**Group of Latin American and the Caribbean Public Debt Management Specialists**
**(LAC Debt Group)**

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**Statement of the Steering Committee following the XIV Annual Meeting**

(September, 2018)

## Background

The Group of Latin American and the Caribbean Public Debt Management Specialists (*LAC Debt Group*) is an Inter-American Development Bank (IADB) initiative that supports the generation of knowledge regarding public debt management and the strengthening of institutional capacities of Debt Management Offices (DMOs) in the region. The Group is made up of the DMOs of 26 member countries of Latin America and the Caribbean (LAC), and is headed by a Steering Committee.[1]

The XIV Annual Meeting of the LAC Debt Group was held in the Dominican Republic from August 21st to 24th, 2018, and was jointly organized by the Ministry of Finance of Dominican Republic and the Inter-American Development Bank. What follows is a Public Statement summarizing the main conclusions and recommendations garnered at the Meeting.

## Strengthening public debt management in Latin America and the Caribbean in a volatile environment

To continue strengthening public debt management strategies implemented by LAC countries, the LAC Debt Group´s Steering Committee recommends considering the following:

***World economic situation and its impact on LAC***. The current international context is characterized by market volatility, rising trade tensions, and mounting political uncertainty. Monetary policy normalization in the U.S. and uncertainty in trade policies could have significant effects on LAC economies. The prospects for individual economies vary depending on how these global forces interact with domestic idiosyncratic factors, as there has been differentiation across countries based on economic fundamentals, political uncertainty, and the perceived need for policy adjustment. Overall, the major risk for the Region in a scenario of a sharp monetary policy tightening is linked to potential sudden changes in market sentiment and portfolio retrenchment.

***Developing domestic sovereign debt markets.*** LAC countries should continue underpinning the development of domestic public debt markets in local currency, increasing resiliency of debt portfolios and fiscal positions to changes in exchange rate and interest rates. Some countries are fostering the development of domestic markets through liability management operations, giving a greater weight to domestic debt in relation to external debt. In addition, several countries have made substantial progress in integrating their settlement and clearing systems with international central securities depositories, contributing to the development of domestic markets by making it easier for non-residents to access local markets.

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[1] The Steering Committee is currently composed by representatives of Peru (Chair), Argentina (Vice-Chair), Barbados, Brazil, Colombia, Dominican Republic, Mexico, Panama, Trinidad and Tobago, and Uruguay and by the Executive Secretary. The IADB, through its Connectivity, Markets and Finance Division, acts as the Executive Secretariat of the Group. For further information regarding the Group, see the Group´s website (click here).

***Diversifying the investor base*.** Countries should aim for a large and diverse investor base with different risk preferences, investment maturity horizons, and trading motives, ensuring a strong and stable demand for government debt securities in a range of market conditions. It is vital that DMOs maintain a continuous dialogue with investors, prioritizing the collection and dissemination of public debt data and statistics, which are fundamental for accountability, transparency, and predictability. Importantly, information provided to investors on the structure of public debt must be timely and comparable across countries. A significant improvement in this regard was the development of the standardized regional public debt database of the LAC Debt Group (with data since 2006), which greatly facilitates the analysis of the evolution and composition of public debt and cross-country comparisons in LAC.

***Credit enhancements.*** Utilization of credit enhancements offered by multilateral organizations should be considered by certain countries to attract investments in a context of international uncertainty and high regional infrastructure investment needs. Rating agencies are providing increasing importance to multilateral credit enhancements when evaluating infrastructure projects, State-Owned Enterprises (SOEs) debt or even sovereign debt, and they are developing improved methodologies for evaluating those enhancements. Countries more vulnerable to risk and with larger infrastructure needs may benefit the most by an effective use of credit-enhancing instruments offered by multilateral organizations. In those cases, credit enhancements could be an effective way to leverage public resources by attracting an increased pool of national and international investors.

***Foreign exchange risk mitigation.*** LAC countries would benefit from expanding the set of strategies for mitigating Foreign Exchange (FX) risk. Although in recent years LAC countries have made progress in hedging this type of risk, there is still room to improve these strategies by making a responsible use of new financial instruments available in the capital markets. These can include cross-currency swaps, bond issuance in correlated EM currencies and conversion of multilateral USD debt to other currencies. In this regard, deepening the development of local currency domestic markets would also pave the way and encourage hedging alternatives in local currency.

***Integrated Sovereign Asset Liability Management (SALM)*.** Several LAC countries have made steady progress towards adopting a comprehensive approach to sovereign risk management. This has required identifying the main financial risk exposures of the overall public sector (including those related to contingent liabilities), analyzing them in the framework of a sovereign balance sheet, and establishing coordination mechanisms across public sector institutions (DMO, Treasury, Central Bank, and relevant SOEs). Some countries in LAC are already moving forward in the adoption of risk-mitigation SALM strategies, focused on attaining hedging gains within the consolidated public sector.

Finally, the LAC Debt Group´s Steering Committee recognizes the importance of continuing to strengthen the institutional capacities of DMOs in LAC, by generating technical and policy-relevant knowledge regarding public debt management, while fostering dialogue and proactive collaboration among DMOs in the region.