



Commonwealth Secretariat

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# Effective Public Debt Management: The Way Forward

Commonwealth Ministers' Debt  
Sustainability Forum  
Washington D.C.  
9 April 2008

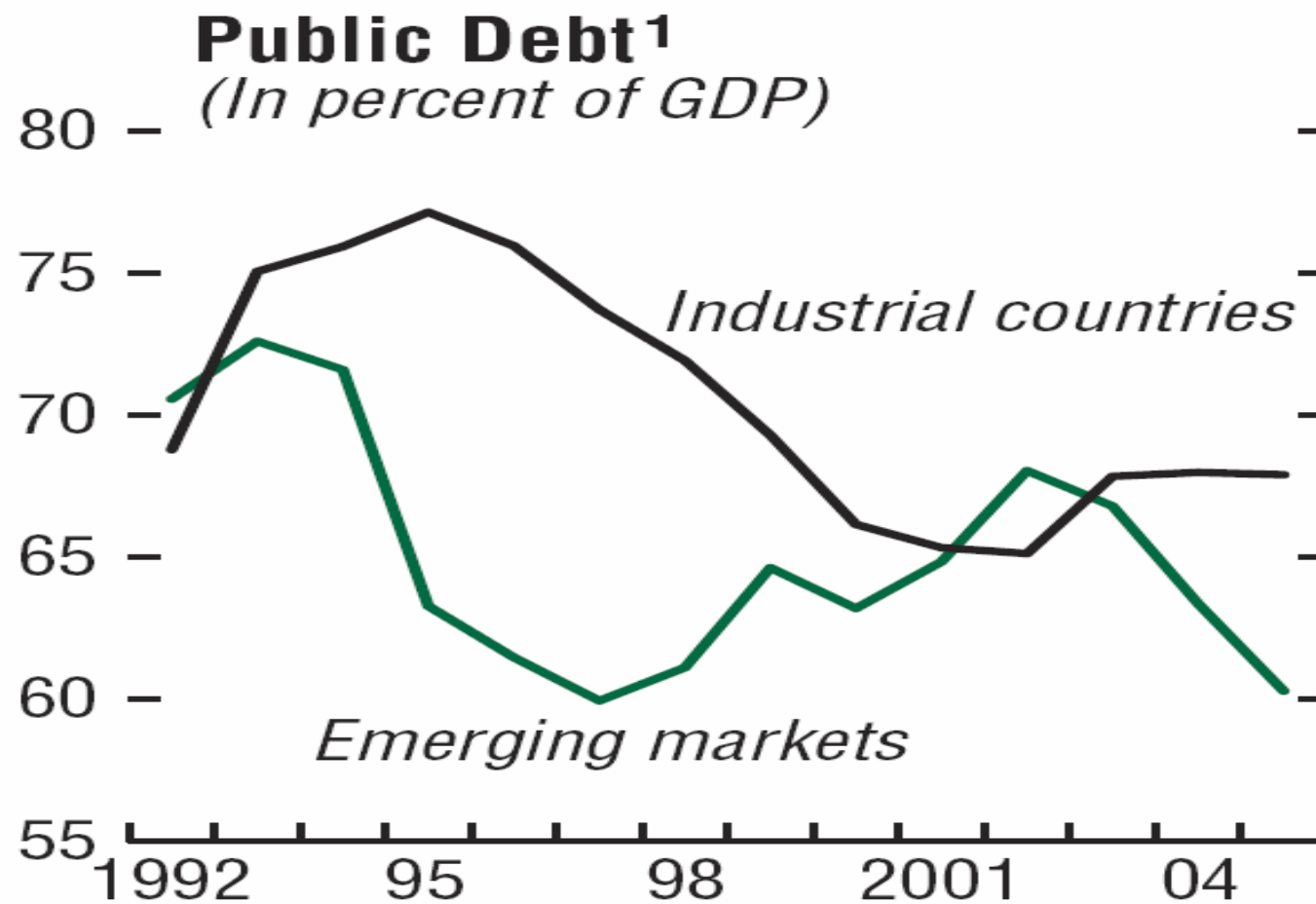


# Outline

- Debt Management in the developing countries
  - Emerging Market Economies
  - HIPC countries
  - Small State economies
- Key Issues in Debt Management
- Response of International Institutions
- Comsec's Assistance in Debt Management
- Conclusion



## Declining Public Debt Burden in EMEs



Source: IMF, 2007



## Improvement in Debt Structure in EMEs

- Reduction in share of foreign currency debt
  - Increased reliance on domestic debt in local currency
- Elongation of maturity structure of domestic debt
- Increased share of fixed interest rate debt
- Increased issuance of inflation-indexed bonds
  - Brazil, Colombia and Turkey
- Investor base diversification



