# Treasury Debt Management

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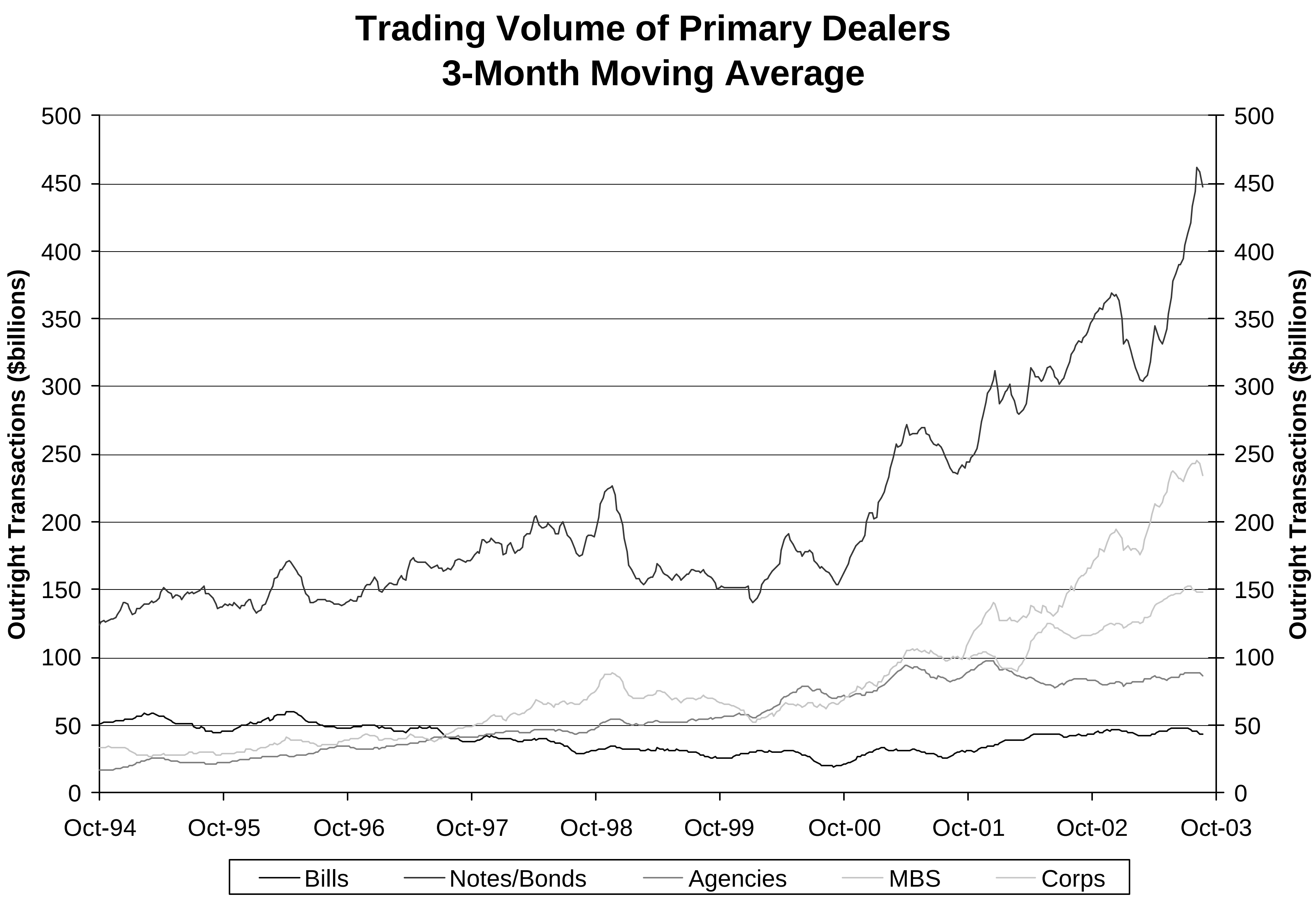
# Perspective

Where We are…

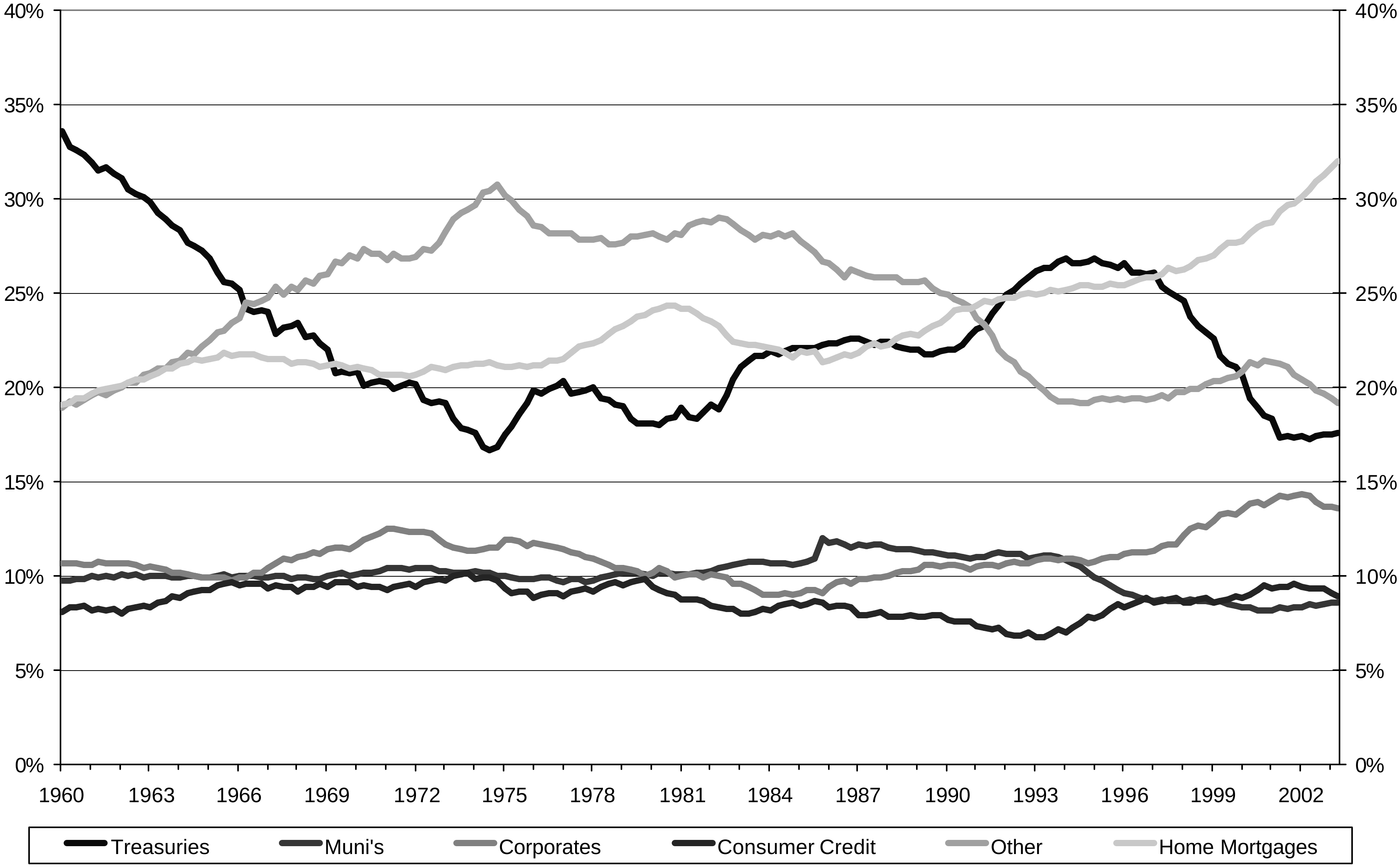
# Size of Operations Hard to Grasp

- $3.7 trillion raised in 176 auctions in 2002
- $171 billion paid in net interest in 2002
  - represented 8.5% of Government expenditures
- $462 billion in Treasuries are traded daily
- $3.4 trillion in marketable debt outstanding
  - represents approximately a quarter of U.S. credit markets

