

New Trends and Challenges in Government Debt Management

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Recent Trends

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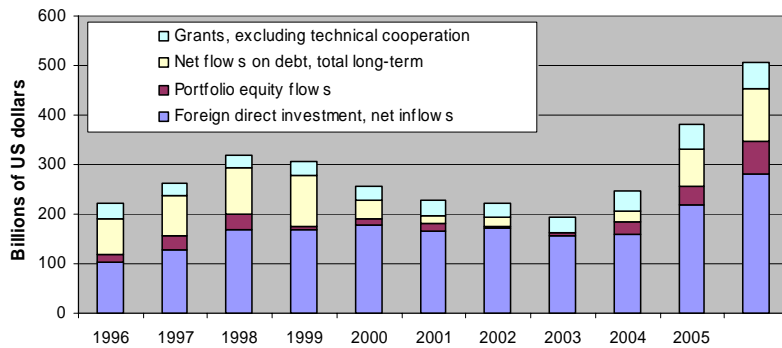
Progress and Challenges

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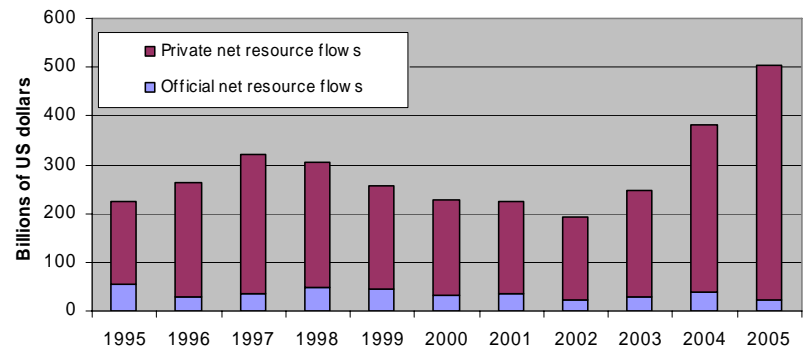
Case Study: Kenya

Recent increases in net capital flows experienced across the board, but the nature of the flows have been different

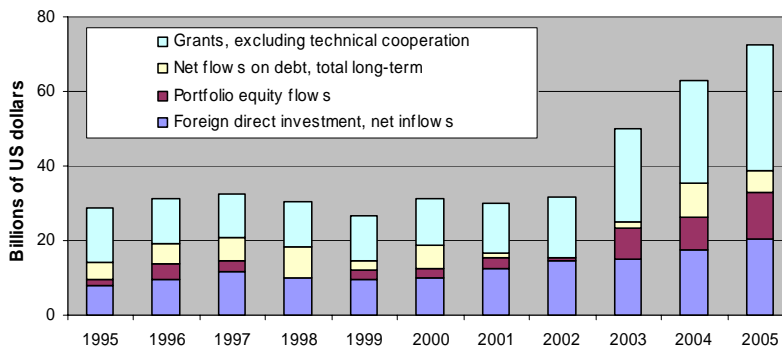
**Net Capital Flows to Developing Countries, By Type of Flow
1995-2005**



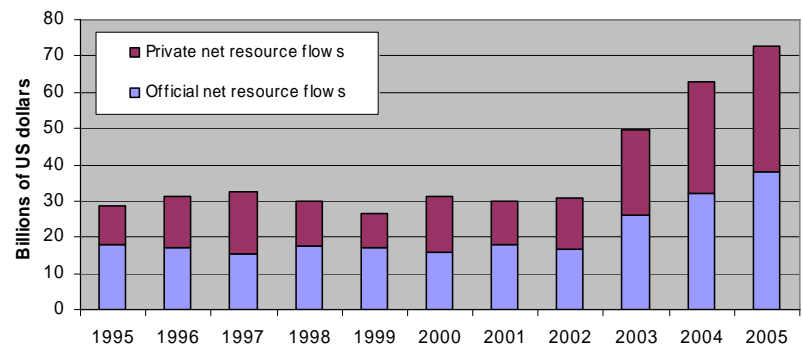
**Net Capital Flows to Developing Countries, By Source
1995-2005**



