Treasury Borrowing Advisory Committee

Quarterly Refunding

July 29, 2003

Financing Projections

TREASURY FINANCING REQUIREMENTS

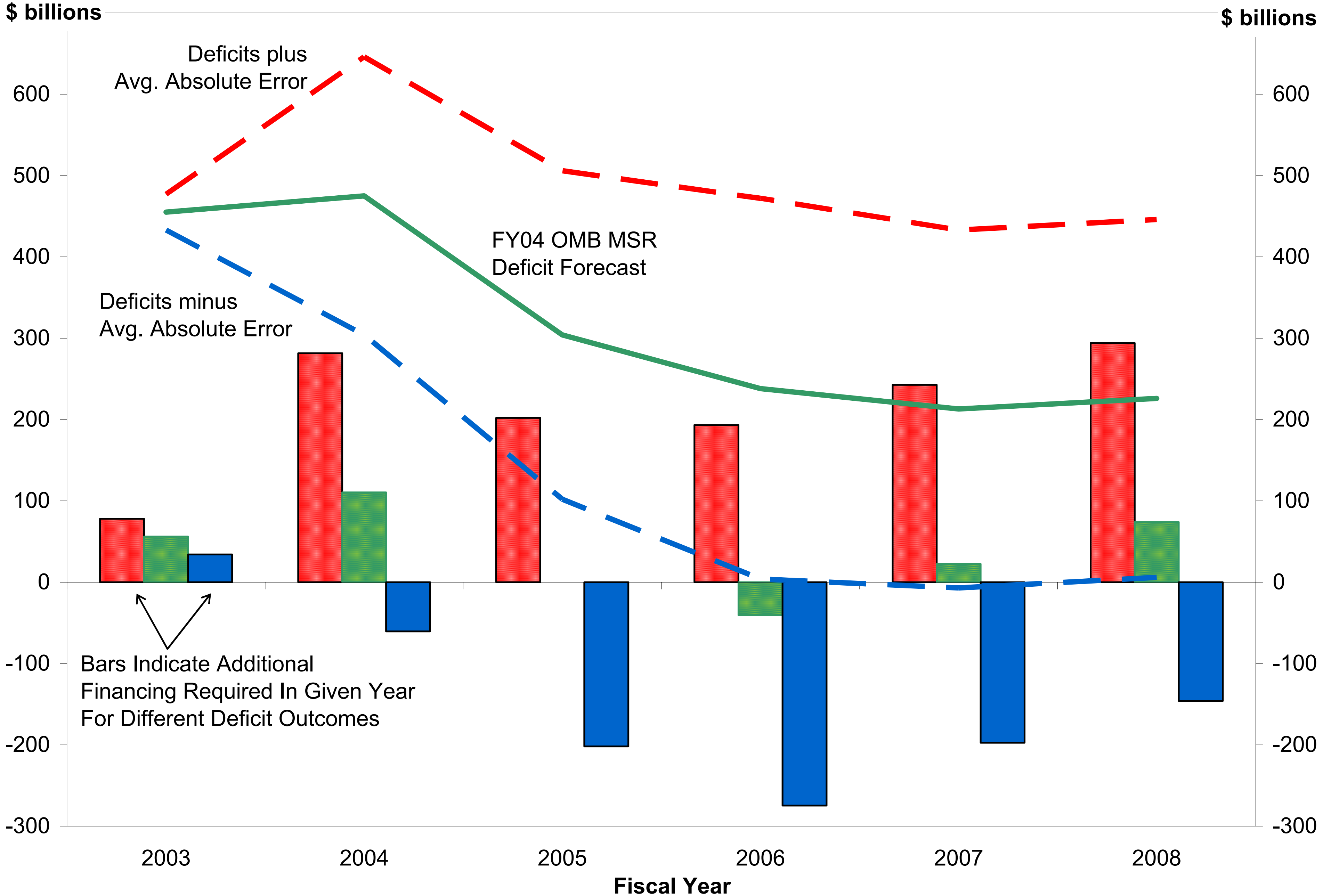
$ Billions

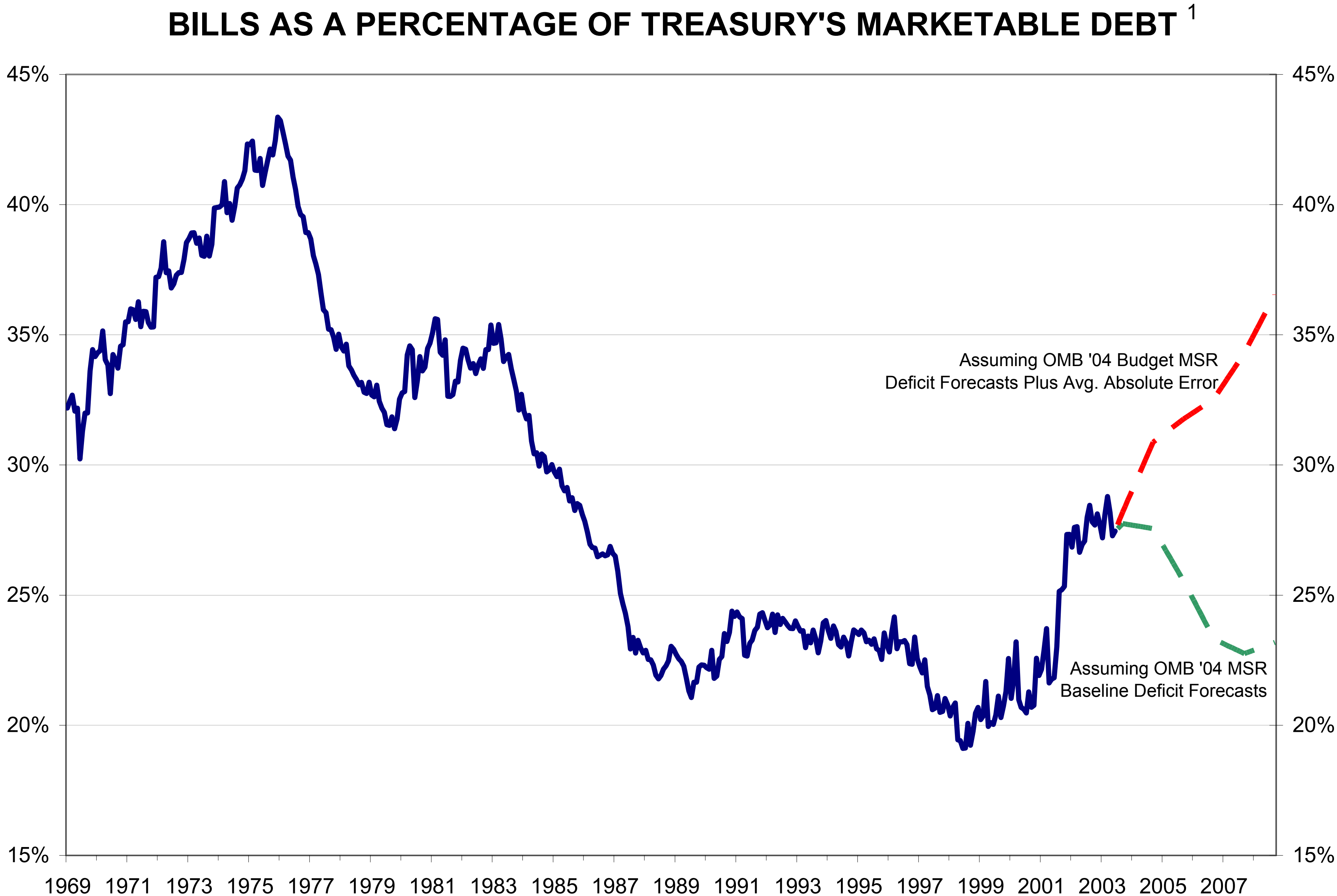
	April - June 2003 (Projected)	April - June 2003 (Actuals)	July - Sept. 2003 (Projected)
Deficit Funding (Def + / Surplus -) *	**17**	**18**	**138**
Means of Financing			
Change in Cash Balance	-32	-17	-15
Compensating Balances	-18	-12	28
Net Non-Marketable Financing	-5	-9	16
Net Marketable Financing	79	60	104
Other	-6	-4	5
Net Marketable Financing	**79**	**60**	**104**
Bills		-27	
Nominal Notes		91	
IIS		0	
Bonds (20-yr)		-3	
Notes:			
Starting Cash Balance	13	13	30
Ending Cash Balance	45	30	45

* Includes budget results, direct loan activity, changes in accrued interest and checks outstanding and minor miscellaneous transactions.

