

HOW DO COUNTRIES USE AN ASSET AND LIABILITY MANAGEMENT APPROACH?



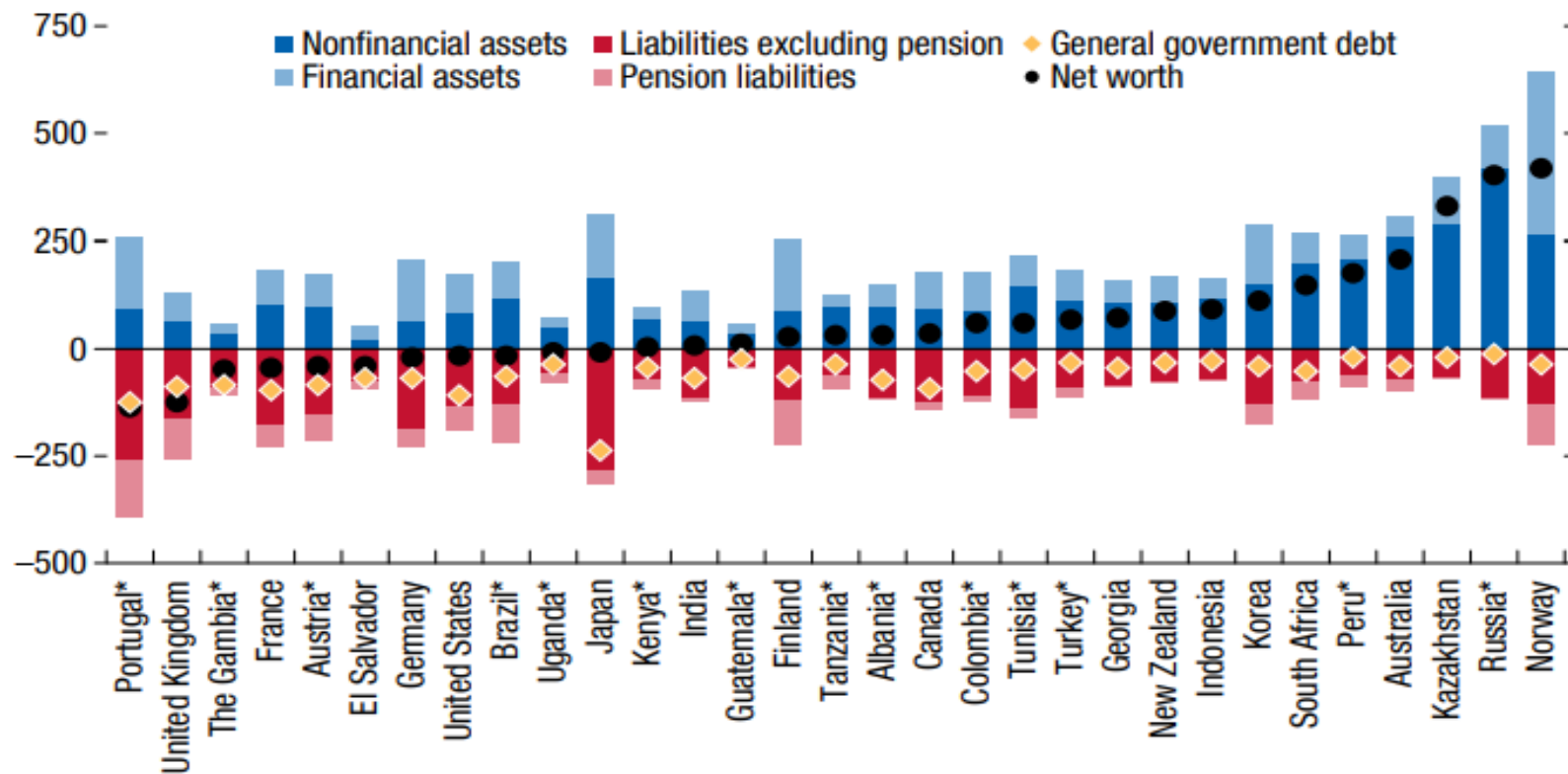
THE WORLD BANK

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Public Sector Balance Sheet



Source: IMF, Fiscal Monitor, October 2018

Balance Sheet Risks (1/2)

