



## 8th IMF Public Debt Managers' Forum

July 14-15, 2008

Warsaw, Poland

### Agenda

July 13, 2008

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6 p.m.–7.30 p.m.      Welcome reception

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July 14, 2008 – Day 1

### *Market Developments and Prospects*

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8.15 a.m.–8.45 a.m.      Registration

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8.45 a.m.–9.15 a.m.      Welcome remarks by Mr. Murilo Portugal (Deputy Managing Director, IMF), and Senior Level Polish authorities.

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9.15 a.m.–10.45 a.m.      **Session 1: Global economic and financial market developments**

*This session will review recent economic and financial market developments, including continued credit turmoil, inflationary pressures, and commodity price developments, and will consider their impact on conditions in sovereign, financial, and corporate debt markets. The IMF will present an overview of global economic and financial market developments. This will be complemented by the perspective of central bankers and the private sector on key factors driving conditions in debt markets. In particular, the session will consider:*

- What is the outlook for global liquidity conditions? Have money market conditions normalized? What does this mean for the availability and pricing of collateral?
  - How are emerging inflationary pressures impacting debt markets? How likely is it that inflation will become embedded? How are yield curves reacting?
  - Are credit spreads priced appropriately? Are they capturing effectively the impact of macroeconomic changes, including in commodity prices? What other factors are driving credit spreads?
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|-----------------------------|--------------------------------------------------------------------------------------------------------------------------------|
| Chair:<br>Mr. Portugal, IMF | Presenters: IMF (Mr. Caruana), Goldman Sachs, NY Fed, Hungary (CB), Ashmore<br>Discussant: Moody's<br>Open Discussion: 30 mins |
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**10.45 a.m.–11.00 a.m. Coffee break**

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**11.00 a.m.–12.30 p.m. Session 2: Outlook for EM debt managers and debt markets**

*This session will consider the outlook for debt management, debt issuance and domestic debt markets in EM countries. It will discuss the scale of resilience to the ongoing market turmoil and its aftermath, and the potential impact of asset reallocation in mature markets. It will also discuss the inflation outlook and policy measures to control it and their impact on domestic EM debt markets. Representatives of the ratings industry, the sell-side and the buy-side will present their perspective. EM debt managers will also present their own perspective.*

*This session will address the following issues:*

- What is the outlook for rating upgrades and downgrades? What are likely to be key drivers and potential triggers underlying any changes in sovereign ratings?
  - What opportunities are there for EM borrowers (sovereign, financial, and corporate) to tap international capital markets? Is there still scope for international issuance in local currency?
  - What are the current drivers of demand for EM fixed income assets (sovereign, financial, and corporate)? How are tighter financing conditions (such as higher haircuts, reduced pool of acceptable collateral, tighter counterparty credit lines, etc.) affecting investment decisions?
  - Has there been a shift in demand for local versus international debt issues? Has investors' risk appetite for EM assets changed?
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Chair:

Mr. Klimaszewski,  
Deputy Director,  
Financial Assets &  
Liabilities Department,  
MoF, Poland

Presenters: Moody's, Citi, India (RBI), Mexico

Discussants: AXA, EMSO, EuroMTS, Goldman Sachs

Open discussion: 30 mins

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**12.30 p.m.–2.15 p.m.    Lunch**

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**2.15 p.m.–3.30 p.m.    Session 3: Managing risk in practice**

*This session will focus on recent experiences of EM debt managers in facing challenges in the implementation of their desired debt management strategies as a consequence of the continued volatility in debt markets. The IMF will present a brief overview on recent events in EM debt markets, highlighting the response function of debt managers to the emergence of some specific risks—including reduction in the foreign investors' demand, poor auction outcomes, and continued dislocation in key money markets. This will motivate a panel discussion on possible policy responses and potential risk mitigation strategies, focusing on the following issues:*

- Are EM debt managers facing increased in risk implementing their debt management strategies? How acute are these risks?
  - What are the implications for future EM issuance? Do debt managers need to adjust their planned borrowing plans?
  - What scope is there for EM debt managers to insulate and mitigate potential funding risks—postpone issuance, add auctions, change size or tenors of auctions, reject bids, build precautionary (cash) buffers? What constraints exist—fiscal, legal, institutional and market—on that scope?
  - How responsive should debt managers be to changes in market conditions? How should debt managers find the appropriate balance between transparency and commitment (on the one hand) and responsiveness (on the other)? What triggers might be identified that would warrant a change in borrowing
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plans? How should debt managers communicate and interact with investors on these issues?

- Do investors perceive that risk for EM debt managers has increased? What would investors find to be an appropriate response to changes in market conditions? How would the private sector perceive or react to the implementation of risk mitigation strategies?
- How should debt managers communicate and interact with investors on these issues?

