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Debt records and operational risk – support available from international organizations

by

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

Government Debt and Operational risk management

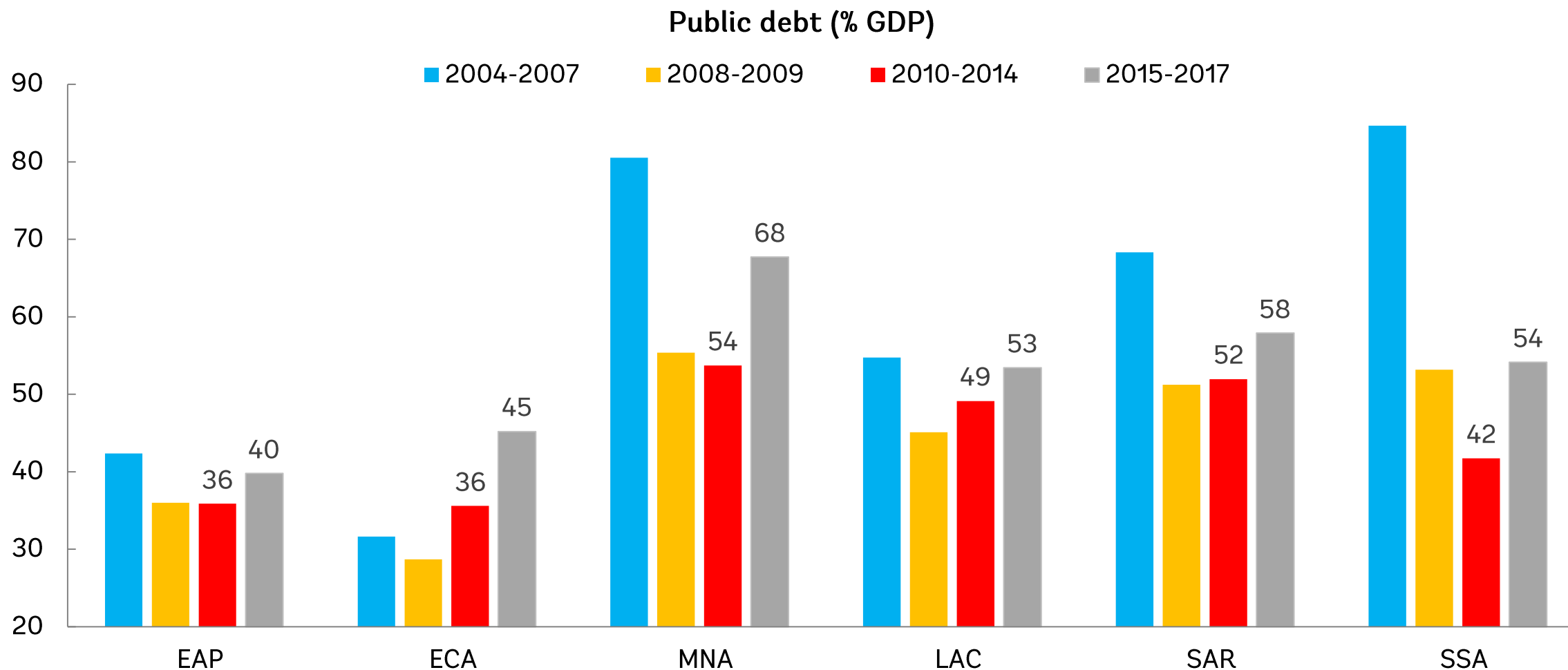
Lilia Razlog
World Bank
November 2017
UNCTAD



Overview

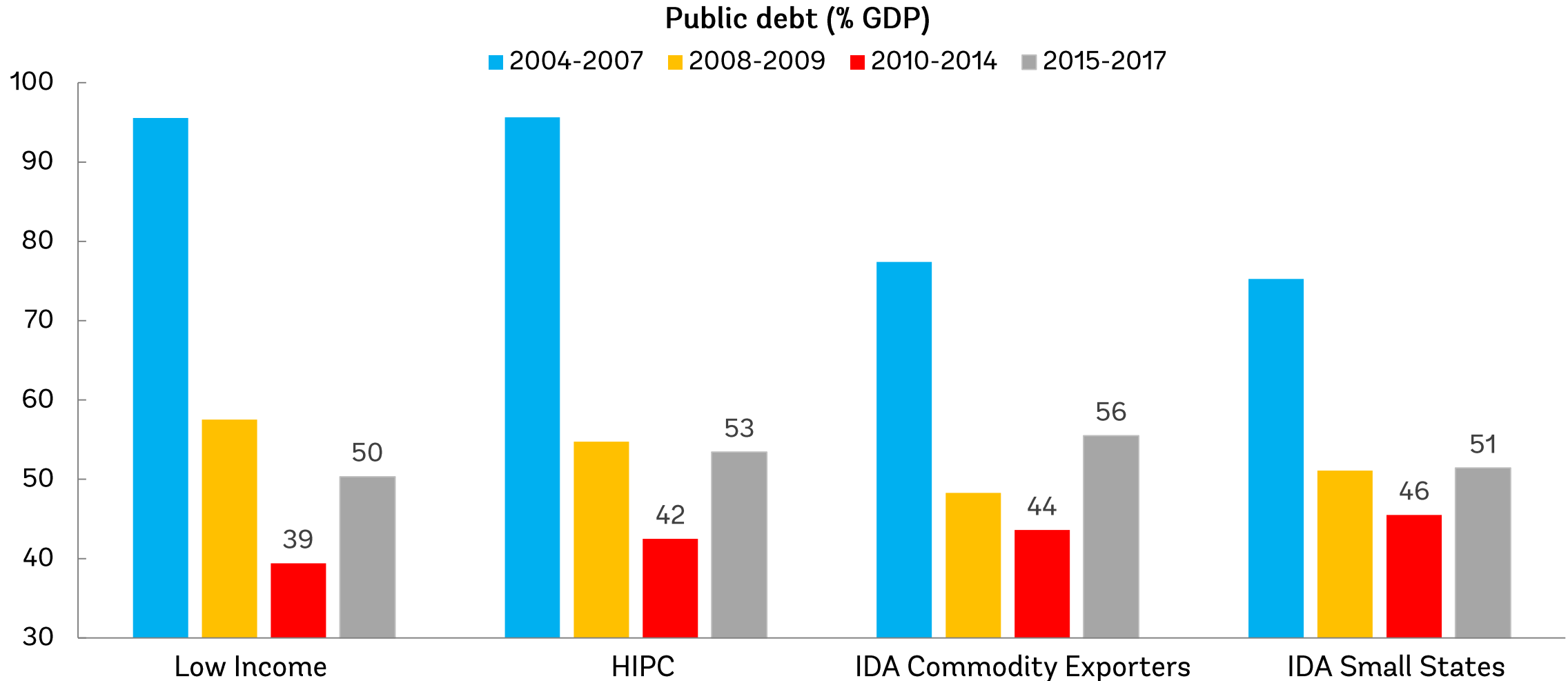
1. Increasing complexity of public debt management
2. Operational risks in the DMO
3. How to manage risks: Debt Management Facility TF