**Net Capital Flows to Low Income Countries, By Type of Flow
1995-2005**



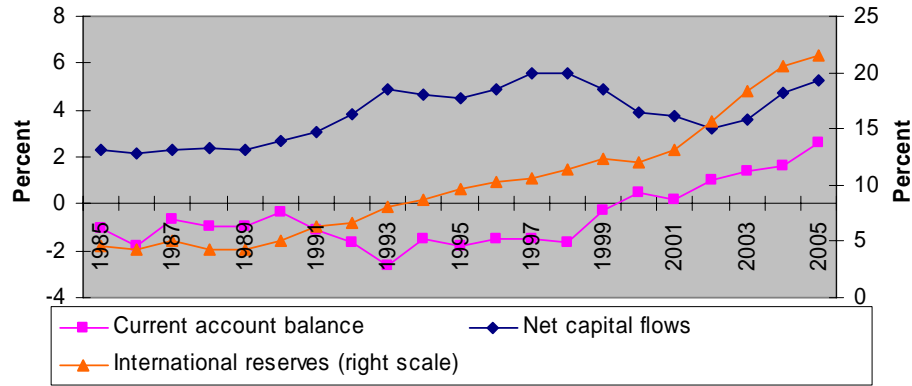
**Net Capital Flows to Low Income Countries, By Source
1995-2005**



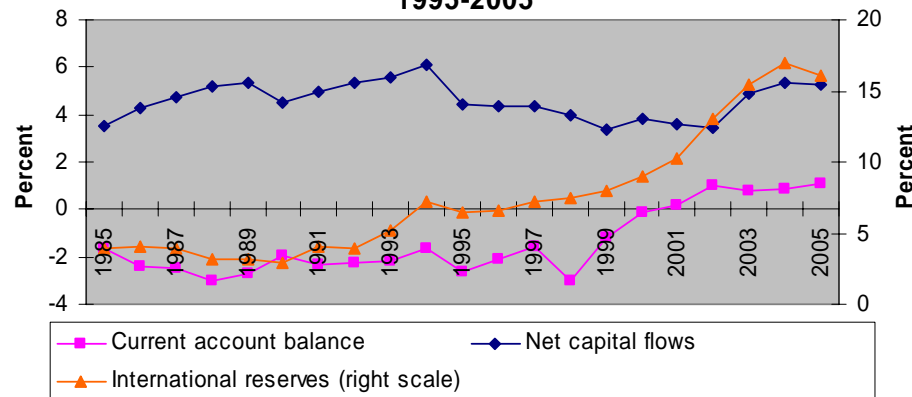
Source: GDF, World Bank

Net capital inflows have been accompanied by strong external positions...

All Developing Countries: Net Capital Flows, Current Account Balance, and International Reserves as Percent of Gross National Income 1995-2005

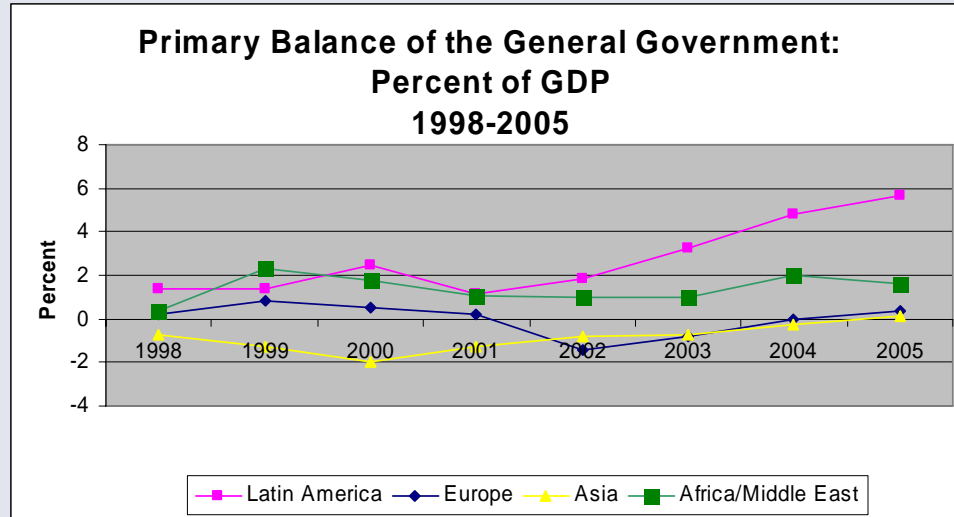


Low Income Countries: Net Capital Flows, Current Account Balance, and International Reserves as Percent of Gross National Income 1995-2005

