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

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Special Focus

World Bank Treasury hosted its first Workshop on "Assessing and Managing Risks from Contingent Liabilities"

The World Bank Treasury - Public Debt Management Advisory Group - organized its first workshop on "Assessing and Managing Risks from Contingent Liabilities" from April 30th to May 4th, 2018 in Vienna, Austria, as a response to increased interest in managing risks from contingent liabilities across debt management offices in member countries. Read more **TAGS:** Contingent Liabilities; Best Practices; World Bank

A Primer on Managing Sovereign Debt-Portfolio Risks

This paper provides an overview of sovereign debt portfolio risks and discusses various liability management operations (LMOs) and instruments used by public debt managers to mitigate these risks. Debt management strategies analyzed in the context of helping reach debt portfolio targets and attain desired portfolio structures. Also, the paper outlines how LMOs could be integrated into a debt management strategy and serve as policy tools to reduce potential debt portfolio vulnerabilities. Further, the paper presents operational issues faced by debt managers, including the need to

develop a risk management framework, interactions of debt management with fiscal policy, monetary policy, and financial stability, as well as efficient government bond markets. **Read more**
TAGS: **Best Practices;** **Sovereign ALM;** **Cost and Risk;** **Debt Policy;** **Debt and fiscal/monetary policies;** **Financial stability;**

Documents

Debt Policy

Managing public debt in Europe: an introductory guide **(2018)**
Sotiria Theodoropoulou – ETUI
This new introductory guide, 'Managing public debt in Europe, reviews the debate and empirical evidence on the problems that high public debt may cause and the policy options for reducing it. To do so, it starts from the basics regarding the determinants of the evolution of public debt over time, explains under what conditions high public debt can lead to a crisis and reviews the theory and evidence on whether high public debt is detrimental for growth. (Free download) **TAGS:** **Debt crisis;** **Debt and growth**

Public Sector Funding and Debt Management: A Case for GDP-Linked Sukuk **(2018)**
Abdoul Karim Diaw, Obiyathulla Ismath Bacha, Ahcene Lahsasna - Independent, International Centre for Education in Islamic Finance
Despite the huge amount of wealth in the hand of Muslims, most countries with Muslim majority population fall in the category of developing nations. The development of infrastructure has been proven to be an effective means for economic growth and poverty reduction. Usually governments have recourse to conventional debt financing to undertake infrastructure projects. However, this form of financing is unsuitable in an Islamic framework due to the prohibition of interest. Moreover, the recurrent sovereign debt crises over the last few decades stresses the importance of debt management that helps avoid the high costs of these forms of catastrophe. Debt indexation to some indicators from the real economy (like GDP or Commodity price) has been identified as an effective means for the reduction of sovereign default. Such an idea has the property of strengthening the linkage between the real and the financial sectors of the economy and allows risk sharing between the parties involved in the transaction. In spite of the convergence of such an idea with the spirit of Islamic finance, the Ṣukūk market has not yet taken advantage of it. The objective of this paper is, therefore, to propose an innovative model of Ṣukūk for financing nonrevenue generating public sector projects whose return is linked to the GDP development of the issuing country. The paper examines the potential benefits and obstacles of the GDP-Linked Ṣukūk (GLS) model, which is based on Forward Ijārah, as well as its risk-return profile. Furthermore, a framework for pricing GLS is put forth. Based on a sample of countries from five regions of the Muslim world, the theoretical properties of the GLS are validated through backtesting method. The model is shown to be a new asset class between the traditional debt and equity instruments and offers interesting diversification opportunities. Besides its theoretical contribution, the model proposed in this paper addresses in an effective way

the issue of debt management, in an interest-free context, and the issue of benchmarking sovereign Ṣukūk against the interest rate. **TAGS:** **Primary market;** **Debt and growth;** **Bond market development**

Brief history of US debt limits before 1939 **(2018)**

George J. Hall , Thomas J. Sargent - Brandeis University New York University

Between 1776 and 1920, the US Congress designed more than 200 distinct securities and stated the maximum amount of each that the Treasury could sell. Between 1917 and 1939, Congress gradually delegated all decisions about designing US debt instruments to the Treasury. In 1939, Congress began imposing a limit on the par value of total federal debt outstanding. By summing Congressional borrowing authorizations outstanding each year for each bond, the authors construct a time series of implied federal debt limits before 1939 [...] **TAGS:** **Debt sustainability;** **Debt and fiscal/monetary policies**

Cost and Risk

Does sovereign risk in local and foreign currency differ? **(2018)**

Marlene Amstad, Frank Packer and Jimmy Shek – BIS

Historically, sovereign debt in local currency has been considered safer than debt in foreign currency. Yet the literature offers scant theoretical or empirical guidance as to why such a gap exists, or why it appears to have slowly and steadily diminished for all regions over the past two decades, as expressed in the ratings widely used by global investors and regulators to assess credit risk. The authors suggest and empirically test five hypotheses. The authors find that differences in inflation do not explain the assessed gaps between local and foreign currency credit risk. The banking sector's vulnerability to sovereign debt problems is a significant determinant of the spread, but does not account for its decline over time. Instead, the surge in global reserves, and to lesser extent the reduced reliance on overseas foreign currency borrowing (ie the decline of original sin), as well as lower global volatility, appear to have lessened the gap. But if these variables were to go into reverse, the gap could again widen. **TAGS:** **Cost and Risk;** **Primary market;** **Sovereign Credit Ratings;** **Foreign Debt**

The outlook for debt interest spending **(2017)**

Office for Budget Responsibility

Debt interest is one of the largest elements of public spending not under the direct control of government. It is determined by the stock of government debt – mostly the legacy of past budget deficits – and the interest rates that the government has to pay on it. Economic or fiscal developments that raise future budget deficits, or the debt stock directly, would increase future debt interest spending. But increases in the cost of new borrowing are an important additional risk, not just because they would make it more expensive to service a given debt, but also because they could push the debt-to-GDP ratio towards an unsustainable trajectory if they rise relative to the rate of growth of nominal GDP. The UK public sector paid £39.4 billion of debt interest to the private and overseas sectors in 2016-17, comprising £35.2 billion from central government, £3.4 billion from public corporations and £0.7 billion from local authorities. At 2 per cent of GDP, this is relatively modest by the standards of recent decades (Chart 1.1). The public sector, in its turn, received £5.8 billion of interest payments from the private and

overseas sectors, including accrued interest on student loans and interest on its foreign exchange reserves. **TAGS:** **Cost and Risk; Debt sustainability**

Primary Markets

State contingent debt as insurance for euro-area sovereigns **(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**; **Contingent Liabilities**

Cash Management

Optimal capital buffers of sovereign debt management offices **(2018)**

Alexander Eisl , Christian Ochs, Stefan Pichler - Vienna University of Economics and Business, VGSF (Vienna Graduate School of Finance)

The authors present a framework of sovereign debt issuances and precautionary capital buffers. In a setting where sovereign debt managers are confronted with budget risk and intertemporal funding is costly, the sovereign may issue debt in excess of expected funding needs - a capital buffer - as a measure of self-insurance. The authors provide an empirical assessment of optimal capital buffers for a panel of European countries and derive policy recommendations. For realistic parameters, their model suggests capital buffers in a range from 0.19% to 1.41% of the gross domestic product if the debt manager's budget predictions are based on an estimate of the deficit's unconditional mean. If debt managers can predict future deficits at least to some extent, high budget forecast errors become less likely and capital buffer holdings decrease. Their model suggest that optimal capital buffers remain positive and lie between 0.04% to 0.19% of the gross domestic product. **TAGS:** **Debt Policy; Cash Management**

Subnational Debt

Municipal pooled financing of infrastructure in the United States: experience and lessons **(2016)**

World Bank

The objective of this knowledge product is to review the legal, institutional and operational frameworks for subnational pooled financing (bond banks) in the United States, focusing on small municipalities, hence to help strengthen the capacity of the World Bank's advisory services in infrastructure financing. There has been great interest from policymakers in developing countries in learning from the experience of the advanced countries in developing pooled financing facilities. Recently, the World Bank has completed a review of specialized financing

vehicles for municipalities in Europe, which includes pooled financing vehicles. The proposed work is to take this line of work further, by reviewing the experience of the United States. **TAGS:** **Subnational debt**

Politics, banks, and sub-sovereign debt: unholy trinity or divine coincidence? **(2018)**

Michael Koetter, Alexander Popov - Halle Institute for Economic Research (IWH), European Central Bank

