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The bimonthly PDM Network Newsletter is a short report including a selected list of recent **papers, reports, blog articles, 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.

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PDM Webinar Series

The **PDM Webinar Series** is a new PDM Network initiative. In line with the informative and inclusive spirit of the PDM Network, this initiative 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.

2nd Webinar of the PDM Network "Protecting Against Climate-Risks and Disasters: Tools for Ministries of Finance" – October 2, 2023

PDM Network

The second webinar of the PDM Webinar Series, entitled Protecting Against Climate-Risks and Disasters: Tools for Ministries of Finance, successfully concluded on 2 October 2023. The event featured as speaker James Seward, Senior Financial Officer, Capital Markets and Investments team, World Bank Treasury, with Timothy Bishop, Senior Policy Analyst, Insurance, Directorate for Financial and Enterprise Affairs, OECD, moderating the event. […] **Read more** **TAGS:** **PDM Webinar Series**; **PDM Network**; **World Bank**; **OECD**; **Climate finance**; **Disaster risk**

Highlight

CALL FOR PAPERS - 3rd PDM Conference I October 3-4, 2024, Washington, DC

PDM Network

Following the success of the previous editions (2019 in Paris, France, and 2022 in Rome, Italy), the Public Debt Management Network, an initiative jointly fostered by the OECD, the Italian Treasury and the World Bank, is pleased to announce the call for papers for the 3rd edition of the biennial Public Debt Management Conference, which will be held in Washington DC, United States, on October 3-4, 2024. **Submission deadline: March 30, 2024.** **Read more** **TAGS:** **PDM Network**; **World Bank**; **OECD**

Special Focus

Bonds to Finance the Sustainable Blue Economy. A Practitioner's Guide

ADB, ICMA, IFC, UNEP-FI and UNGC

The Blue Economy encompasses economic activities that rely or impact on the use of coastal and marine resources. Like the broader concept of the Green Economy, of which the Blue Economy forms a part, it advocates sustainable use of these resources to minimize negative impacts on the marine environment. […] **Read more** **TAGS:** **Debt sustainability**; **Green finance**; **Disaster risk**

Making the Low-Income Country Debt Sustainability Framework Fit for Purpose

Indermit Gill, Brian Pinto - World Bank

The World Bank and the International Monetary Fund use the Low-Income Country Debt Sustainability Framework to assess the sustainability of sovereign debt in about 75 low-and middle-income developing countries. It is overdue for a review, and this paper recommends that it be replaced for three reasons. **Read more** **TAGS:** **Debt sustainability**; **Debt distress**

Sovereign Debt Issuance Trends in Emerging Market Economies
OECD
Emerging market and developing economies (EMDEs) have been steadily increasing their borrowing from the markets following a long period of low interest rates and high levels of global liquidity since the 2008 global financial crisis. The debt levels of EMDE sovereigns reached record highs during the COVID-19 pandemic and have not yet returned to pre-pandemic levels. Against this backdrop, macro-financial conditions worsened in 2022 due to soaring inflation, monetary tightening, geopolitical uncertainties and a deteriorating growth outlook. Increasing capital outflows led to a depreciation of EMDE currencies against the US dollar, exacerbating external debt burdens. **Read more** **TAGS:** **Transparency**; **Debt Policy**; **Best Practices**; **Debt sustainability**; **Financial stability**

Has the IMF's 2021 General SDR Allocation Been Useful? For What and for Whom?
Isabel Garrido, Irune Solera - Banco de España, IMF
In the face of the COVID-19 crisis, the International Monetary Fund (IMF) took unprecedented measures including, in 2021, an historical SDR allocation to cover long-term global reserve needs and ultimately support vulnerable countries. Since the allocation members have held most of the allocated SDRs as reserves, but emerging economies and low-income countries have used them to service their debts with the IMF and (primarily) to exchange for currencies. **Read more** **TAGS:** **Multilateral Financing**; **Financial stability**

Debtor (Non-)Participation in Sovereign Debt Relief: A Real Option Approach
Danny Cassimon, Dennis Essers, Andrea F. Presbitero - Universiteit Antwerpen, National Bank of Belgium, IMF
Developing countries have recently proved reluctant to participate in sovereign debt moratoria and debt relief initiatives. The authors argue that debtors' (non-)participation decisions can be understood through the lens of real options. **Read more** **TAGS:** **Debt relief**; **Debt sustainability**; **Debt Restructuring**

Documents

Debt Policy

Effect of Macroprudential Policies on Sovereign Bond Markets: Evidence from the ASEAN-4 Countries
(2023)
Joshua Aizenman et al. - University of Southern California
This paper examines whether prudential policies help to reduce sovereign bond vulnerability to global spillover risk in ASEAN-4 countries (Indonesia, Malaysia, the Philippines, and Thailand). The authors measure sovereign vulnerability within a risk connectedness network among sovereign bonds. The direct effect is that markets with tighter prudential policies have significantly smaller spillovers from the Treasury yield shocks of other regional and global economies. The sum of indirect and direct effects indicates that prudential policies reduce sovereign spillover risk in the long term. These findings suggest prudential policies have dual efficiency in sovereign risk regulation and Treasury internationalization. **TAGS:** **Sovereign bond market**; **Sovereign debt market**; **Financial Analysis**; **Debt Policy**; **Sovereign risk**

[On Debt and Climate]

(2023)

Patrick Bolton et al. - SSRN

This article discusses the links between climate and debt sustainability by focusing on how climate mitigation and adaptation are paid for, and who pays for it. This requires thinking about instruments such as sovereign bonds, carbon credits, conditional official grants and debt relief from both public and private sources. The article discusses the role of green bonds, carbon offsets, grants and debt relief. Among these solutions, no single instrument appears to be right for all countries or at all times. To move forward, the authors make six proposals and policy recommendations that can jointly address climate change and debt sustainability. **TAGS:** Debt sustainability; Climate change; Debt relief; Debt Policy

Money and the Public Debt: Treasury Market Liquidity as a Legal Phenomenon

(2023)

Lev Menand, Josh Younger - Columbia Law School, Federal Reserve Bank of New York

The market for U.S. government debt (Treasuries) forms the bedrock of the global financial system. The ability of investors to sell Treasuries quickly, cheaply, and at scale has led to an assumption, in many places enshrined in law, that Treasuries are nearly equivalent to cash. Yet in recent years Treasury market liquidity has evaporated on several occasions and, in 2020, the market's near collapse led to the most aggressive central bank intervention in history. This Article pieces together what went wrong and offers a new account of the relationship between money issue and debt issue as mechanisms of public finance. It argues that a high degree of convertibility between Treasuries and cash generally requires intermediaries that can augment the money supply, absorbing sales by expanding their balance sheets on both sides. The historical depth of the Treasury market was in large part the result of a concerted effort by policymakers to nurture and support such balance sheet capacity at a collection of nonbank broker-dealers. In 2008, the ability of these intermediaries to augment the money supply became impaired as investors lost confidence in their money-like liabilities (known as repos). Subsequent changes to market structure pushed substantial Treasury dealing further beyond the bank regulatory perimeter, leaving public finance increasingly dependent on high-frequency traders and hedge funds—"shadow dealers." The near money issued by these intermediaries proved highly unstable in 2020. Policy makers are now focused on reforming Treasury market structure so that Treasuries remain the world's most liquid asset class. Successful reform likely requires a legal framework that, among other things, supports elastic intermediation capacity through balance sheets that can expand and contract as needed to meet market needs. **TAGS:** Debt Policy

Breaking the Cycle of Debt: Addressing the Reasons behind High Indebtedness in Africa and Recommendations for Sustainable Solutions

(2023)

AFRODAD

Public debt has doubled in Africa since 2010, reaching 65% of GDP in 2022 compared to 32.7% in 2010. The continent has also witnessed a diverse creditor portfolio, with Paris club members and non-members (notably China) making up 37% and 17% of the total external debt respectively by 2022. Since 2007, $140 billion worth of Eurobonds have been issued by African sovereigns (representing 30% of the region's external debt) except for South Africa and Seychelles. According to the World Bank's new International Debt Report, the poorest countries (the majority of which are in

Africa) eligible to borrow from the International Development Association (IDA) spent $46.2 billion on long-term public and publicly guaranteed debt repayment in 2021. This amount is equivalent to 10.3% of the countries' exports of goods and services and 1.8% of their Gross National Income (GNI), a significant increase from 2010 when the percentages stood at 3.2% and 0.7% respectively. The runaway debt burden in Africa has led to many countries defaulting or at the brink of defaulting on their external debt in a desperate move to restore macroeconomic sustainability. 23 low-income African countries are at high risk, or already in debt distress according to the IMF and World Bank. 4 African sovereigns namely Zambia, Mali, Ghana, and Mozambique have defaulted or stopped debt servicing and are turning to the IMF for support. [...] **TAGS:** **Blog**; **Sovereign debt market**; **Debt crisis**;

Policies for Liquid and Well Functioning Sovereign Debt Markets
(2023)
Alessandro Tombini - BIS
Speech by Mr Alexandre Tombini, Chief Representative for the Americas, Bank for International Settlements, at the Panel on Sovereign debt: liquidity and consequences, Central Bank Research Association (CEBRA) Annual Meeting, hosted by the Federal Reserve Bank of New York, 5 July 2023. **TAGS:** **Debt Policy**; **Debt and fiscal/monetary policies**; **Cost and Risk**; **Financial stability**

