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

Contents

Highlight

Sustainability of debt management in the post-pandemic era: The Italian Treasury hosted the 2nd international conference of the Public Debt Management Network

Italian Treasury, OECD, World Bank Public Debt Management Network

The 2nd Public Debt Management Conference organised by the Public Debt Management (PDM) Network was held in Rome on May 26-27, 2022. The first edition of the Conference took place in Paris, at the OECD headquarters, in 2019. Hosted this year by the Italian Treasury, the conference was attended by around 250 participants from all continents.
Public debt managers, representatives of international institutions, leading academics as well as the authors of the 17 papers selected as the outcome of a call for papers launched by the PDM Network last year, participated to the debate. **Read more** **TAGS: Debt Policy; Public Debt Management**

Conference; Debt and fiscal/monetary policies; Sovereign debt market; Primary market; COVID-19; Cost and Risk; Sovereign ALM; Market Liquidity; Primary dealers; PDM network; World Bank; Debt sustainability; OECD; Debt and growth; Bond market development

Special Focus

Public Debt Management in Wartime: Interview with Ukraine's Yuriy Butsa
Fatos Koc – OECD
Even in normal times, meeting a government's funding needs through borrowing can be challenging. Wartime conditions – including suddenly increased borrowing needs, a loss of market confidence and operational difficulties – make it even harder. In this interview, Yuriy Butsa, Ukraine's Government Commissioner for Public Debt Management, answers questions from Fatos Koc, Head of the OECD Public Debt Management Unit, about the challenges Ukraine has faced to date as result of Russian large-scale aggression and about his near-term expectations. Read more **TAGS:** Debt Policy; Debt Forecasts; Debt sustainability; Sovereign bonds yields

Documents

Debt Policy

The Procyclicality of Inflation-Linked Debt (2022)
Gabor Pinter - Bank of England
This paper uses UK time-series data to document that the ratio of inflation-linked debt to total public debt ("linker share") is procyclical. The business cycle properties of the linker share indicate a positive relationship with inflation, even after controlling for breakeven inflation. This can be explained by the tax-smoothing incentives of the government in a simple Ramsey model. Results are similar for the US. **TAGS:** Debt Policy; Debt composition; Financial Analysis

Sovereign Debt (2022)
Leonardo Martinez, Francisco Roch, Francisco Roldan, Jeromin Zettelmeyer - International Monetary Fund
This paper surveys the literature on sovereign debt from the perspective of understanding how sovereign debt differs from privately issue debt, and why sovereign debt is deemed safe in some countries but risky in others. The answers relate to the unique power of the sovereign. One the one hand, a sovereign has the power to tax, making debt relatively safe; on the other, it also has control over its territory and most of its assets, making debt enforcement difficult. The paper discusses debt contracts and the sovereign debt market, sovereign debt restructurings, and the empirical and theoretical literature on costs and causes of defaults. It describes the adverse impact of sovereign default risk on issuing countries and what explains this impact. The survey concludes with a discussion on policy options to reduce sovereign risk, including fiscal frameworks that act as commitment devices, state-contingent debt, and independent and credible monetary policy. **TAGS:** Debt Policy; Sovereign immunity; Sovereign debt market; Debt Restructuring; Sovereign defaults; Cost and Risk; Best Practices

[Government Debt Management and Inflation with Real and Nominal Bonds](#) **(2022)**

Lukas Schmid, Vytautas Valaitis, Alessandro Villa - USC & CEPR, EUI, Federal Reserve Bank of Chicago

In the wake of rising inflation in the aftermath of unprecedented debt financed stimulus packages, the authors ask: Can governments use real bonds (TIPS) as part of their debt portfolio to commit to stable inflation rates? The authors propose a novel framework of optimal debt management in the presence of sticky prices with a government that can issue nominal and real non-state-contingent bonds. Nominal debt can be inflated away giving ex-ante flexibility, whereas real bonds are cheaper but constitute a real commitment ex-post. Under Full Commitment, the government chooses a leveraged portfolio of nominal liabilities and real assets to use inflation effectively to smooth fiscal policy. When the government cannot commit to future policies, it reduces borrowing costs ex ante using real debt strategically to mitigate incentives for the future government to monetize debt ex-post. Without commitment, the policies are quantitatively consistent with U.S. data, suggesting that such a framework realistically captures the relevant constraints governments face. **TAGS:** Debt Policy; Debt composition; Debt and fiscal/monetary policies

Cost and Risk

Sovereign risk and financial risk **(2022)**

Simon Gilchrist, Bin Wei, Vivian Z. Yue, Egon Zakrajšek - New York University, Federal Reserve Bank of Atlanta, Bank of International Settlements

In this paper, the authors study the interplay between sovereign risk and global financial risk. The authors show that a substantial portion of the co-movement among sovereign spreads is accounted for by changes in global financial risk. The authors construct bond-level sovereign spreads for dollar-denominated bonds issued by over 50 countries from 1995 to 2020 and use various indicators to measure global financial risk. Through panel regressions and local projection analysis, the authors find that an increase in global financial risk causes a large and persistent widening of sovereign bond spreads. These effects are strongest when measuring global risk using the excess bond premium – a measure of the risk-bearing capacity of U.S. financial intermediaries. The spillover effects of global financial risk are more pronounced for speculative-grade sovereign bonds. **TAGS:** Cost and Risk; Sovereign risk premia; Financial Analysis

Primary Market

Public debt management announcements under 'beat-the-market' opportunities **(2022)**

Alexander Dentler, Enzo Rossi - CIDE, Swiss National Bank

Public debt managers auction bonds to primary dealers (PDs) who may sell them to traders in the secondary market. PDs may have an information advantage about the bond's value. When the resulting adverse selection problem is severe, the result is a separating equilibrium in which the secondary market breaks down whenever the true bond value is high. In a pooling equilibrium, on the other hand, the purchasing offers made by traders allow PDs to extract information rents. These rents give rise to two counteracting effects. First, they create an auction premium which incentivizes the debt manager to over-issue whenever the bond value is low. This is what the authors call "beat-the-market" opportunities. Data for U.S. Treasury auctions show a positive relationship between the auction premium and the issuance bias. Second, the information rents motivate traders to learn the bond value. This expertise mitigates the auction premium and the issuance bias. Announcing a target debt level commits the debt manager, limits information rent, and crowds out expertise. **TAGS:** Primary

market; **Secondary Markets**; **Primary dealers**; **Public debt auctions**

Greening capital markets: Sovereign sustainable bonds (2022)
World Bank
The economic stress arising from the COVID-19 (coronavirus) pandemic propelled expansion of sovereign sustainable bond issuances. The Climate Bonds Initiative (CBI) reports that the number of sovereign green, social, and sustainable bonds more than doubled in 2020. By the end of the year, sovereign green bonds amounted to $41 billion, or a 65 percent increase over 2019. That trend continued into 2021, with Italy raising approximately $10 billion in Europe's largest green bond debut to date. Other advanced and emerging markets also intend to issue sovereign green bonds. **TAGS: Primary market**; **Bond market development**; **Green bonds**; **COVID-19**

Secondary Markets

Information spillovers and sovereign debt: theory meets the eurozone crisis (2022)
Harold L. Cole, Daniel Neuhann, Guillermo Ordoñez - University of Pennsylvania, McCombs School of Business
The authors develop a theory of information spillovers in sovereign bond markets in which investors can acquire information about default risk before trading in primary and secondary markets. If primary markets are structured as multi-unit discriminatory-price auctions, an endogenous winner's curse leads to strategic complementarities in information acquisition. As a result, shocks to default risk in one country may trigger crisis episodes with widespread information acquisition, sharp increases in the level and volatility of yields in risky countries, falling yields in safe countries, endogenous market segmentation, and arbitrage profits between primary and secondary markets. These predictions are consistent with the behavior of primary and secondary market yields, market segmentation, and measures of information acquisition during the Eurozone sovereign debt crisis. **TAGS: Secondary Markets**; **Sovereign debt market**; **Public debt auctions**

