regulation

PDM NETWORK *Newsletter*

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This bimonthly newsletter lists all papers, reports, courses and other events concerning public debt management recently uploaded by the PDM Network Secretariat in the site www.publicdebtnet.org. The documents which the PDM Network Secretariat have found most interesting are highlighted with a grey background.

The PDM Network Newsletter is published on January, March, May, July, September and November.

The PDM Network Secretariat welcomes cooperation on information published on the website. Please feel free to **suggest any documents, news and events** that you think are relevant to the management of public debt at the following email address: **publicdebtnet.dt@tesoro.it**.

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Special Focus

The Public Debt Management Network: from the initial intuition to today's reality. Meeting in memory of Gianluca Colarusso

On 8th March, 2018 the Public Debt Directorate at the Italian Treasury organised a seminar to take stock of the "Public Debt Management Network" project and to pay tribute to the colleague Gianluca Colarusso, who was first responsible for the PDM Network. In 2001 and 2002 he contributed to define the project's mission, and worked hard to set up resources, participants and activities inside the Directorate. He also put forward an exhaustive analysis of the future complex organizational structure, with an effective multilateral character. Unfortunately, he was not able to see the fruits of his work, but the PDM Network is indebted to him for his invaluable contribution. ***Read more*** TAGS:PDM network

Why are more sovereigns issuing in Euros? Choosing between USD and EUR-denominated bonds

This webinar discussed the findings of the paper and the experiences of debt management offices across the globe on such topic. Antonio Velandia, Lead Financial Officer at the World Bank Treasury and co-author of the paper, shared the key messages and takeaways for debt managers. Lior David-

Pur, Head of the Debt Management Unit in Israel, and Roberto Lobarinhas, Head of International Market Issuances in Brazil, presented both countries' experiences in accessing the international capital markets in different currencies. A Q&A session provided the participants with the opportunity to discuss and share other experiences and lessons learned. ***Read more*** **TAGS: World Bank webinars; Primary market; Foreign Debt**

Sovereign borrowing outlook for OECD countries, 2008 to 2018

This report from the forthcoming 2018 edition of the OECD Sovereign Borrowing Outlook examines net and gross sovereign borrowing in OECD countries from 2008 to 2018. It first looks at net and gross borrowing needs of OECD governments in the context of fiscal developments. It then considers recent trends in central government marketable debt in the OECD area and central government debt ratios for groups of selected OECD countries. Finally, the report examines recent changes in sovereign debt credit quality in OECD countries and provides a brief discussion of potential challenges facing sovereign funding under stressed conditions. ***Read more*** **TAGS: OECD; Debt Policy; Debt Statistics; Debt Forecasts**

Envisioning the Future in Colombia

Colombia is in a better position to absorb fiscal shocks thanks to improved risk management of contingent liabilities. In partnership with the World Bank Treasury Government Debt and Risk Management (GDRM) Program, the government of Colombia devised a sound framework for managing the potential financial risks that come from the government issuing guarantees. Colombia has already applied its new methodology to loans obtained by three state-owned enterprises to support investments in higher education, infrastructure and small to medium enterprises. ***Read more*** **TAGS: GDRM Program; Contingent Liabilities**

Debt Sustainability Monitor 2017

This new edition of the Debt Sustainability Monitor (DSM), by providing an update of fiscal sustainability challenges in the EU, contributes to the monitoring and coordination of euro area Member States' fiscal policies and the aggregate fiscal stance for the euro area to ensure a growth friendly and differentiated fiscal policy. With this aim, the analysis of fiscal sustainability challenges is increasingly used in the context of EU fiscal surveillance, including in setting the appropriate path for countries to reach their medium-term objectives. As an intermediate yearly update within the 3-year cycle of the Fiscal Sustainability Report (FSR), the DSM provides a snapshot of the situation, and is updated to take into account the latest available macroeconomic forecasts (based on the European Commission's Autumn 2017 forecast). The projections also rely on the Economic Policy Committee (EPC) agreed long-term convergence assumptions for the interest - growth rate differential, and the long-term budgetary projections of age-related costs from the joint European Commission - EPC 2015 Ageing Report. ***Read more*** **TAGS: Debt sustainability; Debt and fiscal/monetary policies; Debt and growth**

Documents

Primary Markets

Green Bond Experience in the Nordic Countries (2018)

Darius Nassiry - Overseas Development Institute

Green bonds have emerged as an important financing solution for climate change mitigation and adaptation investments, particularly in developing countries, where the need for such investments is significant. The global green bond market has grown rapidly in recent years, increasing from $3 billion in 2012 to over $100 billion in 2017. Given the broad acceptance and strong demand from investors, green bonds have emerged as an important financing solution, raising finance for climate change mitigation and adaptation investments, particularly in developing countries, where the need for such investments is significant. The Nordic region has pioneered the issuance of green bonds. The World Bank and Skandinaviska Enskilda Banken, a leading Nordic financial services group, developed the green bond concept in 2008 in response to investors' demand for climate-related investments. Since then, Nordic issuers have played a leading role in green bond issuance, particularly for local green finance. The authors summarize the Nordic experience with green bonds with a focus on local financing structures and highlight key points that may be of value for developing countries, particularly those in Asia and the Pacific, in exploring green bonds as a means to raise finance for climate change mitigation and adaptation investments. **TAGS:** **Primary market; Bond market development; Debt Policy**

Are sovereign credit ratings overrated? (2017)

Davor Kunovac and Rafael Ravnik - Croatian National Bank

In this paper the authors examine the relevance of changes in sovereign credit rating for the borrowing cost of EU countries. Their results indicate that discretionary credit rating announcements are only of limited economic importance for the borrowing cost of these countries. It seems that rating agencies do not reveal important new information to financial markets, in addition to that already contained in the underlying fundamentals. Hence, given the sentiment in financial markets, the borrowing cost of a country can only be reduced by improving macroeconomic and fiscal fundamentals. **TAGS:** **Sovereign Credit Ratings**; **Primary market**; **Cost and Risk**

Variable rate debt to insure the government budget against macroeconomic shocks (2017)

Gerhard Fenz and Johannes Holler - Central Bank of Austria, Office of the Austrian Fiscal Advisory Council

Inspired by the fiscal insurance theory of public debt management the authors focus on the role of debt management in insuring the government budget against business cycle fluctuations. In particular the authors analyze the potential of inflation-indexed and short-term interest-rate-linked debt to hedge the Austrian government budget against macroeconomic demand, supply and monetary policy shocks. By employing a multi-country BVAR model for the Austrian and euro area economy over the period 1999 to 2016 the authors find that both instruments are able to hedge a substantial part of cyclical budget balance dynamics. The hedging potential of both instruments differs considerably when specific drivers of business cycle fluctuations are analyzed. In case of demand shocks both instruments have the potential to insure the government budget, while in case of supply shocks and monetary policy shocks this is only true for interest-rate-linked debt and inflation-indexed debt, respectively. **TAGS:** **Primary market**; **Debt composition**

Secondary Markets

Foreign and Domestic Investment in Global Bond Markets (2018)
Donghyun Park, Kiyoshi Taniguchi, Shu Tian - Asian Development Bank
Foreign investors seem more sensitive to risk–return profile than domestic investors, especially in emerging markets, and are also attracted by greater market openness and sound sovereign credit ratings. The Asian equity and bond markets have grown rapidly in the past decades. However, challenges have emerged including lack of liquidity, inactive institutional participation, and less favorable investor profiles. This paper analyzes the drivers of foreign versus domestic investment in global bond markets. The analysis suggests that there are some differences between foreign and domestic investors in both advanced and emerging bond markets. Foreign investors seem more sensitive to risk–return profile than domestic investors, especially in emerging markets. They are also attracted by greater market openness and sound sovereign credit ratings. Finally, regional market integration can benefit emerging bond markets by broadening the investor base. **TAGS: Debt composition; Foreign Debt**

How Safe are Central Counterparties in Derivatives Markets? (2017)
Mark Paddrik and H. Peyton Young - Office of Financial Research, U.S. Department of Treasury
The authors propose a general framework for estimating the likelihood of default by central counterparties (CCP) in derivatives markets. Unlike conventional stress testing approaches, which estimate the ability of a CCP to withstand nonpayment by its two largest counterparties, the authors study the direct and indirect effects of nonpayment by members and/or their clients through the full network of exposures. They illustrate the approach for the credit default swaps (CDS) market under shocks that are similar in magnitude to the Federal Reserve's 2015 Comprehensive Capital Analysis and Review trading book shock. The analysis indicates that conventional stress testing approaches may underestimate the potential vulnerability of the main CCP for this market. **TAGS: Derivatives; Financial stability; Sovereign CDS**

