Strategies and good practice in public debt management

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Summary:
The global financial crisis has significantly increased the importance of ensuring a professional approach to public debt management following the appearance of high fiscal deficits, huge public borrowing needs and ongoing sovereign debt volatility in many of the world’s largest and most advanced countries. While the crises has not impacted on the debt portfolios of less advanced countries to quite the same degree, the fallout from the crisis will inevitably have repercussions for these economies as well. This paper aims to assess the main development and innovations that have been witnessed in debt management over the course of the last twenty years and whether these changes are sufficient to allow public debt managers to meet the significant challenges that lie ahead, both in funding their respective government’s requirements and managing their ever expanding debt portfolios. In particular, the paper assesses innovations in institutional and strategic practices surrounding debt management in advanced and less advanced countries and the impact that these innovations have had in improving management of government finances. The paper also identifies some of the developments in risk management that have been applied in an increasingly professional approach to financial asset and liability management in the government sector and the importance of an integrated approach to cash and debt management in seeking to maximize the efficiency of financial resource management.

Key words: debt management, medium-term debt strategy, risk management, cash management, financial asset and liability management
Public debt management before, during and after the crisis

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Summary:

In most EU countries, and especially within the euro zone, public debt management developed rapidly during the last decade. Countries that have adopted the euro, in the absence of exchange rate risk, became direct competitors on the public debt market. The decrease of government deficit and debt ratios made the competition even more severe. At the same time, technological progress has contributed to making trading in public debt instruments rapid and uncomplicated. All these factors brought about significant changes in public debt composition, issuing and trading practices, organization of public debt management as well as its objectives. In the course of the global financial and economic crisis the public debt ratios of EU countries increased considerably, and public debt management had to be carried out in unprecedented circumstances. The authors of this paper investigate the changes in public debt management during and after the crisis, and try to find out whether its pre-crisis evolution had an influence on the possibility and terms of deficit financing. In addition, they try to identify countries whose public debt management has adjusted best to the crisis and discover the relevant contributory factors. At the end, the authors give a short overview of the public debt management in Croatia before and after the crisis, comparing it with the European best practices.

Key words: public debt management, economic and financial crisis, European Union, Croatia
Projection of the primary budget deficit and public debt sustainability

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Summary:
Almost all macroeconomic indicators reveal shocks brought about by the ongoing global financial crisis that has spilled over to the public sector, seriously threatening fiscal sustainability. The aim of the article is to estimate trends in the primary budget deficit and public debt sustainability in the crisis and post crisis period from 2011 to 2015. For the estimation of the trend in the primary budget deficit, previous experience from EU member states will be used, while for movements in the public debt, the decomposition of basic flows that lead to changes in it will be considered. The main hypothesis tested is that the ratio of the public debt in the GDP up to 2015 will not exceed the margin of sustainability prescribed in the Maastricht criterion of 60%.

Key words: public debt, fiscal sustainability, primary budget deficit, croatian economy
The effects of fiscal deficit and public debt on government borrowing

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Summary:

The sustainability of public finances is closely related to the analysis of the financial and macroeconomic consequences of public debt and deficit. Current literature suggests a positive impact of an increase in fiscal deficit and public debt on short and long term interest rates. However, it seems that these results are quite sensitive to econometric models, definitions of government debt and interest rates as well as data sources. In this paper we will analyze the effect of fiscal policy on sovereign bond spreads for Croatia and peer countries in Central and Eastern Europe taking into account macroeconomic differences among countries. The main objective of the paper is to determine whether worsening of fiscal indicators (fiscal balance and public debt) leads to increase in government borrowing costs.

Key words: public debt, fiscal deficit, sovereign bond spreads, Croatia, Central and Eastern European countries
HANFA's view on the development of the public debt market in Croatia

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Summary:

The main objective of this paper is to analyze the development of the public debt market within the framework of the non-bank financial sector. An analysis is conducted of the public debt structure and the relationship between trends in domestic debt of the Republic of Croatia and investment and pension fund assets. The author emphasizes the desirable fiscal conditions with respect to the policy of taxation and managing the public debt in relation to the possibility of refinancing public debt within the non-bank sector. The public debt market within the money and capital market is explored and analyzed. The main hypothesis refers to the testing of the relationship between trends in the domestic debt of the Republic of Croatia and assets of non-bank financial institutions.