The authors exploit election-driven turnover in State and local governments in Germany to study how banks adjust their securities portfolios in response to the loss of political connections. The authors find that local savings banks, which are owned by their host county and supervised by local politicians, increase significantly their holdings of home-State sovereign bonds when the local government and the State government are dominated by different political parties. Banks' holdings of other securities, like federal bonds, bonds issued by other States, or stocks, are not affected by election outcomes. The authors argue that banks use sub-sovereign bond purchases to gain access to politically distant government authorities. **TAGS:** **Subnational debt; Sovereign debt exposure**

Chinese Local Bond Spreads, Monetary Policy and 'Misallocation' **(2018)**

Robert Dekle, Andrew Tsang - University of Southern California, Hong Kong Monetary Authority

The authors examine the impact of Chinese monetary policies on the excess bond yields of Chinese local bonds issued by Chinese local government entities. The authors find that an expansion in M2 generally raises the excess yields of the bonds of Chinese local government entities, and the impact is amplified for local bonds issued by local governments that are characterized as having a high degree of existing resource misallocation. The authors' estimation results confirm that local government bond excess yields can be used as an indicator of the riskiness of Chinese local government debt. **TAGS:** **Subnational debt**; **Debt and fiscal/monetary policies**

The Role of Credit Rating Changes on Opacity in the Municipal Bond Market **(2018)**

Jacquelyn Gillette, Delphine Samuels, Frank Zhou - Massachusetts Institute of Technology, University of Pennsylvania

This paper examines the role of credit rating changes on municipalities' disclosure decisions. Using Moody's recalibration of their municipal ratings scale in 2010 as an exogenous upgrade to municipal credit ratings, the authors find that upgraded municipalities significantly reduced their disclosure of financial statements relative to unaffected municipalities. Consistent with rating upgrades decreasing municipal issuers' cost of capital and reducing the benefits of disclosure, the authors find that this reduction is greater for issuers with lower ex-ante financing capacity, larger disclosure costs, and greater ex-ante investor reliance on disclosure. These findings suggest that borrowers take investors' reliance on credit ratings into account in their disclosure decisions. Collectively, the authors' results suggest that higher ratings can reduce the transparency of debt issuers' information environments by reducing borrowers' incentives to disclose financial information. **TAGS:** **Subnational debt**; **Transparency**

Financial Analysis

Banks' holdings of and trading in government bonds (2018)

Michele Manna and Stefano Nobili - Bank of Italy

In this paper the authors examine the holdings of government securities by domestic banks along with those of five other sectors: foreign banks, foreign non-banks, the official foreign sector, the domestic central bank and domestic non-banks. The authors use data for 21 advanced economies from 2004 Q1 to 2016 Q2. The results offer four main insights. First, banks are reluctant to undertake major changes in their holdings of domestic bonds but do accept frequent changes of more intermediate size. Second, the foreign official sector emerges as the clearest example of a contrarian investor, buying when prices fall and selling when prices rise. Third, the greater the holdings by domestic and foreign banks, the lower the yields tend to be on 10-year benchmark sovereign bonds. Finally, in all countries included in the sample the authors find a positive home bias in banks' sovereign holdings while foreign banks hold fewer bonds than predicted by a neutral portfolio measure. These results suggest that banks regard domestic government bonds as a special asset class (hence the positive bias and avoidance of major changes in inventories) which they manage in a flexible manner (hence the frequent intermediate changes and lack of systematic timing of transactions), in all likelihood to meet requests from their customers. All in all, this behaviour by domestic banks provides a positive contribution to the liquidity of the market. **TAGS:** **Institutional Investors; Sovereign debt exposure; Market Liquidity**

The Dynamics of Japanese Government Bonds' Nominal Yields (2018)

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

This paper employs a Keynesian perspective to explain why Japanese government bonds' (JGBs) nominal yields have been low for more than two decades. It deploys several vector error correction (VEC) models to estimate long-term government bond yields. It shows that the low short-term interest rate, induced by the Bank of Japan's (BoJ) accommodative monetary policy, is mainly responsible for keeping long-term JGBs' nominal yields exceptionally low for a protracted period. The results also demonstrate that higher government debt and deficit ratios do not exert upward pressure on JGBs' nominal yields. These findings are relevant to ongoing policy debates in Japan and other advanced countries about government bond yields, fiscal sustainability, fiscal policy, functional finance, monetary policy, and financial stability. **TAGS:** **Sovereign bonds yields: Debt and fiscal/monetary policies**

Sovereign credit risk and exchange rates: Evidence from CDS quanto spreads (2018)

Patrick Augustin, Mikhail Chernov, Dongho Song - McGill University, University of California, Boston College

Sovereign CDS quanto spreads - the difference between CDS premiums denominated in U.S. dollars and a foreign currency - tell us how financial markets view the interaction between a country's likelihood of default and associated currency devaluations (the twin Ds). A no- arbitrage model applied to the term structure of quanto spreads can isolate the interaction between the twin Ds and gauge the associated risk premiums. The authors study countries in the Eurozone because their quanto spreads pertain to the same exchange

rate and monetary policy, allowing us to link cross-sectional variation in their term structures to cross-country differences in fiscal policies. The ratio of the risk-adjusted to the true default intensities is 2, on average. Conditional on the occurrence default, the true and risk-adjusted 1-week probabilities of devaluation are 4% and 75%, respectively. The risk premium for the euro devaluation in case of default exceeds the regular currency premium by up to 0.4% per week. **TAGS: Sovereign CDS; Sovereign risk premia**

Consumption volatility risk and the inversion of the yield curve (2018)

Adriana Grasso and Filippo Natoli - Bank of Italy

The authors propose a consumption-based model that allows for an inverted term structure of real and nominal risk-free rates. In the authors' framework the agent is subject to time-varying macroeconomic risk, and interest rates at all maturities depend on her risk perception, which shapes saving propensities over time. In bad times, when risk is perceived to be higher in the short- than in the long-term, the agent would prefer to hedge against low realizations of consumption in the near future by investing in long-term securities. In equilibrium, this leads to the inversion of the yield curve. Pricing time-varying consumption volatility risk is essential in order to obtain the inversion of the real curve and allows the average level and the slope of the nominal level to be priced. **TAGS: Sovereign bonds yields; Sovereign debt market**

Debt Crisis

Debt Seniority and Sovereign Debt Crises (2018)

Anil Ari , Giancarlo Corsetti , Luca Dedola - International Monetary Fund, University of Cambridge, European Central Bank

Is the seniority structure of sovereign debt neutral for a government's decision between defaulting and raising surpluses? In this paper, the authors address this question using a model of debt crises where a discretionary government endogenously chooses distortionary taxation and whether to apply an optimal haircut to bondholders. The authors show that when the size of senior tranches is small, a version of the Modigliani-Miller theorem holds: tranching just redistributes government revenues from junior to senior bondholders, while taxes and government borrowing costs remain unchanged. However, as senior tranches become sufficiently large, default costs on senior debt transpire into a stronger commitment to repay not only the senior tranche, but also the junior one. The authors show that there is a lower threshold for senior bonds above which tranching can eliminate default on both junior and senior debt, and an upper threshold beyond which the government defaults also on senior debt. **TAGS: Sovereign defaults; Debt crisis;**

When Do We Repair the Roof? Insights from Responses to Fiscal Crisis Early Warning Signals (2018)

Jiro Honda, Rene Tapsoba, Ismael Issifou - International Monetary Fund, University of Orléans, France

Should policymakers wait for fiscal crisis early warning signals before repairing the roof? The authors give an answer to this question by investigating the interlinkages between early warning signals for fiscal crisis, policy responses, and policy outcomes, using a broad panel of 119 countries. The authors find that fiscal adjustment is a good remedy for countries that act proactively, reducing their likelihood

of facing fiscal crisis by up to about 60 percent. For those waiting for wake-up calls from early-detection tools, however, fiscal adjustment may not fully prevent fiscal crisis occurrence, with the chance of fiscal crisis prevention not only smaller (about 30 percent) but also statistically not significant. These findings highlight the prominence of repairing the roof when the sun is shining, particularly in countries with weak institutions. **TAGS:** **Debt and fiscal/monetary policies;**

The Hausmann-Gorky Effect (2018)

Ugo Panizza, G.Mitu Gulati - Graduate Institute of International and Development Studies (IHEID) Duke University School of Law

For over a century, legal scholars have debated the question of what to do about the debts incurred by despotic governments; asking whether successor non-despotic governments should have to pay them. That debate has gone nowhere. This paper examines whether an Op Ed written by Harvard economist, Ricardo Hausmann, in May 2017, may have shown an alternative path to the goal of increasing the cost of borrowing for despotic governments. Hausmann, in his Op Ed, had sought to produce a pricing penalty on the entire Venezuelan debt stock by trying to shame JPMorgan into removing Venezuelan bonds from its emerging market index. JPMorgan did not comply, but there was a pricing penalty. Intriguingly, the penalty hit only one bond; an issue by Venezuela's state-owned oil company that went on the market two days prior to Hausmann's piece. That bond then began to carry the name in the market of "Hunger Bond." Using quantitative data and interviews with investors, the authors try to understand the causes of the Hunger Bond penalty and ask whether there are lessons for policy makers. **TAGS:** **Debt sustainability; Debt crisis; Debt Restructuring**