Public debt has increased in recent years across all regions, with MNA and SSA standing out



Note: 2017 are estimates. Public debt covers general government gross debt.
Source: IMF WEO April 2017, World Bank Staff Calculations.

Among IDA countries, commodity exporters and post-HIPCs showed strong increases...

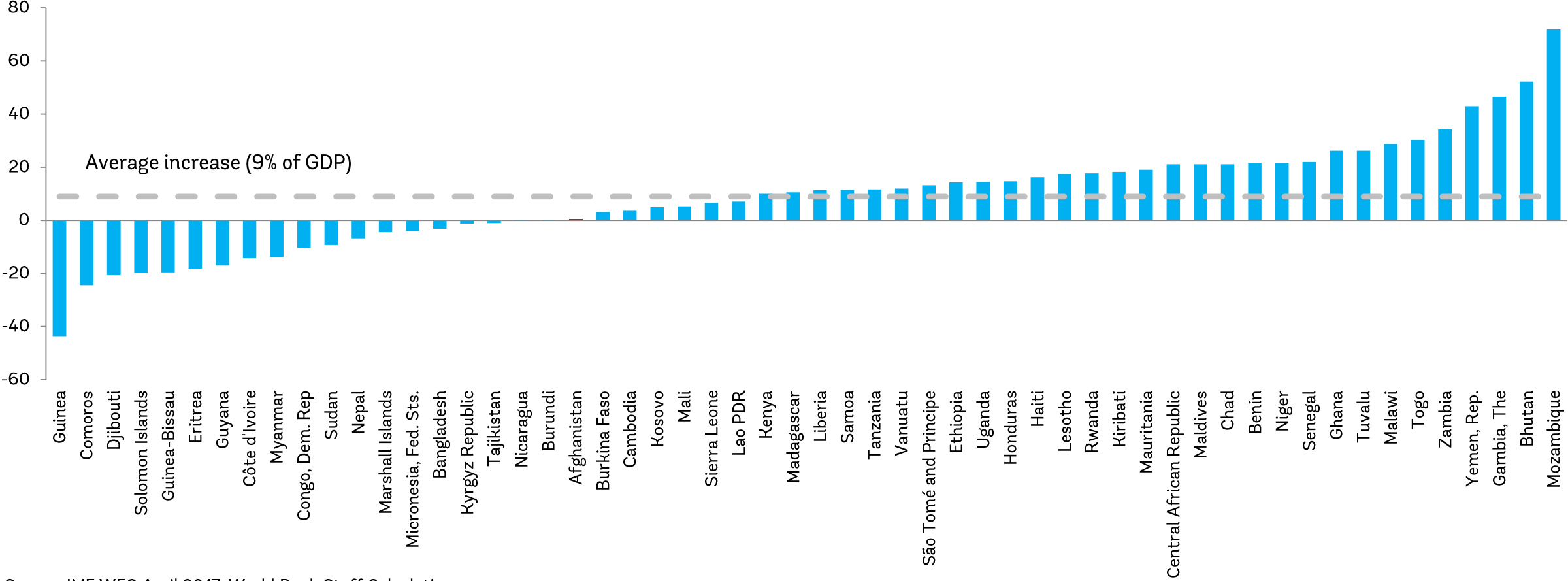


Note: 2017 are estimates. Data covers IDA-only countries. Public debt covers general government gross debt.

Source: IMF WEO April 2017, World Bank Staff Calculations.

