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PDM NETWORK *Newsletter*

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The bimonthly PDM Network Newsletter is a short report including a selected list of recent **papers, reports, job vacancies, courses, call for papers and other upcoming events** concerning public debt management worldwide. Such documents have been also published on the PDM Network website during the previous two months. The documents the PDM Network Secretariat deems most interesting are grey-highlighted.

The PDM Network Newsletter is published every two months (January, March, May, July, September, and November).

Please feel free to suggest any **relevant documents, news and events** by contacting the PDM Network Secretariat. We will be happy to share selected resources with our Network.

Contents

New! PDM Webinar Series initiative

Participate to the Survey!

Are you interested in informative, lively, relevant, and effective webinars on public debt management? Help us to structure the future **PDM Network Webinar Series** by participating in a **short survey**. Please do not hesitate to forward the survey to a friend or colleague!

Highlight

The 1st Webinar of the PDM Network: Sustainability of Debt Management in the Post-Pandemic Era - Presentation of the E-book and launch of PDM Network webinar series

PDM Network Secretariat - Italian Treasury – OECD – World Bank

The event took place on March 13 and launched the E-book ***Sustainability of Debt Management in the Post-Pandemic Era - Proceedings of the 2nd Public Debt Management Network Conference***, held in Rome on 26-27 May 2022. The launching of the e-book was accompanied by a presentation by **Samantha Cook** (World Bank) on her paper (co-authors Cigdem Aslam, Philip Anderson, David Bevan, Mellany Pintado and Jelena Kostic) "***The Impacts of Disaster Risk on Sovereign Asset and Liability Management***", followed by a roundtable discussion among Fatos Koc (OECD), Lars Jessen (World Bank) ad Davide Iacovoni (Italian MoF), representatives of the Promoting Institutions of the PDM Network. Attention was given to the new ***PDM Webinar Series*** initiative, consisting in periodical webinars on current and topical issues on public debt management policies and bond market development. The public is invited to fill-in a short survey about the organization of the PDM Webinar Series. Fatos Koc (OECD) made the concluding remarks. **Read more** **TAGS:** **Debt Policy**; **Cost and Risk**; **Sovereign ALM**; **Contingent Liabilities**; **Covid-19**; **OECD**; **PDM network**; **World Bank**; **PDM Webinars**

Special Focus

30th OECD Global Forum on Public Debt Management

OECD

The OECD Global Forum on Public Debt Management is a roundtable meeting for public debt managers from the OECD area (as well as regulators, central bankers, other financial policy makers and, on occasion, private sector participants) to meet with their counterparts from non-OECD countries. The 30th forum will focus on challenges and opportunities for public debt managers in the current context of geopolitical tensions, monetary policy normalisation and high borrowing needs. **Read more** **TAGS:** **Debt Policy**; **OECD**; **Best Practices**; **Debt Forecasts**; **Cash Management**; **Primary Markets**; **Secondary Markets**; **Sovereign Debt market**; **Market Liquidity**

Ukraine: Finding the Right Financial Solution Under Fragility and Conflict

World Bank

The World Bank Treasury helped customize a USD eq. 1.49 billion IDA-IBRD blended financing package for the PEACE for Ukraine Project, allowing the government to optimize its fiscal space and maintain health, education and social protection services during the war. The war in Ukraine is devastating the country economically and socially. According to the UN, as of the end of 2022, the human toll showed 18,000 casualties, with an estimated one-third of Ukrainians being forced from their homes and 8 million fleeing to neighbouring countries. Public finances have also been a casualty of the war. **Read more** **TAGS:** **Multilateral financing**; **Debt sustainability**; **Debt and fiscal/monetary policies**; **World Bank**

Public Debt in Modern History

IMF

The Public Finances in Modern History Database documents two-hundred years of the history of budget deficits and government debts. The current version covers 144 countries over the period 1800-2021, subject to data availability. These data were assembled from a wide array of historical sources, which are documented in the Appendix of Data Sources. The initial database, which covered 55 countries, was analyzed in "A Modern History of Fiscal Prudence and Profligacy", Journal of Monetary Economics, 2015, Vol. 76, pp. 55–70, by Paolo Mauro, Rafael Romeu, Ariel Binder, and Asad Zaman. **Read more** **TAGS:** **Debt Statistics**; **Debt and fiscal/monetary policies**

Global Economic Prospects **(January 2023)**

The World Bank

Global growth is projected to decelerate sharply, reflecting synchronous policy tightening aimed at containing very high inflation, worsening financial conditions, and continued disruptions from Russia's invasion of Ukraine. Investment growth in emerging market and developing economies (EMDEs) is expected to remain below its average rate of the past two decades. Further adverse shocks could push the global economy into recession. Small states are especially vulnerable to such shocks because of the reliance on external trade and financing, limited economic diversification, elevated debt, and susceptibility to natural disasters. **Read more** **TAGS:** **Economic Forecasts**; **Cost and Risk**; **Debt Forecasts**; **Debt sustainability**; **Financial stability**

Documents

Debt Policy

Integrating the Sustainable Development Goals in Government Bond Investment Strategies **(2023)**

Jan Anton van Zanten, Laurens Swinkels, Rikkert Scholten, Max Schieler - Erasmus University Rotterdam, Robeco Asset Management

This paper investigates how investors can integrate the Sustainable Development Goals (SDG) into government bond portfolios. First, the Authors develop a framework that assesses if countries: (i) have good policies for the SDGs; (ii) need better access to capital in order to finance sustainable development; and (iii) respect key sustainability principles. The authors argue that countries meeting these three criteria deserve priority for inclusion in SDG-aligned government bond portfolios. Second, they apply this framework to 170 countries, allowing us to create SDG-scores for each country. Third, to show how these scores can be used in practice, the Authors create a hypothetical sovereign bond portfolio that aligns with the SDGs. the paper raises implications for sustainable investing and the financing of the SDGs. **TAGS:** **Debt Policy**; **Debt sustainability**

Federal Debt and the Statutory Limit **(2023)**

Avi Lerner - CBO USA

The debt limit—commonly called the debt ceiling—is the maximum amount of debt that the Department of the Treasury can issue to the public or to other federal agencies. The amount is set by law and has been increased or suspended over the years to allow for the additional borrowing needed to finance the government's operations. On December 16, 2021, lawmakers raised the debt limit by $2.5 trillion to a total of $31.4 trillion.1 On January 19, 2023, that limit was reached, and the Treasury announced a "debt issuance suspension period" during which, under current law, it can take well-established "extraordinary measures" to borrow additional funds without breaching the debt ceiling. **TAGS:** **Debt Policy**; **Debt sustainability**

Fiscal Rules and Optimal Currency Composition of Sovereign Debt in Emerging Economies **(2023)**

Oscar Mauricio Valencia, Luis Alberto Rodriguez, Juan Pablo Siachoque - Inter-American Development Bank, Rosario University, University of Nottingham

Total public debt in most emerging markets grew before and after the pandemic with a sizable share in foreign currency. Along this trend, interest payments increased even in the presence of active fiscal rules in some countries. How should debt management of public debt be set under a fiscal rule? This document studies how optimal currency composition reduces the cost of debt and facilitates fiscal rule compliance but increases budget risk. Using a small open economy model, the paper provides evidence that optimal foreign currency holdings in Chile, Colombia, and Mexico depart considerably from observed; remaining low (high) in periods of favorable (adverse) external or domestic macroeconomic and financial conditions. **TAGS:** **Debt Policy**; **Debt and fiscal/monetary policies**; **Cost and Risk**

The Debt-to-GDP Ratio as a Tool for Debt Management: Not Good for LICs **(2023)**

J. Atsu Amegashie - University of Guelph Canada

There have been criticisms of debt sustainability analysis in general, including the IMF's own evaluation of the usefulness of its debt sustainability methodology (e.g., IMF, 2017). This paper's focus is narrow. On the basis of theoretical arguments and empirical evidence, it argues that the debt-to-GDP ratio is a poor metric for debt management in low-income countries (LICs). It makes a case for explicit revenue-based metrics of debt management. In LICs or countries with weak institutions, the debt-to-GDP may be manipulated by understating the stock of debt, resorting to dubious accounting methods, and there is a weak correlation between GDP and revenue as result of inefficiencies in the tax administration and a large informal sector. It is also a relatively inefficient predictor of debt distress. Other reasons are provided in the paper. **TAGS:** **Debt Policy**; **Debt sustainability**; **Accounting standards**

Sovereign ESG Bond Issuance: A Guidance Note for Sovereign Debt Managers **(2023)**

Peter Lindner, Kay Chung – IMF

This paper aims to provide guidance to issuers of sovereign ESG bonds, with a focus on Emerging Market and Developing Economies (EMDEs). An overview of the ESG financing options available to sovereign issuers is followed by an analysis of the operational requirements and costs that the issuance of sovereign ESG bonds entails. While green bonds are the instruments used to describe the issuance process, the paper also covers alternative instruments, including social and sustainability-linked bonds to provide issuers and other stakeholders with a comprehensive view of the ESG bond marketplace. **TAGS:** **Debt Policy**; **Primary market**; **Public debt** auctions; Best Practices; Green bonds; Climate change

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Dealing with Debt. Less risk for more growth in Latin America and the Caribbean (2023)

