



ADVANCES IN SOVEREIGN DEBT MANAGEMENT IN OECD COUNTRIES

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Outline

- Organisational and Governance Structure
- Debt Management Objectives and Principles
 - Strategic policy objective
 - Debt management principles
- Debt Management Policies
 - Risk management
 - Borrowing strategy
- Recent Trends
- Background Documents



Institutional Structure, Functions and Responsibilities

- An important global trend in recent decades is the emphasis on more autonomy for the execution of debt management policies by debt management offices (DMO)
- DMOs in almost all OECD countries undertake functions other than PDM (for example, cash management, fund management, administration of state guarantees, including PPPs)
- It is international good practice to create committees for consultation or co-ordination between DMOs, CBs and fiscal authorities on public debt policy
- It is generally accepted that operational responsibility within the DMO should be separated between the front (FO) and back office (BO). In addition, a number of key functions, particularly for risk management, may be situated in a separate middle office (MO)



Debt Management Objective and Principles

✓ ***Objective:***

“to ensure government funding needs and payment obligations are met at the lowest cost over the medium term, consistent with a prudent degree of risk”

✓ ***Principles:***

“transparency, accountability and predictability”



Debt Management Policies

- Risk management
 - Long-term perspective
 - Reducing risk exposure taking into account some factors such as debt level, debt composition, budget deficit projections, monetary policy
- Borrowing strategy
 - Primary markets
 - Secondary markets

