabilities […]

Derivatives

Use of debt-related derivatives products
Government Finance Officers Association of the United States and Canada
GFOA Advisories identify specific policies and procedures necessary to minimize a government's exposure to potential loss in connection with its financial management activities. To alert governments to the risks associated with derivative products, GFOA maintains an Advisory (Use of Derivatives and Structured Investments by State and Local Governments for Non-Pension Fund Investment Portfolios - 2010) which specifically advises state and local government finance officers to exercise extreme caution in the use of derivatives and structured finance products […]

Organisation of Debt Management Offices

Cloud technology for effective public debt management: are we there yet?
PDM Practice Professionalising Public Debt Management
Recent advancements in Information and Communication Technologies (ICT) are not only having a profound impact on our daily lives but also revolutionizing the way businesses and governments operate. Of the various developments that have occurred in recent years, cloud technology holds the biggest promise. In this blog authors discuss how cloud technology could impact public debt management in the future […]

Strengthening national frameworks for debt management
Commonwealth Secretariat - The Commonwealth
The two years covered here, from July 2013 to June 2015, were a period of transformation for the Commonwealth Secretariat as it worked to translate into practical action its strategic plan from 2013/14 to 2016/17. The plan is a clearly signposted roadmap, following implementation of the most fundamental reforms for a generation, both of the work we do and of the way we do it. […]

Accounting, Transparency and Accountability

Bi-Monthly DMFAS Missions Calendar - July / August 2016
UNCTAD
The updated list of missions by UNCTAD's Debt Management Financial Analysis System (DMFAS) Programme over the period July / August 2016.

Fiscal Policy and Budget Management

The rapidly changing nature of Japans public debt
Thomas Klitgaard & Harry Wheeler - Federal Reserve Bank of New York
Japan's general government debt-to-GDP ratio is the highest of advanced economies, due in part to increased spending on social services for an aging population and a level of nominal GDP that has not increased for two decades. The interest rate payments from taxpayers on this debt are moderated by income earned on government assets and by low interest rates. One might think that the Bank of Japan's purchases of government bonds would further ease the burden on taxpayers, with interest payments to the Bank of Japan on its bond holdings rebated back to the government. Merging the balance sheets of the government and the Bank, however, shows that the asset purchase program alters the composition of public debt, with reserves in the banking system replacing government bonds, but not the amount of the debt taxpayers must pay interest on. […]

Subnational Bond Markets

China's subnational debts: problems and suggestions
Liu Shangxi - Research institute for fiscal science, Ministry of Finance, China
Liu Shangxi describes overall situations and major problems of full calibering Chinese subnational debts. She focuses on relationship between the reform of fiscal and taxation systems and the improvement of local debt financing system. Author also gets a glimpse on local government debt risk assessment, proposing countermeasures and suggestions.

Sub-national technical assistance program
The public-private infrastructure advisory facility (PPIAF)
The SNTA program helps sub-national authorities access market-based financing, without sovereign guarantees through several types of activities. Responsibility for meeting the enormous demand for new and better infrastructure services in developing countries is increasingly shifting from national to sub-national authorities. But these authorities, typically local governments or utilities, often lack the financial resources to build needed infrastructure. Accessing infrastructure financing is not easy. Long term capital from local markets is needed, but sub-national authorities have to be creditworthy to access market-based financing. This is the constraint that the public-private infrastructure advisory facility (PPIAF) targets through its sub-national technical assistance (SNTA) program [...]

Public Debt in Macroeconomic Analysis

Definitional issues in the sustainability analysis framework: a proposal
Martin Guzman - Columbia University Graduate School of Business
The definition of public debt sustainability in the International Monetary Fund debt sustainability analysis framework refers to fiscal adjustment and primary balance as the central elements of the policy course that is most likely to ensure debt sustainability; the induced policy approach is not contributing to the recovery of economies in distress, and instead it is contributing to delays in sovereign debt restructuring, as well as to insufficient debt relief (when the restructuring occurs) for distressed sovereign debtors. The definition needs to be revised to be in tune with macroeconomic theory that is overwhelmingly supported by evidence […]

Czech Republic : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Czech Republic - Country Report No. 16/213
International Monetary Fund
A favorable external environment, high utilization of EU funds, and supportive macroeconomic policies have boosted economic growth. The authorities' medium-term fiscal objective is appropriate, but fiscal framework legislation that would anchor policy is yet to be approved by parliament. The central bank's use of an exchange rate floor to achieve its inflation target has helped stem deflationary pressures, but inflation is still well below target. The financial system is sound and resilient to shocks.

Denmark : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Denmark - Country Report No. 16/184
International Monetary Fund
This paper discusses the economic performance of Denmark. Although Denmark has a longstanding track record of sound economic and social policies, economic performance has been relatively weak for an extended period. The economy continues to grow slowly. [...]

El Salvador : 2016 Article IV Consultation- Press Release; Staff Report; and Statement by the Executive Director for El Salvador - Country Report No. 16/208
International Monetary Fund
El Salvador continues to suffer from significantly lower growth than neighboring countries amid low investment, high outward migration, weak competitiveness, and political gridlock. Fiscal pressures remain substantial.

Euro Area Policies : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Euro Area - Country Report No. 16/219
International Monetary Fund
The recovery continues with stronger growth in recent quarters, but downside risks have increased, amid growing political divisions and euroskepticism. Medium-term prospects remain weak, with high public and private debt and slow progress in structural reforms weighing on growth. And there is very little policy space to cope with adverse shocks.

