

Treasury Borrowing Advisory Committee



Quarterly Refunding

August 3, 2004

Liquidity and Reduced Financing Needs

We would like the Committee's view on reducing marketable issuance in the face of declining financing needs and the impact of such reductions on market liquidity.

Treasury Financing Requirements

(\$ Billions)

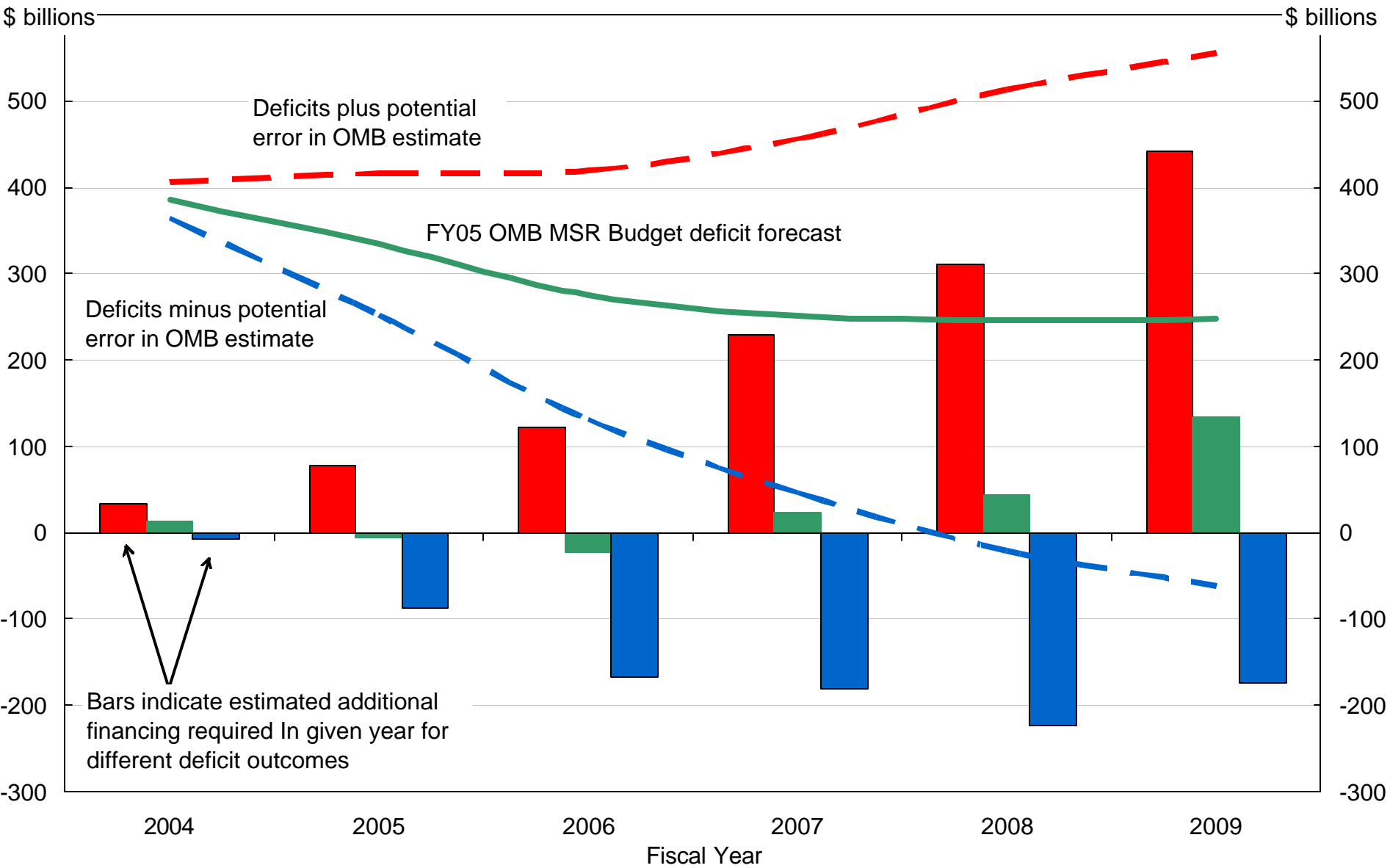
	April - June 2004		July - September 2004
	(Projected)	(Actuals)	(Projected)
<u>Deficit Funding (Def + / Surplus -)</u>	22	26	91
<u>Means of Financing</u>			
Change in Cash Balance	-24	-23	10
Net Non-Marketable Financing	6	4	-4
Net Marketable Financing	38	31	89
Other*	2	14	-4
<u>Net Marketable Financing</u>	38	31	89
Bills		-38	
Nominal Notes		69	
TIPS		9	
Bonds		-8	
<u>Notes:</u>			
Starting Cash Balance	21	21	45
Ending Cash Balance	45	45	35

* Includes 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 Calendar

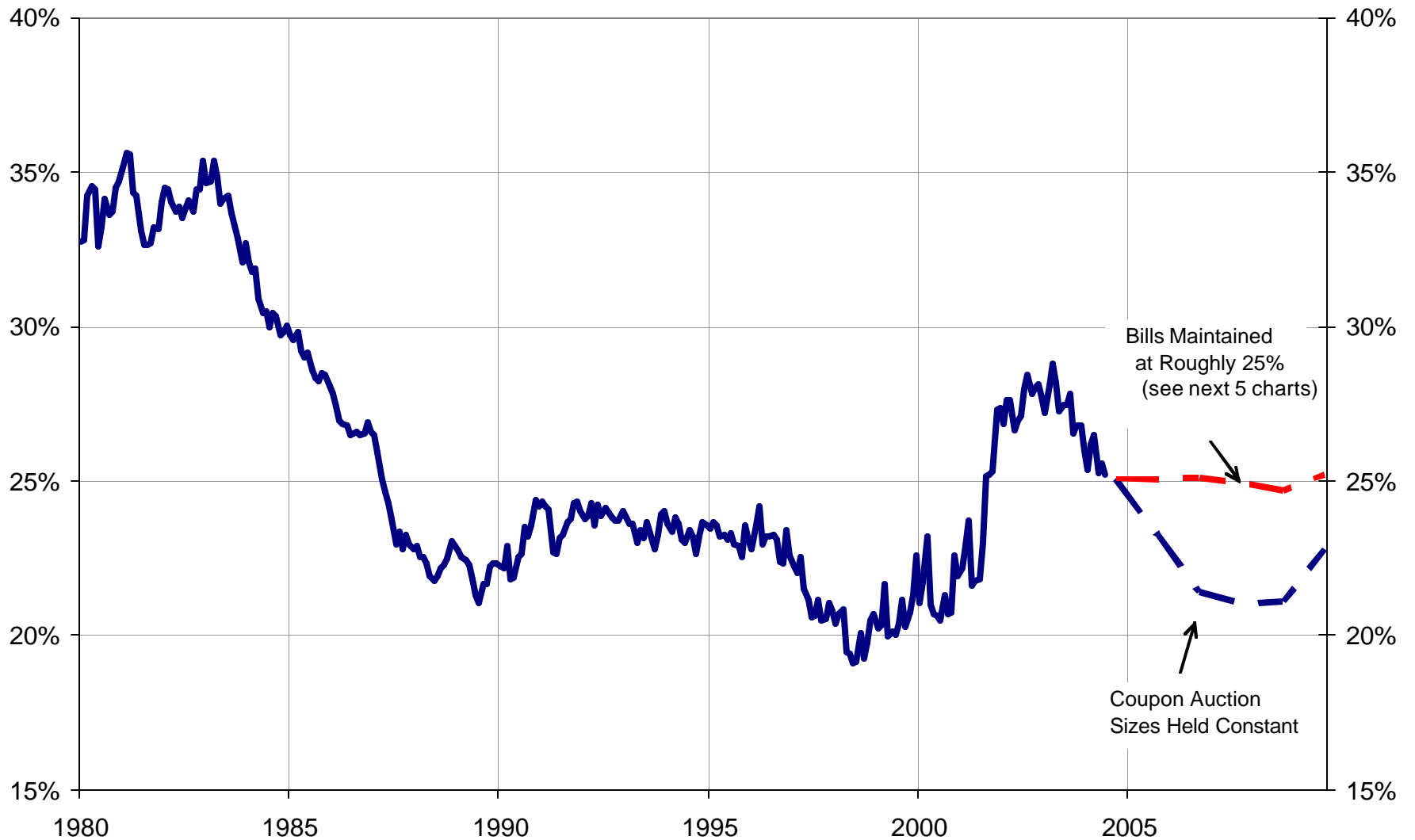
Assumes current coupon issuance pattern and issuance amount-- Bill issuance at levels required to maintain outstanding FY \$ amounts nearly equal to June 30, 2004 total outstanding



Bars indicate estimated additional financing required in given year for different deficit outcomes

