DEBT MANAGEMENT

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1. The Definition of Debt Management

Fiscal deficits have become much larger and more widespread than they were. The budget deficit dominates economic policy discussion in the mid - 1980's. Today, there is not a country whether developed or developing without a fiscal defict (In east Eurepean Countries also). Debt is a major government revenue source these days and borrwing is an alternative to taxation in the short run. But the consequences of government borrowing are different at home and abroad. Because the two forms of finance have different characteristics. There is also another difference of finance for developed and developing countries.

a. Concept and Scope

We can define that debt management is made changing of amount and composition of debt to aid the country's economic policy. According to this definition, debt management can't be isolated from economic policy. In general terms. It is part of the economic policy.

The fundamental purpose of borrowing at home is to displace spending by households and enterprises.In some cases money creation is prefarable to borrowing because of existing idle productive capacity. Government borrowing can effect consumption, investments, because borrowing is alternative to taxes, but funds it inconvenient to do. If government will prefer borrowing, people could feel more rich before than. If it will prefer to finance by taxation, the individual revenues will be less, then comsumption will decrease.

At home, lending is ordinarily voluntary. This kind of lending is that is doesn't reduce of the wealth of the lenders, but it changes its form.

According to some views "borrowing and taxation will have the same effect because people will perceive that borrowing will entail future taxation to service and repay the debt and will immediately adjust their behaivor accordingly". This view can be seen unancceptable, but according to this theory, people can predict the future tax system, economic conditions and their own position (1).

b. Management of Internal Debt

Domestic borrowing is a way of borrowing by government. The government would prefer to finance by taxation. For seasonal fluctuations of receipts, temporary borrowing can be required. According to the traditional views, internal debt is appropriate for financing investment outlays not to finance consumption expenditures. Government can avoid borrowing to pay for government consumption expenditures. It can be used the national saving by domestic borrowing. If the consumption is financed by borrowing, total saving and investment may be reduced. Internal debt from nonbank lenders are limited in most developing countries. Personal saving may be smaller than in the developed countries and the habits of savers are different from that in the developed countries. In the less developed and developing countries, individuals can prefer to put their savings in land, gold or foreign balances (for example Turkey's case). The capital market work regularly. The government bonds are less liguid and their rates of interest are higher. The higher rate of interest caused to the inflation in some developing countries (particularly in Latin America). The government bonds market has been damaged by the spread of inflation to other countries.

c. Management of External Debt

The scope of foreign debt is rather large. External debt can be borrowed by central government, state, local governments, government agencies, public companies and private debt guaranteed by the public sector. Foreign financing is necessary to foster internal growth and to increase the resources for investment in developing countries. Because of tha lack of internal savings, these countries need to receive foreign funds. But debt plans must be made on how to repay them. Repaying debts and the limits of debts can influence the future economic policy.

The debt management theory involves; knowing the level of the debt, keeping it within the desired limits, and obtaining the best available terms of it (2). Foreign debt can bu used to provide money for fiscal deficits.

Debt management can be explained at two levels; One is the administrive level, the other is the macroeconomic level. The determining of the volume of foreign debt is interested with macroeconomic debt management, and debt - service problem is a more fiscal issue than the balance of payments. The administrative management is related to the control, the volume, currency instruments of foreign currency borrowing.

2. Techniques of Debt Management

Techniques of debt management are changing according to countries. The different techniques can be used if country is developed or not. In less developed countries, savings are put in land, gold or foreign balances, some people can prefer to buying securities of any kind. In some developing countries (e.g. Turkey) government bonds can be prefered because of higher rate of interest.

These kinds of financing had such difficulties, but several developing countries have obtained much money by borrowing from nonbank lenders. Captive lenders. insurance companies, pension and provident fuds are the principal nonbank lenders. Real interest rates should be adopted as a policy instrument (if necessary, indexing can be used for inflation).

The borrowing opportunities at home are limited. In most developing countries, people prefer the assets rather than government securuties. In these countries, the higher interest rate can be attractive for buying government bonds. But in these countries inflation rate is also higher. In this case, indexed bonds may be attractive to savers and advantageous to governments.

The main techniques of debt management are relevant to the management of a country's foreign debt. These techniques can be arranged (3)

- The choice between public and private sector debt.

- The maturity structure and currency composition of the debt portfolio.

- How the borrower can be protected against fluctuations in interest costs and exchange rates.

- The coordination of a number of borrowers to optimize the use of various markets.

The preferences of investors can change in long period. The new tools and techniques are born and tested daily. In this atmosphere the debt manager has to be careful to the market signals.

In a market economy borrowing by the private sector has some advantages. In some cases, foreign loans are cheaper than domestic ones. These advantages can be regarded as political rather thar economic.

One of these advantages is that funds could be used for productive investment (for example; the manufacturing plant and equipment) and the total capital may increase in the country.

The other advantage is that risk of interest and currency will be spreaded within the country by the private borrowing and the risk will be small on the budget of the government sector is relatively small.

If the multinational companies are borrowers international lenders may prefer these. In this situation, risk will be reduced and more opportunity can be provided.

The private sector borrowing has also some disadvantages. If the country has the balance of payments deficit, the Central Bank (or the Treasury) will want to control the borrowing is a political choice. The borrowing is conducted transparently and is subject to the approval of the voters, the press and the politicians.

A debt manager prefer the long-term loans. The long term maturities are as cheap to carry as short ones. Loan service payments can be budgeted and funds earmarked well in advance. The short term market is often most attractive in times of uncermade. The World Bank has such experiences as a swapper. Optimizing maturities wil not be isolated from efforts to improve other aspects of a loan portfolio.

Sovereign debt managers try to have at least one half of their total debt at fixed rates. An currency composition of a country's debt is very *important. Exchange rates should vary inversely with national inflation rates. But in practice the reality has been quite different (After 1976).*

3. Conclusions

Foreign debt management has serious problems in many developing and developed countries and the institutional structure has become too complicated. The minister of finance, The Governor of the Central bank. The Director of the Treasury (the Minister of Economy or Commerce) can decide about the debt management. The other alternative that the debt management unit can be made under the director of a treasury. The policymakers have seroius difficulties for the conduct of fiscal and monetory policy. Public debt is usually approved in advance by the ministry of finance, as in Brasil, Canada, France, Korea, Mexico, Sweden, Turkey. In other countries the ministry of finance has delegated the approvel to the central bank, in Argentina, Finland, Greece, Yugoslavia, India. In some cases public debt, central government debt is subject to an annual ceiling astablished in the budget law (4)

There is no basic instrument for solving external debt problems. As a fiscal instruments,adjustments will imply reducing fiscal deficits by both raising revenues and cutting spending (5). Higher revenues must com efrom the introduction of realistic prices for public services and for subsidised products.

The role of public enterprises is very important in too many countries. The political reasons still play a important role in investment programs, investment is often the expenditure that contributes the most to foreign debt.

The economy can be liberalized for improving its situation.This can be made competitive pressures on domestic activities, and direct investment ean replace lending by adjusting the exchange rate so exports are encouraged and imports are restrained.

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