Executive summary

Central government borrowings from the markets hit a record high in the first five months of 2020

The pandemic-related surge in government financing needs has resulted in OECD governments raising a record amount of funds from the market. From January to May 2020, governments issued debt securities worth USD 11 trillion – almost 70% higher than average issuance in the same period over the past five years. In addition to financing the COVID-19 rescue and related fiscal stimulus packages, increased precautionary financing and short-term cash needs to smooth out cash flow disruptions contributed to the surge in sovereign issuance during this period.

All OECD governments have revised up their borrowing estimates for the whole year, although to varying degrees depending on the extent to which they were hit by the pandemic, their fiscal capacity to address the shock and the types of fiscal measures implemented. A survey on the impact of the pandemic on the sovereign borrowing outlook among OECD sovereign debt management offices estimates that gross borrowing needs have increased by 30% compared to pre-COVID estimates to reach USD 28.8 trillion, about half of which is for short-term borrowing needs. While central government borrowing estimates have increased significantly in G7 economies, changes in OECD emerging-market economies have been rather limited.

Despite a temporary increase in March, borrowing costs have remained at very low levels, mainly owing to highly accommodative monetary policies. In the five months to end-May, about 25% of government bonds carried negative interest rates, and 43% of bond issuance was at interest rates between 0% and 1%. Compared to 2019, borrowing costs improved considerably in Canada, the United Kingdom and the United States.

Surging borrowing and tumbling GDP carry the debt-to-GDP ratio to an unprecedented level

For the OECD area as a whole, outstanding central government debt is expected to increase from USD 47 trillion in 2019 to USD 52.7 trillion at the end of 2020. At the same time, OECD economies, facing the deepest recession since the 1930s, are projected to contract by 7.5% in 2020, under a single-hit scenario which assumes a successful resolution of the current outbreak. The dramatic increase in borrowing needs and the decline in GDP mean that the central government marketable debt-to-GDP ratio for the OECD area is projected to increase by 13.4 percentage points to around 86% in 2020. For comparison purposes, this ratio rose by 12.6 percentage points between 2007 and 2009, during the global financial crisis.

Given the surge in borrowing needs, debt redemptions are set to increase substantially. OECD governments will need to refinance around 40% of their outstanding marketable debt in the next three years, notwithstanding that the majority of OECD countries experienced a sizeable elongation of debt maturity in the pre-COVID period, which has helped alleviate debt sustainability concerns in some countries. Another important factor that should be considered in refinancing risk assessments is low cost of sovereign borrowing and large-scale sovereign

asset purchases by major central banks, which has facilitated funding of large government financing requirements.

While a strong fiscal response to support the recovery is essential and a one-off shock to the level of debt may not threaten debt sustainability if economies recover, controlling debt dynamics is also needed for achieving long-term debt sustainability. Looking forward, a failure to focus on ensuring debt sustainability once the recovery has accomplished would be an important source of risk, in particular for countries with weak debt dynamics.

Sovereign issuers have adapted borrowing operations to increasing funding needs and evolving market conditions

In the current environment, the key challenge for sovereign issuers is to increase issuance to finance policy responses, while avoiding a potential decline in market functioning. In response to this challenge, sovereign debt offices in several OECD countries have adjusted their borrowing operations with respect to issuance choice and techniques. While auctions are more frequent and larger, other issuance techniques such as syndications and private placements have also expanded since the pandemic.

More than two-thirds of OECD sovereign debt management offices have increased issuance of government securities across the yield curve, issuing more money market instruments such as T-Bills and repos compared to long-term bonds since the outbreak. Sovereign issuers typically view money market instruments as shock absorbers for any unexpected financing needs. For example, during the global financial crisis, several countries increased their T-Bill issuance temporarily, but moved towards longer-dated securities in the following years as market conditions improved and borrowing requirements remained elevated.

Increased budget deficits generate scope for issuance of new securities (e.g. Green bonds), or new longer-dated maturity lines. Introducing new instruments can contribute to enhancing the financing capacity of sovereigns, diversify their funding sources and mitigate medium and long-term refinancing risk. Such decisions require the careful consideration of several parameters, including investor needs, and the interest rate and maturity structure of existing debt.

Emergency cash management tools enable governments to meet extended obligations in times of global crisis

During the initial phase of the COVID-19 crisis, short-term funding needs of governments rose suddenly due to lower fiscal revenues to combat recession coupled with a massive jump in spending both on healthcare and stimulus. At the same time, widespread risk aversion in financial markets has hit funding conditions profoundly and rapidly. This situation posed significant challenges for government cash and debt managers, whose ultimate goal is to ensure that governments are able to meet their financial obligations in a timely manner.

The pandemic has underscored the importance of emergency funding mechanisms, such as cash buffers and credit lines for sovereign issuers in order to access liquidity as quickly as possible to manage unanticipated cash flows. The *Outlook* reveals that several debt offices in the OECD area have benefited from already available 'cash buffers' during these difficult times to finance government and avoid a temporary increase in borrowing costs in the market. In addition, having such measures in place has delivered positive signalling effects on market participants. Given the highly uncertain outlook, governments may also want to revise their cash buffer polices as a risk management tool to address potential challenges.

From:

OECD Sovereign Borrowing Outlook 2020

Access the complete publication at:
https://doi.org/10.1787/dc0b6ada-en

Please cite this chapter as:

OECD (2020), “Executive summary”, in *OECD Sovereign Borrowing Outlook 2020*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/752b3d92-en

This work is published under the responsibility of the Secretary-General of the OECD. The opinions expressed and arguments employed herein do not necessarily reflect the official views of OECD member countries.

This document, as well as any data and map included herein, are without prejudice to the status of or sovereignty over any territory, to the delimitation of international frontiers and boundaries and to the name of any territory, city or area. Extracts from publications may be subject to additional disclaimers, which are set out in the complete version of the publication, available at the link provided.

The use of this work, whether digital or print, is governed by the Terms and Conditions to be found at http://www.oecd.org/termsandconditions.