



## NATIONAL AUDIT OFFICE OF LITHUANIA

### PUBLIC AUDIT REPORT

# THE GOVERNMENT SUCCESSFULLY BORROWS IN THE DOMESTIC MARKET: HOW TO OPTIMIZE THIS PROCESS AND TO REDUCE DEBT MANAGEMENT COSTS

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## SUMMARY

The National Audit Office of Lithuania carried out an audit of the management of the debt on behalf of the State, during which the efficiency of the management of Government securities (hereinafter – GS) issued in the domestic market was assessed. The audit covered the period between 2006-2009; in some cases data of 2010 was also used for comparison.

The Government borrows in the domestic market through issuance of bonds – GS with maturity of over one year, with maturity of 3, 5, 7 and 10 years, and Treasury bills – GS with maturity of under one year, with maturity of 1, 3, 6, 9 and 12 months.

Domestic GS comprise about 30 per cent of the debt on behalf of the State. Until the end of 2008, GS were issued in the domestic market only through auctions<sup>1</sup>. Until February 2009, in the domestic market of Lithuania GS auctions were organized by the Bank of Lithuania, later on – AB NASDAQ OMX Vilnius. In 2008 with the start of economic crisis, the Government started to issue GS in the domestic market not only through auctions, but also through private placements concluding a contract with creditors, as well as resumed the issuance of savings bonds.

The Ministry of Finance successfully borrows in the domestic market: organization of GS auctions conforms to recommendations of the World Bank and International Monetary Fund, as well as best foreign practice. During the audit no substantial problems related to the borrowing and debt management of the Ministry of Finance were detected; issues indicated in the report and recommendations given would allow to improve the efficiency of the GS management: i.e., to develop the domestic market, increase the demand of GS, which in the long run would help to reduce the debt management costs.

The Medium-Term Debt Management Strategy of the Government does not provide for the objective to develop and maintain the efficient domestic market; no analysis was conducted as to what is the maximum possibility to borrow in the domestic market. Establishment of the above mentioned objective and clear means to implement it would allow increasing the demand of GS issued in the domestic market, independence from foreign market and reduce the debt management costs in the future.

GS auctions in the domestic market are insufficiently regular and predictable. In 2<sup>nd</sup> half of 2006 – 2009 the Ministry of Finance systematically cancelled previously announced auctions, which had a negative impact on auction participants and investors. Such a practice raises the distrust in auction organizers, hampers the market development, and increases the debt management costs in

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<sup>1</sup> Auction – a process in a book of assignments during which assignments to purchase and sell new issues, reopened issues and issues of GS redeemed before maturity are accumulated and automatically implemented.

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the long-run. The Ministry of Finance does not announce the amount of the issued GS; issuing GS in the domestic market, did not always follow the established borrowing programmes and calendars.

Appropriate planning of the borrowing need, announcement of the information about how regularly Treasury bills and bonds will be issued and about the planned amount of the GS issue would enable to attract more investors and develop the domestic market, as well as ensure the transparency of the Government plans.

The Ministry of Finance does not use auction evaluation indicators, which show the interest of investors in Government securities with various maturities. Use of Bit-to-Cover or other evaluation indicators showing the interest of investors in auctions would allow attracting more investors.

The audit pointed out that issuance and maturity dates of GS were not always closely linked to the need for public cash on respective days. The Ministry of Finance should ensure the balance between the regular nature of borrowing and need for public cash: it would enable to optimize the planning of borrowing and help to reduce the costs of interests.

In order to eliminate the possible risk of settlement between auction participants, to ensure the proper understanding of information, stability and transparency, requirements to auction participants issued by the Ministry of Finance should set the minimum and maximum amount of GS, which has to / may be purchased by one auction participant / investor in one auction, as well as to set requirements for non-competitive bids.

Seeking to attract the interest of possible new auction participants and potential investors, the Ministry of Finance should announce more information on its website related to the GS issuance process, carrying out of auctions; explain what information has to be submitted along with the bid for GS by auction participants, as well as particularities of various bids and advantages to individual groups of investors.

We want to point out that issues set out in the report and the terminology used is technical, specific and in many cases meant only for experts. (Terms used and their abbreviations may be found in Annex 1 of the Report.)

## INTRODUCTION

Public debt<sup>2</sup> is the aggregate amount of the obligations assumed, but not discharged yet by the general government<sup>3</sup> entities entitled to borrowing in respect of the repayment to creditors of the funds borrowed under the Government of the Republic of Lithuania (hereinafter – Government) securities issued, loan, leasing agreements signed and other debt instruments.

Over 95 per cent of public debt is constituted of the funds borrowed on behalf of the State: funds borrowed, in accordance with the procedure laid down by the Government, by the Ministry of Finance representing the Government and received under GS issued, loan agreements signed and other debt instruments.

The growth of public debt, which slowed down in the period of 2006-2008 (in 2006 public debt grew by 12.2 per cent, in 2007 – by 11.8 per cent, in 2008 – by 4.1 per cent) in 2009 substantially quickened due to the global crisis in financial markets and other related reasons. During 2009 public debt rose by 56 per cent and at the end of the year it amounted to LTL 27.105 million. At the end of 2010 public debt amounted to LTL 36.588 million.

Up to 2008 the ratio of public debt to GDP constantly decreased and was one of the lowest in the European Union; however, during 2008-2009 it almost doubled: from 15.6 per cent to 29.5 per cent, and in 2010 this ratio amounted to 38.2 per cent. At the end of 2009 the State Budget deficit was 9.5 per cent of GDP, in 2010 – 7.1 per cent GDP. The Government plans to reduce the Budget deficit to 2.8 per cent of GDP by 2012 while maintaining the public debt level at around 38 per cent of GDP. These are ambitious objectives, and to achieve them a strict fiscal policy has to be followed, as well as debt obligations assumed on behalf of the State have to be managed efficiently.

With the rapid growth of the debt it is very important to properly choose the debt management strategy, to review and update it in a systematic and timely manner, as well as to reasonably manage risks of market, refinancing, currency exchange and interest rate. As the borrowing need increases it is purposeful to assess if all the possibilities to develop domestic market are used, it is also purposeful to assess the efficiency of the process of issuance of GS in domestic market, as well as to assess the possibilities of borrowing at the lowest cost and acceptable risk.

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<sup>2</sup> Law on State Debt No I-1508 of 22 August 1996.

<sup>3</sup> A sector which includes the sectors of central government (the Government and other entities of this sector), local government (municipalities and other entities of this sector) and state social security funds (the State Social Insurance Fund, the Compulsory Health Insurance Fund and other entities of this sector).

The process of issuance of GS in the domestic market has not been previously audited as a system, therefore this topic was chosen for assessment. Part of the Medium-Term Debt Management Strategy of the Government relating to the issuance of GS in the domestic market was assessed.

## AUDIT SCOPE AND METHODS

**Audit subject** – Management of the debt on behalf of the State

**Audited entity** – Ministry of Finance of the Republic of Lithuania

**Audit objective** – To assess the efficiency of the management of GS issued in domestic market.

**Assessment criteria:**

1. Compliance with legislation regulating the issuance of GS in the domestic market.
2. Efficiency of the management of GS issued in the domestic market: comparison of the management measures applied in Lithuania for GS issued in the domestic market with provisions of public debt management guidelines defined by International Monetary Fund, the World Bank, International Organization of Supreme Audit Institutions (hereinafter – INTOSAI) and the best foreign practice.

The following data and information was examined during the audit:

- Data on securities and auctions published by the Ministry of Finance, the Bank of Lithuania, AB NASDAQ OMX Vilnius (hereinafter – the Stock Exchange)<sup>4</sup>, as well as other institutions;
- Law on State Debt, Government resolutions, internal legislation of the Ministry of Finance regulating the management of public debt, borrowing on behalf of the State, issuance of GS in domestic market, etc.;
- Debt statements of the central Government drawn up by the Ministry of Finance, minutes of commissions, annual borrowing programmes, daily public cash flows, etc.
- Regulations, job descriptions, work and process manuals of units of the Ministry of Finance responsible for the management of the debt on behalf of the State and State cash flows;
- Publicly available information (press releases, websites of various institutions and / or countries, periodicals, etc.) and statistical data related to public borrowing and debt management.

The audit was conducted following the agreement stipulating the participation in INTOSAI Development Initiative (hereinafter – IDI) international capacity building project “Transregional Capacity Building Programme for Audit of Public Debt Management“ signed between heads of the National Audit Office of Lithuania and IDI. The project covers training of specialists from Supreme

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<sup>4</sup> Vilnius Stock Exchange.

Audit Institutions (hereinafter – SAIs) of various global regions. Project participants included representatives of 31 SAIs from AFROSAI, ASOSAI, CAROSAI, EUROSAI, ARABOSAI and PASAI. The project was carried out by IDI along with the Debt Management and Financial Analysis System Programme (DMFAS) of United Nations Conference on Trade and Development (UNCTAD), United Nations Institute for Training and Research (UNITAR) and INTOSAI Public Debt Working Group.

In the audit we followed Public Auditing Requirements<sup>5</sup>, provisions of documents of International Monetary Fund, the World Bank, as well as INTOSAI Public Debt Working Group, best audit practice examples of foreign SAIs and other documents. The audit was carried out in line with methodology guidelines, exemplary documents and reporting schedules provided by IDI and external experts taking part in the project.

During the audit we interviewed the management and staff of the Ministry of Finance, staff of the Bank of Lithuania, IDI experts, as well as auditors assessing the public debt management from foreign SAIs. Continuous consultations with visiting experts of the IDI project were held: independent experts from the USA, INTOSAI Public Debt Working Group, the World Bank, as well as from Debt Management and Financial Analysis System Programme of the United Nations Conference on Trade and Development.

During the audit we surveyed Lithuanian commercial banks and financial institutions, which have an agreement with the Ministry of Finance on participation in auctions of GS.

Audited period: 2006-2009; in some cases data of 2010 was used for comparison.

Audit evidence was collected following the attitude that audited entities and other bodies submitted comprehensive and objective information, and copies of the submitted documents correspond to their originals.

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<sup>5</sup> Approved by the Order of the Auditor General No V-26 of 21 February 2002 (with later amendments).

## AUDIT RESULTS

### 1. Overview of Government securities issued in the domestic market

The Government borrows in the domestic market through issuance of bonds (GS with maturity of over one year) with maturity of 3, 5, 7 and 10 years, and Treasury bills (GS with maturity of under one year) with maturity of 1, 3, 6, 9 and 12 months.

In 2006-2007, GS were issued only through auctions<sup>6</sup>. Global financial crisis and the related higher need for funds, as well as difficulties of borrowing encouraged the Government to issue GS in the domestic market by private placement as well. In 2008, private placement of GS amounted to 12 per cent of all the GS issued in the domestic market, while in 2009 – 56 per cent.

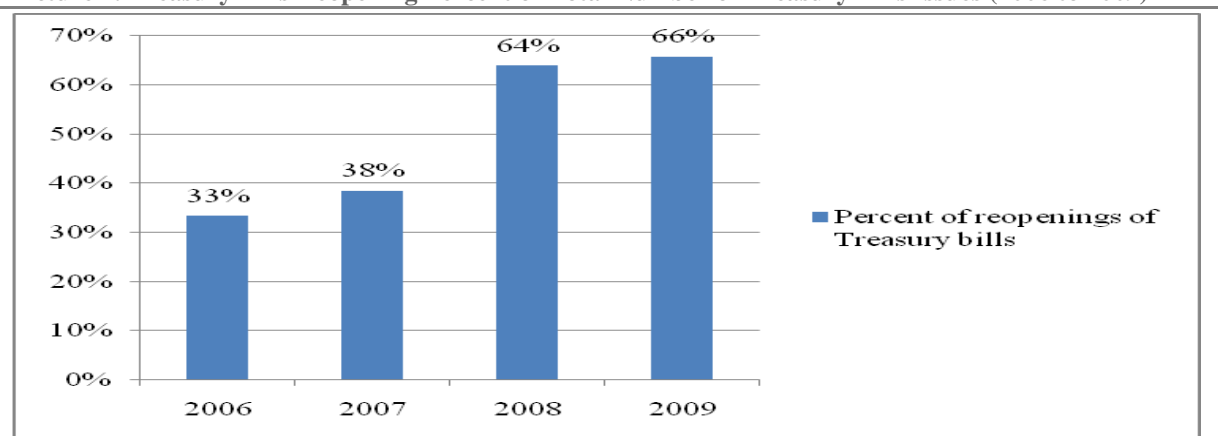
Since May 2009 the Government resumed the stopped issuance of savings bonds – securities, which are not the object of public secondary circulation of securities issued by the Government in retail.

#### 1.1. GS by maturity and amount

In 2006–2009 there were only two new issues of bonds; they were reopened during the remaining 23 auctions of bonds.

Since 2006 the percent of reopening of Treasury bills doubled from the total number of short-term GS auctions organized in the domestic market: 66 per cent of auctions of Treasury bills organized in 2009 were reopening of issues (Picture 1).

**Picture 1. Treasury Bills Reopening Percent of Total Number of Treasury Bills Issues (2006 to 2009)**

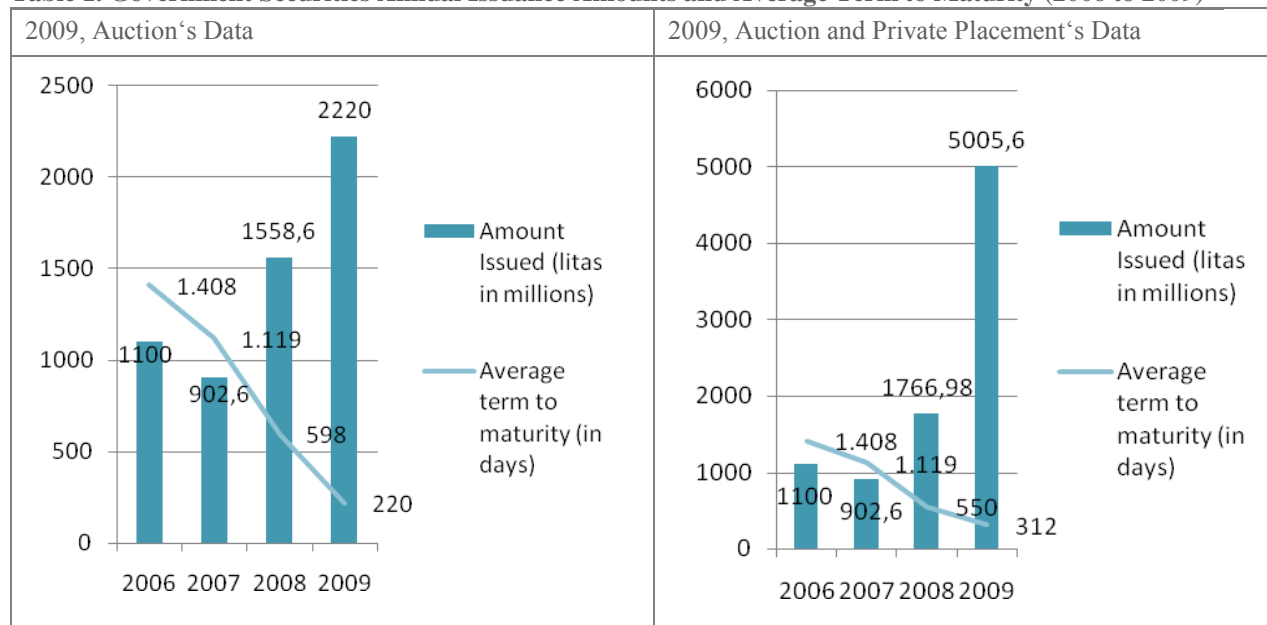


Source - National Audit Office of Lithuania

<sup>6</sup> Auction – a process in a book of assignments during which assignments to purchase and sell new issues, reopened issues and issues of GS redeemed before maturity are accumulated and automatically implemented.