Note: Totals may not add due to rounding

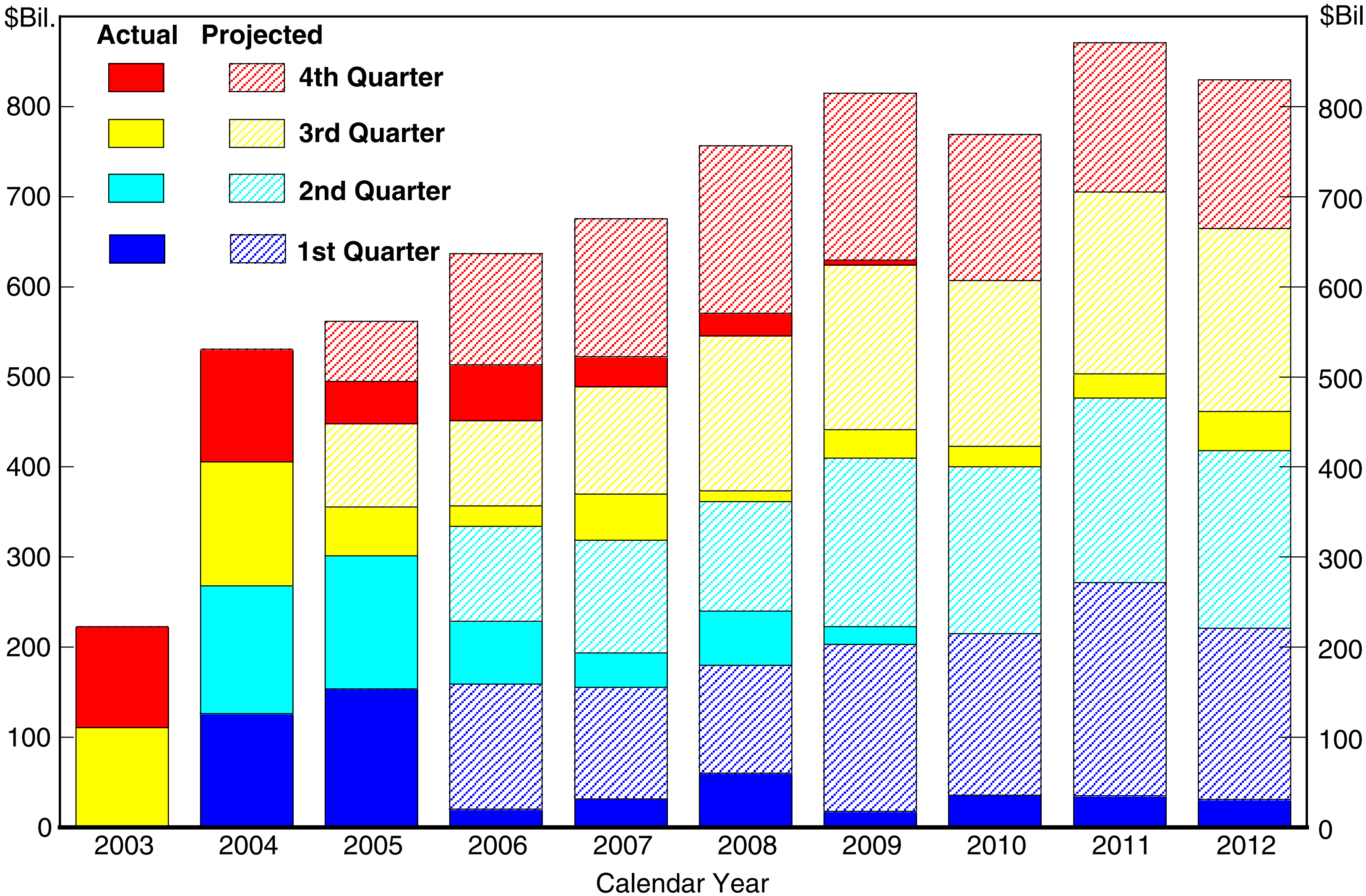
FINANCING RESIDUALS GIVEN CURRENT ISSUANCE




BILLS AS A PERCENTAGE OF TREASURY'S MARKETABLE DEBT 1
45%
40%
35%
30%
25%
20%
15%
1969
1971
1973
1975
1977
1979
1981
1983
1985
1987
1989
1991
1993
1995
1997
1999
2001
2003
2005
2007
Assuming OMB '04 Budget MSR
Deficit Forecasts Plus Avg. Absolute Error
Assuming OMB '04 MSR
Baseline Deficit Forecasts

MATURITY PROFILE

Outstanding Treasury Marketable Coupon Securities 1/

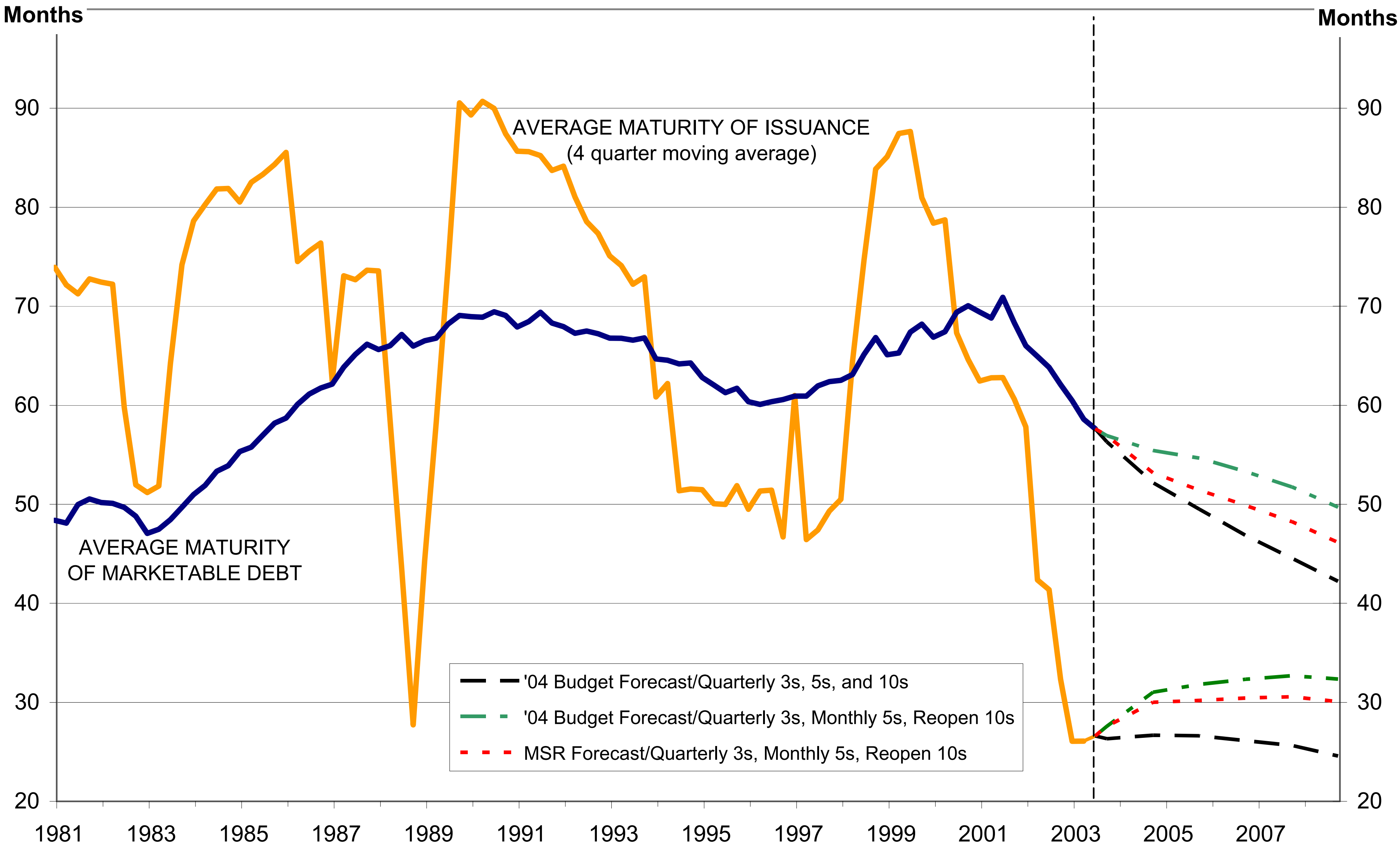


Note: Where applicable, maturities represent first call date.

