

11

Government and Public Sector External Debt Statistics

Introduction

11.1 This chapter examines possible data sources and methods that can be used by the statistics agencies to compile public sector external debt statistics.¹ Similar sources can also be used for the compilation of publicly guaranteed external debt.

11.2 Ideally, the relevant information needed to compile public sector external debt statistics is built into the government and public corporations' accounting systems, so debt statistics can be easily derived from a financial information management system or a debt recording and reporting system. However, for some countries, this may not be the case or it may only be so for some public sector units. If so, alternative methods should be employed. Statistics can be collected from the debtor, from the creditor, or indirectly through information in the form of surveys, regulatory reports, published financial statements (in particular, balance sheets) of public sector units, and/or from other administrative records. Information may also be available from monetary and financial, international investment position, and other macroeconomic statistics. The more detailed the source data, the more accurate are the public sector external debt statistics being compiled.

11.3 As indicated in previous chapters of the *Guide*, compilers should collect, in addition to liabilities of public sector units, data on outstanding guarantees (contingent liabilities) by guarantor, public or private, following either the “institutional sector approach” or “public-sector-based approach.”² The *Guide* provides

tables that may be used for the dissemination of guaranteed external debt data: Memorandum Table 4.7 for the “institutional-sector approach,” and Tables 5.2 and 5.3 for the “public-sector-based approach.”

Debt Office

11.4 A debt office, or an asset/liability management office, would usually be the main source for position (and flow) data on foreign loans and debt securities. Many countries have a debt office—the government debt office—that keeps records on debt securities issued by, and loans of, most components of the public sector. However, although rare, in some countries, state and/or local governments may have their own debt offices when they are large issuers of debt securities, or large borrowers from abroad. Nevertheless, the same principles apply to debt offices at all levels of the public sector.

11.5 Typically, a government debt office is either within the ministry of finance or constituted as a separate agency within the government sector or the central bank. Whether the government debt office is the compiling agency of public sector external debt statistics or not, it is important that the government debt office coordinate, as appropriate, with any other agencies involved with the compilation of these statistics.

11.6 A government debt office is responsible for debt management, which may involve seven functions that are discussed in detail in the appendix to this chapter. Proper debt records are fundamental for effective

¹The compilation of the central bank's external debt statistics is discussed in Chapter 12.

²For descriptions of the “institutional-sector approach” and “public-sector-based approach,” see the *Guide*, paragraphs 4.3 and 5.5, respectively. Because the “institutional-sector approach” includes the general government as a sector, data on outstanding guarantees (contingent liabilities) for this sector exclude all contingent liabilities among units of the general government.

Because the “public-sector-based approach” includes the public sector as a whole, data on outstanding guarantees of units within the public sector are excluded, i.e., contingent liabilities among units of the public sector are consolidated. See more about the public sector subsector/units and consolidation of government finance statistics in the *Public Sector Debt Statistics: Guide for Compilers and Users (PSDS Guide)* paragraphs 2.17 and 2.154–2.157, respectively.

debt management, and the availability of accurate and up-to-date statistics determines how effectively the debt office can carry out its other functions whether they are operational or analytical. It is critical to the smooth functioning of a government debt office that the compilation, recording, and dissemination (if the debt office is the main compiling agency) of external debt statistics be undertaken in a timely and comprehensive manner.

Main Data Sources

11.7 Information collected at the level of the individual debt instrument provides the compiling agencies with the greatest flexibility in meeting user requirements. Also, instrument-by-instrument detail supports detailed quality checks. However, it may not always be possible or practical to collect information at the level of the individual debt instrument.³ It may well be necessary to use a combination of data sources, e.g., information could be collected at the individual debt instrument for large public corporations, and by other means (such as periodic surveys) for small public corporations.

11.8 Table 11.1 summarizes, by debt instrument, the possible data sources for compiling public sector external debt statistics. Four main types of data sources—which are discussed in detail below—may be distinguished:

- Computer-based debt-management system (CBDMS)
- Balance sheets

- Surveys and questionnaires
- Other sources

Computer-Based Debt-Management System

11.9 The main characteristics of a CBDMS are presented in Table 11.2. The source data for a CBDMS could be drawn or complemented from one, or more, of the following data systems: accounting systems, financial management systems, and other systems. Typically for public sector debt, a CBDMS is the centerpiece of the data recording system, with the other sources mentioned ahead, supplementing or providing data for the CBDMS.

