FIFTH OECD FORUM
ON AFRICAN PUBLIC DEBT MANAGEMENT AND BOND MARKETS

Midrand, 29th June to 1st July 2011

Suggested Key Questions on Topic B:

Sovereign Risk and Debt Sustainability and their implications for Borrowing Strategies

(1) Sovereign risk

Sovereign risk refers to the risk that a government may default on its debt obligations. Various indicators have been devised to measure Sovereign risk but they measure different things and can be contradictory. Credit ratings and CDS spreads for example both measure expected risk of default but are influenced by very different factors.

1. Does the expected risk of default in essence measure the Sovereign risk?
2. Is Sovereign risk a measure of long-term debt sustainability or should it focus more on short-term financing (i.e. liquidity and solvency issues, access to financial markets, refinancing risk etc.)?
3. Is there in fact any meaningful way to measure sovereign risk? Do Investors at any particular time have sufficient information to make an informed assessment of sovereign risk? Are markets just driven by sentiment rather than the underlying fundamentals which make informed assessment impossible?

(2) Implications of higher sovereign risk and increasing doubts about debt sustainability for the borrowing strategy

Increased government debt levels along with large budget deficits are creating challenges for many countries since the onset of the financial crisis. Markets regard this as rising sovereign risk and increased likelihood of debt becoming unsustainable. This will inevitably have to be incorporated into the borrowing strategies. Discuss strategies where a Debt manager can

1. maintain market access (both domestic and external)
2. reduce the likelihood of failed/cancelled/postponed auctions
3. keep refinancing risk under control

(3) Impact of cross-border capital flows into local debt markets on sovereign risk, risk management and issuance strategy

Local markets have become popular as an investment strategy among many foreign investors. Cross border flows into local markets are expected to grow as financial systems around the world become more and more integrated. How does this influence sovereign risk, risk management and borrowing strategies? Also discuss ways to minimize the negative effect this kind of investors can have on the overall domestic debt market.

(4) Marketing sovereign debt

Marketing sovereign debt is an important part of a successful borrowing strategy especially for small and medium sized sovereign borrowers.

How do the debt levels, CDS levels and other risk factors impact a marketing strategy for debt?

Discuss the importance of investor marketing (road shows, attending open forums and seminars, production of debt related material) for debt strategies.

(5) Transparency of data on public debt, contingent liabilities and derivatives

It is of high importance for sovereign borrowers to be able to present accurate data on debt, guarantees (and other type of contingent liabilities) and derivatives, especially as a marketing tool to investors.

Knowing in great detail your countries debt level is an important pre-condition for being able to raise capital. Discuss the challanges in presenting debt and debt sustainability data to the market.

(6) Co-operation with multilateral institutions such as OECD

Co-operation with multilateral institutions such as the OECD (as well as WB, IMF, AfDB, ….) is an important part of any debt manager's agenda.

Discuss their ability to bring to the table credibility, discipline, know-how and political support for strategy implementations especially in challenging situations. In which specific areas could such institutions bring additional value?

In this context, c**ould you make recommendations about future capacity-building activities** (including training) by the new OECD Centre for African Public Debt Management and Bond Markets?

Questions regarding this document can be addressed to : Mr. Sturla Palsson, Director, International and Market Operations, Central Bank of Iceland or Mr. Hans J. Blommestein, Head of Bond Market and Public Debt Management Unit, OECD (hans.blommestein@oecd.org)