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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

PDM Webinar Series initiative

PDM Webinar Series (forthcoming) – Survey findings
PDM Network

The new **PDM Webinar Series initiative**, in line with the informative and inclusive spirit of the PDM Network, intends to serve as a periodical forum for presenting and discussing traditional or innovative, policy-relevant research/documents/issues on all aspects of sovereign debt management. The **PDM Webinar Series** will convene policymakers, DMOs, experts, researchers, market supervisors and regulators, and practitioners from diverse academic, policy, and market spheres. A **Survey** about the organization and main features of the PDM Webinar Series was shared with PDM Network subscribers and published on PDM Network social channels (Linkedin and Twitter) from March 14 to April 30, 2023. **More info** **TAGS:** **PDM network**; **PDM Webinars**

Highlight

Forthcoming event: 3rd Public Debt Management Conference
PDM Network
Following the success of the previous editions in Paris (2019) and in Rome (2022), the World Bank will host the 3rd Public Debt Management Conference, organised by the PDM Network, in Fall 2024 in Washington D.C. The PDM Conference is a major international event bringing together academics, policy makers (debt managers, central bankers, regulators) and market practitioners (investors, dealers, market infrastructures' managers) from all over the world to meet and discuss various topics on public debt management. Watch this space for the call for papers and other announcements. **Read more** **TAGS:** **PDM network**; **Public Debt Management Conference**; **OECD**; **World Bank**

Special Focus

OECD Sovereign Borrowing Outlook 2023
OECD
The 2023 edition of the OECD Sovereign Borrowing Outlook analyses the impact of increased macroeconomic and geopolitical uncertainty on sovereign borrowing needs and borrowing conditions. It provides outstanding debt amounts from 2007 to 2022, along with 2023 projections for OECD member countries. It also reviews sovereign debt issuance trends in emerging markets and developing economies. This edition continues to explore the perspective of public debt managers on sustainable bonds, with a focus on reporting requirements and performance of these bonds in markets. It also provides recommendations for sovereign debt management offices on how best to develop and implement buyback programmes. **Read more** **TAGS:** **OECD**; **Debt sustainability**; **Sovereign debt market**; **Financial Analysis**

The World Bank's Role in and Use of the Low-Income Country Debt Sustainability Framework
World Bank
This report provides an evaluation, requested by the Committee on Development Effectiveness of the Executive Board of the International Development Association (IDA), that is intended to offer input and insight into the upcoming World Bank– International Monetary Fund (IMF) review of the Low-Income Country Debt Sustainability Framework (LIC-DSF) currently planned for fiscal year 2023. Consistent with the mandate of the Independent Evaluation Group, it will assess only the World Bank's role in and

use of the LIC-DSF. **Read more** **TAGS:** **Debt sustainability**; **Debt management facility**; **Debt crisis**; **Sovereign defaults**; **Low Income Country**; **Transparency**; **Climate change**; **Debt Statistics**

E-Learning course: "GSS Bonds - Sustainable finance solutions for emerging markets"
World Bank
There is growing interest by emerging markets to issue green, social, and sustainability (GSS) bonds for achieving their sustainable development goals and meeting their Paris Agreement commitments. As a pioneer in the development of green bonds, the World Bank supports public sector issuers in emerging markets to issue GSS bonds. Now the World Bank is sharing its experience with a new eLearning course. The course explores the rationale for utilizing GSS bonds, the process for issuing them, and how the World Bank facilitates such transactions. **Read more** **TAGS:** **Green bonds**; **Climate finance**; **Primary Markets**; **Best Practices**; **World Bank**

Global Sovereign Debt Roundtable Co-Chairs Press Statement
IMF
The Global Sovereign Debt Roundtable (GSDR) met today (12th April) and discussed debt sustainability and debt restructuring challenges and ways to address them. At the end of the meeting, the International Monetary Fund Managing Director Kristalina Georgieva, World Bank Group President David Malpass and Indian Minister of Finance Nirmala Sitharaman, co-chairs of the GSDR, released the following statement. **Read more** **TAGS:** **Debt sustainability**; **Debt Restructuring**; **Multilateral financing**; **Debt relief**

Documents

Debt Policy

How Renewable Energy and Digitalization Affect Co2 Emissions The Mediating Role of Public Debt in Emerging Economies
(2023)
Qamar Abbas, Hong Xing Yao, Muhammad Shahbaz, Muhammad Ramzan, Sumbal Fatima - Montpellier Business School, Jiangsu University, Nankai University
Much study has been conducted on the factors influencing renewable energy consumption, and the emergence and fast expansion of digital technology as part of the digital economy provides huge prospects for carbon reduction on a global and emerging economies scale. Till now, research on the relationship between digital economy and CO_2 emissions is in its early stages. Moreover, public debt may have an impact on CO_2 emissions, renewable energy consumption, and digital economy, either directly or indirectly. As a result, the goal of this study is to investigate the role of public debt as a mediator between renewable energy and digital economy, as well as the following impact on CO_2 emissions in emerging nations. To address this gap, the authors investigate the relationship between CO_2 emissions, renewable energy, and the digital economy mediated by public debt in 20 emerging economies from 2003 to 2021. Utilizing a variety of methods to address the issue of cross-sectional dependency i.e. Westerlund panel cointegration test, Driscoll-Kraay robust standard errors estimates, and Dumitrescu-

Hurlin causality test, their empirical findings show that renewable energy and digital economy decrease CO2 emissions. Contrarily, public debt has positive effect on CO2 emissions. It is also confirmed that the interaction terms between renewable energy and public debt, as well as the digital economy and public debt, reduces CO2 emissions. Moreover, renewable energy and digital economy have bidirectional causal relationship with CO2 emissions and public debt, whereas public debt has unidirectional causal relationship with CO2 emissions. The research indicates that emerging economies should promote renewable energy and digitalization while maintaining a manageable level of public debt. **TAGS:** **Debt Policy**; **Climate change**; **Financial Analysis**

Scaling Sustainability-linked Sovereign Debt (2023)

Arend Kulenkampff, Julie McCarthy, Justin Mundy, Gregor Pipan, Simon Zadek - Nature Finance

A viable market for sustainability-linked debt can address the triple challenge of public debt distress, climate shocks and nature degradation. This paper charts out building blocks, use cases and possible pathways for scaling sustainability-linked sovereign debt. Pathways explored include credit enhancement, catalytic financing, standardisation, capacity building, regulation, fiscal frameworks, and nature market linkages. Barriers to achieving scale are also addressed, from data and technology shortfalls to restrictive accounting practices and coordination failures among key stakeholders. As a way forward, the paper calls for coordinated, ambitious interventions by key stakeholders across the sustainable sovereign financing universe. **TAGS:** **Cost and Risk**; **Sovereign defaults**; **Debt sustainability**; **Climate finance**; **Climate risk**; **Debt policy**

The Benefit of Inflation-Indexed Debt: Evidence from an Emerging Bond Market (2023)

Cristhian Hernando Ruiz Cardozo, Jens Henrik Eggert Christensen - Bank of the Republic of Colombia, Federal Reserve Bank of San Francisco

Portfolio diversification is as important to debt management as it is to asset management. In this paper, the authors focus on diversification of sovereign debt issuance through greater reliance on inflation-indexed bonds for a representative emerging economy, Colombia. Using an arbitrage-free dynamic term structure model of fixed-coupon and inflation-indexed bond prices, the authors account for inflation and liquidity risk premia and calculate the net benefit of issuing inflation-indexed bonds over nominal bonds. Their results suggest that the Colombian government could lower its funding costs by as much as 0.69 percent by increasing its issuance of inflation-indexed debt, in particular at long maturities. **TAGS:** **Debt Policy**; **Primary market**; **Financial Analysis**

A framework to assess sovereign bond issuers on climate change - Consultation report (2023)

Antonina Scheer, Simon Dietz, Johannes Honneth, Yana Akhtyrska, Pippa Lockwood, and Rory Sullivan - ASCOR, TPI Centre

The impacts of climate change become more severe and the pressure on governments to act increases as each year passes. As part of their strategic responses to the risks and opportunities presented by climate change, investors are making overarching commitments to contribute to the transition towards net zero greenhouse gas emissions by significantly reducing the emissions associated with their investment portfolios. These commitments are spreading across portfolios.