How to Avoid a Debt Crisis in Sub-Saharan Africa
(2023)
Fabio Comelli et al. - IMF
The average debt ratio in sub-Saharan Africa has almost doubled in just a decade—from 30 percent of GDP at the end of 2013 to almost 60 percent of GDP by end-2022. Repaying this debt has also become much costlier. The region's ratio of interest payments to revenue, a key metric to assess debt servicing capacity and predict the risk of a fiscal crisis, has more than doubled since the early 2010s and is now close to four times the ratio in advanced economies. [...] **TAGS:** **Debt Restructuring**; **Debt sustainability**; **Multilateral financing**; **Debt policy**; **Debt and fiscal/monetary policies**

Cost and Risk

Systemic Risk Survey Results – 2023 H2
(2023)
Bank of England
The Systemic Risk Survey is conducted on a biannual basis, to quantify and track market participants' views of risks to, and their confidence in, the stability of the UK financial system. The survey is generally completed by executives responsible for firms' risk management or treasury functions. The results presented are based on responses to the survey and do not necessarily reflect the Bank of England's views on risks to the UK financial system. Participants include UK banks and building societies, large foreign banks, asset managers, hedge funds, insurers, pension funds, large non-financial companies and central counterparties. Summary statistics are calculated by giving equal weight to each survey response. [...] **TAGS:** **Financial stability**

Bridging the Climate-Development Gap
(2023)
Dani Rodrik, Ishac Diwan - Diplomatic Courier
Low-income countries are suffering a liquidity crunch that undermines their economic development while also deepening the global climate crisis. New ways to deliver debt relief are needed to allow these economies to grow again, and better tackle the climate crisis, write Dani Rodrik and Ishac Diwan. Low-income

countries are in the throes of a liquidity crunch that is not only undermining their economic development but also deepening the global climate crisis. In 2020 and 2021, net financial transfers to Africa were close to zero—their lowest level in a decade—despite record transfers from multilateral development banks (MDBs). That drop-off was due to a reduction in loans from the private sector and China, and now the situation has deteriorated further, with all low- and lower-middle-income countries (LMICs) having lost access to the bond market. Meanwhile, higher food and fuel bills, and falling export receipts, have made matters even worse. **TAGS:** **Climate Change**; **Debt crisis**; **Debt relief**

Primary Markets

Accelerating Bond Financing in Asia and the Pacific Toward the Sustainable Development Goals
(2023)
Armida Salsiah Alisjahbana - UN
A Substantial amount of financing is required to achieve the Sustainable Development Goals (SDGs). Mobilizing such a large amount requires creative alternatives to traditional forms of financing and long-term commitments to implementing them. Green, social, sustainable, sustainability-linked and other such labeled bonds, such as transition bonds, are together named GSS+ bonds. They are increasingly being deployed to help countries mobilize finance at scale to achieve their SDGs and Nationally Determined Contributions (NDCs) under the Paris Agreement. […] **TAGS:** **Climate Change**; **Primary market**; **Cost and Risk**

Subnational Debt

Local Banks' Stabilization Role: Does Local Government Debt Matter?
(2023)
Zheng Xue - Nankai University
This study investigates the stabilizing role of small and medium-sized local banks and assesses whether high local government debt levels hinder this role. Using bank-level data for all provinces in China, 2015–2021, the author finds that the lending behavior of small and medium-sized banks is countercyclical when located in provinces with low levels of local government debt but procyclical when located in provinces with high levels of local government debt, particularly during busts. This finding suggests that high levels of local government debt hinder the stabilizing role of small and medium-sized banks, exacerbating regional economic volatility. **TAGS:** **Subnational Debt**; **Debt sustainability**; **Debt crisis**

Exploring the Interrelationships Between Public Health, Fiscal Decentralization, and Local Government Debt in China
(2023)
Mingyao Cao et al. - MDPI
This paper investigates the interrelationships among local government debt, fiscal decentralization, and public health. The investigation begins by constructing a theoretical model to analyze the inherent connections between these variables. Subsequently, an empirical analysis is conducted using data from China between 2015 and 2021. The findings demonstrate a bidirectional relationship between fiscal decentralization, local government debt, and public health. Specifically, it is observed that an increase in local government debt has adverse effects on both fiscal decentralization and public health, while fiscal decentralization has a

positive impact on public health. These insights are consistently validated through rigorous regression methodologies, affirming the robustness and significance of these relationships. [...] **TAGS: Subnational debt**; **Debt and fiscal/monetary policies**; **Cost and Risk**; **Financial stability**; **Debt sustainability**

Financial Analysis

How to Prevent Debt from Hurting Economic Growth

(2023)

Oscar Valencia et al. - Inter-American Development Bank

Three years after the onset of the COVID-19 pandemic, countries in Latin America and the Caribbean (LAC) are still dealing with its economic consequences. Currently, one of the main points of concern is the excessive level of public indebtedness and the risk it represents to economic stability and economic growth. This year the IDB published its flagship study Development in the Americas – Dealing with Debt: Less Risk for More Growth in Latin America and the Caribbean. It shows that the pandemic accelerated the pace of public indebtedness and slowed economic growth in the region, a trend that had already been emerging in previous years. Since 2020 public debt levels rose by 15 percentage points (pp) of the region's gross domestic product, to 71 percent. That adds up to the 18-percentage point increase between 2014 and 2019. Unfortunately, increased debt has not helped boost growth nor overall economic productivity. [...] **TAGS: Blog**; **Debt and growth**

Forgiven But Not Forgotten: Emerging-Market Credit Spreads Following Debt Relief

(2023)

Zhuolu Gao et al. - Copenhagen Business School - Department of Finance, Bayview Asset Management

The authors examine yield spreads of government debt issues from countries that have received large-scale debt relief through the Heavily Indebted Poor Countries (HIPC) program and the Multilateral Debt Relief Initiative (MDRI). Using data from more than 3,000 bonds issues and after controlling for macroeconomic, political, and geographical factors, the authors find that HIPC governments pay an average yield spread premium of close to 1.5\% on USD-denominated and non-USD-denominated bonds compared to similar countries which have not received relief. Despite the extent of the relief and the significant conditions attached to it, the market perception is that relieved countries remain riskier. **TAGS: Financial Analysis**; **Debt relief**; **Sovereign risk premia**

Banks' Portfolio of Government Debt and Sovereign Risk

(2023)

António Afonso, José Alves, Sofia Monteiro - ISEG

The authors analyze domestic, foreign, and central banks holdings of public debt for 31 countries for the period of 1989-2022, applying panel regressions and quantile analysis. The authors conclude that an increase in sovereign risk raises the share of domestic banks' portfolio of public debt and reduces the percentage holdings in the case of central banks. Better sovereign ratings also increase (decrease) the share of commercial (central) banks' holdings. Furthermore, the effects of an increment in the risk for domestic investors have increased since the 2010 financial crisis.

TAGS: [Financial Analysis](); [Sovereign Debt](); [Sovereign Risk](); [Sovereign Credit Ratings]()

[Comparing CDS Spreads of EU Sovereigns in the Progress of the Global Financial Crisis and the Eurozone Debt Crisis]()

(2023)

Yongwoong Lee, Kisung Yang - Hankuk University, Soongsil University

This study investigates how differently have the CDS spreads of EMU core, EMU periphery, and non-EMU economies evolved in the progress of the Global Financial Crisis (GFC) and the Eurozone Debt Crisis (EDC). The authors employ AR-X-GARCH-copula models to analyze the heterogeneous patterns in the movements of the CDS spreads across the three groups and two crises. The authors find that the value of EUR among the common determinants has asymmetric effect on the EMU periphery group and the others. Furthermore, only Greece and Ireland experiences structural changes in the conditional means after controlling for the common determinants. In terms of conditional volatility, the three groups exhibit similar structural increases during the GFC, however, the EMU periphery group shows obviously larger increment than the others in the EDC period. As a result of the dependence analysis, The authors find (EMU core, EMU core) and (non-EMU, non-EMU) pairs generally experience structural increase in both the Gaussian and tail dependences during the two crises. However, (EMU periphery, EMU periphery) overall exhibits no or structural decrease in dependence. Lastly, the asymmetry in dependence becomes more skewed to the lower tail for the GFC period whereas it stays similar for the EDC period, in general. **TAGS:** [Financial Analysis](); [Debt crisis]()

[A New Fiscal Framework for Resource-Rich Countries]()

(2023)

Luc Eyraud, William Gbohoui, Paolo Mauro - IMF

This paper revisits the debate on the design of fiscal rules in resource-rich countries. Its main objective is to assess alternative systems of rules against their policy objectives, while taking into account country characteristics. One of the contributions of the paper is to propose fiscal frameworks that are centered around the principle of insurance against shocks and less reliant on estimating precisely resource wealth, which tends to be highly volatile. **TAGS:** [Debt sustainability](); [Debt and fiscal/monetary policies]()

[Financial Stress and Economic Activity: Evidence from a New Worldwide Index]()

(2023)

