

Global Trends in Sovereign Debt Management



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Presentation Outline

- Sovereign Debt Management
- IMF/World Bank Guidelines
- Global Trends
 - Developing Countries → Central/State/Local Governments including case studies
- Key Observations
 - Consulting experiences and some suggestions



Sovereign Debt Management

What is Sovereign Debt Management and what does it cover?



Definition

“The process of establishing and executing a strategy for managing the government’s debt in order to raise the required amount of funding, pursue its cost and risk objectives, and to meet any other public debt management goals the government may have set.”

IMF/World Bank Guidelines for Public Debt Management (March 2001)



Importance

- Often largest financial portfolio in the country
- Potential for use of inside information
- Possible conflicts of interest
- Need for transparency of operations
- Need for open process for formulating debt management policies and public disclosure
- Should be applied to Central, State and Local governments



IMF/World Bank Guidelines

**Guidelines for
Public Debt Management:
What are they and what do they cover?**



Basis for the Guidelines

- # Based on the knowledge, experience and wisdom of many sovereign debt managers from debt offices and international agencies
- # Released in April 2001 after international consultation
 - 7 regional workshops were held around the world to discuss the draft Guidelines
- # Guidelines not commandments
 - Plenty of scope for tailoring to each government's unique circumstances – can be used as a benchmark



Components

Guidelines cover six components:

1. Debt Management Objectives and Coordination
2. Transparency and Accountability
3. Institutional Framework
4. Debt Management Strategy
5. Risk Management Framework
6. Development and Maintenance of an Efficient Market for Government Securities



Accompanying Document

- # Released in November 2002
- # Provides 18 Country Case Studies
- # Lessons from the Country Case Studies
 - Rapid evolution that is taking place in public debt management
 - More sophistication in managing stock of debt
 - Addressing the Guideline's six components

Brazil
Colombia
Denmark
India
Ireland
Italy
Jamaica
Japan
Mexico
Morocco
NZ
Poland
Portugal
Slovenia
S.Africa
Sweden
UK
USA



Prudent Practices

- # Recognition of benefits of clear objectives for debt management
- # Weighing risk against cost considerations
- # Separation and coordination of debt and monetary management objectives
- # Limit on debt expansion
- # Developing a sound institutional structure and policies for managing operational risks
- # Identify and manage risk of contingent liabilities



Key Outcomes

- # Clearer objectives for public debt management
- # Development of risk models (eg BaR, CaR, VaR)
- # Greater clarity in the roles and responsibilities of the debt managers and their agents
- # Open and accountable process for the formulation and reporting of public debt management policies
- # Development of benchmarks and measures of performance
- # Development and maintenance of an efficient market for domestic government securities



Institutional Structures

Separate DMO

- # Austria (OEBFA)
- # Germany
- # Hungary (AKK)
- # Ireland (NTMA)
- # Portugal (IGCP)
- # Sweden (SNDO)
- # UK (DMO)
- # Australian State Borrowing Authorities

MoF DMO

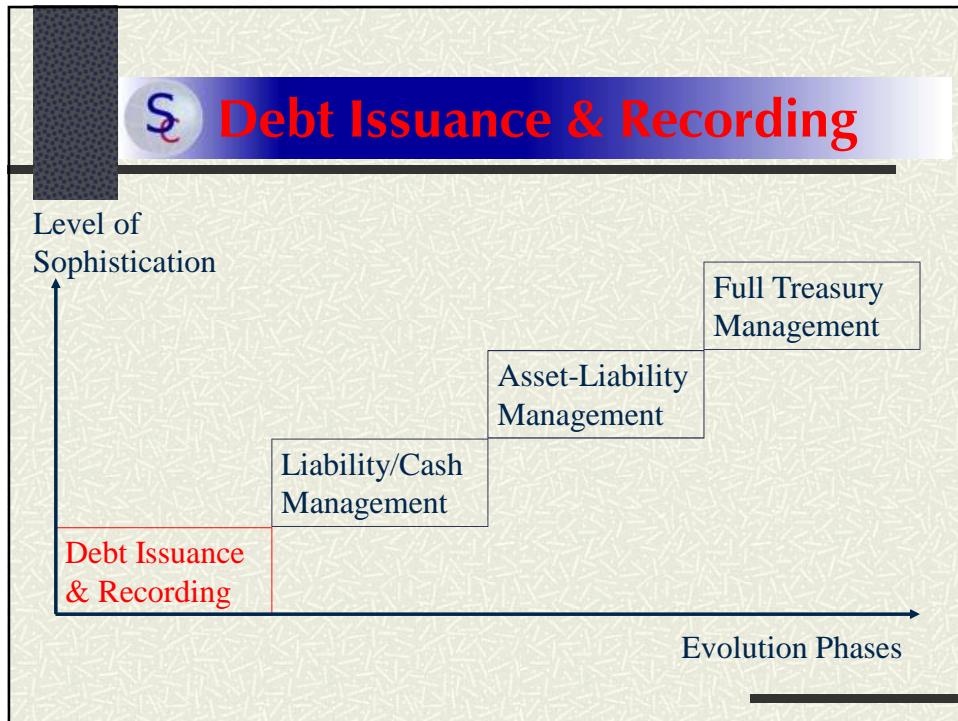
- # Australia (AOFM)
- # Belgium
- # Canada
- # France (AFT)
- # Netherlands (DSTA)
- # New Zealand (NZDMO)
- # Poland
- # USA
- Denmark (Central Bank)