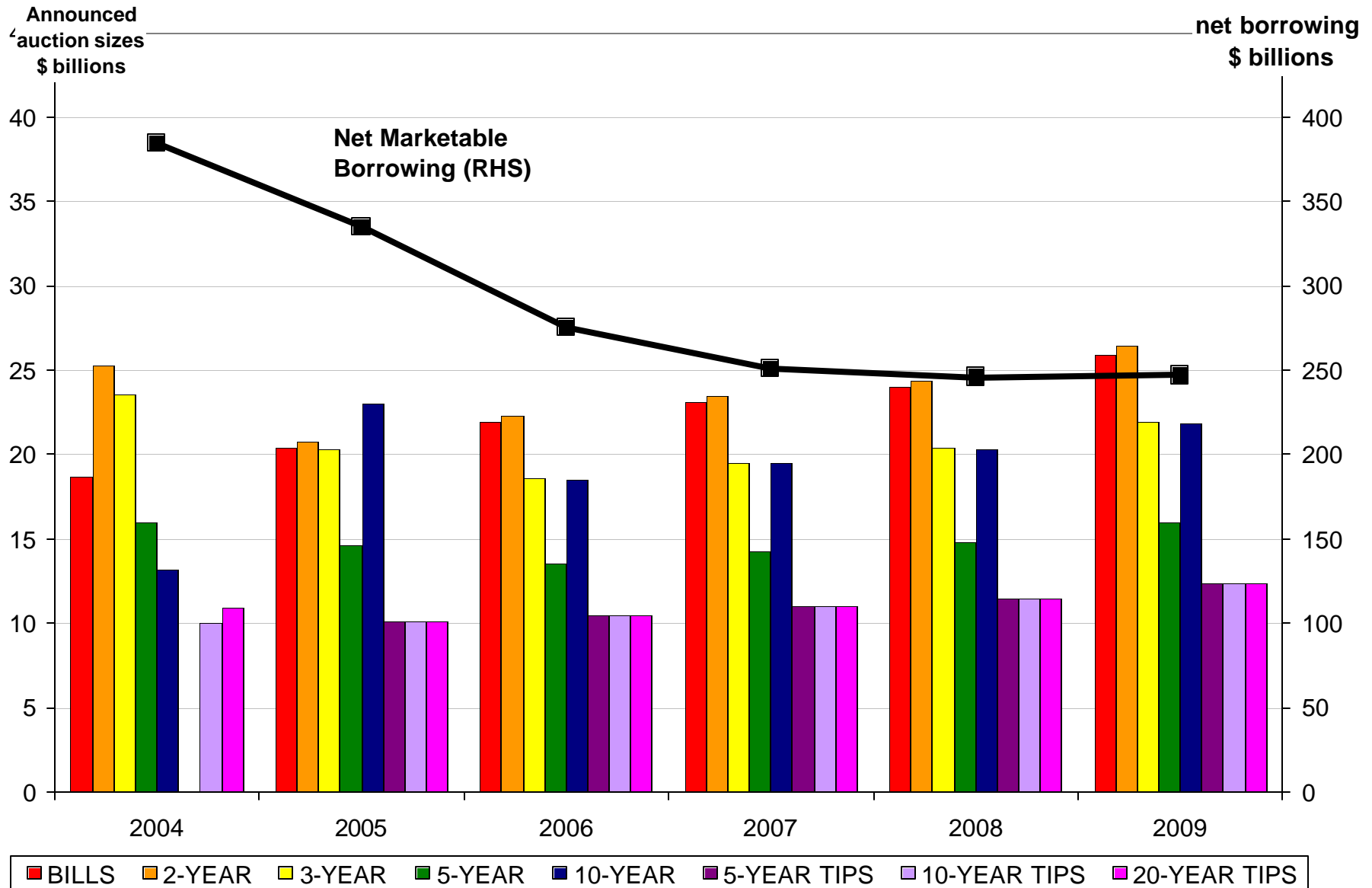
*Potential errors estimated with linear least squares regression using OMB Budget forecasts since 1989 and MSR forecasts since 1998.

Bills as a Percentage of Treasury's Marketable Debt



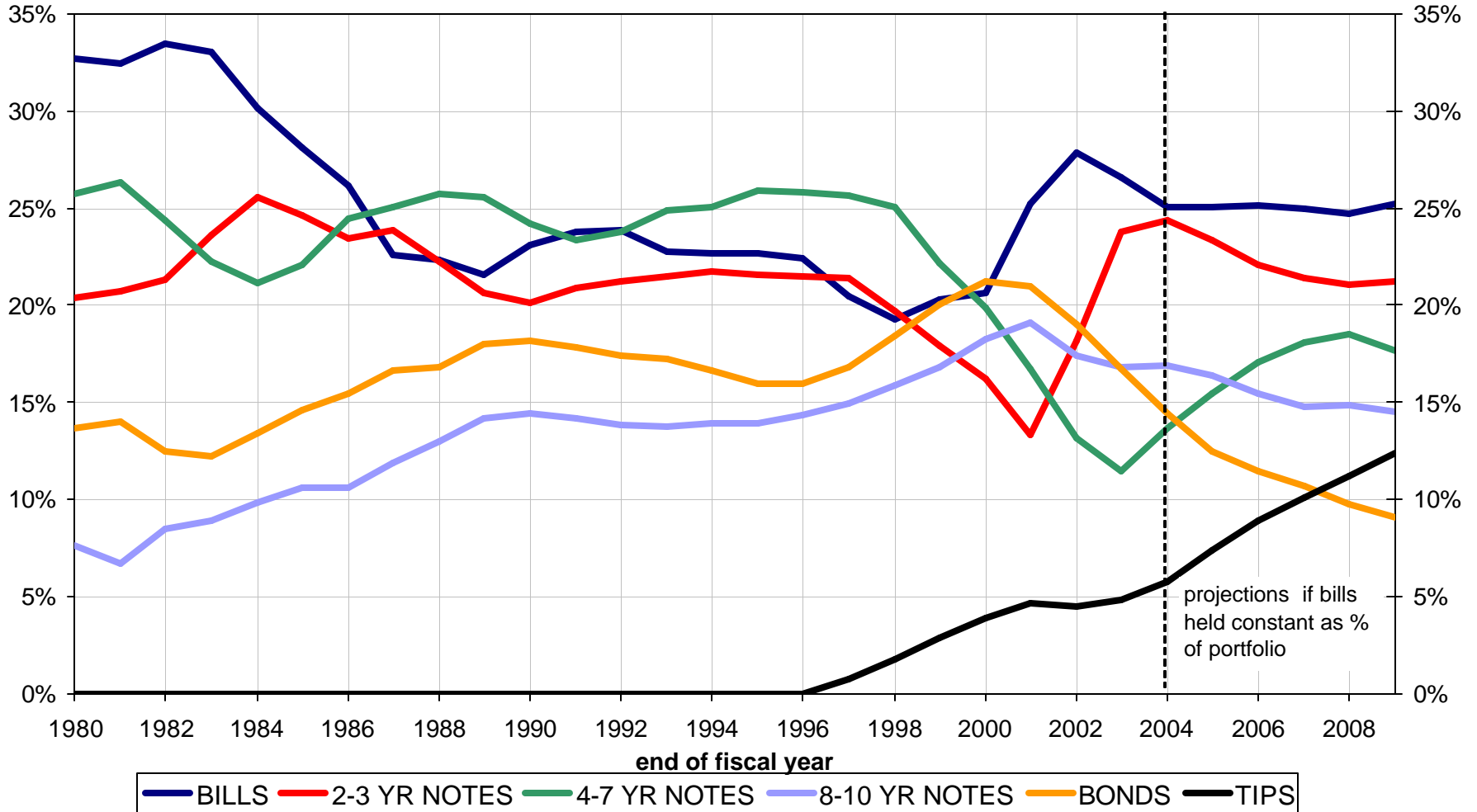
Projected Net Marketable Borrowing and *Hypothetical* Auction Sizes

If Bill Issuance held Constant as a percent of Portfolio



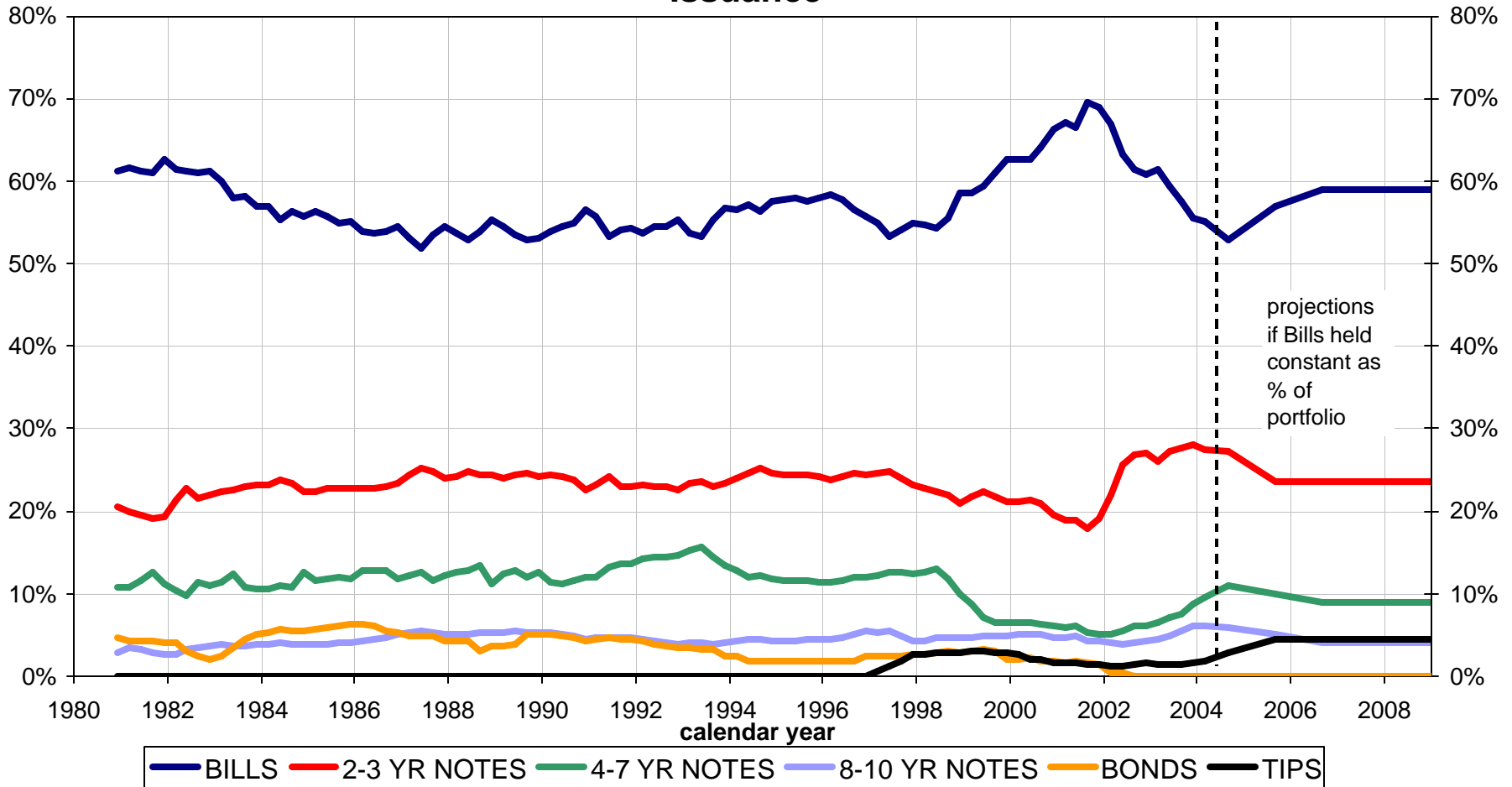
* For bills, the average auction size equals the amount outstanding at the end of the fiscal year divided by 43 (i.e., 4 1-month auctions, 13 3-month auctions, plus 26 6-month auctions).

