



THE STRATEGIC ORIENTATION OF THE PUBLIC DEBT MANAGEMENT AT THE TIME OF UNCERTAINTY

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Article history:

Received: 17th July 2022

Accepted: 17th August 2022

Published: 28th September 2022

Abstract:

During the last decade of the twentieth century, public debt management strategies dealt with a limited number of challenges such as the volatility of exchange rates and interest rates. Yet, the liberalization of financial markets, opportunities and challenges arising from the globalization of public debt markets and international financial crises, highlighted the weaknesses in the debt management strategies if there is no organized approach to risks. The strategic goals were badly identified with a complete lack of understanding or debt -related data. In addition, there was a clear confusion in the relevant institutional arrangements of dealing with debt and implement the strategy. The current research uses the descriptive analytical approach to review the concept of debt management strategies and its formulation and implementation requirements based on the understanding of the nature of the relationship between the macroeconomic economy and the strategy of sovereign debt

Keywords: Public debt management strategies, government debt portfolio, sovereign debt.

INTRODUCTION

Government debt administration began as notable policy, which have clear goal of risk management and cost reduction, for the first time between advanced economies in the late eighties. This is because the management of government debt needs improvement with the high levels of debt arising from macroeconomic imbalances, especially in the mid -seventies and 1980s. However, the debt management strategy is not developed or completely missing. Williams (2009) states that there was a crisis during the last decade of the twentieth century related to the development of a suitable strategy for debt management, and the debt management dealt with the fluctuation of the exchange rates and prices benefit. However, the liberalization of financial markets, opportunities and challenges emerging from the globalization of financial markets have highlighted the poor debt structure and emergency obligations and the realization of the most complex nature of risks(Saleh, 2015).

The government debt portfolio is often biggest in terms of financial aspects in the country due to its complex financial structures and different levels of risks. Also, it may affect the public budget and financial stability of the country(Storkey, 2001).

To make an effective government debt administration, an improved strategy capable of ensuring the government's goal in managing its debt portfolio is required, which is to collect stable and low -cost financing for its financial needs. Moreover, the debt strategy depends on several factors, many of which are unknown and are not subject to the control of the debt manager, such as future behavior of price of interests, macroeconomic variables and government financial policy(D. Bolder, 2008).

The concept of public debt management strategy.

IMF World Bank (2019) defines the Public Debt Management Strategy as "a plan that the government intends to implement in the medium term in order to achieve the desired composition of the government debt portfolio, which reflects the government's preferences in terms of cost and prevailing risks"(Estevao & Savastano, 2009). In this definition, the strategy is described as a plan in an indication of the future path to be set in a medium-term time frame. It aims at achieving the debt instrument structure that reflects the preferences of debt management objectives and optimally configures its debt portfolio to reduce expected costs subject to risk constraints.



While Chiburdanidze and Chiburdanidze (2018) defined it as a "specific plan according to time frameworks that help the government obtain the optimal structure of the public debt portfolio". This definition focuses on the future orientations governed by the time determinants, but the researcher did not specify the scope of the time frame if it is average or long -term, there are medium -range strategies that are usually for five years. Also, there are long -term strategies of up to 30 years, with emphasizing the goal of the strategy in obtaining the optimal structure of the wallet without referring to the specific standards such as cost, risk level and any Indirect goals for the administration of government debt.

Within this framework Melecky (2007) defines the debt management strategy as "the basic document based on government debt management goals and debt managers direct their decisions and operations". The documented for the targeting of public debt, and emphasizing its importance as a guide in public debt management operations.

Blommestein (2009) defines public debt management "as a process through which a plan is set to achieve a number of specific goals for the government on debts and its obligations"(Saleh, 2015). With obligations and debts, in this strategic definition, it was not based on the strategic goals of religion management, but rather they were formulated for the purpose of achieving goals, as the strategy here (Bottom-UP).

It is also defined by D. J. Bolder (2003) as "the way the government finances a surplus of government expenditures on revenues and any payment debt is paid in previous periods"(Mupunga & Le Roux, 2016).

Based on the foregoing, a definition of the strategy of public debt can be "the strategic path that the debt administration adopts to provide financing requirements for the government and develop and support an effective financial market for bonds in local currency, and to provide financing alternatives within the framework of coordination between different policies".

