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PDM NETWORK

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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 grey 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**.

Due to the April 2017 site restructuring, the documents' links reported in the past newsletters until the July – August 2016 issue no longer work. To find a document reported in these newsletters, you can copy its title in the site browser, so you can see the new page of the document. We apologise for this inconvenience.

Contents

Special Focus

OECD Sovereign Borrowing Outlook 2017

Sovereign Borrowing Outlook provides regular updates on trends and developments associated with sovereign borrowing requirements, funding strategies, market infrastructure and debt levels from the perspective of public debt managers. Each year, the OECD's Bond Market and Public Debt Management Unit circulates a survey on the borrowing needs of member governments. The responses are incorporated into the OECD Sovereign Borrowing Outlook to provide regular updates of trends and developments associated with sovereign borrowing requirements, funding strategies, market infrastructure and debt levels from the perspective of public debt managers. The Outlook makes a policy distinction between funding strategy and borrowing requirements. The central government marketable gross borrowing needs, or requirements, are calculated on the basis of budget deficits and redemptions. The funding strategy entails decisions on how borrowing needs are going to be financed using different instruments (e.g. long-term, short-term, nominal,

indexed, etc.) and which distribution channels (auctions, tap, syndication, etc.) are being used. Read more
TAGS: OECD; Debt Policy; Debt Statistics; Debt Forecasts

World Bank webinar on "Government Cash Management: trends and challenges"

On Jun 28, 2017, 9:00 am-10:30 am (U.S. Eastern Daylight time) a webinar was organized by the World Bank Treasury to foster a broad discussion among government debt practitioners and facilitate sharing of experience and key lessons. Given the particularities of cash management across countries, a panel format was chosen so that speakers focused on key questions/issues of wide interest for the audience, rather than present the details of their respective systems. The panelists, Arturo Herrera, Manager, Governance Global Practice, World Bank Group, Réz András, Deputy CEO, AKK, Hungary, and Antonio Juambeltz, Debt Management Unit, Uruguay, highlighted challenges faced in developing and implementing effective government cash management, its interaction with public debt management, and other economic policies. Read more **TAGS: Cash Management; World Bank webinars**

Medium-term debt management strategies: recent capacity building efforts

The Medium-Term Debt Management Strategy (MTDS) framework was endorsed by the Boards of the International Monetary Fund (IMF) and the World Bank (WB) in 2007. This endorsement and the mandate to help countries build capacity in this area, and past G-20 attention to debt management issues, reflect a recognition that sound debt management is critical both to macroeconomic stability and to the development and functioning of the financial markets. The Bank and the Fund have collaborated to deliver a large volume of MTDS-based technical assistance to numerous, mostly middle and lower income countries. Donors have recognized the importance of this work and have been generous in their support. The assistance has taken many forms, including country visits by staff and experts, the delivery of regional training events, and the organization of forums. This note describes how capacity building on MTDS has been adapted to keep abreast of country needs. Read more **TAGS: Multilateral financing**

Documents

Debt Policy

Debt Limits and the Structure of Public Debt (2017)

Alex Pienkowski - International Monetary Fund

This paper provides a tractable framework to assess how the structure of debt instruments—specifically by currency denomination and indexation to GDP—can raise the debt limit of a sovereign. By calibrating the model to different country fundamentals, it is clear that there is no one-size-fits-all approach to optimal instrument design. For instance, low income countries may find benefit in issuing local currency debt; while in advanced economies debt tolerance can be substantially enhanced through issuing GDP-linked bonds. By looking at the marginal impact of these instruments, the paper also provides insight into the optimal portfolio composition.
TAGS: Debt composition; Debt sustainability

Cost and Risk

Local Currency Sovereign Risk (2017)

Wenxin Du, Jesse Schreger - Federal Reserve Board, Harvard Business School

Do governments default on debt denominated in their own currency? **The authors introduce a new measure of sovereign credit risk, the local currency credit spread, defined as the spread of local currency bonds over the synthetic local currency risk-free rate constructed using cross currency swaps.** The authors find that local currency credit spreads are positive and sizable. Compared with credit spreads on foreign currency denominated debt, local currency credit spreads have lower means, lower cross-country correlations, and are less sensitive to global risk factors. Global risk aversion and liquidity factors can explain more time variation in these credit

spread differentials than macroeconomic fundamentals.
TAGS: Sovereign risk premia; Derivatives

The Cost of Government Debt in Canada, 2017

Charles Lammam, Hugh MacIntyre, Feixue Ren, Sazid Hasan - Fraser Institute

Currently, the Canada federal government and seven provinces are projecting deficits for the 2016/17 fiscal year. Debt levels for all governments are projected to grow in 2016/17 and rising debt levels in some provinces have attracted negative attention from credit rating agencies. With governments set to release their budgets in coming months, deficits and debt warrant particularly close attention. The ongoing trend by many Canadian governments of deficit spending and growing government debt carries short- and long-term consequences for the country and its citizens. **This research bulletin examines the growth of government debt in Canada since the 2008/09 recession and the immediate consequences of that debt—specifically, government spending on interest payments to service previously accumulated debt.**
TAGS: Debt Policy

Primary Markets

Bid-to-cover and yield changes around public debt auctions in the Euro Area (2017)

Roel Beetsma, Massimo Giuliodori, Jesper Hanson, Frank de Jong – ECB

This paper explores how the success of euro-area public debt auctions, as measured by their bid-to-cover ratios, impacts on the secondary market yields on euro-area public debt. Two major results emerge from our results: (1) less successful auctions produce a higher secondary market yield immediately following the auction, and (2) this effect of the auction's success is larger when market volatility is higher. Apparently, the information content of an unsuccessful auction is higher when markets are more stressed. Both results can be explained in the context of a simple theoretical framework in which the primary dealers, who buy the newly-issued debt, receive a signal about the fundamental value of the auctioned asset. Typically, the signal would come from the demand of their clients. Given the amount of debt on offer a more positive signal generates more demand from the primary dealers, i.e. the bid-to-cover ratio will be higher, thereby producing a higher equilibrium asset price. […]
TAGS: Public debt auctions; Primary dealers

State-contingent debt instruments for Sovereigns (2017)

S. M. Ali Abbas, Daniel Hardy, Jun Kim, Alex Pienkowski - IMF

The theoretical benefits of state-contingent debt instruments for sovereigns – such as GDP-linked and extendible bonds – have been advocated by academics for several decades, but only recently have the practical constraints and considerations been explored in detail.
This column summarises this more recent work, highlighting key findings on instrument design and on broader market development prospects.
TAGS: Contingent Liabilities; Primary market

Financial Analysis

Pricing and Hedging GDP-Linked Bonds in Incomplete Markets (2017)

Andrea Consiglio, Stavros A. Zenios - University of Palermo, University of Cyprus

In this paper the authors model the super-replication of payoffs linked to a country's GDP as a stochastic linear program on a discrete time and state-space tree to price GDP-linked bonds. As a byproduct of the model the authors obtain a hedging portfolio. Using linear programming duality the authors also compute the risk premium. The model applies to coupon-indexed and principal-indexed bonds, and allows the analysis of bonds with different design parameters (coupon, target GDP growth rate, and maturity). The authors calibrate for UK and US instruments and carry out numerical experiments to illustrate the effects of risk factors and bond design parameters on prices and risk premia, and to compare coupon-indexed and principal-indexed bonds. […]
TAGS: Primary market

Limited Participation and Local Currency Sovereign Debt (2017)

Nicola Borri, Kirill Shakhnov- LUISS University, Einaudi Institute for Economics and Finance (EIEF)

Emerging country governments increasingly issue bonds denominated in local currency. Despite this recent development, the markets for foreign and local currency government bonds exhibit a substantial degree of segmentation. First, the authors show that a standard asset pricing model with representative foreign investor cannot price both local and foreign currency government bonds. Second, the authors show that the share of local currency debt held by foreign investor is a significant determinant of the degree of market segmentation. Third, the authors propose a simple model of partially segmented markets that replicates the observed empirical regularities.

