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PDM NETWORK

PDM NETWORK *Newsletter*

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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

"Fixed Income Market Colloquium" held at the Ministry of the Economy and Finance to discuss new rules for the government securities market

In view of the entry into force on January 1st 2018 of the new MiFID II Directive and MiFIR Regulation a two-day colloquium on the evolution of the Fixed Income Market was held at the Ministry of the Economy and Finance on 4th – 5th July 2017. The international conference, organised by the Ministry of the Economy and Finance (Department of Treasury - Public Debt Directorate) and by MTS (Mercato Telematico dei titoli di Stato), provided a useful opportunity for major public debt managers, European Commission representatives, relevant authorities as well as market operators to exchange opinions with a view to assessing the impact of the new EU rules regulating government securities markets and negotiating platforms. Read more

TAGS: International and Macroprudential Regulations; Transparency; Market Liquidity; Trading platforms

Strengthening Debt Management Capacity in Low and Middle Income Countries: An Assessment of recent capacity building

A new joint report by the World Bank Group and the IMF – The Medium-Term Debt Management Strategy (MTDS): An Assessment of Recent Capacity Building - looks at the 10 years of MTDS and how it has been adapted to function in a more complex international environment, heightened by increasing debt vulnerabilities. With newer opportunities emerging for countries to access non-concessional sources of financing, including access to international capital markets, the report notes that the MTDS has adapted to keep abreast of countries' needs but suggests that it should consider additional risk factors and market risk metrics. In several countries effective capacity building in MTDS was complemented by efforts to strengthen institutions and governance arrangement as well as proper recording of debt and cash management. Through the MTDS, the World Bank Group and the IMF have delivered technical assistance to several countries in the past 10 years and most of these countries have indicated that the MTDS helped them to introduce a structured and coherent approach to designing a debt management strategy. Read more

TAGS: Bond market development; Best Practices; World Bank

Documents

Primary Markets

Push and Pull: Emerging Risks in Frontier Economy Access to International Capital Markets (2017)

Tobias Haque, Jane Bogoev and Greg Smith - The World Bank and Wealthsimple

Over the past decade, a large number of low- and lower-middle income 'frontier economies' have begun to access international private capital markets to meet fiscal financing needs. In this paper the authors seek to identify drivers of this trend, identify associated risks, and present policy implications for frontier-market policy-makers. Through simple analysis of the characteristics of recent frontier market issuers, the authors show that smaller, poorer, and less well-governed economies are now accessing global credit markets. Through cross-country regression analysis, however, the authors demonstrate that the capacity of these countries to issue debt (and the cost of this debt) continues to be influenced by their macroeconomic performance and quality of governance. Drawing on evidence from Ghana and Zambia, the authors illustrate potential risks arising from recent expansions of access to global debt markets, where rapid debt accumulation of foreign-denominated debt in the context of lessened market discipline and following recent debt relief is now posing pronounced debt sustainability and refinancing risks. The authors conclude that increased access to international debt markets presents both opportunities and risks to frontier issuers. The new cohort of frontier issuing economies should: i) take careful account of debt risks and debt sustainability considerations when developing fiscal policy and debt strategies; ii) work to reduce the costs of ongoing external borrowing through adopting sound economic policies and protecting credit ratings; and iii) develop domestic debt markets as a potential alternative source of fiscal financing through which to reduce reliance on foreign-denominated Eurobond debt with its associated refinancing and currency risks.

TAGS: Bond market development; Foreign Debt

Introducing the Tax-Kicker Bond: Budget-Neutral Financing of Private Infrastructure by Back-End Participation in Future Tax Revenue Growth (2017)

Grant B. Stillman - ADB

This brief for practitioners shows how to attract private investors to infrastructure. The authors propose a new form of retail debt security instrument with a model term sheet. Everybody is trying to think of ways to attract long-term private and institutional investors to pay for new highways, railways, bridges, or dams. Promising ideas have been tried but they have not convinced pension funds or affluent individuals to invest, especially in emerging economies with untested issuers. Yet higher returns from infrastructure projects are an ideal match for institutional investors—if projects are similar to those financed by benchmark United States (US) tax-free municipal bonds, an allowable asset class for decades. For their part, governments accept that they should no longer incur further direct debt on their balance sheets, widen their current account deficit, or increase external debt even for justifiable big-ticket investments. And most politicians are reluctant to impose new or higher taxes on present users or potential customers of future infrastructure. Emerging economies may have projects with potential to make money. But governments still face pressure to put in scarce fiscal resources to close project viability gaps or to agree in advance to availability payments to the operator and its investors. Many consider this as passing the ultimate payer's responsibility back to governments without tapping new private money. The "tax-kicker" bond being proposed here, with more elaboration and trials, could prove that new sources of future tax revenue are feasible to attract private investors with back-end participation in a budget-neutral way.

TAGS: Primary market; Debt and fiscal/monetary policies

ESBies: Safety in the tranches (2016)

Markus K. Brunnermeier, Sam Langfield, Marco Pagano, Ricardo Reis, Stijn Van Nieuwerburgh, Dimitri Vayanos - ESRB

The euro crisis was fueled by the diabolic loop between sovereign risk and bank risk, coupled with cross-border flight-to-safety capital flows. European Safe Bonds (ESBies), a union-wide safe asset without joint liability, would help to resolve these problems. Authors make three contributions. First, numerical simulations show that ESBies would be at least as safe as German bunds and approximately double the supply of euro safe assets when protected by a 30%-thick junior tranche. Second, a model shows how, when and why the two features of ESBies—diversification and seniority—can weaken the diabolic loop and its diffusion across countries. Third, authors propose a step-by-step guide on how to create ESBies, starting with limited issuance by public or private-sector entities.

TAGS: Primary market; Debt crisis

Secondary Markets

Market reactions to sovereign litigation (2017)

Faisal Ahmed Laura Alfaro - Princeton University; Harvard University

Recent rulings in the ongoing litigation over the pari passu clause in Argentinian sovereign debt instruments have generated considerable controversy. Some official-sector participants and academic articles have suggested that the rulings will disrupt or impede future sovereign debt restructurings by encouraging holdout creditors to litigate for full payment instead of participating in negotiated exchange offers. This paper critically examines this claim by evaluating market reactions to litigation using an event study methodology. It analyzes the effect on sovereign bonds from litigation events, with particular emphasis on Argentina for the period, 1993-2014. There is evidence that the market reacts differently to Argentina than in other countries.

TAGS: Sovereign debt litigation; Sovereign defaults

The political determinants of Government Bond holdings (2016)

Stefan Eichler, Timo Plaga - Leibniz University Hannover

This paper analyzes the link between political factors and sovereign bond holdings of US investors in 60 countries over the 2003-2013 period. It finds that, in general, US investors hold more bonds in countries with few political constraints on the government. Moreover, US investors respond to increased uncertainty around major elections by reducing government bond holdings. These effects are particularly significant in democratic regimes and countries with sound institutions, which enable effective implementation of fiscal consolidation measures or economic reforms. In countries characterized by high current default risk or a sovereign default history, US investors show a tendency towards favoring higher political constraints as this makes sovereign default more difficult for the government. Political instability, characterized by the fluctuation in political veto players, reduces US investment in government bonds. This effect is more pronounced in countries with low sovereign solvency.

TAGS: Institutional Investors

Financial Analysis

Government financial assets and debt sustainability (2017)

Camila Henao Arbelaez , Nelson Sobrinho - IMF

Do government financial assets help improve public debt sustainability? To answer this question, IMF assembles a comprehensive dataset on government assets using multiple sources and covering 110 advanced and emerging market economies since the late 1980s. IMF then uses this rich database to estimate the impact of assets on two key dimensions of debt sustainability: borrowing costs and the probability of debt distress. Government financial assets significantly reduce sovereign spreads and the probability of debt crises in emerging economies but not in advanced economies, and the effect varies with asset characteristics, notably liquidity. Government financial assets also help discriminate countries across the distribution of sovereign spreads, thus signaling information about emerging economies' creditworthiness.

TAGS: Debt sustainability

Financial Stability Analysis: What are the Data Needs? (2017)

Robert M Heath, Evrim Bese Goksu - Cox, International Monetary Fund

The growing incidences of financial crises and their damage to the economy has led policy makers to sharpen the focus on financial stability analysis (FSA), crisis prevention and management over the past 10–15 years. The statistical world has reacted with a number of initiatives, but does more need to be done? Taking a holistic view, based on a review of experiences of policy makers and analysts, this paper identifies common international threads in the data needed for FSA and suggests ways to address these. While there has been an encouragingly constructive response by statisticians, not least through the G-20 Data Gaps Initiative, more work is needed, including with regard to shadow banking, capital flows, corporate borrowing, and granular data. Further, to support FSA, the paper identifies potential enhancements to the conceptual advice in statistical manuals including with regard to foreign currency and remaining maturity.

