



SOVEREIGN ASSET LIABILITY MANAGEMENT: LOOKING BEYOND PUBLIC DEBT PORTFOLIO

SOVEREIGN DEBT MANAGEMENT FORUM

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Outline

- Why to look at broader public sector, and how?: Sovereign Asset Liability Management (SALM)
- Recent trends in sovereign assets and liabilities
- Benefits and challenges associated with SALM
- Final remarks



Why to look at broader public sector, and how?

- The assets and liabilities of governments are managed primarily at the portfolio level.
- The sovereign balance sheet is very large and complex, yet its management has enormous effects on the economy.
- Therefore, the analysis and management of the overall government portfolio are of great importance for sovereign wealth.
- Some features of a sovereign balance sheet may be overlooked in the sub-portfolio base analysis.
- A comprehensive balance sheet approach would be useful to capture overall vulnerabilities and prospects.



Trends in Sovereign Assets and Liabilities

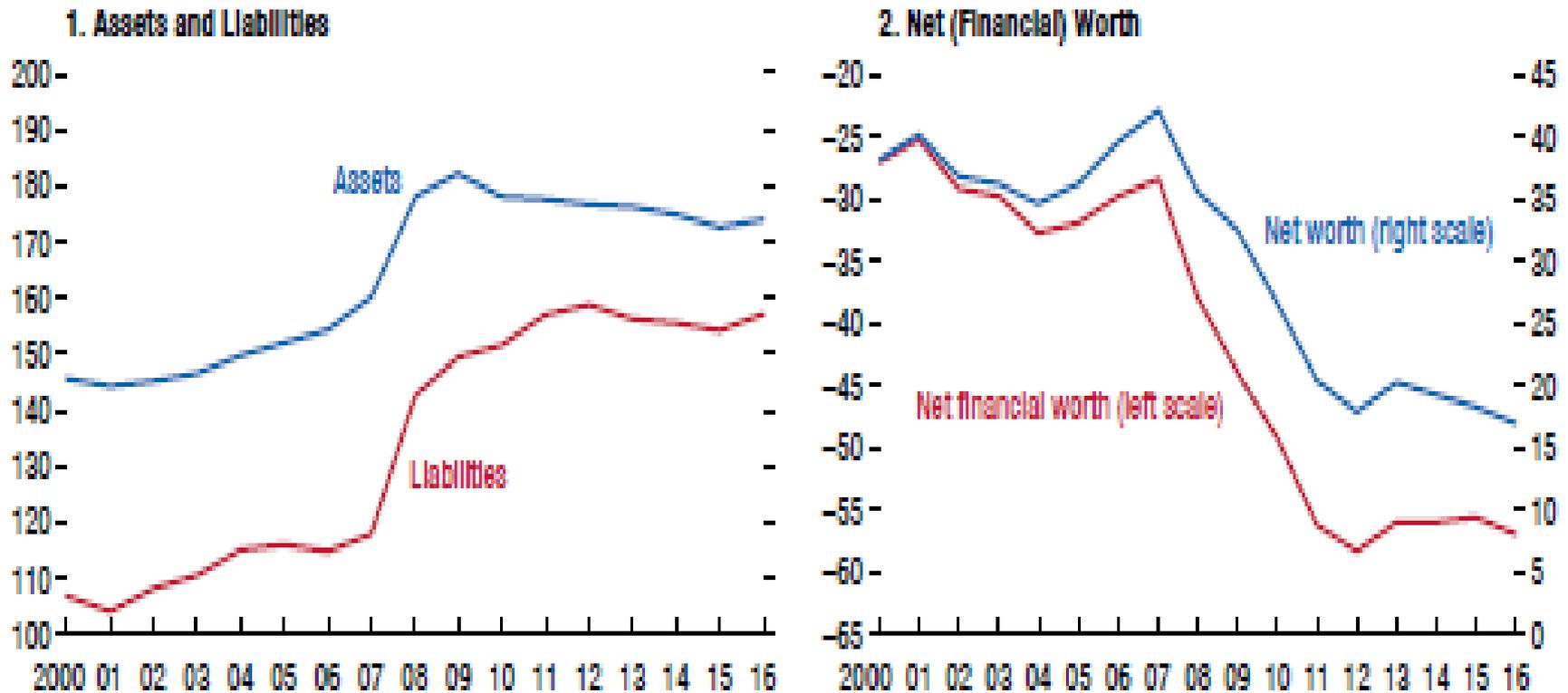
Balance sheets of an increasing number of countries have been growing considerably and have become increasingly complex in terms of risks.

- Realisation of contingent liabilities
- A significant change in holdings of CB assets
- Accumulation of large financial assets