Balance Sheets

General considerations

11.10 Typically, extrabudgetary units, social security funds, and public corporations produce financial statements, including balance sheets, usually in accordance with an internationally accepted accounting standard. These balance sheets are compiled annually, and often on a quarterly basis as well. Budgetary units of central government, state governments, and local governments are also increasingly implementing accrual accounting systems and compiling financial statements (including balance sheets) following international (or national) accounting standards.

11.11 A balance sheet includes position information on assets and liabilities and provides detailed information on loans and debt securities as well as SDRs

Table 11.1 Possible Data Sources for Compiling Public Sector External Debt Statistics

Debt Instruments	Data Sources	CBDMS	Balance Sheets	Surveys and Questionnaires	Other Sources
Special drawing rights (allocations)			X		X
Currency and deposits			X	X	
Debt securities		X	X	X	
Loans		X	X	X	
Trade credits and advances			X	X	X
Other debt liabilities					
Insurance, pension, and standardized guarantee schemes			X	X	X
Other accounts payable			X	X	

Source: *PSDS Guide, GFSM 2001, GFS: Compilation Guide for Developing Countries, BPM6, and BPM6 Compilation Guide.*

³In most countries, the majority of public sector external debt other than that of the central government (e.g., public corporations) tends to be concentrated in a small number of large units. There is also a tendency for borrowing over a certain size to be limited to only a few public sector units.

Table 11.2 What a Computer-Based Debt-Management System (CBDMS) Should Do

Task	Requirements
Debt recording [loan-by-loan]	<p>A CBDMS should be able to maintain a comprehensive inventory of loan information:</p> <ul style="list-style-type: none"> • Records of loan agreement details—loan title, borrower, creditor, amount, currency, purpose, sector, conditions attached, creditor bank, other parties, etc. • Records of loan terms—effective date, final maturity date, conditions preceding effectiveness, disbursement pattern, commitment fees, interest rate, other fees, repayment profile, prepayment conditions, other loan development details, etc. • Records of actual disbursements—i.e., records of actual loan drawdowns • Records of actual debt-service payments—commitment charges, interest payments, principal payments, agency/management fees, other loan charges • Records of debt-related data—exchange rate, interest rate, and macroeconomic variables • Support day-to-day debt operation functions, ensuring that payments due are paid in time, monitoring arrears, and following up on delays in loans disbursement that can lead to undue payment of commitment fees
Debt reporting [loan-by-loan and on aggregate basis]	<p>A CBDMS should be flexible enough to produce a variety of debt reports that meet the requirements of users both within and outside the country:</p> <ul style="list-style-type: none"> • Summary reports showing basic details of individual loans or group of loans based on any possible selection criteria • Summary reports on loan utilization rates—for single loans, groups of loans, or entire loan portfolio • Reports on debt stock based on selection criteria such as currency composition, creditor composition, maturity structure, etc. • Reports on debt-service profile (historical and forecast) based on selection criteria—for example, debt service falling due to specific creditors or group of creditors within a given period, debt arrears, etc. • Reports for direct use in the balance of payments statistics, IIP framework, Government Finance Statistics, International Finance Statistics, Global Development Finance Statistics, etc.
Debt analysis	<p>A CBDMS should be able to perform basic debt analysis:</p> <ul style="list-style-type: none"> • Portfolio analysis—to carry out sensitivity tests to determine, for example, effect of variation in exchange rates and interest rates on future debt-service profile • Analysis on the impact of new loan offers—test the impact of new loan proposals on the debt service profile • Analysis of the impact of debt rescheduling or refinancing proposals on the debt-service profile • Using macroeconomic data to compute standard debt indicators—in both nominal and present value terms • Compute the grant element of loans as well as the present value of debt • Perform basic economic simulations using macroeconomic data • Allow debt managers to use risk-management techniques
Linkages with other packages	<p>A CBDMS should be flexible enough to interface with other systems:</p> <ul style="list-style-type: none"> • Export debt data electronically to commonly used applications such as Excel spreadsheets • Provide linkages to other systems for specific analysis/reporting—such as the World Bank DSM Plus and Debtor Reporting System • Import data such as exchange rates and interest rates from external sources • Interface with integrated financial management systems (IFMS). This is a paramount utilization of the CBDMS, playing the role of public credit module, in complement to the budget, treasury, public accountancy, and cash flow for the public sector

allocations,⁴ currency and deposits, trade credit and advances, insurance, pension and standardized guarantee schemes, and other accounts payable. Nevertheless, a balance sheet is usually presented on an aggregated basis, and compilers will need to find detailed information, often captured in the notes to the balance sheets. If the balance sheet and notes to the balance sheet do not provide the required information to compile external debt statistics, additional information—such as the residence of creditors—should be collected from supplementary sources, such as accounting systems and creditors registry that public supervising entities may have.