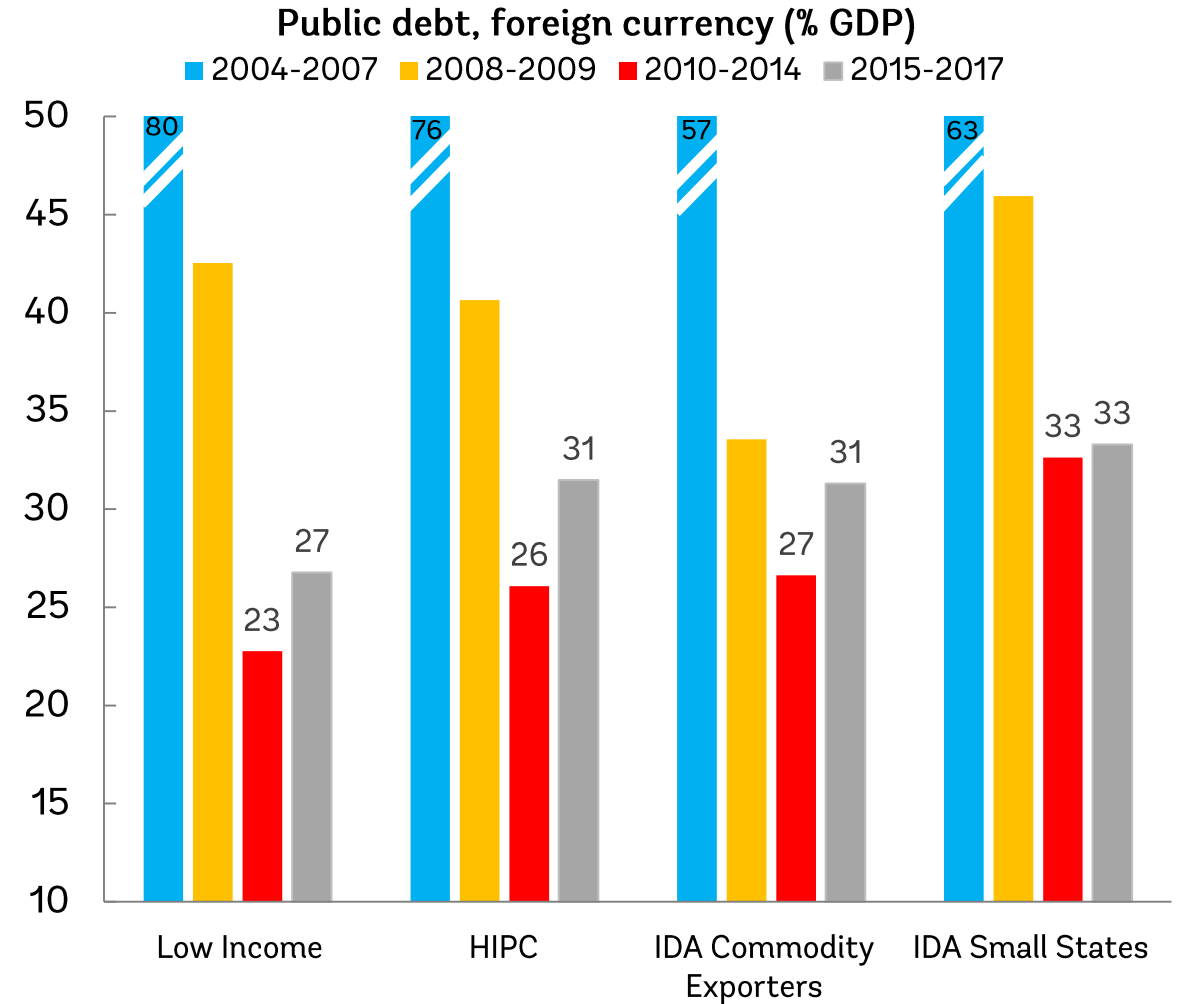
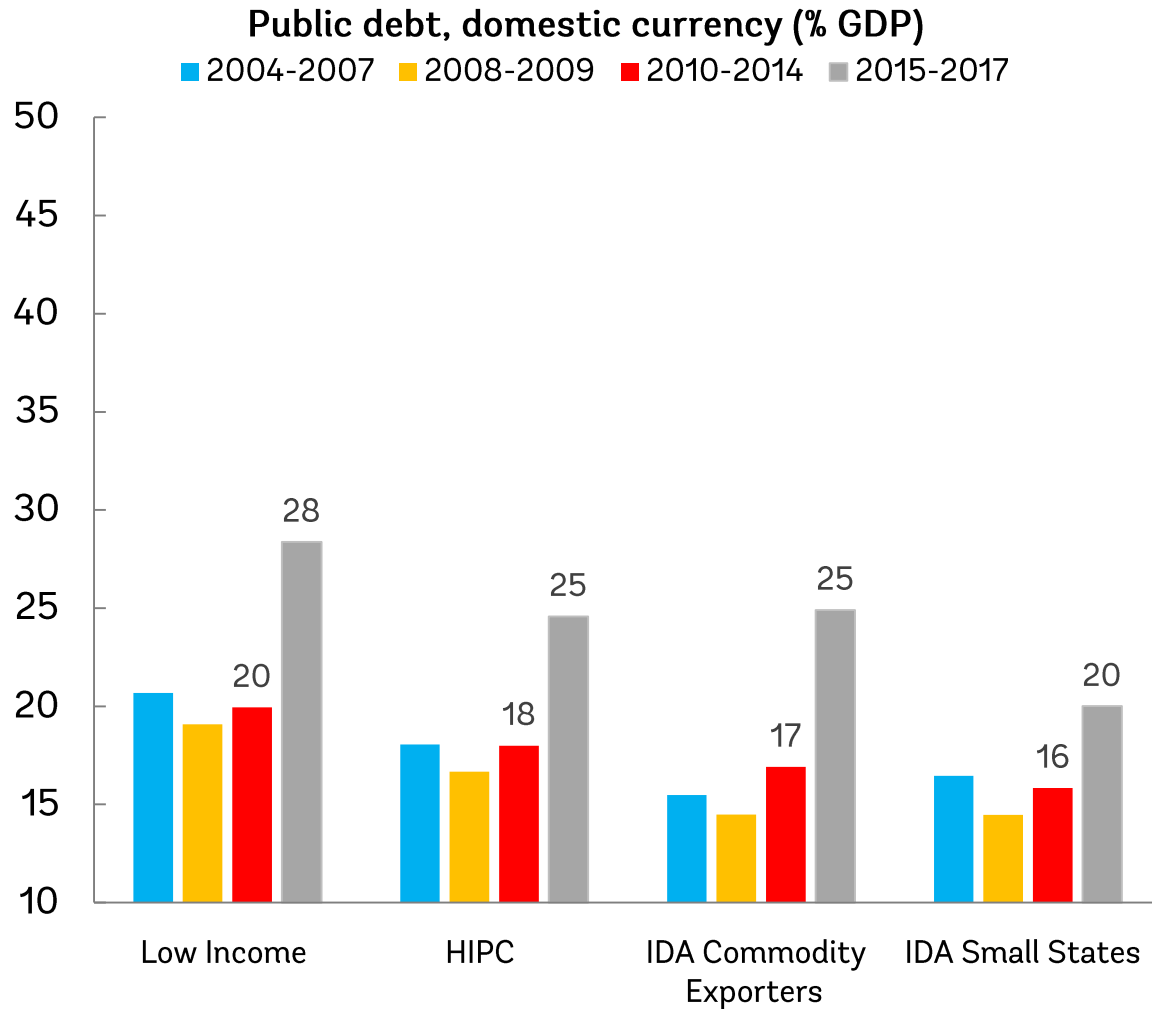
...with two-thirds of IDA countries seeing an increase over the past decade

Change in Public Debt (2010 to 16) in IDA Countries (% of GDP)