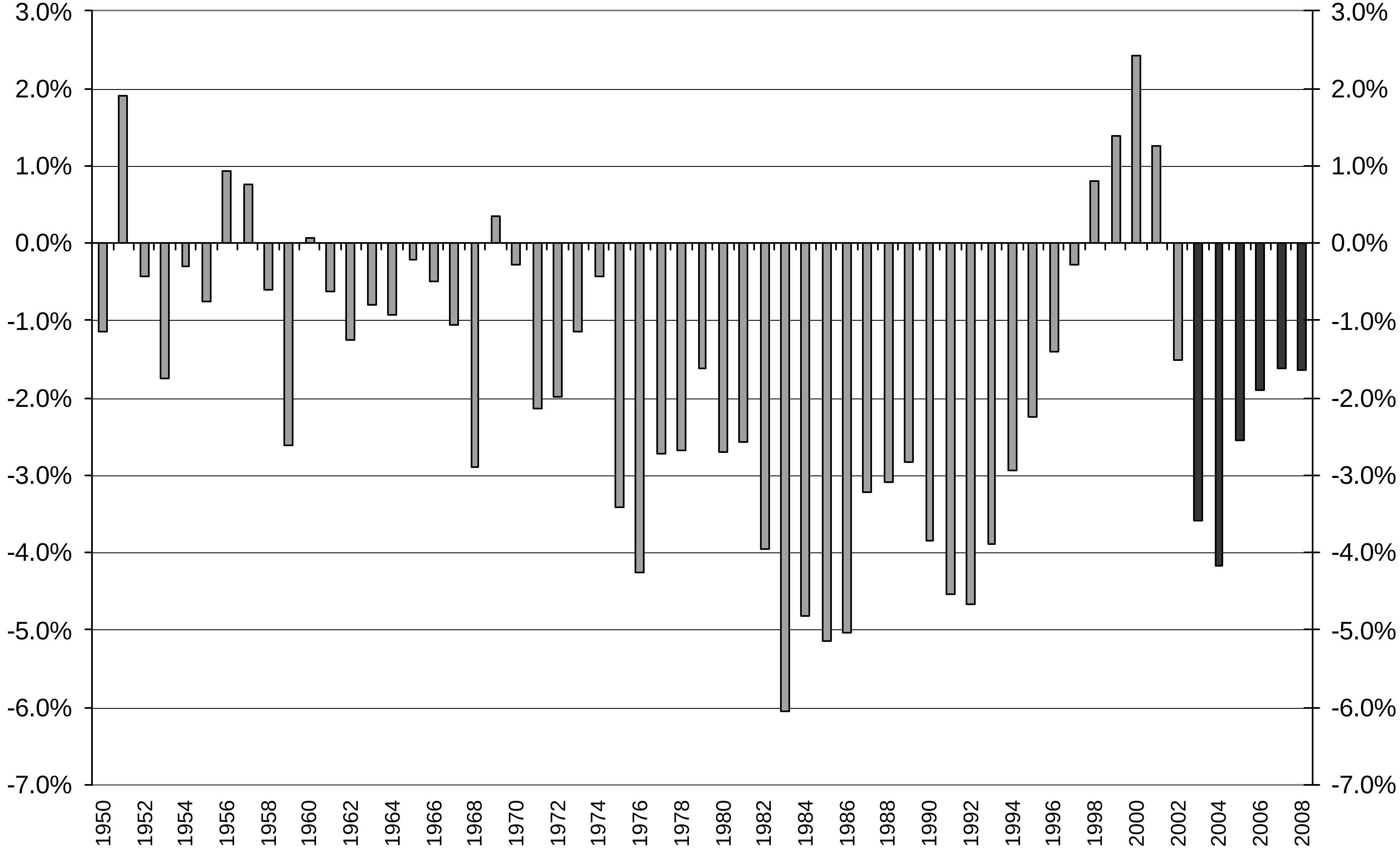


Trading Volume of Primary Dealers
3-Month Moving Average
Outright Transactions ($billions)
0
50
100
150
200
250
300
350
400
450
500
Oct-94
Oct-95
Oct-96
Oct-97
Oct-98
Oct-99
Oct-00
Oct-01
Oct-02
Oct-03
Bills
Notes/Bonds
Agencies
MBS
Corps

## Percentage Breakdown of Nonfinancial Credit Market Debt



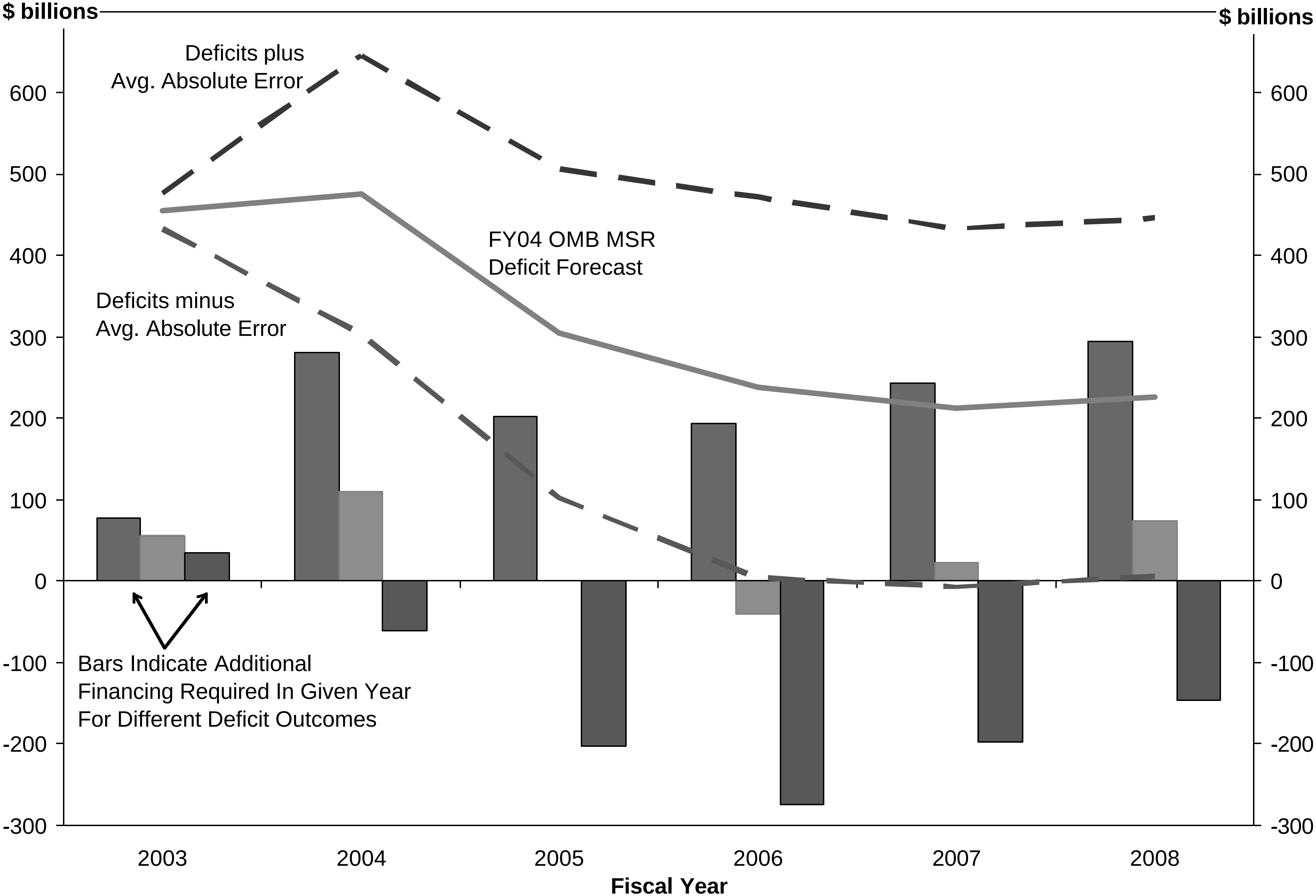
## Surplus/Deficit as a Percentage of GDP