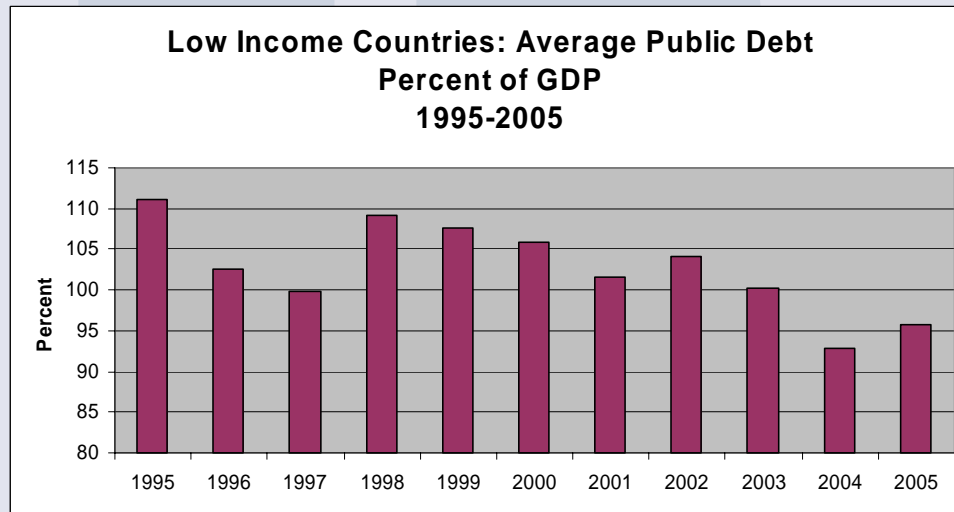


Source: GDF, World Bank

... And prudent fiscal policies



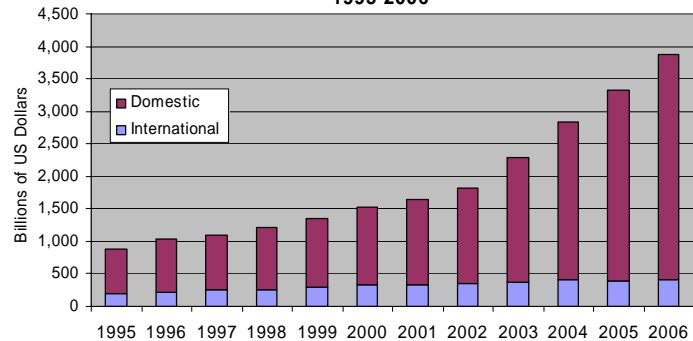
Source: WEO, IMF



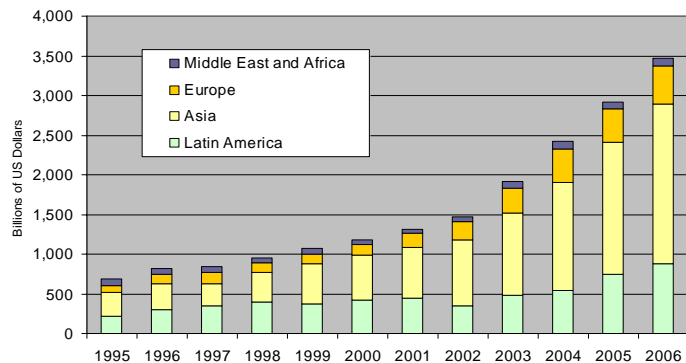
Source: World Bank and IMF

...As well as risk reduction in government debt management

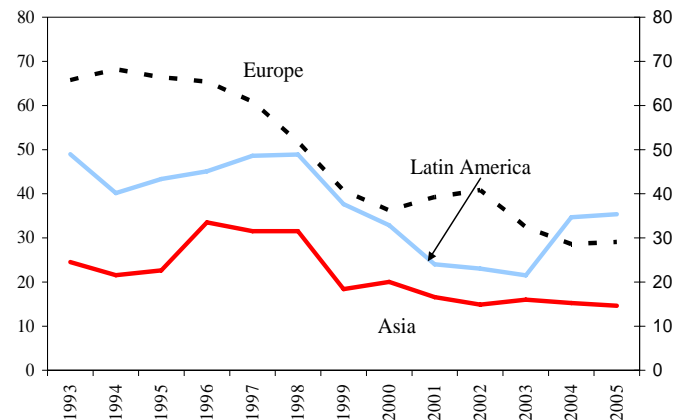
**Government Debt: By Domestic and International
1995-2006**