Global Trends

Developing Countries → Central/State/Local Governments including Case Studies







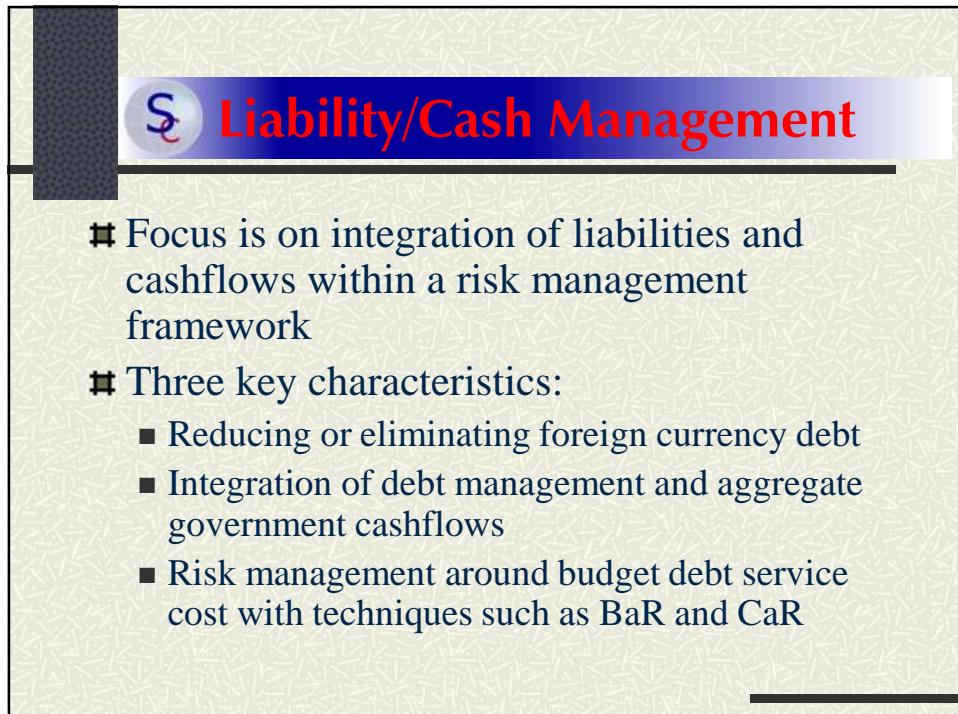
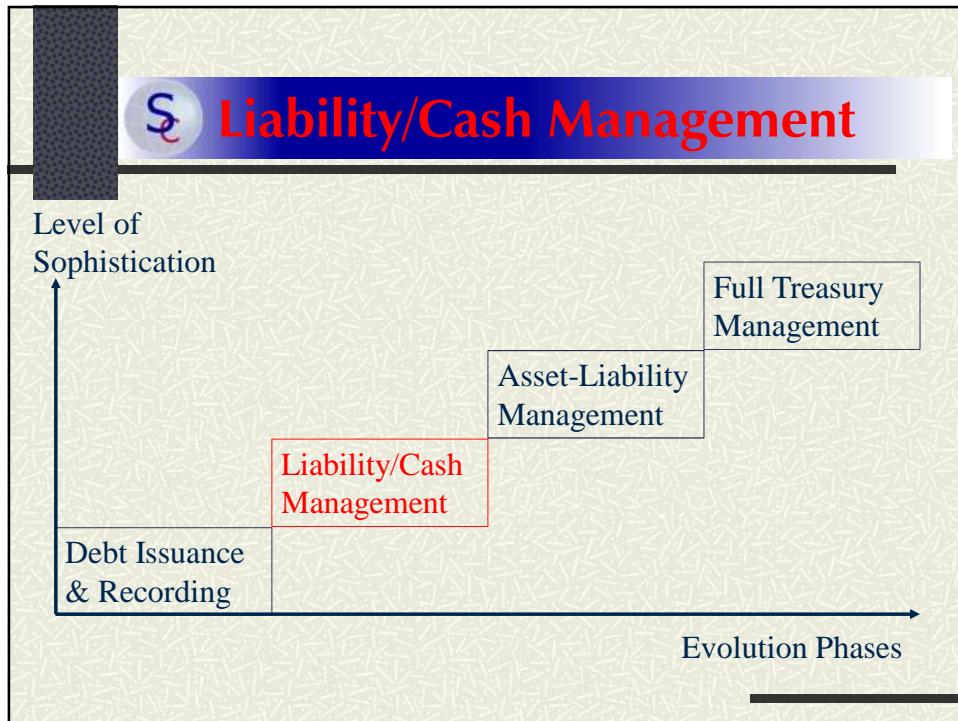
Debt Issuance & Recording