Since 2006 the average residual<sup>7</sup> maturity of securities issued in the domestic market decreased, and the maturity of GS issued in auctions in 2009 was 220 days; including the private placements the maturity grows to 312 days<sup>8</sup> (Table 1).

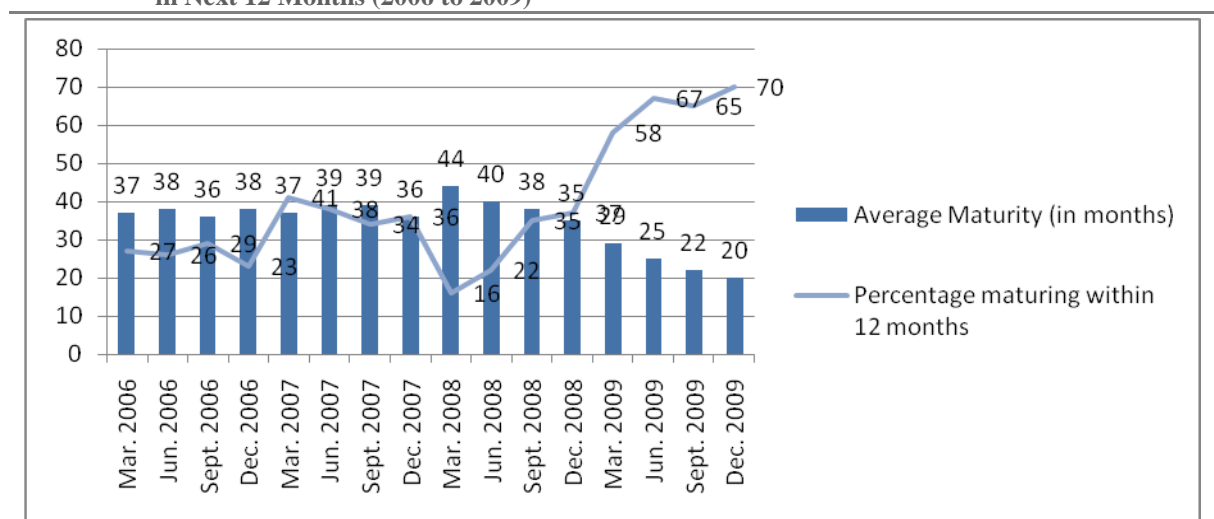
**Table 1. Government Securities Annual Issuance Amounts and Average Term to Maturity (2006 to 2009)**



Source - National Audit Office of Lithuania

In 2006-2007 the average maturity of outstanding GS ranged about 36-37 months; at the beginning of 2008 it reached 44 months limit, while in December 2009 the average maturity of outstanding GS was 20 months. A share of GS issued in domestic market, which have to be redeemed in the course of the year increased to 70 per cent (Picture 2).

**Picture 2. Average Maturity of Treasury Outstanding Marketable Securities and Percentage Maturing in Next 12 Months (2006 to 2009)**



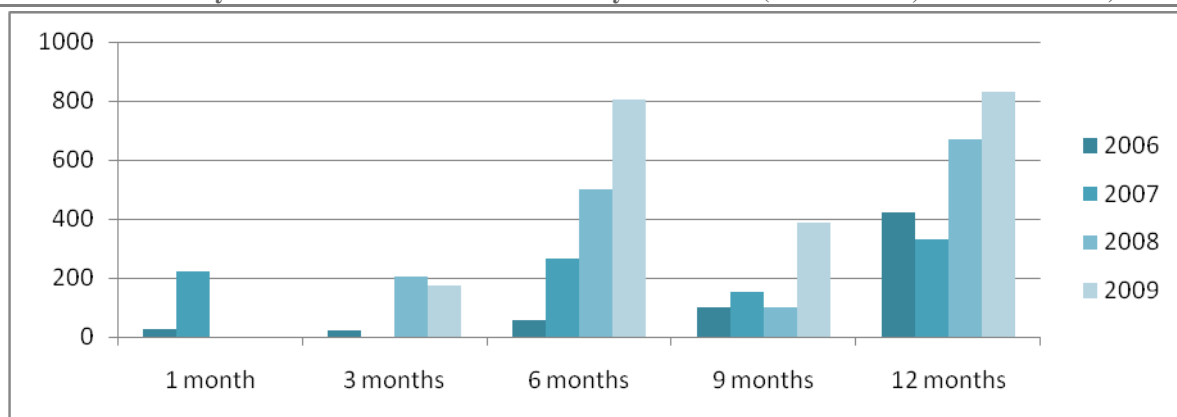
Source - National Audit Office of Lithuania

<sup>7</sup> Residual maturity is calculated by deducting the date of payment of concrete issue from the date of final redemption of the issue.

<sup>8</sup> Savings bonds are not included into calculations. All the distributed savings bonds were with maturity of 1 year.

In 2006–2009 Treasury bills with maturity of 12 months were issued in largest amounts; in the second place were Treasury bills with maturity of 6 months (except for 2007 when the amount of Treasury bills with maturity of 9 months was larger). In 2008-2009 Treasury bills with maturity of 1 month were not issued at all (Picture 3).

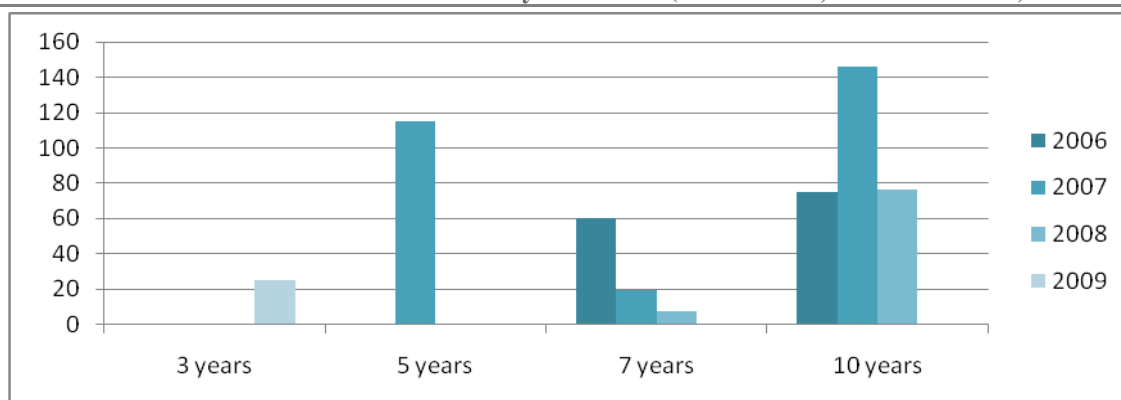
**Picture 3. Treasury Bills Annual Issuance Amounts by Maturities (2006 to 2009, Litas in millions)**



Source - National Audit Office of Lithuania

In years of financial recession, the demand for long-term securities decreased. Therefore in 2009 only one new medium-term government security was issued: bonds with maturity of 3 years. In 2006–2008 long-term GS issued in 2006 and earlier were reopened, bonds with maturity of 5 and 10 years were issued in largest amounts (Picture 4).

**Picture 4. Bonds Annual Issuance Amounts by Maturities (2006 to 2009, Litas in millions)**

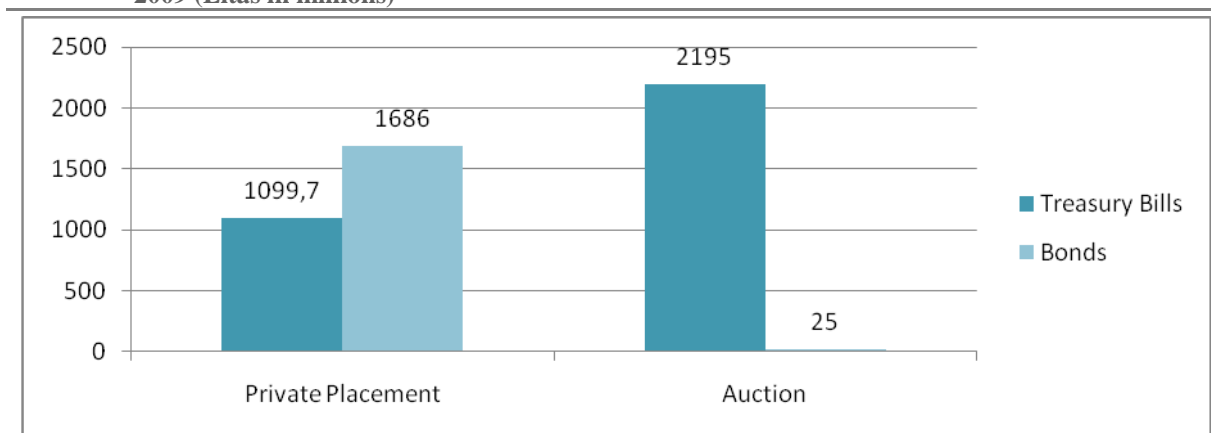


Source - National Audit Office of Lithuania

In 2009 only one issue of medium-term bonds was issued through auctions, while all the other GS with maturity of over one year were issued by private placement. However, average maturity of bonds issued by private placement was 394 days in 2009, and bonds of this maturity constituted 33.5 per cent of all GS issued in 2009.

In 2009, 99 per cent of amount borrowed through auctions is constituted of Treasury bills (Picture 5).

**Picture 5. Comparison of Annual Issuance Amounts Issued through Auction and by Private Placement, 2009 (Litas in millions)**



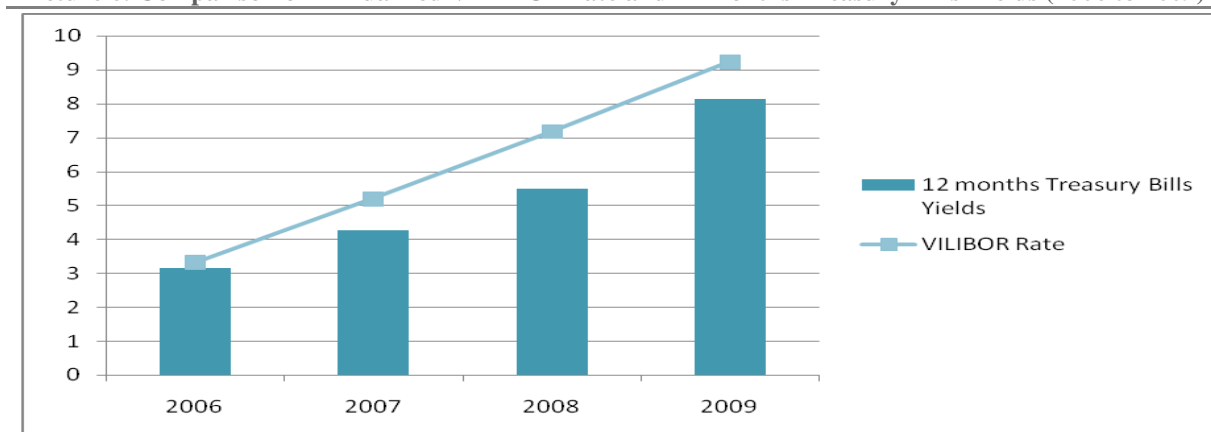
Source - National Audit Office of Lithuania

## 1.2. Yield of GS

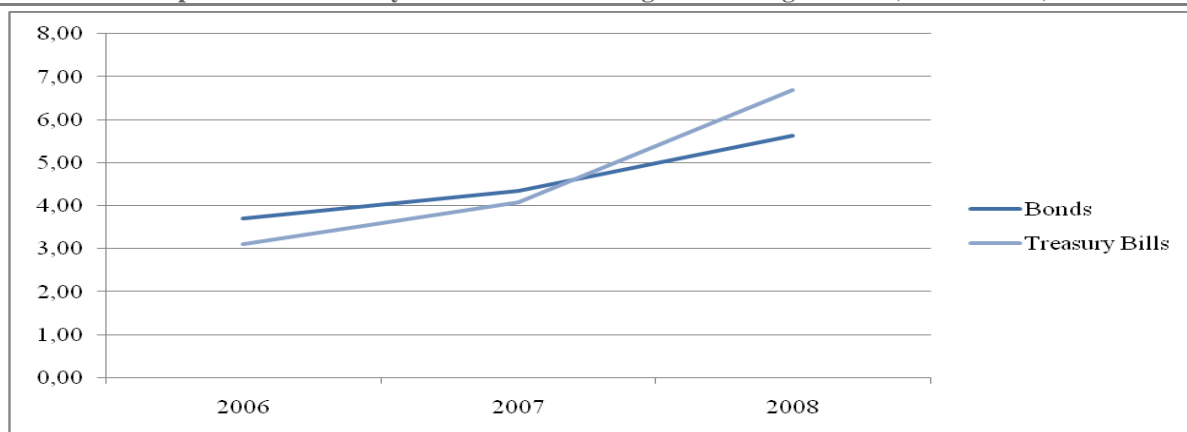
Since 2008, inter-bank interest rates VILIBOR kept on constantly growing. Fast growth of VILIBOR at the end of 2008 was determined by the surge of country, currency and debtor risk, as well as the lack of inter-bank trust. In 2008 the interest rate exceeded 10 per cent margin and approached it again in half a year – in the middle of 2009.

Comparison of one year VILIBOR interest with the yield of domestic GS with the same maturity issued in Litas shows that VILIBOR interest rate changes in time in the same way as the yield of GS with the same maturity (Picture 6).

**Picture 6. Comparison of Annualized VILIBOR rate and 12 months Treasury Bills Yields (2006 to 2009)**



Source - National Audit Office of Lithuania

**Picture 7. Comparison of Treasury Bills and Bonds Weighted Average Yields (2006 to 2008)**

Source - National Audit Office of Lithuania

During 2006-2008<sup>9</sup> the weighted average yield<sup>10</sup> of Treasury bills rose by 3.59 percentage points, while the weighted average yield of bonds – by 1.94 percentage points. In 2008, the weighted average yield of Treasury bills was higher than the yield of bonds (Picture 7), and the reason for that is that at the second half of 2008, when the yield suddenly started to grow no bonds were issued.

<sup>9</sup> In 2009 there was only one issue of bonds, therefore the data of 2009 was not comparable.

<sup>10</sup> Weighted average yield is the return of securities.

## 2. Issuance of GS through auctions

In the domestic market GS are issued following the Procedure for Issuance and Circulation of GS approved by the Resolution of the Government<sup>11</sup>. The procedure regulates the organization of sale, settlements, accounting, circulation and redemption of GS issued in the domestic market, as well as rights and obligations of mediators of public circulation of GS. Securities may be issued through published auctions and through other established procedures. It should be pointed out that no other ways of issuance of securities in the domestic market are established. According to the data of the Ministry of Finance, draft amendment Resolution of the Government on the Resolution of the Government of the Republic of Lithuania No 1329 of 3 December 1997 on approval of procedure for issuance and circulation of securities of the Government of the Republic of Lithuania is drawn up, which is currently being adjusted.

### 2.1. Process of organization of auctions of GS

Until February 2009, auctions of GS were organized by the Bank of Lithuania in line with the agreement between the Bank of Lithuania and the Ministry of Finance following which the Ministry of Finance authorized the Bank of Lithuania to organize auctions for selling and repurchasing of GS, as well as to organize redemption of GS and payment of coupon payments<sup>12</sup>. Organization of auctions of GS in domestic market and requirements for participants of an auction were regulated by the Resolution<sup>13</sup> of the Board of the Bank of Lithuania.

