



Coordination with Macroeconomic Policies

*DeMPA Training Workshop
Geneva, 3-5 September 2008*



Outline

1. Coordinating DeM with Fiscal and Monetary Policy
2. DPI-6: Coordination with Fiscal Policy
3. DPI-7: Coordination with Monetary Policy



Coordinating DeM with Fiscal and Monetary Policy



Traditionally debt management seen as subordinate to fiscal or monetary policies

- Part of budget operations (finance the deficit)
- Part of monetary policy implementation

However, there has been move towards decentralized debt management operations

- Clear delegation as a means to resolve policy conflicts and to enhance policy credibility



What are the respective policy objectives?

Debt Management	To minimize long-term debt servicing costs, subject to a prudent level of risk.
Fiscal Policy	To achieve the least distorting budgetary policy that would improve resource allocation and achieve distributive objectives, subject to prudent and sustainable debt levels.
Monetary policy	To achieve price stability

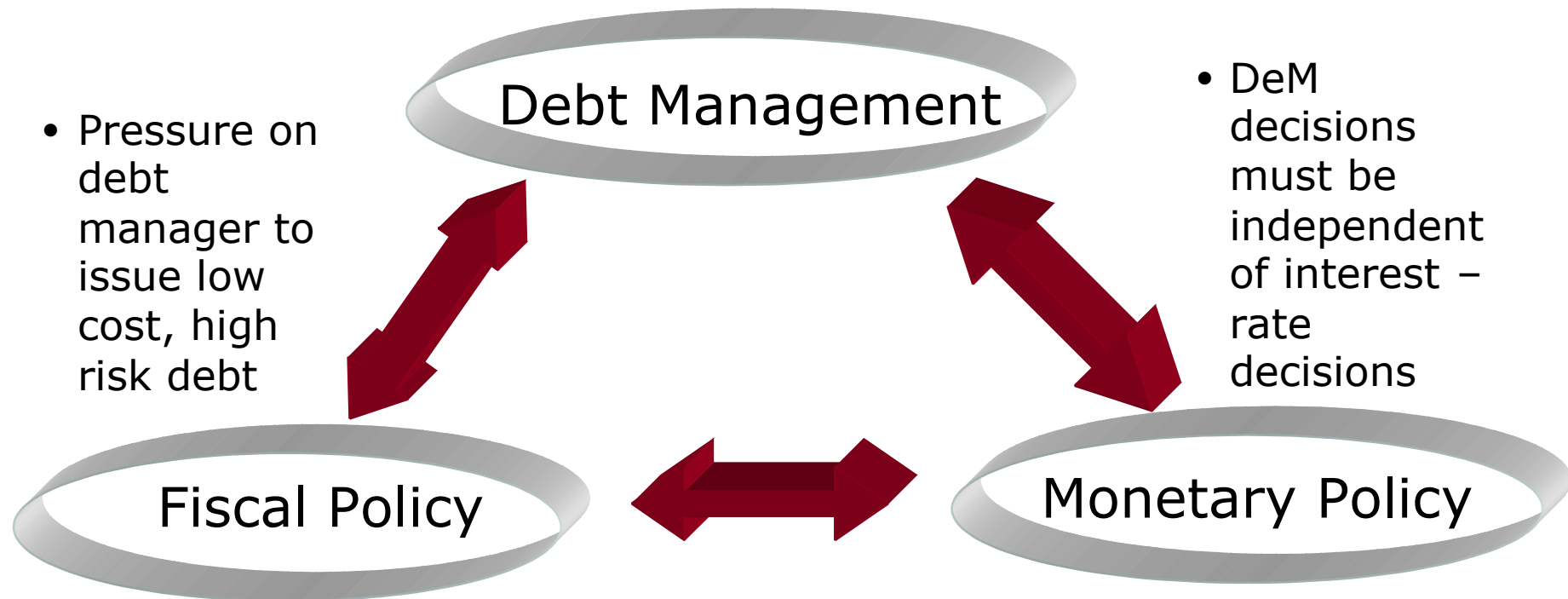


What are the respective policy instruments?