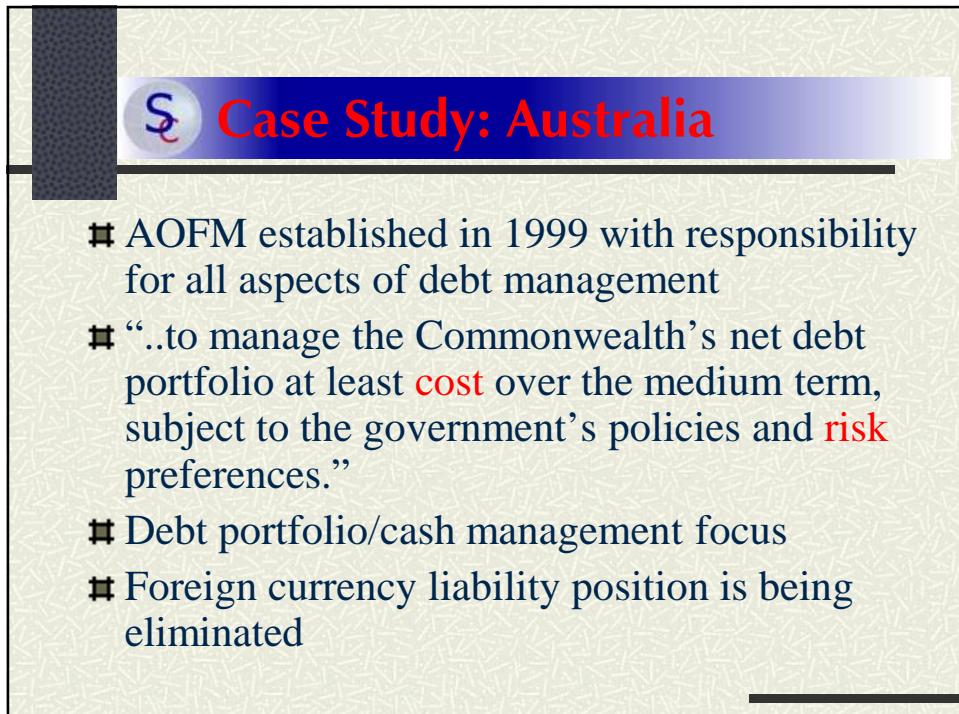
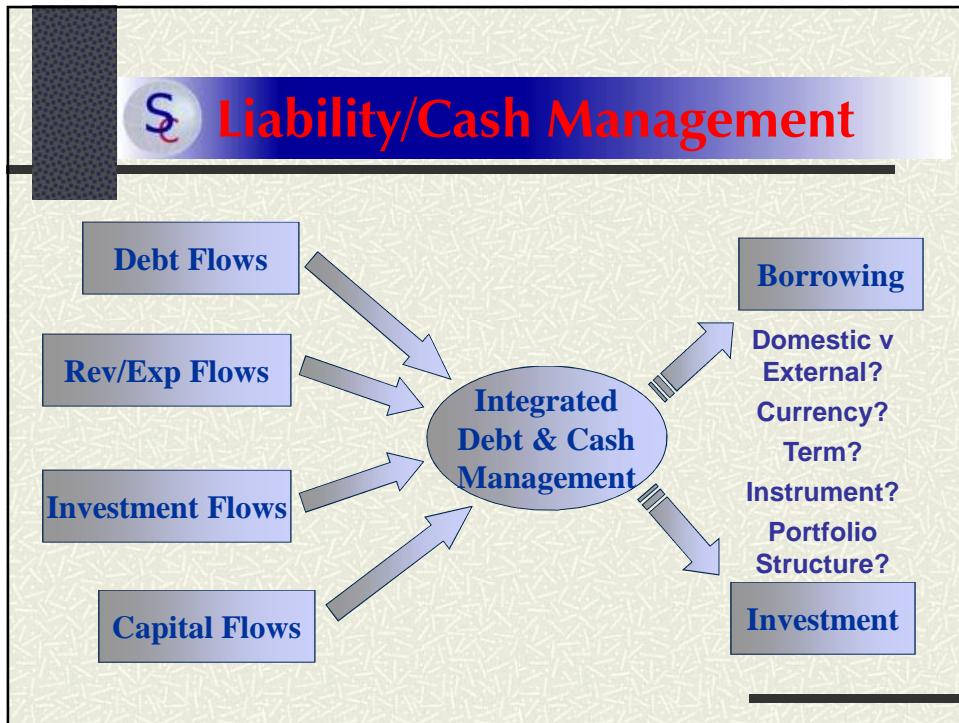
- # Applicable to most developing countries
- # Difficult to reform due to:
 - Lack of necessary control and accountability to establish a separate debt management office
 - High degree of interdependence between debt management and macroeconomic policies
 - Inability to attract staff with the right skills under existing civil service structures