1/ Issued or announced through July 25, 2003.

Department of the Treasury
Office of Market Finance

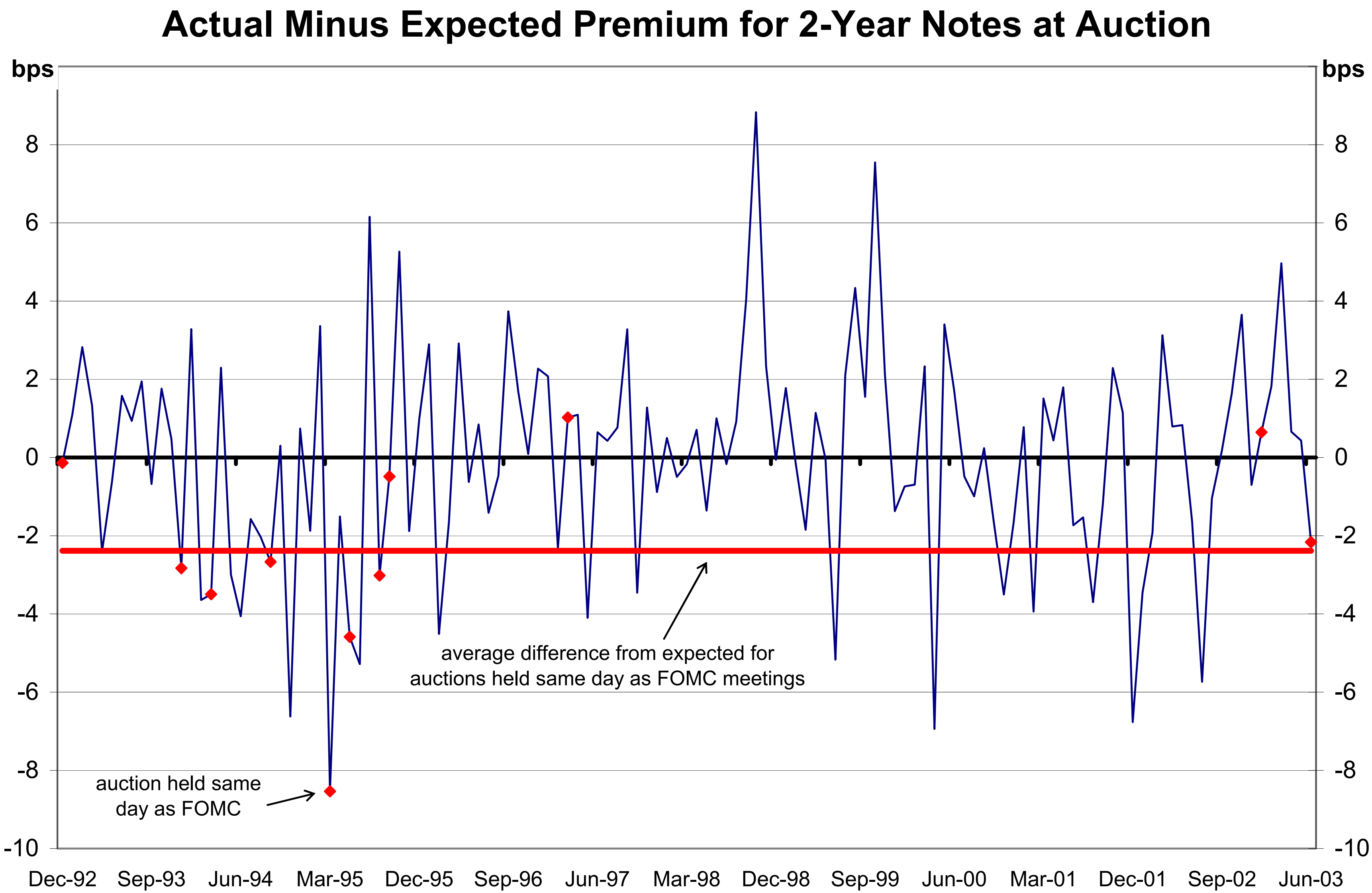
THE AVERAGE MATURITY OF TREASURY'S MARKETABLE DEBT AND ISSUANCE[1]



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

Changes to Auction Calendar Around FOMC Meetings

Uncertainty Around FOMC Meetings Expensive For Treasury



*The expected premium is calculated given the yield volatility in the 2-year sector, the size of the auction, and the steepness of the yield curve. Including a variable to control for auctions held on the same day as FOMC meetings indicates a cost for the Treasury of 2.7bps.

