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Number 5/ September - October 2021

ISSN 2239-2033

This bimonthly newsletter lists all papers, reports, courses and other events about public debt management recently uploaded by the PDM Network Secretariat on 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@mef.gov.it**.

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Highlight

CALL FOR PAPERS - Public Debt Management Conference 2022 - Extended Deadline November 26, 2021

PDM Network, Italian Ministry of Economy and Finance, OECD, World Bank

The Public Debt Management Network, an initiative fostered by the OECD, the Italian Treasury and the World Bank, is pleased to announce the call for papers for the second Public Debt Management Conference will be held in **Rome (tentatively) on May 26-27, 2022. It will be possible to participate in-person or virtually.**

This conference aims to explore techniques, analyses and proposals to improve the management of public debt, and will bring together debt managers, academics, and a wider set of practitioners to exchange ideas and experiences. **Read more** **TAGS:** **PDM Network**; **OECD**; **World Bank**; **Debt Policy**; **Best Practices**; **Debt sustainability**; **COVID-19**

Special Focus

Btp Green, the new sovereign bond to finance Italy's ecological transition

Italy's Ministry of Economy and Finance

In early 2021 Italy entered the market of sovereign bonds that finance sustainable development through the issuance of the new "BTP Green", widening the country's commitment to the European Commission's framework for achieving climate neutrality by 2050 and the goals set out in the European Green Deal. The first Italian Sovereign Green Bond will finance Italy's Green Transition strategy already started in the past years. **Read more** **TAGS:** **Debt Policy**; **Primary market**; **Sovereign debt market**; **Debt and fiscal/monetary policies**

OECD Webinar on Sovereign Funding in Emerging Market Economies

OECD

Organised under the aegis of the OECD Working Party on Public Debt Management and sponsored by the Government of Japan, this webinar discussed the impact of the uneven recovery from the COVID-19 crisis on government bond markets in EMEs. It also addressed the challenges, priorities and opportunities that arise for sovereign debt managers. **Read more** **TAGS:** **Debt Policy**; **Primary market**; **Sovereign debt market**; **COVID-19**

Documents

Debt Policy

Eurobonds, debt sustainability and macroeconomic performance in Africa: Synthetic controlled experiments **(2021)**

Chuku Chuku, Mustafa Yasin Yenice - International Monetary Fund

There has been a strong wave of Eurobond issuances by Africa's frontier market economies since the start of the century. But it is not clear how these issuances have affected economic performance. This paper uses synthetic control experiments to conduct comparative case study analysis to assess whether sovereign Eurobond issuances have had the expected impacts on economic growth, debt sustainability, and domestic capital markets as indicated in the issue prospectuses. The authors compare the evolution of several indicators of economic performance, post-Eurobond issuance, against their synthetically constructed counterfactual trajectories in the absence of Eurobond issuances. The results show that sovereign Eurobond issuances have accelerated the evolution of per capita GDP in Africa. The magnitude is equivalent to about 10 percent on average, ten years following the intervention. Although most issuances were within 3 percent of GDP, they potentially led to a 13-percentage points acceleration in the debt-to-GDP ratios ten years after issuance, compared to the no-issuance counterfactual scenario. The evidence on the effect of Eurobond issuances on capital accumulation is inconclusive, although the authors find a strong positive correlation in selected countries. They did not find any systematic impact of Eurobond issuances on domestic capital market development. In sum, despite some unsuccessful cases, the effect of Eurobond issuances on Africa's frontier market economies has been positive but susceptible to increasing debt vulnerabilities. **TAGS:** **Debt Policy**; **Debt sustainability**; **Debt and growth**

Cost and Risk

Discount Rates, Debt Maturity, and the Fiscal Theory **(2021)**

Alexandre Corhay, Thilo Kind, Howard Kung, Gonzalo Morales - University of Toronto, London Business School, University of Alberta

This paper examines how the transmission of government portfolio risk arising from maturity operations depends on the stance of monetary/fiscal policy. Accounting for risk premia in the fiscal theory allows the government portfolio to affect the expected inflation, even in a frictionless economy. The effects of maturity rebalancing on expected inflation in the fiscal theory directly depend on the conditional nominal term premium, giving rise to an optimal debt maturity policy that is state dependent. In a calibrated macro-finance model, the authors demonstrate that maturity operations have sizable effects on expected inflation and output through our novel risk transmission mechanism. **TAGS:** **Cost and Risk**; **Sovereign risk premia**; **Sovereign bonds yields**

Risk Assessment of Government Debt based on Machine Learning Algorithm **(2021)**

Dan Chen - Henan Institute of Economics and Trade

Government debt risk is an important factor affecting macroeconomic stability and public expectation. The key to its prevention and control lies in early warning and early prevention. This paper builds an effective government debt risk assessment system based on machine learning algorithm. According to forming the performance of local government debt risk and its internal and external influencing factors, this study applies the analytic hierarchy process, entropy method, and BP neural network method to construct the local government risk assessment index system, which includes the primary and secondary indexes including the explicit debt risk, the contingent implicit debt risk, and the financial and economic operation risk. **TAGS:** **Cost and Risk**; **Financial Analysis**; **Debt sustainability**

Primary Markets

Current State and Development of Green Bonds Market in the Latin America and the Caribbean **(2021)**

Juan Camilo Mejía-Escobar, Juan David González-Ruiz, Giovanni Franco-Sepúlveda - Universidad Nacional de Colombia

The green bonds market has had a growth in recent years within its different sectors and regions. Specifically, up to 2020, the Latin America and the Caribbean (LAC) region has issued USD 26 billion. Some authors have studied the factors influencing financing through green bonds. However, a research gap is identified in the analysis of the regions that contribute to the issuance of this type of bond, specifically for LAC. This is the first study to examine the variables such as issue amount, number and type of issuers, currency, and maturity data in the region using a dataset of issuing performed between 2014–2020. The authors find the typical sizes of the issues, the search for a premium in the issue, the perception of complexity, the issuance of guides, and tax incentives as the main factors affecting this market. Finally, the study presents the potential for further research. **TAGS:** **Primary market**; **Bond market development**; **Contract standards**

The Determinants of Green Bond Issuance in the European Union (2021)

Annamaria Dan, Adriana Tiron-Tudor - Babeş-Bolyai University

Green bonds are a new financial tool that has developed rapidly in the context of climate change risks. Their proceeds are used to finance only environmentally friendly projects. This paper aims to examine the determinant factors of the green bonds issue in the context of the European Union countries. Using linear regression, the authors explore the impact of environmental, social, governance, and macroeconomic indicators on the level of green bond issues in the period 2014–2019. The results reveal that rating, ESG index; fiscal balance, inflation rate, and population have a significant impact and lead to a higher volume of green bond issuances. Their findings provide valuable insights into the development of the green bond market. **TAGS:** **Primary market**; **Bond market development**; **Financial Analysis**

Secondary Markets

The Treasury market in spring 2020 and the response of the Federal Reserve (2021)

Annette Vissing-Jørgensen – BIS

Treasury yields spiked during the initial phase of COVID. The 10-year yield increased by 64 bps from March 9 to 18, 2020, leading the Federal Reserve to purchase $1T of Treasuries in 2020Q1. Fed Treasury purchases were causal for reducing Treasury yields based on (1) the timing of purchases (which increased on March 19), (2) evidence against confounding factors, and (3) the timing of yield reversal and Fed purchases in the MBS market. Treasury-QE worked more via purchases than announcements. The yield spike was driven by liquidity needs of mutual funds, foreign official agencies, and hedge funds that were unaffected by the March 15, 2020 Treasury-QE announcement. **TAGS:** **Debt and fiscal/monetary policies**; **Secondary Markets**; **Sovereign bonds yields**

Risk Mutualization in Central Clearing: an answer to the cross-guarantee phenomenon from the Financial Stability viewpoint (2021)

Melinda Friesz, Kira Muratov-Szabó, Andrea Prepuk Kata Váradi - Department of Finance, Corvinus University of Budapest and Others

Central counterparties' (CCPs) role is to take over the counterparty risk during trading. To fulfill its role, a CCP needs to operate a multi-level guarantee system that can absorb losses of clearing members' defaults. Authors' main question is how the size of the guarantee system changes and how the cross-guarantee undertaking changes between clearing members and markets if the CCP merges the guarantee systems of different markets. This question is essential from a financial stability perspective since the size and the structure of the guarantee system will affect the loss-absorbing capacity of a CCP. The authors used Monte Carlo simulation to simulate a 30 year time-series for three different products, which gave us the basis for the value-at-risk-based margin calculation and the stress-test-based default fund calculation. Results show that merging the guarantee systems will always decrease the total value of the guarantees because the margin will decrease, which cannot be offset by the increase in the default fund size. The authors conclude that it is not optimal from the financial stability perspective to merge the guarantee systems. However, if the CCP wants to provide cheaper services, or if the clearing members are willing to cross-guarantee each other, merging is more suitable. **TAGS:** **Secondary Markets**; **Derivatives**; **Financial stability**

Systemic illiquidity Noise-Based measure - A solution for Systemic Liquidity monitoring in frontier and Emerging Markets (2021)

Ewa Dziwok, Marta A. Karaś - University of Economics in Katowice, Wroclaw University of Economics and Business

The paper presents an alternative approach to measuring systemic illiquidity applicable to countries with frontier and emerging financial markets, where other existing methods are not applicable. The authors develop a novel Systemic Illiquidity Noise (SIN)-based measure, using the Nelson–Siegel–Svensson methodology in which they utilize the curve-fitting error as an indicator of financial system illiquidity. The authors empirically apply their method to a set of 10 divergent Central and Eastern Europe countries—Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, and Slovakia—in the period of 2006–2020. The results show three periods of increased risk in the sample period: the global financial crisis, the European public debt crisis, and the COVID-19 pandemic. They also allow us to identify three divergent sets of countries with different systemic liquidity risk characteristics. The analysis also illustrates the impact of the introduction of the euro on systemic illiquidity risk. The proposed methodology may be of consequence for financial system regulators and macroprudential bodies: it allows for contemporaneous monitoring of discussed risk at a minimal cost using well-known models and easily accessible data. **TAGS:** **Secondary Markets**; **Market Liquidity**; **Financial Analysis**

Subnational Debt

Price distortions and municipal bonds premiums: evidence from Switzerland **(2021)**
Darko B. Vukovic, Carlos J. Rincon, Moinak Maiti - St. Petersburg School of Economics and Management
This study examines the pricing of municipal bonds before and after a currency shock in Switzerland. Two approaches are used to decompose the municipal to treasuries bond spreads into liquidity, maturity, and default risk premiums. The first approach is the model of the cross-sectional instrumental variables, and the second approach is the model of the instrumental variables with panel data. This study examines the composition of spreads for both approaches, in three scenarios: before, throughout, and after the currency shock. The study performed Durbin-Wu-Hausman tests for each decisive model to verify endogeneity issues, including the Lagrangian Multiplier test, the Cragg-Donald Wald F statistic to confirm the relationship of instrumental and endogenous variables, and the structural break test (Bai-Perron test) to determine the existence of structural breaks in bond distortions. This study finds that the currency price distortions of the Swiss franc in January 2015 made long-run changes in the composition of the municipal bond spreads. This research contributes to the understanding of municipal bond pricing by showing that default risk accounts for a large portion of the municipal bond spread, while maturity risk plays a lesser role. According to authors' empirical findings, unexpected large currency price shocks may have long-term implications on the municipal bond spreads. **TAGS:** **Subnational debt**; **Debt and fiscal/monetary policies**; **Financial Analysis**; **Cost and Risk**

Financial Analysis

Public debt and the world financial market **(2021)**
Xavier Ragot, Ricardo Pinois - Sciences Po, OFCE
World public debt has increased by 30% of world GDP between 2007 and 2017. During the same period, the real interest rate on public debt has fallen by roughly 200 basis points, whereas it should have increased by 100 basis points according to previous estimates. It reveals that demand for public debt has increased faster than supply. Where does the increase in savings come from? To answer this question, the authors construct the world financial market equilibrium to identify the country and agents across countries who increased their saving rate.

