# 25th OECD Global Forum on Public Debt Management

**Organised under the aegis of the OECD Working Party on Public Debt Management and Sponsored by the Government of Japan**

# FINAL AGENDA

22-23 February 2018

Room CC10, OECD Conference Centre, Paris

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OECD

# FINAL AGENDA

**Day 1**

**Thursday 22 February 2018**

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| 08:45 - 09:00 | Registration |
| 09:00 - 09:30 | Introductory Session |
| 09:00 - 09:15 | Welcome and overview of the program<br><br>*Chair: Mr. Teppo Koivisto, Director of Finance, State Treasury, Finland, and Chair of the OECD Working Party on Public Debt Management (WPDM)* |
| 09:15- 09:30 | Launch of the 2018 OECD Sovereign Borrowing Outlook<br><br>*Ms. Fatos Koc, Head of Bond Market and Public Debt Management Unit, OECD* |
| 09:30 – 12: 30 | Session 1: Funding environment under shifting macroeconomic clouds<br><br>*Moderator: Mr. Teppo Koivisto, Director of Finance, State Treasury, Finland and Chair of the OECD Working Party on Public Debt Management (WPDM)* |
| 09:30 – 10:00 | Introduction and overview of main issues by the IMF and the WB |
| 10:00 – 11:00 | Comments by selected advanced countries: Germany, Japan, the UK and the US |
| 11:00 – 11:15 | Coffee Break |
| 11:15 – 12:00 | Comments by selected emerging countries: Brazil, South Africa and Turkey |
| 12:00 – 12:30 | General discussion and conclusions |
| 12:30 - 14:00 | Lunch break |
| 14:00 – 15:45 | Session 2: Role of borrowing instruments in broadening investor base<br><br>*Moderator: Mr. Toshiyuki Miyoshi, Director of International Organizations Division, Ministry of Finance, Japan* |
| 14:00 - 14:15 | Introduction and overview of main issues by the moderator |
| 14:15 – 15:15 | Comments by panel: France, Indonesia, Italy, Malaysia, the UK and the WB |
| 15:15 – 15:45 | General discussion and conclusions |
| 15:45 - 16:00 | Coffee break |

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| 16:00 - 18:00 | Session 3: Implications of financial technology advances for government bond markets<br><br>*Moderator: Mr. Grahame Johnson, Chief of Funds Management Department, Bank of Canada* |
| 16:00 – 16:15 | Introduction and overview of main issues by the moderator |
| 16:15 – 17:00 | Comments by selected OECD countries: Australia, Portugal, South Korea and the US |
| 17:00– 17:30 | Comments by selected emerging countries: Kenya, South Africa and Thailand |
| 17:30 – 18:00 | General discussion and conclusions |
| 18:15 – 20:00 | Reception (Room Roger Ockrent)<br>Address by OECD Deputy Secretary General Masamichi KONO |

## Day 2

## Friday 23 February 2018

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| 09:00 – 12:45 | Session 4. Roundtable: Dealing with challenging debt dynamics<br><br>*Moderator: Mr. Mark Walker, Managing Director, Head of Sovereign Advisory at Millstein & Co.* |
| 09:00 – 09:15 | Introduction and overview of main issues by the moderator |
| 09:15 – 11:00 | Comments by panel: Iceland, Ireland, Mexico and Turkey |
| 11:00 – 11:15 | Coffee break |
| 11:15 – 12:00 | Interventions by non-OECD countries: Brazil, Indonesia and Uruguay |
| 12:00 – 12:30 | General discussion |
| 12:30 – 12:45 | Suggested conclusions |
| 12:45– 13:00 | Closing of the forum |

**ANNOTATIONS**

## General annotations

In order to assure a timely circulation of the materials, documents must be made available **10 days prior to the meeting**.

The current policy of the OECD Working Party on Public Debt Management is to treat all information provided by Delegates as confidential. Authors of room documents will be consulted prior to putting these documents on O.N.E (OECD Network Environment) or when documents are made public to a wider audience via websites (such as the OECD-Italian Treasury-WB PDM Network) or OECD publications, including the new Working Paper Series and the Borrowing Outlook. Meanwhile, Delegates are requested not to circulate (room) documents outside the OECD Global Forum without prior permission. Requests can be sent to the OECD.

Topics will in principle be discussed on the basis of the meeting schedule. Delegates are kindly requested to plan their attendance accordingly.

Recent information on OECD activities in the areas of public debt management and bond markets are available on: http://www.oecd.org/daf/fin/public-debt/

## Session annotations

### *Session 1: Funding environment under shifting macroeconomic clouds*

Recently, funding environment has been mainly shaped by changes in monetary and fiscal policies among the other factors including evolving market structures, political uncertainties and regulatory changes. Following the years of quantitative easing, central banks' holdings of sovereign bonds have reached significant levels in several countries (including Japan, the UK and Euro area countries ) while a substantial volume of sovereign bond yields have turned negative in financial markets. Sovereign borrowing requirements (both in gross and net terms) in the OECD area, which rose rapidly as a result of the policy response to the crisis, display a relative stabilization in recent years, due to fiscal consolidation efforts made mostly from 2014 to 2016. Against this backdrop, current financial market conditions in the OECD can be characterized by low interest rates, flattened yield curves and low volatility. However, these favourable market conditions might change depending on the future monetary policy frameworks and the size of central banks' balance sheets as well as fiscal policy developments.

Already, the Fed has started raising short-term interest rates and initiated a plan to gradually reduce reinvestments of maturing Treasury securities. The ECB has also announced some changes in its 2018 Public Sector Purchase Program (PSPP) by hinting a reduction of asset purchases while keeping interest rates at low levels, while the BoJ shows no intention of changing its current policy setting (which is to maintain 10-year JGB yields around the zero level). However, the ultimate size of the central banks' balance sheets in the future is yet to be known.

On the fiscal policy front, an expansionary stance has been proposed by several governments in the OECD area to support the economic growth. The latest edition of OECD Economic Outlook estimates a fiscal easing of around 0.6 per cent of GDP is projected to occur over 2017-19 in the median OECD economy, after consolidation of around 0.5 per cent of GDP over 2015-16. The estimations imply increased gross borrowing requirements in the OECD area.

In EMEs, economic prospects for the medium-term look positive with moderate inflation pressures, net positive capital inflows. Nevertheless, changes in monetary policy in AEs in coming periods could be a major risk factor affecting market sentiment, and in turn capital inflows. If monetary policy normalisation in advanced countries takes place faster than projections, this might lead to market disruptions such as currency depreciation pressures on EMEs currencies.

Against this backdrop, this session identifies the main challenges facing sovereign issuers in the global macroeconomic environment and the appropriate policy responses by exploring following questions:

i. What are the key risks on the horizon? What would be the likely impact of these risks on sovereign debt markets (e.g. borrowing needs, borrowing costs, market liquidity and investor base)?

ii. If and when reduction of central banks' balance sheet takes place, what would be the potential implications for issuers' funding strategies?

iii. How can debt managers address the risks posed by fiscal policy uncertainties?

iv. What are the implications of Fed balance sheet reduction for EMEs, especially in terms of portfolio flows? Is attracting domestic and foreign investors a source of a concern in this environment?

v. What would be the potential implications of MIFID II (in particular new transparency rules), which came into force in January 2018, for government securities markets?

### *Session 2: Role of borrowing instruments in broadening the investor base*

Investor groups (e.g. retail investors and institutional investors including banks, pension funds, insurance companies, mutual funds and sovereign wealth funds) have different objectives and investment strategies which affect the choice of financial instruments. Debt management offices aim for a diversified investor base in order to enhance market liquidity, and to limit market fluctuations. In this regard, they consider preferences of present and prospective investors carefully when i) introducing a new instrument ii) modifying the structure of existing products, or iii) designing financing strategies with existing set of instruments.

The number of instruments that sovereign debt managers issue is numerous and has expanded over time. In addition to traditional instruments such as zero-coupon and fixed-rate bonds over a range of maturity segments, floating-rate and inflation-linked securities have become part of regular issuance choices during the past few decades. In recent years, alternative approaches to sovereign borrowing such as green bonds and sukuk have been increasingly in the spotlight. Debt management offices of some OECD countries have issued these instruments, mainly to attract investors with different mandates. Nevertheless, only in a few country cases were they adopted as part of regular issuance programs. Alternative approaches to sovereign borrowing (e.g. Green bonds, sukuk and ultra-long bonds) have been discussed during the WPDM annual meeting in November 2017 based on a survey among OECD countries which was coordinated by the French Delegation. A summary of the survey results will be circulated as a background document for this session.

In this session, the speakers will elaborate the role of borrowing instruments in broadening the investor base in light of the following key questions:

i. What is the role of a strong and sustainable investor demand in developing a new market instrument? What does experience with inflation-indexed bonds suggest?

ii. How important are the design features of a bond (e.g. different types of inflation-linked bonds and floating-rate notes) for attracting investors?

iii. How to achieve a balance between accommodating investor preferences and fulfilling other objectives of debt management such as minimizing cost of funding and supporting market liquidity?

iv. To what extent issuers should expand their instrument portfolios in order to diversify their investor base?

v. Have recent developments in the financial markets (e.g. low interest rate environment, new regulations, and reduced market liquidity) had any impact on investor demand? If so, to what extent has this been reflected in funding strategies and instrument choices (e.g. long-term vs short-term securities, ultra-long bonds and green bonds)?

### *Session 3: Implications of financial technology advances for government bond markets*

Globally, the fixed income ecosystem is adapting to the changing market dynamics, and digital transformation plays an important part in this process. Advances in financial technology (Fintech) have had an impact on market structures, in recent years, by changing registration, clearing, settlement, payments, reporting and monitoring operations as well as investment management services in financial markets. It has been argued that the developments such as electronic trading venues and automated trading strategies enhance transactional efficiency in financial markets. Also, applications of distributed ledger technologies (blockchain) in finance, currently at an embryonic stage, have a strong potential to transform financial markets, especially settlement and clearing systems. While digitalisation in finance generates new prospects, including the potential for quicker, safer and cheaper financial transactions, it also brings new challenges such as cyber-risks, coding errors and other operational risks. Hence, this new digital trading landscape has multiple implications for fixed-income market liquidity.

In several member jurisdictions of the OECD (e.g. the US, the UK and Italy) a considerable amount of trades –especially for on-the-run securities– are made through electronic venues. Already, some of the DMOs have adopted their operations (including debt issuance recording and settlement systems, as well as market monitoring activities) to this environment. Several DMOs in EMs have also established e-trading platforms in recent years. A number of others improved their micro trade data collections, as well as debt recording and settlement systems. An innovative example comes recently from Kenya, of where Ministry of Finance started selling sovereign bonds via a mobile phone application.

Against this backdrop, selected speakers from advanced and emerging countries will outline the impact of technological advances on government bond markets and what it means for DMOs. To this end, the following questions will be addressed:

i. What are the observations and insights about the impacts of financial technology advances –such as artificial intelligence, robo-advisers, digital currencies and blockchain technology – for both primary and secondary markets of sovereign bonds in terms of *a)* transactional efficiency (e.g. cheaper and faster executions), *b)* market liquidity, *c)* demand for sovereign debt and *d)* market transparency?

ii. While digitalization in finance generates new prospects in bond markets, it also brings new challenges such as cyber-risk and operational risk exposures. To what extent are sovereign issuers prepared for these risk factors? Is there a need to calibrate operational risk management practices?

iii. To what extent, do DMOs embrace technological changes in primary and secondary market activities (e.g. electronic trading platforms, using mobile phones for bidding in auctions)?

iv. In light of increasing share of high frequency trading, algo-trading and robo-advisers, have DMOs experienced idiosyncratic volatilities in sovereign bond markets? Do DMOs have access to sufficient data to monitor such secondary market activities?

### *Session 4: Roundtable: Dealing with challenging debt dynamics*

While the economic, financial and political dynamics of a country significantly affect its public debt; poor debt dynamics *per se* can be a critical source of risk for the entire economy. In this respect, plenty of evidence exists in the history of crisis in both emerging and advanced economies.

Levels of public debt are mainly a result of fiscal policy on which debt managers –usually– have limited influence. However, structure of debt portfolio –particularly, maturity, interest rate and currency composition of the portfolio– and debt sustainability conditions have also substantial interlinkages. Therefore, DMOs take various risk factors into account when setting up borrowing strategies to build or to maintain a resilient debt portfolio. Also, some DMOs are involved in liability management operations in order to improve debt dynamics without waiting to re-finance existing debt as it matures.

Public debt sustainability is in part a function of market access and sentiment, which explains why some countries with very high levels of debt are able to do just fine, while others with much less debt struggle. Market access and sentiment, in turn, reflect political events, regulatory treatment of holdings of sovereign debt, and other exogenous factors. DMOs need to be conscious of these factors as market sentiment can shift abruptly. This is an important element of a risk-based borrowing strategy.

Against this backdrop, this session will discuss the following questions:

i. What is the role of risk-based borrowing strategies in enhancing resilience of debt portfolio?

ii. What are the main challenges faced by DMOs when implementing strategic debt targets to achieve and maintain a prudent debt structure?

iii. How important is the investor relations and communications strategy?

iv. What is the role of sensitivity and scenario analysis in debt sustainability assessments?

v. Why do countries execute liability management operations (e.g. improving maturity profile, establishing a yield curve, taking advantage of market opportunities)?

vi. What do country experiences with liability management operations such as bond buy-backs and exchanges suggest? What are the pre-requisites for a cost-effective liability management operation (e.g. credit ratings, market intelligence)?