Mongolia's debt crisis and impact of the IMF Program: results from a model of the Mongolian Economy (2017)

Andrew Bauer, Ragchaasuren Galindev, Munkh-Orgil Lkhagvajav, David Mihalyi and Nomuuntugs Tuvaan - The Natural Resource Governance Institute

Mongolia's debt crisis was caused by a combination of wildly over-optimistic revenue projections based on unrealistic expectations of mineral sector revenue growth, off-budget spending and a plethora of small infrastructure projects with questionable economic development benefits. The IMF program, while harsh, may help stabilize or even shrink public debt levels, preventing a banking crisis. Full implementation of the program is expected to lead to: - A 1 percentage point drop in GDP growth in 2018 relative to the baseline scenario, with growth likely to recover by 2019 and stabilize going forward. - Forty-seven thousand fewer jobs by 2021—a decrease of more than 3 percent—relative to the baseline scenario, predominantly in the public sector. - The debt-to-GDP ratio falling from 90 percent to almost 50 percent in the long run.

However, a mere 15 percent drop in mineral prices makes the debt situation worse than today, even with the implementation of the IMF program. This high degree of risk calls for additional debt repayment or supplementary measures. **TAGS: Debt crisis ; Multilateral financing; Financial stability; Debt and fiscal/monetary policies;**

Early Warning System of Government Debt Crises (2018)

Christian Dreger, Konstantin A. Kholodilin - DIW Berlin

The European debt crisis has revealed serious deficiencies and risks on a proper

functioning of the monetary union. Against this backdrop, early warning systems are of crucial importance. In this study that focuses on euro area member states, the robustness of early warning systems to predict crises of government debt is evaluated. Robustness is captured via several dimensions, such as the chronology of past crises, econometric methods, and the selection of indicators in forecast combinations. The chosen approach is shown to be crucial for the results. Therefore, the construction of early warning systems should be based on a wide set of variables and methods in order to be able to draw reliable conclusions. **TAGS:** **Debt crisis;** **Debt sustainability**

Institutional and Organizational Framework

Independent Fiscal Councils: Recent Trends and Performance **(2018)**

Roel M. W. J. Beetsma, Xavier Debrun, Xiangming Fang, Young Kim, Victor Duarte Lledo, Samba Mbaye, Xiaoxiao Zhang - University of Amsterdam, International Monetary Fund

Countries increasingly rely on independent fiscal councils to constrain policymakers' discretion and curb the bias towards excessive deficits and pro-cyclical policies. Since fiscal councils are often recent and heterogeneous across countries, assessing their impact is challenging. Using the latest (2016) vintage of the IMF Fiscal Council Dataset, the authors focus on two tasks expected to strengthen fiscal performance: the preparation or assessment of forecasts, and the monitoring of compliance with fiscal rules. Tentative econometric evidence suggests that the presence of a fiscal council is associated with more accurate and less optimistic fiscal forecasts, as well as greater compliance with fiscal rules. **TAGS:** **Debt Forecasts;** **Debt and fiscal/monetary policies;** **Best Practices**

Management of explicit contingent liabilities **(2018)**

CABRI Collaborative Africa Budget Reform Initiative

At CABRI's policy dialogue on managing contingent liabilities, delegates from 13 African countries considered the threat to debt sustainability posed by guarantees for state-owned entities' debt. This position paper captures the deliberations of the dialogue around five themes: (i) the role of regulatory frameworks that guide the management of contingent liabilities; (ii) the role of a debt office in strengthening contingent liability management; (iii) the importance of credit risk assessments in proactively managing contingent liabilities; (iv) the importance of measurement for timely identification and mitigation of fiscal risk arising from contingent liabilities; and (v) the importance of adequate disclosure and auditing of guarantee to SOEs. **TAGS:** **Contingent Liabilities;** **Debt sustainability;** **Cost and Risk**

Thou Shalt Not Breach: The Impact on Sovereign Spreads of Noncomplying with the EU Fiscal Rules **(2018)**

Federico Diaz Kalan, Adina Popescu, Julien Reynaud - International Monetary Fund

There is evidence that fiscal rules, in particular well-designed rules, are associated with lower sovereign spreads. However, the impact of noncompliance with fiscal rules on spreads has not been examined in the literature. This paper estimates the effect of the Excessive Deficit Procedure (EDP) on sovereign spreads of European Union member states. Based on a sample including the 28 European Union countries over the

period 1999 to 2016, sovereign spreads of countries placed under an EDP are found to be on average higher compared to countries that are not under an EDP. The interpretation of this result is not straight-forward as different channels may be at play, in particular those related with the credibility and the design of the EU fiscal framework. The specification accounts for typical macroeconomic, fiscal, and financial determinants of sovereign spreads, the System Generalized Method of Moments estimator is used to control for endogeneity, and results are robust to a range of checks on variables and estimators. **TAGS:** **Sovereign bonds yields; Debt and fiscal/monetary policies;**

Investors as Regulators: Green Bonds and the Governance Challenges of the Sustainable Finance Revolution **(2018)**

Stephen Park - University of Connecticut - School of Business

This Article examines the role of the global financial markets in promoting sustainability and the governance challenges arising from this phenomenon. A growing range of financial instruments and strategies catalyze the desire of investors and corporations to support environmentally and socially sustainable commercial activity. This Article focuses on green bonds, a form of debt financing whose proceeds are specifically dedicated to environmentally-friendly "green" projects, assets, and business activities. Having emerged in the past three years, green bonds are expected to play an integral role in responding to the existential threat and enormous costs posed by climate change. Largely missing from the still-nascent green bond market are government regulators. Instead, its governance is decentralized and primarily shaped by private governance regimes (such as investment standards, certification schemes, ratings, and third-party assessment), which compete or collaborate with each other for market adoption. In comparison to public regulation, private governance is often faster to implement and more responsive to the needs of market participants but may suffer from a lack of legitimacy, accountability, and consistency and be susceptible to greenwashing. To address these deficits, this Article identifies and analyzes governance gaps in the green bond market and outlines a public-private hybrid regulatory framework to optimize the interests of investors and stakeholders.

TAGS: **Primary market; Bond market development**

International and Macroprudential Regulations

Sovereign Bond Disputes Caseload: Basis for Legal Strategies in International Investment Law Arbitration **(2018)**

Tomas D. Rodriguez Correa - Max Planck Society for the Advancement of the Sciences

This article is part of the master thesis "Dispute Settlement after Sovereign Debt Defaults: A Forum Menu for Holdout Creditors". The article analyses issues that holdout creditors should take into account when initiating arbitral proceedings before an international investment tribunal, particularly under the International Centre for Settlement of Investment Disputes rules. The article also analyses aspects of financial law, mainly by examining hypothetical situations where treaty shopping can be executed through International Central Securities Depositories such as Euroclear and Clearstream. The article provides an objective analysis of the main pros and cons of resolving sovereign debt disputes before investment tribunals. Finally, the article demonstrates that bondholders who have acquired their bonds in the secondary

market should not go before ICSID looking for full enforcement of sovereign bonds' terms, as the compensation awarded might be considerably limited, having regard only to the bonds' market value. **TAGS:** **Sovereign debt litigation**

The regulatory treatment of sovereign exposures - discussion paper **(2017)**

Basel Committee on Banking Supervision – BIS

In January 2015, the Basel Committee on Banking Supervision set up a high-level Task Force on Sovereign Exposures to review the regulatory treatment of sovereign exposures and recommend potential policy options. The Task Force's report analysed issues concerning the regulatory treatment of sovereign exposures in the Basel framework. This discussion paper is derived from the Task Force's report. The Committee's view is that the issues raised by the Task Force and the ideas outlined in this paper are important, and could benefit from a broader discussion. However, at this stage the Committee has not reached a consensus to make any changes to the treatment of sovereign exposures, and has therefore decided not to consult on the ideas presented in this paper. The views of interested stakeholders will nevertheless be useful in informing the Committee's longer-term thinking on this issue. All comments are published on the website of the Bank for International Settlements unless a respondent specifically requested confidential treatment. **TAGS:** **International and Macroprudential Regulations; Sovereign debt exposure; Institutional Investors**