	Assets	Liabilities	
	Financial Assets	Local-currency debt	Interest rate risk
Interest rate risk Currency risk Commodity risk	- Cash and deposits	Foreign-currency debt	Interest rate risk Currency risk
Demand risk Commodity risk	- Equity investments	Payables	Currency risk
Interest rate risk Currency risk	- Receivables	Other liabilities	
	- Other financial assets		
Interest rate risk Currency risk Credit Risk	FX Reserves		
	Fixed and other assets	Net worth	

Balance Sheet Risks (2/2)

	Contingent Assets	Contingent Liabilities	
Environmental risks	Insurance	Guarantees	Interest rate risk Currency risk Demand risk Credit Risk
Legal risk	Lawsuits	Lawsuits	Legal risks
Commodity risk	Windfall gains	Disasters	Environmental risks

Source: Cangoz, Dychala, Sulla, Wang “A Joint Foreign Currency Risk Management Approach for Sovereign Assets and Liabilities” (forthcoming WB Working Paper)

Implementation of the ALM

Which assets and liabilities?

- What should the scope be?
- How to coordinate among institutions with different policy objectives?

A number of **practical** considerations will arise

- Different accounting rules
- Roles and responsibilities, accountability
- Focus on stock or flows?

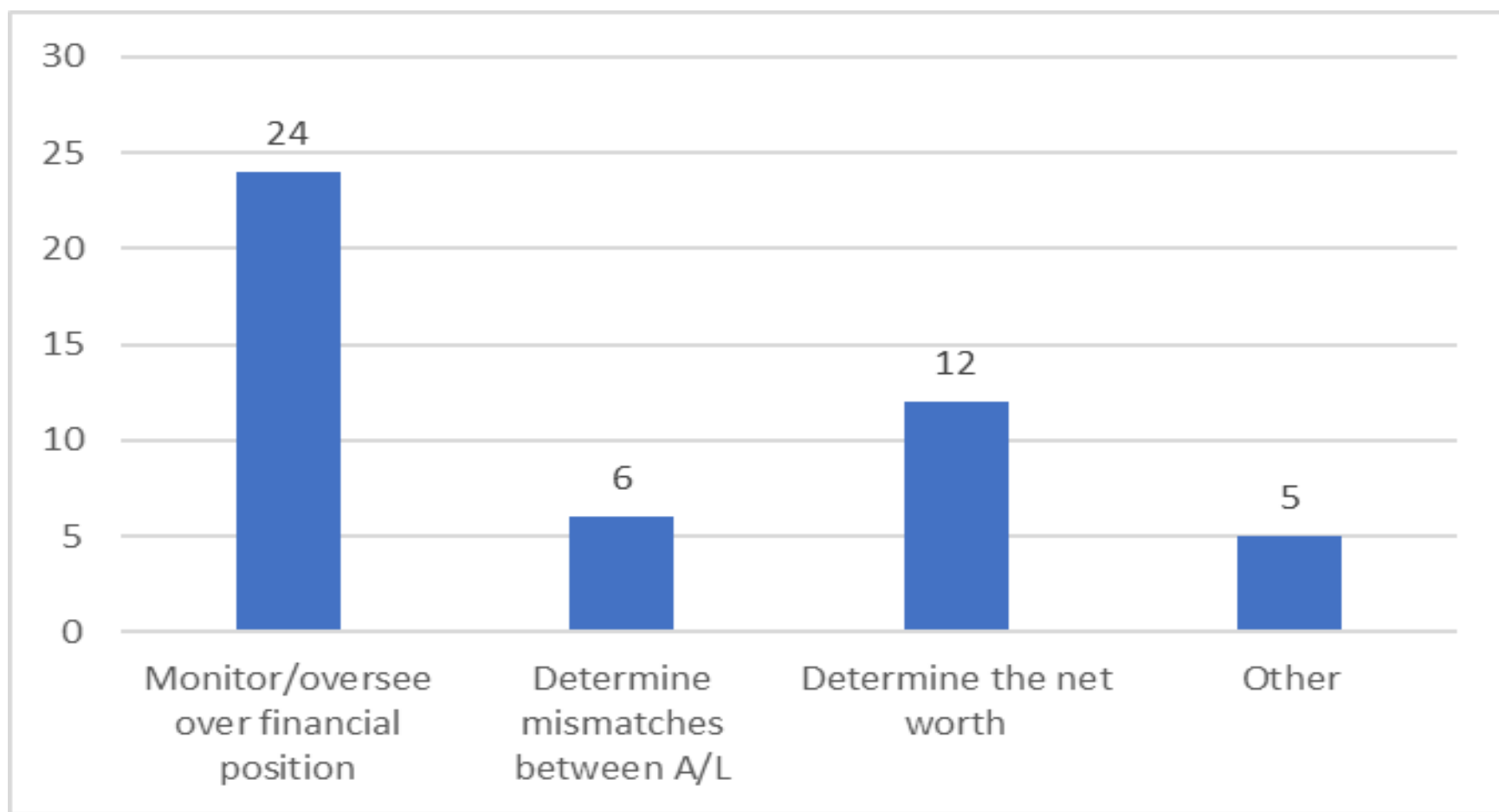


What **type** of management?

- What are the objectives of a SALM approach?

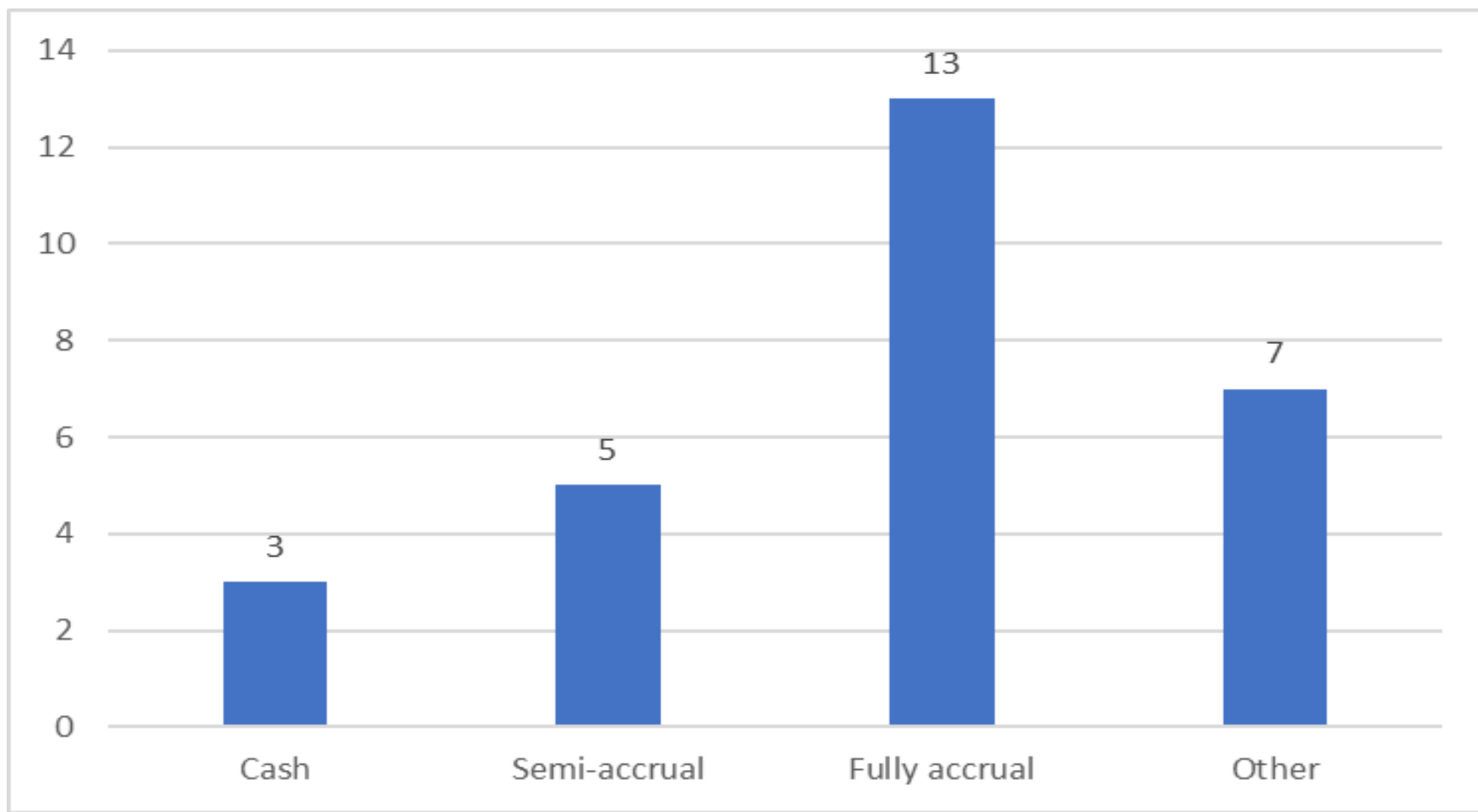
A survey on the sovereign balance sheet management

