3. Governance of public debt in the times of a global crisis

The COVID-19 pandemic presents a historic challenge for sovereign debt management offices. In addition to operational challenges, liquidity and funding risks have escalated to unprecedented levels during the crisis. Debt management preparedness to respond to these challenges is critical for supporting both the efficacy of each government's emergency response and the smooth functioning of financial markets.

This chapter discusses how debt management offices of the OECD countries can adapt their governance practices to prioritise and deal with various aggravated operational and market risks in these times of a major crisis in order to achieve their objectives.

3.1. Introduction

The COVID-19 pandemic poses significant challenges for public debt management offices (DMOs) including i) sudden and significant increases in borrowing needs; ii) increased market volatility; 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 chapter discusses how debt management offices of the OECD countries can adapt their governance practices to prioritise and deal with various operational and market risks during a global crisis, such as the COVID-19 outbreak.

Key findings

- In the midst of a severe crisis as the COVID-19 pandemic, ensuring the continuity of business is a priority to deal with other types of risks that a debt management office faces. The operational capabilities of DMOs should be ensured through taking measures concerning working arrangements (e.g. split operations, remote working, office distancing) to enable the handling of critical functions such as funding operations and debt repayments.
- As funding needs of governments have increased significantly and suddenly during the period of the crisis, coordination amongst the authorities in charge of budget planning, funding, liquidity management and financial stability have become more important. 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.
- Markets become more sensitive and reactive in periods of stress, thus funding conditions can profoundly change in a short period of time. The key challenge is to increase issuance to finance the policy response, while avoiding a potential decline in market functioning.
- DMOs, as regular players, may want to consider prefunding future requirements (if possible) in case conditions deteriorate, closely monitor market developments and market participants to be able to adjust issuance strategies and procedures in a timely manner.
- Clear and timely communication of any adjustment to issuance programmes plays an important role in limiting uncertainty and reputational effects, and promoting market resilience. At the same time, strengthening communication with markets, especially with primary dealers, enables DMOs to gain a deeper insight into investor demand.
- In their role as regular and large issuers in securities markets, DMOs should carefully manage changes in borrowing programmes by balancing the need for transparency and predictability while allowing for sufficient room for manoeuvre.
- Contingency funding tools such as liquidity buffers, T-Bill issuance and credit lines with commercial banks can be used to mitigate unexpected variations in borrowing needs and avoid potential disruption to financing programmes, which in turn supports predictability in public debt management. Moreover, building additional flexibility, such as boosting cash buffers, providing flexibility at auctions, and allowing unscheduled adjustments to the issuance calendar will help governments to withstand surges in additional funding needs until long-term financing can be secured.

3.2. Operational challenges and ensuring business continuity during the pandemic

The COVID-19 pandemic has ignited significant health, social, economic and financial crises globally. In terms of business operations, it has had a profound impact on the ways people work due to social distancing (i.e. widespread remote work). Under this environment, ensuring business continuity of debt management offices (DMOs) has become vital for governments to respond to the pandemic effectively as they are responsible for raising funds to meet the governments' financing needs. The majority of DMOs in the OECD area regularly conduct business impact analysis of potential disruptions in business processes (in terms of economical and reputational consequences as well as governance), and have enhanced back-up systems in place to handle critical functions such as funding operations and debt repayments (Box 3.1). Having a business continuity and recovery plan available to put into practice helps DMOs to quickly respond to operational challenges posed by the pandemic. At the same time, DMOs would benefit from reviewing of their pandemic preparedness in case of a prolonged period of confinement or a potential second-wave of infections.

Box 3.1. Business Continuity Planning in Debt Management Offices

Sovereign debt management offices (DMOs) are in charge of critical government activities such as raising funds to meet governments' financing needs and repayments of debt to investors. Therefore, almost all sovereign debt management offices in the OECD area have well-developed business continuity and disaster recovery plans to ensure their core business operations are maintained in in case of an emergency or an event risk.

