PLENARY SESSION 3: Domestic markets as an answer to future challenges

October 19-20, 2016
Domestic vs. External Debt

Central Government Debt

Domestic debt

External debt


24% 76% 78% 22%
Positive attributes

- Domestic main source of Treasury financing: Regular issuances
- Reliable market infrastructure (Central Depository, RTGS, e-auction system)
- Well diversified domestic investor base
Main challenges

- **Yield curve not reliable enough**
  - YC based on real transactions, can be easily manipulated

- **Low secondary market liquidity**
  - Low turnover; High number of lines;

- **Less transparent and predictable issuance policy**
  - Preannounced issuance calendar But high frequency of auctions with high proportion of failed auctions
  - Lack of predictability of weekly auction amounts
  - No standard pattern of bond maturity months
Main actions implemented

- Enhancing issuance strategy

- Deep revision of the relationship between the Treasury (issuer) and Primary Dealers

- Introduction of ETP

- Introduction of Repo facility

- Formalization of MT debt strategy
Round 2: Deep discussion on main actions
Main actions implemented

✧ Enhancing issuance strategy
- Simplification of issuance calendar (reduced number of lines auctioned per week)
- Organization of maturity months for each type of bonds
- Enhancement of predictability (announcement of indicative weekly amounts)
- Increase sizes of lines
- Regular program for liability management
- Introduction of cash management

✧ Deep revision of the relationship between the Treasury (issuer) and Primary Dealers
- Objectives: develop market-making activity and enhance transparency and liquidity
- New incentives vs new obligations
Introduction of ETP

The Market model

- **B2B reserved to Market makers (primary dealers)**
  - Quoting two ways firm price for certain minimum sizes.
  - Respecting a maximum bid & ask spreads
  - Minimum volume
  - Respecting a minimum number of hours (at least 3hrs per day)
  - Quoting specific lines:
    - Benchmark lines 5 years and 10 years (mandatory)
    - 1 line in the following segments: [0–1 year]; [1–2 years] and [10–30 years]

- **B2C reserved to buy side (institutional investors and non-PD banks)**: RFQ
Introduction of Repo facility

Design of a “Repo/security lending facility” for PDs so that they can effectively conduct market making activities and comply with firm quoting obligations

Operational framework:

- **Duration**: 1 day renewable for 30 days.
- **Rate**: central bank key rate – 75 bps: for the first 10 days and 0% if exceeding 10 days.
- **Authorized amounts per PD**:
  - MAD 100 millions per security and per day.
  - MAD 300 millions for all securities per day.
Round 3: Main challenges ahead and lessons learned
Main challenges ahead

- Improve the efficiency of the yield curve: Enhance the usage of the ETP

- Expand investor base:
  - develop a domestic Sukuk compartment
  - Attract non resident investors

- Improve the organizational framework and the governance of the DMO
The Treasury (issuer) has to play the leading and federative role in any reform.

Adopt a participative approach to increase the chance of success:

Flexibility may be needed to insure stakeholders’ involvement in new reforms (ex: ETP).