Sovereign Eurobond Liquidity and Yields (2022)
Daniel C. Hardy - Vienna University for Economics and Business
Market liquidity is of value to both investors and issuers of securities and is therefore a crucial factor in asset pricing. For Eurobonds, significant feedback from liquidity to pricing is established, and it is shown that bid-ask spreads (a proxy for market liquidity) and yields are closely related to bond characteristics such as issue volume, time to maturity, the inclusion of collective action clauses, and the jurisdiction of issuance. Debt management offices can choose these characteristics in a way that has economically significant and persistent effects on both liquidity and pricing. **TAGS: Secondary Markets**; **Sovereign debt market**; **Market Liquidity**; **Financial Analysis**; **Eurobonds**

Subnational Debt

The Municipal Liquidity Facility (2022)
Andrew Haughwout, Benjamin Hyman, Or Shachar - Federal Reserve Bank of New York
At the onset of the COVID-19 pandemic, state and local governments were among the sectors expected to experience the most severe distress. The combination of a sharply deteriorating revenue picture, a pressing need for additional expenditures, delays in the receipt of substantial taxes owed, and an inability to access the financial markets raised serious concerns among many observers about the ability of state and local governments to meet their public service delivery responsibilities. In April 2020, the Federal Reserve announced the establishment of the Municipal Liquidity Facility (MLF) to help

municipalities manage the cash flow challenges that the pandemic produced. The MLF ultimately offered three-year loans at penalty rates to a set of eligible municipal issuers that included states, large cities and countries, and a number of revenue bond issuers. Research suggests that the MLF, in spite of lending to only the State of Illinois and the Metropolitan Transportation Authority, contributed to a healing in the municipal securities market as a whole. Effects on real economic outcomes like employment in the sector are harder to attribute to the facility. **TAGS:** **Subnational debt**; **Debt sustainability**; **COVID-19**

A Post-COVID-19 Assessment of Sub-National Finances and Fiscal Risks **(2022)**

Manish Gupta, Tanvir Malik - National Institute of Public Finance and Policy, World Bank

In the fiscal year 2020-21, the states' fiscal deficit increased sharply compared with the previous fiscal year and budget estimates. The gross state domestic product (GSDP) growth slowed considerably across 27 states for which data is available. Own- tax and non-tax revenues declined due to the decline in economic activity. Central transfers were lower than budgeted but grants increased in comparison with the previous year. Compared to 2019-20, both current and capital expenditures were higher in 2020-21. The deficits of states were affected by the fall in revenues. Budget estimates for 2022-23 project further consolidation in the fiscal deficit driven by an optimistic projection for an increase in revenues. **TAGS:** **Subnational debt** **Debt and fiscal/monetary policies**; **Debt Forecasts**; **Debt sustainability**; **Debt and growth**; **COVID-19**

Risk Measurement of Local Government Debt Based on Complex Networks: Taking China's Urban Investment Bonds as an Example **(2022)**

Yihu Wu, Huiqian Zhao - Zhejiang University

For many countries, the systemic risk of local government debt is a matter of concern, but at present, there is little analysis in this area. The complex network based on information analysis provides an effective tool for analyzing the system risk between networks. This paper takes China as an example and takes the provincial urban investment bonds as the object for research. The regional network constructed with the interest rate data of urban investment bonds represents the overall systemic risk of these bonds. The main conclusions are as follows: provincial nodes in western and central areas (underdeveloped areas) are more important in the system, and they are easier to form debt defaults. For an interconnected urban investment bond network, the higher the default risk of an individual, the greater the risk of the entire system. Finally, based on the indicators obtained from the provincial urban investment bond network model, this paper puts forward policy suggestions for the prevention of urban investment bond risks. **TAGS:** **Debt sustainability**; **Subnational Debt**; **Cost and Risk**; **Sovereign defaults**

Financial Analysis

Treasury supply shocks and the term structure of interest rates in the UK **(2022)**

Andras Lengyel - University of Amsterdam

How does the additional debt issued by the government affect the term structure of interest rates? In this paper the authors identify Treasury supply shocks using high-frequency data, by exploiting the institutional setup of the UK government bond primary market. The authors find that supply shocks have positive effects on nominal and real interest rates. Most of the reaction is due to real term and inflation risk premia rather than the expectation component of yields. The authors argue both theoretically and empirically that supply shocks transmit via the repricing of duration and inflation risks in the economy. They also document that these effects are stronger under adverse economic and financial conditions. **TAGS:** **Financial Analysis**; **Sovereign risk premia**; **Sovereign bonds yields**

Interest Rate Uncertainty and Sovereign Default Risk (2022)

Alok Johri, Shahed Khan, Cesar Sosa-Padilla - McMaster University, University of Western Ontario, University of Notre Dame and NBER

Empirical studies suggest that fluctuations in the level and volatility of the world interest rate (as measured by the US treasury bill rate) affect sovereign spreads in emerging economies. The authors incorporate an estimated time-varying process for the world interest rate (with both level and volatility shocks) into a model of sovereign default calibrated to a panel of emerging economies. Time variation in the world interest rate interacts with default incentives in the model and leads to state contingent effects on borrowing and sovereign spreads which resemble those found in the empirical literature. On average, in response to a rise in the world interest rate the model delivers 1.4 times increase in the spread, which is in line with the magnitudes reported in previous empirical work. The volatility state has a major impact on this average - the increase in spreads is much larger in high volatility states. Moreover, the authors show that fluctuations in the world interest rate can generate considerable co-movement in sovereign yields across nations, as seen in the data. **TAGS:** **Financial Analysis**; **Sovereign defaults**; **Sovereign risk premia**

The Impact of COVID-19 Pandemic on Government Bond Yields (2022)

Yang Zhou, Deimantė Teresienė, Greta Keliuotytė-Staniulėnienė, Rasa Kanapickiene, Rebecca Kechen Dong Ahmad Kaab Omeir - Lingnan Normal University, Vilnius University, University of Technology Sydney

This research aims at value the impact of the COVID-19 pandemic on different government bond curve sectors. The authors try to identify the reactions to the COVID-19 pandemic in the government bond market and analyze separate tenors of government bond yields in different regions. The authors have chosen Germany and the United States government bond yields of 10-, 5-, and 3-years tenor for the analysis. As independent variables, they have chosen daily cases of COVID-19 and daily deaths from COVID-19 at the country and global levels. The authors used daily data from 02 January 2020–19 March 2021 and divided this period into three stages depending on the COVID-19 pandemic data. The authors employed the methods of correlation-regression analysis (ordinary least squares and least squares with breakpoints) and VAR-based impulse response functions to evaluate the effect of the COVID-19 pandemic on government bond yields both in the long and short run. Our analysis revealed the impact of the spread of the COVID-19 pandemic on government bond yields differs depending on the country and the assessment period. The short-term responses vary in direction, strength, and duration; the long-term response of Germany's yields appeared to be more negative (indicating the decrease of the yields), while the response of the United States yields appeared to be more positive (i.e., increase of yields). **TAGS:** **Sovereign debt market**; **Sovereign bonds yields**; **COVID-19**; **Financial Analysis**

What drives repo haircuts? Evidence from the UK market (2022)

Christian Julliard, Gábor Pintér, Karamfil Todorov, Kathy Yuan - Bank of England

Using a unique transaction-level data, the authors document that only 60% of bilateral repos held by UK banks were backed by high-quality collateral. Banks intermediate repo liquidity among different counterparties and use CCPs to reallocate high-quality collaterals among themselves. Furthermore, maturity, collateral rating and asset liquidity have important effects on repo liquidity via haircuts. Counterparty types also matter: non-hedge funds, large borrowers, and borrowers with repeated bilateral relationships receive lower (or zero) haircuts. The evidence supports an adverse selection explanation of haircuts, but does not find significant roles for mechanisms related to lenders' liquidity position or default probabilities. **TAGS: Repo market**; **Sovereign debt market**; **Financial Analysis**