The integrative relationship between debt management strategies and the macroeconomic frameworks

Public debt management strategy is related to the policy of macroeconomic economics, structural policies and short -term operations. The debt manager determines the debt management strategy, taking into account the emerging restrictions mainly on the framework of the macroeconomic economy and the improvement level of the local financial markets. So, the analysis on Debt Management Strategies can input to macroeconomic policy analyses. Because of its medium -term viewpoint,

the debt management system is capable of supporting the efforts made to improve the local debt market. This by the facilitation of a predictable and transparent and strategy for local borrowing, such as regular introduction of new tools. Highlighting potential challenges in particular in the market and institutional infrastructure, makes the debt management and other authorities overcome these challenges (Bank & IMF, 2009)

Also, the monetary policy tools and operations, the institutional frameworks, and credibility all have important effects on the strategy of public debt management. For example, the absence of credible monetary policy may lead to an increase in the risk of inflation and making local debt long -term excessively costly. Another example is the sterilization operations resulting from capital flows causing the central bank's publication on a large scale of securities in its name. So, considerations that must be taken into account when developing debt management strategies(Holler, 2013). The central bank policy in increasing interest rates in the face of increased inflation concerns can hinder the policy of the government debt manager of reducing debt costs(Abramzon, 2014)

Also, the expected exchange rate policy of the balance of payments and subsequent developments in the real exchange rate may have consequences for the strategy of public debt management. For example, if the exchange rate is expected to turn in a declining direction, then this raises the external borrowing cost. Similarly, the debt service could rise with the volatility of exchange rate. Generally, borrowing in foreign currencies needs a thorough understanding of the payment and coordination balances with the policies of the exchange rate (Bank & IMF, 2009).

Government debt could be main cause of financial weakness, in the early 1990s, Mexico was excessively dependent on short -term debts associated with dollars and its due debts reached twice its foreign currencies transforming the exchange rate crises into a debt service crisis. In the late 1990s, the foreign exchange reserves of the Russian Federation decreased sharply as foreign investors were hesitant to renew short -term government bonds. In 2002, the increase in the dollar and the rise of short -term debts balanced payments in Argentina, whose currency was connected with the dollar. These crises were achieved as a result of some weaknesses in the approach, debt management, as a result of focusing on the deficit and total debt and considering the financial risks independent of each other instead of Its association with each other, the neglect of the aspect of the assets in the sovereign public budget, and the lack of understanding of changes



in the evaluation(Cangoz, Sulla, Wang, & Dychala, 2019).

Also, debt management is vital in improving financing, especially the extension risk of the type during the various crises of sovereign debt, with regard to borrowing costs. Liquidity as well as financial solvency considerations influence it. Government solvency may be the most important specified borrowing costs, the more financial solvency, the less the cost of financing. The debt management mainly affecting the liquidity risk (i.e. the ability to reach financial markets at all times at reasonable costs), is the decisive factor in determining the cost of borrowing, many crises began when governments have faced difficulties in extending short-term local or foreign debts. Once the liquidity crisis begins, governments must spend higher interest rates on renewing their debts, and if the liquidity crises continue for a long period, it can deteriorate financial accounts and threaten to turn into a solvency difficulty(Kiguel, 1999).

Public debt stability is one of the strong aspects of sovereign credit rating and was recognized by rating agencies including MOODY'S, Standard and Poor's and Fitch (Chiburdanidze & Chiburdanidze, 2018).

Sound framework for debt management and operations.

Proper management of public debt improves the credibility of the issuer and enables it to successfully develop and implement a debt management strategy. It may improve the credit rating of the country and help in accessing local and international markets in cost-effective manners. Also, a sound public debt management framework helps to ensure accountability for the management of public debt. Debt management and the avoidance of political pressure. A sound framework for debt management is based on the importance of having clear debt management objectives, appropriate coordination between debt management and monetary and fiscal policy, and an effective institutional framework that ensures and a risk management framework for formulating and implementing an efficient and effective debt management strategy(World Bank, 2001).