TAGS: Financial Analysis

Negative swap spreads and limited arbitrage (2017)

Urban J. Jermann - Wharton School of the University of Pennsylvania and NBER

Since October 2008 fixed rates for interest rate swaps with a thirty year maturity have been mostly below treasury rates with the same maturity. Under standard assumptions this implies the existence of arbitrage opportunities. This paper presents a model for pricing interest rate swaps where frictions for holding bonds limit arbitrage. It shows analytically that negative swap spreads should not be surprising. In the calibrated model, swap spreads can reasonably match empirical counterparts without the need for large demand imbalances in the swap market. Empirical evidence is consistent with the relation between term spreads and swap spreads in the model.

TAGS: Financial Analysis; Derivatives

The Relative Pricing of Sovereign Credit Risk after the Eurozone Crisis (2017)

Raffaele Corvino, Francesco Ruggiero - City University London, University of Naples Federico II

The paper investigates the relative pricing of the sovereign credit risk, by studying the relationship between sovereign CDS spreads and sovereign yields, for European countries, during and after the sovereign debt crisis. The authors show that after the launch of the Outright Monetary Transaction (OMT) Programme, by the European Central Bank, the relative mispricing of the sovereign credit risk has strongly reduced. The authors disentangle the effects of the ECB intervention on the sovereign credit risk market in different ways. The authors offer empirical evidence on the theoretical relationship between CDS spreads and bond yields, before and after the ECB intervention, across Eurozone and No Eurozone countries. Then, the authors estimate a contingent claim model for sovereign credit risk, and the authors shed light on the relationship between risk and return for sovereign securities. Further, the authors test the profitability of arbitrage strategies that exploit deviations from the equilibrium condition. As result, the authors provide evidence that the consistent relationship between default risk and bond yields across the Eurozone countries was restored after the ECB intervention.

TAGS: Sovereign bonds yields; Sovereign risk premia; Sovereign CDS

The Re-Emerging Privilege of Euro Area Membership (2017)

Johannes Wiegand - International Monetary Fund

When the euro was introduced in 1998, one objective was to create an alternative global reserve currency that would grant benefits to euro area countries similar to the U.S. dollar's "exorbitant privilege": i.e., a boost to the perceived quality of euro denominated assets that would increase demand for such assets and reduce euro area members' funding costs. This paper uses risk perceptions as revealed in investor surveys to extract a measure of privilege associated with euro membership, and traces its evolution over time. It finds that in the 2000s, euro area assets benefited indeed from a significant perceptions premium.

While this premium disappeared in the wake of the euro crisis, it has recently returned, although at a reduced size. The paper also produces time-varying estimates of the weights that investors place on macro-economic fundamentals in their assessments of country risk. It finds that the weights of public debt, the current account and real growth increased considerably during the euro crisis, and that these shifts have remained in place even after the immediate financial stress subsided.

TAGS: Financial Analysis

Monitoring Financial Stability in Emerging and Frontier Markets (2017)

David Bicchetti and David Neto - United Nations Conference on Trade and Development, United Nations Conference on Trade and Development and Geneva Business School

This paper outlines a methodology to build monthly financial conditions indicators (FCIs) for developing countries, including a Small Island Developing State (SIDS), least developed countries, and transitions economies as defined by the United Nations' classification. The proposed composite index uses ragged-edge panel data as well as mixed frequency observations. FCIs are compiled using a Dynamic Factor Analysis (DFA) in order to create a synthetic index in real time (as data is released). Also the choice of variables reflects typical emerging markets considerations given to interdependency issues and include variables like capital flows and real effective exchange rates. The authors show that the obtained indicators are able to capture periods of financial stress and near-miss events. In addition, although our FCIs are free from the business cycle, they are able to track GDP growth, in several cases with a clear leading effect. Our FCIs are therefore an interesting tool for policymakers and market participants alike since its predictive power allows them to assess financial stability in real time before financial shocks are transmitted to the real economy. Consequently, upcoming stormy macroeconomic conditions can be anticipated well ahead.

TAGS: Financial stability; Economic Forecasts

Default Risk on Finnish Government Foreign Currency Debt (2017)

Erja Saukkonen - Bank of Finland

This paper is a study of default risk on Finnish government debt. The objectives of the study are to estimate the size of the default risk and to shed some light to the causes of default risk, using simple regression runs. To estimate the Finnish government default risk premium, the authors measured the interest rate differential on Finnish government DEM- and USD-denominated bonds compared to respectively German and US government bonds over the period October 1991 February 1995.For the sake of comparison, the authors also measured the interest rate differential between Finnish government FIM-denominated bonds and German government bonds. Our results indicate that for the period studied the default risk premium on the Finnish government foreign-currency denominated debt was quite small, but by no means trivial and clearly not constant. The default risk premium on DEM-denominated debt was a small fraction of the differential for FIM-denominated debt. Our results provide strong evidence that the default risk premium was mainly determined by the level and growth rate of government debt and was not related to the general economic indicators (GDP and current account).

TAGS: Foreign Debt; Sovereign bonds yields; Sovereign risk premia

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Debt Crisis

[A new database for financial crises in European countries](#) (2017)

Marco Lo Duca, Anne Koban, Marisa Basten, Elias Bengtsson, Benjamin Klaus, Piotr Kusmierczyk, Jan Hannes Lang, Carsten Detken (editor), Tuomas Peltonen (editor) - ECB

This paper presents a new database for financial crises in European countries, which serves as an important step towards establishing a common ground for macroprudential oversight and policymaking in the EU. The database focuses on providing precise chronological definitions of crisis periods to support the calibration of models in macroprudential analysis. An important contribution of this work is the identification of financial crises by combining a quantitative approach based on a financial stress index with expert judgement from national and European authorities. Key innovations of this database are (i) the inclusion of qualitative information about events and policy responses, (ii) the introduction of a broad set of non-exclusive categories to classify events, and (iii) a distinction between event and post-event adjustment periods. […]

TAGS: Debt Statistics; Financial stability; Financial Analysis

Contract Standards

Why are Sovereign Bond contracts sticky? (2017)

Anna Gelpern, Mitu Gulati, Jeromin Zettelmeyer - Georgetown Law and Peterson Institute for Int'l Economics, Duke Law, Peterson Institute for Int'l Economics

This paper investigates the causes of "stickiness" in sovereign debt contract terms that can facilitate sovereign debt crisis management. As part of the project, authors interviewed representatives of high-income and emerging market debt management offices and buy-side investment firms. Contrary to the prevailing view of debt managers and much of the sovereign debt literature, their findings suggest that near-term borrowing costs may not be the main driver of government debt managers' resistance to contract change. Both debt managers and investors said that they had never negotiated the price of non-financial terms. Most significantly, they insisted that their reluctance to change contracts had little to do with the substance of any given term, but instead reflected a generalized desire to adhere to "standard" non-financial terms as closely as possible, apparently regardless of what that market standard entailed.

TAGS: Contract standards

Sovereign Debt and Moral Hazard: The Role of Collective Action and Contractual Ambiguity (2017)

Marcel Kahan, Shmuel Leshem - New York University, Independent

The ambiguous phrasing of pari passu (equal treatment) clauses in sovereign debt contracts has long baffled commentators. The authors show that in the presence of asymmetric information on a sovereign borrower's ability to pay, an ambiguous pari passu clause gives rise to a collective action problem among creditors that can reduce sovereign moral hazard. By varying the clause ambiguity, parties can induce an (ex-ante) optimal probability of costly renegotiation breakdown resulting from creditors' failure to coordinate. As information asymmetry decreases, a pari passu clause becomes a coarser instrument for configuring creditors' incentives and thereby resolving moral hazard.

TAGS: Contract standards

Debt Restructuring

Debt overhang and Sovereign Debt restructuring (2016)

Mattia Osvaldo Picarelli - Università di Roma Sapienza, Dipartimento di scienze economiche e sociali

Debt overhang is defined as a situation where a large amount of debt distorts the optimal investment decisions and discourages the government's efforts of the debtor country to undertake the necessary "adjustment policies". In this paper the author studies some different strategies that can be used to solve the sovereign debt overhang problem. In particular, he considers two strategies based on a debt restructuring process, via haircut or rescheduling, and a third one based on conditional-additional lending. This strategy relies on the idea that the debtor country can get new lending from the existing creditors, in order to undertake investments that can affect the productivity shock distribution in a positive way (or reduce the probability of default). The aim of this paper is to study the consequences, deriving from the three strategies described, on the incentives to invest in a "troubled country". According to these consequences and under some specific conditions, he ranks the three strategies in order to see which is the most effective one. In particular, the author finds that if the change in investments due to the conditional-additional lending makes the probability of default low in this scenario, the conditional lending strategy will be the most effective one. Basically, this paper might help the policy-makers to implement the right intervention according to the specific scenarios considered.