TAGS: Bond market development; Debt composition

Sovereign Bond Prices, Haircuts and Maturity (2017)

Dirk Niepelt , Romain Ranciere , Tamon Asonuma - International Monetary Fund, Study Center Gerzensee, University of Southern California

Rejecting a common assumption in the sovereign debt literature, the authors document that creditor losses ("haircuts") during sovereign restructuring episodes are asymmetric across debt instruments. The authors code a comprehensive dataset on instrument-specific haircuts for 28 debt restructurings with private creditors in 1999–2015 and find that haircuts on shorter-term debt are larger than those on debt of longer maturity. In a standard asset pricing model, the authors show that increasing short-run default risk in the run-up to a restructuring episode can explain the stylized fact. The data confirms the predicted relation between perceived default risk, bond prices, and haircuts by maturity.

TAGS: Financial Analysis

Spillovers among sovereign debt markets: identification by absolute magnitude restrictions (2017)

Roberto A. De Santis, Srečko Zimic - European Central Bank

This paper studies spillovers among US and European sovereign yields. The authors provide a new method based on absolute magnitude restrictions of the impact matrix to identify the countries that were the main sources of spillovers. Despite the large size of shocks from euro area stressed countries, connectedness among sovereign yields declined between 2008 and 2012 due to financial fragmentation, particularly between countries with more divergent business and fiscal cycles. The authors show that none of the sovereign yields are insulated from foreign shocks and that shocks to the Greek bond market in 2010 explained 20-30% of the variance of sovereign yields in stressed countries, while in 2011-2012 Italy (not Spain) was the source of systemic risk.

TAGS: Sovereign bonds yields

Environmental, Social and Governance (ESG) performance and sovereign bond spreads: an empirical analysis of OECD countries (2017)

Patricia Crifo, Gunther Capelle-Blancard, Marc Arthur, Diaye Rim Oueghlissi, Bert Scholtens - U. Paris Nanterre & Ecole Polytechnique

This presentation surveys the determinants of sovereign bond spreads (SBS), starting from the vast literature on the relationships between SBS and macroeconomic performance. Quantitative factors focus mainly on fiscal accounts and fiscal space (Ardagna et al. 2007, Attinasi et al. 2009, Baldacci& Kumar 2010, Aizenman & Hutchinson 2013, Beirne & Fratscher 2012, Ghosh et al. 2013) and on public deficits as signals of higher risk (default, monetization driven depreciation, inflation) and of increases in SBS.

TAGS: Sovereign bonds yields

[An Empirical Analysis of Efficiency in Asian Pacific Public Debt Market] (2017)

Velmurugan Palaniyappa Shanmugam, A. Saravanan, B. Treemurutulu - Pondicherry University, Indian Institute of Technology (IIT), Independent

This research aims to analyze the causal relationships in the yield of public debt issued by Asia Pacific countries. The authors make use of a database of daily frequency of yields on 10-year government bonds issued by five Asia Pacific countries (India, Singapore, Korea, Hong Kong, and Australia). The daily yield data are collected from 1st January 2003 to 31st December 2013. As a first step, the authors explore the co-integration between yields on bonds issued by different countries. Secondly the authors study pair-wise causal relationship between yields, in order to capture the possible time varying causal relationship. Data related to all five countries are significantly stationary at order one or I. Moreover, the findings also show that for few groups of countries there found co-integration with one vector. This implies that 10 year government bond yield are co-integrated with one co-integrating vectors. In short run the authors find evidence of strong causal linkages between Asia Pacific yields.

TAGS: Sovereign bonds yields

[Debt Sustainability in Low-Income Countries : Policies, Institutions, or Shocks?] (2017)

Yasemin Bal Gunduz - International Monetary Fund

Rejecting a common assumption in the sovereign debt literature, the authors document that creditor losses ("haircuts") during sovereign restructuring episodes are asymmetric across debt instruments. The authors code a comprehensive dataset on instrument-specific haircuts for 28 debt restructurings with private creditors in 1999–2015 and find that haircuts on shorter-term debt are larger than those on debt of longer maturity. In a standard asset pricing model, the authors show that increasing short-run default risk in the run-up to a restructuring episode can explain the stylized fact. The data confirms the predicted relation between perceived default risk, bond prices, and haircuts by maturity.

TAGS: Debt Restructuring

[Brazilian market portfolio] (2017)

Cristina Tessari - Alexis Meyer-Cirkel - IMF

In recent years, Brazil has achieved substantial progress in capital market development by building a diversified investor base and expanding the menu of available financial instruments. In this context, report evaluated the invested Brazilian market portfolio for a period spanning 2005–15. This is a portfolio of all assets proportionally weighted by their market capitalization, and it is divided in eight broad categories: government bonds, equities, bank funding bonds, corporate bonds, real-estate, agribusiness, private-equity, and credit bonds. While the paper focuses on stylized facts related to market size, composition weighting and changes over time, the estimated market portfolio contains important information for policy makers and market participants alike [...]

TAGS: Debt and fiscal/monetary policies; Debt composition

[Flow effects of central bank asset purchases on euro area sovereign bond yields: evidence from a natural experiment] (2017)

Roberto A. De Santis, Fédéric Holm-Hadulla - European Central Bank

The authors estimate the response of euro area sovereign bond yields to purchase operations under the ECB's Public Sector Purchase Programme (PSPP), using granular data on all PSPP-eligible securities at daily frequency. To avoid simultaneity bias in the estimated relationship between yields and purchase volumes, the authors exploit a PSPP design feature that renders certain securities temporarily ineligible for reasons unrelated to their yields. Using these temporary purchase restrictions as an instrument to identify exogenous variation in purchase volumes, **the authors find that the "flow effect" of PSPP operations has, on average, led to a temporary 7 basis-point decline in sovereign bond yields on the day of purchase.** This impact estimate is well above those found in similar studies for the US; at the same time, our results imply that flow effects have accounted for only a limited share of the downward pressure of PSPP on sovereign yields, most of which instead derived from anticipation

and announcement effects at the onset of the programme.
TAGS: Debt and fiscal/monetary policies; Sovereign bonds yields

International and Macroprudential Regulations

[The economics and regulation of secondary trading markets]() (2017)