**Domestic Currency Government Debt: By Region
1995-2006**



**Domestic Public Debt Maturing in Less than a Year
Percent of Total Domestic Debt
1993-2005**



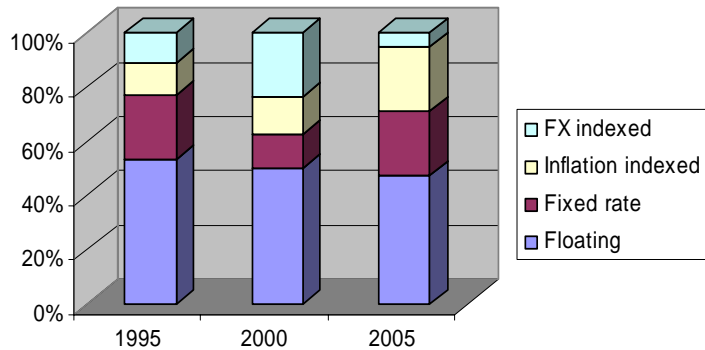
Source: Global Financial Stability Report, IMF, April 2006

Asia: China, Philippines, India, Indonesia, Korea, Malaysia, Thailand
 Europe: Czech Republic, Hungary, Poland, Turkey, Russia
 Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Venezuela
 Middle East: Israel
 Source: Jeanne and Guscina (2006)

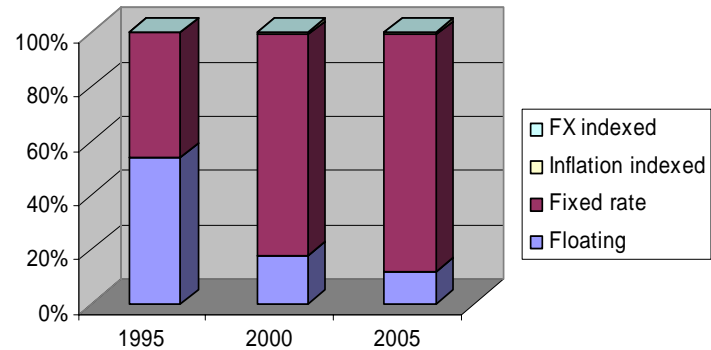
Asia: China, India, Indonesia, Korea, Malaysia, the Philippines, Taiwan (China), and Thailand.
 Latin America: Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela.
 Europe: The Czech Republic, Hungary, Poland, Turkey, and Russia.
 Middle East and Africa: Lebanon and South Africa.
 Source: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

Interest rate risk profile shows distinct regional patterns

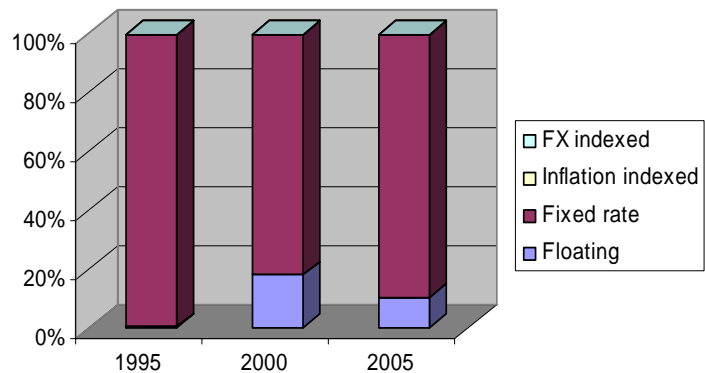
Latin America: Composition of domestic currency debt



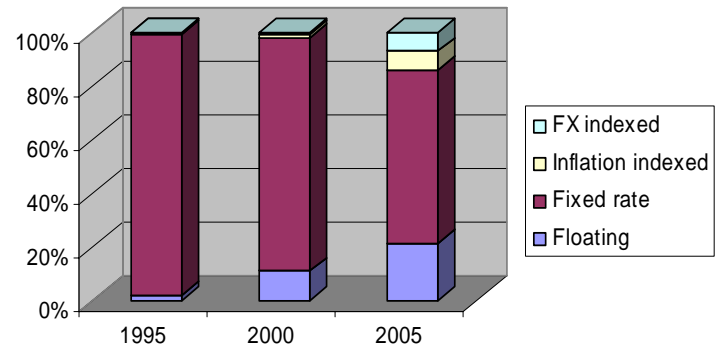
Central Europe: Composition of domestic currency debt