Debt Crisis

Sovereign Debt Repatriation during Crises (2022)

Serkan Arslanalp, Laura Sunder-Plassmann – International Monetary Fund

The authors use a new, comprehensive data set on the sovereign debt investor base to document three novel empirical facts: (i) sovereign debt is repatriated - that is, shifted from external private to domestic investors - prior to sovereign defaults; (ii) not all crises are equal: evidence for repatriation during banking and currency crises is more limited; and (iii) the nature of defaults matters: external investors do not leave during preemptive debt restructurings. The authors further show that repatriation appears to be prevalent when defaults happen in large markets with low capital controls. The data set the authors use is uniquely suited to analyzing investor base dynamics during rare crises due to its large cross-section and time series, covering 180 countries from 1989 to 2020. **TAGS: Debt crisis**; **Sovereign defaults**; **Financial stability**; **Foreign Debt**

Contract Standards

Sovereign Bailouts: Are Ex-Ante Conditions Useful? (2022)

Elena Perazzi - Ecole Polytechnique Federale de Lausanne

Bailout guarantees create moral hazard, even when full repayment can be enforced. In a strategic default model calibrated to the GIIPS countries, the author shows that, with unconditional bailout guarantees, government deficits are 6 to 15 percentage points higher than they would be in the absence of guarantees, for a given level of debt. Even if the frequency of outright defaults is reduced, this results in a high frequency of bailouts, which may be inefficient if providing a bailout is costly. In this case ex-ante fiscal conditions can be an effective way to make bailouts a time-consistent policy. The model provides a rationale to a recent reform of the European Stability Mechanism (ESM). **TAGS: Contract standards**; **Sovereign defaults**; **Debt sustainability**

Pari Passu Lost and Found: The Origins of Sovereign Bankruptcy 1798-1873 (2022)

Marc Flandreau - University of Pennsylvania

Verdicts returned by modern courts of justice in the context of sovereign debt lawsuits have upheld a ratable (proportional) interpretation of so-called "pari passu" clauses in debt contracts which, literally, promise creditors they will be dealt with equitably. Such verdicts have given individual creditors the right to interfere with payments to others, in situation where the sovereign had failed to make proportional payments. Contract originalists argue that this interpretation of pari passu clauses has no historical foundation. Historically, they claim, pari passu clauses never granted individual creditors a unilateral right to block payments to other bondholders assenting to a government debt restructuring proposal. This article shows this claim is incorrect. Drawing on novel archival research, it argues that pari passu clauses find one potent historical origin in the operation of a now forgotten sovereign bankruptcy tribunal, the London stock exchange. Under the law of the stock exchange, departure from ratable payments did create a unilateral right for individual creditors to interfere with sovereign debt discharges. The article concludes that the modern debate on the role of clauses in sovereign debt contracts cannot be held without thorough reconsideration of the history of sovereign bankruptcy. **TAGS:** **Contract standards**; **Debt Restructuring**; **Sovereign debt litigation**; **Sovereign defaults**

Debt Restructuring

Improving Sovereign Debt Restructurings (2022)

Maximiliano Dvorkin, Juan M. Sanchez, Horacio Sapriza, Emircan Yurdagul - Federal Reserve Bank of St. Louis, Federal Reserve Bank of Richmond

The wave of sovereign defaults in the early 1980s and the string of debt crises in subsequent decades have fostered proposals involving policy interventions in sovereign debt restructurings. The global financial crisis and the recent global pandemic have further reignited this discussion among academics and policymakers. A key question about these policy proposals for debt restructurings that has proved hard to handle is how they influence the behavior of creditors and debtors. The authors address this challenge by evaluating policy proposals in a quantitative sovereign default model that incorporates two essential features of debt: maturity choice and debt renegotiation in default. The authors find, first, that a rule that tilts the distribution of creditor losses during restructurings toward holders of long-maturity bonds reduces short-term yield spreads, lowering the probability of a sovereign default by 25 percent. Second, issuing GDP-indexed bonds exclusively during restructurings also reduces the probability of default, especially of defaults in the five years following a debt restructuring. The policies lead to welfare improvements and reductions in haircuts of similar magnitude when implemented separately. When jointly implemented, they reinforce each other's welfare gains, suggesting good complementarity. **TAGS:** **Debt Restructuring**; **Sovereign defaults**

A Proposal for a New Approach to African Debt (2022)

Daniel Bradlow - American University

The paper proposes a new approach to managing distressed African sovereign bonds denominated in foreign currency and governed by foreign law. It argues that the stakeholders in such debt should seek to disrupt inter-creditor dynamics and create incentives for bondholders to be more open to innovative ways of delivering debt relief. One way to change these inter-creditor dynamics is a DOVE (Debts of Vulnerable Economies) Fund. This fund would be established by public, private, and civil society stakeholders to invest in marketable foreign currency debt issued by African countries. By its mandate, the Fund would commit to participate in debt restructuring negotiations based on a set of guiding principles clearly articulated ex ante and grounded in applicable international standards. The guiding principles would be designed to ensure that the debt restructuring process is transparent and fair to all stakeholders, and that its outcomes promote socially and environmentally inclusive development in the debtor country. **TAGS:** **Debt Restructuring**; **Debt relief**; **Foreign Debt; Africa**

Debt Restructuring in Africa (2022)

Yan Wang, Yinyin Xu - Boston University Global Development Policy Center, Furee Think Tank

The current narrative on debt sustainability often ignores the issue of what a government owns (assets) versus what a government owes (liabilities). While conventional approaches largely focus on the liability side, the kinds of assets that a country is trying to build are vital to development and debt sustainability. This paper voices the concerns from the Global South that the debt sustainability analysis (DSA) framework has ignored public assets. After a brief review of debt issues in Africa, this paper points to the importance of the public sector balance sheet in understanding debt sustainability. Further, the authors investigate the role of 3,126 completed infrastructure projects, co-financed and jointly built by China and the host countries, focusing on whether and to what extent they have addressed infrastructure bottlenecks. These completed projects form part of a country's public operational assets that generate essential social services, jobs, government revenues, exports and growth. If a host government wishes, these assets could later be put up for initial public offerings (IPOs), or add value to Public Wealth Funds (PWF) or Sovereign Wealth Funds (SWF)/pension funds, yielding widespread economic benefits in the host country. The authors then explore which other possible forms of development finance, such as equity investment, might be better utilized in the post-pandemic era, including several proposals on how to restructure debt using an "asset plus" approach, to finance "net-zero assets" for lower carbon economic transformation. **TAGS:** **Sovereign ALM**; **Debt sustainability**; **Debt crisis**; **Debt Restructuring**

Accounting, Statistics, Reporting and Auditing

Risk Management for Auditing Public Debt **(2022)**

Andrea Consiglio, Akis Kikas, Odysseas Michaelides, Stavros A. Zenios - University of Palermo, Government of the Republic of Cyprus, University of Cyprus

The International Organisation of Supreme Audit Institutions, cognisant of the complexity of sovereign debt issues, suggests that sufficient technical knowledge is essential in undertaking an audit. Quality public debt management audits require an understanding of the uncertain macroeconomy, market financing conditions, and government fiscal stance, and stochastic debt sustainability analysis models can provide the analytical engine. Using a model for optimal debt financing with sustainability risk constraints, the Audit Office of the Republic of Cyprus performs an audit of the country's Public Debt Management Office (PDMO). The authors discuss the use of the model to address two audit questions: (i) Is the government debt sustainable with high confidence, and (ii) is debt financing efficient and effective in securing the lowest cost with acceptable risks? The authors also examine climate change risks to sovereign debt, finding that they can be material. **TAGS:** **Accounting, statistics, Reporting and Auditing**; **Debt sustainability**; **Cost and Risk**

