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IMF Executive Board Discusses Managing Public Debt: Formulating Strategies and Strengthening Institutional Capacity

On March 25, 2009, the Executive Board of the International Monetary Fund (IMF) discussed the staff paper on "Managing Public Debt: Formulating Strategies and Strengthening Institutional Capacity."

Background

The Executive Board last discussed the work program related to public debt management (PDM) on May 4, 2007 when it reviewed the paper on "Strengthening Debt Management Practices: Lessons from Country Experiences and Issues Going Forward". At the time, Executive Directors endorsed the work program leading up to the current Board meeting, which entailed three main elements: (i) developing a toolkit to help low-income countries formulate an effective Medium-Term Debt Management Strategy (MTDS) and applying it in 4–6 countries a year over a three-year pilot period; (ii) supporting the development of a debt management performance assessments (DeMPA) framework to monitor countries' progress in strengthening their debt management capacity; and (iii) continuing the provision of debt management and domestic debt market development technical assistance and advisory services in middle-income countries.

The March 25, 2009 Board discussion provided an opportunity to review progress in these areas and the toolkits and frameworks that have been developed by staff, draw lessons from their applications, and propose steps to move the work program forward.

Executive Board Assessment

Executive Directors welcomed the progress in developing and implementing the toolkit for strengthening public debt management (PDM) over the past two years. They commended Bank and Fund staffs for their close collaboration and coordination in this important area. Directors pointed out that the current global crisis—with heightened market volatility and increased financing needs in many countries—underscored the need for strong PDM frameworks. While countries with developed local debt markets are in a better position to weather the crisis, others that rely more on external financing continue to be vulnerable. In this context, Directors urged continued highly concessional support by bilateral donors and the international community to low-income countries.

Directors considered that a well-formulated debt strategy should help authorities determine the appropriate balance between maximizing concessional financing and developing domestic debt markets in an attempt to diversify financing sources over time. Such a strategy should also help countries avoid accumulating unsustainable debt, particularly in countries benefiting from debt relief. A few Directors noted that financing options for low-income countries are constrained by the Fund's concessional requirements and, therefore, looked forward to timely modification of the current policy.

Directors noted that the Medium-Term Debt Management Strategy (MTDS) framework provides a comprehensive process for developing an effective debt management strategy. They emphasized the importance of ensuring that the MTDS program helps the authorities develop a debt strategy that is consistent with the macroeconomic framework, market conditions, and debt sustainability. In this regard, Directors noted that the MTDS guidance note outlines useful steps for evaluating the costs and risks of different borrowing strategies, and that the MTDS analytical tool provides quantitative rigor to the analysis and complements the low-income country debt sustainability framework. To ensure full ownership, Directors stressed that implementation of the MTDS framework should be largely driven by demand, in line with each country's priorities. Some Directors saw scope for making the MTDS framework more flexible and user-friendly, and encouraged continued work on improving the toolkit that will help country authorities make informed decisions about the benefits and risks associated with various debt strategies. A few Directors encouraged greater efforts to integrate the MTDS framework with the Fund's country work, including in bilateral surveillance and program countries.

Directors saw the benefits of the MTDS framework in strengthening governance by making the debt strategy formulation process explicit and encouraging active monitoring and review. They agreed that early diagnosis of institutional weaknesses—through the application of the debt management performance assessment (DeMPA) framework—could effectively identify priorities for reform, and provide a common platform for donor support for PDM capacity-building programs. Directors stressed that the DeMPA framework, tailored to the needs of low-income countries should help support efforts to build capacity in the wake of debt relief by the international community. A few Directors saw a potential role for the framework in benchmarking debt management capacities for a wider group of developing countries, while a few others urged caution in the use of assessment ratings, noting that the DeMPA framework is still in its early stage of implementation.

Most Directors considered that the MTDS toolkit could also usefully be applied in middle-income countries. Strong risk management frameworks in middle-income countries will help ensure appropriate debt structures and support financial stability. It will be important that the toolkit be adapted to suit the different circumstances and stages of financial sector development in these countries.

Directors noted that developing a sound MTDS would likely require technical assistance in complementary areas to ensure a fully operational medium-term fiscal framework, effective cash and liquidity management, and robust financial market development. Accordingly, Directors broadly supported the scaling-up of the MTDS technical assistance program to cover more than the envisaged 4–6 low-income countries per year, and to continue to provide technical assistance to MICs on the basis of demand. However, given existing staff resource constraints, the work program will need to be well-prioritized, with particular focus on low-income countries where the needs are more pressing. While welcoming staff initiatives for outreach and training of other technical assistance providers on the MTDS framework, Directors stressed the need to ensure cost-effectiveness of these programs.

Directors generally welcomed ongoing efforts by the Fund to establish a Topical Trust Fund in order to help support debt-related technical assistance activities in low-income and middle-income countries. This should serve as a useful complement to the World Bank's multi-donor trust fund, the Debt Management Facility. Directors urged continued strengthening of collaboration between the Fund and the World Bank and other external partners, based on their respective expertise, in order to further reduce overlaps and rationalize technical assistance delivery costs. Regional technical assistance centers could play a greater role in this regard as well.

Directors urged staff to report further progress to the Board in 24 months.