1. Clear goals of debt management.

The debt management aims are theoretical and theoretically different greatly depending on the stages of economic development of countries, but there are two basic perspectives for sovereign debt management. The first is the total economic perspective that focuses on reflecting the debt management decisions on the country economic welfare, while the second is the

perspective of the debt portfolio or funding for the costs of the debt service. The literature that deals with the topic from the total economy perspective focuses on two opposing goals to manage sovereign debt, namely reducing the expected cost and reducing risks, based on the opinions of Barro (1979); Storkey (2001). A macroeconomic perspective supports the goal of reducing risk by emphasizing the role of sovereign debt management in tax reduction, Fiscal Insurance Theory, Public debt management. The idea of financial insurance is inherent in the optimum taxonomy, as the debt structure that provides hedging against the budget's total shocks can be supported a relatively fixed tax rate over time(Holler, 2013). In the context of discussing the goals of the various macroeconomic policies and the pests inherent among them in the short term, Cassard and Folkerts-Landau (1997)discuss on inflationary pressures. Or you may resort to lowering interest rates in order to restrict the costs of debt service. Yet it may be at the expense of the goal of stability, gradually, the recognition of conflicts of interests and increased understanding that achieving the different goals of politics in an optimal way requires a great degree of independence(Hoogduin*, Öztürk**, & Wierts**, 2011).

Clearly and transparently set objectives pose the debt manager to accountability and help to avoid administration of debt foreign political pressures that may lead to bad decisions for debt management, including unwanted bodies between costs and risks which have wise macroeconomic policies and proper organizational frameworks regarding the capital market. Then, the goal clarity of debt management and the adoption of policies and practices guarantee the fulfillment of these goals is important to reduce uncertainty between investors and attract their support, in several emerging market economies. There is no clear definition of these in many cases, and the framework of governance and legal authorities dominated them. Lack of clarity lead to a state of lack of certainty among government debt managers and investors(World Bank, 2001).

2-Coordination with monetary and financial policies

Proper coordination of debt management with monetary and fiscal policy decisions is significant in a sound debt management process. According to the Public Debt Management Guidelines, "debt managers, fiscal policy advisers and central bank governors should share an understanding of debt management objectives and fiscal and monetary policies in light of the



interrelationships between the various policy instruments" (World Bank, 2001).

Marszalek (2003) states that the coordination represents the mechanism through which negotiation takes place between two authorities. Each is independent from the other, in order to achieve the best desired results from both and create the appropriate framework to activate the performance of both authorities.

Debt managers must also communicate to financial authorities their views on the costs and risks associated with government funding requirements and debt levels, and policy makers must understand the ways in which different policy instruments work and can be enhanced. Aids reduces the risk premium in the long-term interest rate structure, and in such a context monetary authorities are required to inform the financial authorities of the influences of the levels of the government debt on achieving their monetary aims (World Bank, 2001).

Where the level of financial development allows, debt management must be separated from monetary policy objectives. In countries with well-developed financial markets, borrowing programs follow economic and financial projections in the government budget, and monetary policy is independent of debt management (Storkey, 2001).

3- Build a strong institutional framework

The sound institutional frameworks for government debt management exemplifies the rational governance practices, wise procedures, and the strong ability to manage operational risks, is necessary given the size of the government debt portfolios and the close connection between the policies of religion management, macroeconomic policies and governmental organizational policies (Hoogduin* et al., 2011).

According to the public debt managements, the clear legal frameworks, well-defined organizational measures, public disclosure and auditing are essential for effective governance structures of public debt management. This is because the legal frameworks have to give clarification on the powers of borrowing and debt issuance clearly, as proper governance practices are important in sovereign debt management, since they supports the safety and credibility of the financial system through assuring the wise and efficient management of the government debt portfolio (World Bank, 2001).

Public debt risk management

A specific strategy is characterized by risks when its expected cost is highly uncertain. Following many crises in the debt markets in the late 1990s, the efforts made to implement modern risk management practices are occupied by a higher priority in the agenda of public debt managers. So a growing group of countries began to consider risk management as an official target of public debt management (Silva, Cabral, & Baghdassarian, 2006).

Danger indicates the possibility of a negative event or impact, and with regard to debt, the risks are an opportunity to achieve the negative effects resulting from a commitment to pay specific cash payments in the amount and timing under unconfirmed future financial conditions (Pepaj, 2015).