Asia: Composition of domestic currency debt

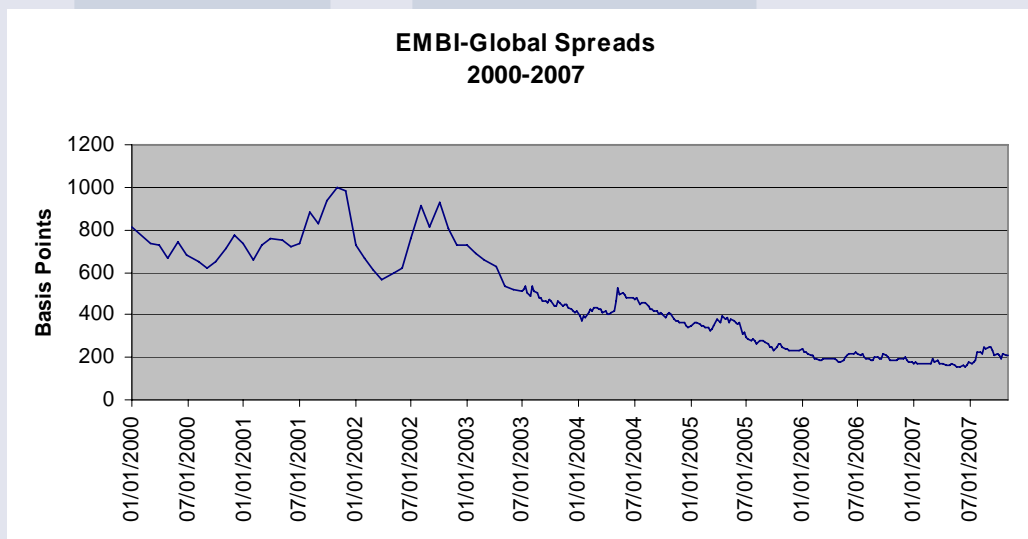
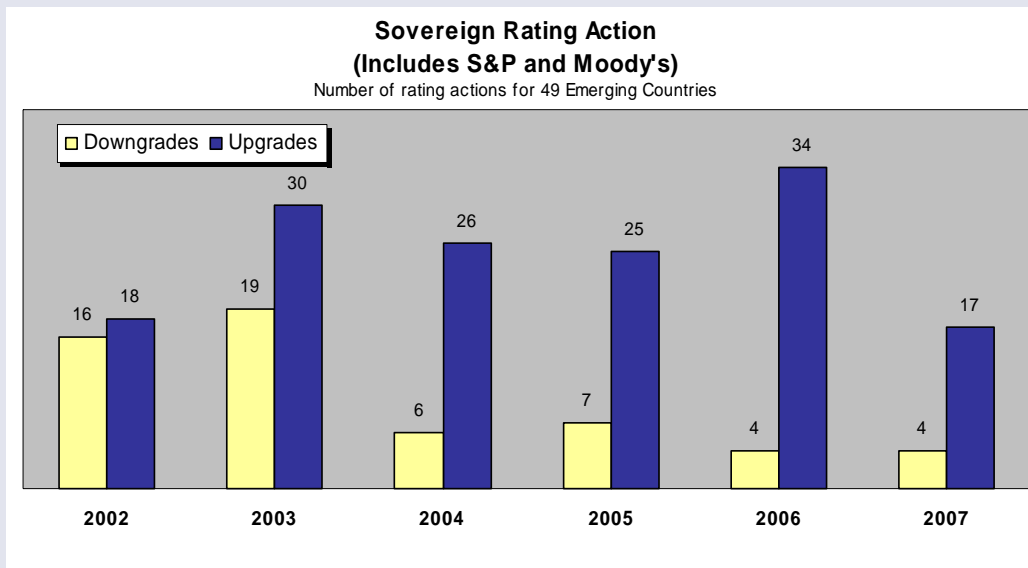


