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DIRECTORATE FOR FINANCIAL AND ENTERPRISE AFFAIRS
Committee on Financial Markets

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Working Party on Debt Management

SUMMARY RECORD OF THE THIRD OECD FORUM ON AFRICAN PUBLIC DEBT MANAGEMENT

4-5 December 2008
Paris

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SUMMARY RECORD OF THE THIRD OECD FORUM ON AFRICAN PUBLIC DEBT MANAGEMENT

4-5 DECEMBER 2008, PARIS

I. Introduction and background

1. The *Third OECD Forum on African Public Debt Management* was held on 4-5 December 2008, back-to-back with the *Eighteenth OECD Global Forum on Public Debt Management.* The meeting took place at the New Conference Center of OECD headquarters in Paris and was chaired by Mr. Ove Sten Jensen, chairman of the OECD Working Party on Debt Management (WPDM) and head of the government debt management department at the Danish Central Bank.

2. The OECD Forum on African Public Debt Management aims to develop a policy dialogue with, and among, debt managers, central bankers, and other financial officials involved in public debt management and government securities markets in both sub-Saharan Africa and North Africa. The OECD Forum series is *pillar 1* of the OECD project on African public debt management and bond markets. The Regional Workshop series on African Debt Management and Bond Markets form the *second building-block***,** while the creation of a database on African debt statistics represents *the third pillar*. All pillars seek to promote or support frank and open policy discussions between African and OECD debt managers on the one hand, and African market participants like banks, exchanges and rating agencies, on the other.

3. Through the policy dialogue of pillar 1, African debt managers and policymakers can enhance their understanding of sound policies and practices in modern and professional public debt management, as well as the development of robust local government securities markets. These activities assume greater importance, in particular, as many countries take advantage of debt reduction initiatives and seek to avoid falling back into positions of unsustainable debt. The forum is being sponsored to-date by the Icelandic government.

4. The forum was organised under the aegis of the OECD Working Party on Debt Management, a platform for senior government debt managers from OECD member countries to exchange views, experiences, and policies in the field of government debt management and the development of government securities markets. With its unique and up-to-date pool of knowledge in this specialised field of government policy and operations, the working party has achieved singular international status in the global community of public debt managers and financial policymakers more generally. Through the forum, African debt managers and policymakers get efficient and well-structured access to the worldwide OECD-led global knowledge network of debt managers.

5. The objectives of the OECD Forum on African Public Debt Management relate to policy areas where the OECD already plays a leading and complementary international role. The policy dialogue is structured so as to complement the technical assistance activities of the IMF, World Bank, and other agencies, and be in line with recent G8 communiqués on developing local bond markets. To that end, the forum also functions as an efficient clearinghouse to share and exchange information on the activities by the various international and regional organisations involved in different aspects of debt management in Africa. Notably, across all the organisations doing work in this important field of government financial

management, there exists no other international forum of this nature held on an annual basis devoted to government debt management and securities markets in Africa.

II. Agenda and participants

6. The 2008 forum included four principal discussions (refer to **annex 1**, agenda):

- Session 1: Changes in the use of short-term securities by debt managers (this session was held jointly with the of the Global Debt Forum)
- Session 2: Issuance procedures and (future) role of primary dealers
- Session 3: International co-operation and information sharing (brief overview of work programmes on African debt management and bond markets)
- Session 4: Round-Table discussion on a recent and urgent public debt management topic

7. The forum was attended by over 80 participants (refer to **annex 2,** participants). Of them, 35 were officials directly involved in debt management activities in 17 African countries: Angola, Benin, Cameroon, Congo, Cote D'Ivoire, Ethiopia, Gabon, Kenya, Malawi, Mali, Morocco, Namibia, Nigeria, South Africa, Tanzania, Uganda, and Zambia. 40 officials from 7 OECD and 5 non-member countries outside Africa also attended, as well as representatives from the IMF, World Bank, African Development Bank, EU, BCEAO/BEAC Pole-Dette, and MEFMI.

III. Highlights of the policy dialogue

8. Opening remarks were provided by Mr. Andre Pillay (on behalf of the *Deputy Director-General, National Treasury, South Africa)* and Mr. Tómas Ingi Olrich, *Ambassador of Iceland to France.* Mr Olrich also announced that the Icelandic government will continue to support financially the OECD project on African public debt management and bond markets in 2009 and beyond. Mr. Hans Blommestein provided an overview of the agenda against the backdrop of the global credit and liquidity crisis (refer to **annex 3**, OECD opening remarks).

9. The discussion of the above four topics can be summarised as follows.

Session 1: Changes in the use of short-term securities by debt managers

10. This session (joint with the 18th Global Debt Forum) discussed practices, policies and experiences concerning (changes in) the use of short term papers for funding and liquidity purposes, both from a short-term crisis perspective and from a longer-term, structural point-of-view. The session will examine recent developments in the changing use of Treasury Bills and their role in response to the ongoing financial crisis. The Asian crisis from the 1990s was a catalyst for many emerging markets to move towards the more extensive use of fixed, local currency bonds with longer maturities. A key question is whether this trend has been (or is) being interrupted by to-day's liquidity crisis? Many OECD countries are facing a strong increase in funding needs have been issuing large amounts of short-term paper. Against this backdrop, debt managers from both OECD and Non-OECD jurisdictions were invited to address the following issues:

1. What are the short-term implications of the liquidity crises on the use of the type of funding instruments (e.g. the strong rise in the use of treasury bills in response to the immediate needs of the crisis)?

