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This bimonthly newsletter lists all papers, reports, courses and other events about public debt management recently uploaded by the PDM Network Secretariat in the website **www.publicdebtnet.org**.
The documents considered as most interesting by the PDM Network Secretariat are highlighted with a light grey background. The PDM Network bimonthly Newsletter is published on January, March, May, July, September and November. The PDM Network Secretariat welcomes cooperation on information published on the website. Thus, please feel free to **suggest any documents, news and events** relevant to public debt management issues by contacting the Secretariat at the following email: **publicdebtnet.dt@tesoro.it**.

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Documents

Debt Policy

External Debt and Growth: In search of Ceiling for South Asian Economies (2020)
Sasindu Wanniarachchi – Independent
Over the past few years, external debt positions of South Asian economies have increased to alarming levels, indicating that those countries are more likely to be exposed to a debt crisis. The inflationary pressure, and weakening characteristics of regional currencies against the USD, make those countries more vulnerable when it comes to servicing debt. On the other hand, given the low domestic savings rate of these economies, they are increasingly compelled to invest significant resources in public infrastructure in order to maintain sustainable growth momentum. Contemporaneously, those countries were also invited to enrich by merging with the synergies of the rest of the

world in the fields of maritime, trade, and financial initiatives. In such a situation, where the recent controversy on the debt-growth association is still inconclusive, preserving external debt exposures at an optimal level is incumbent. […] **TAGS:** Foreign Debt; Debt and growth

Investor Sentiment, Sovereign Debt Mispricing, and Economic Outcomes (2020)

Ramzy Al-Amine, Tim Willems - International Monetary Fund

The authors find that countries which are able to borrow at spreads that seem low given fundamentals (for example because investors take a bullish view on a country's future), are more likely to develop economic difficulties later on. The authors obtain this result through a two-stage procedure, where a first regression links sovereign spreads to fundamentals, after which residuals from this regression are deployed in a second stage to assess their impact on future outcomes (real GDP growth and the occurrence of fiscal crises). The authors confirm the relevance of past sovereign debt mispricing in several out-of-sample exercises, where they reduce the RMSE of real GDP growth forecasts by as much as 15 percent. This provides strong support for theories of sentiment affecting the business cycle. Their findings also suggest that countries shouldn't solely rely on spread levels when determining their fiscal strategy; underlying fundamentals should inform policy as well, since historical relationships between spreads and fundamentals often continue to apply in the medium-to-long run. **TAGS:** Debt Policy; Financial Analysis; Sovereign risk premia

Optimal Fiscal Policy without Commitment: Revisiting Lucas-Stokey (2020)

Davide Debortoli, Ricardo Nunes, Pierre Yared - Universitat Pompeu Fabra, University of Surrey, Columbia University

According to the Lucas-Stokey result, a government can structure its debt maturity to guarantee commitment to optimal fiscal policy by future governments. In this paper, the authors overturn this conclusion, showing that it does not generally hold in the same model and under the same definition of time-consistency as in Lucas-Stokey. Their argument rests on the existence of an overlooked commitment problem that cannot be remedied with debt maturity: a government in the future will not tax on the downward sloping side of the Laffer curve, even if it is ex-ante optimal to do so. **TAGS:** Debt Policy; Cost and Risk; Debt and fiscal/monetary policies

Long Term Government Bonds (2019)

Elisa Faraglia, Albert Marcet, Rigas Oikonomou, Andrew Scott - University of Cambridge, MOVE, Université Catholique de Louvain, London Business School

The authors study the impact of debt maturity on optimal fiscal policy by focusing on the case where the government issues a bond of maturity $N > 1$: Isolating these effects helps provide insight into the construction of optimal government debt portfolios. The authors find long bonds may not complete the market even in the absence of uncertainty, generate an incentive to twist interest rates and induce additional tax volatility compared to short term bonds. By focusing just on the issuance of long bonds the authors show that as well as their well-known advantage in providing fiscal insurance long bonds also have less attractive features that induce additional tax volatility. In the case of long bonds, governments induce tax volatility in order to twist interest rates at maturity. This interest rate twisting effect is what makes optimal debt management models so difficult to solve computationally as the state space rapidly becomes cumbersome due to the need to keep track of promises about future tax rates. The authors provide an alternative institutional setup (\independent powers\) that eliminates this problem offering

a simpler solution method. Introducing maturity requires making more institutional assumptions than is the case for one period bonds. In particular assumptions have to be made whether the government does or doesn't buy back each period all outstanding debt irrespective of maturity and whether long bonds pay coupons. This is important as the literature to date makes assumptions that are diametrically opposite to what is observed in practice. The authors show that this is an important divide as if they model optimal policy under the empirically motivated assumption that governments do not buyback bonds until maturity then long bonds induce additional tax volatility due to the existence of N period roll over cycles. These can be reduced in magnitude by the government issuing long bonds that pay coupons although because coupons reduce the duration of a bond below its maturity this does compromise the ability of long bonds to provide fiscal insurance. **TAGS:** **Debt Policy**; **Debt composition**; **Debt and fiscal/monetary policies**

Cost and Risk

An Integrated Approach to Cost-Risk Analysis in Public Debt Management **(2020)**

Massimo Bernaschi, Roberto Morea, Lucio Sarno, Fabrizio Tesseri, Federica Verani, Davide Vergni - Istituto per le Applicazioni del Calcolo "M. Picone" (IAC) – CNR, Italian Ministry of Economy and Finance, Treasury Department, Sogei, Cambridge Judge Business School, University of Cambridge

Public debt management requires accurate analysis of the cost and the risk associated with feasible choices of public debt portfolios. The Italian Treasury employs an in-house, custom-built set of models and software tools aimed at selecting portfolios of securities that satisfy the government's borrowing needs while fulfilling all the relevant regulatory constraints, thereby delivering suitable tradeoffs between cost and risk on an efficient frontier. In this paper, the authors present a description of the approach followed by the Italian Treasury, including the study of the dynamics of the cash flow generated by the public debt and the development of stochastic models for the evolution of the main risk factors (i.e., interest rates and inflation). Then, the authors describe how several dynamic metrics of cost and risks are integrated within a scenario generator in a modular software package called SAPE (Sistema Analisi Portafogli di Emissione – System for the Analysis of Public Debt Issuances). This system supports the public debt manager by providing accurate quantitative estimates of the expected effects of their choices taking into account not only shocks to interest rate curves but also exogenous forecasts about the future behavior of the risk factors. The software can also be used as an accounting tool for the outstanding securities of the Italian public debt, and includes various satellite modules for the evaluation of other relevant metrics, such as the Credit Value Adjustment for derivative instruments. **TAGS:** **Cost and Risk**; **Debt Policy**; **Debt Forecasts**; **Sovereign bonds yields**; **Debt composition**; **Derivatives**; **Cash Management**

Primary Markets

Debt monetization and EU Recovery Bonds **(2020)**

Alberto Botta, Eugenio Caverzasi, Alberto Russo - University of Greenwich, Università degli Studi dell'Insubria, Universitat Jaume I and Università Politecnica delle Marche

This policy brief highlights some peculiar characteristics, from an economic point of view, of the current Covid-19 crisis. It looks at its exogenous nature with respect to Eurozone countries, as well as at the complex mix of supply and demand shocks it entails. Given these features, the authors suggest two intertwined policy measures in order to tackle the emergency phase of the crisis and the subsequent recovery. First, a pervasive

intervention of Eurozone governments in support of business and households income in the context of the "suspended" economy that measures against the diffusion of Covid-19 have forcefully given rise. The ECB is advised to monetize all public expenditures linked to this emergency plan by purchasing public bonds in the primary market, and to subsequently write them off or exclude these issuances from the computation of public debt-to-GDP ratios. [...] **TAGS:** **Primary market**; **COVID-19**; **Debt and fiscal/monetary policies**

Joint debt instruments: A recurrent proposal to strengthen economic and monetary union (2020)