Sovereign concentration charges: a new regime for Banks' Sovereign Exposures **(2017)**

Nicolas Véron - Bruegel & Peterson Institute for International Economics

Achieving the aim of Europe's banking union project, to break the vicious circle between banks and sovereigns, requires new policy initiatives. The most direct bank-sovereign linkages are national deposit insurance and concentrated domestic sovereign exposures. Thus, simultaneously with a European Deposit Insurance Scheme (EDIS) as proposed by the European Commission in 2015, the European Union should introduce regulatory disincentives against highly concentrated sovereign exposures of euro area banks. This paper makes a concrete proposal for a Sovereign Concentration Charges Regulation (SCCR), including calibration and careful transitional arrangements to avoid any disorderly market impact. The SCCR and EDIS together could realistically receive political approval in 2018 and be fully implemented within a decade. **TAGS:** **Sovereign debt exposure; International and Macroprudential Regulations; Financial stability**

Debt Restructuring

How to Solve the Greek Debt Problem **(2018)**

Jeromin Zettelmeyer, Emilios Avgouleas, Barry Eichengreen, Miguel Poiares Maduro, Ugo Panizza, Richard Portes, Beatrice Wederdi Mauro, Charles Wyplosz - Peterson Institute for International Economics, University of Edinburgh, University of California Berkeley, European University Institute Florence, London Business School, INSEAD Singapore

Greece's debt currently stands at close to €330 billion, over 180 percent of GDP, with almost 70 percent owed to European official

creditors. The fact that Greece's public debts must be restructured is by now widely accepted. What remains controversial, however, is the extent of debt relief needed to make Greece's debt sustainable. This Policy Brief argues that the debt relief measures outlined by the Eurogroup will not be sufficient to restore the sustainability of Greece's debt. At the same time it shows that Greece's debt sustainability can in fact be restored without aggravating moral hazard—i.e., encouraging future governments in Greece and elsewhere in the euro area to take risks in the belief that they will be bailed out—and within the framework of EU law, in particular Article 125 of the Lisbon Treaty, which prohibits EU members from assuming liability for the debts of other members. It concludes that only conditional face value debt relief, in combination with the measures already considered by the Eurogroup, would restore Greece's debt sustainability with reasonable confidence. Furthermore, if the debt relief is structured in a way that creates incentives for additional fiscal adjustment, as proposed in this Brief, the amount of face value debt relief required could be modest—on the order of 10 to 15 percent of the outstanding official debt. **TAGS:** **Debt relief; Debt crisis; International and Macroprudential Regulations; Debt sustainability**

Sovereign Debt Restructuring in Europe (2017)

Lee C. Buchheit, G. Mitu Gulati - Duke University Law School

The Eurozone sovereign debt crisis began in the spring of 2010. Seven years on seems like an appropriate point at which to critique how the crisis has been handled and to assess whether policy changes will be required should it flare up again. In particular, there are a number of lessons to be learned from the Greek debt restructuring of 2012. **TAGS:** **Debt Restructuring; Debt crisis**

Official Debt Restructurings and Development (2018)

Gong Cheng, Javier Díaz-Cassou, Aitor Erce - 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 fills that gap. It provides a comprehensive description of the evolving characteristics of these operations and studies their impact on debtors. The progressive introduction of new terms of treatment gradually turned the Paris Club from an institution primarily concerned with preserving creditors' claims into an instrument to foster development in the world's poorer nations, among other objectives. The authors' study finds that more generous restructuring conditions involving nominal relief are associated with an acceleration of per capita GDP growth, a reduction of poverty and inequality, and an increase in public health budgets. The authors also find that countries receiving nominal relief tend to receive lower aid flows subsequently, the opposite being the case for countries receiving high reductions in the net present value of their obligations, but no nominal haircuts. **TAGS:** **Debt Restructuring; Debt relief; Debt crisis; Multilateral financing**

Use of the Local Law Advantage in the Restructuring of European Sovereign Bonds (2018)

Lee C. Buchheit - Cleary Gottlieb Steen & Hamilton LLP

Emerging market sovereigns issue bonds in the international capital markets governed by a foreign legal regime such as the law of England or New York State. European sovereigns, however, have been able to issue bonds governed by the issuer's own law. In the event of a future financial crisis, this gives European sovereign issuers the ability to pass local legislation that will facilitate an eventual restructuring of their bonds -- the "local law advantage." Greece did this in 2012 as part of a restructuring of €206 billion of Greek Government bonds. The validity of the revisions to Greek law enacted in 2012 by the Greek Parliament has been upheld in multiple judicial challenges (in Greece, Germany, Austria and before the European Court of Human Rights), as well in a major ICSID arbitration. This raises the question of whether other European sovereigns enjoying the local law advantage over their bonds can, in an emergency, rely on the power of their own legislatures to amend local law in order to facilitate a future restructuring of those instruments. **TAGS:** **Contract standards; Debt Restructuring**

Oil for Debt: A Unique Proposal for the Unique Challenge that is Restructuring Venezuela's Debt (2018)

Aditya Mitra, Andres Ortiz, Bernard Botchway, Evaristo Pereira, Shane O'Neill, Will Curtis - Duke University, University of North Carolina at Chapel Hill

This proposal offers a unique solution for a unique challenge: using oil to pay for Venezuela's debt. Venezuela and PDVSA's creditors currently receive little in the way of coupon payments and have minimal means of recourse over limited assets located outside Venezuela's borders. The authors suggest using a creditor trust to consolidate creditors into a single entity that would purchase the oil from Venezuela with bonds tendered by the creditors to the trust. This transaction would give the creditors trust a priority claim over oil as title holders. It allows a restructuring process with relatively few changes to current bonds, thus reducing the possibility of litigation. In addition to the legal and structural benefits offered to both Venezuela and the creditors, this proposal offers something that no other proposal does — the potential for successful execution under current U.S. sanctions based on the issuance of a specific license from OFAC. Although there is no assurance as to whether such license would be obtained, it is arguable that this structure runs outside the scope of the Executive Order No. 13,808, and that there is precedent supporting the issuance of such a license authorizing commercial transactions. **TAGS:** **Debt Restructuring; Debt crisis; Sovereign debt litigation**

Accounting, Statistics, Reporting and Auditing

Finland's Public Sector Balance Sheet : A Novel Approach to Analysis of Public Finance (2018)

Maren Brede, Christian Henn - BDPEMS, International Monetary Fund

The authors construct a comprehensive public sector balance sheet for Finland from 2000 to 2016 by complementing general government statistics with data on public corporations and public pensions. The authors show that exposure to valuation changes in equity markets through asset holdings and increases in pension liabilities relative to GDP amplify crisis impacts on public finances. The authors expand the balance sheet by including present value estimates of future fiscal flows; this allows us to perform fiscal stress tests and policy experiments. These analyses suggest that Finland's public finances will remain sound

provided ongoing reform and consolidation efforts to address aging pressures are implemented as planned. **TAGS: Debt Statistics; Debt sustainability; Financial Analysis**

Investor Relations and Rating Agencies

Sovereign Ratings: An Analysis of the Degree, Changes and Source of Moody's Judgement (2018)
Rudolf Alvise Lennkh, Edmund Moshammer - European Stability Mechanism
This paper studies the sovereign ratings of 74 countries from 2003 to 2016, disentangling rating drivers into a 'fundamental' and 'judgement' component based on Moody's methodology. The authors show that the agency applies judgement inconsistently across regions, income, rating levels and factors, time and the direction of rating changes. While downgrades are significantly linked to contemporaneous negative fundamental developments, such as weakening public finances, for upgrades the authors find evidence of a lagged or 'catching-up' effect. Out of the 29 tested explanatory variables, judgement applied by the rating committee is best explained through government bond yields, real GDP growth, the debt trend and interest payments relative to revenues. **TAGS: Sovereign Credit Ratings**

Macroeconomic Analysis

Climbing out of debt (2018)
Alberto Alesina, Carlo A. Favero, Francesco Giavazzi - Harvard University, Bocconi University
Almost a decade after the onset of the global financial crisis, national debt in advanced economies remains near its highest level since World War II, averaging 104 percent of GDP. In Japan, the ratio is 240 percent and in Greece almost 185 percent. In Italy and Portugal, debt exceeds 120 percent of GDP. Without measures either to cut spending or increase revenue, the situation will only get worse. As central banks abandon the extraordinary monetary measures they adopted to battle the crisis, interest rates will inevitably rise from historic lows. That means interest payments will eat up a growing share of government spending, leaving less money to deliver public services or take steps to ensure long-term economic growth, such as investing in infrastructure and education. Servicing debt will become a major burden.[…] **TAGS: Debt sustainability; Debt and fiscal/monetary policies; Debt and growth**