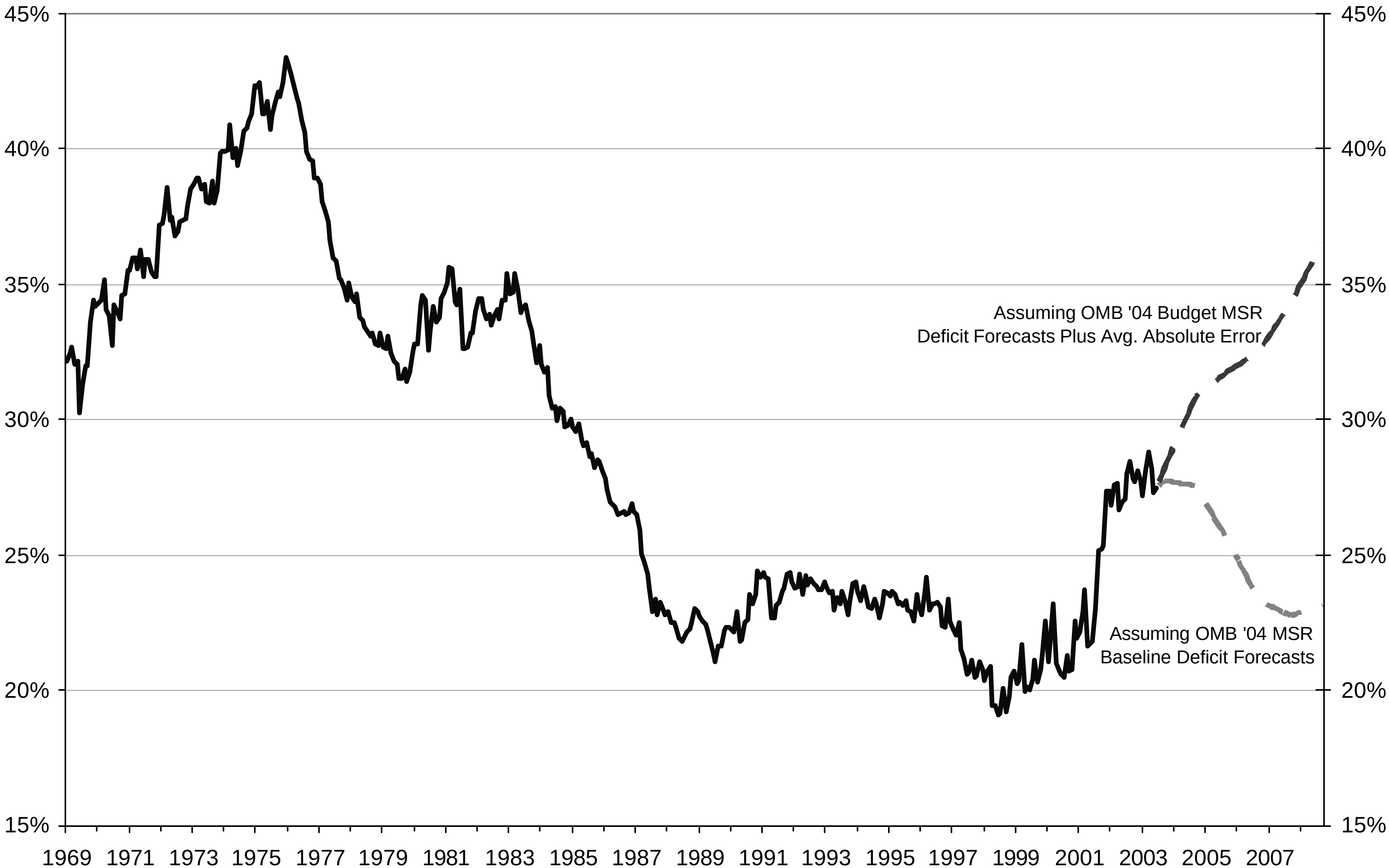
# Debt Held by the Public as a Percentage of GDP

# Financing Projections

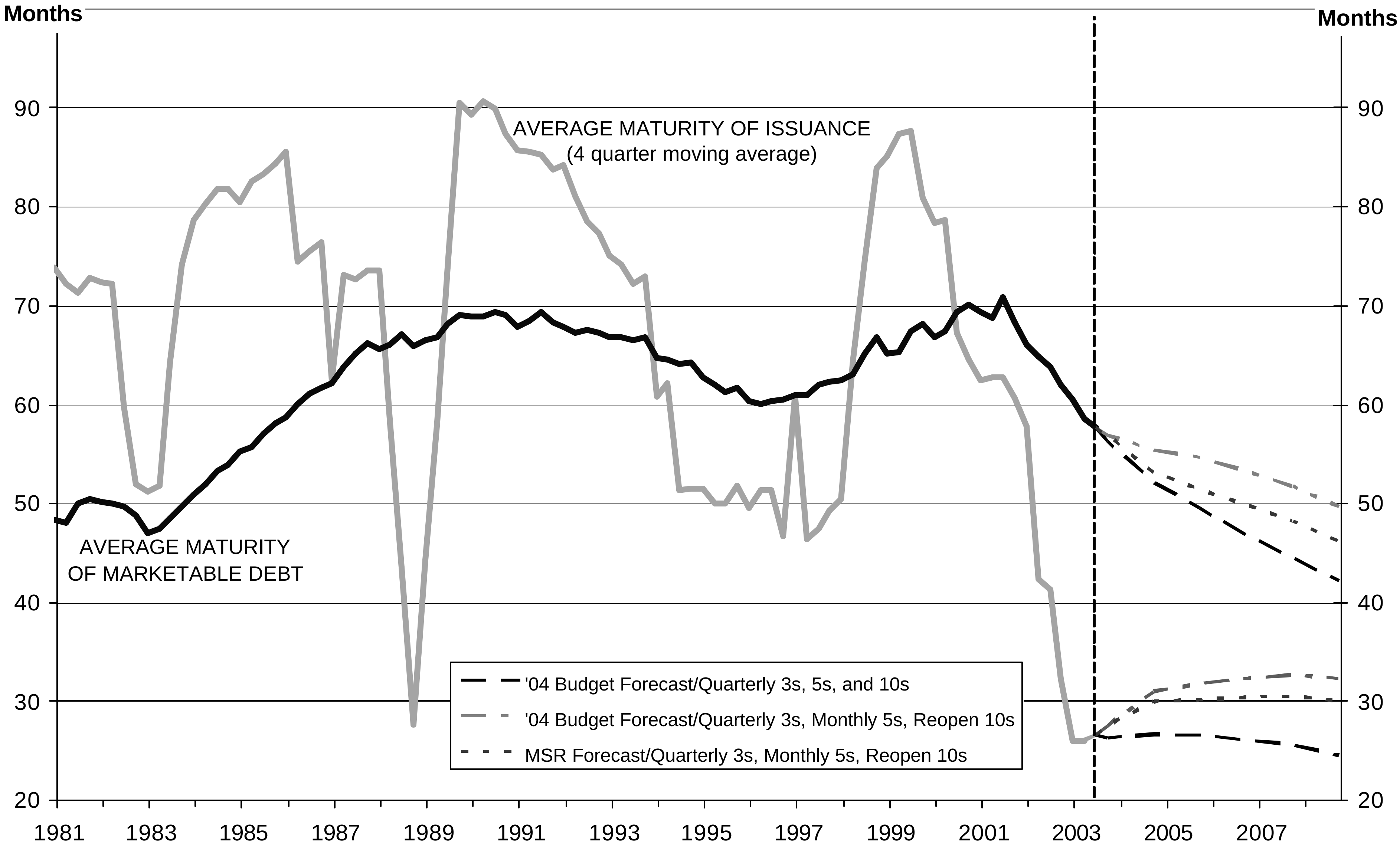
# FINANCING RESIDUALS GIVEN CURRENT ISSUANCE



# BILLS AS A PERCENTAGE OF TREASURY'S MARKETABLE DEBT [1]



# THE AVERAGE MATURITY OF TREASURY'S MARKETABLE DEBT AND ISSUANCE[1]




1/ The average maturity of issuance is the average maturity eventually achieved if nominal issuance is held constant going forward.