A plan for business continuity typically outlines how an organisation will continue to function during and after an emergency or event. It involves identification of critical functions, key internal and external dependencies and contingency planning of how key services or products can continue under different scenarios. The main risks that are seen as having the potential to disrupt debt management operations at the primary site can be listed as follows: i) disruptions to - or failure of - information technology (IT); failure of global network systems used for communications; unavailability of databases and records; external suppliers (e.g. power, water, transportation); external threats (e.g. terrorism, natural disasters); disruptions to the financial system, and unavailability of staff (e.g. pandemic). As most of the threats involve facilities, external suppliers, and equipment, the contingency measures in place to mitigate risks to continuity of debt management operations at primary sites mainly cover backup power supply, communication, IT, data storage and recovery, protection of legal contracts. In the majority of cases, there has been a maximum downtime objective established at the primary site, which is typically very short for vital operations and longer for non-vital operations. Also, most DMOs in the OECD area have secondary sites as part of business continuity plans (BCPs) and would be able to resume business within approximately a half day following the invoking of the BCP.

Source: WPDM Survey of Business Continuity Plans of Debt Management Offices, 2006 and discussions held at the 2019 annual meeting of the WPDM.

Similar to other businesses, the pandemic affects business operations of sovereign debt management offices in terms of health and safety of workers. At the same time, the fiscal response to the pandemic has led to a surge in borrowing needs of governments, which in turn has increased the need for funding and cash management activities of DMOs. In this context, many DMOs have activated their BCPs at early stages of the outbreak to ensure their critical functions (government financing and debt repayments) are resilient during the crisis. If a BCP is not available, simple measures can be taken to ensure business continuity by identifying critical processes and developing a remote working plan as described below.

Sovereign debt management encompasses highly technical tasks such as funding, liquidity management, risk management, and settlement and payments that require a high degree of financial expertise and experience. Unlike other potential threats to operations, a pandemic may prevent workers from returning to work in full capacity for what can be a prolonged period of time. Also, workers or family members can be affected and unable to take part in work activities. Therefore, ensuring business continuity during a pandemic requires not only remote access to the workplace but also health and safety of human resources for longer outages. It is important to note that building nationwide resilience at a broader level and employing a strong internal risk control environment at a granular level to deal with these risks are important features of efficacy of risk management measures. These measures are as follows:

- Create a pandemic management team that assigns roles and implements business continuity plans to ensure that the critical business activities remain operational for several weeks or months with limited staff
- Heightened hygiene at workplace (e.g. provide hand sanitizers, disinfection of the workspace and meal planning)
- Establish split operations (clean team), assess division of labour in terms of critical activities; and ensure effective communication both within and across teams
- Develop methods to conduct your business remotely (e.g. remove manual approval processes for funding operations and repayments; allow workers to use flexible work options; develop communication methods to reach all staff, and; enhance technology and communications equipment and relevant protocols)
- Assess and plan for downsizing services (e.g. non-critical operations such as research activities, derivative operations), and also anticipate a surge in some operations (e.g. funding operations, cash management and investor relations)
- Redesign office layout to ensure social distancing at the work place (e.g. limiting number of staff per office, establishing physical barriers, no-visitor policy)
- Cross train more staff with critical skills through virtual classes and webinars to avoid key person risk (e.g. staff involved in cash market operations, derivative markets and debt repayments)
- Consider replacing face-to-face meetings (including internally) with online meetings
- Make sure key counterparts, in particular primary dealers, have put in place a well-developed business continuity and disaster recovery plan that includes pandemic preparedness
- Develop partnerships with stock exchanges, financial and other clients, the treasury, the central bank, the clearing house and the depository, in order to coordinate activities to meet the recovery time objectives
- Be vigilant against heightened risk of cyberattacks during the pandemic

It should be noted that remote work also imposes challenges to businesses. Information security, privacy and timely technical support can cause delays. It might affect the promptness of the operations in the financial sector similar to many other sectors of an economy. Therefore, in addition to the above listed measures, DMOs would benefit from being mindful about the impact of remote working conditions in other businesses across the world. In view of this, DMOs might consider providing flexibility to primary dealers with respect to their reporting and market obligations (e.g. quoting obligations, flexibilities around deadlines and scope of reports) during the pandemic. Also, ensuring a close communication with primary dealers to keep the market's pulse and to understand investors' behaviour and motivations, and avoiding requesting additional research/reports are of the utmost importance.

