



Storkey & Co Limited

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## What's New

The World Bank and AusAID hosted a debt management seminar in Bali on 3-5 October as part of the development and capacity building for PMON (the Indonesian Debt Office). As there were international presenters from Australia, Ireland, Japan, New Zealand and the USA, it was comforting to hear that none of the participants were impacted by the terrorist bombings on 5 October, although AusAID staff stayed on in Bali to assist the Australian Government effort.

This brought the global terrorist focus much closer to home, particularly as we are directly involved with the AusAID debt management project in Indonesia.

## Storkey & Co Update

Over the past three months, we have:

- continued the ADB consulting assignment for the Ministry of Finance in India (with AF Ferguson & Co)
- continued to assist AusAID with the review of the debt management project in Indonesia
- continued to assist the PDMO in

The focus of this Newsletter is on "recent sovereign debt management developments and publications." The feature article examines whether sovereign debt offices focus on cost or risk minimisation. The views or ideas expressed have been drawn from recent consulting assignment experiences. Also, there are articles covering:

- two important OECD publications released recently
- the IMF initiative for a sovereign debt restructuring mechanism

Finally, we cover the establishment of the German Finance Agency which is the newest addition to the "sovereign debt office group."

Thailand following the study visit to Australia and New Zealand

- continued to assist the Reserve Bank of NZ on their treasury management system project
- undertook a public debt management review for the Ministry of Finance in the Solomon Islands under an AusAID technical assistance project

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### Special points of interest:

- *The FTA Annual Congress will be held in Melbourne, Australia from 13-15 November 2002.*
- *The World Bank Public Debt Management Group is running a seminar on "Modelling the Risk in a Sovereign Debt Portfolio" in Washington D.C. on 9-13 December 2002.*
- *The FTA has scheduled the second Finance & Treasury Management Conference in Canberra, Australia for 26-28 May 2003.*

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## Cost v Risk Minimisation

Sovereign debt offices have traditionally established a basic objective that aims to minimise the cost of debt over the medium to long run, consistent with a prudent degree of risk. In most cases, cost is the budget debt service cost as submitted to the Minister of Finance and Parliament.

In preparing the forecasts for annual debt service costs, it is often normal practice to take a conservative approach and make an over-provision in the budget. This is equivalent to

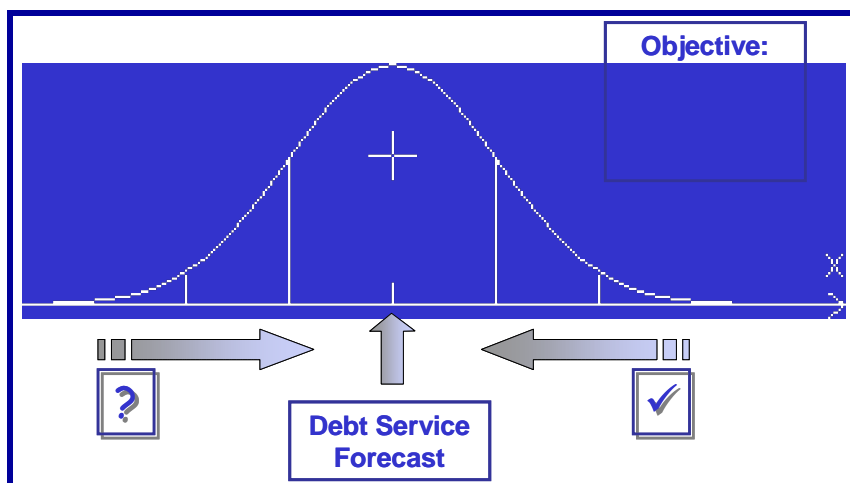
moving a mid-point forecast to an upper point, say to the 90% confidence level, to ensure that actual debt service costs will be less than forecast in 9 out of 10 years. This has the effect of reducing the visible impact of risks inherent in the public debt portfolio.

Clearly debt managers will try to avoid the embarrassment of having to explain to the Minister of Finance why the forecast debt service costs were exceeded. It is equally concerning if the actual debt ser-

vice costs are significantly less than the budget provision as a lower forecast could have influenced the government's policy setting when the budget was formulated.

Therefore, debt managers are more likely to look at ways to ensure that there is reduced variability in debt service costs, even if this may lead to higher short run costs.

This suggests that the objective should be set with a risk minimisation focus subject to a budget debt service ceiling.



*“Ministers of Finance DO NOT like surprises, which suggests the objective should be to reduce variability in debt service costs or risk minimisation.”*

## OECD Publications

The OECD has recently released two important debt management publications:

- Debt Management and Government Securities Markets in the 21st Century
- OECD Public Debt Markets: Trends and Recent Structural Changes

The first reviews recent trends in the structure of OECD government securities markets and public debt management operations, and highlights the generic structural policy issues in emerging debt markets.

The second is an authoritative source of the most up-to-date

information on bond markets, as drafted by OECD debt managers, and provides an overview of the best practices in debt management policies and techniques.

Copies can be purchased from OECD publications on their website:  
<http://www.oecd.org>



## German Finance Agency GmbH

On 11 June 2001, the **Federal Republic of Germany Finance Agency GmbH** commenced operations as a registered company with the aim of arranging the Federal Government's debt management in a cost-optimum manner. Dr Peter Jabcke was appointed as the Managing Director. The objective of the company is to provide services for the Federal Ministry of Finance for fi-

ancing the budget and cash requirements of the Federal Republic of Germany and its special assets on the financial markets. It enters the market in the name of and for the account of the Federal Government. The services provided to fulfill this function particularly include those involving the issue of German Government securities, borrowing by means of promissory notes, the use of

derivative financing instruments and money market transactions (borrowing and placement) to balance the account of the Federal Republic of Germany at the Deutsche Bundesbank.