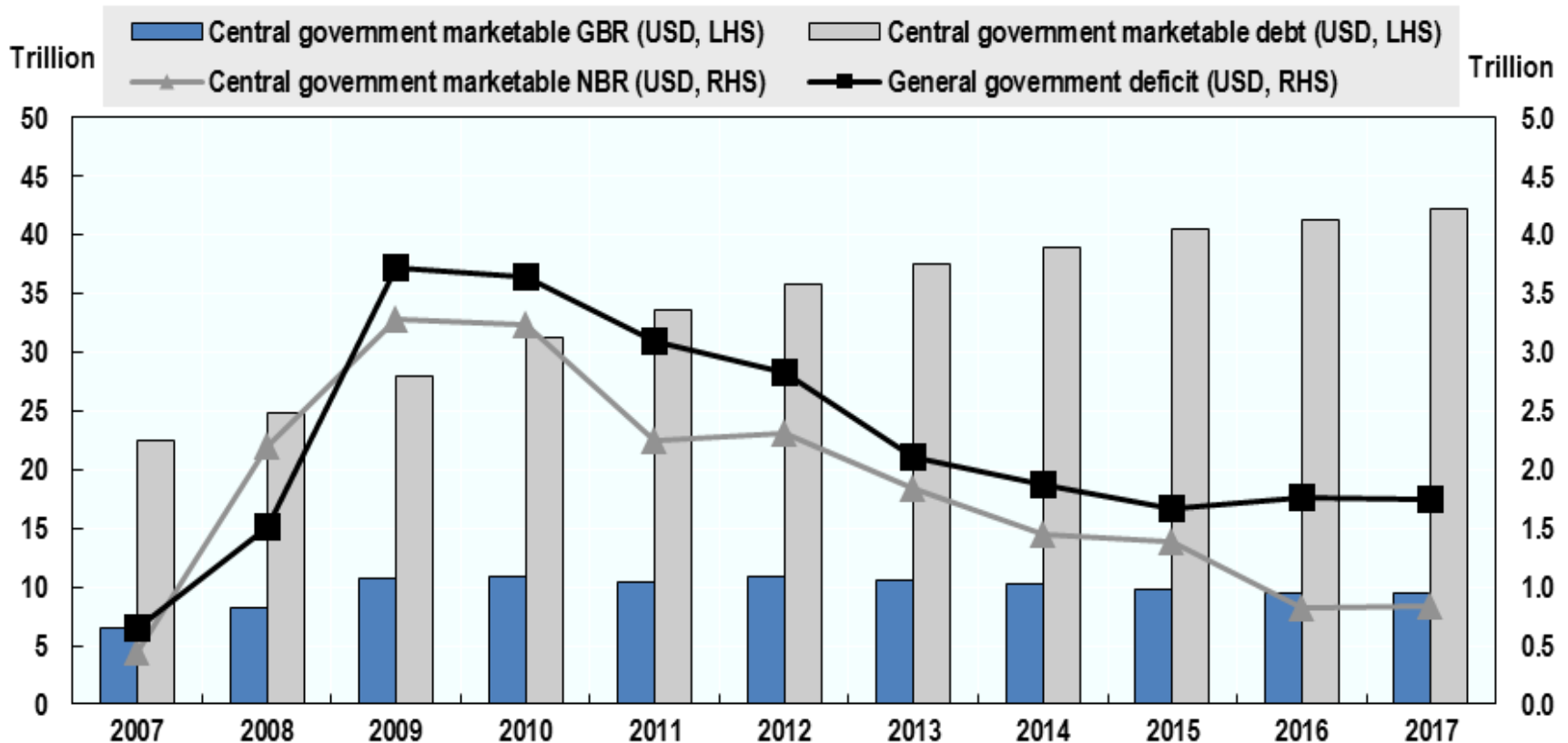


Recent Trends

- Sovereign debt burden in OECD area remain high by historical standards and redemption profiles still pose serious challenges
- The persistent ultra-low interest rate environment has had a significant impact on both primary and secondary markets for government securities
- Debt management offices
 - react to fiscal and interest rate environment by growing issuance of long dated debt
 - have introduced policy measures such as tap sales, buy-backs and switch operations, and smaller auctions to improve secondary market liquidity conditions.