Andrew Powell Oscar, Mauricio Valencia – IDB

The pandemic dealt a severe blow to Latin America and the Caribbean, inflicting unfathomable human suffering and exacting a heavy economic toll. It has left many scars in its wake. At the macroeconomic level, one of the most lasting and significant ones is high debt. Debt had risen even before the pandemic, but it accelerated further as governments deployed fiscal packages to support their economies while watching revenues run dry. The fiscal response was justified given the magnitude and nature of the crisis, but the region must now address the consequences. This book focuses on how countries should manage high debt levels and develops policy recommendations based on rigorous analysis [...] **TAGS:** Debt Statistics; Debt Policy; Debt and fiscal/monetary policies; Debt and growth

Cost and Risk

Impact of Climate Change on Sovereign Risk in Asia (2023)

S. P. Jayasooriya - Asian Development Bank

More than at any time in the history, climate change is having an increasingly unprecedented effect on human lives. Economies are affected severely in terms of sovereign risk due to climate change variations influencing the macroeconomy. Asian countries are highly susceptible to economic downturn due to the consequences of climate change. The purpose of this study is to identify the relationships between sovereign risk and climate change in all Asian countries. Controlling for a range of macroeconomic and financial drivers of sovereign bond spreads, the paper applied a Panel autoregressive distributed lag (ARDL) model to identify the effects of climate change on the sovereign risk. The Panel I ARDL included the pooled mean group (PMG) regression, mean group (MG) estimation, and dynamic fixed effects (DFE) regression for estimating the macroeconomic impacts. The results show that, in the long run, the DFE model, which was selected as the best model for all Asian countries, provides evidence for the existence of a cointegration relationship. These findings have implications for policymakers, both from a fiscal sustainability perspective and with regard to the influence of exposure to climate change. **TAGS:** Climate Change; Sovereign Risk Premia; Cost and Risk

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Primary Markets

EU Sovereign bond transparency regime framework - Position paper (2023)

ICMA

ICMA proposes a post-trade transparency framework for sovereign bonds traded in the EU. ICMA believes that improved transparency for the EU sovereign bond market is not only core to the ambitions of the Capital Market Union, but it will also address the current information asymmetry faced by existing and potential investors in EU sovereign debt, whilst also acknowledging that there is an existing level of real-time transparency currently available. The key principles that ICMA feels are required in any post trade transparency framework for sovereign bonds are: 1) Harmonization across national competent authorities for their respective sovereign bonds; 2) Removal of the optionality for volume omission and indefinite aggregation. [...] **TAGS:** Primary market; Secondary Markets; Transparency; International and Macroprudential Regulations

Secondary Markets

A Paradox of Emerging Government Securities Market Development (2023)
Tadashi Endo – Independent
Emerging government securities markets (emerging GSMs) are paradoxically trapped in a market failure – the market system is unable to develop the core financial market to support itself. Government intervention is a solution. In emerging GSMs, unlike advanced ones, wherein the government plays a minimal role at the present time, the government is required to set up a market structure that provides fully or heavily subsidized "utilities" to facilitate trading. This study examines the role of "utilities" with a multiplicative factor model and found that diminishing returns to "utilities" explained the development dynamics of emerging GSMs. **TAGS:** Secondary Markets; Sovereign debt market; Structural policies

Subnational Debt

Local Government Debt and Economic Growth: Evidence from China (2023)
Tingting Cheng, Liping Qiu, Jianbao Chen - Nankai University, Fujian Normal University
This paper examines the nexus between local government debt and economic growth in China. Particularly, the Authors investigate whether there exists a debt-threshold effect on economic growth and the long-run effect of debt increase on economic growth. They employ a panel threshold autoregressive distributed lag model to take account of several features in real data which are commonly ignored in the literature, such as cross-province heterogeneity, dynamics, cross-sectional dependence that exists across provinces. Using data on a sample of 31 Chinese provinces over the period from 2015 to 2021, the Authors find the existence of a tipping point about 40%. The authors also find the threshold value for the local government general debt is 60%, while the value for the local government special debt is 10%. Regardless of the threshold, however, in the long run, the local government debt is significantly negatively related to economic growth. **TAGS:** Subnational debt; Debt and growth

Financial Analysis

Sovereign Debt to GDP and Sovereign Bond Yields: Evidence from India (2023)
Dr Shariq Ahmad Bhat, Showkat Busru - Pondicherry University
This paper investigates the impact of sovereign debt to GDP on the yields of sovereign bonds across different maturities of India from 2000 to 2017 comprising of 18 years of sample period. The empirical analysis was performed on the yearly data of debt to GDP and yields of sovereign bond across different maturities of India by applying regression analysis. It was found that debt to GDP is affecting yields of sovereign bond indices of medium term and long term however, it was noticed that there is no impact of debt to GDP on short-term bond yield of India. The results indicate that one point percentage increase in the stock of debt to GDP will lead to decrease of 33.8, 35.2, 37.3, 41.5 and 42.5 base points in 3-, 5-, 10-, 15- and 30-year bond yields of India. **TAGS:** Financial Analysis; Sovereign bonds yields

[Chinese Yuan Interest Rate Swap Yields](#) (2023)
Tanweer Akram, Khawaja Mamun - Citibank, Sacred Heart University
This paper models the dynamics of Chinese yuan (CNY)–denominated long-term interest rate swap yields. The financial sector plays a vital role in the Chinese economy, which has grown rapidly in the past several decades. Going forward, interest rate swaps are likely to have an important role in the Chinese financial system. This paper shows that the short-term interest rate exerts a decisive influence on the long-term swap yield after controlling for various macro-financial variables, such as inflation or core inflation, the growth of industrial production, percent change in the equity price index, and the percentage change in the CNY exchange rate. The autoregressive distributed lag (ARDL) approach is applied to model the dynamics of the long-term swap yield. The empirical findings show that the People's Bank of China's influence extends even to the over-the-counter derivative products, such as CNY interest rate swap yields, through the short-term interest rate. The findings reinforce and extend John Maynard Keynes's notion that the central bank's actions have a decisive role in setting the long-term interest rate in emerging market economies, such as China. **TAGS:** **Financial Analysis**; **Derivatives**

Sovereign risk premia and global macroeconomic conditions (2023)
Sandro C. Andrade, Adelphe Ekponon, Alexandre Jeanneret - University of Miami, University of Liverpool, University of New South Wales
Authors study how shifting global macroeconomic conditions affect sovereign bond prices. Bondholders earn premia for two sources of systematic risk: exposure to low-frequency changes in the state of the economy, as captured by expected macroeconomic growth and volatility, and exposure to higher-frequency macroeconomic shocks. Their model predicts that the first source, labeled long-run macro risk, is the primary driver of the level and the cross-sectional variation in sovereign bond premia. They find support for this prediction using sovereign bond return data for 43 countries over the 1994–2018 period. A long-short portfolio based on long-run macro risk earns 8.11% per year in our sample. **TAGS:** **Sovereign risk premia**; **Financial Analysis**

Pricing of climate risks in financial markets: a summary of the literature (2022)
Egemen Eren, Floortje Merten, Niek Verhoeven - BIS, Netherlands Bank
This paper summarises the academic literature on the financial market pricing of physical and transition risks related to climate change. While studies find that these risks are starting to be priced, concerns are growing that current prices do not fully reflect the risks. Investors grapple with three major challenges when seeking to price climate risks adequately. First, the aggregate nature of climate risks limits the availability of risk-sharing arrangements and hedging instruments. Second, the high degree of uncertainty about climate risks and concrete policy actions to address them heightens modelling and measurement challenges. Third, the information available to investors about climate risks and their consequences is often incomplete or imperfect. **TAGS:** **Financial Analysis**; **Climate change**; **Secondary Markets**; **Cost and Risk**

Debt Crisis

Made in America: The Debt Crisis USA (2023)
Gennady Shkliarevsky - Bard College
The article discusses the issue of the debt crisis that is currently one of the sources of political conflict that poses a threat to economic, political, and social stability in the United States and the world. The article examines to roots of this crisis. It pays particular attention to the important role of collateral in economic activities. It also shows the connection between the debt and value creation as the raison d'etre of economic activities. Finally, the article shows the way toward the resolution of the debt crisis. It argues that the only way to prevent debt crises in the future is to make our economy efficient, i. e. one that fully utilizes all available resources for creating new and increasingly more powerful levels of organization that is essential for value production. **TAGS:** **Debt crisis**; **Financial Analysis**; **Structural policies**

Self-Fulfilling Debt Crises with Long Stagnations (2023)
João Ayres, Gaston Navarro, Juan Pablo Nicolini, Pedro Teles - Inter-American Development Bank, Federal Reserve Board, Federal Reserve Bank of Minneapolis,Banco de Portugal
The paper assesses the quantitative relevance of expectations-driven sovereign debt crises, focusing on the Southern European crisis of the early 2010s and the Argentine default of 2001. The source of multiplicity is the one in Calvo (1988). Key for multiplicity is an output process featuring long periods of either high growth or stagnation that the authors estimate using data for those countries. The Authors find that expectations-driven debt crises are quantitatively relevant but state dependent, as they only occur during stagnations. Expectations are a major driver explaining default rates and credit spread differences between Spain and Argentina. **TAGS:** **Debt crisis**; **Debt and recession**; **Sovereign defaults**