Debt Management	Manage the composition of the debt portfolio.
Fiscal Policy	Manage the composition of spending and taxation. Manage the levels of deficits and debt.
Monetary policy	Implement through interest rates, exchange rate or money aggregates.

Perfect world: independent policies without affecting each other.

Real World: *interdependence* is the norm, and depends on coherence of the overall policy mix



- **DM:FP** - Debt structure affects the costs of debt servicing and can jeopardize fiscal sustainability.

- **FP:DM** - Tax and expenditure levels determine the levels of debt and may lead to poor debt structures if sustainability is in doubt.

- **DM:MP** - Poor debt structures can jeopardize the CB's ability to tighten interest rates or to depreciate / devalue.

- **MP:DM** - Exchange rate and interest rate policies affect the risks of foreign currency debt and floating rate debt.



DPI-6 Coordination with Fiscal Policy



Two-way communication

Fiscal Authority to the Debt Manager

- Government's financing need is why the debt manager comes to the office each day
- Debt manager needs relevant fiscal variables - actuals and forecasts - for planning purposes/cost-risk analysis, and a DSA

Debt Manager to the Fiscal Authority

- Debt manager must convey costs and risks of the government's financing requirements and debt levels
- Debt service forecasts (existing and new borrowing) are provided to the Budget office – **And they are actually used**

Both

- What is the government's tolerance for risk?



Dimensions to Assess

DPI-6 Coordination with Fiscal Policy

Dimension	Score
1. Coordination with fiscal policy through the provision of accurate and timely forecasts on total debt and debt service under different scenarios	
2. Availability of key fiscal variables and/or an analysis of debt sustainability, and the frequency with which debt sustainability analysis is undertaken	
Overall Score	



Setting the Scene

- **What** is currently being done?
 - MTEF, MTFS, DSA, MTDS

- **Who** does what?
 - Budget committee, macroeconomic policy group, Central Bank (CB), committees

- **How** does the sharing take place?
 - Is it formal (e.g. DSA committee), informal

- **When** is it done?
 - DSA done annually? MTDS, MTFS updated annually? Part of yearly Budget preparations?