Recent Trends: Fiscal and borrowing outlook is evolving

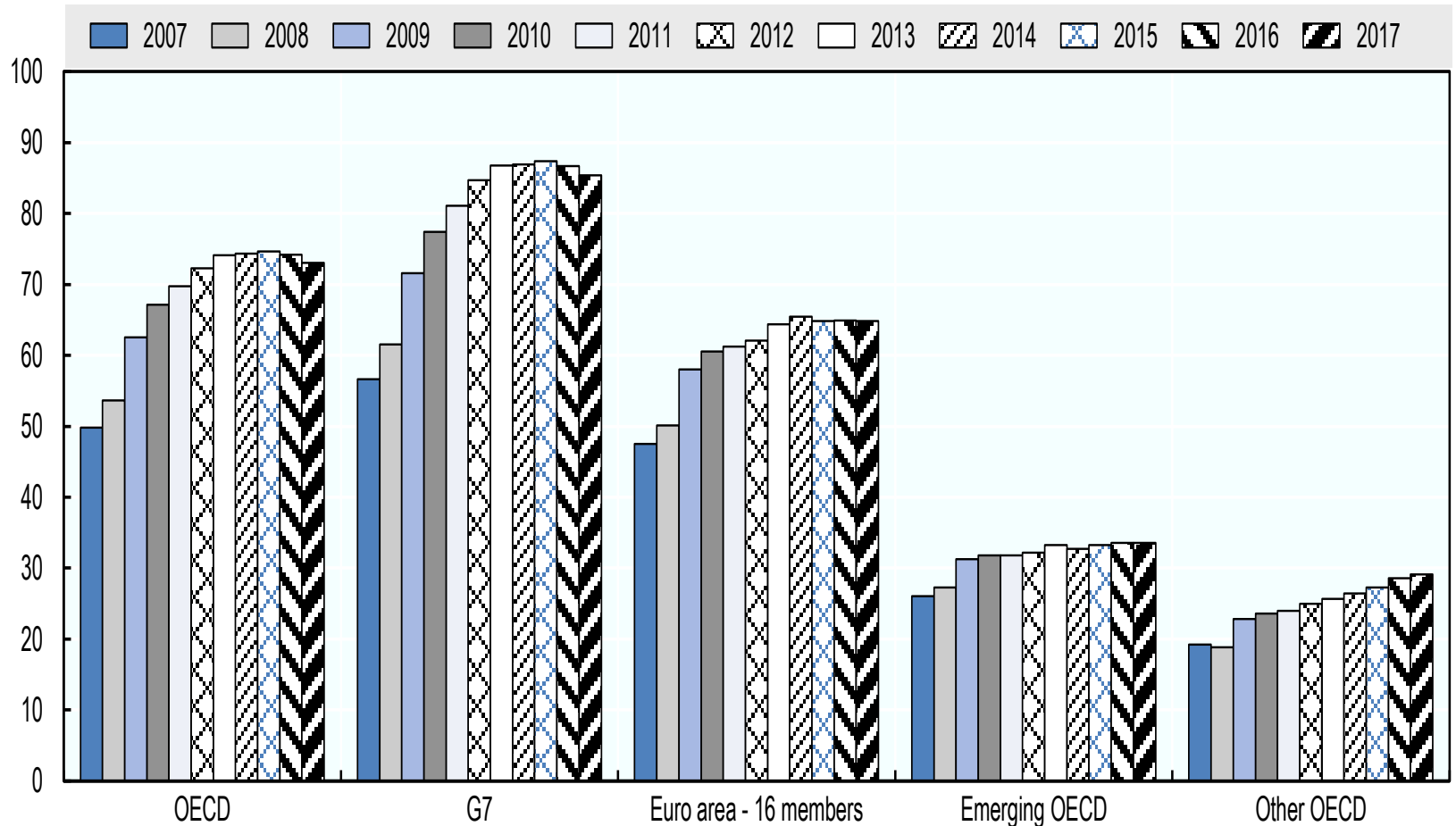


Notes: GBR = gross borrowing requirement, NBR = net borrowing requirement.

Source: 2016 Survey on central government marketable debt and borrowing by the OECD Working Party on Debt Management; OECD Economic Outlook No 100.



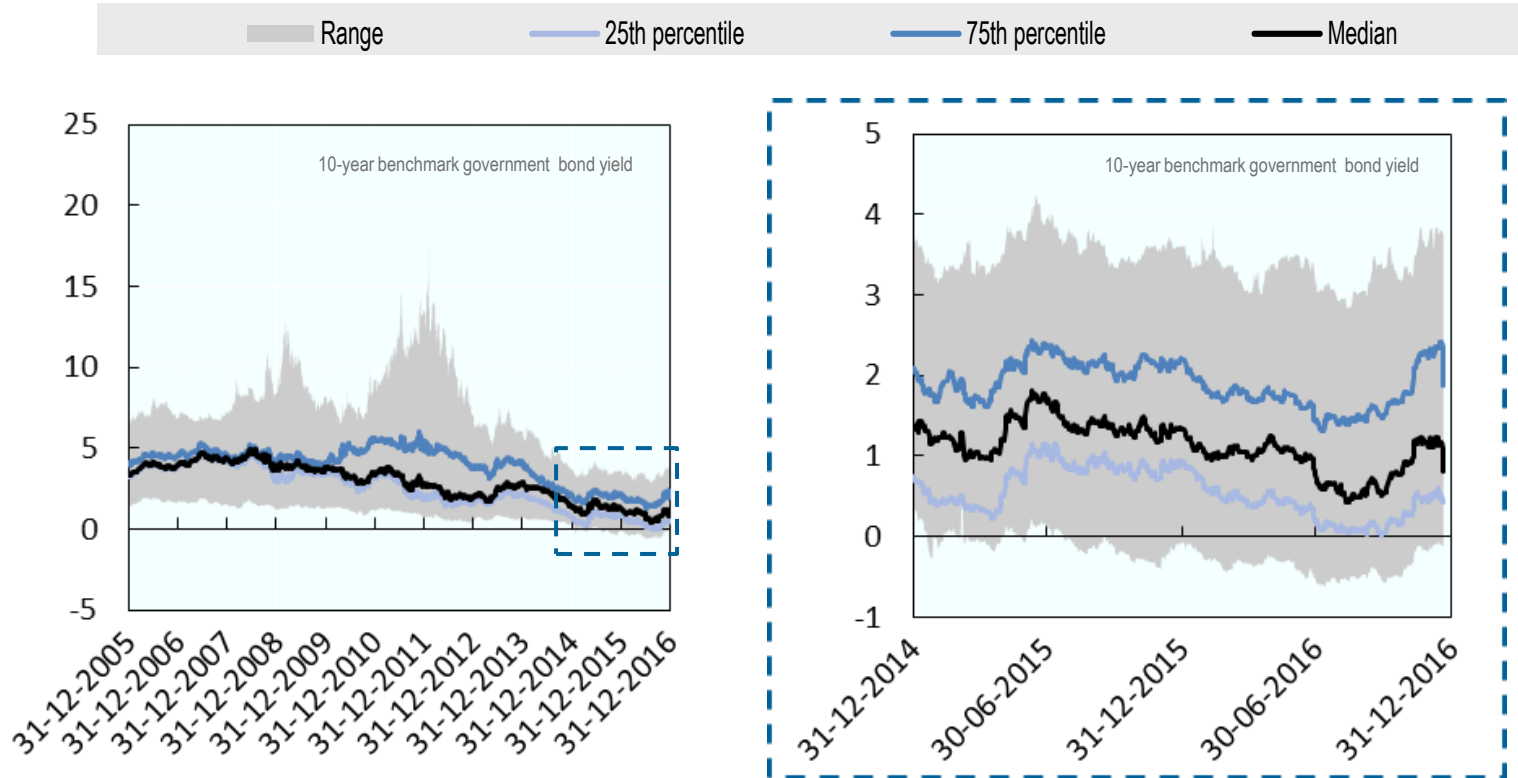
Central government marketable debt in OECD countries



Notes: As a percentage of GDP. Central government marketable gross debt.