Key words: public debt, fiscal conditions, non-bank sector, asset management
Government debt market in Croatia – the institutional investor view

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Summary:
The aim of this paper is to determine the extent to which mandatory pension funds may support the further development of the Croatian public debt market. The main hypothesis is that pension funds have become a major participant in and driver of the public debt market. Pension funds have the largest part of their assets invested in public debt instruments, whereas further support for active participation will depend largely on the increase of social contributions (second pillar), supply of new instruments and public debt market institutionalization, with clearly defined responsibilities in the process of issuing and secondary market trading. The analysis leads to the identification of possible trends and dilemmas in pension fund participation in the public debt market.

Key words: pension funds, investment, instruments, market, public debt
Fiscal policy influence on government bond spreads in emerging markets

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Summary:

The present paper is an attempt at identifying the effects of fiscal and non-fiscal factors on the fluctuation of bond spreads in the emerging markets, with a special emphasis on Croatia. The possibility of isolating fiscal from non-fiscal effects on spreads, and the identification of the character of fiscal factors may be of great importance for the management of fiscal policy. The obtained results may be used to optimize fiscal policy and hence avoid negative effects on spreads, in other words, on the rising debt. This paper therefore extends the research and tries to identify whether the structure of deficit financing (domestic vs. foreign) has any effect on bond spreads in the emerging markets, and the way in which this influence is reflected in other fiscal policy determinants.

Key words: fiscal policy, spread, public debt
Does the Croatian government debt market need primary dealers?

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Summary:

The aim of this paper is to provide an overview of the development of a public debt market in Croatia, to describe the current situation, the participants, the practice of issuing government bonds and determine the capabilities and limitations of introducing a system of primary dealers (as formal market makers). The main findings of the paper are based on good practices and the role of primary dealers on the secondary market for government securities in the European Union; the analysis of current state and yields on government securities (bonds and treasury bills) on the domestic capital market; and on personal professional experience gained through many years of active participation in capital markets.

Key words: government bond market, bonds, treasury bills, primary dealers, market makers, liquidity, yields
Money Market - place for organized trading with liquidity

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Summary:

The aim of this paper is to show the state of the Croatian money market and the role of the Zagreb Money Market in promoting organized and public trading with liquidity. The paper explains the changes in the structure of trading instruments, ways of liquidity management, issues of a reference interest rate and the position of the participants. Additionally, the paper analyzes the impact of government on the supply of and demand for money and interest rate fluctuations, distribution of liquidity in the financial system, indicates trends in the future functioning of the money market, legal solutions and the fate of transparent trading conditions in the new world economic order with intensified supervision of banking and the overall financial system.

Key words: money market, participants, instruments, interest rates, organized and direct trading, liquidity management
Coordination of monetary and public debt management policies

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Summary:
The Croatian National Bank's measures and instruments of monetary policy have consistently supported the improvement of coordination with the Ministry of Finance in public debt management. It remains a task for the government and the Ministry of Finance to create significant fiscal adjustment with their policies and instruments and then together with the Croatian National Bank define the future optimal combination of fiscal and monetary policies that will ensure stable economic growth.

The aim of this paper is to clarify the main characteristics and requirements of coordination of measures and instruments available to monetary policy and debt management in Croatia and to evaluate the current practice of coordination, especially in the last two, recessionary, years. The paper provides an overview of the main measures of the Croatian National Bank undertaken in order to improve and facilitate public debt management and coordination with the Ministry of Finance. The paper particularly analyses open market operations and indicates the need for further development of the government securities market and the introduction of primary dealers in government securities, which brought significant improvements and savings in public debt management in numerous countries.