The clear definition of cost and danger standards is a pre-conditioning condition for developing debt management strategies. The measuring debt cost can be determined in several different methods, traditionally, the cost of interest was the most common measure of the cost of borrowing. It appears in the government budget as expenses for interest, and the market value of the debt portfolio is a cost index used by debt management offices participating in frequent activities in the secondary market including debt reports or bond exchange operations (Balibek & Memis, 2012). Accordingly, a working framework should be put in place of enabling the identification of the bares between the estimated cost and the risks in the government debt portfolio by the debt managers.

Drafting the government debt strategy.

The idea behind analyzing the public debt management strategy is simple and complex at the same time, starting with some basic components of government financial requirements and current debt stocks (D. J. Bolder, 2003).

The random the public debt management strategy components are the developing interest and exchange rates representing the cost of borrowing and the basic balance that determines borrowing requirements. Consequently, the factors determining the optimal debt strategy are the initial balance of public debt, economics, interest rates, and government borrowing requirements depend on time, interest rates, and macroeconomic conditions. While financing requirements depend on the initial inventory of public debt, government financing requirements, economics status, and debt strategy (Mupunga & Le Roux, 2016). The formulation of public debt strategies is a complex process because the goals of public debt management usually contradict each other and there is a lack of



certainty about the movements of variables that affect the results of the decisions taken. One of the basic goals is to borrow at the lowest possible cost, taking into account the risks associated with the debt wallet to avoid any negative impact on the service of debt, as the financial stability of a country is affected by the integrity of the balances of the public sector and the sustainability of the debt service. So the distress in debt management, such as difficulties in fulfilling timely obligations or the high costs of debt, has indirect effects on the entire economy. Hence, debt managers must formulate debt management strategies that reflect government costs and preferences for risks(Balibek & Memis, 2012).

For the purpose of understanding the main ideas involved in formulating the government debt strategy, government borrowing requirements and the most important methods of choosing a less cost financing strategy should be identified, and taxpayers permanently. This is because the cost of a specific financing strategy is often complicated because the financial tools set used To meet government financing requirements are securities with a fixed income, and thus depend on the future interest rates that are certain of certainty(D. J. Bolder, 2003).

Similar to the problems of financial decision -making, the important feature of the problem of public debt management strategy is that the decisions are taken in light of uncertainty, as there is no complete information regarding future cases of relevant financial variables, including interest and exchange rates. For example, a management office may issue a management office Debt bonds at a floating price expecting a decrease in interest rates in order to reduce the cost, as the actual cost of this strategy depends on the rates achieved until the recovery of these bonds(Balibek & Memis, 2012), and the uncertainty in preparing the budget and government planning is a problem, as The stability of the government's ability to finance itself must be decisive in any complete analysis of the financing strategy.

The government's goal of reducing the estimated cost of debt and potential risks is not an easy, especially in the lack of a specific or appropriate standard to the degree of risk avoidance(Melecky, 2007). Also, the debt management strategy can be viewed formally in two ways. The first is guidelines for debt managers regarding cost and risks of the government debt structure, while the second form represents the criteria through which all the features of the risks are determined, which shows the optimal level of the desired debt in It is during a specific period of time(Saleh, 2015).

Religion management theory provides some directives to the over-all features of the debt portfolio. Yet, providing quantitative guidelines, specialists in debt management began to increase the interest to determine an objective standard that represents the long -term and compass trend and the tool that is used to formulate the strategies of the debt management and monitoring them. The standards of debt management is described according to the directive principles of the World Bank management (World Bank, 2001) as "is a powerful tool for representing the debt file that the government wants to achieve, based on the preferences of risks and expected costs", the standard is reflected by some long -term debt pointers, such as training, duration, the debt file, etc., and some countries can determine their standards based on a preliminary analysis and assumptions designated based on financial and economic variables(Silva et al., 2006).

The extent to which the debt management strategy is based on looking not only at the expected cost but also in its risks. This means that we should not expect to find many financing strategies that at the same time reduce the expected cost and risks, as the government puts detailed plans with regard to revenues and expenditures, affected by a degree of uncertainty that increases with the time horizon of these plans, as government tax revenues depend in a way to sign up the state of the economy, during the recession, tax revenues tend to decrease, while it will usually rise during periods of strong economic growth. Government programs, which are the largest part of the government's expenses, also show the business cycle style. Consequently, the government's surplus will somehow depend on the prevailing general economic conditions of the economy during that period, and as is the case with interest rates, the debt manager does not have prior knowledge of the future macroeconomic conditions, and thus the measurement of the expected cost and the risks associated with it is not necessarily sufficient to distinguish between various financing strategies, where there is an additional dimension of the problem is the time dimension(D. J. Bolder, 2003).

