PDM NETWORK *Newsletter*

n. 1/ January-February 2017

ISSN 2239-2033

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.

From the issue n. 6/July–August 2016 the PDM Network Newsletter is published every two months (September, November, and so on). This change is aimed at improving the quality of the service offered. The Secretariat are also working on updating the organization of the material and the user interface of the website.

The PDM Network Secretariat welcome 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**.

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New Documents

Papers, Articles & Books

Core Topics in Debt Management

Sovereign borrowing outlook for OECD countries, 2007 to 2017 (2017)
OECD

Abstract: This report from the forthcoming edition of **the OECD Sovereign Borrowing Outlook 2017 examines net and gross sovereign borrowing in OECD countries from 2007 to 2017**. It first looks at net and gross borrowing needs of OECD governments in the context of fiscal developments. It then considers recent trends in central government marketable debt in the OECD area and central government debt ratios for groups of selected OECD countries. Finally, the report examines funding strategies and growing issuance of debt with 30 or more years of maturities.

Secondary Market

[Spillovers from U.S. Monetary Policy Normalization on Brazil and Mexico's Sovereign Bond Yields](#) (2017)

Carlos Góes ; Herman Kamil ; Jeremy Zook ; Mercedes Garcia-Escribano ; Phil De Imus ; Roberto Perrelli ; Shaun K. Roache - International Monetary Fund; MEF - Uruguay; Temasek

Abstract: This paper examines the transmission of changes in the U.S. monetary policy to local currency sovereign bond yields of Brazil and Mexico. Using vector error-correction models, **the authors find that the U.S. 10-year bond yield was a key driver of long-term yields in these countries, and that Brazilian yields were more sensitive to U.S. shocks than Mexican yields during 2010–13.** Remarkably, the propagation of shocks from U.S. long-term yields was amplified by changes in the policy rate in Brazil, but not in Mexico. Our counterfactual analysis suggests that yields in both countries temporarily overshot the values predicted by the model in the aftermath of the Fed's "tapering" announcement in May 2013. This study suggests that emerging markets will need to contend with potential spillovers from shifts in monetary policy expectations in the U.S., which often lead to higher government bond interest rates and bouts of volatility.

Debt Crisis and 10-Year Sovereign Yields in Ireland and in Portugal (2017)

Antonio Afonso; Jorge Daniel Faria Silva - University of Lisbon; Technical University of Lisbon (UTL)

Abstract: The authors assess the determinants of the 10-year sovereign yield for the period 2000-2015, in Portugal and in Ireland. **Results show that the long-term Portuguese sovereign yield increased with the rise of the 10-year Bund yield and during the Securities Markets Programme, but decreased due to financial integration.** Additionally, during the period of the economic and financial adjustment programme, there was evidence of additional rises (decreases) due to increases (decreases) in the 3-month Euribor rate, and the level of public debt. EU/IMF funding reduced sovereign yield.

Multilateral Debt

The IMF Safety Net and emerging markets' sovereign spreads (2017)

Claudia Maurini - Bank of Italy

Abstract: This paper assesses empirically the effectiveness of the IMF as a component of the Global Financial Safety Net by running a panel regression on a sample of emerging market countries' sovereign spreads. In particular, the authors check if the size of the Fund's lending capacity and the introduction of the new precautionary facilities play a role in explaining emerging market countries' spreads, after controlling for the traditional determinants of the spreads reported in the literature. **From a policy perspective, the empirical evidence presented in this paper can provide a basis for assessing the potential gains from a stronger role of the IMF and of the GFSN in general, an important issue in the current international debate.** The authors find that what appears to matter most are the overall resources available for lending by the IMF, rather than the channels through which such resources can be accessed by members.

Geographical Distribution of Financial Flows to Developing Countries 2017 (2017)

OECD

Abstract: This annual publication provides comprehensive data on the volume, origin and types of aid and other resource flows to around 150 developing countries. The data show each country's intake of official development assistance and well as other official and private funds from members of the Development Assistance Committee of the OECD, multilateral agencies and other key donors. Key development indicators are given for reference.

Developing Domestic Bond Markets

Exploring the Role of Foreign Investors in Russia's Local Currency Government Bond (OFZ) Market (2017)

Dmitry Yakovlev; Yinqiu Lu - Bloomberg; International Monetary Fund

Abstract: Local currency government bonds (OFZ bonds) are an important fixed-income instrument in Russia's financial markets. In this paper, based on granular data, the authors explore the development of the OFZ bond market with a focus on foreign investors. As this fixed-income market has experienced a liberalization of the domestic trading and settlement infrastructure, and weathered several episodes of market stresses since the 2008–09 global financial crisis, the role of foreign investors can be observed along with these events. **What the authors have found is that foreign investors had influenced the market before they became an important player and since then they have contributed to the development of the market while not necessarily destabilizing it in episodes of shocks.**

Legal Issues and Conventions

From Debt Collection to Relief Provision: 60 Years of Official Debt Restructurings through the Paris Club (2017)

Cheng Gong; Díaz Cassou Javier; Erce Aitor - European Stability Mechanism; Inter-American Development Bank

Abstract: Despite the frequency of official debt restructurings, little systematic evidence has been produced on their characteristics and implications. Using a dataset covering more than 400 Paris Club agreements, this paper aims to fill that gap. **It provides a comprehensive description of the evolving characteristics of these operations and studies the economic dynamics surrounding them.** The progressive introduction of new terms of treatment gradually turned the Paris Club from a mere debt collector into a sequenced provider of debt relief. **The study finds that more generous restructuring conditions involving nominal relief are associated with higher economic growth.** In contrast, agreements including only NPV relief have no positive impact on growth. However, the countries that get these restructuring conditions turn out to be more likely to pursue a prudent fiscal policy after the event than those receiving a nominal haircut. In other words, when deciding upon the type of relief to be granted through debt restructuring, **the official sector faces a trade-off between the objectives of stimulating growth and fostering fiscal sustainability.**

[Sovereign Debt-Ceiling Rules in the Spanish and Hungarian Constitutions and Their Interplay with the Relevant EU Laws]() (2017)

Virag Ilona Blazsek - Central European University

Abstract: The paper builds upon the findings of Julia Black (2010) about the constitutional dimension of managing the financial crisis, and applies those findings to the context of Spain and Hungary. In particular it focuses on one of the recent quintessential EU agenda items, the constitutional debt-ceiling rules, and answers the question; how these rules interplay with the forming EU rescue mechanism for failing banks. It interprets the Spanish and Hungarian developments not only as a response to the requirements set out on a supranational level, but also as part of the post-crisis architecture of economic governance and the forming bank union. **Either it is a Eurozone country like Spain or a non-Eurozone country like Hungary, these new constitutional provisions contribute to the strengthening of the EU and support the creation of a common economic policy.** The sooner this happens the better it will enhance the global competitiveness of the EU.

Don't Waste a Serious Crisis: Lessons from South Africa's Debt Crisis (2017)

Daniel Bradlow - University of Pretoria

Abstract: To date, South Africa has only experienced one sovereign debt crisis. This occurred in 1985 and it was an episode in the end game of the anti-apartheid struggle. Although, the South African debt crisis was unusual, there are enough similarities between it and other sovereign debt crises that it remains a relevant case study for current sovereign debt crises. **There are three significant lessons that can be learned from the South African crisis.** In order to explain these lessons, this chapter is divided into four sections. The first section will provide a brief overview of the South African debt crisis. The second section will highlight changes in the global financial system since the crisis that are relevant to the lessons of the South African crisis. The third section focuses on the lessons from the crisis. The final section is a concluding section.

Restructuring Government Debt Under Local Law: The Greek Experience and Implications for Investor Protection (2017)

Sebastian Grund - University of Vienna

Abstract: Five years after Greece implemented the biggest sovereign debt restructuring in history, its legal design has been vindicated by European courts and international tribunals. Bondholders have exhausted all potential legal avenues to challenge the debt workout but Greece ultimately held the upper hand. **This article sheds a light on the most seminal decisions, discussing their implications for possible future restructurings of local law bonds, which continue to be prevalent in Eurozone Member States.** While the retroactive insertion of Collective Action Clauses facilitated a relatively smooth Greek debt swap, governments ought to carefully study the recent jurisprudence of European courts, which set important limits to governmental interference with bondholder's property rights. By mapping three potential future debt restructuring scenarios with post-Greece case law, this article strives to provide further clarity to both governments and creditors as regards the legal design of Private Sector Involvement in Europe.