Active Debt Management

Sovereign bond-backed securities: a feasibility study (2018)
ESRB High-Level Task Force on Safe Assets
Sovereign bond-backed securities (SBBS) are defined as securities with varying levels of seniority backed by a diversified portfolio of euro-denominated central government bonds. Because they are created through private contracts, SBBS do not mutualise sovereign risks, as each government would remain responsible for servicing its own debt obligations. This report summarises the findings of an ESRB High-Level Task Force on the feasibility and impact of creating a market for SBBS as a tool to enhance financial stability. The technical findings are based on analytical work and insights from market participants and other stakeholders. The Task Force's report represents the outcome of these analyses and discussions, without necessarily reflecting individual views on all aspects or pre-judging future decision-making on SBBS. This volume of the report conveys the Task Force's main findings; Volume II contains the analysis underpinning those findings.[…] **TAGS: Financial stability; Sovereign debt market; International and Macroprudential Regulations; Bond market development**

High-Level Task Force on Safe Assets (2018)
European Systemic Risk Board

In 2016, the ESRB General Board agreed that the pooling and tranching of cross-border portfolios of national sovereign bonds represents an interesting and attractive approach that could contribute to the ESRB's objectives. On this basis, the General Board commissioned a High-Level Task Force on Safe Assets, chaired by Philip R. Lane, Governor of the Central Bank of Ireland, to investigate the practical considerations relating to sovereign bond-backed securities (SBBS).[…] **TAGS:** **Financial stability**; **Sovereign debt market; International and Macroprudential Regulations; Bond market development**

Commodity-based Sovereign Wealth Funds : Managing Financial Flows in the Context of the Sovereign Balance Sheet **(2018)**

Abdullah Al-Hassan, Sue Brake, Michael G. Papaioannou , Martin Skancke - International Monetary Fund, Willis Towers Watson, Norwegian Ministry of Finance

Commodity-based sovereign wealth funds (SWFs) have been at a crossroads following the recent fall in commodity prices. This paper provides a framework for commodity-based SWF management, focusing on stabilization and savings funds, by (i) examining macrofiscal linkages for SWFs; (ii) presenting an integrated sovereign asset and liability management (SALM) approach to SWF management; and (iii) applying this framework to a scenario where assets are being accumulated and to a scenario where the SWF is drawn on to cover a financing gap due to lower commodity prices. **TAGS:** **Sovereign ALM**

Financial Analysis

Are credit rating agencies discredited? Measuring market price effects from agency sovereign debt announcements **(2018)**

Mahir Binici, Michael M Hutchison and Evan Weicheng Miao - IMF, University of California and Central Bank of the Republic of China (Taiwan)

This paper investigates whether the price response to credit rating agency (CRA) announcements on sovereign bonds has diminished since the Global Financial Crisis (GFC). The authors characterize credit rating events more precisely than previous work, controlling agency announcements for the prior credit state - outlook, watch/review, or stable status as well as the level of the credit rating. Emphasizing the transition from one state to another allows them to distinguish between different types of announcement (rating changes, watch and outlook events) and their price effects. The authors employ an event study methodology and gauge market response by standardized cumulative abnormal returns (SCAR) and directional change statistics in daily credit default swap (CDS) spreads. They find that rating announcements provide a rich and varied set of information on how credit rating agencies influence market perceptions of sovereign default risk. CRA announcements continued to have significant effects on CDS spreads after the GFC, but the magnitude of the responses generally fell. Moreover, the authors find that accurate measurement of these effects depends on conditioning for the prior credit state of the sovereign bond. **TAGS:** **Sovereign Credit Ratings**; **Sovereign CDS**; **Debt crisis**

The negative interest rate policy and the yield curve **(2018)**

Jing Cynthia Wu and Fan Dora Xia - Chicago Booth and NBER, Bank for International Settlements

The authors extract the market's expectations about the ECB's negative interest rate policy from the euro area's yield curve and study its impact on the yield curve. To capture the rich dynamics taking place at the short end of the yield curve, they introduce two policy indicators that summarise the immediate and longer-horizon future monetary policy stances. The ECB has cut interest rates four times under zero. The authors find that the June 2014 and December 2015 cuts were expected one month ahead but that the September 2014 cut was unanticipated. Most interestingly, the March 2016 cut was expected four months ahead of the actual cut. **TAGS:** **Debt and fiscal/monetary policies**; **Financial Analysis**; **Sovereign bonds yields**

Determinants of bank profitability in emerging markets **(2018)**

Emanuel Kohlscheen, Andrés Murcia Pabón and Julieta Contreras - Bank for International Settlements the Bank of the Republic of Colombia

The authors analyse key determinants of bank profitability based on the evolution of balance sheets of 534 banks from 19 emerging market economies. The authors find that higher long-term interest rates tend to boost profitability, while higher short-term rates reduce profits by raising funding costs. The authors also find that in normal times credit growth tends to be more important for bank profitability than GDP growth. The financial cycle thus appears to predict bank profitability better than the business cycle. The authors also show that increases in sovereign risk premia reduce bank profits in a significant way, underscoring the role of credible fiscal frameworks in supporting the overall financial stability. **TAGS:** **Sovereign risk premia**; **Financial stability**; **Sovereign bonds yields**

Trends and Determinants of Bulgaria's International debt securities financing **(2018)**

Veniamin Todorov - University of Economics Varna, Bulgaria

The paper analyzes the specific features of the financing of Bulgarian economic agents through the international debt securities market (IDSM). The time period is from the 3rd quarter of 1989 to the 1st quarter of 2017. The study entails two stages of analysis. The first stage identifies and analyzes the trends including the amount of debt denominated in international securities, the choice of market segment, the interest rate structure and the currency structure. The second stage identifies and analyzes the determinants that stand behind the trends. The two-stage analysis is further divided in three different sections for each stage, dedicated to the three sectors: the general government, the financial corporations and the non-financial corporations. Four hypotheses are tested. The first one, that the public sector has the leading role in respect to the amount of financing received from the IDSM, is accepted. The second one - that since Bulgaria is a small open economy, the three sectors participate actively in the international money and bond markets, is rejected. The third one, that Bulgarian economy is financed predominantly through the IDSM by issuing fixed interest rate instruments, is accepted. The fourth one, that the implementation, the functioning and the exit strategy of the currency board in Bulgaria determine the choice of the euro as a currency of denomination of the Bulgarian debt issued on the IDSM, is also proven to be true. **TAGS:** **Foreign Debt**

A risk dashboard for the Italian economy **(2018)**

Fabrizio Venditti, Francesco Columba, Alberto Maria Sorrentino - Bank of Italy

In this paper the authors describe an analytical framework to assess financial stability risks in the Italian economy. The authors use a large number of indicators, selected to take into account the peculiarities of the Italian economy, to monitor risks in seven areas: interlinkages, the credit markets, the macroeconomic environment, funding conditions, the financial markets, and the banking and insurance sectors. Based on thresholds selected on the basis of either expert judgment or historical distributions, the authors construct risk heatmaps and derive aggregate scores for each of the above risk categories. By providing timely information on the buildup of risks, the proposed dashboard usefully complements other analytical tools currently used for developing and implementing macroprudential policy. **TAGS:** **[Financial Analysis]**; **[Financial stability]**

[Collateral reuse and balance sheet space] **(2017)**

Manmohan Singh – IMF

Transactions on wholesale capital markets are often secured by marketable collateral. However, collateral needs balance sheet space to move within the financial system. Certain new regulations that constrain private sector bank balance sheets may have the effect of impeding collateral flows. This may have important consequences for monetary policy transmission, for short term money market functioning, and for market liquidity. In this context (and in contrast to the literature, which has focused mainly on the repo market), this paper analyzes securities-lending, derivatives, and prime-brokerage markets as suppliers of collateral. It highlights the incentives created by new regulations for different suppliers of collateral. Moreover, it argues that the central banks should be mindful of the effect of their actions on the ability of markets to intermediate collateral. **TAGS:** **[Derivatives]**; **[Market Liquidity]**

[Sovereign Bond Risk Premiums] **(2017)**

Engelbert J. Dockner, Manuel Mayer and Josef Zechner - OeNB Oesterreichische Nationalbank, VGSF Vienna Graduate School of Finance, WU Vienna University of Economics and Business (CEPR and ECGI)

Sovereign credit risk has become an important factor driving government bond returns. The authors therefore introduce an empirical asset pricing model which exploits information contained in both forward interest rates and forward CDS spreads. Their analysis covers euro-zone countries with German government bonds as credit risk-free assets. The authors construct a market factor from the first three principal components of the German forward curve as well as credit risk factors from the principal components of forward CDS curves. Their results show that predictability of risk premiums of sovereign euro-zone bonds improves substantially if the market risk factor is augmented by a common euro zone and an orthogonal country-specific credit risk factor, measured by an increase in the average R2 over euro-zone sovereigns from 0.21 to 0.61. Furthermore, the authors find that most of the variation of sovereign bond risk premiums is attributable to the common euro-zone credit risk factor while country-specific credit risk factors play a subordinate role. **TAGS:** **[Sovereign risk premia]**; **[Sovereign CDS]**; **[Debt crisis]**

[Debt Stocks Meet Gross Financing Needs: A Flow Perspective into Sustainability] **(2017)**

Carmine Gabriele, Aitor Erce, Marialena Athanasopoulou and Juan Rojas - European Stability Mechanism

It is well known that no single metric can provide reliable cross-country risk assessments of debt sustainability. While approaches to understanding sustainability have traditionally relied heavily on stock metrics, a consensus is emerging that debt sustainability should be linked to both stock and flow features of underlying public debt.