11.12 When using balance sheets as sources to compile public sector external debt statistics, compilers should understand the methodology underlying the debt liabilities in the source balance sheet, to ensure that the statistics they compile reflect, as relevant, the proper valuation, classification, and basis of recording. If needed, source data should be adjusted to reflect the proper valuation, classification, and basis of recording.

Public deposit-taking corporations

11.13 An important source of information on public sector external debt is the public deposit-taking corporations sector, which is closely regulated in nearly all countries and reports balance sheet data to central banks or regulatory agencies both for supervisory and monetary policy purposes. However, balance sheets typically do not contain sufficient detailed information on the maturity of loans and deposits; and additional information is required to calculate the debt service payment schedules.⁵ This is best achieved by obtaining and using information on individual debt instruments.

11.14 Central government and public corporations sometimes access foreign sources of funding via resident public deposit-taking corporations instead of borrowing directly from foreign lenders themselves. There is potential for double counting if both the government and the public deposit-taking corporation report the borrowing as an external debt liability.

⁴SDRs liabilities will be in the central government or central bank's balance sheet, depending on the arrangements in the country. SDRs are discussed in paragraph 3.45.

⁵Examples of the type of disaggregated information that could be collected from a financial corporation's balance sheet are set out in IMF (2000), *MFSM* (e.g., Box 7.1, p. 76).

If the latter borrows externally, the corporation—not the government—has the external debt liability, while the government has a domestic liability to the deposit-taking corporation.

Surveys and Questionnaires

11.15 Information collected at the level of the individual debt instrument is preferable but may not always be available. Balance sheet information may not meet all the requirements. If so, compilers will have to use surveys or questionnaires to obtain source data for the compilation of public sector external debt statistics. Questionnaires may be used to collect source data from extrabudgetary government units, state governments, local governments, and some public corporations. The key aspects of organizing a survey are set out in Chapter 12 and also apply to surveys of public sector entities.

11.16 Questionnaires and surveys should include clear reporting instructions to provide for high-response rates and high-quality responses. In addition, seminars and workshops explaining the reporting requirements for respondents are of value to both respondents and the compiling agency, and are encouraged by the *Guide*.⁶

Other Sources

11.17 For some debt instruments, information from data sources other than those discussed above may need to be used. This is the case for (1) public sector employees' pension funds managed by a public corporation; (2) unfunded public sector employees pension schemes; and (3) provisions for calls under standardized guarantee schemes, e.g., external debt statistics compilers may need to request actuarial companies to estimate liabilities for unfunded government employers' pension schemes. To ensure consistency, it is important that the same sources and methods be applied over time.

11.18 In countries with some form of exchange control, the central bank requires approval or registration of external borrowing. In such cases, the central bank can provide information on external borrowing—particularly in the case of public corporations.

⁶For additional information about data collection, compilation, and dissemination of public sector statistics, see Chapter 6 of the *PSDS Guide*.

Some Data Collection and Compilation Considerations

How Should Data Be Collected and Compiled?

11.19 To establish a proper external debt record, detailed information about loans and other types of borrowing (such as currency and deposits, debt securities, trade credit and advances, etc.) and all related transactions need to be compiled. The debt office should capture data on all public and publicly guaranteed external debt. This is why it is very important that the agency collecting information on public and publicly guaranteed external debt be the same as the one in charge of servicing or ordering payments. Government assumption of external debt originally contracted by different public units should be covered in debt records in a timely manner. In order to ensure that data collected by the debt office are reliable and exhaustive, a basic requirement is that all entries in the internal accounting system are interfaced into the government general accounting system and adequate reconciliation is undertaken periodically.

11.20 For those economies that may not have proper records of external debt data, there may be a need to first compile a thorough inventory of existing external debt data (and metadata) in order to establish the external debt positions, including any arrears that have accumulated on principal and interest payments. Once the external debt position is known, procedures should be put in place to obtain, on a regular basis, information on existing and new borrowing, as well as information on transactions and other economic flows that affect the external debt position. There may be a need to establish formalized institutional arrangements for the comprehensive and timely flow of information to the debt office. Table 11.3 lists information that should ideally be compiled for each debt instrument. This table is explained in more detail below.

11.21 Data compilation is best undertaken on an instrument-by-instrument basis, tranche by tranche, and in its original currency and stored in CBDMS. For each borrowing instrument, there are basically three types of information that need to be compiled: (1) the core information on details and terms that will produce the amortization and disbursements tables; (2) data on actual disbursements, as well as the changes in the committed undisbursed amount if, say, there

are cancellations and/or increases (e.g., with a project loan); and (3) actual debt-service transactions. There are other types of information required, and these are described in paragraphs 11.29–11.31.