Sovereign Debt as a Commodity: A Contract Law Perspective (2017)

Dania Thomas – Indipendent

Abstract: The ad hoc institutional configurations that facilitated the resolution of sovereign insolvency for over thirty years are fragmenting. In the absence of an acceptable alternative, the recent pari passu decision reveals the dangers of common law courts pressured to enforce contracts and paper over structural fissures in the market. The courts dismantled international law protections,

common law checks and balances, gone beyond precedent to innovate remedies justified by interpreting a clause whose meaning and function was not clearly understood at the time by the contracting parties themselves. They have also strategically 'invented' an inter-creditor obligation to avoid sovereign immunity legislation. This imperils third party property protections and exposes the US clearing system to creditor remedies. This paper takes a step back from this dispute and discusses the unintended (and arguably long term) consequences of judicial intervention, from a contract law perspective. **The paper argues that the challenges the courts face in the current context requires them to play an inadvertent, expansive 'regulatory' role. To fulfill this role they must ensure that creditors enjoy their property (debt) without constraints and assume away the externalities that arise from their unlimited enjoyment.** In effect enforcement sustains the legal fiction that debt is a commodity. The legal recognition of this fiction obviates negotiated debt workouts, which by definition are premised on a suspension of this commodity form. This paper concludes with a discussion on the nature of legal indeterminacy, dispelling the idea that the possibility of enforcement in sovereign debt markets means we are closer to achieving the legal regime theorised as the neutral backdrop of competitive markets.

Derivatives

Looking back at OTC derivative reforms – objectives, progress and gaps (2017)

ECB European Central Bank

Abstract: At the Pittsburgh summit in 2009, G20 leaders pledged to reform over-the-counter derivatives markets to improve their transparency, prevent market abuse and reduce systemic risks. **Focusing on Europe, this article recalls the objectives of the Pittsburgh reforms, reviews the progress made since their adoption, in particular with regard to trade reporting and central clearing, and identifies remaining gaps and issues for policymakers.** The latter relate mainly to: (i) the resilience, recovery and resolution of central counterparties, given their growing systemic importance as a result of the reforms; (ii) the need to strengthen the stability of derivatives markets; and (iii) the still insufficient data quality and transparency of OTC derivative transactions, despite the considerable progress already made.

Accounting, Transparency and Accountability

International debt statistics (2017)

World Bank Group

Abstract: This year's edition of International Debt Statistics, successor to Global Development Finance and World Debt Tables, and the fourth in the series, is designed to respond to user demand for timely, comprehensive data on trends in external debt in low- and middle-income countries. **It also provides summary information on the external debt of high-income countries and public (domestic and external) debt for a select group of countries.** Presentation of and access to data have been refined to improve the user experience. The printed edition of International Debt Statistics 2017 now provides a summary overview and a select set of indicators, while an expanded dataset is available online.

Democratic Accountability for Public Debt (2017)

Jonathan B. Justice - University of Delaware

Abstract: What does it mean for public financial managers to be professionally and democratically accountable in managing public debt? How do they accomplish (or fall short of) accountability? What are the results of their accountability (or lack thereof)? **This paper develops an analytic framework for mapping the accountability space within which public financial managers work to reconcile diverse normative expectations as they exercise discretionary judgment and choice in the area of public-debt management specifically.** An accountability framework offers the possibility of connecting previous literature's focus on micro-level decision making and social psychology on the one hand, and macro-level normative guidance offered by public-choice theorists and public-finance economists on the other hand, by focusing on the interactions of macro- and meso-level norms and expectations with micro-level decision processes, judgment and choice. **The framework is meant to provide a structure for understanding in empirical settings how state and local government financial managers' professional, democratic, and other accountabilities interact with each other and with other expressed and implied expectations of relevant stakeholders.** It is intended to serve as a basis for conducting empirical research to understand how actual debt-management decisions and behavior respond (or fail to respond) to those various norms, and with what results. An additional, normative goal is to contribute to the development of means by which public administrators can understand and manage the conflict between espoused public preferences for thrift and implied and acted-upon preferences for profligacy, by making decisions that accommodate, resolve, or transcend those dilemmas of accountability.

Coordination with Other Policies and Operations

[The Weight of the Median Voter Ageing on Public Debt] (2017)

Ernest Dautovic - University of Lausanne

Abstract: This paper studies empirically the relation proposed by Brennan (2012) between an ageing society and the preference for financing public expenditures with debt issuance vis-à-vis income taxation. The authors collect data on the ageing of the median voter for a cross-country sample of advanced economies and OECD members where ageing of society is relatively sever and the political process is more democratic and economic institutions are subject to electorate scrutiny. The sample period covers a relatively long period of 30 years, from 1980 to 2010. Then the authors estimate the correlation between the median electorate age with public debt after controlling for country fixed effects and other determinants of public debt drawn from economic and political theory. **Within country estimates confirm the insight of Brennan (2012) and the preferred specification indicate that a one year ageing of the electorate may lead to an increase of public debt GDP ratio by 3.52 percent.** Over a ten years horizon the average voter age increases by 1.39 years in our sample, suggesting an average increase in the stock of public debt of 4.89 percentage points in ten years.

Sovereign Yield Spreads in the EMU: Crisis and Structural Determinants (2017)

Antonio Afonso; Frederico Silva Leal - University of Lisbon; Technical University of Lisbon (UTL)

Abstract: The authors use a panel of 11 EMU countries in the period 2000-2014 to assess the importance of political and economic determinants as explanatory factors in sovereign bond yield spreads. According to the results, there is evidence that those spread determinants gained importance after the beginning of the financial crisis. **Following the crisis, the debt ratio, fiscal balance, expenditure on pension funds, the level of liquidity, GDP growth rate, and structural reforms have become relevant determinants of sovereign spreads, while fiscal rules have reduced spreads.**

Monetary Policy

The European Central Bank's Public Sector Purchase Programme (PSPP), the Prohibition of Monetary Financing and Sovereign Debt Restructuring Scenarios (2017)

Sebastian Grund - European Central Bank

Abstract: While many central banks around the world have pursued quantitative easing programmes in recent years responding to the weak inflation outlook, **the European Central Bank (ECB) faces unique legal constraints with respect to its Public Sector Purchase Programme (PSPP) launched in 2015.** Most importantly, owing to the prohibition of monetary financing enshrined in art.123 of the Treaty of the Functioning of the European Union (TFEU), **the ECB may find itself in the — for the ECB — unprecedented position of a creditor participating in a sovereign debt restructuring while, at the same time, being confronted with severe legal constraints in accepting any debt cut on its sovereign bond holdings.** Against this backdrop, this article sheds some light on the potential legal options available to the ECB, should another debt crisis in the euro area materialise. For this purpose, the authors will also take a closer look at two seminal judgments by European Courts, delineating the legal boundaries within which the ECB may conduct its non-standard monetary policy.

Monetary policy surprises over time (2017)

Marcello Pericoli; Giovanni Veronese - Bank of Italy

Abstract: In this paper the authors document how the impact of monetary surprises in the euro area and the US on financial markets has changed since 1999. The authors use a definition of monetary policy surprises that singles out movements in the long end of the yield curve, rather than those that change nearby futures on the central bank reference rates. By focusing only on this component of monetary policy our results are more comparable over time. **The authors find a hump-shaped response of the yield curve to monetary policy surprises, both in the pre-crisis period and since 2013.** During the crisis years, Fed path-surprises, largely through their effect on term premia, account for the impact on interest rates, which is found to be increasing in tenor. **In the euro area, the path-surprises reflect shifts in sovereign spreads and have a large impact on the entire constellation of interest rates, exchange rates and equity markets.**

The Empirics of Long-Term US Interest Rates (2016)

Tanweer Akram; Huiqing Li - Thrivent Financial; Central University of Finance and Economics

Abstract: US government indebtedness and fiscal deficits increased notably following the global financial crisis. Yet long-term interest rates and US Treasury yields have remained remarkably low. Why have long-term interest rates stayed low despite the elevated government indebtedness? What are the drivers

of long-term interest rates in the United States? John Maynard Keynes holds that the central bank's actions are the main determinants of long-term interest rates. A simple model is presented where the central bank's actions are the key drivers of long-term interest rates through short-term interest rates and various monetary policy measures. **The empirical findings reveal that short-term interest rates, after controlling for other crucial variables such as the rate of inflation, the rate of economic activity, fiscal deficits, government debts, and so forth, are the most important determinants of long-term interest rates in the United States.** Public finance variables, such as government fiscal balances or government indebtedness, as a share of nominal GDP appear not to have any discernable effect on long-term interest rates.