A Sum of Parts Sovereign Debt Measurement and Reporting **(2022)**

Jim Brumby, Bonnie Ann Sirois, Juan Carlos Serrano Machorro, Paul Mason - World Bank

The authors explore the role of accrual basis accounting and related financial reporting frameworks as a factor in fostering debt transparency. This work was issued as a background paper to inform Chapter 2 of the World Bank report *Debt Transparency in Developing Countries*, which presents disclosure practices under direct and indirect reporting frameworks and provides evidence on the role of factors that can either foster or deter debt transparency. **TAGS:** **Accounting, statistics, Reporting and Auditing**: **Transparency**; **Best Practices**; **World Bank**

Macroeconomic Analysis

[Public debt, growth, and threshold effects: A comparative analysis based on income categories] (2022)

Princewill U Okwoche, Eftychia Nikolaidou - University of Cape Town

Whether or not public debt stifles economic growth remains a relevant research question. An equally relevant follow-up question is whether there is a certain threshold, applicable to all countries, above which debt becomes a drag on growth. Although there is generally no consensus, researchers seem to agree that the relationship between debt and growth is, at best, heterogenous across countries and groups. This study is motivated by the idea of parameter heterogeneity according to which the data generating process that characterizes each country's growth process is not the same for all observations. Although previous studies have focused more on the asymmetric effect of debt on growth above and below a particular debt threshold, evidence shows that the level of debt is not the only plausible threshold variable. This study examines the influence of income per capita and countries' historical categorization by income on the debt-growth nexus. It also examines the variation in the nexus across low, lower-middle, upper-middle, and high-income countries. Mainly, the study presents a debt threshold value of around 45% for all countries beyond which debt impacts negatively on growth. It also finds that the relationship between debt and growth varies considerably from one income group to another. Notably, the threshold of debt tends to rise as one moves up from low to high-income category. Given the negative relationship between debt and growth above the threshold, it is important for countries, particularly those in the lower income categories, to exercise some caution in the accumulation of debt. **TAGS:** **Debt and growth**; **Debt sustainability**

[Government Deficits and Interest Rates: A Keynesian View] (2022)

Brett Palatiello, Philip Pilkington - Ridgewood Analytica, Savenay Advisers

The authors test the neoclassical loanable funds model which postulates that, ceteris paribus, government borrowing increases the long-term rate of interest. The empirical literature exploring such a connection remains largely mixed. The authors clarify the conflicting results by deploying an Autoregressive Distributed Lag model to decompose the relationship in the United States into long and short-run effects across multiple measures of the government deficit and long-term interest rate. The authors find a tendency for changes in the deficit to increase long-term interest rates in the short run but the effect is reversed in the long run. The authors argue that these results are consistent with John Maynard Keynes' view of the long-term rate as being heavily influenced by monetary policy, central bank credibility and market convention. **TAGS:** **Debt and fiscal/monetary policies**; **Sovereign bonds yields**

[Debt to GDP Ratio and Inflation From the Perspective of Functional Finance Theory and MMT] (2022)

Yasuhito Tanaka - Doshisha University

This paper examines the relationship between budget deficit, inflation rate and debt to GDP ratio from the perspective of Functional Finance Theory and MMT (Modern Monetary Theory). Using a basic macroeconomic model in which the interest rate of government bonds is endogenously determined, with overlapping generations model in mind, mainly, the authors show the following results. 1. If the proportion of the savings consumed is smaller than one, the larger the budget deficit is, the larger the inflation rate is. 2. If the proportion of the savings consumed is smaller than one, the larger the inflation rate is, the smaller the debt to GDP ratio is. Therefore, excessive budget deficits cause inflation, which results in a smaller debt to GDP ratio. A large budget deficit is not associated with a high debt to GDP ratio. 3. The larger the budget deficit is, the weaker the condition on the proportion of savings that is consumed in order for the debt to GDP ratio not to diverge is. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**

Quantile Debt Fan Charts **(2022)**

Suzette Dagli, Paul Mariano, Arjan Paulo Salvanera - Asian Development Bank

The paper applies quantile regression technique, specifically, quantile vector autoregression to stochastic debt sustainability analysis (DSA) and the construction of public debt fan charts. Stochastic approach to DSA typically uses standard ordinary least squares vector autoregression (OLS VAR) and "fan charts" to depict the upside and downside risks surrounding public debt projections due to uncertain macroeconomic conditions. These VAR models rely on constant coefficients and random variables that are independent and identically distributed. However, empirical evidence suggests that macroeconomic variables are characterized by nonlinearities and asymmetries that linear regression models, such as OLS VAR, may not capture. Many attempt to show how such nonlinearities can be accounted for by using quantile regression methods. Quantile regression allows for varying parameters for each quantile and facilitates the analysis of asymmetric dynamics. It is also a natural environment for stress testing exercises by estimating the reaction of the endogenous variable to tail shocks or future quantile realizations. **TAGS:** **Debt sustainability**; **Financial Analysis**

The Ararat Fiscal Strategy Model: A Structural Framework for Fiscal Policy Analysis in Armenia **(2022)**

Victoria Babajanyan, Daniel Baksa, Martin Fukač, Eduard Hakobyan, Arshaluys Harutyunyan, Narek Karapetyan, Babken Pashinyan, Garik Petrosyan, Luis-Felipe Zanna - International Monetary Fund, Armenia Ministry of Finance and Economy

This paper presents an overview of the Ararat Fiscal Strategy Model (AFSM), which is a structural, New-Keynesian, DSGE, small open economy model with a rich fiscal block that includes several expenditure and revenue instruments, and types of debt. The AFSM is now a formal part of the Ministry of Finance analytical toolkit to do macroeconomic fiscal policy scenario analysis, which feeds into policy discussions, budget planning, and the Medium-Term Expenditure Framework. The model was applied to assess the macroeconomic impact of the "first wave" of the Covid-19 pandemic on the Armenian economy, including the mitigating effects of policy responses. AFSM simulations revealed a potential severe impact in 2020, with declines in GDP and consumption of 12.9 and 11.7 percent, respectively, and a cumulative loss of GDP of 38 percent for the period 2020-2023. They also highlighted a significant fiscal outlook deterioration that would increase public debt-to-GDP ratios by 18.8 percentage points over 2020-23. The package of counter-cyclical fiscal measures of 3.6 percent of GDP, however, was estimated to cushion the 2020 GDP decline by almost 2 percentage points, as well as protect jobs. A second AFSM application related to the 2018 public investment under-execution showed the importance of improving the efficiency of public investment to have positive macroeconomic and fiscal effects. **TAGS:** **Debt and fiscal/monetary policies**; **COVID-19**; **Debt sustainability**

[Regime-based debt sustainability analysis: Evidence from euro area economies](#) **(2022)**

Bettina Bökemeier, Benjamin Owusu, Alfred Greiner - Bielefeld University

This paper empirically studies non-linearities in debt sustainability analysis by resorting to the modern estimation technique of panel smooth transition regression (PSTR). The authors assess euro area debt sustainability by analysing the reaction of the primary balance to changes in public debt, relative to GDP respectively, in annual frequency from 2000-2019 in a panel framework. The PSTR allows to estimate the existence of a threshold in the behaviour of the reaction function, refrains from the country-wise perspective (pooling) and applies a regime-switching model to detect non-linearities. Data is segregated into different regimes endogenously via a logistics regression. Our results show that there are two different regimes in the euro area: a high and a low debt regime. The estimated reaction coefficient for the low debt regime is statistically insignificant, whereas it is positive and statistically significant for the high debt regime. Further, for a sub-sample of highly indebted economies the authors find a statistically significant negative (positive) reaction coefficient for the low (high) debt regime. **TAGS:** **Debt sustainability**; **Financial Analysis**

