

## The Mandate and Functions of the OeNB: Providing Assistance for the Government Debt Committee

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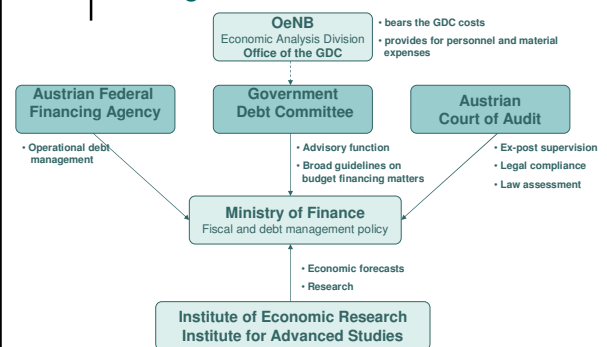
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## Agenda

1. Institutional structure of debt management in Austria
2. Successful fiscal consolidation and fiscal policy councils (FPCs) in theory
3. Organizational issues concerning the Government Debt Committee (GDC)
4. Alignment of debt management in Austria
5. Empirical details

## 1. Institutional structure of debt management in Austria

## Institutional structure of debt management in Austria



## Functions of the Austrian Federal Financing Agency

### Operational debt management of the federal government

- Selection of debt instruments
- Restructuring of outstanding debt
- Selection of foreign currencies
- Rating of counterparties of swap agreements
- Servicing of outstanding debt
- Cash management of the federal government
- Financial activities for other legal entities and provinces

## Functions of the Court of Audit

- **Ex-post supervision** ("thrift, economic efficiency and utility")
- **Legal compliance**
  - Federal Government Financing Law
  - Federal Government Budget Law
  - Federal Budgetary Framework Law
- **Other business** (e.g. establishing the federal final budget accounts, assessing legislation)

**StA**

## Functions of the Government Debt Committee\*)

\*) Federal Law on the Establishment of the Government Debt Committee (Federal Law Gazette of 8 January 2002)

- **Investigation of financial-political situation**, provision of **outlook** on and **analyses of economic effects** of financial operations connected to public debt
- Written **recommendations** about the financial policy of public budgets that take economic conditions into account
- **Annual report** on recommendations, results of investigations and analyses (presentation to the National Council and federal government)
- **Support public opinion-making**, organization of **information events**

**StA**

## 2. Successful fiscal consolidation and FPCs in theory

**StA**

## Successful Fiscal Consolidation

- **First wave of analyses** (between the late 1980s and the mid-1990s):
  - Focus on the **composition of the deficit adjustment** and the role of the **political and institutional setting** (coalition versus single-party governments, the prevailing electoral system)
- ➡ Successful fiscal consolidations were predominantly **expenditure-based** (current expenditure cuts).
- **Recent research** (since the early 1990s) - Prominent role of some elements of **domestic fiscal frameworks**:
  - Numerical fiscal rules
  - Independent fiscal institutions
  - Medium-term budgetary frameworks for multi-annual budgetary planning
  - Budgetary procedures governing the preparation, approval and implementation of budget plans

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## The Rationale for Fiscal Policy Councils

- **Persistent deficits and increasing public debt** over the past three decades likely due to (among others) **fundamental factors**:
  - Inadequate fiscal discipline
  - Weak fiscal management
  - Insufficient budgetary surveillance
- ➡ FPC as a useful complementary policy option to reinforce fiscal governance.
- **During the crisis**:
  - Fiscal policy as an important stabilizing factor (automatic stabilizers, economic stimulus plans, bank bailout measures), but budgetary situations worsened dramatically in several countries and difficulties to meet funding requirements.
- ➡ FPC may have an important role in ensuring any demand stabilization that does not come at the expense of longer-term prudent debt policy.