11.22 If the debt instrument is negotiable, additional information will be required in order to attribute ownership by residency. This information may come from a different agency, which is responsible for capturing information on the nonresident ownership of debt securities. Methods of capturing information on nonresident ownership of debt securities are set out in Chapter 13.

What Are the Core Details and Terms of the Borrowing?

11.23 Basic information on each debt instrument should normally be available from the loan or credit agreement or related documentation, a copy of which should be deposited—preferably under legal statute—with the debt office for all public or publicly guaranteed debt instruments. As well as compiling data on the amount committed and the currency, where possible, details are also required on the borrower, the creditor and creditor category (government, bank, multilateral institution, etc.), the disbursement agency, the implementing agencies, and the currencies of disbursement and debt service. In addition, details on the terms of the borrowing should also be compiled, especially any grace period and the maturity date(s), interest rates (variable or fixed) and any fees that are to be paid, and the dates for payments of interest and the type of repayment profile of principal. Data on the purpose or the end use of the amount borrowed are also important for analyzing the sectors that have benefited from the borrowing, while the guarantee status of the debt instrument will help assess the risk exposure of the government through the extension of guarantees to other borrowing entities.

11.24 Information on the terms allows the debt office to forecast the debt-service requirements for each debt instrument.

Disbursements

11.25 The debt office will need to compile information on disbursements, including actual and expected disbursements. From such information, to the extent possible, accurate projections of debt service can be made. Clearly, actual disbursements affect the total

Table 11.3 Information To Be Compiled on Each Instrument

Type of Information	Description
I. Details of Borrowing Instrument	
Purpose of borrowing	Descriptive title
Agreement date	Date agreement has been signed
Type of instrument	Type of borrowing instrument
Effective date	Date borrowing becomes effective
Type of borrowing	Whether single currency or multi-currency or multi-tranche
Amount borrowed	Original amount borrowed or revised amount after cancellation or enhancement
Currency of borrowing	Original currency, and currencies of disbursement and repayments
Participants	
• Debtor	Whether government, public enterprises, or private sector
• Implementing agency	Agency in charge of implementing project
• Creditor	Name and type of creditor (multilateral, bilateral, etc.)
• Disbursement agency	Name, if different from lender
• Creditor insurer	Name and country
Guarantee status	Borrowing by public enterprises or the private sector guaranteed by government, and percentage guaranteed
Insured	Whether borrowing is insured by export guarantee agency in creditor country and percentage guaranteed
Economic sector	Economic sector receiving borrowing
Use of funds	Whether to finance a project, etc.
II. Disbursements	
Disbursement period	Period during which disbursement is to take place
Method of disbursement	Such as direct disbursement or reimbursement
Expected disbursement pattern/profile	Forecast of how the borrowing will be disbursed
Actual disbursement	Currencies and amount of each disbursement taking place
III. Borrowing Terms	
	Interest Information on interest charged should include:
	• Interest type: fixed or variable rate
	• For variable rate: specify interest base/reference and margin/spread
	• Interest period: dates of payments
	• Basis for interest calculation (conversion factor: daily/monthly/semiannual/annual, etc.)
	• Months: actual number of days or 30-day month
	• Days in interest year (360/365)
Commitment fee	Rate levied on undisbursed (full or partial) amount
Penalty fees	Charges for late payment of interest and principal
Other fees	Such as agency fee, management fee, front-end fee
Principal	Maturity: repayment period/profile Type of repayment: bullet, equal or annuity-based, etc.
IV. Actual Debt-Service Payments	
	For each payment (of interest, principal, other charges) made:
	• Date, currency, and currency of transaction; amount of transaction in original currency, currency of transaction, domestic currency, and perhaps U.S. dollar and SDR
	• For multicurrency borrowing: equivalent amount paid in borrowing currency
V. Exchange Rate	
	Exchange rates on each transaction date for relevant currency vis-à-vis the local currency
	Exchange rates for end of period (daily, weekly, month, quarter, year)
VI. Interest Rates	
	Prevailing variable interest rates of base/reference rate used by the creditor for each interest period
VII. Debt Restructuring	
	• Changes in terms as a result of debt reorganization, through rescheduling, refinancing (voluntary or involuntary), write-off, etc.
	• Date required:
	–Debt concerned, arrears, consolidation period
	–Debt-relief terms (debt forgiveness, reschedule)
	–Terms for rescheduled debt (applicable interest rate, repayment profile)
	–Transactions on actual debt-service payments or for rescheduled debt
	–Other transactions from buyback or conversion/swap
VIII. Financial Derivatives	
	• Transactions arising from financial derivatives contracts
	• Positions measured both in market value and notional amounts in forwards (including swaps) and options

of the undisbursed amounts and, in many cases, the expected future pattern of disbursement. Data on disbursements can usually be obtained from project-implementing agencies and creditors (on an instrument-by-instrument basis or for groups of instruments).