2. What are the long-term structural changes in borrowing strategies (e.g. countries with low budget deficits or budget surpluses have been reducing the use of short-term bills, while some countries have been moving towards floating instruments)?

3. What is the role of short-term instruments in optimal issuance strategies in the post-crisis situation of both mature and emerging economies?

11. The session started with an overview of the main policy issues on the role of Treasury Bills in primary and secondary markets on the basis of *(i)* a recent OECD Survey, *(ii)* discussions within the OECD WPDM; and *(iii)* the policy implications from the insights from an OECD study on liquidity in secondary markets in both the OECD area and selected African markets. The session continued with a panel discussion.

12. The results of an OECD survey on 'Changes in the Use of Short-Term Papers' (covering the period 1998-2007) were presented by Mr. *Andras Rez (DMO, Hungary).* The October 08 WPDM discussion on this topic, summarised by *Dr Blommestein (OECD),* focused to an important degree on the ongoing credit/liquidity crisis (not covered in the Survey).

13. Key findings:

- Treasury bills (T-Bills) are the main instrument in the category of Short-Term Government Paper (STGP).

- STGP is used for 2 main purposes:

    1. **Funding purposes:** Countries with high borrowing requirements use more often T-Bills for funding purposes than the ones with low budget deficits or budget surpluses. The OECD Survey shows that in emerging market economies, the use of STGP had decreased significantly in the government debt markets over the survey period. This is primarily the consequence of a structural trend whereby debt managers were able to lengthen the maturity of their portfolio, thereby decreasing the share of T-Bills. The Survey indicated that the use of short-term papers decreased significantly in emerging debt markets in the period 1998-2007. This was primarily the consequence of the market policies of those countries to increase the size their T-Bond markets. Debt managers from many *emerging debt markets* managed to lengthen the duration of their portfolio and to decrease structurally the funding role of T-Bills (which was significantly more important than in the more developed debt markets). In other words, the declining role of short-term debt in emerging countries reflected debt markets coming into line with the funding practices of the more mature debt markets.

       In the same period (1998-2007), an increasing number of OECD countries had been able to decrease their government debt in response to lower budget deficits or even surpluses. In doing so, the amount of all types of outstanding instruments was reduced, including short term bills. Indeed, the OECD Survey indicates a decreasing use of T-Bills for funding purposes by OECD countries, with 3 countries having stopped completely the issuance of T-Bills. Denmark announced that it will cease issuing T-Bills in 2008.

2. **Liquidity purposes:** The countries with low budget deficits or budget surpluses, who kept issuing T-Bills, use them for liquidity purposes. In other words, in a declining debt environment, the active use of STGP for liquidity management is increasing in parallel with the liquidity management functions of DMOs. In some countries, T-Bills are issued for supporting or creating the short-end of the yield curve.

— During the discussion, the delegates underlined two important influences of the ongoing financial crisis on government debt management. *First*, the borrowing requirements in many OECD countries have increased in response to financing bail-out operations. *Second*, liquidity conditions have tightened and market participants all over the world have become much more risk averse. Debt managers expressed the view that both factors are having a significant impact on their borrowing strategies.

— As a result of these developments, market demand at the short-end of the yield curve has increased quite significantly. In response, many DMOs such as Denmark, Portugal, USA, Netherlands, UK, and France have increased short-term issuance or restarted STGP programmes via re-openings and new issuance. It was noted in this context that many recent bail-out plans have been financed to a large degree by the issuance of STGP, including Belgium, USA, Netherlands and the UK. Debt managers are expecting this trend to continue in the near future. They pointed out that in times of financial turmoil, STGP constitutes relatively access to funds for governments while providing liquid and secure instruments to the market.

— Delegates raised concerns about rising share of STGP in government portfolio. While STGP are cost-effective because of lower borrowing rates, the increasing share of STGP lowers the average maturity of a debt portfolio and shortens repayment schedules. This in turn is increasing roll-over risk. Especially in volatile and uncertain market conditions, re-financing risk is a challenge for debt managers. Consequently, roll-over risk and re-financing schedules need to be more strictly monitored than before.

— Especially emerging countries (including those from Africa) explained that decreasing risk appetite of investors and out-flow of foreign capital have hit especially the long-end of the yield curve. Given the crucial role of foreign investors, they are considering a shift in borrowing strategies in favour of STGP.

— African debt managers expect this trend to be continued in the near future. They pointed out that, especially in times of financial turmoil, STGP issuance is the major vehicle for governments to raise extra funds at short.