Historical and Hypothetical Distribution of Treasury's Marketable Debt



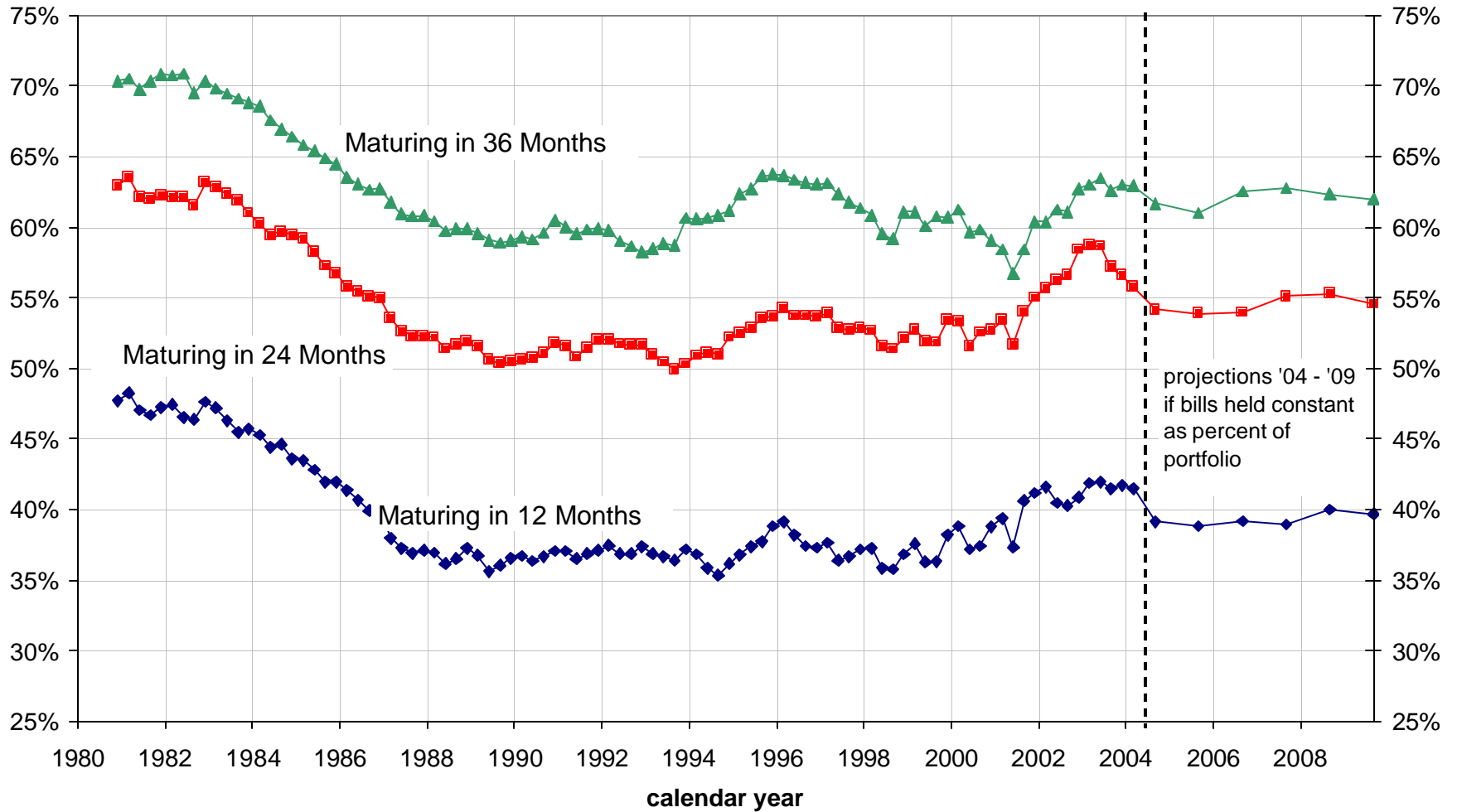
Assumes hypothetical auction sizes for '04 - '09 projections.

Historical and Hypothetical Distribution of Treasury's Marketable Debt Issuance



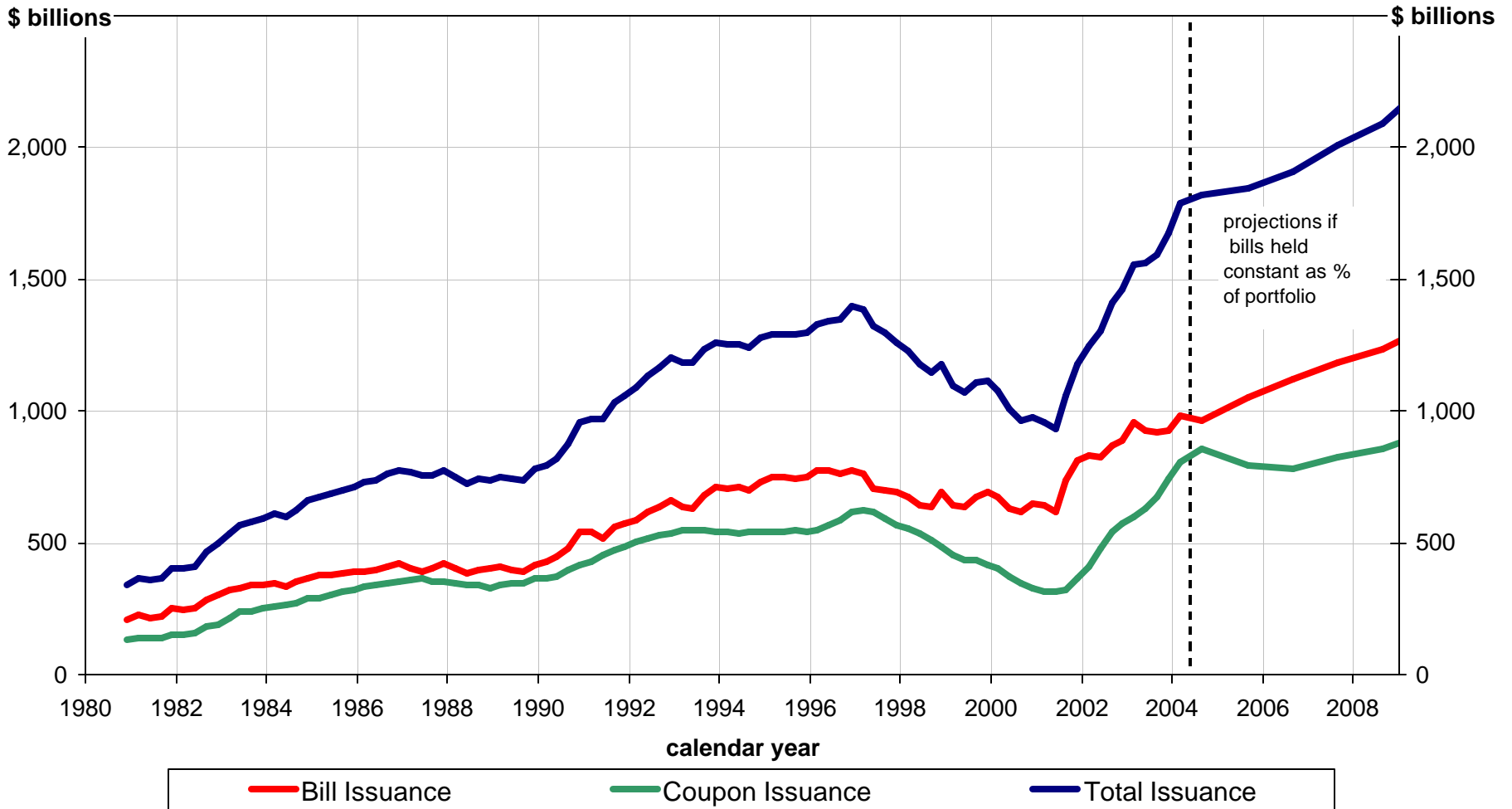
Assumes hypothetical auction sizes for '04 - '09 projections.

