Tenth Annual

OECD/World Bank/IMF Bond Market Forum

Secondary Market Liquidity in Domestic Debt Markets

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OECD THE WORLD BANK International Monetary Fund IFC International Finance Corporation World Bank Group

10th Annual OECD-World Bank Group- IMF Global Bond Market Forum: Secondary Market Liquidity in Domestic Debt Markets

Liquidity Experience in Emerging Markets: Panelist Comments

April 29, 2008

Gregory Makoff, Head of EM Liability Management

Managing Director, Citi

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Panelist Discussion Points

Active Liability Management:

- **Should be considered as a useful instrument to support secondary market liquidity; and**
- **Is extremely valuable in providing high quality information to the sovereign debt office on the depth and breadth of the market for various securities – this data helps inform the full range of actions taken to support secondary market liquidity.**

Panelist Discussion Points

Context

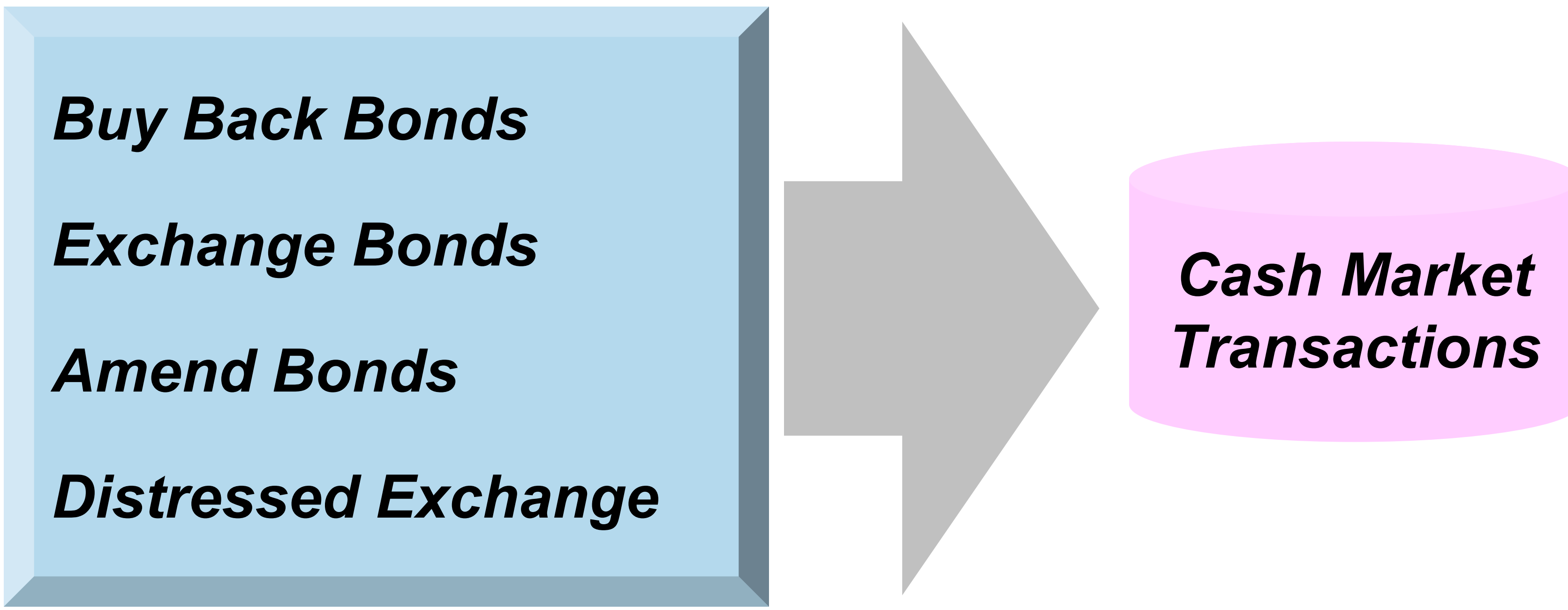
- **Rapidly rising liquidity in local markets. Local Market share of reported dealer volumes has risen from 44% Q4 2005 to 68% Q4 2007 in $1.4 Trillion reported volume.**

- **Hyper liquidity seen in key benchmark bonds in markets such as Brazil, Mexico, and South Africa with global dealer volumes reported at over $100 BLN/quarter each**

- **Liquidity varies strongly between markets, but also within markets as trading often focused in benchmark bonds. Securities (such as inflation-linked) can have strong following, but low turnover given buy-and-hold investor base.**

What is Liability Management?

"Liability Management" is when an <u>Issuer</u> completes one of the following <u>transactions</u>:



Liability Management: Active Liquidity Enhancement

Transitional:

- Useful in creating benchmarks or building existing benchmarks through exchange offers.

  Ireland and other leading European borrowers exchanged post-EMU legacy bonds into new Euro benchmarks

Regular:

- Useful in enhancing secondary liquidity as <u>dealers can more actively take positions (purchase off the run bonds)</u> if they can liquidate in regular auctions
- <u>Enhances price discovery</u> in off the run securities through frequent price setting via repurchases or exchange offers

  Example: Brazil has regular buyback or switch auctions

Crisis:

- Useful during period of stress to reallocate liquidity between instruments and sources of funding.

  In June 2001 Turkey exchanged over $8 BLN of short-dated nominal domestic debt to USD-indexed and TRL floating-rate debt to remove net currency exposures in the banking system and lower liquidity overhang.

Domestic Market Liability Management Informal Survey

Developed:

Country	Don't Use	Regular
USA		X
UK		X
Germany		X
France		X
Italy		X
Sweden		X
Ireland		X

Developing:

Country	Don't Use	Occasional	Regular
Brazil			X
Mexico		X	
Indonesia			X
Turkey		X	
Philippines		X	
South Africa		X	
Colombia		X	
Thailand	X		

Liability Management and Ratings:

John Chambers from S&P:

"Efficient debt management helps insulate sovereigns by lengthening maturities, smoothing out amortizations profile, and reducing exposures to foreign-exchange and interest-rate movements. Improvements in the composition of debt contributed to the upgrades of Brazil, Chile, Colombia, Mexico, Morocco, and Peru in the last three years."

"….when I look at the 21 Governments that have positive outlooks on their ratings out of the 116 we rate, I can say that all of them either have top-notch debt management practices for countries at their stage of development or have improved their practices in the last few years."

5 November 2007

Recommendations:

- Use liability management on an occasional or regular basis to improve the liquidity in your domestic market.

- Use liability management as part of an adaptive borrowing program: with feedback from the market adjust strategy, instruments, and processes to lower costs and volatility.

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