Since February 2009 the organization of auctions has been assigned to Stock Exchange by the common agreement of the Bank of Lithuania and the Ministry of Finance, while the supervision of participants of auctions has been assigned to the Ministry of Finance. In January 2009, minutes of the meeting of the Management Board of Stock Exchange approved new regulations<sup>14</sup> for auctions of GS, which regulate the procedure for new issues, reopened issues and issues of GS redeemed before maturity; publishing of information on issued GS or GS redeemed before maturity, as well as results of their issuance or redemption.

The Order of the Minister of Finance approved the Inventory of Requirements for Participants of GS Auction<sup>15</sup>. The Inventory establishes requirements for participants of GS auction,

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<sup>11</sup> Resolution of the Government No 1329 of 3 December 1997 on approval of procedure for issuance and circulation of GS.

<sup>12</sup> Coupon payment is an interest payment on securities for an investor.

<sup>13</sup> Resolution of the Board of the Bank of Lithuania No 112 of 1 July 2004 On Approval of Provisions for Auction of GS of the Republic of Lithuania and Requirements for Participants of Auction of GS of the Republic of Lithuania.

<sup>14</sup> Regulations for Auctions of GS approved by the minutes No 09-75 of the meeting of the Management Board of Stock Exchange on 12 January 2009.

<sup>15</sup> Order of the Minister of Finance No 1K-009 of 21 January 2009 On Approval of the Inventory of Requirements for Participants of GS Auction.

their rights and responsibilities. Following the Order of the Minister of Finance<sup>16</sup>, a commission of GS auction was drawn up and assigned to assess proposals and make decisions on issuance of GS through auction and / or their redemption before maturity.

**Main changes after the organization of GS auctions was transferred from the Bank of Lithuania to the Stock Exchange<sup>17</sup>**

- Participants of auctions had to satisfy the requirements of the Bank of Lithuania. Currently participants of auctions have to be members of the Stock Exchange and participants of Depository. Since auction participants are members of the Stock Exchange and participants of Depository by the nature of their activities, they do not have to fulfill any additional technical requirements, since all of them submit assignments to the Stock Exchange to sell and purchase securities, therefore they may use the same technical base.
- The Ministry of Finance sets requirements for auction participants and exercises their supervision. Previously these functions were performed by the Bank of Lithuania;
- Wider dissemination of information;
- Commission of auctions is constituted only of representatives of the Ministry of Finance (previously representatives of the Ministry of Finance and the Bank of Lithuania took part);
- Auction results used to be transferred by fax, currently everything is conducted electronically.

The Ministry of Finance makes a decision on issuance of GS based on the borrowing need according to forecasts of the financial resources of the State. Based on annual borrowing need, a preliminary annual plan for auctions of GS issues is drawn up, which is not published. Every quarter quarterly issuance calendars are compiled, which may be revised according to the changed borrowing need or market situation. Quarterly issuance calendars have to be published no later than 10 days before the start of the quarter.

No later than five days before an auction of GS, a decision on organization or cancelling of previously published auction is published on the Internet. The decision provides key characteristics of an issued GS: date of auction, payment date, maturity of an issue, currency.

Only participants<sup>18</sup> of an auction may participate in auctions of GS. During the auction participants of the auction submit competitive<sup>19</sup> and non-competitive<sup>20</sup> bids to acquire GS.

Yield of GS issues is established by the Commission<sup>21</sup> of GS Auction drawn up by the Ministry of Finance on the basis of Rules for Defining the Yield<sup>22</sup>. In the auction, competitive bids are ranked in ascending order of yield, weighted average yields are calculated. Then the Ministry of Finance determines an acceptable average yield and amount of an issue. Amount of an issue is

<sup>16</sup> Order of the Minister of Finance No 1K-010 of 21 January 2009 On Drawing up of Commission of GS Auction. Until February 2009 members of the commission of GS auction were approved by the Order of the Minister of Finance No 1K-403 On Approval of Members of the Commission of GS Auction of the Republic of Lithuania (with later amendments). Meetings of the commission were held in the Bank of Lithuania, which was the organizer of an auction.

<sup>17</sup> As per explanation of the Ministry of Finance.

<sup>18</sup> Auction participants are members of Stock Exchange, who have the right granted by the Ministry of Finance to participate in auctions, as well as the right granted by the Stock Exchange to participate in trade in the market of debt securities.

<sup>19</sup> By submitting non-competitive bids, investors indicate the yield expected from the Ministry of Finance. The Ministry of Finance meets tenders based on lowest yield.

<sup>20</sup> Non-competitive tenders are met by weighted average yield, which is set during the auction, i.e., not published before, and which was used to meet competitive bids.

<sup>21</sup> Order of the Minister of Finance No 1K-010 of 21 January 2009 On Drawing up of Commission of GS Auction.

<sup>22</sup> Order of the Minister of Finance No 1K-104 of 11 April 2005 On the Rule for Setting the Limit for Highest (Lowest) Yield and / or Amount of Issue of government issues of the Republic of Lithuania issued through auction, amended by the Order 1K-118 of 16 April 2009.

established taking into consideration the yield and need for borrowing. Bids of non-competitive auction are met on the basis of the established acceptable yield. Competitive auction meets competitive bids at yields established by the Ministry of Finance or lower yields based on the amount of the issued GS.

General accounting of an issue and circulation of GS is handled by the Central Securities Depository of Lithuania.

## 2.2. Bid-to-Cover ratio of GS auctions

On the basis of best practice, debt managers should use auction evaluation ratios, which identify the interest of investors in securities with various maturities. Many countries announce Bid-to-Cover ratios of GS auctions. For example, USA, UK, Thailand and Armenia use Bid-to-Cover ratio to identify attractiveness of an auction and GS demand; Canadian debt managers publish the analysis of Bid-to-Cover ratio in annual debt management reports. This ratio is calculated dividing the total par amount of securities bids by the total par amount of securities awarded. If the ratio is higher than 2, then auctions are considered as successful; lower ratio shows insufficient / declining interest in auctions.

The Ministry of Finance does not use auction evaluation ratios. During the audit the Bid-to-Cover ratio of GS auctions conducted in 2006-2009 was examined.

### *Bid-to-Cover ratio of Treasury bills*

In 2006-2009 Treasury bills with residual maturity of 3, 6, 9 and 12 months were taken for analysis of Bid-to-Cover ratio of Treasury bills. Treasury bills with such residual maturity constitute 76 per cent of the total amount of short-term GS issued in 2006-2009, furthermore, they were issued yearly.

During the period of 2006-2009, highest Bid-to-Cover ratio of Treasury bills was in 2007. During that period, average Bid-to-Cover ratio of Treasury bills dropped lower two times: in 2006 and in 2008 (Table 2).

**Table 2. Analysis of Bid-to-Cover Ratio of Treasury Bills, 2006–2009**

Residual maturity	2006		2007		2008		2009	
	B-to-C Ratio	% from amount	B-to-C Ratio	% from amount	B-to-C Ratio	% from amount	B-to-C Ratio	% from amount
3 months	1,9	12	8,5	3	1,1	31	2,5	39
6 months	2,3	15	3,4	31	2,3	16	3,3	28
9 months	2,1	24	2,6	4	1,5	9	5,2	3
12 months	1,7	19	3,6	41	2,1	12	3,2	12
Average	1,9		4,10		1,9		3,1	

Source - National Audit Office of Lithuania

It should be pointed out that in the audited period the highest amount of short-term GS with the highest bid-to-cover ratio was not issued. Only in 2007 the issuance of Treasury bills with residual maturity of 9 months with the lowest Bid-to-Cover ratio was minimal – 4 per cent from total amount, while in 2008-2009 the issuance of Treasury bills with residual maturity of 3 months with the low Bid-to-Cover ratio that year was highest: respectively 31 per cent and 39 per cent.

### *Bid-to-Cover ratio of Bonds*

In 2006, interest in long-term GS was similar to that in 2007-2008: Bid-to-Cover ratio was low and did not reach 2. In 2009 there was only one medium-term bonds issue; therefore it is difficult to assess the Bid-to-Cover ratio. According to the Ministry of Finance, in 2009 only one long-term GS auction was held, since due to unstable situation in financial markets it was too risky to invest in long-term GS (Table 3).

**Table 3. Analysis of Bid-to-Cover Ratio of Bonds, 2006–2009**

Residual maturity	2006		2007		2008		2009	
	B-to-C Ratio	% from amount	B-to-C Ratio	% from amount	B-to-C Ratio	% from amount	B-to-C Ratio	% from amount
10 years	3,50	56	-	-	-	-	-	-
9 years	-	-	2,62	31	-	-	-	-
8 years	-	-	3,04	4	1,81	91	-	-
6 years	-	-	2,34	18	-	-	-	-
4 years	1,73	44	-	-	-	-	-	-
3 years	-	-	5,96	7	-	-	3,12	100
2 years	-	-	1,94	41	2,16	9	-	-
Average	2,84	-	2,8	-	1,88	-	3,12	-

Source - National Audit Office of Lithuania

In 2006, Bid-to-Cover ratio of bonds with maturity of 10 years was 3.5, while with residual maturity of 4 years was 1.73. It shows that an interest in long-term bonds was significantly higher.

In 2007, the lowest interest was in bonds with residual maturity of 2 years although bonds with such amount were issued in highest per cent calculating from amount of all the long-term GS issued during the year. Only 7 per cent of bonds with residual maturity of 3 years, which were the most popular bonds, were issued.

In 2008, the Bid-to-Cover ratio of only first two issues of bonds was over 2; starting with May, for example, Bid-to-Cover ratio of one of the most popular bonds in 2007 with residual maturity of 8 years did not reach 2. The decreased Bid-to-Cover ratio of long-term GS and the increased borrowing price (in October 2008 one auction did not happen due to too high proposed yield) determined that in 2009 only one auction of GS issue with maturity of 3 years took place.

Issuing GS the Ministry of Finance does not use auction evaluation ratios. Analysis of such ratios would enable to increase the demand of GS.

After an auction the Ministry of Finance makes publicly available the results of the auction. With regard to best practice, we think that in order to present thorough information about the auction it is purposeful to make publicly available evaluation ratios of auctions and their analysis.

In the period of 2006-2009, an average bid-to-cover ratio of Treasury bills did not drop lower than 2, while bid-to-cover ratio of bonds did not reach 2 only in 2008, when symptoms of financial crisis started to appear in Lithuania, and investments to long-term GS became too risky.

### 2.3. Annual planning of calendars of GS auctions

Following the Guidelines for Public Debt Management<sup>23</sup> drawn up by experts of the World Bank and International Monetary Fund, debt management operations have to be transparent, regular and predictable in the primary market. Therefore it is extremely important to apply a preauction system accepted in many countries of the world when information about auctions is published in advance. When there is no sufficient information available, it results in a lack of transparency. Sufficient transparency provides investors with assurance, reduces prices of transactions, encourages a more active participation of investors in auctions, as well as helps the Government to reduce costs of debt servicing in the long run.

Having assessed foreign practice we identified that debt managers seek the maximum transparency and dissemination of information in order to ensure an efficient domestic market. To enable investors to envisage and plan their investments in advance, detailed annual borrowing plans are made publicly available along with annual or half-yearly calendars of auctions.

Countries disclose materially important aspects of their debt management operations and information on the Government's financial condition.

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<sup>23</sup> Guidelines for Public Debt Management: Accompanying Document, The International Monetary Fund and The World Bank, 2002.

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### Examples

For the **Italian** Treasury, transparency is a strategic priority and the commitment to it is very strong. A document illustrating the strategic guidelines of public debt management is published yearly on the web site. The strategic guidelines disclose the objectives of the Public Debt Direction in terms of risk management, portfolio composition, and liquidity of the securities on the secondary market, forecasts of possible gross issuances and of number of new bonds and treasury bills to be placed on the market. The public disclosure of strategic cost/risk analysis and objectives is also at an early stage and has been provided in the last strategic document. The annual auction calendar is also available on the web site.

To make debt issuance transparent and predictable, the Ministry of Finance on **Japan** formulates and announces a government bond issuance plan for the coming fiscal year, at the same time when the budget is announced. The issuance plan consists of two parts: classification by funding purpose and classification by issuance methods and maturity.

**UK** publishes annual calendars of auctions on the Internet page of the Treasury; **USA** announces half-yearly calendars of auctions on the Internet page of the Treasury Department. Apart from the half-yearly borrowing calendar of GS, the Treasury Department also publishes the calculations for the half-year borrowing need: amounts, which are expected to be borrowed through issuance of GS in the coming half-year.

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The Ministry of Finance drafts preliminary annual calendars for issuance of GS in the domestic market; however, they are not approved and are not made publicly available: the National Audit Office of Lithuania was submitted *Excel* files without the date of drafting and without signatures of the staff members who drafted the documents and managers who reviewed and confirmed them.

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### Opinion of auction participants on publishing of annual preliminary auction calendars

All the respondents replied that in order to provide additional information for investors on plans of the Government to borrow through issuance of GS in domestic market, preliminary annual calendars for issuance of GS have to be made publicly available.

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According to the Ministry of Finance, preliminary annual calendars for GS auction are drawn up on the basis of annual borrowing programmes. The analysis of annual borrowing programmes for 2006-2009 shows that:

- Borrowing programmes for 2006-2008 did not indicate concrete amounts: how much was planned to borrow in the domestic and how much in foreign market, as well as how much was planned to borrow through issuance of GS; all this data is in the borrowing programme for 2009.
- Special commission<sup>24</sup> for making decisions on borrowing drawn up by the Ministry of Finance approves annual borrowing programmes only from 2009 m<sup>25</sup>.

Having compared the annual borrowing programmes, preliminary annual calendars for auctions with borrowing in domestic market through issuance of GS, it was detected that the Ministry of Finance did not always follow the self-established programmes and calendars when borrowing in domestic market:

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<sup>24</sup> Commission for Decisions on Borrowing of the Government on Behalf of the State, on Purchasing of Services Related to Borrowing of the Government on Behalf of the State and Management of Obligations Assumed When Borrowing, and on Management of Obligations Assumed When Borrowing by Government and Financial Resources.

<sup>25</sup> For more information see the performance audit report of the National Audit Office of Lithuania of 30 July 2007 No 60-5P "Management of the public debt".

### Examples

**In 2006** new bonds were issued with maturity of 10 years, although only reopened bonds issues were planned. **In 2006** calendar of auctions was without the planned to borrow amounts, and it is not clear what were the dates planned for auctions.

**In 2007** the planned new bonds with maturity of 5 years were not issued; the unplanned bonds issue with maturity of 7 years was reopened, the planned bonds issue with maturity of 3 years was not reopened. **In 2007** the auction calendar forecasts preliminary amounts and maturities of GS. During 2007, in many cases the planned to borrow amounts and maturities do not correspond to the actually borrowed. At auction on 5 February 2007 it was planned to borrow LTL 30 million through reopening of issue with 5 year maturity. Instead, there was a new issue of LTL 120 million with maturity of 12 months. Comparing to the initial plan of 2007, in September there were held 2 auctions less, in October no auctions took place. In November all the auctions were cancelled, and in December 2 auctions were cancelled.

**In 2008** bonds issues with maturity of 7 years and 10 years were re-opened, it was planned to reopen issues with 5 years and 10 years.

**In 2009** instead of the planned to reopen bonds issues, new bonds with maturity of 3 years were issued.

### Explanation of the Ministry of Finance

Amendment of borrowing calendars was an expedient reaction to the changed needs of borrowing and to the market situation.

Preliminary annual plans for issuance of GS in the domestic market are not approved and not made publicly available. It is not possible to identify on what basis and when the plans were drawn up.

