Sovereign Debt Management Forum 2014

Background Note for Plenary Session 4

What was the impetus for revising the Guidelines for Public Debt Management? What was the outcome?

Introduction

The IMF-World Bank Guidelines for Public Debt Management issued 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. In 2013, the G-20 proposed a revision of the Guidelines in light of financial sector regulatory changes and macroeconomic policy developments that have had an impact on how debt managers operate. A survey of public debt managers revealed a consensus that the Guidelines remained largely relevant, but some updating was called for, with a view to ensuring that the Guidelines remain relevant and topical.

The IMF and the World Bank worked with public debt managers from 20 countries to review the Guidelines. The resulting updates include: (i) additional guidance on balancing flexibility, transparency, and accountability; (ii) greater details on risk mitigation strategies and assessment of risks; (iii) further guidance on the use of collective action clauses; and (iv) additional guidance on developing and maintaining an efficient market for government securities. This plenary will examine the impetus for these changes, how the review process was undertaken, and shed some light on the discussion and debate that led to the changes.

Process of Revising the Guidelines

The Bank-Fund Guidelines for Public Debt Management (Guidelines), published in 2001 and amended in 2003, aim to strengthen the international financial architecture, promote policies and practices that contribute to financial stability and transparency, and reduce the external vulnerabilities of member countries.

Many stakeholders have extensively used the Guidelines. National debt managers source them as a reference to strengthen their debt management practices and operations. Central banks and monetary authorities, too, have referred to them to enhance their financial stability objectives. They have served as a basis for providing advice on public debt management in IMF and World Bank technical assistance (TA) work, training and workshops, and outreach activities. Also, many other organizations that provide TA in this field use them in the delivery of their debt advisory activities.

Since the adoption of the Guidelines in 2001, and amendments in 2003, financial sector regulatory changes and macroeconomic policy developments have significantly impacted 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 to ensuring that they remain relevant and topical."

To initiate the updating of the Guidelines, IMF and World Bank staff surveyed member country authorities. The survey obtained views on: (1) the extent to which debt managers in member countries had implemented practices consistent with the Guidelines; (2) how debt managers had managed sovereign risk during the recent financial crisis; and (3) whether debt managers considered that there was a need to update the Guidelines in light of developments in the preceding decade.

Responses to the survey provided a strong endorsement that the Guidelines remained relevant, but some updating was called for. Consultative meetings were held in Washington, D.C., and a Working Group of experienced debt managers was formed in September 2013 to drive the review process. It comprised representatives from finance ministries, debt management offices and central banks from 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. As can be seen from the list, there was considerable interest in participating and the group represented countries from different regions and income levels, which helped to ensure that the final product was relevant to the full membership of the Bank and Fund. The OECD reviewed and provided feedback on the proposed changes. After the initial drafting by the Working Group, the proposed changes benefited from feedback and comments from public debt managers in a wide range of other countries.

Revised Guidelines: main changes

As a result of the process described above, Revised Guidelines for Public Debt Management was published in April, 2014. The main changes are as follows:

- Debt management objectives and coordination. 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. Greater clarity on the roles and accountabilities of debt managers was added, including their responsibility for sharing pertinent information with fiscal authorities on the amount of debt that can realistically be absorbed by the market.
- Transparency and accountability. Enhanced communication with investors is considered essential, especially during periods of crisis, with pertinent information on debt composition and financing plans being periodically provided to minimize uncertainty.
- Institutional framework. Further guidance is provided on collective action clauses, and greater use of them in bond contracts is promoted as desirable for efficient debt restructurings, should the need ever eventuate.

- Debt management strategy. More detail is provided on risk mitigation strategies, particularly with regard to liquidity and refinancing risk, and on contingency plans, including the building of cash buffers.
- Risk management framework. The revisions emphasize the importance of stress testing the debt portfolio, carefully assessing the use of derivatives in managing portfolio risks, and monitoring and managing the risks arising from contingent liabilities.
- Development and maintenance of an efficient market for government securities. Guidance is provided on the appropriate debt management policies to enhance the liquidity of the domestic bond market and on approaches to identify and address impediments that inhibit the development of the domestic government bond market, such as limited diversification of the investor base. The revisions also consider in greater depth the flexibility that may be required in issuance programs, especially during times of crisis.

Issues for Discussion

- How important and / or relevant are the Guidelines for public debt managers?
- What was the impetus for revising the Guidelines?
- How participative was the process of revising the Guidelines?
- How consensual were the changes to the document?
- How important are the changes made to the Guidelines?
- Was any relevant topic missed in the document?
- How the revisions will affect debt managers going forward?

References

- Communiqué of the Meeting of G-20 Finance Ministers and Central Bank Governors, Moscow, February 15–16, 2013.
- "Revised Guidelines for Public Debt Management", 2014, International Monetary Fund and World Bank.