Ryan Davies, Erik R. Sirri - Babson College, USA

The authors examine current areas of concern in the regulation of secondary trading markets. The topics include questions concerning the operation of Regulation National Market System (NMS), transparency and dark liquidity, algorithmic and high-frequency trading, the duties and obligations of broker-dealers who handle customer orders, system robustness, and market data issues. The authors also discuss several topics related to fixed income markets. For each topic, the authors examine the academic literature as well as practical regulatory considerations. Where possible, the authors draw conclusions from the previous literature and offer suggestions for future rulemaking.
TAGS: International and Macroprudential Regulations; Market Liquidity

Debt Crisis

The Systemic Risk of European Banks During the Financial and Sovereign Debt Crises (2017)

Lamont K. Black, Ricardo Correa, Xin Huang, Hao Zhou - DePaul University, Board of Governors of the Federal Reserve System, Tsinghua University

In this paper the authors propose a hypothetical distress insurance premium (DIP) as a measure of the European banking systemic risk, which integrates the characteristics of bank size, default probability, and interconnectedness. Based on this measure, the systemic risk of European banks reached its height in late 2011 around € 500 billion. The authors find that the sovereign default spread is the factor driving this heightened risk in the banking sector during the European debt crisis. The methodology can also be used to identify the individual contributions of over 50 major European banks to the systemic risk measure. This approach captures the large contribution of a number of systemically important European banks, but Italian and Spanish banks as a group have notably increased their systemic importance. The authors also find that bank-specific fundamentals predict the one-year-ahead systemic risk contribution of our sample of banks in an economically meaningful way.
TAGS: Sovereign CDS; International and Macroprudential Regulations

Contract Standards

The importance of being standard (2017)

Anna Gelpern - Georgetown Law, Peter G. Peterson Institute for International Economics

Contract standardisation serves many important functions in the sovereign debt market: among these, it saves time and money in preparing documents and endows widely-used terms with a shared public meaning, which in turn saves investors the costs of acquiring information, facilitates secondary market trading and reduces the scope for mistakes in the judicial interpretation of contract terms. Sovereign debt issuers and investors claim to value standardisation and list it as an important contractual objective. Issuers generally insist that their bond contracts are standard and reflect market practice. Variations from past practice and market norm must be explained in disclosure documents and through market outreach. Standardisation is not just part of the fabric of market expectations: international policy initiatives to prevent and manage financial crises rest on the assumption that sovereign debt contracts follow a generally accepted standard. Such initiatives would make no sense in the absence of standardisation. […]
TAGS: Contract standards

Debt Restructuring

Guaranteeing Sovereign Debt Restructuring (2017)

James A. Haley- CIGI Centre for International Governance Innovation

The recurring nature of efforts to facilitate the timely restructuring of sovereign debt is

explained by the fact that protracted delays in restructuring private sector claims can lead to deadweight losses to distressed borrowers and their creditors. Such delays may stem from two sources: intra-creditor coordination failures; and factors that impede efficient bargaining between the debtor country and private creditors. These impediments to bargaining include asymmetric and incomplete information, as well as the inability of sovereign borrowers to credibly commit to a stream of debt service. A well-designed guarantee of restructured debt that addresses these problems in the context of debt restructuring operations designed to assure debt sustainability could promote timely restructuring and reduce the potential risks to the global economy associated with severe indebtedness.

TAGS: Debt Restructuring

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

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.

TAGS: Debt Restructuring; Debt relief

Macroeconomic Analysis

Linking Bank Crises and Sovereign Defaults: Evidence from Emerging Markets (2017)

Irina Balteanu, Aitor Erce - Banco de España, European Stability Mechanism

In this paper the authors analyze the mechanisms through which bank and sovereign distress feed into each other, using a large sample of emerging market economies over three decades. After defining “twin crises” as events where bank crises and sovereign defaults combine, and further distinguishing between those bank crises that end up in sovereign defaults and vice-versa, the authors study what differentiates “single” and “twin” events. Using an event analysis methodology, the authors document systematic differences between “single” and “twin” crises across various dimensions. The authors show that many of the regularities often associated with either “bank” or “debt” crises are present in twin events only. The authors further show that “twin” crises themselves are heterogeneous events: the proper time sequence of crises that compose “twin” episodes is important for understanding these events. Guided by these facts, the authors use discrete-variable econometric techniques to assess the main channels of distress transmission between crises. The authors find that balance sheet interconnections, credit dynamics, financial openness and economic growth are important drivers of twin crises. Our results inform the flourishing theoretical literature on the mechanisms surrounding feedback loops of sovereign and bank stress.

TAGS: Sovereign defaults

Stochastic Debt Sustainability Analysis for Sovereigns and the Scope for Optimization Modeling (2017)

Andrea Consiglio, Stavros A. Zenios - Università degli Studi della Calabria, University of Cyprus

In this paper the authors express the opinion that sovereign debt sustainability analysis must be augmented by stochastic correlated risk

factors and a risk measure to capture tail effects. Crisis situations can thus be adequately specified and analyzed with sufficient accuracy to warrant the relevance of policy decisions. In this context there is significant scope for optimization modeling for both strategic planning and operational management. The authors discuss diverse aspects of the problem of debt sustainability and highlight modeling approaches that can be brought to bear on the problem. Results with the fictitious, but nor unrealistic, Kingdom of Atlantis, which is sinking under excessive debt, illustrate the proposed models.

TAGS: Debt crisis; Debt sustainability

[A Comprehensive Scorecard for Assessing Sovereign Vulnerabilities]() (2017)

Alvise Lennkh, Edmund Moshammer, Vilem Valenta - European Stability Mechanism

This paper aims to contribute to the ESM's capacity to monitor sovereign vulnerabilities in the EFSF/ESM programme countries. The purpose is to early identify a build-up of sovereign vulnerabilities, which may threaten countries' repayment capacity. The assessment is based on a wide set of indicators comprising (i) government borrowing needs, conditions and debt structure, (ii) economic strength, (iii) fiscal position, (iv) financial sector and other contingent liabilities, (v) institutional parameters, and (vi) private sector leverage, credit flows and real estate developments. The authors apply a scoring system based on thresholds from the literature, where available, or derived from the historical distribution of a pool of OECD and EU countries. The aggregation scheme for an overall vulnerability score is informed by the available literature, correlation and principal component analyses, as well as expert judgement. The results of the framework as such are, however, free of judgement. The authors complement the numerical results with a system of traffic lights that allows assigning individual countries one of four broad categories reflecting degrees of their vulnerabilities. The framework can be used for a real-time vulnerability assessment, for an analysis of the evolution over time, as well as for an identification of areas where policy action may be needed. Back-tests for the countries that eventually requested EFSF/ESM financial assistance show that, with the benefit of hindsight, the tool would have identified the build-up of vulnerabilities well ahead of the onset of the crisis. The assessment, summarised in the form of a heat map and a scorecard, can be regularly updated.