Having compared the annual borrowing programmes, data of calendars for auctions with the data of actually held auctions, it was detected that the Ministry of Finance did not always follow the self-established borrowing programmes and calendars. It is our opinion that the planning process needs improvement.

Taking into consideration recommendations of guidelines of public debt management and best foreign practice, the Ministry of Finance should announce more detailed information about the planned borrowing in the domestic market.

## 2.4. Disclosure of information about issuance of GS

### *Quarterly auction calendars*

Announcement of primary issuance calendars allows market participants to develop their investment strategies, as well as reduces the issuer's execution risk by increasing participation in the primary market.<sup>26</sup>

Apart from transparency, most focus should be placed on possibility to forecast auction process in advance, since regular nature of issues and their regular nature and predictability increase the demand of GS. Therefore many debt managers announce quarterly detailed auction calendars in the course of the year, which provide information about the legal basis of auction organization,

<sup>26</sup> A Framework for Developing Secondary Markets for GS, International Monetary Fund, 2008.

results of auctions held in previous quarter, changes from annual plan, regular nature and frequency of auction, as well as characteristics of GS.

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#### Examples of calendars of quarter auctions

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##### **Mexico**

- legal basis of organization of auctions;
- key aspects of strategy for issuance of GS in that quarter;
- changes from initial annual plan;
- results of previous quarter;
- dates and regular nature of auctions;
- type, maturity, amount of GS.

##### **Germany**

- changes from annual plan;
  - auction dates;
    - whether it is a new issue or reopening;
  - number, type and coupon (in the case of bonds) of GS issue;
  - first payment of interest.
- 

No later than 10 days to the start of the quarter GS auctions with the following information are made publicly available by the Ministry of Finance:

- ▶ auction date;
- ▶ payment date;
- ▶ maturity date;
- ▶ currency;
- ▶ maturity (in days).

Calendars of quarterly auctions are revised in the course of the year. Comparing the foreign practice for disclosure of information we think that the Ministry of Finance should announce more information in quarterly auction calendars. They could include the following information useful for investors: how the quarterly auction calendar changed compared to annual plan; well-grounded reasons for changes in quarterly auction calendars, etc.

#### *Auction Announcement*

Prior to every auction the Ministry of Finance announces terms of the issue. Apart from information included in the quarterly calendar, the announcement indicates the following:

- auction type;
- auction organizer;
- issue number;
- par value of one issue;
- coupon amount calculated in the course of the year, payment calendar (in the case of bonds);
- whether it is a new issue or reopening;
- the amount to meet non-competitive bids.

It should be pointed out that although the announcement contains a line “Offering amount“, however, it is not announced in advance and is settled during the auction. However, information about the offering amount is one of the key factors for investors when making decisions on procurements of GS and investment planning.

The principle of publicity requires the Government to be open about its future securities transactions. Timely public announcements of the Government’s auction calendar, including offering amounts and their maturities, and tender or auction procedures, are also necessary for market awareness and assessment of the Government’s market activities<sup>27</sup>. The Guidelines for Public Debt Management<sup>28</sup> recommended by the World Bank and International Monetary Fund lay out that an issuer does not benefit from holding secret the offering amount and date, since auction participants usually draw their own conclusions about the information, which is not disclosed. Therefore many debt managers in their annual / half-yearly calendars of GS auctions announce auctions dates, regular nature of auctions by maturity, while exact amounts and maturities of GS offering are announced one or two weeks prior to the auction. The analysis of foreign practice shows that the latest announcement of offering amount was noticed in Ireland and USA, when the planned amount to be issued is published in the announcement about the issue. Whereas Germany indicates approximate offering amounts planned for the next year in annual auction calendar.

**The following information is contained in the USA offering announcement about the issue<sup>29</sup>:**

1. maturity of GS,
2. type of GS,
3. amount,
4. outstanding amount (if it is a reopening of an issue),
5. number,
6. auction date,
7. date of first issue,
8. payment date,
9. maturity date,
10. minimum amount of non-competitive bid,
11. maximum amount of non-competitive bid,
12. maximum amount of competitive bid,
13. maximum amount of non-competitive bid in one yield;
14. time,
15. other information from legal documents.

The fact that information about the offering amount of GS is not announced in advance, receives a negative reaction from auction participants:

#### **Opinion of auction participants**

All the auction participants emphasized that the announcement of information about offering amount of GS in advance to auctions is necessary and to be encouraged. Disclosure of information about offering amounts would allow the investors to more efficiently and more accurately plan their investments and would increase the demand of bonds in auctions with the planned wide extent. 3 respondents out of 8 stressed that disclosure of preliminary borrowing need could be included in quarterly calendars.

<sup>27</sup> Developing a Government Bond Market: An Overview, International Monetary Fund, the World Bank.

<sup>28</sup> Guidelines for Public Debt Management: Accompanying Document, International Monetary Fund, The World Bank, 2002

<sup>29</sup> [http://www.treasurydirect.gov/instit/annceresult/press/preanre/2010/A\\_20101103\\_1.pdf](http://www.treasurydirect.gov/instit/annceresult/press/preanre/2010/A_20101103_1.pdf).

With regard to the previously stated information we think that in order to preserve the flexibility, the Ministry of Finance may not announce the planned offering amounts in annual or quarterly auction calendars; however, this should be done one of two weeks prior to the auction, i.e. the offering amount should be published in the announcement about the issue.

The Ministry of Finance points out that not disclosing the offering amount in the announcement about the issue it protects itself from possibility to damage the reputation in the public in the case it would fail to borrow the planned amount. However, with regard to foreign practice we think that there are better ways to ensure that sufficient bids will be received by auction participants than to hold secret the total amount offered. For example, in requirements for auction participants the USA debt managers set the requirement to submit GS of no smaller amount than determined to acquire in every auction, and the proposed yield should be acceptable prices compared to market situation.

**Excerpt from requirements for auction participants set by USA<sup>30</sup>**

Primary dealers should participate similarly in support of Treasury auctions: the New York Fed will expect a primary dealer to bid in every auction, for, at a minimum, an amount of securities representing its pro rata share, based on the number of primary dealers at the time of the auction, of the offered amount. Its bid prices should be reasonable when compared to the range of rates trading in the when-issued market, taking into account market volatility and other risk factors.

***Reopening of GS***

The Ministry of Finance generally expresses the maturity of GS in days in the announcement. In the practice of other countries the maturity is generally announced not in days, but in months or years; if it is announced in days, e.g. in USA, then the maturity does not vary too much. In Lithuania the maturity is different every time, it is unpredictable.

In Annual Review of GS Market<sup>31</sup> data about all the issues is announced in months by the Ministry of Finance calculating maturities from the date of new issue and not taking into consideration reopening of issues.

Maturities of new issues are usually 1, 3, 6, 9 and 12 months for Treasury bills, while 3, 5, 7 and 10 years for bonds. Since due to shallow nature of Lithuanian market there is no possibility for large amount issue at once, issues are reopened. Issues are reopened in order to seek liquidity: issues of larger amount are usually more liquid. Such a way of promoting liquidity is used worldwide. In 2002 a research with the topic “Are Larger Treasury Issues More Liquid”<sup>32</sup> was conducted in USA, during which the relation between the liquidity and issue amount was examined. The results revealed that larger amount issues are more liquid. Reopening of government security issues is positively assessed by auction participants interviewed during the audit.

<sup>30</sup> [http://www.ny.frb.org/markets/pridealers\\_policies.html](http://www.ny.frb.org/markets/pridealers_policies.html).

<sup>31</sup> [http://www.finmin.lt/web/finmin/vyriausybes\\_vertybiniai\\_popieriai/VPP\\_rinkos\\_apzvalga](http://www.finmin.lt/web/finmin/vyriausybes_vertybiniai_popieriai/VPP_rinkos_apzvalga).

<sup>32</sup> “Are Larger Treasury Issues More Liquid?” Michael J. Fleming, 2002.

The Ministry of Finance announces quarterly information about the planned GS issues. Compared to foreign practice and recommendations of experts, insufficient information is announced in quarterly auction calendars. In order to achieve greater transparency and more active investor participation and taking into consideration the practice of other countries, information about the issue of GS announced in advance should be more detailed.

The Ministry of Finance does not announce the offering amount of the issue, which has a negative impact on the domestic market and investors. Proper planning of a borrowing need and announcing of the planned offering amount of GS prior to the auction would allow to attract more investors, as well as to develop the market and ensure the transparency of the information about the Government plans.

The Ministry of Finance follows the best practice and seeking the liquidity of GS reopens issues.

Since the percent of reopening of GS from all the GS issues is averaging over 60 per cent, therefore with the aim to ensure a proper disclosure of information, the data about the reopened issues during the year should be made public.

## 2.5. Regular nature of GS auctions

Following the recommendations of the World Bank and International Monetary Fund<sup>33</sup>, apart from transparency most focus should be placed on the possibility to forecast the auction process, since regular nature of issues and their adaptation to investors' needs increases the demand of GS. Regular and predictable auctions encourage the investment to GS, increase their liquidity and allow borrowing at the best market terms. Transparency, liquidity and regular nature – these are the principles, which are emphasized and included in public debt management strategy of foreign countries. Namely these principles should be the basis for drawing up the domestic debt programme and its implementation. The Government has to make publicly available the strategy and plans; also to regularly consult with market participants in order to ensure the integrity of the market and appeal to dealers and investors.

### Excerpt from Debt Management Strategy of Canada

Important aim of debt management strategy of **Canada** is the maintaining of liquid and well-functioning market of GS. In order to implement this aim, Canada follows these principles: transparency, liquidity and regular nature.

The analysis of foreign practice revealed that GS are issued with certain regular nature. Debt managers publish in advance in annual and / or quarterly calendars of GS auction about how regularly Treasury bills and bonds are going to be issued.

### Example

In **Mexico** Treasury bills with maturity of 1, 3, 6 months are planned to issue every week, while Treasury bills with maturity of 12 months are planned to be issued once per four weeks<sup>34</sup>.

In **USA** Treasury bills with maturity of 4, 13, 26 weeks are issued every week, Treasury bills with maturity of 52 weeks are issued every month<sup>35</sup>.

In **Italy** public debt management guidelines published at the end of every year for the next year also indicate how regularly GS issues are going to be the next year: Treasury bills with maturity of 3 and 12 months are issued in the middle of the month, while Treasury bills with maturity of 6 and 24 months are issued at the end of the month<sup>36</sup>.

During the audit analyzing calendars of GS auctions held in 2006–2009 it was detected that:

- In 2006–2008 (in 2009 due to the market situation there was only one bonds issue) bonds were issued on average once per month in the first half of the year, while in the second half of the year the announced GS issues were cancelled (for more information please see the 2.5.1. section of the Report: Cancelled auctions);

<sup>33</sup> A Framework for Developing Secondary Markets for GS, International Monetary Fund, 2008.

<sup>34</sup> [http://www.hacienda.gob.mx/ucp\\_ingles/FGDD/Primary%20Auction%20b/press\\_release\\_1Q-11.pdf](http://www.hacienda.gob.mx/ucp_ingles/FGDD/Primary%20Auction%20b/press_release_1Q-11.pdf).

<sup>35</sup> <http://www.treasury.gov/resource-center/data-chart-center/quarterly-refunding/Documents/auctions.pdf>.

<sup>36</sup> [http://www.dt.tesoro.it/export/sites/sitodt/modules/documenti\\_en/debito\\_publico/presentazioni\\_studi\\_relazioni/Guidelines\\_for\\_Public\\_Debt\\_Management\\_2011.pdf](http://www.dt.tesoro.it/export/sites/sitodt/modules/documenti_en/debito_publico/presentazioni_studi_relazioni/Guidelines_for_Public_Debt_Management_2011.pdf).

- There is no steady trend of regularity when issuing the Treasury bills;
- Information and explanations about the regularity of issuance of Treasury bills and bonds with any particular maturity is not made public.

According to the Ministry of Finance, until 2009 new issues were cyclic: e.g., Treasury bills with maturity of 1, 3, 6, 12 months and bonds in between; however, the analysis of calendars of GS issues showed no cyclic nature of issues.

#### Example

**In 2006** Treasury bills with maturity of 6, 12, 1, 6, 1, 9 months were issued successively, with bonds issues in between.

**In 2007** Treasury bills with maturity of 12, 6, 3, 1, 12, 6, 12, 12, 12 months were issued successively, with bonds issues in between.

**In 2008** Treasury bills with maturity of 12, 6, 12, 9, 6, 6, 12, 12, 9, 6, 3 were issued, with bonds issues in between.

According to the Ministry of Finance, when the maturity date comes, GS with the same or similar maturity are issued. It is a good practice, which helps auction participants to plan their investments: auctions become predictable, and with the Government redemption of GS there is money and a possibility to invest in GS with the same maturity, which is to be encouraged. However, during the audit it was found that in 2006-2008 only 14 per cent of new issues were with the same maturity as redeemed at the similar time (for more details please see Annex 2 of the Report).

### 2.5.1. Cancelled GS auctions

Experts of the World Bank say that “Governments should rarely cancel auctions because of market conditions, or cut off the amounts awarded below the preannounced tender amount in order to achieve short-run debt service cost objectives. Experience has shown that such practices affect credibility and damage the integrity of the auction process, causing risk premium to rise, hampering market development, and causing long–run debt service costs to increase<sup>37</sup>.”

There are cases when GS auctions previously published in quarterly calendars are cancelled. According to the Ministry of Finance, possible reasons for cancelling auctions may be the following: unpredictable, unexpected income, borrowed from other sources, etc.

When auctions are cancelled, instead of auction terms information (announcement) that the auction is not going to take place is published. The announcement about cancelling of the auction usually indicates that an auction is cancelled due to Government’s decreased need for borrowing.

<sup>37</sup> Guidelines for Public Debt Management, International Monetary Fund, World Bank, 2003.

In 2006-2009 the Ministry of Finance most often cancelled auctions in 3<sup>rd</sup> and / or 4<sup>th</sup> quarter when large offering amounts of foreign securities were issued. In 2010 one auction was cancelled in the 1<sup>st</sup> half of the year.

#### Auctions cancelled in 2006–2009

In 2006 out of 5 planned auctions in the third quarter 4 were cancelled, out of the planned 4 auctions in the last quarter 3 were cancelled.

In the last quarter of 2007 six GS auctions were planned, only one took place.

In 2008 one auction was cancelled, which had to take place in the second quarter of the year.

In 2009 5 out of the planned 9 auctions, which had to be held in the last quarter were cancelled.

Negative impact of the cancelled auctions on investors and the development of domestic market are evidenced by the interviewed auction participants:

#### Opinion of auction participants

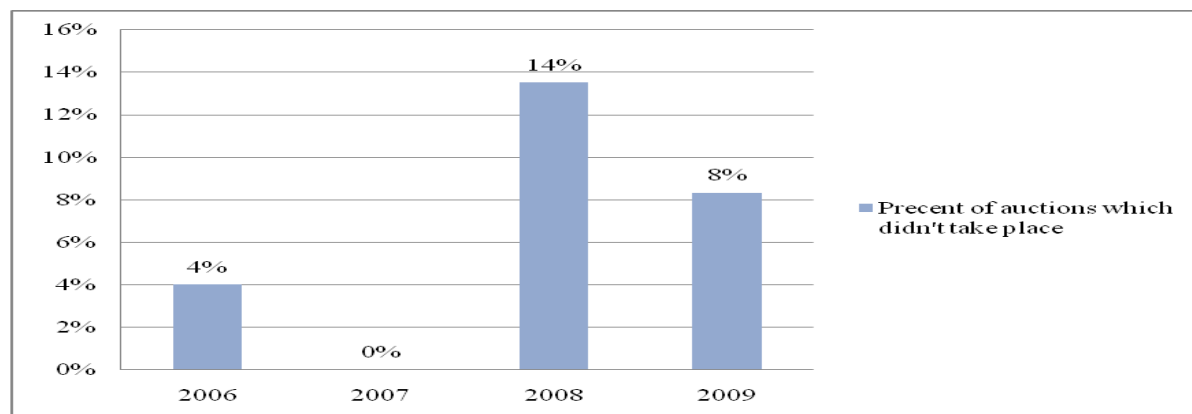
All the respondents except for one pointed out that cancellation of auctions decreases the appeal and liquidity of GS market. Usually auction participants and investors plan the participation in auctions in advance; therefore cancellation of auctions has a negative impact on plans of participants and investors: when planning money flows market participants take into consideration calendars of auctions. Suddenly cancelled auction creates a surplus of money in the market, since investors who plan to acquire GS in the primary market are no longer able to do that and not having any other way out they buy GS in the secondary market, which influences market situation and increases prices of bonds. One auction participant noticed that if the cancellation of an auction is inevitable, this should be made publicly available as soon as possible.