Session 2: Issuance procedures and (future) role of primary dealers

14. The purpose of this session was to review issuance procedures and critically assess the (future) role of primary dealers in African markets in light of the credit crisis. Auctions are key mechanisms for selling government securities. Have there been significant problems with auctions lately in African markets? Is more reliance on syndication needed? Is there a greater future role for the retail segment? Primary dealers are often seen as an important element in creating well-functioning primary and secondary markets. How serious are then the implications of the reduction in the number of primary dealers and weaker banks' balance sheets in some markets?

15. The session started with a *brief overview of recent developments in OECD markets*. This presentation set the stage for an assessment of issuance procedures and critically evaluated the (future) role of primary dealers in African markets, in particular in light of the credit crisis.

16. Panel 1 (South Africa, Gabon, Morocco) addressed one or more critical issues or problems related to issuance procedures and primary dealers in their markets.

17. Panel 2: (Malawi, Cameroon, Uganda, Tanzania) commented on the Panel 1 interventions but also added their own perspective on issuance procedures and the (future) role of primary dealers.

18. The panel discussion was followed by a general discussion (Q&A).

19. Many debt managers reported concerns about liquidity risk and sometimes very weak demand at auctions. Issuance conditions have worsened. Governments are facing upward shifts in borrowing costs and risk levels due to balance sheet fragility of market participants and increased insolvencies. In addition, the number of primary dealers has decreased due to bankruptcies and/or takeovers, while counter-party risk of (some of) the remaining players having increased due to weakening balance sheets. Many governments are facing an increase in expected deficits due to growing fears about an emerging recession.

20. In addition, several African delegates pointed to the need to resolve structural problems in the functioning of primary dealer systems. Reportedly, primary dealers in some jurisdictions are reluctant to bid on behalf of their customers.

Session 3: International co-operation and information sharing

21. Representatives from the principal international organisations provided information on their respective programmes-of-work (PoW) in the area of African public debt management and government securities markets.

22. Overview of work programmes on African debt management and bond markets (Moderator: Mr Stefan Nalletamby, African Development Bank):

- Mr. Bernd Braasch, Director (Deutsche Bundesbank and Co-ordinator G8 Action Plan)
- Ms. Nontle Anele Kabanyane (African Development Bank)
- Mr. Carlos Braga, Director (World Bank)
- Mr. Udaibir Das, Division Chief for Sovereign Asset-Liability Management, (IMF)
- Dr. Hans Blommestein (OECD Project on African Debt Management

23. Written materials had been circulated as background. African participants were invited to address questions on the provided PoW documentation.

Session 4: Round-Table discussion on a recent and urgent public debt management topic faced by African debt managers and financial policymakers

24. The purpose of this session was to address recent and urgent challenges for Public Debt Management in Africa in response to the ongoing credit/liquidity crisis. General perspectives: (a) What are the immediate implications for debt management strategies? ; and (b) how to deal with the direct impact as well as contagion effects of capital outflows?

25. More specific questions included the following: Can we draw on specific lessons from previous crises, including "bad" practices (policy measures to be avoided) by debt managers and other financial policy makers on the one hand, and best practices that one should follow to deal with these problems, on the other? How desirable are extra or special interventions by governments (in particular those involving debt managers or having an impact on debt strategies and operations)? African participants were also invited to address other urgent issues involving the direct impact of capital outflows.

26. It has been suggested that the impact of the financial crisis in Africa will be limited because the inter-linkages between the financial systems in Africa and the global financial system are weak. Exceptions to this position are then made for countries like Nigeria and South Africa which are seen as having stronger links with the global financial systems. Increasingly, this conventional position is being questioned for the following reasons:

a) A more cautious attitude of investors

27. The small size and illiquidity of Africa's financial markets is likely going to be amplified rather than overlooked as both international and local investors adopt more cautious investment strategies. Already, examples are emerging. The market turnover on Uganda's bourse dropped 60 percent during the third quarter of 2008. In South Africa, Kenya and Ghana, the stock markets have also been bearish. In sum, African financial markets are increasingly being affected by the on-going financial crisis.

b) Slowdown in private sector lending and capital inflows

28. Like in other jurisdictions, there are growing concerns about the impact of the current crisis on the sources of short-and long-term funding. The cost of long-term bank finance is increasing. The slowdown in capital inflows will increase the need for domestic financing – pensions funds, insurance firms and other domestic saving sources.

c) Weakened balance sheets and possible bank failures resulting from economic slowdown

29. Lower commodity prices, combined with a credit crunch and increased risk aversion will make it more difficult to finance and develop capital investments. The economic downturn will result in pressure on the balance sheet of some of the weaker banks in the systems as non-performing loans in some sectors increase.

d) An increase in government deficits

30. Many governments are facing an increase in expected deficits due to growing fears about an emerging recession. The resulting growing government borrowing needs cannot only be met by accessing foreign markets. Government will need to tap domestic savings. This, in turn, puts the spotlight on the importance of a stable domestic investor base (in particular banks, pension funds and insurance companies) and well-functioning local-currency government bond markets.

Conclusion

31. The present financial crisis will affect financial systems in African countries differently depending on differences in the quality of the financial infrastructure and financial policies, including sound public debt management and liquid government securities markets.