Percentage of Debt Maturing in Next 12 to 36 Months



Assumes hypothetical auction sizes for '04 - '09 projections.

Treasury's Marketable Debt Issuance



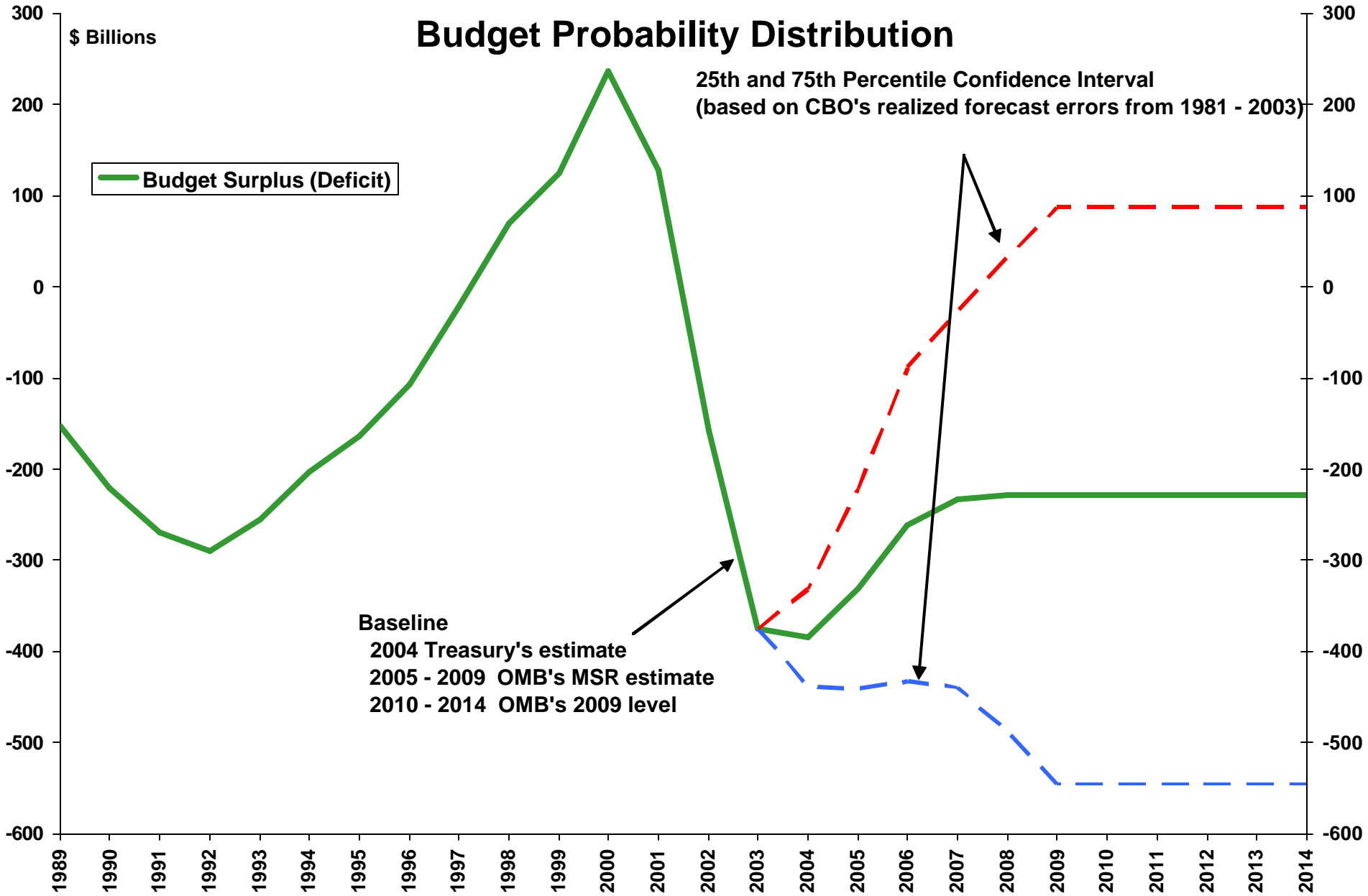
Assumes hypothetical auction sizes for '04 - '09 projections. Bill issuance is net issuance while coupon issuance is gross issuance.

Distribution of Inflation, Interest Rate, and Deficit

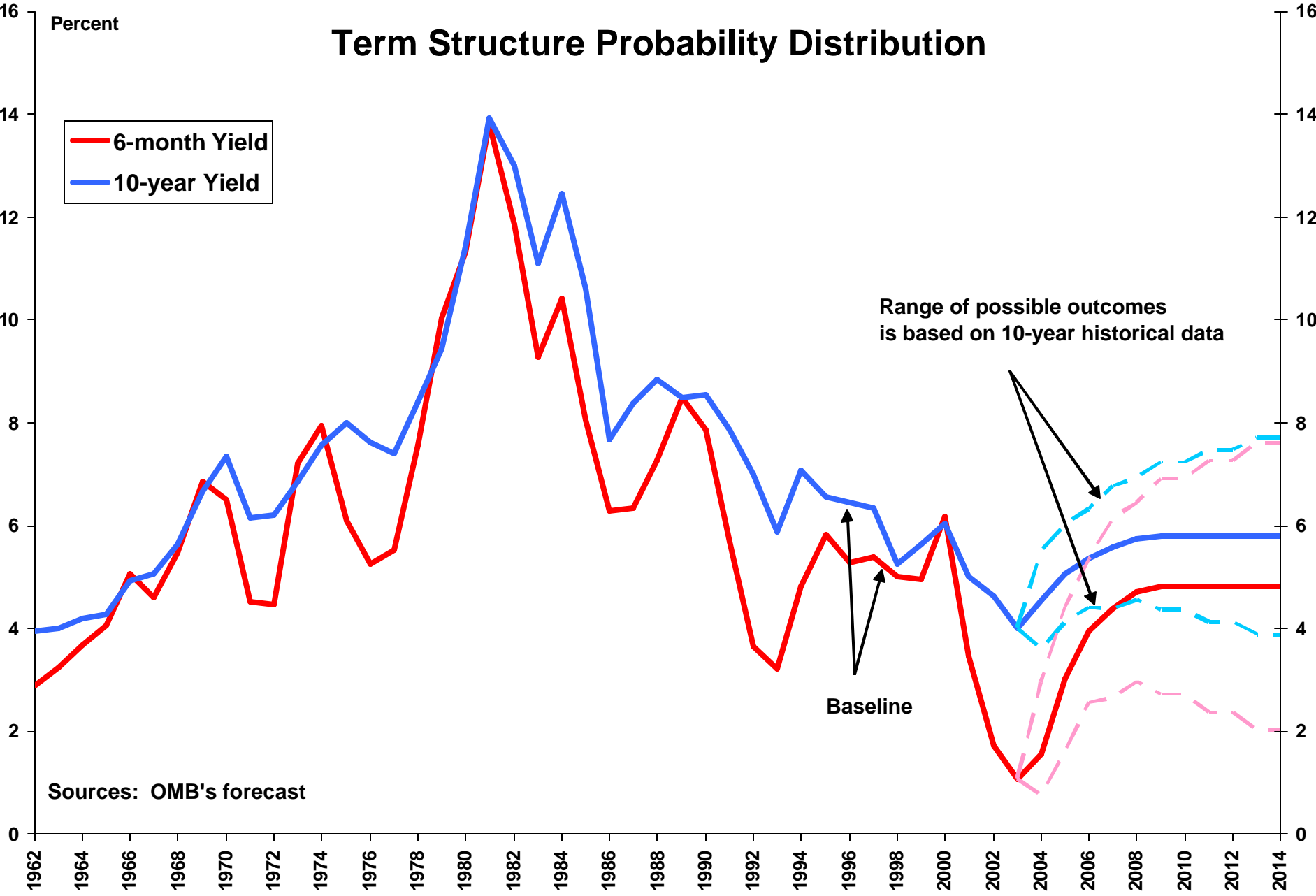
We will present charts to the Committee showing projected levels of interest rates, inflation and deficits and a range of probable outcomes. Does the Committee have a views on whether these are the appropriate variables to focus on? Is there anything presented within these charts that raises concerns? Are there any related indicators that Treasury should consider?