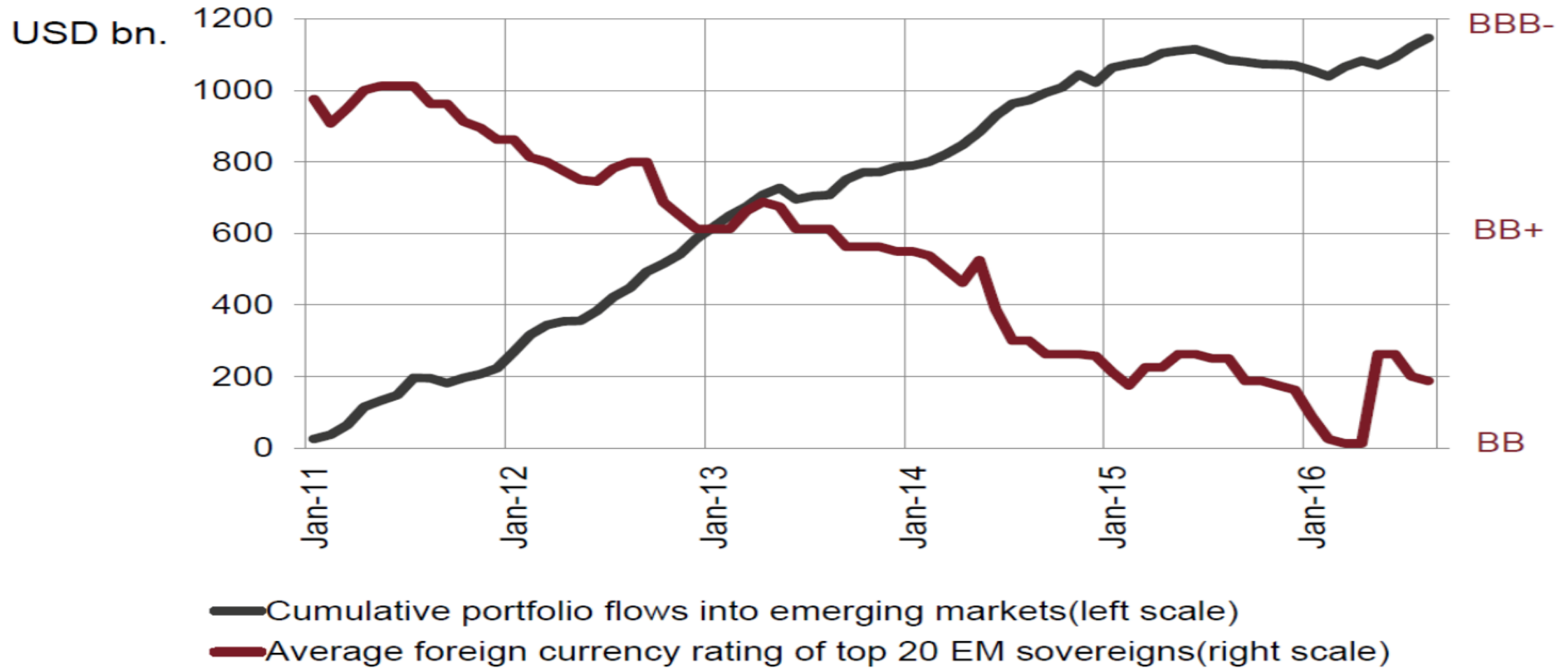
Source: IMF WEO April 2017, World Bank Staff Calculations

The increase was driven primarily by domestic debt, but external debt also rose



Note: 2017 are estimates. Data covers countries that provide information on domestic and external debt by category.
 Source: IMF WEO April 2017, World Bank Staff Calculations.

Rising portfolio inflows to EMs despite falling sovereign ratings suggest that market demand may not be driven by fundamentals but by search for yield...

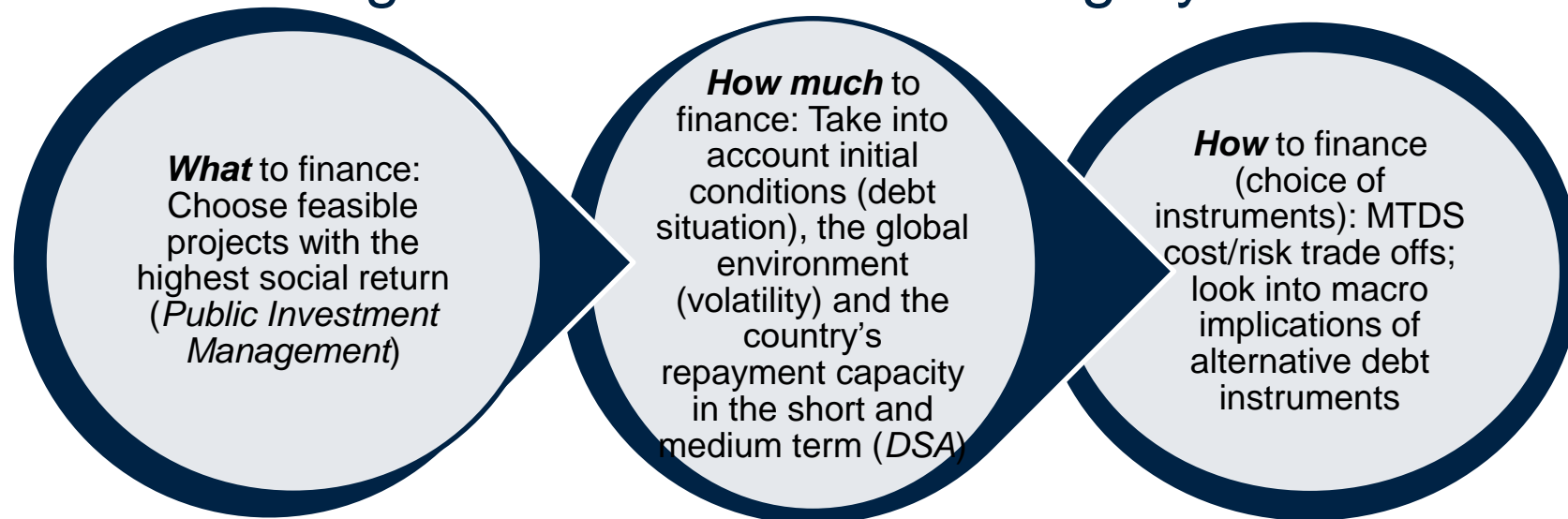


Note: EM = Emerging Markets
Source: S&P Global 2017.

Government Debt management as complex as ever

A key task of the DMO is the management of risks inherent in the public debt portfolio.

Risk management involves being able to identify, measure, monitor and mitigate or control each category of risk.