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## Fiscal Policy Councils: Mandate, Design, Effectiveness

- Around **30 independent** institutions have been established in about 20 EU countries (EC database on fiscal institutions)
- Quite different role and mandate, broadly categorized into **three types** (Debrun et al., 2009) of institutions providing
  - objective analysis of fiscal policy or developments,
  - independent budget/economic forecasts,
  - normative assessment and recommendations.
- **Necessary features** of FPCs
  - Precise mandate in the form of a debt target and time horizon
  - Decisions cannot simply be a rule, some judgment is needed
  - Decision makers are experts in the relevant field
  - Decision makers are granted full independence (ex ante)
  - Decision makers are generally accountable (ex post) to elected officials
- **Activities and outcomes** of FPCs should be **published** (transparency to discourage discretion and procyclicality)

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## 3. Organizational issues concerning the Government Debt Committee (GDC)



## Government Debt Committee (I)

Characteristics according to the EC's Fiscal Institutions Database

- **History:** founded in 1970, mandate was extended in 2002 (from federal to all levels of government)
- **Objectives:**
  - Ensure consistency of fiscal policy (FP) with sustainable public finances
  - Ensure adequacy of FP vis-à-vis cyclical conditions
  - Provide independent assessment of compliance with national fiscal rules and SGP
  - Assess the quality of public finances
  - Enhance transparency



## Government Debt Committee (II)

Characteristics according to the EC's Fiscal Institutions Database

- **Tasks/Mandate:**
  - Independent analysis of FP developments
  - Normative statements on FP
  - Recommendations on FP
  - Reporting obligations to the Ministry of Finance
  - Minister of Finance has to forward the report and recommendations to the federal government and the National Council
  - No macro forecast
- **No direct role in the budgetary process**
- **Public relations** (press conferences twice a year)



## Composition of the Government Debt Committee\*)

\*) Members must be experts on finance and budget issues

### 12 members with voting rights

- 6 members appointed by the **federal government**
- 3 members appointed by the **Austrian Federal Economic Chamber**
- 3 members appointed by the **Chamber of Labour**

### 3 members without voting rights:

- 1 member appointed by the Austrian Association of Municipalities
- 1 member appointed by the Austrian Association of Austrian Cities and Towns
- 1 member appointed by the Austrian Provincial Governors

### 1 Advisory member of the OeNB



## Organizational issues of the Government Debt Committee

- **President** nominated by the federal government, **2 Vice Presidents** nominated by chambers
- **Terms of office** of 4 years
- Nomination of **deputies** for each member
- Membership is **honorary post** (expenses are reimbursed)
- **Meetings** at least once a quarter
- Resolutions are passed with **simple majority**
- Allowed to form **subcommittees** and to take advice from **experts**



## 4. Alignment of debt management (DM) in Austria



## IMF's Funding Guidelines (2001)

- **Definition of targets:** "... to ensure that the government's financing needs and its payment obligations are met at lowest possible cost over der medium to long run, consistent with a prudent degree of risk"
- **Coordination:** avoiding conflicts between DM, fiscal and monetary policies
- **Transparency:** formulation of strategic objectives, organizational structure, clarity of responsibilities, key indicators of DM activities
- **Support to financial markets:** transparent and predictable issuing policy, diversification of financial products
- **Controlling and risk management:** use of recent steering tools



## Economic Aspects of the IMF's Funding Guidelines (2001)

- Prevent adverse **consequences for fiscal and monetary policies**
- **Interaction** between DM, fiscal and monetary policies
- State influences **financial market conditions** (benchmark, underlying, collateral)
- A **purely microeconomic view** of DM **conflicts** with sustainable **cost-minimizing strategy** of government



## Main Principles Austrian Federal Financing Agency

- Minimize cost of public debt over medium to long term, while avoiding excessive risk
- Aim at well spread-out maturity profile through several budget periods
- Prevent excessive temporal concentration of redemptions
- Promote the efficient functioning of financial markets

➡ **Primary objective:**  
Secure the government's funding at all times



## Funding Strategy Austrian Federal Financing Agency

- Diversity of funding sources (geographically and by instruments)
- Flexibility to address specific investor demand
- Capitalization on scarcity value and strong fundamentals
- Secondary market liquidity
- Monthly auctions (auction calendar in advance)
- 23 primary dealers
- Moderate refinancing risk (low debt rollover ratio)
- Duration target and well-balanced maturity profile
- Reliability, transparency
- Investor relations