Other Countries: Composition of domestic currency debt



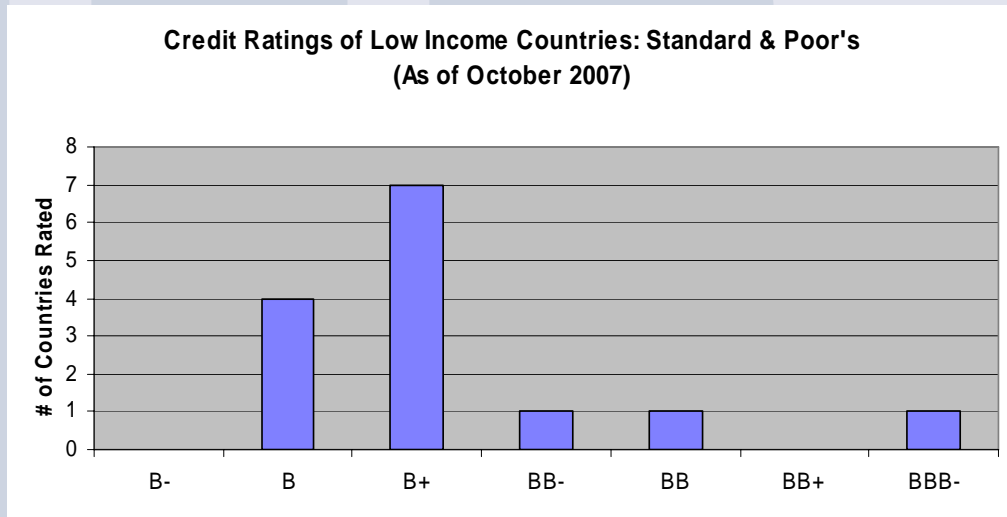
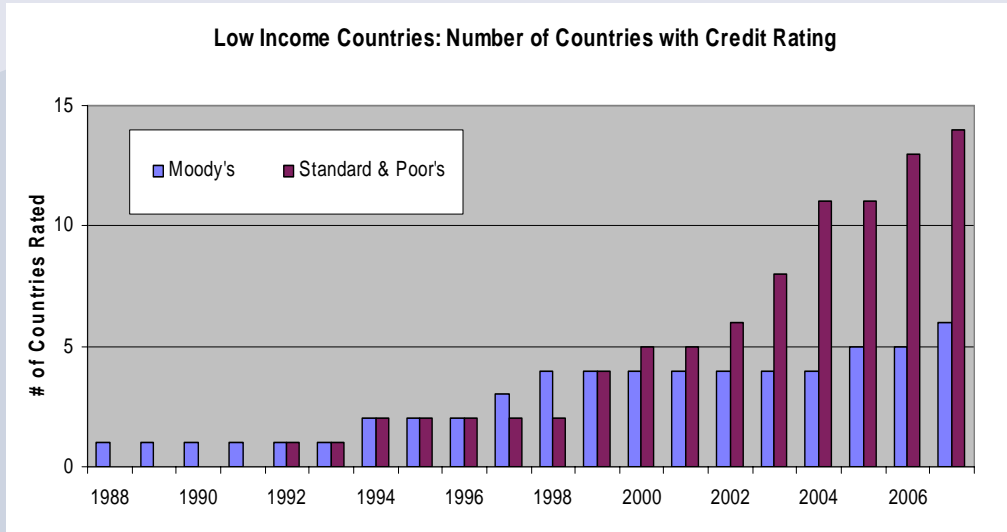
Source: BIS

An increasing number of emerging market countries are being upgraded and spreads are still at historic lows despite recent financial turmoil



Source: Bloomberg

And an increasing number of low income countries are being rated



Source: Bloomberg

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Progress and Challenges

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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

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Case Study: Kenya

Institutional Reforms in Kenya

History of failed capacity building efforts

1985-1990	1990-1994	1994-2003
<ul style="list-style-type: none">● Joint UNDP/World Bank/ComSec/SIDA● Set up Debt Management Division in the Ministry of Finance● Strong senior management support	<ul style="list-style-type: none">● Sole support of SIDA● Twelve well trained staff● Creation of debt management strategy● Good basic debt recording	<ul style="list-style-type: none">● No outside support● Debt management became less priority within the Ministry of Finance● Departure of senior management and trained staff● Deterioration of quality of debt records

