



Ninth UNCTAD Debt Management Conference

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Contingent Liabilities

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD



Debt Crisis Prevention and Debt Strategies. Contingent Liabilities

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9TH UNCTAD DEBT MANAGEMENT CONFERENCE

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Plan of Presentation

- **Importance**
- **Classification**
- **Measurement (Toolkit)**
- **Monitoring**
- **Mitigation of Risks**
- **An Integrated Approach. Sovereign Asset and Liability Management**

Why Considering CLs is so Important?

- **Better identification of fiscal risks**
- **More effective actions to mitigate risks and macro vulnerabilities**
- **More complete information to implement sovereign asset and liability management**

Classification

- **Explicit CLs (based on LAC experience):**
 1. Guarantees issued to foster Infrastructure (PPPs)
 2. Development/ education funds
 3. Guarantees for private sector
 4. Guarantees on the financial system
 5. Intra Public Sector Guarantees, covering subnational governments and state owned companies
 6. Trials (breach of contracts)
 7. Public Pension Systems

- **Implicit CLS**
 1. Natural Disasters
 2. Financial Crisis
 3. Public Pension Systems

Classification: Relevant Experiences

Chile

1. Guarantees issued to foster infrastructure (PPPs)
2. State owned enterprises debt guarantee
3. Tertiary education loans with state guarantee
4. State guarantee on bank deposits
5. Trials
6. Guarantee fund for small business

Colombia

1. Guarantees issued to foster Infrastructure (PPPs)
2. Intra Public Sector Guarantees, covering subnational governments and state owned companies
3. Trials
4. Natural Disasters

Measurement of CLs

$$NPV_{CL} = B \times \sum P(t) \times ME / (1+i)^t$$

- NPV = Net Present Value
- ME = Maximum exposition
- B = Adjustment Parameter ($0 < B \leq 1$) (Based on previous similar situations and other elements)
- P = Probability of the event in period t ($0 < P < 1$)
- i = Social discount rate or risk free rate

A Toolkit for the LAC Region

- A simple presentation and measurement tool to:
- serve as a buzzer for debt managers
- use/adapt methodologies already proved in the region
- utilize historical information for determining parameters
- achieve balance between practicality and sophistication

Summary of CLs

SUMMARY

Select Country

CONTINGENT LIABILITIES (CLs)			Maximum Exposition	Contingent Liability (Present Value)	
TOTAL	Local Currency	Millions		849,674.0	
	US\$			4,045.7	
EXPLICIT CLs	Local Currency		48,811.4	4,974.2	
	US\$		10,000.0	4,045.7	
IMPLICIT CLs	Local Currency			844,699.8	
	US\$.0	
TOTAL	Total		% of GDP		32.50%
	Local Currency				31.66%
	US\$				0.84%
EXPLICIT CLs	Total			3.91%	1.03%
	Local Currency	1.82%		0.19%	
	US\$	2.09%		0.84%	
IMPLICIT CLs	Total			31.47%	
	Local Currency			31.47%	
	US\$			0.00%	

Summary of Explicit CLs

EXPLICIT CLs			Maximum Exposition	Contingent Liability (Present Value)	
EXPLICIT CLs	Local Currency	Millions	48,811.4	5,182.0	
	US\$		10,000.0	4,045.7	
Litigious Activities	Local Currency		1,150.0	378.6	
	US\$		10,000.0	4,045.7	
Minimum Guaranteed Income (MGI)	Local Currency		41,858.2	2.1	
	US\$.0	.0	
Private Sector Guarantees	Local Currency		500.0	37.7	
	US\$.0	.0	
Guarantees to the Financial System	Local Currency		5,303	4,764	
	US\$				
TOTAL	Total		% of GDP	3.91%	1.04%
	Local Currency			1.82%	0.19%
	US\$			2.09%	0.84%
Litigious Activities	Total			2.13%	0.86%
	Local Currency	0.04%		0.01%	
	US\$	2.09%		0.84%	
Minimum Guaranteed Income (MGI)	Total	1.56%		0.00%	
	Local Currency	1.56%		0.00%	
	US\$	0.00%		0.00%	
Private Sector Guarantees	Total	0.02%		0.00%	
	Local Currency	0.02%		0.00%	
	US\$	0.00%		0.00%	
Guarantees to the Financial System	Total	0.20%		0.18%	
	Local Currency	0.20%		0.18%	
	US\$	0.00%	0.00%		