How Does Institutional Quality Shape the Impact of Public Debt on Economic Growth? A Threshold Panel Analysis Over Eu-28 **(2022)**

Gianluigi De Pascale, Antonio Scrocco - University of Foggia

The relationship between public debt and economic growth is one of the cornerstones of the European integration. However, the role of institutional quality in moderating the negative impact of public debt on economic growth the EU area remains unclear. This paper investigates the impact of public debt on economic growth in the EU-28 countries over 1996-2019 by running a threshold dynamic panel estimator. Results show that an inverted U-shaped non-linearity holds when arranging the debt-to-GDP ratio as a threshold. Moreover, there is evidence that a high level of institutional quality moderates the negative impact of public debt on economic performance. **TAGS:** **Debt and growth**; **Structural policies**

Economic Policies

Inflation in Times of High Debt **(2022)**

Veronique de Rugy, Jack Salmon - George Mason University

A growing number of economists hold the view that the US government's growing debt is nothing to worry about. They believe this because real interest rates are not only historically low but are also forecast to stay low for a long time. As such, the government can carry high debt levels without worrying about debt sustainability. In addition, some economists argue that, in countries where low real interest rates and the negative interest-rate-minus-growth differential are sustained, the government can increase primary deficits without worrying about future costs. However, a deeper fact should worry economists more than it does - namely, it is hard for government to make good policies when it swells so large that it has little practical choice but to depend on annual deficit financing. In particular, high and growing levels of public debt are likely to induce higher inflation while the growing burden of debt and deficit financing increases political pressure to continue pursuing inflationary policy. High debt levels also make inflation harder to control if it becomes persistent. **TAGS:** **Debt Policy**; **Debt and fiscal/monetary policies**; **Debt sustainability**

How to Repay the After-COVID-19 Public Debt? The Case of Colombia **(2022)**

Juan Hernández, Juan Santaella, Daniel Wills - Inter-American Development Bank, Ministerio de Hacienda y Crédito Público Colombia, Asofondos

The COVID-19 pandemic produced a shock to public finances throughout the world. In the case of Colombia, the public debt to GDP ratio increased from 39.8% to 65.0%. The authors use a two-country neoclassical general equilibrium model to determine which one-shot tax reforms make the new debt level sustainable. Our analysis shows that Colombia was on the wrong side of the Laffer curve for capital and labor income taxes before the crisis and hence would need to reduce those taxes to repay its current debt. Specifically, reducing the capital tax by four percentage points and the labor tax by three percentage points restores sustainability. In contrast, the analysis suggests that the economy is on the upward-sloping side of the Laffer curve for the consumption tax. An increase of 10 percentage points in the consumption tax generates a future path of primary surpluses big enough to repay the post-COVID level of debt. The results suggest that behavioral changes and general equilibrium effects are sizeable. Therefore, ignoring them will bias fiscal consolidation analysis. **TAGS:** Debt and fiscal/monetary policies; Debt sustainability; COVID-19

Developing Asia's Fiscal Landscape and Challenges (2022)

Eugenia Go, Sam Hill, Maria Hanna Jaber, Yothin Jinjarak, Donghyun Park, Anton Ragos - Asian Development Bank, World Bank

What are the salient features of developing Asia's tax revenues and public expenditures? How do these compare with other economies and how have they been affected by the COVID-19 pandemic? To analyze these issues the authors assemble data across economies drawing on a range of sources to maximize temporal and coverage of economies. The authors find that while tax revenues in developing Asia steadily rose in the 2 decades before COVID-19, they continued to lag behind high-income economies and some developing peers. The region relies on indirect taxes, particularly consumption taxes, creating a relatively efficient but less progressive tax structure. Alongside these lower tax revenues, government expenditures on education and health were comparatively modest. Substantial fiscal policy stimulus in response to COVID-19 comprised both tax and expenditure measures which, combined with the impact of the downturn on revenues, has severely weakened public finances in many developing Asian economies. **TAGS:** Debt and fiscal/monetary policies; COVID-19; Debt sustainability

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Fiscal Policies for a Sustainable Recovery and a Green Transformation (2022)

Michele Catalano, Lorenzo Forni – Prometeia

This paper compares the effectiveness of different fiscal policy instruments, carbon pricing, fiscal incentives for private green investments, and public green investment, in supporting a green recovery that is also fiscally sustainable. It argues that relying on carbon pricing or green investments is not sufficient to achieve the transition to a low-carbon economy in a timely and sustainable way. Carbon pricing alone would result in rapid and significant energy price increases that would be recessionary. Similarly, the level of public green investment needed to reach the Paris goals without recourse to carbon pricing would be so great that it would endanger debt sustainability. The conclusion from the simulations supports the view that a mix of supply side policies (carbon pricing) and demand-side interventions (deficit financed green public investment) is necessary to achieve the Paris goals within the specified period and with a fiscally sustainable outcome. The paper also assesses the costs associated with transitioning to a low carbon economy by geographic area. It finds that deficit financed public green investment by high-emitting countries only (typically advanced and emerging economies), would have positive growth impacts for those countries and enhance their fiscal sustainability, while also providing large positive spillovers to other countries, particularly to highly climate sensitive nations. In turn, the simulations show that wherever fiscally feasible it is in the best interest of all countries to increase public investment in the green economy. **TAGS:** **Debt and fiscal/monetary policies**; **Primary market**; **Sovereign debt market**; **Climate change**; **Green bonds**

Fiscal deficits and inflation risks: the role of fiscal and monetary policy regimes **(2022)**

Ryan Niladri Banerjee, Valerie Boctor, Aaron Mehrotra and Fabrizio Zampolli - BIS

Using data from a panel of advanced economies over four decades, the authors show that the inflationary effect of fiscal deficits crucially depends on the prevailing fiscal-monetary policy regime. Under fiscal dominance, defined as a regime in which the government does not adjust the primary balance to stabilise debt and the central bank is less independent or puts less emphasis on price stability, the average effect on inflation of higher deficits is found to be up to five times larger than under monetary dominance. Under fiscal dominance, higher deficits also increase the dispersion of possible future inflationary outcomes, especially the probability of high inflation. Based on forecasts from our model, the high inflation experienced by many countries during the recovery from the Covid-19 pandemic appears more consistent with a regime of fiscal dominance than monetary dominance. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**

How QE changes the nature of sovereign risk **(2022)**

Dirk Broeders, Leo de Haan, Jan Willem van den End - De Nederlandsche Bank, Maastricht University, Vrije Universiteit

The authors examine the effect of Quantitative Easing (QE) by the ECB on the sovereign bond risks of Italy, Ireland, Spain and Portugal. First, outcomes of panel regression models suggest that QE lowered the effect of volatility on sovereign bond spreads by 1 to 2 percentage points. Compared to asset purchases aimed at easing the monetary stance, purchase programmes supporting monetary transmission by countering financial market stress most clearly reduced the effect of volatility on spreads. Second, using a contingent claims model (CCM), the values of the implicit put options provided by QE as a backstop to investors are calculated to be substantial. Our results guide policymakers on the use of backstop facilities for sovereign bond markets. **TAGS:** **Debt and fiscal/monetary policies**; **Sovereign risk premia**; **Financial Analysis**; **Cost and Risk**

Analysing the spillover effects of the South African Reserve Bank's bond purchase programme **(2022)**