TAGS: Debt sustainability

[Political Myopia, Public Debt, and Economic Growth]() (2017)

Ohad Raveh, Yacov Tsur - Hebrew University of Jerusalem

Can economic growth increase public debt? Previous studies on the debt-growth nexus focused on the effects of debt on growth. The authors present a new and opposite perspective by showing that growth can reinforce deficit spending. The authors construct a model of endogenous public debt driven by political myopia. The model shows that economic growth induces short-sighted politicians to increase public debt and that this effect is magnified by the extent of political myopia. The authors test the model's predictions using a panel of U.S. states over the period 1963-2007. The authors' identification strategy rests on constitutionally-entrenched differences in gubernatorial term limits that provide plausibly exogenous cross-state variation in political time horizon, and aggregate national TFP shocks that are exogenous to individual states. The authors find that a one standard deviation positive TFP shock induces an approximate $480 increase in real per capita public debt in politically myopic states.

TAGS: Debt and growth

[Government Debt and Macroeconomic Activity: A Predictive Analysis for Advanced Economies]() (2017)

Deniz Baglan, Emre Yoldas - Howard University, Federal Reserve Board

This paper explores the empirical relationship between government debt and future macroeconomic activity using data on twenty advanced economies throughout the post-war era. The authors use robust inference techniques to deal with the bias arising from the persistent nature of debt to GDP ratio as an endogenous predictor of GDP growth. Our results show that statistical significance of the coefficient on the debt ratio in predictive regressions changes considerably with the use of robust inference techniques. For countries with relatively low average debt ratios the authors find a negative threshold effect as their debt ratios increase toward moderate levels. For countries with chronically high debt ratios, GDP growth slows as relative government debt increases, but the authors find no significant threshold effect.

TAGS: Debt and growth

The macroeconomic impact of the ECB's expanded asset purchase programme (APP) (2017)

Luca Gambetti, Alberto Musso - European Central Bank

This paper provides empirical evidence on the macroeconomic impact of the expanded asset purchase programme (APP) announced by the European Central Bank (ECB) in January 2015. The shock associated to the APP is identified with a combination of sign, timing and magnitude restrictions in the context of an estimated time-varying parameter VAR model with stochastic volatility. **The evidence suggests that the APP had a significant upward effect on both real GDP and HICP in action in the euro area during the first two years.** The effect on real GDP appears to be stronger in the short term, while that on HICP in action seems more marked in the medium term. Moreover, several channels of transmission appear to have been activated, including the portfolio rebalancing channel, the exchange rate channel, the in action re-anchoring channel and the credit channel.

TAGS: Debt and fiscal/monetary policies

Sovereign Default Risk, Fiscal Adjustment, and Debt Renegotiation (2017)

Hyungseok Joo - Wayne State University

This paper studies the effects of government capital accumulation on sovereign debt default risk and debt restructuring renegotiation outcomes when government has limited ability to extract revenues from households. The author develops a quantitative dynamic stochastic general equilibrium model of sovereign default, debt renegotiation, and fiscal policies, where government chooses between the fiscal instruments of government consumption and government investment. Government capital provides an additional means of adjustment in the face of a bad productivity shock. It also affects government's incentive to re-access the international credit market when a country chooses to default. The author implements fiscal policies and rules that restrict foreign debt, especially focusing on how fiscal rules affect government spending dynamics. The model delivers three key predictions. (1) A higher level of government capital implies less risky sovereign debt and higher recovery rates when the government chooses to default. (2) A high debt to output ratio is possible with a sufficient level of government capital. (3) Fiscal adjustment that reduces public investment may be self-defeating.

TAGS: Sovereign defaults; Debt Restructuring Debt and fiscal/monetary policies

Bulgarian External Debt - Macrostability Aspects and Evidences (2017)

Andrey Zahariev - D. A. Tsenov Academy of Economics

The present work aims to reveal why and how Bulgarian government should undertake a complex of active measures for further debt reconstruction and reduction. An attempt has been made to analyze the following two issues: (a) the theoretical origin of deficit financing and debt crisis on international and national level; and (b) the Bulgarian Brady deal and external debt management. Finally are offered some conclusions and recommendations.

TAGS: Foreign Debt; Debt crisis

Economic Policies

Government guarantees and the bank-sovereign nexus (2017)

Agnese Leonello - European Central Bank

The recent financial and sovereign debt crises showed that providing public guarantees to banks may pose serious threats to sovereign solvency, despite their short-term beneficial effects on financial stability. This article analyses the role that public guarantees to banks play in the bank-sovereign nexus and offers a more nuanced assessment of their implications for sovereign debt crises. Depending on the nature of the banking crisis and the specific characteristics of the economy, guarantees may improve financial stability without undermining sovereign solvency, thus generating a positive feedback loop between bank and sovereign stability.

TAGS: State aids; Debt crisis

Government guarantees and the two-way feedback between banking and sovereign debt crises (2017)

Agnese Leonello - European Central Bank

This paper studies the effects of government guarantees on the interconnection between banking and sovereign debt crises in a framework where both the banks and the government are fragile and the credibility and feasibility of the guarantees are determined endogenously. The analysis delivers some new results on the role of guarantees in the bank-sovereign nexus. First, guarantees emerge as a key channel linking banks' and sovereign stability, even in the absence of banks' holdings of sovereign bonds. Second, depending on the specific characteristics of the economy and the nature of banking crises, an increase in the size of guarantees may be beneficial for the bank-sovereign nexus, in that it enhances financial stability without undermining sovereign solvency.

TAGS: State aids Debt crisis

Deadly Embrace: Sovereign and Financial Balance Sheets Doom Loops (2017)

Emmanuel Farhi, Jean Tirole - Harvard University, TSE

The recent unravelling of the Eurozone's financial integration raised concerns about feedback loops between sovereign and banking insolvency. This paper provides a theory of the feedback loop that allows for both domestic bailouts of the banking system and sovereign debt forgiveness by international creditors or solidarity by other countries. Our theory has important implications for the re-nationalization of sovereign debt and the rationale for banking unions.

TAGS: State aids Debt sustainability

The Fiscal-Monetary Policy Mix in the Euro Area: Challenges at the Zero Lower Bound (2017)

Athanasios Orphanides - Massachusetts Institute of Technology (MIT)

This paper explores the reasons for the suboptimal fiscal-monetary policy mix in the euro area in the aftermath of the global financial crisis and ways in which the status quo can be improved. A comparison of fiscal and monetary policies and of economic outcomes in the euro area and the United States suggests that both fiscal and monetary policy in the euro area have been overly tight. Fiscal policy has been hampered by the institutional framework which constrains individual states and lacks instruments to secure an appropriate aggregate stance. ECB monetary policy has been hampered by the distributional effects of balance sheet policies which needed to be adopted at the zero lower bound, and by discretionary decisions taken before the crisis such as the reliance on credit rating agencies for determining collateral eligibility for monetary operations. The compromising of the "safe asset" status of euro area sovereign debt during the crisis complicated fiscal and monetary policy. Changes in the discretionary decisions governing the implementation of monetary policy in the euro area can potentially reduce the distributional effects of policy and improve the fiscal-policy mix and longer-term prospects for the euro area.