This paper informs this debate by analysing the ability of gross financing needs, the preferred flow metric in current debt sustainability analyses by official institutions, to provide additional information to that provided by standard stock metrics of a sovereign's likelihood of distress. This paper's main contribution is to document a significant negative effect from changes in gross financing needs when debt stocks are high. These results support the intuition that countries can sustain very large debt stocks if these do not generate unmanageable flow needs. Additionally, the authors show that sovereign roll-over needs are a critical element driving this effect. Given the role of official lending in taming the dynamics of this component, paper's findings also inform the literature on the role of official lending in crises resolution. **TAGS:** **Debt sustainability**

Dealing with dealers: sovereign CDS comovements **(2017)**

Miguel Antón, Sergio Mayordomo and María Rodríguez-Moreno - IESE Business School, Central Bank of Spain

The authors show that sovereign CDS that have common dealers tend to be more correlated, especially when the dealers display similar quoting activity in those contracts over time. This commonality in dealers' activity is a powerful driver of CDS comovements, over and above fundamental similarities between countries, including default, liquidity, and macro factors. The authors posit that the mechanism causing the excess correlation is the buying pressure faced by CDS dealers for credit enhancements and regulatory capital reliefs. An instrumental variable analysis confirms that authors' findings are indeed rooted in a causal relationship. **TAGS:** **Sovereign CDS**; **Primary dealers**

Correlation between Maltese and euro area sovereign bond yields **(2017)**

Reuben Ellul - Central Bank of Malta

This paper investigates correlation in Malta government stock (MGS) yields and assesses correlation between these yields and those of Malta's major euro area partners. Correlation coefficients are found to be high, indicating the existence of a long-run relationship in the setting of MGS yields with short-term deviations. The analysis also includes an MGARCH-DCC(1,1) system based on spreads over the German ten-year bond, which are modelled for eleven euro area countries. Dynamic conditional correlations (DCCs) confirm that Maltese ten-year bond yields tend to be broadly insulated from event specific volatility in other countries' yields. Simple 'benchmark' regressions are estimated over the period 2007 – 2016, allowing the comparison of actual ten-year bond yields with composite equation outputs. The benchmarked yields based on euro area bonds track consistently actual MGS yields, while from mid-2015 onwards, MGS yields follow closely a benchmark derived on the basis of underlying economic fundamentals. **TAGS:** **Sovereign bonds yields**; **Financial Analysis**

Debt Crisis

Sovereign defaults in court (2018)

ECB

For centuries, defaulting governments were immune from legal action by foreign creditors. This paper shows that this is no longer the case. Building a dataset covering four decades, the authors find that creditor lawsuits have become an increasingly common feature of sovereign debt markets. The legal developments have strengthened the hands of creditors and raised the cost of default for debtors. The authors show that legal disputes in the US and the UK disrupt government access to international capital markets, as foreign courts can impose a financial embargo on sovereigns. The findings are consistent with theoretical models with creditor sanctions and suggest that sovereign debt is becoming more enforceable. The authors discuss how the threat of litigation affects debt management, government willingness to pay, and the resolution of debt crises. **TAGS:** **Sovereign defaults**; **Sovereign debt litigation**; **Sovereign immunity**; **Contract standards**; **Debt crisis**

Optimal fiscal policy and sovereign debt crisis **(2017)**

Stefan Niemanny and Paul Pichler - University of Essex and Central Bank of Austria

This paper studies how sovereign risk - both fundamental and self-fulfilling - shapes the cyclical behavior of optimal fiscal policy. The authors develop a model with endogenous default costs where market sentiment can induce belief-driven debt rollover crises. Optimal taxes and public spending are generally procyclical, but the incidence of rollover risk gives rise to infrequent episodes of severely countercyclical fiscal activity. These endogenous regime changes are associated with pronounced countercyclical changes in the level of debt. Debt buildups are triggered already by relatively mild recessions, but successful fiscal consolidations occur only in exceptionally good times. **TAGS:** **Debt and fiscal/monetary policies**; **Debt crisis**

Bank lending and the European Sovereign Debt crisis **(2017)**

Filippo De Marco - Bocconi University, Department of Finance and IGIER

The author investigates whether bank exposures to sovereign debt during the European debt crisis affected the real economy. He shows that bank marked-to-market (MTM) losses on sovereign debt led to a credit tightening that had negative real effects on small and young firms, even in countries not under stress. Since banks do not usually MTM their holdings of sovereign bonds, the author explores the transmission channels of sovereign losses on credit supply. He shows that sovereign losses reduced bank short-term funding from US money market funds rather than affecting equity or working through alternative channels. **TAGS:** **Sovereign debt exposure**; **Debt and growth;** **Debt crisis**

On international integration of Emerging Sovereign Bond markets **(2017)**

Itai Agur Melissa Chan Mangal Goswami Sunil Sharma – IMF

The paper investigates the international integration of EM sovereign dollar-denominated and local-currency bond markets. Factor analysis is used to examine movements in sovereign bond yields and common sources of yield variation. The results suggest that EM dollar-denominated sovereign debt markets are highly integrated; a single common factor that is highly correlated with US and EU interest rates explains, on average, about 80 percent of the total variability in yields. EM sovereign local currency bond markets are not as internationally integrated, and three common factors explain about 74 percent of the total variability. But a factor highly correlated with US and EU interest rates still explains 63 percent of the yield variation accounted for by common factors. That said, there is some diversity among EM countries in the importance of common factors in affecting sovereign debt yields. **TAGS:** **Sovereign bonds yields**; **Sovereign debt market**; **Debt composition**

International and Macroprudential Regulations

Regulatory Cycles: Revisiting the Political Economy of Financial Crises (2018)

Jihad Dagher – IMF

Financial crises are traditionally analyzed as purely economic phenomena. The political economy of financial booms and busts remains both under-emphasized and limited to isolated episodes. This paper examines the political economy of financial policy during ten of the most infamous financial booms and busts since the 18th century, and presents consistent evidence of pro-cyclical regulatory policies by governments. Financial booms, and risk-taking during these episodes, were often amplified by political regulatory stimuli, credit subsidies, and an increasing light-touch approach to financial supervision. The regulatory backlash that ensues from financial crises can only be understood in the context of the deep political ramifications of these crises. Post-crisis regulations do not always survive the following boom. The interplay between politics and financial policy over these cycles deserves further attention. History suggests that politics can be the undoing of macro-prudential regulations. **TAGS:** **Debt crisis**; **International and Macroprudential Regulations; Financial stability**

Rethinking financial stability (2018)

David Aikman, Andrew G Haldane, Marc Hinterschweiger and Sujit Kapadia - Bank of England and European Central Bank

The global financial crisis has been the prompt for a complete rethink of financial stability and policies for achieving it. Over the course of the better part of a decade, a deep and wide-ranging international regulatory reform effort has been under way, as great as any since the Great Depression. The authors provide an overview of the state of progress of these reforms, and assess whether they have achieved their objectives and where gaps remain. The authors find that additional insights gained since the start of the reforms paint an ambiguous picture on whether the current level of bank capital should be higher or lower. Additionally, they present new evidence that a combination of different regulatory metrics can achieve better outcomes in terms of financial stability than reliance on individual constraints in isolation. They discuss in depth several recurring themes of the regulatory framework, such as the appropriate degree of discretion versus rules, the setting of macroprudential objectives, and the choice of policy instruments. The authors conclude with suggestions for future research and policy, including on models of financial stability, market-based finance, the political economy of financial regulation, and the contribution of the financial system to the economy and to society. **TAGS:** **Financial stability**; **International and Macroprudential Regulations**

Contract Standards

The strained marriage of Public Debts and Private Contracts (2018)

Anna Gelpern - Georgetown University

As a new year begins, governments around the world are poised for another cycle of debt disputes and missed payments. Venezuela is stumbling into default after starving its people for years to pay foreign creditors. Its hard currency reserves are drying up under pressure from US sanctions as the government battles hyperinflation, runs out of things to sell to China and Russia, and tries to buy time with a wacky virtual currency scheme. Meanwhile, Ukraine and Puerto Rico will each go to court in January to fend off debt collectors. Ukraine has appealed an English court decision that would enforce its debt to Russia as if it were an ordinary commercial contract, despite Russia's annexation of Crimea, crippling trade sanctions, and sponsorship of separatist conflict in eastern Ukraine. A fund known for making a fortune from suing Argentina has challenged a US federal law enacted in 2016 that promised bankruptcy-style debt relief for Puerto Rico. If the fund wins, hopes for a fresh start for the hurricane-battered commonwealth and an equitable resolution for its creditors would dim.[…] **TAGS:** **Sovereign defaults**; **Debt Restructuring**; **Sovereign debt litigation**; **Sovereign immunity**; **Debt relief; Contract standards**

Macroeconomic Analysis

Have Public Finances in the OECD Area Been Sustainable? (2018)