Debt crises, fast and slow (2023)
Giancarlo Corsetti, Seung Hyun Maeng - European University Institute, University of Cambridge
The paper builds a dynamic model where the economy is vulnerable to belief-driven slow-moving debt crises at intermediate debt level, and rollover crises at both low and high debt levels. Vis-à-vis the threat of slow-moving crises, countercyclical deficits generally welfare-dominate debt reduction policies. In a recession, optimizing governments only deleverage if debt is close to the threshold below which belief-driven slow-moving crises can no longer occur. The welfare benefits from deleveraging instead dominate if governments are concerned with losing market access even at low debt levels. Long bond maturities may fully eliminate belief-driven rollover crises but not slow-moving ones. **TAGS:** **Debt crisis**; **Sovereign defaults**

Institutional and Organizational Framework

Options to Align the EU Fiscal Framework to Green Public Investment Needs (2023)
Atanas Pekanov , Margit Schratzenstaller - Austrian Institute of Economic Research, WIFO
The necessary green transition in the EU requires substantial additional green public investment (GPI) by member countries throughout this decade and beyond. This briefing paper discusses four approaches for a reform of EU fiscal rules to better accommodate higher (debt-financed) GPI:

first, an exemption clause for GPI; second, the implementation of a green golden rule; third, a country-specific benchmark share of government expenditures dedicated to GPI recommended by the European Commission; and fourth, an EU Climate Fund. The paper also discusses these options in relation to the recent Commission proposal from November 2022. **TAGS:** Debt and fiscal/monetary policies; Contract standards; Climate change

Debt Restructuring

A Modern Template for the Restructuring of Poor Country Debts (2023)

Lee C. Buchheit, Adam Lerrick - Center for Contract and Economic Organization, Independent

Sixty per cent of low-income countries are in "debt distress" or at high risk of it. The current sovereign debt restructuring framework leads to unsustainable debts over the long term, a continuing repeat of the crisis/debt restructuring cycle, economic stagnation and poverty in low-income countries. This paper proposes that the International Financial Institutions (IFI) provide the funding needed for over-indebted low-income countries to achieve a more durable resolution of their debt problems following the Brady Plan precedent. Two proposed bond exchange structures provide a new template for sovereign debt restructuring. They simplify the Brady concept and increase the liquidity of the restructured instruments significantly. The entire stock of the government's external bonds will be converted into an equal nominal amount of 25–40-year debt with a 3-3.5% interest rate. The result should reduce the net present value of the debt by more than 50% and place the debt on a sustainable path. [....] **TAGS:** Debt Restructuring; Debt sustainability; Buyback and Exchanges

Policies for improving Sovereign Debt Restructurings (2023)

Kushal Patel and Horacio Sapriza - Federal Reserve of Richmond

Recent sovereign default restructurings during the COVID-19 pandemic have reignited interest in research and policy suggestions for improving these restructuring episodes. Evidence for the effectiveness of these policies has largely come from empirical analysis of past episodes, but this type of analysis makes it difficult to explicitly evaluate the economic improvements from implementing these polices. The authors develop and calibrate a model that allows us to analyze the effects of the proposed policies. **TAGS:** Debt Restructuring; Debt Policy

Restructuring Domestic Sovereign Debt: An Analytical Illustration (2023)

David A. Grigorian - International Monetary Fund

Sovereign domestic debt restructurings have become more common in recent years and touched upon a growing share of total public debt. This paper offers a simple framework for policymakers to think about the decision whether to restructure domestic sovereign debt as part of an effort to reduce overall public indebtedness. It also highlights a rather wide range of technical, legal, and operational issues a sovereign may face while restructuring domestic debt. As expected, factors such as debt reduction required to achieve sustainability, fiscal savings from a restructuring, and economic costs of a restructuring are key inputs into the decision making regarding a restructuring, but so are factors such as the composition of debt, financial stability costs, and crisis preparedness, all of which are discussed in the paper. **TAGS:** Debt Restructuring; Debt sustainability; Debt composition

Macroeconomic Analysis

Government Debt and Economic Growth: Evidence from ECOWAS and SADC (2023)
Eugene Msizi Buthelezi - University of Free Sate
The article investigated the impact and threshold of government debt on economic growth in 15 SADC as well as 15 ECOWAS countries from 1970 to 2017. The system Generalized Methods of Moments (GMM) panel data model was utilised. The study found that on average, a 1% increase in government debt share to GDP results in an average decline in economic growth of 0.162% and 0.121% in SADC as well as ECOWAS respectively. However, the government's debt share to GDP threshold above 60% reflects higher economic growth for ECOWAS, while threshold of 30% exhibit higher economic growth for SADC. Any government debt share to GDP thresholds outside these ranges is associated with lower economic growth. It is recommended that countries in both regional groupings keep their government debt threshold of 60% or below as stipulated in the Protocol on Finance and Investment to minimise the burden of government debt on economic growth. **TAGS:** Debt and growth; Debt sustainability

Analyzing U.S. GDP-Debt-Inflation Linkages in the Time-Frequency Domain (2023)
Paulo Rogério Matos,Cristiano da Silva, Antonio Costa - Federal University of Ceara
The paper adds to the discussion on the role of debt-to-GDP and inflation on the U.S. real GDP per capita and its growth rate during the period from 1966 to 2022. The Authors use Global Wavelet Power Spectrum, Multivariate Coherency and Partial Coherency, Phase-Difference and Gain. This framework enables us to work with heteroskedastic and non-stationary data. The paper finds complex phasic and anti-phasic relations between business and growth cycles, versus debt and inflation. To summarize, most relationships (zero to 4-year frequency period) between debt and GDP per capita are characterized by anti-phasic leadership of debt cycles and the relationship between inflation and growth (zero to more than 8-year frequency period) it is also strongly characterized by the anticipation of inflationary cycles in the opposite direction. The paper also has interesting findings over NBER recessions, and its most recent evidence captures the effects of the pandemic. **TAGS:** Debt and growth; Financial stability

The Interplay of Interest Rates and Debt-Financed Government Spending (2023)
Bev Dahlby, Ergete Ferede - CESifo, MacKwan Uninversity
A favorable differential between the interest rate on government debt and the growth rate of the economy does not mean that debt-financed spending has low or no fiscal cost. - Higher public sector debt levels can lead to higher real interest rates and lower economic growth rates, forcing the government to run a smaller primary deficit to stabilize the debt ratio. - This will push up the average fiscal cost (AFC) of program spending, defined as the ratio of taxes to program spending. - Marginal fiscal cost (MFC), i.e., the additional taxes imposed to stabilize the debt ratio, can exceed the increase in deficit-financed spending. – The calculations indicate that six of the EA12 countries had an MFC greater than one in 2019. Small increases in the debt ratios or the interest rate-growth rate differentials in Finland, Germany, and Austria would push their MFCs to a value higher than one. **TAGS:** Debt and growth; Sovereign bonds yields; Debt and fiscal/monetary policies

[Not Just the News: Higher Moments of Macroeconomic Variables and Sovereign Bond Returns](#) (2023)

Yulin Li, John K. Wald, Zijun Wang - Monmouth University, University of Texas at San Antonio

Using sovereign debt data from 47 countries, the authors document that the third moment (skewness) of unemployment changes has a positive and significant relation with sovereign bond returns. Thus, while investors require risk premia for exposure to macroeconomic shocks (Campbell, 1996), the authors find that the skewness of unemployment changes contains information that helps to explain sovereign bond returns beyond the shocks to the unemployment rate. This relation holds for both dollar and local currency sovereign debt returns, and after controlling for the information content of news events. The relation is greater in economic expansions than in contractions. **TAGS:** **Sovereign bonds yields**; **Debt and growth**

Public Debt and Private Risk Management (2023)

Michael Sockin, Daniel Neuhann - University of Texas at Austin

In many countries, a substantial share of aggregate savings is now managed by large institutional investors. Recent turmoil in U.K. bond markets raises concerns about the risk exposures of these financial institutions and suggests a tight link between institutional risk management and the supply of public debt. The Authors characterize this link in a general equilibrium model in which risk sharing is impaired because large institutions have price impact. Private risk management and public debt are complements: increasing the supply of government bonds improves risk sharing by raising liquidity and reducing market power in financial markets. Moreover, public debt crowds {in} private investment. This is the case even though markets are complete, perfectly integrated, and Ricardian Equivalence holds under perfect competition. Taken together, government bond supply thus shapes financial market power. **TAGS:** **Debt and growth**; **Cost and Risk**: **Financial Analysis**

Determinants of the Degree of Fiscal Sustainability (2023)

António Afonso, José Alves, José Carlos Coelho - University of Lisbon

The paper assesses the link between fiscal sustainability coefficients, namely the responses of the primary government balance and the global government balance to the debt-to-GDP ratio, and the response of government revenues to government expenditures. For 22 OECD developed countries the authors use annual data between 1950 and 2019. Other determinants of fiscal responses are also studied in the context of quantile regressions. The Authors find that the output gap contributes to increasing fiscal sustainability by positively influencing the responsiveness of the primary and global government balances; the responses of the primary and global government balances to the debt ratio and the response of government revenues to government expenditures depend on the level of the debt ratio. In addition, from the quantile analysis, the influence of the response of government revenues to government expenditures is negative and increasing over the deciles, confirming the existence of a negative cross-relationship between the fiscal sustainability coefficients. **TAGS:** **Debt sustainability**; **Debt and fiscal/monetary policies**