Once the crisis is over, sovereign debt management offices should review their business continuity and recovery plans in light of the lessons learned during the COVID-19 crisis. Identification of gaps in BCPs or necessary equipment to be acquired would help to improve their preparedness for a pandemic risk. Furthermore, the use and priority of secondary sites might be worth reviewing as the recent experience of wide-scale remote working experience has proved to be effective in managing certain type of stress scenarios.

3.3. Stronger coordination with other authorities

Crisis conditions require strong coordination and communication amongst the relevant authorities to enable them to respond quickly and prudently. In this regard, the COVID-19 pandemic is not an exception. From a public debt management perspective, it requires a close coordination with fiscal and monetary policy authorities given the massive impact of the pandemic on fiscal projections, governments' immediate need for cash as well as on financial markets. In addition, a broader level of coordination is necessary to mitigate safety and health conditions of staff and to manage relevant operational risks, as discussed in the previous section.

The pandemic's economic impact in terms of shrinking domestic production, collapsing tax revenues, and ballooning fiscal deficits is visible worldwide. At the same time, governments need to spend unprecedented sums of money not just on healthcare and social interventions to fight COVID-19, but also on job guarantees and welfare payments. All of these weigh heavily on governments' budget projections and cash flow estimates: i) A combination of a drop in fiscal revenues and massive jump in fiscal spending poses a significant challenge for authorities to estimate short-term cash needs, in particular where a number of fiscal stimuli packages are announced in a short period of time; ii) Making realistic medium- and long-term cash flow estimates becomes extremely difficult given the uncertainty attached to fiscal projections, as well as global health and growth expectations. On the whole, this situation calls for strong coordination amongst the authorities in charge of public financial management such as tax and revenue administrations to estimate new fiscal cash flows and prioritise spending items.[1] The quality and timely delivery of cash flow forecasts have a crucial role in making informed decisions regarding the timing and size of funding, as well as use of safety nets. Anecdotal evidence suggests that sovereign debt managers quickly re-activated their emergency communication skills from the GFC, which has led to efficient sharing of information amongst relevant departments of ministries of finance.

The interaction between DMOs and central banks (CBs) regarding their policy moves is extremely important for the smooth functioning of government securities markets at all times. While the current crisis is increasing sovereign debt levels as well as government securities holdings of central banks, this new and complex environment requires stronger coordination between monetary policy and debt management authorities. Main issues require exchange of information between authorities of debt management and monetary policy where they are related to liquidity management, primary dealership system, investors' behaviour and yield curve movements. For example, DMOs usually issue T-Bills or make use of other safety nets such as cash buffers and credit lines to absorb sudden and sharp variations in cash flows to keep their bond issuance plans unchanged. Clearly, the choice of different financing strategies has different implications for liquidity conditions in the market, which is pertinent to monetary policy transmission. Another aspect of the interactions concerns primary dealers, who often act as intermediaries in flowing the liquidity and government securities into the economy.

In order to support markets and economic growth, major central banks in the OECD area have been deploying emergency interventions and providing a lot of liquidity to the economies. These include interest rates at or near the effective lower bound, embarking on massive securities-buying programs, reopening emergency financing windows and creating new ones. Clearly, these measures have implications for sovereign debt markets. First of all, swift action by central banks in the main advanced economies, in particular in the United States, has led to a massive increase in market liquidity, helping to ease stress in financial markets and minimise risks triggered by containment measures (OECD, 2020[1]). The resulting low interest rates and increased central bank holdings of government bonds have reduced government debt servicing costs significantly. In the euro area, for example, the ECB has allowed flexibility in other self-imposed restrictions (i.e. fluctuations in the distribution of purchase flows over time, across asset classes and among jurisdictions) and included debt securities with maturities (i.e. as short as 70 days T-Bills) into its new Pandemic Emergency Purchase Programme (PEPP) in March 2020. This in turn helped to ease funding conditions of the euro area sovereigns overall. In particular, it was helpful for sovereign DMOs that have issued T-Bills to build their cash buffers in the early phase of the crisis. The Bank of England, on the other hand, has provided the government with cash advances, through a temporary extension of the Ways and Means (W&M) facility to directly finance additional government spending.[2] From a monetary policy perspective, this temporary tool aims to avoid a tightening of monetary conditions due to governments' high borrowing requirements. From a debt management perspective, it helps the DMO to finance government's crisis measures without the need to turn to the markets which could be volatile.