Yields on Sovereign Debt, Fragmentation and Monetary Policy Transmission in the Euro Area: A GVAR Approach (2017)

Victor Echevarria-Icaza; Simón Sosvilla Rivero - Universidad Complutense de Madrid (UCM)

Abstract: The divergence in sovereign yields has been presented as a reason for the lack of traction of monetary policy. The authors use a GVAR framework to assess the transmission of monetary policy in the period 2005-2016. The authors identify sovereign yield divergence as a key mechanism by which the leverage channel of monetary policy worked. Unconventional monetary policy was successful in mitigating this effect. **When exploring the channels through which yields may affect the heterogeneous transmission of monetary policy, the authors find that the reaction of bank leverage depended substantially on where the sovereign yield originated, thus providing a mechanism that explains this heterogeneity.** Second, large spillover effects meant that yield divergence decreased the traction of monetary policy even in anchor countries. Third, the heterogeneity in the transmission mechanism can be in part attributed to contagion from euro-area wide sovereign stress. Fiscal credibility, therefore, may be an appropriate tool to enhance the output effect of monetary policy. Given the importance of spillovers, this credibility may be achieved by changes in the institutional make-up and policies in the euro area.

Sovereign Debt Portfolios, Bond Risks, and the Credibility of Monetary Policy (2017)

Wenxin Du; Carolin E. Pflueger; Jesse Schreger - Federal Reserve Board; University of British Columbia (UBC); Harvard Business School

Abstract: Local currency (LC) debt provides consumption-smoothing benefits if it gets inflated away during recessions. However, the authors document that countries with more procyclical inflation and countercyclical LC bond returns, where consumption-smoothing benefits are lowest, issue the most LC debt. Monetary policy credibility explains this pattern through its effect on bond risk premia. **In the authors' model, low-credibility governments are more likely to inflate during recessions, generating excessively countercyclical inflation beyond the standard inflationary bias.** In the model, and the data, low-credibility governments pay higher risk premia on LC debt, leading them to borrow in foreign currency.

Fiscal Policy and Budget Management

Euro area fiscal stance (2017)

Krzysztof Bańkowski; Marien Ferdinandusse - European Central Bank

Abstract: This paper analyses the appropriateness of the euro area fiscal stance. In this context, the paper presents the relevant definitions and how the euro area fiscal stance has evolved over time. Furthermore, it contains an evaluation of the appropriateness of the euro area aggregated fiscal stance set out in the European Commission's Spring 2016 European Economic Forecast, concluding that, **while it is broadly appropriate from the stabilisation perspective, it deviates slightly from the sustainability objective.** Finally, the paper investigates the impact of a fiscal stimulus in Germany on the main euro area macroeconomic variables under an adverse risk scenario. The analytical exercise conducted in the paper is agnostic about the relative weights of the stabilisation and sustainability objectives and considers them separately. This is distinct from the SGP framework, which synthesises the two, placing a stronger emphasis on the latter. The ultimate aim of this approach is to analyse the possible interactions between the two objectives at the current juncture.

Public Debt and the Demand for Government Spending and Taxation (2017)

Christopher Roth; Johannes Wohlfart - University of Oxford; Goethe University Frankfurt

Abstract: In this paper the authors examine whether people's beliefs about government debt affect their attitudes towards government spending and taxation. The authors conduct two online experiments in the United States in which the authors inform half of the participants about the current debt-to-GDP ratio. Thereafter, all of our respondents complete a series of questions measuring their attitudes towards government spending and taxation using self-reports and behavioral

measures. **The authors find that most people under-estimate the debt-to-GDP ratio and favor a cut in government spending once they learn about the actual amount of debt, but do not on average alter their attitudes towards taxation.** The authors show that our effects operate through changes in beliefs about fiscal sustainability. Finally, the authors provide evidence that our treatment effects persist in a four-week follow-up**.**

Eurozone Bailouts: Greece's Least Austere Period in Modern Times (2017)

Pablo Triana - ESADE Business School

Abstract: The infamous bailout loans granted by Europe and the IMF to Greece since 2010 did not create austerity in the country. The authors use official statistics to show that government spending and deficits did generally not go down in the bailout period versus other previous periods in "modern" Greece (using data as far back as 1980, just as it was ready to join the European Union and as it began to embark on the socialistic experiment of high state intervention in the economy that has never truly left her). In fact, they went up, even substantially up, both nominally and as a ratio to Greek GDP. No other prior six-year period registered higher government spending levels, with the sole exception of the period including the peak year in excess splurging of 2009 (which could commonsensically be excluded from the analysis, as it reflected most abnormal and artificial conditions).

Governments and Promised Fiscal Consolidations : Do They Mean What They Say? (2017)

Carlos Mulas-Granados ; João Tovar Jalles ; Michela Schena ; Sanjeev Gupta - International Monetary Fund

Abstract: This paper analyses the causes and consequences of fiscal consolidation promise gaps, defined as the distance between planned fiscal adjustments and actual consolidations. Using 74 consolidation episodes derived from the narrative approach in 17 advanced economies during 1978 – 2015, the paper shows that promise gaps were sizeable (about 0.3 percent of GDP per year, or 1.1 percent of GDP during an average fiscal adjustment episode). **Both economic and political factors explain the gaps: for example, greater electoral proximity, stronger political cohesion and higher accountability were all associated with smaller promise gaps.** Finally, governments which delivered on their fiscal consolidation plans were rewarded by financial markets and not penalized by voters.

Fiscal reaction function and fiscal fatigue: evidence for the euro area (2017)

Cristina Checherita-Westphal; Václav Žďárek - European Central Bank; University of Warwick

Abstract: This paper estimates a fiscal reaction function (FRF) framework for euro area countries and derives a novel approach to measure fiscal fatigue. As in previous studies, the authors find evidence that euro area sovereigns abide, on average, by (weak) sustainability constraints. **The primary balance improves by about 0.03–0.05 for every 1 percentage point increase in the debt-to-GDP ratio after controlling for other relevant factors. The positive reaction of primary surpluses to higher debt strengthened over the crisis.** Based on this framework, the authors propose a simple, practical measure of fiscal fatigue that can be used to assess the capacity of sovereigns to maintain primary surpluses over extended periods of time. This measure can be derived by comparing simulated primary balance paths in the context of debt sustainability analyses with countries' track-record, adjusted for the change in debt with the estimated fiscal reaction coefficient. The evidence of fiscal fatigue in non-linear FRF specifications is weaker for our euro area sample. Moreover, the fiscal and debt management frameworks and policies need to be strengthened in order to mobilize domestic savings and attract foreign financing.

Interactions between fiscal multipliers and sovereign risk premium during fiscal consolidation: model based assessment for the euro area (2017)

Magdalena Lalik - European Central Bank

Abstract: The paper presents a model-based assessment of fiscal multipliers operating in the euro area during the period 2011-2014. The assessment is conditional on two distinct reactions of the sovereign risk premium (either responding endogenously to fiscal shocks or being an exogenous process) and two types of monetary policy (accommodative and non-accommodative). Applying those multipliers to the amount of austerity measures implemented in years 2011-14, the paper evaluates their possible fallouts and shows that the output effects of the recent fiscal consolidations were largely determined by two key factors: financial markets' sentiments and the composition of adopted measures. Finally, the paper also highlights the importance of modelling of government's interest payments for predicting the evolution of debt-to-GDP ratios.

Financial Sustainability and Public Debt Management in Central Government (2017)

Yuri Biondi; Marion Boisseau - French National Center for Scientific Research (CNRS); Université Paris Dauphine

Abstract: This chapter explores the link between sovereign debt and financial sustainability in central governments, clarifying sustainability mechanisms specific to the public sector. They refer to the connection between public debt and the monetary basis, as well as the general interest missions performed by the public sector to cover collective and long-term obligations and guarantees. **By examining matters raised to this specificity, the authors offer an original position on the financial sustainability of central governments. In recent decades, there has been a trend toward convergence between the private and the public modes of accounting and finance, including related financial sustainability criteria.** Financial sustainability of central governments was then allegedly aligned with that of business firms. Our approach argues that some financial mechanisms that lie at the heart of sustainability of public entities are specific and pertain to the public sector sphere. To illustrate this specificity, three issues are especially addressed: (i) the taxing power; (ii) the public debt management and its refinancing mechanism, and (iii) the collective engagement represented by pay-as-you-go pension obligations. A theoretical framework is then developed and corroborated by numerical illustration and case studies in practice and regulation. One case study concerns the sustainability measures adopted under "the Excessive Debt Procedure Criteria" by the European Union (EU), which may show inconsistency between management by financial indicators and sovereign sustainability.