TAGS: Debt sustainability; Debt Restructuring; Sovereign defaults

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Argentina's Curse, Venezuela's Blessing: How to Restructure Venezuela's Debt Using Pari Passu (2017)

Khaled Fayyad, Dimitrios Lyratzakis - Duke University

Given the escalation of Venezuela's crisis, many fear that the government and the state-owned oil company Petroleos de Venezuela, S.A. (PDVSA) are on the brink of insolvency. In this paper, the authors introduce a debt-restructuring plan that would allow Venezuela to restructure its debt in an orderly manner. The authors propose that Venezuela restructure both PDVSA debt and its own external debt via the use of Exchange Offers. To minimize the number of holdout creditors, the authors suggest that Venezuela primarily utilize the pari passu provisions in PDVSA and Venezuelan bonds that can be read as allowing the subordination of the notes according to Venezuelan law. In restructuring PDVSA bonds, this tactic can be supplemented by the use of exit consents, while in the case of the majority of Venezuelan bonds it can be supplemented by the use of Collective Action Clauses (CACs). The fact that debt subordination according to local (Venezuelan) law has been contracted for makes its use more legitimate than in past sovereign restructurings. While there are risks associated with this technique – especially because the particular pari passu language has not been tested in court – a creditor who chooses to holdout from a restructuring nonetheless faces a possibility of non-payment that is credible and contractually induced. This legitimate fear of non-payment may be sufficient to encourage large creditor participation and mitigate an expected holdout problem. Ironically, the pari passu clause that condemned Argentina might be the one to save Venezuela.

TAGS: Debt restructuring; Contract standards

Sovereign Debt Restructurings in Grenada : Causes, Processes, Outcomes, and Lessons Learned (2017)
Tamon Asonuma, Xin Li, Michael G. Papaioannou, Saji Thomas, Eriko Togo - International Monetary Fund
This paper documents the two debt restructurings that Grenada undertook in 2004–06 and 2013–15. Both restructurings emerged as a consequence of weak fiscal and debt situations, which became unsustainable soon after external shocks hit the island economy. The two restructurings provided liquidity relief, with the second one involving a principal haircut. However, the first restructuring was not able to secure long-term debt sustainability. Grenada's restructuring experience shows the importance of (1) establishing appropriate debt restructuring objectives; (2) committing to policy reforms and maintaining ownership of the restructuring goals; and (3) engaging closely and having clear communications with creditors.
TAGS: Debt Restructuring

Institutional and Organisational Framework

Risks and opportunities of establishing a European Monetary Fund based on the European Stability Mechanism (2017)
Jürgen Matthes - Institut der deutschen wirtshaft Koln
The French presidential elections could lead to more fiscal integration in the euro area. The proposal to establish a European Monetary Fund (EMF) based on the European Stability Mechanism (ESM), which would probably be possible without treaty changes, is evaluated in this paper. Potential EMF instruments are divided into two categories. [...]
TAGS: Multilateral financing

The future of Eurozone fiscal governance (2017)
Anne-Laure Delatte, Clemens Fuest, Daniel Gros, Friedrich Heinemann, Martin Kocher, Roberto Tamborini - ECONPOL European Network for Economic and Fiscal Policy Research
This paper discusses various options for reforming fiscal governance in the Eurozone. It focuses on two possible reform approaches referred to as the 'Maastricht model' and the 'US model'. The Maastricht model implies that ultimate responsibility for economic and fiscal policy remains at the national level. The US model, by contrast, calls for the development of much stronger European institutions. In both cases some degree of policy coordination, a European Banking Union and insolvency procedures for sovereigns are indispensable. It discusses the challenges and trade-offs involved and argue that certain elements of the two approaches which combine increased risk sharing with increased market discipline and risk reduction could be combined to achieve a more resilient and economically successful Eurozone.
TAGS: Debt and fiscal/monetary policies

Establishing a Legal Framework for Sovereign Sukuk Issuance : A Public Debt Managing Perspective (2017)
Emre Balibek - The World Bank
A strong legal framework that forms the basis for the activities of debt managers is crucial for enabling an effective public debt management function. This paper aims to complement discussions on the legal foundations of debt management by detecting and discussing essential elements that allow the government to issue sukuk, the equivalent of bonds, in Islamic finance. Drawing on the cases of recent sovereign issuers, these discussions begin with outlining the clear provision of a mandate to issue and to employ certain public assets in

the execution of underlying transactions, as well to establish, engage with, and administer Special Purpose Vehicles used in structuring these issuances. Additional aspects that need to be addressed are the treatment of proceeds and the assurance of investors with regards to debt service. The enabling environment should be complemented by changes in the taxation regime and financial market regulations that facilitate the issuances.

TAGS: Primary market; Bond market development; Best practices

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Explaining variation in Public Debt. A quantitative analysis of the effects of Governance (2017)

Andreas Eisl - Max Planck Sciences Po Center on Coping with Instability in Market Societies

This paper examines the main political influence factors accounting for the variation in public debt accumulation on a global scale. This allows for a reassessment of the recent focus on a regime type theory of public debt and for a test of an alternative governance theory. The author argues that political stability, the rule of law, the control of corruption, government effectiveness, and regulatory quality promote lower public debt accumulation by reducing the incentives for governments to "borrow from the future," by increasing state capacity to collect taxes and effectively use public funds, and by providing more security and equity to private investment, inducing higher economic growth and tax revenues. Both theories are tested against a number of controls stemming from theories of public choice, theories of governmental distributional conflict, as well as from politico-institutional and macroeconomic explanations of public debt accumulation. Applying different specifications of quantitative models, the two governance indicators political stability and regulatory quality show consistent effects on public debt accumulation, partly confirming the proposed governance theory. Furthermore, the paper can reproduce a public debt-reducing effect of more democratic regime types across a number of model specifications – though without a high degree of robustness.

TAGS: Debt sustainability; Debt and growth

The political economy of fiscal transparency and independent fiscal councils (2017)

Roel Beetsma, Xavier Debrun, Randolph Sloof - University of Amsterdam, International Monetary Fund

The global surge in independent fiscal councils (IFCs) raises three related questions: How can IFCs improve the conduct of fiscal policy? Are they simultaneously desirable for voters and elected policymakers? And are they resilient to changes in political conditions? The authors build a model in which voters cannot observe the true competence of elected policymakers. IFCs' role is to mitigate this imperfection. Equilibrium debt is excessive for two reasons: a "partisan" motive, because the incumbent effectively discounts the future too much, and an "opportunistic" motive, because the incumbent has an incentive to raise spending in order to appear more competent. If voters only care about policymakers' competence, both the incumbent and the voters would be better off with an IFC as the debt bias would fall. However, when other considerations eclipse competence and give the incumbent a strong electoral advantage or disadvantage, setting up an IFC may be counterproductive as the debt bias would increase. If the incumbent holds a moderate electoral advantage or disadvantage, voters would prefer an IFC, but an incumbent with a large advantage may prefer not to have an IFC. The main policy implications are that (i)

establishing an IFC can only lower the debt bias if voters care sufficiently about policymakers' competence; (ii) not all political environments are conducive to the emergence of IFCs; and (iii) IFCs are vulnerable to shifts in political conditions.
TAGS: Debt and fiscal/monetary policies; Transparency

Accounting, Statistics, Reporting and Auditing

[The IFS green budget - February 2017 (chapter 9 ICAEW: debt)]
Ross Campbell, Martin Wheatcroft – ICAEW
This 2017 report comes at a crucial time for the public finances. New fiscal targets and a different fiscal direction were set out in the Autumn Statement just a couple of months ago. The most significant issue – the uncertainty over the medium-term effects of the UK leaving the EU – remains. By providing an independent, evidence-based commentary on the economic choices and challenges that we face, this publication offers much-needed perspective for policymakers as well as the wider public ahead of two important fiscal events in 2017. The Institute of Chartered Accountants in England and Wales (ICAEW) believes that the government needs to focus not just on the deficit as recorded in the National Accounts, but also on long-term liabilities for things such as public service pensions and clinical negligence. The accounting deficit which includes these liabilities is much bigger than, and has come down much less quickly than, the headline deficit. In addition, there is a case for a new focus on debt management. Something like £650 billion of debt to be issued over the next five years, and how this happens – how much is index linked and what average maturities are issued – will matter to the public finances for years to come. Chapter 9 focuses on the government's debt funding strategy and the need to refinance a substantial proportion of existing debt.
TAGS: Debt Forecasts; Accounting, statistics, Reporting and Auditing