Fiscal multipliers and foreign holdings of public debt (2018)
Fernando Broner, Daragh Clancy, Alberto Martin, Aitor Erce - CREI, ESM
This paper explores a natural connection between fiscal multipliers and foreign holdings of public debt. Although fiscal expansions can raise domestic economic activity through various channels, they can also have crowding-out effects if the resources used to acquire public debt reduce domestic consumption and investment. Thus, these crowding-out effects are likely to be weaker when public debt is purchased by foreigners. The authors test this hypothesis on (i) post-war US data and (ii) data for a panel of 17 advanced economies from the 1980s to the present. To do so, the authors assemble a novel database of public debt holdings by domestic and foreign creditors for a large set of advanced economies. The authors combine this data with standard measures of fiscal policy shocks and show that, indeed, the size of fiscal multipliers is

increasing in the share of public debt held by foreigners. In particular, the fiscal multiplier is smaller than one when the foreign share is low, such as in the U.S. in the 1950s and 1960s and Japan today, and larger than one when the foreign share is high, such as in the U.S. and Ireland today. **TAGS:** **Debt and fiscal/monetary policies; Foreign Debt**

Does Public Debt Matter For Economic Growth? Evidence from southern Mediterranean countries **(2018)**

Saoussen Ouhibi, Sami Hammami - University of Sfax

This paper aims to examine the impact of public debt on economic growth using the dynamic panel data for a 9 southern Mediterranean countries over the period 1990-2015. The authors' empirical results showed that public debt is negatively and significantly related to economic growth. They also indicate that inflation, investment and total reserves are the main factors of economic growth in the southern Mediterranean countries. **TAGS: Debt and growth**

International practices and situating public debt management in Oman **(2018)**

Bilal Pandow - Middle East College

A significant amount of work is being undertaken globally on the measurements of public sector debt to enhance its sustainability. Although adoption of standards is likely to take time, a few applications are gradually being accepted internationally. In this chapter an attempt has been made to measure the sustainability of Oman's public debt and provide a framework based on international practices, to review and propose policy options for the Central Bank of Oman (CBO) and Ministry of Finance (MOF). The Financial Affairs Council (FAC) and the MOF are the two apex authorities responsible for all financial matters in Oman. The FAC is composed of the MOF and representatives from the CBO and the Capital Market Authority (CMA). The MOF proposes financial policies to the FAC related to regulations for adoption and also monitors their implementation. Also, the MOF has authority to borrow on behalf of the Government and keep records of the government's financial transactions. Specifications such as the purpose and limits of borrowing and objectives of debt management strategy are not spelled out clearly and the reporting of debt management activities is not mandated. In addition, there is no Public Debt Act in Oman. The main objective of this paper is to analyze the global scenario of and solutions for public debt management, current challenges and debt market development in order to identify relevant policy options for the authorities in the Sultanate of Oman. **TAGS: Debt sustainability; Transparency; Best Practices**

A Sovereign Debt Example as an Instance of Inter-Group Cooperation **(2018)**

Yanling Guo - Goethe University Frankfurt

In this paper, the author re-considers an example from the existing sovereign debt literature and analyzes it in the context of inter-group cooperation which is beneficial for both borrower and lenders. **TAGS: Sovereign defaults**

Debunking the Relevance of the Debt-to-GDP Ratio **(2018)**

Arturo C. Porzecanski - American University - School of International Service

Debt-to-GDP ratios do not predict fiscal outcomes. As ratios of government debt rise, some societies manage to deliver more

responsible fiscal behaviour. Low debt ratios often mask dangerous currency or maturity mismatches which can suddenly impair banks and governments. Contingent liabilities, especially arising from the banking system, have the power to undermine sovereign creditworthiness. The demand for government bonds can behave unpredictably, and governments can suddenly find themselves cut off from financing. Official institutions like the IMF, European Commission, and World Bank have done themselves and their member states a great disfavour by obsessing about debt ratios which do not have clear implications for debt sustainability. **TAGS:** **Debt sustainability; International and Macroprudential Regulations**; **Debt Policy**

From Sovereigns to Banks: Evidence on Cross-Border Contagion (2018)

Alesia Kalbaska, Cesario Mateus - University of Siena, University of Greenwich Business School

This paper analyzes the evolution of the banking system sensitivity to cross-border contagion in 2006-2011. The study is performed on the basis of the BIS data on cross-border exposures and the Bankscope data on Tier 1 capital of 20 banking systems (Australia, Austria, Belgium, Canada, Finland, France, Germany, Greece, India, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, Turkey, the UK and the US). Since the European sovereign debt crisis took a decisive turn at the end of 2009, markets started looking at its main protagonists - Greece, Ireland, Italy, Portugal and Spain (GIIPS) - with a lot of anxiety. However, unexpectedly, the authors find that a single failure among GIIPS could be absorbed by the network. The authors' results reveal that the US, the UK, France and Germany pose the highest threat to the systemic stability. Moreover, the resilience of the banking systems to contagion risks tends to improve over the years. **TAGS:** **Financial stability; Debt crisis; Sovereign debt exposure**

Rising public debt to GDP can harm economic growth (2018)

Alexander Chudik Kamiar Mohaddes M. Hashem Pesaran Mehdi Raissi - Federal Reserve Bank of Dallas

The debt–growth relationship is complex, varying across countries and affected by global factors. While there is no simple universal threshold above which debt to GDP significantly depresses growth, high and rising public debt burdens slow growth in the long term, data from the past four decades indicate. **TAGS:** **Debt and growth; Debt sustainability; Debt and fiscal/monetary policies**

Economic consequences of high public debt and lessons learned from past episodes (2018)

Cristina Checherita-Westphal, Pascal Jacquinot

The current debate on the role of public debt and sovereign creditworthiness in the euro area, is an essential piece in the context of the broader reform agenda on how to strengthen EMU resilience. This paper focuses on sustainability: it reviews the risks associated with regimes of high debt and stresses the need for comprehensive solutions to mitigate such risks in the future. In particular, the paper acts as a reminder that further risk reduction is needed - efforts in this respect should not be overlooked and should complement those to strengthen Euro Area (EA) stabilisation and risksharing capacity. Keeping public debt at high levels is a source of vulnerability, especially in EA, as it makes

the economy less resilient to shocks and may further restrain a country's LT growth potential. Reducing the currently high public debt levels may be more difficult than in the past and urgency of task depends on risks to debt sustainability. A menu of reforms, including further consolidation and structural reforms, is needed to reduce the currently high debt ratios in many countries. Looking beyond, further institutional changes are needed to make EMU more resilient to future debt crisis. **TAGS: Debt sustainability; Debt and growth;**

Economic Policies

Monetary Policy and Collateral Constraints since the European Debt Crisis (2018)

Barthélemy Jean, Bignon Vincent, Nguyen Benoît - Banque de France

With the European debt crisis, the role of assets accepted by the Eurosystem as collateral for refinancing operations took on a new place in the public debate, as, against a backdrop of shifting demand for refinancing, movements in European bond prices led to significant fluctuations in the collateral constraints of credit institutions. Jean Barthélemy, Vincent Bignon and Benoît Nguyen document the change in and heterogeneity of these constraints. They assess the impact attributable to the downgrade of sovereign ratings and the decline in asset prices during the European debt crisis on the valuation of collateral available for refinancing. Authors also construct indicators that track the change in the quality and liquidity of posted collateral. Their findings suggest that the flexibility of the Eurosystem collateral framework enabled credit institutions to cushion the shock created by the European debt crisis by depositing assets that were less liquid than bonds without causing a relative deterioration in the average rating of assets posted as collateral compared with the average rating on the market, as measured by eligible marketable assets. **TAGS: Debt and fiscal/monetary policies; Debt crisis; Sovereign Credit Ratings**

Fiscal adjustment in Latin America and the Caribbean : short-run pain, long-run gain? semiannual report (2018)

Office of the Regional Chief Economist - The World Bank

After a growth slowdown that lasted six years, the Latin America and the Caribbean (LAC) region has finally turned the corner and resumed growth at a modest rate of 1.1 percent in 2017 and 1.8 percent expected in 2018. This reflects a more favorable external environment, particularly a recovery in commodity prices. In spite of the benign external environment, most LAC countries still face a fragile fiscal situation. While gradual fiscal adjustments have started in several countries, most countries are still running fiscal deficits and debt levels are high. Further fiscal consolidation is needed to preserve the substantial gains achieved by the region in recent times, in terms of lower inflation, less poverty and inequality, and inclusive growth. This Semiannual Report analyzes the complex decisions regarding fiscal adjustment policies. **TAGS: Debt and fiscal/monetary policies; World Bank**