### 2.5.2. Auctions, which did not take place

During the auction of GS when all the bids of auction participants exceed the maximum yield limit set by the Ministry of Finance, a decision that no bids are approved is taken: a letter is sent to the Stock Exchange that bids are not accepted, since borrowing in such terms is too expensive.

In 2006, one planned auction of GS issue with maturity of 7 years did not take place. In 2008, 5 planned auctions were not held: 4 of short-term, one of long-term GS. In 2009, 4 planned auctions of Treasury bills did not take place<sup>38</sup> (Picture 8).

Picture 8. Statistics of auctions, which did not take place in 2006–2009



Source – National Audit Office of Lithuania

<sup>38</sup> In 2009 long-term GS were not issued due to unfavourable situation in financial market.

Terms for auctions not to take place are regulated in Rules of GS Auction<sup>39</sup> and in the Rules for Setting Maximum (Minimum) Yield and/ or Offering Amount of GS drawn up by the Government drafted on the basis of these rules (hereinafter – Setting of the Yield)<sup>40</sup> (Table 4):

**Table 4. Announcing that the auction did not take place**

Rules for GS auction	Rules for setting the Yield	
	Until 16 April 2009	Since 16 April 2009
Auction does not take place if: <ul style="list-style-type: none"> <li>▪ No competitive tender was received;</li> <li>▪ Yield indicated in all the competitive bids exceeded the limit set by the Ministry of Finance.</li> </ul>	GS auction is announced not to have taken place if: <ul style="list-style-type: none"> <li>▪ The highest yield in GS auction would exceed requirements laid out in the Maastricht Treaty (interest rate of long-term securities may not be more than 2 per cent points above the average of the three lowest-inflation Member States;</li> <li>▪ Lowest yield indicated in competitive bids exceeded the limit set by the Ministry of Finance.</li> </ul>	The Commission may announce the sale or pre-maturity redemption auction of GS as not to have taken place if having evaluated the borrowing need of the Government, market situation, as well as possibilities of the Ministry of Finance to borrow through the use of other borrowing means, as well as other important conditions, the weighted average yield indicated in competitive bids exceeds the comparative indicators in values determined in the Rules or due to other objective reasons well-grounded by the Commission.

Source – National Audit Office of Lithuania

Rules for setting the yield regulate the establishment of the highest yield limit, which is the basis for meeting competitive bids received in sale auctions of GS. Under the Rules, in the auction day when the list of competitive bids is received, the weighted average yield of the borrowing amount is compared to certain values indicated in the Rules.

Rules for setting the yield do not clearly state when securities should not be issued. The Rules point out terms when the decision on the highest yield limit has to be coordinated with the Vice Minister of Finance, and in his temporary absence – with the Minister of Finance. The same terms are valid also in cases when auctions have to be announced as not to have taken place. These terms are difference between the weighted average yield of the borrowing amount and the comparative values: more than 25 base points for Treasury bills and more than 45 base points for bonds. However, the concrete ceiling upon reaching which by the difference the auction should be announced as not to have taken place without exception are not determined. This means that the Ministry of Finance if left the possibility to borrow at any, i.e. unfavourable with regard to yield terms if it is approved by the Vice Minister of Finance of the Minister of Finance. It should be pointed out that this coordination with the management is oral. Coordination of the decision with relevant persons is pointed out in Minutes of Commission of Auction.

<sup>39</sup>Up to 1 July 2004, the Resolution of the Board of Bank of Lithuania “Provisions and requirements of GS auction for participants of GS auctions“ from 12 January 2009 “Rules for GS auction of the Republic of Lithuania“ approved by the Stock Exchange (latest edition 28 June 2010).

<sup>40</sup> Order of the Minister of Finance No 1K-104 of 11 April 2005 On the Rule for Setting the Limit for Highest (Lowest) Yield and/or Amount of Issue of government issues of the Republic of Lithuania issued through auction, amended by the Order 1K-118 of 16 April 2009, as amended by the Order No 1K-118 of 16 April 2009.

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### Explanation of the Ministry of Finance

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The Rules do not envisage a limit having crossed which the borrowing would be impossible even with the approval of the Minister of Finance. Such situation was created, since in difficult terms of borrowing one may be forced to borrow even with very high interest rate. Similar situation arose at the end of 2008 and at the beginning of 2009. Therefore the Rules provide for some flexibility: in a pressing need for funds and having coordinated with the management of the Ministry to allow borrowing with higher interest rate.

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When auctions take place it is evident from the procedure of determination of the highest yield limit that this limit has to be the yield of the last bid from bids in ascending order of yield and within the amount of borrowing need. The analysis of auctions in 2009 shows that they were announced as not have taken place due to the difference between the weighted average yield and values indicated in the Rules; however, no yield limit on the basis of which the Ministry of Finance would have met bids was established. In 2006-2008 when auctions were organized by the Bank of Lithuania, such limit used to be established and approved in special minutes of the Commission.

Information and explanations on regularity of issuance of Treasury bills and bonds are not made public. Establishment of a clear and regular calendar for issuance of Treasury bills and bonds and its early announcement would allow to attract more investors and to activate and develop the domestic market.

In the 3<sup>rd</sup>/4<sup>th</sup> quarter of 2006-2009, the Ministry of Finance systematically cancelled previously announced auctions thus violating one of the main principles of efficient organization of GS auction – regular nature and predictability. Issuance of a large amount of foreign securities was and is predicted when planning the annual borrowing need of the State, therefore these flows have to be assessed when planning the annual and later on quarterly calendars of GS auction in order to reduce the risk of cancellation of an auction.

Since 2009, when auctions are declared as not to have taken place, maximum yield limit has not been established nor approved, having exceeded which by all the bids, under the Rules for GS auction the auction is considered as not to have taken place.

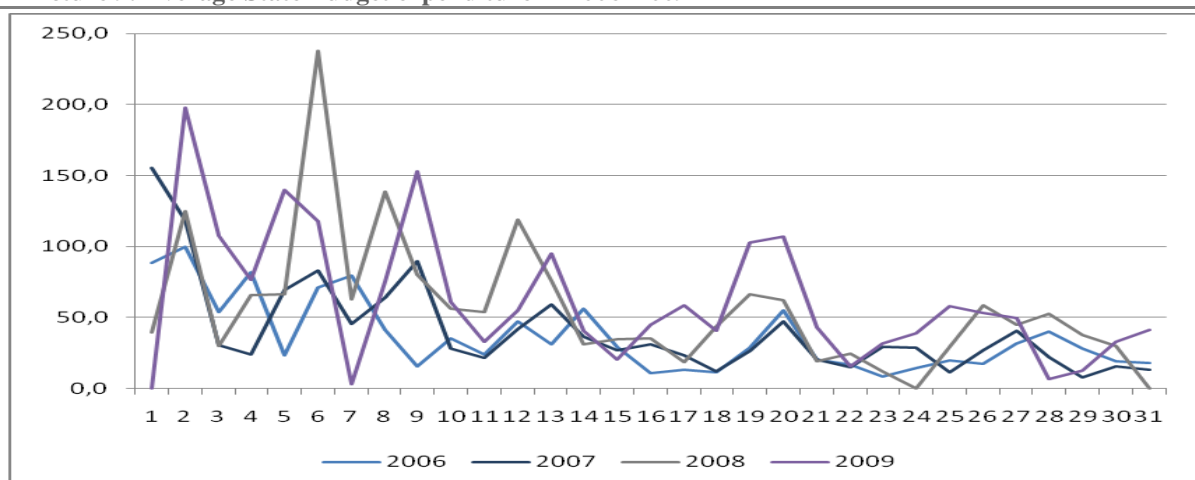
## 2.6. Issuance / redemption of GS and cash flows of the State Budget

Regular nature and predictability of the issued GS should be based on the perennial analysis of cash flows: regular key flows of revenue (for example, taxing revenue, which are paid to the State Budget following certain calendars of payment of taxes year by year) and expenditure (for example, appropriations for the pay-roll, which is paid at the beginning and middle of the month). In order to optimize the borrowing costs, GS should be issued when there is a highest need for funds to finance the public expenditure. When setting the redemption date of GS largest cash flows should be taken into consideration.

### *Issuance of GS and State Budget expenditure*

Summarized data about the State Budget expenditure of individual months of 2006-2009 (without the EU funds<sup>41</sup>) shows that the largest need for money to finance the State Budget expenditure emerges in the first half of the month on the following days: 2, 4–6, 8–9, 12–13, afterwards on 19–20 (Picture 9).

Picture 9. Average State Budget expenditure in 2006–2009



Source – Ministry of Finance, National Audit Office of Lithuania

Having analyzed the data submitted by the Ministry of Finance on the borrowing in domestic market through issuance of GS, it is clear that almost a half of periods of issuance of GS do not coincide with periods of increased need for money to finance the State Budget expenditure, i.e., establishing of the terms of issuance of GS is insufficiently accurate; some of them are issued when the money need for borrowing is not the largest.

<sup>41</sup> Taking into consideration that trends of dynamics of State Budget revenue were examined having eliminated the impact of the EU revenue, trends of changes of the State Budget expenditure were analyzed in an analogous way.

### Examples

**In March 2006**, the largest money need for the financing of the State Budget expenditure was on the following days of the month: 1, 2, 10, 28, and 31. GS were issued 3 times: on 2 March – LTL 103.5 million, on 17 March – LTL 21.2 million, on 30 March – LTL 19.8 million. The aim of the borrowing in domestic market on 2 March and 30 March was to partially ensure the financing of the State Budget expenditure of the same periods.

**In April 2006**, the largest money need for the financing of the State Budget expenditure was on the following days of the month: 3, 4, 6, 7. GS were issued 2 times: on 12 April – LTL 174.4 million, on 27 April – LTL 21.2 million. Periods of issuance of GS did not coincide with periods of largest need for money to finance the State Budget expenditure.

**In September 2006**, the largest money need for the financing of the State Budget expenditure was on the following days of the month: 1, 4, 7 and 12. GS were issued 1 time: on 6 September. – LTL 134.7 million. The money need for the State Budget expenditure on that day was LTL 67.7 million; however, on the next day the money need increased to LTL 90.1 million, i.e., the issuance of GS coincided with the increased money need.

**In April 2007**, the largest money need for the financing of the State Budget expenditure was on the following days of the month: 2, 5, 6, and 13. GS were issued 4 times: on 5 April – LTL 20.6 million, on 19 April – LTL 32.2 million, on 13 April – LTL 72.3 million and of 25 April - LTL 29.4 million. Issuance of GS on 5 and 13 April coincided with the increased money need for the State Budget.

**In August 2007**, the largest money need for the financing of the State Budget expenditure was on the following days of the month: 1, 3, 6, 9. GS were issued 3 times: on 8 August – LTL 71.7 million, on 22 August – LTL 34.3 million and on 30 August – LTL 9.5 million. Issuance of GS on 8 August coincided with the increased money need for the State Budget of the next day.

**In May 2008**, the largest money need for the financing of the State Budget expenditure was on the following days of the month: 6-9 and 15. GS were issued 5 times: on 6, 8, 14, 22 and 28 May. Issuance of GS on 6, 8 and 14 June coincided with the increased money need for the financing of the State Budget.

**In August 2008** the largest money need for the financing of the State Budget expenditure was on the following days of the month: 1, 4–6, 8, 12, and 26. GS were issued 4 times: on 6, 13, 20, 27 August Treasury bills were issued worth respectively: LTL 88.7 million, LTL 43.7 million, LTL 28.8 million and LTL 53.5 million. Issuance of GS on 6 August coincided with the money need for the financing of the State Budget, which increased on that day.

**In February 2009**, the largest money need for the financing of the State Budget expenditure was on the following days of the month: 2, 5-9, 13 and 19. GS were issued 5 times: on 4, 11, 19, 24, and 25 February Treasury bills were issued worth respectively LTL 73.5 million, LTL 76.8 million, LTL 99.6 million, LTL 172, 6 million and LTL 78.6 million. Issuance of GS on 19 February coincided with the money need for the financing of the State Budget, which increased on those days.

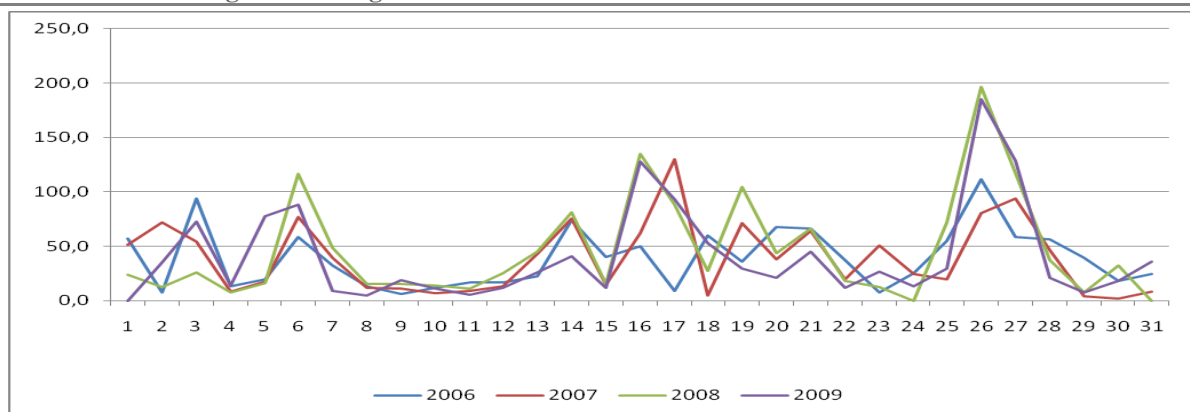
**In March 2009**, the largest money need for the financing of the State Budget expenditure was on the following days of the month: 2–10, 13, 17, 20, 30. GS were issued 5 times: on 4, 12, 18, 24, 26 March, with total amount of LTL 460.8 million. LTL 103.5 million, on 17 March – LTL 21.2 million, on 30 March – LTL 19.8 million. Issuance of GS on 4 and 12 February coincided with the need for the financing of the State Budget expenditure, which increased on those days.

### *Redemption of GS and State Budget revenue*

Having summarized the 2006-2009 data about the fluctuation of the revenue to the State Budget (without the EU funds<sup>42</sup>) in the course of the month, we see 3 periods when the State Budget receives largest amounts of revenue, i.e., in the end of the month – on days 26-27 when VAT is paid, and also on days 2–3, 6–7, 16–17 (Picture 10).

<sup>42</sup> Taking into consideration that number of transfers of EU financial assistance funds fluctuates from 0 to 11 per month, and amounts transferred fluctuate from LTL 0.1 to 556 million, trends of changes of the State Budget revenue were analyzed having eliminated the impact of the EU revenue.