Ricardo Ferraz - Lisbon School of Economics & Management, University of Lisbon

The aim of this article is to test, from an empirical standpoint, the existence of sustainable public finances in the Organisation for Economic Co-operation and Development (OECD) area as a whole, over the most recent period of the world economy, 1973–2016. The research methods include not only standard stationarity tests, but also tests, which allow for a structural break. The relevant results of this research are a stationary public budget balance expressed as a percentage of GDP and a debt to GDP ratio that is stationary in first differences. According to the literature, this means that a "necessary and sufficient" condition is fulfilled for proving the existence of a strong sustainability. The author hopes this research can make a valuable contribution to the debate regarding public finances in the world economy. To obtain other relevant conclusions, additional tests will need to be performed in the future in order to assess which members are contributing to the fiscal sustainability of the OECD aggregate. **TAGS:** **Debt sustainability**; **Debt and fiscal/monetary policies**

Dynamic Analysis of Budget Policy Rules in Japan (2018)

Koichi Futagami, Kunihiko Konishi - Osaka University, Kyoto University

The authors construct an endogenous growth model with public capital and endogenous labor supply and examine quantitatively the welfare effects of fiscal consolidation on the Japanese economy. The authors consider two modes of fiscal consolidation: the adjustment to a new lower target of the debt-to-GDP and deficit-to-GDP ratios. The authors find that the debt and deficit reduction rules based only on government consumption and investment expenditure cuts improve households' welfare. This improvement in households' welfare becomes large as the speed of fiscal consolidation rises. Further, reductions in the target debt-to-GDP or deficit-to-GDP ratio generate larger welfare gains. The authors also discuss the welfare effects of fiscal consolidation with tax increases and transfer payment decreases. **TAGS:** **Debt and growth**; **Debt and fiscal/monetary policies**

Bailing out the people? When private debt becomes public (2018)

Samba Mbaye, Marialuz Moreno Badia, Kyungla Chae – IMF

The paper argues that private deleveraging episodes trigger increases in public debt (mutualization). The key mechanism is not so much explicit bail-outs but the private deleveraging episode hinders economic growth and subsequent countercyclical fiscal policy increases the public debt ratio. Whether total debt ends up increasing or decreasing depends on the extent of the growth slowdown and the reaction of fiscal policy during the deleveraging spell. Total debt increases only in a slow growth and strong fiscal policy reaction scenario. Implications for monitoring public finance developments: we should take into account these apparent implicit guarantees when analyzing public debt sustainability (see Berti et al (2013) or Hernández de Cos et al (2014)). The topic is timely and the econometric analysis well-executed. The database is impressive and very useful. **TAGS:** **Financial Analysis;** **Debt sustainability**

Fiscal transfers in a monetary union with sovereign risk **(2018)**

Guilherme Bandeira - Central Bank of Spain

This paper investigates the welfare and economic stabilization properties of a fiscal transfers scheme between members of a monetary union subject to sovereign spread shocks. The scheme, which consists of cross-country transfer rules triggered when sovereign spreads widen, is incorporated in a two-country model with financial frictions. In particular, banks hold government bonds in their portfolios, being exposed to sovereign risk. When this increases, a drop bank's equity value forces them to contract credit and to raise lending rates at the same time as they retain funds to build up their net worth. I show that, when domestic fiscal policy is not distortionary, fiscal transfers improve welfare and macroeconomic stability. This is because fiscal transfers can reduce banks' exposure to government debt, freeing credit supply to the private sector. On the contrary, when domestic fiscal policy is distortionary, fiscal transfers cause welfare losses, despite stabilizing the economy. This result arises because the distortions caused by funding the scheme outweigh the positive effects of fiscal transfers in smoothing the adjustment of the economy hit by the shock. **TAGS:** **Debt and fiscal/monetary policies**; **Financial stability;** **Sovereign debt exposure**

State-Owned Enterprises Leverage as a Contingency in Public Debt Sustainability Analysis: The Case of the People's Republic of China **(2018)**

Benno Ferrarini and Marthe Hinojales - Asian Development Bank

The authors reflect state-owned enterprises' (SOE) leverage within the standard debt sustainability assessment framework. Based on company data and the interest coverage ratio as a measure of debt at risk, aggregate baseline projections and fan charts gauge SOE debt as a contingent liability to the public sector. The authors find that SOE leverage in the People's Republic of China has grown to a large liability that deserves the urgent attention it has been receiving from the authorities. While there is no room for complacency, there is no need for panic either; even if authorities had to step into mop up as much as 20% of SOE debt at risk gone bad, this would appear to be manageable at roughly 2.7% of the gross domestic product in 2016 or 5.5% by 2021. These findings are reflective of discretionary assumptions about future developments in the SOE sector and the broader economy—including baseline conditions premised on preventive government action to slow borrowing—that are adjustable to reflect analysts' prerogatives and expectations. **TAGS:** **Debt sustainability**; **Contingent Liabilities**

Post-Programme Surveillance Report. Portugal, Autumn 2017 **(2018)**

European Commission

This report by the European Commission presents the findings of the seventh post-programme surveillance mission to Portugal and identifies remaining challenges for the Portuguese economy. Since the conclusion of the sixth post-programme surveillance mission in July 2017, growth has further accelerated. The short-term economic and financial situation of Portugal has improved and important progress has been made in addressing near-term risks. Overall, Portugal's economic rebalancing building on the basis of reforms implemented during and after the macroeconomic adjustment programme has made good progress. Going forward, the challenge is to further strengthen the reform momentum. In this regard, ambitious growth-enhancing reforms and sustained fiscal structural consolidation are essential to improve the economy's resilience to shocks and the medium-term growth prospects.[…] **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**; **Financial stability**

Economic Convergence in the Euro Area: Coming Together or Drifting Apart? (2018)

Jeffrey R. Franks , Bergljot B Barkbu , Rodolphe Blavy , William Oman , Hanni Schoelermann - International Monetary Fund

The authors examine economic convergence among euro area countries on multiple dimensions. While there was nominal convergence of inflation and interest rates, real convergence of per capita income levels has not occurred among the original euro area members since the advent of the common currency. Income convergence stagnated in the early years of the common currency and has reversed in the wake of the global economic crisis. New euro area members, in contrast, have seen real income convergence. Business cycles became more synchronized, but the amplitude of those cycles diverged. Financial cycles showed a similar pattern: synchronizing more over time, but with divergent amplitudes. Income convergence requires reforms boosting productivity growth in lagging countries, while cyclical and financial convergence can be enhanced by measures to improve national and euro area fiscal policies, together with steps to deepen the single market. **TAGS:** **Financial stability**; **Debt and fiscal/monetary policies**

The Macroeconomic Effects of Public Debt: An Empirical Analysis of Mozambique (2018)

Antonio Afonso, Yasfir Ibraimo - University of Lisbon, Instituto de Estudos Sociais e Economicos

Public debt has been rising markedly over the years, which suggests an increase in public expenditure financed by debt instead of taxation. There is no consensus on the economic implications of borrowing to finance public expenditure. The authors assess empirically the macroeconomic effects of public debt for the case of Mozambique over the period of 2000Q1-2016Q4. The authors use a Vector Autoregression model to assess these effects through impulse response functions and variance decomposition. The authors conclude that debt service variables have much more negative effects on this economy than debt variables. Debt variables over the period of this study had no significant impact on the real output and the debt service component depressed the real output, increased the general price level and accounted for the depreciation on the domestic currency. **TAGS:** **Debt and growth**; **Foreign Debt**

From Sovereigns to Banks: Evidence on Cross-Border Contagion (2018)

Alesia Kalbaska, Cesario Mateus - University of Siena, University of Greenwich Business School

This paper analyzes the evolution of the banking system sensitivity to cross-border contagion in 2006-2011. The study is performed on the basis of the BIS data on cross-border exposures and the Bankscope data on Tier 1 capital of 20 banking systems (Australia, Austria, Belgium, Canada, Finland, France, Germany, Greece, India, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, Turkey, the UK and the US). Since the European sovereign debt crisis took a decisive turn at the end of 2009, markets started looking at its main protagonists - Greece, Ireland, Italy, Portugal and Spain (GIIPS) - with a lot of anxiety. However, unexpectedly, the authors find that a single failure among GIIPS could be absorbed by the network. Authors' results reveal that the US, the UK, France and Germany pose the highest threat to the systemic stability. Moreover, the resilience of the banking systems to contagion risks tends to improve over the years. **TAGS:** **Financial stability**; **Debt Crisis;** **Sovereign debt exposure**

Business Cycles, Credit Cycles, and Bank Holdings of Sovereign Bonds: Historical Evidence for Italy **(2017)**

Silvana Bartoletto, Bruno Chiarini, Elisabetta Marzano, Paolo Piselli - University of Naples, Bank of Italy

The authors propose a joint dating of Italian business and credit cycles on a historical basis by applying a local turning-point dating algorithm to the level of the variables. Along with short cycles corresponding to traditional business cycle fluctuations, the authors also investigate medium cycles, because there is evidence that financial booms and busts are longer and more persistent than business cycles. After comparing their cycles with the prominent qualitative features of the Italian economy, the authors carry out some statistical tests for comovement between credit and business cycles and find evidence that credit and business cycles are poorly synchronized, especially in the medium term. Nonetheless, the authors demonstrate that only for medium-term frequencies the coincidence of financial downturns and economic recessions significantly increases output losses. The authors do not find evidence that the credit cycle leads the business cycle, both in medium and short-term fluctuations. On the contrary, in the short cycle, the authors find some evidence that the business cycle leads the credit cycle. Finally, credit and business cycle comovement increases when credit embodies public bonds held by banks, i.e., bank financing to the public sector. **TAGS:** **Debt and growth**; **Sovereign debt exposure**