11.26 Because different types of borrowings can be disbursed in various ways, the task of compiling disbursement data can be complex. For instance, in the case of project loans, disbursement can take the form of advances to the borrowing entity, direct payment by the lender to suppliers of goods and services, or reimbursements after the borrower has already paid the suppliers. The timing of the disbursement under these methods is different. Under the advances approach, it is the periodic payments by the lender to the borrowing government that constitutes disbursement; under the direct payment approach, it is the moment when the lender pays the supplier (although the debtor may have a trade credit liability to the supplier when goods are supplied and before the lender pays); and under the reimbursement approach, it is when the reimbursements are made to the borrower (e.g., a government). The debt office must keep track of these transactions and reconcile its records at regular intervals with information maintained by the project-implementing agencies.

Debt-service payments

11.27 All data on debt-service payments need to be compiled on a regular and timely basis. Information such as principal repayments, interest payments, commitment fees, service fees, and other fees and charges (including penalty fees) will not only allow the debt office to ensure that payments due are made on time, but enable it to track those debt instruments that are in arrears. Debt-service data are primarily obtained from the terms and conditions of the contract but can also be obtained from statements sent by creditors. For government loans, information can also be provided by those responsible for making the payments, such as the accountant general or the foreign payment department in the central bank. Debt service on public corporations' external debts can be obtained directly from the borrowing entity or through a unit in the ministry of finance, which monitors this category of external debt. Data for private external debt that is guaranteed by the government

can be obtained through a reporting mechanism agreed upon when guarantees are originally issued.

11.28 Where the debt office is at the center of the government's financial administration and public sector control system, the debt office itself orders the payment for budget execution, triggering at the same time the formal accounting procedures within the government for public debt service. This framework, known as an IFMS, is frequently implemented in projects financed by the World Bank, or other regional development banks, through loans for the modernization of the public sector. This interface with the budget execution is not only on the expenditure side, i.e., debt service—but also on the revenue side; when a deposit in the treasury accounts is made from the proceeds of a debt instrument. The debt office should alert the budget office and the treasury of the availability of resources.

Additional data requirements

Exchange rates and interest rates

11.29 Given that debts can be contracted in various currencies, it is important that the debt office collects and maintains information on the relevant exchange rates for all currencies in which borrowing has taken place, and those related to financial derivative contracts in foreign currency. This information should be compiled on a regular basis, including for dates on which transactions have occurred and for end-periods (month, quarter, year, and, for certain short-term instruments, perhaps weekly). This is necessary because the disbursements and the debt-service operations should be recorded in the original currency, the currency of transaction (if different from the original one), and the domestic currency. For those instruments bearing variable interest rates, all relevant rates should be updated for each interest period, thus enabling the debt office to project the debt-service requirements with respect to these instruments. If data on exchange and variable interest rates are to be compiled on a daily basis, it is highly convenient to have a specialized, online computer service to obtain this information.

Changes in debt instrument amounts and debt restructuring

11.30 Information on any changes to individual debt instruments such as enhancements or cancellation

of the debt liability, or a reorganization of the debt through debt forgiveness, rescheduling, refinancing, conversion, prepayments, or debt assumption should also be compiled.⁷ Similarly, information on debt reduction given through discounts on debt buybacks should be maintained. Debt office representation at the loan negotiation processes would help ensure that this kind of information is correctly recorded.

Data on financial derivatives transactions

11.31 Although financial derivatives are not debt per se, these instruments have implications for debt management. For those countries where borrowers use financial derivatives to manage their risk exposures, data on transactions arising from these contracts should be compiled and recorded, as well as positions on outstanding contracts, in both market value and notional amounts. Because financial derivative contracts can result in additional external liabilities, their market value needs to be monitored on an ongoing basis. Any direct increase in debt-service costs arising from hedging using financial derivatives (e.g., commission expenses) should be registered.

How Should Information Be Stored?

11.32 A debt office should store information in an efficient and comprehensive CBDMS that can undertake a number of tasks and so support both operational and policy functions (see more information about CBDMS in Table 11.2). A good CBDMS can also be used to store and retrieve information on private sector external debt. Typically, a CBDMS should be able to do:

- Debt recording (loan-by-loan)
- Debt reporting (loan-by-loan and on an aggregate basis)
- Debt analysis
- Linkages with other packages and systems of the public sector unit

How Should Data Be Validated?