## Facilitating less risky debt structure

- Improvements in macroeconomic fundamentals and structural reforms
- Benign global interest rates and liquidity conditions
- Improvements in debt management
  - Clarity in objectives
  - Focus on risk management
  - Institutional strengthening
  - Strengthening of capacity



# Debt De-dollarisation in EMEs

- Prepayment of high cost external official loans
  - Asia, Russia
- Buybacks of international or foreign currency bonds
  - Brazil, Colombia, Venezuela, Turkey
- Issuance of exchange warrants allowing bondholders to swap dollar denominated bonds for local currency bond
  - Mexico
- Reducing foreign currency exposure through swaps
  - Colombia, Hungary, South Africa, Peru,



## Debt On-shoring in EMEs

- Significant shift towards domestic borrowing
- Phenomenal increase in local currency denominated domestic debt: nominal and CPI indexed bonds
  - Developing local currency bond markets: early success in East Asia
  - New challenges to manage currency and duration risk
- Growing foreign investment in local currency bonds
  - attracted by search for higher yields and potential gains from currency appreciation



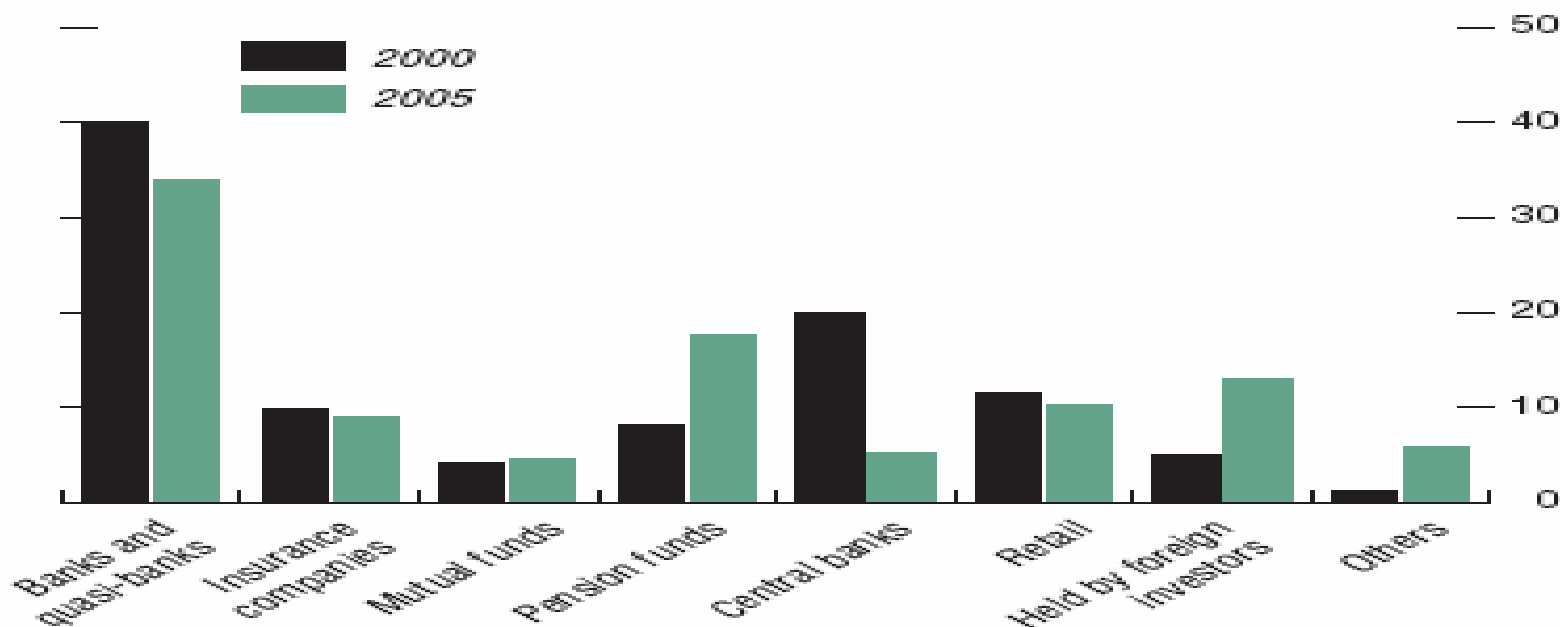
## Off-shoring of local currency debt in EMEs

- Issuance of local-currency denominated global bonds
  - Brazil and Colombia at lower rates than domestic markets
- Recent efforts by IBRD and ADB in providing local currency debt



# Increasing diversification to Institutional Investors in EMEs

**EM Investor Holdings of Domestic Central Government Debt**  
*(In percent)*



Source: IMF, 2007



## Debt Relief for HIPC

- Substantial reduction in public sector external debt: *ala* HIPC and MDRI
  - Debt litigation from commercial creditors still a problem
- Growing fiscal space
- Race towards sovereign debt issue?