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Chair:

Professor Buiters, LSE

Presentation: IMF staff

Discussants: Portugal, Brazil, Hungary, Turkey, South Africa, EMSO, Citi, Moody's

Open discussion: 30-40 mins

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3.30 p.m.–3.45 p.m.

Coffee break

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3.45 p.m.–5.30 p.m.

**Session 4: Benefits and challenges arising from the regionalization of debt markets**

*This session will focus on the potential benefits and challenges relating to operating within a regional debt market, with and without common currencies. It will highlight key issues from the issuer and the investor perspective, and aim to identify the key features that determine a regional market. It will explore whether developing such markets is an effective way to relieve some of the constraints and challenges faced by issuers in small markets, including whether taking a common approach across neighboring countries can increase the attractiveness of the market to investors and effectively reduce transaction costs. This session will draw on the perspectives of agents involved in facilitating a regional approach to market development, investors who trade EM assets as part of a regional asset class, debt managers who issue in markets with a common currency and/or with harmonized infrastructure and regulatory standards, and sell-side responsible for bringing new investors into markets, to explore just what is meant by regionalization of markets, and what are the potential benefits and costs involved of neighboring countries working*

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*with each other to create a harmonized, regional approach to developing their debt markets. Questions that will be explored will include:*

- What attributes make a market “regional”? Does it have to use a common currency? Does it have to use the same market infrastructure, i.e., trading system, clearing arrangements, payment, settlement, custody and depository systems? Does it need the same market microstructure, i.e., common approach to primary dealers, issuance techniques, use of benchmarks, etc.? Is the euro government bond market a regional market?
  - What are the challenges facing investors when considering accessing markets in neighboring countries? How important is it for issuers in neighboring countries to follow similar or standard approaches to issuance, investor communication, instrument design, etc. to facilitate investors entry into the market? Can debt managers enhance the appeal of their debt by adopting such standard approaches?
  - Are transaction costs associated with cross-border trading a significant impediment? Is the interlinkage of local CSD's across countries, and/or with international CSD's a significant entry hurdle for investors? Is the robustness of cross-border payment arrangements, custody and depository arrangements, etc. sufficient? Does home bias of investors continue to be a feature, even in “regional markets”?
  - Can a small issuer effectively tap the investor base of larger, neighboring countries? Does this bring more benefits that simply tapping the international capital markets more broadly? Does this require small issuers to focus on larger, but fewer tenors? What does this imply for issuers' cost-risk preferences? Can issuers reduce their cost and risk by targeting a more regional investor base?
  - Is competition with other issuers a concern in a wider market with a regional perspective? How should smaller or newer issuers position themselves when competing in a regional space? How is that reflected in debt management operations?
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- Can dealers effectively take a regional approach to their primary dealer operations? Does a standard approach by debt managers across the region facilitate the entry of new primary dealers, and associated commitment of capital to that market, by dealers active in neighboring countries?
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Chair:

Mr. Werner Studener,  
Deputy Deputy  
Director General,  
Market Operations,  
ECB

Presenters: MTS, CRA Rogers Casey, Thailand, Poland, the  
Netherlands

Discussants: AXA, Ashmore

Open discussion: 30-40 mins

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**7.00 pm**

**Dinner**

**Special address by Prof. Willem Buiter**

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July 15, 2008 – Day 2

*Policy challenges and responses*

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### 9.00 a.m.–10.30 p.m. **Session 5: Contingent nature of rising vulnerabilities**

*This session will discuss identification and management of risks stemming from higher external borrowing by the private non-financial sector in EM countries, increased vulnerability of domestic banks in emerging markets to external market conditions, potential fiscal consequences of bank bailouts, their impact on debt management and appropriate policy mix response. In particular, the session will address the following questions and likely policy responses/reactions:*

- How has the relative mix of private and public sector external borrowing changed? Overall, how does the current external debt burden compare with that of 10 years ago? Is there a sense that the private sector is struggling to rollover this external debt? Is there a perception that fiscal risk may be increasing as a consequence of heightened corporate sector external vulnerabilities?
  - How does the participation of non-residents in domestic capital markets contribute to these vulnerabilities? Are FX markets sufficiently robust to absorb potential capital in- and out-flows? Are secondary bond markets sufficiently robust to absorb potential volatility in these portfolio flows?
  - How can the public sector authorities (central banker, debt manager, financial regulator, etc.) effectively monitor and manage these developments, e.g., what is the role of investor relations; how robust is the approach to capital account liberalization; is there effective communication of risks and coordination of policies between the fiscal and monetary authorities; what is the role of debt managers in identifying and managing these risks?
  - How important can rumor and market sentiment be, particularly with regard to potential weakness in the financial sector, be on the functioning of money, fixed income and equity markets? What is the potential impact on risk in the banking
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system? Are the authorities adequately capturing the scale of risk in the banking sector?