However, unlike other asset classes such as equities or corporate credit, there is currently no internationally agreed framework for assessing the climate-related risks and opportunities associated with sovereign debt instruments. Additionally, while there is a variety of sovereign data available, they can be incomplete, inconsistent or outdated. This limits investors' ability to conduct appropriate climate-related financial analysis and to engage in an informed way with governments on climate change. Subsequently, the climate-related investment case remains unclear. [...] **TAGS:** **Accounting, Reporting and Auditing**; **Debt Statistics**; **Transparency**; **Primary market**; **Climate Change**; **Financial stability**; **Cost and Risk**

Africa: the debt trap and how to get out of it (2023)

CATDM

The present study focuses on the development of indebtedness in Africa. But the analysis can easily be extended to other countries of the South. It shows that the coronavirus pandemic and its many consequences aggravated a former situation of indebtedness but was not its cause. The pandemic was the catalyst, though all the ingredients of a new financial crisis have been present for several years, at least since 2017-2018. It highlights the dramatic social and economic consequences of the current health crisis, as well as its huge impact on public finances and indebtedness, both in the North and in the South. Finally, it shows that what the International Financial Institutions (IFI) have contributed are false solutions and that there are alternatives. More fundamentally, it demonstrates that the logic of the capitalist system has to be questioned to get to the roots of African countries' indebtedness. **TAGS:** **Debt crisis**; **COVID-19**; **Debt sustainability**; **Debt relief**; **Multilateral financing**

The potential of sovereign sustainability-linked bonds in the drive for net-zero (2023)

Alex Lehmann and Catarina Martins – Bruegel

European Union governments have for some years issued green bonds that raise funds for climate-related spending. These bonds have been received well in capital markets but because they promise a certain use of proceeds, they complicate budget management and may not match investors' claims of having an impact on national climate policies. Public commitments made by major investors and asset owners suggest that limiting climate transition risks and the assessment of the alignment of sovereigns with net-zero targets will now become key determinants of portfolio allocation. Yield differentials in bond markets are already beginning to reflect transition risks that arise from the inadequate pursuit by issuers of climate targets. Unlike standard green bonds, sustainability-linked bonds (SLBs) create a link between performance (outcome) indicators and the financial terms of the bonds. SLBs have grown rapidly in importance in private markets and are now being assessed by sovereign issuers. The authors show that sovereign SLBs could help incentivise climate policies in EU countries, and accelerate emission reductions. They would be an effective tool for signalling commitment. A common EU framework for issuance by EU countries would enhance capital market integration and the transparency of national policies, and would limit climate transition risks in EU capital markets more broadly. **TAGS:** **Green bonds**; **Cost and Risk**; **Sovereign risk premia**; **Climate change**; **Debt sustainability**

[How Latin America is finding its path to economic prosperity again](#) (2023)

Günther Maihold - SWP Stiftung Wissenschaft und Politik

The traditional image of Latin America as a troubled region seems to continue even after the Covid-19 crisis, this time in the wake of the war in Ukraine and the sanctions imposed by the West. Inflationary pressures, budget deficits and the danger that broad sections of the population will slip into poverty are fuelling negative scenarios. There are initial indications that some countries are already experiencing payment difficulties. Demands from Latin American governments for debt relief or the renego-tiation of foreign debt are being put on the agenda as part of a reorientation of the development model towards sustainability and climate protection criteria. This requires a far-reaching structural change, away from the traditional commodity-based economies and towards an environmentally and socially compatible development path. Germany and Europe must also shift course by contributing to the conservation of natural resources and not just to their exploitation. […] **TAGS:** **Debt sustainability**; **Debt Policy**; **Debt and growth**

Secondary Markets

Government Interventions and Sovereign Bond Market Volatility during COVID-19: A Quantile Analysis (2023)

Claudiu Tiberiu Albulescu, Eugenia Grecu - Politehnica University of Timisoara

Authors test the interaction between governments' COVID-19 interventions, COVID-19-induced uncertainty, and the volatility of sovereign bonds. Different from previous literature, the authors investigate the asymmetric response of bond market volatility to both governmental interventions and COVID-19-induced uncertainty. With a focus on the first waves of the pandemic and using a panel quantile approach and a comprehensive dataset of 31 countries worldwide, they document that containment and closure policies tend to amplify volatility. Furthermore, the price variability is augmented by the spread of the pandemic itself. On the contrary, economic support policies have a substantial stabilizing effect on bond price fluctuations. Both phenomena are not subsumed by additional control variables and are robust to multiple considerations. Their findings may serve financial market participants in their risk management decisions, as well as policymakers to better shape their preparedness for future pandemics. **TAGS:** **Secondary Markets**; **Market Liquidity**; **Sovereign Bond Market**; **Financial Analysis**; **COVID-19**

Subnational Debt

Financing Local Government and Development in Canada in the Aftermath of a Global Pandemic: Continuity and Change (2023)

Almos T. Tassonyi - University of Calgary

In the post-pandemic environment, local governments must confront a challenging fiscal environment. Drawing on insights provided over the years by Richard Bird, the author re-examines certain pervasive themes found in discussions and analysis of municipal finance, such as the merits of benefits-based taxation at the local level, the hierarchical constraints on municipal fiscal decision making, and the reality of a perpetual fiscal crisis at the local level. The underlying issue of having to finance a broad set of expenditures on public services from a narrow revenue base has resulted in intergovernmental tensions and continuing debate over the capacity of the property tax base to meet the demands placed on it. Financing local government can be described in terms of borrowing, spending, and taxing. Each of these areas of municipal fiscal decision making was affected by the COVID-19 pandemic. Borrowing rules remained hierarchically constrained, pressure to increase expenditures grew, and tax and fee-based revenues were adversely affected. Further, it seems likely that the municipal fiscal base will be narrowed given the controversy around development charges. The author uses data from Ontario to illustrate the impact of the pandemic on municipal fiscal health. In addition, the paper includes the Richard Bird Urban Fiscal Health Dashboard to illustrate aspects of the long-run fiscal health of Ontario's local governments. Throughout the paper, the author raises questions that merit further research informed by the perspective that Richard Bird brought to our understanding of the mechanics and implications of local fiscal decision making. **TAGS:** **Subnational Debt**; **Debt Forecasts**; **Debt sustainability**

Financial Analysis

Sovereign Risk, Debt Composition and Exchange Rate Regimes **(2023)**
Wojtek Paczos, Alice Keyser – Cardiff University, University of Bristol
The authors study how exchange rate regime affects the relationship between size and composition of sovereign debt and its riskiness. Domestic and foreign sovereign debt carry different exchange rate and default risks, which depend on the exchange regime. The paper collects data on the 10-year government bond yields and domestic and foreign debt composition for 45 countries over the years 2004-2021. Authors find that higher public debt-to-GDP ratio and higher share of foreign public debt increase sovereign risk in Eurozone and economies with managed exchange rates, but they decrease sovereign risk in economies with floating exchange rates. **TAGS:** **Financial Analysis**; **Cost and Risk**; **Debt composition**

The Role of International Political Stability on Two-Centuries of Sovereign Defaults **(2023)**
Consuelo Silva Buston, Marcela Valenzuela, Ilknur Zer - Pontificia Universidad Católica de Chile, Board of Governors of the Federal Reserve System
The authors study the effects of international political stability on sovereign defaults and bank-sovereign nexus. The authors construct a novel index (IPS) that quantifies the course of international relations between 149 countries spanning 1840-2012. The authors show that countries with higher IPS scores are less likely to default on their debt as they benefit from larger capital inflows, better terms of trade, and lower financial risk. Moreover, such countries benefit from a weak bank-sovereign nexus, enabling them to rebound easier with a mild credit-crunch shock should they default. Similarly, high IPS helps a defaulting country to mitigate increased reputation costs, including sovereign rates and credit ratings. Although higher debt-to-GDP ratio and inflation are associated with a higher frequency of sovereign debt crises, international political stability alleviates these adverse effects. **TAGS:** **Financial Analysis**; **Institutional Investors**; **Sovereign defaults**

How Large is the Sovereign Greenium? **(2023)**
Sakai Ando, Chenxu Fu, Francisco Roch, Ursula Wiriadinata - International Monetary Fund, University of Tokyo
This paper assembles a comprehensive sovereign green bond database and estimates the sovereign greenium. The development of green bond markets has been one of the most important financial breakthroughs in the domain of sustainable finance during the last

15 years. A central benefit associated with green bonds has been that they exhibit a positive green premium (greenium), i.e., a lower yield relative to a similar conventional bond. Yet, issuances at the sovereign level have been relatively recent and not well documented in the literature. The authors find that green bonds are issued at a relatively small premium (4 basis points on average) in Advanced Economies. Yet, importantly, the greenium is growing over time and is considerably larger (11 basis points on average) for Emerging Market Economies. **TAGS:** **Financial Analysis**; **Green bonds**; **Sovereign bonds yields**