The Agency releases a quarterly newsletter available from their website.

More details can be found on: <http://www.deutsche-finanzagentur.de>

## Sovereign Debt Restructuring Mechanism

Over the past year, the IMF has been formulating a sovereign debt restructuring mechanism (SDRM) initially put forward by Anne Krueger to provide a legal framework that would make binding the decisions of a supermajority of creditors in agreeing with a sovereign debtor on restructuring of outstanding debt.

Under SDRM, there are five features proposed:

1. The sovereign debtor would have legal protection from disruptive legal action by creditors while negotiations were underway.
2. Creditors would have some assurances that the debtor will negotiate in good faith.
3. Creditors could agree to give seniority and protections from restructuring to fresh private lending.
4. A supermajority of creditors

*Details on the SDRM proposal can be found on the IMF website:*

<http://www.imf.org>

could vote to accept new terms under a restructuring agreement.

5. A dispute resolution forum would be established to verify claims and ensure integrity of the process.

## Recent Publications & New Websites

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

- **Canada** Debt Management Report 2000-01
- **France** Government Debt & Treasury Programme 2003

- **Germany** July & October Newsletters
- **Iceland** Annual Report 2001
- **Ireland** Annual Report 2001
- **Japan** Japanese Government Bonds Quarterly Newsletter October 2002
- **Poland** Annual Report 2001
- **Spain** Issuance Strategy for 2002
- **Sweden** Guidelines for Central Government Debt Management 2003

- **UK** Annual Review 2001-2002

Also published:

- **CS-DRMS** Newsletter 8-1

There are two Debt Management Office websites that have been added to our list:

- **Germany:** [www.deutsche-finanzagentur.de](http://www.deutsche-finanzagentur.de)
- **Luxembourg:** [www.etat.lu/TS](http://www.etat.lu/TS)

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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, Solomon Islands and Thailand.



## Sovereign Debt Management Websites

The Sovereign Debt Management Office websites include:

**Argentina:** [www.mecon.gov.ar/finanzas](http://www.mecon.gov.ar/finanzas)

**Australia:** [www.aofm.gov.au](http://www.aofm.gov.au)

**Austria:** [www.oebfa.co.at](http://www.oebfa.co.at)

**Belgium:** [www.treasury.fgov.be/interdette](http://www.treasury.fgov.be/interdette)

**Brazil:** [www.tesouro.fazenda.gov.br](http://www.tesouro.fazenda.gov.br)

**Canada:** [www.fin.gc.ca](http://www.fin.gc.ca)

**Colombia:** [www.minhacienda.gov.co](http://www.minhacienda.gov.co)

**Denmark:** [www.nationalbanken.dk](http://www.nationalbanken.dk)

**Finland:** [www.valtiokonttori.fi](http://www.valtiokonttori.fi)

**France:** [www.francetresor.gouv.fr](http://www.francetresor.gouv.fr)

**Germany:** [www.deutsche-finanzagentur.de](http://www.deutsche-finanzagentur.de)

**Greece:** [www.mof-glk.gr](http://www.mof-glk.gr)

**Hungary:** [www.allampapir.hu](http://www.allampapir.hu)

**Iceland:** [www.lanasysla.is](http://www.lanasysla.is)

**India:** [www.finmin.nic.in/caaa](http://www.finmin.nic.in/caaa)

**Indonesia:** [www.dmo.or.id](http://www.dmo.or.id)

**Ireland:** [www.ntma.ie](http://www.ntma.ie)

**Italy:** [www.tesoro.it](http://www.tesoro.it)

**Japan:** [www.mof.go.jp/english](http://www.mof.go.jp/english)

**Luxembourg:** [www.etat.lu/TS](http://www.etat.lu/TS)

**Netherlands:** [www.dutchstate.nl](http://www.dutchstate.nl)

**New Zealand:** [www.nzdmo.govt.nz](http://www.nzdmo.govt.nz)

**Nigeria:** [www.dmonigeria.org/domhtm](http://www.dmonigeria.org/domhtm)

**Peru:** [www.mef.gob.pe/DGCP/index.htm](http://www.mef.gob.pe/DGCP/index.htm)

**Philippines:** [www.dof.gov.ph](http://www.dof.gov.ph)

**Poland:** [www.mofnet.gov.pl](http://www.mofnet.gov.pl)

**Portugal:** [www.igcp.pt](http://www.igcp.pt)

**South Africa:** [www.finance.gov.za](http://www.finance.gov.za)

**Spain:** [www.mineco.es/tesoro](http://www.mineco.es/tesoro)

**Sweden:** [www.rgk.se](http://www.rgk.se)

**Switzerland:** [www.efv.admin.ch](http://www.efv.admin.ch)

**Thailand:** [www.pdmo.gov.go.th](http://www.pdmo.gov.go.th)

**United Kingdom:** [www.dmo.gov.uk](http://www.dmo.gov.uk)

**United States:** [www.publicdebt.treas.gov](http://www.publicdebt.treas.gov)

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For more references, we suggest you refer to links to other websites at:

[www.storkeyandco.com/library/links](http://www.storkeyandco.com/library/links)