Rationale for the Sovereign Balance Sheet



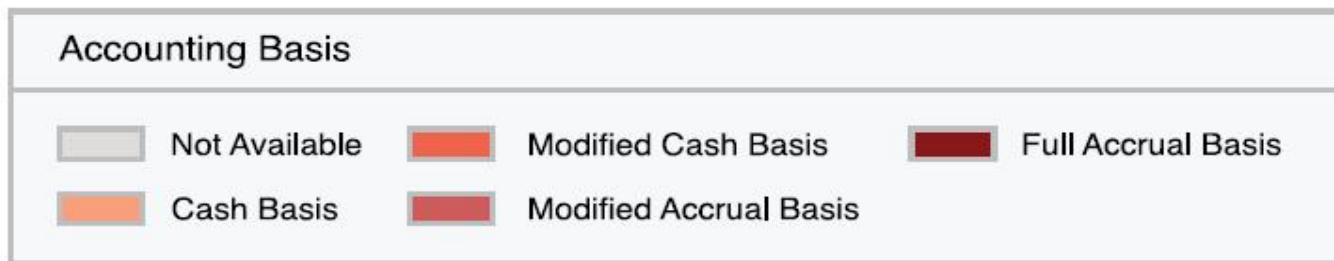
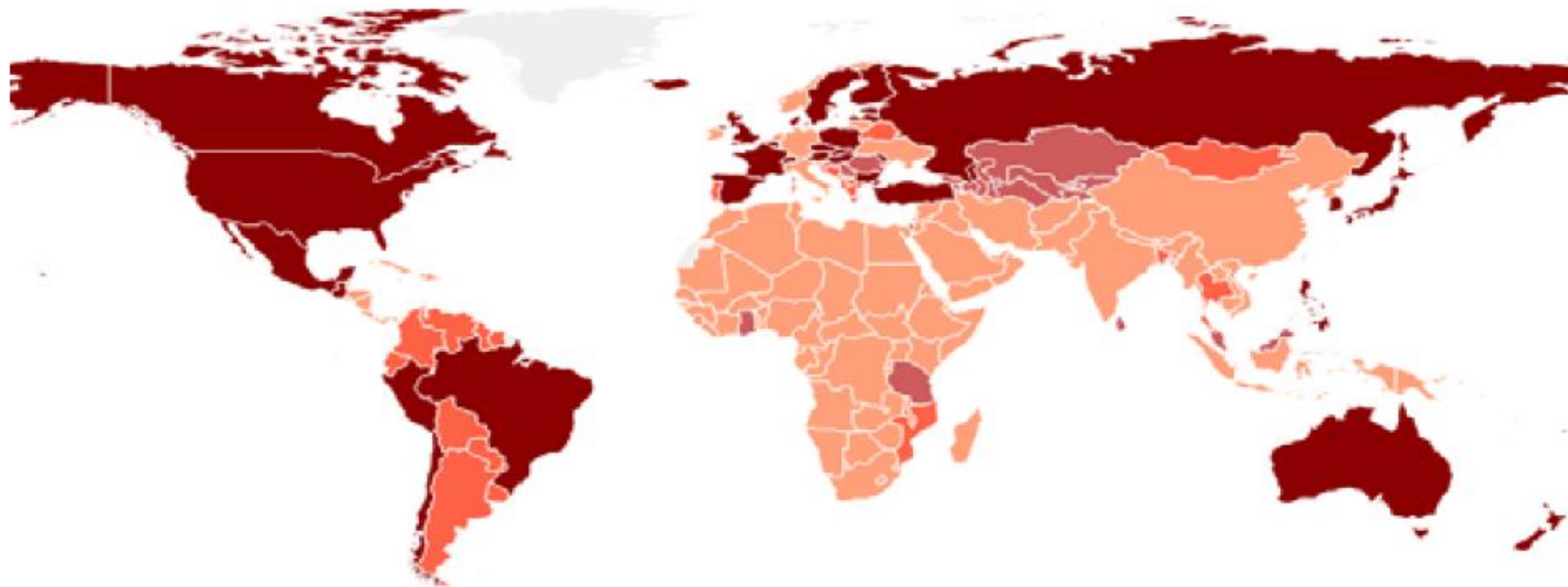
Source: Cangoz, Boitreaud, Dychala "How Do Countries Use An Asset and Liability Approach?" (forthcoming WB Working Paper)