Summary of Implicit CLs

IMPLICIT CLs			Maximum Exposition	Contingent Liability (Present Value)	
IMPLICIT CLs	Local Currency	Millions	.0	844,699.8	
	US\$.0	.0	
Natural Disasters	Local Currency		na	437,046.5	
	US\$				
Systemic Crisis in the Financial Sector	Local Currency		na	407,653.2	
	US\$				
TOTAL	Total		% of GDP	0.00%	31.47%
	Local Currency			0.00%	31.47%
	US\$	0.00%		0.00%	
Natural Disasters	Total	na		16.3%	
	Local Currency	na		16.3%	
	US\$			0.0%	
Systemic Crisis in the Financial Sector	Total	na		15.2%	
	Local Currency	na		15.2%	
	US\$	na		0.0%	

Monitoring

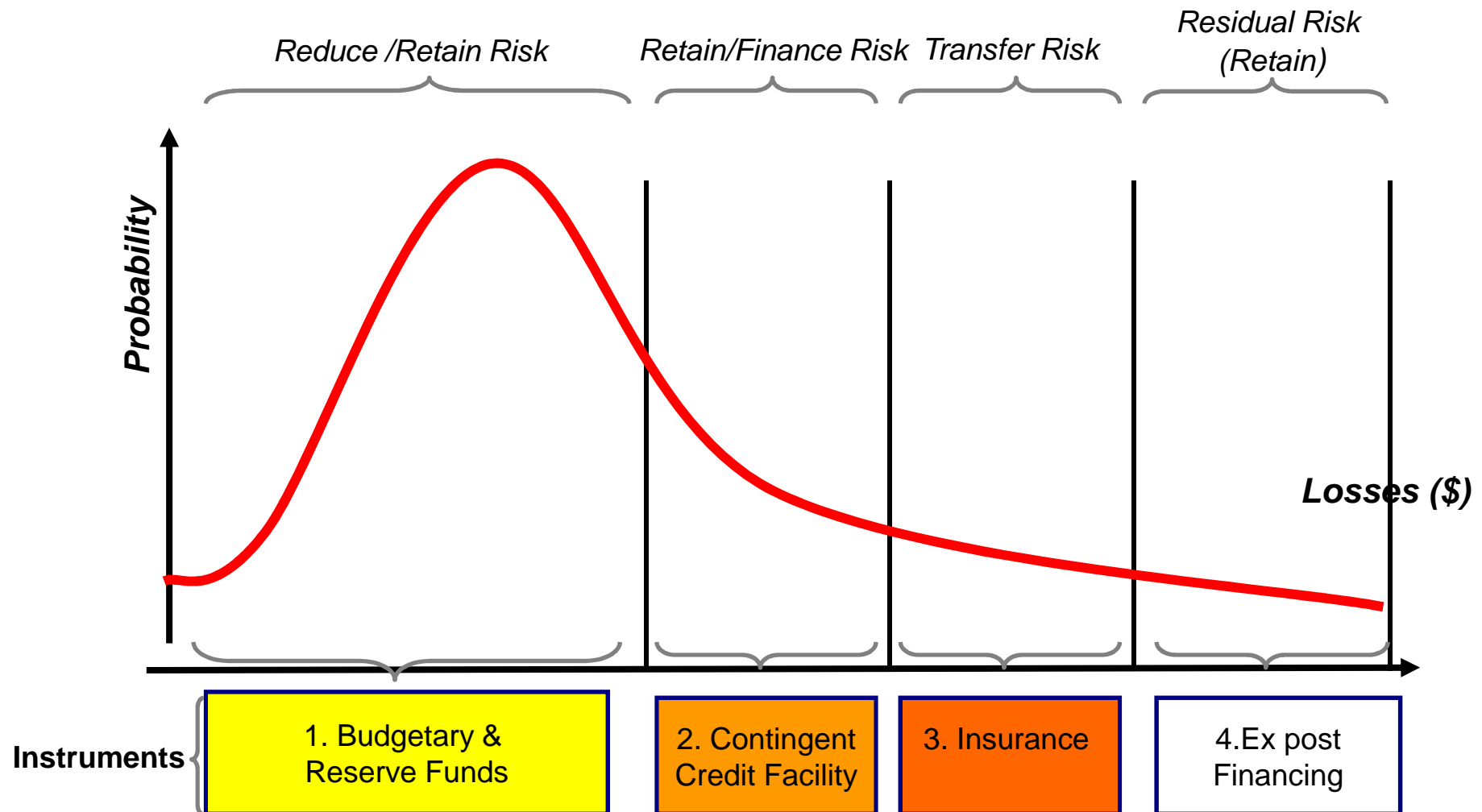
- **Institutional Aspects**
- **Role of Parliament**
- **Fiscal Responsibility Laws**
- **Diversity of Institutions Involved**
- **Cost-Benefit Analysis / Risk Analysis**
- **Role of the DMOs**

