



Storkey & Co Limited

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What's New

Recent research from consulting assignments has identified several debt management related issues that warrant discussion. The feature article in this Newsletter shows the difficulties in the application of an asset-liability management approach to the government's foreign currency portfolio.

Also, there are articles covering:

- UNITAR Best Practices Series Update with the release of a further debt management series.
- Operational Risk—Ensuring Business Continuity.

There is also information on the 3rd Annual FTA Finance and Treasury Management Conference in Can-

berra on 7-9 June 2004.

There have been a number of annual reviews and reports issued by debt offices over the past three months. These include Belgium, Canada, Denmark, Japan, Sweden, Turkey and UK. Most provide a comprehensive review and new innovations planned for 2004-05.

Ireland and NZ have released their annual Information Memorandum. Hungary's AKK and the US Bureau of Public Debt have both revamped their websites.

Details on these releases are set out on page 3—the documents can be downloaded from the relevant debt office website.

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Special points of interest:

- *The IMF and IDA have published "Debt Sustainability in Low-Income Countries—Proposal for an Operational Framework and Policy Implications."*
- *The World Bank has published Policy Research Working Paper 3200 February 2004 "When is External Debt Sustainable?" by Aart Kraay and Vikram Nehru.*

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Storkey & Co Update

Over the past 3 months, we have:

- completed the ADB Treasury assignment to assist in developing a seminar series on Sovereign Debt Management.
- continued to assist ACIL Australia with the AusAID Indonesia Debt Management Project in Jakarta.
- continued to assist SAGRIC In-

ternational under the PNG Advisory Support Facility with the debt management project.

- continued to assist AusAID on the Budget Stabilisation Program for the Solomon Islands Government.

In May, we begin a new 3-year debt management consulting assignment in Vietnam.



Foreign Currency Asset Liability Management

Asset liability management would suggest that governments should match the foreign currency assets (primarily the foreign exchange or FX reserves) and liabilities (public and publicly guaranteed foreign currency debt).

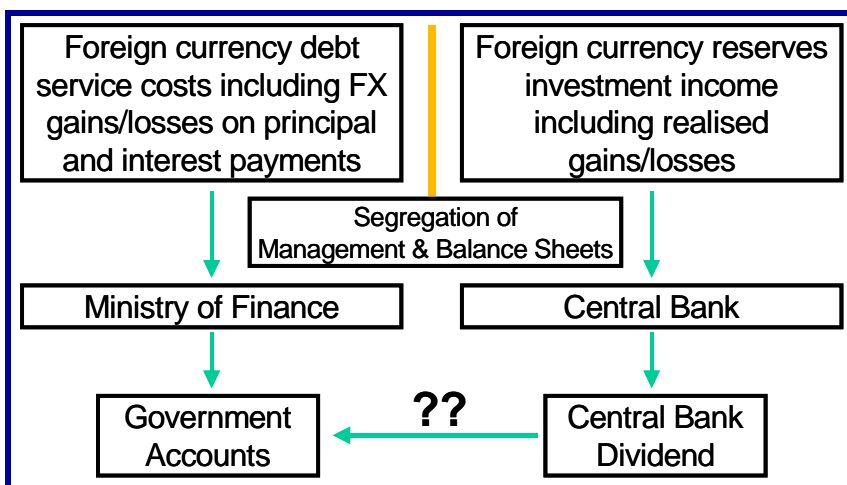
While the FX reserves may have a number of purposes including FX intervention and to support private sector FX transactions, they should also be used to hedge some or all of the government's foreign currency liabilities. In practice,

this does not normally happen. Why?

It is due to the segregation of management of foreign currency assets and liabilities and the fact that they are on different balance sheets. This creates a budget asymmetry in that the cost of the foreign currency debt is visible and is recorded in the government accounts when it is incurred, whereas the investment income from the FX reserves is retained in the central bank and transferred in whole or in

part as a component of the annual dividend payment to government. Also, central banks normally maintain tight control of these FX reserves and often do not reveal the currency and term structure even to the treasury or government.

Countries that have adopted an integrated asset liability management approach include Denmark, New Zealand and the United Kingdom. Refer to their respective website for details on their approach.



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UNITAR Best Practices Series Update

In the last newsletter, we drew attention to the United Nations Institute for Training and Research (UNITAR) Best Practices Series written by experts in their field. In addition to the first four in the series with a debt management focus, a further two series have been released, with No6 focussing

on debt management: “Best Practices and Key Analytical Functions for Public Debt Management” (February 2004) by Nihal Kappagoda.

This article covers critical requirements and organizational structures of public debt management together with 12 aspects covering principal ana-

lytical functions, ranging from borrowing policies and ceilings to portfolio management.

Copies can be obtained through sending a request directly to UNITAR. Information on how to obtain copies is shown on the UNITAR website:

www.unitar.org



Operational Risk—Ensuring Business Continuity

In nearly all developing countries, the debt managers do not have comprehensive business continuity plans. Most see the need for the back-up of computer systems—with this the only component of a disaster recovery plan. In practice most do not even have a reliable back-up policy.