If existing communication and coordination structures are deemed inadequate, formal protocols (e.g. memorandum of understanding) or changes in existing protocols (e.g. clear and strict instructions) for information sharing can be put in place with the relevant authorities.

3.4. Remaining vigilant against market developments in unprecedented times

Until the pandemic arrived, financial market conditions were buoyed by a general sense of optimism on the back of supportive monetary policies and reduced trade tensions. With the rapid spread of the virus, the outbreak turned into a global pandemic in a few weeks and uncertainty about global economic downturn crushed investors' expectations.[3] While investors became more risk averse, this flight to quality behaviour manifested itself as a sharp fall in the prices of risky asset and commodities; and a surge in the prices of safe-haven assets (Please see Chapter 1 for details). Thus, funding risk has been high on sovereign debt managers' agenda since the outbreak.

Monitoring market developments and having two-way communication with investors are essential for sovereign issuers to realise their objectives with respect to minimising debt service cost for a given level of refinancing risk and supporting well-functioning government securities market at all times. These are critical to enable debt managers to draw up more informed issuance strategies (i.e. aligning issuance plans with market demand) and to adjust investor relations and communication practice. Remaining vigilant against market developments and continuous communication with investors becomes even more important during times of crisis, where market conditions could change abruptly. In adverse market conditions, investors' appetites may switch to a risk-off mood and market liquidity can evaporate suddenly. This in turn can affect demand for government securities in primary markets. The risk-off mood can be exacerbated in the face of sudden rating downgrades and/or changes in outlook, especially if such actions occur off-calendar, thus elevating uncertainty levels going forward. If a severe market strain is foreseen, sovereign issuers can modify the timing and method of issuance. Otherwise, they might have to face less successful funding operations (e.g. uncovered auctions).

Until now, the increased borrowing has been relatively well absorbed by markets in major economies. This partly reflects the fact that many advanced countries benefited from a "flight to quality" effect as investors switched out of equity and other "risky assets". Also, large bond purchasing programmes deployed by major central banks have supported demand for government securities. However, similar to the GFC, issuance conditions have worsened in some markets with somewhat weaker demand at auctions in some jurisdictions, particularly during the initial phase of the crisis. It should be noted that these incidences can be read as “single market events” and not as unambiguous evidence of systemic market absorption problems. Debt managers have reported that they have been in interaction with primary dealers and other investors more frequently than before through emails, phone calls and virtual meetings.

Countries with limited fiscal space, high financing needs, or external financing vulnerabilities, including Hungary, Mexico and Turkey, have been more exposed to sudden changes in investor sentiment. Those countries should make use of safety nets, if available. If not readily available, they might benefit from building emergency cash buffers or establishing credit lines with commercial banks, or a short-term cash advance facility from central banks. In addition, when designing an issuance operations calendar, they should try to avoid potentially market moving data releases and other scheduled external events as far as known and practicable (e.g. major CBs’ interest rate announcements, elections, major economic data releases. At the same time, it’s important to maintain flexibility to be able to make minor adjustments to account for dates of major events announced after the issuance calendar. This provides an opportunity to communicate shifts in the auction calendar well in advance.

In the midst of a severe crisis such as this one, usual issuance mechanisms and procedures may not be fully effective. Consultation with primary dealers about issuance methods, auction calendars, and instruments choices could be valuable for successful management of stressed periods. For example, some investors might be less keen to participate in competitive auctions amid highly volatile market conditions. DMOs might benefit from putting in place a post-auction option facility (i.e. non-competitive subscription) or modifying design features of the facility to attract investors to auctions.[4] Specifically, availability of the facility can be expanded in terms of its size and investor groups (e.g. institutional investors and small investors). Similarly, investors might face difficulty in trading less liquid bonds (e.g. off-the-run-bonds). In order to support the functioning of the government securities markets, DMOs might consider introducing buy-back or switch facilities with eased conditions.