TAGS: Debt and fiscal/monetary policies

Central Bank Policies and the Debt Trap (2017)

Athanasios Orphanides - Massachusetts Institute of Technology (MIT) - Sloan School of Management

Monetary policy and fiscal dynamics are inexorably linked. When a government faces the risk of getting caught in a high debt trap, debt monetization may become an appealing option. However, independent central banks may be able to allay debt concerns without compromising price stability. One option is financial repression which, despite associated distortions, can create some fiscal space while preserving price stability. Financial repression is a feature of quantitative easing, which has

proven to be an effective policy tool at the zero lower bound. This paper examines the policies of the Federal Reserve, the Bank of Japan and the ECB in relation to debt dynamics for the United States, Japan, Germany and Italy since the crisis. Important differences are identified across the four states, reflecting differences in the policy choices of the three central banks. While decisive QE policies by the Federal Reserve and, more recently, by the Bank of Japan have been effective, ECB policies have had decidedly uneven consequences on Germany and Italy. The normalization of the Federal Reserve's balance sheet is also discussed in a historical context.

TAGS: Debt and fiscal/monetary policies; Debt sustainability

Leaning Against the Wind : Fiscal Policy in Latin America and the Caribbean in a Historical Perspective (2017)

Carlos A. Végh, Daniel Lederman, Federico R. Bennett - The World Bank

This report by the Office of the Chief Economist for Latin America and the Caribbean (LAC) of the World Bank studies the region's fiscal policies. After reviewing LAC's growth performance, Chapter 1 provides an accounting of its financing needs during the 21st Century to understand how such a diverse region ended up with fiscal deficits across the board in 2016. Chapter 2 goes back to the 1960s and assesses the cyclical properties of fiscal policies. LAC, like most developing countries and in contrast with most developed economies, exhibited procyclical fiscal policies. Good news arrived in the 2000s: one in three economies became countercyclical, which helped improve credit ratings. Yet fiscal policy is complicated by our inability to know if current economic conditions are temporary or permanent. The report argues for a prudent stance that would err on the side of saving too much during upswings and perhaps borrowing too little during downturns.

TAGS: Debt and fiscal/monetary policies

The Dutch Budgetary Framework and the European Fiscal Rules (2017)

Hauke Vierke, Maarten Masselink - European Commission

This Economic Brief looks at the Dutch budgetary framework through the lens of the EU's fiscal rules and compares the budgetary objectives of the national and European level. The Netherlands has a unique budgetary framework that is built around multiannual expenditure ceilings. The underlying principle is that budgetary policy should be trend-based, with a longer-term perspective. Independent macroeconomic forecasts and non-partisan evaluation of the budget plans have a longstanding tradition and predate similar requirements set at the European level. **A central element of the national framework is the commitment of a government to adhere to pre-agreed expenditure ceilings over a four-year term.** However, experience with meeting the European fiscal targets is mixed, and it appears that the Dutch framework does not necessarily ensure compliance with the European objectives. This note discusses possible reasons for this discrepancy. […]

TAGS: Debt and fiscal/monetary policies

Fiscal Rules: Towards a New Paradigm for Fiscal Sustainability in Small States (2017)

Wright Allan, Grenade Kari, Scott-Joseph Ankie - IDB Country Department Caribbean Group

This study contends that Caribbean countries cannot adequately surmount their fiscal and debt challenges in the absence of binding rules that are geared toward entrenching fiscal discipline, curbing fiscal procyclicality, and improving budget transparency and credibility. Distilling global lessons and taking due cognizance of Caribbean countries' idiosyncrasies, the paper explores key technical, operational and institutional issues in the design, implementation, and monitoring of fiscal rules that might be relevant for Caribbean countries that currently do not have legislated rules. Results from simulations carried out to determine welfare effects and the extent of volatility of key macroeconomic variables under various fiscal rules scenarios suggest that of the different types of simulated fiscal rules, expenditure rules perform best in terms of reducing macroeconomic volatility, and in that regard, appear to be the most welfare-enhancing. This is believed to be the first study to carry out such a simulation exercise for Caribbean countries. The findings of the study evince useful insights for policymakers on how to improve the design and conduct of fiscal policy for better fiscal and, by extension, development outcomes.

TAGS: Debt and fiscal/monetary policies Debt sustainability

Why Austerity Can Be Self-Defeating for Member States of a Currency Union (2017)

Rainer Maurer - Pforzheim University

Despite all efforts to reduce government budget deficits, debt-to-GDP ratios of crisis-hit member states of the European Monetary Union are still growing faster than expected. At the same time GDP growth performance is poor and according to most forecasts expected to worsen. In this paper I show that this is the likely outcome of austerity policy in member states of a currency union with overindebted private sectors.

TAGS: Debt and fiscal/monetary policies

Multilateral Financing

Does Greece Need More Official Debt Relief? If So, How Much? (2017)

Jeromin Zettelmeyer, Eike Kreplin, Ugo Panizza - Peter G. Peterson Institute for International Economics, Federal Ministry for Economic Affairs and Energy, Graduate Institute of International and Development Studies (IHEID)

Creditor countries and international organizations continue to disagree whether Greece should receive additional official debt relief, and if so how much. This paper first shows that these disagreements can be attributed to competing assumptions about Greece's future capacity to repay, particularly about economic growth and the fiscal primary balance. It next evaluates the plausibility of alternative primary balance assumptions using international evidence about fiscal adjustment experiences. It concludes that primary balance paths required to make Greece's debt sustainable are not plausible and that Greece will therefore require additional debt relief. **Finally, the paper shows that the debt relief measures suggested by the Eurogroup in May 2016 (albeit with significant caveats on whether they will in fact be granted or not) could be sufficient to address Greece's sustainability problem, provided the Eurogroup is prepared to accept both very long maturity extensions on European Financial Stability Facility (EFSF) debt (to 2080 and beyond) and interest deferrals that could lead to a large rise in EFSF exposure to Greece before it begins to decline.** If the Eurogroup wishes to avoid the latter, it will become necessary to either (1) extend the scope of the debt restructuring, (2) lower the interest rates charged by the EFSF significantly below current predictions, or (3) extend European Stability Mechanism (ESM) financing beyond 2018 and delay Greece's return to capital markets for a protracted period.

TAGS: Debt sustainability; Debt Restructuring

Athens by the Alps: How the Eurozone Bailouts Made Interest Rates History (2017)

Pablo Triana - ESADE Business School

The €215 billion lent to Greece by her Eurozone siblings are likely among the very cheapest funding ever enjoyed by a sovereign borrower. Not only would the effective net interest rate so far be negative, but actually more so than those faced by essentially all countries lucky enough to have been able to issue negatively-yielding debt of similar maturity. If, as data and reports seem to confirm, the period of negative yields witnessed in the sovereign bond market in the past couple of years would constitute a historical outlier and aberration then the effective rate that the Eurozone did afford and wanted to afford Greece would indeed be one of the very lowest (if not the lowest) in History. Only Switzerland may have a claim to a more negative similarly-dated funding. The main purpose of this brief analysis is to illustrate how incredibly generous the bailout loans granted to Greece have been, not just in nominal terms or in the current context but crucially also from a historical perspective.