Italy: Toward a Growth-Friendly Fiscal Reform (2018)

Michal Andrle, Shafik Hebous, Alvar Kangur, Mehdi Raissi - International Monetary Fund

Published in late 2017, the Italian medium-term fiscal plan aims to achieve structural balance by 2020, although concrete, high-quality measures to meet the target are yet to be specified. This paper seeks to contribute to the discussion by (i) assessing

spending patterns to identify areas for savings; (ii) evaluating the pension system; (iii) analyzing the scope for revenue rebalancing; and (iv) putting forward a package of spending cuts and tax rebalancing that is growth friendly and inclusive, could have limited near-term output costs, and would achieve a notable reduction in public debt over the medium term. Such a package could help the authorities balance the need to bring down public debt and, thus, reduce vulnerabilities while supporting the economic recovery. **TAGS:** **Debt and fiscal/monetary policies;**

China's Debt Problem: How Worrisome and How to Deal with it? (2018)

Alicia García-Herrero, Le Xia - Natixis , BBVA Research, Bruegel

This paper investigates China's debt problem in various perspectives. The authors find that the reason that China has been getting into a debt problem was mainly due to the huge stimulus package and lax monetary policy during the 2008-2009 global financial crisis. The authors then estimate that China's total non- financial sector debt amounted to 235.1% of GDP, a high level relative to other emerging markets, among which public sector debt was 53.2% of GDP while private sector debt amounted to 181.9% of GDP. The debt problem may exacerbate banks' asset quality and weigh on growth rate. To solve the debt problem, the authors propose that the authorities should press ahead with structural reforms and financial liberalization while local governments can privatize their controlled SOE assets to raise funds for debt repayment. **TAGS:** **Debt and fiscal/monetary policies; Debt sustainability; Subnational debt**

Twin Deficits Revisited: A Role for Fiscal Institutions? (2018)

Antonio Afonso, Florence Huart, João Tovar Jalles, Piotr Leszek Stanek- University of Lisbon, Université de Lille I, International Monetary Fund, Cracow University of Economics

The authors revisit the twin deficit relationship for a sample of 193 countries over the period 1980-2016, using a panel fixed effect (within-group) estimator, bias-corrected least-squares dummy variable, system GMM, and common correlated effects pooled estimation procedures. The analysis accounts also for the existence of fiscal rules in place, their features, and their interaction with the budget balance. In the absence of fiscal rules, the twin deficit hypothesis is confirmed. The size of the estimated coefficient on the budget balance is between 0.68 and 0.79. However, the existence of fiscal rules strongly reduces the effect of budget balance on the current account balance (the coefficient is reduced to 0.1). In fact, the twin deficits relationship does not hold with some specific kinds of rules: debt rules, rules with monitoring of compliance, as well as budget balance rules and debt rules in emerging market economies and lowest income countries, and in the post-crisis period. **TAGS:** **Debt and fiscal/monetary policies**

Solidarity within the Eurozone: how much, what for, for how long? (2012)

Sofia Fernandes, Eulalia Rubio

The first ten years of EMU passed by with no major debate on the solidarity implications of creating a common currency. Since 2010, however, the Eurozone debt crisis has forced member states to make some steps in the exercise of solidarity that were unimaginable just some years ago. This has prompted a sharp debate on what solidarity means in

the context of the EMU and how much solidarity is needed to get out of the crisis. The aim of this Policy Paper is to shed light on these issues. **TAGS: Financial stability; Debt crisis; International and Macroprudential Regulations**

Multilateral Financing

Assessing the Effectiveness of IMF Programs Following the Global Financial Crisis: How Did It Change Since the Asian Crisis? (2018)

Carlos De Resende, Shinji Takagi - School of Economics Osaka University, International Monetary Fund

Without the International Monetary Fund's innovations, greater macroeconomic adjustments would have been required. The authors identify the key features of International Monetary Fund (IMF)–supported programs following the 2008 global financial crisis. The statistical analysis of a large sample of countries that borrowed from the IMF during 1997–2013 indicates that, compared to the amount of financing provided to crisis countries during the post-Asian crisis period, the amount was larger on average by more than 3 percentage points of GDP. Yet, the observed magnitude of adjustment in key macroeconomic variables, such as output, the exchange rate, and the current account balance, was just as large, even when the influence of less favorable global economic conditions was controlled for. The authors argue that the puzzle can be explained, in part, by the large-scale global financial deleveraging, as well as the large initial domestic imbalances observed during the post-global crisis period. The IMF's post-global crisis programs routinely allowed fiscal balance targets to be relaxed in the face of adverse shocks; some attempted to bail in private investors or accommodated the use of capital and exchange controls to limit capital outflows; and the IMF often collaborated with other donors to boost total official financing. It is reasonable to surmise that, without these innovations, the required macroeconomic adjustments would have been even greater. **TAGS: Multilateral financing; Debt crisis;**

Update on the Financing of the Fund's concessional assistance and debt relief to low-income countries (2018)

International Monetary Fund

The Fund is adapting its framework for providing support to low-income countries (LICs) amid rising vulnerabilities. Despite a global economic upswing, many LICs continue to face difficult fiscal and external positions, aggravated by increasing debt levels and natural disasters in many countries. In this context, the Executive Board approved in May 2017 higher annual access limits under the Rapid Credit Facility (RCF) for balance of payment needs arising from large natural disasters and in May 2017 decided to keep the list of Poverty Reduction and Growth Trust (PRGT)-eligible countries unchanged notwithstanding rising per capita income levels. A comprehensive review of PRGT facilities is underway to consider potential adaptations of program modalities and access policies. […] **TAGS: Multilateral financing; Debt relief;**

Volatility is back

BIS

Stock markets across the globe underwent a sharp correction in late January and early February. After a steady rally that had lasted several months, capped by the strongest January since the 1990s, the release of a labour market report showing higher than expected US wage growth heralded a burst of heightened activity. Equity valuations fell, rebounded and fell again, amid unusual levels of intraday volatility. This correction coincided with higher volatility in government bond markets. […] **TAGS:** **Market Liquidity; Sovereign bonds yields**

Basel III Monitoring Report - March 2018

BIS

This report presents the results of the Basel Committee's latest Basel III monitoring exercise based on data as of 30 June 2017. The Committee established a rigorous reporting process to regularly review the implications of the Basel III standards for banks, and it has published the results of previous exercises since 2012. The Committee's finalisation of the Basel III reforms is not yet reflected in the results; the collection of relevant data for those reforms started for the end-2017 reporting date.[…] **TAGS:** **International and Macroprudential Regulations; Financial stability**

Global Financial Stability Report April 2018: A Bumpy Road Ahead

International Monetary Fund

The April 2018 Global Financial Stability Report (GFSR) finds that short-term risks to financial stability have increased somewhat since the previous GFSR. Medium-term risks are still elevated as financial vulnerabilities, which have built up during the years of accommodative policies, could mean a bumpy road ahead and put growth at risk. Higher inflation may lead central banks to respond more aggressively than currently expected, which could lead to a sharp tightening of financial conditions.[…] **TAGS:** **Financial stability; Market Liquidity; Debt and fiscal/monetary policies;**

1st Biennial Bank of Italy and Bocconi University Conference on Financial Stability and Regulation - Welcome address

Ignazio Visco - Governor of Bank of Italy

This will be the first of a biennial series of conferences on financial stability that Banca d'Italia has decided to organise with the Baffi Centre for Applied Research on International Markets, Banking, Finance and Regulation. In the last ten years or so the objective of promoting and maintaining financial stability has strongly returned to being at the centre of the attention of policy makers in governments, central banks and supervisory and regulatory authorities. Since the global financial crisis, the regulatory framework has been substantially reformed, through the work of the Financial Stability Board, international standard-setters, regional bodies such as the European Commission, and the new laws and regulations established in jurisdictions all over the world. **TAGS:** **International and Macroprudential Regulations; Financial stability**

IMF Fiscal Monitor: Capitalizing on Good Times, April 2018

International Monetary Fund

The April 2018 edition of Fiscal Monitor is focused on two broad themes: the burden of high global debt and the opportunities and challenges of digital government. Chapter 1 explores how strong and broad-based growth provides an opportunity to rebuild fiscal buffers now, improve government balances, and anchor public debt. One concern is the surge in global debt, which reached the record peak of US$164 trillion in 2016. […] **TAGS:** **Debt and fiscal/monetary policies;**