Accounting System to Produce Balance Sheet



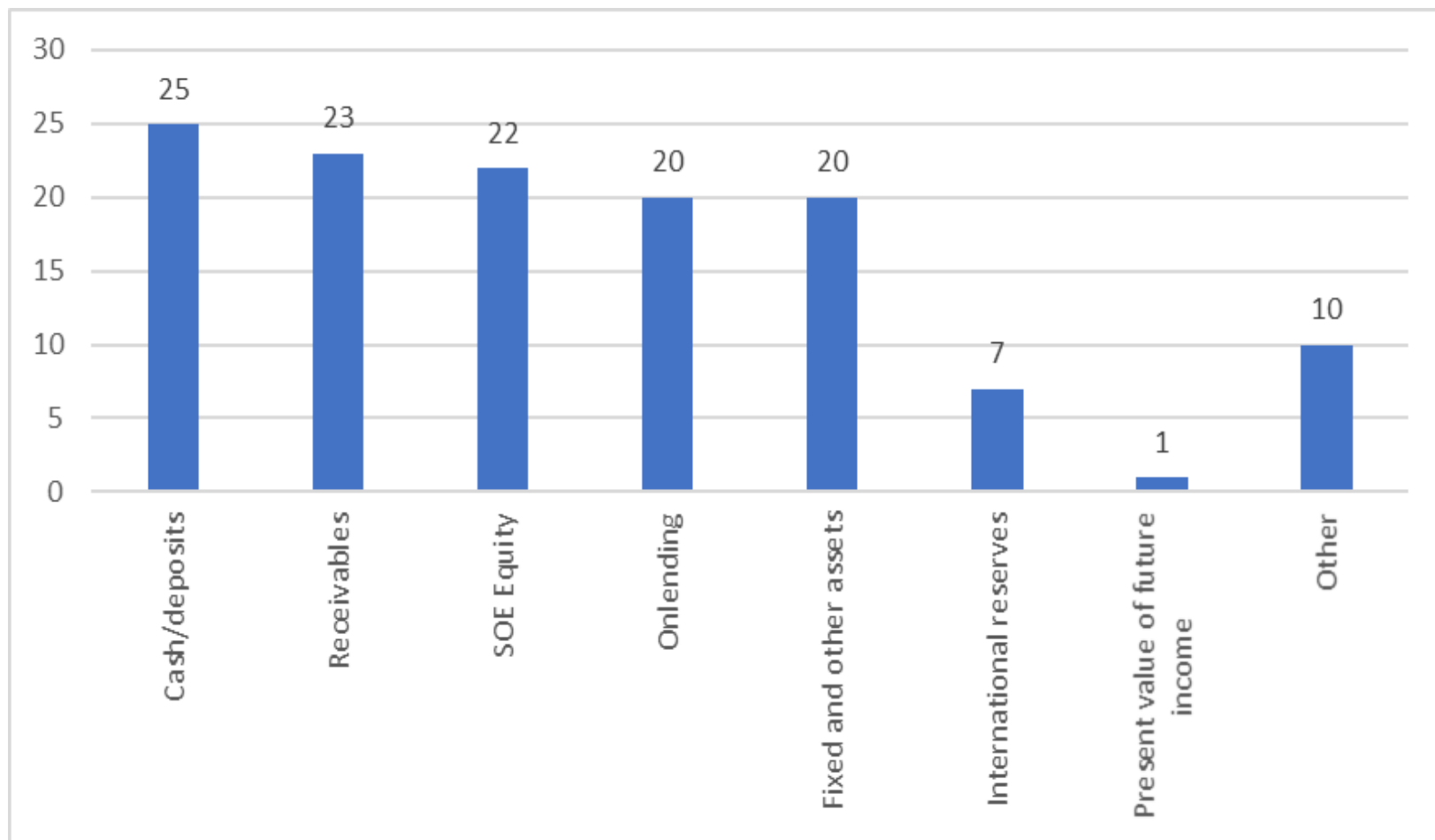
Source: Cangoz, Boitreaud, Dychala "How Do Countries Use An Asset and Liability Approach?" (forthcoming WB Working Paper)