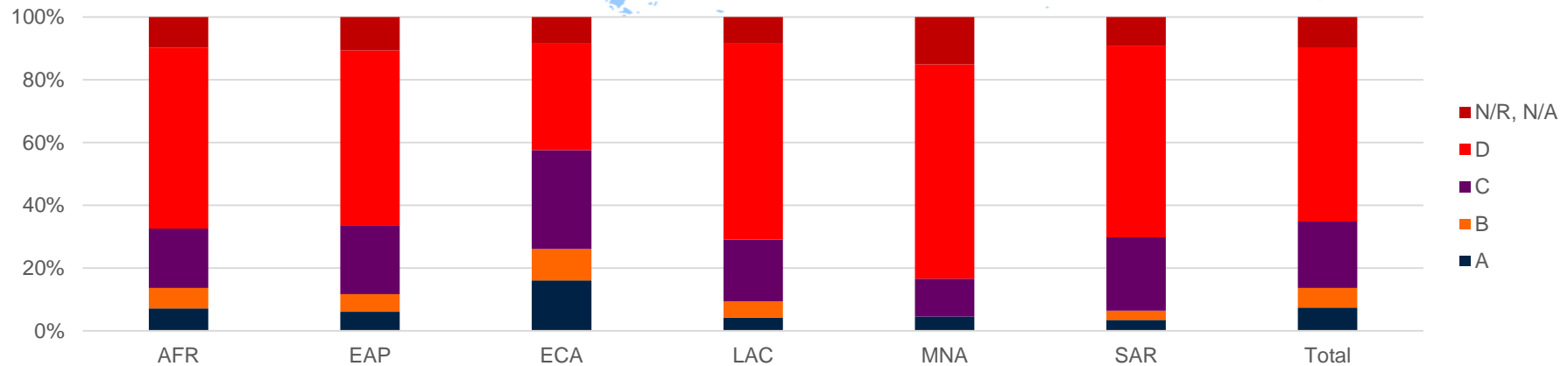
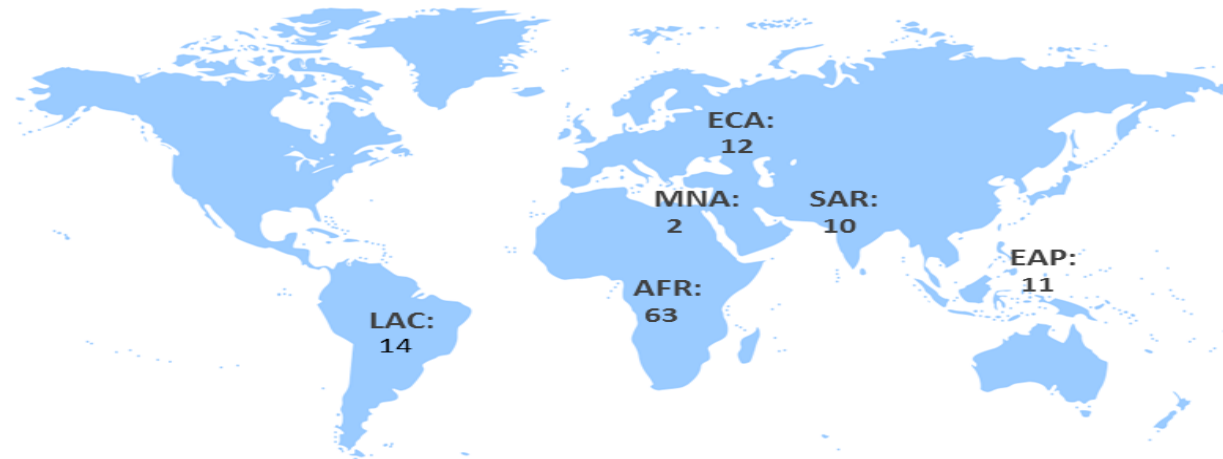
Successful fulfilment of such tasks requires a consolidated debt database and risk assessment tools

Quality of government debt management requires reforms:

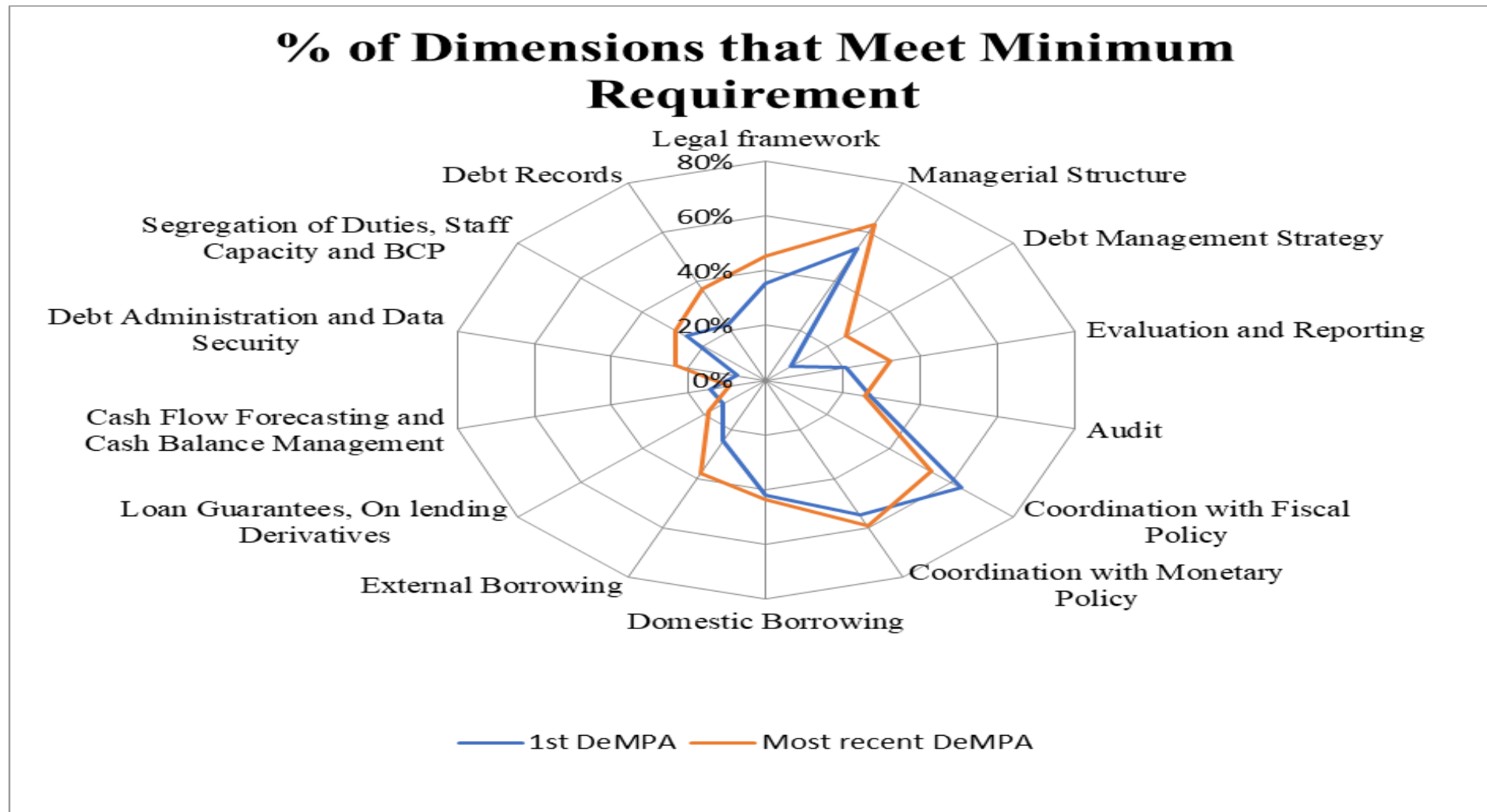
112 DeMPAs conducted between 2007-16

78 countries across

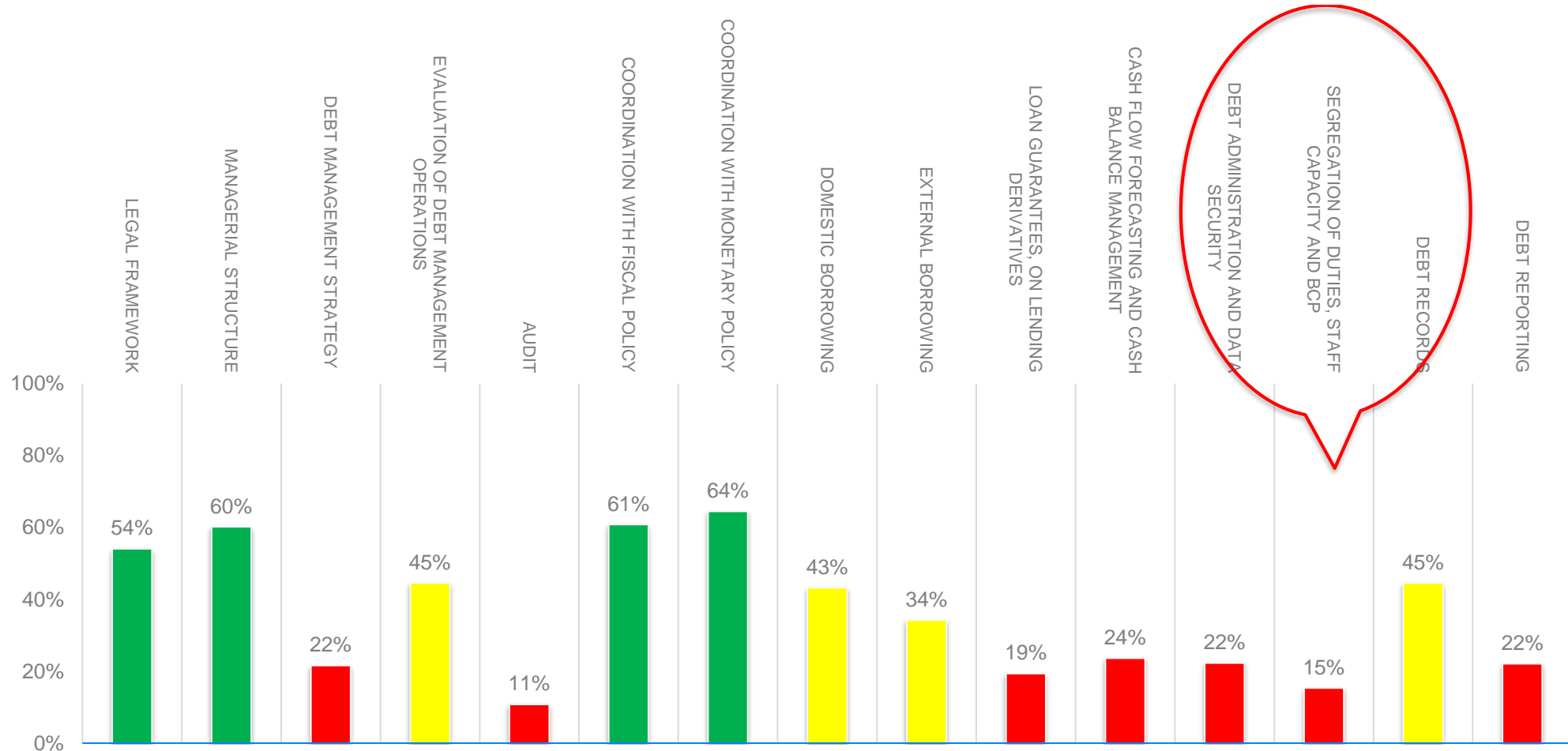
6 regions



Comparison of debt management performance over medium time



Performance tracking for each area of reforms



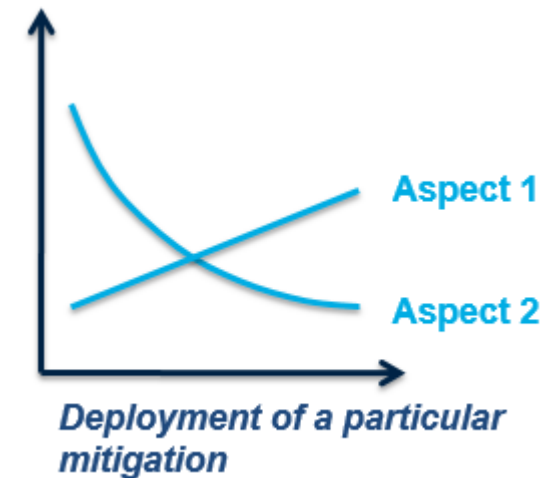
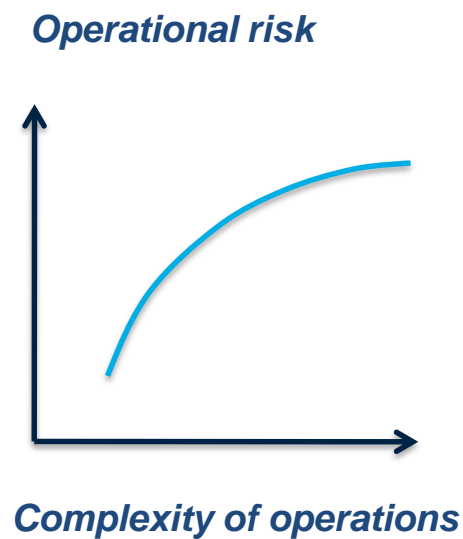
DeMPA results: scores C and higher by Debt Management categories

