



Sovereign Debt Management Newsletter

Storkey & Co Limited
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What's New

The main focus of activity over the past three months has again been our continuing involvement in debt management and capacity building assignments in the Asian-Pacific region, and our ongoing contribution to the development of sound debt management practices internationally.

In this Newsletter, there are articles covering:

- The use of swaps for debt restructuring.
- Commonwealth Secretariat Debt Management Forum held in London from 26 to 27 June 2008.
- Recent initiatives in investor relations and debt publications.
- Central Banking Publications *Government Debt Management: New*

Trends and Challenges Training Course in Cambridge, UK from 2-5 September 2008.

In mid-June, we provided training to around 30 members of the People's Council of Vietnam during a 3-day workshop organised by the UNDP. This was the first opportunity to increase awareness of government debt and debt management to local governments in Vietnam. Given the limited understanding among participants of sound practice debt management and increasing pressure on provincial and municipal governments in Vietnam to be responsible for their own financing/debt programs, more training will be required to ensure that the risk of local government debt does not become a realised contingent liability for the central government.

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Special points of interest:

The United Nations Institute for Training and Research (UNITAR) has announced its e-Learning Course on "Basic Course on Public Debt Management" to be conducted from 8 September to 17 October 2008. The objective of the course is to explain concepts and techniques of public debt management.

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Storkey & Co Update

Over the past 3 months, we have:

- continued to assist with the Debt Management and Fiscal Risk component of the World Bank and DFID Public Financial Management Reform Project (PFMRP) for the Ministry of Finance in Vietnam.
- continued to assist the World Bank in implementing the debt management performance assessment (DeMPA) tool across low-income countries.
- completed assistance to the Ministry of Finance in Mongolia to strengthen public debt management under the IDA Governance Assistance Project (GAP).
- completed a Debt Relief Strategy for the Government of Nauru through World Wide Project Management Services in Adelaide, SA under an AusAID funded project.
- provided training for the People's Council of Vietnam.



The Use of Swaps for Debt Restructuring

As Low Income Countries (LICs) and Middle Income Countries (MICs) begin to develop their Medium Term Debt Strategies (MTDS), the debt managers are increasingly looking to see how they can restructure government debt, particularly external debt.

Cross-currency and interest rate swaps provide the instruments for such activities. The World Bank provides swaps as a hedging instrument not only for individual IBRD loans or a portfolio of IBRD loans, but also for a portfolio of non-IBRD loans. Commercial and investment banks can also act as swap counterparties.

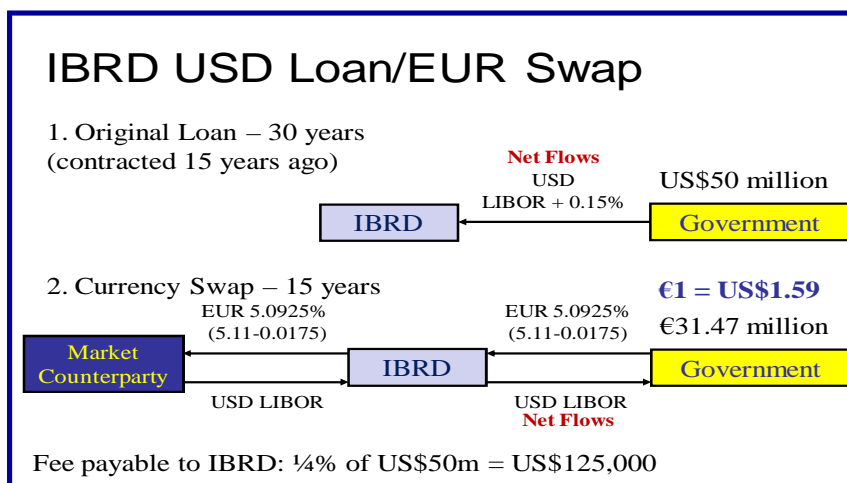
We have noted that some LICs and MICs have already undertaken swaps. Before a swap is introduced by the government, it is recommended that **ALL** of the following five criteria be met:

1. Laws and regulations are in place, along with the necessary delegated authorities to enter into swaps.
2. Policies and procedures to monitor and manage swaps have been established and formalised in policy/procedure manuals.
3. Risk limits and controls have been established for each swap and limit monitoring processes are in place (counterparty/risk limits).

4. Systems to record, settle, value (on a marked-to-market basis), report, and account for the swaps have been developed, tested and implemented.

5. Staff have been trained in the use of swaps.

We suspect that many LICs/MICs that have already entered into a swap transaction will not have fulfilled all these criteria and are unaware of the risks that these instruments carry. In addition, the use of collateralised swaps may be necessary given the below investment grade credit ratings of LICs and MICs. Again, the same five criteria are needed.



*Before a swap is introduced by the government, it is recommended that **ALL** of the five criteria outlined above be met.*

ComSec Debt Management Forum

The Commonwealth Secretariat (ComSec) hosted a Debt Management Forum in London on 26 to 27 June 2008, which was attended by nearly 100 delegates and presenters from 50 countries.

The broad themes covered in the forum included emerging trends in sovereign debt management; developing a public debt management strategy; accessing

capital markets; institutional arrangements and capacity for sovereign debt management; emerging areas of debt management for developing countries; enhancing CS-DRMS for effective debt management; improving debt data quality, reporting and dissemination; and capacity building for debt management.