Fiscal Politics in the Euro Area (2017)

Luc Eyraud; Tigran Poghosyan; Vitor Gaspar - International Monetary Fund

Abstract: This paper provides evidence of fiscal procyclicality, excessive deficits, distorted budget composition and poor compliance with fiscal rules in the euro area. Our analysis relies on real-time data for 19 countries participating in the euro area over 1999–2015. The authors look for, but do not find, conclusive evidence of bias in procedures in relation to country size. The paper also briefly reviews the literature on political economy factors and policy biases, and offers some reflections on the euro area architecture.

Contingent Liabilities

The role of public debt managers in contingent liability management (2017)

Lerzan Ülgentürk and members of the OECD Task Force on Contingent Liabilities and Public Debt Management – OECD

Abstract: This paper explores the role of public debt managers in contingent liability management based on the results of a background OECD survey and the information provided by seven task force countries. The results indicate that there are certain roles and responsibilities assumed by the public debt managers in this field, while the degree of involvement differs widely across countries. The authors also observed that the debt management offices' (DMOs) involvement is more prominent in the management of government credit guarantees, while contingent liabilities arising from Public Private Partnerships (PPPs) and government sponsored insurance programmes appear to be outside the domain of public debt managers in most cases. Drawing on leading country practices and lessons from the past, this paper advises public debt managers on possible motives and areas of involvement.

The role of public debt managers in contingent liability management - Selected Country Practices (2017)

The OECD Working Party on Public Debt Management (WPDM) created a task force on Contingent Liabilities and Public Debt Management to report on country practices – OECD

Abstract: This document is published as an annex to an OECD working paper on "The role of public debt managers in contingent liability management". It presents the contingent liability management frameworks and practices in seven countries – Brazil, Denmark, Iceland, Mexico, South Africa, Sweden and Turkey – that are members of the OECD Task Force on Contingent Liabilities and Public Debt Management. These country cases provide detailed information on the organisational structure of the Debt Management Office (DMO); main sources of contingent liabilities; role of the DMO in the area of contingent liabilities – management, measurement, monitoring and reporting. The experiences of public debt managers in task force countries shed light on the different implementation and policy frameworks. These differences underline the difficulty of advising on a single set of roles for public debt managers.

Public Debt in Macroeconomic Analysis

Sovereign debt in the euro area: too safe or too risky? (2016)

ECB European Central Bank

Abstract: Indeed, more than any other advanced economy, the euro area has experienced how quickly trust in the sustainability of public debt can form and then transform, and with it perceptions of "creditworthiness". In our case, it has shifted from one pole to the other. Public debt has been seen as both too safe and too risky. Too safe, because the widespread belief before the crisis that the debt of different euro area sovereigns was interchangeable fuelled an unwarranted spread compression and contributed to major financial and macroeconomic imbalances. And too risky, because the rapid unwinding of those beliefs cascaded through the financial system and government finances, pushing the euro area into a deeper and more prolonged crisis than other advanced economies. Accordingly, there is a rift in Europe between those economists and politicians who want public debt to be safe again, and those who want it to be riskier. What the report intends to discuss is how we might go about squaring the circle between risk and safety.

[Inflation, default, and the currency composition of Sovereign Debt in emerging economies]() (2017)

Daniel B. Fried - Congressional Budget Office - Washington, DC

Abstract: In emerging market economies, governments issue debt denominated both in their own currency and in foreign currencies. **This report develops a theory of the optimal composition of sovereign debt between local and foreign currencies.** In a model with a micro-founded monetary framework, a government controls monetary policy and has the ability to borrow from abroad using both local and foreign currency bonds. In this model, local currency bonds differ from foreign currency bonds in two important ways. **Unlike foreign currency bonds, local currency bonds function as a contingent claim, allowing governments to more easily smooth consumption over time.** In addition, the threat of strategic inflation limits the amount that a government can borrow using local currency bonds (but has no direct effect on foreign currency borrowing). When governments can issue both local and foreign currency bonds, equilibrium rates of inflation and national welfare are higher than when the government can issue only foreign currency bonds. In addition, document finds that as the cost of default falls, governments choose to issue a larger proportion of debt in their local currency. Compared to monetary regimes that cannot commit to future actions, credible monetary policy commitments can eliminate the risk of strategic inflation and improve economic outcomes.

[Public Debt Sustainability Under Uncertainty : An Invariant Set Approach]() (2017)

Rossen Rozenov - International Monetary Fund

Abstract: The paper offers an approach to assessing the sustainability of public debt taking into account the effect of fiscal policy on output, as well as uncertainty in the model parameters and system dynamics. Uncertainty is specified in general terms, and the analysis is based on the notion of invariant sets. Examples are provided to illustrate how the method can be applied in practice.

[Modeling euro area bond yields using a time-varying factor model]() (2017)

Tomáš Adam, Marco Lo Duca - European Central Bank

Abstract: In this paper, the authors study the dynamics and drivers of sovereign bond yields in euro area countries using a factor model with time-varying loading coefficients and stochastic volatility, which allows for capturing changes in the pricing mechanism of bond yields. Our key contribution is exploring both the global and the local dimensions of bond yield determinants in individual euro area countries using a time-varying model. Using the reduced form results, the authors show decoupling of periphery euro area bond yields from the core countries yields following the financial crisis and the scope of their subsequent re-integration. In addition, by means of the structural analysis based on identification via sign restrictions, the authors present time varying impulse responses of bond yields to EA and US monetary policy shocks and to confidence shocks.

[The Long-run Determinants of Indian Government Bond Yields]() (2017)

Tanweer Akram; Anupam Das - Thrivent Financial; Mount Royal University

Abstract: This paper investigates the long-term determinants of Indian government bonds' (IGB) nominal yields. It examines whether John Maynard Keynes's supposition that short-term interest rates are the key driver of long-term government bond yields holds over the long-run horizon, after controlling for various key economic factors such as inflationary pressure and measures of economic activity. It also appraises whether the government finance variable—the ratio of government debt to nominal income—has an adverse effect on government bond yields over a long-run horizon. **The models estimated here show that in India, short-term interest rates are the key driver of long-term government bond yields over the long run. However, the ratio of government debt and nominal income does not have any**

discernible adverse effect on yields over a long-run horizon. These findings will help policymakers in India (and elsewhere) to use information on the current trend in short-term interest rates, the federal fiscal balance, and other key macro variables to form their long-term outlook on IGB yields, and to understand the implications of the government's fiscal stance on the government bond market.

Self-Fulfilling Debt Crises, Revisited: The Art of the Desperate Deal (2017)

Mark Aguiar; Satyajit Chatterje; Harold L. Cole - Princeton University; Federal Reserve Bank of Philadelphia; University of Pennsylvania

Abstract: In this paper the authors revisit self-fulfilling rollover crises by introducing an alternative equilibrium selection that involves bond auctions at depressed but strictly positive equilibrium prices, a scenario in line with observed sovereign debt crises. The authors refer to these auctions as "desperate deals," the defining feature of which is a price schedule that makes the government indifferent to default or repayment. The government randomizes at the time of repayment, which the authors show can be implemented in pure strategies by introducing stochastic political payoffs or external bailouts. Quantitatively, auctions at fire-sale prices are crucial for generating realistic spread volatility.

On the Role of Debt Maturity in a Model with Sovereign Risk and Financial Frictions (2017)

Stéphane Auray - University of Lyon 2

Abstract: In this paper the authors develop a model with financial frictions and sovereign default risk where the maturity of public debt is allowed to be larger than one period. When the debt portfolio has longer average maturities, public debt increases less in the event of a crisis, reducing the size of the subsequent fiscal consolidation through distortionary taxes or public spending, with positive effects on welfare. In addition, the authors provide some results suggesting that optimized fiscal responses to a crisis depend on the average maturity of the debt portfolio.

Sovereign Debt Effects and Composition: Evidence from Time-Varying Estimates (2017)

Antonio Afonso; João Tovar Jalles; - University of Lisbon; International Monetary Fund

Abstract: In this paper the authors compute time-varying responses of the sovereign debt ratio to primary budget balances for 13 advanced economies between 1980 and 2012, and assess how fiscal sustainability reacts to different characteristics of government debt. **The authors find that the sustainability time-varying coefficient increases the higher the share of public debt denominated in foreign currency.** Moreover, the countries become more fiscally sustainable if they contract a higher share of long-term public debt, if more debt is held by the central bank or if it is easily marketable in capital markets.