➡ **Broadly in line with IMF guidelines**



## Funding 2010 Austrian Federal Financing Agency

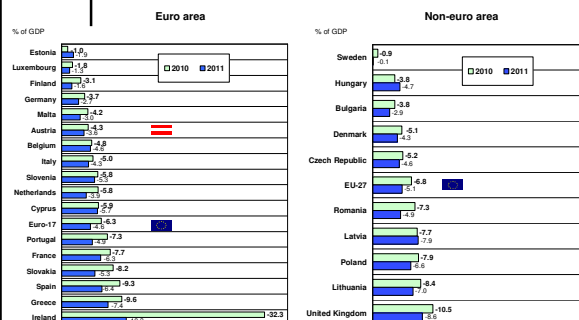
- Funding plan projects total RAGB issuance for 2010 of EUR 21–25 billion
- Total issuance including short-term and other instruments: EUR 25–28 billion (-20% compared to 2009)
- Other instruments: ATBs, MTNs, Loans
- Monthly auctions with re-opening of existing issues to enhance liquidity
- 1–2 syndicated issues



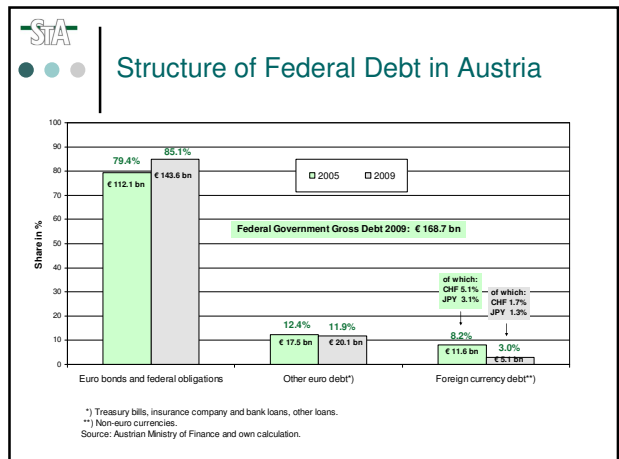
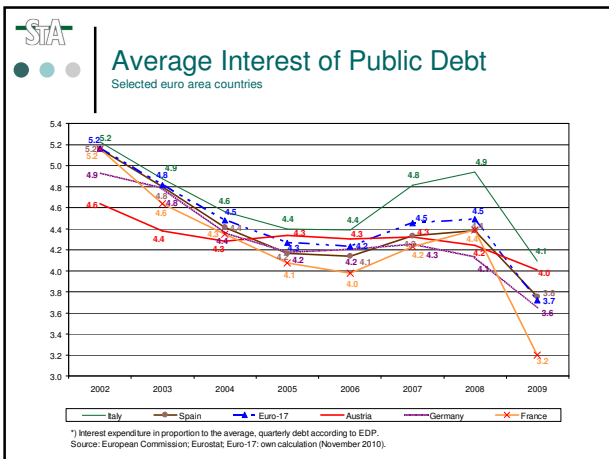
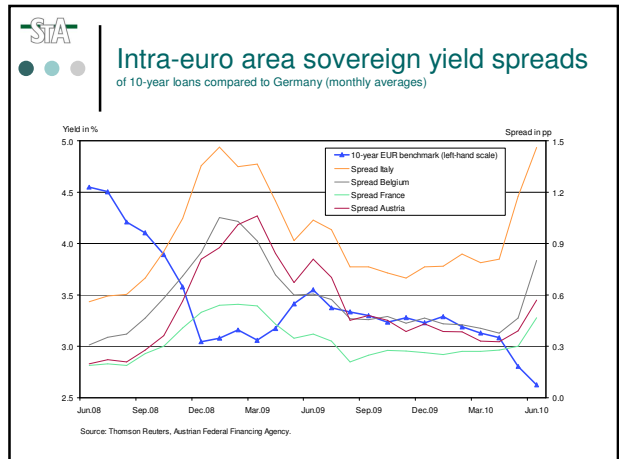
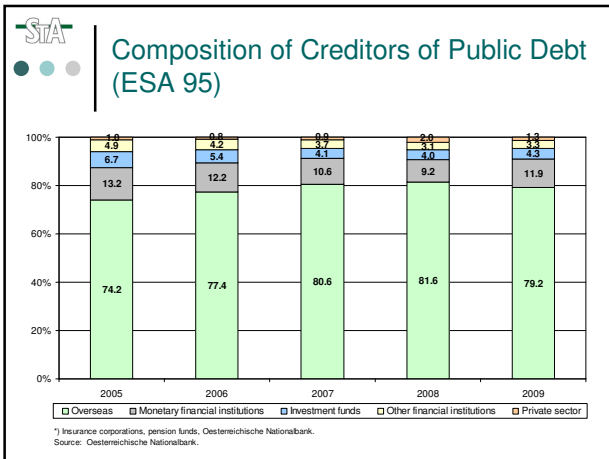
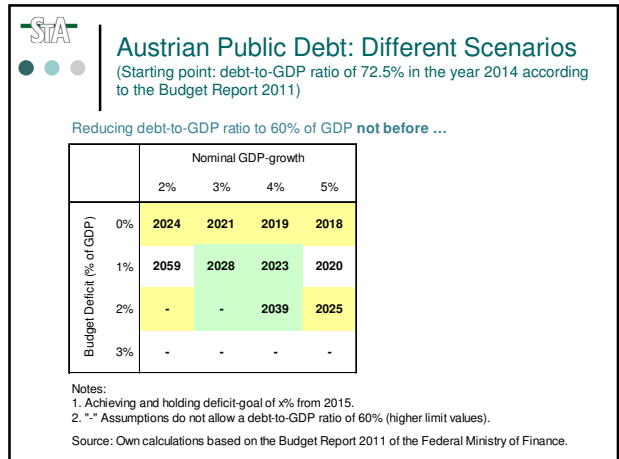
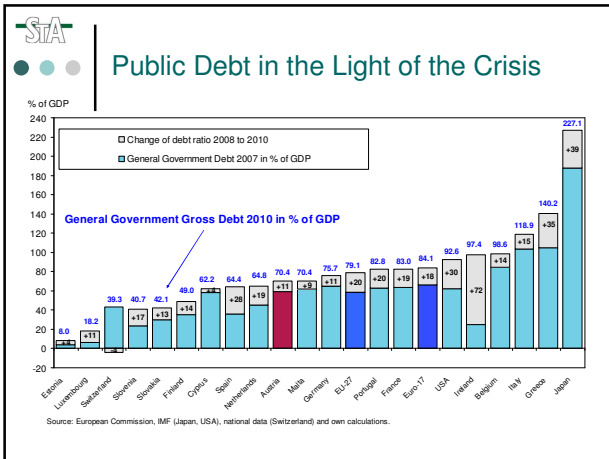
## 5. Empirical details