32. The round-table discussion was initiated by *African* debt managers with comments from debt managers from other regions.

Post-conference meeting on the creation of the database on African sovereign debt statistics

33. Pillar 3 of the OECD project on African debt management and bond markets concerns the creation of a database on African debt statistics that will give a *comprehensive* and *detailed* view of African public debt. The database will be on par with the best practices used among OECD member countries. Accordingly, the database will be built according to the methodology as set out in the OECD publication **"***Central Government Debt: Statistical Yearbook***.** Pillar 3 is also consistent with a recent statement from a G-7 meeting held on 19-20 May, 2007: *QUOTE We ask IMF, World Bank,* ***OECD*** *and BIS to undertake a stock take of currently available data on local debt markets and identify any gaps, with a view to consolidating the information. UNQUOTE*

34. The original OECD survey was sent out to 31 African countries on April 24, 2008. Responses began to arrive in late May, including responses from Mozambique, Namibia, Kenya, South Africa, Tanzania, Uganda, Malawi, Nigeria (data are on their way), Tunisia, Zambia, Cameroon, Mozambique and Madagascar. We have also received inquiries (but no data thus far) from Angola and Ethiopia.

35. In December 2008, the complete data sets of seven countries were compiled and processed resulting in a ***preliminary prototype*** version of the future publication, *African Central Government Debt, Statistical Yearbook 2003–2007* and was distributed as background information for the *Third OECD Forum on African Public Debt Management.* Like with any new data project, there are many questions and issues to discuss and resolve. To that end, African delegates were invited for an ***informal*** question and answer session, scheduled immediately after the closing of the conference on Friday 5th December 2008.

ANNEX 1

AGENDA THIRD OECD FORUM ON AFRICAN PUBLIC DEBT MANAGEMENT

PARIS, 4-5 DECEMBER 2008

OECD Conference Centre
2 rue André Pascal, 75016 Paris
Room CC1

Held under the aegis of the OECD Working Party on Debt Management

Sponsored by the Icelandic Ministry of Foreign Affairs

Forum chairman:

Mr. Ove Jensen, Head of Government Debt Management, Danish Central Bank, and Chairman of the OECD Working Party on Debt Management

Thursday, 4 December 2008

9 h 00 – 9 h 15 Opening of Africa Forum

- Mr. Andre Pillay, opening on behalf of the *Deputy Director-General, National Treasury, South Africa*

- Mr. Tómas Ingi Olrich, *Ambassador of Iceland to France*

9 h 00 – 13 h 00

Session 1: Changes in the use of short-term securities by debt managers
Note: This session is held jointly with the Global Forum on Public Debt Management.

9 h 15 – 09 h 45 **Introduction of main issues**

- ***Moderator:*** Mr. Andre Pillay (*Chief Director, Liability Management, National Treasury, South Africa)*
- *Dr. Hans Blommestein (OECD), "*Assessment of the latest structural changes in the use of short-term government paper" (based on a summary of the latest WPDM discussions)
- *Mr Andras Rez (DMO, Hungary),* "Main conclusions from OECD Survey on changes in the use of short-term paper"

09 h 45 – 11 h 00 **Panel discussion**

- *Mr. Charles Kairu (Senior Economist, MoF, Kenya)*
- *Mr. El Hassan Eddez (Division Chief for Debt Restructuring and International Financial Markets, MoF, Morocco)*
- *Ms. Judith Ndiss (Deputy Director , National Bank, Tanzania)*
- *Mr. Stephen Kaboyo (Deputy director of Financial Markets,*
- *National Bank, Uganda)*
- *Mr Thor Saari (OECD Consultant, Bond Markets and Public Debt Management Unit), "Policy implications of OECD liquidity study for the use of short term government paper"*

11 h 00 – 11 h 15 Coffee Break

11 h 15 – 12 h 00 **Comments** [*Mr. Robert Stheeman (Chief Executive, UK DMO), Mr. Keisuke Fujita (Deputy Director Debt Management Policy Division, MoF,Japan), Mr George Pickering (Adviser, Financial Markets, Bank of Canada)*]

12 h 00 – 12 h 45 **General discussion**

12 h 45 – 13 h 00 **Policy conclusions**

13 h 00 – 14 h 30 Lunch

14 h 30 – 18 h 00

Session 2: Issuance procedures and (future) role of primary dealers

14 h 30 – 15h 00 Introduction of main issues

- *Dr. Hans Blommestein (OECD), "*Recent Developments on Issuance Procedures and Primary Dealer Systems in the OECD" area (based on recent WPDM discussions and a Survey)

15 h 00 – 16 h 15 Panel discussion with African debt managers and financial policymakers

- *Mr. Johan Krynauw, Director of Debt Operations (National Treasury of South Africa)*
- *Mr. Alain Ditona Moussavou, Conseilleur (Ministry of Finance, Gabon)*
- *Mr. Mohammed Amrani, Head of Restructuring Debt Unit (MoF, Morocco)*

