United Nations | Department of Economic and Social Affairs

CEPA strategy guidance note on the

Long-term public debt management

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Outline of the presentation

- Introduction
- What is Public Debt Management (PDM)?
- Intergenerational Equity (IE)
- How does PDM contribute to long-term economic and social outcomes and IE?
- Conclusion

Introduction

- In the pursuit of macro-economic objectives, government have different tools at their disposal

  - Fiscal policy
  - Monetary policy
  - Sectoral policies
  - Debt Management Policy

- A certain degree of separation among policies is often needed but policy coordination is important to prevent conflicts

Debt financing

- Governments borrow for a variety of reasons and from different sources

Reasons

- Meet short-term liquidity requirements and for cash management purposes
- Finance wars
- Mitigate the impact of shocks
- Refinance existing debt
- Fund large public infrastructure projects or social programmes

Sources

- Domestic or External
  - Domestic Debt – Treasury Bills, Bonds
  - External Debt
    - Multilateral
    - Bilateral
    - Commercial

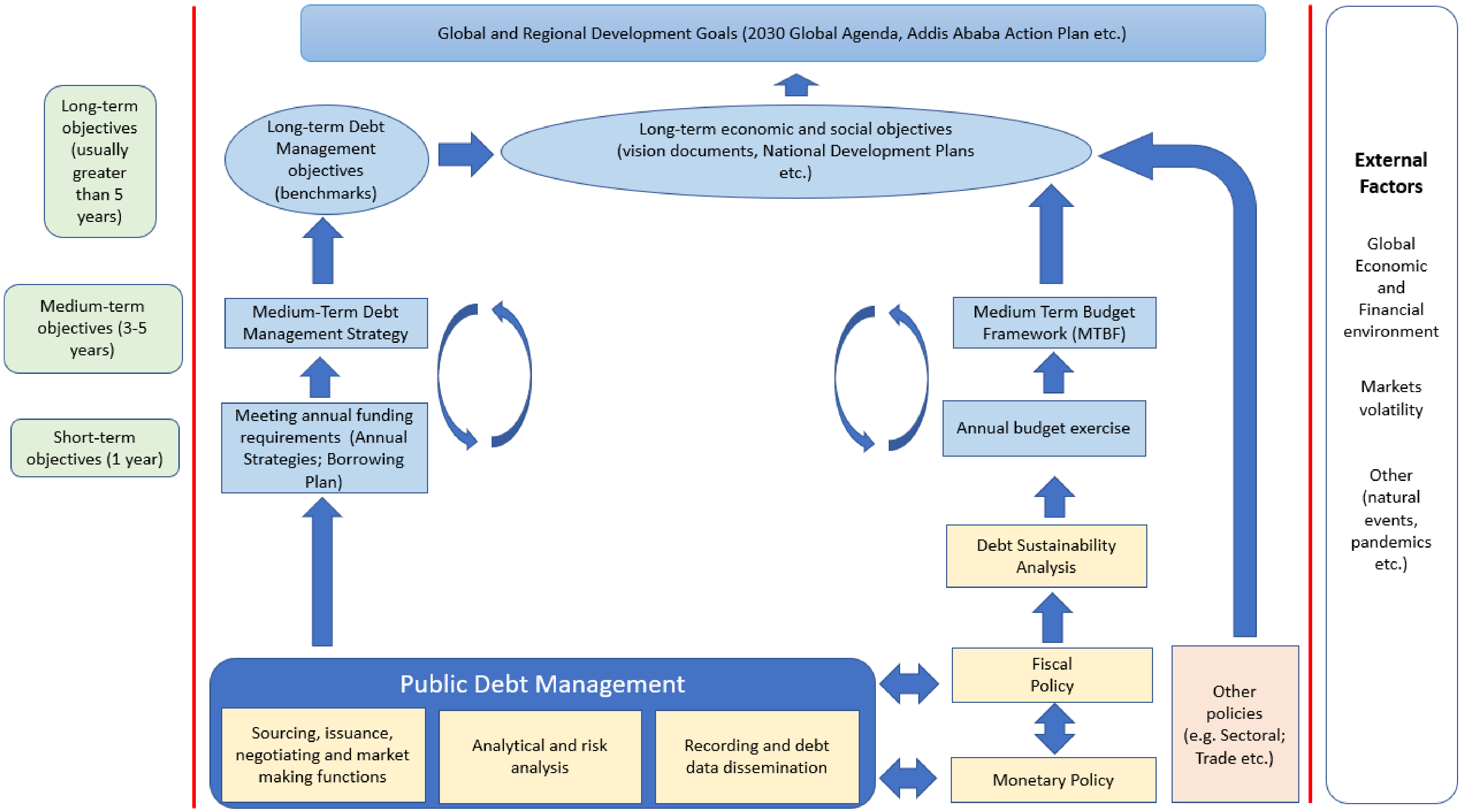
- Over the past decade, there have been major changes in the sources of funding of developing and emerging countries

What is public debt management?

“Public debt management is the process of establishing and executing a strategy for managing the government’s debt in order to raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk”*

* Revised Guidelines for Public Debt Management, IMF / WB (2014)

How does PDM contribute to long-term economic and social outcomes and IE?



Debt and intergenerational equity

- There are different views on the relationship between debt and its effect on future generations
- Some argue that in a situation where interest rates are lower than growth, debt financing would have low fiscal and welfare cost for future generations
- However, other research has clearly demonstrated that there is a negative correlation between high debt burdens and economic growth, although causality is difficult to establish
- Most people would agree that borrowing, especially long-term debt, is likely to have a positive impact on intergenerational equity if it used to fund productive development projects and programmes
- Governments should borrow to fund projects and programmes that generate positive economic and social returns

Conclusion

- Effectively managed, borrowed resources can be a key contributor to financing development and achieving better IE
- The use of PDM as an instrument for achieving IE is work in progress
- To improve the situation:
  - Countries must first reflect upon and reach consensus on what should their IE objectives be
  - These objectives should be reflected in macro-economic policies inc. PDM
  - Progress towards achieving IE should be monitored and reported on
  - However, since IE is a cross-cutting issue it is important not to overwhelm the debt management office

Thank you for your attention

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