Hites Ahir et al.- IMF

This paper uses text analysis to construct a continuous financial stress index (FSI) for 110 countries over each quarter during the period 1967-2018. It relies on a computer algorithm along with human expert oversight and is thus easy to update. The new indicator has a larger country and time coverage and higher frequency than similar measures focusing on advanced economies. And it complements existing binary chronologies in that it can assess the severity of financial crises. The authors use the indicator to assess the impact of financial stress on the economy using both country- and firm-level data. Their main findings are fivefold: i) consistent with existing literature, the authors show an economically significant and persistent relationship between financial stress and output; ii) the effect is larger in emerging markets and developing economies and (iii) for higher levels of financial stress; iv) the authors deal with simultaneous causality by constructing a novel instrument—financial stress originating from other countries—using information from the text analysis, and show that, while there is clear evidence that financial stress harms economic activities, OLS estimates tend to overestimate the magnitude of this effect; (iv) the authors confirm the presence of an exogenous effect of financial stress through a difference-in-differences exercise and show that effects are larger for firms that are more financially constrained and less profitable. **TAGS:** **Financial Analysis**; **Debt crisis**; **Debt and fiscal/monetary policies**

Emerging Asia's $23.2 Trillion Answer to Economic Shocks: Local Currency Bond Markets

(2023)

Cheonkoo Kim et al.- Asian Development Blog

In 2022, accelerated monetary tightening in the United States led to currency depreciation and capital outflows in emerging markets. This situation underscores the vulnerability of these markets to global shocks. Market liquidity suffers when investors sell risky assets and move their funds to safer, more liquid assets. This behavior is called "flight-to-quality" and "flight-to-liquidity." A shortage of liquidity, coupled with structural problems in the local market, might trigger a systemic financial crisis. For instance, during the late 1990s, borrowers from developing Asian economies had maturity and currency mismatches in their balance sheets. These structural issues were significant factors behind the 1997/98 Asian Financial Crisis. Researchers have argued that emerging markets are vulnerable to shocks because they have difficulty borrowing from foreign sources in their domestic currency or securing long-term financing. […] **TAGS:** **Blog; Sovereign debt market**; **Debt and fiscal/monetary policies**

Government Spending with Increasing Risk: Sovereign Debt, Liquidity Preference, and the Fiscal-Monetary Nexus

(2023)

Nina Heichacker - University of Rhode Island

During financial and economic crises, government expenditure is a potential source of liquidity and replacement for private demand; this expenditure, in turn, generates more deposits and spending in the economy at large, potentially increasing the endogenous supply of money and overall liquidity in a given economy. Governments may also require liquidity support during crises, if bond market activity constrains access to funding. This paper introduces government activity to Mott's elaboration of Kalecki's theory of increasing risk, and its implications for endogenous money creation, especially during periods of heightened liquidity preference. Some governments are likely to face greater obstacles in providing liquidity and accessing funding in times of economic uncertainty, whether due to their issuance of a non-sovereign currency, their position in the global currency hierarchy, or both, while others may find their ability to provide liquidity is bolstered by popular perceptions of their credit worthiness. […] **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability**; **Debt sustainability**; **Cost and Risk**

Shedding a Light on Domestic Debt

(2023)

David Mihalyi, Diego Rivetti, Zsolt Bango - World Bank

After being shut out of international financial markets in the wake of COVID-19 and the rise in international interest rates, many low-income countries have increasingly resorted to domestic debt issuance to cope with growing financing needs. The trend highlights the importance of developing well-functioning and liquid domestic securities markets. They can serve as essential safeguards during challenging times and a reliable source of funding during more stable periods. However, not all domestic debt is created equal. For the latest update of the Domestic Debt Securities Heatmap, have collected new data on domestic debt stocks across 53 out of the 75 countries borrowing from IDA, the World Bank's fund for the poorest. The data, directly sourced from government's statistics, reveals that domestic debt amounts to 23.6% of the countries' GDP on average. In nine countries, it exceeds 40%. […] **TAGS:** **Blog**; **Sovereign debt market**

Analysis of Public Debt in Selected Western Balkan Countries
(2023)
Miloš Pjanić, Mirela Mitrašević - University of Novi Sad, University of East Sarajevo
The increase in public debt represents one of the most important problems faced by almost all economies in the world. Among them are the countries of the Western Balkans. Certain countries of the Western Balkans managed their public debt relatively well until the start of the COVID 19 pandemic. After that, all countries face a significant increase in public debt and a drastic drop in GDP. For most of the countries of the Western Balkans, which are countries in transition, one of the big problems is also a significant drop in the inflow of foreign direct investments. […] **TAGS:** **Debt sustainability**; **Debt and fiscal/monetary policies**

Examining the Link Between US Sovereign Default Risk and Global Interbank Funding Risk
(2023)
Simon Cottrell - University of South Australia's Business School
One of the global pandemic's most visible economic and monetary ramifications was the swift escalation of borrowing across nations to meet their domestic monetary needs. Despite prolonged economic constraints, governments and central banks took decisive measures to maintain livelihoods through fiscal funding and liquidity initiatives. In response to the COVID-19 pandemic, many governments opted to lift spending caps, directing funds toward essential services and supporting struggling sectors of the economy. Consequently, this led to substantial budget deficits and, in certain cases, unsustainable debt levels.. […] **TAGS:** **Debt crisis**; **Debt sustainability**; **Debt and fiscal/monetary policies**

Debt Crisis

Are Developing Countries Facing a Possible Debt Crisis?
(2023
Mark L.J. Wright, Amy Smaldone – FED of St. Louis
Mark Twain is reputed to have said, "History doesn't repeat itself, but it often rhymes."1 Over the past year, observers of monetary policy have been wondering whether the current tightening cycle rhymes with Paul Volcker's monetary policy tightening of the early 1980s. There are certainly some striking similarities. Both episodes were preceded by supply shocks and sharp increases in the prices of many commodities, such as oil. Both times, this led to a rise in U.S. inflation and a corresponding sharp tightening of monetary policy. But whereas in the 1980s this was followed by a sharp recession and a financial crisis in the savings and loan industry, no recession has emerged this time around, and the financial system has remained sound and resilient, notwithstanding a small number of highly publicized bank failures. […] **TAGS:** **Debt crisis**; **Debt Restructuring**

A Tragedy is Unfolding in the Poorest Countries

(2023)

Indermit Gill, M. Ayhan Kose - World Bank

The poorest countries are in desperate straits, and the rest of the world is looking the other way. Doing so comes easy, because low-income countries (LICs) matter little to the fate of the world in the near term. At the end of June, the combined GDP of the 28 countries in this group was roughly $500 billion – a drop in the $100 trillion ocean that is the global economy. The world's poorest countries are also nobody's ideal export markets: the average annual income is barely $1,000, and conflict and instability are the norm for about half. Nonetheless, 700 million people live in these countries, and about half of them are in extreme poverty. Very poor people have long been accustomed to neglect from their own governments, which often have other priorities. For example, they spend about 50% more on war and defense than they do on health care. Nearly half their budgets go toward public-sector wages and interest payments on debt, while a mere 3% of total government spending across LICs goes to support the most vulnerable citizens. [...] **TAGS:** **Blog**; **Debt crisis**; **Sovereign default;** **Multilateral financing**;

Rising Debt: Is the Biggest Obstacle to African Development Back?

(2023)

Giuliana Pellegrini - Allianz Investors

Public debt has returned to the forefront of the economic and political debate on the continent, with most countries resuming debt accumulation in order to invest in infrastructure and social spending. On 19 December, Ghana caused a stir by announcing its intention to go into default. Zambia and Mali had already declared themselves insolvent in 2020 and 2022 respectively; Ethiopia, while continuing to make payments on its debt, announced its willingness to restructure it in 2021, when Chad also started similar procedures, which ended in 2022. Angola also resorted to bilateral negotiations to restructure part of its external debt in 2020. Thus, public debt has returned to the forefront of the economic and political debate on the continent, with most countries resuming debt accumulation in order to invest in infrastructure and social spending, in addition to coping with stressors that have impacted their economies. But how did we arrive to these first defaults? How many more will we see in the near future? What tools are available for countries already in default? How does the burden of debt impact the development trajectories of African countries? [...] **TAGS:** **Debt crisis**; **Debt Policy**; **Cost and Risk**

Prevention Versus Cure: Sovereign Debt Default in Four Charts

(2023)

Hayley Pallan - World Bank

High levels of government debt in the Emerging Market and Developing Economies (EMDEs), as well as the increases in global interest rates over the past two years, currently heighten risks of debt default in EMDEs. However, past debt defaults were often unsuccessful in addressing debt-related risks: more than one-third of past sovereign debt defaults failed to lower government debt or borrowing costs in a lasting manner. Those that succeeded were accompanied by above-median debt restructuring and growth accelerations [....] **TAGS:** **Blog**; **Sovereign defaults**; **Debt crisis**

Institutional and Organizational Framework

A European Mechanism for the Issuance and Initial Distribution of Debt Securities
(2023)
Georgios Pavlidis - Neapolis University in Cyprus
Although the European Union (EU) has implemented initiatives and common rules regarding securities settlement, no similar integration initiatives have been proposed for the issuance and initial distribution of debt securities. For this reason, the EU does not function as a single market given that issuers of euro debt instruments still have to use multiple and non-harmonised channels and procedures. A harmonised European framework for the issuance and initial distribution of debt securities or the establishment of a new European market infrastructure service is widely considered to create a deep and liquid single market for debt instruments. Although such paradigm shift promises significant improvements compared with the existing debt issuance and distribution landscape, a hasty and poorly-designed public intervention would risk distorting the market, thereby increasing complexity and leading to more fragmentation. **TAGS:** Financial Analysis; Secondary Markets; Debt and fiscal/monetary policies

