

Annotations

Presentations in Panel I on European Public Debt Markets in an enlarged EU

- *Hans J. Blommestein (OECD), Overview of implications of convergence in Euro area government debt markets.*

Euro area debt policies, techniques and instruments have converged significantly, thereby enhancing liquidity in government securities markets. The introduction of the euro has taken the European financial markets closer towards full integration by eliminating currency risk between those EU countries that have adopted the currency. The most important immediate effect of the introduction of the euro has been on the size of the euro area government bond market. However, in spite of further convergence, market participants still differentiate between issues of different governments in terms of credit risk and other factors. As a result, a truly pan-European government benchmark yield curve does not yet exist.

The convergence of debt policies, techniques and instruments within the euro area provides some guidance for revising the public debt management framework of the new EU members. Debt managers from accession countries will need to take into account the implications for their funding strategies (including the creation of benchmark loans and the scope for opportunistic borrowing), adherence to euro market conventions, the use of selling techniques, risk management, the choice of electronic trading systems, and so on.

- *Lars Boman (Deputy Head of Portfolio Management, Swedish National Debt Office), Key issues in reshaping the public debt management framework of the new EU members*

When a new country joins the EU and its currency union, its borrowing conditions will change. The experiences of the smaller EU countries may prove beneficial to new EU members when they join the euro zone. As a preparation for the Swedish referendum on the euro, the Swedish National Debt Office studied the key implications of euro zone membership for its debt management policy. To that end, Sweden also studied the borrowing strategies of Euro zone members Belgium, Finland, the Netherlands and Portugal. Key findings from this study included:

1. Their overall strategy is to borrow as cheaply as possible by creating large liquid loans.
2. It has become increasingly important for euro zone borrowers to generate attention in a large market. This has led to increased resources for marketing, larger auctions and greater focus on syndication.
3. Small countries concentrate their borrowing in a few markets and in a few debt instruments. Most of them borrow mainly in the form of bonds and Treasury bills.
4. Countries with small borrowing requirements require strategies for generating sufficiently large debt issuance volumes each year.

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- *Fernando Coelho (Head of Issuing and Markets Unit IGCP - Portuguese Government Debt Agency), The Portuguese experience in developing a more liquid, efficient and transparent secondary market*

This presentation discusses the options that were considered at the time of the introduction of the and the choices made (for example, the introduction of an electronic trading system - MTS Portugal). Possible lessons for the accession countries from the successful experience of integrating the "old" Portuguese domestic market into the single European market, are suggested.

- *Philip Brown, Managing Director debt capital market, CitiGroup), Issuance Strategy Alternatives for EU Accession - an International Perspective.*

The presentation discusses issuance strategies which public debt managers in accession countries can adopt with a view to accelerating the convergence of interest rates; preparing for the challenges of the competition for capital in the euro area; and minimising volatility in the period leading to euro accession. As foreign investors play a significant role in the formulation of these strategies, we give a brief overview of who these investors are and discuss their motivation. The presentation will address domestic market strategies as well as the benefits of euro issuance ahead of accession.

Presentations in panel II on the role of repo markets for the development of secondary government bond markets of new EU members and other emerging markets.

- *Denis Blenck (Head of the Operations Analysis Division , Directorate General Operations of the ECB) , The repo market, the public debt management and the implementation of the ECB/Eurosystem monetary policy.*

The presentation will illustrate the links between the repo market, the management of the public debt and the implementation of the ECB/Eurosystem monetary policy. It will cover an overview of the use of the repo technique and the repo market for the Eurosystem monetary policy operations and, more generally, by Eurosystem central banks. Moreover the presentation will cover the issue on how the clear separation between public debt management and the implementation of monetary policy is obtained , with the only exception of the possible management of Treasury deposits at the central bank. Finally the strong interest and the active participation of the ECB in the development of a more integrated repo market is described.

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- *Martin Dufnell (UK DMO) Exploring the benefits of a well-functioning repo market.*

This presentation will briefly cover examples of different kinds of repurchase agreements (classic, buy-sell back, tripartite etc), desirable features and basic requirements for the establishment of a functioning repo market, but the main thrust will be to look at the benefits brought to different elements of the bond and money markets - the debt issuer, end investors, primary dealers, money market treasurers and even central bank operations.

- *Jose Ramon Martinez (Bank of Spain) European repo markets regulation: a necessarily and temporarily diverse "ecosystem"?*

Ecosystem diversity is the outcome of evolution forces. The legal and regulatory stance of European repo markets can be also said to obey the dynamic equilibrium reached between domestic legal and documentation practices, on the one hand, and cross-border driven trends, on the other hand. Sources of diversity in European repo markets have been: law making tradition, taxation, whole-sale vs. retail focus in the regulation... Technology may eventually supersede some choices: success of CCPs may void in practice most of the content of specific repo contractual forms. Always a constant is the key role of central banks in steering the development of repo markets: a key goal, the integration of money and capital markets is at stake. From an acceding country perspective, development of repo markets is key because the flexibility it affords to integrate its capital market, even if not always it serves as a channel of fresh funds. However, the force of domestic issues in the configuration of the repo market should not be downplayed.

- *Stefano Bellani (European Head of Repo & Short Bonds Market Making, JP Morgan - Chase) The Repo Market in Europe: a Market Maker point of view.*

The Repo market plays a remarkable role in conveying liquidity, monetary policy & enabling the efficient functioning of the government bond markets. The activity of a Primary Dealer is strictly interrelated with the financing of the dealer' positions, therefore an efficient Repo market is key to the implementation of trading and market making strategies, as well as the enhancement of the liquidity of government debt market. Primary Dealers trading strategies, EU government bond *repo* markets structure, Treasury role, settlement and documentations are all crucial to the shaping of an efficient market for government debt.

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- *Eddi Astatin (Head of Government Securities Market Department, Moscow Interbank Currency Exchange -- MICEX): Repo and the Government Bond Market in Russia.*

A government bond market can be thought of as complete if the following sub-markets are in place: (1) when-issued, (2) primary issuance; (3) secondary trading place; and (4) repo transactions. The fourth submarket can be called the engine of liquidity for the entire market. Investors use government bonds as collateral to raise cash to buy more bonds. Because Russia is a newcomer to the repo world, there is a different picture to observe on the Russian market. In Russia repo auctions began at MICEX shortly before the 1998 default and were resumed only in late 2002 at the initiative of the Bank of Russia (BoR), as BoR was looking for ways to improve its control over credit conditions. The original repo auctions triggered demand for government bonds because primary dealers were required to maintain portfolios of certain size and be active on the secondary market. The primary dealership and the entire market collapsed in 1998. The Russian government runs public surpluses for the fourth year in a row, and another surplus is projected for 2004. The effective supply of government bonds shrunk dramatically. In this small, fragmented and illiquid market repos don't play the engine of liquidity market role. So, after the initial short-lived surge of repo transactions reverses took over. A related problem is low activity in the interdealer repo market, which was launched in August 2003.

Presentation in Panel III on the efficiency of government bonds issuance methods

- *Stefano Scalera, Italian Treasury: Government bond issuance techniques: an overview based on the Italian experience.*

A sovereign has the choice of different issuing methods to increase its benchmark issues to the required size. The presentation considers the pros and the cons of each method against the backdrop of the objectives of the debt manager and the differences in the institutional framework of primary markets.

- *A. Kaminski (Director public debt, Ministry of Finance, Poland): Challenges for setting-up bond-issuance procedures in emerging primary markets*

The presentation will address the selection of selling procedures or distribution channels for government securities as one of the crucial policy decision elements for debt managers – an outline of suggested best practices in developed and developing OECD countries will be given.

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Access to the primary market for government securities in emerging markets will also be discussed, including whether or not to use a primary dealership system, syndication, tap sales, underwriting, or private placement. What are the advantages and disadvantages of each method. Special emphasis will be given to the role of primary dealers in the issuance of government securities in advanced versus emerging debt markets. These issues will be assessed against the backdrop of an overview will be given of the Polish experiences in implementing bond issuance policy during the past decade, while positive and negative lessons will be suggested. The final part of the presentation will deal with some of the implications of EU enlargement for bond issuance in emerging primary markets.

- *Boris Alekhin (Adviser to MICEX): Russia's Issuance Policy: Still Much Work to Do.*

The presentation will explain Russia's issuance policy. The Russian Ministry of Finance is the issuer, the central bank is the issuing manager and the Moscow Interbank Currency Exchange is a pure limit order market for government bonds. A discriminatory auction is used to sell government bonds. At almost every auction the issuer sets a cut-off price to obtain favorable yields and to create a shortage of a specific security. This paves the way for secondary market sales at artificially inflated prices. Very often an auction boils down to an electronic bargain between the issuer and a single monopolistic bidder. Buy-backs and switches are not used. The basic problem is that the issuer distrusts the market. A major step in resolving this problem would be the revival of a network with primary dealers.

Presentations in Panel IV on innovations in the fixed-income sector and their use for the design of government debt instruments in emerging markets.

- *Nicola Mercusa and Aldo Romani (Capital Markets Department, EIB) EIB --Innovation and Debt Management in European Perspective.*

The European Investment Bank is owned by the Member States of the European Union and is currently the largest supranational issuer in the world. Its funding policy is expression of a combined European Sovereign approach to capital markets, revealing important overall trends in their development. The presentation illustrates the framework within which EIB's debt management combines benchmark with non-benchmark issuance and highlights the strategic character of its most innovative transactions. Special focus is devoted to the euro-area at a time of unprecedented and far-reaching structural market progress

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- *Chris Clegg (Director of Debt Capital Markets Group, Deutsche Bank):*
Developments in Issuance by European Sovereigns and Supras.

Competitive pressures in the Euro denominated Interest Rate markets have lead to an increasing focus on product innovation by European Sovereigns and Supras. This innovation has been driven by the search for investor diversification and demand segmentation as well as an increasing awareness of the potential liability management impact of different issuance alternatives. The presentation will focus on these innovations as they will continue and potentially increase in the Euroland zone in 2004 and beyond

- *Adi Shahaf (Ministry of Finance, Israel) Development of Index-linked Instruments (to be provided)*