Climatic Oscillations and Sovereign Debt Crises **(2023)**

Richard Paul Gregory- East Tennessee State University

The author presents the case for the relationship between climatic oscillations and sovereign debt crisis between 1970 to 2018. The author finds strong empirical evidence of a relationship between the Antarctic Oscillation, the Madden-Julian Oscillation, the North Atlantic Oscillation, the Pacific North American Pattern, and the Pacific Decadal Oscillation and the incidence of Sovereign Debt Crises. Additionally, the combination of the El Nino Oscillation with the Indian Dipole, the North Atlantic Oscillation and the Pacific North American Pattern are associated with droughts that contributed to Sovereign Debt Crises. **TAGS:** **Financial Analysis**; **Climate change**; **Debt crisis**

Exchange Rates and Government Debt **(2023)**

Federico Favaretto - Bocconi University

This paper studies how government debt variables impact estimates of the classic and new UIP puzzles for quarterly data between 2000 and 2020 of 6 developed countries in relation to the United States. The author estimates country-pair VECMs to model cointegration relations between debt variables, price differences, interest rates differences and nominal exchange rate. The author compares this framework with one without debt variables following Engel (2016) using quarterly data between 1979 and 2020. In the framework without debt, the author doesn't find the new UIP puzzle while in the framework with debt, he does find it. Government debt variables are significant and alter the sign of co-movements between difference in interest rates and far-ahead ex-post and ex-ante excess currency returns. The magnitude of the effect is economically relevant. Government debts coefficients cannot be uniquely associated with convenience yield story. **TAGS:** **Financial Analysis**; **Sovereign bonds yields**

French sovereign debt liquidity: main factors, recent developments and resilience during the Covid crisis **(2023)**

Rossi Arthur, Lecomte Ernest, Legrand Théophile, Nguyen Benoît – Banque de France

For a debt instrument to be considered a safe asset, its liquidity must be preserved – it can be bought and sold without a loss – especially when interest rates fluctuate significantly. This article measures the liquidity of French sovereign debt by analysing the "free float" – the debt that can be traded on financial markets. It finds that the liquidity of sovereign securities with a lower free float declined more during the Covid crisis. The Eurosystem's securities lending facility has helped to mitigate the scarcity effect created by the decline in free float since 2015. Moreover, during the period of liquidity stress that started to subside at the end of March 2020, liquidity deteriorated first in the repo market, then in the cash market and finally in the futures market. Nevertheless, in a global context where liquidity stress episodes are more frequent, French public debt remains one of the most liquid in Europe. **TAGS:** **Financial Analysis**; **Market Liquidity**; **COVID-19**

Sovereign risk and bank lending: evidence from 1999 Turkish earthquake **(2023)**

Yusuf Soner Başkaya, Bryan Hardy, Sebnem Kalemli-Ozcan and Vivian Yue - University of Glasgow, BIS, University of Maryland

The authors use an exogenous fiscal shock to identify the transmission of government risk to bank lending due to banks holding government bonds. They illustrate with a theoretical model that for banks with higher exposure to government bonds, a higher sovereign default risk implies lower bank net worth and less lending. Their empirical estimates confirm the model's predictions. The exogenous change in sovereign default risk of Turkish government debt as a result of the 1999 Earthquake impacts banks whose balance sheets were exposed more to government bonds. The resulting lower bank net worth translates into lower credit supply. The authors rule out alternative explanations. Their estimates suggest this channel can explain half of the decline in bank lending following the earthquake. This underlines the importance of the bank balance-sheet channel in transmitting a higher sovereign default risk to reduced real economic activity. **TAGS:** **Financial Analysis**; **Sovereign defaults**; **Sovereign risk premia**; **Institutional Investors**; **Sovereign debt exposure**

Progress on Global Transition to RFRs in Derivatives Markets **(2023)**

ISDA

This paper examines the progress made on the global transition to risk-free rates (RFRs). Specifically, it analyzes the adoption of the Secured Overnight Financing Rate in different regions and highlights major industry developments that are expected to take place in the first half of 2023. The paper also explores several current topics related to the RFR transition, including synthetic LIBOR rates, term RFRs, credit-sensitive rates and the modification of clearing and trading requirements. **TAGS:** **Financial Analysis**; **Derivatives**; **Financial stability**

Sovereign Bond Yield differentials across Europe: A structural entropy perspective **(2023)**

Thierry Warin, Aleksandar Stojkov - HEC Montreal, Ss. Cyril and Methodius University

This study uses structural entropy as a valuable method for studying complex networks in a macro-finance context, such as the European government bond market. The authors make two contributions to the empirical literature on sovereign bond markets and entropy in complex networks. Firstly, the article contributes to the empirical literature on the disciplinary function of credit markets from an entropy perspective. In particular, the authors study bond yield differentials at an average daily frequency among EU countries' 10-year Eurobonds issued between 1 January 1997, and 4 October 2022. Secondly, the article brings a methodological novelty by incorporating an entropy perspective to the study of government bond yield differentials and European capital market integration. Entropy-based methods hold strong potential to bring new sources of dynamism and valuable contributions to the areas of macroeconomics and finance. **TAGS:** **Sovereign bonds yields**; **Subnational Debt**; **Financial Analysis**

[Euro area sovereign bond risk premia before and during the Covid-19 pandemic](#) **(2023)**
Stefano Corradin, Bernd Schwaab – ECB
The authors provide a novel modeling framework to decompose euro area sovereign bond yields into five distinct components: (i) expected future short-term risk-free rates and a term premium, (ii) a default risk premium, (iii) redenomination risk premium, (iv) liquidity risk premium, and (v) segmentation (convenience) premium. Identification is achieved by considering sovereign yields jointly with other rates, including sovereign credit default swap spreads with and without redenomination as a credit event trigger. The authors illustrate their model by studying yield components embedded in German, French, Italian, and Spanish sovereign bonds, before and after the onset of the Covid-19 pandemic in 2020, and by examining the impact of European Central Bank (ECB) monetary policy and European Union (EU) fiscal policy announcements in response to the pandemic. The authors find that all five risk premia became sizable following the onset of the pandemic, and that both monetary and fiscal policy announcements had a pronounced effect on yields, mostly through default, redenomination, and segmentation (convenience) premia. **TAGS:** **Sovereign bonds yields**; **Financial Analysis**; **COVID-19**; **Sovereign risk premia**

Debt Crisis

Are We Heading for another Debt Crisis in Low-Income Countries? Debt Vulnerabilities: Today vs the pre-HIPC Era **(2023)**
Chuku Chuku, Prateek Samal, Joyce Saito, Dalia S Hakura, Marcos d Chamon, Martin D. Cerisola, Guillaume Chabert, Jeromin Zettelmeyer – IMF
There are growing concerns that 25 years after the launch of the HIPC debt relief initiative, many low-income countries are again facing high debt vulnerabilities. This paper compares debt vulnerabilities in LICs today versus those on the eve of the HIPC Initiative and examines challenges to a similarly designed debt-relief framework. While solvency and liquidity indicators in most LICs have steadily worsened in recent years, they remain substantially better on average than they were on the eve of HIPC in the mid-1990s. This said, if current trends persist, debt vulnerabilities in LICs could (but would not necessarily) reach levels comparable to the pre-HIPC era over the medium- to long-term. Today's more complex creditor landscape makes coordination challenging. It is therefore essential for countries to reduce today's debt burdens promptly through economic reform, lowering the cost of financing, and debt restructuring on a case-by-case basis. The international community should also step up efforts to improve debt restructuring processes, including the G20 Common Framework, to ensure that debt relief is delivered in a timely and efficient manner where it is needed. **TAGS:** **Sovereign bonds yields**; **Financial Analysis**; **COVID-19**; **Sovereign risk premia**

Institutional and Organizational Framework

Debt Mutualization in the Euro Area: A Quantitative Exploration **(2023)**
Sakai Ando, Giovanni Dell'Ariccia, Pierre-Olivier Gourinchas, Guido Lorenzoni, Adrian Peralta-Alva, Francisco Roch – International Monetary Fund, University of Chicago Booth School of Business
This paper explores the feasibility of an idea proposed first by the German Council of Economic Experts in 2011 and revisited by