Among the issues related to the formulation of the debt management strategy is the size and formation of government debt, Williams (2009) sees in light of the analysis of the ability to withstand the debt. The focus is on the possibilities of the basic weaknesses associated with backwardness and delayed debt service. Also, the results of the analysis often support policy -making decisions in the situations in which stress tests reveal the basic weaknesses of government debt, and enhance expectations based on the significant realistic indicators, on the other hand, the such



strategies more concern the formation of the governor of the government instead of the total ideal amount. It is expected to be more inclined towards achieving economic shock resistance, with fully acknowledging the weaknesses arising from the formation of debt portfolios. The debt management processes can take a long time to supplement the monetary policy in countries for the implementation of beneficial effects in the long -term interest rates, and other investments and credit markets(Saleh, 2015).

The debt size and development is calculated by the proportions of religion to the gross domestic product is a measure generally indicating financial problems of the state in the short or long term, when the government governor is weak, for example when the entitlement or currency or the benefit is not identical with a focus on short or external debts, as this may weaken finance and economy in a range that harms the credit of the state. The government may incur significant and non -funded emergency obligations, and in the event of exposure to economic shocks (i.e. liquidity deficiency). There are often repercussions of harming the development of the private sector and even inequality between generations(Saleh, 2015).

The optimum wallet, within the framework of the currency structure and the optimal period of government debt entitlement.

Public debt managers are borrowing funds to finance the cash needs of the government and to re -financing the debt due, and they issue a set of borrowing tools with the deadlines of entitlement, interest rates and different exchange rates. The selection of tools that will be issued depends on the goals of public debt management, in addition to other factors such as the local and international market environment and credit rating for government and overall economy (Balibek & Memis, 2012).

These factors require working on the structure of government debt with the intention of hedging against the shocks of the macroeconomic economy because of its potential impact on the government budget(Saleh, 2015). Yet sovereign borrowers often have significant financing needs because of their efforts to stabilize cash flows and support monetary policy, And the development of local capital markets, when the financing expectations could not be met by issuing a local currency debt, the debt administration is obliged to issue a debt in a foreign currency, so it is exposed to foreign exchange risks. Four explanations for restrictions that force governments to borrow in foreign currencies are submitted(Melecky, 2007):

1. The inability of developing countries can be attributed to issuing the desired amounts of debts denominated in local currencies that foreign investors are unwilling to retain sovereign debts denominating the currencies of developing countries.
2. Governments can be restricted to issuing wanted debt amount in the local currency because of the partial dollar of the local economy. The dollar is often attributed to the decrease in monetary credibility (Jeanne, 2003). When monetary credibility is low due to the independence of monetary policy, lack of independent monetary policy indicates higher expectations regarding the possibility that the government is trying to get rid of debt(Blinder, 1982; Togo, 2012). Monetary policy has been considered an important specific factor for the formation of the public debt currency.
3. That governments issue foreign currency debts because such borrowing seems less costly when foreign exchange risk is assumed to be comparable to interest rate risk or emphasis is placed on a cost/risk viewpoint(Melecky, 2007), so the cost and risk debt management authority viewpoints, its debt management capabilities, and the government risk preference degrees are critical.
4. Choosing debts in foreign currencies can stem from trying to avoid crowding out local companies from borrowing in the local currency. In the event that there is a limited capacity for the private sector to manage the risks of foreign currencies, the disposal of foreign currency risks from the public budget of the government can transform the dangers of foreign currencies into the budgets of the private sector and may increase the value of the emergency obligations of the government. The sovereign public is the development of local government bond markets(Melecky, 2007).

In this context, the development of the local government bond market requires emphasis Sovereign governments and debt managers in particular can eliminate the risks of foreign currencies inherent in their public budgets in a rapid way, including methods used by public debt managers when determining the optimal currency structure of sovereign debt, but not limited to(Melecky, 2007):

1. The minimum contrast in the portfolio
2. The currency structure matches foreign currency reserves, foreign trade or capital flows.



3. Dependence on the promise of the National Central Bank to maintain the connection of the currency with the selected currency.