- What are the potential fiscal consequences of a banking sector bail-out and its impact on debt management? What lessons have been learned from the experiences in the 1990s and early 2000s (magnitude of shocks, sources of fiscal risks, short-term impact of banking crisis on government securities markets, implications for public debt management of bank recapitalization through the issuance of securities)? What has changed since then and can these lessons be applied in the current environment?
- Is there a scope for coordination of policies to prevent and handle bank bail-outs?

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Chair:

Mr. Lorenzino,  
Secretary of Finance,  
Argentina

Presenters: NY Fed, South Africa, Turkey, Brazil

Discussant: Uruguay

Open discussion: 40 mins

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**10.30 a.m.–11.00 a.m. Coffee break**

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**11.00 a.m.–12.30 p.m. Session 6: Government cash flow management and its impact on debt management**

*This session will focus on the links between government cash management, debt management and monetary policy. It will highlight issues in achieving effective coordination of these policy areas, including the institutional arrangements. The session will involve a discussion on technical aspects of cash flow management and the operational interactions with debt management and monetary management operations, with an exchange of experience between mature and emerging market countries.*

- What is needed to ensure coordination of fiscal and monetary policy when managing surplus cash and short-term borrowing requirements? What is the role of the debt management unit in active cash management? Is the debt management unit the most appropriate institutional setting for cash management operations?
  - What processes are necessary to ensure that usage of short-term financial instruments for cash management purposes is
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effectively coordinated with medium-term debt issuance programs? How is this achieved in advanced countries? What is the experience in EMs?

- Why is the consolidation of government cash balances into a Treasury Single Account (TSA) important from a debt management perspective? Should cash balances of extra-budgetary funds and/or sub-national government be included in the TSA? How do advanced countries manage their banking arrangements and what are the lessons to be learned from their experiences?
- Accurate cash flow forecasts are an essential element of debt management operations. What is required to improve accuracy—modeling vs. Financial Planning Information Networks? What does experience teach us? What is the potential role of the central bank in cash flow forecasting?

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|---------------------|-------------------------------------------------------------|
| Chair:              | Presenters: Sweden, UK, India (MOF), Macedonia, Poland (CB) |
| Mr. Cottarelli, IMF | Discussant: the Netherlands                                 |
|                     | Open discussion: 30 mins                                    |

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**12.30 p.m.–2.00 p.m. Lunch**

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**2.00 p.m.–3.30 p.m. Session 7: Debt management before and after EMU accession**

*This session will discuss strategic and practical choices faced by debt managers in countries planning to join the Eurozone. It will discuss long-term issuance plans, instrument and currency choice, relations and communication with investors, and will try to draw lessons for future Eurozone members from the experience of countries already in the Eurozone. In particular, the discussion will address:*

- What are the practical challenges facing debt managers converting from original currency to euro? Is it useful to establish a presence in the euro market prior to accession? Should such euro issues be issued domestically to facilitate compatibility with existing local debt? Should debt managers seek to establish parallel euro and local currency issues that could be made fungible on accession?
  - How should issuers organize their primary dealer / market
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maker arrangements in the run-up to accession? Should there be equivalent market making requirements set for euro issues relative to local currency issues?

- How can debt managers manage the potential change in investor behavior as a consequence of bonds exiting certain EM indices and entering other indices? What scope is there for debt managers to use operations to facilitate that change?
- As investors' pool of "local currency" assets expands, how can debt managers effectively address the increase in execution risk as a consequence of the loss of (what was effectively) a captive investor base?
- How can EMs effectively address the challenge of implementing EU financial services directives? Are there other impediments in integrating key elements of market infrastructure, such as payment and settlement systems? Can EMs "piggy back" on existing technologies to reduce these costs?
- What lessons can be learned from the experience of existing EMU members?

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|---------------------------------------------------------------|--------------------------------------------------------|
| Chair:                                                        | Panelists: Portugal, Ireland, Slovenia, Malta, Hungary |
| Ms. Zajdel-Kurowska,<br>Deputy Minister of<br>Finance, Poland | Open discussion: 30-40 mins                            |

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**3.30 p.m.-3.45 p.m. Coffee break**

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**3.45 p.m.-4.15 p.m. Session 8: Wrap-up**

*This session will summarize and discuss the key messages from this Forum and issues for further work.*

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| Chair:           | Panelists: Messrs. Das, Cottarelli (IMF) |
| Mr. Caruana, IMF |                                          |

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**4.15 p.m.-4.30 p.m. Closing remarks by the Polish authorities and Fund representatives**

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**4.30 p.m. Farewell reception**

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