Case Study: Indonesia

- # Large refinancing risk to rollover debt issued to recapitalise the banks
- # Debt/Cash management is fragmented
- # Domestic debt market not developed
- # Legal and institutional reform is required
- # Australian Government through AusAID funding a capacity building program for PMON







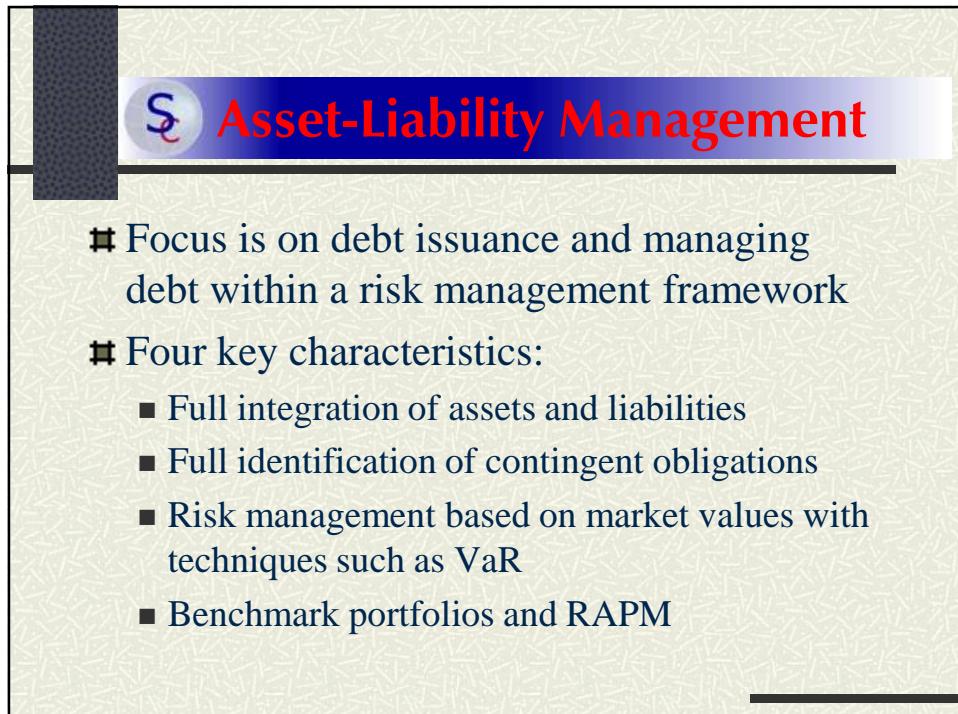
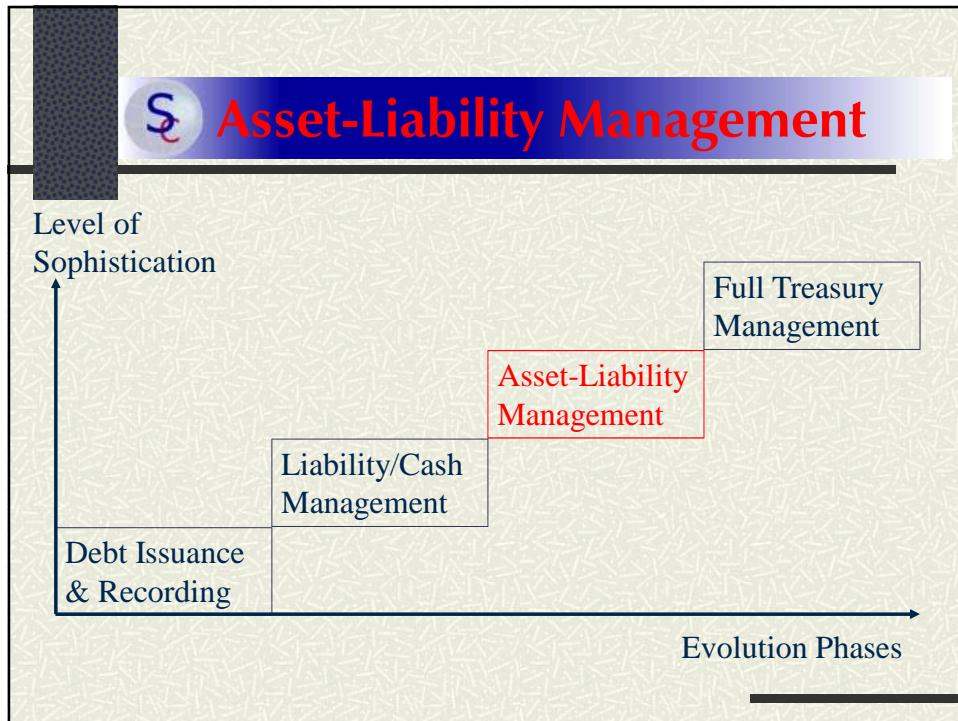
Case Study: United Kingdom

- # UK DMO took over responsibility for debt management from Bank of England in 1998
- # “..to minimise over the long term the **cost** of meeting the government’s financing needs, taking into account **risk**, whilst ensuring the policy is consistent with the objectives of monetary policy.”
- # Starting to move to an ALM approach



Case Study: United Kingdom

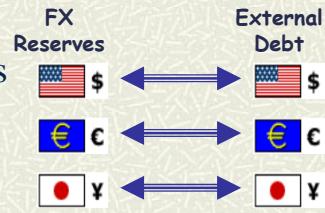
- # Recent additional responsibilities:
 - supporting additional issues of the National Savings and Investments Guaranteed Equity Bond by reducing the Government's exposure to the equity market
 - an expansion of the Deposit Facility to allow local authorities to deposit surplus funds with the DMO
 - DMO is now operationally responsible for handling loans to local authorities and for managing funds for some government departments



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Case Study: New Zealand

- NZDMO established in 1988 and now is a part of the Asset-Liability Branch of Treasury
- “..to maximise the long-term economic **return** on the Government’s financial assets and debt in the context of the Government’s fiscal strategy, particularly its aversion to **risk..**”
- Integrated ALM approach
- Use of VaR and Stop-Loss Limits
- Transfer pricing → RAPM
- Zero net foreign currency debt