The use of the minimum contrast to the choice of the currency is limited to its success because this approach aims to optimize diversification and does not take into account the association with government revenues and the capacity of the changing government over time to serve its debts. The currency structure matching foreign reserves, foreign trade or capital flows exceeds effective diversification and adopts the idea of the approach of asset management and liabilities (ALM).

Considering the sovereign debt portfolio foreign currency structure and the risk reduction of the foreign currencies makes certain factors for the currency selection of government borrowing and the cost of financing and the fund availability of should be considered. So, the formation of foreign currencies for the current debt portfolio is because of past financing decisions for governments and this decision may take place years before the payment is due. Ensuring the availability of adequate funds in the appropriate currency on the date of the loan entitlement requires continuously the central bank continuously cording with the debt management office or, there negative consequences (Cangoz et al., 2019).

The recent crises in emerging market countries have highlighted the need for better management of sovereign debt. The government debt and its guarantees have quickly accumulated in many crises countries, making improving debt monitoring and the ability to manage risk at the sovereign levels is an urgent aim. The sovereign debt management final aim is to reduce the long -term cost of debt due to the comparison between the expected cost of debt service and the risks linked to government borrowing strategies. To achieve the above goal, it is necessary to effectively and practically apply the reference frame to provide a standard structure targeted for government debt portfolio, based on the comparison between the cost of debt service and the expected risks, which helps evaluating the performance of debt managers (Hahm & Kim, 2003).

So any structure is optimized for government obligations, the composition (currency) of the required debt, the required maturity structure and government debt liquidity, the suitable of interest rate sensitivity duration, and the debt denominated share in local currency, nominal interest, or inflation-linked debt to be out. It should include recent developments. Sovereign debt significantly affects weak government budgets, a fact that is reflected even in the revision of the IMF's

Public Debt Management Guidelines, the Stockholm Principles explicitly focused on improving communication between debt managers and monetary and financial regulatory authorities and reflected a move toward a broader definition of risk, reflecting weakness, potential financial (i.e. a broad definition of risk) arising from the formation of sovereign debt that is ultimately reflected in its financing strategies(Holler, 2013).

The maturity structure of government debt addresses the two desires of issuing low-cost securities and managing financial risks. The cost-risk trade-off framework embodies the essence of debt management by the emphasis on the lowest-cost financing for taxpayer significance, simultaneously, emphasizing the maturity structures. According to Karthik Ramanathan, Director of the Debt Management Office, the primary objective of debt management is to achieve the lowest cost of financing with the distribution of debt to different maturities to reduce risk(Wessel, 2015).

The government seeks to reduce financial risks, the debt service cost should not be too volatile. Issuing too many short-term debt makes the government vulnerable to higher interest rates, and the short-term maturity structure could expose the government to crises affecting the enhanced government spending policies and programs economic growth in order to counteract temporary negative shocks(Wessel, 2015). Several contributions focus on the role of maturity structure in the trade-off between borrowing costs and refinancing risks. Conesa and Kehoe (2017) find that governments can avoid a refinancing crisis by extending the maturity of debt, while countries in recession risk refinancing. Financing by shortening the maturity period(Zenios et al., 2019).

There is a due structure that insulates public debt from interest rate risk and facilitates government refinancing needs through regular issuances, and investment in short-term reserves. So, this determines the optimal policy for public debt according to the cost and risk trade-offs. When looking at different time horizons, assessing short-term financing risks and considering debt composition is recommended, exchange rate risk and the degree of liquidity of financial assets in for assessing the scope of fiscal policy maneuvers needed to achieve a good position in budget in the medium term(Mupunga & Le Roux, 2016).

Implementation of the public debt management strategy

Once the strategy is defined, an internal annual funding strategy should be developed that outlines how the strategy is used over the next budget period. To



determine the annual financing strategy begins with analyses of the projected budget (cash) flows, including the expected flows of debt service, this plan needs division into more precise objectives according to the debt management's information on the sources of financing. Separate plans for domestic and foreign market borrowing are usually formulated, and when overall targets are set, the likely timing of the inflows must be planned and verified to ensure that the plan provides sufficient financing to meet the expected inflows during the year. Generally, the cost-effectiveness use with the financing plan reflects the authorities' capability of developing meaningful government monetary forecasts(IMF World Bank, 2019).