# Growing volume of domestic debt in HIPC

- Mainly skewed towards short-term debt
- Concentration in holders
  - Increasing share of non-resident holdings
- Absence of market-led borrowing process
- Crowding out of private investment?



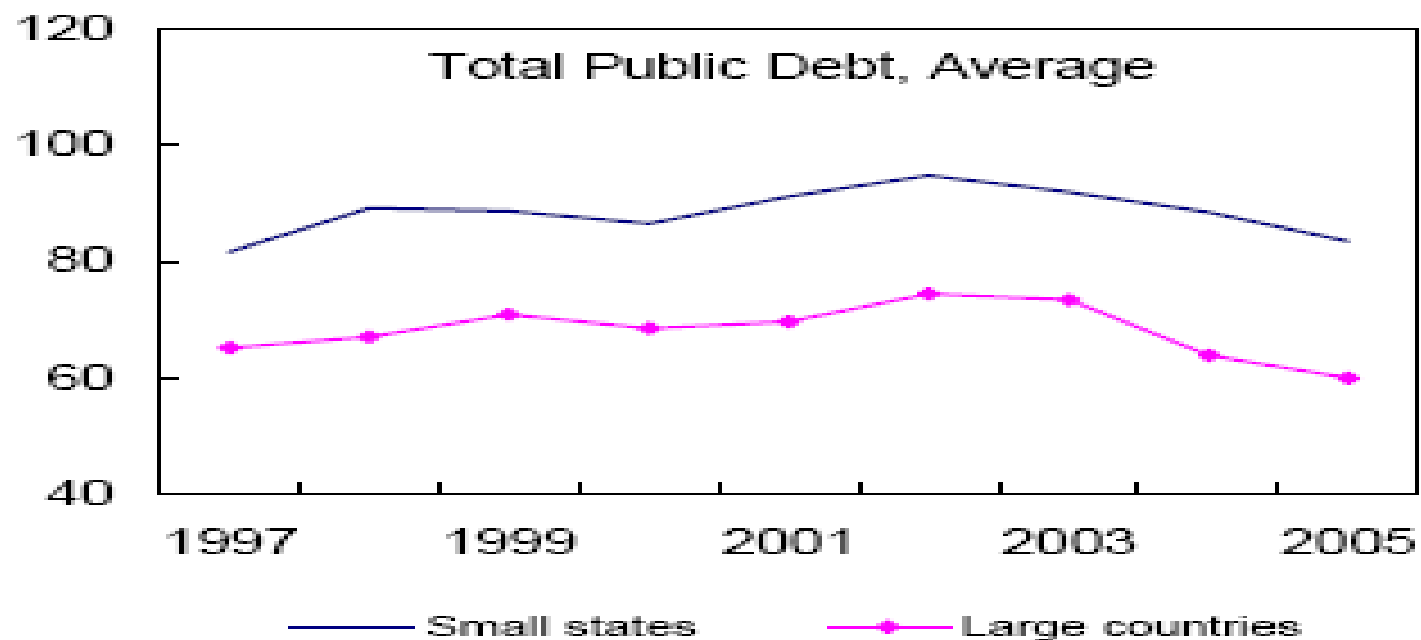
# New Era of Public Debt Management in HIPC's?

- Greater fiscal space
  - Debt sustainability considerations
- Move towards market debt?
  - Preparedness
  - Institutional capacity and structure
  - Debt management strategy
  - Risk management capacity