Macroeconomic Analysis

What determines the impact of macroeconomic news on asset markets? (2017)
Georg Strasser – ECB
The most important determinant of an announcement's impact on bond markets is its relationship to fundamentals, closely followed by its timing. Information which is imprecise but early can affect markets more than news which is precise but late. Governments and private agencies make public announcements on how the economy as a whole is performing at various points over the year. Sometimes the substance of these announcements comes as a surprise, and can have quite an impact on asset prices. The value of the one-year US Treasury bond is closely linked to US announcements, but it does not respond equally strongly to all announcements. For example, surprising non-farm payroll figures explain more than 25% of the daily change in yield on the respective announcement days, whereas other announcements have barely any effect. This bulletin examines the impact of US announcement surprises on the yield of one-year Treasury bonds and explains why some macroeconomic releases have a consistently larger impact on asset prices than others.
TAGS: Sovereign bonds yields; Economic Forecasts

Debt sustainability analysis for euro area sovereigns: a methodological framework (2017)
Othman Bouabdallah, Cristina Checherita-Westphal, Thomas Warmedinger, Roberta

de Stefani, Francesco Drudi, Ralph Setzer, Andreas Westphal – ECB

The euro area sovereign debt crisis has highlighted the importance of reducing public debt levels and building up sufficient fiscal buffers during normal and good times. It has also reaffirmed the need for a thorough debt sustainability analysis (DSA) to act as a warning system for national policies. This paper introduces a comprehensive DSA framework for euro area sovereigns that could be used for analysis of fiscal risks and vulnerabilities. Specifically, this framework consists of three main building blocks: (i) a deterministic DSA, which embeds debt simulations under a benchmark and various narrative shock scenarios; (ii) a stochastic DSA, providing for a probabilistic approach to debt sustainability; and (iii) other relevant indicators capturing liquidity and solvency risks.

TAGS: Debt sustainability

On secular stagnation and low interest rates: demography matters (2017)

Giuseppe Ferrero, Marco Gross, Stefano Neri - Bank of Italy ; European Central Bank

Nominal and real interest rates in advanced economies have been decreasing since the mid-1980s and reached historical low levels in the aftermath of the global financial crisis. Understanding why interest rates have fallen is essential for both monetary policy and financial stability. This paper focuses on one of the factors that have been put forward in the literature within the secular stagnation view: adverse demographic developments. The main conclusion that the authors draw from our empirical, panel equation system-based assessment is that these developments have exerted downward pressures on real short- and long-term interest rates in the euro area over the past decade. Moreover, building on the European Commission projections for dependency ratios until 2025, the authors illustrate that the foreseen structural change in terms of age structure of the population may dampen economic growth and continue exerting downward pressure on real interest rates also in the future.

TAGS: Sovereign bonds yields; Financial Analysis; Debt and growth

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Default risk, sectoral reallocation, and persistent recessions (2017)

Cristina Arellano, Yan Bai, Gabriele Mihalache - University of Minnesota and NBER University of Rochester and NBER Stony Brook University

Sovereign debt crises are associated with large and persistent declines in economic activity, disproportionately so for non tradable sectors. This paper documents these patterns using Spanish data and builds a two sector dynamic quantitative model of sovereign default with capital accumulation. Recessions are very persistent in the model and more pronounced for non traded sectors because of default risk. An adverse domestic shock raises default risk and limits capital inflows which restrict the ability of the economy to exploit investment opportunities. The economy responds by reducing investment, reallocating capital towards the traded sector, and reducing tradable consumption to support the repayment of debt. Real exchange rates depreciate, as a reflection of the scarcity of traded goods. The authors find that these mechanisms are quantitatively important for rationalizing the experience of Spain during the recent debt crisis.

TAGS: Debt crisis; Sovereign defaults

An Inquiry Concerning Long-term US Interest Rates Using Monthly Data (2017)

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

This paper undertakes an empirical inquiry concerning the determinants of long-term interest rates on US Treasury securities. It applies the bounds testing procedure to cointegration and error correction models within the autoregressive distributive lag (ARDL) framework, using monthly data and estimating a wide range of Keynesian models of long-term interest rates. While previous studies have mainly relied on quarterly data, the use of monthly data substantially expands the number of observations. This in turn enables the calibration of a wide range of models to test various hypotheses. The short-term interest rate is the key determinant of the long-term interest rate, while the rate of core inflation and the pace of economic activity also influence the long-term interest rate. A rise in the ratio of the federal fiscal balance (government net lending/borrowing as a share of nominal GDP) lowers yields on long-term US Treasury securities. The short- and long-run effects of short-term interest rates, the rate of inflation, the pace of economic activity, and the fiscal balance ratio on long-term interest rates on US Treasury securities are estimated. The findings reinforce Keynes's prescient insights on the determinants of government bond yields.

TAGS: Sovereign bonds yields; Debt and fiscal/monetary policies

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Inequality, financialization and stagnation (2017)

Yılmaz Akyüz - South Centre

The failure of exceptional monetary measures pursued in response to the financial crisis in advanced economies to achieve a strong recovery has created a widespread concern that these economies suffer from a chronic demand gap and face the prospect of stagnation. This paper reviews and discusses the alternative views on the causes of the slowdown in accumulation and growth and the policies implemented and proposed to deal with it. It is argued that growing inequality, notably the secular decline in the share of wages and financialization are the main factors. Neither spending booms driven by financial bubbles, nor exporting unemployment through trade provide sustainable solutions. It is necessary to rebalance capital and labour, restrain finance and assign a greater role to the public sector in aggregate demand management and income and wealth distribution.

TAGS: Debt and fiscal/monetary policies

Debt sustainability in a low interest rate world (2017)

Neil R. Mehrotra - Brown University & Federal Reserve Bank of Minneapolis

Conditions of secular stagnation – low growth and low real interest rates – have counteracting effects on the cost of servicing the public debt. With sufficiently low interest rates relative to growth, governments can raise revenues by increasing the debt to GDP ratio. Mehrotra analyzes empirically and theoretically the tradeoffs involved with increased public debt. Using data from 1870 for advanced economies, interest rates on government debt are frequently less than GDP growth. However, despite current conditions of $r < g$, he finds a moderate probability of reversion to conditions with $r > g$ over a 5 or 10 year horizon and substantial variability in $r - g$. Using a 56 period quantitative lifecycle model calibrated to the US, the author shows that slower population growth worsens the cost of servicing the debt, while slower productivity growth improves this cost. Despite $r < g$, the level of public debt that minimizes the cost of servicing the debt is lower than current levels.

TAGS: Debt sustainability; Debt and growth

[Heterogeneity in the debt-growth nexus: Evidence from EMU countries] (2017)

Marta Gómez-Puiga, Simón Sosvilla-Rivero - University of Bath

The objective of this paper is to examine whether the threshold beyond which public debt may have a detrimental effect on economic growth changes across euro area countries during the 1961-2015 period. In contrast with previous studies, authors do not use panel estimation techniques, but implement a time-series analysis for each country based on the growth literature. The results suggest that in all the countries but Belgium a debt increase begins to have detrimental effects on growth well before the SGP debt ceiling (a debt ratio of around 40% and 50% in central and peripheral countries, respectively) is reached. So, although austerity policies should be applied in EMU countries – since according to our results debt reduction barely exerts any significant beneficial impact on EMU countries' growth – they should be accompanied by structural reforms that can increase their potential GDP. Moreover, as results suggest that the harmful impact of debt on growth does not occur beyond the same threshold and with the same intensity in all EMU countries, a focus on average ratios and impacts may be unsuitable for defining policies. Specifically, authors findings suggest that the pace of fiscal adjustment should be lower in Greece and Spain than in the other countries.