The financing strategy represents the rule that the public debt manager plans to follow for a certain period, and the strategy means the way in which the debt manager allocates the borrowing requirements for each new period to the different available securities. The simplest strategies call for allocating the borrowing requirements to different securities in fixed proportions over time, and the systematic use of these strategies means that the debt portfolio moves toward a specific allocation to each strategy. For example, if the strategy consists of issuing a 10-year bond to fully cover borrowing requirements, the portfolio will naturally end up containing only a 10-year bond(Renne, 2007).

Mathematically, a financing strategy is some weights, describing the proportion of new issuance in every government financing option, quantitative descriptions of allocations allowing an understanding the various decisions effect on the risk and cost of the government debt portfolio. If the debt manager knows the future course of the economy and interest rates with complete certainty, it will be relatively easy to determine the most beneficial financing strategy for the government, the absence of uncertainty means no risk, without risk, one can only choose the least expensive financing strategy. Because of this, the debt manager needs an approach that integrates future macroeconomics and interest rate uncertainty in an orderly manner(D. Bolder, 2008).

The operational accountability for debt management is in general front and back offices which have distinct functions and responsibilities separating the reporting lines. The former often conducts transactions in the financial markets, such as managing auctions and other forms of borrowing and all other financing operations. The individual who performs a market transaction and who enters it into the accounting system from different people, the latter handles the settlement of transactions and maintains financial records. A separate risk management office conduct risk analyses, monitor and

portfolio report risks related, and to evaluate the performance of debt managers against the strategy's benchmarks(World Bank, 2001).

This separation of duties helps to enhance the independence of those who develop and monitor the framework for risk management and performance assessment from those responsible for carrying out market transactions. Government debt management needs employees who have some financial market abilities (portfolio managements and risk analyses) and public policy qualifications, despite their corporate structure. The ability of attracting and retaining skilled debt management personnel is critical to reduce operational risk. An accurate and comprehensive management information system with appropriate safeguards must support debt management activities. Countries beginning building capacity in government debt management need to give high priority to develop accurate debt recording and reporting systems. This is required not only to produce debt data and ensure timely payment of debt service and to improve the quality of budget reporting and the transparency of government financial accounts(World Bank, 2001).

It is important to review the debt management strategy periodically, ideally on an annual basis, and ensure that it remains valid. Important changes if there are any in macroeconomic or market conditions occur should be updated and new analysis and new proposals are submitted clearly explaining the recommended revision and update of the strategy. Progress in implementing the strategy is also to be reported on regular basis the Minister of Finance, or other stakeholder committee, through regular management reports, which provide information on portfolio development, key cost and risk factors. Such regular reports play a key role in an effective risks management framework(Bank & IMF, 2009).

CONCLUSIONS.

Governments go to borrow in order to finance expenditures on public goods and services that may promote growth and increase the welfare of nations. Also. the decision of how much to borrow is a fiscal policy decision that sets a target level of debt based on a sustainability analysis of government debt. Once the government has decided the amount of financing required, debt management must determine the debt instruments that will be used to raise the intended financing, and will seek the best terms for their borrowing. The government's pursuit of the best borrowing terms indicates the goal of reducing the cost of borrowing. Within the set of limitations and constraints represented by the government's risk



preferences, the government aims at increasing financing at low cost and structure the its debt portfolio composition to reduce the impact of related shocks on its budget or long-term spending plans.

Yet, according to the principle of financial economics, there is a cost associated with minimizing risk. The challenge for a debt manager is to choose a strategy for financing borrowing requirements that meets government policy objectives. Among the functions of debt management are the identification of long-term criteria (the optimal composition of debt), the identification and evaluation of various risks, and the design, monitoring and analysis of trade-offs between different financing strategies to achieve debt management objectives.

In developing countries, the requirements for an effective debt management system are not met due to the difficulty of developing an effective domestic capital market that provides the government with access to a variety of different debt instruments because of the macroeconomic and political instability. To achieve debt management objectives at low cost and acceptable risk, long-term debt amortization payments sound structure should be developed in order to avoid the concentration of principal payments in any given year. This is to reduce the risk of refinancing, and reduce the volume of short-term debt to reduce vulnerability at the time of fluctuations in the capital markets with the need to be based on the reserve liquidity to secure precautionary requirements and avoid emergency debt issuance.

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