16 h 15 – 16 h 30 Coffee break

16 h 30 -- 17 h 15 **Comments** [*Mr. Dieudonné Evou Mekou (Director General, CAA, Cameroon), Mr. Steven Kaboyo (Director, National Bank, Uganda) , Ms. Judith Ndissi (National Bank, Tanzania*)]

17 h 15 – 18 h 00 **General discussion**

Friday 5 December 2008

09 h 30 – 13 h 15

Session 3: International co-operation and information sharing

09 h 30 – 10 h 15 **Brief overview of work programmes on African debt management and bond markets**

- ***Moderator:*** *Mr Stefan Nalletamby, African Development Bank*

Speakers:

- *Mr. Bernd Braasch, Director (Deutsche Bundesbank and Co-ordinator G8 Action Plan)*
- *Ms. Nontle Anele Kabanyane (African Development Bank)*
- *Mr. Carlos Braga, Director (World Bank)*
- *Mr. Udaibir Das, Division Chief for Sovereign Asset-Liability Management, (IMF)*
- *Dr. Hans Blommestein (OECD Project on African Debt Management)*

10 h 15 – 10 h 30 **Questions and comments by delegates**

10 h 30 – 11 h 00 Coffee break

11 h 00 – 13 h 00

Session 4: Round-Table discussion on: how to deal with the direct impact as well as contagion effects of capital outflows?

Moderator: *Mr. Benoît Coeuré***,** *Head of Multilateral Affairs and Development and co-President of the Paris Club*

12 h 45 – 13 h 00 **Conclusions (***by rapporteurs***)**

13 h 00 – 13 h 15 **Closing**

ANNEX 2

List of participants

	Title	Name	Last name	Country or organisation
1	Ms.	Nontle Anele	Kabanyane	AfDB
2	Mr.	Stefan	Nalletamby	AfDB
3	Ms.	Marilia	Pocas	Angola
4	Ms.	Candida	Sambingo	Angola
5	Mr.	Djia Kibanda	Negbane	Benin
6	Ms.	Milena	Boikova	Bulgaria
7	Mr.	Paul Che	Elung	Cameroon
8	Mr.	Dieudonne	Evou Mekou	Cameroon
9	Mr.	Bruno	Iboklene	Cameroon
10	Mr.	Etienne	Lessard	Canada
11	Mr.	Brodeur	Mathieu	Canada
12	Mr.	George	Pickering	Canada
13	Mr.	Gordon	Boissonneault	Canada
14	Mr.	Jildas	Ngonkoua Abouli	Congo
15	Mr.	Tomas	Kadrmas	Czech Republic
16	Mr.	Martin	Cicha	Czech Republic
17	Mr.	Ove Sten	Jensen	Danemark
18	Mr.	Lars Mayland	Nielsen	Danemark
19	Mr.	Peter	Brun	Danemark
20	Ms.	Yalemzewd	Tedla Beyene	Ethopia
21	Mr.	Aldric	Leborgne	EU
22	Mr.	Benoit	Coeuré	France
23	Mr.	Hugues	Mbadinga Madiya	Gabon
24	Mr.	Regis	Immongault	Gabon
25	Mr.	Alain	Ditona Moussavou	Gabon
26	Mr.	Edouard	Messan	Gabon
27	Mr.	Rufin	Mpouho Ondimba	Gabon
28	Mr.	Andras	Rez	Hungary
29	Ms.	Judit	Orelne Orban	Hungary
30	Mr.	Tibor	Erhart	Hungary
31	Mr.	Udaibir	Das	IMF
32	Ms.	Allison	Holland	IMF
33	Ms.	Mimi	Regev	Israel
34	Mr.	Stefano	Iacobelli	Italy
35	Mr.	Pierpaolo	Battista	Italy
36	Dr.	Cannata	Maria	Italy
37	Mr.	Brika	Sarapahi	Ivory Coast (Cote D'Ivoire)
38	Mr.	Abou Bakary	Doumbia	Ivory Coast (Cote D'Ivoire)
39	Mr.	Sambro	N'guessan Eugene	Ivory Coast (Cote D'Ivoire)
40	Ms.	Annick Ulla	Kone	Ivory Coast (Cote D'Ivoire)
41	Mr.	Keisuke	Fujita	Japan
42	Mr.	Charles	Kairu	Kenya
43	Mr	Livingstone	Bumbe	Kenya