TAGS: Sovereign bonds yields

Making the Global Financial System More resilient (2017)

Jürgen Kaiser - FES International Policy Analysis

More countries in the Global South are heading towards a new debt crisis due to low global interest rates and low commodity prices. Thus far, there have been no innovative approaches for a possible debt workout with regard to a new crisis. Regarding the next crisis, there is something to learn from the HIPC/MDRI initiatives of the 1990s and 2000s: overcoming political deadlocks by designing debt relief exclusively for a limited group of countries. Such a limited debt relief scheme could then imply procedural innovation that could remedy weaknesses of the HIPC/MDRI schemes and debt restructuring mechanisms at large, by making them more comprehensive and impartial. Model cost calculations are provided for Caribbean Small Island Developing States (SIDS) and countries affected by climate change.

TAGS: Debt crisis Debt relief

International Best Practices

Medium-term debt management strategies: recent capacity building efforts (2017)

IMF and World Bank

The Medium-Term Debt Management Strategy (MTDS) framework was endorsed by the Boards of the International Monetary Fund (IMF) and the World Bank (WB) in 2007. This endorsement and the mandate to help countries build capacity in this area, and past G-20 attention to debt management issues, reflect a recognition that sound debt management is critical both to macroeconomic stability and to the development and functioning of the financial markets. The Bank and the Fund have collaborated to deliver a large volume of MTDS-based technical assistance to numerous, mostly middle and lower income countries. Donors have recognized the importance of this work and have been generous in their support. The assistance has taken many forms, including country visits by staff and experts, the delivery of regional training events, and the organization of forums. This note describes how capacity building on MTDS has been adapted to keep abreast of country needs

TAGS: Multilateral financing

Reports

A Hard Swap - Supporting Tunisia in Better Understanding the Foreign Currency Exposure for Government Debt Operations

The World Bank

After the Arab Spring, Tunisia experienced a depreciation of the Tunisian Dinar and a major drop in foreign currency reserves. Concerned with the foreign currency exposure, Tunisian debt management office partnered with the World Bank Treasury - Government Debt and Risk Management Program. The joint team developed an accurate methodology to measure the fair value of these theoretical swaps, leading to better advice for economic decisions. **TAGS: GDRM Program; Derivatives**

After the Crises: Making Serbia’s Economy More Resilient to Financial Shocks

The World Bank

Serbia has managed to reduce government borrowing costs and to create space in the public budget in the aftermath of the global economic crisis and the catastrophic floods that hit the country. **TAGS: World Bank; GDRM Program**

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. **TAGS: World Bank; GDRM Program**

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. **TAGS: World Bank; GDRM Program**

Video: Supporting Middle Income Countries in Building Resilience Against Economic Shocks: the SECO-World Bank Treasury Partnership

Rosmarie Schlup - Swiss State Secretariat for Economic Affairs (SECO)

Why do donor countries support World Bank Group's program funds? Rosmarie Schlup, head of Macroeconomic Support Division at Swiss State Secretariat for Economic Affairs (SECO), explains why they are funding the World Bank Treasury's Government Debt and Risk Management (GDRM) Program in a recent interview. **TAGS: World Bank; GDRM Program**

Video: Supporting Ghana in transitioning from a low income to middle income country

Samuel D. Arkhurst - Ghanaian Ministry of Finance

Every country is different. How does World Bank customize the technical assistance according to countries' needs? Samuel D. Arkhurst, director of the Debt Management Division in the Ghanaian Ministry of Finance, explains how World Bank Treasury's Government Debt and Risk Management (GDRM) Program team understood the contextual situation of Ghana and gave the technical assistance relevant to their specific requirements. **TAGS: World Bank GDRM Program**

Russia: From Recession to Recovery

The World Bank

This 37th issue of the Russia Economic Report provides an assessment of the economic developments and outlook for the period 2017-2019. **TAGS: Debt Statistics; Debt Forecasts; Debt and fiscal/monetary policies**

Mission Incomplete: Reflating Japan's Economy

The World Bank

In April 2013 the Bank of Japan launched an unprecedented quantitative and qualitative monetary easing policy. It was thought that a 2% price stability target could be achieved within 2 years; 4 years on and we are still mission incomplete. **TAGS: Debt and fiscal/monetary policies; Sovereign bonds yields**

Global Economic Prospects, June 2017 - A Fragile Recovery

The World Bank

The World Bank forecasts that global growth will strengthen to 2.7 percent in 2017 amid a pickup in manufacturing and trade, rising confidence, favorable global financing conditions, and stabilizing commodity prices. Growth in advanced economies is expected to accelerate to 1.9 percent in 2017, a benefit to their trading partners. Growth in emerging market and developing economies will recover to 4.1 percent this year, as obstacles to activity diminish in commodity-exporting countries. **TAGS: Debt and fiscal/monetary policies; Debt Statistics; Debt sustainability**

Rising debt and deficits in Emerging Market and Developing Economies (EMDEs) in 5 charts

Ayhan Kose, Franziska Ohnsorge, Naotaka Sugawara – The World Bank

Debt and budget deficits have risen among emerging market and developing economies since the 2007-2009 financial crisis, rendering these economies more vulnerable to a sharp rise in borrowing costs. **TAGS: Debt sustainability**

Main Economic Indicators, Volume 2017 Issue 6

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. This indispensable and unique source of key short-term… […]**TAGS: Economic Forecasts**

OECD Business and Finance Outlook 2017

OECD

The OECD Business and Finance Outlook is an annual publication that presents unique data and analysis that looks at what might affect and change, both favourably and unfavourably, tomorrow's world of business, finance and investment. Using analysis from a wide range of perspectives, this year's edition addresses some forces influencing economic developments that have contributed to recent surprises in elections and referendums. […] **TAGS: Economic Forecasts; Debt and fiscal/monetary policies**

OECD Institutional Investors Statistics 2016

OECD

This publication provides a unique set of statistics that reflect the level and structure of the financial assets and liabilities of institutional investors in the OECD countries (with the exception of Australia and Slovak Republic), and in Latvia and the Russian Federation. **TAGS: Institutional Investors; Debt Statistics**

OECD Economic Outlook, Volume 2017 Issue 1 - Preliminary version

OECD

The OECD Economic Outlook is the OECD's twice-yearly analysis of the major economic trends and prospects for the next two years. The Outlook puts forward a consistent set of projections for output, employment, prices, fiscal and current account balances. Coverage is provided for all OECD member countries as well as for selected non-member countries. […] **TAGS: Economic Forecasts; Debt Forecasts**

State-contingent debt instruments for sovereigns: A balanced view

S. M. Ali Abbas, Daniel Hardy, Jun Kim, Alex Pienkowski – IMF

The theoretical benefits of state-contingent debt instruments for sovereigns – such as GDP-linked and extendible bonds – have been advocated by academics for several decades, but only recently have the practical constraints and considerations been explored in detail. This column summarises this more recent work, highlighting key findings on instrument design and on broader market development prospects. […] **TAGS: Primary market**

Public Debt Management Forum Confronts the Changes, Innovations and Future Challenges in Sovereign Markets

IMF

Traditional approaches to sovereign debt management will have to adapt to cope with new risks and structural and regulatory changes, even as major macroeconomic shifts in advanced and developing economies are affecting sovereign issuance strategies; these changes present opportunities but also challenges. […] **TAGS: Debt Policy; Debt and fiscal/monetary policies**