11.33 Data validation is essential in ensuring the compilation of reliable, comprehensive, and timely external debt statistics that, in turn, are essential for the management and formulation of a country's fiscal and

other macroeconomic policies and strategies. For this reason, the *Guide* recommends that procedures be put in place at various stages of the data compilation and recording process to ensure that all data captured are properly validated and reconciled with other data sources. Although data provided to and supplied by the different institutions and departments—both international and domestic—should be checked for mutual consistency, these data may not be identical. But the data validation process should ensure that where differences do exist, the underlying factors for the differences are identified and explained to users of the data.

11.34 Among the various procedures and actions that can support data validation are:

- Verification of data recorded in the CBDMS with data extracted from debt instrument agreements, statements, and other documentation
- Systems with inbuilt-validation procedures to check for inconsistencies at the time of the recording of the information in debt recording and management systems
- Description of procedures for treating different types of external debt and their components, including sources of data in a Debt Procedures Manual—a “how-to” manual that accumulates knowledge and passes on experiences
- Periodic reconciliation of data obtained from one source with other sources of information—for instance, data on debt-service payments can be checked with records kept by the foreign exchange payment department in the central bank; loan balances could also be verified with creditors and debtors on a regular basis; and cash flows could be reconciled with bank accounts and with accrual records
- An audit mechanism that is consistent with the general rules of public finance control

Appendix: Functions of the Government Debt Office

11.35 Effective debt management by a government involves seven basic functions (see Table 11.4): policy, regulatory, resourcing, recording, analytical, monitoring, and operating (including active portfolio management). The policy, regulatory, and resourcing functions (known as the executive debt-management

⁷Indeed, a new instrument is created when a change in the terms of a loan agreement results from a renegotiation (see Chapter 8).

Table 11.4 Some Recommended Functions of a Debt Office

Functions	Public Sector Debt		Private Sector Debt (depending on economy)
	Domestic	External	
Policy and regulatory	<p>Formulating debt-management objectives and strategy</p> <p>Decisions on volume, type of instruments, timing, frequency, and selling techniques</p> <p>Where feasible, development of a benchmark debt structure</p> <p>Communication linkages within government/cabinet/parliament</p> <p>Fixing borrowing ceilings accordingly to budgetary and fiscal policy goals</p>	<p>Institutional arrangements for borrowing, disbursements and debt service, including laws and regulations as well as policy for public guarantees</p> <p>Establish debt sustainability standards</p> <p>Policy Framework on Contingent Liabilities</p> <p>Determine borrowing needs, desired terms, borrowing resources</p>	<p>Determine the policy relating to private borrowing (external), dependent on nature of exchange regime and capital account liberalization</p> <p>Establish sources and institutional arrangements for monitoring private debt (short- and long-term)</p> <p>Policy Framework for Contingent liabilities</p>
Recording and operations	<p><i>Primary Market</i></p> <p>Organize distribution channels and selling procedures</p> <p>Management of debt operations including auctions, subscriptions, etc.</p> <p>Institutional arrangements for contacts with market</p> <p><i>Secondary Market</i></p> <p>Active management of government outstanding portfolio</p> <p>Development of debt and liquid markets</p> <p>Institutional arrangements for intervention and contacts with market</p> <p><i>Redemption</i></p> <p>For both new and old issues, administration of delivery and redemption of securities</p> <p><i>Recording arrangements</i></p> <p>Recording system for debt operations</p> <p>Management of records of debt holders/stock</p> <p>Servicing of government debt and its linkage to budgetary execution</p> <p>Administration of register of government debt instruments</p>	<p>All needed information flows are in place in order to gather the necessary data to cover all information needs for operations and decision making</p> <p>Ensure appropriate budgetary provisions are made for debt and service contingent liabilities and the planning of reserves for externalization</p> <p>Checking invoices and ensuring debt service paid on due dates</p> <p>Managing disbursements including claims for reimbursements</p> <p>For commercial market borrower, the whole range of activities pertaining to market participation and penetration</p>	<p>Where governments is fully responsible for foreign exchange reserves, perhaps take account of the debt-servicing needs of private sector debt in deciding upon the level of foreign reserves</p>
Statistical/analytical	<p>Maintain timely and comprehensive data on all borrowing instruments</p> <p>Generate periodic reports</p>	<p>Maintain timely and comprehensive data on loan-by-loan basis (forecast and actual) of commitments, disbursements, debt service, arrears (held for a computerized management system)</p> <p>Generate periodic reports</p>	<p>Maintain timely and comprehensive data (including short-term debt) on a loan-by-loan basis, as practicable, from various sectors such as deposit-taking corporations, other financial corporations, etc.</p> <p>Generate periodic reports</p>
Controlling/monitoring	<p>Projecting government borrowing requirements in context of fiscal and monetary targets and sustainable levels of debt</p> <p>Evaluate cost of borrowing (yields) of various instruments</p> <p>Ensure that the yearly ceilings are respected</p>	<p>Monitor debt indicators and other performance criteria to ensure debt sustainability</p> <p>Undertake analysis of debt portfolio in a macroeconomic framework and International Investment Position (IIP) framework</p> <p>Analyze database for debt restructuring including rescheduling</p> <p>Undertake analysis for the purpose of risk management especially exchange risks and other market risks</p>	<p>Monitor debt levels, non-performing loans, and other liabilities bearing systemic risks</p> <p>Monitor relevant debt indicators and other performance criteria to ensure debt sustainability</p>