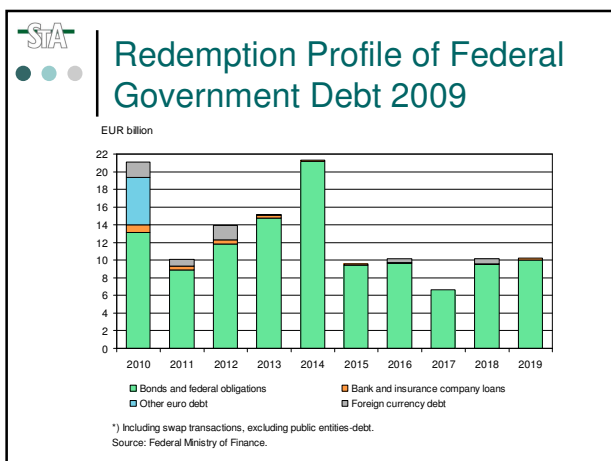
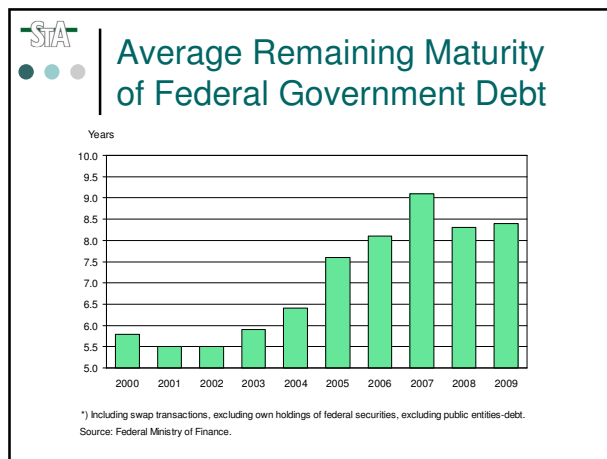
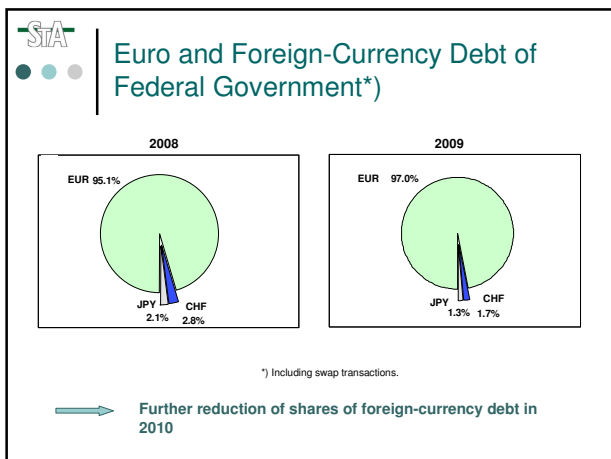