BIS Quarterly Review - March 2017

Bank for International Settlements

Many asset prices have traded sideways since the release of the previous BIS Quarterly Review in early December, while investors waited for clues on a number of sources of uncertainty. Market participants expected a change in the policy mix in the United States, with a greater role for fiscal policy, continued gradual tightening of monetary policy, a push for deregulation, and a more protectionist trade stance. […]

TAGS: Debt sustainability; Debt Statistics; Debt and fiscal/monetary policies

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Financial Stability Review – May 2017

European Central Bank

The Financial Stability Review (FSR) assesses developments relevant for financial stability, including identifying and prioritising the main sources of systemic risk and vulnerabilities for the euro area financial system – comprising intermediaries, markets and market infrastructures. It does so to promote awareness of these systemic risks among policymakers, the financial industry and the public at large, with the ultimate goal of promoting financial stability. […] **TAGS: Debt sustainability**

Financial integration in Europe – May 2017

European Central Bank

The ECB's annual report on financial integration in Europe contributes to the advancement of the process of European financial integration by analysing its development and the related policies. For the ECB, the market for a given set of financial instruments and/or services is fully integrated if all potential market participants with the same relevant characteristics[…]. **TAGS: International and Macroprudential Regulations**

Asset purchase programmes

European Central Bank

The expanded asset purchase programme (APP) includes all purchase programmes under which private sector securities and public sector securities are purchased to address the risks of a too prolonged period of low inflation.[…] **TAGS: Debt Statistics; Debt and fiscal/monetary policies**

European Economic Forecast - Spring 2017

European Commission

The European economy has entered its fifth year of recovery, which is reaching all EU Member States. This is expected to continue at a largely steady pace this year and next as wages remain constrained by slack in the labour market and investment is held back by still high uncertainty and balance-sheet adjustment in the corporate and banking sectors. **TAGS: Economic Forecasts; Debt Statistics**

Stability and Growth Pact

European Commission

The Stability and Growth Pact (SGP) is a set of rules designed to ensure that countries in the European Union pursue sound public finances and coordinate their fiscal policies. **TAGS: Debt and fiscal/monetary policies; Structural policies**

Ructions in the repo market - monetary easing or regulatory squeezing?

Yves Mersch - ECB

There is no doubt that European repo markets today are operating in unprecedented territory. In the past year we have faced the extraordinary situation of collateralised transactions taking place well below the ECB's deposit rate, and not just for the highest-rated issuers. There are increasing signs that this is indicative of market stress. Though market depth remains relatively stable and the bid offer spreads are not a major liquidity restriction, the decreased average ticket size seems reflective of collateral scarcity in some market segments.[...] **TAGS: Repo market; Market Liquidity; Debt and fiscal/monetary policies**

[Primary Dealers Information]
Economic Policy Committee
Many sovereign issuers are operating in the markets through an appointed group of banks called Primary Dealers (PDs) or Market Makers. These market counterparties are subject to certain obligations, which differ from country to country, but usually include participating in the auctions, placing the government securities and maintaining a liquid secondary market by making continuous bid–offer prices. […] **TAGS: Primary market; Primary dealers**

[ESAs highlight main risks for the EU financial system]
The Joint Committee of the European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs)
The report highlights the risks to the stability of the European financial sector in an environment subject to political and economic uncertainties. In particular, the protracted period of low profitability of banks and the difficulties faced by insurers to generate adequate returns to meet long-term liabilities in a low growth and low-yield environment remains a major challenge.[…] TAGS: **Sovereign bonds yields; Financial stability**

[Sovereign debt overhangs and stabilisation policies]
Rolf Strauch - ESM Chief Economist
The crisis has taught us that one cannot think about fiscal integration, let alone a fiscal union without adequate mechanisms to avoid over-indebtedness and handle debt overhangs. We have painfully learned during the last crisis that over-indebtedness harbours instability.[...] **TAGS: Debt sustainability; Debt and fiscal/monetary policies**

[Banks' exposures to home sovereign bonds]
M. Magnus, M. Ciucci - European Parliament
This background document summarises information that was published by the European Banking Authority and that sheds some light on the status quo of the 'sovereign-bank' nexus, in view of the fact that the link between sovereign and bank credit risk has been identified as a risk to financial stability. **TAGS: Sovereign debt exposure**

[Completing the Banking Union - Risk sharing initiatives and parallel risk reduction measures]
Aliénor Duvillet-Margerit - European Parliament
This report sets-forth an overview of the state of play of the various workstreams on completing the Banking Union, covering both risk sharing (European Deposit Insurance Scheme -EDIS) and risk reduction measures, and treatment of sovereign risks too. **TAGS: Sovereign debt exposure**

[Asia Bond Monitor – March 2017]
Asian Development Bank
Local currency (LCY) government bond yields in advanced economies and emerging East Asia diverged between 31 December and 15 February. Yields in advanced economies rose while yields fell in most emerging East Asian bond markets due to heterogeneous economic fundamentals and changes in risk appetite. Emerging East Asia has shown signs of improving economic growth and rising inflation and a decline in LCY government bond yields was seen in most markets given improving investor confidence. The improved outlook could also strengthen emerging East Asia's financial markets against the possible reversal of capital flows in response to the Federal Reserve's expected monetary policy normalization. […] **TAGS: Debt Forecasts; Bond market development**

[A history of the past 40 years in financial crises]
IFR International Financing Review
Markets, despite their collective expertise, are apparently destined to repeat history as irrational exuberance is followed by an equally irrational despair. Periodic bouts of chaos are the inevitable result. Financial crises

have been an unfortunate part of the industry since its beginnings. Bankers and financiers readily admit that in a business so large, so global and so complex, it is naive to think such events can ever be avoided. [..] **TAGS: Debt crisis**

[An update: Sovereign bond holdings in the euro area - the impact of QE]

Pia Hüttl, Inês Goncalves Raposo – Bruegel

Since the ECB's announcement of its QE programme in January 2015, national central banks have been buying government and national agency bonds. In this post Bruegel looks at the effect of QE on sectoral holdings of government bonds, updating calculations published in May and November 2016. **TAGS: Sovereign debt exposure**

[How S&P Global Ratings would assess European "Safe" Bonds (ESBies)]

Moritz Kraemer - S&P Global Ratings

European safe bonds (ESBies) have been proposed as a tool to increase the supply of 'AAA' rated euro-denominated assets and reduce systemic risks from banks' large holdings of bonds issued by their respective sovereign governments. But S&P believes that ESBies will probably reduce the supply of 'AAA' rated assets instead, since some 'AAA' rated sovereign bonds are likely to be repackaged into lower-rated ESBies. [...] **TAGS: Primary market**

[A call for uniform sovereign exposure limits]

Dion Bongaerts, Dirk Schoenmaker - Erasmus University Rotterdam, Bruegel

Banks' sovereign bond holdings were at the heart of the euro-sovereign crisis. The concentration of domestic bonds created a vicious cycle between governments and banks. There are several proposals to end this link, including concentration limits on southern European bonds. We argue for a uniform limit to reduce flight-to-quality effects on northern European bonds. Such a uniform limit would also be more acceptable politically. **TAGS: International and Macroprudential Regulations; Sovereign debt exposure**

