



Storkey & Co Limited

WN/1111791

What's New

The focus of this Newsletter is on "understanding the external public debt position."

There are three articles covering:

- the structure of the ADB & IBRD multicurrency pool loans
- the need to undertake an external public debt analysis to determine the underlying structure and associated risks
- the reported foreign exchange losses for the Australian Government and the need for an integrated portfolio approach

Experiences with recent consulting assignments along with the media coverage of the Australian Govern-

ment reported losses continues to highlight the need to ensure that there is a clear understanding by public debt managers, politicians and the media of actual portfolio structures and underlying risks associated with external public debt .

The FTA Public Sector Finance & Treasury Management Conference held in April that we have been promoting was a success—refer to "Special points of interest".

Finally, we apologise to the Controller of Aid Accounts & Audit Division in India for providing the incorrect website address in our last newsletter—refer to "Special points of interest" for the correct website address.

Volume 2, Issue 1

April 2002

Special points of interest:

- **Errata:** In the last newsletter, we incorrectly provided the website for the Indian Aid Accounts & Audit Division of the Ministry of Finance. The correct website is: www.finmin.nic.in/caaa
- The FTA Public Sector Finance & Treasury Management Conference was held in Canberra on 15-17 April 2002. Reports indicated that the conference was a great success. The FTA has tentatively scheduled a second conference for 5-7 May 2003.

Inside this issue:

| | |
|--|---|
| Asian Development Bank & World Bank Pool Loans | 2 |
| CSDRMS 2000+ Regional Workshops | 2 |
| External Public Debt Analysis | 3 |
| Australian Government Foreign Exchange Losses | 3 |
| Recent Publications & New Websites | 3 |
| Storkey & Co Limited—Company Profile | 4 |
| Sovereign Debt Management Websites | 4 |

Storkey & Co Update

Over the past three months, we have:

- continued the two ADB consulting assignments for the Ministries of Finance in Fiji and India (with AF Ferguson & Co)
- been engaged to provide assistance to AusAID for the debt management project in Indonesia

- been contracted by SAGRIC International under the Thailand Australia Capacity Building Facility to assist the PDMO in Thailand to undertake a study visit to Australia and NZ

All of these projects will continue over the next 3 months, meaning another heavy consulting schedule with much of it to be conducted offshore.



Asian Development Bank & World Bank Pool Loans

Both the Asian Development Bank (ADB) and the World Bank (IBRD) lend money to countries by on-lending their own borrowings from the international markets. Before the introduction of market-based lending products in 2001, both agencies operated similar, but quite complex, systems of lending known as multicurrency pool loans.

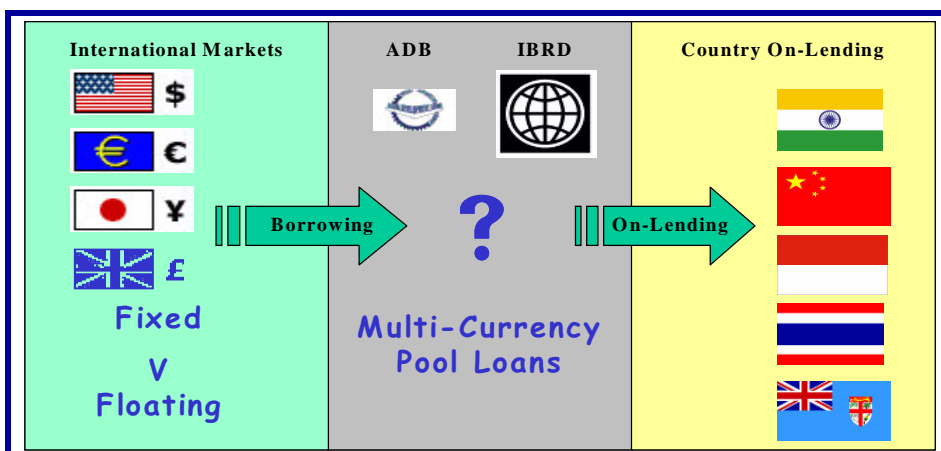
The ADB currency pool is currently 99.6% Japanese yen, which means that the pool behaves almost exactly like a

Japanese yen denominated loan. We have not been able to obtain enough information on the IBRD pool loan composition. However, the currency composition is more diverse.

The interest rates for pool-based loans are based on the cost of borrowing by the ADB and IBRD for the pool loans, which can vary depending on the currency and interest rate basis chosen. As such, the borrower cannot accurately determine the cost of the loan and is subject to rates and

pool adjustments advised by the agency.

This has led to mounting pressure for the ADB and IBRD to change the loans provided. As a result, they have introduced market-based loans, which use standard reference rates. The borrower is also given the flexibility to choose the currency and interest rate basis (fixed or floating), thereby providing the ability to manage currency and interest rate risk using normal market instruments.



"The ADB pool behaves almost exactly like a Japanese yen denominated loan."

CSDRMS 2000+ Regional Workshops

The Commonwealth Secretariat is running a series of regional workshops in conjunction with the release of the upgrade to CS-DRMS 2000+.