44	Ms.	Sanja	Manasijevic Manceva	Macedonia
45	Ms.	Ana	Stojkova	Macedonia
46	Ms.	Dziwana	Shawa	Malawi
47	Mr.	Daniel	Khomba	Malawi
48	Mr.	Innocent	Phiri	Malawi
49	Mr.	Jacob	Mkandawire	MEFMI
50	Mr.	Francisco	Castro Ortiz	Mexico
51	Ms.	Sybel	Galvan Gomez	Mexico
52	Mr.	Mohammed	Amrani	Morocco
53	Mr.	El Hassan	Eddez	Morocco
54	Mr.	Niek	Nahuis	Netherlands
55	Mr.	Philip	Combes	New Zealand
56	Ms.	Fatos	Koc Kalkan	OECD
57	Ms.	Jocelene	Fouassier	OECD
58	Dr.	Hans	Blommestein	OECD
59	Ms.	Lillie	Kee	OECD
60	Mr.	Tomo	Nakamura	OECD
61	Mr.	Thor	Saari	OECD External Consultant
62	Dr.	Suk	Hyun	OECD External Consultant
63	Dr.	Sang Ghon	Rhee	OECD External Consultant
64	Ms.	Alina Dora	Oprea	Romania
65	Prof.	Boris	Alekhin	Russia
66	Mr.	Johan	Krynauw	South Africa
67	Mr.	Andre Frank	Pillay	South Africa
68	Mr.	José Ramon	Martinez Resano	Spain
69	Ms.	Christine	Holm	Sweden
70	Dr.	Judith	Ndissi	Tanzania
71	Dr.	Emre	Balibek	Turkey
72	Mr.	Stephen	Kaboyo	Uganda
73	Ms.	Polina	Yarova	Ukraine
74	Mr.	Dominique	Menu	Ukraine
75	Mr.	Richard	Dvrorin	Ukraine
76	Mr.	Volodymyr	Vysotskyi	Ukraine
77	Mr.	Patrick	O'Reilly	USA
78	Ms.	Gloria M.	Grandolini	World Bank
79	Mr.	Phillip	Anderson	World Bank
80	Mr.	Carlos	Braga	World Bank
81	Mr.	Steven	Musuku	Zambia

ANNEX 3

18TH OECD GLOBAL FORUM ON PUBLIC DEBT MANAGEMENT
AND
3RD OECD FORUM ON AFRICAN PUBLIC DEBT MANAGEMENT

3-4-5 DECEMBER 2008
OECD, PARIS

Welcome and Overview of Forum Programmes

Against the Backdrop of the Global Credit and Liquidity Crisis

By

Dr. Hans J. Blommestein

Head of the Bond Market and Public Debt Management Unit

Co-ordinator OECD Working Party on Public Debt Management

OECD

Ladies and gentlemen,

On behalf of the OECD, I welcome you warmly to our brand-new conference centre (last year I welcomed most of you in Amsterdam in an almost 400 year's old building). This shift is perhaps symbolically related to the crisis-induced debate about a new architecture for globalised financial markets!

The Global Forum meeting (*sponsored by the Japanese government*) is part of the work programme of the OECD Working Party on Public Debt Management (WPDM)[1]. It is a truly global forum and not just another *emerging market* forum. Our ambition is to operate as an effective global platform for sharing and debating important insights and experiences from the OECD area with debt managers from non-OECD jurisdictions, involving also other relevant international and regional organisations. And, vice versa, to involve OECD debt managers in a face-to-face policy debate with their colleagues from the non-OECD area.

Another feature of the Global Forum is its practical nature. Whenever feasible, we are focusing on practical policy conclusions proposed by the debt managers themselves. The policy relevance of Global Forums *per se* has also increased, as debt managers from emerging market countries are increasingly face challenges similar to those of their counterparts from advanced markets due to pressures from global finance and the related need to implement OECD leading practices in this policy area.

But it is also the ongoing global credit crisis that demonstrates in vivid terms the inter-connectedness of the global financial landscape with the larger emerging markets having become key players. Brazil, Russia, India, China and South Africa (the so-called BRICS) represent almost 13 percent of global GDP and adding a few more (Korea, Mexico, Turkey, Indonesia, Argentina and Nigeria) bring their share to nearly 18 percent (compared to around 24 percent for the US).

The crisis has also pushed to the forefront the key fire-fighting role of debt managers in the resolution of this crisis, principally by raising *directly* new funds for governments to recapitalise banks and other financial institutions and, more generally, to finance governmental supporting schemes for the financial sector. Clearly, DMOs could also play (or are playing) an important role in helping to implement

[1] This OECD WPDM is an influential policy forum that brings together the senior debt managers from all OECD countries to discuss in a frank and open way the latest technical developments, to compare notes on best or leading practices and, more generally, to share experiences on debt operations. (For your convenience, we have circulated an OECD pamphlet on ***Objectives, Strategy and Operations of the OECD WPDM***.)

(or manage) guarantees. Moreover, as explained in a 2005 OECD report[2], on-lending can be used as an alternative policy instrument, thereby avoiding the use of guarantees. For example, DMOs could be asked by the government to raise funds on behalf of financial institutions in trouble but with good prospects.

As you can see from the agenda, we are sharing with you the latest policy conclusions regarding key debt management policies and operations from the OECD area. The crisis demonstrates that a global market and policy perspective is more important than ever. Accordingly, our first session plunges straight into the implications of the global credit/liquidity crisis for government debt managers. The discussion will be introduced via a summary of the latest discussions by the OECD Working Party on Public Debt Management.

