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Public debt management responses to COVID-19

March 2020 | www.oecd.org/coronavirus

The COVID-19 pandemic poses significant challenges for public debt management offices (DMOs). Some of these challenges include i) sudden and significant increases in borrowing needs; ii) volatile market conditions; iii) health and safety risks in workplaces; and iv) temporary mismatches in fiscal cash flows. Debt management preparedness to help respond to these operational, liquidity and funding challenges is critical for supporting both the efficacy of each government's emergency response and the smooth functioning of financial markets. This note will assist debt management offices worldwide in their consideration of appropriate measures to prepare and strengthen the capacity of their debt management operations to respond to these challenges.

ENSURE BUSINESS CONTINUITY: The operational capabilities of DMOs should be ensured through the activation of business continuity plans to enable the handling of critical functions such as funding operations and debt repayments.

COORDINATE WITH OTHER GOVERNMENT BODIES: DMOs must coordinate closely with other government bodies, especially central banks and ministries of finance, to be able to react to changes in budget plans (e.g. unanticipated cash flows, authorisation to increase debt/borrowing limits) and market liquidity in a timely and effective manner.

REMAIN VIGILANT AGAINST MARKET DEVELOPMENTS: DMOs should closely monitor market developments and market participants to be able to adjust issuance strategies and procedures (e.g. issuance method, timing, and types of instruments) in a timely manner.

STRIKE A BALANCE BETWEEN TRANSPARENCY AND FLEXIBILITY: In their role as regular and large issuers in securities markets, DMOs around the world should carefully manage changes in borrowing programmes based on the principles of transparency and predictability while considering flexibility to leave sufficient room for manoeuvre.

STRENGTHEN COMMUNICATION WITH MARKET PARTICIPANTS: Clear and timely communication of any adjustment to issuance programmes plays an important role in limiting uncertainty and reputational effects. At the same time, strengthening communication with markets, especially with primary dealers, enables DMOs to gain a deeper insight into investor demand.

USE CONTINGENCY FUNDING TOOLS SUCH CASH BUFFERS: Contingency funding tools such as liquidity buffers, T-Bill issuance and credit lines with commercial banks can be used to mitigate short-term liquidity risk and avoid potential disruption to financing programmes (e.g. auction calendars), which in turn supports predictability in public debt management.

PREPARE ADDITIONAL FLEXIBILITY: Building additional flexibility, such as boosting cash buffers, providing flexibility at auctions, and allowing in-year adjustments to the issuance calendar will help governments to withstand surges in additional funding needs until long-term financing can be secured.

This note is prepared based on the work of OECD Working Party on Debt Management, which formulates and promotes best practices in the area of public debt management worldwide.

Find out more about OECD work on public debt management at
www.oecd.org/finance/public-debt/

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The OECD is compiling data, information, analysis and recommendations regarding the health, economic, financial and societal challenges posed by *the impact of Coronavirus (COVID-19). Please visit our dedicated page for a full suite of coronavirus-related information – www.oecd.org/coronavirus.*