Using the equality between the sum of private and public saving and investment at the world level, the authors find four lessons. First, the world investment rate has been slightly increasing during the period, with an impressive shift of investment to China. The investment rate of China was 4% of world GDP in 2007. It jumps to 12% in 2017. Second, during the period, the world experienced an impressive reduction of global imbalances. The Chinese saving rate increased less than Chinese investment and the US saving rate increased more than US investment. Third, the increase in the world saving rate comes from highly indebted countries before 2007, mostly from the US and southern Europe. The increase in the current account of Italy, Spain and Greece (from a negative territory) is the order of magnitude of the increase in the US current account. Fourth, there is no clear relationship between the household saving rate and national government borrowing, thus not confirming the Ricardian equivalence view. Finally, it seems that the factors generating a high net saving rate in China are temporary, whereas the deleveraging of US and southern Europe may be long-lasting. As a consequence, one can expect low interest rates for a long period of time. **TAGS:** **Financial Analysis**; **Financial stability**; **Sovereign bonds yields**

Optimal State Contingent Sovereign Debt Instruments **(2021)**

Alejandro D Guerson - International Monetary Fund

This paper shows that the optimal sovereign lending contract is state-contingent when a government can default. It provides a theoretical basis for the specification of optimal state-contingent debt instruments (SCDIs) in countries subject to large shocks that can be observed and verified by all parties involved, such as natural disasters or global pandemics. The result is obtained as the endogenous solution to a contracting problem under time-inconsistency when a government cannot credibly commit to honor debt service obligations in all possible states of nature. It is shown that rational investors optimally offer SCDIs that include additional financing when the default constraint is binding, keeping the debtor engaged in the contractual relationship and avoiding asset loss. The debtor benefits because the contract implies net-positive financing when facing a large shock, increasing concurrent welfare, while maintaining access to financing in the future for consumption smoothing at the same terms as with precommitment. SCDIs require maintaining debt at a low level compared to the precommitment case, and also a fiscal consolidation when triggered to contain the increase in debt. Extension of the time inconsistency problem to add the taxation of capital returns shows that the optimal physical capital investment is also state-contingent. **TAGS:** **Financial Analysis**; **Sovereign defaults**; **Debt Restructuring**; **Debt relief**; **Financial stability**

What Drives Variation in the U.S. Debt/Output Ratio? The Dogs that Didn't Bark **(2021)**

Zhengyang Jiang, Hanno Lustig, Stijn Van Nieuwerburgh, Mindy Z. Xiaolan - Northwestern University, Stanford Graduate School of Business, Columbia University, University of Texas

If the U.S. is on a fiscally sustainable path, then higher U.S. government debt/output ratios should reliably predict higher future surpluses or lower real returns on Treasurys. In the post-war sample, the authors find no evidence for this. Neither future cash flows nor discount rates account for the variation in the current debt/output ratio. Instead, the future debt/output ratio accounts for most of the variation. Systematic surplus forecast errors can account for part of these findings. Since the start of the GFC, surplus projections have anticipated a large fiscal correction that failed to materialize. **TAGS:** **Financial Analysis**; **Debt and growth**; **Debt Forecasts**

Government Debt Management and Inflation with Real and Nominal Bonds **(2021)**

Lukas Schmid, Vytautas Valaitis, Alessandro T. Villa - University of Southern California, European University Institute, Federal Reserve Bank of Chicago

Rising inflation in the wake of unprecedented debt financed stimulus packages raises concerns about a looming return of persistent inflation, as governments may be tempted to monetize debt. In this paper, the authors ask whether governments can use real (TIPS) bonds as part of the government debt portfolio to commit not to create elevated inflation? They thus examine optimal debt management in a setting where (i) the government can issue long-term nominal and real bonds, (ii) the monetary authority sets short-term interest rates according to a Taylor rule, and (iii) inflation has real costs as prices are sticky. Nominal debt can be inflated away giving ex-ante flexibility, but real bonds constitute a real commitment ex-post. The authors show that the optimal government debt portfolio includes a substantial allocation to both real and nominal bonds, which lowers inflation levels but increases inflation volatility in equilibrium. The associated lower correlation between inflation risk and government expenditure is reflected in welfare gains through real debt management. Quantitatively, their results are stronger i) the higher the initial debt level, and ii) the longer debt maturity. Authors' findings suggest that TIPS should be an important tool for debt management in the presence of looming inflation. **TAGS:** **Financial Analysis**; **Debt Policy**; **Debt composition**

Lower for longer - macroprudential policy issues arising from the low interest rate environment **(2021)**

ESRB

This report analyses the risks engendered by the low interest rate environment (LIRE) and related structural changes in the EU financial system and proposes macroprudential policy actions to mitigate them. While acknowledging country heterogeneity, the focus is mainly on the EU financial system as a whole and on interest rates in the EU. The time horizon for the analysis is medium term: five to ten years ahead. Although the authors discuss both real and nominal interest rates and the relationship between them, their focus when considering risk-taking is primarily on nominal rates. With stable, low inflation, nominal and real rates move in parallel. **TAGS:** **Financial Analysis**; **International and Macroprudential Regulations**; **Economic Forecasts**

Short-Term Interest Rate estimation by filtering in a model linking inflation, the Central Bank and Short-Term Interest Rates **(2021)**

Flavia Antonacci, Cristina Costantini, Marco Papi - University of Chieti-Pescara, University Campus Bio-Medico

The authors consider the model of Antonacci, Costantini, D'Ippoliti, Papi (2020), which describes the joint evolution of inflation, the central bank interest rate, and the short-term interest rate. In the case when the diffusion coefficient does not depend on the central bank interest rate, the authors derive a semi-closed valuation formula for contingent derivatives, in particular for Zero Coupon Bonds (ZCBs). By using ZCB yields as observations, they implement the Kalman filter and obtain a dynamical estimate of the short-term interest rate. In turn, by this estimate, at each time step, they calibrate the model parameters under the risk-neutral measure and the coefficient of the risk premium. The authors compare the market values of German interest rate yields for several maturities with the corresponding values predicted by their model, from 2007 to 2015. The numerical results validate both their model and their numerical procedure. **TAGS:** **Financial Analysis**; **Sovereign bonds yields**; **Derivatives**

Does Time Varying Risk Premia exist in the International Bond Market? An empirical evidence from Australian and French Bond Market **(2021)**

Hira Aftab, A. B. M. Rabiul, Alam Beg - University of the Punjab, James Cook University

The presence of risk premium is an issue that weakens the rational expectation hypothesis. This paper investigates changing behavior of time varying risk premium for holding 10 year maturity bond using a bivariate VARMA-DBEKK-AGARCH-M model. The model allows for asymmetric risk premia, causality and co-volatility spillovers jointly in the global bond markets. Empirical results show significant asymmetric partial co-volatility spillovers and risk premium exist in the bond markets. The estimates of the bivariate risk premia show bi-directional causality exist between the Australia and France Bond markets. Overall results suggest nonexistence of pure rational expectation theory in the risk premium model. This information is useful for the agents' strategic policy decision making in global bond markets. **TAGS:** **Financial Analysis**; **Sovereign risk premia**

How do central banks identify risks? A survey of indicators **(2021)**

Bank of Spain

For central banks, it is crucial to develop and maintain risk identification frameworks that allow them to detect in good time and address potential threats to financial stability with the most appropriate policy tools. This paper reviews the main indicators developed for this purpose by the Banco de España and by other central banks and prudential authorities. In this way, this stocktaking exercise contributes to improving the transparency and effective communication of the financial stability-related tasks carried out at the Banco de España. Some of the indicators are used in regular Banco de España surveillance activities, whereas others pertain to specific research activities. The authors classify their set of measures into two broad categories depending on the risk monitored: standard or systemic risks. Given the multidimensional nature of systemic risk, its identification goes beyond the sum of the standard risks explored in this paper (namely credit, macroeconomic, market, and liquidity and bank risks). This survey also classifies indicators by the type of institutional segment that triggers risks; namely, sovereigns, households, non-financial corporations, banks, non-bank financial sector, residential real estate and the financial markets. This work shows how the measures developed and regularly used at the Banco de España allow potential vulnerabilities to be comprehensively monitored. Nevertheless, maintaining an adequate risk-identification framework requires continuous adaptation to new theoretical developments and econometric tools, and, more importantly, to emerging challenges. In this respect, there is a current drive to develop new indicators to assess potential risks arising from climate change and those linked to the risk of system-wide cyber incidents. It is expected that the monitoring needs related to these risks will increase in the future. **TAGS:** **Cost and Risk**; **Financial stability**; **Financial Analysis**

Do Green Bonds Act as a Hedge or a Safe Haven against Economic Policy Uncertainty? Evidence from the USA and China **(2021)**

Inzamam Ul Haq, Supat Chupradit, Chunhui Huo - Comsats University Islamabad, Chiang Mai University, Liaoning University

Economic policy uncertainty and particularly COVID-19 has stimulated the need to investigate alternative avenues for policy risk management. In this context, this study examines the dynamic association among economic policy uncertainty, green bonds, clean energy stocks, and global rare earth elements. A dynamic conditional correlation-multivariate generalized autoregressive conditional heteroscedasticity (DCC-MGARCH) model was used to gauge the time-varying co-movements among these indices. The analysis finds that green bonds act more as a hedge than a safe haven against economic policy uncertainty (EPU). In the case of diversification, green bonds work as diversifiers with clean energy stocks and rare earth elements during COVID-19 and in the whole sample period. Additionally, clean energy stocks and rare earth elements show safe haven properties against EPUs. This study contributes to the hedging and safe haven literature with some new insight considering the role of green bonds and clean energy stocks. Additionally, the outcomes of the research contribute toward the literature of portfolio diversification theory. These findings pave the way for not only US investors to hedge long-term economic policy risk by investing in green bonds, but also for China and the UK, as these financial assets (green bonds, clean energy stocks, and rare earth metals) and EPU are long-term financial and economic variables. **TAGS:** **Financial Analysis**; **COVID-19**; **Primary market**; **Cost and Risk**; **Economic Forecasts**

Debt Crisis

Why are Latin American crises deeper than those in emerging Asia, including that of covid-19? **(2021)**

Alicia Garcia Herrero – ADB

The COVID-19 pandemic has challenged global economies with unparalleled negative shock. Asia and Latin America have gone through a number of financial crises in the last few decades but they have addressed those crises rather differently, leading to different growth trajectories after the shocks. In this paper, the authors take a closer look at the past crises in Latin America and Asia, such as the Latin American balance-of-payment crisis in the 1980s and a number of Latin American banking crises in the 1990s and compare them with the Asian financial crisis in 1997 and draw lessons on their differences and the policy responses to shed some light on the situation today with the pandemic. All in all, Latin American countries are challenged with worse debt dynamics and more limited access to dollar liquidity. Asia, instead, seems to have developed a much more resilient macroeconomic framework as well as larger self- and regional insurance. **TAGS:** **COVID-19**; **Debt crisis**; **Foreign Debt**; **Debt and fiscal/monetary policies**; **Debt relief**