Trends in Sovereign Assets and Liabilities

Weighted average of 17 countries, percent of GDP



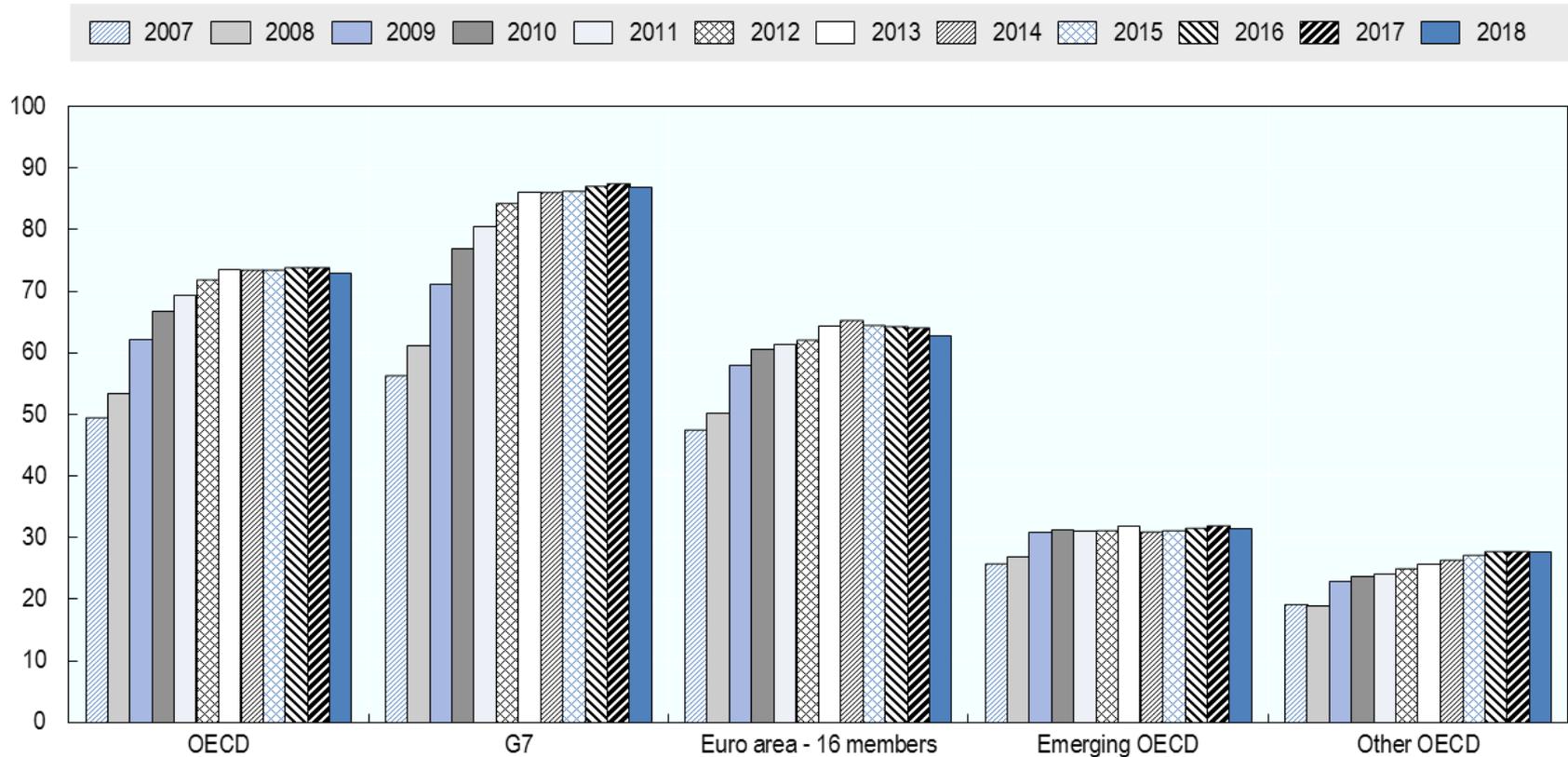
Source: IMF Fiscal Monitor, October 2018

Note: The data exclude land and natural source assets and pension liabilities



Trends in Sovereign Assets and Liabilities

Government debts are on the rise



Notes: Central government marketable debt, percent of GDP.

Source: 2018 Edition of OECD Sovereign Borrowing Outlook



Trends in Sovereign Assets and Liabilities

Central banks' holdings of domestic government bonds have risen to unprecedented levels



Notes: As of December 2017, share of central banks holding of national government bonds in outstanding government debt. For Japan and Sweden the figures as of September 2017.

Source: 2018 Edition of OECD Sovereign Borrowing Outlook



Sovereign Asset and Liability Management

SALM is a useful approach for improving

- an understanding of the government's overall position;
- ability to quantify risks and risk preferences;
- better preparation for future uncertainties by reducing risks by matching assets and liabilities;
- comprehensive strategic management and investment in view of liabilities.



Some constraints

- Different objectives of sovereign entities
 - ❖ i.e. possible differences in risk appetites
- Organizational structures and coordination issues
 - ❖ i.e. lack of central authority
- Comprehensive public sector data
 - ❖ i.e. different methods of valuations
- Technical capacity and use of distinctive set of instruments
 - ❖ i.e. technical capacity to undertake analytical studies, use of hedging instruments



A stepwise approach can overcome practical challenges

Objective function: The first step would be to determine an objective function for the SALM (e.g. to improve net worth, max. returns on assets, min. costs of liabilities etc.).

Governance arrangements and institutional capacity: There is an important role for governance arrangements (e.g. high level committees, expert groups) in addressing coordination issues and performing analytical works initially.

Analytical framework: Stress tests can reveal vulnerabilities that standard - debt management - analysis might miss.



Final remarks

- Independent policies might lead
 - inefficiencies in terms of risk, cost and return
 - mismatches in financial characteristics between assets and liabilities
- Integrated analysis of assets and liabilities is seen even more essential than before
- SALM is a useful tool providing information to improve fiscal policies. And, debt management strategies can play an important role in managing sovereign balance sheet



THANK YOU FOR YOUR ATTENTION

<http://www.oecd.org/finance/public-debt/>



References

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