[Public debt and household inflation expectations] (2023)

Francesco Grigoli, Damiano Sandri - Central Bank of the UAE, BIS and CEPR

The authors use randomized controlled trials in the US, UK, and Brazil to examine the causal effect of public debt on household inflation expectations. The authors find that people underestimate public debt levels and increase inflation expectations when informed about the correct levels. The extent of the revisions is proportional to the size of the information surprise. Confidence in the central bank considerably reduces the sensitivity of inflation expectations to public debt. The authors also show that people associate high public debt with stagflationary effects and that the sensitivity of inflation expectations to public debt is considerably higher for women and low-income individuals. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**; **Financial stability**

Public Debt, Governance, and Growth in Developing Countries: An Application of Quantile via Moment (2023)

Kazi Musa, Kazi Sohag, Jamaliah Said, Farha Ghapar, Norli Ali - Universiti Teknologi MARA, Ural Federal University (UrFU), Kolej Universiti Poly-Tech MARA

Developing countries often encounter budget deficits by taking loans from internal and external sources. The effectiveness of public debt has been a long debate in the seminal and empirical literature. In this study, we investigate the effectiveness of public debt on economic growth, incorporating the role of governance in 44 developing countries. In doing so, the authors applied the Quantile Via Moments approach to analyze heterogeneous panel data ranging 1990–2000 considering the scale and location properties under different economic circumstances. Our results show that public debt impedes economic growth in all quantiles. Our empirical finding corroborates our proposition that in the presence of good governance, public debt promotes economic growth in the medium to higher quantiles. The empirical findings of this study confirm that governance is far more important in promoting economic growth. **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability**

Public Debt Sustainability and Fiscal Reaction Functions in Latin America and the Caribbean **(2023)**

González Jaramillo, María José – IDB

The governments' response to the COVID-19 pandemic left Latin America and the Caribbean economies with increased levels of sovereign debt as a percentage of output, bringing up the question of debt sustainability in the region. The literature has identified two testable conditions on the fiscal reaction function for debt sustainability: i) a positive response of primary balances to debt (Bohn, 1995) and ii) the response of primary balances to debt should be higher than the growth adjusted interest rate (Ghosh et al., 2013). This paper revisits these conditions, both from the theoretical and empirical perspective. It introduces a new "implicit growth" measure which is the relevant one for the debt-to-GDP ratio dynamics. It also tests empirically both conditions for economies in the region. The results suggest that debt is likely sustainable in the region, although it cannot be assured at a 95 percent confidence level. A deep look at the causes of this results pointed towards fiscal fatigue, the fact that primary balances become less responsive to debt levels the higher the latter are. At post-pandemic debt levels sustainability is far from certain. The results here indicate decisive action is required to ensure debt will fall back to prudent levels. **TAGS:** **Debt and growth**; **Debt sustainability**

To borrow or not to borrow: Empirical Evidence from the Public Debt Sustainability of Pakistan **(2023)**

Wajid Islam, Junaid Ahmed, Naseem Faraz - ADB Institute

The authors aim to evaluate the public debt sustainability of Pakistan using the debt sustainability analysis (DSA) framework and fiscal reaction function (FRF). For the empirical analysis, the authors use relevant important macroeconomic variables, such as public debt, external debt, primary balance, output growth, current account balance, and oil prices, over the period 1976–2021. The results of the DSA suggest that, at the 10% growth rate with a real interest rate lower than 10%, the public debt level can be brought under the 60% standard sustainable limit from the current 80% by the year 2030. Furthermore, the estimates of the FRF reveal no evidence of debt sustainability. Besides this, the COVID-19 pandemic is positively associated with the primary balance mainly due to the decrease in the primary balance from –3.5% in 2019 to –0.9% in 2020. This is expected as a large amount of debt relief was provided to Pakistan during this period. Overall, our findings indicate that, if the rapid debt accumulation trend continues, the country will be unable to bear such a hefty load of ballooning debt. Therefore, a strategy of continuing coordination of fiscal and monetary policy is crucial for robust growth momentum to keep the debt sustainable. **TAGS:** **Debt Sustainability**

Economic Policies

Fiscal Rules: Challenges and Reform Opportunities for Emerging Markets **(2023)**

Martín Ardanaz, Eduardo Cavallo, Alejandro Izquierdo - Inter-American Development Bank

Fiscal rules have gained popularity as tools to strengthen debt sustainability by constraining policy discretion. However, their track record in the case of emerging markets is mixed, as setting up a fiscal rule has been no guarantee of debt stabilization. International experience and empirical evidence regarding the working of fiscal rules suggest that paying attention to the quality of rule design, the mechanisms behind better compliance, forward guidance on return to the rule, and the impacts on different dimensions of public finances (particularly spending composition) is key to enhancing fiscal rule performance. In addition, fiscal rules should be complemented with credible medium-term fiscal frameworks and independent fiscal councils that together set relevant policy anchors to support effectively the goal of safeguarding fiscal sustainability. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**

Philippine Fiscal Policy: The Equality of Government's Fiscal Procedures and the Anticipated Response to Debt **(2023)**

Jhona Batiduan, Isidro Minas, Florinda Garcia-Vigonte, Marmelo V. Abante - World Citi Colleges

A nation's economy is managed in large part through fiscal policy. It is a central bank's secondary tool for influencing a country's money supply after monetary policy. Unfortunately, not everyone is affected equally by any fiscal policy. One of the Philippines' most pressing development concerns is economic inequality. With the Philippines as the case subject, this paper assessed and investigated the fiscal equity of the country's government procedure and its predicted response to debt through the distributional impacts of its fiscal policy and its public debt management and government bond markets, respectively. The researchers used the PRISMA method in conducting the study. To find potential citations, the researchers searched the internet, in particular Google Scholar, to gather data. Based on the analysis conveyed, the researchers found inequality among various populations in the Philippines. Yet, fiscal measures are essential in eliminating inequality. The national government must avoid bunching up on maturities and ensure its cash flows will cover future liabilities as they arise. **TAGS:** **Debt and fiscal/monetary policies**; **Sovereign debt market**

Does the Level of Financial Development Matter for the Fiscal Response? A PSTR Approach for the EU and Selected OECD Countries **(2023)**

Bettina Bökemeier, Andreea Stoian, Benjamin Owusu - Bielefeld University, Bucharest University

This paper empirically studies the role of financial development in the fiscal response function by distinguishing high and low financial development regimes based on a data driven selection mechanism and investigating two groups of economies, European Union (EU) members and OECD countries from 2000 to 2019. Applying the panel smooth transition regression to separate two regimes based on the status of financial development the authors find a threshold of about 0.60 of financial development (FD) on average in the EU, a little higher in the OECD. The results indicate that the stance of financial development matters for fiscal policy design and business cycle behavior. The response effectively differs for low financial development regime situations compared to high financial development regimes, both, with regard to debt sustainability as well as the output gap in the EU and the OECD, too. While in the low FD regime debt indicates to be sustainable and the business cycle performs pro-cyclically, in high FD regimes the picture changes to a more mixed behavior including debt non-sustainability and counter-cyclical output manner. This holds true for both, the EU as well as the OECD. Thus, our results indicate that financial markets do fuel (fiscal) policy behavior. Too much financial development can influence particularly the debt reaction and the business cycle. **TAGS:** **Debt sustainability**; **Structural policies**; **Primary market**; **Secondary Markets**

Are Fiscal Rules Efficient on Public Debt Restraint in the Presence of Shadow Economy? **(2023)**

Eugenia Ramona Mara, Raluca Maran - Babeș-Bolyai University, OECD

This paper provides an analysis of the role played by fiscal rules and the shadow economy on the evolution of public debt. Thus, the authors investigate the effectiveness of fiscal rules in limiting the level of indebtedness considering the presence of a shadow economy for 194 advanced, emerging, and developing countries over the period 1995-2021. The shadow economy has a negative impact on public revenue collection and leads to an increase in the budget deficit. A better management of public finance is hard to be realized in the presence of a shadow economy. The governments should try to limit the spread of the shadow economy in order to achieve sustainable public finances and maintain public indebtedness within reasonable limits. The relationship between the public debt, SE, and fiscal rules is analyzed based on the Generalized Method of Moments (GMM) for investigating the dynamic relation existing between variables. In addition, using Ganger causality is verified a potential bidirectional causality between variables. The main empirical findings confirm the significant contribution of the shadow economy to the public debt increase and the ineffectiveness of fiscal rules applied. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**

Natural Disasters and Fiscal Drought **(2023)**

Lazar Milivojevic - The World Bank

This paper examines to what extent slowdowns in economic growth after natural disasters are accompanied by widening fiscal deficits and corresponding pressures on public debt. Empirical analysis based on exogenous measures of physical disaster intensity shows that natural disasters lead not only to output losses but also to further deterioration of countries' fiscal positions. The effects are persistent and driven by developments in emerging markets and developing economies. A dynamic stochastic general equilibrium model is used to show the propagation mechanism of an extreme event that affects agricultural productivity. The model features farmers endowed with land with time-varying productivity subject to economic and weather conditions. Simulation results illustrate the climate-fiscal nexus existence and highlight the role of structural resilience in limiting the impact of natural disasters. **TAGS:** **Debt and fiscal/monetary policies**; **Cost and Risk**; **Climate change**; **Debt sustainability**; **Natural disasters**