Picture 10. Average State Budget revenue



Source – Ministry of Finance, National Audit Office of Lithuania

The planning of redemption of GS (establishing their maturity) does not sufficiently take account of fluctuations of revenue to the State Budget, i.e., GS are redeemed without any consideration of periods when the State Treasury receives largest amounts of revenue.

#### Examples

**In March 2006**, 2 issues of GS were redeemed: on 2 March – LTL 286.7 million, on 9 March – LTL 121.2 million, and on those days about a sixth part of the needed revenue was received in the State Budget (on 2 March – LTL 23.3 million, on 9 March – LTL 19 million). Largest amount of revenue was received on days 1, 16, 28.

**In April 2006**, 2 issues of GS were redeemed: on 12 April – LTL 228.4 million, the revenue to the State Budget was LTL 19.9 million on that day; on 24 April – LTL 45.7 million, on that day the revenue to the State Budget was LTL 54.2 million. Largest amounts of revenue were received on days 3, 20, 26.

**On 22 February 2007**, one issue of GS was redeemed for LTL 120.0 million, and the revenue to the State Budget was LTL 26.9 million on that day. Largest amounts of revenue were received on days 6, 14, 19, 27.

**In April 2007**, 3 issues of GS were redeemed: on 11 April – LTL 174.4 million, on 19 April – LTL 106.6 million, on 24 April – LTL 45.7 million. On those days the revenue to the State Budget was respectively LTL 26.8 million, LTL 14.5 million and LTL 35.1 million. Largest amounts of revenue in April were received on days 2, 3, 16, 17, 27.

**In August 2007**, on 9 August GS issue worth LTL 68.8 million and on 22 August – an issue worth LTL 21.4 million were redeemed. On those days the revenue to the State Budget was respectively LTL 15.8 million and LTL 32.8 million. Largest amounts of revenue in April were received on days 7, 14, 17, 21, 28.

**On 6 August 2008**, one issue of GS was redeemed for LTL 169.8 million, and the revenue was LTL 126.3 million on that day. It was one of the days in August (6, 14, 19, 20, and 26) when Largest amounts of revenue were received.

**On 25 February 2009**, an issue of GS was redeemed for LTL 213.7 million, and the revenue was LTL 44.7 million on that day. Largest amounts of revenue in that month were received on days 3, 6, 17, 18, 26.

**In March 2009**, on 4, 24, 25 of March issues of GS worth respectively LTL 192.5 million, LTL 138.1 million and LTL 299.4 million were redeemed. On those days the revenue to the State Budget was respectively LTL 34.0 million, LTL 24.8 million and LTL 44.3 million. The peak of revenue in March was on days 16, 17, 26, 31.

Examining the public cash flows in 2006-2009, recurring trends of revenue and expenditure are seen, however, GS issuance and terms of redemption were not always closely connected to the need for cash on respective days. Detailed analysis of public cash flows would allow to optimize the early planning of borrowing and would ensure in maximum the balance between the regular nature of borrowing and its need.

## 2.7. Auction participants and their supervision

In Lithuania there is a system of auction participants (primary dealers) in place – only auction participants may take part in GS auctions: members of Stock Exchange who have the right granted by the Ministry of Finance to participate in auctions, as well as the right granted by Stock Exchange to participate in the trade in debt securities market<sup>43</sup>. Auction participants take part in auctions under their own name, irrespective of whether they place bids on acquisition of GS on their own account or on the account of the client.

We point out that experts of the World Bank and International Monetary Fund having conducted the survey<sup>44</sup> of debt managers of various countries in the world stated that 13 countries out of 18 issue GS through the system of primary dealers (auction participants).

Currently the Ministry of Finance has signed contracts of auction participant with 7 commercial banks: AB DnB NORD Bank, AB Citadele Bank, AB SEB Bank, AB „Swedbank“, AB Šiaulių Bank and Lithuanian branch of Danske Bank A/S, as well as financial brokerage company AB „Finasta“. In 2006-2009 number of auction participants grew from 6 to 8.

The World Bank experts point out certain risks, related to system of primary dealers (auction participants):

- small number of primary dealers: institutions may agree in secret and influence the price of an issuer or just agree on not participating in the auction;
- inconsistent, unsteady participation in auctions.

If the Government wishes to have an efficient system of primary dealers, it has to enable a large number of tenders (to promote competition) and to have a supervision system in place for a regular and efficient ensuring of participation in auctions of primary dealers.

Also, risk of banks should be managed. Even in developed countries banks play an important role in GS market, while in developing countries banks are the key investor in securities. Too high dependence of banking system is expensive for many Governments and investors. Even in those systems, where the main assets of banks are GS, banks retain a high margin both for deposits and for return on risk-free capital from GS, which they hold as assets. Development of a wider market of GS seeks to dispose of high banks margins and to encourage banks and other financial institutions to contribute to selling of GS to final investors<sup>45</sup>.

In the foreign practice, in order to manage the risk of settlement between auction participants, anonymous call centers are used, which are established by debt managers.

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<sup>43</sup> Rules for GS Auction of the Republic of Lithuania approved by the minutes of the meeting of the Board of AB Vilnius Stock Exchange No 09-75 of 12 January 2009.

<sup>44</sup> Guidelines for Public Debt Management: Accompanying Document, Country Case Study, International Monetary Fund, World Bank, 2002.

<sup>45</sup> Developing a Government Bond Market: An Overview, International Monetary Fund, World Bank.

### 2.7.1. Requirements for auction participants

Up to February 2009, requirements for participants of GS auction were regulated and supervised by the Bank of Lithuania<sup>46</sup>, later on – by the Ministry of Finance.<sup>47</sup> List of requirements for participants of GS auction sets requirements for participants of GS auction, obtaining and losing the right to be an auction participant, as well as duties of auction participants.

#### *Establishment of scope and limitations of non-competitive bids*

The Ministry of Finance publishes a part of non-competitive bids in its announcement to issue GS as one of characteristics of the issued GS. According to the explanation of the Ministry of Finance, maximum amount of non-competitive bids is established following the strategic objectives of Government borrowing and debt managing, as well as taking into consideration the market situation. Since 2009 a maximum amount of non-competitive bids have amounted to LTL 24 million, up to 2009 – to LTL 12 million.

The analysis of foreign practice revealed that seeking transparency and proper understanding of information such announcements are approved in Rules for GS auction and/ or requirements for auction participants, and not in announcement to issue GS, which is made publicly available one week prior to the auction:

#### **Examples of the regulation of foreign countries regarding the determination of scope and limit of non-competitive bids**

In **USA** a limit for non-competitive bids is set: non-competitive bids should be no more than USD 1 million for Treasury bills and USD 5 million for bonds.

The limit set in **Canada**: USD 3 million for real return bonds and USD 10 million for other bonds and Treasury bills.

In **Austria** the limitation on amount of issue is set: 15 per cent from the amount issued in competitive way, also a per cent is set, which depends on the submitted competitive tenders to submit non-competitive tenders for each participant.

In **Belgium** indicators are set, based on which the scope and distribution among auction participants of the planned to meet non-competitive tenders is calculated.

Rules for auction organization and requirements for auction participants do not regulate the amount of non-competitive bids met in one auction and requirements or limitations for auction participants, who may submit non-competitive bids. Regulation of these issues would help to ensure a proper understanding of information, stability and transparency.

<sup>46</sup> Resolution of the Board of the Bank of Lithuania No 112 of 1 July 2004 On Approval of Provisions for Auction of GS of the Republic of Lithuania and Requirements for Participants of Auction of GS of the Republic of Lithuania.

<sup>47</sup> Order of the Minister of Finance No 1K-009 of 21 January 2009 On Approval of the List of Requirements for Participants of GS Auction.

*Establishment of minimum / maximum limit to the purchase of GS for auction participants / investors*

Minimum amount to be purchased by every auction participant is no less than 1 per cent per quarter from all the GS issued during the quarter. Up to 2009 a maximum limit to the purchase of GS was valid: one natural, legal person or person who did not have rights of legal person could place bids to GS auction on amount of GS not exceeding 35 per cent of the announced amount of the issued GS, not taking into consideration if he places bids for purchase of GS directly using his own account, or if other auction participants<sup>48</sup> place bids for purchase of GS using the account of the legal person. Since 2009, the maximum amount of purchasing GS has been withdrawn.

Annex 3 of the Report presents the comparison of requirements of Lithuanian and individual foreign countries for auction participants on minimum / maximum limits to the purchase of GS on the basis of which a conclusion may be made that requirements of many countries for auction participants / investors define a minimum / maximum limit of GS to be purchased in the auction.

No minimum amount is set for one auction participant to purchase during one auction. Since 2009 the maximum amount of purchasing of the issue per one auction per one auction participant / investor has been withdrawn. Having evaluated the foreign practice we see that the establishment of the above mentioned terms and limitations in the Rules for auction organization and requirements for auction participants would help to eliminate the risk of agreement would ensure transparency and active participation of investors.

*Disclose of understandable information for auction participants*

To enable auction participants to fully understand the rules of the “game“ and participate actively in auctions, their rights and obligations have to be clearly regulated and made publicly available, as well as explained.

Having compared the disclosure of information in public about organization of GS auctions and auction participants with foreign practice we observed that Ministry of Finance does not announce the information for auction participants / investors on process of issuance of GS, explanations about the course of auctions, about what information should be included in competitive / non-competitive bids, their particularity and advantages for individual groups of investors; what limitations there are, etc. on their websites. This information is partly presented in requirements for auction participants, however, in order to interest and attract potential new

<sup>48</sup> Resolution of the Board of the Bank of Lithuania No 112 of 1 July 2004 On Approval of Provisions for Auction of Government Securities of the Republic of Lithuania and Requirements for Participants of Auction of Government Securities of the Republic of Lithuania.

investors, as well as future participants of auction, it is purposeful to use the best practice: the announce and update an understandable detailed information on the website, as well as to disseminate it in other ways.

#### Examples of foreign practice

„...Rules and regulations governing the auctions and the roles and responsibilities of primary dealers in most surveyed countries are publicly disclosed so that market participants fully understand the rules of the game. In **Brazil** and **Poland** the basic rules for Treasury bills and bond issuance are covered by ordinance issued by Ministry of Finance, and the details of specific issues are described in Letters of Issue published on the Ministry’s website...“<sup>49</sup>.

In 2004, **the USA** Treasury Department announced a Circular<sup>50</sup> on the issuance of GS and organization of auctions, which explains the regulation of the above mentioned issued in a simplified language and in a question-answer form. The documents explains in detail all the process for issuance of GS and organization of auctions, presents thorough definitions of who is responsible for what, what tenders may be placed and what is their difference, the process for placing tenders, what limitations there are and where they are applied, in what cases and what taxes are paid, as well as possibilities of reinvestment, etc.

Presentation of understandable information to investors and potential auction participants, dissemination of information about the auction organization and requirements for auction participants should be improved. Better understanding of auction rules would increase the appeal of auctions, number of auction participants, would improve the organization process of auctions, which would result in lower borrowing costs.

### 2.7.2. Supervision of auction participants

Up to February 2009, supervision of auction participants was conducted by the Bank of Lithuania, later on – by the Ministry of Finance. Every quarter an institution responsible for the supervision has to evaluate if auction participants:

- place competitive bids for every auction, which comply with market conditions;
- purchase no less than 1 per cent of GS per quarter issued through auctions;
- properly develop the secondary market.

During 2006-2009, the following cases of non-compliance with requirements for auction participants were identified:

#### Examples of non-compliance with requirements for auction participants:

- ▶ On 25 August 2008 and 23 March 2009 (repeatedly) one auction participant, on 25 November 2008 another auction participant did not place competitive bids for the auction.
- ▶ In the 3<sup>rd</sup>/4<sup>th</sup> quarter of 2006-2009 one / two auction participants did not implement one of the key duties of auction participant: a requirement to purchase 1 per cent per quarter of the sold GS.
- ▶ One case was identified when an auction participant did not list GS in public thus violating the requirement that “auction participant has to consistently announce yields of selling and purchasing of GS, as well as amounts of GS purchased and sold with announced yields in generally accepted and used information systems

<sup>49</sup> Guidelines for Public Debt Management: Accompanying Document, Country Case Study, International Monetary Fund, the World Bank, 2002.

<sup>50</sup> Sale and Issue of Marketable Book-Entry Treasury Bills, Notes and Bonds-Plain Language Uniform Offering Circular; Final Rule, Department of the Treasury, 2004.

We point out that one of the reasons for non-compliance of individual auction participants with the requirement to purchase no less than 1 per cent per quarter of GS issued through auctions in 2006-2009 is that the Ministry of Finance systematically cancelled the previously announced auctions during the above mentioned periods (for more details about the cancelled auctions please refer to Part 2.5 of the Report).

Supervision of compliance with the requirements for auction participants was appropriate, however, neither the Bank of Lithuania, nor the Ministry of Finance later on applied a procedure for suspending a contract of auction participants regarding the detected violations by auction participants: only warning were sent, although the audit detected cases when one auction participant did not comply with the set requirements in a repeated way. However, the Ministry of Finance could make a negative impact on proper compliance with the set requirements by auction participants through systematic cancelling of the previously announced auctions.

### 2.7.3. Co-operation with auction participants

In order to develop and maintain an efficient domestic market of GS, it is necessary regularly consultations between the debt manager and market participants on the borrowing strategy, market concessions, market situation<sup>51</sup>. A lack of transparency and communication among debt managers and market participants adds to the uncertainty for investors, as well as decreases the participation both in the primary and the secondary markets. Debt managers have to submit information about the Government finances, debt structure, borrowing strategy, and data on activities in the primary and secondary markets on a timely manner.

Seeking the more efficient management of GS in domestic market, the debt managers should more closely co-operate with auction participants and final investors. Institutions responsible for debt management should not only regularly meet with auction participants, but also make public available the co-operation results on internet sites, annual performance reports, etc.

To enable the Government to have a better understanding of the marketable debt instruments, as well as eliminate the barriers hindering the investment to GS, when developing the borrowing strategy it is necessary to consult with investors and those who purchase and sell GS.<sup>52</sup> A lack of transparency and communication among debt managers and market participants makes an impact on the increase of definiteness and uncertainty among investors, as well as decreases their participation in the primary and secondary markets.<sup>53</sup>

<sup>51</sup> A Framework for Developing Secondary Markets for GS, International Monetary Fund, 2008.

<sup>52</sup> Developing a Government Bond Market: An Overview, International Monetary Fund, World Bank.

<sup>53</sup> A Framework for Developing Secondary Markets for GS, International Monetary Fund, 2008.

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### Examples of co-operation among debt managers and market participants, as well as dissemination of information in foreign countries

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#### Canada

Consultations with market participants are held typically once a year in order to obtain their views on the liquidity and efficiency of the Government of Canada securities market. Due to the exceptional circumstances in 2008–09, however, the formal consultations held in November were followed by additional consultations<sup>54</sup>.

#### South Africa, Japan, Denmark, Mexico, Morocco

„...Maintain an active investor Relations programs, whereby they meet regularly with major market participants to discuss government funding requirements and market developments, examine ways in which the primary market can be improved...“

„...There are monthly meetings with market makers to discuss recent developments in the local markets and the overall macroeconomic environment. Periodic meetings or conference calls are held with other institutional investors in order to discuss relevant issues and get feedback the current issuing program of GS issuing program...“<sup>55</sup>.

#### Portugal

The strategic guidelines are regularly explained to market participants, financial intermediaries and in particular institutional investors. The increasingly important direct contact between the issuer and final investors is also conducted in cooperation with the Primary Dealers.

