GOVERNMENT DEBT MANAGEMENT: NEW TRENDS AND CHALLENGES, ed. Mike Williams, 2006, Central Bank Publications, Morgan Stanley, London, 263 pp.

Review*

Under the aegis of Central Bank Publications, in 2006 the global consulting firm Morgan Stanley issued the book *Government Debt Management: New Trends and Challenges.* The book is probably the first systematic material about the public debt market and management printed outside the IMF and the World Bank.

The book is divided into four chapters, with articles from experts in the domain of the public debt market directly interested in the promotion and development of a transparent financial market, the responsibilities and good practices of the organisation and management of public debt. The editor, and one of the authors, Mike Williams, sums up in an interesting introduction the main characteristics of individual chapters and highlights the fact that worldwide during the last score of years governments have developed and set up specialised functions for debt management with various levels of autonomy. Even in most of the less developed countries there is a similar structure for public debt management within the finance ministries or departments. This is probably the best reason for drawing attention to some of the main findings of the book.

In Chapter 1, which consists of four interesting topics, the emphasis is on risk strategies and management. Fred Jensen claims that it is crucial for the development of strategies to manage government debt to lay down clear objectives. The aims of debt management can be the funding of government needs, the reduction of costs and risks and the development of the domestic financial market. In protection against risks, it is necessary to lay down strategic goals such as the desirable structure (of the portfolio) of the debts, the debts in the domestic currency as a percentage of overall debts, the average maturity of the debts, the share of short-term in overall debt and similar procedures. Such guidelines should serve as a guide for new debt emissions for they ensure management of the existing debt portfolio in line with the strategy authorised. Hans Blom-

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mestein thinks that management of government balance sheet risks should be part of a wider strategic framework for the management of the public debt. He particularly brings out the possible ways of mitigating the risks of potential liabilities and long-term risks of debts by issuing long-term bonds or inflation-indexed bonds. Richard Batley and Moyeen Islam, in the article *Debt management, monetary operations and central bank operations* say that debt management is, because of the different objectives, a tool of fiscal and not of monetary policy. But central banks and finance ministries meet on the secondary market, because of which their coordination is required. These banks, in adopting new regulations and regulatory decisions that can affect the demand for public debt on the financial market should consult public debt managers. Lisbeth Stausholm Zacho analyses the practice of Denmark in contemporary asset and liability management. In Denmark, the cash flow of the central government budget and the public debt is managed by the central bank, in association with the finance ministry. Although interesting, the Danish for debt management is not the rule but an exception that can exist in countries with stable governmental and financial institutions, macroeconomic stability and sound public finances.

In the second chapter five experts analyse the practices of managing and organising the public debt. Ian Storkey claims that for good debt management practices it is not crucial which organisation or institution actually handles the debt management. It can be done by departments inside the finance ministry, the central bank or a separate agency. The organisation of management depends on the existing degree of development of public debt management. In the last twenty years management practice has progressed from non-market debt issue instruments via market instruments and management of cash and bonds. Developed countries manage assets and liabilities (direct and potential) via well-developed functions of the government treasuries. Increasingly, countries are raising the question of whether it is necessary to organise public debt management in a separate agency. Philip Anderson replies straightforwardly that decision makers should avoid the creation of a separate public debt management department for the sake of solving the institutional problem of debt management more rapidly because such an approach can lead to the appearance of new kinds of risks. Because of the constant development of and changes in the global financial market the manner of organising debt management will continue to be the subject of frequent analysis. Because of this growth and development Mike Williams points out that the responsibilities of government debt managers are rising, shifting from recording transactions, laying down strategies and calendars of issues to cash flow, liquidity and asset management. All activities should lead to the reduction of the costs of borrowing. In the management of government debt, apart from a complete overview of the government balance sheet (financial and non-financial assets and government liabilities) the cash flow management of the government budget has to be brought into line daily with the monetary operations of the central bank. In countries that have not developed the function of managing central government budget cash flow it is hard to expect that central banks in running operations on the open market will take into account the daily financial position of the government. Colin Seelig explains the evolution of debt management in developing countries that because of the high level of debt are exposed to financial risks. These countries have to improve the quality of their data, develop a system of predicting cash flows and liabilities, reform institutions and develop a high-quality collaboration between the finance ministry and the central bank. But it is hard to imagine the implementation of systems of public debt management without proper information system support and ongoing training of officers who manage the debt. That is why Mike Goddard gives a review of the implementation of projects for establishing an information system, starting off from the structure of projects, the gathering of information, the choice of information system, starting from project structure, going on to gathering information, selecting software, development of the system, intrainstitutional application and the costs of the establishment with different approaches. The development and establishment of systems involve similar processes in many countries, but there are differences because of the special requirements of system users.