Angelos Delivorias, Carla Stamegna - European Parliamentary Research Service

The idea of issuing joint debt instruments, in particular between euro-area countries, is far from new. It has long been linked in various ways to the Union's financial integration process and in particular to the implementation of economic and monetary union. In the first decade of the euro, the rationale for creating joint bonds was to reduce market fragmentation and thus obtain efficiency gains. Following the financial and sovereign debt crises, further reasons included managing the crises and preventing future sovereign debt crises, reinforcing financial stability in the euro area, facilitating transmission of monetary policy, breaking the sovereign-bank nexus and enhancing the international role of the euro. While joint debt instruments present considerable potential advantages, they also present challenges. These include coordination issues and reduced flexibility for Member States in issuing debt, the potential to undermine fiscal discipline by removing incentives for sound budgetary policies, and the fact that adoption of joint debt instruments would eventually entail the difficult political choice of transferring sovereignty from the national to the EU level. In the context of the current crisis caused by the COVID-19 pandemic, joint debt instruments have once more come to the fore as a potential medium-term solution to help Member States rebuild their economies following the crisis. In Eurogroup and European Council meetings, the solution is not favoured by all Member States and alternative – possibly complementary – approaches have been proposed, such as a credit line through the European Stability Mechanism. **TAGS:** **Primary market**; **Sovereign debt market**; **Financial stability**; **Debt and fiscal/monetary policies**

Subnational Debt

COVID-19, Fiscal Federalism and Provincial Debt: have we reached a critical juncture? (2020)

Kyle Hanniman - Queen's University

In 2019, Canada's gross subnational debt to GDP was well over 40 per cent, easily the highest in the world (see Figure 1). This level will only grow as the provinces grapple with the pandemic and its fiscal effects. Some believe surging provincial debts have brought Canadian federalism to a critical juncture: they have greatly increased the odds of federal measures to stabilize provincial finances. This article assesses this claim. The cleanest and most balanced path to fiscal sustainability is a combination of enhanced federal transfers, which would bolster provincial fiscal capacity, and national fiscal rules, which would constrain provincial borrowing. But the former is unlikely to restore sustainability on its own, and the latter would require a severe provincial debt crisis, which Canada's existing fiscal federal structures can avoid. COVID-19 has increased the odds of certain reforms, and it is difficult to predict their long-run effects. But any obvious paths to fiscal sustainability remain hidden. **TAGS:** **Subnational debt**; **Debt sustainability**; **COVID-19**

Financial Analysis

The Empirics of UK Gilts' Yields (2020)

Tanweer Akram and Huiqing Li - General Motors, Central University of Finance and Economics, China

This paper analyzes the nominal yields of UK gilt-edged securities ("gilts") based on a Keynesian perspective, which holds that the short-term interest rate is the primary driver of the long-term interest rate. Quarterly data are used to model gilts' nominal yields. These models bring to light the complex dynamics relating the nominal yields on gilts to the short-term interest rate, inflation, the growth of industrial production, and the government debt ratio. The results show that the short-term interest rate has a crucial influence on the nominal yields on gilts, even after controlling for various factors. Contrary to widely held views, a higher government debt ratio does not lead to higher nominal yields. **TAGS:** Financial Analysis; Sovereign bonds yields

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Chinese and World Bank lending terms: a systematic comparison across 157 Countries and 15 Years (2020)

Scott Morris, Brad Parks, Alysha Gardner - Center for Global Development

China's lending volumes in developing countries far surpass those of other bilateral creditors and compare in scale only to World Bank lending practices. Where World Bank lending terms, volumes, and policies are publicly available, the state of knowledge on official Chinese financing terms remains limited due to a lack of official transparency. To better understand the nature of official Chinese lending and its relationship to the debt capacity of borrowing countries, researchers and policymakers need to look beyond the total volume of lending and pay more attention to concessionality, or the extent to which loans are offered at belowmarket rates. Financing offered on concessional terms (low interest rates, long maturities, and extended grace periods) reduces the likelihood of a debt crisis in borrower countries. **TAGS:** World Bank; Multilateral financing; Foreign Debt; Debt sustainability; Financial Analysis; Cost and Risk

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US Government Bond liquidity during the COVID-19 Pandemic (2020)

Andrey Ermolov - Fordham University - Gabelli School of Business

US government bond illiquidity measures began rising during the last week of February 2020. Several of them surpassed the Great Recession levels during the second week of March. Illiquidity spikes do not seem to match with proposed explanatory events. The illiquidity measures of the most actively traded securities declined after the first Federal Reserve intervention, but normalizing the liquidity of other bonds required the second intervention. Liquidity measures were mostly back to normal by late April. The inflation-linked bonds illiquidity spike was milder but more persistent and less correlated with Federal Reserve actions compared to nominal Treasuries. **TAGS:** COVID-19; Market Liquidity; Debt and fiscal/monetary policies; Financial Analysis; Financial stability

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Fundamental disagreement about monetary policy and the term structure of interest rates (2020)

Shuo Cao, Richard K. Crump, Stefano Eusepi, Emanuel Moench - Federal Reserve Bank of New York

Using a unique data set of individual professional forecasts, the authors document disagreement about the future path of monetary policy, particularly at longer horizons. The stark differences in short rate forecasts imply strong disagreement about the risk-return trade-off of longer-term bonds. Longer horizon short rate

disagreement co-moves with term premiums. The authors estimate an affine term structure model in which investors hold heterogeneous beliefs about the long-run level of rates. Their model fits U.S. Treasury yields and the short rate paths predicted by different groups of professional forecasters very well. About one-third of the variation in term premiums is driven by short rate disagreement. **TAGS:** **Financial Analysis**; **Sovereign bonds yields; Debt and fiscal/monetary policies**

Predicting recessions using the yield curve: the role of the stance of monetary policy **(2020)**

Daniel H. Cooper, Jeffrey C. Fuhrer, Giovanni P. Olivei - Federal Reserve Bank of Boston

The yield curve is often viewed as a leading indicator of recessions. While the yield curve's predictive power is not without controversy, its ability to anticipate economic downturns endures across specifications and time periods. This note examines the predictive power of the yield curve after accounting for the current stance of monetary policy—a relevant issue given that monetary policy was unusually accommodative during the most recent yield curve inversion, in the third quarter of 2019. The results show that a yield curve inversion likely overstates the probability of a recession when the stance of monetary policy, judged relative to a time-varying neutral federal funds rate, is accommodative. **TAGS:** **Financial Analysis**; **Sovereign bonds yields**; **Economic Forecasts; Debt and fiscal/monetary policies**

Debt Crisis

Is sub-Saharan Africa facing another systemic sovereign debt crisis? **(2019)**

Brahima S. Coulibaly, Dhruv Gandhi, Lemma W. Senbet – Brookings

Concern is increasing about the prospect of a new sovereign debt crisis in countries across sub-Saharan Africa. The previous debt crisis of the 1990s is still fresh. It has only been 14 years since officials from major creditor countries (a group known as the Paris Club) and multilaterals adopted the ambitious Multilateral Debt Relief Initiative (MDRI) for outright forgiveness of debt owed by a group of 36 low-income poor countries. The majority of these countries, 29, in fact, were African. The massive debt relief was conditioned on sound economic management and poverty reduction strategies. The MDRI was the logical advancement of a variety of initiatives for debt relief, the most prominent of which was the Heavily Indebted Poor Countries (HIPC) initiative instituted by the International Monetary Fund (IMF) and World Bank in 1996 to address debt overhang in the poorest countries of the world. African countries had been borrowing into the 1980s, which led to an increasing accumulation of debt that became unsustainable. These debt relief initiatives, including MDRI, had good intentions and outcomes. Through unloading of the debt overhang, infusion of new loans, improved policies, along with enhanced investment incentives, the overall expectation was that there would be positive economic and social development outcomes. Indeed, for about a decade, most countries witnessed economic upturns and reduced debt burdens. The median public debt level (as a percent of GDP) for sub-Saharan Africa declined to about 31 percent in 2012, far below the levels leading up to the HIPC initiative. **TAGS:** **Debt crisis**; **Debt relief**; **Debt sustainability; Foreign Debt**

