

### **Public Debt Management – Theory & Application**

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The aim of this enthralling and succinct book is to provide a practitioner perspective and understanding of public debt concept and as well as to those who are new and intending to explore the concept at the professional level. The author, a seasoned and Emeritus-Practitioner in the Directorate of Research and Debt Management at the Central Bank of Nigeria and now Debt Management Advisor at the West African Institute for Economic and Financial Management (WAIFEM), has made use of his academic and practicing knowledge in macroeconomics and econometrics to make what would have seem a complex subject simplified to an absolute basic level for readers.

The book consist of 20 interesting chapters, divided into three sections, is written to cajole the reader's interest in building up the requisite knowledge in understanding the relevance of applying the concept at professional level. The concept of public debt is an emerging entrant in the discipline of academic thinking; it has lend its way as a result of efforts made by international institutions like the IMF and World Bank in supporting economies experiencing imbalances in the management of their public finances, more so that which is considered sustainable in both medium and long term.

Part 1, which consists of six chapters, sets the way in developing the much-needed foundation for someone new to studying public debt at a technical level. Equally, the necessary build-up of some historical perspectives around debts spanning from the 1980s to 2010 as seen in the case with Greece (once considered an economic empire) is addressed in Chapter 1 of the book. Lessons concerning the indebtedness of nations has helped enhancing discussions relating to the importance of public debt and issues surrounding its management in chapters 2 and 3, respectively.

Debt sustainability is a key agenda that has been anchored in the management of debt and with key issues around macroeconomic concepts factored to ensure that the process is sustainably addressed. Chapters 4 and 5 provided insight into fiscal management approaches and debt burden indicators respectively, particularly when it comes to the balancing of budget (factoring both internal and external components) and with eye-for-detail placed in ensuring that a debt-burdened economy is placed on a sustained plan for recovery. This also takes cognisance of a country's ratio of external debt to exports, service to GDP, debt service to exports, international reserves to imports, reserves to external debt and external debt to GDP.

Part 1, which concludes with Chapter 6, addresses macroeconomic policy measures needed for the effective management of debt; in this case, the core of this as articulated by the author is to prepare for the adoption of a framework for national accounting which meant that excesses of savings over investments must be utilised to fund excesses in public spending over reduced revenues. A very good use of simplified mathematical model interpretation was used in Chapter 6 to exemplify the nexus between theory and the



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macroeconomic evaluation of debt management. Throughout Part 1 of the book (incorporating Chapters 1-6), the author has skilfully graduated readers' interest and knowledge by introducing essential jargons to enlighten the practitioners' foundation of concepts common to their professional practice, while at the same time serving as an exegetical reference guide for all professionals requiring technical ability in confronting challenges concerning the management of public debt.

Part 2 (incorporating Chapters 7-10) widely addresses the institutional arrangements of debt. In these chapters, the author sets the pace by providing concise definition and classification of core concepts relevant for professional engagement, for example, public (sovereign) debt management and the institutional bodies responsible for ensuring the process is sustainably managed. A marked distinction is outlined through diagrammatic illustration of public sector institutions' role in the management of debt and for which the Ministry of Finance is normally considered the overarching body. The rationale for debt management is also highlighted (with reference to the IMF/World Bank, 2001/2005 guidelines, as cited by the author) and for which one of the primary goal is the curtailment of risk associated with exposure to economic/financial shocks, requiring sound monetary and financial cooperation by delegated sovereign institutions, for example, the Ministry of Finance and Central Bank. The author provided a clear approach to the enthusing reader in developing his/her understanding of the relevant framework for the management of public debt as delegated by debt unit, mostly located at the Ministry of Finance.