Institutional and Organizational Framework

On public debt in the euro area **(2021)**

Catherine Mathieu, Henri Sterdyniak – OFCE

The 2008 crisis led to a strong rise in public deficits and debts in most developed economies. These debts and deficits are currently Keynesian (i.e. required for macroeconomic stabilisation), as shown by low inflation and interest rates levels. Euro area public debts are not guaranteed by a lender of last resort. The rules enshrined in the Stability Pact and the Fiscal Treaty have no economic basis. The paper discusses federalist proposals such as a European Debt Agency or a European Treasury, and unconventional solutions, such as debt monetisation, buyback by the ECB, and even debt cancellation. It concludes in advocating for a rule-free economic policy coordination. **TAGS:** **Debt Policy**; **Sovereign immunity**; **Debt and fiscal/monetary policies**

The reform of the European union's fiscal governance framework in a new macroeconomic environment (2021)

Mario Alloza, Javier Andrés, Pablo Burriel, Iván Kataryniuk, Javier J. Pérez and Juan Luis Vega - Bank of Spain

The main proposals for the reform of the European Union's fiscal policy framework affect three blocks of issues: (i) simplifying the rules to make them more transparent and flexible; (ii) incorporating new supranational risk-sharing instruments into the Economic and Monetary Union, in particular to facilitate the absorption of severe shocks; and (iii) the fiscal aspects necessarily being accompanied by reforms at the national (structural reforms) and supranational (e.g. pressing forward with the capital markets union) levels. Irrespective of their political feasibility, these proposals do not easily fit the current macroeconomic environment, which is far removed from that of the 1990s: structural trends, such as digitalisation, globalisation, the climate transition and population ageing, affecting the natural rates of interest and potential growth are emerging or taking hold. Also, after the Great Moderation, we have entered a period of severe global shocks. In this paper the authors argue that this setting calls for a paradigm shift in how the fiscal policy framework is designed, as opposed to the incremental reform approach of recent decades. The authors provide quantitative elements to illustrate several challenges with a bearing on any reform process in the current setting: (i) medium-term debt anchors should be adapted to the medium and long-term interest rate and potential growth expectations; (ii) economies may remain subject to very severe shocks, meaning that fiscal space must be recovered in the medium term; and (iii) realistic mechanisms for absorbing existing fiscal imbalances must be implemented. **TAGS:** **Structural policies**; **Debt sustainability**; **Debt and fiscal/monetary policies**; **Best Practices**

Supreme Audit Institutions and Sustainability of Public Finance. Links and evidence along the Economic Cycles (2021)

Ionel Bostan, Mihaela Brindusa Tudose, Raluca Irina Clipa, Ionela Corina Chersan, Flavian Clipa - Ștefan cel Mare University, Gheorghe Asachi Technical University, Alexandru Ioan Cuza University

Against the backdrop of concerns for diminishing the vulnerabilities of the economies of the Member States, the EU has adopted measures to strengthen budgetary discipline and control of the public deficit. In this context, the responsibility of government institutions has increased, not only in ensuring the sustainability of public finances but also in direct or indirect cooperation for good economic governance. From this perspective, this study aims to assess the impact of macroeconomic variables and those associated with supreme audit institutions on the sustainability of public finances measured by the size and dynamics of government deficit and gross public debt. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**

Contract Standards

Why do Sovereign Borrowers Post Collateral? Evidence from the 19th Century (2021)

Marc Flandreau, Stefano Pietrosanti, Carlotta Schuster - CEPR, Bank of Italy, UNCTAD

This paper explores the reasons why sovereign borrowers post collateral. Such behavior is paradoxical because conventional interpretations of collateral stress repossession of the assets pledged as the key to securing lenders against information asymmetries and moral hazard. However, repossession is generally difficult in the case of sovereign debt and in some cases impossible. Nevertheless, such sovereign "hypothecations" have a long history and are again becoming very popular today in developing countries. To explain sovereign collateralization, the authors emphasize an informational channel. Posting collateral produces information on opaque borrowers by displaying borrowers' behavior and resources. The authors support this interpretation by examining the hypothecation "mania" of 1849-1875, when sovereigns borrowing in the London Stock Exchange pledged all kinds of intangible revenues. Yet, at that time, sovereign immunity fully protected both sovereigns and their assets and possessions. Still, the authors show that hypothecations significantly decreased the cost of sovereign debt. To explain how, they stress the pledges' role in documenting sovereigns' wealth and the management of revenue streams. Based on an exhaustive library of bond prospectuses collected from primary sources, matched with a panel of sovereign bond yields and an innovative measure of sovereign fiscal transparency, the authors show that collateral minutely described in debt covenants served to document and monitor sovereign resources and development prospects. Encasing this information in contracts written by lawyers served to certify the quality of the resulting data disclosure process, explaining investors' readiness to pay a premium. **TAGS:** **Contract standards**; **Sovereign immunity**; **Transparency**

Policies for managing a wave of sovereign debt crises **(2021)**

Patrick Bolton, Mitu Gulati, Ugo Panizza - Columbia University, Duke University School of Law, Fondazione Luigi Einaudi

The international financial architecture is not well equipped to deal with a situation in which many countries default at the same time as a result of an exogenous shock. If all creditors could be coordinated, they would agree that they would benefit from legal protection that allows the affected sovereigns to use their resources to fight the pandemic and get their economies back on track. This policy brief describes options to provide such protection, while also aligning incentives for private creditors. The G20 can play a key role in coordinating the official sector and enhancing private sector participation. **TAGS:** **Debt Restructuring**; **Debt crisis**; **Sovereign defaults**; **Sovereign debt litigation**; **Contract standards**

Debt Restructuring

The Duty of Creditors to Cooperate in Sovereign Debt Workouts **(2021)**

Lee C. Buchheit, Mitu Gulati - Center for Contract and Economic Organization, University of Virginia School of Law

Lenders are perfectly free to decide for themselves whether, when, how, to whom and on what terms they will extend credit to a sovereign borrower. But all such loans will involve risks and those risks occasionally materialize. When they do, is a creditor obliged to cooperate with its fellow lenders in the sovereign debt workout process? We don't ask this question in the context of lending to corporate or individual debtors for the simple reason that insolvency statutes mandate such cooperation. Every lender to a corporate borrower knowingly extends credit in the shadow of a bankruptcy code that will, in the event of the borrower's financial distress, subject the loan to a workout process in which the collective decisions of a supermajority of lenders will control. **TAGS:** **Debt Restructuring**; **Debt relief**

Debt relief for sustainable recovery in low- and middle- income countries: proposal for new funding mechanisms to complement the DSSI **(2021)**

Sameera Al Tuwaijri, Basma Maziad Al-Tuwaijri, Rym Ayadi - World Bank, ASBAR, Euro-Mediterranean Economists Association

Whilst the COVID-19 pandemic continues its successive waves worldwide and amidst the uncertainty about the timing and the effectiveness of the vaccine coupled with virus mutation, continuous lockdowns and social distancing measures, countries and particularly low-income countries (LICs) and lower-middle-income countries (LMICs) will continue borrowing and pushing debt levels to further heights to alleviate the social cost of the pandemic and to jump-start the recovery phase. The costs will be dire for countries that will have to restructure or default on their sovereign debts. The recovery of these countries must be aligned with the 2030 Agenda for Sustainable Development. The authors propose a public-private financing fund/plan, as part of global economic recovery plan post-COVID-19, fully aligned with the 2030 Agenda, to complement the Debt Service Suspension Initiative (DSSI) that should be extended to LICs and LMICs. This mechanism can be used to restructure the existing piles of sovereign debt and interest and to finance a sustainable recovery. The mechanism would reduce uncertainty, economic hardship and sovereign debt opaqueness. Further, it would facilitate private-sector involvement in large restructurings and participation in coordinated debt relief and post-COVID-19 recovery efforts aligned with the 2030 Agenda, while fully committing to sovereign debt transparency and monitoring and placing these countries in a post-COVID-19 recovery and sustainable path for development. **TAGS:** **Multilateral financing**; **Debt relief**; **Debt Restructuring**

Accounting, Statistics, Reporting and Auditing

Standardized Public Debt Database: Data as of December 2020 (2021)

Latin American and Caribbean Public Debt Management Specialists Group - Inter-American Development Bank

The LAC Debt Group believes that to have sound regional policy it is important to have valid, comparable, and standardized data on Latin America and the Caribbean (LAC). Therefore, at the core of the initiative is the development of a standardized sovereign debt database to help debt managers, policy makers, and other actors of financial markets, analyze the composition of public debt in LAC. The information presented in this database is provided by the Debt Management Offices of 26 LAC countries in response to a questionnaire specifically created to allow comparability of data. The questionnaire is intended to compile up-to-date standardized statistics to conduct cross-country comparisons over clear, objective, and homogeneous definitions of public debt. **TAGS:** **Debt Statistics**; **Transparency**

An Analysis of the Reporting of Contingent Liabilities in Kenya's Public Debt Management Legal Framework (2021)

Mark Mwendwa - Moi University School of Law

Kenya's ballooning public debt has been a major concern in the recent past. In fact, there are fears about the country's debt sustainability levels. Last year, the International Monetary Fund raised Kenya's risk of debt distress to high from moderate. What this means is that although the country is not currently facing any repayment difficulties, it may have difficulties servicing its debt due to the slowdown in economic activity. The downgrade from moderate to high risk has been attributed to the outbreak of the COVID-19 pandemic.

Over the past few years, the country's public debt has grown exponentially. The outstanding total public debt and publicly guaranteed public debt at the end of the 2019/2020 financial year was Kshs. 6.7 trillion. This is an equivalent of 65.6 per cent of the Gross Domestic Product. The percentage is way above the 50 per cent level recommended by the World Bank.