Budget Probability Distribution

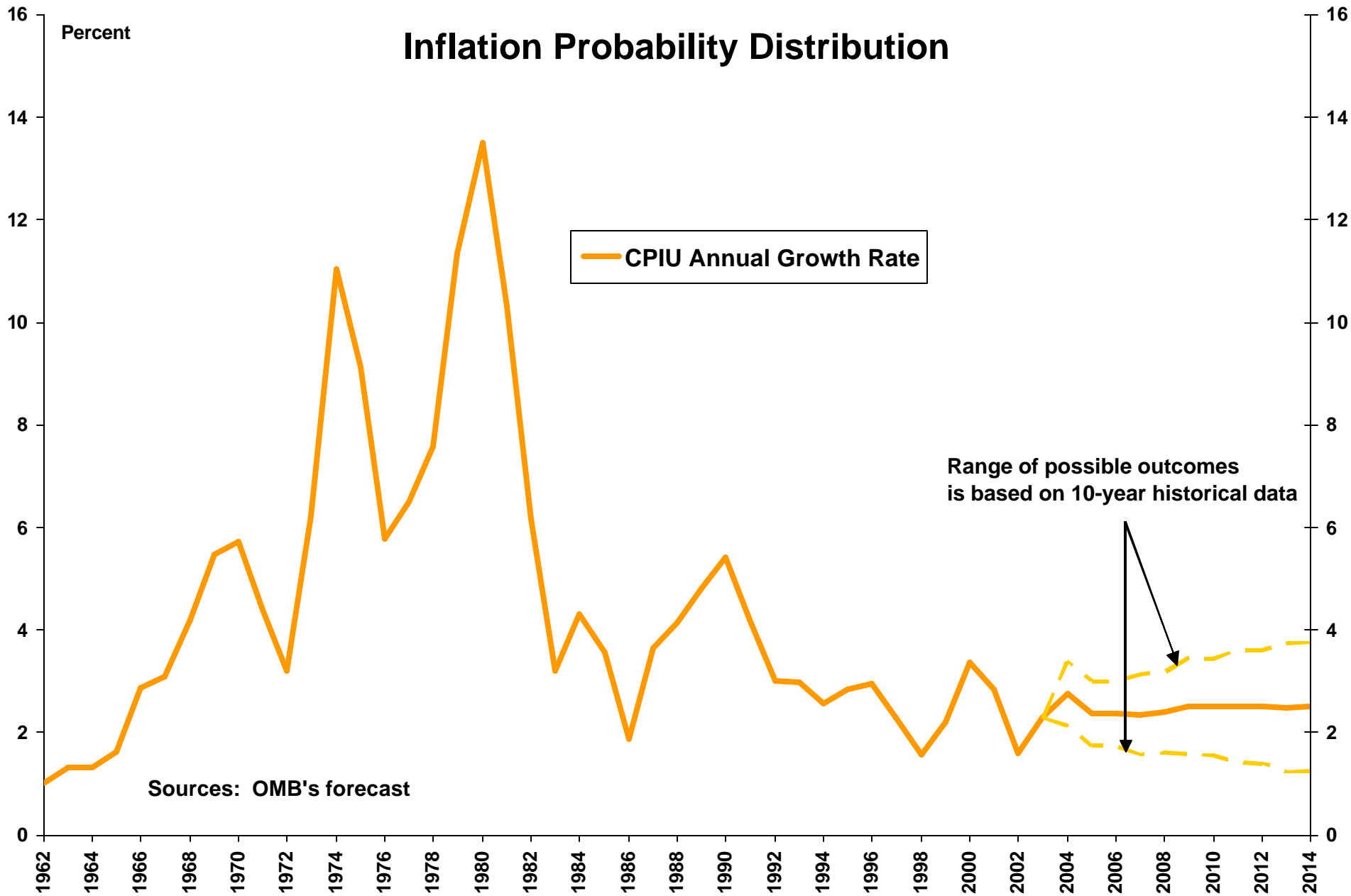
25th and 75th Percentile Confidence Interval
(based on CBO's realized forecast errors from 1981 - 2003)



