Plenary Session 1: Guidelines for Public Debt Management

The Guidelines for Public Debt Management ("Guidelines") were published jointly by the IMF and World Bank in 2001, with some minor revisions in 2003 (to add reference to collective action clauses and strengthen the language on debt sustainability). The objective was to assist policy-makers in developing reforms to strengthen the quality of public debt management and thereby reduce their country's vulnerability to financial shocks. The Guidelines were requested by the International Monetary and Financial Committee, with an endorsement by the Financial Stability Forum. As such, they were one in a set of initiatives to strengthen the international financial architecture in the wake of crises in a number of emerging market countries in the 1990s.

As the name suggests, the Guidelines were not intended as a set of binding practices or mandatory standards or codes. Rather, they focused on principles that could be applied in a broad range of countries at different stages of development and with a variety of institutional arrangements. This intent was reflected in the process to develop them, with officials responsible for managing public debt in 30 countries contributing to early drafts. Before they were finalized, over 300 representatives from 122 countries provided feedback.

This broad-based consultative process resulted in a document that reflected practices that had emerged in a range of countries, but which had not been codified in one place. It also helped define what was universally acceptable, while at the same time promoting some shifts in thinking about debt management.

Currently, the Guidelines continue to be widely cited and have provided a conceptual basis for later work, such as the Debt Management Performance Assessment (DeMPA) and Medium-Term Debt Management Strategy (MTDS) tools. Nevertheless, as it is nearly ten years since the Guidelines were last revised, it is worth reflecting on how they have performed relative to what was intended, particularly as this period spans both the financial crisis of 2008-9 and the period of favorable economic and market conditions in most countries prior to the crisis. During the panel discussion held on October 29, panel participants all expressed a view that the Guidelines are still valid and useful, and have helped their country improve its debt management practices. Participants did highlight some issues for consideration going forward, including potential areas of improvement.

Mr. Horngren, Chief Economist at the National Swedish Debt Office (SNDO) started by expressing his opinion that the Guidelines have stood the test of time, and noted that they still give sound and balanced perspectives on the key issues in sovereign debt management. He highlighted the importance of the messages the Guidelines provide in the area of the operating environment for debt management, such as the need for sound fiscal and monetary policies and of giving proper attention to contingent liabilities, and the development of liquid debt markets. Mr. Horngren noted that the SNDO follows the Guidelines closely, and mentioned that the SDNO has recently introduced a new measure of cost based on accrued interest that allows for a comparison of nominal debt with inflation-linked and foreign currency debt in a consistent manner. While not an issue specially addressed in the Guidelines, Mr. Horngren raised a question about the practice of some governments with very low levels of debt
attempting to support liquid debt markets by issuing more debt than required by regular funding needs. Finally, he reflected upon the recent fiscal problems in Europe, posing the question about whether having a common currency like the euro is consistent with sound fiscal and monetary management.

Mr. Medeiros showed the major transformations the Brazilian Debt Management Office (DMO) went through over the last fifteen years, focusing on five key areas: (i) the institutional framework, (ii) transparency and accountability; (iii) debt management objectives and coordination; (iv) debt management strategy and risk management; and (v) development and maintenance of an efficient debt market. In each of these areas, Mr. Medeiros showed how the improvements were made according to the Guidelines, highlighting the importance of the Guidelines in providing best practices to developing DMOs.

Mr. Storchak expressed his opinion that the Guidelines are still valid and useful, and have helped a number of countries, including Russia, to improve their debt management practices. He posed the question of whether investors or creditors also share the views of debt managers about the usefulness and importance of the Guidelines, particularly in the sections about risk management and governance. He emphasized that the Guidelines are not binding, and that creditors might want to be sure that debt is well managed, particularly in light of the recent debt problems in many developed countries. On the issue of governance, he also expressed his view that debt managers should have more power in the political decision of how much to borrow, and suggested that making the Guidelines more explicit in this area could provide debt managers with help in defending their positions.

Mr. Williams, drawing on his experience working with a large number of countries, started by expressing his opinion that although the Guidelines were very useful to improve debt management practices in a number of countries, many users have found implementation of the Guidelines challenging. He noted that the Guidelines have provided greater clarity about debt management policy and objectives, and have helped ensure that attention was focused on the entire debt portfolio. On issues related to the institutional framework for debt management, he highlighted the contribution of the Guidelines to the establishment of front, middle and back office concepts, and to the generation and improvement of new public debt laws. Other important benefits of the Guidelines include introduction of the asset and liability management and balance sheet approaches to debt management, and contributed to increased emphasis on domestic debt market development. He suggested some potential areas of improvement for the Guidelines, including introduction of new approaches to debt management strategy in constrained environments (such as in low income countries or in countries with inflexible legislative environments), interaction with the domestic banking system, cash management and operational risk.

In summary, panelists agreed that the Guidelines had met their objective of providing sound and balanced advice on the main areas of public debt management and had stood the test of time. In particular:

- The emphasis on managing risk is well placed in preparing governments for crises.
- The importance of transparency, accountability and clear objectives remains central and is well aligned with thinking about fiscal and monetary policy implementation.
• Development of domestic debt markets continues to be important, not only for stability but also for supporting economic growth.

While the Guidelines have served governments, their advisors and international institutions well, they could be improved in a number of areas:

• Clarity could be improved in places, for example in the sections on debt management strategy and risk management, which have some areas of overlap, and on the differences between a medium-term debt management strategy and debt sustainability analysis.

• Some areas of debt management are lightly covered (e.g. operational risk) and could be strengthened,

• The section on context could be reworked to incorporate experiences from the last ten years.