The increase in public debt has also seen an increase in publicly guaranteed debt and other contingent liabilities. In the financial year 2019/2020, public guaranteed debt increased by Kshs. 5,841 million to Kshs. 165,245 million from Ksh. 159,408 million at the end of June 2019. In the same period, the government has had to pay Kshs. 661.2 million as called up guaranteed debt debts owed by public enterprises that were in financial distress. From the above, it is clear that contingent liabilities form a substantial part of the public debt. However, they are not given much attention. This paper explores the reporting of these liabilities. **TAGS:** **Accounting, statistics, Reporting and Auditing**; **Contingent Liabilities**; **Financial stability**; **Debt sustainability**

Set in Stone? Conflict and Continuity Over the European Union's Measurement of Government Debt (2021)

Jessica de Vlieger, Tobias Tesche - University of Amsterdam

The Maastricht definition of government debt constitutes a central pillar of the European fiscal governance architecture. When EU member states agreed on the definition as part of the euro convergence criteria, they took a narrow approach to debt. The 2008 financial crisis and later the euro area crisis forced governments to engage in large debt increasing bank bailouts, revealing gaps in the debt definition. Growing dissatisfaction with the outdated Maastricht indicators opened a window of opportunity for reform but the debt definition remained unchanged. The authors explain this puzzling indicator inertia by drawing on historical institutionalism. Examining the conflictual history of the EU's debt measure, they show how the revision of the debt definition failed precisely due to its political charge and centrality in the EU fiscal surveillance framework. It also demonstrates that this path dependence enabled the European Commission to establish new fiscal sustainability indicators accounting for the implicit liabilities not captured by the narrow debt definition. **TAGS:** **Accounting, statistics, Reporting and Auditing**; **Debt Statistics**; **Debt sustainability**

Green Budgeting: Towards Common Principles (2021)

Bryn Battersby, Andrew Blazey, Elva Bova, Margaux Lelong, Simona Pojar, Carolina Rentería, Tjeerd Tim - IMF, OECD, EC

This paper presents common elements of green budgeting, main underlying principles. It reviews the different tools and provides examples from the EU Member States. It is joint work of the European Commission, the International Monetary Fund and the Organisation for Economic Cooperation and Development. **TAGS:** **Accounting, statistics, Reporting and Auditing**; **Best Practices**; **OECD**

Macroeconomic Analysis

More or less public debt in France? (2021)

Xavier Ragot – Ofce

The purpose of this Policy brief is to present an estimate of the fiscal space for a new stimulus plan in France that takes fully into account the impact of the low interest rate environment. Negative rates should lead to a different way to measure the public debt, a method that complements the Maastricht measurement. An alternative measure of the cost of the debt should take stock of the low interest rates and the repurchase of public debt by the central banks. The public debate is marked by some harmful confusion about the redistributive effects of public debt. First of all, it involves redistribution within each generation. An increase in public debt does not constitute a debt to future generations. **TAGS:** **Debt and fiscal/monetary policies**;

Debt and growth; **Debt sustainability**; **Sovereign bonds yields**

Public debt, Chinese loans and optimal exploration-extraction in Africa (2021)
Chuku Chuku,Lin Lang, King Yoong Lim - African Development Bank, University of Manchester, Nottingham Trent University
Based on an optimal oil exploration extraction model with public debts and Chinese loans, the authors examine analytically and empirically two theoretical propositions pertaining to the impacts of public debt and Chinese loan on economic and physical scarcity/abundance in Africa economies. First, despite a baseline independent relationship between public debt level and optimal operations, the level of public debts in an economy can have an adverse effect on the abundance measures if it breached the debt-sustainability threshold. Second, with alternative Chinese loans, the effect on optimal exploration-extraction is analytically ambiguous. To examine both propositions, the authors estimate endogenous binary-treatment regression models based on a panel data of 18 African economies over 2000-17. The authors find empirical support with regards to the adverse effect of public debt sustainability. Further, they find positive effect from Chinese loans to both abundance measures, indicating that the combined marginal benefits outweigh the marginal costs associated with the resource collateralized funding nature of these loans. **TAGS:** **Debt sustainability**; **Structural policies**

Public Debt Stability in the People's Republic of China: Rethinking the Domar Condition and Its Bond Market Application (2021)
Naoyuki Yoshino, Akiko Terada-Hagiwara, Hiroaki Miyamoto - Keio University, Asian Development Bank, Tokyo Metropolitan University
The authors find that public debt sustainability depends on the sensitivity of interest rates to changes in government bond supply and demand. This is true in the case of the People's Republic of China, Greece, and Japan. This modified fiscal sustainability condition suggests that the opening of capital markets to nonresident investors is important together with stability of the bond market. **TAGS:** **Debt sustainability**; **Financial stability** **Foreign Debt**

The Aftermath of Debt Surges (2021)
M.Ayhan Kose, Franziska Ohnsorge, Carmen Reinhart, Kenneth Rogoff - World Bank, Harvard University
Debt in emerging market and developing economies (EMDEs) is at its highest level in half a century. In about nine out of 10 EMDEs, debt is higher now than it was in 2010 and, in half of the EMDEs, debt is more than 30 percentage points of gross domestic product higher. Historically, elevated debt levels increased the incidence of debt distress, particularly in EMDEs and particularly when financial market conditions turned less benign. This paper reviews an encompassing menu of options that have, in the past, helped lower debt burdens. Specifically, it examines orthodox options (enhancing growth, fiscal consolidation, privatization, and wealth taxation) and heterodox options (inflation, financial repression, debt default and restructuring). The mix of feasible options depends on country characteristics and the type of debt. However, none of these options comes without political, economic, and social costs. Some options may ultimately be ineffective unless vigorously implemented. Policy reversals in difficult times have been common. The challenges associated with debt reduction raise questions of global governance, including to what extent advanced economies can cast their net wider to cushion prospective shocks to EMDEs. **TAGS:** **Debt sustainability**; **Debt**

Restructuring; **Debt and fiscal/monetary policies**

A mountain of debt: Navigating the legacy of the pandemic (2021)

M. Ayhan Kose, Franziska Ohnsorge, Naotaka Sugawara - World Bank

The COVID-19 pandemic has triggered a massive increase in global debt levels and exacerbated the trade-offs between the benefits and costs of accumulating government debt. This paper examines these trade-offs by putting the recent debt boom into a historical context. It reports three major findings. First, during the 2020 global recession, both global government and private debt levels rose to record highs, and at their fastest single-year pace, in five decades. Second, the debt-financed, massive fiscal support programs implemented during the pandemic supported activity and illustrated the benefits of accumulating debt. However, as the recovery gains traction, the balance of benefits and costs of debt accumulation could increasingly tilt toward costs. Third, more than two-thirds of emerging market and developing economies are currently in government debt booms. On average, the current booms have already lasted three years longer, and are accompanied by a considerably larger fiscal deterioration, than earlier booms. About half of the earlier debt booms were associated with financial crises in emerging market and developing economies. **TAGS:** **Debt and fiscal/monetary policies**; **Debt and growth**; **Debt sustainability**; **COVID-19**

Debt Dynamics in Emerging and Developing Economies: is R-G a red herring? (2021)

Juliana Gamboa-Arbelaez, Yuan Xiang – IMF

In the wake of the COVID-19 pandemic, debt levels in emerging and developing economies have surged raising concerns about fiscal sustainability. Historically, negative interest-growth differentials in these countries have played a debt-stabilizing role. But is this enough to prevent countries from falling into debt distress? Drawing from a sample of 150 emerging and developing economies going back to the 1970s, the authors find that interest-growth differentials have remained relatively low, dampening debt increases in the run up to a crisis. But in the face of persistent primary deficits, debt service tends to rise abruptly—particularly in emerging markets—and a fiscal crisis ensues. There is also evidence that a large part of the debt build-up around crises stems from valuation effects associated with external debt and the materialization of contingent liabilities. These findings underscore that, though not necessarily a red-herring, low interest-growth differentials cannot fully offset the deleterious effects of large fiscal deficits, forex exposures, or hidden debts. **TAGS:** **Foreign debt**; **Debt sustainability**; **Financial Analysis**

The impact of government debt on economic growth in Nigeria (2021)

Abdulkarim Yusuf, Saidatulakmal Mohd, David McMillan - Universiti Sains Malaysia (USM), University of Stirling

This study investigated the effect of government debt on Nigeria's economic growth using annual data from 1980 to 2018 and the Autoregressive Distributed Lag technique. The empirical results showed that external debt constituted an impediment to long-term growth while its short-term effect was growth-enhancing. Domestic debt had a significant positive impact on long-term growth while its short-term effect was negative. In the long term and short term, debt service payments led to growth retardation confirming debt overhang effect. The findings suggested that the government should direct the borrowed funds to the diversification of the productive base of the economy. This will improve long-term economic growth, expand the revenue base and strengthen the capacity to repay outstanding debts when due. Fiscal improvements that encourage domestic resource mobilization, efficient debt management strategies and reliance on domestic debt rather than external debt for increased deficit financing to engender greater growth are the main contribution of the study. **TAGS:** **Debt and growth**; **Debt Policy**; **Debt and fiscal/monetary policies**; **Debt sustainability**; **Financial stability**

Public Debt and intergenerational equity in Singapore **(2021)**

Kunal Pawa, Christopher Gee - The Institute of Policy Studies (IPS)

The authors explore the concerns of public debt and intergenerational equity in Singapore's context. The central concern of their research is whether the Singapore Government can issue and manage debt while maintaining intergenerational equity. Working Papers No. 32 (Shih, 2018) listed four principles of intergenerational equity relevant to Singapore's fiscal management of reserves. From these principles, the authors infer that the Government's current position on public debt follows that of the benefit principle of intergenerational equity, i.e., debt financing is only permitted for infrastructure investments because of its long-term benefits. They argue, however, that the Government should adopt a holistically principled approach to public debt; an approach that considers intergenerational benefits but also considers other conceptions of intergenerational justice including equality, welfare, and reciprocity. In particular, the authors find that economic research on public debt and intergenerational welfare deserves attention. Intergenerational welfare costs of public debt are low if interest rates are low and if public debt is used to invest in worthy public investment. Further, there may be no intergenerational welfare costs if public investment funded by public debt earns a greater social return than its opportunity cost, the risk-adjusted return on private investment. The authors therefore specify a Debt Issuance Framework that suggests how debt can be issued, spent and paid back in a manner that is equitable across generations. The repayment of debt ensures that the Government prevents the accumulation of debt and can maintain control over intergenerational equity. **TAGS:** **Debt sustainability**; **Debt Policy**; **Structural policies**

When interest rates go low, should public debt go high? **(2021)**

Johannes Brumm, Xiangyu Feng, Laurence J. Kotlikoff, Felix Kubler - NBER

Is deficit finance, explicit or implicit, free when borrowing rates are routinely lower than growth rates? Specifically, can the government make all generations better off by perpetually taking from the young and giving to the old? The authors study this question in simple closed and open economies and show that achieving Pareto gains requires implausible calibrations. Even then, the gains reflect, depending on the economy's openness, improved intergenerational risk-sharing, improved international risk-sharing, and beggaring thy neighbour – not intergenerational redistribution per se. Low government borrowing rates, including borrowing rates running far below growth rates, justify improved risk-sharing between generations and countries. They provide no convincing basis for using deficit finance to redistribute from young and future generations or other countries. **TAGS:** **Financial stability**; **Debt sustainability**; **Debt and growth**

Analysis of External Debt Sustainability in Mongolia: an estimated DSGE approach **(2021)**

Gunbileg Ganbayar - National University of Mongolia

In this study, the authors assess the effects of the structural shocks on the external debt sustainability in Mongolia, based on an estimated small open economy (SOE) dynamic stochastic general equilibrium (DSGE) model with the traded, the non-traded, and the mining sectors. The impulse response results show that the traded sector's productivity shock, the commodity price shock, the mining output shock, and the foreign interest-rate shock have a decreasing effect on external debt accumulation in Mongolia, whereas the non-traded sector's productivity shock, the household preference shock, and the government spending shock have an increasing effect on the same. Furthermore, the authors assess Mongolia's external debt sustainability under the COVID−19 pandemic shock. Under authors' assumed pandemic scenario, Mongolia's external debt will increase by 30% from its steady state over the next 10–28 quarters. Their recommended solution in this study is to develop the traded sector, instead of the mining sector, to maintain sustainability of the external debt and to decrease vulnerability of the economy. **TAGS:** Debt sustainability; Financial stability; Foreign Debt

Public debt and economic growth: contemporary evidence from a developing economy (2021)

Sam Kris Hilton - Accra, Ghana

Considering the continuous rise in the public debt stock of developing countries (particularly Ghana) with the unstable economic growth rate for the past decades and the recent borrowing because of the impact of COVID 19, this paper aims to examine the causal relationships between public debt and economic growth over time. The paper uses a dynamic multivariate autoregressive-distributed lag (ARDL)-based Granger-causality model to test the causal relationships between public debt and economic growth [gross domestic product (GDP)]. Annual time-series data that spanned 1978–2018 were sourced from the World Bank Development Indicator database and the IMF fiscal Affairs Department Database and WEO. The results reveal that public debt has no causal relationship with GDP in the short-run but there is unidirectional Granger causality running from public debt to GDP in the long run. **TAGS:** Debt and growth; COVID-19