Methodology for Assigning Credit Ratings to Sovereigns **(2017)**

Philippe Muller and Jérôme Bourque - Central Bank of Canada

The investment of foreign exchange reserves or other asset portfolios requires an assessment of the credit quality of investment counterparties. Traditionally, foreign exchange reserve and asset managers have relied on credit rating agencies (CRAs) as the main source for credit assessments. The Financial Stability Board issued principles to reduce reliance on CRA ratings in standards, laws and regulations, in support of financial stability. Moreover, best practices in the asset management industry suggest that investors should understand the credit risks they are exposed to and, more broadly, that internal credit assessments be relied upon to inform investment decisions. In support of efforts by market participants to establish stronger internal credit assessment practices, as well as to solicit feedback, this paper provides a detailed technical description of the methodology developed to assign internal credit ratings to sovereigns, using publicly available data only. This methodology proposes three key innovations: (i) a quantitative approach to assess political risks, (ii) a framework to assess the government's potential contingent liabilities related to the banking sector, and (iii) a framework to determine the presence of asset price imbalances in the country. The methodology presented relies on fundamental credit analysis that produces a forward-looking and "through-the-cycle" assessment of the investment entity's capacity and willingness to pay its financial obligations, resulting in an opinion on the relative credit standing or likelihood of default. The methodology presented is currently used to assess eligibility and inform investment decisions in the management of Canada's foreign exchange reserves. The methodology is a key component of the joint Bank of Canada and Department of Finance Canada initiative to develop internal credit assessment capabilities. **TAGS: Financial Analysis**; **Sovereign Credit Ratings; Contingent Liabilities**

The Long-run Determinants of Indian Government Bond Yields (2017)

Tanweer Akram, Anupam Das - PhD, Thrivent Financial, PhD, Mount Royal University

This paper investigates the long-term determinants of Indian government bonds' (IGB) nominal yields. It examines whether John Maynard Keynes's supposition that short-term interest rates are the key driver of long-term government bond yields holds over the long-run horizon, after controlling for various key economic factors such as inflationary pressure and measures of economic activity. It also appraises whether the government finance variable—the ratio of government debt to nominal income—has an adverse effect on government bond yields over a long-run horizon. The models estimated here show that in India, short-term interest rates are the key driver of long-term government bond yields over the long run. However, the ratio of government debt and nominal income does not have any discernible adverse effect on yields over a long-run horizon. These findings will help policymakers in India (and elsewhere) to use information on the current trend in short-term interest rates, the federal fiscal balance, and other key macro variables to form their long-term outlook on IGB yields, and to understand the implications of the government's fiscal stance on the government bond market. **TAGS: Sovereign bonds yields**; **Debt and fiscal/monetary policies**

Economic Policies

US Monetary Policy and International Bond Markets (2018)

Simon Gilchrist, Vivian Yue, and Egon Zakrajsek - New York University, NBER, Emory University, Federal Reserve Bank of Atlanta, Federal Reserve Board

This paper uses high-frequency data to analyze the effects of US monetary policy—during the conventional and unconventional policy regimes—on foreign government bonds markets in advanced and emerging market economies. The results indicate that an expansionary US monetary policy steepens the foreign yield curve—denominated in local currency—during a conventional US monetary policy regime and flattens the foreign yield curve during an unconventional policy regime. The pass-through of unconventional US monetary policy to foreign bond yields is, on balance, comparable to that of conventional policy. In addition a conventional US monetary easing leads to a significant narrowing of the credit spreads on dollar-denominated sovereign bonds that are issued by countries with a speculative-grade sovereign credit rating. However, during the unconventional policy regime, yields on speculative-grade sovereign debt denominated in dollars move one-to-one with yields on comparable-maturity US Treasury securities. **TAGS: Debt and fiscal/monetary policies**; **Sovereign bonds yields**;

[A New Wave of ECB's Unconventional Monetary Policies: Domestic Impact and Spillovers] (2018)

Richard Varghese, Yuanyan Sophia Zhang - Graduate Institute of International and Development Studies, Geneva, International Monetary Fund

ECB President Draghi's Jackson Hole speech in August 2014 arguably marked a new phase of unconventional monetary policies (UMPs) in the euro area. This paper examines the market impact and transmission channels of this new wave of UMPs using a modified event study framework. They are found to have a more prominent impact on inflation expectations and exchange rates compared to the earlier UMP announcements. The impact on bank equity, however, is less significant in part due to narrowing profit margin in a low interest rate environment; and the marginal effect on sovereign spread compression has diminished. By extracting components of monetary policy shocks from the yield curve, the authors find that the traditional signaling channel of the monetary policy transmission continued to play an important role, but the portfolio rebalancing channel became more important in the new phase. Spillovers to non-euro area EU countries (the Czech Republic, Denmark, Poland, and Sweden) are transmitted mainly through the portfolio rebalancing channel, largely affecting sovereign yields and exchange rates. **TAGS:** Debt and fiscal/monetary policies; Sovereign bonds yields

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Resource Windfalls and Public Debt: The Role of Political Myopia (2018)

Ohad Raveh, Yacov Tsur - Hebrew University of Jerusalem

The authors identify an adverse consequence of natural resource windfalls, which is particularly detrimental in advanced democracies. The authors construct a political economy model with endogenous public debt under exogenous resource windfall shocks, in which political myopia results from reelection prospects. Reelection-seeking politicians, while more accountable toward their electorate, are also more myopic. The latter effect gives rise to a budget deficit bias, with the ensuing debt buildup that is exacerbated by resource windfalls. The authors find that the positive effect of resource windfalls on debt increases as the restrictions on reelection get laxer. The authors test the model's predictions using a panel of U.S. states over the period 1963-2007. Their identification strategy rests on constitutionally-entrenched differences in gubernatorial term limits that provide plausibly exogenous cross-sectional and time variation in political time horizon, and geographically-based cross-state differences in natural endowments interacted with the international prices of oil and gas. The empirical findings corroborate the model's predictions. In particular, over a period of five years, a resource windfall equivalent to 1% of state income induces an increase of approximately 0.35% ($4.6) in the average real per capita public debt of states with no gubernatorial term limits. **TAGS:** Debt sustainability; Debt and fiscal/monetary policies

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Optimal monetary policy and fiscal policy interaction in a non-Ricardian economy (2017)

Massimiliano Rigon and Francesco Zanetti - Bank of Italy

This paper studies optimal discretionary monetary policy and its interaction with fiscal policy in a New Keynesian model with finitely-lived consumers and government debt. Optimal discretionary monetary policy involves debt stabilization to reduce consumption dispersion across cohorts of consumers. The welfare relevance of debt stabilization is proportional to the debt-to-output ratio and inversely related to the household's probability of survival, which affects its propensity to consume out financial wealth. Debt stabilization bias implies that discretionary optimal policy is suboptimal compared with the inflation targeting rule, which fully stabilizes the output gap and the inflation rate while leaving debt to freely fluctuate in response to demand shocks. **TAGS:** **Debt and fiscal/monetary policies**; **Debt and growth**; **Debt sustainability**

Multilateral Financing

On the optimal design of a Financial Stability Fund **(2017)**

Arpad Abraham, Eva Carceles-Povedaz, Yan Liux, Ramon Marimon - European University Institute, SUNY at Stony Brook, Wuhan University

A Financial Stability Fund set by a union of sovereign countries can improve countries' ability to share risks, borrow and lend, with respect to the standard instrument used to smooth fluctuations: sovereign debt financing. Efficiency gains arise from the ability of the fund to offer long-term contingent financial contracts, subject to limited enforcement (LE) and moral hazard (MH) constraints. In contrast, standard sovereign debt contracts are uncontingent and subject to untimely debt roll-overs and default risk. The authors develop a model of the Financial Stability Fund (FSF) as a long-term partnership with LE and MH constraints. They quantitatively compare the constrained-efficient FSF economy with the incomplete markets economy with default. In particular, the authors characterize how (implicit) interest rates and asset holdings differ, as well as how both economies react differently to the same productivity and government expenditure shocks. In their economies, `calibrated' to the euro area `stressed countries', substantial efficiency gains are achieved by establishing a well-designed Financial Stability Fund; this is particularly true in times of crisis. Authors' theory provides a basis for the design of an FSF - for example, beyond the current scope of the European Stability Mechanism (ESM) - and a theoretical and quantitative framework to assess alternative risk-sharing (shock-absorbing) facilities, as well as proposals to deal with the euro area `debt overhang problem'. **TAGS:** **Debt Restructuring**; **Multilateral financing; Contract standards; Financial stability**