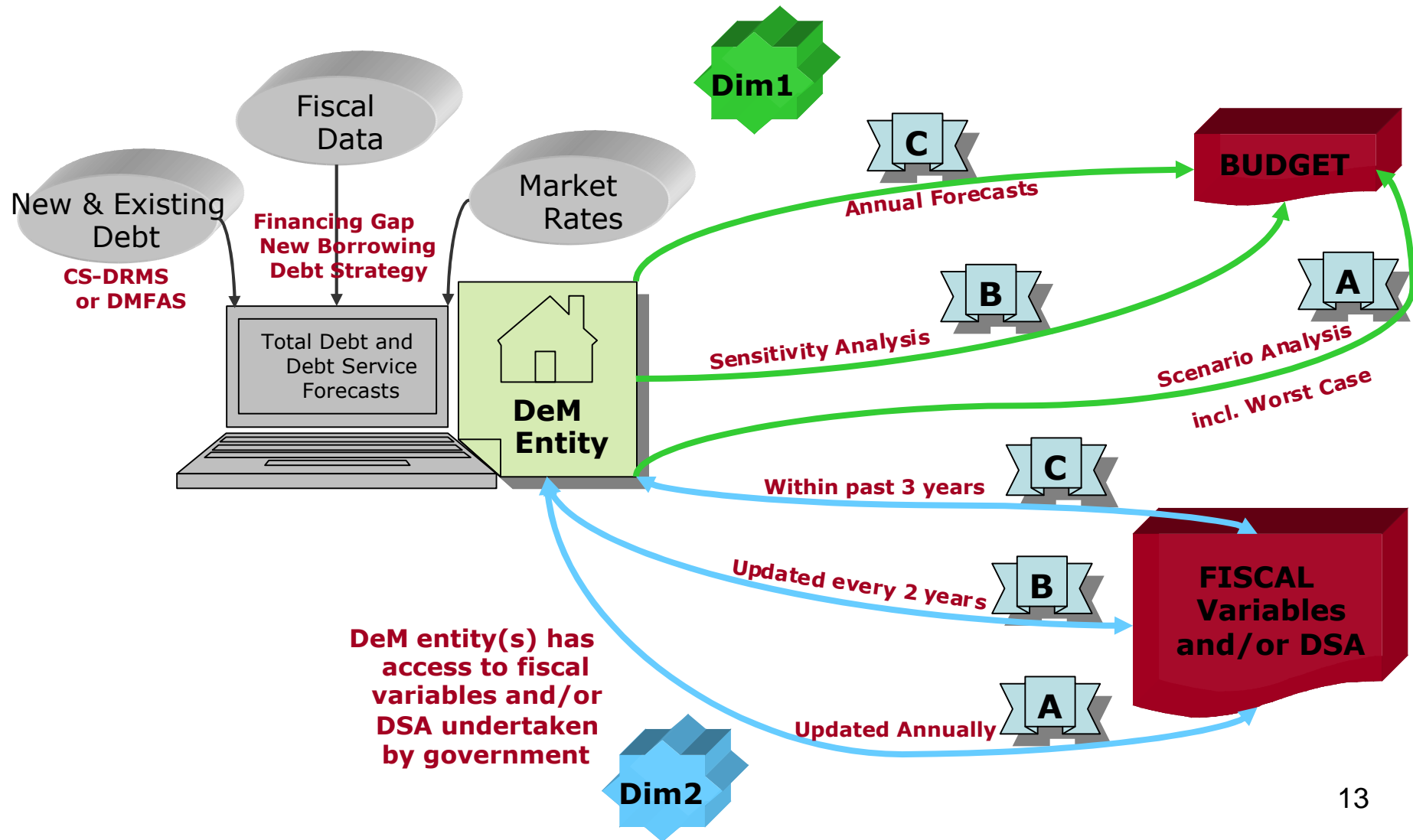


Scores Summary

- **Dimension 1:** Moving from a C to an A is essentially a question of degree of analysis surrounding the forecasts of debt service
- **Dimension 2:** Moving from a C to an A is essentially a question of timeliness and government ownership of the DSA



Coordination with Fiscal Policy





Evidence

- Copy of what is sent to the budget authorities (e.g. budget document)
- Copy of what is sent to the debt office and/or the latest DSA



DPI-6 Coordination with Monetary Policy



Debt Management and Monetary Policy Functions

- Debt management is not a core central bank function

- LIC characteristics means that it usually is
 - Level of financial development
 - Capacity constraints

- In this context, transparency and sharing of information is key
 - Domestic issues for monetary policy purposes and fiscal policy purposes
 - Domestic debt data to the MoF, MoF to CB central government cash flows



Debt Management and Monetary Policy Functions

- Why are separation and information flows important?
 - **Market Development (MD)**: Market must know what is issued to cover the fiscal gap otherwise in the dark about fiscal risks and cannot properly price issues
 - **Price stability (PS)**: Central bank cannot be seen as comprising is key objective of price stability to meet debt management objectives, e.g. cost minimization objective cannot be seen to weigh on a CB's interest rate decision
 - **Both MD and PS**: Importantly, a cost minimization objective should not be taken as a free pass for the CB to issue credit to the government



Dimensions to Assess

DPI-7 Coordination with Monetary Policy

1. Coordination with monetary policy implementation through information sharing on debt transactions and the government's current and future cash flows	
2. Extent of a limit to direct access of resources from the Central Bank	
Overall Score	



Setting the Scene

- **What** is currently being done?
 - Access to CB financing
- **Who** does what?
 - Cash flow forecasts, CB issues and the MoF or just the CB
- **How** does the sharing take place?
 - Is it formal (e.g. agency agreement, cash flow committee), informal
- **When** is it done?
 - Data sharing: daily, weekly, monthly etc.