Sovereign Debt Speculation: A Necessary Restraint Justified by a Concern for Debt Sustainability
(2023)
Justin Vanderschuren - Catholic University of Louvain
The actions of funds speculating in sovereign debt, frequently nicknamed "vulture funds", are often roundly criticized. These funds purchase distressed debts on the secondary market at reduced prices and then seek payment in court at face value plus interest and fees. Although their actions are legally justified, so-called "vulture funds" are vilified due to the negative impact of their activities on sovereign debtors and their population. While there is a strong demand for regulating sovereign debt speculation, various solutions already exist but are, in many ways, insufficient. This article argues for the adoption of a tailored regulation of the speculative phenomenon by the United States. The article explains that sovereign debt sustainability is the only standard that can ensure the balance between the rights of creditors and the proper functioning of debtor states. This argument justifies the regulation of speculative activities as well as the magnitude that this regulation should take. **TAGS:** Sovereign bond market; Debt sustainability; Debt and fiscal/monetary policies

State and Local Government Financial Fundamentals
(2023)
Oliver Giesecke, Seamus Duffy - Stanford University
The Stanford Municipal Finance Dashboard is an original resource to provide financial fundamentals for all state governments and the 500 largest local governments in the United States. The authors summarize the financial position of public entities by several important financial metrics similar to the practice in the corporate finance context. These metrics have been largely missing for public entities. The authors close this gap by publishing these indicators and provide an aggregate financial strength score for all state governments and the largest local governments in the United States. This document describes the methodology that the authors use.

Industrial Policy and Sovereign Debt

(2023)

Matthias Goldmann - Max Planck Institute for Comparative Public Law and International Law

The purpose of this paper is, first, to identify and distinguish the different trajectories of the relationship between industrial policy and sovereign debt, tapping on historical examples from Germany and Egypt. It then provides a brief analysis and legal assessment of each identified trajectory, namely the debt implications of foreign investments made in pursuance of industrial policies; and the implications of the sovereign debt regime on industrial policies in debtor states. The paper concludes with some recommendations for international institutions and courts. **TAGS:** Institutional and Organizational Framework

Debt Restructuring

Lessons from Argentina's Default on its International Sovereign Debt

(2023)

Roberto E Silva, Martín Campbell, Agustina M Ranieri - Marval, O'Farrell, Mairal

Argentina has defaulted on its international sovereign debt nine times, including three times during the past two decades. In 2001, the government defaulted on more than US$132 billion of federal sovereign debt. By the end of 2019, Argentina owed about US$323 billion of federal sovereign debt to, among others, the International Monetary Fund (IMF), the Paris Club and private bondholders. In May 2020, Argentina defaulted (and restructured) again on the payment of its international sovereign bonds. Although the restructuring of sovereign debt with the IMF and the Paris Club is dealt with in one-to-one negotiations, the restructuring of sovereign bonds involves a more complex process. Argentina has gone through two sovereign debt restructuring processes, first between 2005 and 2016 and then in 2020. Argentina has learned some lessons from these processes, mainly from the 2005–2016 restructuring, which contributed to a more efficient process in 2020. The authors discuss each of these processes, their differences and the lessons learned from each, as well as how Argentina handled the other two sovereign debt restructuring fronts: the local exchange of domestic bonds denominated in US dollars and governed by Argentine law, and the debt restructuring with international financial institutions (mainly the IMF and the Paris Club). […] **TAGS:** Sovereign debt market; Debt restructuring

The Potential of Trust Law in Sovereign Debt Restructuring

(2023)

Charles Ho Wang Mak - Columbia Law School

The interplay between sovereign debt defaults and legal frameworks has long been a subject of scholarly discourse and practical concern. Navigating this labyrinthine arena necessitates a rigorous understanding of various legal paradigms, one of which is trust law. In a new article, author sheds light on the utility of trust law in dealing with sovereign debt defaults. The article delves into the core principles of trust law – impartiality and independence – and evaluates their applicability in reconciling the often-divergent interests of creditors and sovereign debtors. While acknowledging the roles of other legal mechanisms, such as national insolvency laws and contractual agreements, the article posits that trust law offers unique advantages in fostering equitable and just resolutions. Nevertheless, this paradigm is not without its limitations, which also warrant a thoughtful discussion. Ultimately, the article calls for an integrated approach to assess the broader implications of trust law within the financial system, advocating for its potential role in stabilizing global markets and enhancing international relations. [...] **TAGS:** **Contract standards**; **Debt Restructuring**; **Sovereign Defaults**; **Debt crisis**

Macroeconomic Analysis

Dollar and Government Bond Liquidity: Evidence from Korea

(2023)

Jieun Lee - Bank of Korea

Using unique tick-by-tick data from an exchange, this paper examines the relationship between the US dollar and liquidity in the Korean government (Treasury) bond market. ₽The author finds that a strong US dollar deteriorates the Treasury market's liquidity by increasing the bid-ask spread and the price impact and lowering market depth. The effects of fluctuations in the broad US dollar index on Treasury market liquidity become more pronounced when funding liquidity conditions are tighter, when banks' total capital ratio is lower with greater foreign currency risk, or when there is a larger sell-off of Korean Treasury bonds by foreign investors. The empirical evidence supports the financial channel of exchange rates affecting Treasury market liquidity. In particular, a strong dollar as a global risk factor is likely to limit the market intermediation capacity of emerging market dealers through the currency exposures of borrowers or dealers and thus tighten market conditions. **TAGS:** **Sovereign bond market**; **Market Liquidity**; **Foreign Investors**

Authorities' Fiscal Forecasts in Latin America: Are they Optimistic?

(2023)

Metodij Hadzi-Vaskov et al. - Economía LACEA Journal

Do governments in Latin America tend to be optimistic when preparing budgetary projections? The authors address this question by constructing a novel dataset of the authorities' fiscal forecasts in six Latin American economies, using data from annual budget documents over the period 2000–2018. The authors compare such forecasts with the outturns reported in the corresponding budget documents of the following years, to understand the evolution of fiscal forecast errors. Their findings suggest that: (i) there is no general optimistic bias in the forecasts for the fiscal balance-to-GDP ratio; (ii) over time, fiscal forecasts have improved for some countries and worsened for others; (iii) forecast errors for the fiscal balance-to-GDP ratio are positively correlated with GDP growth and terms-of trade changes, and negatively correlated with GDP deflator surprises; (iv) forecast errors for public debt-to-GDP ratios are negatively associated with surprises to GDP growth; and (v), budget balance rules may help contain fiscal forecast errors. **TAGS:** **Economic Forecasts**; **Debt and growth**

The Bright Side of the Doom Loop: Banks' Sovereign Exposure and Default Incentives

(2023)

Luis E. Rojas, Dominik Thaler - Universitat Autònoma de Barcelona

The feedback loop between sovereign and financial sector insolvency has been identified as a key driver of the European debt crisis and has motivated an array of policy proposals. The authors revisit this "doom loop" focusing on governments' incentives to default. To this end, the authors present a simple 3-period model with strategic sovereign default, where debt is held by domestic banks and foreign investors. The government maximizes domestic welfare, and thus the temptation to default increases with externally-held debt. Importantly, the costs of default arise endogenously from the damage that default causes to domestic banks' balance sheets. Domestically-held debt thus serves as a commitment device for the government. The authors show that two prominent policy prescriptions – lower exposure of banks to domestic sovereign debt or a commitment not to bailout banks – can backfire, since default incentives depend not only on the quantity of debt, but also on who holds it. Conversely, allowing banks to buy additional sovereign debt in times of sovereign distress can avert the doom loop. In an extension the authors show that in the context of a monetary union (such as the euro area) similar unintended negative consequences may arise from the pooling of debt (such as European safe bond aka. ESBies). A backstop by the central bank (such as the ECB's Transmission Protection Instrument) can successfully disable the loop if precisely calibrated. **TAGS:** **Debt crisis**; **Sovereign defaults**; **Bailout**

Drivers of Fiscal Sustainability: A Time-Varying Analysis for Portugal
(2023)
António Afonso, José Carlos Coelho - ISEG
The authors assess the drivers of fiscal sustainability in Portugal during the period 1999Q4-2021Q4. The authors resort to expanding window and Schlicht (2003, 2021)'s time-varying approaches to construct the responses of government revenues to government expenditures and the responses of the primary government balance and the cyclically adjusted primary government balance (CAPB) to the debt-to-GDP ratio. Their results show the prevalence of a Ricardian fiscal regime in Portugal. If the (i-g) differential is positive, the positive response of the primary government balance to the debt-to-GDP ratio is amplified. An improvement in the external accounts, the increase in the European Commission's fiscal rules index and the extension of the debt maturity were beneficial for fiscal sustainability. Sovereign debt rating downgrades implied a posterior fiscal reaction that improves fiscal sustainability. Moreover, fiscal sustainability increased during the implementation of the international financial assistance program to Portugal, between 2011Q2 and 2014Q2. **TAGS:** **Debt sustainability**; **Sovereign debt**