# Does Issuance Long-Term Securities Meet the Goals of Treasury?

# Treasury's Debt Management

Low borrowing cost over time

- Regular pattern of issuance
- Predictable issuance sizes

Flexibility

- Need ability to raise and pay-down cash

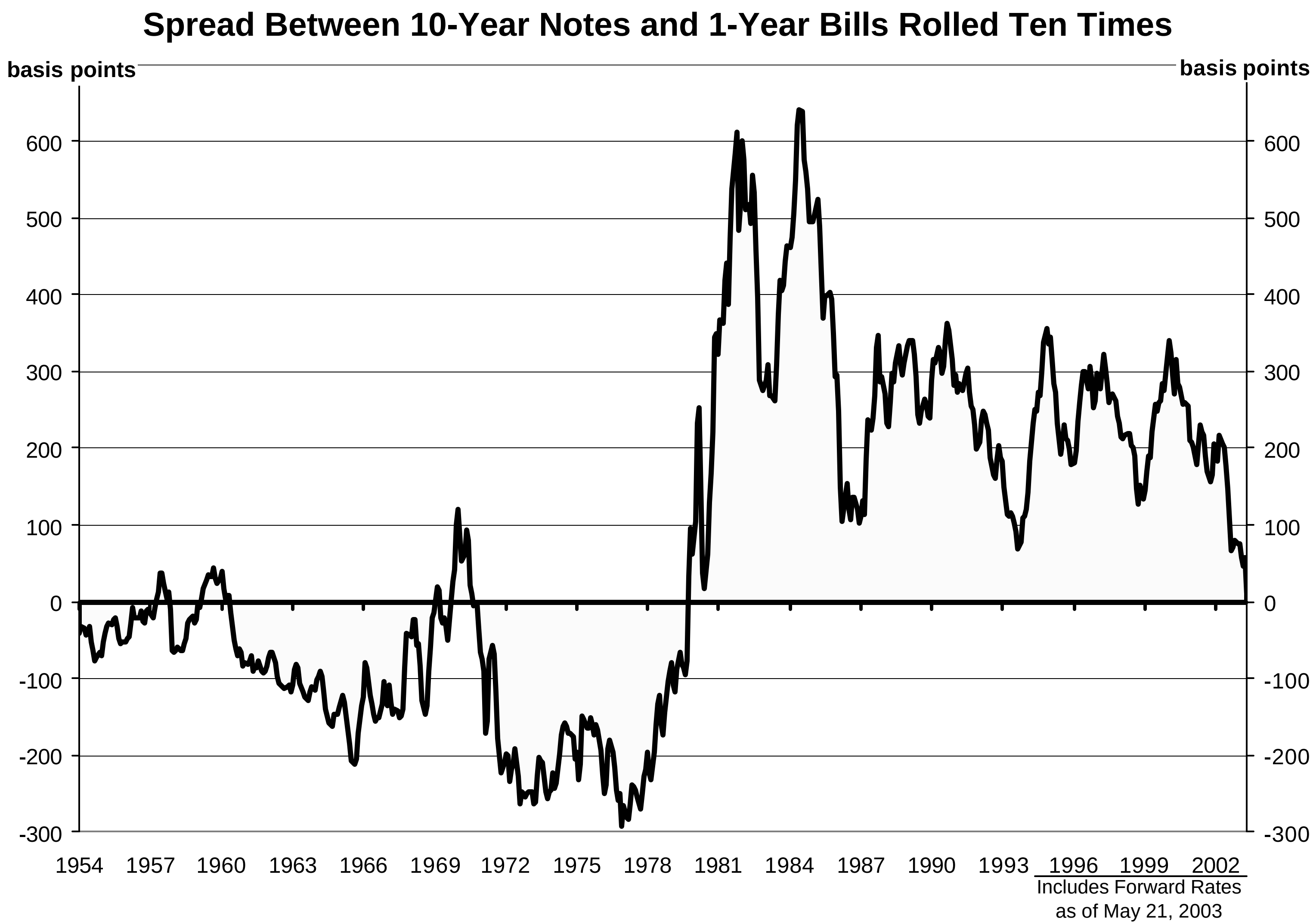
# Strategy Not Affected By…

- Current interest rates
- Annual deficit
- Short-term fluctuations in demand

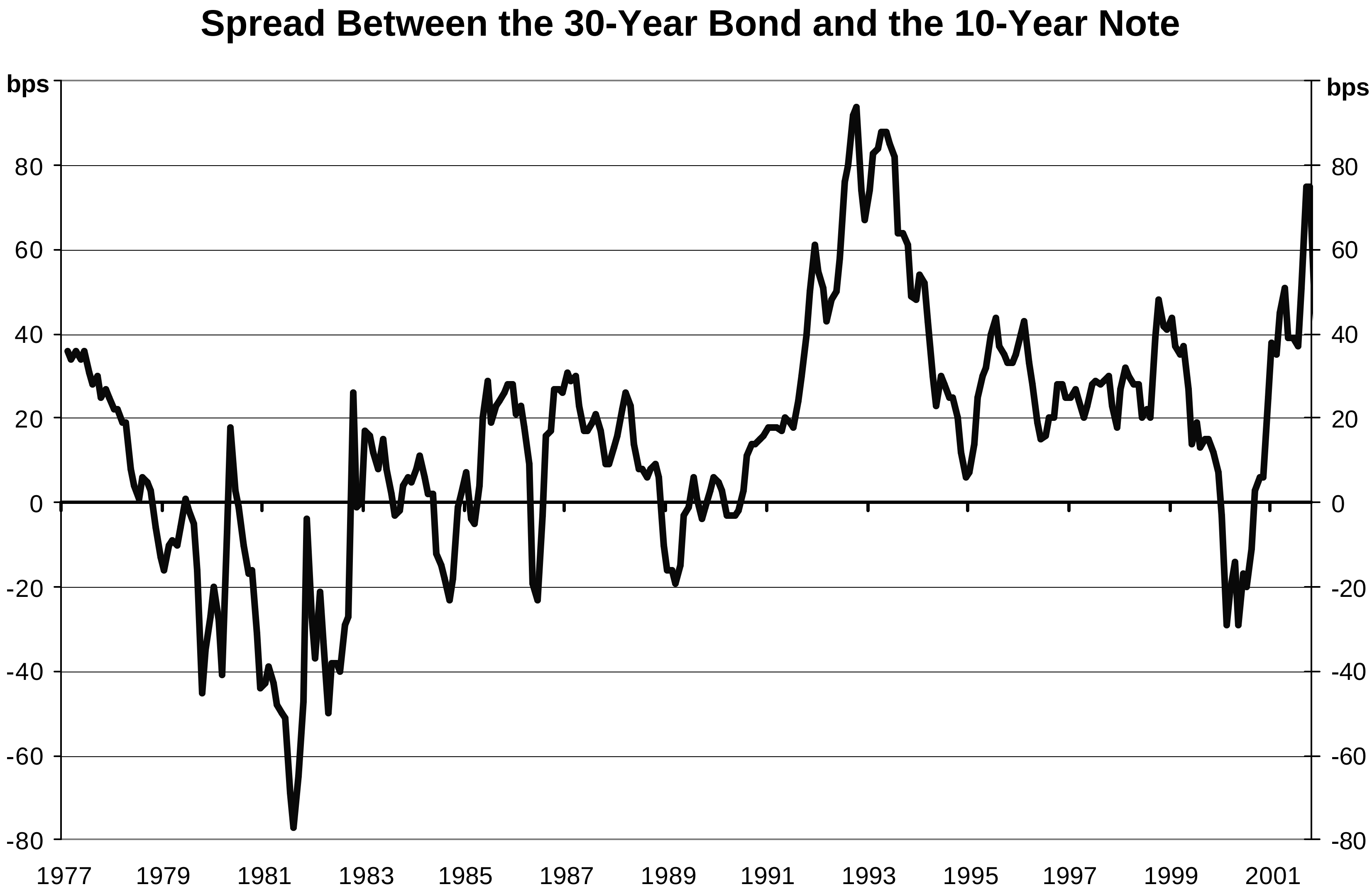
# Implementation

- Auction dates known in advance
  - ➢ Reduces investor uncertainty
- Changes in auction sizes are transparent
  - ➢ Allows intermediaries to adjust to changes in supply.
- Auction sizes large
  - ➢ Assures investors of good liquidity
- Market consultation
  - ➢ Reduces investor uncertainty

# Low Cost Over Time:
## Longer Maturities More Expensive on Average



# Low Cost Over Time:
## 10yr-30yr Spread Has Widen As Rates Have Fallen



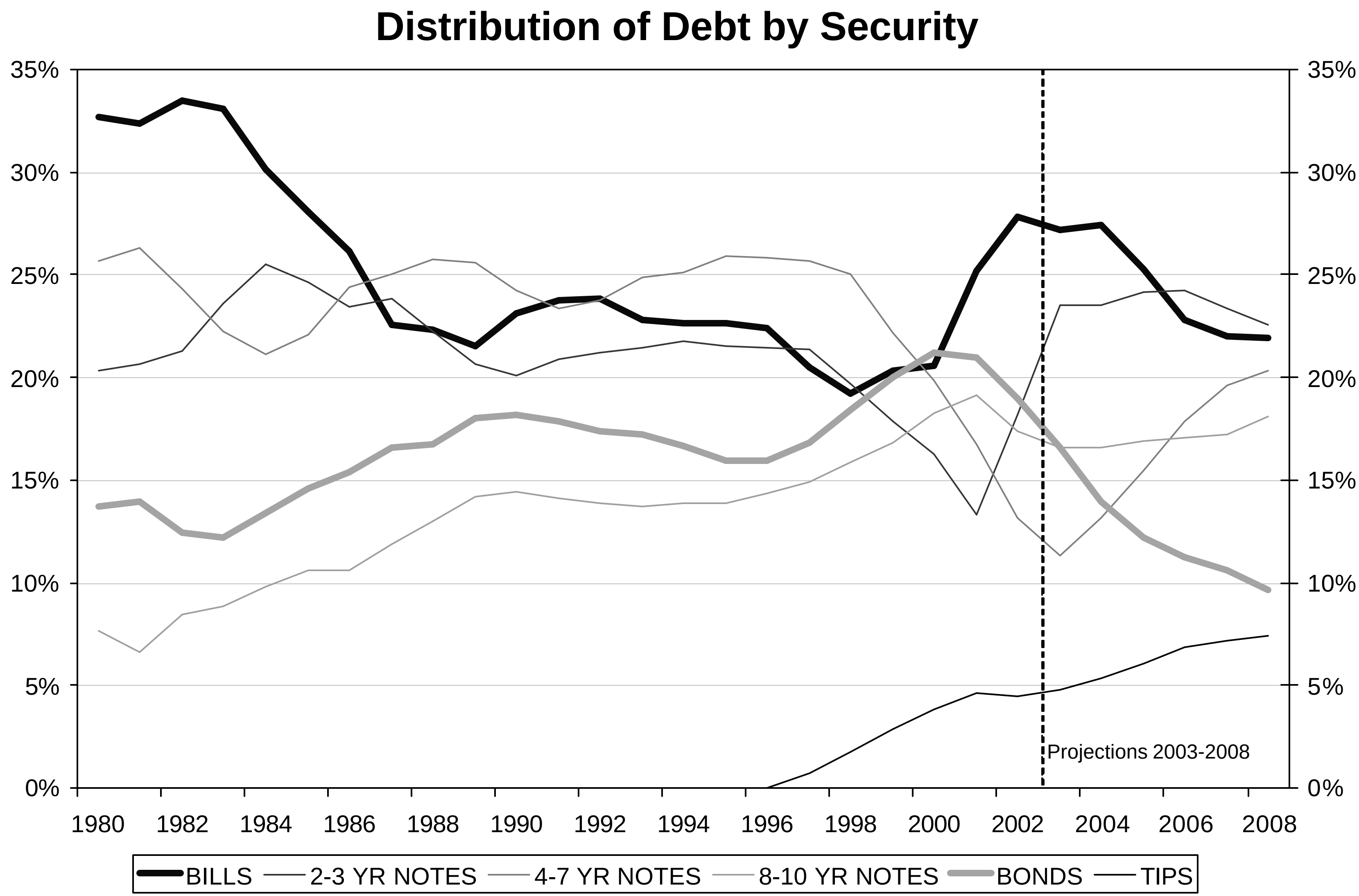
# Low Cost Over Time:

## Requires a Diversified Debt Portfolio

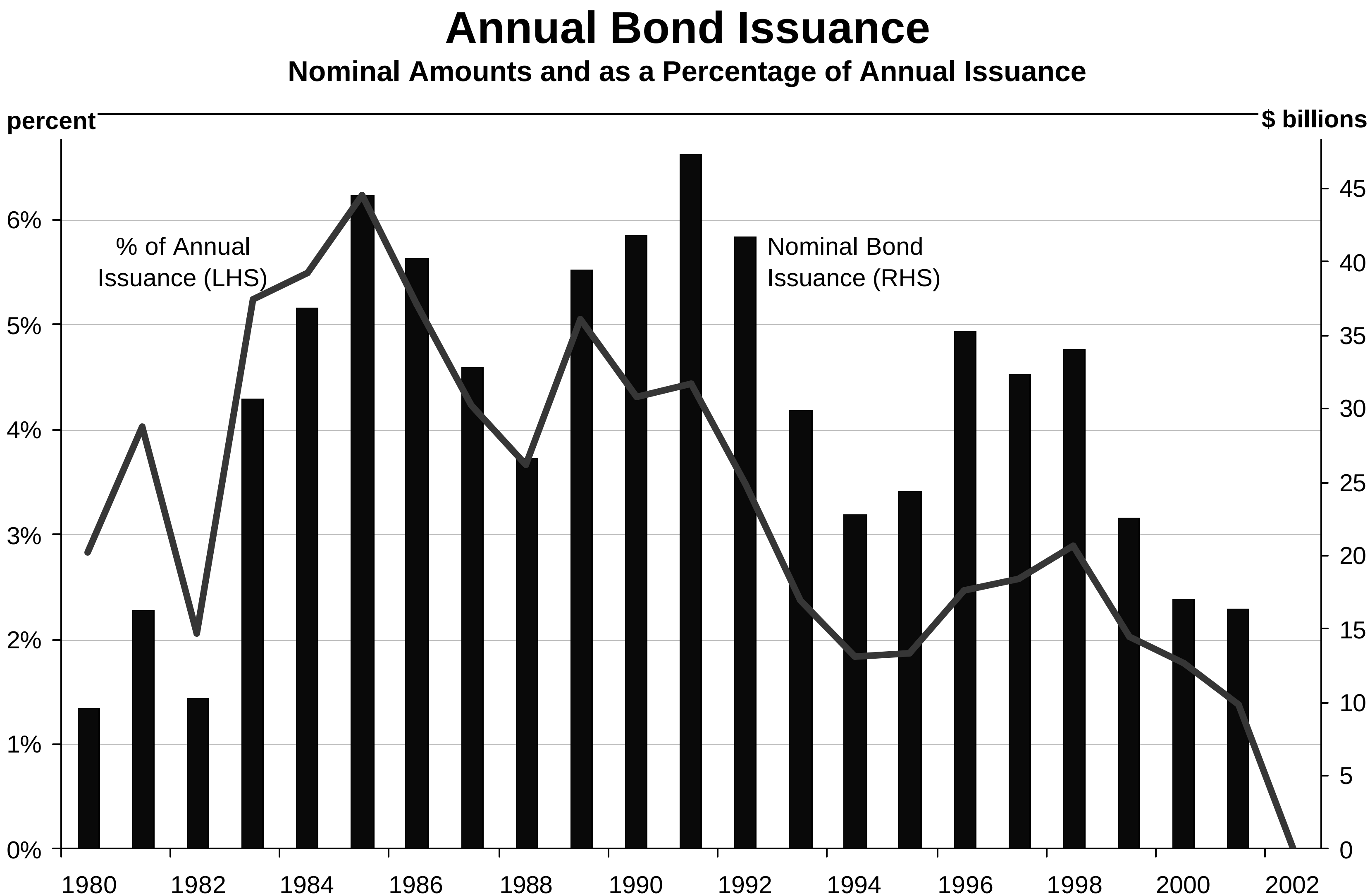
Spread debt across maturities to…

- Ensure regular and predictable issuance
- Reduce event risk
- Diversify investor base
- Improve cash management
- Reduce operational risk

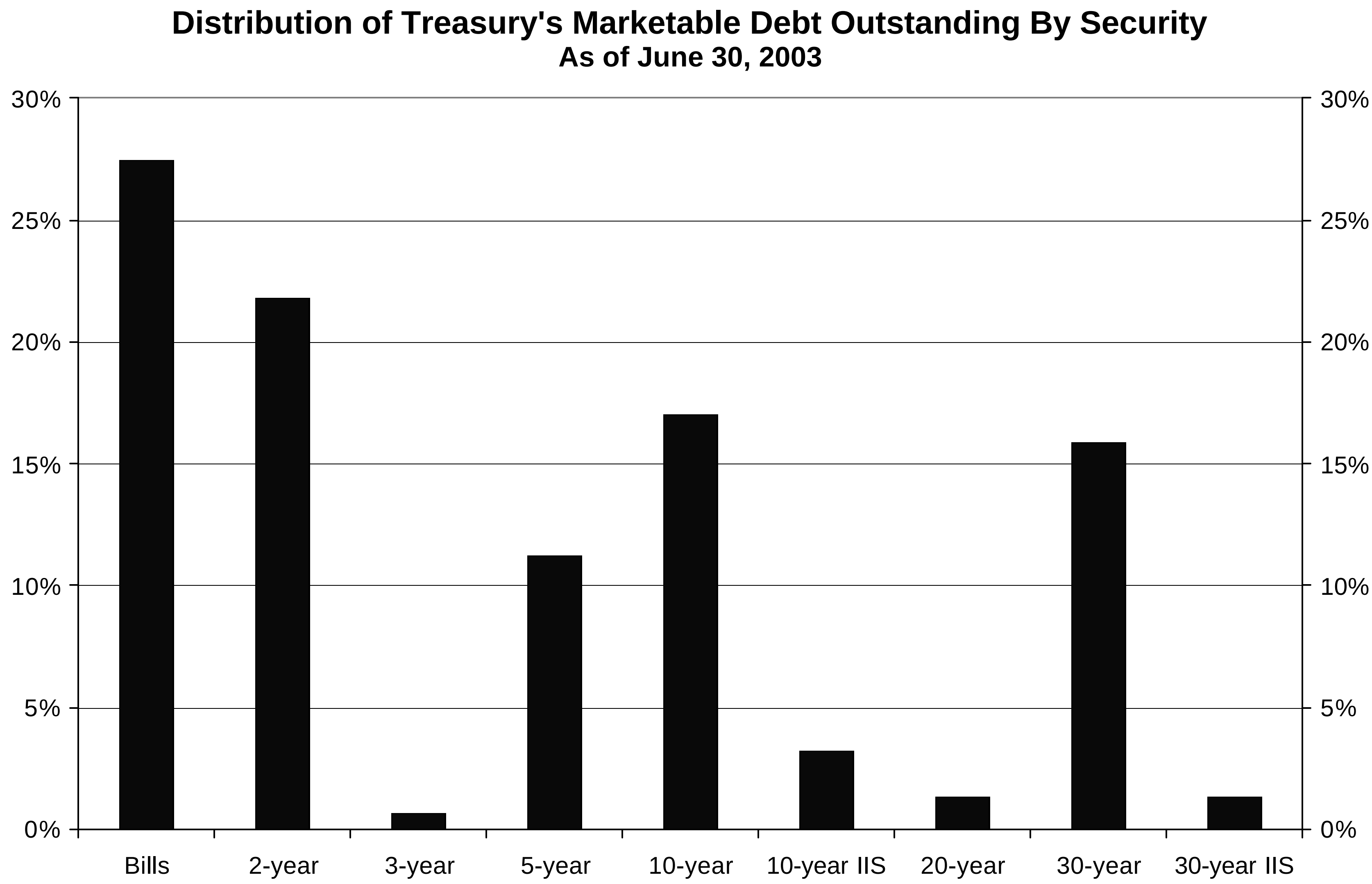
# Low Cost Over Time:
## Treasury Has a Diversified Debt Portfolio