Source: Nars (1995), SIDA

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

Institutional Reforms in Kenya

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

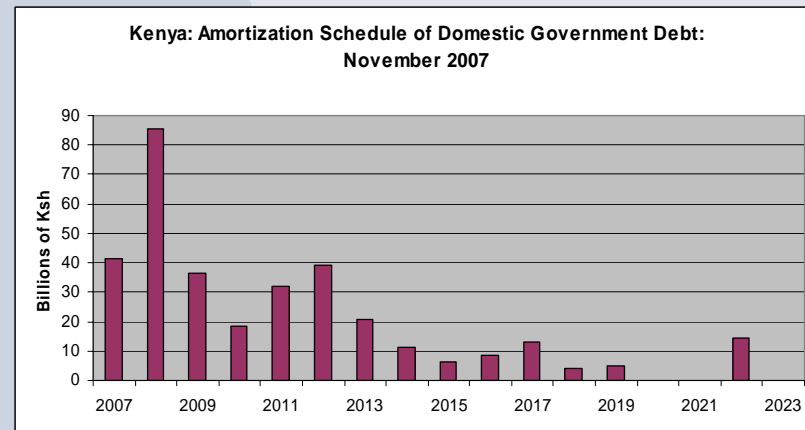
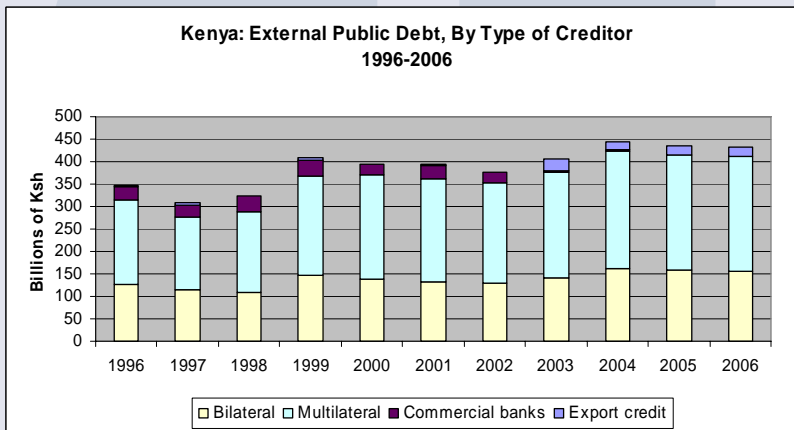
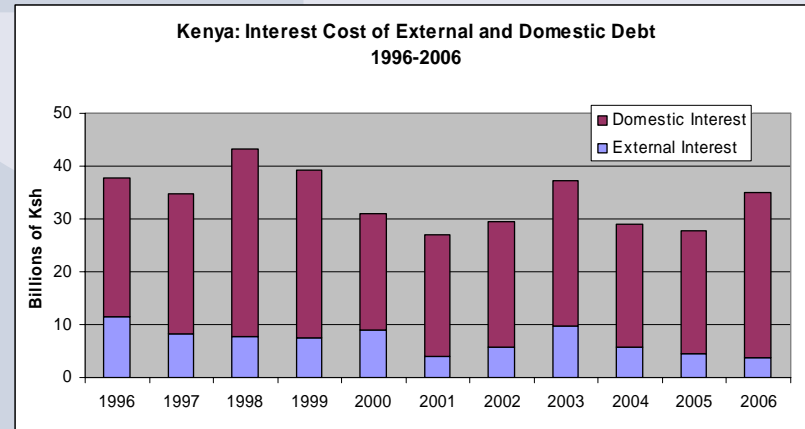
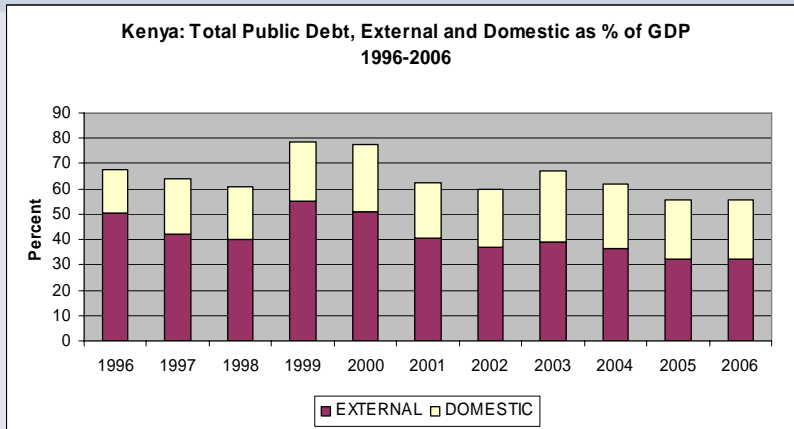
Situation in 2003

- 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



Source: Annual Report July 2005 - June 2006

Debt Management Department, Ministry of Finance, Kenya

2006	Weighted average interest rate	Average time to maturity
Domestic debt	10.5%	2.2 years
External debt	0.8%	36 years

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