Contract Standards

Do Enhanced Collective Action Clauses Affect Sovereign Borrowing Costs? **(2020)**

Kay Chung, Michael G. Papaioannou - International Monetary Fund, LeBow College of Business

This paper analyzes the effects of including collective action clauses (CACs) and enhanced CACs in international (nondomestic law-governed) sovereign bonds on sovereigns' borrowing costs, using secondary-market bond yield spreads. Their findings indicate that inclusion of enhanced CACs, introduced in August 2014, is associated with lower borrowing costs for both noninvestment-grade and investment-grade issuers. These results suggest that market participants do not associate the use of CACs and enhanced CACs with borrowers' moral hazard, but instead consider their implied benefits of an orderly and efficient debt resolution process in case of restructuring. **TAGS:** **Contract standards**; **Sovereign bonds yields**; **Sovereign risk premia**

BITs and Bonds: The International Law and Economics of Sovereign Debt (2020)

Stratos Pahis - NYU School of Law

Recent jurisdictional decisions suggest that sovereign debt will be subject to bilateral investment treaties (BITs) for the foreseeable future. This Article demonstrates that applying BITs to sovereign bonds threatens to undermine the core economic function of those treaties by encouraging inefficient State and creditor behavior. It further argues that this dilemma can be resolved through an interpretative approach that leads to the equal treatment of like creditors. **TAGS:** **Contract standards**; **Debt Restructuring**; **Sovereign defaults**

Improving transparency of lending to sovereign governments (2020)

Shakira Mustapha and Rodrigo Olivares-Caminal - Queen Mary University of London

Transparency of debt terms and conditions is a prerequisite to responsible borrowing and lending, and crucial to effective policy decision-making and risk management. While sovereign borrowers bear primary responsibility for reporting public debt data, creditors must also contribute to ensure that lending is transparent. This is recognised in two creditor driven initiatives: the 'G20 operational guidelines for sustainable financing' (2017) and the Institute for International Finance 'Voluntary principles for debt transparency' (2019). The effectiveness of the Guidelines and Principles is undermined, however, by a lack of practical guidance for implementing them and monitoring compliance by debtors and creditors. Crucial to putting the Guidelines and Principles into practice will be the inclusion of exceptions to non-disclosure provisions in debt contracts, allowing the parties to comply with them by disclosing key terms and conditions irrespective of confidentiality clauses. This could be enhanced by the addition of a disclosure annex. **TAGS:** **Contract standards**; **Transparency**; **Sovereign debt market**; **Best Practices**

Debt Restructuring

Sovereign Debt Restructuring: The Centrality of the IMF's Role (2020)

Sean Hagan – PIIE

Over the past 40 years, the International Monetary Fund (IMF) has played a central role in the sovereign debt restructuring process. If the COVID-19 pandemic leads to a significant wave of sovereign debt distress, this role will be closely scrutinized. The paper analyzes how IMF policies have evolved to shape the incentives of sovereigns and their creditors at each stage of the sovereign debt restructuring process. It also identifies a number of issues that the IMF will likely have to address as a result of the pandemic, including (1) assessment of debt sustainability in a macroeconomic environment of considerable uncertainty, (2) treatment of official bilateral creditors, and (3) potential benefits—and challenges—of introducing additional

incentives to maximize creditor participation in any debt restructuring. **TAGS:** **Debt Restructuring**; **Debt sustainability**; **Multilateral financing**; **COVID-19**

Macroeconomic Analysis

Estimating the Optimal Level of Public Debt for Economic Growth: An Evidence from Pakistan **(2020)**

Ihtsham Ul Haq Padda - Federal Urdu University of Arts, Science & Technology

Background: In underdeveloped economies, the role of public debt is very vital with the intention of achieving a desirable level of output, employment and sustainability in long run economic growth. Fiscal deficit in developing economies is a common phenomenon because of low tax base and high imports. Economy of Pakistan is also facing fiscal deficit and trade deficit since its independence, so it relies on public debt to fill this fiscal gap.

Objectives: The objective of this study is to estimate the optimal level of public debt for economic growth.

Methods: This study explores the nonlinear relationships between public debt and economic growth of Pakistan by using time series data. The ARDL bound test technique is used to estimate the short-run and long-run impact of debt on economic growth. The growth maximizing level of debt is also estimated.

Results: According to the estimated parameters, the optimal level of public debt is 60% of GDP. It also indicates that increase in government borrowings will raise economic growth in Pakistan in the long run. However, in the short run, if public debt increases it will boost economic growth after some levels of public debt and it will start declining.

Conclusions: This study implies that public debt must be discouraged beyond optimal level of debt, as above optimal level it adversely affects the economic growth.

Implications: The implication of the findings of the study is that higher interest rate curbs economic growth, therefore, present policy of keeping high interest rate by government should be revisited.

Recommendations: Government of Pakistan should focus on fiscal and current account deficit, which are the main cause of increasing public debt, because higher public debt is not good for economic growth. Also, suitable fiscal policy is needed to control the debt burden and to get rid-off Ponzi game of debt from Pakistan by strictly enforcing the Fiscal Responsibility and Debt Limitation Act 2005.

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

Debt Sharing after COVID-19: How the Direct Involvement of EU Institutions Could Impact the Recovery Path of a Member State **(2020)**

Kieran McQuinn, Petros Varthalitis – Trinity

The likely substantial impact of COVID-19 related measures on the public finances of European countries has prompted an unprecedented call for new and significant policies at a European level to alleviate the pressures on individual member states. The administrative closures adopted across a number of economies has resulted in a complete cessation of certain types of economic activity, a significant increase in unemployment and profound fiscal challenges for the countries in question. In this paper the authors use a SOE-DSGE model to assess the role European institutions can play in mitigating the negative economic and fiscal effects of the crisis for a particular member state by participating directly in the sovereign debt management of that country. Their results indicate that the direct involvement of EU institutions via sovereign bonds purchases increases the efficiency of the extraordinary fiscal stimulus packages undertaken by member states. A fiscal stimulus at the national level backed by EU financing reduces the output losses in the first year which would

otherwise occur. The reduction in the output loss ranges from 0.8 per cent to 1.4 per cent depending on the mix of fiscal policies chosen by the member state. The cumulative reduction in output loss over a five-year horizon could sum to 2.5 per cent to 4.1 per cent depending on the fiscal policy mix chosen. **TAGS:** **Debt and fiscal/monetary policies**; **Debt Policy; COVID-19**

Economic consequences of high public debt: evidence from three large scale DSGE models (2020)

Pablo Burriel, Cristina Checherita-Westphal, Pascal Jacquinot, Matthias Schön, Nikolai Stähler - Banco de España, European Central Bank, Deutsche Bundesbank

The paper reviews the economic risks associated with regimes of high public debt through DSGE model simulations. The large public debt build-up following the 2009 global financial and economic crisis acted as a shock absorber for output, while in the recent and more severe COVID19-crisis, an increase in public debt is even more justified given the nature of the crisis. Yet, once the crisis is over and the recovery firmly sets in, keeping debt at high levels over the medium term is a source of vulnerability in itself. Moreover, in the euro area, where monetary policy focuses on the area-wide aggregate, countries with high levels of indebtedness are poorly equipped to withstand future asymmetric shocks. Using three large scale DSGE models, the simulation results suggest that high-debt economies (1) can lose more output in a crisis, (2) may spend more time at the zero-lower bound, (3) are more heavily affected by spillover effects, (4) face a crowding out of private debt in the short and long run, (5) have less scope for counter-cyclical fiscal policy and (6) are adversely affected in terms of potential (long-term) output, with a significant impairment in case of large sovereign risk premia reaction and use of most distortionary type of taxation to finance the additional debt burden in the future. Going forward, reforms at national level, together with currently planned reforms at the EU level, need to be timely implemented to ensure both risk reduction and risk sharing and to enable high debt economies address their vulnerabilities. **TAGS:** **Debt sustainability**; **Debt and recession**; **COVID-19**

