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From Debt Recording to Strategic Debt Management *Changing Role of Debt Management function in LICs*

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD

From Debt Recording to Strategic Debt Management

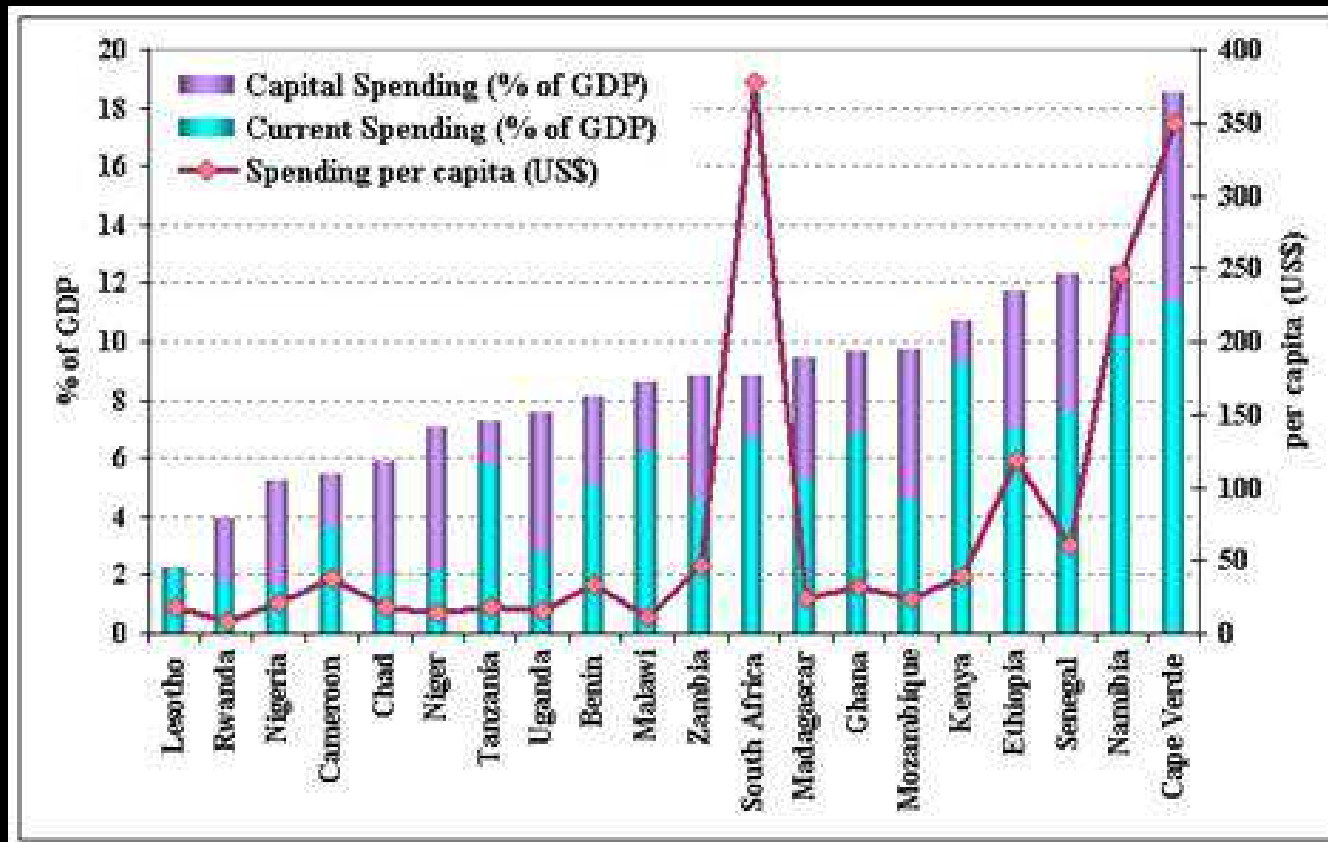
*Changing Role of Debt Management
function in LICs*

**How is the IMF assisting this
transition through TA?**

Changing Environment for TA

- HPIC/MDRI changed environment significantly
 - Restored debt sustainability;
 - though vulnerabilities are rising
 - Improved fiscal positions
 - now under pressure
- New borrowing opportunities emerging
- Scope/need for more borrowing high

Capital Spending Remains Low Absorption? Implementation?