In the third chapter there are four topics in which the authors analyse policy challenges to the management of the public debt. Greg Horman thinks that one of the challenges is the evaluation of the efficiency and the supervision of public debt management. The performance of public debt management should be analysed and measured with the application of quantitative evaluation methods, but also with qualitative methods when quantitative are not available. All evaluation methods are possible only in conditions of clearly established strategies, accountabilities of debt management departments, principles, regulations and the temporal framework of the implementation of a strategy. Without a clear strategy and structure for debt management, reports about the effects of debt management have no point. Another challenge for debt management resides in potential liabilities. Elizabeth Currie and Jorge Cardona are of the opinion that, as part of the management of public debt, potential liabilities also need managing. Departments of public debt management should work in concert with spending agencies in order to identify, evaluate and help in the management of potential liabilities especially when they exceed the level of foreign public debt. Good potential liabilities management practices exist in Columbia and could be applied in states in which a large amount of potential liabilities could effect the growth of the public debt. The fourth challenge for management of the debt is high government foreign debt. Brian Olden in the text T*he debt in foreign currency: structure and practice* says that governments decide on foreign debts (or borrowing in foreign currencies and on foreign markets) in order to reduce costs or risks, because of a poorly developed domestic debt market, inabilities to finance increasing government needs and so on. Public debt managers must pay attention that borrowing abroad fits into the total strategy of government borrowing and must help in the making of decisions about the amount, the desired currency structure, interest rates and the desirable maturity date during the creation of a foreign debt. Because of high foreign debts of a government, investors endeavour to protect themselves against risks that the original debtor will not be able to service the debt. Robert Gray and Andrew Yianni analyse innovations in borrowing contracts and restructuring and explain the consequences of the collective action clause in the issue of bonds on the international market. The object of such a clause is to regulate legally possible changes in the conditions of repayment of principal and interest on a debt in times of financial crises or stresses so as to soften the financial risk for investors (creditors) and borrowers. Reading this text requires a knowledge from the area of international financial law.

In the fourth chapter the authors use four topics to analyse interactions on the financial market. Thus Allison Holland in an analysis of the microstructure of the public debt market explains key challenges to the governing of the domestic primary and secondary markets for government bonds. In government bonds primary market regime fiscal authorities have to choose issue mechanisms, ensure access to the primary market, improve transparency and clearly establish demands for reporting. Numerous governments in issue values set up a group of professional agents as the primary dealers. In the regime for the primary and secondary government bond markets the issuer of the debt has to consider very carefully the characteristics of market players. The debt of some countries becomes a global product for it is sold abroad, the foreign demand for the issues of domestic bonds rises, a market for Eurobonds in domestic currency is well developed, and the issues of bonds in foreign currencies become part of the national debt management. For this reason Adrian Bell and Henrietta Podd in an article about the role of independence (sovereignty) in the international debt market show how to manage debt in the conditions of the globalisation of the financial market. The main objective of the issue of a debt is to collect resources for programmes of capital investment, for which reason there must be collaboration with participants on the public debt market from the private sector. Euan Harkness analyses collaboration in managing public debt with the private sector, which can be achieved with the improvement of transparency in decision making (publication of issue calendars in which the amount of the debt is displayed according to years and maturity), regular meetings with investors and primary dealers and quarterly meetings with other players on the public debt market. Trust in the issuer of government bonds can be improved by effective communication, which can become a means for risk management, is the opinion of Valerie Jeal. Good communications on the part of debt management departments is essential for public debt risk management and helps in maintaining the good reputation of debtors among investors, primary dealers and rating agencies. Market participants are central banks, ministers, investors, media and the general public. They want to hear a clear message about the public debt management, the objectives and the results achieved. Effective communication can be achieved within the organisation without additional investment by the publication of regular information and data about the public debt and economic indicators of the state on the internet sites, via email lists, by authorising public debt department officers to collaborate with and to provided data and information to credit agencies and the like.

All the topics in the book are logically arranged and effectively introduce the reader into the analysis of new challenges in the management of public debt. It is true that the book has no glossary and does not have an exciting appearance. But these technical drawbacks fade into insignificance compared with the quality of selection and the expertise shown in the topics handled. The book is required reading for finance ministry staff dealing with public debt management and for central bank officers charged with open market operations. I would not recommend it to undergraduates, but postgraduates, specialist or academic, and doctoral students could well be possibly interested readers. An interest in the topics of the book could certainly be shown by institutional investors and fund managers in commercial banks and in insurance and pensions companies who are interested in an inside view of the structure and processes for public debt management. I would wholeheartedly recommend it to employees in the Croatian Finance Ministry who in their recent edition of the annual report and strategy have made the first step towards managing the public debt. The book can also be used by Croatian National Bank officers, because they will be able in a single place to identify potential future activities of the Ministry of Finance that could have an impact on the nature and quality of the running of monetary policy.

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