Key words: monetary policy, debt management, open market operations, government securities market
Government guarantees and public debt

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Summary:

Government financial and performance guarantees have been issued in Croatia since 1996 to support funding and ensure favorable borrowing conditions in the financial market for companies in majority state ownership. However, state guarantees are rarely an integral part of identified strategies or the target for public debt and risk management. Despite steady growth, the structure of active guarantees and their impact on Croatian public debt are still unknown. The main objective of the paper is to determine the impact of government guarantees on public debt growth. The paper particularly analyzes the amount and the structure of state guarantees, maturity, authority and accountability for their management; it also compares the sectoral structure of guarantees and liabilities.

Key words: government guarantees, maturity, management, public debt
Creditworthiness of state-owned enterprises

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Summary:

Objective of the thesis is to analyze the creditworthiness of companies of special state interest. The paper tested the hypothesis that state-owned enterprises are over-indebted and not creditworthy. There is no single definition of state-owned enterprises, but in practice such companies are considered those in which the state is a majority owner or which it has control over, while their activity is the delivery of public services. In their operations they should adhere to the principle that marginal costs should equal the marginal benefits of delivered goods and services. Assessment of creditworthiness has been made by horizontal and vertical analysis of financial reports and analysis on the basis of financial ratios. The financial reports used are published on the Internet site of the Financial Agency (FINA) and the Zagreb Stock Exchange. All analyzed companies are incorporated as joint stock companies or limited liability companies. Among basic limitations of the analysis are the lack of certain qualitative data and inconsistencies in financial reporting. The conducted analysis has disproved the tested hypothesis.

Key words: creditworthiness, state-owned enterprises, credit analysis, risk assessment, financial reports
Local government and utility firms' debt

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Summary:

The global financial crisis has affected the Croatian local public sector. In such circumstances, local government units' debt and borrowing should be approached with caution. Interwoven financial operations of local government units and their utilities indicate the need for analysis of consolidated financial statements of local governments and utility companies, in order to gain an insight into the real financial "health" of local units. Accordingly, the main aim of this paper is to analyze the size and structure of consolidated (local government and utility companies) local public debt in Croatia. Hence, the paper presents the financial position of local government units complemented by information on the financial operations of utility companies, with particular emphasis on the size and structure of their liabilities and gross and net debt. Although the current Budget Law does not require the formal preparation of consolidated financial statements of local governments and their utility companies, consolidation is stipulated by International Public Sector Accounting Standards (IPSAS). The application of IPSAS regulations would be helpful for the purpose of gaining an insight into the overall direct and indirect exposure of local government units arising from the financial operations of their utility companies.

Key words: local government units' debt, utility companies' debt, the consolidation of financial statements of local units and utility companies
Clearing and settlement and risk management as institutional support for capital market development

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Summary:
The Central Depository and Clearing Company has, with the development of clearing and settlement and risk management, become a significant part of the capital market infrastructure providing stable development, integrity and security. Since 2004, transparent trading in the capital market has largely been a result of the improvement of the company’s basic functions. The paper explains services provided by the company and their impact on capital market development, especially operations related to risk management.

Key words: depository, dematerialized securities, clearing and settlement, corporate actions, risk management system
Clearing and settlement and risk management as institutional support for capital market development

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Summary:
Drawing on developed countries’ good governance knowledge and experiences, this paper examines possibilities and constraints of financial and non-financial state asset management in Croatia. The main aim of the study is to determine and analyse crucial preconditions for efficient state asset management, current state and dilemmas regarding assets’ value estimate, as well as to point out the possibilities and constraints that relate to assets’ marketability and use for the purpose of public services financing and public debt repayment. In the last 15 years, insufficient attention has been given to institutional setup and accounting recognition and valuation estimates of the financial and non-financial state assets in Croatia. The need for developing accountable and responsible state asset management has often remained in the shadows of privatization processes and ownership rights enhancement. The setup of the administrative office and the Agency for state asset management thereafter has generated key institutional preconditions for quality management. This, however, posts new additional dilemmas concerning the following: asset management organisational setup, assets’ accounting recognition and valuation enhancement processes, making decisions regarding asset usage, and analyzing the possibilities of assets’ potential marketability, both in short and long term.

Key words: state asset, accounting valuation, management, financial impact