Treasury’s Issuance of Long-Term Securities

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

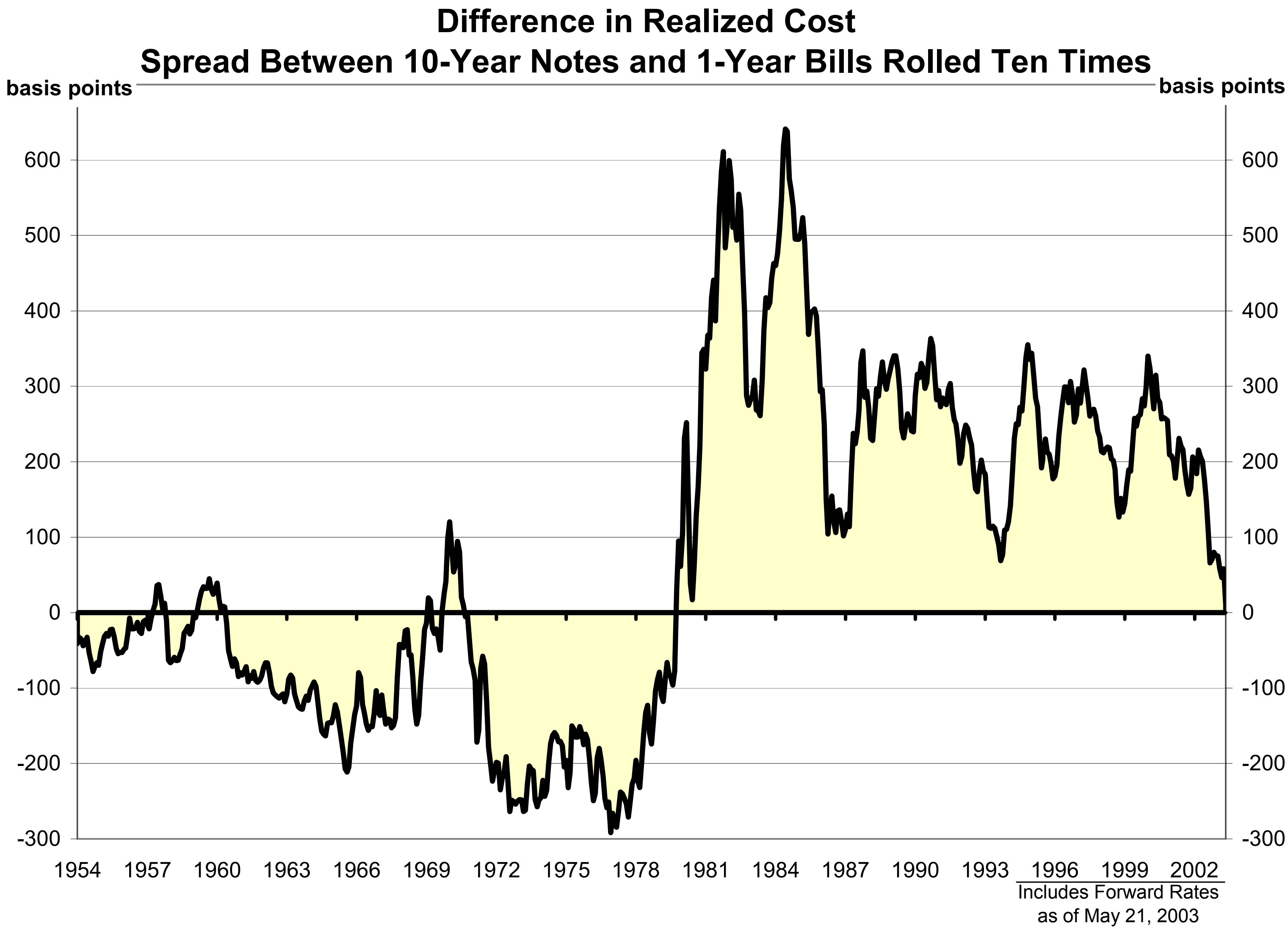
Implementation

- 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

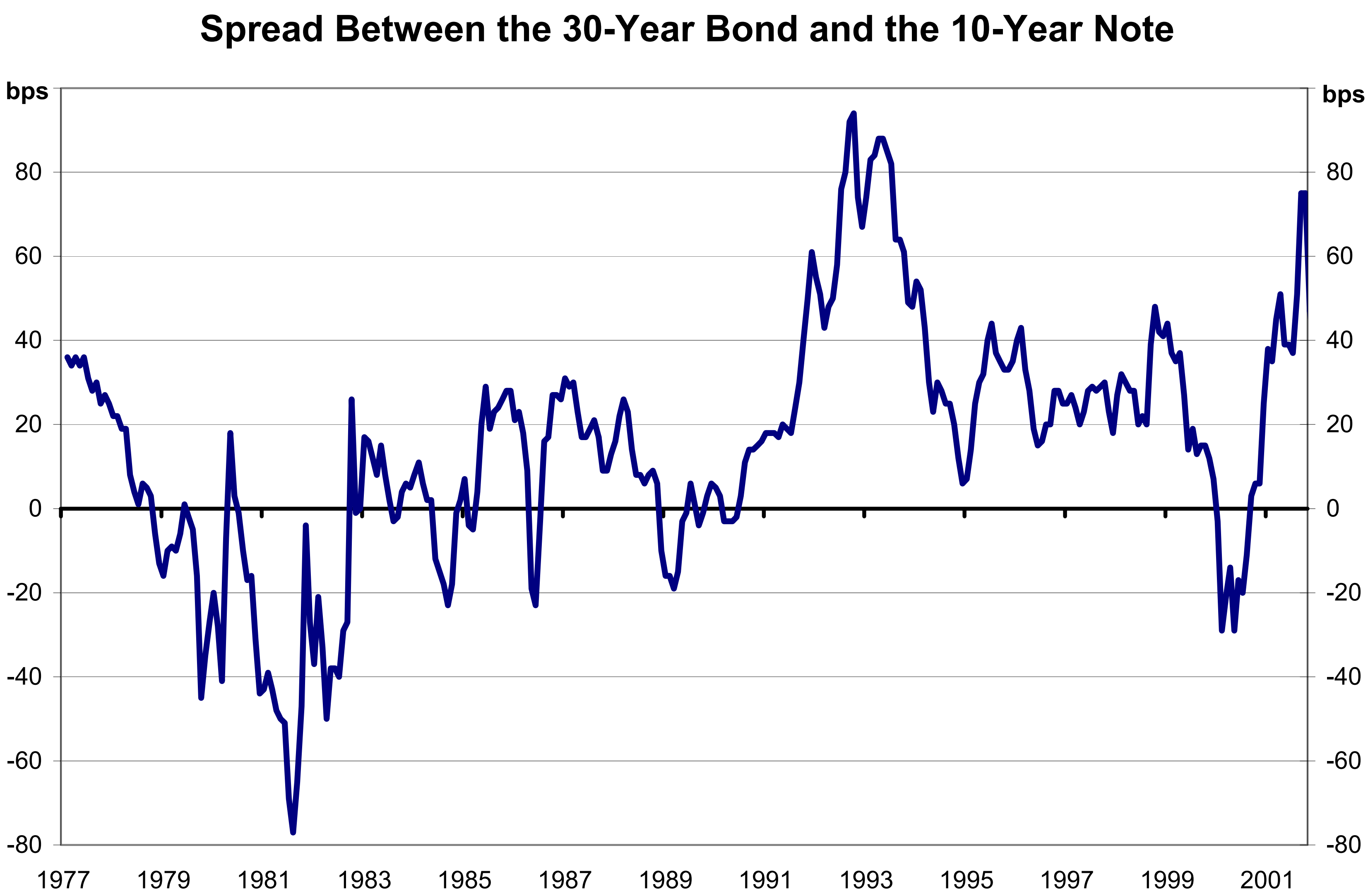
Size of Operations Hard to Grasp

- $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

Low Cost Over Time:
Longer Maturities More Expensive on Average



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



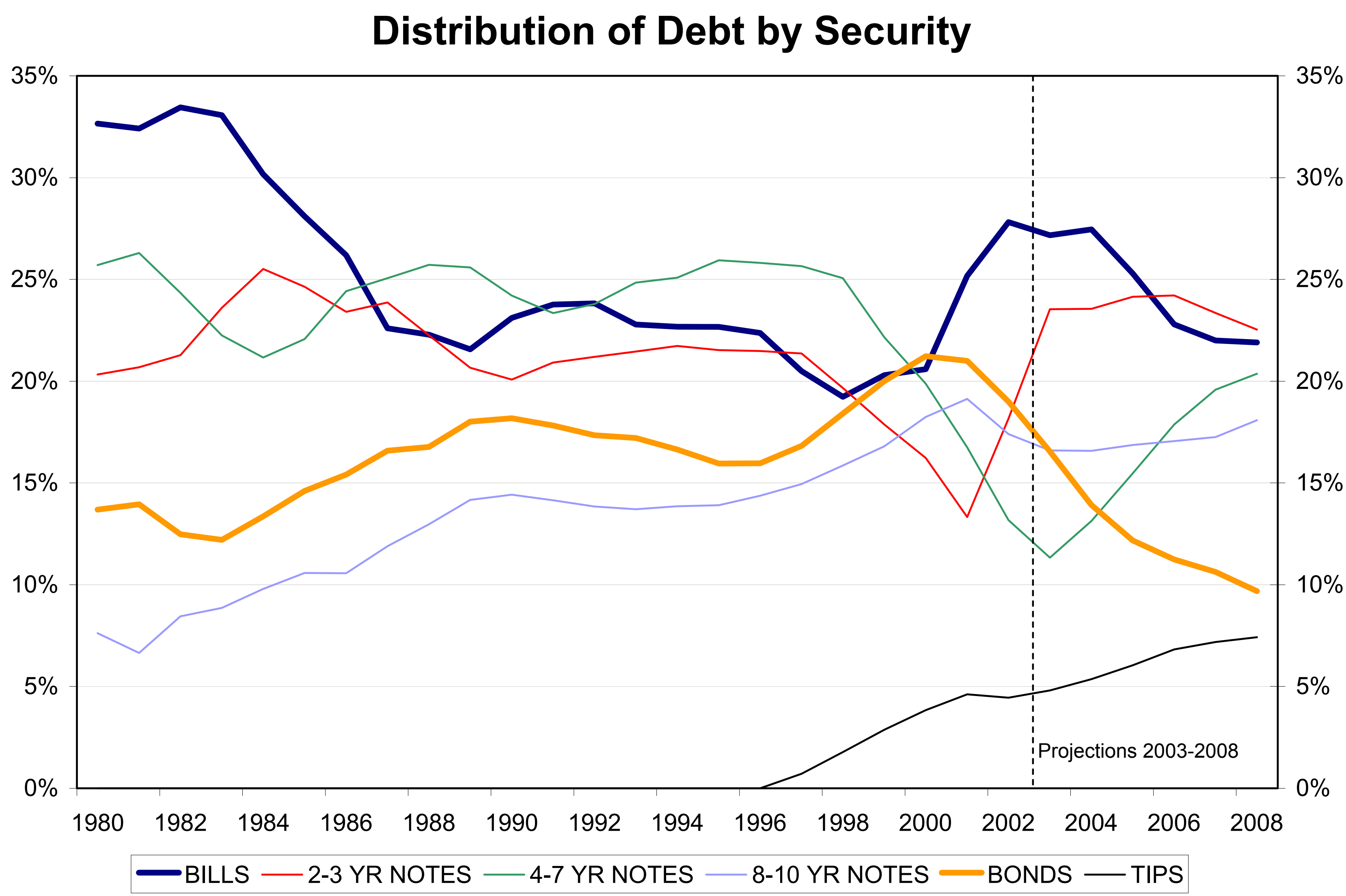
Low Cost Over Time:

Requires a Diversified Debt Portfolio

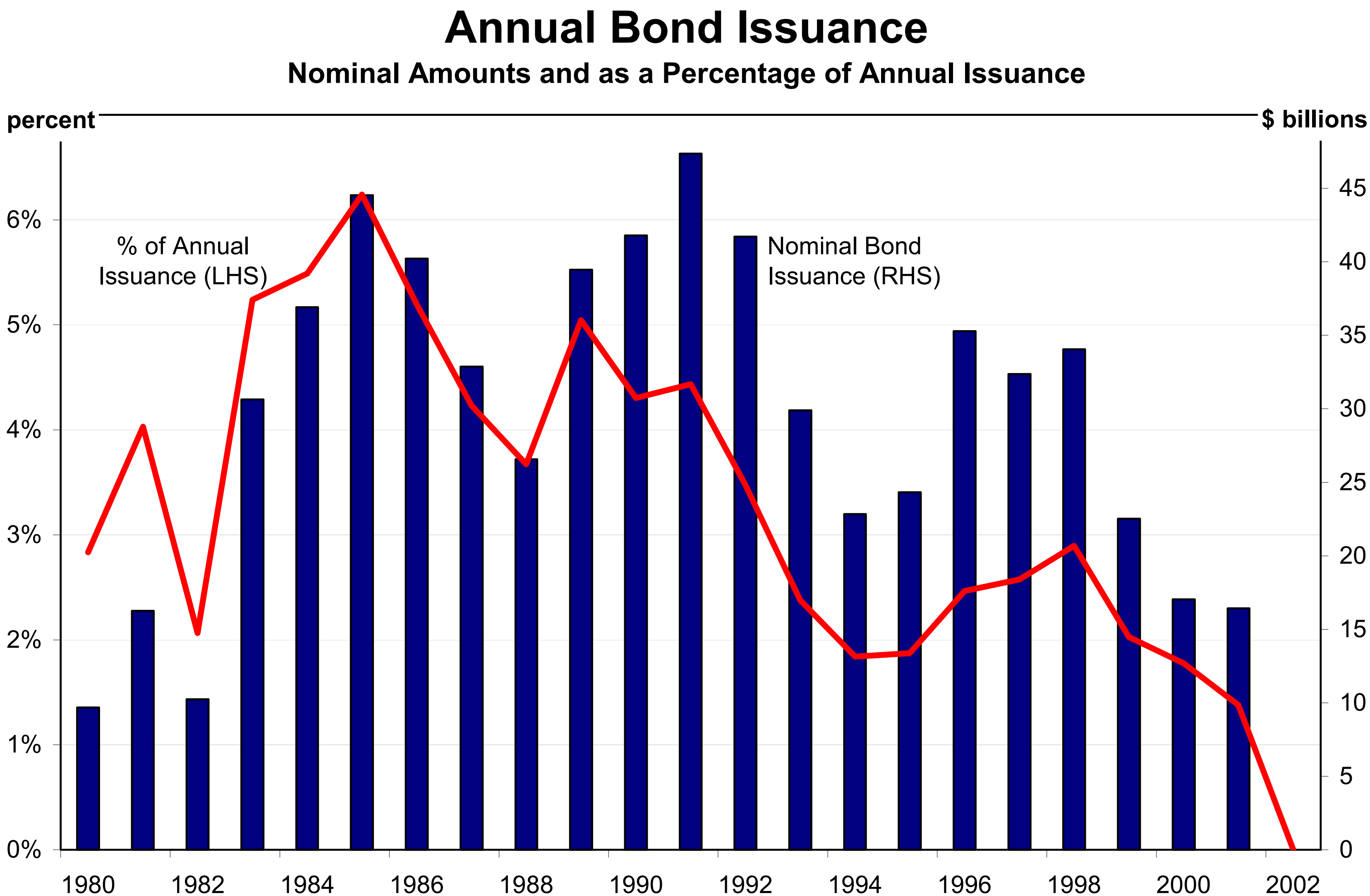
Spread debt across maturities to…

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

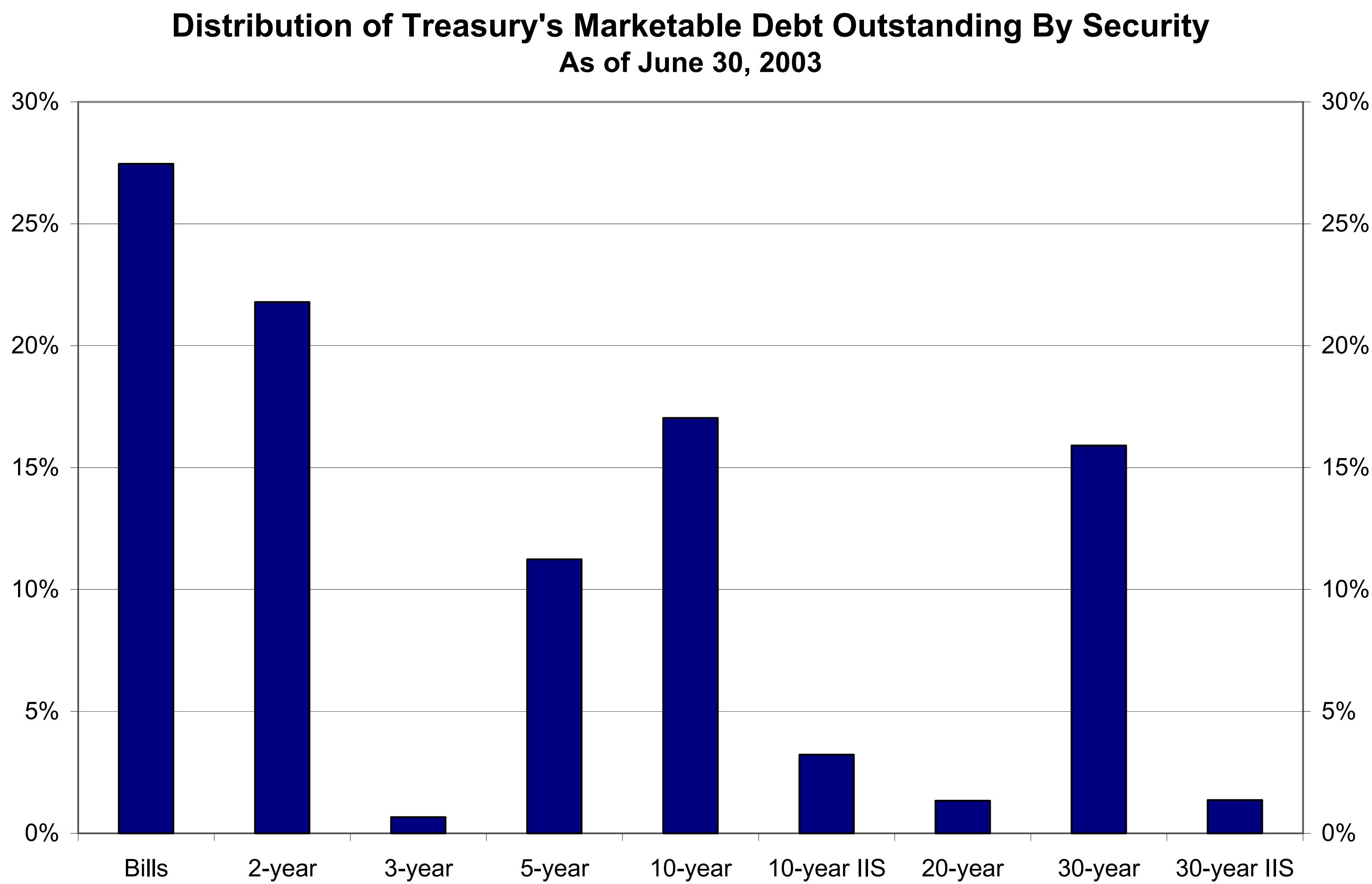
Low Cost Over Time:
Treasury Has a Diversified Debt Portfolio