Italian and French authorities in 2021: the one-off mutualization of some European legacy debt through the creation of a European Debt Management Agency (EDMA). The paper does not argue in favor or against these proposals or make a proposal of its own. Rather it outlines a conceptual framework that can be used to quantify the contours of mutualization proposals and draws lessons from the debt assumption in the United States in 1790. The framework suggests that by capitalizing the convenience yield on European-wide safe assets, the EDMA could issue up to 15 percent of euro area GDP, helping to put national debts on a sounder trajectory. The analysis suggests that, without mutualization, some euro area countries are likely to experience decreasing debt-to-GDP ratios over the forecast period. This is not the case for Belgium, Finland, France, Italy, and Spain, where further fiscal consolidation would be needed. For these countries, the authors consider the effects of a debt mutualization equivalent to 26 percent of their GDP. For Italy, this operation alone is enough to ensure a decreasing debt-to-GDP path. For the others, the news is more mixed: while the additional fiscal consolidation is smaller, 1.3 to 2.3 percent of GDP are still required to reduce debt with 95 percent probability. **TAGS:** **Institutional and organizational framework**; **Debt Policy**; **Debt sustainability**

Macroeconomic Analysis

The Employment Cost of Sovereign Default

(2023)

Neele Balke- University of Chicago

This paper analyzes the interaction between government default decisions and labor market outcomes in an environment with persistent unemployment, endogenous wages and financial frictions. In the model, sovereign risk worsens the conditions for firms to pre-finance production and vacancies. This generates anticipation effects of default risk and a new type of endogenous domestic default cost — the employment cost of default. The model is estimated to match the Portuguese debt crisis of 2012. The qualitative and quantitative performance of the model hinges on labor market frictions responsible for the persistence and asymmetry of default costs. Quantifying the costs associated with the Portuguese debt crisis yields a 2.1% lower bound on the quarterly consumption loss. A counterfactual debt default would have resulted in persistent welfare losses and higher spreads, even in resolution of the debt crisis. Introducing labor policies affects a government's ability to commit to debt repayment, which largely impairs cost-reducing effects. **TAGS:** **Sovereign defaults**; **Debt crisis**

Debt and Economic Growth: Does Size Matter? Evidence from Dynamic Parametric and Static Non-parametric Approaches

(2023)

Gerardo Reyes-Tagle, Jorge Muñoz- Inter-American Development Bank

This paper provides new evidence on the effect of debt on economic growth through two alternative methodological approaches. On the one hand, by using a panel error correction model with a sample of 130 countries between 1980 and 2020, the authors found evidence of the existence of a range of debt-to-GDP ratios for which economic growth remains positive after debt surges. This threshold may lie between 32 percent and 136 percent, with optimal economic growth achieved at an 84 percent debt-to-GDP ratio for the whole sample of countries. The error correction form for the economic growth was dynamically consistent and non-linear with respect to the debt-to-

GDP ratio. On the other hand, recent evidence has shown that commodity price volatility increases external debt accumulation for commodity-exporting countries. Still, there is no evidence of the effects of debt surges on these countries' economic growth. This paper provides original insights into the relationship between economic growth and the debt-to-GDP ratio for commodity and non-commodity-driven economies by employing a regression discontinuity design (RDD) approach. This method allows us to estimate differences in economic growth around an estimated threshold without assuming any specific function for the underlying relationship between the two variables. Their findings suggest that non-commodity-driven economies benefit from a higher threshold (85 percent) than commodity-exporting economies (50 percent). **TAGS:** **Debt and growth**; **Financial Analysis**

Empirical Analysis of the Effect of Public Debt on the Economic Growth of Nigeria **(2023)**

Fijoh Kalu, Iheaturu Ikechukwu Boniface- Abia State University, National Youth Service Corps

For adequate economic growth and development, a country's savings may not equate her desired investments in goods and services. When deficit exist, a country will always bring out means to finance the deficit. Such financing in most cases is through debts from both internal external sources. The objectives of the study are to determine the effect of public debts proxied as internal debts, external debts and interest rate on economic growth proxied as gross domestic product. The study applied ex-post facto design with secondary data as instrument for data collection. Multiple regression model, applying ordinary least square regression was used for analysis. Findings showed that external debts have significant negative impacts on GDP while internal debts showed significant positive impacts on GDP. There is also high cost of borrowed fund it is recommended that Government should make sure that all borrowed fund is judiciously used. They should exhaust internal means of borrowing before resorting to external debts. Also creating the enabling environment that will make public debt to achieve the purpose for which it was borrowed. **TAGS:** **Debt and growth**; **Debt composition**

The Threshold Effects of Public Debt on Economic Growth in MENA Countries: Do Energy Endowments Matter? **(2023)**

Mouyad Alsamara, Zouhair Mrabet, Karim Mimouni - Qatar University

The authors investigate the effects of public debt on economic growth and examine its viability as a policy tool to spur economic growth using a sample of 14 Middle Eastern and North African countries over the period 1980–2015. The authors reveal the existence of an inverted U-shaped relationship between public debt and economic growth that varies between oil and non-oil countries. Specifically, the authors find that the debt threshold hovers around 90% for oil countries and 45% for non-oil countries. Moreover, the authors show that public debt appears to more beneficial to non-oil countries regardless of its level vis-a-vis the threshold. Indeed, below the debt threshold, the marginal positive effects of public borrowings on economic growth are larger for non-oil countries. Similarly, above the debt threshold, the negative effects of debt on economic growth are lower for this group of countries. Their findings are critically important for policymakers and demonstrate the importance of a country' energy endowment in moderating the relationship between debt and economic growth. **TAGS:** **Debt and growth**

Flexible Debt Policy Rules in an Open Economy (2023)

Keiichi Morimoto, Reo Takizawa - Meiji University, Japanese Bankers Association

Through a comparative dynamic analysis, the authors argue that the reality of public debt issuance, which responds flexibly to business cycles in contrast to the EU's institutionally prescribed fiscal discipline, may contribute to macroeconomic stabilization. Through a simple econometric analysis, the authors find that the real operations of public debt management in European countries with excessive public debt are rather consistent with such flexible rules, even though the official EU fiscal discipline requires that the debt-to-GDP ratio be kept monotonically close to its long-run target. Using a small open economy model of endogenous growth, the authors demonstrate that the flexible debt policy rule serves to eliminate sunspot fluctuations due to equilibrium indeterminacy that occurs under official fiscal discipline. The authors also find that the flexible rule can lead to endogenous business cycles that depend only on economic fundamentals under equilibrium determinacy. **TAGS:** Debt and fiscal/monetary policies; Debt and growth; Debt policy

Nonlinear effects of public debt on economic growth in Nigeria (2023)

Abdulkarim Yusuf, Saidatulakmal Mohd - Nigeria Police Academy Nigeria, Universiti Sains Malaysia

The COVID-19 pandemic induced governments all over the world to momentarily accumulate higher levels of public debt in order to invest in deficit spending and social protection programs to tackle the anticipated economic slump. The Nigerian government has borrowed heavily from domestic and foreign sources in order to resolve the growing budget deficits and return the economy to a sustainable growth trajectory. Previous studies frequently made the incorrect assumption that the relationship between public debt and growth is linear and symmetric, leading to empirical results that is frequently disputed and imprecise. This study's main objective is to examine the asymmetric impact of public debt on economic growth in Nigeria from 1980 to 2020 using the Nonlinear Autoregressive Distributed Lag method. Empirical evidence indicated that external debt have a significant positive and symmetric impact on economic growth in the long and short run, while debt service payment supporting the debt overhang hypothesis activated a symmetric effect that stifle growth. Domestic debt retarded growth asymmetrically in the short term and linearly over the long term. Foreign reserve holding, on the other hand, had an asymmetric long-run influence and a symmetric short-run impact on growth motivation. To mitigate the negative effects of unsustainable public debt, the study advocated for fiscal reforms that effectively reduce deficit financing to keep the level of government debt low and be able to respond robustly to an economic shock, improve domestic revenue generation and infrastructure spending, and strengthen governance practices and institutions. **TAGS:** Debt and growth; Debt and fiscal/monetary policies; Financial stability; Debt sustainability

Does Public Debt and Investments create Crowding-out Effect in Turkey? Evidence from ARDL approach (2023)

Şeref Can Serin, Murat Demir - Harran University

The impact of public sector debt composition on the private sector is a matter of curiosity. This article explores the crowding-out effect of public debt and public investment on private investment in Turkey from 1975 to 2020, utilising the ARDL method. The findings reveal that public investment, public domestic debt stock, and external debt service create a crowding-out effect; on the other hand, the public external debt stock has a crowding-in effect on private sector investments. In this study, the crowding-out effect of public debt, which has not been directly related to private sector investments in the literature, is tried to be examined. **TAGS:** Debt and fiscal/monetary policies; Financial stability; Debt sustainability

Economic Policies

Sub-Sahara Africa, Another Debt Crises? (2023)