#### Sweden

There is guideline system serves as a good basis. In the guidelines, investors and others can find the motives behind a certain strategy. The fact that all documents in the guideline process are public also allows dealers, investors, and other concerned parties to offer their comments.

Apart from written material, the Debt Office finds it important to be available to investors who want to discuss debt policy. The Debt Office also takes initiatives to meet investors both in Sweden and abroad.

#### UK

Market makers and end-investor groups are consulted during the formulation auction plans (and also quarterly before the DMO announces specific auction stocks for the quarter ahead).

#### USA

The Treasury conducts surveys of primary dealers once a quarter. Once a quarter the Treasury meets with the Treasury Borrowing Advisory Committee, as well as with primary dealers. Treasury Borrowing Advisory Committee consists of primary dealers, investment managers, insurance funds and small broker dealers. The quarterly Committee meetings are useful for the Treasury: they include discussions on economic forecasts and about the borrowing need of the Government with participants competent on market issues. Treasury representative's present questions in advance, then Committee members deliver their observations about those questions and economic conditions. The meetings are closed due to sensitive nature of the participating parties. One day after the meeting a press conference is organized, which announces details of debt repayment, as well as changes or lack of changes in auction calendar or in debt management policy.

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The Ministry of Finance co-operates with auction participants. According to the Ministry staff, such co-operation most often happens over telephone. Once per year meetings with auction participants are organized, however, minutes are not taken.

It should be noted that the Ministry of Finance does not have accurate information about final investors to GS. The Central Depository announces statistical information about the purchased GS in percents by groups of investors (commercial banks, insurance companies, foreign investors, etc.).

Co-operation with final investors would help the Ministry of Finance to more efficiently manage the domestic market of GS, take into consideration and react faster to the market and expectations of market participants.

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<sup>54</sup> Debt management Report 2008-2009 Canada.

<sup>55</sup> Guidelines for Public Debt Management: Accompanying Document, Country Case Study, International Monetary Fund, World Bank, 2002.

Auction participants interviewed during the audit expressed a positive opinion about the co-operation with the Ministry of Finance and gave proposals on possible meetings and relevant discussions, which would encourage auction participants and potential investors to more actively participate in auctions.

#### **Opinion of auction participants**

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Any co-operation on the part of the Ministry of Finance is very useful for auction participants and to be encouraged. Auction participants would like to have meetings with the Ministry of Finance no less than 2 times a year. During such meetings the issuer would present the borrowing strategy, the planned issuances of GS, while auction participants would express their expectations and forecasts.

Many respondents think that the Ministry of Finance would benefit from having information about the final investors, since auction participants do not always have extensive knowledge about the needs of their clients. It would be purposeful for the Ministry of Finance to organize meetings with largest existing and potential investors, as well as to organize presentations of plans of borrowing in domestic market open for investors.

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The Ministry of Finance co-operates with auction participants, however, it does not own information, nor does it communicate with final investors, which decreases the possibility of receiving the most accurate first-hand information about the needs in the domestic market.

In order to more efficiently manage and develop the domestic market of GS, to react to changes and expectations of market participants in a timely manner, it is necessary to organize meetings and disseminate a useful information about the plans for borrowing in the domestic market not only for auction participants, but also for potential and existing investors.

### 3. Private placements

Since the end of 2008, the Ministry of Finance has started issuing GS in domestic market by private placements (not through public auctions, but through private transaction with a creditor). Largest share is constituted of GS issues denominated in foreign currency: in Euros, USA dollars and Estonian kroon with maturity of 12 months and more. According to the Ministry of Finance, such way of issuing GS was chosen as an alternative to issuance of GS through auction, because at the end of 2008 a difficult situation in financial market started and long-term securities lost their appeal.

In 2009 private placements constituted a significant share of borrowing in domestic market. During the year Treasury bills worth LTL 1.099,8 million and government bonds worth LTL 1.685,8 million, in total LTL 2.785,6 million were issued by private placements. This made up 56 per cent of borrowing in domestic market through issuance of GS.

The National Audit Office of Lithuania evaluated private placements of GS when conducting Evaluation of Public Debt Accounts in 2009<sup>56</sup> and detected issues, which directly influenced the development of the domestic market. The Government was given recommendations promoting publicity and transparency to regulate the issuance of GS in the domestic market by private placement. The recommendations are currently implemented.

The Ministry of Finance announced in Explanatory note to the Account of the Execution of the State Budget for 2009 that since 2nd quarter of 2009, the Government has returned to more traditional ways of borrowing and representative maturity of securities, however, it was detected during the audit that even after the 2nd quarter of 2009 in the domestic market only Treasury bills were issued through auctions in Litas, i.e., short-term GS, while government bonds were issued by private placements. GS were issued by private placement in January and February of 2010 as well: total amount of GS issued by private placement in 2010 is LTL 790.6 million, which amounted to 22 per cent of all the GS issued in the domestic market.

In 2009, due to a difficult situation in financial market private placement of GS constituted a significant share of borrowing in the domestic market. Such a way of issuance of GS does not ensure the competition, sufficient publicity and transparency, which is ensured by public borrowing through auctions. Since private placement of GS was among financial institutions, which were auction participants at the same time, it could have had a negative influence on the domestic market and debt management costs.

<sup>56</sup> For further details please see the Opinion of the National Audit Office of Lithuania to the Parliament No FA-P-700-3 of 1 October 2010.

## 4. Savings bonds

Government savings bonds are securities issued by the Government in retail: it is one type of GS issued in the domestic market. The following entities have the right to purchase savings bonds: citizens, sole proprietorships, public institutions, charity and support funds, public organizations.

Issuer of savings bonds is the “Central Securities Depository of Lithuania“, which has concluded a contract with the Ministry of Finance on organization of circulation of savings bonds. The Public Limited Company “Lietuvos paštas“ (“Post of Lithuania“) was chosen as intermediary for distribution of savings bonds, through which savings bonds may be distributed to a very wide circle of citizens, besides, digital technologies prevalent in Lithuania enable to purchase savings bonds electronically through a website administered by the Central Securities Depository of Lithuania<sup>57</sup>.

Issuance of savings bonds in Lithuania was conducted from April 1999 to June 2003, there were 43 issues in total. Annual interest rate of these issues was from minimal 3.2 per cent to maximum 11.0 per cent, with maturity from 1 year to 3 years.

With the start of the global financial crisis due to increased need for money to finance the State Budget expenditure and in order to attract funds accumulated by citizens who did not trust commercial financial bodies, it was decided to renew the issuance of savings bonds from 2009. Furthermore, since 2009 the price of banking services has decreased, i.e., servicing of savings bonds became cheaper.

First new issue of savings bonds was on 19 May 2009. The maturity of all the savings bonds issued in 2009 was 365 days, i.e., short-term securities. During 2009, there were 17 issues of savings bonds totaling the LTL 6,4 million amount, average annual value of one issue was LTL 0.4 million. Interest rate of individual issues of these savings bonds fluctuated from the highest 7.88 per cent to the lowest 6.05 per cent.

It should be pointed out that through issuance of savings bonds only an insignificant amount of funds is borrowed compared to other GS, e.g., during all the year 2009, almost LTL 6.4 million was borrowed through savings bonds, and a minimum amount of one issue of Treasury bills was LTL 5 million, while the maximum – LTL 120 million.

Savings bonds are issued periodically, every 14 days. When one savings bonds issue ends, on the next day another issue starts following the principle that citizens should always be allowed to purchase savings bonds thus ensuring the continuity of issuance of savings bonds.

According to the Procedure for Establishing Annual Interest Rate for Savings Bonds, which was valid until December 2009<sup>58</sup> the established annual interest rates were lower than the lowest

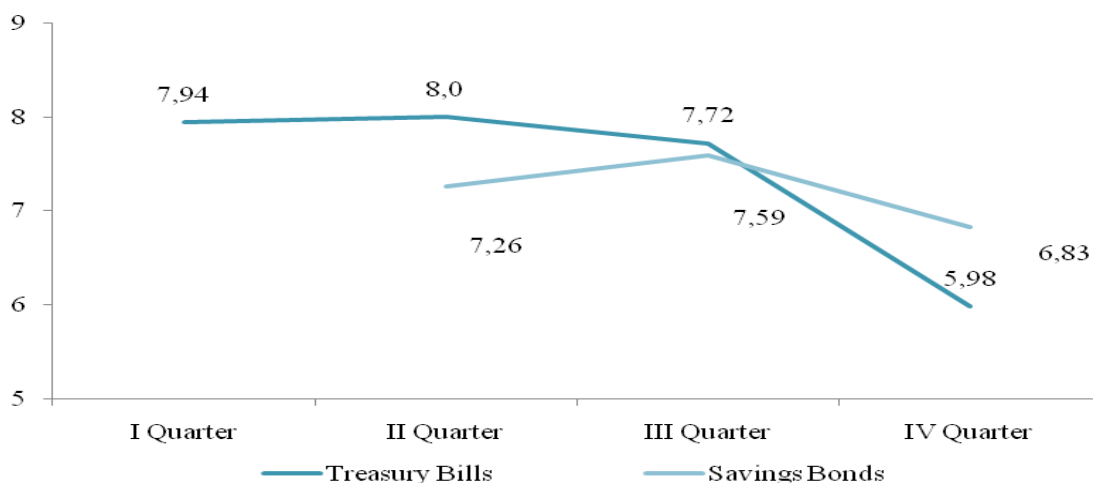
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<sup>57</sup> www.vtl.lt.

<sup>58</sup> Order of the Minister of Finance of the Republic of Lithuania of 6 May 2009 No 1K-156 On Approval of Methodology for Setting Conditions for Issues of Savings Bonds of the Government of the Republic of Lithuania”.

interest rate for the respective maturity and currency set by commercial banks and lower than average interest rates of the State Treasury bills of a respective quarter issued at that time. With the changed calculation methodology<sup>59</sup>, interest rate of savings bonds is kept within maximum and minimum values of interest rates of the respective period and currency of Lithuanian commercial banks, and exceeds the interest rate of Treasury bills (Picture 11).

Picture 11. Comparison of average interest rate of savings bonds and Treasury bills, 2009



Source – National Audit Office of Lithuania

Up to December 2009, savings bonds were less attractive to investors compared to deposits of commercial banks and GS of the respective maturity. With the changed methodology for establishing the interest rate, savings bonds became a more attractive means of investment, although it is a more expensive borrowing instrument for the Government. Only an insignificant amount of funds is borrowed through issuance of savings bonds.

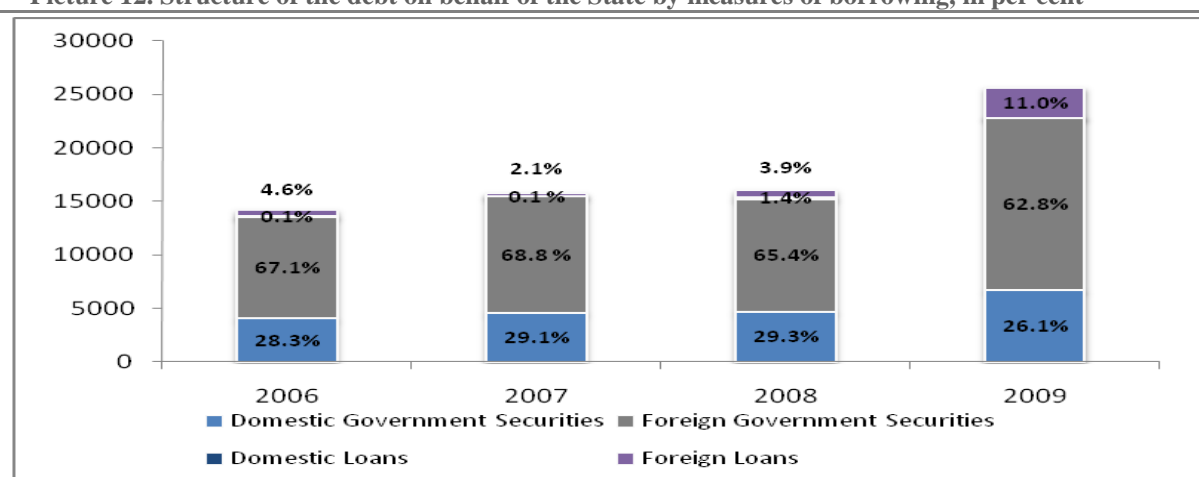
<sup>59</sup> Order of the Minister of Finance of the Republic of Lithuania of 6 May 2009 No 1K-156 On Approval of Methodology for Setting Conditions for Issues of Savings Bonds of the Government of the Republic of Lithuania” (edition of the Order No 1K-400 of 12 November 2009).

## 5. Strategy for borrowing in the domestic market

The Government borrows in domestic and foreign markets following the Medium-Term Debt Management Strategy of the Government<sup>60</sup>.

Data of reports on public debt for 2006-2009 shows that the major part of funds, over 70 per cent was borrowed in foreign markets. Through issuance of securities, over 60 per cent were borrowed in foreign countries; foreign loans constituted from 4.5 per cent in 2006 to 11 per cent in 2009 from all the borrowed funds. In the domestic market in 2006-2008 about 30 per cent of funds were borrowed, in 2009 – about 26 per cent of funds. In the domestic market on an average some 28 per cent of funds were borrowed through the issuance of securities (Picture 12).

Picture 12. Structure of the debt on behalf of the State by measures of borrowing, in per cent



Source – the National Audit Office of Lithuania

Medium-term debt management strategy of the Government sets the main objective, which is to ensure the financing of public expenditure and debt obligations assumed on behalf of the State set in the legislation of the Republic of Lithuania from borrowed funds at lowest possible costs and at an acceptable risk in the medium-term period, not exceeding the debt and borrowing limits, and to follow requirements for the European Union Members States seeking to introduce the Euro currency. Main objective of the public debt management corresponds to provisions of key guidelines of public debt management defined by International Monetary Fund and the World Bank, as well as to global practice. However, experts of the World Bank and International Monetary Fund recommend to the Government to have as one of the strategic objectives in the debt management to develop and maintain the efficient domestic market In order to minimize the expenditure and risk of

<sup>60</sup> Resolution of the Government No 1200 of 30 September 2009 On approval of the Medium-Term Debt Management Strategy of the Government of the Republic of Lithuania.

debt management over the medium to long run, debt managers have to ensure that their policies and operations are consistent and oriented towards the development of an efficient GS market.<sup>61</sup>

When analyzing the debt management strategies by debt managers of other countries we observed that majority of countries have established the above mentioned objective, as well as measures to achieve it in their strategies. Such conclusions were also reached by experts of the World Bank and International Monetary Fund having analyzed strategies and activities of debt managers of 18 World countries<sup>62</sup>.

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**Excerpt from the Guidelines for Public Debt Management: Accompanying Document, Country Case Study**

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One element that seems to be common across all countries, regardless of their stage of development, is the focus on developing / maintaining the efficiency of the domestic market as a mean of reducing excessive reliance on short term and foreign currency – linked debt.

Many countries also promote the development and maintenance of an efficient primary and secondary market for domestic GS as an important complementary objective for debt management.

A key theme that emerged from case studies is the striking convergence in approaches taken by the countries to issue debt and promote a well functioning domestic financial market. Auctions of standardized market instruments are commonly used to issue debt in domestic markets, and debt managers are cognizant of the need to avoid excessive fragmentation of the debt stock if they are to encourage deep and liquid market for GS.

The experience of developing these markets in many countries demonstrates the importance of having a sound macroeconomic and fiscal policy framework in place so that investors are willing to hold GS without fear that their investment returns will be unexpectedly eroded by inflation or debt sustainability concerns.