How Biased are U.S. Government Forecasts of the Federal Debt? (2017)

Neil R. Ericsson - Board of Governors of the Federal Reserve

Abstract: Government debt and forecasts thereof attracted considerable attention during the recent financial crisis. **The current paper analyzes potential biases in different U.S. government agencies' one-year-ahead forecasts of U.S. gross federal debt over 1984-2012.** Standard tests typically fail to detect biases in these forecasts. However, impulse indicator saturation (IIS) detects economically large and highly significant time-varying biases, particularly at turning points in the business cycle. These biases do not appear to be politically related. IIS defines a generic procedure for examining forecast properties; it explains why standard tests fail to detect bias; and it provides a mechanism for potentially improving forecasts.

Implicit Public Debt Thresholds: An Empirical Exercise for the Case of Spain (2017)

Javier Andrés; Javier J. Pérez; Juan A. Rojas - University of Valencia; Javier J. Pérez; Banco de Espana

Abstract: In this paper the authors extend previous work that combines the Value at Risk approach with estimation of the correlation pattern of the macroeconomic determinants of public debt dynamics by means of Vector Auto Regressions (VARs). These estimated models are used to compute the probability that the public debt ratio exceeds a given threshold, by means of Monte Carlo simulations. The authors apply this methodology to Spanish data and compute time-series probabilities to analyse the possible correlation with market risk assessment, measured by the spread over the German bond. Taking into account the high correlation between the probability of crossing a pre-specified debt threshold and the spread, the authors go a step further and ask what would be the threshold that maximises the correlation between the two variables. The aim of this exercise is to gauge the implicit debt threshold or "prudent debt level" that is most consistent with market expectations as measured by the sovereign yield spread. The level thus obtained is consistent with the medium-term debt-to-GDP ratio anchor of 60% of GDP.

[Pricing of bonds and equity when the zero lower bound is relevant](#) (2017)

Heinrich Kick - European Central Bank

Abstract: This paper investigates the joint dynamics of nominal bond yields, real bond yields and dividend yields from the 80s up to the aftermath of the financial crisis by mapping them on a set of macro factors. It builds on an existing discrete time affine Gaussian model of the term structure model of nominal bonds, real bonds and equity and extends it by three important innovations. Firstly, allowing for structural shifts in inflation expectations. Secondly, accounting for the relevance of the zero lower bound in the period after 2008 by modelling a so-called shadow rate and deriving asset prices by explicitly considering the zero lower bound. Finally, calculating the standard errors to correctly capture the multi-step nature of the estimation process, which results in substantially larger standard errors than previously reported for the model. The authors achieve statistically significant risk premia by imposing restrictions on the matrix of risk premia. Taken together, these modifications allow to better model asset prices also during the financial crisis and the ensuing economic environment of sluggish growth, lowinflation rates, interest rates close to zero and quantitative easing.

Global Economic Prospects, January 2017: Weak Investment in Uncertain Times (2017)

World Bank Group

Abstract: Stagnant global trade, subdued investment, and heightened policy uncertainty marked another difficult year for the world economy. A moderate recovery is expected for 2017, with receding obstacles to activity in commodity exporters and solid domestic demand in commodity importers. Weak investment is weighing on medium-term prospects across many emerging markets and developing economies (EMDEs). **Although fiscal stimulus in major economies, if implemented, may boost global growth above expectations, risks to growth forecasts remain tilted to the downside. Important downside risks stem from heightened policy uncertainty in major economies.**

Sovereign Outlook 2017: turbulent politics and troubled public finances (2016)

Ilona Dmitrieva - Scope Ratings AG

Abstract: Scope Ratings' outlook for 2017 for large EU sovereigns, which includes Germany, France, Italy, Spain and the UK, reflects the common challenges these countries are facing. Except for Germany, there is a lack of deleveraging in the public sector. Furthermore, subdued and non-inclusive economic growth, and political movements that are simultaneously populist, anti-austerity, anti-establishment, anti-immigrant and anti-EU, are pushing established political parties towards anti-reformist and nationalist policies. This makes progress in structural reforms, which are necessary at national level, within the EU and among euro area institutions, increasingly uncertain. **Scope expects that policy response will remain mostly confined to monetary policy, and aid from the fiscal side will be marginal.** This leaves the large EU sovereigns, except for Germany, ill-prepared for the next downturn, as their capacity to stimulate the economy during the next crisis is significantly impaired.

Life after default? Private vs. official sovereign debt restructurings (2017)

Silvia Marchesi - Centro Studi Luca D'Agliano development studies working papers

Abstract: The paper studies the relationship between sovereign debt default and annual GDP growth taking into account the depth of a debt restructuring and distinguishing between commercial and official sovereign debt restructurings. Analyzing 73 default episodes in 117 countries over the period 1975-2013, it finds that defaults are correlated with contraction of short-term output growth. Most importantly, controlling for the severity of the default, it's able to detect a more lasting and negative link between default and growth. While higher private haircuts imply a negative stigma which is associated to lower growth over a longer period, higher amount of official restructuring may have some costs in the short-run, but are associated to an increase in growth in the long run. Adopting an alternative specification, in which the dependent variable is a country's credit rating, it finds very similar results for private haircuts and official restructurings. They are both associated to lower ratings up to seven years after the default. To the extent that credit ratings is a good proxy for borrowing costs, positive growth prospects for official defaulters seem not to be influenced by a lower reputation in the credit markets.

Relevant factors influencing debt developments in Italy (2017)

Italian Ministry of Economy and Finances (MEF)

Abstract: The report discusses the relevant factors that in the opinion of the government should be considered when assessing Italy's compliance with the Stability and Growth Pact. The first is the persistence of deflationary pressures. Consistent with virtual price stability, nominal GDP growth has been weak, hindering a significant reduction in the public debt ratio. The decline in bond yields supported debt stabilisation, but Italy's implicit interest cost

declined only gradually due to a high financial duration of public debt. Looking forward, worldwide excess capacity and strong competitive pressures are still bearing down on prices. **Given this outlook, the government judged it appropriate to aim for gradual deficit reduction in 2017 while targeting faster consolidation in 2018-2020.** The second key factor is that Italy's output gap is grossly underestimated. Despite a sharp output loss compared to 2008, an unemployment rate of 11.6 percent and virtual stability in wages and prices, the Commission estimates that Italy's output gap will shrink to a mere 0.8 percentage points of GDP in 2017 and zero in 2018. The report presents alternative output gap estimates based on the 'commonly agreed methodology, which suggest the gap remains close to 3 percent in 2017 and, crucially, will close more gradually than suggested by the Commission over the coming years. Thirdly, Italy's reform effort continues. The effect of recent reforms is estimated at 2.2 percentage points of GDP by 2020, 3.4 points by 2025 and 8.2 in the long run. Other highly relevant factors include Italy's track record of fiscal discipline and the budgetary impact of the ongoing immigration wave and of the recent earthquakes.

The impact of uncertainty on activity in the euro area (2017)

ECB European Central Bank

Abstract: Fluctuations in uncertainty can play an important role in shaping the economic conjuncture and outlook. **This article discusses the various methods proposed in the literature to measure uncertainty and shows how these measures have evolved in the euro area.** It describes the transmission channels of fluctuations in uncertainty to the economy and provides some model-based evidence for the impact of uncertainty on euro area activity. The results suggest that uncertainty in the euro area rose substantially during the Great Recession and during the sovereign debt crisis, and that high uncertainty could significantly dampen activity in the euro area, and notably investment.

OECD Economic Surveys: Mexico 2017 (2017)

OECD

Abstract: Ambitious structural reforms and sound macroeconomic policies have ensured the resilience of the highly-open Mexican economy in the face of challenging global conditions. Mexico's productivity growth has recently picked up in sectors that benefitted from structural reforms – energy, financial, and telecoms. Trade openness, foreign direct investment, integration into global value chains and innovation incentives have boosted exports, notably of autos. Yet other sectors lag behind, suffering from overly stringent local regulations, weak legal institutions, rooted informality, corruption and insufficient financial development. Moreover, growth has not been inclusive enough to achieve better living conditions for all Mexican families, many of whom live in poverty, and whose children's opportunities to do better than their parents could be improved. Past policies have already begun to correct these trends, but more needs to be done. The 2017 Survey makes key policy recommendations that could help to boost productivity and make growth more inclusive.