Public Debt and r - g at Risk (2020)

Weicheng Lian, Andrea F. Presbitero, Ursula Wiriadinata - International Monetary Fund

As interest rate-growth differentials (r-g) turned negative in many countries, governments consider pursuing fiscal expansion and the potential risks involved. Using a large sample of advanced and emerging economies, their analysis suggests that high public debts can lead to adverse future r-g dynamics. Specifically, countries with higher initial public debt experience (i) a shorter duration of negative r-g episodes and a higher probability of reversal, (ii) higher average r-g, and (iii) a more right-skewed r-g distribution, that implies higher down-side risks. Furthermore, high-debt countries experience larger increases in interest rates in response to (iv) an unexpected decline in domestic output and (v) an increase of global volatility. Results are stronger when public debts are denominated in foreign currencies. **TAGS:** **Debt sustainability**; **Debt and growth**; **Sovereign bonds yields; Debt and fiscal/monetary policies**

Public Debt and Economic Recovery Following the COVID-19 Pandemic (2020)

Anatolijs Prohorovs - RISEBA University

One of the main sources of funding for economic recovery in countries after the COVID-19 pandemic is the increase in public debt. But, as a result of the COVID-19 pandemic and the strengthening of new trends in the development of the global economy, the level of uncertainty has greatly increased. As a result, countries that

significantly increase their amount of public debt will reduce their level of macroeconomic stability considerably.
The article analyses the risks that can have a negative impact on the macroeconomic stability of countries and the possibility of reducing the size of public debt during the period of economic growth after the economic recovery from the COVID-19 pandemic.
The article also shows that one of the factors in deciding to increase public debt is a country's ability to significantly reduce public debt during a period of economic growth and examines the methods of financing economic recovery, which will allow countries to increase their level of macroeconomic stability and international competitiveness in the medium and long term. **TAGS:** **Debt sustainability**; **Debt and growth**; **COVID-19**

COVID-19: macroeconomic dimensions in the developing world **(2020)**

United Nations University World Institute for Development Economics Research

The COVID-19 pandemic represents an unprecedented global crisis. The task for economic policy is to help keep people alive, enterprises afloat, and households out of poverty. The pandemic has macroeconomic dimensions. First, it affects macroeconomic stability and growth. Second, the tools of macroeconomic policy—fiscal and monetary policy together with debt management and exchange rate policy—must deal with the economic shock. Simultaneously, policy makers must find fiscal space to fund health, social protection, and livelihood support. Third, success in dealing with the virus itself will be a big determinant of macroeconomic outcomes: the size of the GDP loss, the duration of the recession, and the outcomes for the fiscal deficit and debt ratios. This paper discusses these macroeconomic dimensions, focusing on the developing world. The paper concludes that the pandemic could reinforce the existing trend towards higher social inequality. **TAGS:** **COVID-19**; **Debt and fiscal/monetary policies**; **Debt and growth**

Economic Policies

Supranational Debt and Financing Needs in the European Union **(2020)**

Mar Delgado-Téllez, Iván Kataryniuk, Fernando López-Vicente, Javier J. Pérez - Banco de España

The COVID-19 pandemic has substantially affected the financial trajectory of governments, which have seen their financing needs increase significantly. Against this background, the European Union has launched a series of programmes to smooth this financing in the short term, through the activation of credit lines to cover direct or indirect health expenses and temporary unemployment scheme-related expenditure. Further, it has approved a recovery fund (dubbed Next Generation EU), which will transfer resources from the European budget to the Member States for investments that enhance competitiveness and social and environmental sustainability. In this connection, this paper firstly estimates the increase in financing needs at the European level. Secondly, it sets out the supranational measures adopted to address the consequences of the pandemic, to be financed with debt issued by the European Commission, on behalf of the Member States. Finally, it characterizes the starting point of this situation, i.e. it provides the main figures on euro-denominated supranational debt currently in circulation and reviews the arguments in favour of the importance of increasing this type of debt and pan-European safe assets. **TAGS:** **Debt and fiscal/monetary policies**; **COVID-19**

Reflections on Fiscal Coordination and Integration in Europe **(2020)**

Gong Cheng, Kari Korhonen - Bank for International Settlements, European Stability Mechanism

Compared with economic and financial integration, fiscal integration would require much stronger political support.

The authors provide an overview of the key steps that were made in the European Union toward enhancing fiscal policy coordination and integration prior to the Covid-19 crisis. The authors especially highlight the key challenges and strategies that should be considered when thinking of further fiscal integration in the monetary union. Compared with economic and financial integration, fiscal integration would require much stronger political support. Fiscal integration is not meant to be achieved overnight but it should take a stepwise approach, which could encompass policy coordination, pooling resources for macroeconomic stabilization and fiscal backstops, debt mutualization and safe assets, and ultimately a common budget. The authors also aim to provide some inspiration for East Asian economies when they consider strengthening fiscal integration in their region. Despite some fundamental differences between Asian and European economies, there are common issues that must be tackled. **TAGS:** Debt and fiscal/monetary policies; Debt Policy

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The Global Pandemic, Policy Space and Fiscal Rules to Achieve Stronger Stabilization Policies (2020)

Michael M. Hutchison - University of California

The world economy was slowing prior to the onset of the Covid-19 pandemic. The slowdown began after a record-long period of expansion marked with record lows in unemployment and strong economic indicators along most dimensions. Even at a high point of the business cycle, however, "depression style" economic policies of very low or zero policy interest rates and large budget deficits were being followed in many countries—partly due to the lingering effects of the Great Recession and partly due the long-standing problem of "deficit bias" in fiscal policy. Fiscal responses to the Covid-19 shock in the form of wage support, business loans and other programs in 2020 were substantial and necessary but, following already large fiscal deficits and growing government debt, have aggravated the problem of long-term fiscal solvency. In some cases, concerns over record peacetime budget deficits constrained government's willingness to pursue further rounds of fiscal stimulus as the Covid-19 crisis deepened. This article argues that deficit bias constrained discretionary fiscal policy actions arises from political economy factors and demonstrates that fiscal rules are an important instrument to mitigate deficit bias and restore countries to longer-term solvency. Countries with strong fiscal rules had much better fiscal and debt positions prior to the Great Financial Crisis, allowing them in turn to pursue much more stimulative fiscal policies in response to the crisis. The same situation faced policy makers at the onset of the pandemic economic crisis-- those with strong fiscal rules were in a much better position to provide large fiscal responses to support the economy without endangering national debt solvency. Facilitating long-term fiscal solvency and allowing for larger discretionary fiscal actions in crisis situations provides a strong argument for the strengthening and enforcement of fiscal rules around the world. **TAGS:** Debt and fiscal/monetary policies; COVID-19

The Dangerous Utopia of the ECB's Cancellation of Public Debts (2020)

Eric Pichet - KEDGE Business School

The main result of the quick reactions of the Federal Reserve (the Fed) and the European Central Bank (ECB) to the Covid-19 crisis are that more than 20% of their public debt is now held by these central banks and that the balance sheet of the ECB is now near 50% of

GDP (33% for the Fed). Two questions arise from this situation. Is this new ECB policy of quantitative easing a monetisation policy forbidden by the EU treaty? According to the ECB this policy being exceptional and temporary isn't. The second is more radical because some politicians call for pure cancellation of part or all of the public debts held by the ECB knowing that the capital of the bank is ultimately held by the 19 states of the Eurozone. The authors explain why such a policy would be clearly a breach of the UE treaty and would bring strong long term disadvantages. **TAGS:** **Debt and fiscal/monetary policies**; **Debt relief**

Destabilizing Stability? Exchange Rate Arrangements and Foreign Currency Debt (2020)