Table 11.4 Some Recommended Functions of a Debt Office (*Concluded*)

Functions	Public Sector Debt		Private Sector Debt (depending on economy)
	Domestic	External	
Active portfolio investment	Active monitoring of risks (interest rate, exchange rate, and counterparty risks) Performance measurement using benchmark or other yardsticks	Continuous market analysis Constant innovation	Ensure effective risk management is encouraged Monitor systematic risk through prudent bank supervision Set standards for transparent and reliable corporate disclosure

functions) are undertaken at a very senior level, i.e., Board of Ministers or a subset of it, and as such might be viewed as establishing the “rules of the game” by the highest levels of government. Hence, direction and organization are given to the whole debt-management system. Once this framework has been decided upon, it is the government debt office that undertakes the other operating functions, implementing and executing the set of agreed “rules of the game.”

Policy, Regulatory, and Resourcing

11.36 These functions deal with the formulation of debt-management objectives and strategy including the setting up of debt sustainability levels. A strategy may, for instance, impose statutory limits or overall guidelines on how much borrowing can be done by the public sector and/or by the economy as a whole, which in many cases is approved by the parliament. These functions also cover the institutional arrangements that govern the determination, raising, and disbursement of funds, and the related debt service, as well as the application of laws and regulations that govern debt management at the policy and operational levels. The resourcing function ensures that the recording, analytical, controlling, and operating functions pertaining to public debt management are performed by qualified staff and involves recruiting, hiring, motivating, training, and retaining staff. Resourcing should also provide for adequate physical facilities to perform the required tasks.

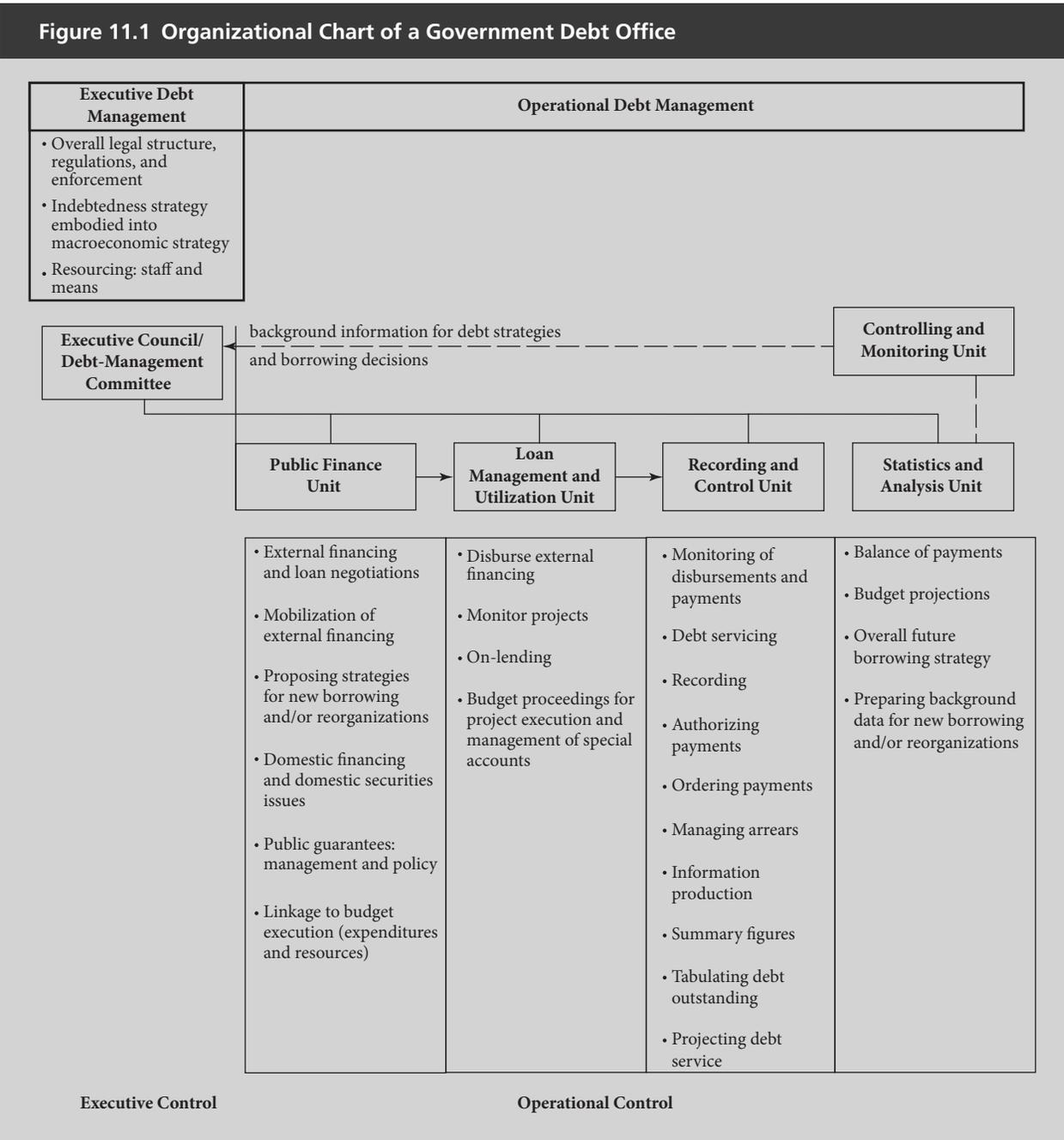
Recording, Analytical, Monitoring, and Operating