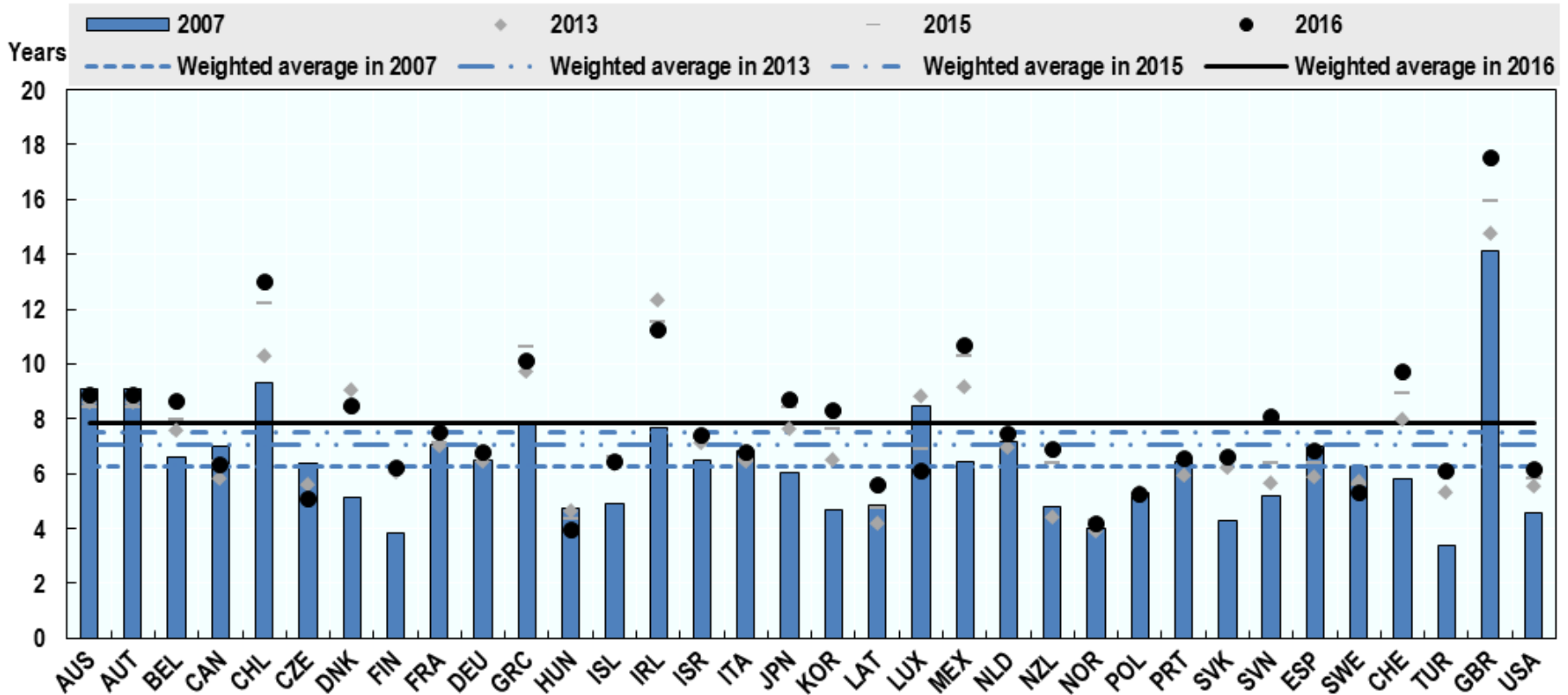
Recent Trends: Ultra-low interest rates



Notes: Interest rates in percentages. The charts show the evolution of several metrics (minimum, maximum, 25th percentile, 75th percentile, median) of 3-year and 10-year benchmark government bond yields, calculated on the following group of countries: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hungary, Ireland, Italy, Japan, Netherlands, New Zealand, Norway (5-year and 10-year yields only), Poland, Portugal, Spain, Sweden, Switzerland, United Kingdom and the United States. *Source:* Thomson Reuters and author calculations