Changing Environment for TA

- Concessional funding may not grow fast enough
- Investor interest in LICs up
- Market conditions not favorable now, but these tend to revert
- *Tasks ahead in the new environment:*
 - Prudent borrowing
 - Maintain debt sustainability
 - Improving macroeconomic performance

Risks Change Nature of debt-related TA Demands

- Crisis has highlighted the importance of sound debt policies.
- Sudden changes in economic and market conditions stress the need for debt management strategies.
- Emerging market experience shows poor financial choices can quickly contribute to the re-emergence of significant debt vulnerabilities.

What should
countries focus on?

Build Skills in DSA and Strategy Formulation

- Ability to undertake DSA on your own
- Skills to set MTDS
- Risk management
- Ability to make adjustments as macroeconomic and market conditions change
- Institutionalize role for the debt manager as a key economic functionary

Develop a Medium Term Debt Strategy

- Embedding decisions in sound MTDS framework can mitigate risk of poor choices on financing
- Fund/Bank have developed 8 step MTDS framework plus quantitative tool
- MTDS framework forces sound assessment of
 - Macro vulnerabilities
 - Coordination of DM with other aspects of macro policy
 - Strong analysis of cost and risks at portfolio level
 - Capacity to compare and contrast specific instruments

Develop Domestic Markets

- Macro linkages key
 - A floating exchange rate regime reduces roll-over risks associated with domestic debt
 - Policies to support low inflation essential to develop longer term domestic markets
- Closely linked with development of domestic financial sector
 - Steps to encourage greater savings/facilitate financial sector deepening
 - Investor base

Crisis Prevention

- Improve public balance sheet resilience for crisis prevention
- Keep in view also the goals of financial stability
- Carefully monitor impact of borrowing on debt structure and debt composition

Debt Portfolio Risk Measures

- **Debt portfolio risk assessment tools**
 - Provision of analytical tools
 - Better identifying, assessing, and monitoring risks associated with managing public debt.
 - In general, risk measures allow the identification and calculation of risk exposures that should be considered in the annual budget as potential additional debt service costs.
 - Depending on the probability that a certain scenario may occur, and the size of this exposure
 - Sound and prudent risk management calls for awareness of these risk positions.

What is the IMF's
approach to help
out?

Focus of Fund TA in Debt Management

- **Assist member countries to:**
 - Reduce vulnerability to external shocks
 - Improve balance sheet resilience for crisis prevention
 - Promote financial stability and macroeconomic development

TA Approach

- *Recognize* key policy linkages
- *Eliminate* potential conflicts
- *Mitigate* risks to other macro policy objectives
- Extension of country and capital market surveillance
 - Founded on macroeconomic, financial, and institutional factors

TA Approach

- Link with DSA framework
- Should capture more fully
 - Debt composition
 - Market structure
 - Good practices (applicable for LICs)
 - Monetary policy

Cognizant of Key Gaps in Delivery

- Prioritization and overlaps with major TA providers
- Partnership with cooperating international organizations
- Diverse and rapid modalities of delivery
- Quality control and consistency
- Consistency in advice

How effective is the
IMF TA?