Balazs Csonto, Tryggvi Gudmundsson - International Monetary Fund

Emerging markets (EMs) often respond to shocks by intervening in foreign exchange (FX) markets and thus preventing full exchange rate adjustment. This response can serve to dampen the effect of shocks and increase monetary policy space but may also incentivize economic participants to increase risk taking and take on more FX debt. This paper empirically analyzes the role of exchange rate flexibility in affecting such risk taking, by using rolling correlations and difference-in-difference estimations. The results suggest that a shift towards greater exchange rate flexibility often coincides with a decline in external FX debt. The findings also highlight the importance of using complementary policies to deal with financial stability issues related to the exchange rate, such as FX-specific macroprudential policies and policies aimed at promoting financial development. **TAGS:** **Foreign Debt**; **Financial stability**

How far and how fast? Public debt after the pandemic (2020)

James Browne - Tony Blair Institute for Global Change

While the economy is in a "Great Pause" to contain the coronavirus pandemic, tax revenues will be significantly lower and government spending significantly higher. This has led to extremely high budget deficits in the short term: The ONS reported a higher level of government borrowing in April 2020 than in the whole of the previous financial year. The result will be a much higher level of national debt than was expected just a few months ago. The aim of much of this spending is to try to prevent the permanent economic damage that would be caused by what would otherwise have been a wave of bankruptcies and mass unemployment [...] **TAGS:** **Debt Policy**; **Debt sustainability**; **Financial stability**; **COVID-19**; **Debt and fiscal/monetary policies**; **Economic Forecasts**

The "burden" of Swiss public debt: lessons from research and options for the future (2020)

Cédric Tille - Geneva Graduate Institute of International and Development Studies and CEPR

The Swiss Confederation's finances are in an excellent shape. The Federal government's debt stands at only 13.2% in GDP in 2018 and the yields are negative across the curve. This represents a striking contrast to the situation of rising debt in the 1990's that led the country to adopt a debt brake rule. While most advanced economies experienced deficits over the last decade, Switzerland instead paid back nearly a quarter of its public debt. The Swiss case is only the most striking example of a situation observed in other economies, such as Germany.[...] **TAGS:** **Debt Policy**; **Debt sustainability**; **Debt and fiscal/monetary policies**; **Financial stability**

How to design Subnational Fiscal Rules (2020)
Luc Eyraud, Andrew Hodge, John Ralyea, Julien Reynaud – IMF
This note discusses how to design subnational fiscal rules, including how to select them and calibrate them. It expands on the guidance provided at the national level on rule selection and calibration in IMF (2018a) and IMF (2018b). Thinking on subnational fiscal rules is still evolving, including their effectiveness (for example, Heinemann, Moessinger, and Yeter 2018; Kotia and Lledó 2016; Foremny 2014), and this note only provides a first analysis based on international experiences and the technical assistance provided by the IMF. Main findings are summarized in Box 1. The note is divided into five sections. The first section defines fiscal rules. The second section discusses the rationale for subnational rules. The third section provides some guidance on how to select the appropriate rule(s) and whether they should differ across individual jurisdictions. The fourth section explores the issue of flexibility by looking at how rules should adjust to shocks. Finally, the last section focuses on the "calibration" of the rules. **TAGS:** Debt and fiscal/monetary policies; Subnational debt; Best Practices

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The Impact of COVID-19 on Latin America and the Caribbean (2020)
United Nations
Latin America and the Caribbean has become a hotspot of the coronavirus (COVID-19) pandemic, exacerbated by weak social protection, fragmented health systems and profound inequalities. COVID-19 will result in the worst recession in the region in a century, causing a 9.1% contraction in regional GDP in 2020. This could push the number of poor up by 45 million (to a total of 230 million) and the number of extremely poor by 28 million (to 96 million in total), putting them at risk of undernutrition. In a region which experienced a significant number of political crises and protests in 2019, increasing inequalities, exclusion and discrimination in the context of COVID-19 affect adversely the enjoyment of human rights and democratic developments, potentially even leading to civil unrest, if left unaddressed.[…] **TAGS:** COVID-19; Structural policies; Debt sustainability; Debt relief; Financial stability

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Caught by the cresting debt wave (2020)
M. Ayhan Kose, Franziska Ohnsorge, Peter Nagle, Naotaka Sugawara – IMF
The COVID-19 pandemic is a blow to an already fragile global economic outlook. The health crisis, sharp downturn in activity, and turmoil in global financial markets caught emerging market and developing economies at a bad moment. The past decade has seen the largest, fastest, and most broad-based increase in debt in these economies in the past 50 years. Since 2010, their total debt rose by 60 percentage points of GDP to a historic peak of more than 170 percent of GDP in 2019. Although China accounted for the bulk of this increase—in part due to its sheer size—the debt buildup was broad-based: in about 80 percent of these economies, total debt was higher in 2018 than in 2010. Even excluding China, debt rose by 20 percentage points of GDP, to 108 percent, in 2019. As these economies respond to the pandemic, their debt will only increase. The current global recession is unusual in its severity. Like previous crises, it is testing the resilience of heavily indebted countries and companies. What policies do highly indebted emerging market and developing economies need to implement to mitigate the damage of the pandemic and support a durable recovery? History can give policymakers some useful pointers. **TAGS:** COVID-19; Debt policy; Debt sustainability; Debt and growth

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Reading between the lines of Council Agreement on the MFF and Next Generation EU (2020)

Jorge Nunez Ferrer – CEPS

The recent agreement on the EU budget is an unprecedented and historic achievement for the European Union. It has broken a taboo and advanced the integration process. We all saw that the negotiations were arduous, but given the magnitude of the challenge facing the heads of state and government, it would have been naïve to expect otherwise. It is virtually impossible to find a comparable agreement between numerous countries in any other part of the world; by this measure alone it is impressive. Having said that, what has been agreed is complex and bewildering to many. While attention has focused on the Next Generation EU, the agreement also includes the 'normal' multiannual financial framework (MFF) 2021-27. Comments to the effect that the EU has deleted all funding for health, or much of the research budget, are based on the Next Generation EU 'temporary' measure and not on the underlying MFF. This paper aims to present a brief rundown of the actual changes in numbers and reflect on the meaning of the agreement. **TAGS:** Debt and fiscal/monetary policies; Multilateral financing; Debt and growth

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World Economic Outlook Chapter 2: Countering future recessions in advanced economies: cyclical policies in an era of low rates and high debt (2020)

IMF

More than a decade after the global financial crisis, the world is struggling with the health and economic effects of a profound new crisis caused by the COVID-19 pandemic. Advanced economies entered this crisis with interest rates at historical lows and public debts, on average, higher than they had been over the past 60 years. They will come out from the crisis with even higher public debts. Drawing on analysis completed before the emergence of the pandemic, this chapter examines policymakers' options to respond to adverse shocks and build resilience when rates are low and debts high. Even when rates are low, central banks still have wide scope to use unconventional monetary policy tools to support the economy, although questions remain about side effects on future financial stability and threats to central bank independence with their use. When monetary policy is constrained, countercyclical fiscal policy needs to play a larger role. The analysis shows that, prior to the current crisis and over the past few years, declining interest rates relative to growth modestly reduced the average rise in debt ratios in advanced economies compared with earlier projections. [...] **TAGS:** Economic Forecasts; Debt and fiscal/monetary policies; Debt and growth

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Effects of Fed policy rate forecasts on real yields and inflation expectations at the zero lower bound (2020)

Gabriele Galati, Richhild Moessner - BIS

Long-term real interest rates play an important part in the transmission of monetary policy measures to aggregate demand. But there are concerns that the unconventional monetary policy tool of forward guidance may not be effective when policy rates fall to zero, ie reach their zero lower bound (ZLB). A further concern is that the publication of policy rate forecasts at the ZLB may be perceived as an unconditional commitment, thus undermining the credibility of monetary policy. Authors investigate both these concerns for the policy rate forecasts made by the Federal Reserve in its Summary of Economic Projections (SEP). **TAGS:** Debt and fiscal/monetary policies; Sovereign bonds yields

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Multilateral Financing

A possible IMF Pandemic Support Facility for emerging-market countries (2020)

