

GOVERNMENT DEBT MANAGEMENT IN THE EURO AREA

Outstanding debt, be it debt of an enterprise, a private household, a government or a country as a whole, is characterised not only by total amount and coverage by assets, but also by maturity structure, time profile of interest payments, debt instruments used and risk, namely with respect to refinancing the due debt at higher interest rates. Influencing these characteristics in a reasonable and optimal way is the task of debt management. Debt management is not only undertaken when additional finance has to be raised or when old debt becomes due; it is an everyday activity that relates to the total stock of outstanding debt, the characteristics of which can be

permanently changed through actions on the capital market.

While debt management in the private sector aims at minimising costs and risks, debt management in the public sector could – at least theoretically – additionally or alternatively pursue macroeconomic objectives, like macroeconomic stabilisation, tax burden smoothing or stabilisation of the public deficit. In practice, however, management of public debt in the euro area is aimed primarily at financing “the annual borrowing at the lowest possible (medium-term) cost with acceptable risks” (Wolswijk and de Haan 2005, 7).

In a recent contribution the above-mentioned authors study public debt management in the euro area countries: how it is organised and how the characteristics of public debt have changed under the influence of

Box				
Government debt managers in the euro area				
	Manager	Institutional position	Debt manager classification	Website
Austria	Österreichische Bundesfinanzierungsagentur	Part of the Ministry of Finance	SMO	www.oebfa.co.at
Belgium	Service de la dette publique/Federale Dienst van de Staatsschuld	Part of the Federal Public Service Finance	DMO	www.treasury.fgov.be/interdette
Finland	Valtiokonttori (State Treasury)	The State Treasury is supervised by the Ministry of Finance	DMO	www.valtionkonttori.fi/rahpa/bulletin/bulletin.htm
France	Agence France Trésor	Part of the Ministry of Economic Affairs, Finance and Industry	DMO	www.aft.gouv.fr
Germany	Bundesrepublik Deutschland – Finanzagentur GmbH	Limited company of the German State, represented by the Federal Ministry of Finance, as sole shareholder	SMO	www.deutsche-finanz-agentur.de/eng/
Greece	General Accounting Office	Part of the Ministry of Economy and Finance	DMO	www.mof-glk.gr/en/home.htm
Ireland	National Treasury Management Agency	The chief executive is appointed by the Minister of Finance and is directly responsible to him	DMO	www.ntma.ie
Italy	Dipartimento del Tesoro	Part of the Ministry of Economy and Finance	DMO	www.tesori.it/publicdebt
Luxembourg	Trésorerie de l'Etat	Part of the Ministry of Finance	DMO	www.etat.lu/TS/
Netherlands	Agentschap van het Ministerie van Financiën	Part of the Ministry of Finance, but with much autonomy	DMO	www.dutchstate.nl
Portugal	Instituto de Gestão do Crédito Público	Part of the Ministry of Finance	SMO	www.igcp.pt
Spain	Tesoro Público	Part of the Ministry of Economy and Finance	DMO	www.mineco.es/tesoro/htm/deuda/index_en.htm

Source: Wolswijk and de Haan 2005; Currie et al. 2003.

debt management and increasingly integrated and competitive capital markets.

Principally, the task of public debt management could be either assigned to the national central bank (NCB) or to the Ministry of Finance (MoF). Concern for price stability and for a better control of the transmission channel of monetary policy may speak in favour of the NCB, while the pursuit of other macroeconomic goals and, in practice most important, minimization of interest costs for the budget make the MoF the adequate institution for supervising and/or conducting debt management operations.

The Box shows that none of the euro area countries has allocated public debt management to the respective NCB. In all countries it is the MoF that is responsible, albeit with important differences. Four of the twelve euro area countries have created a separate unit outside the MoF that the authors call “special debt management office” (SMO). It is to these units that operational responsibilities are delegated. In the other eight countries, operational tasks are kept within the MoF. The units of the MoF that conduct debt management operations are called “debt management office” (DMO). The institutional differences between SMO and DMO notwithstanding, in practice the difference may not be so striking. Even the countries with a DMO structure, like Belgium, France and the Netherlands, have granted more room for manoeuvring to their debt managers.

There may be several reasons why operational independence has been increased for debt management units. The project of the European Monetary Union (EMU) and later the real start of the EMU have led to a fast integration of European capital markets. This development has put debt managers – for public as well as for enterprise debt – under additional competitive pressure. Before the establishment of the EMU, public debt managers were dominant players in their national capital markets but not after the introduction of the euro when the notion of a “national capital market” became less meaningful.

Increased integration and competition in capital markets have also been furthered by new technical innovations such as systems for electronic securities trading. These developments require a higher degree of operational independence, more room to quickly

react to market chances and more professionalism, all of which may be more easily accomplished outside a bureaucratic structure.

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References

Currie, E., J.-J. Dethier and E. Togo (2003), “Institutional Arrangements for Public Debt Management”, *World Bank Policy Research Working Paper*, no. 3021.

Wolswijk, G. and J. de Haan (2005), “Government Debt Management in the Euro Area: Recent Theoretical Developments and Changes in Practice”, *European Central Bank Occasional Paper Series*, no. 25.