## Budget Balance of General Government\*)



\*) According to EDP (including swap transactions).  
Source: Autumn 2010 Forecast, European Commission (November 2010), Euro-17 and EU-27: own calculation.





- Further Facts concerning Federal Government Debt 2009**
- 94.9% fixed, 0.4% "jump-fixed " and 4.7% variable interest
  - Average nominal interest rate:  
euro debt: 4.2%  
foreign-currency debt: 2.6% (CHF, JPY)

**Thank you for your attention!**

**References**

- Debrun, X. et al. (2009). Independent Fiscal Agencies. In: Journal of Economic Surveys (2009) Vol. 23, No. 1, pp. 44-81
- Hauth, E. and P. Kocher (2001). Austria's Sovereign Debt-Management Against the Background of Euro Area Financial Markets. In: Focus on Austria 2/2001. OeNB
- IMF (2001). Guidelines for Public Debt Management. <http://www.imf.org/external/np/mae/pdebt/2000/eng/>

**Useful Links (publications, data ...)**

- [www.staatsschuldenausschuss.at](http://www.staatsschuldenausschuss.at)
- [www.oenb.at](http://www.oenb.at)
- [www.oebfa.co.at](http://www.oebfa.co.at)
- [http://ec.europa.eu/economy\\_finance/db\\_indicators/fiscal\\_governance/independent\\_institutions/index\\_en.htm](http://ec.europa.eu/economy_finance/db_indicators/fiscal_governance/independent_institutions/index_en.htm)

**Statistical Annex / Miscellaneous**

## Budget Equation as Starting Point for Recommendations

$$(1) \underbrace{D_t - D_{t-1}}_{\text{Change of public debt}} = \underbrace{E_t - T_t}_{\text{Primary balance}} + \underbrace{SF_t}_{\text{Stock-flow adjustment}} + \underbrace{r_t D_{t-1}}_{\text{Interest payments on outstanding debt}}$$

$$(2) \frac{D_t}{Y_t} = \frac{E_t}{Y_t} - \frac{T_t}{Y_t} + \frac{SF_t}{Y_t} + \frac{1 + r_t}{1 + g_t} * \frac{D_{t-1}}{Y_{t-1}}$$

where  $g_t$  denotes nominal GDP growth

➔ **Increasing focus on fiscal policy issues affecting the primary balance**

## Capital Market Milestones of the Republic of Austria<sup>\*)</sup>

<sup>\*)</sup> Since the foundation of the Austrian Federal Financing Agency in 1993

- Debt Issuance Program (DIP) since 1999
- Euro Medium Term Note (EMTN) Program since 1999
- Austrian Treasury Bills (ATBs) since 1999
- Online retail savings product (bundesschatz.at) since 2002
- Parallel auctions introduced in 2009

## Rating<sup>\*)</sup>

<sup>\*)</sup> By December 2010.

- Top rating (long- and short-term) from all major rating agencies
- Outlook: stable
- Long track record (e.g. rated AAA by S&P since 1975)
- Only 13 other countries have such a top rating

## AFFA – Addressing the Crisis

- Strict counterparty management
- Capitalizing on variety of funding sources, including schedule auctions and syndications
- No new Euro issuance in the 2-5 year segment in the first half of 2009
  - In order to avoid competition with government-guaranteed bank issuance
  - To counteract the increased rollover
- Opening of the sovereign market in January 2009 with a 5.5-year syndicated RAGB to set the frame for Austrian government-guaranteed issuance
- Introduction of parallel auctions
- Investor relations (i.g. roadshows, proactive media management, annual review of DM since 2008, more information provided on website)