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Lithuanian Strategy does not provide for an objective to develop the domestic market. Although historic borrowing in the domestic market used to constitute on an average 30 per cent, neither the Strategy, nor other legislation determine what share will be borrowed in the domestic market. We point out that when planning the borrowing for 2011 in the State Borrowing Programme<sup>63</sup>, the Government planned that some 60 per cent of the borrowed funds would be from the domestic market. This is a significant change of the borrowing strategy, which should be well-grounded and provided for in the Medium-Term Debt Management Strategy.

Developed markets seek that the share of the domestic liability would constitute the largest part in order to ensure the highest possible independence from foreign debt. Therefore it is relevant to preliminarily calculate what is the maximum amount to be borrowed in the domestic market, as well as to establish ways to promote domestic market and to gradually increase the share of domestic debt, not only including such an item into measures, but also expanding the objective.

The Strategy provides for the seeking of GS liquidity: to ensure that the borrowing need of the Government is financed through issuance of GS in domestic and foreign markets. According to data of 2006–2009, GS amount to over 90 per cent of the total public debt.

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<sup>61</sup> Guidelines for Public Debt Management, International Monetary Fund, World Bank, 2003.

<sup>62</sup> Guidelines for Public Debt Management: Accompanying Document, Country Case Study, International Monetary Fund, World Bank, 2002.

<sup>63</sup> [http://www.finmin.lt/finmin.lt/failai/veiklos\\_kryptys\\_biudzetis/2011/Visas\\_projektas/1\\_kng/5\\_sk.pdf](http://www.finmin.lt/finmin.lt/failai/veiklos_kryptys_biudzetis/2011/Visas_projektas/1_kng/5_sk.pdf).

In order to ensure the liquidity of GS issues, the List of Directions of Medium-Term Borrowing Policies of the Government<sup>64</sup>, which was valid until 2008, the following measures were envisaged for reopening of long-term GS when enforcing the goal “To seeks liquidity of GS“: “When borrowing in the domestic market, to reopen two-three relatively liquid issues of bonds.” The Strategy<sup>65</sup> approved in 2008 and updated in 2009 also provides for a goal to seek the liquidity of GS, as well as a measure for the implementation of the goal: “when financing borrowing needs of 2010 and later years, to gradually increase the long-term public issues of GS“. It should be noted that this statement does not clarify if there is a plan to increase a number of long-term GS issues or amounts of issues.

No preliminary calculations are conducted as to what is the maximum possibility to borrow in the domestic market, the Strategy does not provide for an objective to develop and maintain the domestic market. The Strategy and / or other legislation do not determine which part could be borrowed in the domestic market. Taking into account the recommendations of experts of the World Bank and foreign best practice, one of the key objectives of the Strategy should be the development and maintenance of the efficient and liquid GS domestic market with the established detailed measures for the implementation of this objective.

From the measure of the Strategy aimed at encouraging the liquidity it is not clear if there are plans for more long-term issues or if it is planned to enlarge their amount through reopening of the existing issues.

<sup>64</sup> Resolution of the Government No 602 of 1 June 2005 On approval of the List of Directions of Medium-Term Borrowing Policies of the Government of the Republic of Lithuania. The Resolution was repealed as from 12 September 2009.

<sup>65</sup> Resolution of the Government No 1200 of 30 September 2009 On approval of the Medium-Term Debt Management Strategy of the Government of the Republic of Lithuania.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusions

#### **On the Medium-Term Debt Management Strategy of the Government:**

1. *The Medium-Term Debt Management Strategy of the Government* does not provide for the objective to develop and maintain the efficient and liquid domestic market; the Strategy and / or other legislation does not stipulate what share will be borrowed in the domestic market: no preliminary calculations are conducted as to what is the maximum possibility to borrow in the domestic market. Establishment of the above mentioned objective and clear means to implement it would allow to gradually increase the demand of GS issued in the domestic market, the independence from foreign debt, as well as to reduce the debt management costs in the long run (Part 5).

#### **On planning of borrowing in the domestic market:**

2. When borrowing in the domestic market the Ministry of Finance did not often follow the self-established borrowing programmes and calendars. Preliminary annual plans for issuing of GS in the domestic market are not approved and not made publicly available. The Ministry of Finance announces insufficient information about the planned borrowing in the domestic market. Planning process of the borrowing is to be improved. Sufficient transparency would assure investors, promote a better participation of investors in auctions and help the Government to reduce the debt management costs in the long run (Part 2.3).

#### **On issuance of GS in the domestic market:**

3. Debt management operations in the domestic market are not sufficiently regular and predictable, which reduces the demand of GS and development of the domestic market. Information and explanations about the regularity of issuance of Treasury bills and bonds with various maturities is not announced. In the 3<sup>rd</sup>/4<sup>th</sup> quarter of 2006-2009, the Ministry of Finance systematically cancelled previously announced auctions, which had a negative impact on auction participants and investors. Such a practice raises the distrust in auction organizers, hampers the market development, and increases the debt management costs in the long run (Part 2.5).

4. Since 2009, when auctions are declared as not to have taken place, the maximum yield limit has not been established nor approved, having exceeded which by all the bids, the auction is considered as not to have taken place under the Rules for GS auction, which contradicts the procedure set by the Ministry of Finance (Part 2.5.2).

5. Analysis of the public cash flows in 2006-2009 shows the recurring trends of revenue and expenditure; however, the issuance of GS and terms to maturity were not always closely connected

to the need for money on respective days. Detailed analysis of the public cash flows would enable to optimize the forward planning of borrowing and would maximize and ensure the balance between the regularity of borrowing and its need (Part 2.6).

6. When issuing GS in the domestic market the Ministry of Finance does not analyze / use auction evaluation indicators, which show the interest of investors in securities with various maturities. Use / analysis of Bid-to-Cover ratio or other evaluation indicators showing the interest of investors in auctions would allow to attract more investors and activate the domestic GS market (Part 2.2).

**On information about the issuance of GS through auctions:**

7. The Ministry of Finance announces quarterly information about the planned GS issues. Compared to foreign practice and recommendations of experts, insufficient information is announced in quarterly auction calendars. The Ministry of Finance does not announce the amount of the GS issue, which has a negative impact on the domestic market and investors. Proper planning of the borrowing need, providing of the detailed information and announcing of the planned offering amount of GS prior to the auction would allow attracting more investors, as well as to develop the domestic market and ensure the transparency of information about the Government plans (Part 2.4).

8. The Ministry of Finance follows the best practice and seeking the liquidity of GS reopens issues. Taking into consideration that the percent of reopenings of GS from all the issued GS is averaging over 60 per cent, and aiming to ensure the transparency and proper disclosure of information, the information about the reopened issues during the year should be made public (Part 2.5).

**On auction participants:**

9. Rules for auction organization and requirements for auction participants do not regulate the amount of non-competitive bids met in one auction and requirements or limitations for auction participants who may submit non-competitive bids. Seeking the transparency and proper understanding of information, such decisions should be clearly regulated, which would help to ensure a proper understanding, consistency and transparency of information (Part 2.7.1).

10. No minimum amount of GS has been set for one auction participant to be purchased in one auction. Since 2009, there has been no regulation for the maximum amount of purchasing of the issue per one auction participant / investor in one auction. Establishment of the above mentioned conditions and limitations in the Rules for auction organization and requirements for auction participants would enable to avoid the risk of settlement between auction participants, as well as ensure the transparency and involvement of investors (Part 2.7.1).

11. On its website, the Ministry of Finance announces insufficient information for auction participants / investors about the process of issuance of GS, about the course of auctions, about what information should be included in competitive / non-competitive bids; it does not explain their particularity and advantages for individual groups of investors, etc. This information is needed seeking to interest and attract potential new investors, as well as future participants of auctions. (Part 2.7.1).

12. The Ministry of Finance co-operates with auction participants, however, it does not own information about final investors nor does it keep relations with them, which reduces the possibility to receive the most accurate first-hand information about the needs in the domestic market. Co-operation with final investors would help the Ministry of Finance to more efficiently manage the GS domestic market, more quickly react to the market and expectations of market participants (Part 2.7.3).

**On savings bonds:**

13. Up to December 2009, savings bonds were less attractive to investors compared to deposits of commercial banks and GS with the respective maturity. With the changed methodology for establishing the interest rate, savings bonds became a more attractive means of investment, although it is a more expensive borrowing instrument for the Government. Compared to other GS, only an insignificant amount of funds is borrowed through issuance of savings bonds (Part 4).

## **Recommendations**

**For the Government of the Republic of Lithuania:**

1. In order to increase the demand of GS issued in the domestic market, the independence of borrowing from foreign market, as well as to reduce the debt management costs in the future, *the Medium-Term Debt Management Strategy of the Government* should foresee the following as one of its main objectives: to develop and maintain the efficient and liquid GS domestic market, as well as to set detailed measures for implementation of this objective.

**For the Ministry of Finance of the Republic of Lithuania:**

2. With the aim to develop and maintain an efficient domestic market and retain a proper balance between the regular nature of GS auctions and borrowing amounts, to take into consideration the dynamics of fluctuation of the State Budget revenue and expenditure when planning the annual borrowing.

3. Seeking to attract more investors, to analyze / use auction evaluation indicators when making decisions on maturity of GS.

4. In order to attract investors and provide them with detailed information about the course of an auction, as well as activate and develop the domestic market and reduce the risk of cancellation of auctions:

- to establish preliminary annual predictable and regular calendars for issuance of Treasury bills and bonds, and make them publicly available;
- in quarterly calendars for issuance of GS to announce information about changes to annual plan and well-grounded reasons for changes in quarterly auction calendar, etc.;
- to indicate the amount of GS issue in the announcement to issue GS;
- to make publicly available auction evaluation indicators and their analysis;
- to announce data on the reopened issues during the year.

5. To set in the requirements for auction participants:

- amount of non-competitive bids met in one auction and requirements and / or limitations for auction participants;
- minimum and maximum limit of GS per one auction participant / investor, which has to be / may be purchased in one auction.

6. Seeking a better understanding of auction rules and higher attractiveness of auctions, to make publicly available the comprehensive and understandable information about the organization of auctions and requirements for auction participant's investors and potential investors / auction participants.

7. In order to more efficiently manage and develop the domestic GS market and to timely react to changes and expectations of market participants, to organize meetings with auction participants, as well as potential and existing investors at least two times a year.

Director of Audit Department 6

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Copies of the public audit report are submitted to:

The Government of the Republic of Lithuania,

Committee on Audit of the Seimas of the Republic of Lithuania.

## ANNEXES

Annex 1. To  
The Public Audit Report The Government Successfully  
Borrows in the Domestic Market: How to Optimize  
This Process and to Reduce the Debt Management Costs

### **Glossary of Key Terms:**

**AFROSAI** – African Organization of Supreme Audit Institutions.

**ASOSAI** – Asian Organization of Supreme Audit Institutions.

**ARABOSAI** – Arab Organization of Supreme Audit Institutions.

**Auction** – a process in a bid book, during which bids to buy and sell new issues of GS, reopened issues of GS, as well as GS redeemed before maturity are stored and automatically executed.

**Auction Participants** – members of Vilnius Stock Exchange who have the right granted by the Ministry of Finance of the Republic of Lithuania to participate in auctions, as well as the right granted by Vilnius Stock Exchange to participate in the trade in Debt securities market.

**Bonds** – Treasury-issued medium to long-term debt instruments.

**CAROSAI** – Caribbean Organization of Supreme Audit Institutions.

**Depository** – an organisation which holds securities of investors in electronic form at the request of the investors through a registered Depository Participant. It also provides services related to transactions in securities.

**DMFAS** – Debt Management and Financial Analysis System.

**EUROSAI** – European Organization of Supreme Audit Institutions.

**Government Securities** – financial instruments used by the Government to raise funds from the primary market.

**IDI** – INTOSAI Development Initiative.

**INTOSAI** – International Organisation of Supreme Audit Institutions.

**Liquidity** – the ability to convert an asset to cash quickly.

**PASAI** – Pacific Association of Supreme Audit Institutions.

**Primary market** – offer of an issuer or an intermediary of public circulation of securities to purchase securities and their transfer during the issuance. After that the trade in securities is conducted in the secondary market.

**Private Placement** – the sale of securities to a relatively small number of select investors as a way of raising capital. Private placement is the opposite of a public issue, in which securities are made available for sale on the open market.

**Savings Bonds** – GS for retail investors.

**Secondary market** – the market in which an investor purchases securities from other investor, not from the issuer, who has issued the securities to the primary market.

**Term to Maturity** – the time between when the GS is issued and when it matures (maturity date), at which time the issuer must redeem the GS by paying the principal.

**Treasury Bills** – Treasury-issued short-term debt instruments.

**UNCTAD** – United Nations Conference on Trade and Development

**UNITAR** – United Nations Institute for Training and Research.

**VILIBOR** – Vilnius Interbank Offered Rate.

**Yield** – the purchase price, the coupons received and the principal at maturity.

Annex 2. To  
The Public Audit Report The Government Successfully  
Borrows in the Domestic Market: How to Optimize  
This Process and to Reduce the Debt Management Costs

**Table 7. Examples of issuance and redemption of GS**

March 2006					August 2006				
Mon	Tue	Wed	Thu	Fri	Mon	Tue	Wed	Thu	Fri
		1	2 12 mon. (redemption)	3		1	2	3	4
6	7	8 6 mon. (redemption)	9	10	7	8	9 6 mon. (redemption)	10	11
13	14 7 yr.	15	16	17	14	15	16	17	18
20	21	22	23	24	21	22	23	24	25
August 2007					September 2007				
Mon	Tue	Wed	Thu	Fri	Mon	Tue	Wed	Thu	Fri
		1	2	3					
6 12 mon. (new)	7	8	9	10	3	4	5	6	7
13	14	15	16	17	10	11	12 9 mon. (redemption)	13	14
20 12 mon. (reopen.)	21	22 3 mon. (redemption)	23	24	17	18	19	20	21
27 10 yr. (reopen.)	28	29	30	31	24 12 mon. (new)	25	26	27	28

Source – National Audit Office of Lithuania

Annex 3. To  
The Public Audit Report The Government Successfully  
Borrows in the Domestic Market: How to Optimize  
This Process and to Reduce the Debt Management Costs

**Table 8. Comparison of requirements for auction participants on minimum/ maximum limit to the purchase of GS set by Lithuania and foreign countries**

Country	Minimum requirements for an auction participant to purchase GS in competitive auction in a period	Maximum amount of GS, which could be purchased by an auction participant/ investor
Lithuania	No less than 1 per cent from total amount of GS issued <b>per quarter</b> .	No maximum amount since 2009.
Hungary	Mandatory to purchase no less than 3 per cent from Treasury bills and bonds with maturity of 12 months <b>every half a year</b> .	No
Canada	No	For Treasury bills: 25 per cent from amount sold in an auction when auction participant acts on behalf of clients / on his own behalf; For bonds: 25 per cent from amount sold in an auction when auction participant acts on behalf of clients; from 10 per cent to 25 per cent when acting on his own behalf.
Austria	Minimum amount, which has to be purchased by auction participant <b>in auction</b> is amount of issue divided by a number of auction participants.	Auction participant may purchase 100 per cent of amount; however if amount of an issue is 1 billion or more, one auction participant may purchase 30 per cent.
USA	Maximum amount, which has to be purchased by auction participant <b>in auction</b> is amount of issue divided by a number of auction participants.	No more than 35 per cent from amount of issue may be purchased in one yield.
Mexico	Place bids in the primary auction for each type of fixed rate instrument, for minimum amount of 20 percent of the auctioned amount	No info
Portugal	Participate actively in bond auctions by bidding and subscribing a share no less than 2 percent of the amount placed at the competitive phase of the auctions	No info

Source – National Audit Office of Lithuania