Workshops have been completed in the following regions:

- **West Africa**—Lagos, Nigeria 25 February to 14 March

- **Asia**—Pune, India 15 April to 2 May

Workshops are scheduled for the following regions:

- **Eastern & Southern Africa**—Dar Es Salaam, Tanzania 27 May to 13 June
- **Caribbean**—Basseterre,

St Kitts 1 to 18 July

Dates for the workshops to be held in the **Pacific Region** and for **Francophone countries** will be released shortly.

Further details can be found on the CS-DRMS website:

www.csdrms.org



External Public Debt Analysis

In a number of recent consulting assignments, we have been required to undertake an external public debt analysis. Often, we find that the public debt managers do not have a clear understanding of the underlying structure of the external debt.

For example, debt managers believe they have a US dollar based debt obligation as it is reported in US dollar equivalents. This can be

far from the actual exposure.

For example, using the ADB multicurrency pool loans (refer to the earlier article), the underlying obligation is essentially a Japanese yen loan.

The only true way of determining the position is to undertake a market valuation by discounting all future debt service obligations using a zero coupon discount curve. It is also important to ad-

just ADB and IBRD pool loans to reflect the pool adjustment value, as this can have a substantial effect on the valuation.

To do this often requires examining loan documentation to ensure that the loan structure is correctly captured—an exercise that may require significant effort.

If you are interested in undertaking an external debt analysis, please send us an email.

Australian Government Foreign Exchange Losses

It is clearly a concern to any Sovereign Debt Office when the financial Review claims “The Federal Government is facing up to A\$2.1 billion in foreign exchange losses from speculating on international interest rates ...”

Most of the amount is unrealised losses on the USD/AUD swap portfolio, generated through establishing a 10-15% liability portfolio in US dollars, as a result of the fall in the Australian dollar over the two years to June 2001. There has

been significant media and political debate on the issue.

The AOFM released a press statement which can be downloaded from: www.aofm.gov.au.

What the debate seems to overlook is the lack of an integrated portfolio approach where the foreign exchange reserves have fully hedged the position, and in fact would have generated much larger gains to the Government (through the Reserve Bank)

“The Federal Government is facing up to A\$2.1 billion in foreign exchange losses from speculating on international interest rates” – Australian Financial Review 22 February

over the same period.

Management of external public debt and foreign exchange reserves will be discussed in detail in the next newsletter.

Recent Publications & New Websites

Publications released by Sovereign Debt Offices over the past 3 months—copies can be obtained from their respective websites (see page 4) include:

- **Belgium** 2001 Review—2002 Outlook
- **Canada** Debt Management Strategy 2002-2003
- **Denmark** Report & Accounts for 2001
- **Finland** Funding Review 2002
- **Hungary** Annual Report 2001
- **Iceland** Government Debt Prospect 2002
- **Italy** Guidelines for Public Debt Management for 2002-2003
- **Japan** Planned Bond Issuance FY2002
- **Netherlands** Annual Outlook 2002
- **New Zealand** Economic & Financial Overview 2001
- **Portugal** Government Debt Management in 2001
- **Portugal** Financing Programme for the Republic of Portugal for 2002
- **Sweden** Guidelines for Central Government Debt Management in 2002
- **UK** DMO Business Plan 2002-2003
- **UK** Debt & Reserves Management Report 2002-2003

Storkey & Co Limited

WN/1111791

Ian Storkey

Director

90 Larsen Crescent

PO Box 51096

Tawa

Wellington, NZ

Phone: +64 (04) 232-4594

Fax: +64 (04) 232-9465

Mobile: +64 (021) 414-510

Email: info@storkeyandco.com

Web: www.storkeyandco.com



Storkey & Co Limited is an international management consultancy providing independent specialist advice on debt and risk management to central governments, state/regional and local governments, government enterprises, and 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, Fiji, India, Indonesia, Mauritius, New Zealand and Thailand.



Sovereign Debt Management Websites

The Sovereign Debt Management Office websites include:

Argentina: www.mecon.gov.ar/finanzas

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

Denmark: www.nationalbanken.dk

Finland: www.valtiokonttori.fi

France: www.francetresor.gouv.fr

Greece: www.mof-gl.k.gr

Hungary: www.akk.hu

Iceland: www.lanasysla.is

India: www.finmin.nic.in/caaa

Ireland: www.ntma.ie

Italy: www.tesoro.it

Japan: www.mof.go.jp/english

Netherlands: www.dutchstate.nl

New Zealand: www.nzdmo.govt.nz

Nigeria: www.dmonigeria.org/dom.htm

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

Philippines: www.dof.gov.ph

Poland: www.mofnet.gov.pl

Portugal: www.igcp.pt

South Africa: www.finance.gov.za

Spain: www.mineco.es/tesoro

Sweden: www.rgk.se

Switzerland: www.efv.admin.ch

Thailand: www.pdmo.gov.go.th

United Kingdom: www.dmo.gov.uk

United States: www.publicdebt.treas.gov

Other relevant websites:

www.worldbank.org/fps

www.csdrms.org

www.unctad.org/en/subsites/dmfas

For more references, we suggest you refer to the library on our website and the links to other websites:

www.storkeyandco.com/library