A European Monetary Fund: Why and How? **(2017)**

Daniel Gros, Thomas Mayer - Centre for European Policy Studies, Brussels

As early as 2010, at the outset of the sovereign debt crisis, Daniel Gros and Thomas Mayer argued that Europe needed a European Monetary Fund (EMF). In the meantime, the European Stability Mechanism (ESM) has been created, which performs the function of an EMF. It was critical in containing the cost of the crisis and four of its five country programmes have been a success. But the case of Greece shows that one needs to be prepared for failure as well. They propose in this paper to keep the ESM essentially as it is, but would empower it to set conditions on countries receiving its financial support. Such support would have a limit, however, to prevent situations in which the ESM would 'own' a country. The authors conceive of the ESM/EMF literally as a financial stability mechanism, whose main function is to ensure that a bailout is no longer "alternativlos", as Chancellor Angela Merkel used to say. In 2010, the rescue of Greece was presented as TINA (There Is No Alternative) because the stability of the financial system of the entire euro area appeared to be in danger. With financial stability guaranteed by the ESM/EMF in combination with the Banking Union, default becomes an alternative that should be considered dispassionately. Whether the debt of a country is sustainable is rarely known with certainty beforehand. Accordingly, they argue that it is proper that the Union, in the 'spirit of solidarity', initially gives a country the benefit of the doubt and provides financial support for an adjustment programme, but caution that the exposure should be limited. If the programme goes awry, the ESM/EMF could be of great help, as it could provide bridge financing to soften the cost of default. **TAGS:** **Debt crisis**; **Debt Restructuring**; **Financial stability;** **Multilateral financing**

Reports

Report on Public Finances in EMU 2017

European Commission

This annual report presents a review of key policy developments and analytical findings in the area of public finances. This year's edition presents analyses on the impact of fiscal policy on income distribution and the influence of institutional factors on public investment in the EU. **TAGS:** **Debt and fiscal/monetary policies**; **Debt sustainability**

Newsletter, 1-3-2018 – Slovenia

Republic of Slovenia Ministry of Finance Treasury Directorate

This report provides a periodic overview and assessment of the performance of the Slovenian economy. Seasonally adjusted gross domestic product (GDP) increased by 6.2% (YoY) in the fourth quarter of 2017. The GDP increased by 5% in 2017. The growth continues to be strongly supported by exports and by a growing domestic private consumption. The growth as seen below is well above the euro area average of 2.7% and the EU-28 average of 2.6%.[…] **TAGS:** **Debt Forecasts**; **Debt Policy**

Sovereign debt in emerging market economies is a country-specific issue

Katrin Ullrich – KFW

Recently, a strong focus has been placed on the rising debt of non-financial enterprises and private households in emerging market economies. However, sovereign debt in the large emerging market economies has also increased in the aggregate. Since early 2011, it has relatively continuously risen from 36 to 46% of GDP. The question therefore arises as to whether any debt sustainability problems can be identified. **TAGS:** **Debt sustainability**; **Sovereign defaults**

Report on the proceedings of the 2017 MEFMI combined forum

MEFMI Macroeconomic and Financial Management Institute of Eastern and Southern Africa

The 2017 MEFMI Combined Forum focused on the topical issue of Infrastructure Financing Infrastructure development has been noted to be key to the potential for Africa to become the fastest growing region in the world in the next decade. According to the United Nations Economic Commission for Africa (UNECA) and the New Partnership for Africa's Development (NEPAD) 2014 study; the continent needs $93 billion in infrastructure spending each year. The Infrastructure Consortium for Africa reported that only $74.5 billion was committed to infrastructure development in 2014, with a great majority of it in the transport and energy sectors. […] **TAGS:** **Multilateral financing**; **Debt composition**; **Structural policies**

Country Risk Quarterly Report. First Quarter 2018

BBVA Research - Global Modelling & Long Term Analysis Unit

Following the recent turmoil in equity markets during February, the authors have observed a decoupling of different Global Risk Aversion (GRA) indicators. Markets seem to be giving much less value to the risk accounted for sovereign ratings. The tightening of sovereign spreads (CDS) is outstanding.[…] **TAGS:** **Sovereign debt market**; **Sovereign CDS**; **Cost and Risk**

Geographical Distribution of Financial Flows to Developing Countries 2018

OECD

This annual publication provides comprehensive data on the volume, origin and types of aid and other resource flows to around 150 developing countries. The data show each country's receipts of official development assistance as well as other official and private funds from members of the Development Assistance Committee of the OECD, multilateral agencies and other key donors. Key development indicators are given for reference. **TAGS:** **Multilateral financing**; **Debt Statistics;** **OECD**

The convergence in emerging market inflation

Kevin Daly, Loughlan O'Doherty - Vox CEPR's Policy Portal

Recent years have seen emerging market economy inflation rates converge towards developed economy rates, as well as convergence between emerging markets. The sustained improved inflation performance in emerging markets has occurred even as unemployment in many of these economies has fallen to record lows. This column attributes the improved performance to two factors: increases in monetary policy credibility following the widespread introduction of inflation targeting, and a reduction in the frequency of emerging market currency crises, reflecting a secular improvement in their balance sheets. **TAGS:** **Financial stability**

Italian Public Debt: Behind the Scenes

Maria Cannata, Davide Iacovoni - Italy's MoF

For many years Italy has been coping with a very high public debt. In the last three years the Italian debt to GDP ratio stabilised slightly over 130%, ranking as the third highest in absolute terms worldwide after the US and Japan. In Italy, high public debt is obviously among the greatest economic concerns. Nevertheless, it has been mitigated by ensuring the provision of funds for the financing of all Government's functions at a contained cost and with limited risks, irrespective of market contexts.[…] **TAGS:** **Debt Policy**; **Cost and Risk**; **Transparency**; **Debt crisis**

How Treasury Auctions Work

TreasuryDirect

Marketable securities can be bought, sold, or transferred after they are originally issued. The U.S. Treasury uses an auction process to sell these securities and determine their rate or yield. Annual auction activity: Offers several types of securities with varying maturities; Conducted 277 public auctions in 2017. View the current financing pattern. Issued approximately $8.522 trillion in securities in 2017. **TAGS:** **Primary market**; **Public debt auctions**

Green bonds: who is to certify 'sustainability'?

Alexander Lehmann - Brueghel.org

Poland's issue of a green bond earlier this month was the country's second financing of this type, and the first ever repeat issue by a sovereign. It has revived the debate as to whether there should be a single regulatory standard to certify the environmental quality of financial assets. This will be a key issue for the EU's sustainable finance strategy which is due to be released shortly. **TAGS:** **Primary market**; **Contract standards**

Blockchain & Distributed Ledger Technology (DLT)

World Bank

The rapid development and spread of new technologies has been significantly transforming the financial sector. The World Bank Group published the first fintech note that looks at Distributed Ledger Technology and Blockchain, and analyzes its potential relevance for international development. Fintech -- a relatively newly-coined term which combines 'finance' and 'technology' -- describes companies or innovations that use new technologies to improve or innovate financial services. **TAGS:** **Trading platforms;** **World Bank**

SwapsInfo Full Year 2017 and Fourth Quarter 2017 Review

ISDA

The ISDA SwapsInfo Quarterly Review provides analysis of interest rate derivatives (IRD) and index credit default swap (CDS) trading activity. The report provides a breakdown of publicly available data to analyze the impact of regulatory change on swap execution facility (SEF) and bilateral trading volumes, as well as cleared and non-cleared activity. **TAGS:** **Derivatives**

ISDA SwapsInfo

ISDA

ISDA SwapsInfo brings greater transparency to OTC derivatives markets. It transforms publicly available data on OTC derivatives trading volumes and exposures into information that is easy to chart, analyze and download. ISDA SwapsInfo covers the interest rate derivatives and credit default swaps markets. **TAGS:** **Derivatives**

Second progress report on the reduction of non-performing loans (NPLs)

EU Commission

In January 2018 the European Commission presented its first progress report on the Action Plan to tackle non-performing loans (NPLs) in Europe, which Finance Ministers agreed on in July 2017. The progress report, which takes the form of a communication and an accompanying staff working document, highlights recent developments of NPLs both in the EU as a whole and within individual EU countries. It shows that the positive trend of falling NPL ratios and growing coverage ratios has solidified and continued into the second half of 2017. The report also provides an update on the Commission's ongoing work to deliver on the elements of the action plan for which it has direct responsibility. **TAGS:** **Financial stability**

European Economic Forecast - Winter 2018 (Interim)

EU Commission

Economic activity in the euro area turned out stronger than expected in the second half of 2017, with GDP growing by 0.7% and 0.6% q-o-q in the third and last quarters of the year. Survey data also suggest that growth momentum should remain robust in early 2018. While the broad-based acceleration of global economic activity and trade over the course of last year benefitted the euro area, domestic demand also strengthened, enhanced by above-average business and consumer sentiment, continued policy support, and improving labour markets.[…] **TAGS: Economic Forecasts**

International Debt Statistics 2018

The World Bank

International Debt Statistics 2018 focuses on financial flows, trends in external debt, and other major financial indicators for low-, and middle income countries. This edition of International Debt Statistics (IDS) has been reconfigured to offer a more condensed presentation of the principal indicators. The longer version of the report will be found in the online tables. **TAGS: Debt Statistics; World Bank**