Financial Stability amidst the Pandemic Crisis: on Top of the wave (2021)

Edited by Christos V. Gortsos and Wolf-Georg Ringe – EBI

The pandemic crisis, which broke out in early 2020, is still affecting human lives and economic activity around the globe, causing unprecedented transformations which were not foreseen just before its onset. The European Union, its citizens and the financial and non-financial firms active therein have also been negatively affected (albeit to a varying degree). During the last 15 months, national and EU institutions and agencies have orchestrated their efforts towards establishing an appropriate framework in order to primarily support those parts of the population and of the businesses most severely affected by the pandemic and to contain its negative effects. This included a combination of fiscal policy, monetary policy and financial policy measures; new instruments and rescue funds were introduced, flexibility in the application of several existing rules has been applied to the extent necessary and feasible, and some 'quick-fix' legislative actions supplemented the pandemic crisis management toolbox. **TAGS:** Financial stability; Debt and fiscal/monetary policies; Debt and growth; COVID-19

Economic Policies

[International Reserves and Central Bank Independence] **(2021)**

Agustin Samano - World Bank

This paper proposes a novel theory of reserve accumulation that emphasizes the role of an independent central bank. Motivated by a positive correlation between reserve accumulation and central bank independence in Latin America, the paper develops a quantitative sovereign default model with an independent central bank that can accumulate a risk-free foreign asset. The findings show that if the central bank is more patient than the government and as patient as households are, in equilibrium, the government issues more debt than what is socially optimal, and the central bank accumulates reserves to undo government over-borrowing. A key insight is that the government can issue more debt for any level of reserves but chooses not to because doing so would increase sovereign spreads, making it more costly to borrow. Quantitatively, the analysis finds that the central bank independence channel accounts for 75 percent of the average reserve levels observed in Mexico from 1994 to 2017. Finally, the paper shows that accumulating reserves improves social welfare. Welfare gains come from reducing the costs of front-loading public spending. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**; **Sovereign risk premia**

[The Effects of Fiscal Measures During COVID-19] **(2021)**

Pragyan Deb, Davide Furceri, Jonathan D. Ostry, Nour Tawk, Naihan Yang - International Monetary Fund, Machine Learning Specialist

This paper empirically examines the effects of fiscal policy measures during the COVID-19 pandemic, using a novel database of daily fiscal policy announcements—classified by type of fiscal measure—and high-frequency economic indicators for 52 countries from January 1 to December 31, 2020. The results suggest that fiscal policy announcements have been effective in stimulating economic activity, boosting confidence, and reducing unemployment, but their effect varies by type of measure and country characteristics. Emergency lifeline measures (which form the bulk of below-the-line measures) are more effective when containment policies are stringent, providing cashflow support to firms and households. Demand-support measures (which comprise most of above-the-line measures) are more effective when containment measures are relaxed. **TAGS:** **Debt and fiscal/monetary policies**; **COVID-19**; **Debt and growth**

[The Political Economy of the Covid-19 Fiscal Stimulus Packages of 2020] **(2021)**

Joshua Aizenman, Yothin Jinjarak, Ilan Noy, Hien Thi Kim Nguyen - University of Southern California, Victoria University of Wellington

Almost all countries announced fiscal support programs once COVID-19 hit. However, there was significant diversity in the magnitude and composition of these fiscal stimulus programs. These differences were determined by myriad political, financial, social, and economic factors - these factors are our focus. The authors ask what were the factors that are associated with the structure of the fiscal programs that governments chose to adopt in the early stage of the pandemic in 2020. They answer this question using details about the fiscal programs that were announced by 98 governments in the first six months of the pandemic, together with a large set of explanatory variables. Maybe not surprisingly, the authors find that politics played a very significant part in determining the size and composition of these fiscal programs. Governments and societies that are less polarized and more capable were able to mobilise more fiscal resources. They also find that it was governments with bigger debt loads that announced bigger programs, but that sovereign spreads were not so clearly associated with the size of these program plans. There is a limit, however, to what the authors can glean from these cross-country comparisons. Ultimately, the understanding of the politics and political-economy considerations that led to the specific content of each fiscal program will have to rely on information about the actual deliberations in each government's halls of power, should these ever become public. **TAGS:** **Debt and fiscal/monetary policies**; **COVID-19**; **Sovereign risk premia**

Disaster Risk Financing: Main Concepts and Evidence from EU Member States **(2021)**

Diana Radu – EC

Natural disasters have caused, and will continue to cause, significant losses in the EU Member States. Moreover, climate change is expected to amplify the frequency and intensity of most natural disasters. Governments step-in to cover the disasters-related costs such as emergency relief, recovery and reconstruction. Public authorities also act as insurer of last resort, in particular in those countries where insurance coverage is low. They make payments for legal commitments to cover the costs of disasters, and when there is a moral obligation to provide financial assistance. Natural disasters and climate change thus represent a real and increasing challenge for public finances, adding to fiscal sustainability issues such as a high debt level and an ageing population. There is little evidence on how EU Member States pre-arrange disaster financing and on past disasters financing. This discussion paper aims to provide an overview of relevant concepts for the design of a disaster risk financing strategy. It provides evidence from EU and Member States on disaster financing with a view to inform the debate on strengthening disaster financial resilience. **TAGS:** **Cost and Risk**; **Financial Analysis**; **Financial stability**

Monetary and fiscal complementarity in the Covid-19 pandemic **(2021)**

Jagjit S. Chadha, Luisa Corrado, Jack Meaning, Tobias Schuler - National Institute of Economic and Social Research, University of Rome Tor Vergata, Bank of England, European Central Bank

In response to the coronavirus (Covid-19) pandemic, there has been a complementary approach to monetary and fiscal policy in the United States with the Federal Reserve System purchasing extraordinary quantities of securities and the government running a deficit of some 17% of projected GDP. The Federal Reserve pushed the discount rate close to zero and stabilised financial markets with emergency liquidity provided through a new open-ended long-term asset purchase programme. To capture the interventions, the authors develop a model in which the central bank uses reserves to buy much of the huge issuance of government bonds and this offsets the impact of shutdowns and lockdowns in the real economy. They show that these actions reduced lending costs and amplified the impact of supportive fiscal policies. The authors then run a counterfactual analysis which suggests that if the Federal Reserve had not intervened to such a degree, the economy may have experienced a significantly deeper contraction as a result from the Covid-19 pandemic. **TAGS:** **Debt and fiscal/monetary policies**; **COVID-19**; **Debt and growth**

Overview of Global and European Institutional Sustainable Finance Initiatives **(2021)**

Clara Isabel, González Martínez - Bank of Spain

To contribute to the fight against climate change and achieve a carbon-neutral economy, a large volume of funds must be mobilised to finance the necessary investment. The international financial system will play a key role in this process to channel the financing, but considerable changes will be needed to develop sustainable financing that is sufficiently standardised and transparent to ensure the efficient allocation of funds to activities identified as sustainable. Since the Paris Agreement and the 2030 Agenda were signed in 2015, work has been undertaken in this respect in various spheres, by the G20, the United Nations, the European Commission and central banks, and also in the financial sector. This article describes the main – public and private – institutional initiatives under way at the global and the European level to achieve the transition needed to address climate change. **TAGS:** **Debt and fiscal/monetary policies**; **Debt Policy**; **Cost and Risk**; **Sovereign debt market**; **Transparency**; **Best Practices**

The power of Central Bank balance sheets (2021)

Athanasios Orphanides - MIT Sloan School of Management

When interest rate policy is hampered by the Zero Lower Bound (ZLB), quantitative easing and other balance sheet policies become essential tools for responding to a crisis or deflationary shock. By unleashing the power of their balance sheets at the onset of the pandemic, without the hesitation observed in past encounters with the ZLB, the Federal Reserve, the European Central Bank and the Bank of Japan provided monetary easing that cushioned the economic blow, served as a backstop to government securities and private assets that prevented a financial market meltdown and facilitated the financing of an essential fiscal expansion. This paper examines how this policy success materialized, drawing on lessons learned from previous encounters with the ZLB, and discusses policy challenges after the pandemic. **TAGS:** **Debt and fiscal/monetary policies**; **Sovereign bonds yields**; **Sovereign risk premia**

Economic Institutions for a Resilient Caribbean (2021)

Various Authors – IADB

This volume focuses on economic institutions defined as rules and organizational arrangements that, if they govern the design and implementation of fiscal and monetary policies, can better align those policies with long-run citizen interests. Specifically, the economic institutions covered are those that promote more sustainable fiscal management, adequate implementation of monetary policy, and more resilient financial systems. On fiscal management, the book covers public revenue administrations, public financial management systems, public debt management institutions, fiscal rules, medium-term fiscal frameworks, independent fiscal councils, and the design features of sovereign wealth funds. While pension schemes are not a fiscal institution, they are also analyzed because of the fiscal burden and contingencies that these systems may entail. In terms of institutions that support effective monetary policy, the focus is on the importance of central bank independence and transparency. On financial systems, the book analyzes the relevance of financial regulation and supervision to promote more stable and efficient markets that are better suited to confront challenges and more resilient against external shocks. Some institutional enhancements that foster access to credit and deeper financial systems are also analyzed. **TAGS:** **COVID-19**; **Debt and fiscal/monetary policies**; **Structural policies**; **Debt sustainability**

Asset Purchase Programs and Financial Markets: lessons from the Euro Area (2021)

Carlo Altavilla, Giacomo Carboni, and Roberto Motto - ECB, CEPR

The authors estimate the effects of the asset purchase program launched by the European Central Bank (ECB) in 2015 on euro-area bond yields and assess its transmission channels.

Authors' identification strategy rests on exploiting market reactions to news about the size and maturity range of asset purchases and cross-sectional variations in security-level data on prices and purchased quantities. The authors find that ECB asset purchases amounting to 10 percent of euro-area GDP compress euro-area 10-year sovereign bond yields by around 65 basis points ("stock effects"), which is a sizable impact, also in light of the low financial distress prevailing at the time. Bonds more exposed to interest rate risk (duration risk channel) and with lower creditworthiness (credit risk channel) experienced the highest returns. Local supply channels, narrowly related to the intensity of purchases in targeted market segments, are estimated to play a more limited role. Authors' findings provide support to theories that posit how low financial distress, while weakening local supply channels, facilitates the transmission of quantitative easing beyond targeted segments. The implication is that asset purchases are a viable policy tool under both high and low financial distress although the transmission channels are different. **TAGS:** **Debt and fiscal/monetary policies**; **Secondary Markets**; **Sovereign bonds yields**; **Sovereign debt market**

Evaluating the unconventional Monetary Policy of the Bank of Japan: a DSGE approach (2021)

Rui Wang - Rissho University

When the nominal interest rate reaches the zero lower bound (ZLB), a conventional monetary policy, namely, the adjustment of short-term interest rate, may become impractical and ineffective for central banks. Therefore, quantitative easing (QE) is one of the few available policy options of central banks for stimulating the economy and dealing with deflationary pressure. Since February 1999, the Bank of Japan (BoJ) has conducted several unconventional monetary policy programs. Considering the scarce research in this field from a structural macroeconomic model approach, a medium-scale New Keynesian DSGE model with government bonds of different maturities was developed to check the portfolio rebalancing channel of quantitative qualitative easing (QQE) conducted by the BoJ from April 2013 on the basis of the assumption of imperfect asset substitutability. **TAGS:** **Debt and fiscal/monetary policies**; **Sovereign bonds yields**; **Debt and growth**

