

Appendix

Summary of the Debt Management Guidelines¹

1. Debt management objectives and coordination

1.1 Objectives

The main objective of public debt management is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

1.2 Scope

Debt management should encompass the main financial obligations over which the central government exercises control.

1.3 Coordination with monetary and fiscal policies

Debt managers, fiscal policy advisers, and central bankers should share an understanding of the objectives of debt management, fiscal, and monetary poli-

cies given the interdependencies between their different policy instruments. Debt managers should convey to fiscal authorities their views on the costs and risks associated with government financing requirements and debt levels.

Where the level of financial development allows, there should be a separation of debt management and monetary policy objectives and accountabilities.

Debt management, fiscal, and monetary authorities should share information on the government's current and future liquidity needs.

2. Transparency and accountability

2.1 Clarity of roles, responsibilities, and objectives of financial agencies responsible for debt management

The allocation of responsibilities among the ministry of finance, the central bank, or a separate debt management agency for debt management policy advice, and for undertaking primary debt issues, secondary

market arrangements, depository facilities, and clearing and settlement arrangements for trade in government securities, should be publicly disclosed.

The objectives for debt management should be clearly defined and publicly disclosed, and the measures of cost and risk that are adopted should be explained.

2.2 Open process for formulating and reporting debt management policies

Materially important aspects of debt management operations should be publicly disclosed.

2.3 Public availability of information on debt management policies

The public should be provided with information on the past, current, and projected budgetary activity, including its financing, and the consolidated financial position of the government.

The government should regularly publish information on the stock and composition of its debt and financial assets, including their currency, maturity, and interest rate structure.

2.4 Accountability and assurances of integrity by agencies responsible for debt management

Debt management activities should be audited annually by external auditors.

3. Institutional framework

3.1 Governance

The legal framework should clarify the authority to borrow and issue new debt, invest, and undertake transactions on the government's behalf.

The organizational framework for debt management should be well specified and ensure that mandates and roles are well articulated.

3.2 Management of internal operations

Risks of government losses from inadequate operational controls should be managed according to

sound business practices, including well-articulated responsibilities for staff, and clear monitoring and control policies and reporting arrangements.

Debt management activities should be supported by an accurate and comprehensive management information system with proper safeguards.

Staff involved in debt management should be subject to code-of-conduct and conflict-of-interest guidelines regarding the management of their personal financial affairs.

Sound business recovery procedures should be in place to mitigate the risk that debt management activities might be severely disrupted by natural disasters, social unrest, or acts of terrorism.

4. Debt management strategy

The risks inherent in the structure of the government's debt should be carefully monitored and evaluated. These risks should be mitigated to the extent feasible by modifying the debt structure, taking into account the cost of doing so.

In order to help guide borrowing decisions and reduce the government's risk, debt managers should consider the financial and other risk characteristics of the government's cash flows.

Debt managers should carefully assess and manage the risks associated with foreign currency and short-term or floating-rate debt.

There should be cost-effective cash management policies in place to enable the authorities to meet with a high degree of certainty their financial obligations as they fall due.

5. Risk management framework

A framework should be developed to enable debt managers to identify and manage the trade-offs between expected cost and risk in the government debt portfolio.

To assess risk, debt managers should regularly conduct stress tests of the debt portfolio on the basis of the economic and financial shocks to which the government—and the country more generally—are potentially exposed.

5.1 Scope for active management

Debt managers who seek to manage actively the debt portfolio to profit from expectations of movements in interest rates and exchange rates, which differ from those implicit in current market prices, should be aware of the risks involved and accountable for their actions.

5.2 Contingent liabilities

Debt managers should consider the impact that contingent liabilities have on the government's financial position, including its overall liquidity, when making borrowing decisions.

6. Development and maintenance of an efficient market for government securities

In order to minimize cost and risk over the medium to long run, debt managers should ensure that their policies and operations are consistent with the development of an efficient government securities market.

6.1 Portfolio diversification and instruments

The government should strive to achieve a broad investor base for its domestic and foreign obligations,

with due regard to cost and risk, and should treat investors equitably.

6.2 Primary market

Debt management operations in the primary market should be transparent and predictable.

To the extent possible, debt issuance should use market-based mechanisms, including competitive auctions and syndications.

6.3 Secondary market

Governments and central banks should promote the development of resilient secondary markets that can function effectively under a wide range of market conditions.

The systems used to settle and clear financial market transactions involving government securities should reflect sound practices.

Note

1. The IMF–World Bank *Guidelines for Public Debt Management* can be found on the IMF and the World Bank web sites in 5 languages:
<http://www.imf.org/external/pubs/cat/longres.cfm?sk=15113.0>
 and
http://www.worldbank.org/pdm/pdf/guidelines_2001_final.pdf.