11.37 The recording function deals with the recording framework for all relevant debt-management information and with those activities related to the raising of loans, the budgetary and reserves provision

of debt-service payments and the servicing of debt. The analytical, or statistical, function utilizes the information provided by the recording function. At the aggregate level, the analytical function involves macroeconomic analysis to explore the various options available, given economic and market conditions, and determining the future structure of the external debt. The operating function involves negotiation, utilization of loan proceeds, and the servicing of external debt, as well as active portfolio management. The latter covers the day-to-day active management of the debt portfolio and takes into account market developments, such as in interest rates and exchange rates, which affect the portfolio in terms of desired performance and risk.

11.38 The monitoring function covers the entire range of activities involved in the maintenance of external debt statistics and their analysis. This function helps ensure that policy objectives are realized and assists in the determination of debt-management policies. The controlling/monitoring function must ensure, among other things, that the terms of new borrowing fall within the guidelines set by the senior level; that funds are being utilized on time and appropriately; and that repayments are made according to schedule. At the aggregate level, the controlling/coordinating function is essential in ensuring that operational debt-management is in accordance with executive debt-management actions (i.e., the policy and regulatory functions performed at the most senior level).

11.39 The day-to-day active management of the debt portfolio takes into account market developments, such as in interest rates and exchange rates, which affect the portfolio in terms of desired performance and risk. Formally, active portfolio management per-



tains to the operations function, but given its specificity, it is best to consider this work separately.

11.40 The location and organizational structure of a government debt office (typically referred to as a debt-management unit) will vary among countries. The differences between developing and developed countries are due to the differences in sources of financing. That is to say that the organizational structure is different if the country is mainly a borrower of Interna-

tional Development Association (IDA) funds or if the country is issuing bonds in the international financial market.

11.41 For most developing countries, the debt-management functions are not assumed by a single office but dispersed across several institutions. A schematic representation of these functions can be found in Figure 11.1. A common structure has a debt office in the ministry of finance, focusing on public sector domes-

tic and external debt, with the central bank overseeing private debt, and often taking on the operational functions related to government debt as its financial agent. Ministries of planning and finance and the central bank each make economic forecasts that provide the framework for debt management. A high-level coordinating committee steered by the ministry of finance (or the prime minister's office or a ministry of economic coordination) takes charge of debt strategy and policy, which should be embodied in the overall macroeco-

nomie targets. In some developed countries, however, an independent government debt office conducts debt operations based on objectives set by the government as part of asset-liability management operations. Ireland, New Zealand, Sweden, and the United Kingdom have set up such structures that delineate separate objectives for debt management and monetary management. No matter what the structure, each country should have a transparent framework for the efficient conduct of all debt office functions.