Rhea Choudhary - South African Reserve Bank

Using daily bond purchase volume data, the authors evaluate the effects of the South African Reserve Bank's bond purchase programme on the term structure of the sovereign bond yield curve. Our results indicate that bond purchases significantly flatten the slope and lower the curvature of the sovereign bond curve by 4 bps and 10 bps respectively on impact; however, the authors find that bond purchases increase the level factor. The latter result is attributed to the increased sovereign risk stemming from the significant fiscal stimulus measures announced around the same period. The authors also examine how the programme's announcement influenced South Africa's corporate bond market using the FTSE/JSE All Bond Other Index and find its price lowered following the announcement, but that the Federal Reserve's QE announcement had a larger, opposite-signed effect. The authors interpret this result as evidence that US macroeconomic conditions play an important role in determining South African market responses, and suggests that optimal South African market-easing strategies would benefit from accounting for both domestic and international conditions. **TAGS:** **Debt and fiscal/monetary policies**; **Sovereign bonds yields**; **Sovereign debt market**; **Financial Analysis**

It takes two: Fiscal and monetary policy in Mexico (2022)

Ana Aguilar, Carlos Cantú and Claudia Ramírez

The authors model the interaction between fiscal and monetary policy and qualify their effects in a semi-structural small open economy model calibrated for Mexico. In our model, fiscal and monetary policy follow rules tied to specific targets. The authors estimate how fiscal policy, through deficits and public debt accumulation, and monetary policy, through the interest rate, directly affect the economy. The authors study the nature of the feedback between policy decisions and examine their indirect effects through the sovereign risk channel. The authors find that the response of monetary policy to stabilise the economy after a shock depends on how strict is the fiscal rule. A loose fiscal stance pushes a tighter monetary policy stance. Instead, the economy recovers faster when monetary and fiscal policy complement each other. **TAGS:** **Debt and fiscal/monetary policies**; **Sovereign risk premia**

Fiscal rules and the macroeconomic constraint (2022)

Anton Brender, Florence Pisani – CEPS

The need to revise the eurozone fiscal rules now seems widely accepted and many amendments are being discussed. They are still meant to impose discipline on governments' financial behaviour but are trying to define smarter ways to constrain public deficits or spending. The purpose of this policy insight is neither to dispute the need for fiscal discipline nor to formulate a new proposal to enforce it. It is rather to draw attention to an often-overlooked issue that has come to the forefront during the last decade: when monetary policy has lost most of its leverage on private demand, trying to meet a fiscal target that does not take into account the spending behaviour of private agents can unduly constrain economic activity. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**; **Structural policies**; **Debt and recession**

The Next Revision of the Financial Regulation and the EU Budget Galaxy (2022)

Jorge Núñez Ferrer, Francesco Corti, Iain Begg, Eulalia Rubio, Giacomo Benedetto, Daina Belicka – CEPS

Over the last two decades, the combined effect of multiple crises and low Multi-Annual Financial Framework (MFF) ceilings has led to the emergence of a 'galaxy' of EU funds and instruments with variable levels of Member State participation and a diverse range of decision-making and accountability procedures. This study, written on request by the Budget Committee of the European Parliament, analyses the impacts on EU governance and the ability of the European Parliament to fulfil its duties, and considers that reforms are definitely needed to ensure that the EU budget and financial rules reflect the current realities that the EU faces. **TAGS:** **Debt and fiscal/monetary policies**; **Structural policies**; **Financial stability**

Are Fiscal Consolidation episodes helpful for Public Sector Efficiency? (2022)
Afonso António, Alves José - CESifo
The authors assess the consequences of fiscal consolidation episodes on public sector efficiency (scores) for 35 OECD countries for the 2007-2020 period. The authors find that fiscal consolidations improve public sector efficiency and results are robust across efficiency models. Moreover, peripheral euro-area economies and economies with debt-to-GDP ratios between 60% and 90% are those whose public sector efficiency scores improve more when fiscal consolidation episodes occur. The evidence that fiscal consolidations enhance spending efficiency is an additional argument for fiscal consolidations, from a policy perspective. **TAGS:** Debt and fiscal/monetary policies; Debt sustainability

Reports

Doubled in a decade: Debt trends in Eastern and Southern Africa demand decisive reform
Abha Prasad, Zeljka Sedlo, Anna Carlotta Allen Massingue - World Bank
Levels of public debt across eastern and southern Africa's low-income countries have doubled over the last decade. The region's debt portfolio still predominantly contains multilateral loans (47%) and bilateral loans (35%). However, the share of highly concessional multilateral financing has been continuously declining over the past decade. [...] **TAGS:** Debt relief; Debt sustainability; Debt crisis

Africa's Debt Landscape: Scope for Sustainability
Aurore Sokpoh, Nora Chirikure & Jason Rosario Braganza – African Policy Research Institute
This brief argues that the absence of statutory and human rights-based sovereign debt mechanisms that involve all creditors hinders attempts towards addressing reforms in the architecture of the current African debt profile. After the cancellation of debts of developing countries in the early 2000s, a proliferation of new creditors emerged as African countries began entering capital markets. The share of traditional and relatively new creditors in African external debt varies a lot across African countries. In 2019, 8 African countries accounted for over 80% of private creditors debt whereas 3 countries accounted for 50% of China's debt. [...] **TAGS:** Debt crisis; Debt sustainability; Foreign Debt

Insights from the Africa Debt Monitor in 2022: Rising debt levels and the importance of risk management and transparency
Danielle Serebro – CABRI
In 2019, CABRI launched the Africa Debt Monitor, a unique platform for sharing information on African central government debt and debt-management policies, practices and institutional arrangements. The ADM was developed by CABRI in consultation with African debt management offices and provides the type of debt-related information that officials have expressed is a prerequisite for making informed decisions and promoting debt sustainability. [...] **TAGS:** Debt crisis; Debt sustainability; Debt Policy; Best Practices

On the increase in sovereign debt yield
Antonio Montilla – CaixaBank
The intensification of inflationary pressures, a phenomenon aggravated by the war in Ukraine, has led to a sharp shift in the direction of monetary policy. Mass bond purchases by the central banks are

being left behind, while official rates are already being ratcheted up. In the financial markets, this change has been reflected in a sharp rise in sovereign debt yields – a trend which, due to their role as a benchmark, has also affected other financial assets. […] **TAGS:** **Sovereign bonds yields**; **Sovereign risk premia**

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10 Things to know about inverted Yield Curves

Ryan Detrick – CMT

One of the biggest stories over the past few weeks has been the inversion of various points on the U.S. Treasury yield curve. The more well-known 2-year/10-year yield curve spread inverted on April 1,2022 for the first time since 2019, while the 5-year/30-year inverted for the first time since 2006 on March 28. What is a yield curve? The yield curve plots the yield of different maturity bonds, usually Treasuries. In normal times, a longer dated bond should have a higher yield than a shorter dated bond. Historically, after key parts of the yield curve invert, the economy eventually has moved into a recession. This is why these signals are quite important. [...] **TAGS:** **Financial Analysis**; **Sovereign bonds yields**

Euro Area Outlook for 2022 and 2023: Why the Recession Risk is overrated

The Conference Board

GDP in the Euro Area will most likely continue to expand in the second half of 2022 and in 2023 escaping a recession despite the headwinds generated by the Russian invasion of Ukraine. The Conference Board forecast for GDP growth is 2.7 percent in 2022 and 1.2 percent in 2023. A tight labor market could trigger labor productivity gains in 2023, which would lead to a longer-term gain for the region's economy. […] **TAGS:** **Economic Forecasts**; **Debt Forecasts**

In defense of Public Debt

Barry Eichengreen - University of California

COVID-19 turned this fiscal world, along with much else, on its head. Governments are running unprecedented deficits and accumulating unprecedented debts. So is this change in attitudes and practices justified? And will it last? […] **TAGS:** **Debt Policy**; **Debt sustainability**; **Debt Forecasts** **COVID-19**

(Proceedings of the) Final Conference of the BIS-CCA Research Network on "Monetary policy frameworks and communication (2019-2022)"