The Nexus between Public Debt and the Government Spending Multiplier: Fiscal Adjustments Matter **(2023)**

Yasuharu Iwata, Hirokuni Iibosh - Government of Japan, Nihon University

This paper studies the evolution of government spending multipliers in the post-war U.S. using a time-varying parameter VAR model. The authors achieve identification by imposing sign and zero restrictions on the systematic component of policy rules and impulse responses. Our results show that the U.S. multipliers in the post-OBRA93 period are smaller than those in the 1970s. The multipliers are found to be more strongly correlated with the estimated coefficients of the debt-stabilizing rule than the debt-to-GDP ratios. The increased magnitude of fiscal adjustments appears to be the major driving force behind the decline in multipliers rather than debt accumulation itself. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**; **Financial Analysis**

Escape Clauses for Escaping Default **(2023)**

Rodrigo Ernesto Caputo, Felix Ordonez - Universidad de Santiago de Chile

The paper studies the benefits of introducing escape clauses into debt limit rules. These clauses mitigate the trade-off between expanding government transfers and repaying debt, that policymakers face in recessions. In adverse cycles, the government can issue more debt to sustain government transfers and debt payments, reducing both the probability of default and the sovereign spread. The benefits of escape clauses are present even when they are not active. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**; **Structural policies**

Debt Targets and Fiscal Consolidation in a two-country HANK model for the Euro Area **(2023)**

Xiaoshan Chen, Spyridon Lazarakis, Petros Varthalitis - Durham University, Lancaster University, Athens University of Economics and Business

his paper builds a two-country Heterogenous Agents New Keynesian (HANK) model for the Euro Area (EA). The two countries differ in the degree of public indebtedness, i.e., the Periphery has a relatively higher public debt-output ratio vis-à-vis the Core. The model captures some key features of the EA's cross- and within-country heterogeneity over the 2010-2020 period. The authors use this model as a vehicle to study fiscal consolidation policy and reforms of EA fiscal targets. The authors find that public debt asymmetry can explain qualitatively, and to some extent quantitatively, EA macroeconomic imbalances and within-country disparities. The authors find that a fiscal consolidation scenario that mimics the current EA institutional arrangements, i.e., the Maastricht Treaty and the Stability Growth Pact Agreement, would result in significant welfare losses, especially for the wealth-poor and wealth-median in the Periphery; the welfare losses amount to 2.42% and 2.21% of their lifetime consumption in the status quo stationary equilibrium, respectively. […] **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**

Passive monetary policy and active fiscal policy in a monetary union (2023)

Bartosz Maćkowiak, Sebastian Schmidt - European Central Bank

How is the price level determined in a monetary union when the common monetary policy pegs the nominal interest rate? How are the price levels in the member countries determined? The authors extend the fiscal theory of the price level to the case of a heterogenous monetary union. Price level determinacy follows if fiscal policy at the level of the union as a whole is active. Different combinations of national fiscal policies and a common fiscal policy with "Eurobonds" amount to active fiscal policy for the union but can have very different implications for the effects of fiscal and monetary policy. The paper proposes how to coordinate the national policies and the common policy for union-wide policy to be active. **TAGS:** **Debt and fiscal/monetary policies**; **Eurobonds**

"Front-loading" monetary tightening: pros and cons (2023)

Paolo Cavallino, Giulio Cornelli, Peter Hördahl, Egon Zakrajšek – BIS

In response to the surge in inflation+ globally, central banks have engaged in the most synchronised and rapid monetary tightening in 50 years. Parsing the evidence from 11 advanced economies since 1970 indicates that "front-loading" of interest rate hikes is successful in countering inflation, even in the face of large and persistent inflationary shocks. Still, front-loaded monetary policy tightening may carry risks to financial stability, especially in an environment of high private and public debt levels or potential fragility in market liquidity. **TAGS:** **Debt and fiscal/monetary policies**; **Financia stability**; **Debt sustainability**

Multilateral Financing

Multilateral financial assistance to Ukraine (2023)

European Parliament

This paper provides a snapshot of multilateral financial assistance provided to Ukraine since the start of the Russian invasion in February 2022 by the European Union and its bodies (European Investment Bank), international financial institutions (International Monetary Fund, World Bank Group, and European Bank for Reconstruction and Development) and informal groups of bilateral creditors ("The Group of Creditors of Ukraine"). The paper aims to increase understanding and support public scrutiny related to international financial assistance to Ukraine and will be updated with new elements regularly. **TAGS:** **Multilateral financing**; **Debt sustainability**; **Financial stability**

[Biodiversity and development finance: Main Trends, 2011-20](#) (2022)

Casado-Asensio, J., D. Blaquier and J. Sedemund - OECD

This paper provides an overview of the main trends in development finance with biodiversity-related objectives for the period 2011 to 2020, using available OECD statistical data, from various sources. The resources covered are: Official Development Assistance and non-concessional development finance, both bilateral and multilateral, from members of the OECD Development Assistance Committee (DAC) as well as non-members, including South-South and Triangular Co-operation; private finance mobilised by public interventions; and private philanthropy. In addition, this paper assesses financing provided by bilateral DAC members that are Parties to the UN Convention on Biological Diversity, looking at how they fared collectively against the Aichi Target 20 on development finance. The paper was prepared by the DAC ENVIRONET Secretariat, with inputs from the OECD Environment Directorate, and with guidance from a group of DAC members. **TAGS: Multilateral financing**; **Climate change**

Reports

2023

Winter 2023 Economic Forecast: EU economy set to avoid recession, but headwinds persist

European Commission

Almost one year after Russia launched its war of aggression against Ukraine, the EU economy entered 2023 on a better footing than projected in autumn. The Winter interim Forecast lifts the growth outlook for this year to 0.8% in the EU and 0.9% in the euro area. Both areas are now set to narrowly avoid the technical recession that was anticipated for the turn of the year. The forecast also slightly lowers the projections for inflation for both 2023 and 2024. Outlook improves thanks to enhanced resilience […]. **TAGS: Economic Forecasts**; **Debt Forecasts**

Navigating debt sustainability, structural shifts and economic headwinds: Background note for the 22nd Roundtable on Capital Market and Financial Reform in Asia

OECD

Background note for the 22nd Roundtable on Capital Market and Financial Reform in Asia 1-2 February 2023, Tokyo. The background note assesses potential vulnerabilities to financial sector resilience in Asia. It focuses on non-financial private sector debt accumulation in the aftermath of the global financial crisis of 2008, combined with the rising importance of non-bank financial intermediaries for credit intermediation, and in the context of tighter monetary conditions, elevated inflation, slowing global growth and persisting geopolitical risks. It also suggests policy considerations to address debt sustainability challenges of distressed non-financial issuers and to mitigate procyclicality and excessive liquidity transformation in open-ended investment funds, with the goal of enhancing financial sector resilience and promoting inclusive and sustainable economic growth. […] **TAGS: Debt sustainability**; **Debt relief**; **Structural policies**

[Fiscal Policy in times of crisis](#)

Marcello Estevão - World Bank Group

Rarely since the end of the Second World War has the role of macro-fiscal policy been as salient as it is today. The management of revenue, expenditure, debt and fiscal risks within a medium-to-long-term, inclusive and sustainable growth strategy is regarded as an instrument to respond to crises and help address development challenges. Good macro-fiscal policy has become imperative in a world facing multiple, simultaneous crises—the COVID-19 pandemic, earthquakes, flash floods, forest fires and other natural disasters alongside increased conflicts and wars. Getting macro-fiscal policy right during these crises will help stabilize economies, protect vulnerable households and support businesses […] **TAGS: Debt and fiscal/monetary policies**; **Cost and Risk**; **Climate change**

Top priorities for the Continent in 2023 foresight Africa

Africa Growth Initiative

As we begin 2023, Africa's development is threatened by multiple crises. This time is distinctly different from past episodes, first in the increased frequency of crises, as well as the persistence and deepening of climate and conflict crises. While in 2008/2009 Africa was able to use debt to weather the financial crisis, today, rapidly rising global interest rates and the absence of a well-functioning framework for comprehensive debt reduction and relief, threaten to cut access to international financial markets for many countries. Moreover, deglobalization trends could limit Africa's ability to use international trade to drive growth. […] **TAGS: Debt crisis**; **Climate change**; **Financial stability**; **Debt and fiscal/monetary policies**

BIS Quarterly Review - March

BIS Bank for International Settlements

Financial markets extended previous gains during the review period. As inflation readings gradually fell and the pace of policy tightening slowed early in the period, financial conditions eased and risky asset valuations generally rose on the back of perceptions of declining risks. Expectations of significant rate cuts in the near term appeared to firm up, despite cautious central bank communication about the policy outlook. The US dollar depreciated further, lending additional support to assets in emerging market economies (EMEs). Towards the end of the period, however, market developments proved sensitive to news that challenged investors' sanguine attitude. […] **TAGS: Financial stability**; **Economic Forecasts**; **Secondary Markets**; **Market Liquidity**