Matthew Fisher, Adnan Mazarei – former IMF, PIIE

As the International Monetary Fund (IMF) adapts its strategy to meet the challenges of the COVID-19 crisis, it should develop a new temporary lending instrument to assist emerging-market countries facing pandemic-related fiscal and balance of payments difficulties. A dedicated IMF Pandemic Support Facility would help meet the exceptional financing needs of emerging-market countries at a time of high uncertainty while providing more lenient repayment periods and also allow the Fund to be more flexible in its operations with minimum disruptions to its existing facilities. **TAGS:** **Multilateral financing**; **COVID-19**

Addressing Debt Vulnerabilities (2020)

Masood Ahmed, Mark Plant - Center for Global Development

Around the turn of the century, there was a broad recognition that the debt burden of many developing countries was impeding their growth. Much of the debt had accumulated in the context of the Cold War and had not resulted in productive investment. In the face of sluggish economic growth, debt service was eating up an increasing share of budgetary spending, preventing countries from engaging in productive investment in human and physical capital. And even where countries were no longer making service payments, the uncertainty posed by the outstanding debt stock was a disincentive for investors to finance new projects. With considerable outside political pressure, bilateral and multilateral creditors decided that the best course was to forgive existing debt to low-income countries (LICs) in conjunction with a track record of sound economic policies. Thus, the Heavily Indebted Poor Countries Initiative (HIPC) was born in 1996, followed by the Multilateral Debt Relief Initiative (MDRI) in 2005. **TAGS:** **Multilateral financing**; **Debt relief**; **Debt crisis**; **Debt sustainability**

The debt pandemic (2020)

Jeremy Bulow, Carmen Reinhart, Kenneth Rogoff, and Christoph Trebesch - Stanford Business School, the World Bank Group, Harvard University and Kiel Institute for the World Economy

The COVID-19 pandemic has greatly lengthened the list of developing and emerging market economies in debt distress. For some, a crisis is imminent. For many more, only exceptionally low global interest rates may be delaying a reckoning. Default rates are rising, and the need for debt restructuring is growing. Yet new challenges may hamper debt workouts unless governments and multilateral lenders provide better tools to navigate a wave of restructuring. The IMF, the World Bank, and other multilaterals acted quickly to provide much-needed funding amid the pandemic as government revenues collapsed alongside economic activity, while private capital flows came to a sudden stop. In addition to new loans from multilaterals, Group of Twenty (G20) creditors granted a debt moratorium to the world's poorest countries. They have encouraged private lenders to follow suit - albeit with little success. [...] **TAGS:** **Multilateral financing**; **Debt crisis**; **Sovereign defaults**; **COVID-19**

Reports

2020

Japan's Debt Management Report 2020
Ministry of Finance, Japan
The objective of the "Debt Management Report," which has been published since 2004, is to provide readers across a wide spectrum spanning domestic and foreign markets, government affairs, and research, etc., with the opportunity of gaining a deeper understanding of Japan's debt management policy. This report, though focusing on Japanese Government Bond (JGB) management policy as debt management policy, covers issues involving public debts in general. **TAGS:** **Debt Policy**; **Debt Statistics**; **Primary market**; **Secondary Markets**

European Economic Forecast. Summer 2020
European Commission
The EU economy will experience a deep recession this year due to the coronavirus pandemic, despite the swift and comprehensive policy response at both EU and national levels. **TAGS:** **Economic Forecasts**; **Debt and recession; COVID-19**

Report on Public Finances in EMU 2019
European Commission
This annual report presents a review of key policy developments and analytical findings in the area of public finances. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**

Restructuring Sovereign Debt to Private Creditors in Poor Countries
Nancy Lee - Center for Global Development
Two out of five low-income countries (LICs) were in the grips of, or moving rapidly toward, unsustainable debt levels before the global pandemic. But the economic, financial, and fiscal effects of the pandemic have brought the day of reckoning for many countries much closer. The need for massive countercyclical spending and additional health and other social spending is now layered on top of huge finance needs for the Sustainable Development Goals (SDGs), which for LICs had been estimated by the IMF to average 15 percentage points of GDP. […] **TAGS:** **Debt relief**; **Sovereign defaults**; **Foreign Debt**; **COVID-19**; **Debt Restructuring**; **Debt crisis**

2020 International Debt Statistics - Debt Data
World Bank
Data are shown for 68 out of 73 eligible countries to 2020 Debt Service Suspension Initiative (DSSI) that report external debt to the World Bank's Debtor Reporting System (DRS). The tables include public and publicly guaranteed debt stock and debt services due by creditor country. […] **TAGS:** **Multilateral financing**; **Debt relief**; **Debt Statistics; Foreign Debt; World Bank**

2020 Annual Borrowing Plan Revision
Brazilian Debt Management Office
The National Treasury announces the revision of the indicative limits defined in the 2020 Annual Borrowing Plan (2020 ABP) for the Federal Public Debt (FPD) outstanding volume, profile and maturity structure, to be met at year-end. The increase in federal government borrowing needs represents the main impact on the FPD arising from the COVID-19 pandemic and its unfolding effects on the Brazilian economy. The ABP borrowing strategy was, therefore, adjusted to admit room for an increase in total

issuances' volume, leading to an upward shift of the indicative ranges for FPD outstanding volume. […] **TAGS:** Debt Policy; Debt Statistics; Primary market

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How useful are financial derivatives in public debt management?

Alfons Weichenrieder, Johannes Kasinger, Lukas Nöh - Goethe University Frankfurt-SAFE

Debates about public sector debt management are a recurring theme, particularly in times of rising public debt levels. Quickly there is talk of interest bets and gambling tax officials. Is the criticism appropriate? **TAGS:** Derivatives; Debt Policy

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The evolution of Public Debt vulnerabilities in lower income economies

IMF

Public debt in lower-income economies (LIEs) has risen in recent years, with half of the countries covered in this report now assessed to be at high risk of or already in debt distress. […[**TAGS:** Transparency; Sovereign debt market; Foreign Debt

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Sustainable Bonds Insight 2020

Environmental Finance

2019 was a pivotal year for the green, social and sustainability bond market. The value of issuance for all three markets combined rose to $321 billion in 2019, up 52% on the previous year. Cumulative issuance is set to pass the $1 trillion mark in 2020. An online poll conducted by Environmental Finance suggested that the market is expected to continue to grow this year. Most respondents thought the value of issuance is likely to exceed $350 billion. But it is not the growth of the market that made 2019 a pivotal year. To my mind, what was noteworthy in 2019 was the change in the tone of discourse in the market. There has been a vigorous – and in my view very healthy – debate in the market, asking: "What is the market trying to achieve, and what is the best way to achieve it?" **TAGS:** Primary market; Sovereign debt market; Bond market development

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Fiscal Panorama of Latin America and the Caribbean

CEPAL.org

Latin American and Caribbean countries will need additional short- and medium-term solutions, including debt service facilities, and a review of existing concessional lending programmes and graduation policies for middle-income countries. In addition, addressing the persistent inequalities that have plagued the region will be crucial, as will be expediting the transition to welfare States that lay a solid foundation for sustainable growth. A new fiscal covenant is thus of the essence to start designing robust tax frameworks with the instruments required to finance sustainable development through progressive fiscal policy and efficient, effective and equitable public spending that puts the needs of the whole of society first […] **TAGS:** Debt and fiscal/monetary policies; Financial stability

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The second wave of debt: EU Covid-19 funding and market reaction

Antoine Bouvet, Benjamin Schroeder, Padhraic Garvey – ING

September sees the start of EU Covid-19 funding programmes. We look at the borrowing needs from various EU supranationals, the potential for ECB support along with the market impact. EUR supra will undergo a step change in borrowing and private investors will be required to buy most of the new debt. And authors think they'll require cheaper valuations. […] **TAGS:** Economic Forecasts; Financial Analysis; Sovereign bond market; COVID-19

Implications of financial market development for financial stability in emerging market economies

Philip Wooldridg - CGFS - Committee on the Global Financial System

The development of financial markets in emerging market economies (EMEs) has strengthened EMEs' overall resilience to swings in capital flows and exchange rates. That said, the events of March 2020 demonstrated that financial conditions are still vulnerable to feedback loops between capital flows, exchange rates and asset prices. **TAGS:** **Financial stability**; **Economic Forecasts**; **Structural policies**