OECD Economic Surveys: Italy 2017 (2017)

OECD

Abstract: The Jobs Act, part of a wide and ambitious structural reform programme, and social security contribution exemptions have improved the labour market and raised employment. Yet, **the recovery remains weak and productivity continues to decline. Returning the banking system to health will be crucial to revive growth and private investment.** More investment in infrastructure will be essential to raise productivity. **The government has made significant progress on tackling structural impediments to growth and productivity. Yet public administration inefficiencies, slow judicial processes, poorly designed regulation and weak competition still make it difficult to do business in Italy.** Labour and capital resources are trapped in low-productivity firms, which hold down wages and well-being. Innovative start-ups and SMEs continue to suffer from difficult access to bank and equity finance, curbing incomes for many.

Scotiabank's global outlook (2017)

Scotiabank Economics

Abstract: The Latin American region continues its deep structural transformation, with the potential to attract steady foreign direct and portfolio investment flows in the year ahead. However, the anticipated gradual process of normalization of monetary policy in the USA to be conducted by the Federal Reserve (Fed) has already opened the gates for rigorous differentiation amongst asset classes and sovereign credits. Scotiabank forecasts the systemically relevant countries of the region are aptly prepared (through manageable systemic leverage, well-capitalized banking sectors, adequate access to international credit and strong international reserves positions) to withstand any disrupting shifts in Fed policy the year ahead. **Nevertheless, international credit agencies have delivered a message of caution regarding the erosion in fiscal and debt metrics in selected cases; indeed, market-sensitive rating agencies still maintain a**

"negative" outlook on sovereign credit ratings of Brazil, Mexico and Colombia whereas a "stable" outlook is enjoyed by both Peru and Argentina. The year ahead will see an improvement in growth dynamics within the Latin American economic landscape. Financial market trends have, over the past six months, anticipated an improving outlook for most countries in the region.[…]

Outlook on emerging markets (2017)

Lazard Asset Management

Abstract: Despite clear improvements in emerging markets economic data, not all investors are convinced that the structural bear market in emerging markets is over. Adding to the cautionary mood are expected headwinds from US inflation and rising US rates under a pro-growth Trump administration. Exogenous factors have strongly influenced emerging markets assets for several years now, and are expected to pose significant negative tail risks in the months ahead. In outlook for 2017, authors examine these risks to better understand the "wall of worry" Lazard Asset Management believes investors will need to climb this year. However, they believe it is equally important to note that fundamentals could continue to strengthen this year. […]

Web Resources

Core Topics in Debt Management

Peru: Sending Markets the Right Signals

The World Bank

After the global financial crisis of 2008, a key priority for the Peruvian government was to reduce fiscal vulnerability to external shocks. As part of this effort, the World Bank Treasury's GDRM Program worked with the Peruvian Ministry of Finance and Economy on improving the debt management strategy to provide more clarity and transparency in the domestic issuance of government securities to investors.

Course Schedule 2017

JVI Joint Vienna Institute

JVI Joint Vienna Institute schedules 2017 several international institutions courses.

Primary Market

Exchange-traded Australian Government Bonds

Australian Government

Exchange-traded Australian Government Bonds (AGBs) offer a convenient and readily accessible way to invest in Australian Government Bonds. Australian Government Bonds are debt securities issued by the Australian Government. A holder of Exchange-traded AGBs has beneficial ownership of AGBs in the form of CHESS Depositary Interests (CDIs). This means holders obtain all the economic benefits, including coupon and principal payments, attached to legal ownership of the AGBs over which the CDIs have been issued.

Calendar of 2017 Emea Sovereign, regional, and local government rating publication dates

Standard & Poor's Financial Services LLC

This calendar sets out publication dates for sovereign, regional, and local government ratings and related outlooks as required by the European Union Regulation (the "EU CRA Regulation") on credit rating agencies (Regulation (EU) No 1060/2009 on credit rating agencies, as amended by Regulation (EU) No 462/2013).

Secondary Market

JPMorgan to stop settling government securities for dealers

Reuters

JPMorgan Chase & Co JPM.N) will stop settling U.S. government securities transactions for most dealers by the end of next year as it streamlines its business. The change would leave BNY Mellon Corp BK.N) as the only clearing bank for such transactions between dealers and investors.

Q&A: why are yields on UK Government gilt bonds shooting up and should we be worried?
Julia Bradshaw - The Telegraph

UK Gilts working, pricing, and a current market view.

Secondary market for Government Bonds (2016)
Ministry of Finance Japan

Not only are government bonds a means for government financing, but also they are financial products being traded on the ever changing financial and securities markets at the same time. **For JGBs to be issued smoothly and fulfill their functions as indicators of bonds and interest rates, transparency and liquidity must be assured and secondary markets with reliable and efficient settlement must exist.** This report outlines how JGBs are traded and made settlement on the market.

Post Trading

Long term government debt securities conventions (2017)
AFMA The Australian Financial Market Association

Long term government debt securities are debt instruments issued by the Australian Commonwealth and State Government Financing Agencies. They create an obligation for the issuer to pay a series of periodic interest payments at regular intervals and return the face value to the holder at maturity. These payments can be either set at a fixed rate of floating rate. Long-dated government debt securities have terms to maturity ranging from 6 months to 25 years. […] **Long term government debt securities are the primary mechanism for the Commonwealth, State Governments and Territories of Australia to meet their long-term funding requirements.** The following long term government debt securities conventions cover the two primary fixed income products issued by these authorities. These are Fixed Rate Bonds and Floating Rate Notes. These conventions reflect current market practices and are maintained by the AFMA Debt Securities Committee.

Multilateral Debt

Debt Management Facility (DMF)
The World Bank

This video describes the work of the Debt Management Facility (DMF) and introduces a new phase of the trust fund, which includes a formal partnership with the International Monetary Fund (IMF). **The Debt Management Facility (DMF) has supported expert assistance on debt management to low-income countries since 2008. The World Bank launched a new phase of the trust fund in April, 2014, adding a formal partnership with the International Monetary Fund.** The DMF program will now include new streams of technical assistance, including developing domestic debt markets, issuing bonds on international markets, and assessing macroeconomic and financial sector risks.

DMF Newsletter, Issue #26
The World Bank

The eighth annual DMF stakeholders forum will focus on the significant challenges public debt managers in developing and emerging markets are now facing.

Developing Domestic Bond market

Macedonia Joins Government Debt and Risk Management Program to Strengthen Resilience to Fiscal Shocks
The World Bank

Specific areas of focus include: development of the domestic government bond market, design of a comprehensive debt management strategy, improvement of the debt management IT system, and management of contingent liabilities. Since its inception in 2011, the program has grown from serving three to 11 countries. Other participating countries include Azerbaijan, Colombia, Egypt, Ghana, Indonesia, Peru, Serbia, South Africa, Tunisia, and Vietnam.

Cash Management

Pilot – Government of Canada cash management Bond buyback program
Bank of Canada

The Bank of Canada and the Department of Finance announced a pilot for the Government of Canada Cash Management Bond Buyback program that will increase flexibility in the maximum repurchase amount at each operation. The pilot program will introduce a two-step Call for Tenders process, similar to that for the treasury bill program. The preliminary Call for Tenders will indicate an initial maximum amount that may be repurchased, with a final Call for Tenders that may increase the maximum amount. The maximum amount that may be repurchased will range between $500 million and $2 billion. The operations will continue on a weekly basis, with each operation being conducted in the same manner. The preliminary Call for Tenders will be communicated one week prior to the auction at 3:30pm (ET),with the Final Call for Tenders at 9:00am (ET) on the day of the operation. This pilot will commence with the operation to be held on 17 January 2017 and remain in place until further notice.

Legal Issues and Conventions

A new debt workout mechanism: the state of the debate early 2017 part 1

Jürgen Kaiser - SLUG / Nettverk for rettferdig gjeldspolitikk

Between 1999 and 2005 substantial progress was achieved in terms of debt relief for poor developing countries. Through a combination of partial debt relief and strong economic growth, key indicators of indebtedness have been reduced considerably in some of the poorest and most heavily indebted countries (HIPCs). In a few non-HIPCs individual agreements on debt cancellation have also led to considerable improvements, including Iraq after the fall of Saddam Hussein and Nigeria in 2005. […]

Constant dripping wears away the stone: an incremental approach to Sovereign Debt restructuring

Matthias Goldmann - Goethe University Frankfurt

It is almost common sense that the current regime for negotiating sovereign debt restructurings requires improvement. 'Too little, too late' has become the slogan of many stakeholders in politics, the financial industry and academia who believe that the current state of affairs is unsatisfactory. 'Too little' means that sovereign debt restructurings in the past have not always stabilized the financial situation of a country. Often, they have been tailored in accordance with debt sustainability analyses based on overly optimistic growth projections. 'Too late' refers to frequent debtor and creditor procrastination in recognizing that a restructuring is needed. […]

Inter-creditor equity in corporate and sovereign debt restructuring

Vassilis Paliouras – Volkerrechtsblog

The attribute of the sovereign restructuring regime stands in contrast to domestic statutory bankruptcy. In the absence of a bankruptcy regime for states therefore, evaluations about inter-creditor equity might be no less intractable than judgment calls on what one considers equal or fair. This "foggy status quo" gives rise to inter-creditor battles in sovereign debt crises that would be all too familiar to the eye of some 19th century lenders. Such battles, and their respective consequences for the sovereign debtor itself, beg the question of the extend to which notions of inter-creditor equity developed in domestic corporate reorganization regimes can shape what seems to be a rather amorphous concept in the context of sovereign debt.[…]

Hungarian settlement bonds under fire

Visegrad Revue - International Visegrad Fund

There is rising public pressure on Hungary's government to terminate settlement bonds, which essentially give foreign nationals legal residency in return for payment. The government claims the revenue is good for business, while opponents maintain that the bonds are a mere money-laundering vessel and open up the country and the EU to dangerous individuals. [...]