The safe asset potential of EU-issued bonds

Tilman Bletzinger, William Greif, Bernd Schwaab – ECB

Modern financial systems rely on safe assets. A "safe asset" is defined by three characteristics (Brunnermeier et al., 2016, 2017, Brunnermeier and Huang, 2018, Gorton and Ordonez, 2022). First, it has a low default risk, or high asset "quality". Second, like a good friend, a safe asset retains its value during bad times ("robustness"). Third, it can be sold at or near current (robust) market prices in most market conditions ("liquidity"). […] **TAGS: Primary market**; **Sovereign immunity**

Navigating an uneven economic recovery

Republic of South Africa National Treasury

South Africa is prioritising stable and clear policies that promote economic growth and fiscal health in the midst of an uncertain outlook. The economy is estimated to have grown by an upwardly revised

2.5 per cent in 2022. However, the growth rate for 2023 is revised downward to 0.9 per cent […] **TAGS:** **Economic Forecasts**; **Debt Forecasts**; **Debt and fiscal/monetary policies**

The Budget and Economic Outlook: 2023 to 2033

CBO Congressional Budget Office

The Congressional Budget Office regularly publishes reports presenting its baseline projections of what the federal budget and the economy would look like in the current year and over the next 10 years if current laws governing taxes and spending generally remained unchanged. This report is the latest in that series. […] **TAGS:** **Economic Forecasts**; **Debt Forecasts**

Six decades of ODA: insights and outlook in the COVID-19 crisis

Yasmin Ahmad, Emily Bosch, Eleanor Carey, Ida Mc Donnell – OECD

The COVID-19 crisis has direct and immediate implications for official development assistance (ODA) budgets. The health impact of this global pandemic has called for resources to respond. The social and economic fallout from shutdown measures and an unprecedented global recession will hit the most vulnerable the worst, likely with long-lasting effects. Assessing 60 years of ODA flows and evidence, this chapter shows that it is the most stable external resource for developing countries, has been resilient to economic crises, and is driven, above all, by political will and global solidarity. […] **TAGS:** **Multilateral financing**; **COVID-19**; **Debt and fiscal/monetary policies**

Long Read: Economics experts agree that a US debt default would do substantial damage to financial markets

Romesh Vaitilingam - Economics Observatory

In January, the US federal government reached the debt ceiling previously set by Congress, and is now using extraordinary measures to meet its public spending obligations. The Initiative on Global Markets Forum at the University of Chicago Booth School of Business invited a panel of US experts to give their thoughts on what a US debt default would mean for financial markets, employment, and what the need periodically to increase the debt ceiling means for overall US debt. The author writes that the survey shows that expert economists are concerned that a debt default could damage financial markets but are less certain about the impact on employment. [….] **TAGS:** **Sovereign defaults**; **Debt crisis**; **Financial Analysis**

The yield curve may be wrong when it comes to predicting recession

Matt Phillips – Axios

Analysts and economists on Wall Street are starting to question the predictive power of the inverted yield curve. Why it matters: It means they're rethinking assumptions that helped drive many to cut forecasts for U.S. economic growth, amplifying the wave of recession talk. […] **TAGS:** **Financial Analysis**; **Economic Forecasts**; **Sovereign bonds yields**

Monetary policy and the return of inflation

Ignazio Visco - Bank of Italy

Inflation is back. After at least three decades of moderate-to-very moderate consumer price changes in advanced economies, inflation has returned to levels that are severely affecting the lives of households and firms, their decisions to consume and to save, to work and to invest. Last year, average inflation for the world economy was almost 9 per cent, more than 7 per cent in advanced countries and almost 10 per cent in emerging and developing economies. During the year it peaked at between 9 and 11 per cent in the United States, the euro area and the United Kingdom, well above the targets of central banks (fig. 1). In this lecture, the author will mainly consider the recent developments of inflation in the euro area and the monetary policy response that has been taking place since the autumn of 2021. […] **TAGS:** **Economic Forecasts**; **Debt and fiscal/monetary policies**; **Financial stability**

New EU fiscal rules and governance challenges

Guido Lorenzoni, Francesco Giavazzi, Veronica Guerrieri, Leonardo D'Amico - University of Chicago, Bocconi University, University of Chicago, Harvard University

In November 2022, the European Commission presented an ambitious plan to overhaul the existing economic governance framework for the EU which includes radical innovations both in the way in which national fiscal plans are formulated and in the governance structure that supports them. This column argues that while the Commission is right to look at Next Generation EU as a positive model for economic cooperation, a new system of fiscal rules that goes in this direction requires us to think boldly about further steps in the direction of a political and fiscal union. **TAGS:** **Structural policies**; **Debt and fiscal/monetary policies**; **Debt and growth**

The euro area hiking cycle - an interim assessment

Philip R. Lane – ECB

The author will first describe the projected impact of monetary policy in the range of macroeconomic models maintained by the ECB. Next, he will report on the accumulating evidence about the impact of the policy tightening cycle on the financial system, the economy and inflation. " […] **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability**

Financial markets in India - in pursuit of stability and development

Shaktikanta Das - Governor of the Reserve Bank of India

From the global financial crisis to the Eurozone sovereign debt crisis; from the taper tantrum to Brexit; from unprecedented quantitative easing to among the most accelerated monetary tightening in recent memory; from a pandemic which brought humankind to a standstill to a geopolitical crisis which threatens the world order as it exists today - it would not be an exaggeration to say that the world has moved from one storm to another in the years since the global financial crisis. […] **TAGS:** **Financial stability**; **Debt and fiscal/monetary policies**; **Debt sustainability**; **Economic Forecasts**

Assessing debt sustainability in the euro area

Fabrice Collard, Michel Habib, Ugo Panizza, Jean Charles Rochet - Toulouse School of Economics, University of Zurich, Centre for Economic Policy Research, Toulouse School of Economics

In the euro area, as in many countries, the COVID-19 pandemic led to a substantial increase in government debt. This column discusses a new approach to evaluate public debt sustainability in the euro area. Over the past ten years, the ECB has played a key role in stabilising the European sovereign debt market. However, the recent inflationary surge could be a game-changer because a strong reaction by the ECB and a rapid increase in real rates could spell trouble for a number of peripheral European economies. **TAGS:** **Debt sustainability**; **Debt and fiscal/monetary policies**

[Fiscal policy: from free to affordable lunch](#)

Othman Bouabdallah, William Hynes, Thomas Kostka, Julian Schumacher, Vilém Valenta – ECB

Borrowing has become more expensive for governments. But despite rising interest rates, government debt can remain on a sound path. The ECB Blog discusses what constitutes a favourable balance between debt costs and economic growth. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**; **Debt and growth**

World Economic Situation and Prospects: February 2023 Briefing, No. 169

The World Bank

The global economic outlook has rapidly worsened in the second half of 2022, resulting in a significant downward revision of world gross product growth estimates for 2022 and 2023. » Persistently high inflation in both developed and developing economies is eroding real incomes. External financing conditions for developing economies have deteriorated due to the monetary tightening measures to counter inflation in developed economies. » Amid an increasingly challenging macroeconomic and financial environment, many developing economies are at risk of entering a vicious cycle of weak investment, slow growth and rising debt-servicing burdens. **TAGS:** **Economic Forecasts**; **Financial stability**; **Debt and recession**

Borrowers grapple with a challenging market environment

Clive Horwood – OMFIF

Public sector borrowers face a raft of challenges in funding their programmes through difficult and volatile markets, OMFIF's Public Sector Debt Outlook 2023 reveals. Featuring a survey from the Sovereign Debt Institute, the report finds that borrowers are concerned about the level of demand from investors, the size of new issuance premiums, the lack of liquidity and the ability of sovereign issuers to incentivise their primary dealer groups. **TAGS:** **Sovereign debt market**; **Financial Analysis**; **Economic Forecasts**; **Primary market**

2022

FSB 2022 in review

BIS

The Financial Stability Institute (FSI) of the Bank for International Settlements (BIS) assists central banks Gnancial regulatory and supervisory authorities worldwide in strengthening their financial systems by supporting the implementation of global regulatory standards and sound supervisory practices. [...] **TAGS:** **Financial stability**; **International and Macroprudential Regulations**

Raising fiscal revenue in times of crisis

Qimiao Fan, Marcello Estevão - The World Bank

The multiple crises that developing countries are facing today constitute a major setback for development. The war in Ukraine and COVID-19 aftershocks have resulted in a steep rise in prices of food, fertilizers, and energy. This in turn has contributed to high levels of inflation and rising interest rates, as well as to the risk of stagflation. [...] **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability**; **Sovereign bonds yields**

A decisive moment in Nigeria: Fiscal Strategy, Policy Coordination, and Macroeconomic Stability

Olumuyiwa Adedeji – CGDEV

Despite the enthusiasm associated with political campaigns in Nigeria, the reality is that the next administration will have to contend with a nation facing significant fiscal-macroeconomic challenges. This note focuses on adopting a more integrated and comprehensive framework for the conduct of fiscal policy, with emphasis on improving domestic resource mobilization, enhancing expenditure efficiency, and exploring alternative sources of fiscal-deficit financing consistent with macroeconomic stability and growth. The note equally discusses the criticality of coordination between fiscal and monetary policy. […] **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability**

Debt Management Monitor - Issue 7 / May 2022

Lilia Razlog - The World Bank

During 2021, the public debt outlook for developing countries and emerging markets continued to worsen due to the impact of the Coronavirus (COVID-19) pandemic. The crisis drove up fiscal pressures and elevated financing needs, while weakening countries' capacity to service and repay public debt. This edition of the Debt Management Monitor (DMM) is designed to inform stakeholders and partners of public debt trends and vulnerabilities in DMF-eligible countries and to track their recent progress in improving debt management. […] **TAGS:** **Debt crisis**; **Debt Statistics**; **Primary market**; **Cost and Risk**; **Transparency**

The Asian International Bond Markets: Development and Trends - Second Edition, March 2022

Andy Hill, Mushtaq Kapasi, and Yanqing Jia - ICMA, Hong Kong Monetary Authority

Annual issuance of cross-border bonds from Asia has increased more than sixfold from USD 107 billion in 2006, reaching USD 614 billion in 2021. This report explores the evolution and remarkable growth of the international bond market in Asia over the last 16 years. The report is organised in two sections, covering the primary and secondary markets. For the primary markets, this report examines issuances through multiple geographical lenses, by the location of arrangement and execution, the location of listing, the issuer's major place of business and the issuer entity's legal place of incorporation. […] **TAGS:** **Primary market**; **Secondary Markets**

The road to normalisation for bond investors?