TAGS: Debt sustainability; Debt and growth

[Capital Inflows, Sovereign Debt and Bank Lending: Micro-Evidence from an Emerging Market] (2016)

Tomas Williams - Universitat Pompeu Fabra

This paper uses a quasi-natural experiment to show that government access to foreign funding increases private access to credit. I identify a sudden, unanticipated and exogenous increase in capital inflows to the sovereign debt market in Colombia. This was due to J.P. Morgan's inclusion of Colombian bonds into its emerging markets local currency government debt index, which led to an increase in the share of sovereign debt held by foreigners from 8.5 to 19 percent. This event had significant and heterogeneous effects on Colombia's commercial banks: banks that acted as market makers in the treasury market reduced their sovereign debt holdings by 4.2 percentage points of assets and increased their commercial credit supply by 3.9 percentage points of assets compared to the rest of the banks. The differential increase in credit is around 2 percent of GDP. Firm and industry level evidence suggests that this had positive effects on the real economy. A higher exposure to market makers led to a higher growth in financial debt, investments, employment, production and sales.

TAGS: Foreign Debt; Debt and growth

[Public Debt Sustainability and Defaults] **(2017)**

Michel Guillard, Hubert Kempf - Université d'Evry val d'Essonne, École Normale Supérieure Paris-Saclay

The authors offer a new methodology for the assessment of public debt sustainability in a stochastic economy when sovereign default taken into account. The default threshold differs from the no-Ponzi condition and depends on the post-default debt recovery rule. The authors distinguish sustainability and unsustainability conditions, related to alternative scenarios on the future sequence of shocks. The authors highlight the role of the debt recovery ratio on the whole dynamics of public debt. When a sovereign default occurs, the sustainability of the post-default debt is ensured when the haircut is sufficiently large. Lastly the authors provide an explanation of serial defaults.

TAGS: Debt sustainability; Sovereign defaults

[Public Debt and Sustainable National Development in Nigeria: Analysis of Fundamental Issues]() (2017)

Remi Chukwudi Okeke, Adeline N. Idike - University of Nigeria

This study raises some fundamental issues in the relationship between public debt and sustainable national development in Nigeria. The work is significant in highlighting the position of public debt in the subject area of public administration. The study finds a very weak linkage between public debt and sustainable national development in the Nigerian state. The theoretical framework of the investigation is the bureaucratic theory. The work finds that the bureaucracy is as guilty as the politician in the country, in the transmutation of public debt into a brand of national bazaar. It is finally recommended in the paper that taxation-increases be adopted as alternative to public debt, in ensuring that the current generation of the country's citizens, in meeting their immediate needs do not invariably endanger the capacity of future generations in the same regards.

TAGS: Debt sustainability; Debt and growth

[Discounting the Deficit into Debt: The 3D Dilemma for the OECD Countries]() (2017)

Juha-Pekka Junttila - Jyväskylä University

Using annual data and both time series and a variety of panel econometric techniques for 22 OECD countries from the period of 1980-2016 the authors find that the euro countries as a group, and many of them as individual countries, too, are mainly dependent on their real economic performance regarding their possibilities to find a sustainable path for their public debt ratio. In our data the intertemporal government budget constraint (IGBC) does not seem to hold as a long-term equilibrium relationship, neither in the euro area nor in other OECD countries. However, as a shorter-term concept the a priori assumed relationship between the deficit ratio and the debt ratio might seem to hold especially for the part of OECD data, but there the real economic factors do not have almost any role in determining the debt ratio path. The differences in the dynamic relationships between the IGBC variables are very strong when comparing these two highly relevant economic areas of the global economy.

TAGS: Debt sustainability; Debt and growth

Economic Policies

[Low-interest-rate setting easing pressure on government budgets in the euro area]() (2017)

Deutsche Bundesbank

Interest rate developments in recent years have been a major source of relief for government budgets in the euro-area countries. Most of them saw their interest burdens contract on the back of cheaper borrowing terms despite some having substantially increased their debt ratios. The average rate of interest on government debt has hit a low, including for countries whose risk premiums surged for a time in the wake of the financial and economic crisis. If the average interest rate were, for example, still at its pre- crisis level, interest expenditure, viewed in isolation, for the past year alone would have been higher by almost 2% of nominal gross domestic product (GDP) for the euro area. Since 2008, this downturn in interest charges has yielded savings of almost €1 trillion, or a little short of 9% of euro-area GDP. The very advantageous borrowing terms available currently will probably provide continued relief for government budgets for a time. Yet

fiscal policymakers would nonetheless be wise to make provisions for when interest rates bounce back. One fundamental objective anchored in the Stability and Growth Pact is that governments be required to achieve structural budgetary positions which are at least close to balance. Achieving that goal swiftly would go a long way towards reining in what are still very high debt ratios overall and trimming both interest burdens and any risk premiums. However, the most recent figures show that consolidation progress (measured in terms of the structural primary balance) has largely ground to a halt – probably partly because of the sustained favourable borrowing terms. But high debt ratios represent a lingering threat for public finances, given the mounting risk that a rate reversal might erode confidence in the sustainability of individual countries' public finances, and not least that monetary policymakers might then be pressured to respond.
TAGS: Debt and fiscal/monetary policies; Debt sustainability

[The (unintended?) consequences of the largest liquidity injection ever]() **(2017)**
Matteo Crosignani, Miguel Faria-e-Castro, Luis Fonseca - Wharton School of the University of Pennsylvania and NBER
The authors study the design of lender of last resort interventions and show that the provision of long-term liquidity incentivizes purchases of high-yield short-term securities by banks. Using a unique security-level data set, the authors note that the European Central Bank's three-year Long-Term Refinancing Operation incentivized Portuguese banks to purchase short term domestic government bonds that could be pledged to obtain central bank liquidity. This "collateral trade" effect is large, as banks purchased short-term bonds equivalent to 8.4% of amount outstanding. The resumption of public debt issuance is consistent with a strategic reaction of the debt agency to the observed yield curve steepening.
TAGS: Debt and fiscal/monetary policies

[Fiscal Responsibility and Budget Management Act in India: A Review and Recommendations for Reform]() **(2017)**
Cigdem Akin, Bruno Carrasco, Sudipto Mundle, Abhijit Sen Gupta - ADB, National Institute of Public Finance and Policy, New Delhi-India
The paper assesses India's experience with fiscal consolidation and performance under the Fiscal Responsibility and Budget Management (FRBM) Act. While the introduction of FRBM rules helped consolidate the finances of both the central and state governments, key challenges under the FRBM Act remain such as (i) a weak linkage between budget policy setting and operational framework, (ii) insufficient coverage or assessment of fiscal risks, and (iii) inadequate course correction under the transparency and accountability framework when fiscal objectives went "off-track."
TAGS: Debt and fiscal/monetary policies

[An Overview of the 2017 Stability and Convergence Programmes and an Assessment of the Euro Area Fiscal Stance for 2018]() **(2017)**
Gilles Mourre, Ralph Schmitt-Nilson - European Commission
This paper provides an overview of the 2017 Stability and Convergence Programmes (SCPs). It takes a glance at budgetary developments in 2016 and sets out the fiscal plans over 2017-2020, both at the country level and the euro area and EU as a whole. It also presents an analysis of the recent and prospective fiscal stance in the euro area. […] Public debt has peaked in 2014 at around 94% of GDP in euro area (88% in the EU) and is projected to fall

steadily over the programme horizon to reach around 83% of GDP in the euro area (78% in the EU) in 2020. The main drivers for the debt reduction going forward are primary surpluses supported by a favourable snowball effect. On the medium-term, sustainability risks (up to 2031) remain elevated in a number of Member States. Medium-term debt projections show that if the fiscal plans in the SCPs were fully implemented, additional fiscal consolidation measures totalling around ½ percentage point of GDP would be needed over the next five years to bring the debt-to-GDP ratio to 60% by 2031. However, in a number of Member States the needed consolidation measures are more significant.

TAGS: Debt and fiscal/monetary policies; Debt sustainability

Two sides of the same coin? Independence and accountability of the European Central Bank (2017)

Benjamin Braun - Harvard University & Max Planck Institute for the Study of Societies

This report is published at a time when the ECB faces a major dilemma. Because political inertia has to date prevented the establishment of a sustainable institutional architecture for the Eurozone, the ECB's role in safeguarding the euro is as indispensable as ever. The ECB emerged as the decisive actor in the euro crisis, with an extraordinary degree of latitude thanks to the statutory independence enshrined in the EU treaties: Governing Council members may not seek or take instructions from member state governments or European authorities to protect it from political interference. At the same time the ECB faces a significant decline in public trust, which alongside its expanded responsibilities put considerable strain on its accountability. The relationship between the ECB's independence, its mandate, and its accountability lies at the heart of this report. This arrangement is intended to ensure the legitimacy of a body that has deliberately been placed outside of democratic politics.[…]

TAGS: Debt and fiscal/monetary policies

International Best Practices

Good Practices in Developing Bond Market: with a focus on government bond market (2017)

Association of Southeast Asian Nations Plus Three

Beginning in 1997, Asia suffered a dramatic financial crisis. Thailand was first hit, followed by Indonesia and the Republic of Korea. The root cause, which created risks and eventually led to the crisis, was the so-called "double mismatch problem." That is, businesses borrowed short term bank loans in a foreign currency to finance long-term investments that generated returns in a domestic currency. This problem is structural and differs from a more traditional debt crisis caused by over-borrowing, such as those in Latin America in the early 1980s. Experts inside and outside the region identified the need to develop domestic bond market to address the root cause of the 1997/98 Asian financial crisis. This paper will not focus on examining the behavior of businesses and financial institutions in creating the double mismatch problem. Instead, it focuses on how countries in Asia addressed the problem by developing their domestic bond markets.