Like last year, the Africa Forum (*sponsored by the Icelandic government*) is again held back-to-back with the Global Forum meeting, but with an even closer integration of agendas than in previous years. This year's organisational structure makes it easier for African participants to participate in the Global Forum, while Global Forum participants can more efficiently participate in the discussions of the Africa Forum. The agenda of the Africa Forum shows vividly that, at least in terms of debt strategy and policy design, many debt managers from that region have indeed come a long way. (Note that the agenda items are also very topical for debt managers from other regions, with the first item on 'the use of short-term government paper' scheduled jointly with the Global Forum.)

Let me now return briefly to the ongoing credit crunch crisis so as to give a global bond market backdrop to our discussions in both the Global Debt and Africa Forums. The credit crunch in financial markets that started last year and is continuing to this day, was a sharp reminder that in banking or financial markets more generally, financial turbulence is usually not an isolated event. In August of last year, a wave of volatility spread across the globe as it became clear that many financial institutions (including bulge-bracket commercial and investment banks) around the world (in US, Germany, France, UK, ….) would suffer major losses. This year losses accelerated to the point that a number of large banks went bankrupt, needed capital injections for survival and/or had to be saved via mergers. This led to a further reduction in the number of primary dealers. Another development of great concern to debt mangers is that even traditional safe-havens like government bond market did in the end not escape

[2] Chapter 6: Explicit contingent liabilities in debt management *(Report on best practices in managing guarantees prepared by an ad hoc experts' group of the OECD Working Party on Debt Management)* in: H.J. Blommestein, ed., (2005) Advances in Risk Management of Government Debt, OECD.

contagion. Repricing of risk spread to all markets, including government bond markets and debt issued by supra-national and quasi-government agencies. Around the time of last year's Forum meetings, we noted that extreme risk aversion and lack of trust led to wider than normal spreads in US and European government bond markets. Clearly, these severe bouts of illiquidity were making it more difficult and expensive for many OECD governments to raise funds. This difficult market situation is continuing to this day, while funding prospects indicate that governments around the world may also face financing challenges in the future. One such estimate puts the 2009 financing needs of governments around the world at US$ 2 trillion (or around € 2.5 trillion)[3].

Regarding specifically emerging markets, I concluded at last year's Forum meetings (in December 2007) the following.

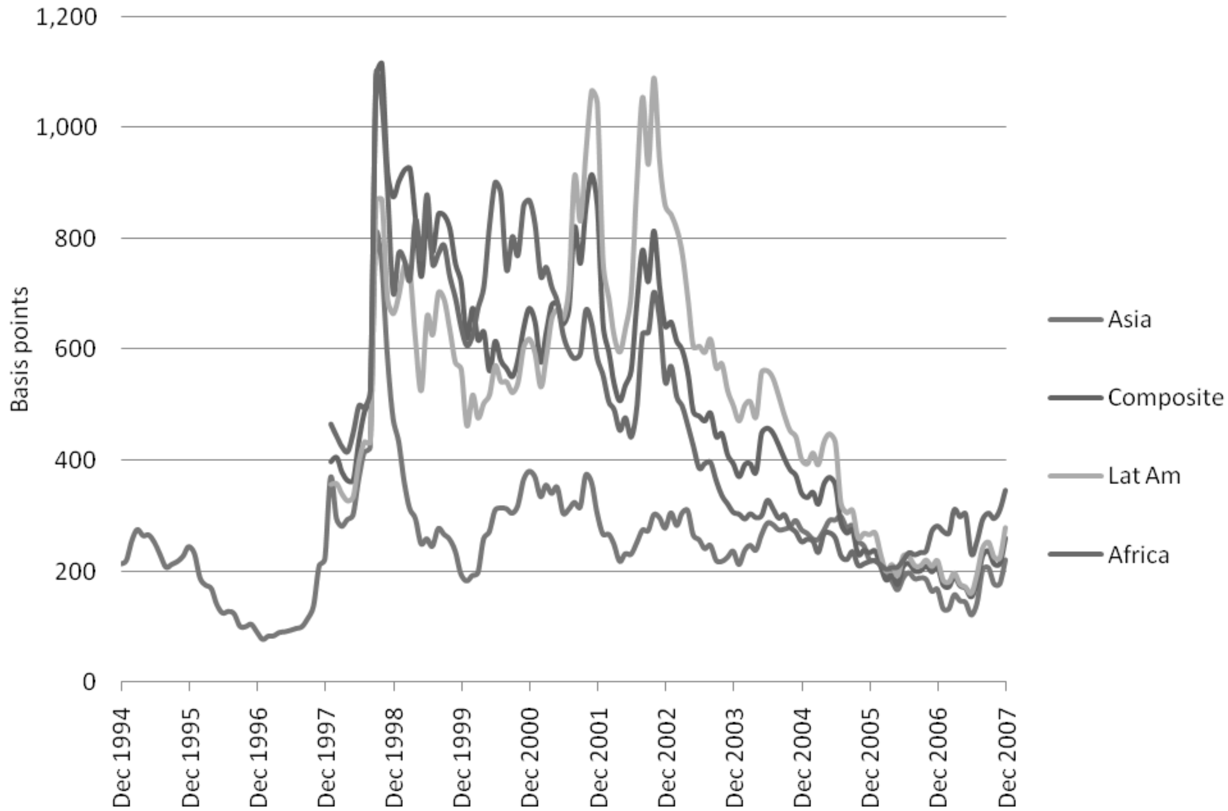
First, the impact of the global credit crisis shock on emerging markets seemed to have been less dramatic than similar global shocks from the past. Although emerging markets were also affected, this was by relatively less than in previous episodes of global financial market turbulence.