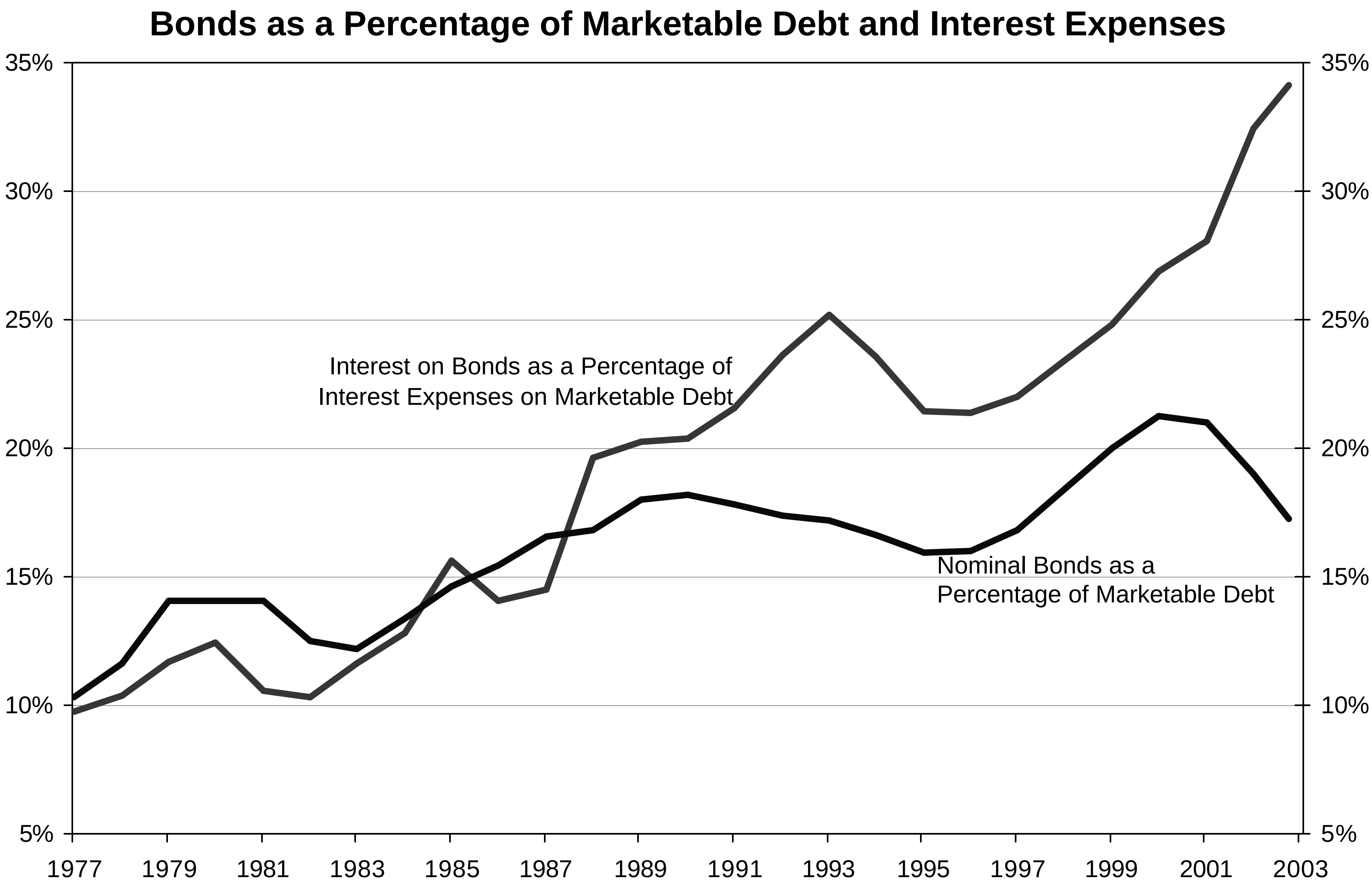
# Low Cost Over Time:
## Bond Issuance Low But Impact Grows Over Time...