TAGS: Best Practices; Debt crisis; Bond market development

[TRV: ESMA Report on Trends, Risks and Vulnerabilities - No. 2, 2017]

ESMA

ESMA sees valuation risk at highest levels due to financial weakness and geopolitical uncertainty. The European Securities and Markets Authority (ESMA)'s latest report on Trends, Risks and Vulnerabilities No. 2, 2017 (TRV) identifies high asset price valuations as the major risk for European financial markets in the second half of 2017. The main risk drivers are uncertainties around geo-political developments, the resilience of economic growth as well as debt sustainability.[…]

TAGS: Financial stability; Debt sustainability

[The interdependence of research and policymaking]

Mario Draghi - ECB

This year marks the 200th anniversary of David Ricardo's Theory of Comparative Advantage– in the words of Paul Samuelson, one of the few counter-intuitive fundamental ideas in economics, which moved the world away from mercantilism. And when we look at other giants in the history of economic thought, Adam Smith, who laid down the foundations of capitalism; Keynes, who drove us into policy activism and away from laissez-faire; until the founders of econometric model building in post-war time, we cannot but conclude that there is little in economics that does not have policy implications and that the interaction between research and its policy application is continuously evolving in an ever expanding universe.[…]

TAGS: Financial Analysis; Debt and fiscal/monetary policies

[Market structure and evolution]

Luigi Belluti - UniCredit SpA

Topics of this presentation: Sovereign bond crisis and country risk re-pricing generated negative spillover on the trading books; A very liquid and efficient repo market is crucial to preserve good market functionality, but repo markets are currently operating in uncharted territory; Main takeaways: the secondary market is facing strong challenges and a hybrid market structure should be the response.

TAGS: Debt crisis; Market Liquidity; Repo market

[Sovereign bond-backed securities]

Sam Langfield - ESRB European Systemic Risk Board

In this presentation, the author sets-forth Euro safe assets proposals, that's to say why we need them and how to set-up them. He also analyses their implications for fixed income markets, both on the investor base front and on the liquidity one.

TAGS: Primary market; Market Liquidity; International and Macroprudential Regulations

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[Unconventional monetary policy and fixed income markets]

Peter Praet - ECB

Well-functioning fixed income markets are at the heart of modern market economies. There are several reasons for this: - they provide information to market participants and policymakers concerning the state of the economy and how it is expected to develop; - they signal monetary

policy expectations and investors' expectations regarding future inflation; - they offer benchmarks for pricing other assets.[…]
TAGS: Debt and fiscal/monetary policies; Sovereign bonds yields

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[Market transparency: the MiFID II/MiFIR regime]

Carmine Di Noia - CONSOB

Presentation's outline: Sketching out the new trading environment; Transparency in non-equity markets: too much of a good thing?; MIFIR remedies for non-equity markets; Conclusions (food for panelists).
TAGS: International and Macroprudential Regulations; Transparency; Market Liquidity

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[Market Making structure and evolution: World Bank insights on Sovereign Bond markets]

Anderson Caputo Silva, Baudouin Richard - World Bank, Independent consultant

The presentations contains the results of a WB survey on 26 countries about trends in secondary market liquidity, also focusing on the following topics: Electronic Trading Platforms: market share, trading volume by type of ETP and of debt instrument, number of ETPs, type of operators; Primary Dealer System: size and composition of PD group, obligations, support, incentives, sanctions. Alternative methods to market making are also considered such as: call market, fixing, reference price. Strategic role of Market infrastructures is deeply explained, particularly Central Securities Depository (CSD) and Securities and Settlement System (SSS).
TAGS: Market Liquidity; Trading platforms; Primary dealers; World Bank

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[AMCs and the cleansing of EU banks' balance sheets]

Andrea Enria - EBA

The author presents a new conceptual approach to NPLs. This phenomenon currently accounts for about 1 trillion euros in the EU banks, overloaded with sovereign securities. Banks are the first fragile chain organizations, facing possible transnational destabilization effects in case of NPL crisis. In addition, excessive NPLs weaken banks' credit function due to lack of liquidity rotation.[…]
TAGS: Financial stability

[Capital Markets Union, proportionality and securitization]

Mario Nava - European Commission

This presentation concerns the "state of the art" of the integration and setting-up processes of the European Capital Markets Union. There are still many unresolved challenges, but the European authorities hold strategies declined in a set of priority actions designed to face them.
TAGS: International and Macroprudential Regulations

[European Capital Market Union]

Roberto A. De Santis - ECB

This short presentation outlines a work in progress which analyses the positive effects following the introduction of the European Capital Market Union.
TAGS: International and Macroprudential Regulations

[A new bargaining perspective on sovereign debt restructuring]

Marcus Miller, Sayantan Ghosal - University of Warwick, University of Glasgow

Lacking some supra-national, overseeing authority, sovereigns in default typically renegotiate with their creditors. In these negotiations, the owed principal typically receives a 'haircut'. This column explores whether overburdened sovereign debtors can strategically leverage delay as they bargain with their creditors. Under asymmetric information, a delay in the form of offers that the debtor knows won't be accepted can work out in the debtor's favour. The findings suggest that strategic delay can be used to show where restructuring is necessary.

TAGS: Debt Restructuring

An analysis of long term evolution of the Italian government bond wholesale secondary market liquidity

Filippo Mormando - University of Padova CRIEP

Outline of the presentation: Look at long term trends of MTS cash liquidity (2006-2017). If, when and how liquidity changed. - Liquidity long term trends and market making: if and how the evolution of liquidity affected market making strategies. - Liquidity long term trends and large trades execution. - New regulation and market competition are currently the two main forces driving down market making profitability. A first empirical test is based on the impact of a change in the market making rules set by the Treasury.

TAGS: Trading platforms; Market Liquidity

Long term trends in the Italian secondary market

Maria Cannata - Italian Ministry of Economy and Finance

This presentation outlines the main aspects of a research projects conducted by CRIEP, a research centre of public economics based on Universities of Padua, Venice and Verona, in collaboration with the Italian Treasury, focused on the Italian government bond market liquidity long-term trends, exploiting the rich database made available by MTS.

TAGS: Market Liquidity; Trading platforms

The Narrow Path - The Italian View

Italian Ministry of Economy and Finance

The Narrow Path is a newsletter about Italy's economy and public finances. It is released periodically to update a professional audience about major facts related to reforms and improvements of the economic activity. As far as public debt is concerned, the Italian government believes that a fiscal adjustment is definitely needed for a country with a debt as high as Italy's. However, the decision about the pace of the adjustment is crucial as it may potentially affect the prospects of the economy, including the private sector. […]

TAGS: Debt and fiscal/monetary policies; Debt and growth

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 market

Japan's Debt Management Report 2017

Japanese Ministry of Finance

The annual Japan's DMO report reflects recent debt management policies, market trends and regulatory changes. It introduces also brand new columns including "Quantitative and Qualitative Monetary Easing with Yield Curve Control" and "Changes to JGB Issuance Plan for FY2016 in Line with Economic Measures". Finally, the report adds a brief explanation of MOF's basic goals for JGB Management policy in the Preface in order to clarify Japan's policy goals

TAGS: Debt Policy; Debt Statistics

[JGB Newsletter August 2017]

Debt Management Policy Division - Ministry of Finance Japan

The newsletter illustrates the Meeting of JGB Market Special Participants (71st round) and the Meeting of JGB Investors (70th round). In addition, it contains mid-Year Economic Projection for FY2017 & Economic and Fiscal Projections for Medium- to Long-term Analysis.

