Governance Dimensions of the Colombian Public Debt Strategy and Implementation:
After Design Comes Approval
The **General Directorate of Public Credit and National Treasury** is part of the Ministry of Finance. It manages the National Budget’s liquidity and Public Debt.
The Deputy Directorate of Risk was created in 1995.

The first formal debt management strategy was implemented in 1998. It focused on external debt, although there was an implicit strategy for domestic debt market development (to gradually lengthen maturities with foreign currency and inflation indexed securities, and only later issue fixed rate debt once the market developed).

2 studies on debt strategy were carried out in 2002 and 2008, but they were never consolidated.

The current National Development Plan (NDP) required the design of a Strategy (NDP is renewed every 4 years for every new Administration, with the enacting of a law).

In 2012, the Deputy Directorate of Risk produced a Medium-Term Debt Management Strategy for the aggregate debt portfolio of the central government.
• Colombia taps international and domestic bond markets, as well as multilateral and bilateral debt. Maturities of bond markets go as long **20 years (for domestic mkts)** and **30 years (for international mkts)**.

• Debt/GDP has been diminishing since 2001 and is now 35%, but it went up to 60% of GDP at its highest.
Governance Process

Congress

Domestic Financing Law
- Responsible Entity: MHCP

External Financing Law
- Responsible Entity: MHCP

MHCP

Minister

Treasury Committee
- Minister
- General Viceminister
- Technical Viceminister
- General Director of Public Credit & NT
- General Director of Budget
- General Director of Macro Policy

DGPC
Understanding the context and establishing appropriate links between the MTDS and Macroeconomic Policy has been of utmost importance.

Proposed DMS – Fiscal and Monetary Authorities

Debt Management Committee for formally analyzing and approving the proposed strategy.

• The Treasury Committee serves as a Debt Management Committee.
• The Treasury Committee analyzes and discusses the Debt Strategy proposed by the General Director of Public Credit and National Treasury, and calculated primarily by the Deputy Directorate of Risk.
• The Treasury Committee decides on how to manage excess liquidity under the scope of the Borrowing Plan published in the MTFF, a medium-term programming.
• The Debt Management Strategy also incorporates medium-term goals derived from the MTFF.
Evolution of debt strategy guidelines.

• **ALM** results for a Debt Strategy raised some cyclicality concerns. Thusly a complementary approach was needed: the Cost-Risk Model.

• **ALM** recommends increases in debt-servicing costs (therefore in Outstanding Debt) when unexpected surges in revenue appear. This leads to a large and unmanageable Fiscal Balance when economic activity weakens, and would therefore be a procyclical guideline.

• Debt Management Strategy is not a tool meant for implementing Exch.rate or Monetary policy. It is used for stabilizing Public Finance.
Strategy Approval

**How was the strategy presented to the Minister?**

- Presented over the Treasury Committee several times, where the dialogue with the Ministers tuned macro incentives with market dynamics.

- Although approving the design and modeling for the strategy took time, the end result was a simple implementable strategy for managing debt, in line with countercyclical macro policy.

**Fundamental Goals of Debt Management:**

1. Minimizing average cost of debt.
2. Minimizing exposure to market risk.
3. Maximizing the average maturity of debt, seeking uniform debt maturity.
• We showed the results and development with three models.

<table>
<thead>
<tr>
<th>Model</th>
<th>Objective</th>
<th>Tool</th>
<th>Metodology</th>
<th>Income Incorporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 ALM *- V1</td>
<td>To minimize the volatility of the present value of the total debt</td>
<td>Equilibrate Incomes and Expenditures by Currency</td>
<td>Stochastic Simulation</td>
<td>YES</td>
</tr>
<tr>
<td>2 ALM *- V2</td>
<td>To reduce the fiscal uncertainty of the debt service</td>
<td>StabilizeService/Incomes</td>
<td>Scenario Analysis</td>
<td>YES</td>
</tr>
<tr>
<td>3 LM - RCaR</td>
<td>To determine costs and risks of the ad-hoc strategies</td>
<td>Definitions of debt risk measure</td>
<td>Stochastic Simulation</td>
<td>NO</td>
</tr>
</tbody>
</table>

What were the reactions of the Minister?

• The Minister was surprised with the high significance of the oil prices in the first part of the analysis.
• He was pleased to see an in-house development, framed in a “Colombian context”.

* “ALM”: Asset-Liability Management
**Dissemination**

What were the discussions around whether to make the strategy **public**?
- We saw the need to strengthen corporate governance and Governance Structure, publishing the strategy guidelines. The Borrowing Plan (MTFF) reflects the implementation of the Strategy.

What was decided and Why?
- Publishing the Medium-Term Debt Strategy document (printed and digital).
- Implementing the strategy (Centralized National Government).

Have there been any interactions with congress regarding the Strategy?
- Model results were presented to the Public Debt Commission in Congress.

* Ministry of Finance - Colombia (2013). Medium-Term Debt Management Strategy
Outlook and perspectives

• We built the “What“ and “Why”. We are walking the path to completely specify “Who" and “How".
• We are currently designing Checks and Balances in line with Procedures.
• We will have a monitoring document with a defined periodicity, presenting management indicators, updates of the strategy, and debt risk measures.