In Part 3 (incorporating Chapters 11-20), attention was focussed on the issues of public debt and the analysis of debt management, with continuous efforts made in defining key terms to enthuse readers' interest in the book; the first of this (Chapter 11) addresses key elements in loan evaluation, for example, understanding interest rate calculation, their maturity and disbursement period. The author also explicitly addresses methods of loan comparison which is key in enabling indebted nations to sustainably manage their debt burdens. Chapter 12 focusses attention on external debt overhang, given the high level of indebtedness experienced by many countries in the West African region; the author made it clear in terms of explaining the most sustainable scenario where the issue of economic growth in the long-run needs to balance that of borrowed funds, such that policy stances can produce effective outcomes in enabling (domestic and foreign) liabilities to be met. The author also stressed the importance of (econometric) forecasting approach in determining the future state of debt overhang, but difficulties of effective data capturing normally surface, which in most cases renders the process of managing public debt ineffective. Causative factors of debt overhang and their impacts are skilfully explained by the author and these are mostly attributed to poor management of the coordination and monitoring processes.

In Chapter 13, the author explained the process of debt rescheduling, normally considered as one of the most effective process for the refinancing of public debt given the weak state of stabilisation experienced by most indebted nations, particularly as addressed in the case with countries within the WAMZ states – in this case, a suitable framework is normally negotiated for debtors to arrange repayments as set out in the most agreeable (legislative) framework, for example, as stipulated in the Paris and London Club Frameworks. The author also provided a sound case of debt rescheduling with Nigeria in the early to late 1980s, which then gave rise to the implementation of IMF structural adjustment programme aimed at addressing macroeconomic deficiencies common to highly indebted nations. In Chapters 14 and 15, the author provided a clear explanation of the principles of negotiation and debt relief – this is exemplified through the definition of key terms relevant in understanding the process of negotiating loan repayment term, but more so the advantage of relief gained through re-negotiation of loan term that comes in the form of lower interest payment, eliminating over-hand and issuing of new collaterals, thereby allowing the issuance of additional borrowing for example.

Chapter 16 provided the basis for introducing the reader to an in-depth understanding of debt sustainability. As explained by the author, highly indebted nations (incorporating nearly all of WAIFEM countries) have enjoyed debt relief which is advantageous in their debt management schedule, but also face the risk of increasing their level of (internal) indebtedness, more so as a result of relief to their external commitments of loan repayment normally done in foreign currencies. The author's simplified use of heavy-weighted formulae associated with fiscal sustainability has come about very well in enabling a more didactic approach to fiscal position being addressed, more so, that which is concerned with static budget and fiscal solvency/inter-temporal budget constraints. This chapter has provided a clear exemplification of the importance of debt sustainability, which is considered the way forward in enabling high debt-ridden nations to service public debt at a sustainable level.

In Chapters 17 and 18, the author provided a succinct explanation of key issues emanating from public and domestic debt sustainability. Key definitions are also addressed in these chapters, with the core of inconvenience experienced – both to individuals and the nation, epitomized as “vexed issues” in page 303 of the book. The most important of issues surrounding debt sustainability indicator as addressed by the author involve data access/integrity. Debt sustainability is on the increase at domestic level, more so because of the lower cost to financing of public debt which is normally done in national currencies; as in many of the countries in the WAMZ area, easy means of financing through treasury bills seemed more common. The benefit of domestic market in supporting domestic debt sustainability is highlighted together with the prerequisite (stable macroeconomic environment, efficient money market and broad investor participation) needed to support the state of the economy.

In Chapters 19 and 20, the author provided simplified mathematical interpretation of debt and fiscal sustainability and yield curve, respectively. Definitions relating to fiscal sustainability (static budget constraints and solvency conditions) are both represented mathematically with examples as illustrated in Chapter 19. Finally in Chapter 20, the author provided a diagrammatic illustration of yield curve which provide a representation of the relationship between maturity and yield at one point in time, with a clear indication made about its relevance in the financial markets; this is also helpful in informing investors about the state of their (short-term) investments, but also attest the direction of the economy with regards to (expectant) inflation. The author conclude by providing overall comments about the impacts of Yield Curve and its use for financial intermediation – which also stressed issues of under and over-valuation of financial assets.

Omoruyi's book is an invaluable resource focussed in edifying the practitioners' understanding of public debt from the perspective of its sustained capacity to control both internal and external balances in the macroeconomic management of an economy. The book has brought to the fore, problems faced by countries in the WAMZ states with regard to their vulnerability and inability to maintaining a well-balanced public finance expenditures, particularly at a time when serious consideration are being given to convergence of a single currency market.

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#### Reference

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