TAGS: Debt Policy; Primary dealers

[Brazil Monthly Debt Report - June 2017]

Brazilian National Treasury

The Monthly Debt Report highlights: Primary Market Transactions: Federal Public Debt (FPD) issuances reached BRL 74.10 billion, while redemptions totaled BRL 3.84 billion, resulting in net issuances of BRL 70.26 billion. Of the total, BRL 72.18 billion refers to net issuances of Domestic Federal Public Debt and BRL 1.92 billion to net redemptions of External Federal Public Debt; - Outstanding debt, profile and maturity structure - the June results and the limits outlined in the Review of Annual Borrowing Plan 2017 are described.[…]

TAGS: Debt Policy; Debt Statistics

[Cyprus economy Newsletter 07/2017]

PDM Office - Cypriot MoF

Economic developments in Cyprus, with an overview on the banking sector, fiscal developments, public debt and financing.

TAGS: Debt Statistics; Economic Forecasts

[Public debt management policy of the Russian federation for 2017-2019]

The Ministry of Finance of the Russian Federation

Irrespective of the geopolitical and macroeconomic landscape, or the international and domestic market environment, the public debt policy during the period will be focused on ensuring the capability of the Russian Federation to borrow the amounts required to meet its social and economic objectives on conditions acceptable for the country as a reliable sovereign borrower, in terms of both price and structure. […]

TAGS: Debt Policy

[Improving public debt management In the OIC member countries]

Standing Committee for Economic and Commercial Cooperation of the Organization of Islamic Cooperation (COMCEC)

Average public debt relative to GDP in the OIC member countries has increased from 36.7% in 2012 to 46.1% in 2015 and is expected to rise to 51.1% in 2017. The amount of outstanding gross public debt relative to GDP is, however, very heterogeneous among OIC member countries, ranging between 3% and 139%. The highest average debt to GDP ratios are expected in low income OIC countries in the next years. High income OIC countries are expected to experience the largest increases in the average debt to GDP ratios. […]

TAGS: Debt statistics; Debt Policy

Who Owns the U.S. National Debt?
Kimberly Amadeo - The balance
The U.S. debt is $19.8 trillion. Most headlines focus on how much the United States owes China, one of the largest foreign owners. What many people don't know is that the Social Security Trust Fund, aka your retirement money, owns most of the national debt. How does that work, and what does it mean? […]
TAGS: Accounting, statistics, Reporting and Auditing; Debt Statistics

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Economic conditions and ECB interest rate increases
Stefan Gerlach - EFG Bank, CEPR Research Fellow
With the Eurozone in recovery, at some stage the ECB will raise interest rates. This column examines the conditions that might lead to this happening. A statistical analysis suggests that the likelihood of an interest rate increase is currently about 7%, but a combination of stronger growth and higher price pressures could quickly raise this to about 30%. A return of the ECB to its pre-crisis behaviour would also lead to a dramatic rise in the likelihood of an interest rate increase.
TAGS: Debt and fiscal/monetary policies

Exceptions to the exceptional nature of State aid for banks
Phedon Nicolaides - State Aid Hub.eu
The objective of severing the link between banks and the sovereign is pursued more vigorously in the case of normal resolution than in the case of liquidation. Precautionary recapitalisation also allows for State aid without triggering assistance by the SRF or national resolution funds. State aid for banks is not a thing of the past. The SRB decisions concerning the Spanish Banco Popular and the Italian Veneto Banca and Banca Popolare di Vicenza were the first ever measures adopted by the SRB on the basis of the SRMR.[…]
TAGS: Financial stability; International and Macroprudential Regulations; Sovereign debt exposure; State aids

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The relationship between CDS and bond spreads
Daniel Berman - JP Morgan
Understanding the drivers of basis between Credit Default Swaps (CDS) and bond spreads is important in correctly interpreting prices from each market. This review discusses the pricing methodology of the basic credit default swap, the equivalent spread measure for corporate bonds, considers how CDS and bond spreads relate to one another, and how CDS may on occasion drive bond spreads.
TAGS: Financial Analysis; Derivatives

The financial crisis, ten years on
Stephen Cecchetti, Kim Schoenholtz - Brandeis International Business School, NYU Stern School of Business
The bottom line is that with the hindsight of 10 years, key facts about the financial crisis of 2007-09 become clear. What started as a loss of liquidity in the markets for complex, opaque mortgage-related instruments, on 9 August 2007 led suddenly to the evaporation of funding liquidity for intermediaries holding these securities (or trying to use them as collateral). It happened then because the system was exceptionally fragile, leaving it vulnerable even to small disturbances. And, by then, since European banks had been active in these US markets, the problem was broadly international in scope (at least in Europe and North America). But, what made the crisis so deep and

long – and so damaging to the global economy – was that the losses hit a financial system that was inadequately capitalised from the start. [...]

TAGS: Financial Analysis

[European Financial Stability and Integration Review (EFSIR)]

Directorate-general for Financial Stability, Financial Services and Capital Markets Union (DG FISMA) - European Commission

The report first describes the recent general developments in financial markets and the financial sector. This is followed by a more in-depth analysis of two particular policy areas that impact European financial stability and integration. In this edition, the first focus chapter reviews the current achievements of the Banking Union and the progress towards its completion. The second focus chapter discusses the EU macro-prudential policy framework. [...]

TAGS: Debt and fiscal/monetary policies; Sovereign debt exposure; International and Macroprudential Regulations;

[Joint committee report on risks and vulnerabilities in the eu financial system]

EIOPA EBA ESMA - Joint committee of the European supervisory authorities

The current environment of low interest rates and elevated political and economic uncertainties poses substantial risks to the banking and insurance sector. Many banks struggle with asset quality concerns and attempt to mitigate discrepancies between returns and their respective funding costs. Costs of banks' equity exceed respective returns on equity, while insurers predominantly face reinvestment risks, as available long-term interest rates may eventually not suffice to fund the contractually guaranteed returns of the outstanding policies. [...]

TAGS: Market Liquidity; Financial stability; Debt and fiscal/monetary policies

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[87th BIS Annual Report]

Bank for International Settlements

The 87th Annual Report of the Bank for International Settlements for the financial year which ended on 31 March 2017. Over the past year, the global economy has strengthened further. Growth has approached long-term averages, unemployment rates have fallen towards pre-crisis levels and inflation rates have edged closer to central bank objectives. With near term prospects the best in a long time, this year's Annual Report examines four risks that could threaten the sustainability of the expansion in the medium term: a rise in inflation; financial stress as financial cycles mature; weaker consumption and investment, mainly under the weight of debt; and a rise in protectionism. [...]

TAGS: Financial Analysis

[G20 Hamburg action plan]

G20 Germany 2017

The Hamburg Action Plan sets out the G20's strategy for achieving strong, sustainable, balanced and inclusive growth. Participants believe that closer partnership and action by G20 members will boost confidence and contribute to shared prosperity. Actions laid out here aim to contribute to meeting the aspirations of our citizens for a better quality of life for their families, communities and future generations. So this Action Plan was developed against a backdrop of improving growth and job prospects. The global economic recovery is progressing and gaining momentum. Investment has picked up, and trade and manufacturing are showing signs of recovery. [...]

TAGS: Financial stability

How much relief is actually needed to restore public debt sustainability

Monokroussos Platon - Hellenic foundation for european & foreign policy

The material presented herein is based on a number of published official documents that include, inter alia, the European Commission's compliance report on the first review of Greece's Third Economic Adjustment Programme (June 2016) and the IMF's Article IV consultation report (February 2017). The study attempts a replication of the debt sustainability analyses (DSA) presented in the aforementioned on the basis of a number of simplifying (yet necessary) assumptions made by the author to make up for some important information pieces that are missing from the official documents. Therefore, the numerical results presented in this study may deviate somewhat from the respective official estimates and projections.

TAGS: Debt sustainability

Unconventional monetary policy and fixed income markets

Peter Praet - ECB

Well-functioning fixed income markets are at the heart of modern market economies. There are several reasons for this: - they provide information to market participants and policymakers concerning the state of the economy and how it is expected to develop; - they signal monetary policy expectations and investors' expectations regarding future inflation; - they offer benchmarks for pricing other assets.[…]

TAGS: Debt and fiscal/monetary policies; Sovereign bonds yields; Bond market development

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Post-Programme Surveillance Report: Ireland, Spring 2017

Servaas Deroose, Carlos Martinez Mongay, Christian Weise, Stefan Kuhnert - European Commission

Staff from the European Commission, in liaison with staff from the European Central Bank, visited Dublin from 16 to 19 May 2017 to conduct the seventh post-programme surveillance (PPS) review mission for Ireland. Staff from the European Stability Mechanism also participated in the meetings on aspects related to its Early Warning System. The main objective of PPS is to assess the country's capacity to repay loans granted under the former EU-IMF financial assistance programme and, if necessary, to recommend corrective actions.