# Low Cost Over Time:
## Bonds Currently 17% of Treasury's Marketable Debt

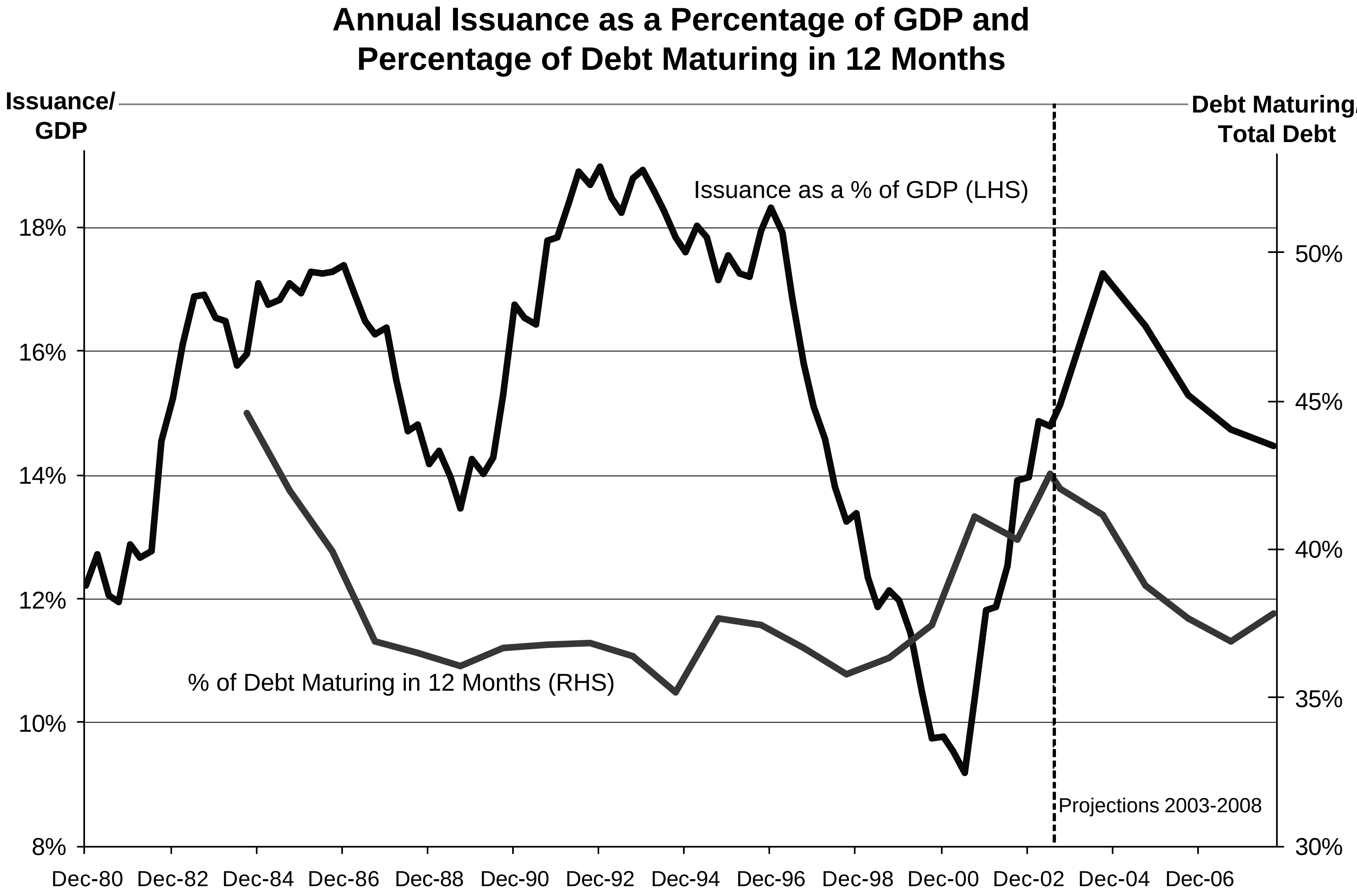


# Low Cost Over Time:
## Issuing Bonds Regularly Has Been Expensive



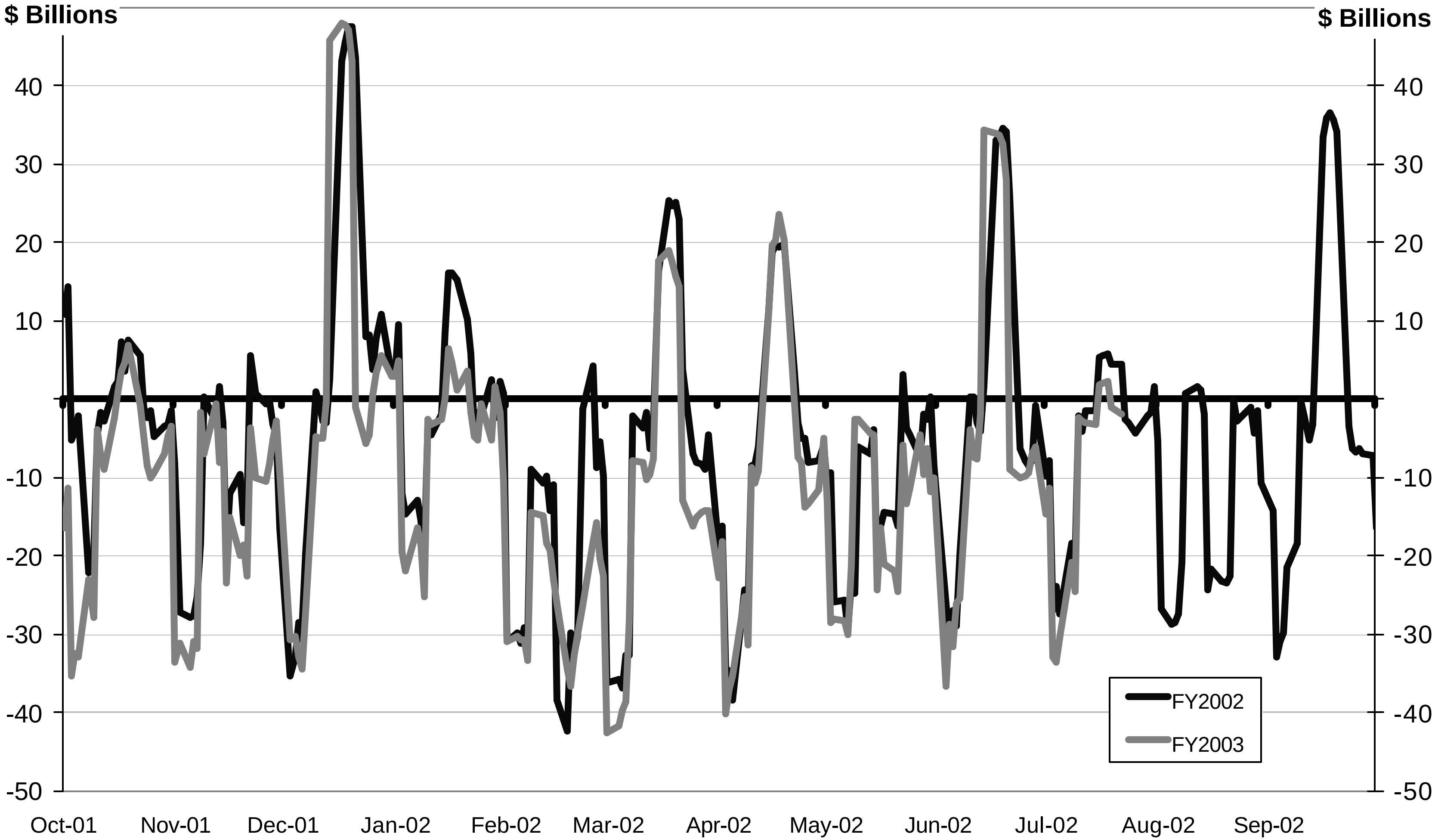
# Low Cost Over Time:

## Maturing Debt and Issuance Stable without Bond



# Flexibility:
## Fiscal Needs Volatile

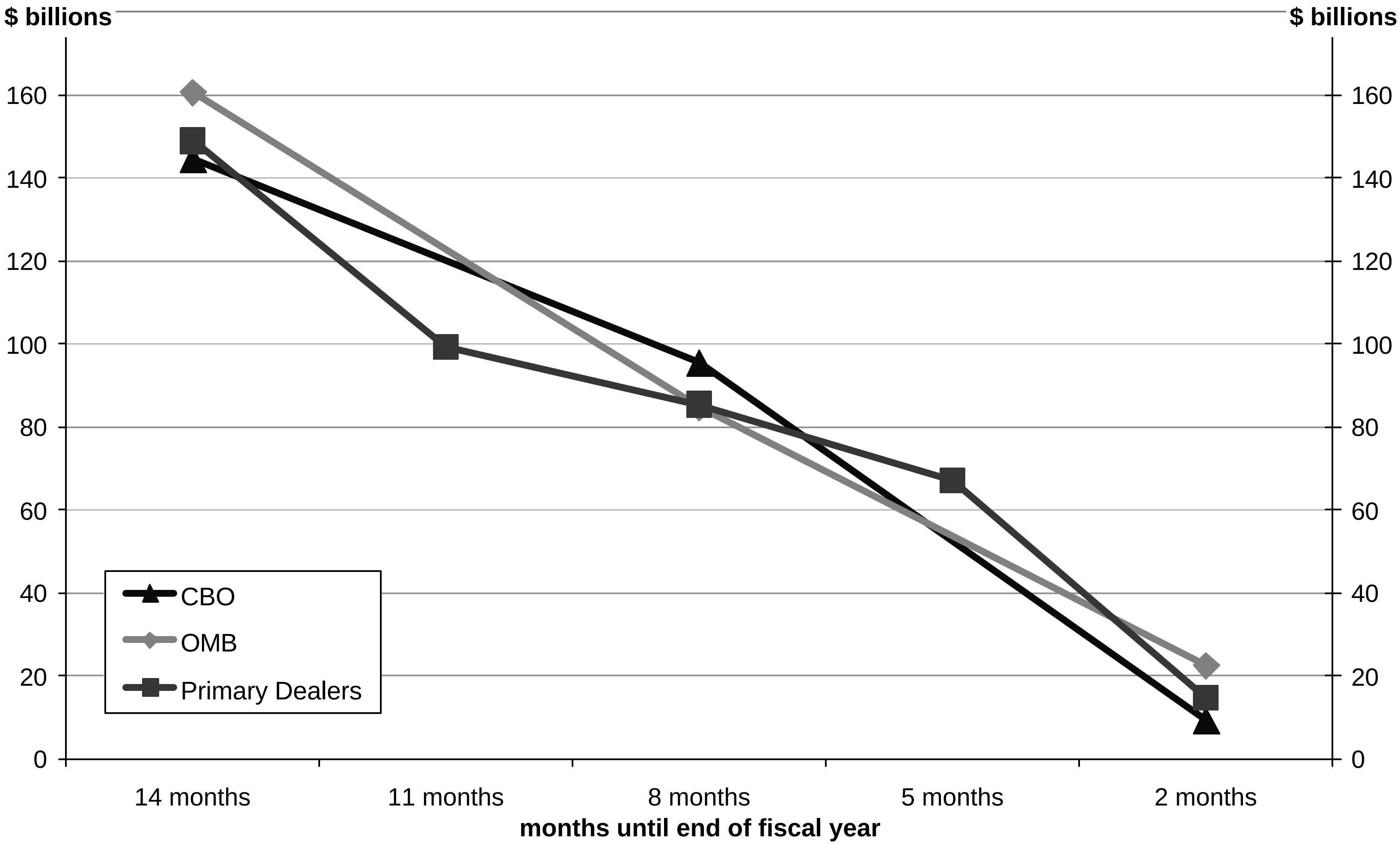
### Weekly Receipts Minus Expenditures



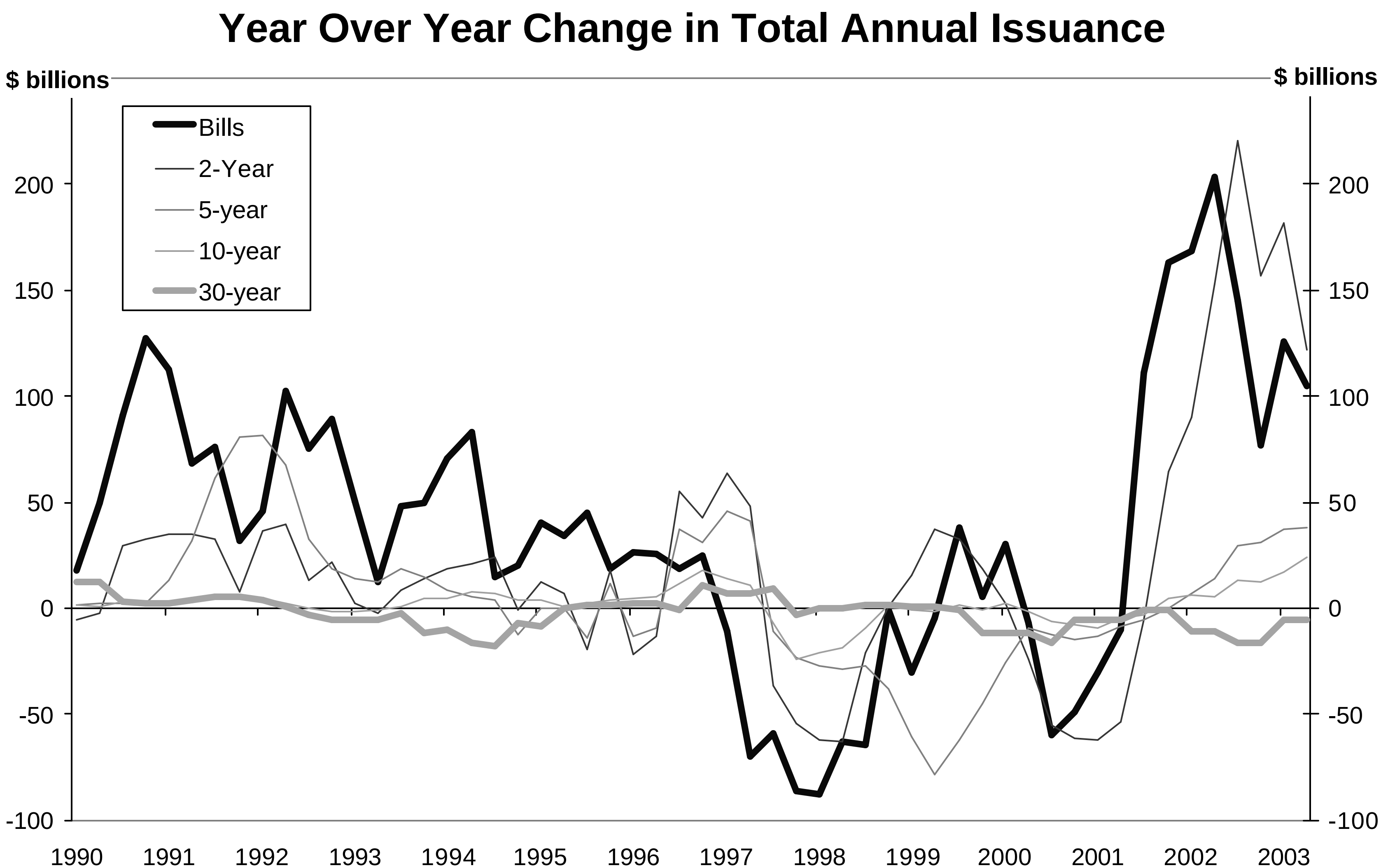

*Expenditures exclude debt redemptions and unclassified withdrawals.

# Flexibility:
## Future Financing Requirements Uncertain

**Average Absolute Federal Budget Forecast Errors**
**1997 - 2002**

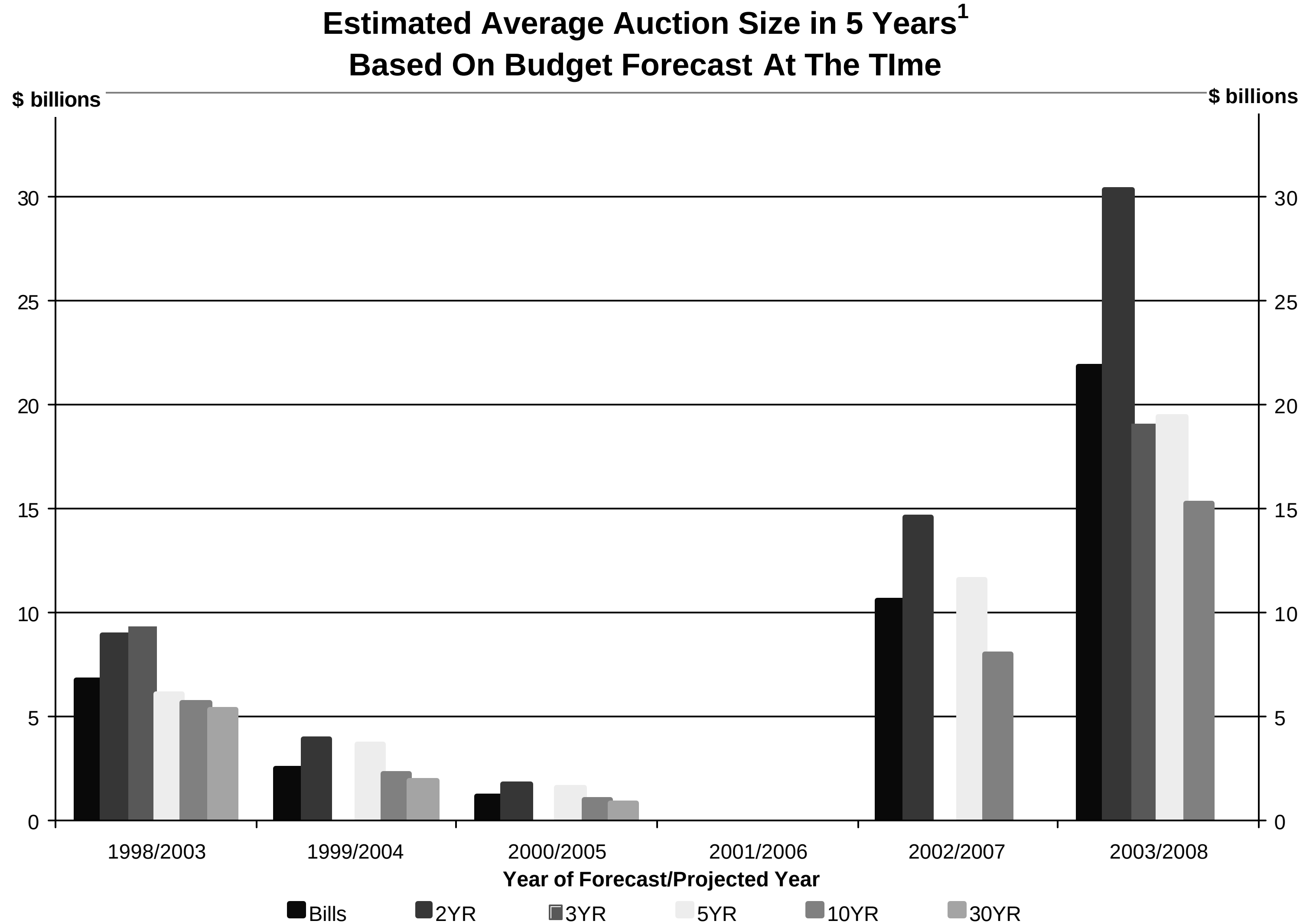


# Flexibility:
## Frequent Auctions of Shorter Maturities




* Nominal securities only. No inflation-indexed securities included.

# Flexibility:
## Longer Maturities Unsustainable During Surpluses




1/ Issuance is based on securities being issued at time of forecast and includes SOMA.

# Flexibility:
## Weight Issuance Towards Shorter Maturities

- Financing needs volatile and uncertain
- Investor base for long-term debt ill-suited for high frequency auctions
- Long-term debt hampers regular and predictable issuance in improving fiscal environments

# Conclusions

- Achieving the lowest cost over time requires the regular and predictable issuance of a diversified, flexible portfolio of debt

- Weight issuance towards shorter maturities
  - Less costly
  - More flexible (i.e., frequent issue/maturity dates)

- Bonds do not meet our criteria
  - Expensive
    - Risk premium
    - Commitment to regular issuance in all rate environments has a large effect on Treasury's portfolio of outstanding debt
  - Inflexible
    - Infrequent auctions
    - Restricts other issuance in an improving fiscal environment
  - Risks manageable without bonds