Incorporating political risks into debt sustainability analysis

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

DSA applies to crisis countries only, but an early warning system identifying vulnerabilities is relevant for all countries. A more general, less stringent, debt vulnerabilities analysis (DVA) could be used to assess countries' debt management policies and identify vulnerabilities, without leading immediately to policy consequences. A more general framework could also incorporate political risks that are significant determinants of debt dynamics. **TAGS:** **Debt sustainability**; **Financial stability**

The risks of high public debt despite a low interest rate environment

Andrea Presbitero, Ursula Wiriadinata – IMF

As interest rate-growth differentials (r-g) have turned negative in many countries, now could be the time for governments to pursue fiscal expansions. However, the downside risks of such policies should not be disregarded. Using a large sample of economies, this column finds that high and increasing public debts, especially when denominated in foreign currencies, can lead to more volatile r-g dynamics. In particular, this is associated with higher probabilities of r-g reversals, tail risks, and an increased exposure to domestic and global shocks. Policymakers should take note of these risks when designing future fiscal expansions. **TAGS:** **Debt and fiscal/monetary policies**; **Debt and recession**; **Foreign debt**; **Financial stability**; **Debt sustainability**

Macroprudential regulation can effectively dampen global financial shocks in emerging markets

Katharina Bergant, Francesco Grigoli, Niels-Jakob Hansen, Damiano Sandri – IMF

The vulnerability of emerging markets to global financial shocks leads to recurrent calls for policymakers to deploy additional policy tools besides relying on exchange rate flexibility. This column presents evidence that a more stringent level of macroprudential regulation can considerably dampen the effects of global financial shocks on economic activity in emerging markets. A possible channel through which macroprudential regulation enhances macroeconomic resilience is by allowing for a more countercyclical monetary policy response. The authors do not find evidence that capital flow restrictions provide similar benefits. […] **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability**; **International and Macroprudential Regulations**

Government Securities Market Figures 2nd Quarter 2020

Agence UMOA –Titres

Quarterly statistics as of 2nd quarter 2020 on public debt and government securities market of WAEMU countries (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo). **TAGS:** **Debt Statistics**; **Primary market**

Uruguay in focus - July 2020

Debt Management Unit of the Ministry of Economy and Finance of Uruguay

Despite a recent uptick in new Covid19 cases in mid-July, Uruguay has managed to contain the spread of the epidemic so far. As of August 5th, there were 207 confirmed active cases and 36 Covid-19-related deaths– one of the lowest infection and mortality rates in Latin America. Economic activity

contracted 1.4% YoY in 2020Q1.[…] **TAGS: Debt Statistics**; **Debt and fiscal/monetary policies**; **COVID-19**

Uruguay Sovereign Debt Report - July 2020

Debt Management Unit (DMU) of the Ministry of Economy and Finance of Uruguay

Summary: - The government launched in June a dual-tranche global offering of local currency (inflation-indexed) bonds and dollar bonds for a total of USD 2 billion. - Domestic bond markets have become an increasingly important source of funding, accounting for 55% of total bond issuance year-to-date. - Recap of government's external financing strategy through bond markets and multilateral loans since the global onset of the Covid-19, and funding plans for the rest of 2020. **TAGS: Debt statistics**; **Primary market**; **Debt Forecasts**

The impact of COVID-19 and Government intervention on Swaps Market Liquidity

Kevin McPartland – Greenwich

In an effort to better comprehend the market's reaction both before and after government intervention, Greenwich Associates worked with ISDA to speak with over 170 market participants from around the world. The results, examined in this Greenwich Report, help to explain the major factors contributing to the market illiquidity, how illiquidity impacted different parts of the swaps market in different parts of the world, the impact of government intervention and the potential for market structure changes going forward. […] **TAGS: COVID-19**; **Market Liquidity**; **Derivatives**

The Covid-19 economic crisis: dangerously unique

Claudio Borio – BIS

The Covid-19 crisis is unique in several respects. This devastating recession does not have an economic origin, will dance largely to the tune of non-economic factors, and is truly global. The policy response has been equally unique, in terms of speed, size and scope, eliciting an unprecedented concerted effort combining monetary, fiscal and prudential policies. This has contained the fallout. […] **TAGS: COVID-19**; **Debt sustainability**; **Debt and growth**; **Debt and recession**; **Institutional Investors**

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5 ways the World Bank's IDA-19 is supporting the poorest countries in the time of COVID

Samuel Munzele Maimbo - IBRD Corporate Finance

IDA's support is part of the broader $150-160 billion World Bank Group response over a 15-month period and includes $50-55 billion in low-interest credits and grants focused on saving lives, protecting the poor and vulnerable, creating jobs, saving businesses, and building a more resilient recovery. Over the next 12 months, IDA will deliver close to $10 billion in new grants for low-income countries at higher risk of debt distress. […] **TAGS: COVID-19**; **Multilateral financing; World Bank**

Government Debt and contingent liabilities

South Africa Treasury

Over the past year, government's gross borrowing requirement has risen by R71.9 billion to R407.3 billion. Government has financed this steep increase in a responsible manner, despite a deteriorating fiscal position resulting from weak economic growth and the precarious finances of state-owned companies. Deep and liquid domestic capital markets remain the primary source of financing over the next three years. […] **TAGS: Debt Forecasts; Debt Statistics; Contingent Liabilities**

Reading between the lines of the ECB's introductory statements

Maritta Paloviita, Markus Haavio, Pirkka Jalasjoki, Juha Kilponen, Ilona Vänni - Bank of Finland

The introductory statements made by the ECB are some of the most important sources of insight into the central banks' policy goals. This column presents a textual analysis which seeks to measure the tone of the statements, with the aim of estimating the Governing Council's 'loss function'. The results suggest that the ECB has been either more averse to inflation above the 2% ceiling, or that the de facto inflation target has been considerably below this threshold. The results also suggest that an inflation aim of 2%, combined with asymmetry, is a plausible specification of the ECB's wider preferences. **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability**

Monetary and financial policy responses for Emerging Market and developing economies

IMF

This note provides an overview of appropriate central bank policy responses to the severe economic and financial impact of the COVID-19 pandemic in emerging market and developing economies. It covers monetary, exchange rate, and macroprudential policies, as well as capital flow measures. **TAGS:** **Debt and fiscal/monetary policies**; **COVID-19**; **Financial stability**

Egypt: carry trade alive and well once again

Patrick Curran - Tellimer.com

Egypt now has among the highest real interest rates in the world, ranging from c7-8.5% across the sovereign bond curve. Foreign holdings of T-bills fell by US$13bn from February to May, but picked back up with US$3bn of inflows this month. EGP overvaluation is the main risk, but ample reserves and external funding sources will promote FX stability. **TAGS:** **Foreign Debt**; **Financial Analysis**; **Sovereign bonds yields**

Debt sustainability and a sustainable COVID recovery

Charlotte Geiger - Finance Watch

The EU must adopt a pragmatic approach to budgetary rules – including the preference for European recovery funds to be issued as grants rather than loans – in order to reconcile environmental sustainability with public debt sustainability, said Finance Watch, the public interest association dedicated to making finance serve society. **TAGS:** **Debt sustainability**; **Financial stability**; **COVID-19**

Argentina's economic crisis and default

Congressional Research Service

Argentina has a long history of economic crises. It has defaulted on its external debt (debt held by foreigners) nine times since independence in 1816. It took 15 years to resolve Argentina's default in 2001. Argentina has also entered into 21 IMF programs since joining in 1956. The current economic crisis facing Argentina stems from both longstanding issues and recent developments. **TAGS:** **Debt crisis**; **Debt Restructuring**; **Sovereign debt litigation**; **Sovereign defaults**