The Role of Institutions on Public Debt: A Quantile Regression Approach
(2023)
Arusha V. Cooray, İbrahim Özmen - Embassy of Sri Lanka Oslo, Selcuk University
The unprecedented rise in debt levels across countries has given rise to the role of institutions on public debt. This study examines the impact of institutions on government debt in a sample of 54 EU and non-EU economies, covering the 2010 to 2020 period. Employing the Logistic Quantile Regression (LQR) method, the authors examine whether institutions affect countries equally, when they have low debt levels (are at the lower end of the distribution) compared to countries with high debt levels (are at the higher end of the distribution). The results indicate that the effect of institutions varies across the distribution of debt. The results suggest that government effectiveness, the control of corruption and the rule of law has a significant impact on countries with low levels of debt in EU nations. In non-EU nations in contrast, government effectiveness, the rule of law and the regulatory quality has the highest impact when debt levels are around their median level. Several robustness checks

confirm authors' findings. **TAGS: Sovereign debt**

A Comprehensive Macroeconomic Uncertainty Measure for the Euro Area and its Implications to COVID-19
(2023)
Mariarosaria Comunale, Anh D. M. Nguyen - IMF
This paper develops a new data-driven metric to capture MacroEconomic Uncertainty (MEU) in the euro area. The measure is constructed as the conditional volatility of the unforecastable components of a large set of time series, accounting for the monetary union as well as cross-country heterogeneity. MEU exhibits the largest spike at the time of the COVID-19 outbreak and is noticeably different from other more financial-oriented and policy-driven uncertainty measures. It also reveals a significant increase in inflation uncertainty in 2021-2022. BVAR-based analysis shows that an unexpected increase in the MEU has a negative and persistent impact on euro area's industrial production, accounting for 80 percent of its reduction during the first wave of COVID-19, therefore supporting the interpretation of COVID-19 shock as a macroeconomic uncertainty shock. Public debt increases in response to this uncertainty shock. Finally, an increase in MEU negatively affects Emerging Europe countries, contributing the most to the decline in their economic activity during this COVID-19 period. **TAGS: Sovereign debt market; Debt crisis**

China as an International Lender of Last Resort
(2023)
Sebastian Horn et al. - World Bank
This paper shows that China has launched a new global system for cross-border rescue lending to countries in debt distress. It builds the first comprehensive dataset on China's overseas bailouts between 2000 and 2021 and provide new insights into China's growing role in the global financial system. A key finding is that the global swap line network put in place by the People's Bank of China is increasingly used as a financial rescue mechanism, with more than USD 170 billion in liquidity support extended to crisis countries, including repeated rollovers of swaps coming due. The swaps bolster gross reserves and are mostly drawn by distressed countries with low liquidity ratios. In addition, the authors show that Chinese state-owned banks and enterprises have given out an additional USD 70 billion in rescue loans for balance of payments support. Taken together, China's overseas bailouts correspond to more than 20 percent of total IMF lending over the past decade and bailout amounts are growing fast. However, China's rescue loans differ from those of established international lenders of last resort in that they (i) are opaque, (ii) carry relatively high interest rates, and (iii) are almost exclusively targeted to debtors of China's Belt and Road Initiative. These findings have implications for the international financial and monetary architecture, which is becoming more multipolar, less institutionalized, and less transparent. [...] **TAGS: Financial stability**

Energy Shocks as Keynesian Supply Shocks: Implications for Fiscal Policy
(2023)
Enisse Kharroubi, Frank Smets - BIS, European Central Bank, Ghent University
This paper analyses the economic impact of and the optimal policy response to energy supply shocks in a flexible price model with heterogeneous households. The authors introduce energy as a consumption good on the demand side and as an input to production on the supply side. A distinguishing feature is that, in line with empirical evidence, the authors allow households' energy demand to be non-homothetic. The model provides three main

insights. First, (negative) energy supply shocks act as a (negative) demand shock, or Keynesian supply shock, when three conditions are met: (i) household income heterogeneity is intermediate, neither too high nor too low; (ii) the fraction of poor and credit-constrained households is high and (iii) competition between firms is strong enough. Second, implementing the first-best allocation requires subsidising the poor and taxing the rich, and more so when the economy faces a negative energy shock. Last, issuing public debt can be part of the optimal policy response to a negative energy shock, if the shock is large and the economy's overall energy intensity is low. **TAGS: Debt and fiscal/monetary policies**

Assessing Nonlinearities and Heterogeneity in Debt Sustainability Analysis: A Panel Spline Approach
(2023)
Benjamin Owusu, Bettina Bökemeier, Alfred Greiner - Bielefeld University
This paper empirically studies public debt sustainability with the penalized panel splines approach for 25 EU economies from 2000 to 2019 by estimating the response of the primary surplus to lagged debt relative to GDP, respectively. A positive coefficient on average indicates sustainable policies, which is supported by all authors' results. Moreover, the authors show that this relationship is not homogeneous across the distribution of the debt ratios but varies with the magnitude of public debt to GDP. The estimations reveal a strongly increasing reaction for small and high debt ratios while it is rather flat for intermediate levels. This holds for normal times, too, whereas during years of economic crisis a monotonously increasing response can be observed. […] **TAGS: Debt sustainability; Financial Analysis**

China's Role in African Sovereign Debt: Implications for Europe
(2023)
ECDPM
This brief looks at Chinese engagement in sovereign debt relief and restructuring in Africa and provides a better understanding of Chinese practices and positions. It highlights options for the EU to move this agenda forward. After Chad, Zambia is the second country in Africa which recently restructured its sovereign debt. Despite the optimism from this news, international action on the sovereign debt agenda has been too slow and limited. The 2023 Africa Climate Summit made it crystal clear: a more climate-positive African position is contingent on a decisive answer to the sovereign debt crisis faced by many African economies. If not addressed properly, several African countries are looking at a potential default in the short term, while others – due to their debt vulnerability – may not have the required fiscal space to make critical investments, which would have a severe impact on human development and effective climate action. […] **TAGS: Debt and growth; Financial stability**

Macroeconomic Scoreboard
(2023)
Jacques de Larosière, Didier Cahen, Elias Krief - EuroFi
A monetary union does not by itself create economic convergence. This Scoreboard underlines that the Eurozone is a currency area comprising hetereogenous countries with a low level of federalism: their productivity levels, productive levels, productive specialization, level of fiscal deficits and indebtedness, and level of labour force skills being very different. As one can observe in this document, many Member States have relaxed their macroeconomic discipline over the last twenty

years, but it turned out that high levels of public debt do not favour economic growth or employment. Countries which played the card of fiscal vigilance ended up being the winners. The Covid-19 crisis and the war in Ukraine hit the Eurozone harder than its main competitors. Since 2020, existing heterogeneities across EU Member States have been exacerbated. It is an illusion to try to solve the structural problems of our economies by prolonged increases in public debt or by using money creation. Yet, this is what has been too often tried by pursuing lax fiscal, monetary and economic policies that inevitably brought about systemic risks to financial stability and therefore to future growth. […] **TAGS:** **Economic Forecasts**; **Debt and fiscal/monetary policies**; **Financial stability**

The Relationship of Fiscal Policy and Economic Cycle: Is Vietnam Different?
(2023)
Dung Xuan Nguyen, Trung Duc Nguyen - University of Finance and Marketing, Ho Chi Minh City, Ho Chi Minh University of Banking
Fiscal policy is one of the most crucial areas of government economic policy, and it has the potential to influence the economic growth of any nation. According to traditional Keynesian and Ricardian theories, fiscal policy should not be pro-cyclical, and counter-cyclical fiscal policy is the most effective alternative. Furthermore, the periodicity of fiscal policy is also heavily influenced by the quality of political institutions and democracies. Thus, this paper examines the relationship between fiscal policy and economic cycle in Vietnam, a developing economy with dramatic change since 2000. The results support the causal relationship between the set of fiscal policy factors, such as public debt, government tax revenues, and government expenditures, by analyzing quarterly data over a twenty-year period beginning in 2000 by using the Vector Error-Correction Model (VECM). Therefore, the adaptation of fiscal policy to the phases of the economic cycle and the effective deployment of fiscal policy tools help the sustainability of public finnces and stimulate economic growth. […] **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability**

Global Transmission of Fed Hike
(2023)
Sebnem Kalemiò-Ozcna, Filiz Unsal - University of Maryland, Brookings
Rapid Federal Reserve interest rate increases last year and earlier this year have not, at least so far, triggered financial crises in emerging markets and developing economies—in stark contrast to spillovers from U.S. interest rate hikes in the 1980s and 1990s, notes a paper to be discussed at the Brookings Papers on Economic Activity (BPEA) conference on September 28. The reason, according to the paper, "Global Transmission of Fed Hikes: The Role of Policy Credibility and Balance Sheets," is that many emerging market countries have strengthened the credibility of their monetary policies; reduced the foreign debt of their non-financial corporations, governments, and household; and made sure their banks protected their balance sheets from a steep drop in the value of local currencies. […] **TAGS:** **Sovereign risk premia**; **Debt and fiscal/monetary policies**