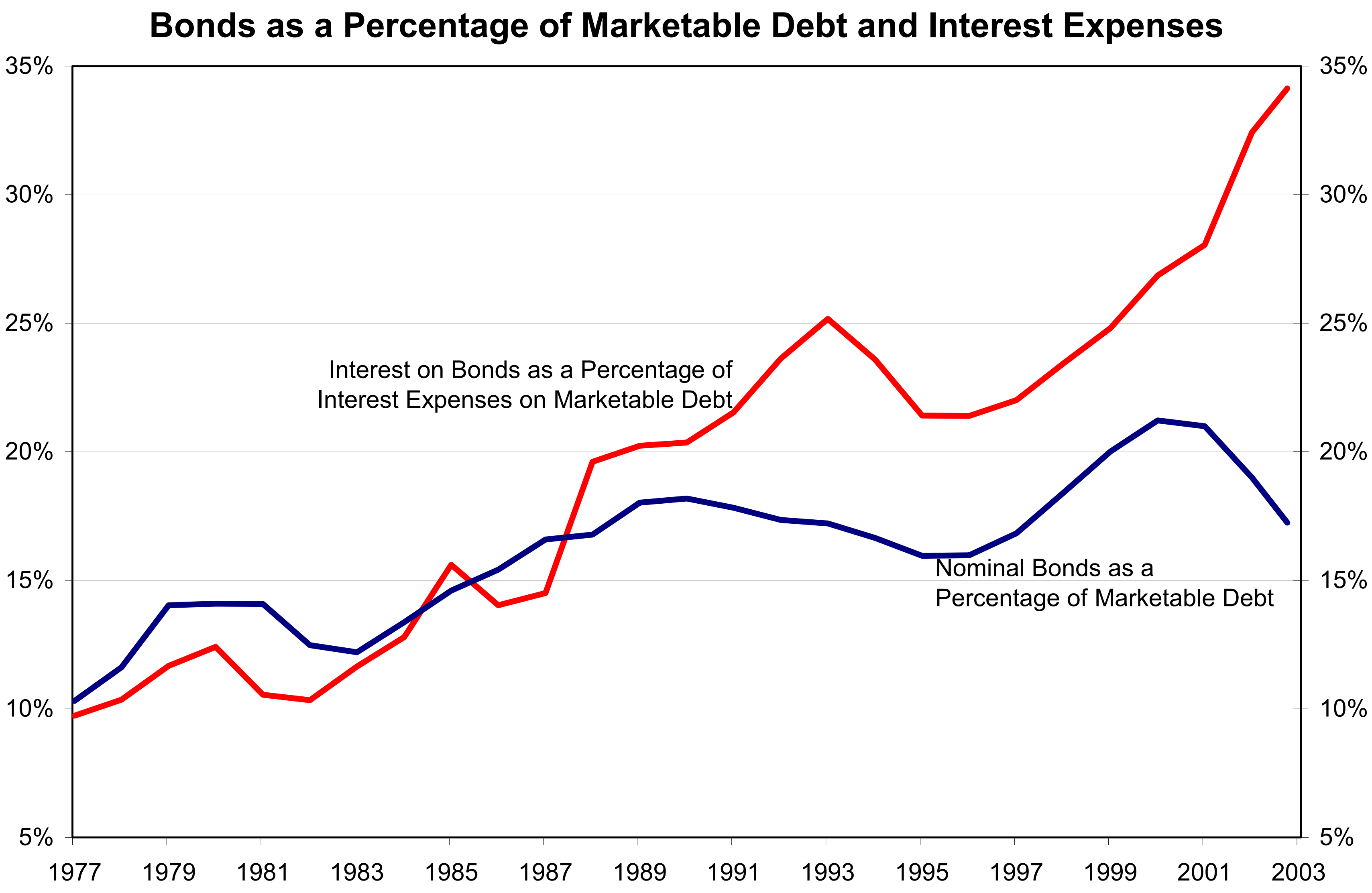
Low Cost Over Time:
Bond Issuance Low But Impact Grows Over Time...



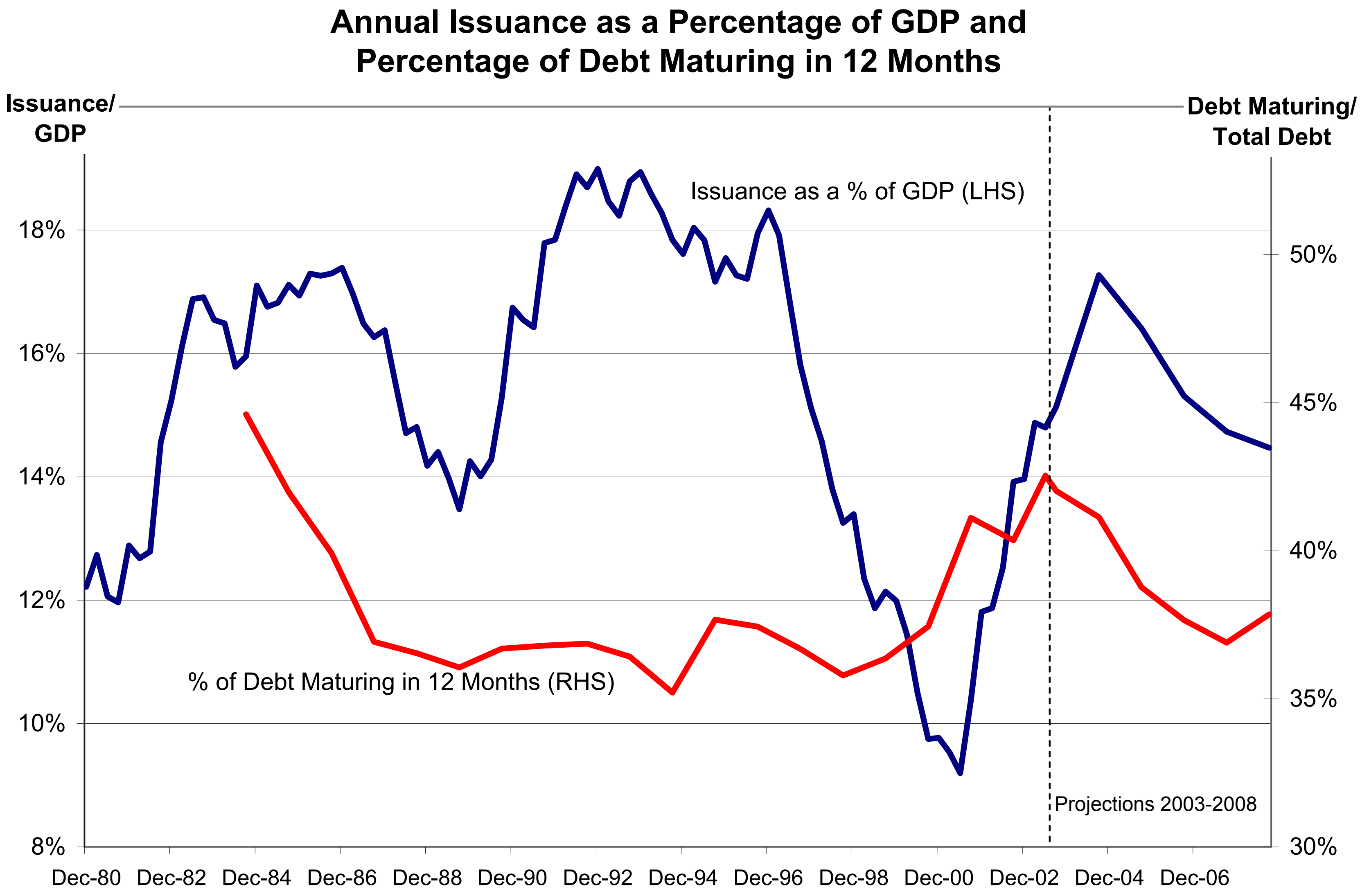
Low Cost Over Time:
Bonds Currently 17% of Treasury's Marketable Debt