Understanding the interaction of Chinese Fiscal and Monetary Policy (2021)

Zehua Luan, Xiangyu Man, Xuan Zhou - School of Economics, Renmin University of China

Interaction of fiscal and monetary policy is crucial for macroeconomic stability, especially for an economy with downward pressure as well as a tightened space for macro policy, like China. In this paper, the authors use a time-varying-parameter (TVP-VAR) model to study Chinese fiscal–monetary interaction and divide it into three periods. They claim that China went through a monetary dominant regime from 1996Q to 2017Q4 since the response of CPI to a fiscal expansion was negative in the short run and about zero in the long run, while the monetary expansion had positive effects on CPI. During this period, the response of government spending and money supply to each other's shock had the same sign, indicating that the two policies acted as complements. However, the authors argue that 2008Q4 was a turning point that divided this period into two different periods. The response level of M2 growth rate to a fiscal expansion kept rising from 1996Q1 to 2008Q4, indicating the central bank's increasingly active cooperation with fiscal policy, while it decreased from 2009Q1 to 2017Q4. Since 2018Q1, the economy has been going through a fiscal dominant regime in that the response of GDP growth rate and CPI to the fiscal expansion has sharply increased. They also argue that the relative change of the role between the two policies should be mainly attributed to the variation in the fiscal authority's characteristics because fiscal response to a monetary shock has remained at a similar level the whole time, even if there have been changes in the characteristics of the central bank. **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability**

Is the Fiscal Deficit of ASEAN alarming? Evidence from fiscal deficit consequences and contribution towards sustainable economic growth **(2021)**

Maran Marimuthu, Hanana Khan, Romana Bangash - Universiti Teknologi PETRONAS, Kohat University of Science and Technology, Institute of Management Sciences

The Association of Southeast Asian Nations (ASEAN) has faced a persistent fiscal deficit for the last three decades. In the vast literature, a question is still arising: is ASEAN's fiscal deficit alarming? This study explores the fiscal deficit with different perspectives to provide guidelines for policymakers to answer this question. For this purpose, the authors offer fiscal causal hypotheses estimates, including the contribution of Government expenditures (GEs) and Government revenues (GRs) towards sustainable economic growth; they then evaluated two additional deficit hypotheses, the impact of fiscal deficit and deficit financing on inflation. This empirical analysis covered annual financial data for the years 1990 to 2019 of ten member countries of ASEAN by applying panel econometric techniques, which include unit root Levin, Lin, and Chu (LLC) and Im, Pesaran, and Shin (IPS) tests; the panel autoregressive distributed lag (ARDL) model for cointegration; and the Dumitrescu–Hurlin (DH) test for causality. The findings revealed that government expenditures contribute more towards sustainable economic growth while government revenues are inversely related to growth in the long run. The DH causality test supported the fiscal synchronization hypothesis and current account targeting hypothesis in ASEAN. The interest rate is found as a moderator between fiscal and current account deficits. Furthermore, the findings showed that the fiscal deficit of ASEAN could generate inflation while relying on outstanding debt. Overall, authors' findings concluded that the fiscal deficit of ASEAN is alarming based on the behavior of government revenues, interest rate dynamics, political stability, and outstanding debt in deficit financing. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**; **Debt and growth**

Growing fiscal risk in European Union resulting from government contingent liabilities in the pandemic crisis - assessment and policy recommendations **(2021)**

Dan Gabriel Anghel, Iustina Alina Boitan, Kamilla Marchewka-Bartkowiak - Bucharest University of Economic Studies, University of Economics and Business, Poznan

The pandemic crisis, responsible for increased levels of financing with public debt and contingent liabilities, may trigger another debt crisis across the European Union. Authors' research indicates that member states are increasingly willing to use public guarantees and other off-budget instruments, which are classified as "hidden debt" or "hidden expenditure". Simulations have shown that if public guarantees have to be covered by the budget, an unprecedented increase in a public debt may occur across the euro area countries and the entire EU as a whole. Therefore, the authors recommend the introduction of uniform rules for estimating fiscal risk due to contingent liabilities, as well as standards for their reporting, allowing for their constant monitoring at the EU level. **TAGS:** **Contingent Liabilities**; **Financial stability**; **Debt sustainability**; **COVID-19**; **Debt and fiscal/monetary policies**

[Fiscal Policy, Institutional Quality, and Public Debt: evidence from transition Countries](#) (2021)

Thi Anh Nhu Nguyen, Thi Thuy Huong Luong - Ho Chi Minh City Open University

This research makes a significant contribution to the literature on the economic implications of fiscal policy and institutional quality by modeling empirically the impact of these factors on public debt in 27 transition countries over the period 2000–2018. Applying Ordinary Least Squares (OLS), Random effects, and two-step GMM methods, the research gives evidence to confirm the background theory that deducing public expenditure and improving government revenue could push government debt lower. The main findings especially demonstrate that institutional quality contributes to making an impact on public debt. Particularly, weak governance in controlling corruption leads to higher accumulation of public debt while financing to improve the institutional quality in relation to government effectiveness, regulatory quality, and rule of law after changes in the regime in those countries increases the size of public debt. The results of this paper convince policymakers of crucial implications of both fiscal policy and institutional quality in managing public debt. **TAGS:** **Debt and fiscal/monetary policies**; **Debt Policy**; **Debt sustainability**

Budgeting in the context of COVID-19: Trends and tools of reallocations (2021)

CABRI

Using available budget data, and in particular CABRI's COVID-19 Public Finance Response Monitor database, this paper offers an analysis of budget changes recorded in 2020 to better understand the mechanisms, driving forces and impact of the emergency budget revisions that occurred in response to the COVID-19 pandemic. The authors acknowledge that trends in budget reallocation are dependent on a large number of factors, which include the specificities and quality of the PFM system in place, the political context, variations in revenues, and changes in external financing such as donor aid flows or debt relief. **TAGS:** **Accounting, statistics, Reporting and Auditing**; **Accounting Standards**; **COVID-19**

Multilateral Financing

The ECB's Policy, the Recovery Fund and the Importance of Trust: The Case of Greece (2021)

Vasiliki Dimakopoulou, George Economides, Apostolis Philippopoulos - Athens University of Economics and Business

This paper, using a microfounded macroeconomic model that embeds the key features of the Greek economy, studies the efficacy of the various policy measures taken, at national and EU level, to cushion the economic effects of the pandemic shock. The paper attempts to give quantitative answers to questions like: What are the effects of these policies and, especially, what are the implications of the fiscal transfers and grants from the Recovery Fund and the quantitative policies of the ECB, like the PEPP, for the Greek economy? Do they help the real economy and, if yes, by how much? What would have happened had these measures not taken? How costly will be the re-emergence of the fear of debt default and risk premia? **TAGS:** **Multilateral financing**; **COVID-19**; **Debt and fiscal/monetary policies**; **Debt and growth**

The Political Economy of Chinese Debt and IMF Conditionality (2021)

Andreas Kern, Bernhard Reinsberg - Georgetown University, University of Cambridge

Despite a substantial literature on IMF programs, little is known about whether and to what extent Chinese loan exposure shapes IMF program design. Our starting point is that Chinese loans are tied into projects that promise to generate sufficient revenue to repay these loans and entail elite kickback schemes. The authors expect that governments turn to the IMF for bailout funding when a severe shock erodes the value of the underlying loan collateral requiring to mobilize revenues and implement austerity measures. Anticipating fierce domestic resistance, the IMF becomes the politically most viable option to absorb the domestic political heat while allowing to retain elite kickback schemes. As a result, the authors expect governments to accept a `whatever-it-takes' number of loan conditions. Using cross-country time series analysis for up to 162 countries between 2000 and 2018, the authors show that defaults on Chinese debt trigger IMF programs only when a country experiences a severe adverse shock. Countries tapping the IMF also accept a greater number of loan conditions. From a policy perspective, our findings are a call for targeted governance reforms of the global financial safety net that go beyond program safeguards and loan conditions fostering sovereign debt transparency. **TAGS:** **Multilateral financing**; **Transparency**

A world recovery fund to overcome developing countries' post-covid debt woes? (2021)

Alicia García Herrero - Bruegel, Hong Kong University of Science and Technology, and NATIXIS

Throughout 2020, the Covid-19 pandemic caused massive human and economic casualties. The pandemic has been a major blow for developing countries, especially low-income countries, from many perspectives. These countries experienced a sudden dry-up of external financing in March 2020, against the backdrop of a rapid pile-up of sovereign debt during the last few years, coupled with a surging need for finance to combat the public health crisis. In this context, the international community tried to mobilise financial resources as quickly as possible to ease liquidity constraints facing these countries. Alongside exceptionally quick financial assistance from the International Monetary Fund (IMF) and Multilateral Development Banks (MDBs), the G20 countries agreed on a temporary debt moratorium in April 2020, the so-called G20 Debt Service Suspension Initiative (DSSI). This initiative has allowed eligible countries to delay debt-service-related payments owed to bilateral official creditors. Since its inception, it has been extended twice and it should now expire in December 2021. **TAGS:** **Multilateral financing**; **Debt relief**; **COVID-19**

How Effectively is the Asian Development Bank responding to COVID-19? An early Assessment (2021)

Azusa Sato, Rakan Aboneaaj, Scott Morris – CGEV

n 2020, the Asian Development Bank (ADB) joined efforts by other multilateral development banks (MDBs) to rapidly scale up support to developing countries to address COVID-19. Beyond headline numbers, there has been less focus on how ADB's support was distributed by country income group, sector, modality, and product. Using an updated dataset on commitments and disbursements between 2018 and end of December 2020, the authors compare "pre-crisis" and "crisis period" trends. They overlay ADB data on other publicly available datasets reflecting population size, mobility levels, and government fiscal stimulus to evaluate the responsiveness and size of ADB support vis-à-vis other MDBs. Authors' findings show ADB's response was most significant in the countries that most needed support, low income economies with sharp GDP declines and limited fiscal response capacity. The health and public sector management sectors had significant surges in commitments, and impacted the modality used. While there was a rise in grant and concessional financing in 2020, non- concessional loans and sovereign operations still dominated during the crisis period. The authors suggest further work on how these changes impact development outcomes, with a view to recalibrating the bank's strategies in some sectors and products in the medium term. **TAGS:** **Multilateral financing**; **COVID-19**; **Debt and growth**

Reports

2021

Regional Budgets in H1 2021: Income Growth

Alexander Deryugin - Russian Academy of National Economy and Public Administration

According to data for H1 2021, own tax and non-tax revenues of the consolidated budgets of RF subjects recovered after their fall in 2020 and showed an increase, compared to the same period in 2019.The structure of expenditures of regional consolidated budgets changed in 2021 compared with their pre-pandemic structure, indicating changing priorities of territorial budget policy. The rapid growth of own tax and non-tax revenues in H1 2021 reduced the territorial debt burden to the lowest level for this period since 2009. **TAGS:** **Subnational debt**; **Debt Statistics**

Finance for International Development Update

Euan Ritchie, Sam Hughes, Ian Mitchell – CGDEV

This note presents estimates of Finance for International Development (FID) in 2018. FID is a grant equivalent measure of cross-border, concessional finance publicly provided for development. The authors introduced FID last year to better compare development finance provided by both DAC (OECD Development Assistance Committee) and non-DAC countries, the latter having gained importance as development actors in recent decades. The authors produced estimates of FID for 40 of the world's major economies, which accounted for around 90 percent of global GDP in 2018. […] **TAGS:** **Multilateral financing**; **Structural policies**; **Debt relief**