Euro Crisis 2.0

Douglas J. Elliott - Oliver Wyman partner

There is a serious risk of a sequel to the Euro Crisis that ran from roughly 2010 to 2015. The likelihood of such a crisis is hotly debated and depends on one's views of a number of factors that are summarized in this paper. My own base case continues to be for some version of Euro Crisis 2.0 over the next two years, but recent positive developments may cause me to lower that probability somewhat below 50 percent. […] **TAGS:** **Debt crisis**; **Financial stability**; **Debt sustainability**; **COVID-19**; **Debt Forecasts**

Necessity is the mother of invention: How to implement a comprehensive debt standstill for COVID-19 in low- and middle-income countries

Patrick Bolton, Lee Buchheit , Pierre-Olivier Gourinchas, Mitu Gulati, Chang-Tai Hsieh, Ugo Panizza, Beatrice Weder di Mauro - Columbia University, University of Edinburgh Law School, Clausen Center for International Business and Policy, Duke University, University of Chicago, Graduate Institute, Geneva

Many low- and middle-income countries may face problems servicing their external debts while addressing the COVID-19 emergency. Urgent action is needed to prevent disorderly defaults and litigations. This column presents a mechanism to implement a debt standstill, which would free significant resources to cover some of the most immediate costs of the COVID-19 crisis. **TAGS: Debt relief**; **Sovereign debt litigation**; **COVID-19**

OECD Economic Outlook, Volume 2020 Issue 1

OECD

The OECD Economic Outlook is the OECD's twice-yearly analysis of the major economic trends and prospects for the next two years. The Outlook puts forward a consistent set of projections for output, employment, prices, fiscal and current account balances. Coverage is provided for all OECD member countries as well as for selected non-member countries. This issue includes a general assessment of the macroeconomic situation, a series of notes on the macroeconomic and structural policy issues related to the COVID-19 outbreak and a chapter summarising developments and providing projections for each individual country. **TAGS: Economic Forecasts**; **OECD; COVID-19**

COVID-19 and Global Capital Flows

OECD

The COVID-19 crisis has triggered major disruptions for exchange rates and global capital flows. Cross-border portfolio investment stopped in many emerging markets as well as in some advanced economies in March 2020. Countries have not had to resort to capital controls. To support foreign currency liquidity, several emerging markets have intervened in the foreign exchange market and relaxed rules on capital inflows. **TAGS: COVID-19**; **Foreign Debt**

Brief, Italy in the global economy

Prometeia

In the medium term, rising global public and private debts may hold back average growth. In the EU, the Next Generation EU proposal may fall short of the European Commission's objectives and deprive hard-hit countries of important support. In the US, labour market recovery may prove more difficult than expected. In Europe, the risk is that the temporary measures are only deferring the moment when unemployment will hike. Political and trade conflicts between the US and China and a disorderly Brexit (without trade agreements with the EU) could further limit and fragment global trade. The sharp increase in Italy's public debt could generate tensions in financial markets and further complicate the recovery. […] **TAGS: COVID-19**; **Debt and fiscal/monetary policies**; **Debt and recession**; **Economic Forecasts**

News

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

Please note that the following list contains only events yet to be held at the date of the newsletter, in chronological order. Due to current coronavirus pandemic, many events have been cancelled or postponed, therefore we decided to maintain in the website only confirmed events, according to information contained in their original pages. We have employed maximum care to update this information, but we apologise in advance if some mistakes still remain.
We suggest to regularly visit the "**Events**" section of our website, since the Secretariat adds regularly new events in advance to their dates and deadlines.

28 September – 30 October 2020; UNITAR, Web Based
Principles of Central Bank Reserve Management (2020)

29 September 2020; OECD, Online webinar
Launch of the 2020 OECD Business and Finance Outlook

30 September 2020; OECD Working Party on Public Debt Management, Online
OECD Webinar on Emerging Market Sovereign Debt in times of COVID-19

5 – 7 October 2020; SEACEN-BoJ-FSI, Sri Lanka
Course on Financial Crisis Planning, Management, and Recovery

5 – 9 October 2020; International Law Institute, Live Online Course
2020 Capital Markets: foundations of development and regulation

6 October 2020; ICMA, Virtual
Secondary bond markets in the wake of the pandemic

6 – 9 September 2020; OECD, Virtual Conference
Forum on Green Finance and Investment 2020

7 October 2020; ICMA, Online
ICMA's European Repo and Collateral Council (ERCC)

7 – 9 October 2020; AFME, The Westin Paris, France
4th Annual European Compliance and Legal Conference

12 – 16 October 2020; WAIFEM, Freetown, Sierra Leone
WAIFEM/COMSEC training on Debt Recording, Reporting, Monitoring with Meridian

12 – 18 October 2020; International Monetary Fund (IMF) and the Board of Governors of the World Bank Group (WBG), Virtual
The 2020 Annual Meetings

13 October 2020; ICMA, Online
ICMA Primary Market Forum

19 October 2020; Crownagents, Dubai, United Arab Emirates
Public Financial Management: Issues and Solutions

19 – 20 October 2020; US Treasury, Online
2020 International Retail Debt Management Conference

20 – 21 October 2020; Afme, London, United Kingdom
15th Annual European Leveraged Finance Conference

20 – 23 October 2020; SEACEN, Cambodia
Federal Reserve Course on Liquidity Risk Measurement, Management, and Regulation

26 – 27 October 2020; EABCN, Paris.
Empirical Advances in Monetary Policy

3 – 4 November 2020; Redcliffe training, Live Webinar
Bond Documentation

5 – 6 November 2020; IMF, Virtual
21st Jacques Polak Annual Research Conference

5 – 6 November 2020; European Commission, CEPR and the Journal of Economic Dynamics and Control, Brussel
Secular Stagnation, Low Interest Rates and Low Inflation: Causes and Implications for Policy“

9 – 11 November 2020; Euromoney, London
Debt Capital Markets

12 – 13 November 2020; Field Gibson Media, Virtual Conference
ESG in Fixed Income Europe 2020

16 – 20 November 2020; Banque de France, Paris, France
Financial stability and macroprudential policies of central banks

16 – 20 November 2020; IFF, Online
A Masterclass in Bonds & Fixed Income

17 – 19 November 2020; IMF, Virtual Meeting
8th IMF Statistical Forum: Measuring the Economics of a Pandemic

18 November 2020; Infopro Digital, Online
Collateral Management Japan Forum

19 – 20 November 2020; Federal Reserve Bank of Cleveland, Online
2020 Financial Stability Conference: Stress, Contagion, and Transmission

23 – 27 November 2020; JVI, Virtual Training
Public Financial Management and Administrative Reforms

25 – 27 November 2020; Florence School of Banking and Finance, Italy
Liquidity, crisis and public policies: a model-based approach

26 – 27 November 2020; Corvinus University of Budapest, Hungary
11th Annual Financial Market Liquidity Conference

30 November – 1 December 2020; BIS, Ottawa Canada
Eighth joint BIS, World Bank, Bank of Canada, Banca d'Italia public investors conference

1 – 4 December 2020; Futures Industry Association USA, The St. Regis Singapore
FIA Asia Derivatives Conference

10 – 11 December 2020; Bank of Italy, Rome
CEPR International Macroeconomics and Finance (IMF) Programme Meeting 2020

10 – 11 December 2020; Cbonds, Saint Petersburg
XVIII Russian Bond Congress

13 – 15 January 2021; Banque de France, Paris
Green Finance

8 - 12 February 2021; Banque de France, Paris
Operational risk management in a central bank

22 – 23 March 2021; ECB, Frankfurt am Main - Germany
ECB-RFS Macro-Finance Conference

26 – 28 April 2021; EUI, EUI Premises, Florence
Managing and Understanding Sovereign Risks

1st June 2021; gfcmediagroup, Shangri-La Bosphorus, Istanbul
Bonds, Loans & Sukuk Turkey

1st June 2021; gfcmediagroup.com, Fairmont Hotel, Riyadh
Bonds, Loans & Sukuk Saudi Arabia

24 - 25 June 2021; The World Bank, Washington, DC
Annual Bank Conference on Development Economics 2020: Global Unrest

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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.