Ensuring business continuity is an integral part of operational risk and should cover a much

broader range of incidents or disruptions. These can be small localised incidents such as system failure, medium impact incidents such as failing to meet statutory obligations, through to larger regional type disasters such as earthquakes and cyclones.

A risk assessment covering the likelihood of each incident and impact on the business is undertaken—software pack-

ages can be used for this assessment. This sets the policies to manage the risks through:

- mitigation using prevention or avoidance policies
- transference through insurance or passing to a 3rd party
- containment and recovery

The main objective is to preserve the debt office's reputation, i.e. the management of reputational risk.

Public Sector Finance & Treasury Conference

The Finance and Treasury Association of Australia (FTA) will hold the 3rd annual Public Sector Finance and Treasury Management Conference at the Hyatt Hotel in Canberra on 7-9 June 2004.

The Conference will focus on "Optimising Government Financial and Risk Outcomes" and is a two-day two stream conference together with a one-day pre-conference workshop on

"The Challenges Presented to Government Businesses by the Imperatives of Financial Risk Management."

The conference sub-streams will focus on "Borrowing authorities and funding government" and "Government-owned enterprises / government business enterprises."

This follows the success of the two previous conferences.

"The Finance and Treasury Association will hold the 3rd annual Public Sector Finance and Treasury Management Conference in Canberra on 7-9 June 2004"

The Conference program and registration details can be obtained from the FTA website:

www.finance-treasury.com

Recent Publications

Publications released by Sovereign Debt Offices over the past 3 months:

- **Belgium** 2003 Review / 2004 Outlook
- **Canada** Debt Management Strategy 2004-2005
- **Denmark** Danish Government Borrowing and Debt 2003
- **Ireland** Information Memorandum 2004
- **Japan** Planned Bond Issuance FY2004

- **Lithuania** Government Securities Annual Report 2003
- **New Zealand** Economic & Financial Overview 2004
- **Sweden** Guidelines for Central Government Debt Management in 2004 Central Government Borrowing 2004:1
- **Turkey** Financing Realization for 2004 First Quarter and Program for the Rest of 2004

- **UK** Debt & Reserves Management Report 2004-05 incl Gilt & Cash Remit

Other useful publications include:

- **DRI** Debt Strategies for Financing Development Issue #17
- **IMF/IDA** Debt Sustainability in Low Income Countries—Proposals for an Operational Framework and Policy Implications
- **World Bank** When Is External Debt Sustainable?

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Storkey & Co Limited is an international management consultancy providing independent specialist advice on debt and risk management to central, state/regional & local governments, government enterprises, & corporate treasuries.

The company employs or works in partnership with recognised experts who have considerable international experience in the finance markets and in public sector debt management. With their extensive project and change management expertise, they have developed an international reputation for delivering the highest quality practical solutions.

These experts have gained practical experience from working in a government debt office and on Asian Development Bank, AusAID, International Monetary Fund and World Bank technical assistance projects internationally.

Since the company was established in early 2001, assignments have been undertaken in Australia, Canada, Fiji, India, Indonesia, Lithuania, Mauritius, New Zealand, Papua New Guinea, Philippines, Solomon Islands, Thailand, and Vietnam.

Sovereign Debt Management Websites

The Sovereign Debt Management Office websites include:

Argentina: www.mecon.gov.ar/finance

Australia: www.aofm.gov.au

Austria: www.oebfa.co.at

Belgium: www.treasury.fgov.be/interdette

Brazil: www.tesouro.fazenda.gov.br

Canada: www.fin.gc.ca

Colombia: www.minhacienda.gov.co

Czech Republic: www.mfcr.cz/index_en.php

Denmark: www.nationalbanken.dk

Finland: www.valtiokonttori.fi

France: www.francetresor.gouv.fr

Germany: www.deutsche-finanzagentur.de

Greece: www.mof-glk.gr

Hungary: www.allampapir.hu

Iceland: www.lanasysla.is

India: www.finmin.nic.in/caaa

Indonesia: www.dmo.or.id

Ireland: www.ntma.ie

Israel: www.mof.gov.il/debt

Italy: www.tesoro.it

Jamaica: www.mof.gov.jm/dmu

Japan: www.mof.go.jp/english

Lithuania: www.finmin.lt/finmin

Luxembourg: www.etat.lu/TS

Mexico: www.shcp.gob.mx

Morocco: www.finances.gov.ma

Netherlands: www.dutchstate.nl

New Zealand: www.nzdm.govt.nz

Nigeria: www.dmonigeria.com

Peru: www.mef.gob.pe/DGCP/index.htm

Philippines: www.dof.gov.ph

Poland: www.mofnet.gov.pl

Portugal: www.igcp.pt

Slovenia: www.gov.si/mf/angl

South Africa: www.finance.gov.za

South Korea: english.mofe.go.kr/main.php

Spain: www.mineco.es/tesoro

Sweden: www.rgk.se

Switzerland: www.efv.admin.ch

Thailand: www.pdmo.gov.go.th

Turkey: www.treasury.gov.tr/indexe.htm

United Kingdom: www.dmo.gov.uk

United States: www.publicdebt.treas.gov