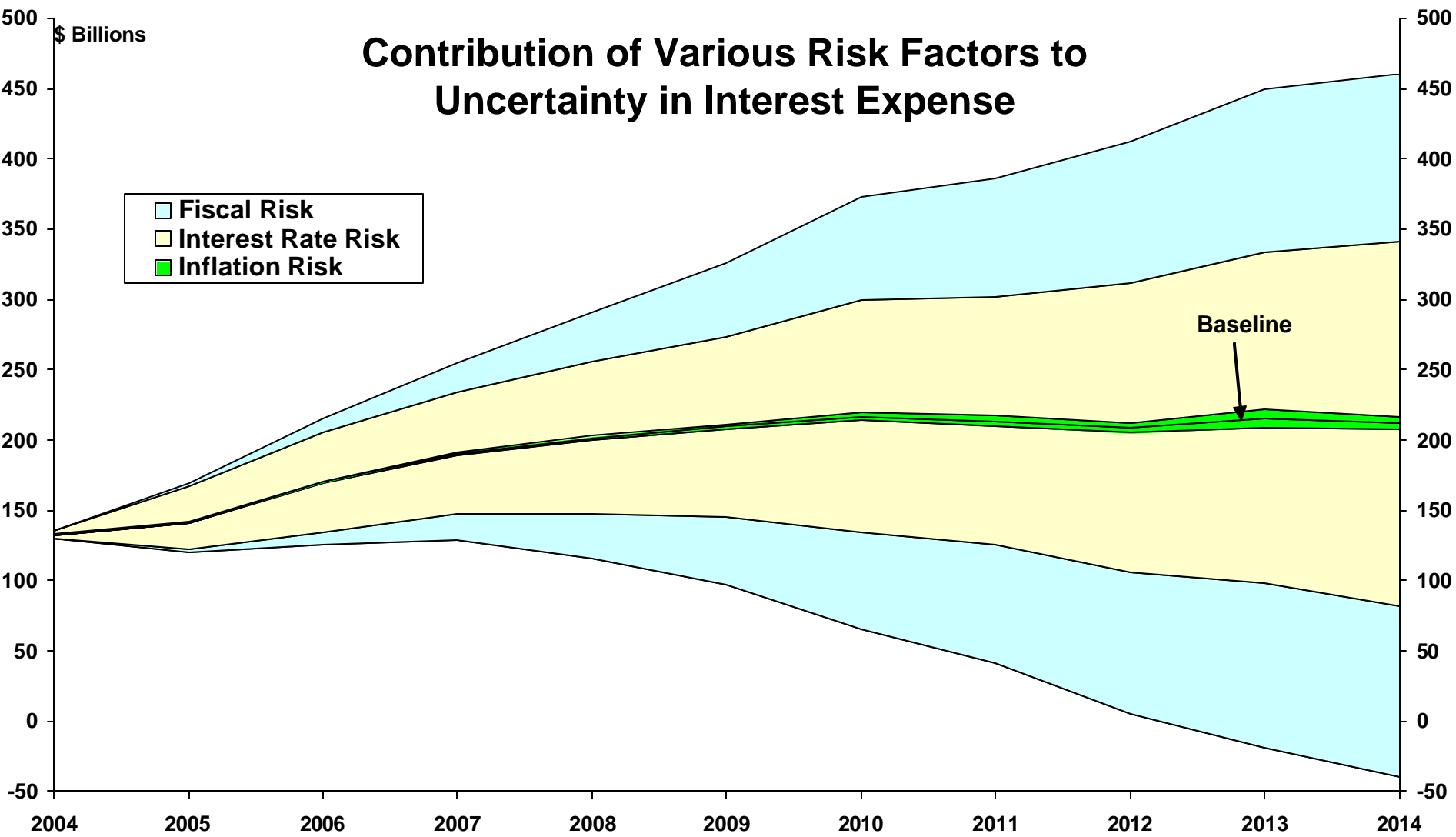
Term Structure Probability Distribution



Inflation Probability Distribution

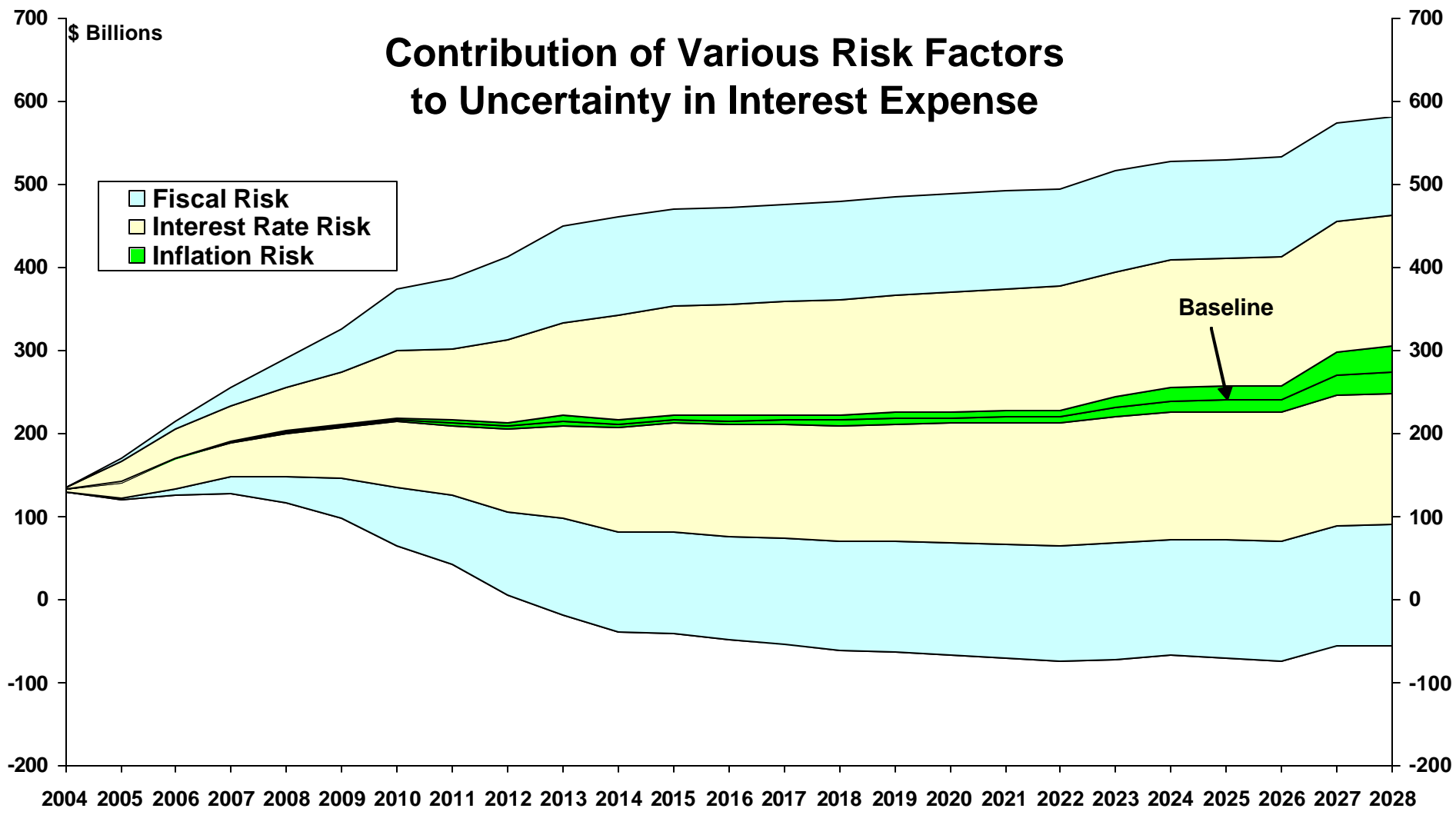


Contribution of Various Risk Factors to Uncertainty in Interest Expense



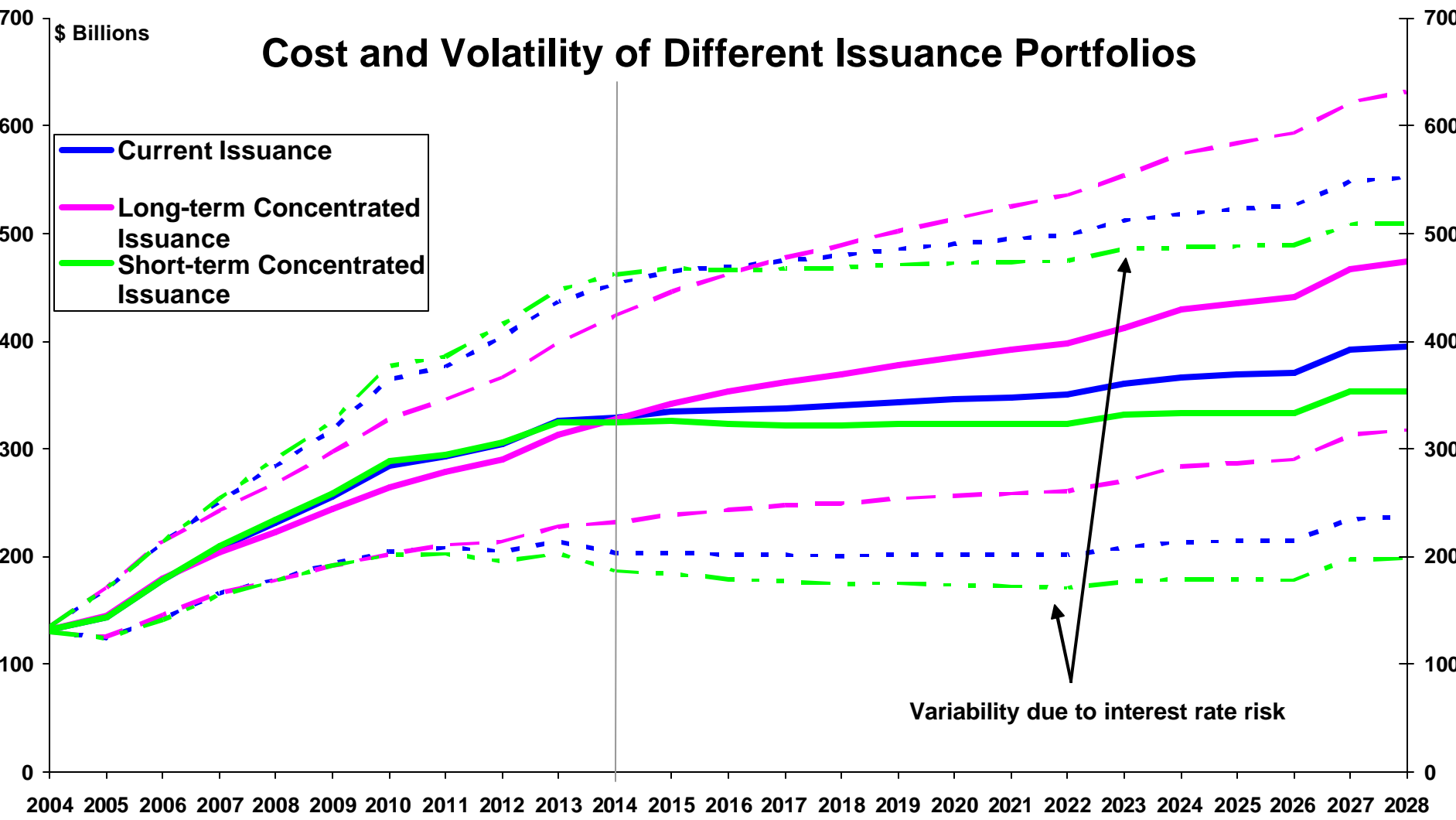
ASSUMPTIONS: (a) Current coupon issuance is kept constant
 (b) Under the optimistic fiscal scenario coupon issuance is adjusted slightly to maintain non-zero bill issuance
 (c) Budget deficit, interest rate, and inflation are uncorrelated

Contribution of Various Risk Factors to Uncertainty in Interest Expense



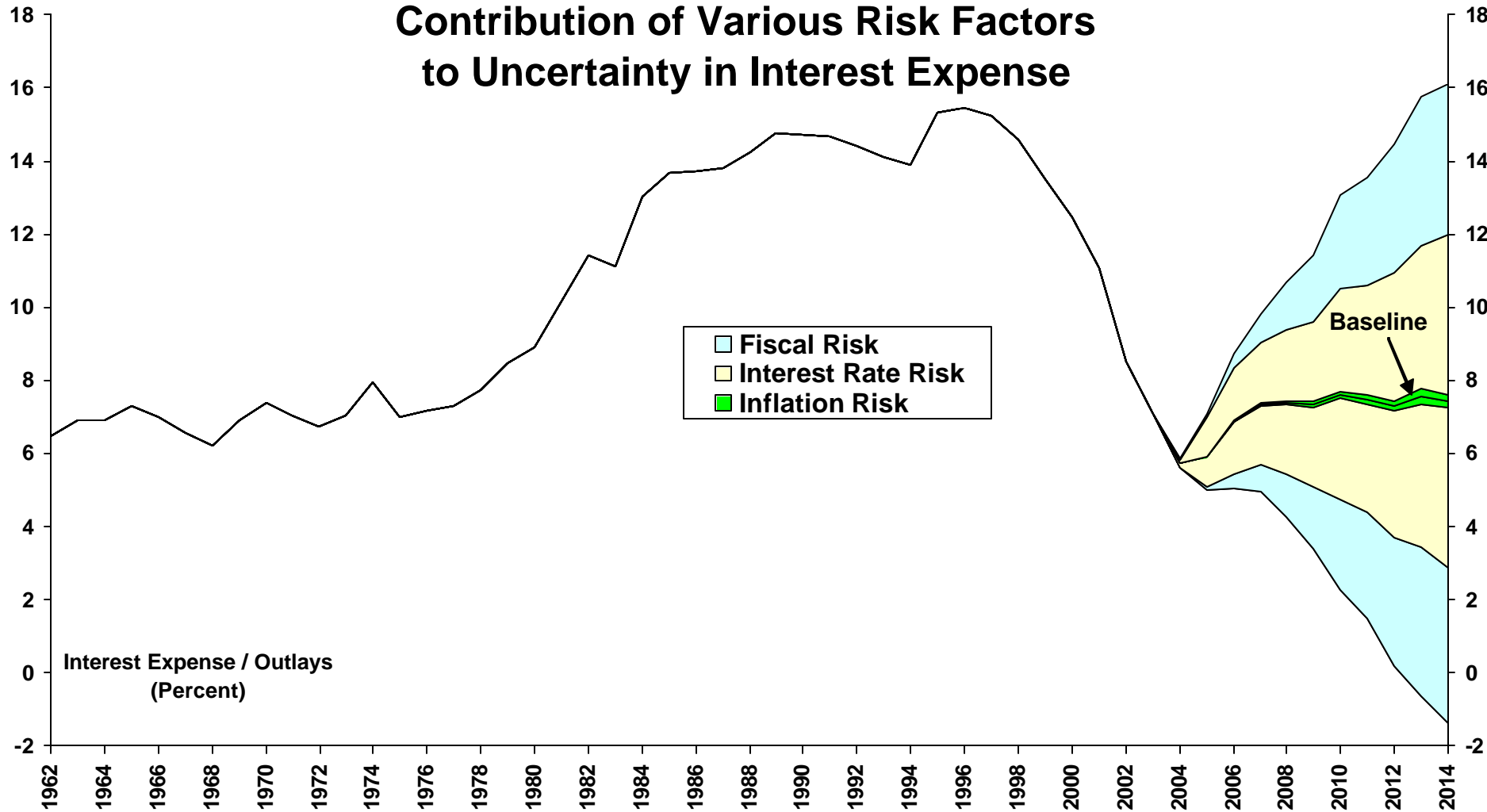
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 (d) Fiscal, Interest rate, and inflation numbers are kept at 2014 level from 2015 - 2028