Operational Risk – examples of threats

- Infrastructure and Technology failures
- Incidents where access to premises is denied
- Key service providers of resource failure dependences
- Staff management and related human failures
- Failure to meet statutory, human, legal resources and other obligations
- Major regional or natural disasters

Operational risk can be managed and mitigated, but it cannot be eliminated entirely

- Operational risk tends to increase with the complexity of operations
- Operational risk accompanies all debt management activities
- A mitigation for one aspect of operational risk may increase other aspects



Focus in the first instance on reducing the high-impact, high-likelihood aspects of operational risk

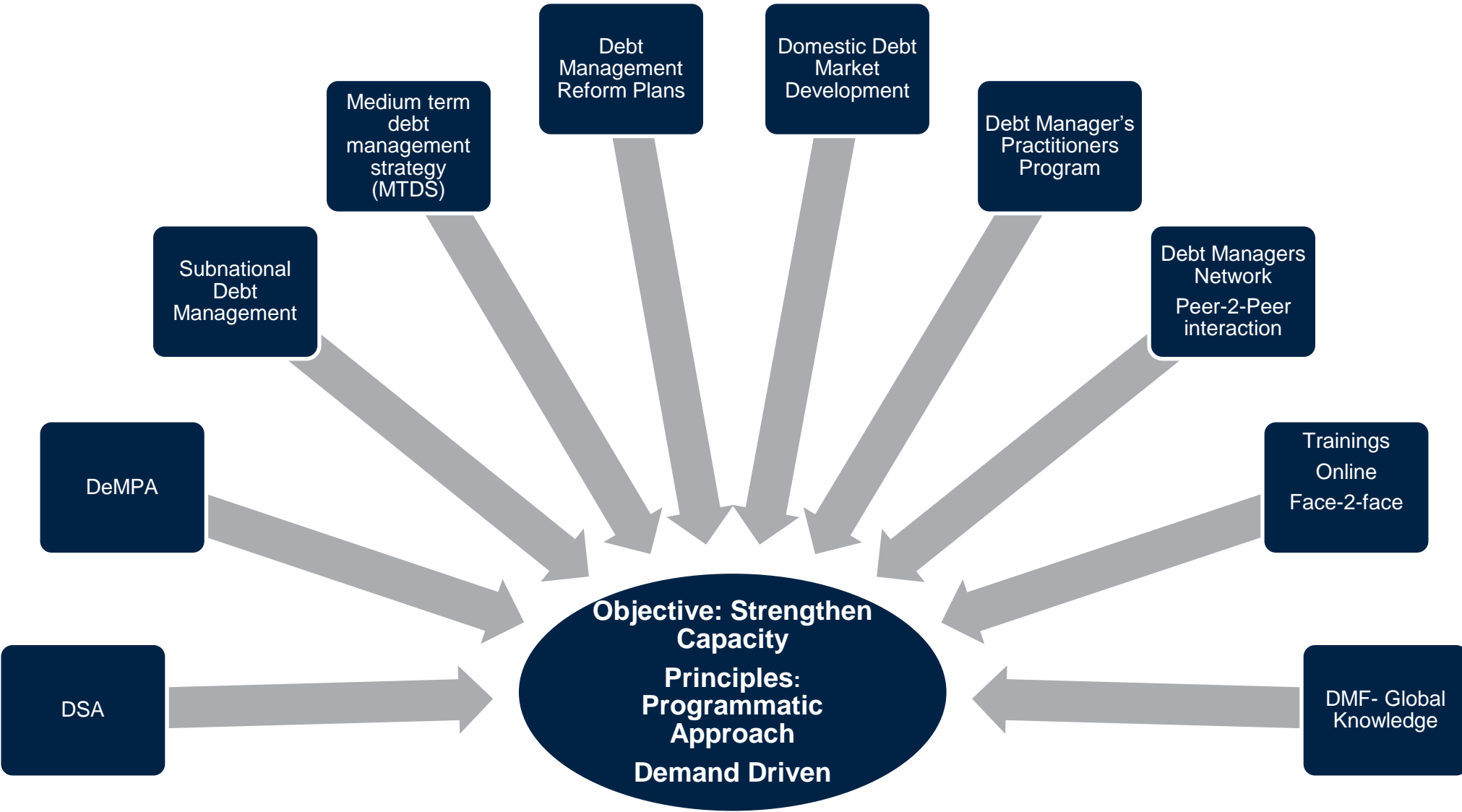
But still manage the other aspects

The Debt Management Facility (DMF)

**DMF Program
Principles and
Products
Governance
Partnership**

*Strengthening debt
management capacity
and institutions
through a number of
tools that help
countries assess and
plan their debt
management*