Managing debt vulnerabilities in low-income and developing countries

Tao Zhang – IMF

Government debt in some of the world's poorest countries is rising to risky levels, a new IMF report shows. The report looks at economic developments and prospects among the world's low-income countries, which account for a fifth of the world's population but only four percent of global output. The report focuses not only on the rise in government debt, but also on the shift in the composition of creditors. And, because of this shift, it also focuses on the importance of official creditors working together to find ways to ensure efficient coordination in the event of future debt restructurings. The drivers of the debt build-up vary across countries. […]**TAGS:** **Debt and growth;** **Debt crisis;** **Debt Restructuring;**

The unsolved problem of international public debt

Philipp Weckherlin - CE Asset Management AG

For public sector debt, most countries neither publish nor maintain meaningful business reports or financial statements. We need to abandon (for all time) absurd benchmarks such as the comparison of debt with GDP. Public sector debt needs to be brought into a balance sheet context and analysed in terms of equity. **TAGS:** **Debt sustainability;**

Sounding the alarm on Africa's debt

Indermit Gill and Kenan Karakülah - Duke Center for International Development

Thanks to debt relief under two programs, the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative, debt in sub-Saharan Africa was cut by two-thirds by 2008. The relief has given the region a new lease on life. But since 2008, public debt in sub-Saharan countries has been rising at an increasingly rapid pace. By 2016, the subcontinent's gross public debt to GDP ratio had doubled. The increase in debt should have raised all sorts of flags and triggered triage, but it didn't. Neither the International Monetary Fund nor the World Bank sounded the alarm.[…] **TAGS:** **Debt relief;** **Debt sustainability;** **Multilateral financing**

Rapid public debt build-up in Sub-Saharan Africa

Louise Van Cauwenbergh Jan-Pieter Laleman – Credendo

Recent debt accumulation has led to the highest debt ratios since the region received debt relief. Export receipts have grown much slower than foreign borrowing, raising concerns about repayment capacity. For some countries, lacking fiscal discipline and public financial management are main causes for outsized public debt build-up. Government borrowing in Sub-Saharan Africa has become increasingly non-concessional. […]**TAGS:** **Debt sustainability:** **Debt and fiscal/monetary policies** **Bond market development;** **Foreign Debt**

Policy Dialogue: Improving coordination between debt and cash management

CABRI

On 20-21 March 2018 CABRI organized an event on the policy dialogue aimed to gain an in-depth understanding of the policy and institutional challenges in cash management. It intended to improve communication and mutual understanding between debt and cash managers as they work together to improve cash flow forecasting, reduce idle cash balances and arrears, and limit escalations in borrowing costs. All material is downloadable from the event page. **TAGS:** **Cash Management; Debt and fiscal/monetary policies; Debt Policy**

New material on SANEM December 2017 Workshop on Introduction to Interest Rate Markets

Tanweer Akram - Thrivent Financial

This short course, consisting of several lectures, introduced the main features of interest rate markets and securities. First, it provided an intuitive overview of interest rate markets. Second, it examined the mathematical framework for understanding interest rates. These lectures are of interest to those working in banks, insurance, asset management, financial institutions, capital markets, the central bank, and financial regulatory agencies. Graduate students and researchers interested in interest rate markets can also benefit from the combination of a real-world perspective and a mathematical framework. **TAGS:** **Financial Analysis; Derivatives**

ECB Annual Report 2017

ECB

In 2017, the economic recovery in the euro area developed into a solid and broad-based expansion. Robust growth ensured that the recovery in the labour market continued apace. As in previous years, the ECB's monetary policy played a central role in this recovery and convergence story. The robust performance of the real economy, however, was not matched by developments in inflation. The differing outlooks for growth and inflation shaped the ECB's monetary policy decisions during the year, leading to a recalibration of its asset purchase programme.[…] **TAGS:** **Debt and fiscal/monetary policies; Debt and growth; Financial stability**

The ECB faces a major challenge in 2018

María Martínez Cristina Varela – BBVA

Since the outbreak of the global financial crisis, and in response to the subsequent European debt crisis, the European Central Bank (ECB) has adopted various measures to stabilise the economy and to aim at achieving its ultimate goal: price stability. **TAGS:** **Debt and fiscal/monetary policies; Debt sustainability**

National Accounts of OECD Countries, General Government Accounts 2017

OECD

The 2017 edition of National Accounts of OECD Countries, General Government Accounts is an annual publication, dedicated to government finance which is based on the System of National Accounts 2008 (SNA 2008). It includes tables showing government aggregates and balances for the production […] **TAGS:** **Debt Statistics; OECD**

Eurogroup & Greece: A dynamic, implicit continuum of sovereign debt seniority

Scope Ratings

Scope questions the conventional wisdom that public creditors are always paid prior to private ones, arguing that the Eurogroup's demonstrated flexibility to reprofile EFSF loans signals an implicit acceptance to be repaid after private creditors. **TAGS: Debt Restructuring; Multilateral financing**

Putting the Greek debt problem to rest

Barry Eichengreen, Emilios Avgouleas, Miguel Poiares Maduro, Ugo Panizza, Richard Portes, Beatrice Weder di Mauro, Charles Wyplosz, Jeromin Zettelmeyer

Greece's third economic programme has been relatively successful, but before it can return to private market financing, the country will require more official debt relief. This column introduces a new CEPR Policy Insight which asks how much debt relief is required and how it should be delivered. Any debt relief package for Greece that wishes to avoid shifting the burden of repayment several generations into the future will need to include some degree of face-value debt relief. **TAGS: Debt relief; Debt Restructuring; Multilateral financing**

The effect of Government Debt and other determinants on economic growth: the Greek experience

Panagiotis Pegkas - University of Thessaly

This study empirically investigates the relationship between economic growth and several factors (investment, private and government consumption, trade openness, population growth and government debt) in Greece, where imbalances persist several years after the financial crisis. The results reveal a long-run relationship between variables. Investment as private and government consumption and trade openness affect positively growth. […]**TAGS: Debt and growth; Debt sustainability; Debt and fiscal/monetary policies**

Sovereign Debt Report – April 2018

Uruguay's Debt Management Unit

Highlights: Uruguay issued a new 2055 dollar-denominated global bond and concurrently executed an intraday liability-management operation, setting a new benchmark in the long-end of the curve. Government intends to start issuing local-currency Treasury Notes in the domestic market linked to the nominal wage index, during the second semester of 2018. R&I upgraded Uruguay's credit rating to BBB with stable outlook; Fitch affirmed Uruguay's at BBB- with a stable outlook. Global video conference on Uruguay's macroeconomic outlook and government financing plans for 2018. **TAGS: Debt Policy; Debt Statistics**

Sovereign liability management deal of the year & local currency bond of the year – Uruguay

Kevin Gray – LatinFinance

In June, amid investor enthusiasm for emerging market assets, Uruguayan officials saw an opportunity to carry out a cornerstone of its debt strategy for the year by increasing its share of its debt in local currency. With investors showing strong demand for local currency emerging market debt, Uruguay issued a $1.25 billion peso-denominated bond maturing in 2022. The transaction helped to raise $1 billion in new cash, with the remainder being used to finance a liability management operation carried out on the same day as the new bond issue.[…] **TAGS: Primary market; Sovereign ALM**

The Budget and Economic Outlook:2018 to 2028

Congress of the United States

In the Congressional Budget Office's baseline projections, which incorporate the assumption that current laws governing taxes and spending generally remain unchanged, the federal budget deficit grows substantially over the next few years. Later on, between 2023 and 2028, it stabilizes in relation to the size of the economy, though at a high level by historical standards. As a result, federal debt is projected to be on a steadily rising trajectory throughout the coming decade. Debt held by the public, which has doubled in the past 10 years as a percentage of gross domestic product (GDP), approaches 100 percent of GDP by 2028 in CBO's projections.[…] **TAGS:** **Debt and fiscal/monetary policies; Debt Forecasts**

Portuguese Experience with GDP-Indexed Treasury Certificates

José Miguel Cardoso da Costa - IGCP and Nova SBE

Highlights: Reengaging with domestic retail investors was an important part of the process to regain market access since 2013. Net issuance of retail instruments had a major contribution to the funding plan since 2013. Treasury Certificates with premium indexed to real GDP growth. GDP-linkers vs GDP-floaters. Treasury Certificates recalibrated in 2017. Obstacles and limitations to the issuance of GDP-indexed bonds. **TAGS:** **Primary market; Bond market development; Debt Policy; Debt composition**

U.S. sanctions on Russian Sovereign Debt: coming soon or already here?