Testimony on China's Lending Practices and the International Debt Architecture

Scott Morris – CGDEV

Today, nearly all the low-income HIPC countries are again at risk of debt distress, with debt vulnerabilities that have been greatly exacerbated by the economic shock of the COVID pandemic. But on the creditor side, the picture has changed dramatically. The United States government today is one of the smallest creditors to low-income countries, with just $370 million in outstanding claims. China, on the other hand, with over $31 billion in outstanding claims to the HIPC countries, is a bigger creditor than all other government creditors combined. […] **TAGS:** **Debt crisis**; **Debt sustainability**; **Transparency**

OTC derivatives statistics at end-June 2021

BIS

The notional value of outstanding derivatives rose to $610 trillion at end-June 2021, an increase that appeared mainly driven by seasonal factors. The gross market value of OTC derivatives, which provides a measure of amounts at risk, decreased by 20% to $12.6 trillion in H1 2021, close to its end-2019 level. Gross credit exposure dropped by 19% to $2.7 trillion over the same period. […] **TAGS:** **Derivatives**; **Debt Statistics**

A debt pandemic: impact of the crisis in developing countries

Infogram

Public debt levels in developing countries soared from 40.2 to 62.3% of GDP between 2011 and 2020. Nearly a quarter of this increase, equivalent to US$ 1.9 trillion, took place in the last year as a result of the pandemic. Public debt increased in 108 developing countries in 2020. Countries that entered the crisis with the highest levels of public debt tended to experience the largest increases in 2020. [...] **TAGS:** **Debt sustainability**; **Debt crisis**; **Debt relief**; **COVID-19**

The Global Economic Crisis: implications and prospects

Faik Öztrak - Economic and Security Committee, Sub-Committee on Transatlantic Economic Relations

The longer-term consequences of the COVID-19 pandemic for the global economy are coming into focus. The pandemic is now recognised as having constituted the largest synchronised fall in global GDP in modern history, although its impact was quickly mitigated by governments which were guided by lessons learned from the global financial crisis in 2009. This time, governments have far more swiftly introduced stimulus programmes to counter recessionary forces. The European Union, for instance, facilitated joint debt issuance and created conditions for a powerful fiscal response to the crisis. […] **TAGS:** **Economic Forecasts**; **Debt Forecasts**; **Debt crisis**; **COVID-19**

Sustainable Bonds Insight 2021

Environmental Finance

According to figures from the Environmental Finance Bond Database, total GSSS bond issuance crossed $600 billion in 2020 – nearly double the $326 billion issued in 2019. Growth in the GSSS bond market in 2020 accelerated on the 53% year-on-year growth reported in 2019 compared to the $214 billion issued in 2018. The number of super-sized issuances also exploded. More than 50 bonds raising $2 billion or more were issued in 2020, up from just 15 such issues in 2019. […] **TAGS:** **Primary market**; **Bond market development**; **Sovereign debt market**

The monetary policy non-puzzle in bond markets

Isabel Schnabel – ECB

Sovereign bond markets in the euro area and the United States have taken a remarkable turn over the summer. Despite the ongoing strong recovery from the crisis, the revival of inflation and surveys signalling firming expectations among market participants that central bank asset purchases globally may gradually slow in the near future, sovereign bond yields have declined and partly reversed the upward trend observed in the beginning of the year. […] **TAGS:** **Sovereign bonds yields**; **Secondary Markets**; **COVID-19**

Monetary arithmetic and inflation risk

Marek Dabrowski – Bruegel

Between 2007 and 2020, the balance sheets of the European Central Bank, the Bank of Japan, and the Fed have all increased about sevenfold. But inflation stayed low throughout the 2010s. This was possible due to decreasing money velocity and the money multiplier. However, a continuation of asset purchasing programs by central banks involves the risk of higher inflation and fiscal dominance. **TAGS:** **Debt and fiscal/monetary policies**; **Secondary Markets**; **Financial stability**

Financial stability implications of Covid-19 support measures

Eurofi

During the first phase of the pandemic a liquidity crisis was avoided, and the financial system continued to function. Up to one-third of new bank lending to companies has been subject to crisis related fiscal measures, and the prompt action taken by governments has been essential to mitigate the impact of the crisis on households and firms. The financial system has benefited from fiscal support programmes as well as from monetary policy. Moreover, a flexible approach within the existing regulatory frameworks has supported these measures, also by temporarily relaxing some bank balance sheets constraints. Overall, spillovers from the real economy to the financial system have so far been contained. **TAGS:** **Debt and fiscal/monetary policies**; **COVID-19**; **Financial stability**

Major financial risks in the current monetary and macro-economic context

Eurofi

Summary of Eurofi seminar – April 2021. Major financial risks include public and private levels of indebtedness, financial system profitability, credit risks leading to non-performing loans (NPLs), and overstretched asset prices. The Chair reminded the audience that this goes back to the financial crisis of 2008-2009, when financial sector excesses could have led to a great depression, which was avoided by monetary and fiscal policy. […] **TAGS:** **Debt and fiscal/monetary policies**; **COVID-19**; **Financial stability**

Review of margining practices

BIS

This BCBS-CPMI-IOSCO consultative report looks at margin calls in March and April 2020, margin practice transparency, predictability and volatility across various jurisdictions and markets, as well as market participants' liquidity management preparedness. It is part of the Financial Stability Board's work programme to enhance the resilience of the non-bank financial intermediation sector. […] **TAGS:** **Derivatives**; **Secondary Markets**; **International and Macroprudential Regulations**

Federal Deficits, growing Debt, and the Economy in the Wake of COVID-19

Congressional Research Service

The Coronavirus Disease 2019 (COVID-19) pandemic caused a swift and deep economic downturn from which the country has yet to fully recover. In response to COVID-19, the federal government enacted expansionary fiscal policy to provide relief and stimulus to the economy. Several bills were enacted in FY2020, including the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136). […] **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**; **Debt and growth**; **Sovereign bonds yields**; **COVID-19**

State and local government finances in the time of COVID-19

Sean Dougherty, Pietrangelo de Biase – OECD

Following the global financial crisis, subnational governments engaged in pro-cyclical fiscal policy by reducing investment, drawing out the recovery. This column presents evidence suggesting that the Covid crisis has impacted the fiscal positions of subnational governments in the OECD far less than the previous crisis, which should mitigate this tendency towards pro-cyclicality. This is partly the result of central governments having provided substantial fiscal support, while at the same time subnational governments have relied heavily on relatively stable revenues from recurrent taxes on immovable property which, unlike in the previous crisis, are not expected to decline due to a housing market crash. **TAGS:** Subnational Debt; Debt sustainability; Debt and fiscal/monetary policy; COVID-19

Sovereign Debt Restructuring - Proposed amendment to New York banking law through new article 7

Clifford Chance

Against the backdrop of the COVID-19 pandemic and its severe economic consequences certain New York lawmakers have introduced draft legislation designed to allow unsustainable sovereign and subnational debt to be restructured through new procedures to be built into the existing New York banking law by way of a new Article 7. […] **TAGS:** Debt Restructuring; Debt crisis; Sovereign immunity; COVID-19

Emerging Markets debt relief: kicking the can down the road

Euler Hermes- Allianz

The Covid-19 pandemic and related global economic crisis triggered an unprecedented shift in public debt sustainability in the developing world. Emerging Markets (EMs) and Low-income Developing Countries (LDCs) have been hit harder by the post-Covid debt surge, reflecting their heavy debt-service burden compared to Advanced Economies (AEs). A decade ago, the share of government interest payments in fiscal revenues was nearly the same (on average around 6%) for the three country categories. Since then, the debt-service cost has fallen for AEs (to 4% in 2020), gradually increased for EMs (7.3%) and more than doubled for LDCs (13.7%). […] **TAGS:** Debt relief; Multilateral financing; Debt sustainability; COVID-19

Visualizing the Debt Service drag on Developing Country Governments

David Mihalyi, Scott Morris - Center for Global

Twenty-five years ago, this committee was instrumental in putting forward the Heavily Indebted Poor Country initiative (or "HIPC") to relieve the debt burdens of 37 poor countries when it became clear that they could no longer sustainably service this debt. At the time, the United States agreed to forgive nearly $2.5 billion in debt owed to US government agencies, making it one of the largest of the 55 creditor countries to participate. Little noticed at the time: Costa Rica was a bigger creditor to poor countries than was China. **TAGS:** Foreign Debt; Multilateral financing; Debt sustainability

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SIFMA Research Quarterly - 3Q21 - US Fixed Income Markets - Issuance & Trading

SIFMA

The SIFMA Research Quarterlies contain data and statistics on U.S. markets. The fixed income reports are split into two – (1) issuance and trading, (2) outstanding – given a delay in the reporting of outstanding data. The reports cover data on total U.S. fixed income markets, as captured in the SIFMA Research databases: U.S. Treasuries, mortgage-backed securities, corporate bonds, municipal securities, federal agency securities, asset-backed securities, money markets (outstanding only), repurchase agreements (outstanding only) and secured overnight financing rate. **TAGS:** Sovereign debt market; Sovereign bonds yields

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Spain's high public debt: outlook and priorities for ensuring a good digestion

Javier García Arenas, Ricard Murillo Gili - CaixaBank, Universitat Pompeu Fabra

Reducing the high stock of Spanish public debt will take time, but in today's economic context there are factors that could help to make the digestion process more bearable than these astronomical figures (1.34 trillion euros in 2020) might suggest. **TAGS:** **Debt sustainability**; **Debt and fiscal/monetary policies**; **Sovereign bonds yields**

How to get to the bottom of a country's debts?

Iolanda Fresnillo – Eurodad

Debt audits can be a powerful tool to support civil society engagement in citizen assessment of debt impacts but also to increase citizens' participation in public finance governance, leading to an increase in accountability and transparency and allowing for the identification of illegitimate debts at the national, regional and municipal level. **TAGS:** **Transparency**; **Best Practices**; **Accounting, statistics, Reporting and Auditing**

ICMA Quarterly Report - October 2021

ICMA

As global economies emerge from COVID and financial markets normalise, the mission of ICMA to support resilient, well-functioning and efficient international debt capital markets, and to engage with regulators to ensure regulation helps to meet those goals, is more relevant than ever. Post-COVID, the capital markets must play an ever-increasing role as a key driver of sustainable economic recovery and growth. […] **TAGS:** **Financial Analysis**; **Primary market**; **Secondary Markets**

The cost of political uncertainty: Lessons from the 2011 US debt ceiling crisis

Filippo Gori – IMF

Once again, the US finds itself in the midst of a debt ceiling crisis, but what can we learn from previous instances? This column assesses the impact of the 2011 US debt ceiling crisis on US federal government credit risk and on US banks' funding costs. It estimates that during the first two quarters of 2011, as a result of the disagreement between Republicans and Democrats over the rise in the US debt ceiling, US government credit default swaps increased by 46 basis points, while bank funding costs increased by about 18 basis points. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**; **Cost and Risk**

BIS Quarterly Review, September 2021

BIS

Risky asset and sovereign bond markets seemed to send mixed signals during the period under review. Equity indices rose further globally, with emerging market economy (EME) stocks climbing in September. In conjunction with corporate spreads remaining extremely compressed, this underpinned exceptionally accommodative financial conditions in many jurisdictions. In sharp contrast, government bond yields declined steeply in advanced economies (AEs), even as the expected monetary policy stance tightened somewhat, thus hinting at a certain degree of investor unease about the economic outlook further down the road. […] **TAGS:** **Financial Analysis**; **Sovereign debt market**; **Debt and fiscal/monetary policies**

Living in Debt: to whom and how much does Tajikistan owe?

