Programmatic Approach for Debt Management in LIC’s:
Where do we stand and next steps
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Outline

– Debt Management Performance Assessment (DeMPA)
  – Missions and objective
  – Comparison 2007 vs 2010
  – How do we take advantage of DeMPA tool
  – Next Steps

– Medium Debt Term Management Strategy (MTDS)
  – Current Debt Strategy: General and Specific objectives
  – Advances in the last three years
  – MTDS findings
  – Actualization of Public Debt Strategy
Debt Management Performance Assessment (DeMPA)
– Two missions have visited Nicaragua: First on May 2007 and the second on September 2010

– Objective: Evaluate Public Debt Management

  • They evaluated us on 15 key performance indicators

  – Check list

  – Gave us a better idea of what we were doing (right or wrong)
Comparison: DeMPA 07 vs DeMPA 10

– The first evaluation was done under a pilot scheme

– Results in 2007 were extremely different than in 2010

– Some key indicators that were evaluated A, are now classified as D

– Way to determine grade very harsh for the new DeMPA, it a all or nothing system

  • If one requirement is missing then the whole indicator is a failure
Comparison: DeMPA 07 vs DeMPA 10

– Things to consider: a low grade (D for example) indicates that the particular dimension does not meet the minimum requirement

– For example: Our legal framework has one item missing but this does not mean that the legal does not work.

– There is a big difference between rebuilding and starting over than making some key modifications

– A (D) grade seems to indicate rebuilding

– Results could difficult the elaboration of a proper reform plan if findings are not clearly explain in the document sent to the authorities
How do we take advantage of DeMPA tool:

- The evaluation gives you overall picture of your debt management capacities

- DeMPA allows you to identify positive and negative indicators
  - With this mind you can structure a reform plan
  - Begin with the easy ones to fix and then start with the hard ones (These might be were third parties are involved, for example modifications of laws)
Next Steps:

• The evaluation will be submitted to us by the end of October, approximately.

• MHCP technical team will revise and later discuss with the WB team

• Elaborate a reform Plan with the assistance of WB

• Things that will be taken into account ASAP:
  – DSA Analysis (we are currently working on this topic with IMF local team)
  – Actualization of Debt Strategy using MTDS tool

  – Suggestions to the WB: During the mission´s, the teams could work closer together. Currently, WB obtains information and afterwards writes report. This does not allow the Government to find additional information that could change the Grade, this could eliminate the element of surprise.
Medium Term Debt Strategy (MTDS)
Our National Public Debt Strategy 2008-2011 was approved by the President of the Republic in 2008

• General Objective of the Strategy:

  – Guarantee Central Government Financial needs according to our Economic Program
  
  – Reduce cost with prudent level of risk
  
  – The strategy will initiate the process to take our level of debt with respect to GDP towards sustainability (Nominal/GDP between 40 and 50 percent)
Specific Objectives: Public Debt Management Strategy

• External Debt Objective:
  – Maximize concessionality and conclude HIPC initiative

• Internal Debt Objective:
  – Develop the Internal Debt Market
    • Though the issuance of standardized government instruments
  • This will eventually create a new option for funding the Central Government deficit (current situation)
Advances in the implementation of our strategy:

- Auction process modernized (electronic and dematerialize instruments)
- Instruments standardized (1, 3, & 5 year paper)
- This has allowed us to meet our annual needs: US$ 45.0 in 2008, US$118.4 in 2009 and US$ 121.0 in 2010.
- Interest are currently @ 6.00 percent (YTM) for three year paper, initially it was 11.53 percent
- Communication with market has improved, we will continue to strengthen this area.
- Confident has improved, we have maturities that go to 2013.
Nicaragua has advance substantially in the last three years in the implementation of its strategy:

- **But we do understand**, that we need to incorporate a risk/cost analysis in our strategy.

- **That’s were the MTDS tool** comes into play: in May 2010 the MHCP received a second mission from the WB and IMF related to the implementation of the tool.

- **Results**: 4 strategies were designed in order to measure the risk/cost associated with each one.
MTDS exercise findings:

- **We found**, scenarios can be very realistic.

- **The tool allows** you to create up to four different financing schemes

- **Our base scenario** tried to stay consistent with our economic program

- **In summary**, the tool permits you to evaluate different financing possibilities with the risk and cost associated to each one

- **It gives the decision** makers 4 alternatives to choose from
Actualization of Public Debt Strategy using the MTDS in the year 2011

- Based on our plan, the actualization of our strategy should take place in the first semester of 2011

- The strategy will have a similar structure as the one approved but it will include a chapter that will evaluate different scenarios using MTDS tool (Risk/Cost)
Actualization of Public Debt Strategy using the MTDS in the year 2011

• Some Key issues that need to be guaranteed:
  
  – Base scenario should be consistent with Economic Program (internal debt issuance and external disbursements)
  
  – Scenarios should be consistent with the medium term Budget
  
  – Scenarios must be obtainable

– The Technical Debt Committee (TDC), through the Ministry of Finance and Public Credit will take lead in this role

– Public Credit Office will coordinate with other members of the TDC

– MTDS Tool: Even though we feel like we have a good understanding of the tool, there are still some unclear issues that need to be discuss

- Tool: Sometimes not very user friendly, difficult to manipulate

- We will advance in the scenarios and then incorporate and run the program

- It might be important for the WB to join us in this effort in order to properly incorporate a risk/cost analysis of our scenarios
Thank you!!
### Saldo de la Deuda Pública Total

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