Low Cost Over Time:
Issuing Bonds Regularly Has Been Expensive

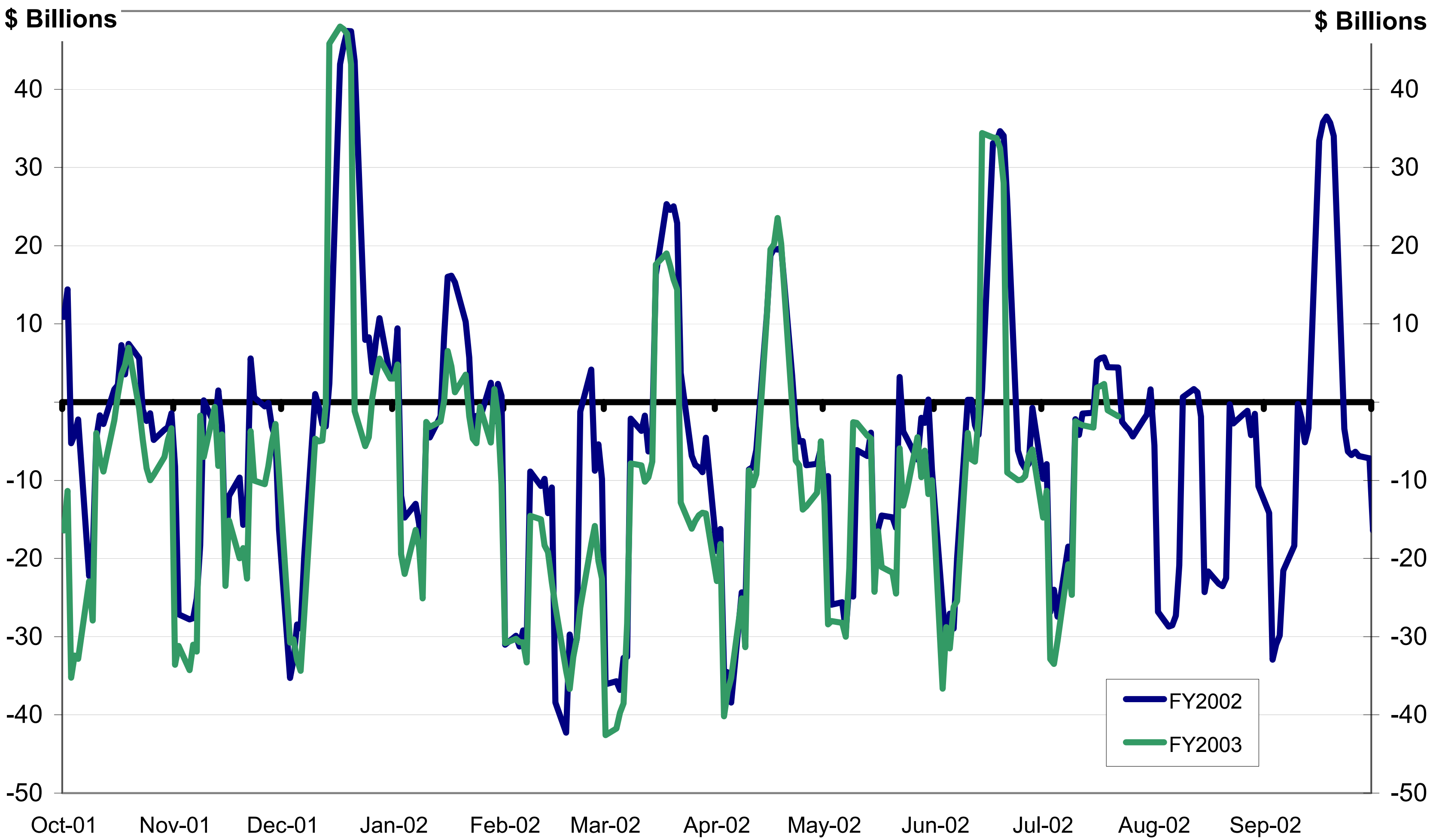


Low Cost Over Time:
Maturing Debt and Issuance Stable without Bond



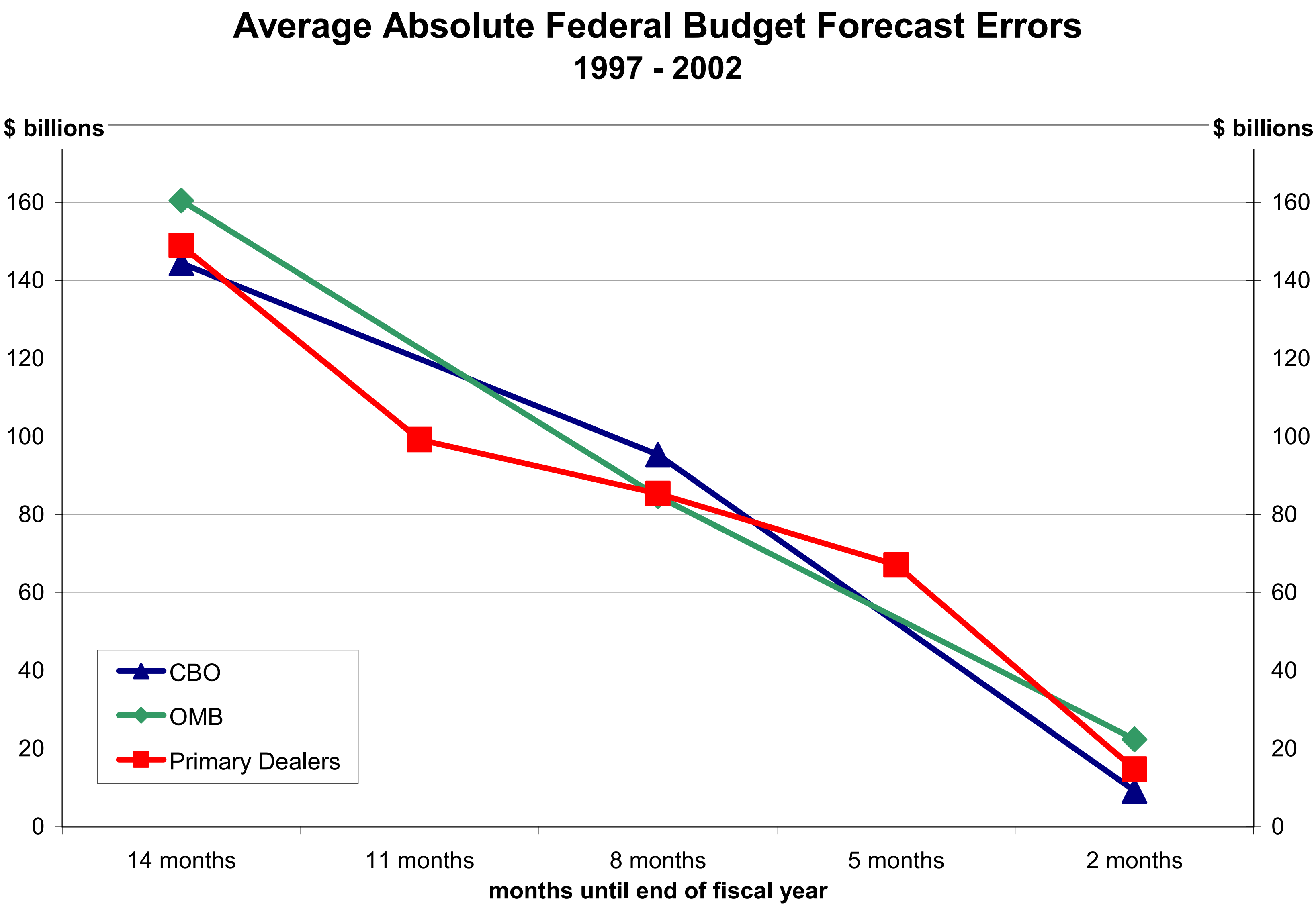
Flexibility:
Fiscal Needs Volatile

Weekly Receipts Minus Expenditures

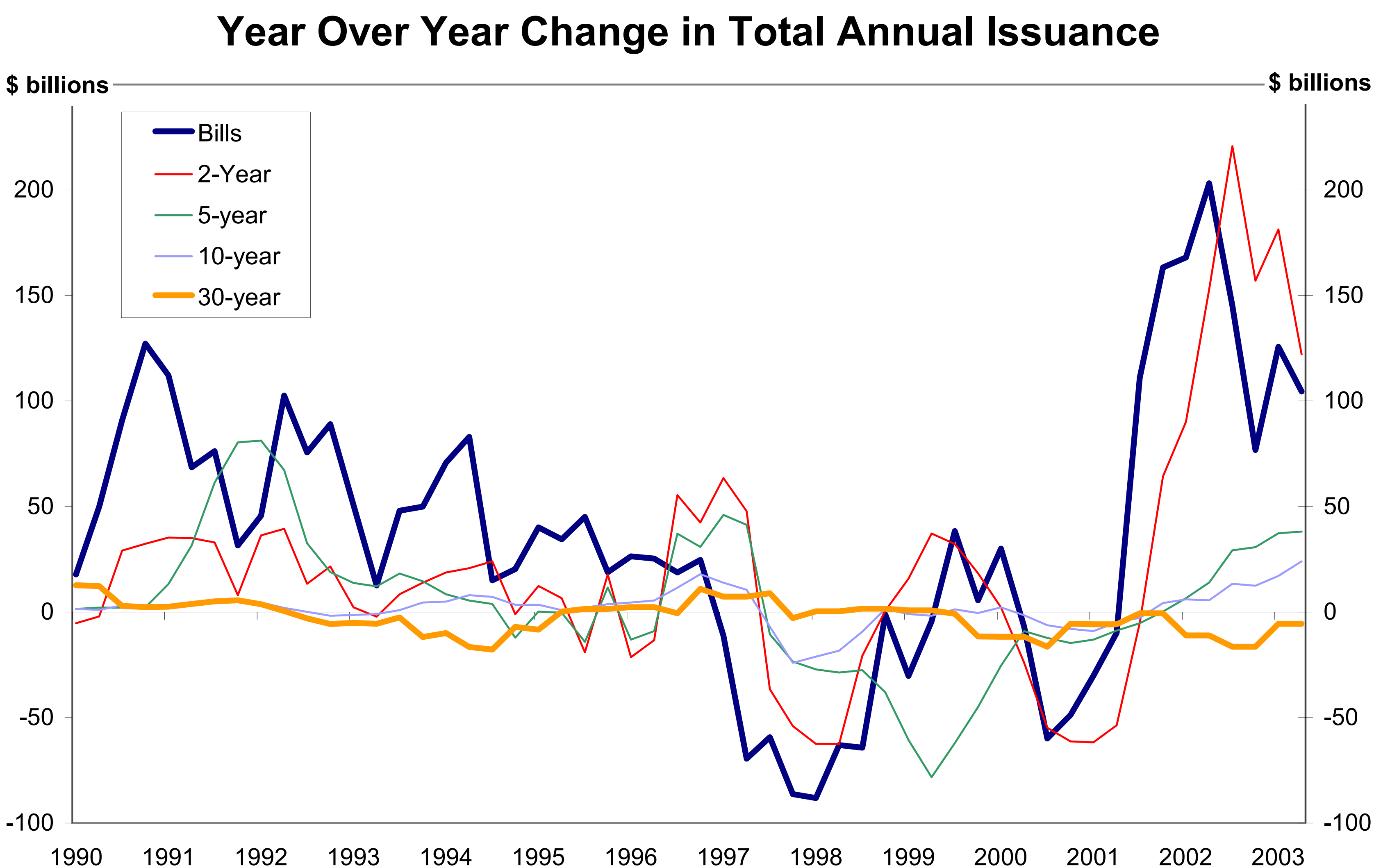


*Expenditures exclude debt redemptions and unclassified withdrawals.

Flexibility:
Future Financing Requirements Uncertain