How Bad is the Fiscal Squeeze?
(2023)
David Rosenfeld - ODI
Around the world, a fiscal squeeze is under way. Many governments are reducing spending, others are trying to increase their revenues, and some are doing both. The need to reduce fiscal deficits due to the rising cost of debt is the common driver across countries. But how governments have accumulated this debt

varies, as does their room for manoeuvre. The fiscal squeeze is particularly notable in sub-Saharan Africa, and short-term pressures may crowd out longer-term concerns unless the international community acts. […] **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability**

R-Star: An Alternative Approach to Estimate the Polar Star of Monetary Policy
(2023)
Peter Bofinger, Thomas Haas - University of Wuerzburg
The neutral rate of interest is the real interest rate which sets an economy's growth rate at potential and inflation at target. This column introduces a new approach to estimating the neutral rate based on a model where a central bank minimises losses from inflation and output deviations. In both the US and euro area, the estimated neutral rate suggests a period of loose monetary policy leading up to the Global Crisis followed by an abrupt tightening in the aftermath. […] **TAGS:** **Debt and fiscal/monetary policies**

Economic Policies

Financial Stability Considerations in the Conduct of Monetary Policy
(2023)
Paul Bochmann et al. - ECB
The authors empirically analyze the interaction of monetary policy with financial stability and the real economy in the euro area. For this, the authors apply a quantile vector autoregressive model and two alternative estimation approaches: simulation and local projections. Their specifications include monetary policy surprises, real GDP, inflation, financial vulnerabilities, and systemic financial stress. The authors disentangle conventional and unconventional monetary policy by separating interest rate surprises into two factors that move the yield curve either at the short end or at the long end. Their results show that a build-up of financial vulnerabilities tends to be accompanied initially by subdued financial stress which resurges, however, over a medium-term horizon, harming economic growth. Tighter conventional monetary policy reduces inflationary pressures but increases the risk of financial stress. The authors find unconventional monetary policy to be similarly effective in reducing inflation, but with a lower adverse effect on growth and financial stress. Tighter unconventional monetary policy is also found to have a dampening effect on the build-up of financial vulnerabilities. **TAGS:** **Financial Analysis**; **Financial stability**; **Debt and fiscal/monetary policies**

BinD: A Model of Growth, Climate Change, and Debt Sustainability
(2023)
Ozlem Omer, Nepomuk Dunz, Asjad Naqvi - Bucknell University, World Bank, Austrian Institute of Economic Research
Climate change disproportionately impacts capital and output in low- and middle-income countries (LMICs). Limited fiscal space and high dependence on capital good imports further curtail their ability to make timely climate-resilient investments. In this paper the authors present a demand-driven model that is supply-side constrained due to insufficient build up of production capacity. Calibrating the model to Fiji, the authors evaluate growth pathways for three climate futures – 2C, 3C, and 4C global warming by the end of the century. The authors evaluate the role of a public climate fund to enable partial recovery that is financed through four different schemes - debt-led recovery, higher tax on households, higher taxes on capitalists, and unconditional grants from the rest of the world. Recovery is possible in the 2C scenario, but the 3C and 4C scenarios

increasingly face higher investment costs in the face of lower growth and saving rates. In the 4C scenario, even the most generous unconditional grants scheme fails to prevent the downward spiral of hitting capacity constraints despite an initial boost to output. These insights underscore the need for effective and equitable domestic climate policies and affordable finance and compensation to support sustainable development in vulnerable countries. **TAGS:** **Climate change**; **Debt and fiscal/monetary policies**

On a Lender of Last Resort with a Central Bank and a Stability Fund
(2023)
Giovanni Callegari et al. - ESM, Universitat Pompeu Fabra, European University Institute
The authors explore the complementarity between a central bank and a financial stability Fund in stabilizing sovereign debt markets. The central bank pursuing its mandate can intervene with public sector purchasing programs, buying sovereign debt in the secondary market, provided that the debt is safe. The sovereign sells its debt to private lenders, through market auctions. Furthermore, it has access to a long-term state-contingent contract with a Fund: a country-specific debt-and-insurance contract that accounts for no-default and no-over-lending constraints. The Fund needs to guarantee gross-financial-needs and no-over-lending. The authors show that these constraints endogenously determine the 'optimal debt maturity' structure that minimizes the Required Fund Capacity (RFC) to make all sovereign debt safe. [...] **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**; **Financial stability**

What Will it Cost the European Union to Pay its Economic Recovery Debt?
(2023)
Grégory Claeys, Conor McCaffrey, Lennard Welslau - Bruegel
As part of its NextGenerationEU (NGEU) post-COVID-19 recovery and economic greening plan, the European Union intends to borrow about €421 billion (in current prices) before the end of 2026 to fund "non-repayable support" to EU countries. This debt and the interest on it must be repaid before 2058 from the EU budget. Here, the authors estimate what these costs could amount to . The costs will depend mainly on the future trajectory of interest rates paid by the EU. Predicting interest rates for such a long time horizon is challenging but market expectations (based on interest rate swaps) provide a good baseline. [...] **TAGS:** **Debt Policy**; **Debt sustainability**; **Financial stability**

To Unblock Fiscal Rule Reform, the EY Should Reinstate Its Excessive Deficit Procedure
(2023)
Lucio Pench - Bruegel
Reform of the European Union's fiscal rules, which set broad limits on how much debt EU countries can amass, appears stuck. Germany, which wants to have confidence that high debts will be tackled, is at odds with France and Italy, which prefer more leeway, especially to enable public investment. However, on one element of the rules there is consensus: the excessive deficit procedure (EDP). An EDP can be triggered if a country's deficit goes above a 3% of GDP threshold, or if government debt rises above 60% of GDP. Countries subject to an EDP must fix the problem through a programme of fiscal adjustment. But the EDP rule has been suspended since 2020 because of the need for government spending in the wake of the COVID-19 pandemic. [...] **TAGS:** **Structural**

policies; Financial stability; Debt and fiscal/monetary policies

Unifying Monetary and Macroprudential Policy

(2023)

Julia Giese - Bank Underground

Central banks have been using a range of monetary policy and macroprudential tools to maintain monetary and financial stability. But when should monetary versus macroprudential tools be used and how should they be combined? Authors' recent paper develops a macroeconomic model to answer these questions. The authors find that two instruments are better than one. Used alone, interest rates can control inflation, but are ineffective for financial stability. Policymakers can do better by also deploying the countercyclical capital buffer, a tool that varies the amount of additional capital banks must set aside. The appropriate combination of tools can vary: both should tighten to counter a joint expansion of credit and activity, but move in opposite directions during an exuberance-driven credit boom […] **TAGS:** Financial stability; Debt and fiscal/monetary policies

A Quantitative Evaluation of the European Commission's Fiscal Governance Proposal

(2023)

Zsolt Darvas, Lennard Welslau, Jeromin Zettelmeyer - Bruegel

In the new European Union fiscal framework proposed by the European Commission in April 2023, medium-term fiscal adjustment requirements would be determined by country-by-country debt sustainability analysis (DSA), the 3 percent deficit ceiling and simple rules requiring minimum deficit and debt adjustments ('safeguards'). These elements are controversial, with some EU countries (and ourselves) preferring a DSA-based approach, while others prefer to stick to simple rules. This paper evaluates the proposal by replicating the DSA methodology and computing fiscal adjustment implications for all EU countries with debt above 60 percent or deficits above 3 percent of GDP […] **TAGS:** Debt and fiscal/monetary policies; Financial stability

A Roadmap for Faster, Cleaner Growth in South Asia

(2023)

Martin Raiser - World Bank

At first glance, South Asia is a bright spot in the global economy. The World Bank is forecasting that the region will grow more quickly than any other developing country region over the next few years. Some countries in the region are continuing a trend of strong growth, while others are recovering from a period of turmoil. While high inflation and interest rates have bogged down many emerging markets, South Asia seems to be forging ahead. […] **TAGS:** Economic Forecasts; Debt and fiscal/monetary policies; Economic Policy

Multilateral Financing

How Channeling SDRs is Supporting Vulnerable Economies

(2023)

Kristalina Georgieva, Bernard Lauwers, Ceyla Pazarbasioglu - IMF

The IMF's largest-ever allocation of special drawing rights injected $650 billion of much-needed reserves and liquidity into the world's economies two years ago as they confronted the pandemic. SDRs are the IMF's unique international reserve assets that member countries generally hold as official reserves. Advanced economies with strong external positions obtain SDRs on top of already substantial reserves. Their portion of the SDR allocation, about $350 billion, in many countries in a sense sits "dormant" because countries are already well protected. If they can be channeled from those economically stronger member countries to support their vulnerable low- and middle-income counterparts, they can provide real benefits to countries who need it most. […] **TAGS:** **Blog**; **Structural policies**; **Multilateral financing**; **Financial stability**

Why IMF Lending Continues to Adapt
(2023)
Ceyla Pzarbasioglu - IMF
Helping vulnerable countries make needed adjustments will foster economic stability and growth and unlock additional financing from other sources. The world confronts the weakest medium-term growth outlook in three decades amid high debt levels, fragmented trade, and the prospect of higher-for-longer interest rates. In this environment, the IMF is redoubling its efforts to promote stability and growth. All countries grapple with uncertainty from shocks related to the pandemic, war in Ukraine, and transformational challenges such as climate change and digitalization. Several emerging market and developing countries have shown remarkable resilience. But many—especially low-income countries—are increasingly vulnerable amid tighter financial conditions, limited policy room for maneuver, and dwindling buffers. […] **TAGS:** **Blog**; **Multilateral financing**; **Structural policies**