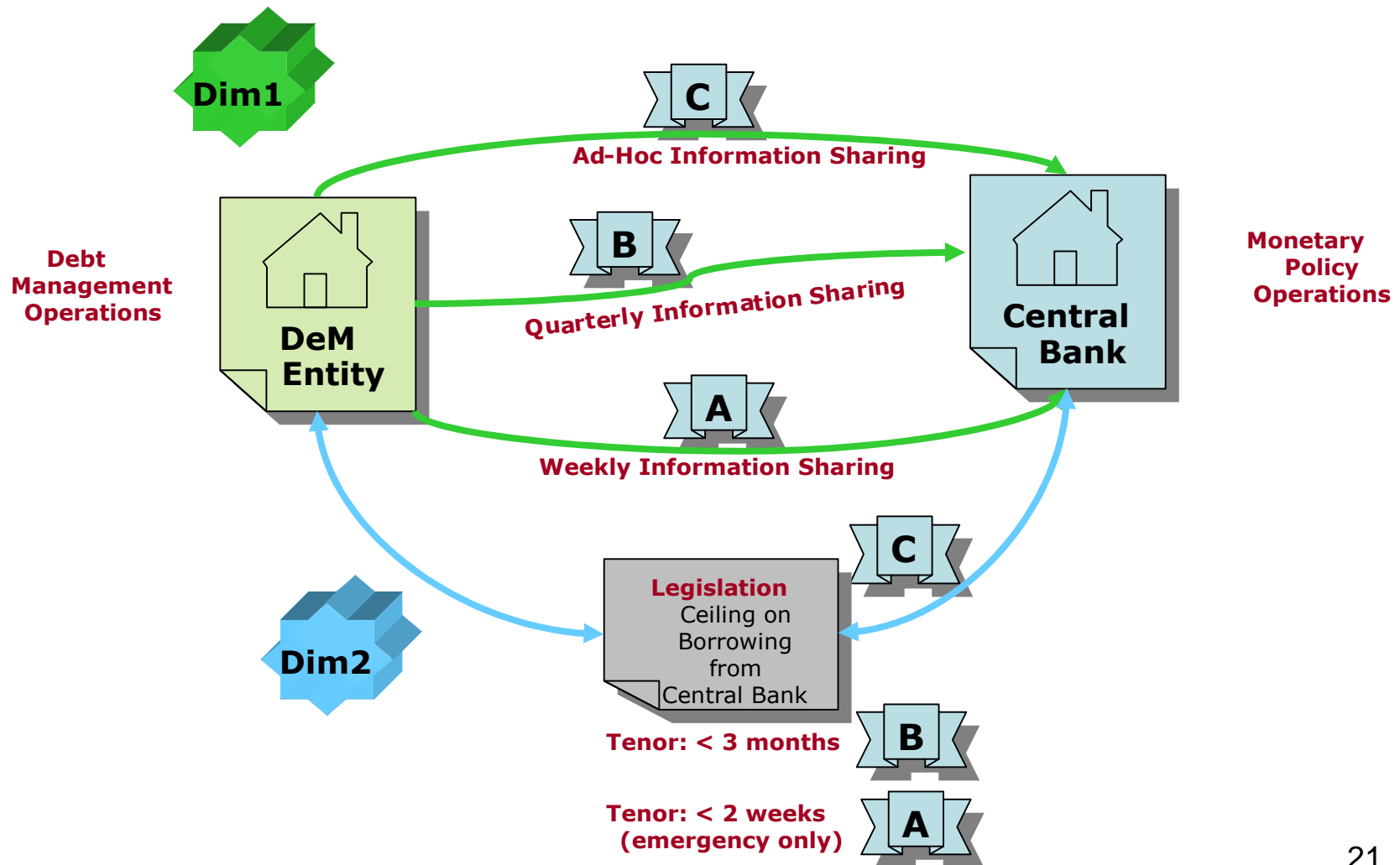


Scores Summary

- **Dimension 1:** Moving from a C to an A is essentially a question of periodicity of information sharing. Fundamental is the transparent separation of MP and DeM transactions
- **Dimension 2:** Moving from a C to an A is essentially a question of the tenor of the limit to central bank financing



Coordination with Monetary Policy





Evidence

- Copy of Central Bank Act
- Copy of what is being sent to and from MoF
- Copy of mandate, org. structure of a treasury management committee or like committee



Thank you!