Khan Teyim Pila – Independent

Despite the euphoria and hopes that followed the attainment of many Sub-Saharan African countries of the Heavily Indebted Poor Countries (HIPC) Initiatives, the region's debt woe is at the center of global attention again less than 2 decades after the Heavily Indebted Poor Countries Initiative, with varying consequences on their public finance, growth, and aggravation of poverty. Besides recent exogenous shocks to its economies due to the Covid-19 pandemic coupled with fall of exports, what be driving African countries closer to debt distress at such a high pace? Far from delving into the current controversy of trying to identify which country or institution is using debts as a geopolitical tool to entrap the region, this paper seeks instead to understand principal debt drivers, through evidence-based analysis using open-source yet reliable data from international financial institutions, while proposing actionable and context-sensitive policy reforms to address them. **TAGS:** Debt and fiscal/monetary policies;; Debt sustainability; Debt crisis

Sovereign Debt Vulnerabilities in Asia and the Pacific (2023)

Benno Ferrarini, Suzette Dagli, Paul Mariano- ADB - Asian Development Bank

Three major global crises since 2008 have pushed up public and external debt ratios and associated risks across much of Asia and the Pacific. This is confirmed by debt ratio projections and evidence of widening pockets of vulnerability picked up by regional heat maps in this paper. By and large, the outlook is not yet suggestive of a widespread debt crisis looming in the region, and risks continue to be highest for economies that have long been struggling with unsustainably high debt because of structural and other challenges that well precede the recent pandemic and other crises. However, even for economies with a seemingly benign outlook, it is increasingly difficult to envisage just how more widespread fiscal pressure and debt distress could be averted indefinitely. A most challenging global environment is hampering growth while raising the cost of borrowing and need for fiscal spending. The premise for restoring public finances and ensuring their sustainability after the pandemic crisis was for exactly opposite conditions to prevail. **TAGS:** Debt and fiscal/monetary policies; Debt sustainability

Dynamic Relationship Between External Debt and Unemployment in Sub-Saharan Africa (2023)

Samuel Erasmus Alnaa, Juabin Matey – Bolgatanga Technical University

The struggle to reduce cyclical unemployment by Sub-Saharan African countries is as a result of their inability to integrate fiscal policies into macroeconomic goals and establish independent, well-resourced bodies to manage borrowed funds. The authors examine the dynamic relationship between external debt and unemployment in Sub-Saharan Africa using data from 25 countries. This study demonstrates a direct relationship between foreign debt and unemployment, which is attributed to the erroneous application of discretionary fiscal policy decisions and the inefficient use of borrowed funds. Evidence also suggests a nonlinear relationship between external debt and unemployment across the countries studied. **TAGS:** Deb and fiscal/monetary policies; Foreign Debt

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Tackling the fiscal policy-financial stability nexus (2023)

Claudio Borio, Marc Farag and Fabrizio Zampolli – BIS

Tackling the fiscal policy-financial stability nexus is essential to ensure financial and hence macroeconomic stability. In this paper, the authors review the literature on this topic and suggest how policy could best tackle the link. Doing so involves action on two fronts. First, incorporating financial stability considerations in the design of fiscal policy. This means, in particular, considering the risk of financial crises when assessing fiscal space, recognising the flattering effects of financial booms on fiscal positions and removing or reducing fiscal incentives to private debt accumulation. Second, acknowledging that domestic currency-denominated public debt is not fully risk-free in the design of the prudential regulation of financial institutions. This calls for carefully balanced risk-sensitive capital charges or other measures to limit banks' sovereign exposures with due regard to the special role of government bonds in the financial system and country-specific characteristics. That said, prudent regulation cannot substitute for fiscal prudence. **TAGS:** Debt and fiscal/monetary policies; Financial stability; Debt crisis; Cost and Risk

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The effects of fiscal consolidation in OECD countries (2023)

Georgios Georgantas, Maria Kasselaki, Athanasios Tagkalakis - University of Patras, Bank of Greece, Hellenic Parliamentary Budget Office

Fiscal consolidation is essential for safeguarding fiscal sustainability in many OECD countries in the post COVID-19 era. Several empirical studies have presented evidence in favor of expansionary fiscal consolidations. This paper using the local projection method, investigates the short-to medium-term effects of unanticipated fiscal consolidation shocks in 24 OECD countries from 1990 to 2019. Fiscal adjustment is contractionary according to authors' baseline model. This effect is more pronounced in recessions, in high debt countries, in closed economies and when monetary conditions are tight. Therefore, the decline in the public debt ratio is relatively small. Spending-based adjustments that are implemented in recessions, in periods with tight monetary conditions and when the debt ratio is above 80% are self-defeating. Fiscal consolidations that are initiated in expansions, in low debt countries, when monetary conditions are loose and in open economies can be expansionary and lead to a more pronounced decline in the debt ratio. **TAGS:** Debt and fiscal/monetary policies; Debt sustainability; Cost and Risk; Debt and recession

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Fiscal and monetary policy in emerging market economies: what are the risks and policy trade-offs? (2023)

Ana Aguilar, Carlos Cantú and Rafael Guerra - BIS

Since 2021, monetary policy has tightened globally in response to the surge in inflation. Fiscal policies have generally remained expansionary, notably as governments put in place subsidies and transfers to insulate households, first from the pandemic and then from higher energy and food prices. Such fiscal support increases governments' funding needs at a time when tighter monetary policies raise the cost of servicing debts. Financial markets may reassess fiscal sustainability, request higher risk premia or reduce their holdings of sovereign bonds. Although such effects could affect both advanced and emerging market economies, the latter have historically been most vulnerable to a rise in the cost of international financing and a weaker exchange rate. **TAGS:** **Cost and Risk**; **Debt and fiscal/monetary policies**; **Debt sustainability**; **Sovereign debt market**; **Financial stability**

Italy and Fiscal Rules: Past Performance and Future Prospects **(2022)**

Davide Assalve, Cristina Collura, Elena Giachin Ricca, Ottavio Ricchi, Serena Teobaldo, Roberto Morea – Ministry of Economy and Finance, Independent, Sogei S.p.A.

The European Commission recently resumed a public consultation on the EU's economic governance framework with the aim of gathering views and proposals on how to build a more transparent and effective fiscal policy framework. The pres\ent essay aims to assess current fiscal rules and alternative proposals that have been put forth by various authors and institutions over the past years. The main purpose is to identify the critical aspects of fiscal rules and to build a toolkit allowing a better understanding of their implications under different economic circumstances and scenarios. The authors first take stock of existing fiscal rules as defined by the Stability and Growth Pact. The authors then review the main proposals of reform, notably the new expenditure rule designed by the European Fiscal Board (EFB). Using a forward-looking approach, the authors develop a tool for assessing the extent to which fiscal rules are i) counter-cyclical; ii) economically and politically viable; iii) able to ensure a credible fiscal adjustment; iv) able to provide "stable" prescriptions against sudden changes of underlying economic conditions. The authors focus on Italy as a case study for their broader analysis of fiscal rules. Starting from baseline growth and public finance forecasts, the authors project deficit and debt trajectories for Italy over a medium-term horizon assuming full compliance with each rule under examination from 2023 onwards, as the General Escape Clause is deactivated. The authors find that for Italy each rule embeds pros and cons with respect to the above-mentioned criteria. Overall, the EFB proposal appears to improve the framework in terms of stability and sustainability, while its counter-cyclicality may be inferior to the existing Structural Balance rule and its economic and political feasibility depends upon the required rate of annual debt reduction. In addition to quantitative criteria, in the concluding section of the paper the authors discuss additional aspects of fiscal rules, such as transparency, ownership and governance. **TAGS:** **Debt and fiscal/monetary policies**; **Debt forecasts**; **Transparency**; **Debt sustainability**

Multilateral Financing

The forgotten lender: the role of multilateral lenders in sovereign debt and default **(2023)**

María Bru Muñoz- Banco de España

The role of multilateral lenders in sovereign default has been traditionally overlooked by the literature. However, these creditors represent a significant share of lending to emerging markets and feature very distinct characteristics, such as lower interest rates and seniority. By including these creditors in a traditional DSGE model of sovereign default, I reproduce the high debt levels found in the data while maintaining default probabilities within realistic values. Additionally, I am able to analyze the role of multilateral debt in emerging economies. Multilateral loans complement private financing and reduce the incompleteness of international financial markets. Also, multilateral funding acts as an insurance mechanism in bad times, providing countries with some degree of consumption smoothing, opposite to the role of front-loading consumption fulfilled by private financing. **TAGS:** **Multilateral financing**; **Sovereign defaults**