Reports

2023

The Inversion of the Yield Curve and its Information Content in the Euro Area and the United States
ECB
Following the rapid rise in short-term interest rates since last year, the risk-free yield curves in the euro area and the United States show the steepest inversion in decades. The spread between the 10-year and the 2-year Overnight Index Swap (OIS) rates in the euro area stood at -0.4 percentage points in September, after rebounding in recent months from -0.8 percentage points, which was its lowest level since 1992 […] **TAGS:** **Financial Analysis**; **Economic Forecasts**

Report on Public Finances in EMU 2022
European Commission
According to the Commission 2023 spring forecast, euro area real GDP is projected to grow at 1.1% and 1.6% in 2023 and 2024 respectively, after a substantial growth of 3.5% in 2022. But core inflation remains high at 5.8% in 2023, after peaking at 8.4% in 2022. The fiscal positions are expected to improve in 2023 and, especially, in 2024, largely reflecting the phasing out of energy support measures. The euro area general government deficit is projected to drop to 3.2% and 2.4% of GDP in 2023 and 2024, respectively, following 3.6% of GDP in 2022. The euro area debt-to-GDP ratio decreased to around 93% in 2022 from its historical peak of almost 100% of GDP in 2020 and is projected to further decline to around 90% by 2024. […] **TAGS:** **Financial Analysis**; **Debt and fiscal/monetary policies**; **Structural policies**; **Sovereign debt market**

[European Secondary Bond Market Data](#)

ICMA Secondary Market Practices Committee

This report provides an overview of European trading activity for both the sovereign bond and corporate bond markets, comparing the latest findings with past performances since January 2022. Specific changes and trends relative to past reports can be summarised as follows: Traded volume for sovereign bonds in H1 2023 has increased by 2.7% compared to H1 2022, representing 53.8% of total traded volume in the full year of 2022; In both sovereign and corporate bonds, a decrease in average and median trade sizes is observed; The average trade size decrease varied between 10% and 37%, depending on the issuing country for sovereign bonds; For corporate bonds, the average trade size decrease from H1 2022 to H1 2023 ranges between 3% and 19%, depending on currency; The only subclass where the average trade size seems to have increased were US issued sovereign debt, as well as USD denominated non sovereign debt; In terms of number of trades, it is worth noting that trade counts have increased 21% for sovereign bonds and 8% on the credit side; In both segments, bonds are mainly traded via systematic internalisers (SI) (59% in sovereign bonds and 56% in corporate bonds, respectively). The authors also analysed traded notional and trade count across different trade size bins, observing an increase in the proportion of SI trades as trade size increases; Contrary to what has been observed on the sovereign bonds side, they could identify an increase in D2C transactions on the credit side, compared to H1, 2022. **TAGS: Secondary market; Sovereign bond markets; Debt statistics**

The Worst Ever Global Debt Crisis - New Data from Debt Service Watch

Development Finance International

This policy briefing, based on the new Debt Service Watch database, shows that the citizens of the Global South now face the worst debt crisis since global records began. Debt service is absorbing an average 38% of budget revenue and 30% of spending across the South, rising to 54% of revenue and 40% of spending in Africa. Spread across all continents, 35 countries are paying more than half of revenue, and 54 over one third. These figures are more than twice the levels faced by low-income countries before HIPC and MDRI debt relief; and slightly higher than those paid by LAC countries before the Brady Plan in the 1980s. More crucially, debt is pushing aside key spending to confront social and environmental crises. Debt service equals combined total spending on education, health, social protection and climate, and exceeds it by 50% in Africa. It is 2.5 times education spending, 4 times health spending, and 11 times social protection spending. Developing countries need another major round of debt cancellation. Yet current debt relief deals are failing to reduce service sharply to free spending room for the SDGs: on average, the most recent debt restructuring deals are leaving debt service at an average 48% of revenue over the next 3-5 years. The international community must take urgent steps to reduce debt service much more sharply, through enhanced debt relief and reduced borrowing costs. Only with these can it provide its fair share of funding for the Secretary-General's proposed SDG Stimulus, and rescue the Sustainable Development Goals. **TAGS: Debt Crisis; Debt relief: Debt statistics**

An International Lender of Last Resort and the International Financial Markets

Catherine L. Mann - Bank of England

Increasingly the IMF is being called an international lender of last resort. What does it mean to be a lender of last resort (LOLR)? What supporting structures are required to effectively play that role?

Central banks in national financial systems can (and some do) intervene to support some participants in the financial system in times of crisis. What can we learn from national LOLR experience for the occasions under which a LOLR might take action, the instruments the LOLR might use, and what supporting structures might be necessary for a LOLR to be effective in balancing the risks of financial crisis against the risks of moral hazard. If indeed the IMF is being called upon to act as an international LOLR, does it have (or can it be given) the instruments and supporting structures which appear to be necessary in the national context? […] **TAGS:** **Structural policies**; **Market Liquidity**; **Financial stability**

World Economic Outlook, October 2023

IMF

The latest World Economic Outlook reports signs that policy tightening is starting to cool activity despite core inflation proving persistent. Risks are more balanced as banking sector stress has receded, but they remain tilted to the downside. Monetary policy should stay the course to bring inflation to target, while fiscal consolidation is needed to tackle soaring debts. Structural reforms are crucial to revive medium-term growth prospects amid constrained policy space. **TAGS:** **Economic Forecasts**

Regional Economic Outlook, Sub-Saharan Africa, October 2023

IMF

Still emerging from the COVID-19 pandemic, countries in sub-Saharan Africa have been hit by a sluggish global economy, worldwide inflation, high borrowing costs, and a cost-of-living crisis. In many cases, inflation is still too high, borrowing costs are still elevated, exchange-rate pressures persist, and political instability is an ongoing concern. To ensure that the coming rebound is more than just a transitory glimpse of sunshine, it is important for authorities to guard against a premature relaxation of stabilization policies, while also focusing on reforms to both claw back lost ground from the four-year crisis and also to create new space to address the region's pressing development needs. **TAGS:** **Sovereign debt market**; **Economic Forecasts**

Global Financial Stability Report, October 2023 - Financial and Climate Policies for a High-Interest-Rate Era

IMF

Chapter 1 assesses that risks to global growth are skewed to the downside, similar to the assessment in the April 2023 Global Financial Stability Report. Cracks in the financial system may turn into worrisome fault lines should a soft landing of the global economy hoped for by market participants does not materialize. Chapter 2 homes in on the global banking system, providing a fresh assessment of vulnerabilities in a higher-for-longer environment, using an enhanced global stress test and a set of newly developed market-based indicators. In response to the vulnerabilities that are uncovered, enhancements to supervisory practices and tightening of regulatory standards are proposed. Chapter 3 notes that a broad mix of policies is required to unlock the private capital necessary to cover climate mitigation investment needs in emerging market and developing economies. **TAGS:** **Climate finance**; **Debt and growth**; **Financial stability**

[Trade and Development Report 2023]

UNCTAD

UNCTAD's Trade and Development Report 2023 warns that the global economy is stalling, with growth slowing in most regions compared with last year and only a few countries bucking the trend. It says the global economy is at a crossroads, where divergent growth paths, widening inequalities, growing market concentration and mounting debt burdens cast shadows on the future. The prospect of meeting the Sustainable Development Goals (SDGs) by 2030 is fading as a combination of rising interest rates, weakening currencies and slowing export growth squeezes the fiscal space needed for governments to fight climate change and provide for their people. The report calls for a change in policy direction – including by leading central banks – and accompanying institutional reforms promised during the COVID-19 crisis to avert a lost decade. It urges global financial reforms, more pragmatic policies to tackle inflation, inequality and sovereign debt distress, and stronger oversight of key markets.The report proposes actions to get the global economy moving in the right direction by using a balanced policy mix of fiscal, monetary and supply-side measures to achieve financial stability, boost productive investment and create better jobs. **TAGS:** **Sovereign debt market**; **Debt and growth**; **Debt and fiscal/monetary policies**

Economic Bulletin Issue 6, 2023

ECB

Inflation continues to decline but is still expected to remain too high for too long. The Governing Council is determined to ensure that inflation returns to its 2% medium-term target in a timely manner. In order to reinforce progress towards its target, the Governing Council decided at its meeting on 14 September 2023 to raise the three key ECB interest rates by 25 basis points. The rate increase reflects the Governing Council's assessment of the inflation outlook in light of the incoming economic and financial data, the dynamics of underlying inflation, and the strength of monetary policy transmission. The September 2023 ECB staff macroeconomic projections for the euro area see average inflation at 5.6% in 2023, 3.2% in 2024 and 2.1% in 2025. This is an upward revision for 2023 and 2024 and a downward revision for 2025. […] **TAGS:** **Debt statistics;** **Debt and fiscal/monetary policies**