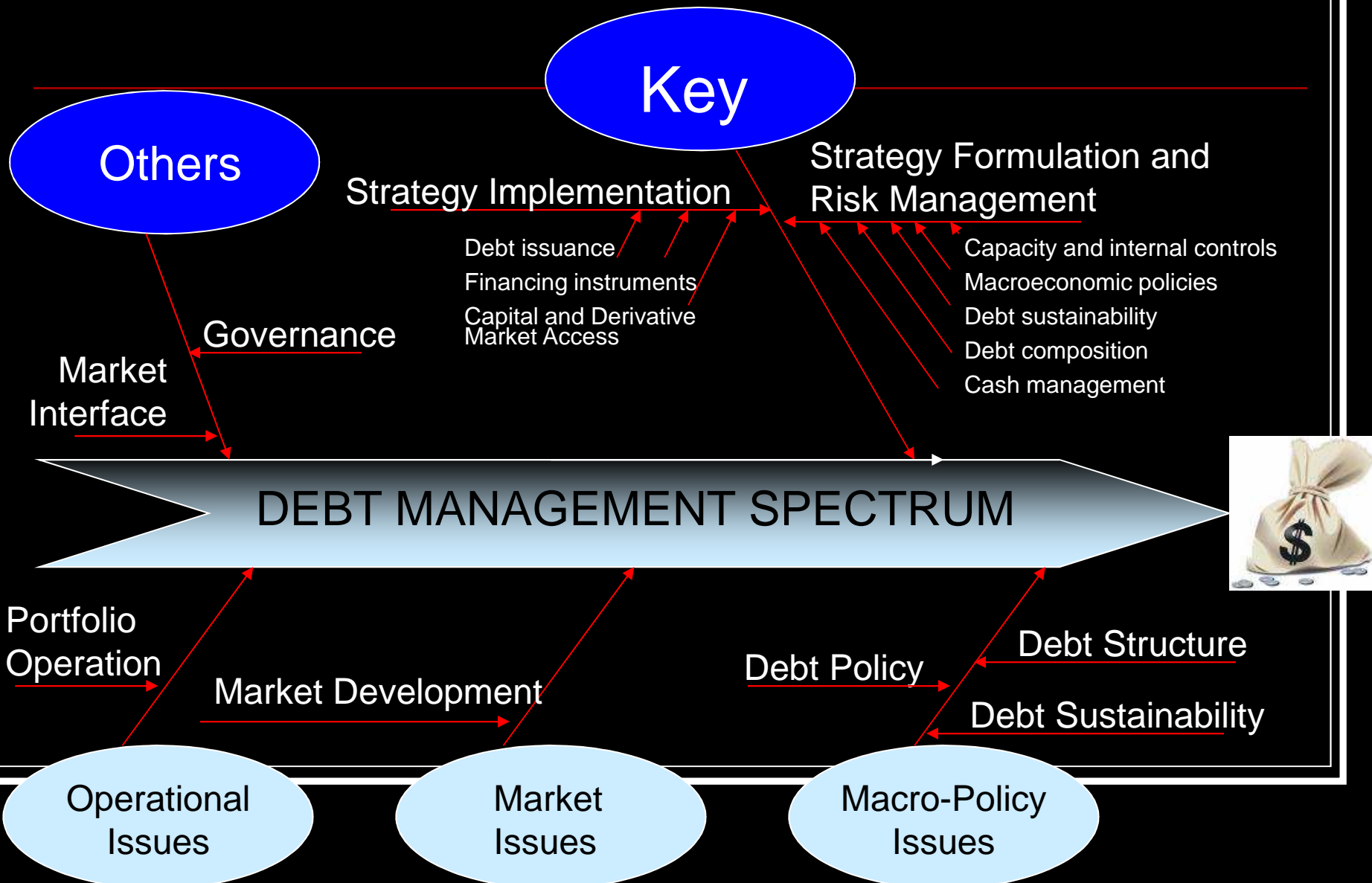
The IMF in a unique position to contribute to this effort

- Extensive technical expertise
 - Fiscal, monetary, “shallow markets”, and statistics areas
 - DSF (with the World Bank)
 - MTDS (with the World Bank)
- Risk measures tools that could be used by debt managers
 - Cross-country analysis of debt management related risks
- At the center of the macro/debt/market nexus
 - IMF advice is informed by regular monitoring of international and domestic debt markets
 - Close knowledge of a country’s macroeconomic situation
 - Integration with surveillance and lending activities

The IMF is in a unique position to contribute to this effort (cont.)

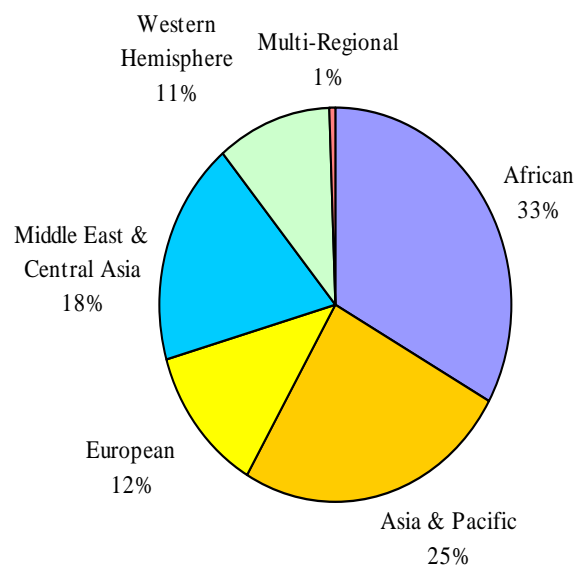
- Access to a broad range of players
 - Access to macro policymakers
 - Facilitates effective articulation of macro policy formulation (medium-term fiscal frameworks) and debt policies
 - Regular contacts with creditors, debtor countries and other TA providers-facilitates information flows/coordination
 - Continuous interactions with academics
 - Analyze debt management issues in a regional as well as a multilateral context

