COMMENTS ON SESSION IV: MANAGING PUBLIC DEBT

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The papers in session IV give a broad overview of aspects and experiences of debt management under very different circumstances. It is possible to single out at least four different "regimes":

- debt management in an advanced economy with very low debt. Comley and Turvey describe the case of Australia,
- the effect on debt management resulting from the introduction of the euro. Wolswijk and De Haan give an overview and the Italian case is described in Cannata, Scalera, Iacovoni and Turco,
- different aspects of debt management in European transition economies are analyzed. Matalík and Slavík present the Czech case, and Nenova and Kaloyanchev the Bulgarian case,
- two papers are related to the high-debt situation in Japan: the effects on future inflation are tackled in the paper by Lebov and the debt management issues in Fujii's paper.

I find the paper by Comley and Turvey of great interest, in particular the analysis of the importance of Government Securities for the efficiency of the Australian financial markets.

From a European perspective, this issue could at a first glance be seen as irrelevant. In most EU countries gross debt is high and need to be reduced substantially in the future. However, when discussing the EU fiscal policy framework, the analysis of the Australian low debt case is a valuable input. In their introductory note to this conference, Balassone, Franco and Zotteri point out that the fiscal target in SGP, "close to balance or in surplus", for many countries would lead to debt ratios converging towards zero or even to negative ratios. This raises exactly the questions Comley and Turvey dwell on in their discussion of Australian conditions. There is a need for some minimum level of debt for the efficiency of the financial market. When reforming the EU fiscal framework, this should be taken into account.

Wolswijk and de Haan's paper is a comprehensive survey on different issues connected to debt management, such as objectives, organization, debt maturity, macroeconomic stabilization, tax smoothing and deficit stabilization.

To use debt management as stabilization policy tool seems, as the authors also mention, not a particularly good idea. Some active stabilization measures could be needed for a single country in the currency union, at least when the economy is

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threatened of severe asymmetric disequilibria and there is no national monetary policy at hand. However, in that case, more simple, transparent and efficient tools would be a better choice. One such tool is temporary changes in the value-added tax.

The discussion on pros and cons of the use of *indexed-linked bonds* (ILB) is interesting. Investors do not need to be compensated for inflation uncertainty and thus require a lower interest, especially so if this gain is larger than the liquidity premium. This cost-saving can be substantial in situations when a recently set inflation target is not fully credible and investors have higher inflation expectations compared to the target.

This type of cost-saving was substantial in Sweden in the middle of the Nineties, when index-linked bonds were introduced by the Swedish National Debt Office in 1994, two years after the current inflation target was introduced. In 2002 index-linked bonds constituted 8 per cent of the outstanding government debt.[1]

The credibility of low inflation is currently high in most industrialized countries so the cost argument is now weaker. In such an environment there is little reason to expect index-linked debt on average to differ much from nominal debt. It is rather the diversification effect that motivates the inclusion of this type of bonds in the portfolio since an important task for the Debt Authority should be to improve the functioning of the market. In recent guidelines, the Swedish Government instructs the National Debt Office to increase the share of ILB. Also Cannata *et al.* see ILB as a crucial tool for security diversification under changing macroeconomic condition. But I recognize that the argument goes the other way around in Australia, a country with a very low debt.

If we believe that ILB gives enhanced credibility for low inflation, it could potentially be a valuable instrument to use in a country belonging to a currency union with its possible moral hazard problem for national fiscal policies, see for instance Beetsma (2001). It could, at least in theory, be a complement to the European Union's fiscal framework and hamper inflation pressure. However, if this would be an important mechanism remains to be seen and is an empirical question.

Matalík and Slavík discuss the interaction and the institutional arrangements of fiscal and monetary policies and debt management policy. The authors claim that, in economies with less developed financial markets, a consistent coordination of policies is required.

The Czech Republic is an example of an economy that has reached a high stage of development after the transformation. In their interesting paper, Matalík and Slavík describe the coordination of fiscal, monetary and debt policies in such an economy as "realization credibility". That means practical coordination of activities that is accompanied by prudent fiscal discipline. But also that "the central bank is

[1] IMF and the World Bank (2002).

only to push forward such a monetary policy that is transparent and accepted by the government and the public".[2] The latter is a bit confusing.

It should be made clear what is meant by coordination between policy areas. The authors claim that the basic aim for policies is to reach a long-term balanced economic growth. The development in the last decade in many countries is, for the reason to improve economic performance, to separate monetary and fiscal policies by giving monetary full independence in decision-making. Sometimes the expression *passive coordination* is used, which means that the different policy agents are aware of each other's forecasts and policy framework in a transparent way so that each agent can learn from the other agents' "reaction function". I believe it is important to make clear that the type of coordination the authors refer to is more of a technical nature (described in their paper at p. 843) It is for instance the central banks surveillance of that debt instrument issuances is in line with possibilities for efficient monetary policy.

Nenova and Kaloyanchev discuss four phases in relation to the debt situation transition economies go through and how this development affects fiscal policy in a more and less restrictive way. This discussion is illustrative.

The authors claim early that the task for fiscal policy is to raise revenues to cover expenditures. Normally, as it is described in the literature, the tasks are known to be allocation (efficiency for growth), stabilization (of the cycle) and distribution of income and wealth.

Actually, the paper touches on all these three aspects of fiscal policy. For instance, the authors discuss the problem for the authorities in Bulgaria to carry out appropriate stabilization policies because of the lack of credibility when debt and risk-premium are high (pro-cyclical policies). That is also the implication of the model analyses in section 3 of their paper. In this analysis, the well-known asymmetric feature of fiscal policy, laxity in good times, is described.

[2] Matalík and Slavík, section 1.

REFERENCES

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