Second, even more surprisingly, at the end of last year many emerging markets felt the impact of the credit crisis to a lesser extent than more advanced or mature markets.

Third, a closer look at different regions gave in December 2007 the following picture. Although yield spreads widened since the middle of last year, they were still below their levels of only a few years ago (**Chart 1**). Compared to emerging markets as a whole, yield spreads in Asian emerging markets continued to be tighter, although the difference was less dramatic than in the past, when very wide spreads in Latin American and African markets skewed the all-emerging market composite (**Chart 1**).

CHART 1: Yield spreads, all emerging markets and individual regions (Dec 1994-2007)

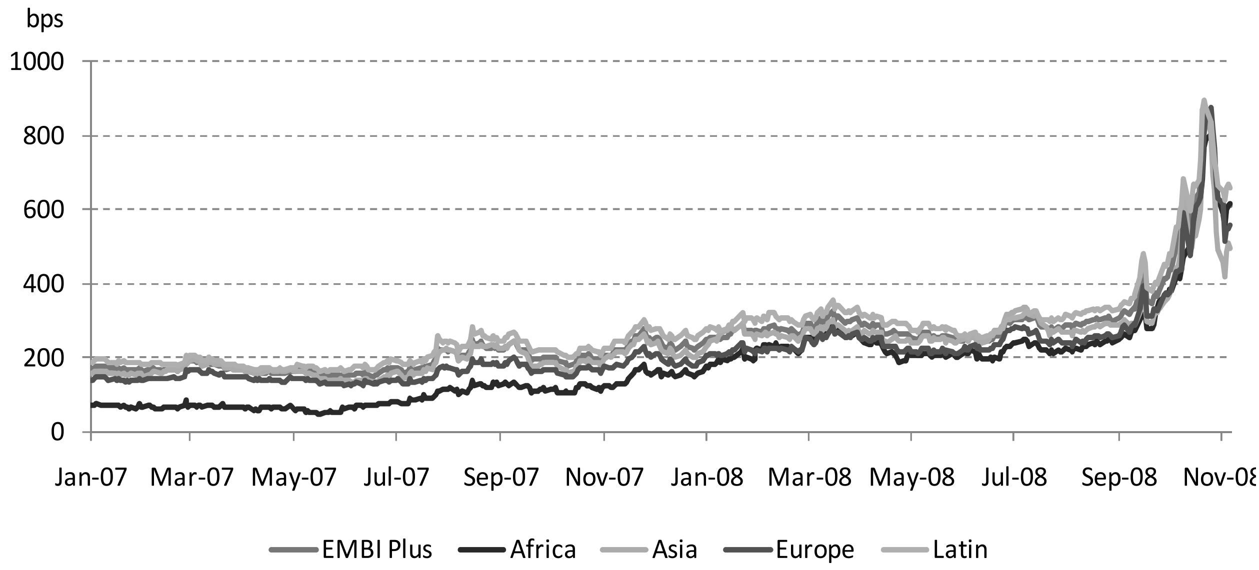
[3] Concerns mount on ability to fund state debt, *Financial Times*, 30 November 2008.



SOURCE: JP Morgan Emerging Market Bond Index Global Composite and Global Asia series. Data for Global Composite series not available prior to January 1998.

In other words, emerging markets were performing surprisingly well last year, both relative to past major shocks to emerging markets and in several respects also vis-à-vis mature markets. Several analysts were optimistically arguing that truly emerging markets could 'de-couple' themselves from adverse events elsewhere, even from those originating in major mature markets. The *'de-coupling' hypothesis* was borne! Unfortunately, one year further, this optimistic and perhaps even somewhat naïve picture has changed quite a bit (**Chart 2**).

CHART 2: Yield spreads, all emerging markets and individual regions (Jan-Nov 2008)



The drivers of these changes and policy implications will be discussed during the coming days, in particular as part of the Round-Table discussions in session 1 of the Global Forum and session 4 of the Africa Forum.

Finally, Mr Chairman, a brief word on the ***structure of our discussions***. We have organised the discussions so as to have an interactive, focused debate preceded by short (I emphasise short) presentations. All speakers are kindly requested to be very brief and to the point. In general, we request you to be so kind to refrain from lengthy country presentations. We are always prepared to circulate at your request documents with detailed country information. We can also put it on our website and that of the OECD-Italian Public Debt Management Network. The annotations to the agenda provide information about suggested issues-for-discussion, while moderators and rapporteurs will extract operational policy conclusions at the end of each session. Each session has a general discussion part where all participants are invited to join the discussion. To that end, use the boards in front of you.

Thank you for your attention.