MIFID II and transparency for Bonds: what you need to know

Amir Khwaja - Clarus Financial Technology

MiFID II and transparency of bonds features. The transparency changes are profound and significant. For a market with tens of thousands of securities, with high volumes in specific issues and a long tail for many others, this transparency will have a profound impact and be interesting to say the least. RTS 2 has requirements on transparency to ensure that investors are informed as to the true level of actual and potential transactions, irrespective of whether the transactions take place on Regulated Markets (RMs), Multi-lateral Trading facilities (MTFs), Organised Trading Facilities (OTFs), Systemic Internalisers (SIs) or outside these facilities. This transparency is meant to establish a level playing field between trading venues so that price discovery of a particular financial instrument is not impaired by fragmentation on liquidity. Meaning that there are new both pre-trade and post trade transparency requirements […]

MIFID II pre-and post-trade transparency - impact on bond markets
Zoeb Sachee - Citigroup Global Markets Limited (CGML)

MiFIR/MiFID II pre-trade and post-trade main features.

Risk management Models

Designing a Better Financial Shock Absorber to Improve Risk Management of South Africa's Debt Portfolio
The World Bank

South Africa is in a better position to absorb fiscal shocks thanks to improved risk management of the country's public debt portfolio. A partnership between the World Bank and the Government of South Africa has produced new benchmarks based on customized model that analyzes the cost and risk factors in the country's debt portfolio. These benchmarks are in line with international practice, allowing the National Treasury to increase its credibility and accountability.

Derivatives

Convexity: the perfect trade?
Chris Brandt - IPE Investment&Pensions Europe

When small changes in conditions induce larger movements in bond prices, it is called convexity. This is when the relationship between bond prices and changes in interest rates is not linear. Convexity is sensitivity of an interest rate change on bond prices. If bond prices get more sensitive to interest rate changes as rates change, then convexity has increased. Convexity is currently undervalued in fixed-income markets. The market believes that interest rates will remain low for a long period and there is little risk of sharp changes to the sensitivity of bond prices. In other words, the market view is that there is little chance the rate at which the value of a bond falls could accelerate relative to the increase in interest rates. But some fund managers disagree and are actively exploiting this undervaluing of convexity […]

Institutional Framework

Vietnam: Building a Framework for Mobilizing Development
World Bank
In the last 30 years, Vietnam has become one of the world's great development success stories. The country has risen from the ranks of the poorest on the strength of a nearly 7% average growth rate and targeted government policies. As it moves to a market-based public debt management environment with a broad range of borrowing choices, Vietnam has partnered with the World Bank Treasury through the Government Debt and Risk Management Program to improve its Public Debt Law to support investment in infrastructure and social programs.

Organisation of Debt Management Offices

Serbia: A Best-in-Class Solution for Improving Debt Management
World Bank
When Branko Drcelic was appointed head of the Serbian Public Debt Administration in 2012, he was determined build a best-in-class, market-competitive public debt management operation. While Drcelic knew he could rely on the young talent pool around him, he also knew he needed know-how, in terms of technical expertise and training. Serbia joined the Government Debt and Risk Management Program to receive technical assistance to build institutional capacity for debt management.

Accounting, Transparency and Accountability

Main Economic Indicators, Volume 2017 Issue 3
OECD

The monthly Main Economic Indicators (MEI) presents comparative statistics that provide an overview of recent international economic developments for the 35 OECD countries, the euro zone and a number of non-member economies.

Quarterly National Accounts, Volume 2016 Issue 3
OECD

The OECD's Quarterly National Accounts contains the accounts most widely used: GDP by expenditure and by industry, gross fixed capital formation by asset, gross fixed capital formation by institutional sector, and components of disposable income.

[Bi-Monthly DMFAS Missions Calendar - February / March 2017]

UNCTAD DMFAS

The updated list of missions by UNCTAD's Debt Management and Financial Analysis System (DMFAS) Programme over the period February and March 2017. The Debt Management and Financial Analysis System (DMFAS) Programme is one of the world's leading providers of technical cooperation and advisory services in the area of debt management. Within the the Debt and Development Finance Branch of the Globalization and Development Strategies Division, the DMFAS Programme forms an integral part of the United Nations Conference on Trade and Development (UNCTAD).

[European Economic Forecast – Winter 2017]

European Commission

Having proven resilient to global challenges last year, the European economic recovery is expected to continue this year and next: for the first time in almost a decade, the economies of all EU Member States are expected to grow throughout the entire forecasting period (2016, 2017 and 2018). However, the outlook is surrounded by higher-than-usual uncertainty.

[Forecast of the gross federal debt of the United States for fiscal years 2015 to 2026]

Statista the statistics portal - Statista GmbH

The report shows a forecast of the outstanding gross federal debt of the United States of America from 2015 to 2026. The gross federal debt comprises the federal debt held by the public plus Treasury securities held by federal trust funds and other governmental accounts. This forecast projects the gross federal debt to increase from 18.14 trillion U.S. dollars in 2015 to 29.31 trillion U.S. dollars in 2026 […]

[International public sector accounting standards board (IPSASB)]

Deloitte Touche Tohmatsu Limited

The International Public Sector Accounting Standard Boards IPSASB)– formerly the Public Sector Committee – of the International Federation of Accountants focuses on the accounting, auditing, and financial reporting needs of national, regional, and local governments, related governmental agencies, and the constituencies they serve. **The IPSASB's current activities are focused on the development of International Public Sector Accounting Standards (IPSAS) for financial reporting by governments and other public sector entities the Standard Project).** The IPSASB has adopted a set of procedures by which it considers IASB documents for convergence. The IPSASB will use the analysis resulting from this process to determine whether identified public sector issues warrant departures from the IASB document when developing the related IPSAB document […]

Coordination with other policies

[Indonesia: Basing infrastructure investment on more solid ground]

The World Bank

For Indonesia, with its large and far-flung population, a modern and efficient infrastructure is vital to connecting with markets at home and abroad. **The Indonesian ministry of finance partnered with the Government Debt and Risk Management Program to assess and manage the risks of government guarantees for infrastructure projects.** A new scorecard system is helping Indonesia finance infrastructure investment while managing government exposure to credit guarantees and making the economy more resilient to financial shocks.

[OECD Journal: Economic Studies, Volume 2016 Issue 1]

OECD

OECD Journal: Economic Studies publishes articles in the area of economic policy analysis, applied economics and statistical analysis, generally with an international or cross-country dimension.

[Italian G7 Presidency 2017]

Presidency of the Council of Ministers – Italy

Italian G7 Presidency 2017 Building the Foundations of Renewed Trust. The G7 is a forum for dialogue at the highest level attended by the leaders of the world's most important industrially advanced democracies. Its chief features are the intergovernmental nature of the preparatory process and its informality, which makes it easier for the leaders to discuss the world's major issues and to rapidly devise and agree on solutions to them. Given that it is not an international organization, it is devoid of any kind of administrative structure or permanent secretariat.