Reports

2023

Global Debt Monitor Cracks in the Foundation
Emre Tiftik, Khadija Mahmood, Raymond Aycock, Sonja Gibbs – IIF
The global debt stock grew by $8.3 trillion to a near-record $305 trillion in Q1 2023; the combination of high debt levels and rising interest rates has pushed up debt service costs, prompting concerns about the use of leverage in the financial system. **TAGS:** **Debt sustainability**; **Market Liquidity**; **Financial stability**; **Debt Policy**; **Debt Transparency**

Fiscal Monitor: On the Path to Policy Normalization
International Monetary Fund
The report discusses how public finances have fluctuated with multiple shocks since the pandemic, characterized by atypical growth, inflation dynamics, and fiscal support to mitigate the shocks. The recent financial turmoil aggravated an already uncertain and complex outlook with tight financing conditions and mounting concerns for debt vulnerabilities. In this volatile environment, fiscal policy should prioritize consistency with monetary policy to restore price and financial stability, while supporting the most vulnerable. Abrupt changes in financial conditions also call for fiscal restraint to tackle fiscal vulnerabilities. To that end, governments will need to give greater priority to rebuilding fiscal buffers by developing credible risk-based fiscal frameworks that promote consistent macroeconomic policies, reduce debt vulnerabilities over time, and build up the necessary room to handle future shocks. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**

World Economic Outlook: A Rocky Recovery
International Monetary Fund
The baseline forecast is for growth to fall from 3.4 percent in 2022 to 2.8 percent in 2023, before settling at 3.0 percent in 2024. Advanced economies are expected to see an especially pronounced growth slowdown, from 2.7 percent in 2022 to 1.3 percent in 2023. In a plausible alternative scenario with further financial sector stress, global growth declines to about 2.5 percent in 2023 with advanced economy growth falling below 1 percent. Global headline inflation in the baseline is set to fall from 8.7 percent in 2022 to 7.0 percent in 2023 on the back of lower commodity prices but underlying (core) inflation is likely to decline more slowly. Inflation's return to target is unlikely before 2025 in most cases. **TAGS:** **Debt and growth**; **Economic Forecasts**

Regional Economic Outlook – Europe's Balancing Act: Taming Inflation without a Recession

International Monetary Fund

Economic growth has tumbled across Europe, inflation remains too high, and financial sector risks have materialized. Taming sticky inflation while avoiding financial stress and a recession will require tighter macroeconomic policies—tailored to changing financial conditions, stronger financial regulation and supervision, and bolder supply-side reforms that heal scars from the COVID-19 and energy crises.

TAGS: Debt and growth; Financial stability

Mobilizing private capital to help Central Asia cope with extremely severe climate and geophysical disasters

Naomi Cooney, Daniel Mcgree, Martin Melecky, Tatiana Skalon - World Bank

In just four days in February, 200 avalanches hit the mountain regions of Tajikistan, sweeping away houses, rendering critical roads impassable, and killing 19 people. These kinds of disasters are nothing new to Central Asia. Over the past two decades, the region lost over $1.5 billion to natural disasters, affecting over 2.5 million people. A major flood—say, one with a one percent probability of occurring annually—could cause devastating losses: from $220 million in the Kyrgyz Republic to $2.3 billion in Kazakhstan. A major earthquake can cause financial losses from over $360 million in Turkmenistan to over $10 billion in Uzbekistan. With climate change, natural disasters are becoming more frequent and severe than probabilities might suggest. **TAGS: Climate change; World Bank; Debt sustainability**

Kenya faces a potential debt repayment crunch in 2024

Economist Intelligence

Kenya's public debt burden is high but not excessive in a peer group context, with the external and domestic components each accounting for about 34% of GDP at end-2022, but the structure of external debt means servicing costs are relatively high. External debt pressures climbed in 2022, as stringent US monetary tightening and the Russia-Ukraine war led to a spike in yields on Kenya's six active Eurobonds, worth US$7.1bn in total. […] **TAGS: Debt Statistics; Debt sustainability; Foreign Debt; Debt and fiscal/monetary policies**

IF-CAP Recap: The Asian Development Bank's Big Climate Finance bet

Rakan Aboneaaj, Clemence Landers – CGD

In its annual meetings last week in South Korea, the Asian Development Bank (ADB) launched a new large-scale climate finance mechanism, the Innovative Finance Facility for Climate in Asia and the Pacific (IF-CAP). IF-CAP is a donor-backed guarantee facility, where public, private, and philanthropic financing partners take risk off the ADB's balance sheet by guaranteeing to backstop repayments for ADB mitigation and adaptation climate projects. By guaranteeing repayments on specific climate investments, IF-CAP will free up significant new space for ADB climate lending. Over an initial 5-year investment period, the ADB hopes to raise $3 billion in guarantees from financing partners, which could enable as much as $15 billion for climate projects across the region. […] **TAGS: Climate Change; Multilateral financing; Financial stability**

The World Bank's Role in, and Use of the Low-Income Country Debt Sustainability Framework - An Independent Evaluation

World Bank

The evaluation draws lessons for the World Bank to strengthen its role in the preparation and use of the World Bank–International Monetary Fund Low-Income Country Debt Sustainability Framework. It also suggests issues that could be considered in upcoming reviews of the Framework. **TAGS: Debt Sustainability Analysis**; **Multilateral financing**

Safeguarding financial stability amid high inflation and geopolitical risks

International Monetary Fund

Financial stability risks have increased rapidly as the resilience of the global financial system has been tested by higher inflation and fragmentation risks. Chapter 1 analyzes the recent turmoil in the banking sector and the challenges posed by the interaction between tighter monetary and financial conditions and the buildup in vulnerabilities since the global financial crisis. The emergence of stress in financial markets complicates the task of central banks at a time when inflationary pressures are proving to be more persistent than anticipated. Smaller and riskier emerging markets continue to confront worsening debt sustainability trends. […] **TAGS: Financial stability**; **Economic Forecasts**; **Debt sustainability**

Getting Debt Restructuring Terms Right

Brad W. Setser - Council on Foreign Relations

State contingent instruments can play a role in debt restructuring agreements, but they shouldn't be a give-away to investors. There is a compelling case for their use in Zambia—but not in Sri Lanka. After months of delay, the debt restructuring process for low income countries that borrowed excessively from both China and the bond market is starting to grind forward. For all the talk of a need for a new institutional architecture for sovereign debt restructuring, real progress generally comes from innovations introduced to solve complex cases. […] **TAGS: Debt crisis**; **Debt Restructuring**

Tanzania Leverages New IDA Financial Product to Maximize Savings

The World Bank Treasury

Tanzania secured the largest World Bank policy loan in the country's history to foster inclusive and resilient growth. The US$500 million financing leverages International Development Association's (IDA's) new highly concessional product – the Shorter Maturity Loan – and blends it with a regular IDA Scale-Up Window loan, which is on market-based terms. The blended package will save Tanzania almost US$1 in interest cost1 for every US$3 it borrows. **TAGS: Multilateral financing**; **Sovereign bonds yields**; **World Bank**

It's the currency, stupid

Ruurd Brouwer - TCX The Currency Exchange Fund

Covid was not these countries' fault. The lack of global cooperation in tackling it was not their fault. The lack of adequate external official funding was not their fault. The global inflation was not their fault. The war is not their fault. But if the high-income countries do not offer the help they nae evidently need, it will unambiguously be their fault. **TAGS:** **Cost and Risk**; **Foreign Debt**; **Sovereign defaults**; **Debt relief**; **Multilateral financing**

It's the currency, stupid (part 2): is the lowest hanging fruit forbidden? A billions-to-trillions blind spot

Ruurd Brouwer - TCX The Currency Exchange Fund

As part of their Annual Meeting, World Bank and IMF treat observers to a wealth of data, analyses, and projections. The focus is on climate finance, debt sustainability of Low-Income Countries (LICs) and, preferably, some combination of the two. But countries in debt distress tend not to borrow to invest in green infrastructure — so debt's the horse, climate the cart. **TAGS:** **Cost and Risk**; **Foreign Debt**; **Sovereign defaults**; **Debt relief**; **Debt Sustainability**; **Multilateral financing**; **Climate finance**

Moving from numbers to facts: improving data quality in debt sustainability analyses

Jeff Chelsky, Patrick Hettinger - The World Bank Group' Independent Evaluation Group (IEG)

The credibility of debt sustainability assessments depends on the availability and quality of data on a country's stock of public and publicly guaranteed debt, including whether the data are timely, accurate and include all debt-producing liabilities. IEG finds that greater attention is needed to assess debt data quality in debt sustainability analyses. […] **TAGS:** **Accounting, statistics, Reporting and Auditing**; **Transparency**; **Cost and Risk**; **World Bank**