Database of Sovereign Defaults, 2017

David Beers and Jamshid Mavalwalla - Central Bank of Canada

Until recently, there have been few efforts to systematically measure and aggregate the nominal value of the different types of sovereign government debt in default. To help fill this gap, the Bank of Canada's Credit Rating Assessment Group (CRAG) has developed a comprehensive database of sovereign defaults posted on the Bank of Canada's website. The database draws on previously published data sets compiled by various public and private sector sources. […]**TAGS: Sovereign defaults**; **Debt Statistics**;

Sovereign Postcard: GDP-Linked Bonds

Moritz Kraemer - S&P Global

Speaking notes presented at the European Commission DG ECFIN – OECD Economics Department workshop on GDP-linked government bonds on 17 January 2018 in Brussels, Belgium.[…] **TAGS: Debt policy; Primary market**; **Sovereign Credit Ratings**

Implementation of GDP Linked Bonds - An Emerging Market Perspective

Sebastian Espinosa - White Oak Managing Director

Presentation held at the European Commission DG ECFIN – OECD Economics Department workshop on GDP-linked government bonds on 17 January 2018 in Brussels, Belgium. […] **TAGS: Debt Policy**; **Primary market**

The euro area's three lines of defence

Benoît Cœuré - ECB

The establishment of the European Stability Mechanism, and the progress made in setting up a banking union, have fixed some of the shortcomings in euro area governance and instruments. These steps were important in easing the pressure the crisis has put on the ECB. But many of the institutional failings that caused and perpetuated the crisis remain unresolved. Incentives to pursue sound policies remain too weak and stabilisation of shocks too difficult. These are deep-rooted issues that cannot be resolved by a few years of above-trend growth. To assume that the current economic expansion will heal all wounds is naive. The euro area needs reform.[…] **TAGS: Debt crisis**; **Debt and fiscal/monetary policies**

Are the regulations implemented to guarantee financial stability compatible with the required acceleration in euro area growth?

François Villeroy de Galhau - Bank of France

The author focuses his talk on important reforms, implemented in a particularly disrupted context: the financial regulations introduced in the wake of the 2007–2009 crisis. Is there any need to recall the disastrous consequences that this crisis inflicted on the real economy, the social dramas, and the democratic fragmentation with the rise of populism? Financial stability is therefore a common good that needs to be guaranteed. It is one of the three core tasks of the Banque de France, alongside monetary strategy and services to the economy. […]**TAGS:** **Financial stability**; **International and Macroprudential Regulations**

International Journal of Central Banking (IJCB) - January 2018

BIS

The International Journal of Central Banking (IJCB) is an initiative of the central banking community. Published quarterly, the journal features articles on central bank theory and practice, with a special emphasis on research relating to monetary and financial stability. The main objectives of the International Journal of Central Banking are: to disseminate widely the best policy-relevant and applied research that reflects the missions of central banks around the world across a range of disciplines; and to promote communication amongst researchers both inside and outside of central banks. **TAGS:** **Financial stability**; **International and Macroprudential Regulations**

Spain's evolving fiscal framework: implications for the sovereign and its regions

Scope Ratings

The Great Financial Crisis brought Spain's evolving fiscal framework, and in particular, the drive towards further regional autonomy to a temporary halt. As economic and fiscal pressures abate, while autonomous desires persist, Scope expects the reform process to gain momentum. The Spanish authorities, together with the autonomous regions, are likely to reform the fiscal framework on a national, rather than on a region-by-re gion basis, with rating implications for the regions and the sovereign over the coming years. **TAGS: Sovereign credit ratings;** **Debt and fiscal/monetary policies**; **Subnational debt**

Four reasons why Russia is investment grade and Turkey is not

Scope Ratings

In Scope's 2018 Public Finance Outlook, we identified an investment grade (IG) compared with a non-investment grade (non-IG) rating disparity between Russia (BBB-/Stable) and Turkey (BB+/Stable) as an important theme in 2018. In this special comment, Scope introduces four core arguments for this stronger view on Russia's sovereign creditworthiness. In addition, we note two areas where Turkey's credit profile has an advantage over Russia's. **TAGS:** **Sovereign Credit Ratings**; **Primary market**

What yield curves are telling us

Benoît Cœuré - ECB

The US Treasury yield curve flattened considerably last year, reducing the spread between ten-year and two-year US Treasury yields to less than 60 basis points. When Alan Greenspan first referred to a bond market "conundrum" in 2005, the spread was around 80 basis points. In the euro area, by contrast, the term spread remained broadly unchanged last year.[…] **TAGS:** **Sovereign bonds yields**; **Financial Analysis**

Debt securities statistics (Dec.2017)

BIS

The debt securities statistics are published quarterly - with a lag of about one quarter for the IDS statistics and two quarters for the DDS and TDS statistics. They are published concurrently with the BIS Quarterly Review in March, June, September and December. View BIS release calendar for advance notice of publication dates. **TAGS:** **Debt Statistics**

Results of the December 2017 survey on credit terms and conditions in euro-denominated securities financing and over-the-counter derivatives markets (SESFOD)

ECB

In line with the two previous survey rounds, respondents reported that, on balance, credit terms offered to counterparties in both securities financing and over-the-counter (OTC) derivatives transactions had remained basically unchanged over the three-month period from September to November 2017. Credit terms were expected to ease slightly for all types of counterparty over the coming three-month period (i.e. the period from December 2017 to February 2018). At the same time, respondents indicated that clients' efforts to negotiate more favourable credit terms had increased somewhat for all types of counterparty.[…] **TAGS:** **Derivatives**; **Market Liquidity**

News

The **What's new** area of the PDM Network site proposes ***a daily selection of news* on public debt management** from online newspapers and info providers, as well as ***the most recent documents* and *reports*** uploaded on the website. Subscribers also receive the weekly newsletter ***Emerging Sovereign Debt Markets News*** drafted by the PDM Secretariat and based on ***Thomson Reuters ©*** information services.

Events and Courses

All workshops, courses and events reported by the PDM Network Secretariat on the Bimonthly Newsletter are previously uploaded, on a steady and almost daily basis, on our website **www.publicdebtnet.org** in the dedicated section **"Events"**, as soon as the Secretariat gets information and quite in advance to the related deadline.
A previous and timely information about the events to come is thus allowed to all the website users by checking this section, also including a **"calendar"** function.
The further publication in the **Bimonthly Newsletter** is intended for a different goal, as a way to provide every two months our subscribers with an at-a-glance list of the events that took place or will take place after they received the previous Newsletter.
However, please note that the **PDM Network Secretariat** is not involved in any programming activity of the courses and events reported on our website and then in the Newsletter, but it offers – at the best of its knowledge - a facility to help to identify, among the huge amount of information available on internet, a more selective view on topics on public debt management and related matters.

1 – 31 January 2018; EDX, Self-Paced
Data Analysis: Take It to the MAX

1 – 31 January 2018; EDX, Self-Paced
Electronic trading in financial markets

1 – 31 January 2018; EDX, Self-Paced

Measuring risk: equity, fixed income, derivatives and FX

1 – 31 January 2018; EDX, Self-Paced
Risk management professional certificate examination

22 – 23 February 2018; South Asian University, New Delhi, India
The Fourth International Conference on South Asian Economic Development

22 – 23 February 2018; OECD, OECD Conference Centre, Paris, France
25th Global Forum on Public Debt Management

1 – 2 March 2018; OECD, Asian Development Bank Institute (ADBI), Tokyo, Japan
18th Tokyo Roundtable on Capital Market and Financial Reform in Asia

4 - 15 March 2018; International Monetary Fund's Middle East Center for Economics and Finance, Kuwait
Monetary Policy

5 – 6 March 2018; ICMA, London
New ICMA Training Course: Introduction to Green Bonds

7 March 2018; World Bank, Online webinar
Why are more sovereigns issuing in Euros?

7 - 9 March 2018; ICMA, Brussels
The Securities Operations Foundation Qualification (SOFQ)

12 March – 13 April 2018; UNITAR, Web Based
Fundamentals of Microfinance (2018)

14 March 2018; IFF, Distance Learning
The Mechanics of Credit Risk Analysis Distance Learning Course

11 – 15 March; International Monetary Fund's Middle East Center for Economics and Finance, Kuwait
Legal Frameworks for Banking Supervision and Resolution

26 March – 6 April 2018; The Africa Training Institute of the International Monetary Fund, Ebene, Mauritius
Financial Sector Surveillance

26 March – 27 April 2018; UNITAR United Nations Institute for Training and Research, Web Based
Negotiation of Financial Transactions (2018)

2 - 13 April 2018 - Joint Vienna Institute, Wien, Austria
Macroeconomic Diagnostics

5 – 6 April 2018; Bank of Italy and Bocconi University, Bank of Italy, Rome, Italy
Financial Stability and Regulation

5 – 6 April 2018; ADEMU A Dynamic Economic and Monetary Union, Toulouse, France
Sovereign Debt in the 21st Century