Fiscal policy and budget management

The fiscal 2017 budget

The Japan Times

The government's record ¥97.45 trillion budget for fiscal 2017, adopted by the Abe administration last week, appears to reflect the shaky state of the nation's economic revival. Growth in tax revenue, which Prime Minister Shinzo Abe has touted as the fruit of his Abenomics policies, stagnates as corporate profits remain at the mercy of the yen's exchange rate fluctuations. While the issue of new government bonds will be barely kept below the previous year's initial budget level thanks to anticipated pickup in tax revenue on the yen's recent downturn and the low debt-servicing costs thanks to the Bank of Japan's massive monetary easing operations, lax efforts to tame the ballooning expenditures continue to threaten the prospect of fiscal consolidation. […]

Monetary policy

ECB economic bulletin issue 8 / 2016 economic and monetary developments

ECB European Central Bank

At its monetary policy meeting on 8 December 2016, based on the regular economic and monetary analyses, the Governing Council conducted a comprehensive assessment of the economic and inflation outlook and the monetary policy stance. **The assessment confirmed the need to extend the asset purchase programme beyond March 2017 to preserve the very substantial amount of monetary support that is necessary to secure a sustained convergence of inflation rates towards levels below, but close to, 2% over the medium term.**

Subnational Bond Markets

Territory Bonds

Northern Territory Government Department of treasury and finance

Territory Bonds forms an integral part of NTTC's borrowing program. Territory Bonds is NTTC's retail fixed interest borrowing product, which is used to seek funds from the general public. The funds raised assist to finance the Territory's infrastructure requirements such as housing, transport, health and education services. Territory Bonds is specifically designed for retail investors seeking a safe and secure government guaranteed investment. Territory Bonds has been issued every year since 1979 and, as at 30 June 2016, had approximately $91 million outstanding. Territory Bonds offers a minimum investment amount of $5000 and a variety of investment terms from one to five years. […]

Uncertain outlook for Muni Bonds in 2017

Think Advisor Network

The municipal bond market may have a lot more to worry about than just rising interest rates next year, which have already hurt it more than many other domestic fixed income markets. There's the possibility that the new all-Republican Congress, with the blessing of President Donald Trump, will reduce or eliminate the tax-exempt status of municipal bond interest as part of a broader tax reform program.[…]

Best Practices Publications

Trading Places from Pretoria, to London, to Washington: deepening the skills of our experts to better serving the clients

The World Bank

In late 2016, the debt management team at the World Bank Treasury sought to deepen its skill set by learning from counterparts in client countries. Fritz Bachmair from the GDRM Program went on assignment to the South African National Treasury with the Asset Liability Management team, and at the UK Debt Management Office (DMO). In return, debt managers from the UK DMO came to Washington, DC to spend time at the World Bank Treasury with the Government Debt and Risk Management team. Reflections on these experiences are chronicled in the team's blog.

Public Debt in Macroeconomic Analysis

Guide to the markets

J.P. Morgan Asset Management

European Market forecasts 1Q 2017.

[**EU faces crisis as IMF warns Greek debts are on 'explosive' path**]

Tim Wallace Szu Ping Chan Peter Foster Steven Swinford - The Telegraph

The EU faces a looming crisis which could threaten the sustainability of the eurozone as the International Monetary Fund has warned Greece's debts are on an "explosive" path, despite years of attempted austerity and economic reforms.[…]

Economic Bulletin No. 1 – 2017

Bank of Italy

Worldwide economic conditions have improved slightly, though a number of uncertainties continue to weigh on the outlook. Prospects for the United States will depend on the economic policies enacted by the new administration, which have yet to be worked out in detail. The fiscal policy measures announced could have an expansionary effect, which is difficult to quantify at present, while the imposition and spread of restrictions on trade could have a negative impact. Global growth could be held back by any turbulence in the emerging economies associated with the normalization of US monetary policy. […]

Russia: public finances at risk

Johanna Melka - BNP Paribas

Russian public finances have held up well to the deterioration in the economic environment. However, the situation could worsen from 2018 if oil prices remain low for a long period. Sovereign funds could be exhausted by this point if the government does not dramatically rein in spending. Its room to manoeuvre is limited given the costs of recapitalising banks and financing pension fund deficits.

Turkey Struggles to Keep its Default

Moody's

Financial markets in Turkey have sold off since the beginning of this year amid political uncertainty and added pressure from last year's rise in US interest rates. The country's Sovereign EDFTM (Expected Default Frequency) metric1, which measures the expected probability of default over a five-year time horizon, increased from 0.82% on January 4 to 0.90% as of January 27 (see Exhibit 1). […]

Cyprus economy Newsletter 01/2017

Cyprus Public Debt Management Office - Ministry of Economy and Finance

This Newsletter provides the latest economic developments in Cyprus.

Renewed Uncertainty Increases UK

Moody's

Fears of a "Hard Brexit" seem to have vanished among the global investors. The UK's Sovereign EDFTM (Expected Default Frequency) metric1, which measures the probability of default over a five-year time horizon, has been gradually declining since November 2016 (Exhibit 1) as economic activity has been better than expected since the June referendum to leave the EU. […]

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

16 - 17 February 2017; Florence School of Banking and Finance
The legal aspects of liquidity: LCR, NSFR, ILAAP

23 February 2017; Venues St Paul's, London
12th Annual European Market Liquidity Conference

27 February – 7 April 2017; Web Based
Basic Course on Public Debt Management (2017)

7 March 2017; webinar – World Bank Treasury
World Bank Treasury Webinar Series – What you should look for in an information system for public debt management

8 -10 March 2017; Florence School of Banking and Finance
Macroprudential policy: promises and challenges

13 March – 21 April 2017; Web Based
Negotiation of Financial Transactions

14 -15 March 2017; Spencer Hotel, Dublin
Understanding Treasury Management

20 March – 21 April 2017; Web Based
Fundamentals of Capital Market Development and Regulation

20 March – 21 April 2017; Web Based
Fundamentals of Microfinance **(2017)**

22 -23 March 2017; London
Modern Modelling and Pricing of Interest Rates Derivatives

22 -23 March 2017; New York
Implementing Basel III Ratios: LCR, NSFR and Leverage Ratio

23 March 2017; Frankfurt am Main
ICMA Asset Management and Investors Council Conference

23 March 2017; Beijing
The China Debt Capital Markets Summit 2017

27 March 2017; United Kingdom
Integrated Financial Management Systems: Strategy & Implementation

27 March – 21 April 2017; Web Based
Audit of Public Debt

27 March – 5 May 2017; Web Based
Capital Market Development & Regulation - Advanced Course (2017)

3 April – 5 May 2017; Web Based
Fundamentals of the Money Market (2017)

3 April – 5 May 2017; Web Based
Fundamentals of the Derivative Markets (2017)

5 – 6 April 2017; Cape Town International Convention Centre
Bonds, Loans & Sukuk Africa 2017

6 – 7 April 2017;
Singapore. National university of Singapore business school
Public debt markets, government expenditure and fiscal prudence

10 April – 12 May 2017; Web Based
Principles of Central Bank Reserve Management (2017)

10 April – 12 May 2017; Web Based
Fundamentals of Risk Management (2017)

10 April – 12 May 2017; Web Based
Governance of Public Finance (2017)

12 April 2017; webinar – World Bank Treasury
Managing Fiscal Risks from Public Private Partnerships (PPPs)

17 – 21 April 2017; Washington
2017 International borrowing & debt management - applications & recent developments

17 April – 19 May 2017; Web Based
Advanced Risk Management (2017)

17 – 28 April 2017; Nairobi Kenya
Public Debt Management Training

24 April – 26 May 2017; Web Based
Essentials of Banking Regulation and Basel III (2017)

3 - 5 May 2017; Luxembourg
ICMA Annual General Meeting & Conference 2017

22 - 23 May 2017; Vienna – World Bank Treasury
Borrow Without Sorrow: Prudent Debt Management in a Volatile Global Environment

10 – 14 July 2017; Frankfurt
Financial stability, systemic risk and macro prudential policy

15 – 17 November 2017; Novotel Brussels Centre
Securities Operations Foundation Qualification (SOFQ)

Previously signaled

6– 7 April 2017; NUS Business School – Singapore
[Public Debt Markets, Government Expenditures and Fiscal Prudence]

6 – 7 April 2017; Nus Business School, Singapore
[4th International Conference on Sovereign Bond Markets]

10 – 21 April 2017; International Law Institute Washington, D.C.
[2017 International Borrowing and Debt Management]

20 – 21 July 2017; London
[The global borrowers and bond investors forum]

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 28th March 2017, the number of total resources of the PDM Network website is 33,462 (of which 25,784 news, 3,389 documents and 3,034 web resources). This newsletter is sent to 615 Subscribers from emerging and advanced countries.

Special thanks

The PDM Secretariat is grateful to Fatos Koc (OECD), Abha Prasad, Colleen E. Keenan, Banu Turhan, Oumi Himid Umkulthum (World Bank), DMFAS Programme (UNCTAD), Tanweer Akram (Thrivent), Johanna Markidou (Cipriot MoF) for information on new documents and events.