Debt Management Responses during the Pandemic

JULY, 2020

Summary

- **Immediate Liquidity and Financing Needs**
- Institutional Coordination
- Primary and Secondary Market
- Sound Debt Management Practices

Immediate Liquidity and Financing Needs

Background

- Significantly increased financing requirements that debt managers have to fulfil
- Deterioration in market conditions = increased rollover risk and difficulties in meeting larger foreign debt service payments
- For countries without market financing, access to emergency facilities necessary
- Financing cost impact will vary by type of economy:
  - AEs – higher demand due to safe haven flows may reduce financing costs
  - EMDEs and LICs – lower demand due to risk aversion may increase financing costs

Immediate Liquidity and Financing Needs

What can debt managers do?

- Significant Covid-19 changes are a trigger for revising Debt Management Strategy and Annual Borrowing Plan
- Enhanced market communication and consultation essential
- Step-change in immediate financing needs will necessitate increase in financing where there is liquidity available
- Where possible, debt managers can engage in cash-neutral Liability Management Operations (LMOs) to push out redemptions
- May be a trigger for using cash buffers – but requires careful evaluation

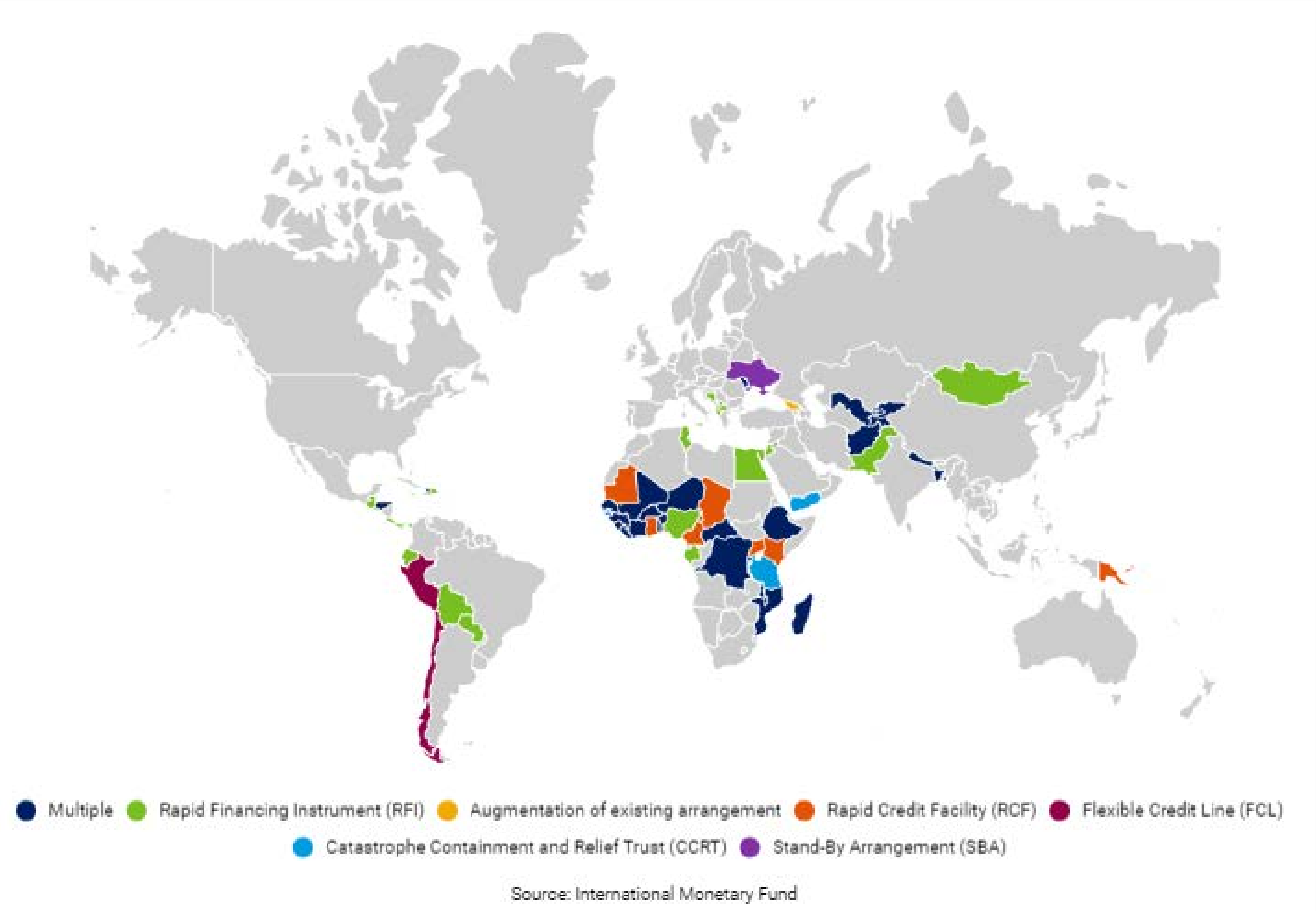
Emergency Facilities

- **Rapid Credit Facility (RCF)**
- **Rapid Financing Instrument (RFI)**
- **Catastrophe Containment and Relief Trust (CCRT):**

  (i) Catastrophe Containment window

  (ii) Post-Catastrophe Relief window

Emergency Facilities (US$ 65bn, over 70 countries)[1]



[1]As at 23 June, including CCRT.

G20 Debt Service Suspension Initiative (DSSI)

- The initiative is also supported by the Paris Club, Kuwait and the UAE.
- Covers all IDA-eligible and UN Least Developed Country (LDC) countries that are current on their debt service to the IMF and World Bank.
- Commitment to reprofile all principal and interest coming due between May 1 and December 31, 2020 from borrowers that request it.
- Paris Club MoU covers terms and conditions in more detail.
- Commercial creditors are called upon to participate working through the IIF.

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Institutional Coordination

Communication between debt management, monetary, fiscal and regulatory authorities critical

Debt managers may also be required to assume new responsibilities – e.g. where there are government interventions, including guarantee schemes

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Primary Market

Front Office: Executing Funding Changes

- Borrowing programs will need substantial revision