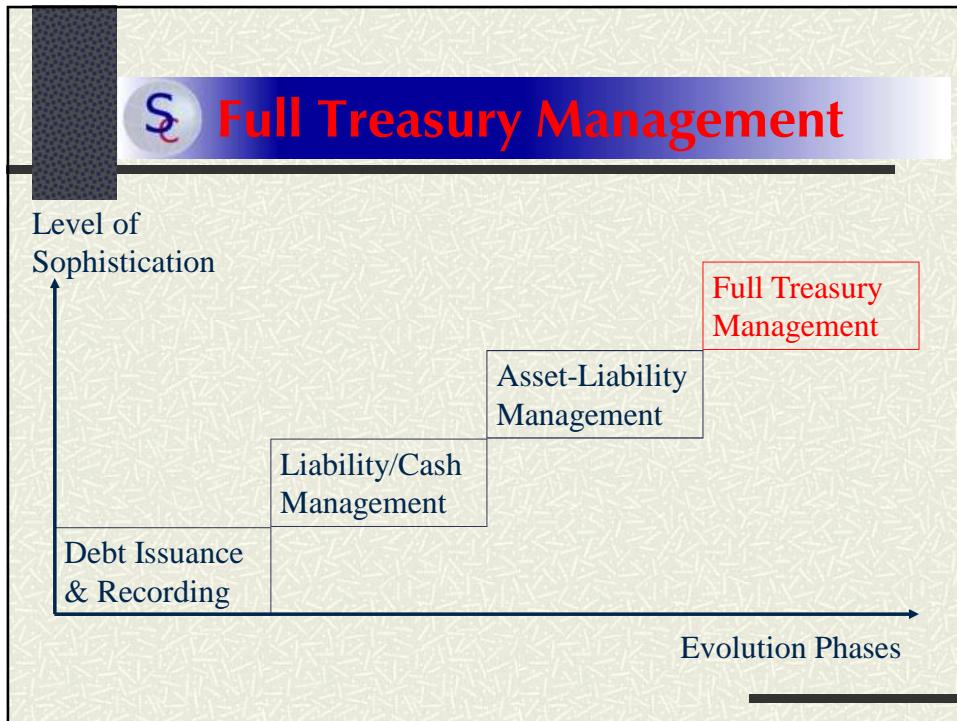


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Case Study: New Zealand

- Auckland Regional Council typifies new treasury management regime under Local Government Act
- “Minimise the ARC’s **costs** and **risks** in the management of its borrowings and maximise its return on investments.”
- **Liability Management Policy:**
 - Debt ratios, limits, borrowing & security
 - Interest rate risk
 - Liquidity management
 - Counterparty credit risk

Local Government Act 2002





Case Study: Ireland

- NTMA established in 1990 as an independent agency
- “..to fund maturing debt and the annual borrowing requirement of the government in such a way as to protect both short term and long term liquidity, contain the level and volatility of annual fiscal debt service **costs**, contain the government’s exposure to **risk** and outperform a benchmark..”
- NTMA has now become the international benchmark for all debt management offices



Case Study: Ireland

- Recent additional responsibilities:
 - **National Pensions Reserve Fund**
 - **State Claims Agency:** The mandate is to manage claims against the State to ensure that the State's liability and associated legal and other expenses are contained at the lowest achievable level.
 - **Central Treasury Service:** To be offered to Local Authorities, Health Boards, Vocational Education Committees and other public bodies.
 - **Fund Investment Services:** To be available to Ministers who have funds under their management or control.



Australian State Governments

- # **QTC:** “..to minimise financial **risk** in the public sector, while sourcing the lowest **cost** of funds for our customers.”
- # **TCorp:** “..to manage major debt portfolios for the NSW Treasury (the Crown debt portfolio) and 12 agencies ...to achieve below benchmark **cost** of funds while observing agreed **risk** limits.”
- # **TCV:** “..achieving relative certainty of interest **costs**, while minimising borrowing **costs** and refinancing **risk**, and managing the financial and operational **risks** of the general government sector treasury operations in a prudent manner.”



Key Observations

Consulting Experience Observations and Suggestions for Australia & NZ Debt Offices



High Performing DMOs

- # Clear mandate
- # Strong governance
- # Strong emphasis on risk management
- # Good treasury systems
- # Clear responsibilities
- # Linkage to cash management



Key Observations

- # Preservation of sovereign reputation
- # Increasing sophistication on identification and management of risks, including risks with contingent obligations
- # Increasing recognition of expertise to assist in government financial management
- # Potential to provide outsourcing services to government agencies and other countries