CABAR

In 2021, the government of Tajikistan decided to increase external debt and ask for loans from the country's external creditors. This was decided despite the fact that external debt currently reaches $3.1 billion (36.9% of GDP) and is equal to $294 per capita. The government explains that without loans, the implementation of projects for the development of certain sectors of the Tajik economy is impossible. **TAGS:** **Foreign Debt**; **Debt sustainability**; **Financial stability**

The Risks of the High Government Debt for Central Asia

Eurasian Research Institute

Increasing levels of debt became a common concern for many advanced and developing countries. Debt-to-GDP ratios are historically high in the United States, Germany, France and other advanced economies. Rapid growth of government expenditure as the result of many social programs, lower tax revenues, increasing share of elders among population and political problems caused budget deficits and higher amount of debt. […] **TAGS:** **Debt sustainability**; **Financial stability**

Hidden Debt solutions to avert the next financial crisis in South Asia

Martin Melecky - World Bank Group

The COVID-19 (coronavirus) crisis has expanded public direct interventions through state banks and enterprises to aid economies, but with possible risks to debt sustainability, long-term productivity, and equality. Compared with other regions, South Asia is more exposed to the risk of hidden debt and mounting contingent liabilities from SOEs, SOCBs, and PPPs because of its greater reliance on state off-balance sheet operations. Financial distress of public agents is not a rare event in South Asia. Off–balance sheet operations of both national and subnational governments become distressed frequently SOCBs fare the worst. […] **TAGS:** **Contingent Liabilities**; **Cost and Risk**; **Debt sustainability**; **Financial stability**

Caribbean quarterly bulletin - 2021: 2. The fragile path to Recovery in the Caribbean

IDB

For more than a year, the Caribbean economics team at the Inter -American Development Bank (IDB) has focused on the potential implications of the COVID -19 pandemic for lives and livelihoods across the region. The pandemic is still with us, but there is hope that the cycles of lockdowns and containment measures will eventually come to an end as vaccination programs progress, even if unevenly, across the region. However, the availability of vaccine supply remains a concern, and the pandemic continues to pose a constraint for the recovery of key sectors such as tourism and local services sectors. [...] **TAGS:** **COVID-19**; **Economic Forecasts**; **Debt and growth**

Financing a possible expansion of the IMF's Support for LICs

David Andrews - Center for Global Development

The IMF's concessional support for low-income countries (LICs) is provided primarily through the Poverty Reduction and Growth Trust (PRGT). Since the start of the pandemic, lending from the PRGT has risen very sharply in response to the unprecedented and urgent needs of LICs; total PRGT credit outstanding nearly doubled during 2020 to far exceed past peaks. Given the likelihood that these needs will continue to rise and persist for many years, there is an urgent need to ensure that the PRGT has adequate resources to face this challenge. **TAGS:** **Transparency**; **Multilateral financing**; **Debt and growth**

Default Statistics: Private and sub-sovereign lending 2001-2019

European Investment Bank

The Global Emerging Markets Risk Database consortium (GEMs consortium) was established in 2009 as a joint initiative between the European Investment Bank (EIB) and the International Finance Corporation (IFC) to pool data on credit defaults. Since then, the GEMs consortium has grown to include 25 members, mainly multilateral development banks and development finance institutions, covering emerging markets and developing economies. Based on data from 11 member institutions, this is the first GEMs publication on default statistics for private and sub-sovereign lending. [...] **TAGS:** **Multilateral financing**; **Sovereign defaults**; **Transparency**; **Debt Statistics**

Macroeconomic Scoreboard - August 2021

Jacques de Larosière, Didier Cahen, Elias Krief, Lea De Greef - Eurofi

The Covid-19 crisis has widened the economic gap between the Euro Area and its main global competitors. The Covid-19 crisis has exacerbated existing economic and fiscal heterogeneities across the EU Members States. Countries with the highest level of government expenditure as percentage of GDP are those with the least competitive firms. Excessive level of public debt does not fuel GDP growth and employment. **TAGS:** **Economic Forecasts**; **Debt and fiscal/monetary policies**; **Debt and growth**

Clearinghouses help stabilize financial markets during COVID-19 – here's how

Michael C. Bodson - Depository Trust & Clearing (DTCC)

Clearinghouses (CCPs) played a significant role in providing stability for financial markets during COVID-19. The success of the preparedness efforts from clearinghouses could serve as an example to other sectors and industries needing continual investment in continuity and other protection measures. […] **TAGS:** **Secondary Markets**; **Derivatives**; **Financial stability**; **COVID-19**

Contingent liabilities: past materialisations and present risks

Sándor Gardó, Benjamin Hartung, Mariusz Jarmuzek and Algirdas Prapiestis

Fiscal policy support has mitigated financial stability risks during the pandemic, but the vulnerabilities arising from contingent liabilities have increased for euro area sovereigns. National policy responses to support households and firms during the pandemic directly increased the aggregate euro area general government debt-to-GDP level by around 14 percentage points to around 100% of GDP in 2020. […] **TAGS:** **Contingent Liabilities**; **Financial stability**; **Debt sustainability**

On the benefits of repaying

Francesca Caselli, Matilde Faralli, Paolo Manasse, Ugo Panizza - IMF, Imperial College Business School, University of Bologna, Graduate Institute, Geneva

Do countries benefit from servicing their debts during times of sovereign defaults? Colombia is typically regarded as the only large Latin American country that did not default in the 1980s, but this column argues that the case of Colombia is more complex than commonly assumed. Although it had to re-profile its debts, high-level political support from the US allowed Colombia to do so outside of the standard framework of an IMF programme. In the short to medium run, Colombia benefited from avoiding an explicit default, but this strategy did not lead to long-term reputational gains. **TAGS:** **Sovereign defaults**; **Debt Restructuring**; **Multilateral financing**

Quantitative easing and conventional monetary policy have similar side effects

Martin Weale, Tomasz Wieladek - International Economist

Quantitative easing is often criticised due to side effects on asset price valuation and risk taking. This column compares the financial side effects of conventional monetary policy to those of quantitative easing, based on the amount of inflation generated by each policy. A systematic comparison of multiple measures of financial side effects for the euro area, the UK, and the US suggests that the side effects of quantitative easing and conventional monetary policy are roughly the same. **TAGS:** **Debt and fiscal/monetary policies**; **Financial Analysis**; **Sovereign bonds yields**

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.

NOVEMBER

25 – 26 November 2021; ESCAP, Shangri-La's Fijian Resort, Suva, Fiji
Fifth Pacific Forum on Sustainable Development (PFSD) 2021

Until 26 November 2021; PDM Network, Italian Ministry of Economy and Finance, OECD, World Bank, Rome
Call for Papers - Public Debt Management Conference 2022 – Extended Deadline 26 November 2021

26 – 27 November 2021; CESifo, the Center of Public and International Economics (CEPIE), TU Dresden and the ifo Institute
15th Workshop on Political Economy

29 November – 2 December 2021; Central Banking; online
Climate Change: Managing Financial Risks and Green Finance Initiatives

30 November – 1 December 2021; GFC Media Group, The Ritz-Carlton Coconut Grove, Miami
Bonds & Loans Latin America & Caribbean 2021

30 November 2021; ICMA, Virtual Event
The role of sustainable bonds in financing the transition

DECEMBER

1 – 3 December 2021; Asian Development Bank (ADB), online
2021 ADBI Annual Conference: Climate Change Mitigation and Green Finance

2 – 3 December 2021; European Central Bank (ECB), online
Fifth ECB biennial conference on Fiscal policy and EMU governance

2 – 4 December 2021; UNDP, AfDB and ECA, Cabo Verde
African Economic Conference

7 December 2021; Environmental Finance, online
Emerging markets: making green finance truly global through tailored initiatives

7 December 2021; ICMA, Virtual Event
Prospects for growth in the Andean sustainable debt market

7 – 8 December 2021; Institut Louis Bachelier and the Banque de France, Paris, ACPR-Banque de France Auditorium, 23 rue de Londres
Green Finance Research Advances conference Fiscal Sustainability

9 – 10 December 2021; waset.org, London, United Kingdom
International Conference on Emerging Markets and Developing Economies

13 – 14 December 2021; University of Zurich, Zurich, Switzerland
6th Zurich Conference on Public Finance in Developing Countries

14 December 2021; AFME, virtual
GFMA's 2nd Annual Global Capital Markets Sustainable Finance Conference

Until 15 December 2021; European University Institute, Florence, Italy
Call for papers to the 5th Interdisciplinary Sovereign Debt Research and Management Conference (DebtCon5)

2022

JANUARY

Until 10 January 2022; CESifo, Munich Germany
CESifo Area Conference on Public Economics 2022 - Call for Papers

FEBRUARY

7 – 9 February 2022; SIFMA, The Ritz-Carlton, Dana Point, CA, USA
Asset Management Derivatives Forum 2022

7 – 11 February 2022; The International Monetary Fund, New Delhi, India
External Debt Statistics (EDS)

9 – 11 February 2022; FIA and SIFMA AMG, The Ritz Carlton Laguna Nigel in Dana Point, CA
Asset Management Derivatives Forum

Until 18 February 2022; Leibniz Centre for European Economic Research, Mannheim, Germany
Call for Papers 2022 Public Finance Conference: Government and Innovation

22 February 2022; CGDEV, Online
Good Practices in Sovereign Debt borrowing

22 February 2022; GFC Media Group, Fairmont Hotel, Riyadh
Capital Markets Saudi Arabia 2022

MARCH

2 – 4 March 2022; The Florence School of Banking & Finance, Florence, Italy
Debt and the Macroeconomy: Leverage Cycles, Asset Prices and Crisis

Apply by 4 March 2022; IMF, Online
Public Financial Management (PFMx)

14 March 2022; Crownagents, Dubai, United Arab Emirates
Public Debt Management: Issues and Solutions

21 – 25 March 2022; The International Monetary Fund, Vienna, Austria

Projecting Public Debt and Fiscal Adjustment Paths Part II (FS)

24 – 26 March 2022; CESifo, Munich, Germany
CESifo Area Conference on Public Economics 2022

MAY

5 – 6 May 2022; Leibniz Centre for European Economic Research, Mannheim, Germany
Public Finance Conference: Government and Innovation

9 – 11 May 2022; UNCTAD, Palais des Nations Geneva, Switzerland
International Debt Management Conference, thirteenth session

25 – 27 May 2022; European University Institute, Florence, Italy
5th Interdisciplinary Sovereign Debt Research and Management Conference (DebtCon5)

26 - 27 May 2022; OECD – Italian Treasury - World Bank, Rome
Second OECD - Italian Treasury - World Bank Public Debt Management Conference

JUNE

8 – 10 June 2022; ICMA, Wien, Austria
ICMA Annual General Meeting and Conference 2022

SEPTEMBER

5 September 2022; Crownagents; London, United Kingdom
Public Debt Management: Issues and Solutions

PDM Network in Figures

As of 23RD November 2021, total documents and reports available on the PDM Network website were 8,383. Events and News uploaded on the website since January 2021 were respectively 396 and 8,979. This newsletter is sent to 923 Subscribers from emerging and advanced countries.

Special Thanks

The PDM Secretariat is grateful to various DMOs and International Organizations for information on new documents and reports.

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