South Asia Development Update October 2023

World Bank

At just under 6 percent, South Asia is expected to grow faster than any other developing country region this year—but slower than its pre-pandemic pace and not fast enough to meet its development goals. The region faces many risks to this outlook, including due to fragile fiscal positions created by high government debt. Countries need to urgently manage and reduce fiscal risks, and over the longer term, accelerate growth and create jobs in a sustainable manner. The global clean energy transition is an opportunity for the region to lift productivity, cut pollution, reduce reliance on fuel imports, and create jobs. To capitalize on this, countries need to encourage the adoption of advanced energy-efficient technology and take steps to protect vulnerable workers impacted by labor market shifts. **TAGS:** **Sovereign debt market**; **Financial Analysis**

Overview of the Canadian Derivatives Market

ISDA

While the Canadian derivatives market encompasses a relatively small share of global turnover, it plays an important role in the Canadian economy. Derivatives provide an effective means for companies to manage the risks arising from fluctuations in interest rates, commodity and equity prices and FX rates, as well as enabling investors to express a market view, diversify their portfolio and enhance returns. Derivatives also facilitate transparency, price discovery and market efficiency. […] **TAGS:** **Derivatives**; **Financial stability**

World Bank's Fall 2023 Regional Economic Updates

World Bank

Find below the latest regional economic updates including the latest growth forecasts for East Asia and the Pacific, Europe and Central Asia, Latin America and the Caribbean, Middle East and North Africa, South Asia, and Sub-Saharan Africa. These reports are issued biannually ahead of the World Bank Group Spring and Annual Meetings. […] **TAGS:** **Economic Forecasts**; **Financial stability**

News

What's New area of the PDM Network website proposes ***a selection of daily 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 market and developing economies. The news has been selected by the PDM Network Secretariat from the ©Thomson Reuters Eikon 2023 and © LSEG 2023 information services.

Events and Courses

DECEMBER

1 December 2023: International Network for Economic Research (INFER) and University of Strasbourg, BETA, ERMEES – Strasbourg, France
Fifth ERMEES Macroeconomics Workshop 2023 The EU in the Age of Permacrisis

1 December 2023: Center for European Studies (CefES-DEMS) - Center for Macroeconomics, London School of Economics
Macroeconomic Regime Changes: Theory, Evidence, and Policy Challenges Ahead

1 December 2023: Banca d'Italia, the Bank of England and Banque de France - the Bank of England, London
9th BdF-BoE-BdI International Macroeconomics Workshop

4 – 5 December 2023: Société Universitaire Européenne de Recherches Financières - Hybrid Event
[17th South-Eastern European Economic Research Workshop]

4 – 5 December 2023: The School of Business and Economics of the University of Chile with the support of the Central Bank of Chile - Santiago, Chile
[The Santiago Finance Workshop (SFW)]

4 – 15 December 2023: IMF - New Delhi, India
[Fiscal Sustainability (FS)]

4 – 15 December 2023: IMF - Vienna, Austria
[Macroeconomic Diagnostics (MDS)]

6 December 2023: CGDEV - Online
[Weathering the Storm: How Emerging Markets can handle Shock and Volatile Capital Flows]

7 December 2023: Oesterreichische Nationalbank - Hybrid online and in-person event Oesterreichische Nationalbank
[Equilibrium Real Interest Rates – concepts, current and future drivers: New insights and policy implications]

8 - 10 December 2023: The Journal of Environmental Economics and Management (JEEM) - University of Hong Kong
[Second JEEM Conference in Environmental and Resource Economics]

11 – 12 December 2023: The Centre for Advanced Financial Research and Learning (CAFRAL) - Thiruvananthapuram (Trivandrum) Kerala, India
[CAFRAL Annual Conference Financial System and Macroeconomy in Emerging Economies]

13 December 2023: Asian Development Bank (ADB) - Suva, Fiji
[ADBI-Reserve Bank of Fiji-APAEA Joint Workshop on Monetary Policy and Central Banking Issues in Asia and the Pacific]

13 – 14 December 2023: Banque de France and the Institut Louis Bachelier - Paris and online
[8th green finance research advances conference]

14–15 December 2023: University of Economics and Business Administration Vilnius - Faculty Vilnius University of Economics and Business Administration, Lithuania
[World Finance & Banking Symposium]

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

18 – 19 December 2023: The DNB, the Tinbergen Institute and the Economics Departments of University of Amsterdam, the Free University of Amsterdam and the Erasmus University Rotterdam - Dutch Central Bank (DNB, Amsterdam
[2nd XAmsterdam Macroeconomic Workshop]

2024

FEBRUARY

7-9 February 2024: FIA and SIFMA's Asset Management Group - Dana Point, CA
[Asset Management Derivatives Forum 2024]

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

28-29 February 2024: Eurex - Congress Center Messe, Frankfurt
Derivatives Forum Frankfurt 2024

MARCH

4 March 2024: World Bank and IMF - Online
Debt Sustainability Framework for Low Income Countries (LIC DSFX)

5 – 6 March 2024: bondsloans.com - Cape Town International Convention Centre
Bonds, loans & esg capital markets Africa 2024

17 – 20 March 2024: The Department of Banking and Finance at the University of Zurich and the Department of Finance, Accounting and Statistics at WU Vienna - Sunstar Hotel, Davos, Switzerland
19th European Winter Finance Summit

APRIL

4 – 5 April 2024: The Bank of Italy, Baffi Centre (Bocconi University) and the Centre for Economic and Policy Research (CEPR) - Bank of Italy, Rome
4th Bank of Italy, Bocconi University and CEPR Conference on Financial Stability and Regulation

16-17 April 2024: International Research Forum on Monetary Policy (IRFMP) - Federal Reserve Board, Washington, D.C.
International Research Forum on Monetary Policy: Monetary Policy Challenges during Uncertain Times

22-23 April 2024: Bank of Canada - Ottawa
Sovereign bond markets in inflationary times

25-26 April 2024: ZEW - Mannheim, Germany
ZEW Conference on Ageing and Sustainable Finance

MAY

2 May 2024: The Asian Development Bank (ADB) - Tbilisi, Georgia
57th Annual Meeting

9-10 May 2024: Board of Governors of the Federal Reserve System - Federal Reserve Board, Washington, D.C.
FRB Conference on the Macroeconomic Seeds of Financial Imbalances

16 – 17 May 2024: NBER and the Smith Richardson Foundation - Cambridge, MA
Inflation in the COVID Era and Beyond

21-22 May 2024: The Centre for Research in International Economics (CREI) and the Centre for Economic Policy Research (CEPR) - the Ciutadella Campus of Universitat Pompeu Fabra in Barcelona
Workshop on Heterogeneity and Economic Fluctuations: Recent Developments

29 – 31 May 2024: The Finance for Development Lab and the Paris School of Economics - Paris, France
DebtCon7

JUNE

June 2024: Asian Association of Environmental and Resource Economics - online
["Green Finance, responsible investments, and ethics in the era of post-COVID-19 and Russian-Ukrainian conflict"]

24-25 June 2024: The International Journal of Central Banking (IJCB) - Bank of Italy, Rome
[Annual International Journal of Central Banking Research Conference]

OCTOBER

3 – 4 October 2024: Public Debt Management Network - Washington DC, United States
[3rd PDM Conference]

Call for papers

DL 10 December 2023: The Finance for Development Lab and the Paris School of Economics - Paris, France
[Call for papers DebtCon7]

DL 15 December 2023: International Research Forum on Monetary Policy (IRFMP), Federal Reserve Board - Washington, D.C.
[Call for papers International Research Forum on Monetary Policy: Monetary Policy Challenges during Uncertain Times]

DL 15 December 2023: The Centre for Research in International Economics (CREI) and the Centre for Economic Policy Research (CEPR) - the Ciutadella Campus of Universitat Pompeu Fabra in Barcelona
[Call for papers Workshop on Heterogeneity and Economic Fluctuations: Recent Developments]

DL 15 December 2023: Bank of Canada, Ottawa
[Call for papers Sovereign bond markets in inflationary times]

DL 20 December 2023: Board of Governors of the Federal Reserve System - Federal Reserve Board, Washington, D.C.
[Call for papers FRB Conference on the Macroeconomic Seeds of Financial Imbalances]

DL 31 December 2023: Asian Association of Environmental and Resource Economics - Online
[Call for papers "Green Finance, responsible investments, and ethics in the era of post-COVID-19 and Russian-Ukrainian conflict"]

DL 31 December 2023: Financial Innovation - Online
[Call for Papers: Special Issue on Climate-induced financial innovation: instruments and institutions]

DL 15 January 2024: ZEW - Mannheim, Germany
[Call for papers ZEW Conference on Ageing and Sustainable Finance]

DL 16 February 2024: The International Journal of Central Banking (IJCB) - Bank of Italy, Rome
[Call for papers Annual International Journal of Central Banking Research Conference]

DL 30 March 2024: Public Debt Management Network - Washington DC, United States
[Call for papers 3rd PDM Conference]

DL 30 April 2024: A Special Issue of Finance Research Letters
[Call for papers Climate Change and Environmental Sustainability in Emerging Market Banking and Finance]

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.

Relevant links

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

PDM Network facts and figures

As of 27th November 2023, total documents and reports available on the PDM Network website were 9,092. The News uploaded on the website were 23,785 and the Events since January 2023 were 266. This newsletter is sent to about 1,069 PDM Network Subscribers from EMDEs and AEs. Individuals who subscribed to the PDM Network belong to a worldwide range of Institutions. For more info read here.

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