Our 2023 outlook for Italian sovereign bonds

Lauréline Renaud-Chatelain, Nadia Gharbi - Pictet Wealth Management

The rise in interest rates has brought back into focus discussions about debt sustainability in highly-indebted countries, like Italy. Italy's debt-to-GDP ratio has fallen in 2021 and 2022 despite massive public spending to counter the impact of the pandemic and the war in Ukraine. This might seem counterintuitive, but higher nominal GDP growth (thanks to high inflation) has played a big role in improving the debt picture. […] **TAGS:** **Primary market**; **Sovereign bond market**; **Debt Forecasts**; **Debt sustainability**

How Sovereigns have changed the Green-Bond Market

Afsaneh Mastouri, Bhaveer Shah, Vishakha Pandey – MSCI

With the expansion of the global green-bond market, there has been a notable rise in the share of green bonds issued by governments. Sovereign green bonds now constitute over 20% of the Bloomberg MSCI Green Bond Index. Sovereign green bonds appear to already offer investors a diverse range of project exposures — such as proceeds used for conservation, biodiversity and physical-risk adaptation. […] **TAGS:** **Primary market**; **Bond market development**; **Green bonds**

An outlook for the sustainable bond market

BNP Paribas

After a muted year for sustainable bonds in 2022, there are indications that the outlook for 2023 is more upbeat. Malika Takhtayeva and Xuan Sheng Ou Yong discuss what the future might look like for corporate and sovereign use-of-proceeds bonds. In recent years, the market for sustainable use-of-proceeds bonds has grown significantly – annual issuance of green, social and sustainable (GSS) bonds rose from USD 95 billion in 2018 to USD 735 billion in 2021, according to Bloomberg data. […] **TAGS:** **Primary market; Bond market development; Sovereign debt market; Secondary Markets**

Forward Thinking on 'megathreats', 'polycrises', and 'doom loops' with Nouriel Roubini

McKinsey Global Institute

In this episode of the McKinsey Global Institute's Forward Thinking podcast, co-host Michael Chui talks with Nouriel Roubini. Roubini is professor emeritus of economics at the Stern School of Business at New York University, and CEO of Roubini Macro Associates, a global macroeconomics consultancy. He covers topics including the following: The "mother of all" debt crises and what to do about it; - Likely future trends in the global balance sheet—the world's economic health and wealth; - The trajectory of globalization; - Which "megathreat" worries him most. **TAGS:** **Economic Forecasts**; **Debt crisis**; **Debt sustainability**; **Financial stability**

Fixing Germany's fixes of the European Commission's fiscal governance proposal

Olivier Blanchard, Jeromin Zettelmeyer - MIT, Bruegel

The European Commission is in the final stages of drafting a legislative proposal, to be published by the end of April, on reforming the economic governance of the European Union. The proposal will follow on from a plan, published in November (European Commission, 2022), that set out the main lines of the Commission's thinking and gave EU countries a chance to respond. The stakes for the new proposal are very high. If the Commission ignores the criticisms of EU countries, the reform will not pass before the 2024 European elections. This would leave the fiscal governance of the EU in an extended state of limbo. But if the Commission accommodates EU countries too much, the reform will lose the intellectual strengths of the original plan and may morph into something resembling the present system – a Frankenstein's monster of overlapping rules and procedures. […] **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability**; **Structural policies**

The April 2023 Global Sovereign Debt Roundtable: Time for meaningful debt restructuring

David Malpass - The World Bank

In advance of the next meeting of the Sovereign Debt Roundtable on April 12, World Bank President David Malpass wants to provide a quick update on recent developments and reiterate its call for prompt action toward debt sustainability for debt distressed countries. In his remarks at the G20 Finance Ministers and Central Bank Governors on February 24, 2023, he outlined the core debt challenges facing many developing countries. He referred to Zambia, Ghana, and Ethiopia where the debt restructuring process has stalled or is in urgent need of acceleration. Several middle-income countries are also facing a high risk of debt distress, and need a path toward meaningful debt restructuring. […] **TAGS:** **Debt crisis**; **Debt Restructuring**; **Debt and fiscal/monetary policies**; **Debt Sustainability**

Tackling Global Risks - Building Capacity to manage Public Debt (Video)

IMF

The worldwide pandemic and lingering high food and energy prices have aggravated already existing debt challenges in many low-income countries and emerging market economies. Working closely with country authorities and donor partners, the IMF supports member countries through tailored technical assistance and training in several different areas ranging from better debt management to increased debt transparency. […] **TAGS:** **Debt Policy**; **Debt sustainability**; **Transparency**

[Indian capital market regulator's updated green debt guidelines: Unlocking the potential of sustainable finance](#)

Shantanu Srivastava, Saurabh Trivedi - Institute for Energy Economics and Financial Analysis

The Securities and Exchange Board of India (SEBI) published a key milestone regulation that further signals its seriousness in developing the Indian green finance market. This follows a successful sovereign green bond issue in January 2023 and comes amid a growing focus on low-carbon energy and increased scrutiny of greenwashing. The most significant enhancement in SEBI's green debt circular is the requirement to appoint an independent third-party reviewer/certifier for both pre and post green bond issuance. [...] **TAGS:** **Primary market**; **International and Macroprudential Regulations**; **Green bonds**; **Best Practices**

Debt sustainability analysis as an anchor in EU fiscal rules

Philipp Heimberger - Vienna University of Economics and Business

The Commission's reform orientations propose that debt sustainability analysis (DSA) should serve as an anchor in EU fiscal rules. After discussing the main assumptions of DSAs in projecting public debt ratios, the report analyses four critical aspects in designing such a reform: making judgement calls with regard to DSA assumptions; ensuring transparency and democratic legitimacy; promoting public investment in the context of climate goals; and tackling cross-border effects of fiscal policy, in particular related to the euro area dimension. […] **TAGS:** **Debt Policy**; **Debt sustainability**; **Transparency**; **Climate change**

A Silent Revolution in Sovereign Finance

Simon Zadek - Nature Finance

Though a country's fiscal health plays a major role in shaping its response to climate change and nature degradation, traditional political mechanisms approach these issues separately, with poor results. An emerging innovation in sovereign finance – sustainability-linked bonds – offers a better way forward. **TAGS:** **Primary market**; **Climate Change**; **Bond Market Development**

What does History reveal about reducing the National Debt burden?

YiLi Chien, Ashley H. Stewart - Federal Reserve Bank of St. Louis

The U.S. has once again reached its debt ceiling in the first month of 2023, a limit that Congress last set at $31.4 trillion in 2021. If no action is taken, the Congressional Budget Office estimates that the U.S. could potentially face yet another debt-ceiling crisis sometime between July 1 and Sept. 30. The current debate surrounding the national debt limit is not a new one. In fact, the U.S. Treasury notes that since 1960, Congress has acted 78 times to deal with the debt limit. By examining the postwar evolution of the national debt, this post hopes to shed some light on the issue at hand. **TAGS:** **Debt Statistics**; **Debt policy**

High public debt levels raise household inflation expectations - but central banks aren't powerless

Francesco Grigoli, Damiano Sandri - IMF, BIS

The post-pandemic economic recovery has been characterised by a surge in inflation against a background of historically high levels of public debt. This column asks whether high public debt hinders efforts to reduce inflation by increasing household inflation expectations. Using randomised control trials across three countries, the authors find that people underestimate public debt levels and increase inflation expectations when informed about the correct levels. Yet, central banks are far from powerless since central bank credibility is key to weakening the sensitivity of inflation expectations to public debt. **TAGS:** Financial stability; Debt and fiscal/monetary policies; Debt Forecasts

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Institutional investors and responsible investing

Rajna Gibson Brandon, Philipp Krueger - University of Geneva

There is growing interest globally in responsible investing, whereby institutional investors incorporate environmental, social, and governance issues into their investment processes. The column introduces the second LTI Report, in which the authors explore a series of issues relating to the responsible equity and fixed-income investment choices of institutional investors, including what motivates responsible investing, the effectiveness of specific responsible strategies, and whether investors who promise to invest responsibly actually 'walk the ESG talk'. **TAGS:** Institutional Investors; Transparency

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Towards a new tax system in Ukraine

Maryan Zablotskyy, Simeon Djankov - Member at Parliament of Ukraine, London School of Economics and Political Science

Ukraine's tax system functions primarily on the basis of unofficial rules of tax collection. This divergence between law and practice predates Russia's 2022 invasion. This column argues that Ukraine needs a new tax system that provides incentives to come out of the shadow economy. The main goal is for businesses to pay predictable and uniform taxes as prescribed in the law. In times of tremendous crisis the state has to react forcefully to protect its citizens. The Ukrainian government has done so on the military front, it has to do so on the tax front too. […] **TAGS:** Debt and fiscal/monetary policies; Debt crisis; Financial stability