Michel Vernier – Barclays

After another challenging year for bond investors, 2023 may continue to be volatile until clarity emerges on the pace of peak of interest rates, and inflation. Central banks are likely to keep their foot to the floor in lifting rates until inflation is tamed. The bond market may be too optimistic on the ultimate top in rates, creating mispricing opportunities. Investment grade corporate debt in Europe seems to offer much value at current levels, despite the risks of a recession. **TAGS:** **Economic forecasts**; **Sovereign bond market**

Stabilising financial markets: Lending and market making as a last resort

Willem Buiter, Stephen Cecchetti, Kathryn Dominguez, Antonio Sánchez Serrano - Columbia University, Brandeis University, University of Michigan, European Systemic Risk Board

Starting with the 2007-2009 crisis and continuing with the Covid-19 pandemic, financial markets have faced a series of adverse liquidity shocks. As a result, central banks expanded their policy frameworks as enhanced lenders of last resort and market makers of last resort. This column summarises the key features of these expanded policy toolkits and how they have been used to protect financial stability. It also outlines a set of desirable features of these facilities to maximise effectiveness while minimising risks in the future. **TAGS:** **Secondary Markets**; **Debt and fiscal/monetary policies**; **Financial stability**

Staying the course

Klaas Knot - President of the Netherlands Bank

As you all know by now, the decade of below-target inflation swiftly came to an end in the course of 2021. Our economies rebounded from the pandemic with households disbursing their growing deposit balances, but also with supply still severely constrained after a long period of pandemic contagion measures. Headline inflation approached an unprecedented 5% already in 2021. The unconscionable war in Ukraine, and the associated pressures in energy and food supply then pushed headline inflation into unprecedented double-digit territory in October and November last year, and to 8.4% for 2022 overall. […] **TAGS:** **Economic Forecasts**; **Debt and fiscal/monetary policies**

Monetary policy at work

Tiff Macklem - Governor of the Bank of Canada

As we approach the three-year mark of the COVID-19 pandemic in Canada, we are also entering a new phase in monetary policy. In 2022, we faced an overheated economy and high inflation, and we responded forcefully, increasing our policy interest rate rapidly. The year ahead will be different. In January, after eight consecutive interest rate increases, we said that we expect to hold the policy rate at its current level, conditional on the outlook for inflation. We are pausing to assess how well our interest rate increases are working to bring inflation down. With inflation above 6%, we are still a long way from the 2% target. But inflation is turning the corner. Monetary policy is working. […] **TAGS:** **Economic Forecasts**; **Debt and fiscal/monetary policies**; **Financial stability**

News

What's New area of the PDM Network website proposes ***daily a selection of news on public debt management*** from online newspapers and info providers, as well as ***the most recent documents and reports***. In addition to the bimonthly Newsletter, subscribers receive the weekly newsletter ***Emerging Sovereign Debt Markets News*** which covers sovereign debt markets of emerging and developing countries. The news has been selected by the PDM Network Secretariat from the ©Thomson Reuters Eikon 2023 and ©Refinitiv 2023 information services.

Events and Courses

Please note that the following list contains only events yet to be held at the date of this Newsletter, in chronological order. The calls for papers are highlighted in red.
We invite you to visit the "**Events**" section on the PDM Network website, which is regularly updated with new events and call for papers well in advance of their dates and deadlines.

MARCH

29 March – 1 April 2023: The International Association for Research in Income and Wealth (IARIW), in partnership with the Bank of Italy
IARIW-Bank of Italy Conference on "Central Banks, Financial Markets and Inequality"

30 March 2023: OMFIF, Paris, France
European agency and sub-sovereign issuer forum: Economic outlook, borrowing plans and role in green transition

30 March 2023: ICMA, Hong Kong
The Asian International Bond Markets: Development and Trends

30 March – 1 April 2023: CESifo, Munich, Germany
CESifo Area Conference on Public Economics 2023

APRIL

3 – 14 April 2023: IMF – JVI, JVC Vienna and/or online
Macroeconometric Forecasting and Analysis

5 – 6 April 2023: Institute of International Finance Tokyo, Japan & Online
2023 IIF Sustainable Finance Summit

10 – 11 April 2023: University of Macedonia, Thessaloniki, Greece
7th International Conference on Applied Theory, Macro and Empirical Finance

12 April 2023: Inter-American Development Bank, Washington, D.C. United States and via Zoom
Research and Policy Seminar: The Global Economy at Turning Point

12 – 13 April 2023: CEPR, Evanston, Illinois, United States
2nd CEPR WEFIDEV Workshop in Finance and Development

13 April 2023: The Institute of International Finance, Hybrid
2023 IIF Sustainable Finance Roundtable: Financing the Net Zero Transition

14 – 15 April 2023: The Institute of International Finance, Hybrid
The 2023 IIF Global Debt and Financial Stability Roundtable

17 April 2023: Environmental Finance, London
ESG in Fixed Income EMEA 2023

17 – 28 April 2023: MEFMI, Online
MEFMI Regional Workshop on Operational Risk Management

17 – 28 April 2023: MEFMI, TBA
Regional Workshop on Medium-Term Debt Management Strategy and Annual Borrowing Plan

18 – 19 April 2023: GFOA, E-Learning Course
Fiscal First Aid

18 April 2023: AFME, Wellington Hotel and Spa, Madrid, Spain
AFME's 14th Annual Spanish Capital Markets Conference

19 April 2023: ION Analytics, Frankfurt, Germany
Debtwire Restructuring Forum Germany 2023

24 – 28 April 2023: IMF – JVI, JVC Vienna and/or online
Assessing and Managing Debt-related Fiscal Risks: A Focus on Government Guarantees

24 April – 5 May 2023: IMF JVI, JVC Vienna
[Fiscal Frameworks]

24 – 28 April 2023: Columbia University, NYC
[Macro-financial policymaking in emerging markets]

27 – 28 April 2023: BIS, BoE, ECB and IMF, London
[Policy Challenges and International Spillovers in Times of High Inflation]

27 – 29 April 2023: Georgetown Law IIEL and the Sovereign Debt Forum, Princeton University's School of Public and International Affairs (SPIA)
[Sovereign Debt Forum]

27 – 28 April 2023: GRETA, Carroll School of Management, Boston College
[9th International Conference on Sovereign Bond Markets]

27 – 29 April 2023: The Geneva Graduate Institute, The School of Public and International Affairs (SPIA), Princeton University
[The 6th Interdisciplinary Sovereign Debt Research and Management Conference (DebtCon6)]

MAY

3 May 2023: ECO-ENA: Economics & ECO-Engineering Associate, Inc., Canada, Chestnut Conference Centre, The Armoury Room, Toronto University, Canada
[The Fifth Annual Conference of Islamic Economics & Islamic Finance]

3 – 4 May 2023: AFME, Amsterdam Netherlands
[2nd Annual European Sustainable Finance Conference]

4 – 5 May 2023: ZEW – Leibniz Centre for European Economic Research, Mannheim, Germany
[2023 ZEW Public Finance Conference: Fiscal Policy-Making in times of Crises]

5 – 6 May 2023: CESIFO, Munich, Germany
[CESifo Area Conference on Global Economy 2023]

8 May 2023: U.S. Treasury, Washington D.C.
[2023 Joint Financial Management Improvement Program Conference]

11 – 12 May 2023: Luiss Guido Carli University in collaboration with CEPR, University Campus of Luiss in Rome
[LUISS Finance Workshop]

16 – 18 May 2023: EBRD, Samarkand, Uzbekistan
[EBRD Annual Meeting & Business Forum]

21 – 22 May 2023: The Rothschild Caesarea Foundation, Reichman University (IDC Herzliya) Israel
[The 18th Annual Conference in Financial Economics Research]

22 – 23 May 2023: OECD, Paris, France
[30th OECD Global Forum on Public Debt Management]

22 – 26 May 2023: IMF – JVI, JVC Vienna and/or online
[Public Governance and Structural Reforms]