Accounting System



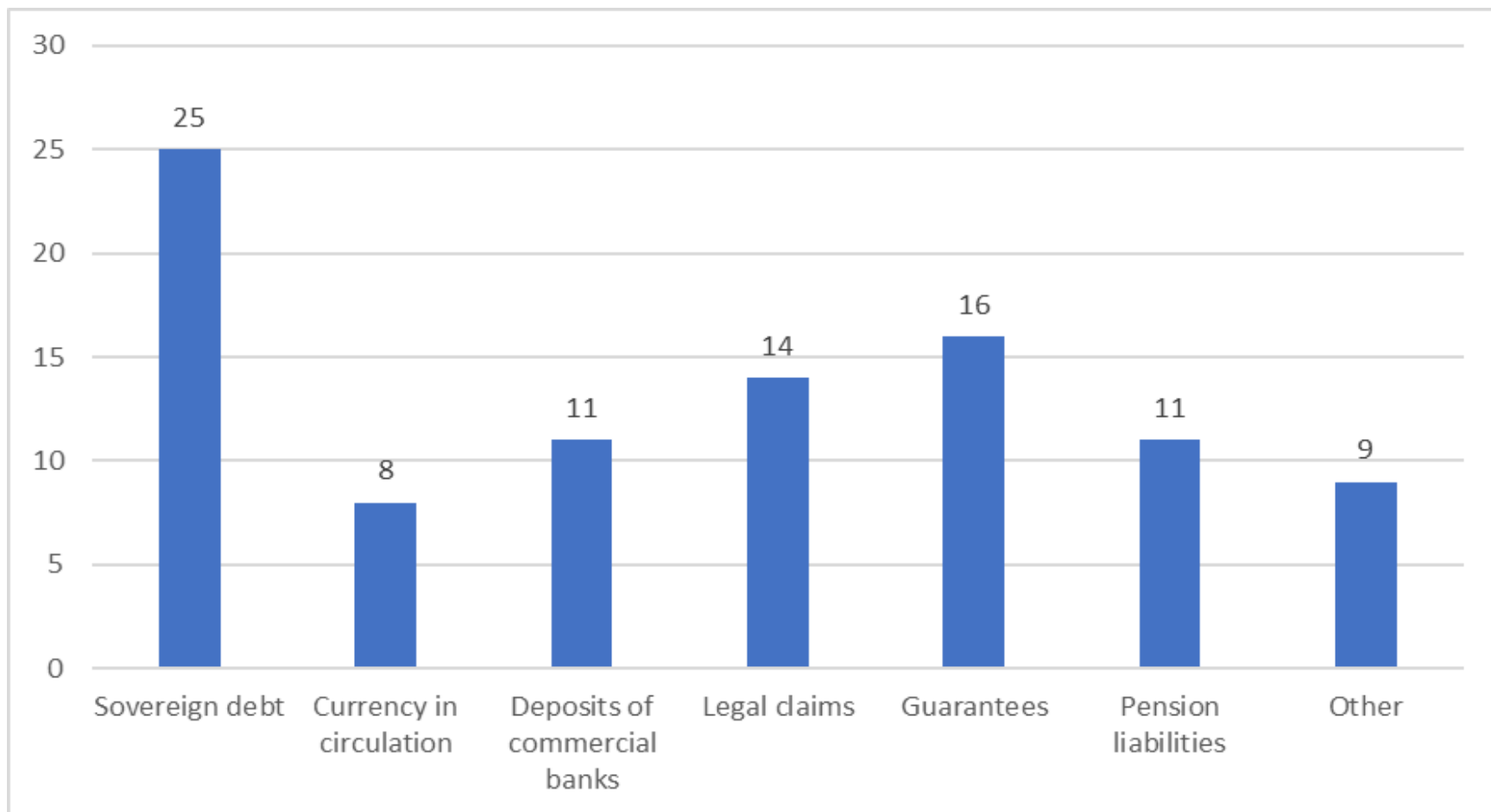
Source: Cavanagh, Flynn, and Moretti “Implementing Accrual Accounting in the Public Sector” IMF Technical Note, 2016