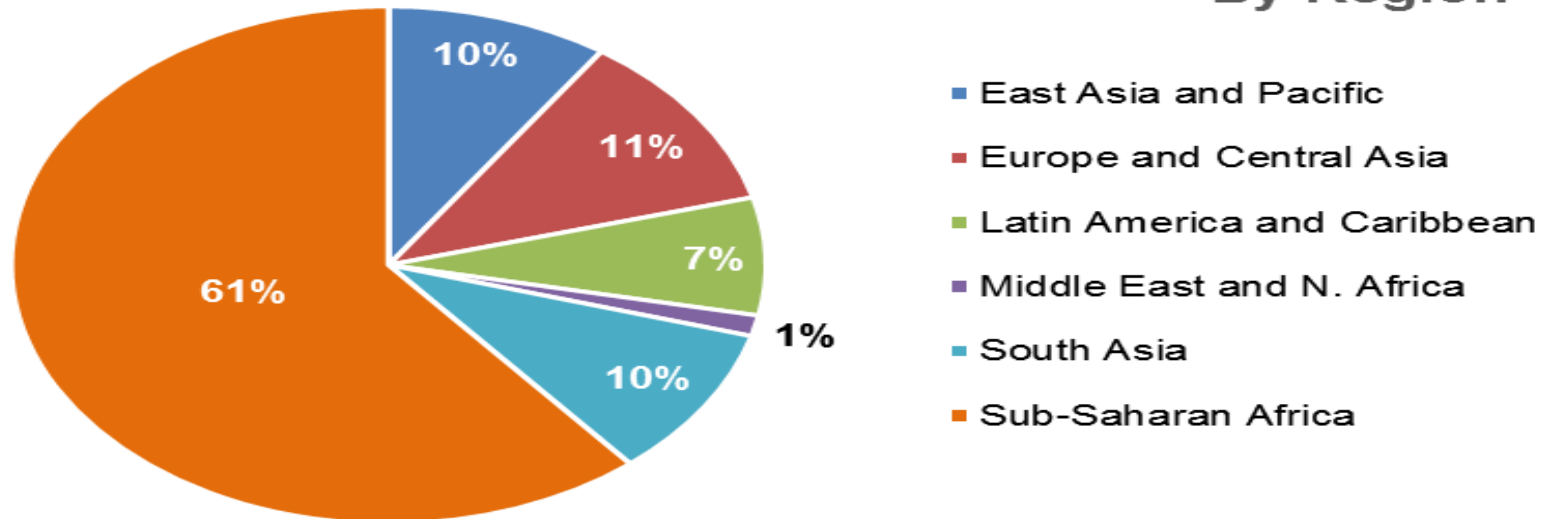
DMF II: TA and Products



DMF - Program Implementation to date



By Region



Strategic direction – continue to help and expand

Core DMF activities to be continued

DeMPA/MTDS/Reform Plans

Domestic Market Development

Debt Sustainability Framework (DSF)

Subnational Debt Management

Knowledge & Peer Learning Activities

Debt Manager's Practitioners Program

New Areas

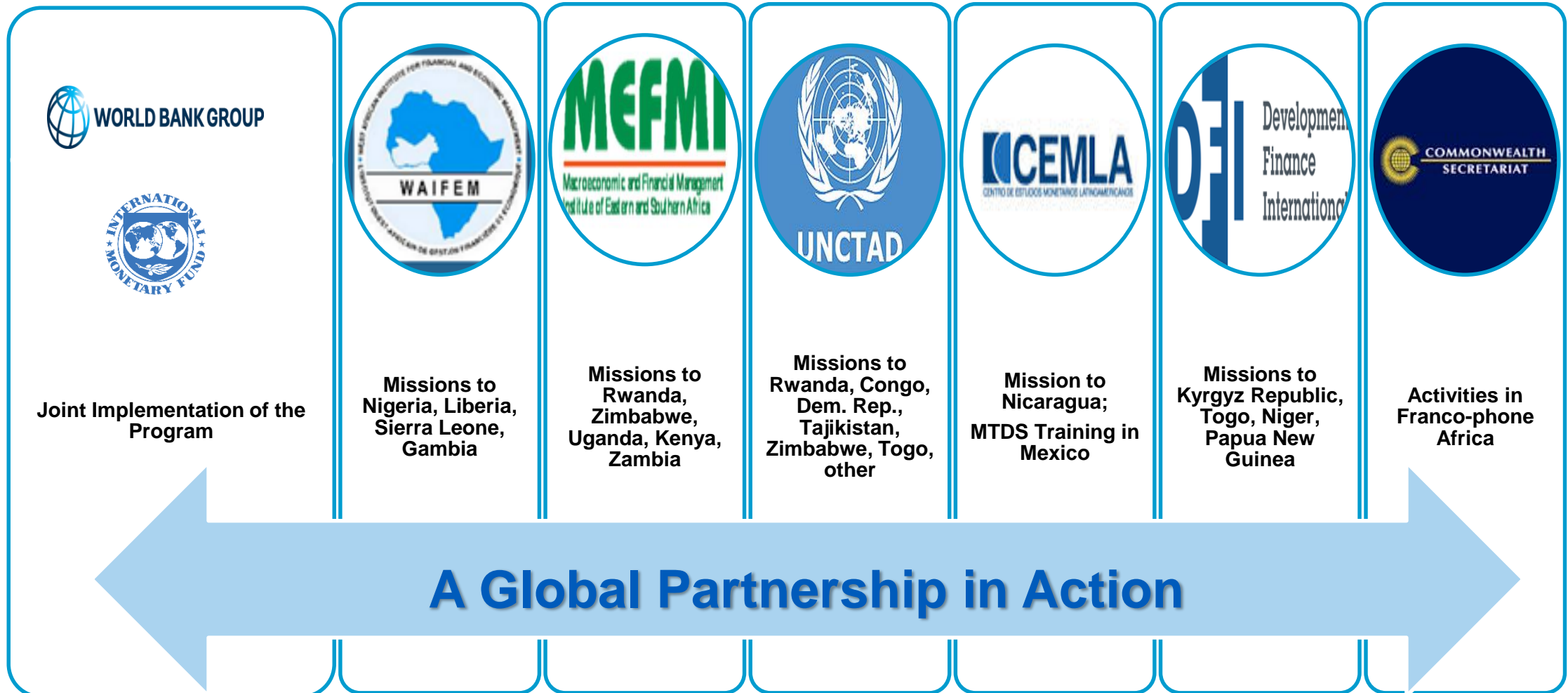
Risks from contingent liabilities

Risks from commercial funding

Risks from liquidity and cash management

Risks from climate change

Debt Management Facility (DMF) - Partnership

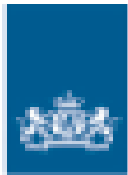


DMF II– Partnership - Donors

Austria



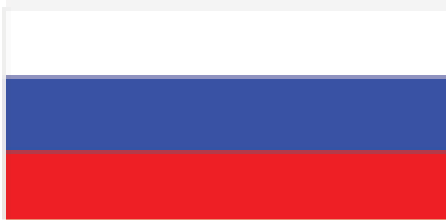
The Netherlands



Ministry of Foreign Affairs

Russia

Ministry of Finance of the Russian Federation.



Germany



Norway



Switzerland



AfDB



Conclusions

Sustainability of results

- Focusing support for debt management reforms' implementation along with broader PFM reforms
- Providing programmatic assistance to eligible countries for the medium to long term
- Maintaining integrity and quality of DMF TA
- Keeping in mind that key factors for successful debt management are based on macroeconomic stability and fiscal discipline

Debt Management Facility



www.dmfacility.org

<http://www.worldbank.org/en/topic/debt>

DMF News:

<https://www.dmfacility.org/newsletters>