22 – 31 May 2023: IMF, Singapore
[Assessing and Managing Fiscal Risks (AMFR)]

22 – 31 May 2023: IMF, Singapore
[Compilation Basics for Macroeconomic Statistics (CBMSx)]

23 May 2023: IIF, Brussels & Online
[2023 IIF European Summit Building a dynamic, resilient and inclusive 21st century european economy]

23 May 2023: Swedish House of Finance, Stockholm
[Harnessing Finance for Climate]

23 May 2023: AFME and OMFIF, Deutsche Bank Taunusanlage 12 Frankfurt Hesse Germany
[AFME/OMFIF's 3rd Annual European Financial Integration Conference]

26 May 2023: ICMA, Paris, France
[ICMA Annual General Meeting and Conference 2023]

29 May – 7 June 2023: JVI, Vienna or virtual
[Systemic Macro-Financial Risk Analysis]

JUNE

5 – 7 June 2023: French Finance Association (AFFI), Kedge Business School, Bordeaux campus, France
[39th Conference of the French Finance Association (AFFI)]

10 June 2023: London Business School, London, United Kingdom
[Summer Finance Symposium]

12 – 13 June 2023: ECB, Frankfurt am Main, Germany
[12th ECB Conference on Forecasting Techniques]

14 June 2023: IFMR Graduate School of Business (GSB), Krea University, Online
[Research Symposium on Finance and Economics (RSFE) 2023 (Virtual)]

15 – 16 June 2023: Norges Bank, the IMF, and IMF Economic ReviewOslo, Norway
[The Future of Macroeconomic Policy]

15 – 18 June 2023: European Economics and Finance Society, FernUniversität Hagen in Berlin, Germany
[European Economics and Finance Society - Twenty First Annual Conference]

16 – 17 June 2023: The Bank of Finland and CEPR, Helsinki
[Monetary Policy in Times of Large Shocks]

19 – 24 June 2023: Cesifo, The island of San Servolo, Venice
[CESifo Venice Summer Institute]

20 – 21 June 2023: Euromoney, London , UK
[The Global Borrowers and Bond Investors Forum]

26 – 30 June 2023: JVI, Vienna or virtual
[Designing Government Debt Management Strategies]

26 – 28 June 2023: ECB, Sintra, Portugal
[ECB Forum on Central Banking]

26 – 27 June 2023: AsianFA, Ho Chi Minh City, Vietnam
[The 35th Asian Finance Association Annual Conference]

27 – 28 June 2023: The Cracow University of Economics, Campus of the Cracow University of Economics, Poland
[6th International Conference Workshop on Macroeconomic Research]

28 June 2023: ICMA, Singapore
[The 9th Annual Conference of the Principles]

28 June – 1 July 2023: The European Financial Management Association, Cardiff Business School, Cardiff University, UK
[European Financial Management 2023 Annual Meeting]

28 June 2023: ICMA, Singapore
[The 9th Annual Conference of the Principles]

28 June – 7 July 2023: The European Financial Management Association, Cardiff Business School, Cardiff University, UK
[European Financial Management 2023 Annual Meeting]

29 June – 1 July 2023: University of Bamberg, hybrid
[5th Behavioral Macroeconomics Workshop]

30 June – 1 July 2023: The Risk Center at ETH Zürich and Saïd Business School at the University of Oxford, Saïd Business School, University of Oxford, Park End Street, Oxford OX1 1HP
[Oxford Said - Risk Center at ETH Zurich Macro-Finance Conference 2023]

JULY

1 July 2023: The Risk Banking and Finance Society, Florence (Italy)
[16th edition of the International Risk Management Conference]

3 – 7 July 2023: IBRD, JVI Vienna or virtual
[Implementing Government Debt Management Strategies]

5 – 7 July 2023: Portuguese Finance Network, Funchal, Madeira Island, Portugal
[12th Meeting of the Portuguese Finance Network (PFN)]

5 – 7 July 2023: CEBRA and Others, Federal Reserve Bank of New York and Columbia SIPA New York City, USA
[2023 Annual Meeting of the Central Bank Research Association.]

10 – 11 July 2023: The Asia-Pacific Association of Derivatives, Online and Onsite in Busan, Korea
[The 19th Annual Conference of the Asia-Pacific Association of Derivatives]

AUGUST

2 – 4 August 2023: World Finance Conference, Kristiansand, Norway
[World Finance Conference]

31 August – 1 September 2023: Federal Reserve Bank of Cleveland and European Central Bank Frankfurt am Main, Germany
[Inflation: Drivers and Dynamics 2023 Conference]

SEPTEMBER

8 – 9 September 2023: Montpellier Business School (France) and the University of Portsmouth School of Accounting, Economics and Finance (UK), Montpellier France.
[The 2023 International Conference in Finance, Banking and Accounting (ICFBA)]

21 – 22 September 2023: GRETA Associati, CRIF, European Datawarehouse, European Investment Bank, European Investment Fund, Intesa Sanpaolo, Palazzo Franchetti, Venezia - Italy
[Social, sovereign and geopolitical risks]

24 – 26 September 2023: Inquire Europe, Cologne Germany

Innovation in investing for the long term

27 September 2023: Environmental Finance, New York
ESG in Fixed Income Americas 2023

OCTOBER

16 – 20 October 2023: UNCTAD, Abu Dhabi, United Arab Emirates
8th World Investment Forum

20 – 21 October 2023: NACIF, Houston, Texas, USA
First Annual North American Conference on Islamic Finance

NOVEMBER

1 November 2023: Environmental Finance, Singapore
ESG in Fixed Income Asia 2023

2024

FEBRUARY

18 – 20 February 2024: Emeraldgroup Publishing, Gulf University for Science and Technology, Kuwait
Accounting, accountability and governance in the Middle East and North African (MENA) region

New! Call for papers

Deadline (DL) 30 March 2023: Asian Finance Association, Ho Chi Minh City, Vietnam
Call for papers The 35th Asian Finance Association Annual Conference

DL 31 March 2023: Federal Reserve Bank of Cleveland and European Central Bank, Frankfurt am Main, Germany
Call for papers Inflation: Drivers and Dynamics 2023 Conference

DL 31 March 2023: ECO-ENA: Economics & ECO-Engineering Associate, Inc., Canada, Chestnut Conference Centre: The Armoury Room, Toronto University, Canada
Call for papers The Fifth Annual Conference of Islamic Economics & Islamic Finance

DL 31 March 2023: University of Bamberg, hybrid
Call for papers 5th Behavioral Macroeconomics Workshop

DL 31 March 2023: The Bank of Finland and CEPR Joint Conference, Helsinki
Call for Papers Monetary Policy in Times of Large Shocks

DL 15 April 2023: Montpellier Business School (France) and the University of Portsmouth School of Accounting, Economics and Finance (UK), Montpellier France
Call for papers The 2023 International Conference in Finance, Banking and Accounting (ICFBA)

DL 15 April 2023: European Economics and Finance Society, FernUniversität Hagen in Berlin, Germany
Call for Papers European Economics and Finance Society - Twenty First Annual Conference

DL 16 April 2023: London Business School, London, United Kingdom
Call for papers Summer Finance Symposium

DL 18 April 2023: Inquire Europe, Cologne Germany
Call for Papers Innovation in investing for the long term

DL 27 April 2023: Asian Development Bank Institute
Call for Research Proposals on Monetary Policy and Central Banking Issues in Asia and the Pacific

DL 28 April 2023: The Risk Banking and Finance Society, Florence (Italy)
Call for papers 16th edition of the International Risk Management Conference

DL 30 April 2023: The Asia-Pacific Association of Derivatives, Online and Onsite in Busan, Korea
Call for Papers The 19th Annual Conference of the Asia-Pacific Association of Derivatives

DL 23 May 2023: The Cracow University of Economics, Campus of the Cracow University of Economics, Poland
Call for papers 6th International Conference Workshop on Macroeconomic Research

DL 31 May 2023: GRETA Associati, CRIF, European Datawarehouse, European Investment Bank, European Investment Fund, Intesa Sanpaolo, Palazzo Franchetti, Venezia - Italy
Call for papers Social, sovereign and geopolitical risks

DL 30 June 2023: NACIF, Houston, Texas, USA
Call for papers First Annual North American Conference on Islamic Finance

DL 1 July 2023: Emeraldgroup Publishing, Gulf University for Science and Technology, Kuwait
Call for papers Accounting, accountability and governance in the Middle East and North African (MENA) region

DL 15 September 2023: Financial Accountability & Management, online
Call for papers Public financial management for Sustainable Development Goals: Challenges, experiences and perspectives

Job vacancies - PDM Experts

Explore the job vacancies page dedicated to selected job openings from renowned organizations searching for PDM Experts. If your organization is searching for a PDM Expert, please let us know and we will be glad to update our page with a reference to your job advertisement.

LINKS page

Take note of the links of worldwide websites of Sovereign issuers / DMOs and other institutions specialized, among other matters, in sovereign debt management here.

***** Special Thanks *****

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PDM Network facts and figures

As of 27th March 2023, total documents and reports available on the PDM Network website were 8,816. Events and News uploaded on the website since July 2022 were respectively 265 and 15,086. This newsletter is sent to about 946 Subscribers from emerging and advanced countries.

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