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Slowing debt accumulation, growing risks: Unveiling the complexities of Sub-Saharan Africa's debt burdens

Kifaye Didem Bayar, Anthony Tin Yu To, Ogma Dessirama Bale - World Bank

With the global economic challenges that followed the COVID-19 pandemic, the combined debt stock of low- and middle-income countries rose by 5.6%, from $8.6 trillion in 2020 to $9 trillion in 2021. Globally, countries have devised policy responses to alleviate the economic shocks induced by the pandemic. However, debt accumulation is not evenly distributed across countries or regions. Some economies with existing debt vulnerabilities have become even more fragile, while others have seen their external debt stock reduced. In fact, statistics for country groups and regions mask the deterioration of debt outlook at the individual country level. […] **TAGS:** Debt crisis; Debt sustainability; Debt Policy; Foreign debt; Debt and fiscal/monetary policies

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Penny for your thoughts? Why coordination among creditors is key to sustainable debt

Dirk Reinermann - The World Bank

We know that when used wisely and transparently, debt is important to finance development. Prudent debt can power economies and pave the way for a resilient future—allowing countries to focus on important investments in people and economic growth. Yet today, the poorest countries spend over $46.2 billion annually, equivalent to over 10 percent of their export revenues, to service long-term public and publicly guaranteed external debt. This marks the highest proportion since the year 2000. Amid this intensifying debt crisis facing developing countries, it is clear that a comprehensive approach is needed. […] **TAGS:** Multilateral Financing; Debt Policy; Transparency; Debt sustainability

Central bank asset purchases in response to the Covid-19 crisis
CGFS Working Group co-chaired by Margarita Delgado and Toni Gravelle - Banco de España, Bank of Canada
Large-scale asset purchases by central banks in response to the Covid-19 pandemic were broadly successful in addressing disruptions in monetary policy transmission and providing additional stimulus. In this report, the CGFS examines the experience of central banks in many small open and emerging market economies that conducted asset purchases for the first time during the Covid-19 crisis as well as in large-advanced economies that expanded or reintroduced purchases. […] **TAGS:** **Debt crisis**; **Debt Restructuring**; **Debt and fiscal/monetary policies**; **Debt Sustainability**

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.

MAY

31 May 2023: OMFIF, Philadelphia , USA
The future direction of financial stability, economic environment and monetary policy response

JUNE

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

7 June 2023: The National Institute of Economic and Social Research, NIESR Offices, 2 Dean Trench Street, SW1P 3HE
Finance and Growth Workshop

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 Review, Oslo, Norway
The Future of Macroeconomic Policy
15 – 16 June 2023: OMFIF, Virtual Panel
Embracing GSS sovereign bond issuance in central and eastern Europe

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 – 21 June 2023: Florence School of Banking and Finance, Florence, Italy
The regulation of sustainable finance in the EU

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 - 28 June 2023: European Central Bank, Sintra, Portugal
ECB Forum on Central Banking

26 – 30 June 2023: IBRD, JVI Vienna or virtually
Designing Government Debt Management Strategies

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 and the University of Portsmouth School of Accounting, Economics and Finance (UK), Montpellier, France
[The 2023 International Conference in Finance, Banking and Accounting (ICFBA)]

20 – 21 September 2023: The International Centre for Economic Analysis (ICEA), Faculty of Economic Sciences, University of Warsaw, Warsaw, Poland
[4th Warsaw Money-Macro-Finance Conference]

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]

21 – 22 September 2023: World Bank/IFS/ODI, Online and in London, UK
[5th World Bank/IFS/ODI Tax Conference: The Political Economy of Public Finances]

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]

28 – 29 September 2023: Centre for Economic Policy Research (CEPR), Sveriges Riksbank, Bank for International Settlements (BIS) and

European Central Bank (ECB), Stockholm, Sweden
3rd WE_ARE_IN Macroeconomics and Finance Conference

OCTOBER

5 – 10 October 2023: The Becker Friedman Institute for Economics, Chicago, Illinois
Inflation Expectations: Determinants and Consequences

16 – 20 October 2023: UNCTAD, Abu Dhabi, United Arab Emirates
8th World Investment Forum
19 – 20 October 2023: Federal Reserve Bank of Boston, Federal Reserve Bank of Boston and online
2023 Federal Reserve Stress Testing Research Conference

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

24 – 25 October 2023: European Stability Mechanism, Luxembourg
Economic modelling in policy Institutions Workshop

NOVEMBER

1 November 2023: Environmental Finance, Singapore
ESG in Fixed Income Asia 2023
7 – 8 November 2023: The French Ministry for the Economy and Finance, Paris, France
The sixth edition of the Franco-German Fiscal Policy Seminar

7 – 8 November 2023: The European Banking Authority (EBA), Eba premises and remote
"Interest rate and Liquidity Risk Management, Regulation and the Macro-economic environment".

9 – 10 November 2023: Corvinus University of Budapest and the Game Theory Research Group, Eötvös Loránd University, Budapest, Ungheria
The 14th annual financial market liquidity conference

9 – 10 November 2023: European Central Bank (ECB), Hybrid event: Onsite in Frankfurt am Main and online via WebEx
ECB Conference on money markets 2023
14 – 15 November 2023: The Swiss National Bank (SNB), the Bank for International Settlements (BIS), and the Division of International Finance of the Federal Reserve Board (FRB), Zurich, Switzerland
Third High-Level Conference on Global Risk, Uncertainty, and Volatility . Policy Making Under Uncertainty

25 – 26 November 2023: The University of Birmingham- Sustainable Financial Innovation Research Centre-SFIC, College of Business, Florida Atlantic University, European Financial Management Association and European Financial Management Dubai, United Arab Emirates
ESG in the Era of Geopolitical and Economic Instability

DECEMBER

18 – 19 December 2023: European Central Bank (ECB), Frankfurt
Sixth ECB biennial conference on fiscal policy and EMU governance

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

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 31 May 2023: The Swiss National Bank (SNB), the Bank for International Settlements (BIS), and the Division of International Finance of the Federal Reserve Board (FRB), Zurich, Switzerland
[Call for Papers Third High-Level Conference on Global Risk, Uncertainty, and Volatility . Policy Making Under Uncertainty]

DL 9 June 2023: The Institute of Finance, Corvinus University of Budapest and the Game Theory Research Group, Centre for Economic and Regional Studies, and the Faculty of Economics, Eötvös Loránd University, Università Corvinus di Budapest, Ungheria
[Call for papers The 14th annual financial market liquidity conference]

DL 10 June 2023: The French Ministry for the Economy and Finance, Paris, France
[Call for papers The sixth edition of the Franco-German Fiscal Policy Seminar]

DL 15 June 2023: Federal Reserve Bank of Boston, Federal Reserve Bank of Boston and online
[Call for papers 2023 Federal Reserve Stress Testing Research Conference]

DL 15 June 2023: European Central Bank (ECB), Onsite in Frankfurt am Main and online via WebEx
[Call for papers ECB Conference on money markets 2023]

DL 24 June 2023: The International Centre for Economic Analysis (ICEA), Faculty of Economic Sciences, University of Warsaw, Poland
[Call for papers 4th Warsaw Money-Macro-Finance Conference]

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

DL 30 June 2023: European Stability Mechanism, Luxembourg
[Call for Papers Economic modelling in policy Institutions Workshop]

DL 30 June 2023: The Becker Friedman Institute for Economics, Chicago, Illinois
[Call for Papers – Inflation Expectations: Determinants and Consequences]

DL 30 June 2023: The University of Birmingham-Sustainable Financial Innovation Research Centre-SFIC, College of Business, Florida Atlantic University, European Financial Management Association and European Financial Management, Dubai, United Arab Emirates

Call for Papers ESG in the Era of Geopolitical and Economic Instability

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 7 July 2023: The European Banking Authority (EBA), EBa premises and remote
Call for Papers "Interest rate and Liquidity Risk Management, Regulation and the Macro-economic environment".

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 ***

The PDM Secretariat is grateful to Fatos Koc (OECD), Banu Turhan (World Bank) and Jeffrey Allen Chelsky for information on documents of interest for the PDM Network website.

PDM Network facts and figures

As of 24th May 2023, total documents and reports available on the PDM Network website were 8,883. Events and News uploaded on the website since July 2022 were respectively 314 and 18,318. This newsletter is sent to about 964 Subscribers from emerging and advanced countries.

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