In addition, issuers should adapt their market monitoring practices as well as communication strategies to the pandemic. They can communicate directly and at less cost with investors through conference calls, web-based communications and social media. They should monitor markets more closely and more frequently.

Clear and timely communication of any adjustment to issuance programmes plays an important role in limiting uncertainty and reputational damage, and promoting market resilience. At the same time, strengthening communication with markets, especially with primary dealers, enables DMOs to gain a deeper insight into investor demand. Given the uncertainty in the economic outlook and increasing re-financing needs, the future might hold even more challenging funding conditions which might complicate the execution of borrowing programs. Existing issuance procedures, primary dealer arrangements, and portfolio management strategies may not work as efficiently as they did before the crisis. In this context, sovereign issuers may need to adapt their operations to the new conditions. For example, during periods of stressed market conditions, banks might face difficulties in participating in auctions or delivering market making activities as defined in the PD agreements.[5] If deemed necessary, DMOs should adjust implementation of primary dealership systems and ease primary and secondary market obligations of the intermediaries temporarily in view of the extraordinary circumstances.

3.5. Striking a balance between transparency and flexibility

Adherence to transparency and predictability is one of the key principles of debt management that enables sovereign debt management offices to achieve their objective of minimizing borrowing cost over the long-term.[6] This provides certainty for investors and intermediaries concerning the size and composition of the issuance of government securities, and results in better market functioning and liquidity (OECD, 2016[2])). Sovereign issuers provide predictability through disclosing their financing programmes by using annual, quarterly and monthly financing plans and other communication tools. Nevertheless, greater transparency reduces the flexibility of implementing financing plans. In their role as regular and large issuers in securities markets, DMOs need flexibility to follow their financing programmes, especially under extraordinary conditions when there is considerable uncertainty about borrowing requirements.

When flexibility is built into debt management policies, DMOs can take a proactive approach on several fronts including i) addressing unexpected funding needs with low cost, ii) preventing possible threats to the government's reputation and financing capacity due to failed auctions, and iii) easing market liquidity strains over certain bonds through buy-back or exchange operations (OECD, 2019[3])). Flexibility, aiming to support predictability, can be embedded into financing plans through contingency funding tools. These include the use of T-Bills, liquidity buffers, funding in foreign currencies, and credit lines with commercial banks. Considering the costs attached to them, these tools are designed to mitigate short-term liquidity risk and avoid potential disruption to financing programmes. Also, issuance techniques and pricing systems can also be adapted to market conditions. For example, DMOs might consider switching to a single-price auction temporarily to make pricing easier for investors.

In the case of a massive shock to borrowing needs, there may be situations where none of these measures is sufficient to avoid deviations from issuance plans. In the fight against the pandemic and its massive impact on economies and markets, governments across the world have introduced a number of fiscal packages. The fiscal response has been fast and significant, which required fundamental adjustments to governments' funding plans. In addition to enacted policy measures, the impact on the fiscal balance through automatic stabilizers can be significant, although its exact magnitude can prove difficult to project considering the specificity and unprecedented nature of the pandemic shock. Consequently, both size and composition of borrowing plans of many DMOs have had to change in just a few weeks. Going forward, given the uncertainties attached to the evolution of the pandemic as well as recovery in the global economy, when reviewing issuance plans, DMOs should assess different scenarios to estimate government borrowing needs, rather than strictly following a base-line estimation. Sovereign issuance schedules for the second half of the year, particularly in the countries most affected by the pandemic, are subject to considerable uncertainty in the current environment. Both downward and upward revisions can happen with respect to governments' financing requirements in the course of the year, which may lead to further changes in the planned issuing activities. In cases where DMOs refrain from announcing a detailed issuance plan for the coming periods, this should be clearly communicated as an exceptional (and temporary) practice.

Furthermore, a combination of a surge in funding needs with adverse market conditions might result in less successful auctions. Even if these are rare market events, they can create market noise. