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SHORT-TERM PAPER, LIQUIDITY AND REPO-MARKETS

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Short-Term Paper, Liquidity and Repo-Markets

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Joint Session No.1
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Management

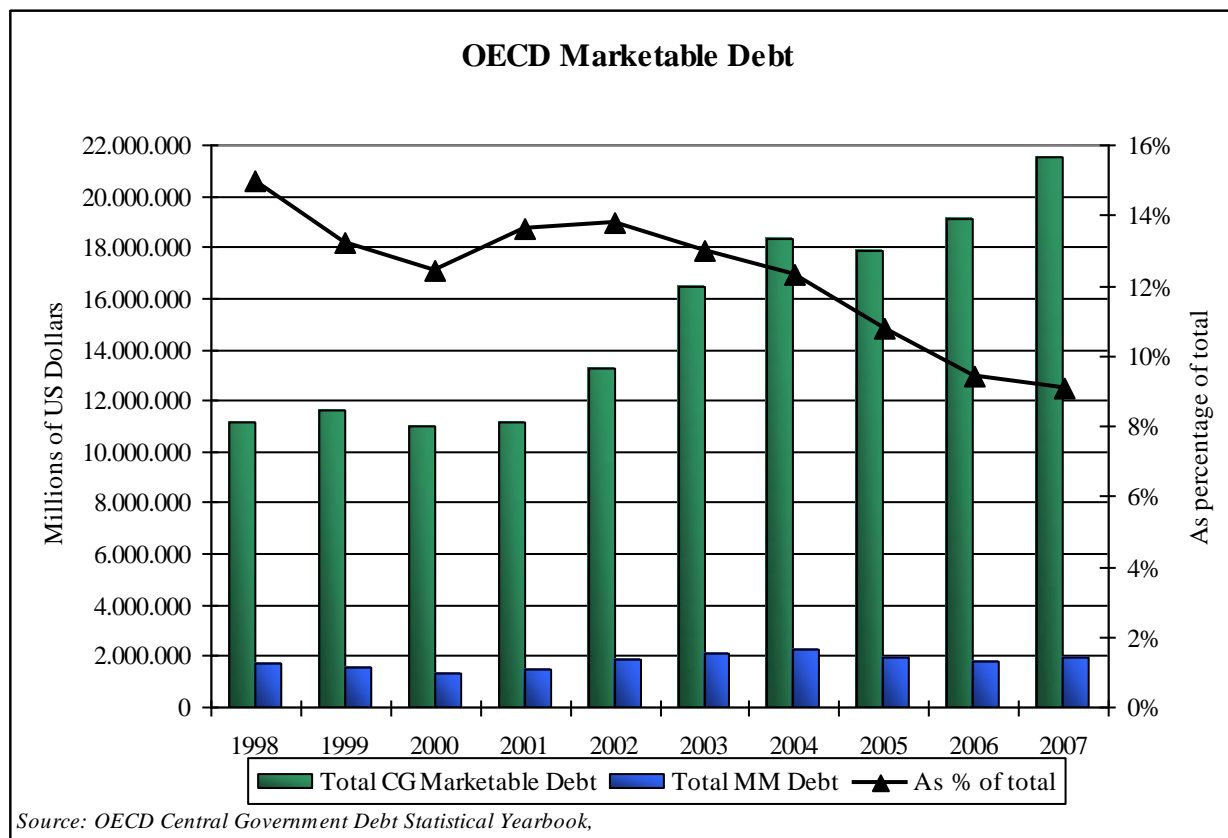
Paris, 3-4 December, 2008



Money Market Instruments

- The use of MM instruments has changed in the OECD in the past 10 years.
- There is however great variation in the change as some countries have increased the use of MM instruments (as % of total marketable debt) and others have decreased it or gone to zero.

OECD Total Marketable Debt and Money Market Debt



Recent survey on changes in use of Short-term paper

- ST-Paper is increasingly used for Treasury liquidity management purposes.
- Significant decrease in use in emerging market economies due to market development.
- Sharp decrease in use due to lower financing needs in some countries.

Money Market Instrument use in the OECD varies

Money Market Instruments as % of total Marketable Debt

Ranking by Country in 2007

Money Market Instruments as % of Total Marketable Debt

Ranking by Country in 2007

<u>0%</u>	<u>1-5%</u>	<u>5-10%</u>	<u>10-15%</u>	<u>15-20%</u>	<u>20-25%</u>	<u>25% ></u>
Australia	Denmark	Czech Republic	Belgium	Mexico	Japan*	Canada
Austria	Germany	France	Finland	Norway	Sweden	
Korea	Iceland	Ireland	Hungary		United States	
Luxembourg	Poland	New Zealand	Italy			
Slovak Republic	Turkey	Switzerland	Netherlands			
	United Kingdom	Total OECD	Portugal			
			Spain			

* Japan 2007 is projected.

Source: OECD Central Government Statistical Yearbook, 1998-2007.

Recent increases in short-term paper issuance

- Bank re-capitalization and support for failing financial markets.
- Estimated record 680 billion issued in Euro-zone only, next year.
- U.S. bailout funded with short-term paper.
- U.K. bailout funded with short-term paper

Increase in short-term paper issuance

- Canada plans to have debt 50/50 long-term and short-term debt.
- Unknown issuance needs ahead, but probably substantial globally.
- Increased re-financing and roll-over risk.
- Is there enough liquidity?

REPO market problems*

- Increased fails, went up to \$2 trillion, in the U.S. market in October or more than 20% of trading volume.
- Fails were 8.6% of all treasuries outstanding in the first five month of 2008 and 1.2 % in the first five months of 2007.
- Also spreading to other bond markets such as municipals, agencies, mortgage-backed and corporate bonds.

* *Source: Euromoney, November 25, 2008.*

REPO Markets

- The importance of Repo markets for liquidity purposes.
- OECD study on liquidity in secondary government bond markets shows:
- a) There is substantially more liquidity in the Repo markets (measured by turnover ratios)
- b) Liquidity has been increasing in Repo markets over the years (measured by turnover ratios)

Turnover ratios in Repo markets

Turnover ratios in REPO markets¹ (OECD survey)

		<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Average</u>
3-Year Bonds	Turnover ratio	12,2	6,8	6,5	6,1	6,1	7,5
	Repo market T/O ratio	14,3	9,8	30,8	28,1	32,1	23,0
5-Year Bonds	Turnover ratio	9,7	8,8	7,9	8,1	9,4	8,8
	Repo market T/O ratio	9,5	7,7	20,1	29,0	40,6	21,4
10-Year Bonds	Turnover ratio	8,3	5,9	7,2	9,0	8,0	7,7
	Repo market T/O ratio	5,1	5,6	7,7	12,0	14,3	8,9

1) Data from REPO markets in Belgium, Canada, Denmark, Ireland, Japan, Korea, Mexico, New Zealand, Norway, Poland, Portugal, Turkey. Japan's 3-year bonds are included in 5-year bonds.

Source: *OECD Survey on Liquidity in Secondary Government Bond Markets, 2008.*

Enhancing liquidity

- Standard policy measures to enhance liquidity.
- Few large issues.
- Using and following issuance calendars.
- Sound issuance principles.
- Possible joint issues in Euro-zone.

Conclusion

- Liquidity matters, a lot.
 - It needs to be monitored.
 - If it is to be managed.
 - If it is to be enhanced.
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