Details of the forum including the programme, all the presentations, list of participants, and the final report can be found on the website: www.csdrms.org

In addition, ComSec released a new video as part of the forum *Breaking the Debt Cycle* which has been posted on YouTube: www.youtube.com/watch?v=gjzery5La2o



Investor Relations and Debt Publications

Many debt management offices (DMOs) are using the internet to provide debt information and debt activities to investors and market participants. In the January 2008 newsletter, we set out 10 DMO websites that set the highest standards in this regard.

Over the past year, we have noted that some DMOs and international agencies involved in debt management are making wider use of the internet to keep investors, market participants and debt practitioners informed.

The Brazilian National Treasury has been very innovative by:

- sending out regular emails informing the market of new initiatives and monthly status reports against the annual debt strategy published at the beginning of the fiscal year.
- sending invitations to participate in web-based conference calls.
- providing a questionnaire to evaluate their publications.

As a result, the Institute of International Finance (IIF) ranked Brazil

highest on their Investor Relations Ranking for the most active emerging countries in the sovereign debt market.

We have noted the video posted on YouTube by the Commonwealth Secretariat on page 2.

The use of Webcasts and YouTube to provide debt information and debt activities in video format should be the next major development in investor relations and provide the potential to incorporate an interactive format.

Central Bank Publications Training Course

Central Banking Publications (CBP) will hold their fourth annual 4-day training course on *Government Debt Management: New Trends and Challenges* at King's College Cambridge from 2-5 September.

Key themes to be covered during this four-day (three nights) residential course by an experienced panel of experts from across the globe are effective debt management strategies and domestic bond market development. Speakers include senior officials of

the UK Debt Management Office, Danish National Bank, Agence France Trésor, Hungary's Government Debt Management Agency (ÁKK), and renowned practitioners and academics in their field.

Specific topics include cash management, public-private partnerships, Asset-Liability Management (ALM) frameworks for effective debt management, domestic interest rate swaps and performance measurement.

The four-day program of interactive roundtables encourages delegates to quiz the presenters, raise issues and discuss solutions.

Company Director, Ian Storkey, will chair the course having taken over from Mike Williams who chaired the previous three courses. For course details refer to CBP's website:

www.centralbanking.co.uk

Recent Developments or Announcements

The World Bank's Economic Policy and Debt Department will host a conference on "Debt Relief and Beyond: A World Bank Conference on Debt and Development". The conference will take place on October 30-31, 2008 in Washington, DC, immediately following the World Bank's Sovereign Debt Management Forum to be held on October 27-29.

The conference, which is by invitation only, is expected to attract around 200 participants and will cover a wide range of topics related to debt relief and debt sustainability. The last Sovereign Debt Management Forum was held in October 2006. Details should be available shortly on the World Bank website:

www.worldbank.org

We have noted that the Indonesian Directorate General of Debt Management (DGDM) has recently completed the English version of their website, although most of the documents are still in Bahasa. This is a commendable effort for DGDM and one that has taken considerable effort. The website address is:

www.dmo.or.id/en/

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Storkey & Co Limited is an international management consultancy providing independent specialist advice on government debt management to central and sub-national governments.

The company employs or works in partnership with recognised experts who have considerable international experience in the finance markets and in public sector debt, cash and risk management. With their extensive project and change management expertise, they have developed an international reputation for delivering the highest quality practical solutions.

These experts have gained practical experience from working in a government debt office and on technical assistance projects internationally for all the major donor agencies.

Since the company was established in early 2001, assignments have been undertaken in Australia, Canada, Cambodia, Ethiopia, Fiji, Ghana, Guyana, India, Indonesia, Laos, Lithuania, Malawi, Mauritius, Mongolia, Nauru, New Zealand, Nicaragua, Papua New Guinea, Philippines, Solomon Islands, Thailand, The Gambia and Vietnam.

Debt Management Unit Publications & Websites

Key publications released by DMUs over the past 3 months:

- **Belgium** Annual Report 2007
- **Czech Republic** Quarterly Review Jun 2008
- **Finland** Quarterly Review Jun 2008
- **Greece** Public Debt Bulletin No 48 & 49
- **Indonesia** Central Government Debt Qtr IV 2007
- **Ireland** NTMA Annual Report 2007
- **Israel** Form-18K 2007
- **Japan** Debt Management Report 2008
- **Japan** Japanese Government Bonds Jul 2008
- **Jordan** Public Debt Bulletin Mar 2008
- **Latvia** Debt Management Strategy 2008
- **Latvia** Central Government Debt Management Quarterly Bulletin Q2/2008
- **Lithuania** General Government Debt 2007
- **New Zealand** Economic and Financial Overview 2008
- **Portugal** IGCP Annual Report 2007
- **Sweden** SNDO Annual Report 2007
- **Sweden** Central Government Borrowing 2008:2
- **Sweden** Financial and Risk Policy for 2008
- **Turkey** Public Debt Management Report May, Jun and Jul 2008
- **UK** DMO Annual Report 2007-08
- **UK** DMO Quarterly Review Apr-Jun 2008
- **UK** DMO Guide to Gilts version 6

- **Vietnam** External Debt Bulletin No 2

Also Released:

- **ComSec** Newsletter May 2008
- **ComSec** June 2008 Forum papers

A full list of DMO/DMU websites is on our website as well as relevant Ministry of Finance/Central Bank websites and sub-national government websites in Australia, Canada and the USA.