Fund's Role on Debt Issues

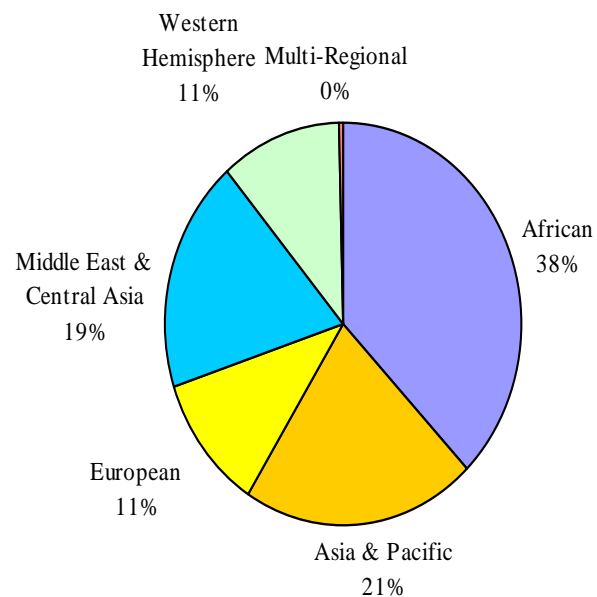


Share of LICs in Overall TA delivery is up

by Region, All Financing^{1,2}
FY2007



by Region, All Financing^{1,2}
FY2008



Prioritizing TA by Strategic Objectives

- *Key objective:* focus on macro-critical areas (debt) and better integrate TA with surveillance and IMF lending
- *Set TA via:*
 - Regional strategy notes (RSNs) prepared annually to prioritize and align TA with country needs
 - Regional focus improves prioritization across countries and TA subject areas
- RSNs align with broader Fund priorities and enables within-year corrections

Strengthening TA Performance Measurement

- Stronger monitoring, *ex post* and *ex ante*:
 - *Technical Assistance Management System* revamped
 - *TA evaluation program* being strengthened
- Costing of TA to be improved
- Changes to information systems as well as work and reporting practices underway

TA Strategy and Financing

- Improve TA governance and prioritization, not to raise revenue
- New Topical Trust Funds to pool donor financing
 - Positive experience with governance structure in pooled arrangements (e.g., RTACs)
 - Some topic areas: Fragile states, AML/CFT, Statistics, National resource management, Public debt/Natural Resource Wealth management
- New donor-financed RTACs

Process Changes

- From the notion of *additionality* to a concept of *decentralization* of TA
- Define as precisely as possible a strategy in the context of a country's need
 - Demand driven
 - Dissemination of know how
 - Stronger alignment with surveillance

A Recent Independent Evaluation Study

- Delivering high quality TA in an effective and efficient manner
- *East AFRITAC*: most successful in supporting the effective implementation of reforms. Commendable outreach efforts.
- *West AFRITAC*: Largest of the centers—delivers consistent and solid performance; needs to improve monitoring and dissemination
- *Central AFRITAC*: Off to a good start; challenging countries with very weak institutional capacity

What do I see as the
key TA related
challenges?

Challenges

- Demand expected to grow
 - Debt data
 - Sound strategies
 - Risk management
 - ALM approaches
 - Market access and instruments for new financing
- Demand to continue for
 - Institutional building
 - Market development

TA Challenges

- Paths of key macro-variables uncertain
 - Need a strong policy focus
- Capacity issues
 - Slow level of implementation of recommendations
 - Political and decision maker's buy-in
- Follow-up
 - Building technical skills
 - Commitment
- Multiple TA providers
 - Not to overwhelm
 - Work with them