Peter Jeydel - EAR, ITAR, OFAC

There has been a lot of chatter over the past few weeks about Russian companies loading up on debt in anticipation of increased sanctions, and even the Russian government planning a bond issuance in Chinese Yuan for the first time out of concern that western investors may be shut out of the sovereign debt market as a result of sanctions. U.S. sanctions targeting the debt of certain Russian companies are well-known and have been in place since 2014. But what is underlying this renewed concern about Russian sovereign debt?[…] **TAGS:** **Financial stability; Structural policies**

The Hunger Bonds

Ricardo Hausmann - Harvard University

Investing often creates moral dilemmas over goals: Should we aim to do well or to do good? Is it appropriate to invest in tobacco companies? Or in companies that sell guns to drug gangs? The recent popularity of so-called impact investment funds, which promise to deliver decent returns while advancing social or environmental goals, is based on this unease. Foundations often find that these investment vehicles help them to do good both with the money that they spend on philanthropy and with the endowment assets that yield the returns on which their philanthropy depends. Nowadays, it is emerging markets as an asset class that should make people morally queasy. Should decent people put their money in emerging-market bond funds? **TAGS:** **Debt crisis; Debt Restructuring; Debt and recession**

The Generations Fund. Québec is repaying its debt

Gouvernement du Québec

In 2006, the government established the Generations Fund, thereby adopting an original, bold approach in order to control and then reduce the debt burden on public finances, beyond changes in the economic situation. The strategy has been maintained despite the economic and financial crisis

of 2008 and the ensuing budgetary deficits. Just over 10 years later, the strategy is bearing fruit and the strides made are impressive.[…] **TAGS:** **Subnational debt; Debt sustainability**

Subnational urban development/planning, subnational financing

U.N Inter-Agency Task Force on Financing for Development

The Addis Agenda acknowledges that expenditures and investments in sustainable development are being devolved to the subnational level, which often lacks adequate technical and technological capacity, financing and support. Member States committed to support resilient and environmentally sound urban infrastructure, to support local governments in their efforts. **TAGS:** **Subnational debt**

Meeting the urban finance challenge

Gail Hurley – UNDP

The role of municipal finance in financing sustainable development was high on the agenda of UN-HABITAT's 9th World Urban Forum in Kuala Lumpur, Malaysia. Many of the investments needed to achieve the 2030 Agenda are made at the subnational level, especially by cities. Local authorities have a responsibility to ensure that every citizen has access to essential services and that their provision is safe, affordable and sustainable. **TAGS:** **Subnational debt; Debt sustainability**

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

All workshops, courses and events reported by the PDM Network Secretariat on the Bimonthly Newsletter are previously uploaded, on a steady and almost daily basis, on our website **www.publicdebtnet.org** in the dedicated section **"Events"**, as soon as the Secretariat gets information and quite in advance to the related deadline.

A previous and timely information about the events to come is thus allowed to all the website users by checking this section, also including a **"calendar"** function.

The further publication in the **Bimonthly Newsletter** is intended for a different goal, as a way to provide every two months our subscribers with an at-a-glance list of the events that took place or will take place after they received the previous Newsletter.

However, please note that the **PDM Network Secretariat** is not involved in any programming activity of the courses and events reported on our website and then in the Newsletter, but it offers – at the best of its knowledge - a facility to help to identify, among the huge amount of information available on internet, a more selective view on topics on public debt management and related matters.

04 April 2018; PIIE Peterson Institute for International Economics, Web Based

Global economic prospects: spring 2018

19 April 2018; Imperial College Business School's, South Kensington Campus

The Future of Finance

23 April – 25 May 2018; UNITAR, Web Based
International Players in Public Finance and Debt Management (2018)

24 - 25 April 2018; Florence School of Banking and Finance, EUI Premises - Florence, Italy
Managing and understanding sovereign risks

07 May – 08 June 2018; UNITAR, Web Based
Ethics in Public Finance (2018)

08 – 10 May 2018; Fleming, Kuala Lumpur, Malaysia
Stress testing and scenario analysis in operational risk

14 May – 15 June 2018; UNITAR United Nations Institute for Training and, Web Based
Fundamentals of central banking and monetary policy (2018)

14 – 15 May 2018; Global Interdipendence Center, Banque de France Conference Center, Paris, France
Central Banking series with Banque de France

15 – May 2018; ASIFMA, Hong Kong
8th annual Asian edition of China Capital Markets Conference

15 May 2018; University of Cambridge, Lauterpacht Centre for International Law, Finley Library
'Sovereign Debt in the 21st Century'

16 – 17 May 2018; The Economic Statistics Centre of Excellence, the Office for National Statistics and the Bank of England, London
Structural Policies

17 May 2018; SIFMA, New York
Fixed Income Market Structure Seminar

21 May – 22 June 2018; UNITAR, Web Based
Economics of the Public Sector (2018)

21 May – 22 June 2018; UNITAR, Web Based
Principles of Central Bank Reserve Management (2018)

21 May – 22 June 2018; UNITAR United Nations Institute for Training and Research, Web Based
Fundamentals of the Money Market (2018)

22 – 24 May 2018; Florence School of Banking & Finance, Barcelona, Spain
Measuring and Forecasting Volatility and Risk

23 May 2018; AFME, St Paul's, London
European Post-Trade Conference

28 – 29 May 2018; European Commission; World Bank Group, Brussels
2018 DMF Stakeholders' Forum

30 - 31 May 2018; Fitch Learning, London
Sovereign and Country Risk

1 June 2018 - London Stock Exchange Academy, London, UK
Advanced financial modeling

4 - 20 June 2018 - Joint Vienna Institute, Wien, Austria
Applied economic policy

05 June 2018; ASIFMA, Singapore
Green Finance Conference 2018

05 – 07 June 2018; AFME, Barcelona, Spain
Global ABS 2018

07 June 2018; Florence School of Banking & Finance, Florence, Italy
Credit and Market Risk Management: A Value-based Approach

7 - 8 June 2018; Fitch Learning, Singapore
Sovereign and Country Risk
13 – 15 June 2018; SIFMA, Chicago
FMS Regional Conference

8 June 2018 - London Stock Exchange Academy, London, UK
The fundamentals of operational risk management

18 – 19 June 2018; European Central Bank, Frankfurt am Main, Germany
10th ECB workshop on forecasting techniques: economic forecasting with large datasets

18 - 20 June 2018; ECB, Sintra, Portugal
ECB Forum on Central Banking

21 June – 2 July 2018; Joint Africa Institute, Tunis
Financial Programming and Policies

25 – 26 June 2018; Fitch Learning, New York
Fundamentals of Economics and Financial Markets

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

24 July 2018 - London Stock Exchange Academy, London, UK
The MiFID II series - An overview and latest developments

2 - 3 August 2018 - VGFOA Virginia Government Finance Officers' Association, Henrico Training Center 7701 East Parham Street Richmond, VA 23294 USA
Issuing Public Debt 2018

20 – 21 August 2018; Financial Stability Board (FSB) and Deutsche Bundesbank, Goethe University, Frankfurt, Germany
Annual Meeting of Central Bank Research Association (CEBRA)

4 – 9 September; Fitch Learning, London
Sovereign and Country Risk

6 – 7 September 2018; IFF, London, UK, Venue TBC
Liquidity Risk Training Course

13 – 14 September 2018; Stigler Center, Chicago
10th Anniversary of Financial Crisis Conference

19 – 20 September 2018; Fitch Learning, London
Fundamentals of Economics and Financial Markets

19 – 21 September 2018; IFF, London, UK, Venue TBC
Fundamentals of Risk Management Training Course

20 - 21 September 2018; AFME, Paris, France
Transforming Capital Markets through Technology

01 – 02 October 2018; SIFMA, Washington, DC
SIFMA Annual Meeting 2018

11 - 12 October 2018; Fleming, Hotel Novotel, Amsterdam City, The Netherlands
Collateral Management Forum

12 – 14 October 2018; IMF, Bali Nusa Dua, Indonesia
2018 Annual Meetings of the International Monetary Fund and World Bank Group

15 – 17 October 2018, IFF, London, UK, Venue TBC
Advanced Swaps Training Course

24 - 25 October 2018; The World Bank, Washington, D.C.
2018 Sovereign Debt Management Forum

13 November 2018; AFME, Sofitel Europe, Brussels
European Government Bond Conference 2018

15 – 16 November 2018; Global Interdependence Center, Madrid, Spain
Central Banking series: Madrid

PDM Network in Figures

At 23 May, 2018, the number of documents, reports and events on the PDM Network website is 8,307. News uploaded on the website since January 2017 are 6,158. This newsletter is sent to 706 Subscribers from emerging and advanced countries.

Special Thanks

The PDM Secretariat is grateful to Giacomo Barisone (Scope Ratings), Ricardo Ferraz (Lisbon School of Economics & Management), Banu Turhan Kayaalp (World Bank), Tanweer Akram (Thrivent Financial), and various DMOs for information on new documents and reports.

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