TAGS: Multilateral financing

Post-programme Surveillance Report: Spain, Spring 2017

Servaas Deroose, Laura Bardone - European Commission

This seventh surveillance report provides an assessment of Spain's economic and financial situation following its exit from the financial assistance programme in January 2014. A team from the European Commission (EC), in liaison with staff from the European Central Bank (ECB), carried out the seventh post-programme surveillance visit to Spain on 24-26 April 2017. The European Stability Mechanism (ESM) participated in the meetings on aspects relating to its own Early Warning System. The report focuses on macroeconomic and financial sector developments, complementing the surveillance by the Commission under the macroeconomic imbalances procedure, the Stability and Growth Pact and, more broadly, the European Semester of economic policy coordination.

TAGS: Debt and fiscal/monetary policies

Hurricanes, Natural and Manmade, Weigh on Sovereign Risk

Dana Gordon, Xian Li, Irina Baron - Moody's

Global market-based measures of credit risk were higher over the past week. Crude oil prices rose over the week 6.9% to a two-year high of $49.16 on September 6. Gulf coast refinery and pipeline activity is gradually returning to normal and inventories rebuilt after Hurricane Harvey's catastrophic effect. In the midst of it, the US southeast is bracing for Hurricane Irma, described as the worst hurricane on record. The United States' Sovereign EDFTM (Expected Default Frequency) metric1, which measures the expected probability of default over a five-year time horizon, increased over the past week by 0.01% to 0.07%.[…]

TAGS: Sovereign defaults; Sovereign risk premia

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

9-13 July 2017; World Bank Treasury IBRD IDA
Designing government debt management strategies - 2018 edition

16-20 July 2017; World Bank Treasury IBRD IDA
Implementing Government Debt Management Strategies - 2018 Edition

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

19-20 September 2017; AFME, De Vere Grand Connaught Rooms, London
European Compliance and Legal Conference

22-23 September 2017; Heidelberg University; Germany
Aid and Investment from Developing and Emerging Economies

25-29 September 2017; London School of Economics and Political Science
Short Course on Financial Services and Markets Regulation

2 October 2017; IMF, Self-Paced
Debt sustainability analysis

2 October 2017; The International Monetary Fund, Self-Paced
Viabilité et gestion de la dette des pays à faible revenu

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

9-20 October 2017; IMF, The Joint Vienna Institute (JVI)
Model-Based Monetary Policy Analysis and Forecasting

16-17 October 2017; World Bank, Washington, D.C.
GDRM Program Round-table ?

17 October 2017; ESMA, The Westin Grand Paris - Vendôme
The State of European Financial Markets

23 October 2017; Crownagents, Singapore

Integrated Financial Management Systems: Strategy & Implementation

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

2-3 November 2017; The International Monetary Fund, Washington DC, USA
IMF Eighteenth Jacques Polak Annual Research Conference: The Global Financial Cycle

6 November – 8 December 2017; Unitar, web based
Global Financial Governance (2017)

6 November – 12 December 2017; Unitar, web based
Basic Course on Public Debt Management (2017)

6-17 November 2017; IMF, The Joint Vienna Institute
Managing Capital Flows: Macroeconomic Analysis and Policies

13 November – 15 December 2017; Unitar, web based
Ethics in Public Finance (2017)

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

15 November 2017; GFMA and ASIFMA, Marina Mandarin Hotel, Singapore
Making Markets Work for Green Finance

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

20-24 November 2017; JVI/BoE, The Joint Vienna Institute
Interaction of Monetary and Financial Stability Policies

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

5-9 March 2018; The International Faculty of Finance (IFF), Radisson Blu Edwardian Grafton, London
School of Bonds & Fixed Income

Some Figures

At **25 September, 2017**, the number of documents, reports and events on the PDM Network website is **7,821**. News uploaded on the website since January 2016 are **6,518**. This newsletter is sent to **626** Subscribers from emerging and advanced countries.

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Ltd., Instituto superior de economia e gestao, Intesa Sanpaolo S.p.A., INTOSAI, Irish NTMA, International Social-Economic Development for Africa, Israeli Central Bank, Israeli Ministry of Finance, Italian MoF, Italian Senate, CRIEP, ITAM, Japan Bank for International Cooperation, Japanese MoF, JCVP Consulting, Jordanian Central bank, Jordanian MoF, Johannesburg Stock Exchange Limited, Jubilee Germany, Kenyan Central Bank, Kenyan MoF, Korea Bond Pricing, Latvian DMO, Lebanese MoF, Lesotho Central Bank, Linus Capital, Lisbon School of Economics & Management, Lithuanian MoF, Lithuanian National Audit Office, London Business School, Luxembourg MoF, MAK Azerbaijan Ltd, Malawian Reserve Bank; Maldives MoF, Maltese Central Bank, Maltese Treasury, Mauritius Ministry of Finance and Economic Development, MEFMI, Mexican MoF, Michele Robinson Consult, Ministry of Economy and Finance of Peru, Ministry of Economy and Public Finance of Bolivia, Ministry of Finance and Corporate Governance of Antigua, Ministry of Finance and Economic Development of Zimbabwe, Ministry Of Finance of Benin, Ministry Of Finance of Comores, Ministry of Finance of Saint Lucia, Ministry of Finance of St. Vincent and the Grenadines, Ministry Of Finance of Surimame, Ministry of Finance of the Russian Federation, Ministry Of Finance Trinidad and Tobago, Ministry of Foreign Affairs of Egypt, Ministry Of Public Finance of Guatemala, Moldovan Mof, Moody's Investors Service, Moroccan MoF, Mozambique Ministry of finance, Namibian MoF, National Bank of Abu Dhabi, National Chengchi University, New South Wales Treasury Corporation, Nicaraguans Ministry of Finance and Public Credit, Nigerian DMO, Central Bank of Norway, Norwegian MoF, OECD, NS&I Government Payment Services, Oliver Wyman, One2five advisory, Oxford Policy Management, Pakistani MoF, Papua NG Treasury, Paraguayan Ministry of Finance, Philippine Bureau of the Treasury, Philippines Ministry of Finance, Polish MoF, Portuguese Central Bank, Province of British Columbia, Republic of Macedonia MoF, Reykjavik Academy, Romanian Court of Accounts, Romanian MoF, Rothschild Group, Rwandan Mof, Sain Kitts & Nevis MoF, San Diego State University, The Superior Audit Office of Mexico, SCMHRD-MBA Symbiosis, Senegalese Mof, Serbian Mof, Setif University , Slovak DMA, Slovenian MoF, Solomon Island Central Bank, *South African National Treasury, South Korean MoF, Southern African Development Bank, Sovereign Analytics llc, Spanish Central Bank, Spanish MoF, Sri Lanka Central Bank, Stanford University, Storkey & Co Limited, Sudan Central bank, Sun Yat-sen University , Suriname Debt Management Office, Swaziland's MoF, Swedish DMO, Tandem Global Partners, Tanzanian MoF, Tribunal de Contas da Uniao, Thai MOF, The American College of Greece, The Audit Board of The Republic of Indonesia, The Economist Intelligence Unit, The George Washington University, The Government of Anguilla, The Gulf Bond and Sukuk Association, GBSA, The Milken Institute, The Ministry of Finance Grenada, The ONE Campaign, The People's Bank of China, The Pragma Corporation, The World Bank, Thrivent Financial, Timor-Leste MOF, Tudor Investment Corporation, Turkish Treasury, UK Central Bank, UK DMO, UN Department for Economic and Social Affairs, United Nations Conference on Trade and Development, Union Bank Of Nigeria, Universidad de los Andes, Universidad EAFIT, University "Dunarea de Jos" Galati, University of Antwerp, University of Bologna, University of Brussels, University of Campinas, University of Catania - Department of Economics and Business, University of Glasgow, University of London, Birkbeck, University of Maryland, University of Milan, University of Molise, University of Naples Federico II, University of Navarra, University of Piraeus, University of Rome "Roma Tre", University of Rome La Sapienza, University of Rome Tor Vergata, University of Sussex, University of Tokyo, University of Trieste, University of Tuzla, University of Varna, University of Vienna, University of Viterbo "La Tuscia", University of Zagreb, University of Zimbabwe, University of Zurich, Uruguayan MoF, US Treasury, Versed Professional Services, Vietnamese Mof, Walton College of Business, West African Monetary Union, World Bank Treasury, Wrightson ICAP, Zambia Revenue Authority, Zhongnan University of Economics and Law.*