Cost and Volatility of Different Issuance Portfolios



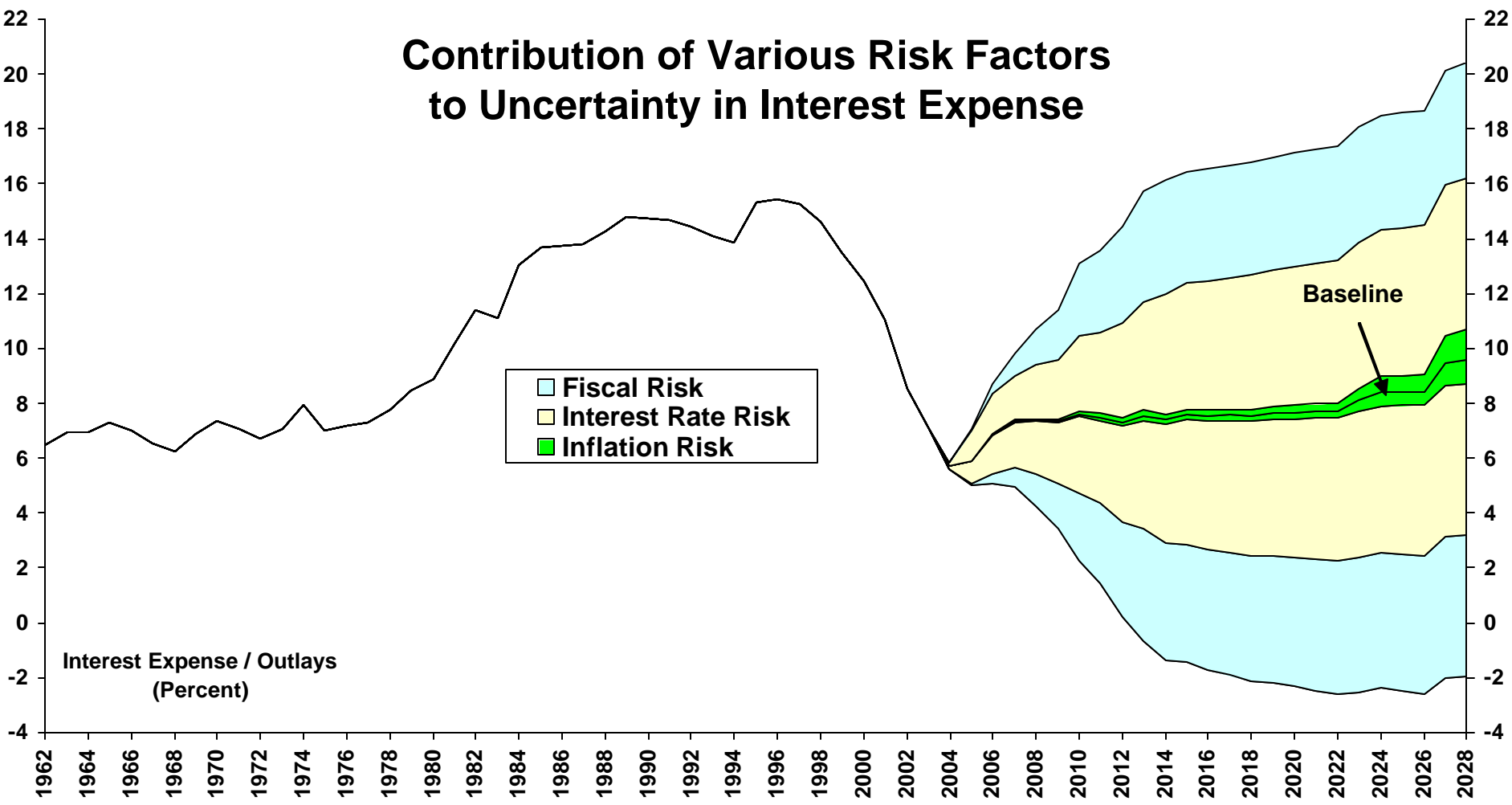
ASSUMPTIONS: (a) Fiscal, Interest rate, and inflation numbers are kept at 2014 level from 2015 - 2028
 (b) Long-term concentrated issuance: 77% of coupons in 5-year to 20-year, the rest of coupons in less than 5-year
 (c) Short-term concentrated issuance: 62% of coupons in less than 5-year, the rest of coupons in 5-year to 20-year
 (d) Coupons issuance is kept constant for all portfolios; bills pick up the residual financing

Contribution of Various Risk Factors to Uncertainty in Interest Expense



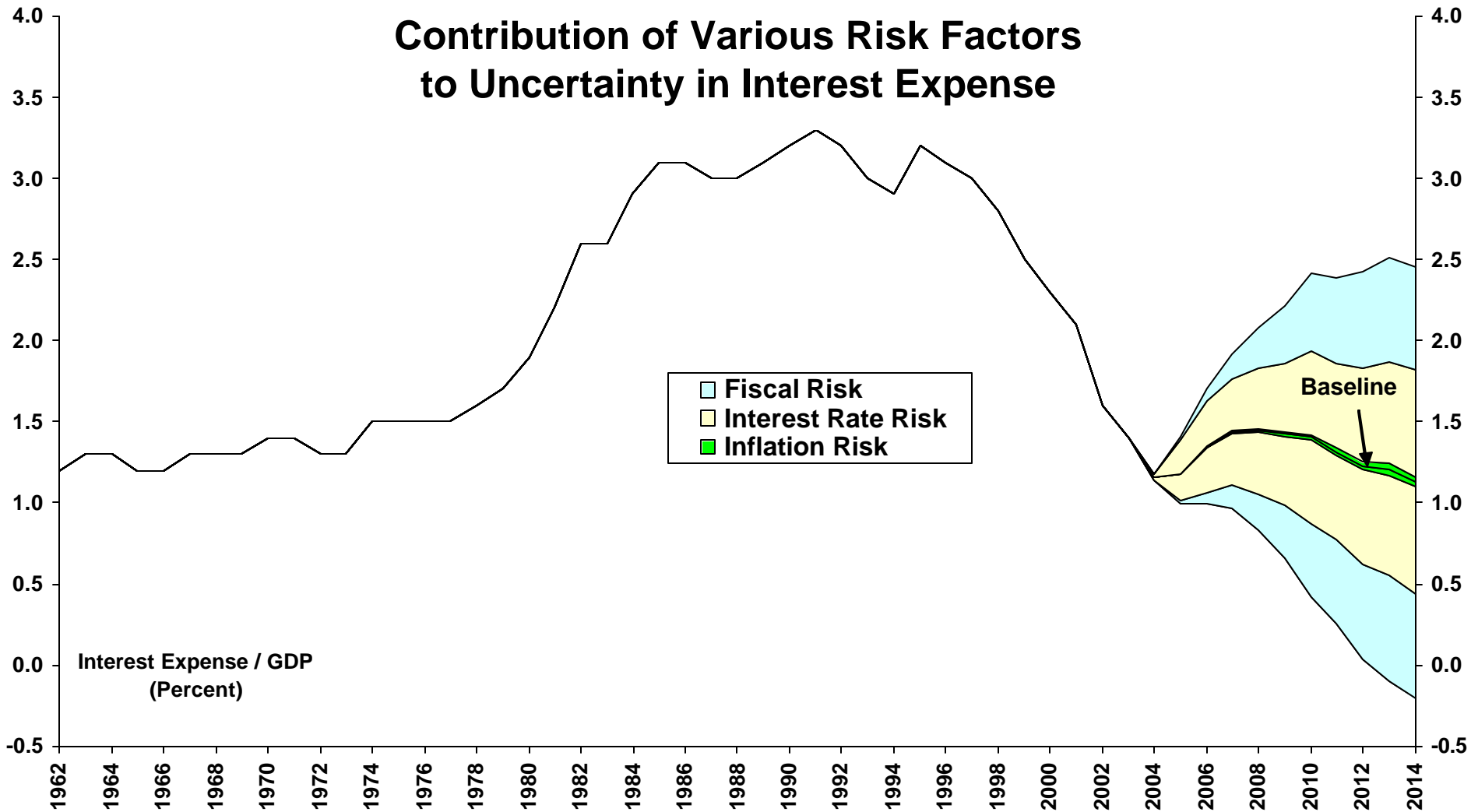
- ASSUMPTIONS:**
- (a) Current coupon issuance is kept constant
 - (b) Under the optimistic fiscal scenario coupon issuance is adjusted slightly to maintain non-zero bill issuance
 - (c) Budget deficit, interest rate, and inflation are uncorrelated
 - (d) Outlays numbers, obtained from the OMB, are at 2009 level for 2010 - 2014
 - (e) Net interest is used for 1962 - 2003