Mitigation

- Provisions in annual budgets
- Counter-guarantees
- Credit facilities
- Insurance
- Management of specific funds
- SALM (Sovereign Asset and Liability Management)

Managing CLs for Natural Disasters

Coverage mechanisms according to frequency/intensity of events



IADB Contingent Credit Lines

- **Contingent Credit Facility (CCF)**
- **Development Sustainability Credit Line (DSL)**
- **Insurance Facility (IF)**

IADB Contingent Credit Lines

Country	Status	Financing (US\$ millions)
Contingent Credit Facility		
Costa Rica	Approved	100
Dominican Republic	Approved	100
Honduras	Approved	100
Ecuador	Approved	100
Panama	Approved	100
Peru	Pipeline	300
Nicaragua	Pipeline	186
Total		986
Insurance Facility		
Dominican Republic	Approved	24
Development Sustainable Credit Line		
El Salvador	Pipeline	100
Total		1,110

Examples of Funds in LAC

To Address Specific CLs	Stabilization and Saving Purposes
<p>Chile- Pension Reserve Fund (PRF): To partially finance fiscal expenditures associated with minimum pension and assistance benefits guaranteed by the government</p>	<p>Chile – Economic and Social Stabilization Fund (ESSF): among other objectives, to finance fiscal deficits (mainly associated to a fall in the copper price)</p>
<p>Colombia- State Contingency Fund: hedges CLs arising from commitments that state agencies acquire</p>	<p>Panama- Savings Fund of Panama: natural disasters and macroeconomic stabilization</p>

Some Sovereign Funds in the Region

Country	Fund	US\$ Billions
Brazil	Fundo Soberano do Brazil	5.3
Chile	Economic and Social Stabilization Fund (ESSF)	15.6
Chile	Pension Reserve Fund (PRF)	7.3
Colombia	Savings and Stabilization Fund (FAE)	1.3
Mexico	Oil Stabilization Fund	6.0
Panama	Savings Fund of Panama	1.3
Peru	Fiscal Stabilization Fund	7.2
Trinidad y Tobago	Heritage and Stabilization fund	4.8

An Asset and Liability Management Approach


Sovereign Assets	Sovereign Liabilities
Central Government Assets	Central Government Liabilities
Currency and Deposits	Public Debt
Sovereign Funds	Contingent Liabilities
Contingent Assets	
Central Bank Assets	Central Bank Liabilities
International Reserves	Debt
Domestic Assets	Monetary Base
Public Pension Assets	Public Pension Liabilities
Other Public Sector Assets	Other Public Sector Liabilities

Thank you!

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