Assets included in the Balance Sheet



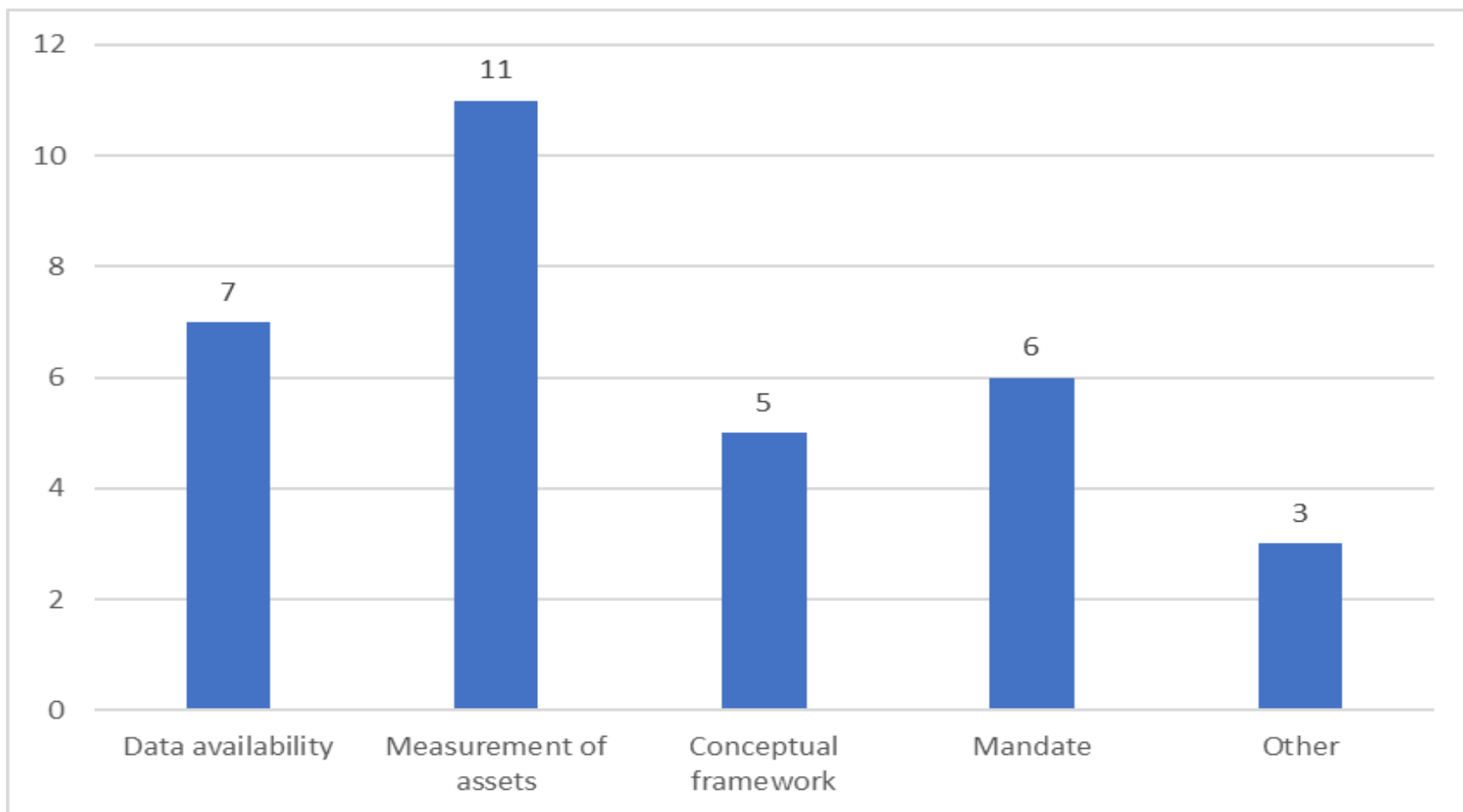
Source: Cangoz, Boitreaud, Dychala "How Do Countries Use An Asset and Liability Approach?" (forthcoming WB Working Paper)

Liabilities included in the Balance Sheet



Source: Cangoz, Boitreaud, Dychala "How Do Countries Use An Asset and Liability Approach?" (forthcoming WB Working Paper)

Challenges in Developing SALM Framework



Source: Cangoz, Boitreaud, Dychala “How Do Countries Use An Asset and Liability Approach?” (forthcoming WB Working Paper)

Contacts

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