Recent Trends: ATM of outstanding government marketable debt is increasing

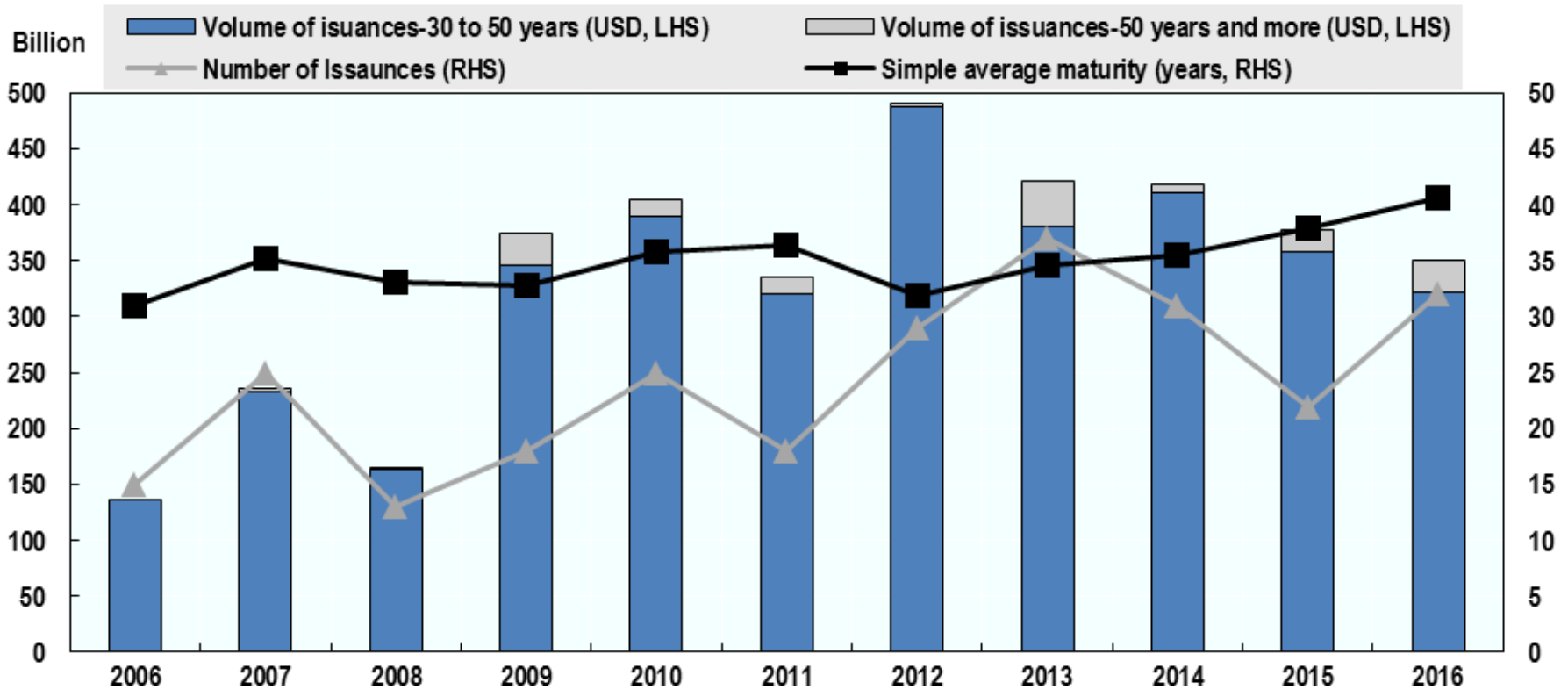


Notes: Average term-to-maturity in years (e.g. 0.5 years correspond to 6 months) of outstanding marketable debt.

Source: Surveys on central government marketable debt and borrowing carried out by the OECD Working Party on Debt Management; debt management offices and national authorities' websites and OECD calculations.



