Revisions of the Guidelines for Public Debt Management

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Introduction and Background

The IMF-World Bank Guidelines for Public Debt Management (the *Guidelines*), adopted in 2001 and amended in 2003, are a set of voluntary principles to assist debt managers in improving their debt management practices and reducing financial vulnerability.

Used by the IMF and the World Bank for advisory purposes.	Other stakeholders: national debt managers, central banks and monetary authorities , and etc.

Since adoption of the Guidelines in 2001, and amendments in 2003, macroeconomic policy developments and financial sector regulatory changes have significantly affected the general financial landscape in which debt managers operate.

Against this background, the G-20 Finance Ministers and Central Bank Governors, at their meeting in Moscow, on February 15–16, 2013, requested the IMF and the World Bank "to take stock of the existing Guidelines for Public Debt Management with a view of ensuring that they remain relevant and topical."

To initiate the review of the Guidelines, IMF and the World Bank staff surveyed member country authorities.

Responses to the survey indicated that the Guidelines remained relevant, but some updating was called for.

Introduction and Background

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A consultative meeting on the Guidelines was convened at the IMF, Washington, D.C., on June 19, 2013.

- A working group (WG) of experienced debt managers was formed in September 2013 to participate in the review of the Guidelines.

- It comprised representatives from debt management offices and central bank authorities from 22 countries: Argentina, Bangladesh, Belgium, Brazil, the Comoros, Denmark, the Gambia, Germany, India, Italy, Jamaica, Korea, the People's Republic of China, Russia, Sierra Leone, Spain, Sudan, Sweden, Turkey, the United States, Uruguay, and Vietnam.

Introduction and Background

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The WG was chaired by Lars Hörngren, Chief Economist, Swedish National Debt Office, and facilitated by an IMF team of the Monetary and Capital Markets Department, and a World Bank staff team of the Economic Policy, Debt, and Trade and the Financial Advisory and Banking Departments.

- The IMF and World Bank staff determined the approach and the scope of the review, in close consultation with the WG and membership at large.

- The WG members and debt managers from other countries attended a 2nd Consultative Meeting on the Guidelines on October 15, 2013, in Washington, D.C., in the context of the 2013 IMF-World Bank Annual Meetings.

- The WG proposed revisions to the Guidelines, which further benefited from the feedback and inputs of a wide spectrum of debt managers from the IMF-World Bank membership:

  - In addition to the WG countries, comments were provided by the authorities of: Australia, Canada, France, Guatemala, Hungary, Ireland, Japan, New Zealand, Poland, South Africa, and the United Kingdom.

Thus, the revised Guidelines, which update the 2001 Guidelines and their 2003 Amendments, incorporate the experience and advice of AMs, EMs, DEs, and LICs' debt managers on debt management issues that have encountered during the past decade.

Revisions to the IMF-World Bank Guidelines for Public Debt Management

Following the structure of the 2001 Guidelines and their 2003 Amendments, the WG deliberated and proposed specific revisions in the following areas:

1. Debt management objectives and coordination
2. Transparency and accountability
3. Institutional framework
4. Debt management strategy
5. Risk management framework
6. Development and maintenance of an efficient market for government securities.

1. Debt Management Objectives and Coordination

During the review, consensus emerged that the Guidelines should continue to be geared toward achieving the objective of raising the required funding at the lowest possible cost within a given risk tolerance. Accordingly, revisions aimed to ensure:

- Clarity with regard to the responsibility of the fiscal authorities for compliance with debt ceilings and the conduct of debt sustainability analysis (DSA).

- Debt manager's role in providing pertinent information for the DSA—to advise fiscal authorities, especially during periods of crisis, on the amount of new debt that can realistically be absorbed by the market.

- Information exchange between the debt manager and fiscal and monetary authorities, as well as the solicitation of the debt managers' views on the consequences of financial sector regulations on debt markets.

2. Transparency and Accountability

Guidance on enhancing communication with investors was proposed, especially during periods of crisis. To achieve this, the following elements were to be ensured:

- Pertinent information on debt portfolio composition and associated risk indicators should be periodically provided to minimize uncertainty.

- Legal documentation relevant to debt management should be easily accessible.

- External audits of IT systems and risk control systems should be conducted.

3. Institutional Framework

Further guidance on collective action clauses (CACs) was considered necessary, while their greater use in bond contracts was seen as desirable for efficient restructurings.

- Amendments on CACs in members' bond contracts should reflect recent developments in this area.

- Also, the need for effective debt management institutional structures was stressed, with revisions focused on strengthening the debt management strategy analysis.

4. Debt Management Strategy

Revisions in this area provide more detail on risk mitigation strategies, particularly on liquidity and refinancing risks, as well as on contingency plans, including the building of cash buffers. Other revisions include:

- The development of the domestic debt market as part of the debt management strategy for diversifying sources of funding.

- The formulation of an asset-liability management (ALM) framework.

5. Risk Management Framework

Revisions in the risk management area provide greater emphasis on:
• Stress testing of the public debt portfolio for adverse economic and financial scenarios •The use of derivatives in managing debt portfolio risks • The need to manage the resulting credit risk from adverse domestic economic and political developments • Taking into account the risks arising from contingent liabilities, including from public-private partnerships (PPPs)

6. Development and Maintenance of an Efficient Market for Government Securities

Further guidance is provided on (i) the appropriate debt management policies to enhance the liquidity of the domestic bond market and (ii) approaches to promptly identify and address impediments to the development of domestic government bond markets, such as limited diversification of the investor base.

- In this context, the importance of retaining some flexibility in the issuance program was highlighted, as borrowing plans may need to change during times of severe market turbulence when investors face severe dislocations.

- Also, see first bullet under "4. Debt Management Strategy."

Use and Dissemination of the Revised Guidelines

The revised Guidelines were sent to the IMF and World Bank Boards on April 1, 2014.

- The Guidelines will be used by IMF and WB staffs in providing a framework for technical assistance and will serve as background for discussions in the context of IMF surveillance.

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