BIS

The network is part of a wider effort by the BIS to boost research on monetary policy frameworks. Economists from BIS member central banks in the Americas and the BIS investigate how monetary policy communication impacts financial markets, including expectations of future inflation and interest rates. It also reassesses the importance of the monetary policy transmission mechanism […] **TAGS:** **Debt and fiscal/monetary policies**; **Sovereign bonds yields**

Green, Social, and Sustainable Bonds to serve Africa's Sustainable Investment needs

World Bank

Green, Social, and Sustainable bonds market remains a new frontier for Africa that will help the continent build a deeper, resilient, and sustainable financing, according to policymakers, regulators, and peer sovereign issuers from across West Africa. […] **TAGS:** **Bond market development**; **Debt and growth**; **Primary market**

BIS Annual Economic Report - June 2022
BIS
There is no respite for the global economy. Two years ago, it was shaken by the onset of the pandemic, as an overwhelming health crisis turned into an overwhelming economic crisis. While the after-tremors of the pandemic still reverberate, two new shocks hit home in the year under review: the unexpected resurgence of inflation and the tragic war in Ukraine. Last year's Annual Economic Report (AER) raised the prospect of a bumpy pandexit; bumps have turned out to be a one-two punch. […] **TAGS:** Debt and fiscal/monetary policies; Debt sustainability; Financial stability; Economic Forecasts COVID-19

Sub-sovereign Outlook 2022
Scope Rating
The overall credit quality of European sub-sovereigns is broadly expected to stabilize in 2022, underpinned by considerable central government support provided during the Covid-19 crisis and the ongoing economic recovery. Supportive factors also include mature institutional frameworks, a revenue base which is less sensitive to economic activity and accommodative financing conditions. **TAGS:** Subnational Debt; Debt Forecasts

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Debt is climbing again in low-income countries. What needs to change to reduce it?
World Economic Forum
Low-income countries face fewer debt challenges today than they did 25 years ago, thanks in particular to the Heavily Indebted Poor Countries (HIPC) initiative, which slashed unmanageable debt burdens across sub-Saharan Africa and other regions. But although debt ratios are lower than in the mid-1990s, debt has been creeping up for the past decade and the changing composition of creditors will make restructurings more complex. […] **TAGS:** Debt crisis; Debt sustainability; Multilateral financing

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Markets jolted
BIS
Before the sharp escalation of geopolitical tensions ushered in a new wave of uncertainty, financial markets had been jolted by signals of a global shift towards a quicker pace of monetary policy tightening. During the period under review, government bond yields increased significantly. Stock markets fell amid an investor rotation away from technology and other growth stocks and into value stocks. Corporate credit spreads were little affected, by comparison. Financial conditions tightened moderately in non-Asian emerging market economies (EMEs). […] **TAGS:** Secondary Markets; Sovereign debt market; Market Liquidity

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The monetary-fiscal policy nexus in the wake of the pandemic
BIS Papers No 122
The papers in this volume were prepared for a meeting of senior officials from central banks held at the BIS on 24-25 February 2021. **TAGS:** Debt and fiscal/monetary policies; COVID-19

Shining a Light on Debt
Ceyla Pazarbasioglu, Carmen Reinhart – IMF
For economic recovery and crisis prevention, hidden liabilities and their terms must be revealed. As the COVID-19 crisis lingers, EMDEs are entering perilous waters that evoke memories of past debt defaults. Although all countries amassed debt to fight the pandemic, the economic recovery in these

economies substantially lags their advanced economy counterparts. [...] **TAGS:** **Debt Policy**; **Debt and fiscal/monetary policies**; **Debt Restructuring**; **Multilateral financing**

The prospects for sovereign bond volatility

Craig Inches - Royal London Asset Management

Global sovereign bond markets continue to be characterised by heightened volatility in 2022, driven by fears of out-of-control inflation and central banks being behind the curve, having to play catch up to address inflation numbers substantially above their mandated targets. The major central banks have started to diverge in their approach on how best to tackle this. [...] **TAGS:** **Sovereign risk premia**; **Secondary market**; **Financial Analysis**

An assessment of ODA in 2021: Rise in overseas aid still fails to meet needs of global crises

EURODAD

More than two years on from the outbreak of Covid-19, developing countries still have a long way to go to control the pandemic and its effects. Although in 2021 ODA reached a new all-time-high of US$178.9 billion, this is still insufficient to meet the mid-term and long-term challenges ahead of 2030 and the achievement of the Sustainable Development Goals. Furthermore, in relative terms ODA remained at 0.33 per cent – far from the 0.7 per cent international commitment. [...] **TAGS:** **Multilateral financing**; **Debt crisis**; **Debt sustainability**

Impacts of the Russian invasion of Ukraine on financial market conditions and resilience - Assessment of global financial markets

OECD

This report assesses the immediate impact of Russia's war against the people of Ukraine on global financial markets, and the continuing potential for spillovers into those markets. While the war has not yet caused a number of existing vulnerabilities to fully crystallise, high levels of uncertainty remain, driven by heightened geopolitical tensions. The report reviews a range of interrelated channels which could transmit shocks from Russia's war to global financial markets, from direct exposures across sectors, to the effects of higher commodity prices, and impacts on investor sentiment. In doing so, it underlines areas within the financial system where enhanced scrutiny from supervisors and policy makers may be necessary to manage the elevated risks arising from the war going forward. **TAGS:** **Secondary Markets**; **Sovereign debt market**; **Market Liquidity**; **OECD**

BIS international banking statistics and global liquidity indicators at end-December 2021

BIS

Banks' outstanding cross-border claims changed little overall in the fourth quarter of 2021. Their year-on-year growth rate slowed to 1.6%. Cross-border claims on emerging market and developing economies (EMDEs) increased by $103 billion, mainly vis-à-vis Latin America and Africa and the Middle East. Cross-border claims on Russia were about $90 billion at end-2021, down markedly from 2014. Banks in Europe account for most of the outstanding claims. Issuance of international debt securities continued to drive growth in global foreign currency credit to non-bank borrowers. **TAGS:** **Market Liquidity**; **Debt Statistics**

OTC derivatives statistics at end-December 2021

BIS

The notional amount of OTC derivatives declined modestly in the second half of 2021, to $600 trillion. The gross market value and gross credit exposure also fell during the period. Amid rising prices for commodities, the gross market value of commodity derivatives rose by 30% during the second half of 2021. The notional amount of forward rate agreements (FRAs) contracted sharply in the second half of 2021, as investors prepared for Libor benchmarks to be phased out at the year-end. Central clearing rates remained stable for both interest rate derivatives (IRDs) and credit default swaps, standing at a respective 78% and 62% of notional amounts. **TAGS:** **Sovereign debt market**; **Derivatives**; **Debt Statistics**

Adjusting ambitions: The EU's short 'romance' with the debt reduction rule

Martin Larch, Janis Malzubris - European Fiscal Board

The notion that fiscal rules are necessary to safeguard fiscal responsibility is a widely accepted tenet of fiscal policy. However, experience with the implementation of EU fiscal rules has been mixed, driving a wedge between initial ambitions and outcomes. This column uses the latest update of the compliance tracker of the European Fiscal Board secretariat to shed some light on the debate. In particular, it points out that if consistently followed over time, all numerical rules are equally demanding. **TAGS:** **Debt Policy**; **Structural policies**; **Debt and fiscal/monetary policies**

Duration volatility risk premia

Ralph Sueppel - Systemic Risk and Systemic

Duration volatility risk premium means compensation for bearing return volatility risk of an interest rate swap (IRS) contract. It is the scaled difference between swaption-implied and realized volatility of swap rates' changes. Historically, these premia have been stationary around positive long-term averages, with episodes of negative values. Unlike in equity, simple duration volatility risk premia have not been significant predictors of subsequent IRS returns. However, they have helped predict idiosyncratic IRS returns in non-USD markets. […] **TAGS:** **Derivatives**

Does the war in Ukraine call for a new Next Generation EU?