- **Increased communication and consultation with market participants, including PDs, will be critical**
- Need to align issuance with market demand:
  - Likely rebalancing to shorter-maturity issuance (e.g. T-bills) or use of other instruments, including bilateral loans
  - Increased flexibility in issuance calendar (less pre-commitment or notice)
  - Increased diversity of issuance mechanisms: taps/tenders/syndications/shop windows

Primary Market

Middle and Back Office: Increased Monitoring of Debt Servicing and Investor Base

- Important to step up monitoring of debt servicing – including FX interest payments.
- Time to take any opportunities to improve debt-cash integration given liquidity constraints.
- Improve monitoring of investor base, with a focus on non-resident investors.
- Investor Relations - increased outreach, move to regular production of debt reports/improvements in communications via website – required to maintain and support market access.
- *Important to monitor existing and potential new contingent liabilities and risk transfer to investors.*

Secondary Market

Addressing Market Dislocation

- Debt managers should use existing (and new) market management tools to address market dislocation:
  - Exchanges may be preferred to buy-backs given liquidity pressures.
  - Use and modification of securities lending facilities (less penal, wider eligibility)
  - Cash buffers should be used cautiously, supporting market functioning

- Use of market management tools should be well communicated to market participants, and clearly distinguished from funding operations

- Collaboration with central banks and regulatory authorities critical.

A Brief Recap

- **Address immediate liquidity risks**
- **Coordinate within government**
- **Consult with external stakeholders**
- **Revise the Debt Management Strategy and Borrowing Plan**
- **Use market management tools where possible**
- **Enhance risk monitoring**
- **Communicate proactively**
- **Be responsive and adapt plans as appropriate**

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Returning to Sound Debt Management Practices

<u>The New Normal in Debt Management</u>

- Post-crisis there will be a need to unwind interventions that have been a departure from sound practices.

- Debt managers will want to undertake an evaluation of risks that crystalized during the crisis, and assess the adequacy of the debt management response.

- Going forward, debt managers will need to re-assess existing debt management strategies over the medium term, taking into account larger debt portfolios where the cost-risk profile will have altered significantly.