Contribution of Various Risk Factors to Uncertainty in Interest Expense



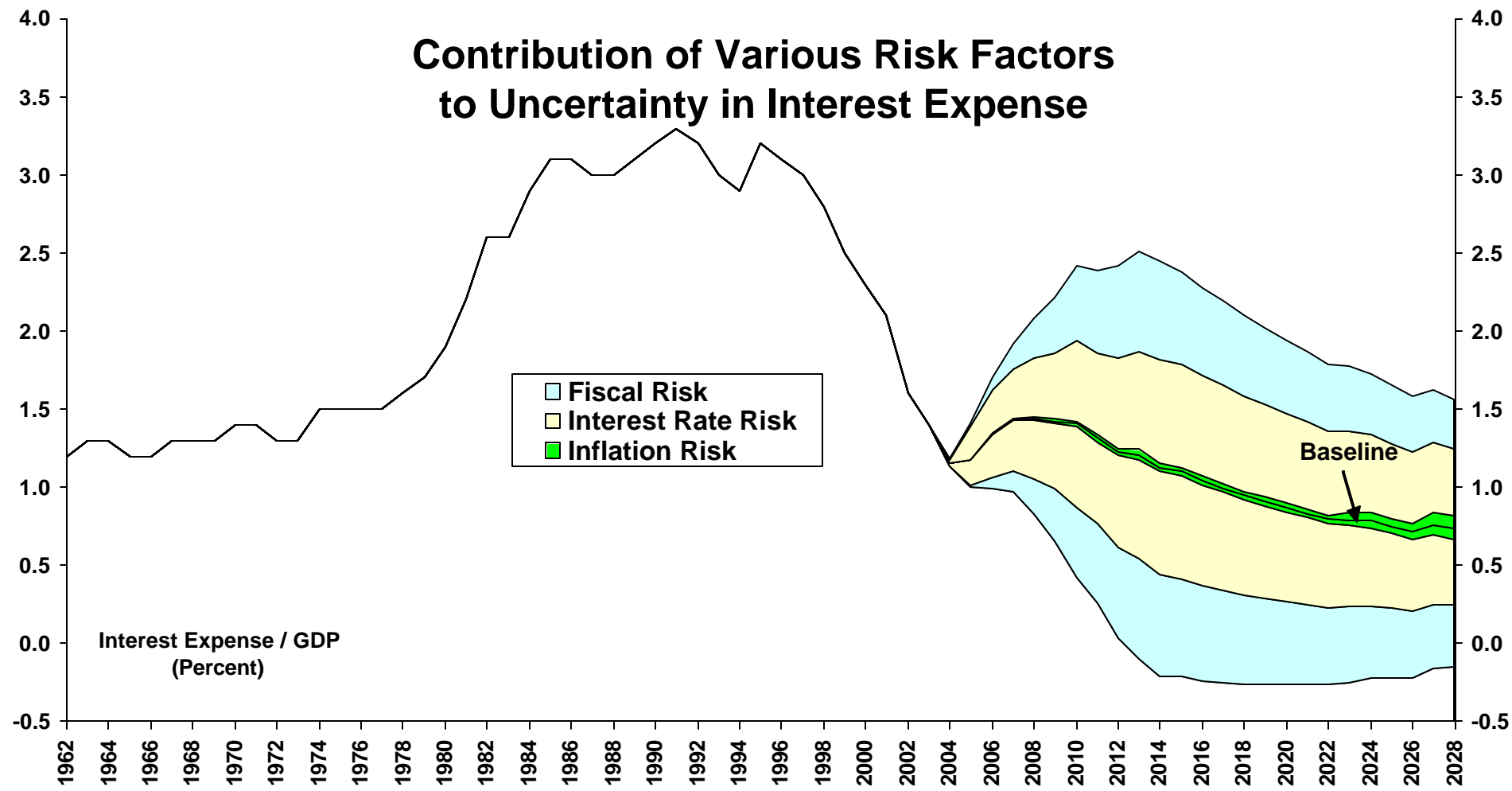
- ASSUMPTIONS:**
- (a) Current coupon issuance is kept constant
 - (b) Under the optimistic fiscal scenario coupon issuance is adjusted slightly to maintain non-zero bill issuance
 - (c) Budget deficit, interest rate, and inflation are uncorrelated
 - (d) Fiscal, Interest rate, and inflation numbers are at 2014 level for 2015 - 2028
 - (e) Outlays numbers are OMB's forecast for 2004 - 2009 and are kept at 2009 level for 2010 - 2028
 - (f) Net interest is used for 1962 - 2003

Contribution of Various Risk Factors to Uncertainty in Interest Expense



- ASSUMPTIONS:**
- (a) Current coupon issuance is kept constant
 - (b) Under the optimistic fiscal scenario coupon issuance is adjusted slightly to maintain non-zero bill issuance
 - (c) Budget deficit, interest rate, and inflation are uncorrelated
 - (d) GDP numbers are OMB's forecast for 2004 - 2009, and are assumed to grow at 5% for 2010 - 2014
 - (e) Net interest is used for 1962 - 2003

Contribution of Various Risk Factors to Uncertainty in Interest Expense

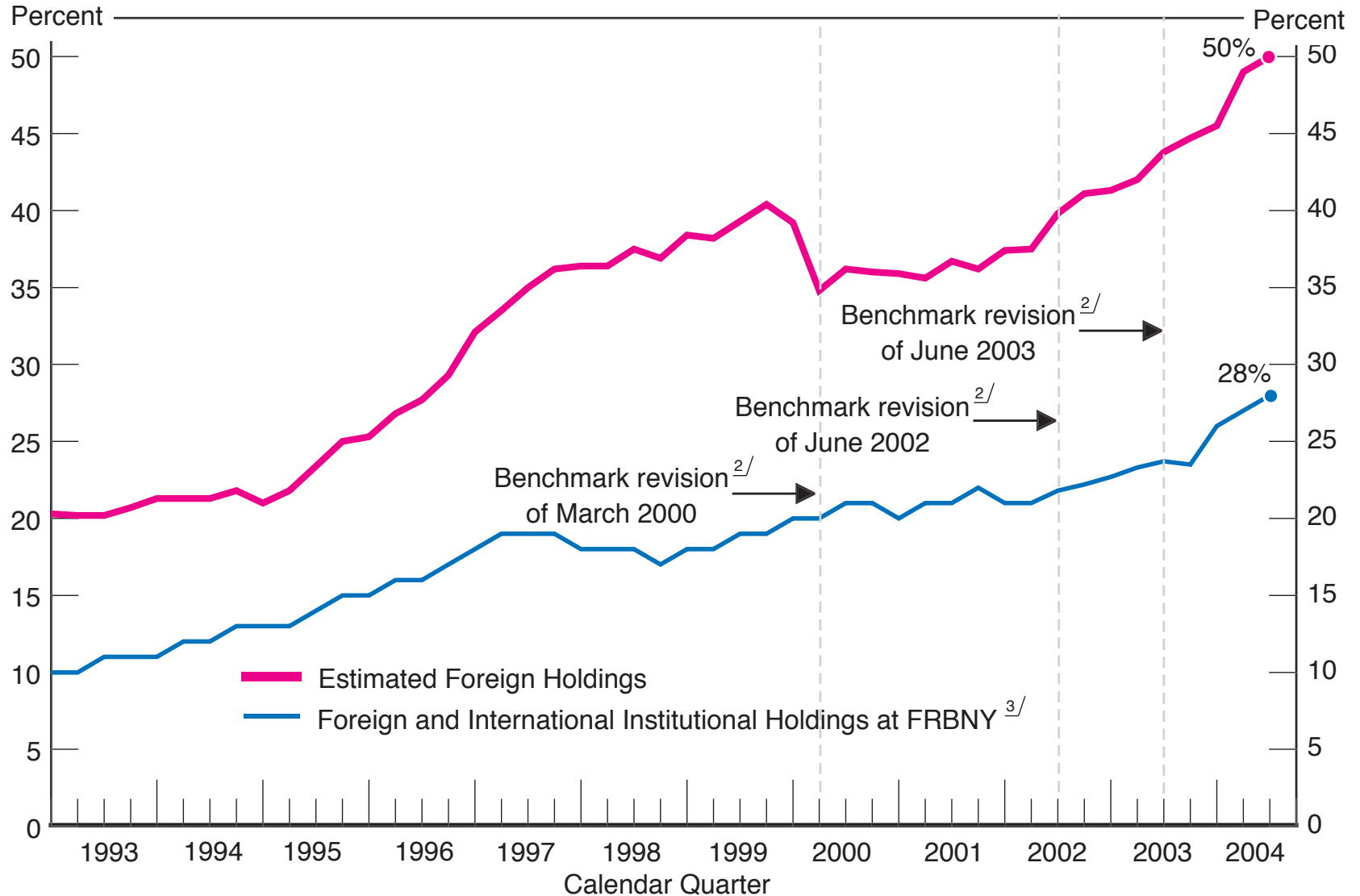


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Foreign Ownership of Treasury Securities

Treasury is frequently asked about levels of foreign ownership. We believe that broad, diversified ownership helps Treasury achieve its objective of lowest cost borrowing over time. Does the Committee have any views they would like to share with us on this issue?

FOREIGN HOLDINGS AS A PERCENT OF TOTAL PRIVATELY HELD PUBLIC DEBT^{1/}



^{1/} Privately held debt excludes holdings of the Federal Reserve.

^{2/} Series for estimated foreign holdings. Data through May 31, 2004. See <http://www.treas.gov/tic/index.html>.

^{3/} Source: Federal Reserve Bank of New York statistical release H4.1.