Andrè Sapir - Bruegel Foundation

The COVID-19 crisis will remain a major turning point in the history of fiscal federalism in Europe. Before the pandemic, fiscal stabilisation was the sole responsibility of national budgets. But in 2020, EU leaders decided to create Next Generation EU (NGEU), a new instrument outside the EU budget financed by EU bonds, to stabilise the EU. […] **TAGS:** **Debt and fiscal/monetary policies**; **Debt and growth**

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***. 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.
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.

JULY

29 – 31 July 2022; School of Management, Zhejiang University, Hangzhou, China
2022 2nd International Conference on Accounting, Auditing and Finance

AUGUST

1 – 5 August 2022; IMF, Vienna, Austria
Public Sector Debt Statistics - Fundamental (PDS-F)

3 August 2022; The Asian Development Bank (ADB), Singapore
ADBI Session on "COVID-19 Impacts and Economic Resilience in Asia" (2022 Singapore Economic Review Conference)

8 – 12 August 2022; IMF, Wien, Austria
Virtual: Institutional Sector Accounts-Introductory Level (ISA-I)

10 – 12 August 2022; GFOA, Virtual
Treasury Management Best Practices

Until 14 August 2022; Institute of Global Finance and the School of Banking and Finance, UNSW Business School, Sydney Australia
Call for Papers Australasian Finance & Banking Conference

Until 15 August 2022; Federal Reserve Bank of Minneapolis and the Journal of International Economics, Federal Reserve Bank of Minneapolis
Call for Papers: Sovereign Debt

15 – 24 August 2022; GFOA, Virtual
Fundamentals of Local Government Budgeting: Virtual Training

22 August – 2 September 2022; IMF, Vienna, Austria
Fiscal Sustainability (FS)

Until 31 August 2022; The University of Birmingham College of Business, Florida Atlantic University And European Financial Management, Dubai, United Arab Emirates
Call for Papers Sustainability, Climate Change and Financial Innovation

Until 31 August 2022; De Nederlandsche Bank, Amsterdam, the Netherlands
Call for Papers 25th Annual Research Conference

Until 31 August 2022; The International Association for Research in Income and Wealth (IARIW), in partnership with the Bank of Italy (BOI), Naples, Italy
Call for Papers IARIW-Bank of Italy Conference on "Central Banks, Financial Markets and Inequality"

SEPTEMBER

5 – 30 September 2022; EUI, Online and in Florence
Green bonds and the sustainable bond market

8 – 9 September 2022; The Auckland Centre for Financial Research at the Auckland University of Technology, MS Teams and Zoom
Derivative Markets Conference Online 2022

Until 12 September 2022; The Auckland Centre for Financial Research at the Faculty of Business, Economics and Law, Auckland University of Technology, Auckland, New Zealand
Call for Papers 2022 New Zealand Finance Meeting

12 – 21 September 2022; University of Surrey, University of Surrey, UK
[CIMS Online Summer School on Macroeconomics and The Science and Art of DSGE Modelling/International Trade]

15 September 2022; IIF, Online
[2022 IIF Emerging Markets Sustainable Finance Summit]

15 September – 7 October 2022; EUI, ESM, ESRB, Online and in Florence
[Prudential risk and policies in the European investment fund sector]

16 – 17 September 2022; Bank of Finland and CEPR, Helsinki, Finland
[Monetary Policy in the Post-Pandemic Era]

22 September 2022; Euromoney and the European Covered Bond Council (ECBC), Vienna, Austria
[The Euromoney/ECBC Covered Bond Congress]

26 – 30 September 2022; IMF, Ebene, Mauritius
[Virtual Workshop in Collaboration with ATI on the Joint IMF and WB Debt Sustainability Framework for Low-income Countries]

26 September 2022; Euromoney, New Administrative Capital, Egypt
[Egypt Conference]

26 September – 21 October 2022; UNITAR, Web Based
[Global Financial Governance (2022)]

29 – 30 September 2022; The Center for Inflation Research at the Federal Reserve Bank of Cleveland and the ECB, Cleveland, Ohio
[Inflation: Drivers and Dynamics 2022]

OCTOBER

6 - 7 October 2022; CEPR, the European Economic Review, European Commission, Brussels
[The COVID-shock and the new macroeconomic landscape: taking stock and looking ahead]

6 – 7 October 2022; Federal Reserve Bank of Atlanta and the Georgia State University, Atlanta, GA, U.S.
[Financial innovation: A threat to financial stability?]

Until 16 October 2022; The National Institute of Securities Markets (NISM) along with the Systemic Risk Centre (SRC) at the London School of Economics (LSE), Mumbai
[Call for Papers the Third Annual International Capital Markets Conference 2022]

24 October 2022; SIFMA, New York, USA
[SIFMA Annual Meeting 2022]

NOVEMBER

8 November 2022; ICMA, London UK
[ICMA Primary Market Forum]

9 – 10 November 2022; Federal Reserve Bank of Minneapolis and the Journal of International Economics, Federal Reserve Bank of Minneapolis
[Sovereign Debt]

10 – 11 November 2022; Corvinus University of Budapest, Partially Online (some attendance required)
[13th Annual Financial Market Liquidity Conference]

10 – 11 November 2022; De Nederlandsche Bank, Amsterdam, the Netherlands
[25th Annual Research Conference]

12 November 2022; Centre for Economic Policy Research, Amsterdam, Netherlands
[2nd CEPR Conference Political Economy of Central Banks]

16 November 2022; Afme, Brussels Belgium
[17th Annual European Government Bond Conference]

16 November 2022; Euromoney Conferences and Global Capital, Beijing, China
[THE 8TH Annual China Debt Capital Markets Summit]

25 – 26 November 2022; The University of Birmingham College of Business, Florida Atlantic University and European Financial Management, Dubai, United Arab Emirates
[Sustainability, Climate Change and Financial Innovation]

28 – 29 November 2022; CEPR Centre for Economic Policy Research and South African Reserve Bank, Pretoria, South Africa
[Emerging Markets Back in the Spotlight: Risks and Policy Options]

DECEMBER

5 – 7 December 2022; UNCTAD, Palais des Nations, Geneva, Switzerland
[International Debt Management Conference, thirteenth session]

5 – 16 December 2022; IMF, Singapore
[Fiscal Policy Analysis (FPA)]

8 – 9 December 2022; The Auckland Centre for Financial Research at the Faculty of Business, Economics and Law, Auckland University of Technology, Auckland, New Zealand
[2022 New Zealand Finance Meeting]

14 – 16 December 2022; Institute of Global Finance and the School of Banking and Finance, UNSW Business School, Sydney Australia
[Australasian Finance & Banking Conference]

13 – 14 December 2022; NBER, Australia-Japan Research Centre, Center for Advanced Research in Finance, and the Center on Japanese Economy and Business, Tokyo
[NBER Japan Project Meeting 2022]

15 – 16 December 2022; East Asia Research; Singapore
[2022 Asia-Pacific Conference on Economics and Finance]

15 – 16 December 2022; The National Institute of Securities Markets (NISM) along with the Systemic Risk Centre (SRC) at the London School of Economics (LSE), Mumbai
[The Third Annual International Capital Markets Conference 2022]

PDM Network in Figures

As of 27th July 2022, total documents and reports available on the PDM Network website were 8,550. Events and News uploaded on the website since January 2022 were respectively 157 and 11,237. This newsletter is sent to about 930 Subscribers from emerging and advanced countries.

Special Thanks

The PDM Secretariat is grateful to Fatos Koc (OECD) for information on new documents and events, and to the Authors who presented their papers at the 2nd PDM Conference, for giving permission to publish their papers in this website.

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