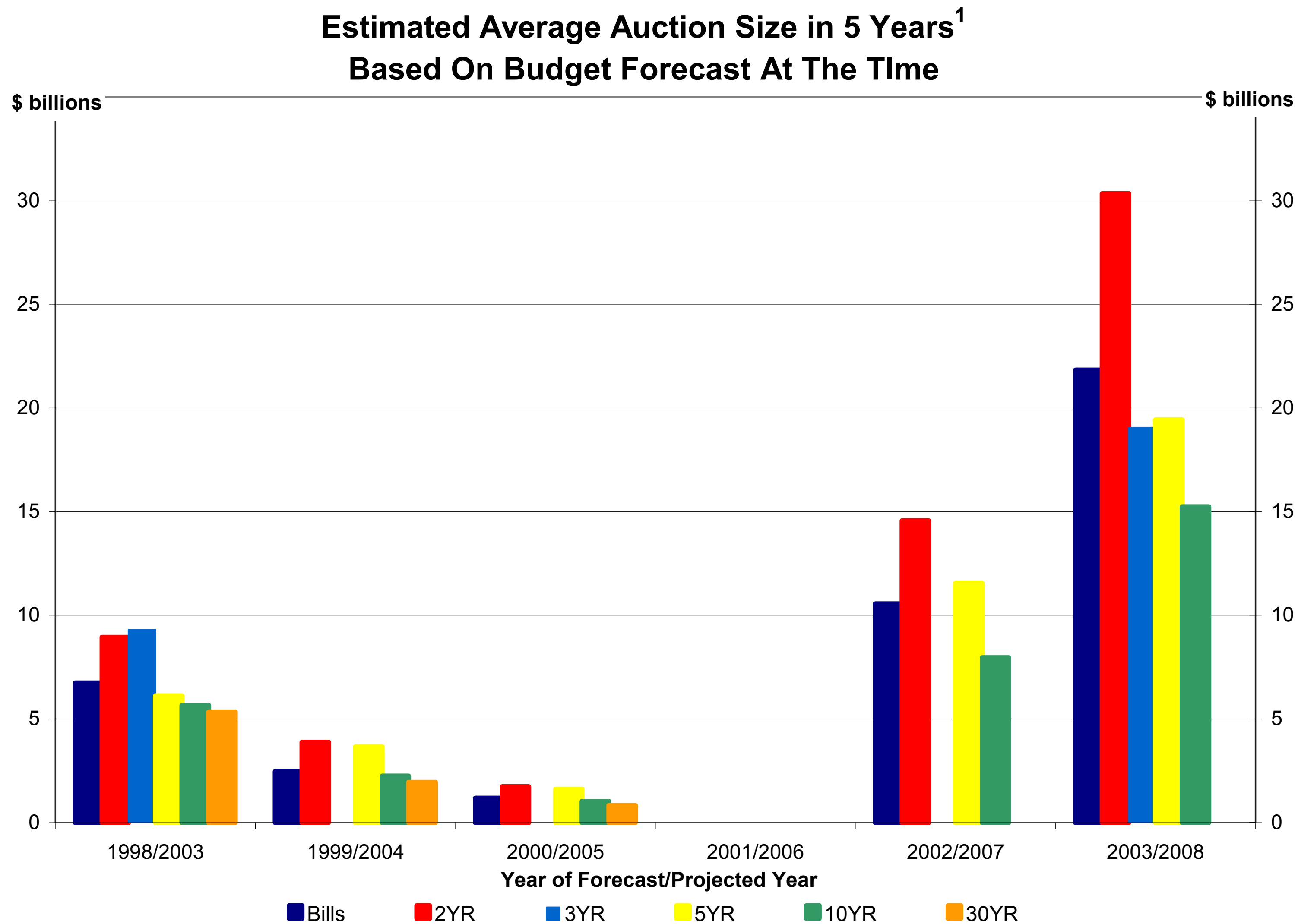


Flexibility:
Frequent Auctions of Shorter Maturities



* 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 are volatile and uncertain
- Investor base for long-term debt is 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 portfolio of debt

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

- Bonds
  - 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
  - Unnecessary for managing risks