GOVERNMENT SECURITIES MARKET ASSESSMENT

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OBJECTIVES OF THE PRESENTATION

1. To review the GSMD Toolkit
   The «Government Securities Market Development Toolkit for Low Income Countries» is a framework recently developed by WBG to assess the level of market development

   In the process, to determine the specificities of the GMSD Toolkit
   vs. DeMPA
   vs. the book-building approach which is the traditional method followed to improve the efficiency of government securities markets

2. To analyse together the relative advantages of the toolkit and book-building approaches in order to assess their complementarity and see when they are most efficiently used
Brief reminder of the context:

- Importance of domestic government securities market
- The three steps of market reforms
- The «traditional» building block approach to market development
IMPORTANCE OF THE GOVERNMENT SECURITIES MARKET

We focus on the domestic market.

The principal contributions of an efficient GSM are:

1. To enhance the ability of managing the financing needs of the government
2. To provide a foundation for the development of the other segments of the financial market
3. To improve the country’s ability to cope with financial crises
4. To facilitate the conduct of monetary policy

The list is not exhaustive;
THE THREE STEPS OF MARKET REFORMS

1. Diagnostic : identify development needs
2. Plan : prioritize development needs
design a sequenced and actionable reform plan
3. Implementation : get things done
track the effectiveness of actions taken

The toolkit addresses the first step
BUILDING BLOCK APPROACH

The building block approach
• is the « traditional » approach to market development
• focuses on a limited number of chosen areas
  = areas where the market is not efficient (or not enough)
  and which are clearly priorities
• It determines the corrective action(s) to be taken

Tools for diagnosis
• analysis of debt portfolio (viz. issuance, maturities, holders, risks, etc.)
• interviews with DMU staff and market participants (traders and investors)

Tools for determining the corrective actions to be taken
The cause of the inefficiency indicates the remedy)
BUILDING BLOCK APPROACH

Advantages
• Flexible
• Allows specific issues to be examined in greater depth
• Action oriented

Limitations
• The reform plan is not based on a structurally comprehensive diagnostic
• The report does usually not provide measurable indicators
GSMD TOOLKIT : OBJECTIVES

To provide:

• a **global** picture of market development needs
• a quantified **measurement** of its current degree of efficiency

Therefore, the toolkit enables

• setting **benchmarks** for comparison with peer countries
• **measuring progress** of reforms over time
The toolkit

• splits the market into 4 **core areas** (i.e., group of related factors affecting market efficiency: enabling conditions, primary market, secondary market, infrastructure-regulation-taxation)

• splits the core areas into a set of 10 **indicators (KPI)** which are assessed in order to identify the strengths and weaknesses of current market arrangements.

• splits the indicators into a total of 18 **dimensions** which are components to be **scored** separately
The dimensions are evaluated against a set of scores which range from:

- **A**: sound market practice
- **B**: in between A & C
- **C**: minimum requirement met for the effective functioning of the relevant indicator
- **D**: minimum requirement not met. D signals a serious deficiency in performance requiring priority corrective action.
- **N/R**: not rated

Based on the outcome of this assessment, a country may seek to overcome weaknesses by moving to step 2 & 3 of market reform.

**What is the difference with DeMPA?**
DeMPA

Debt Management Performance Analysis
Tool developed by WBG in 2009 in cooperation with its international partners

Compared to GSMD toolkit:

. Same objectives
  - to assess performance in a measurable way
  - to provide a basis of comparison with peer countries
  - to facilitate monitoring of progress over time

. Same methodology

<table>
<thead>
<tr>
<th></th>
<th>DeMPA</th>
<th>GSMD</th>
</tr>
</thead>
<tbody>
<tr>
<td>core areas</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>performance indicators (KPI)</td>
<td>14</td>
<td>10</td>
</tr>
<tr>
<td>dimensions</td>
<td>33</td>
<td>18</td>
</tr>
<tr>
<td>scores</td>
<td>A-B-C-D</td>
<td></td>
</tr>
</tbody>
</table>

. Same limitation
Scores do not determine priorities automatically. Priorities have to be prioritized in the reform plan.

. Different topic
  Quality of public debt management vs. degree of market development
COMPARISON OF CORE AREAS  DeMPA-TOOLKIT

DeMPA

- Governance and development of debt management strategy
- Coordination with macro-economic policies
- Borrowings and related financing activities
- Cash flow forecasts and cash balance management
- Operational risk management
- Debt records and reporting

GSMD toolkit

- Enabling conditions
- Primary market
- Supporting markets
- Infrastructure, regulation, taxation
Core Area 1: Enabling Conditions

**KPI 1**: Fiscal and monetary policies and banking institutions
1.1. Fiscal and monetary policies ( = government and central bank)
1.2. Soundness of banking institutions

**KPI 2**: Capacity of DMU to implement a market based debt management program

**KPI 3**: Capacity of investor base to contribute to a stable demand for government securities
Core Area 2: Primary Market

KPI 4: Annual Borrowing Plan
4.1. Preparation and Implementation
4.2. Communication with market participants

KPI 5: Issuing Mechanisms
5.1. Auction calendar: disclosure
5.2. Auctions: use and disclosure of results
5.3. Regular coordination with monetary authorities for domestic borrowings

KPI 6: Borrowing Instruments
6.1. Type and quality
Core Area 3: Supporting Markets

KPI 7: Money Market
7.1. Operational structure and transparency
7.2. Treatment of money market borrowing and lending for reserve requirement and repo market

KPI 8: Secondary market
8.1. Pre- and post-trade transparency of transactions
8.2. Valuation and incentive to trade government securities
Core Area 4: Infrastructure, Regulation, Taxation

KPI 9: Custody and payment
9.1. Processes to repay maturing government securities to investors
9.2. Ability of custody system to record, transfer and pledge ownership of government securities
9.3. Rules, procedures, and licensing of the government securities registry

KPI 10: Regulatory environment and taxation
10.1. Regulation regarding the organization of the primary and secondary markets for government securities
10.2. Regulation governing investor protection
10.3. Tax policies in the context of their effect on government securities market development
TOOLKIT: MAIN FEATURES

The diagnostic
- **is structurally comprehensive.** The toolkit seems to be the most comprehensive assessment framework designed so far. It can thus reasonably be expected to provide an exhaustive list of priorities.

- **provides measurable indicators** which enable
  - setting benchmarks for comparison with peer countries
  - measuring progress over time

- **does not prioritize priorities**
- **is data intensive** and requires a longer preparation
- **requires more time** on location and may require additional staff
TENTATIVE CONCLUSION

. Neither approach automatically identifies the most important or most pressing priorities. The exercise of judgment is required in both cases.

. The two approaches are complementary due to their different scope. The toolkit provides a global picture.

. The choice is country specific. It depends importantly on the level of development of the market concerned.

. The GSMD Toolkit seems to be – same as a DeMPA- an efficient first step to be made at the inception of a reform program in markets at a relatively early stage of development

Query: can the benchmarking dimension be a factor supporting the motivation to implement reforms?