Recent Trends: Issuance of ultra-long-term government bonds is trending upwards



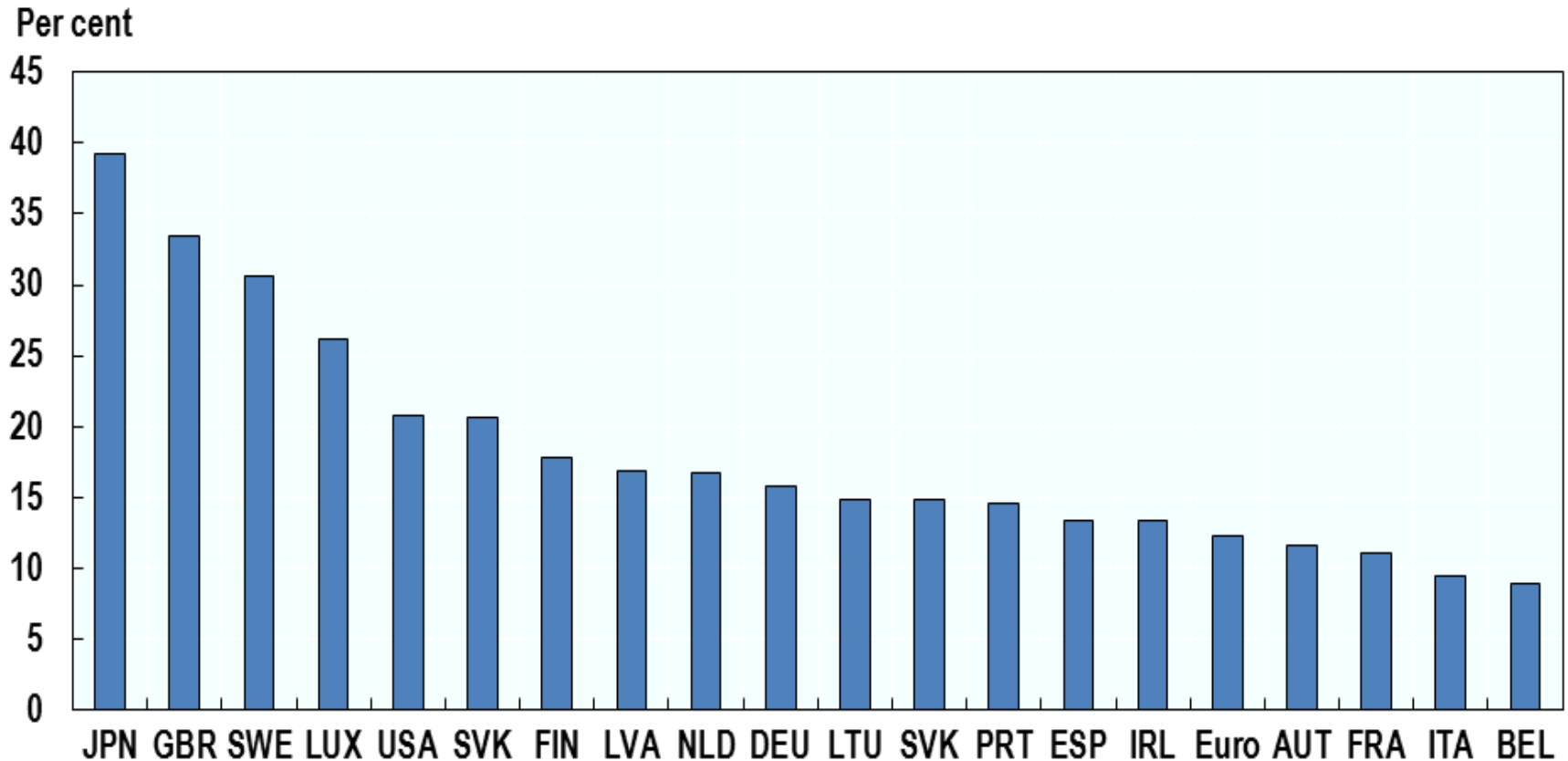
Notes: As of December 2016 for OECD countries only, volume is based on issuance amounts using flexible exchange rates.

Source: Thomson Reuters, national authorities' websites, OECD Economic Outlook No. 100 and author calculations.



Recent Trends: Central banks are major investors in local government debt

Central banks holdings of domestic government bonds



Note: Excluding (short-term) bills. As of September 2016.

Source: OECD Economic Outlook database (Volume 2016 Issue 2).



Recent Trends: Policy challenges posed by macroeconomic environment

- Globally, sovereign debt managers face policy uncertainties ahead:
 - Whether, when, how much and how fast major central banks unwind quantitative easing policies remains unknown, and
 - the same applies to governments' use of fiscal policy tools to support economic activity.
- Looking forward, these two factors will mainly determine the agendas of sovereign issuers in OECD area



Background Documents

- ***OECD Sovereign Borrowing Outlook, 2016***
- ***OECD Sovereign Borrowing Outlook, 2017***
- ***Advances in Risk Management of Government Debt, Paris, OECD, 2005***
- <http://www.oecd.org/daf/fin/public-debt/>