## High Public Debt in Small States Economies

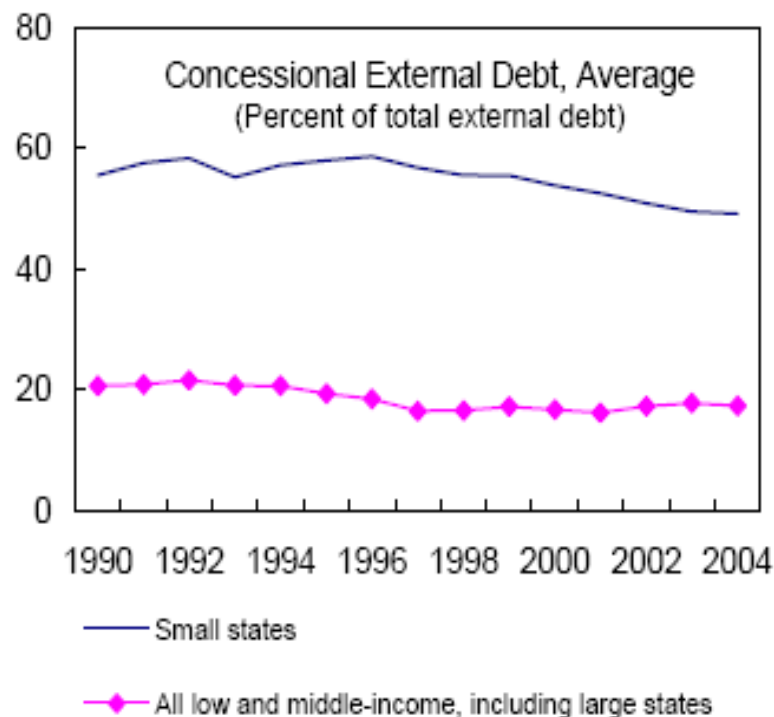
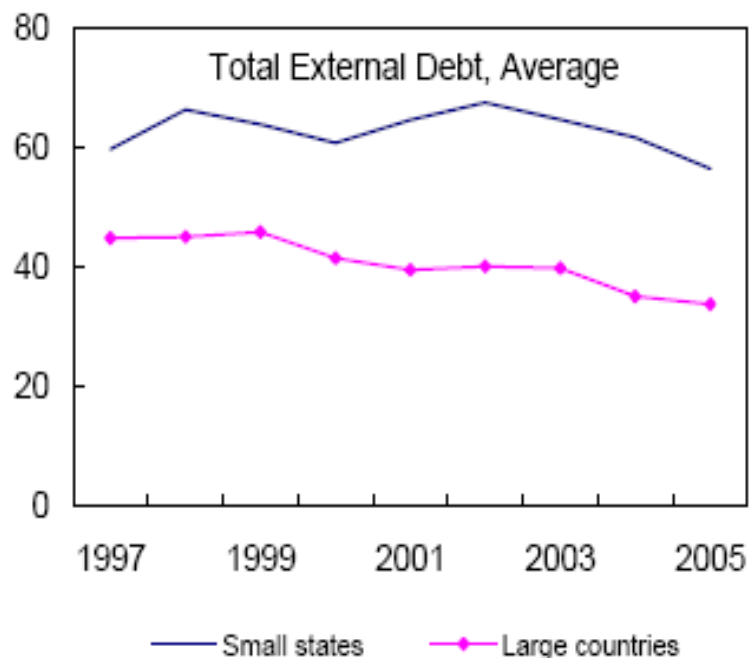
- Presence of Big Governments



Source: IMF, 2008



# Excessive Reliance on Non-Concessional External Debt



Source: IMF, 2008



# Emerging Debt Problem in Small State Economies

**Total Public Debt Levels in Small States**  
(Percent of GDP, average 2000–04)

Low to Medium Debt (0% to 50%)	High Debt (50% to 90%)	Very High Debt (More than 90%)
The Bahamas	Barbados	Antigua and Barbuda
Bahrain	Bhutan	Belize
Botswana	Cape Verde	Comoros
Equatorial Guinea	Djibouti	Cyprus
Estonia	Gabon	Dominica
Fiji	Grenada	Gambia
Maldives	Lesotho	Guinea Bissau
Micronesia	Malta	Guyana
Namibia	Mauritius	Jamaica
Qatar	Papua New Guinea	São Tomé and Príncipe
Slovenia	Samoa	Seychelles
Swaziland	St. Lucia	Solomon Islands
Trinidad and Tobago	St. Vincent and the Grenadines	St. Kitts and Nevis
Vanuatu	Suriname	
	Tonga	

Source: IMF, 2008



# Risky Debt Structure of Small States

- Significant exchange rate risk exposure
  - Pegged exchange rate regime
- Domestic debt at short-tenor
  - Constraints with small size of market
- Costly debt restructuring with commercial creditors



## Redressing Debt Problem in Small States

- Better terms for IBRD loans for MICs
- New loan facilities for natural catastrophes
- Need for orderly workout of debt distressed economies?
- Compensating for trade preference erosion?



# Enhancing Public Debt Management Capacity in LICs

- Debt Sustainability Assessment Framework
- Debt Management Performance Assessment (DeMPA) Tool
- Medium-term Debt Strategy
- Home-grown process?



# Need for Greater Dissemination of Public Debt Data

- Non-availability of public debt data for most developing countries
  - Recent IMF-World Bank effort to improve coverage of data on external debt (including public external debt)
  - IMF initiative: manual on public debt statistics
  - Need for public debt data reporting?



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**Thank You**