New Trends and Challenges in Government Debt Management

Phillip Anderson
The World Bank
Treasury
1818 H Street, N.W.
Washington, DC, 20433, USA
treasury.worldbank.org
1. Recent Trends

2. Progress and Challenges

3. Case Study: Kenya
Recent increases in net capital flows experienced across the board, but the nature of the flows have been different
Net capital inflows have been accompanied by strong external positions...

Source: GDF, World Bank
... And prudent fiscal policies

**Primary Balance of the General Government:**
Percent of GDP
1998-2005

**Low Income Countries: Average Public Debt**
Percent of GDP
1995-2005

Source: WEO, IMF
Source: World Bank and IMF
…As well as risk reduction in government debt management

Asia: China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan (China), and Thailand.
Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Venezuela.
Europe: Czech Republic, Hungary, Poland, Turkey, and Russia.
Middle East: Israel.

Source: Jeanne and Guscina (2006)
Interest rate risk profile shows distinct regional patterns

Source: BIS
An increasing number of emerging market countries are being upgraded and spreads are still at historic lows despite recent financial turmoil.
And an increasing number of low income countries are being rated.
1. Recent Trends
2. Progress and Challenges
3. Case Study: Kenya
Developing medium-term debt management strategies

- Formalizing a comprehensive strategy
- Conducting cost-risk analysis
- Providing input to fiscal sustainability analysis
- Coordinating with cash management and monetary policy implementation
Improving governance arrangements and capacity

- Consolidating and eliminating inconsistencies in the legal framework
- Consolidating debt management activities into one unit
- More effective management of operational risk
- Strengthening management of debt recording systems
- Addressing skills and retention problems
Domestic debt market development and financial stability

- **Supply side measures**
  - Establishment of “benchmark” bonds
  - Elimination of non-marketable debt
  - Fair and transparent issuance program

- **Demand side measures**
  - Diversification of investor base, including foreign, institutional, and retail investors
  - Incentives to trade are often poor

- **Financial stability**
  - Concentration of banks as main buyer of government debt
  - Lack of liquidity in secondary markets reduces quality of assets in the banking system
Designing and implementing a reform program

- Country ownership and commitment to reform is a precondition
- Comprehensive diagnostics necessary prior to undertaking reform – including links with macroeconomic framework
- Embodying PDM reform in broader projects can improve chances of success in implementation
- Coordination with other organizations and governments have improved the quality of PDM technical support
1. Recent Trends

2. Progress and Challenges

3. Case Study: Kenya
Institutional Reforms in Kenya

History of failed capacity building efforts

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>• Joint UNDP/World Bank/ComSec/SIDA</td>
<td>• Sole support of SIDA</td>
<td>• No outside support</td>
</tr>
<tr>
<td>• Set up Debt Management Division in the Ministry of Finance</td>
<td>• Twelve well trained staff</td>
<td>• Debt management became less priority within the Ministry of Finance</td>
</tr>
<tr>
<td>• Strong senior management support</td>
<td>• Creation of debt management strategy</td>
<td>• Departure of senior management and trained staff</td>
</tr>
<tr>
<td></td>
<td>• Good basic debt recording</td>
<td>• Deterioration of quality of debt records</td>
</tr>
</tbody>
</table>

Key Lessons:

- Commitment from host country
- Awareness by senior management of the importance of DM
- Staff recruitment and retention program to avoid key person risks
- Establish institutional memory through establishing clear routines, handbooks, career planning and continuous staff training

Source: Nars (1995), SIDA
Institutional Reforms in Kenya

- Turning point: Anglo Leasing affair (2004) and commitment to prevent future corruption

**Situation in 2003**
- Staff of 5 officials
- Debt Management Department of MoF (DMD) played limited role
- Main functions were to maintain and register external loans in the debt recording system and to calculate the grant element in external loan proposals
- Debt recording system intermittently down and data were not entered in a timely manner; recorded debt were not accurate
- Last Annual Report prepared in 1994, by consultants
- No formalized debt management strategy

**Situation in 2007**
- Staff of 24 officials
- Organized according to FO, MO and BO functions
- Domestic and external debt database has been migrated and updated on CS-DRMS 2000+
- Debt data reconciled against loan contract and validated
- Back office of DMD and its internal procedures have been strengthened
- A comprehensive Annual Debt Management Report has been published
- DMD has its own website
Cost-risk trade-offs arising from a portfolio of foreign (concessional) debt vs. domestic (market) debt

Kenya: Interest Cost of External and Domestic Debt 1996-2006

Kenya: Total Public Debt, External and Domestic as % of GDP 1996-2006

Kenya: External Public Debt, By Type of Creditor 1996-2006


Debt Management Department, Ministry of Finance, Kenya

<table>
<thead>
<tr>
<th>Year</th>
<th>Weighted average interest rate</th>
<th>Average time to maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>Domestic debt 10.5%</td>
<td>2.2 years</td>
</tr>
<tr>
<td></td>
<td>External debt 0.8%</td>
<td>36 years</td>
</tr>
</tbody>
</table>
Final words…

- Importance of comprehensive approach
  - Interactions between DM issues
  - Coordination with other macroeconomic policies
  - Parallel work with domestic debt market development

- No one-size-fits-all approach and reform programs need to be tailor-made
  - Country specific circumstances
  - LIC specific issues

- Useful to have standardized indicators to measure progress over time