



Storkey & Co Limited
WN/1111791

What's New

With a number of the consulting assignments over the past year, we have been asked to advise on how to prepare a debt strategy. Therefore, we have made our feature article "Developing a Debt Strategy." There seems to be some confusion in developing countries as to who should be responsible for the strategy.

Our view is that it should be determined at a policy level and be seen as setting the mandate for the debt management unit. This ensures a clear separation of the debt policy and execution functions. It also ensures that the debt strategy is set within the wider fiscal and macroeconomic policy framework.

Storkey & Co Update

Over the past 3 months, we have:

- continued to assist SAGRIC International under the PNG Advisory Support Facility with the debt management project for the Department of Treasury and Finance.
- continued to assist with the Debt Management and SOE Fiscal Risk component of the Public Financial Management

Also, there are articles in this Newsletter covering:

- Maintaining Relationships—an important part of our business.
- Developing Domestic Debt Market: Case of Papua New Guinea.
- Debt Management Training Program—a new initiative for the Company.

There have been a number of significant developments in public debt management. We will look to cover some of these in our January 2005 Newsletter. As 2004 draws to a close, it has been an extremely busy but rewarding consulting year for the Company.

Reform Project for the Ministry of Finance in Vietnam.

In addition, we have been contracted to provide training to 20 officials from the Government of Vietnam in the areas of developing a debt management capability and middle office operations. The training is to be held in Wellington, New Zealand in late November—early December 2004.

Volume 4, Issue 3
October 2004

Special points of interest:

- *Annual Reports released over the past 3-4 months that are essential reading include:*
 - *AOFM (Australia)*
 - *Debt Agency (Belgium)*
 - *AFT (France)*
 - *ÁKK (Hungary)*
 - *NTMA (Ireland)*
 - *IGCP (Portugal)*
 - *Australia State TCorps*

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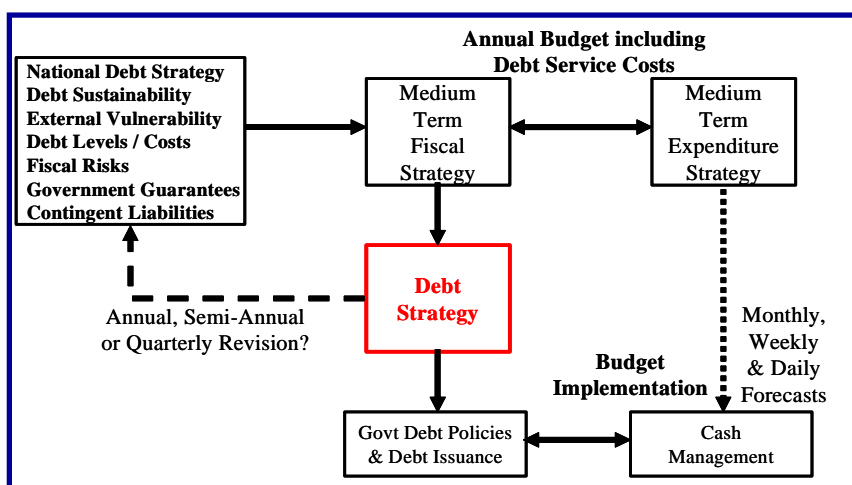
Developing a Debt Strategy

We suggest that a debt strategy is developed as part of the Medium Term Fiscal Framework or MTFF. One of the outputs from the MTFF is a strategy for public debt covering financing and debt management. However, to develop the debt strategy, it is necessary to analyse public debt and associated risks as input to the MTFF. This would normally be done annually as part of the budget process, but could be more frequent if needed, such as semi-annual or even each quarter. This analysis would include the examination of debt levels, debt service costs and potential

variability due to interest rate and exchange rate movements, debt sustainability, external debt vulnerability, fiscal risks associated with public debt, potential fiscal impact and debt service costs of the realisation of government guarantees and contingent liabilities, and the financing program for the fiscal year. Much of the input and analysis would be undertaken by the government debt managers as input to the MTFF. However, the debt strategy would be developed within the MTFF and therefore become an output of the MTFF. The debt strategy could become the basis

of the mandate or remit given to the government debt managers.