[Update on trends and innovation on e-trading venues]

Steve Hall - Tradeweb Markets LLC

Venues continue to evolve, offering a wider range of trading technology to provide access to liquidity and regulatory compliance. Recent focus of market participants is clearly: (a) search for liquidity across markets (b) search for efficiency and streamlining trading workflow (c) readiness for regulatory change and compliance. **TAGS: Trading platforms**

[The current state of the Sovereign Bond Market]

Eli Whitney Debevoise II, Neil M. Goodman, Carlos A. Pelaez - Arnold & Porter Kaye Scholer LLP

The theoretical benefits of state-contingent debt instruments for sovereigns – such as GDP-linked and extendible bonds – have been advocated by academics for several decades, but only recently have the practical constraints and considerations been explored in detail. This column summarises this more recent work, highlighting key findings on instrument design and on broader market development prospects. [...] **TAGS: Sovereign bonds yields**

[Greece: A comeback to the financial markets?]

Yannis Stournaras - Bank of Greece

Since the beginning of the sovereign debt crisis, Greece has implemented a bold programme of economic adjustment that has eliminated fiscal and external deficits and improved competitiveness.[...] **TAGS: Primary markets**

What to expect from the Fed's Monetary Policy Normalization?

Sebastián Claro - Central Bank of Chile

During 2017, we will finally witness the process of monetary policy normalization in the United States. After almost 8 years keeping the Federal Funds rates essentially at zero, the Federal Reserve has started a gradual process of interest rate hikes. This is good news. Fundamentally, the normalization of monetary policy is the natural consequence of a normalization of the US economy after the Global Financial Crises. A normal US economy is a positive phenomenon for the world economy.[…] **TAGS: Debt and fiscal/monetary policies**

GDP-linked Bonds

Camillo von Müller - German Federal Ministry of Finance

What are the opportunities and challenges of state-contingent debt instruments, including GDP-linked bonds, to promote debt sustainability? **TAGS: Primary market; Debt sustainability**

EMTA 2nd quarter 2017 bulletin

EMTA - Emerging Markets Traders Associations

EMTA 2nd quarter 2017 official bulletin. **TAGS: Bond market development**

State and local fiscal facts: 2017

Government Finance Officers Association

In the past few years, the fiscal conditions of state and local governments have stabilized, but improvements have been uneven. While challenges remain, officials have been taking steps to replenish rainy day funds and address long-term structural imbalances. **TAGS: Bond market development**

2017 ECOSOC Forum on Financing for Development follow-up Outcome document - Zero Draft - 27th April (2017)

ECOSOC - United Nations

Ministers and high representatives, gathered in New York at UN Headquarters from 22 to 25 May 2017 for the second ECOSOC Forum on Financing for Development follow-up, reaffirm strong commitment to the full and timely implementation of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, which builds on the Monterrey Consensus and Doha Declaration, recognizing that the Addis Ababa Action Agenda provides a global framework for financing sustainable development and is an integral part of the 2030 Agenda for Sustainable Development, supports and complements it and helps to contextualize its means of implementation targets with concrete policies and actions.

TAGS: Structural policies

The merits of accrual reporting in sovereign credit analyses

Fergus McCormick - International Public Sector Accounting Standards Board

This report also shows the merits of Accrual Accounting such as strengthening management of public sector assets and liabilities, increasing transparency and efficient delivery of public goods, making public sector accounting consistent with national accounts, balance of payments, monetary & financial reporting. **TAGS: Accounting standards**

OTC Derivatives Compliance Calendar

ISDA International Swaps and Derivatives Association

OTC derivatives international compliance calendar updated to March 30, 2017. **TAGS: Derivatives**

News

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

Events and Courses

17 May – 3 June, 2017 - World Bank Treasury and Japan International Cooperation Agency, Tokio, Japan
Knowledge Co-Creation Workshop

13 June, 2017 – Sifma, Washington D.C.
What is the Future of Prudential Regulation?

14 June, 2017 - ASIFMA, Hong Kong
7th China Capital Markets Conference

14 June – 2 August, 2017 - IMF, Online
Financial Market Analysis (FMAx)

19-23 June, 2017 - The World Bank, Washington, D.C.
The 14th Overview Course of Financial Sector Issues: Finance and Risk in a Global Environment

19-30 June, 2017 – IMF, Ebene, Mauritius
Financial Development and Financial Inclusion

3 July, 2017 - AFME, Brussels, Belgium
Financing the European economy after Brexit

17-21 July, 2017 - NyIF, New York
Advanced Risk Management Professional Certificate

17-28 July, 2017 – IMF, Vienna, Austria
Fiscal Sustainability

20-21 July, 2017 - Cebra Central Bank Research Association - Bank of Canada, Ottawa, Canada
2017 Annual meeting of the Central Bank Research Association

26-28 July, 2017 - World Finance Conference, Cagliari, Italy
World Finance Conference

28 August – 29 September, 2017 - UNITAR, web based
International Players in Public Finance and Debt Management (2017)

28 August – 6 October, 2017 – UNITAR, web based
Negotiation of Financial Transactions (2017)

28 August – 6 October, 2017 – UNITAR, web based
Fundamentals of Capital Market Development and Regulation (2017)

6 September, 2017 – ISDA, One Bishops Square, London
ISDA Symposium: An Update on CCP Resilience, Recovery and Resolution

13-15 September, 2017 - IFF, Radisson Blu Edwardian Grafton, London
Advanced Risk Management Training Course (2017)

19-20 September, 2017 - The World Bank, Kuala Lumpur, Malaysia
Global Symposium on Development Finance Institutions: Challenges and Opportunities for DFIs in a Changing World

3 October, 2017 – ISDA, One Bishops Square, London
Overview & Implications of Final Basel Capital Rules

04 – 06 October 2017; EuroFinance, Barcelona, Spain
International Treasury & Cash Management

23 October 2017; Crownagents, Singapore
[Integrated Financial Management Systems: Strategy & Implementation]

23-24 October, 2017 – SIFMA, JW Marriott Washington, DC
[SIFMA Annual Meeting 2017]

13 November – 15 December, 2017 - UNITAR, web based
[Advanced Risk Management (2017)]

15 – 17 November 2017; ICMA, Brussels, Belgium
[Securities Operations Foundation Qualification (SOFQ)]

16 – 17 November 2017; Corvinus University, Budapest, Hungary
[8th Annual Financial Market Liquidity Conference]

27 November – 1 December, 2017 – IFF, Radisson Blu Edwardian Grafton, London
[School of Treasury Products and Risk Management]

11-15 December, 2017 - NyIF, New York
[Advanced Risk Management Professional Certificate]

Some Figures

At **26 July, 2017**, the number of total resources of the PDM Network website is **7,723** (news, documents, reports and events). This newsletter is sent to **619** Subscribers from emerging and advanced countries.

Special Thanks

The PDM Secretariat is grateful to Banu Turhan Kayaalp (World Bank) for information on new reports.

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