The perspective of the OECD Working Party on Debt Management on Guarantees

Hans J. Blommestein
OECD

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First OECD Forum on African Public Debt Management

- **Session V.A. 3:Role of debt managers in managing contingent liabilities**
- **Report on best practices in managing guarantees prepared by experts' group of OECD Working Party on Debt Management**
- **Members: Senior Debt Managers 30 OECD countries plus IMF and WB as observers**
- **Working Party has compiled authoritative pool of knowledge on leading debt management practices, incl. guarantees**

Advances in Risk Management of Government Debt

Contingent debts in many ways similar to conventional government debt

- Like conventional bonds:
  - **based on contracts under civil law**
  - **to be serviced using taxpayers' money**

- In these respects, immediate links to the responsibilities of debt managers

Best practices

- The OECD experts group's mandate was to formulate a set of best practices in managing explicit contingent liabilities (guarantees)
- Report is written from perspective of debt managers
- But it also addresses how guarantees are treated more generally, in particular, in budget legislation

Assessment guarantees (1)

- It is important to assess alternatives to guarantees
- Comparison of credit guarantees with direct lending
- Conclusion: credit guarantees have two drawbacks:

1. guaranteed debt has higher funding costs
2. guarantees may entail higher financial risks

Assessment guarantees (2)

- Ergo: credit guarantees must bring advantages that outweigh these drawbacks.
- Two sets of potential benefits:

1. **possibility to use guarantees in a way that allows the government to share credit risks with lenders**
2. **there may be administrative benefits from involving outside lenders in a government-sponsored program**

Sound governance system

- Rules for transparent reporting of costs of guarantee
- Same rules as decisions on direct use of government resources (explicit fees)
- Problem with public accounting systems
- Guarantee portfolio should be published regularly
- Linked to conventional debt portfolio

Valuation principles guarantees

- Fees based on expected cost of guarantee
- Charging less than market value =state subsidy

Role of debt managers (1)

- Debt managers have a key role in risk management involving guarantees
- Contingent debt is latent form of government debt
- Measures of cost and risks that encompass both guarantee portfolio and regular debt portfolio
- Debt managers well positioned to manage joint portfolio

Role of debt managers (2)

- Conventional debt portfolio play a key role in adjusting overall debt structure
- Both parts of debt portfolio need to be included in risk management process
- Central risk management