We should point out that we are referring to a debt strategy to cover central government debt that has a direct impact on the fiscal and budget framework. There may need to be a strategy for public and publicly guaranteed debt as well as national debt but that would be wider than the debt strategy suggested here. The focus on central government debt is to ensure that the framework is set to enable a clear mandate (e.g., in the form of remit) to be set for the central government debt managers.



“The debt strategy would be developed within the Medium Term Fiscal Framework (MTFF) and therefore become an output of the MTFF.”

Maintaining Relationships

An important focus of the Company is to maintain relationships with debt offices and agencies involved in debt management. Therefore, Storkey & Co Limited Director, Ian Storkey, used the opportunity while travelling during August—September to call on the UK DMO, HM Treasury and

Bank of England while in London to maintain direct contact and to discuss training assistance. In addition, he called on the Commonwealth Secretariat to discuss developments with CS-DRMS, as well as FIRST Initiative and Crown Agents to discuss debt management related issues.

While in Washington D.C., Ian called on the World Bank Treasurer and Public Debt Management Group to get an update on recent debt management developments. He also called on the IMF for discussions with the International Capital Markets Department.



Developing Domestic Debt Market: Case of PNG

In our Newsletter No.2, we drew attention to the IMF and World Bank Handbook on Developing Government Bond Markets, which includes chapters on:

- A Government Debt Strategy and Debt Management Framework
- Developing Benchmark Issues
- Developing a Primary Market for Government Securities
- Developing the Investor Base for Government Securities

The principles in these chapters of the Handbook were applied in Papua New Guinea during 2004 to achieve:

- The development (and publication in the Budget) of a medium term debt strategy.
- The creation of Inscribed Stock benchmarks with maturities in November 2005, November 2006 and May 2008.
- The introduction of a debt switching program to provide

Treasury Bill holders the opportunity to switch to longer-dated Inscribed Stocks.

- Significant development of the longer-term market for government securities that had been absent prior to 2004.

These outcomes fully support the principles in the Handbook. Details are to be included in the 2005 Budget to be presented on November 16 and made available on the website:

www.treasury.gov.pg

Debt Management Training Program

In response to the planned Vietnam training program, we have decided that there is a need for debt management training from a practitioners perspective to cover the Asia-Pacific region. As a result, we have added training to the offer of services that Storkey & Co Limited will provide.

The training will be customised for each government client in order to meet specific re-

quests. For example, the training for the Vietnamese officials will include 5 days Technical Training on the "Establishment and Functions of a Middle-Office" plus a 2-day seminar on "Policy Issues in Debt Management."

Our trainers will comprise of experts that worked for NZDMO and other debt offices and, if necessary, will call upon the local debt office to

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provide practical case studies. In this way, the training will be flexible with a good blend of theory and practice, together with many case studies and government debt managers' practical experiences.

Recent Publications

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

- **Australia** AOFM Annual Report 2003-04
- **Czech Republic** Debt & Cash Management Design
- **Germany** Newsletter October 2004
- **Hungary** Financing 2005
- **Japan** JGB Quarterly Newsletter October 2004

- **New Zealand** Crown Financial Statement 2003-04
- **New Zealand** Treasury (including NZDMO) Annual Report 2003-04
- **Poland** Annual Report 2003
- **Sweden** Annual Report 2003
- **Sweden** Draft Guidelines for 2005
- **Sweden** Central Government Borrowing 2004:2

- **UK** Quarterly Review July—Sept 2004

Other useful publications include:

- **Australia** State Borrowing Authorities Annual Reports 2003-04 (NSW TCorp, NTTC, QTC, SAFA, TCV, WATC)
- **Canada** Alberta Finance and OFA Annual Reports 2004
- **DRI** Debt Strategies for Financing Development Issue #20
- **WADMO** Journal October 2004

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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, DFID, 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-gl.k.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.nzdmo.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

Suriname: www.sdmo.org

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