10 April 2018; Moody's Investors Service, Prague
Moody's Prague 12th Annual Central Europe Summit

11 – 13 April 2018; IFF, Radisson Blu Edwardian Vanderbilt Hotel, London
Accounting for Derivatives Training Course

12 – 14 April 2019 – IMF, Washington D.C.
2019 Spring meetings of the World Bank Group and the International Monetary Fund

15 April – 31 May 2018; The Commonwealth, Web-based
Introduction to external and domestic debt management concepts

15 April – 31 May 2018; The Commonwealth, Web-based
Using CS-DRMS for recording external and domestic debt

19 April 2018; SIFMA, The Ritz-Carlton, Washington, D.C.
Global Finance Forum 2018

23 April – 4 May 2018; The IMF Institute for Capacity Development, Ebene, Mauritius

Monetary Policy

20 – 22 April 2018; IMF, Washington, D.C.
2018 Spring Meetings of the International Monetary Fund and World Bank Group

23 - 24 April 2018; Bank of Canada, Ottawa, Canada
5th International conference on sovereign bond markets

24 – 26 April 2018; ISDA; Miami
ISDA Association's 33rd Annual General Meeting

30 April - 1 May 2018; Fitch Learning, New York
Sovereign and Country Risk

30 April – 1 June 2018; UNITAR United Nations Institute for Training and Research, Web Based
Audit of Public Debt (2018)

7 – 8 May 2018; Fitch Learning, Hong Kong
Sovereign and Country Risk

9 – 10 May 2018; Fitch Learning, London
Fundamentals of Economics and Financial Markets

10 – 11 May 2018; IFF, Radisson Blu Edwardian Vanderbilt Hotel, London
Fundamentals of Swaps Training Course

14 - 18 May 2018 - Joint Vienna Institute, Wien, Austria
Public governance and structural reforms

14 – 18 May 2018; IFF, Radisson Blu Edwardian Vanderbilt Hotel, London
School of Risk Management

14 May – 15 June 2018; UNITAR United Nations Institute for Training and, Web Based
Fundamentals of central banking and monetary policy (2018)

21 May – 22 June 2018; UNITAR United Nations Institute for Training and Research, Web Based
Fundamentals of the Money Market (2018)

23 May 2018; AFME, St Paul's, London
European Post-Trade Conference

28 – 29 May 2018; European Commission; World Bank Group, Brussels
2018 DMF Stakeholders' Forum

30 - 31 May 2018; Fitch Learning, London
Sovereign and Country Risk

1 June 2018 - London Stock Exchange Academy, London, UK
Advanced financial modeling

7 - 8 June 2018; Fitch Learning, Singapore
Sovereign and Country Risk

4 - 20 June 2018 - Joint Vienna Institute, Wien, Austria
Applied economic policy

8 June 2018 - London Stock Exchange Academy, London, UK
The fundamentals of operational risk management

18 – 19 June 2018; European Central Bank, Frankfurt am Main, Germany
10th ECB workshop on forecasting techniques: economic forecasting with large datasets

18 - 20 June 2018; ECB, Sintra, Portugal
ECB Forum on Central Banking

21 June – 2 July 2018; Joint Africa Institute, Tunis
Financial Programming and Policies

25 – 26 June 2018; Fitch Learning, New York
Fundamentals of Economics and Financial Markets

9 - 13 July 2018 - World Bank Treasury IBRD IDA, USA
Designing government debt management strategies - 2018 edition

24 July 2018 - London Stock Exchange Academy, London, UK
The MiFID II series - An overview and latest developments

2 - 3 August 2018 - VGFOA Virginia Government Finance Officers' Association, Henrico Training Center 7701 East Parham Street Richmond, VA 23294 USA
Issuing Public Debt 2018

20 – 21 August 2018; Financial Stability Board (FSB) and Deutsche Bundesbank, Goethe University, Frankfurt, Germany
Annual Meeting of Central Bank Research Association (CEBRA)

4 – 9 September; Fitch Learning, London
Sovereign and Country Risk

6 – 7 September 2018; IFF, London, UK, Venue TBC
Liquidity Risk Training Course

19 – 20 September 2018; Fitch Learning, London
Fundamentals of Economics and Financial Markets

19 – 21 September 2018; IFF, London, UK, Venue TBC
Fundamentals of Risk Management Training Course

12 – 14 October 2018; IMF, Bali Nusa Dua, Indonesia
2018 Annual Meetings of the International Monetary Fund and World Bank Group

15 – 17 October 2018, IFF, London, UK, Venue TBC
Advanced Swaps Training Course

24 - 25 October 2018; The World Bank, Washington, D.C.
2018 Sovereign Debt Management Forum

PDM Network in Figures

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Ltd., Instituto superior de economia e gestao, Intesa Sanpaolo S.p.A., INTOSAI, Irish NTMA, International Social-Economic Development for Africa, Israeli Central Bank, Israeli Ministry of Finance, Italian MoF, Italian Senate, CRIEP, ITAM, Japan Bank for International Cooperation, Japanese MoF, JCVP Consulting, Jordanian Central bank, Jordanian MoF, Johannesburg Stock Exchange Limited, Jubilee Germany, Kenyan Central Bank, Kenyan MoF, Korea Bond Pricing, Latvian DMO, Lebanese MoF, Lesotho Central Bank, Linus Capital, Lisbon School of Economics & Management, Lithuanian MoF, Lithuanian National Audit Office, London Business School, Luxembourg MoF, MAK Azerbaijan Ltd, Malawian Reserve Bank; Maldives MoF, Maltese Central Bank, Maltese Treasury, Mauritius Ministry of Finance and Economic Development, MEFMI, Mexican MoF, Michele Robinson Consult, Ministry of Economy and Finance of Peru, Ministry of Economy and Public Finance of Bolivia, Ministry of Finance and Corporate Governance of Antigua, Ministry of Finance and Economic Development of Zimbabwe, Ministry Of Finance of Benin, Ministry Of Finance of Comores, Ministry of Finance of Saint Lucia, Ministry of Finance of St. Vincent and the Grenadines, Ministry Of Finance of Surimame, Ministry of Finance of the Russian Federation, Ministry Of Finance Trinidad and Tobago, Ministry of Foreign Affairs of Egypt, Ministry Of Public Finance of Guatemala, Moldovan Mof, Moody's Investors Service, Moroccan MoF, Mozambique Ministry of finance, Namibian MoF, National Bank of Abu Dhabi, National Chengchi University, New South Wales Treasury Corporation, Nicaraguans Ministry of Finance and Public Credit, Nigerian DMO, Central Bank of Norway, Norwegian MoF, OECD, NS&I Government Payment Services, Oliver Wyman, One2five advisory, Oxford Policy Management, Pakistani MoF, Papua NG Treasury, Paraguayan Ministry of Finance, Philippine Bureau of the Treasury, Philippines Ministry of Finance, Polish MoF, Portuguese Central Bank, Province of British Columbia, Republic of Macedonia MoF, Reykjavik Academy, Romanian Court of Accounts, Romanian MoF, Rothschild Group, Rwandan Mof, Sain Kitts & Nevis MoF, San Diego State University, The Superior Audit Office of Mexico, SCMHRD-MBA Symbiosis, Senegalese Mof, Serbian Mof, Setif University , Slovak DMA, Slovenian MoF, Solomon Island Central Bank, South African National Treasury, South Korean MoF, Southern African Development Bank, Sovereign Analytics llc, Spanish Central Bank, Spanish MoF, Sri Lanka Central Bank, Stanford University, Storkey & Co Limited, Sudan Central bank, Sun Yat-sen University , Suriname Debt Management Office, Swaziland's MoF, Swedish DMO, Tandem Global Partners, Tanzanian MoF, Tribunal de Contas da Uniao, Thai MOF, The American College of Greece, The Audit Board of The Republic of Indonesia, The Economist Intelligence Unit, The George Washington University, The Government of Anguilla, The Gulf Bond and Sukuk Association, GBSA, The Milken Institute, The Ministry of Finance Grenada, The ONE Campaign, The People's Bank of China, The Pragma Corporation, The World Bank, Thrivent Financial, Timor-Leste MOF, Tudor Investment Corporation, Turkish Treasury, UK Central Bank, UK DMO, UN Department for Economic and Social Affairs, United Nations Conference on Trade and Development, Union Bank Of Nigeria, Universidad de los Andes, Universidad EAFIT, University "Dunarea de Jos" Galati, University of Antwerp, University of Bologna, University of Brussels, University of Campinas, University of Catania - Department of Economics and Business, University of Glasgow, University of London, Birkbeck, University of Maryland, University of Milan, University of Molise, University of Naples Federico II, University of Navarra, *University of Piraeus, University of Rome "Roma Tre", University of Rome La Sapienza, University of Rome Tor Vergata, University of Sussex, University of Tokyo, University of Trieste, University of Tuzla, University of Varna, University of Vienna, University of Viterbo "La Tuscia", University of Zagreb, University of Zimbabwe, University of Zurich, Uruguayan MoF, US Treasury, Versed Professional Services, Vietnamese Mof, Walton College of Business, West African Monetary Union, World Bank Treasury, Wrightson ICAP, Zambia Revenue Authority, Zhongnan University of Economics and Law.*