Financial Stability Report - July 2016 | Issue No. 39
Bank of England
It is the statutory responsibility of the Financial Policy Committee (FPC) to identify, monitor and take action to remove or reduce systemic risks, with a view to protecting and enhancing the resilience of the UK financial system. By fulfilling this responsibility, the FPC ensures that risks to financial stability are

addressed. Transparency about risks is essential to strengthen resilience and for plans to be put in place to manage those risks should they crystallise. [...]

Germany : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Germany - Country Report No. 16/202

International Monetary Fund

Growth this year is expected to remain moderate as strong domestic demand—buoyed by a fiscal expansion, a strong labor market, favorable monetary conditions, and lower energy prices—is offsetting weak external demand. Medium-term potential growth is projected to decline as the population ages. This keeps savings up and holds back domestic investment, contributing to the large and persistent current account surplus. [...]

Guyana : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Guyana

International Monetary Fund

While economic activity was supported by large new mining investments, growth slowed to 3 percent in 2015, reflecting delayed budget implementation and lower commodity prices. Inflation is expected to remain low. The decline in oil prices narrowed the current account deficit. The authorities plan to stimulate growth through increased public investment in 2016 and over the medium-term.

Iceland : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Iceland - Country Report No. 16/179

International Monetary Fund

This paper provides an assessment of the economic conditions, outlook, and crises in Iceland. There is a mounting sense that capital controls hurt growth prospects, repressing local financial markets, scaring foreign investors, and impeding savings diversification, and that it is time for them to go. Recent settlements with the bank estates are a huge step forward, improving already favorable macroeconomic conditions. [...]

Italy : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Italy - Country Report No. 16/222

International Monetary Fund

The economy has started to recover from a prolonged recession. The recovery, however, is modest and fragile, against the backdrop of long-standing structural rigidities, strained bank balance sheets, and high public debt that leave very little room to cope with shocks.[...]

Jamaica : 2016 Article IV Consultation, Eleventh and Twelfth Reviews Under the Extended Fund Facility and Request for Modification of Performance Criteria-Press Release; Staff Report; [...] - Country Report No. 16/181

International Monetary Fund

This paper aims to discuss the economic reform program in Jamaica that focuses on reducing macroeconomic vulnerabilities, fostering growth, creating conditions for financial deepening and inclusion, reallocating public resources to maximize economic returns, and improving competitiveness. [...]

Norway : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Norway - Country Report No. 16/214

International Monetary Fund

It is a challenging time. The fall in oil prices has taken a toll on the mainland (i.e. non-oil and gas) economy, with growth falling to 1 percent in 2015 and rising unemployment. At the same time, the recent rise in the number of asylum seekers presents new challenges.

Republic of Croatia : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Croatia - Country Report No. 16/187

International Monetary Fund

This paper discusses the economic developments, outlook, risk, and policies of Croatia. This East European country has begun since the last quarter of 2014 to gradually recover from a six-year recession. In 2015 real GDP grew by 1.6 percent, driven by strong exports and tourism, a revival of private consumption, and higher public investment. [...]

Republic of Latvia : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Latvia - Country Report No. 16/171

International Monetary Fund

Macroeconomic conditions are broadly favorable: the output gap is almost closed; the fiscal and current account deficits are at sustainable levels; and unemployment continues to fall. Nevertheless, GDP growth has slowed recently, hampered by a weak external environment, diminishing productivity gains, and delays in EU funds absorption. Credit growth remains elusive, wage pressures have surfaced, and the gray economy remains pervasive.

[Republic of Poland : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for the Republic of Poland - Country Report No. 16/210]
International Monetary Fund
Poland continued its convergence to average EU income levels, growing well above most of its peers. Yet, significant regional disparities and long-term structural challenges remain. The new government, which took office in November 2015, has introduced a number of new policies, some of which have dented investor sentiment and could weaken growth going forward. [...]

[South Africa : 2016 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for South Africa - Country Report No. 16/217]
International Monetary Fund
South Africa has made considerable economic and social strides since 1994, but faces significant challenges. Deep-rooted structural problems—infrastructure bottlenecks, skill mismatches, and harmful insider-outsider dynamics—have kept unemployment and inequality unacceptably high. Also, a confluence of external and domestic shocks, combined with heightened governance concerns and policy uncertainty, have weighed on confidence and growth. Though private balance sheets are still strong, vulnerabilities are elevated.

[United Kingdom : 2016 Article IV Consultation-Press Release; and Staff Report - Country Report No. 16/168]
International Monetary Fund
The UK economy has performed well in recent years, but it faces important challenges and risks. Economic growth has consistently been near the top among major advanced economies, the employment rate has risen to a record high, the fiscal deficit has been reduced, and major financial sector reforms have been adopted. [...]

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

11 July - 12 August 2016; Web Based
Ethics in Public Finance (2016)

5 September 2016; United Kingdom
Public Financial Management: Issues and Solutions

5 September - 21 October 2016; Web Based
Debt Rescheduling with the Paris Club (2016)

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

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

Previously signaled

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

8 – 12 August 2016; Vienna
Government Debt Management Performance Assessment Tool DEMPA

29 – 30 August 2016; Glasgow, UK
Sovereign Debt Restructuring. Call for Papers

27 September 2016; TBC London
ICMA European Repo and Collateral Council (ERCC) General Meeting

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

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 July 2016, the number of total resources of the PDM Network website is 30,281 (of which 23,240 news, 3,333 documents and 2,871 web resources). This newsletter is sent to 606 Subscribers from emerging and advanced countries.

Special thanks

The PDM Secretariat is grateful to Fatos Koc (OECD) and Kim Oosterlinck (Université Libre de Bruxelles) for the contribution of document.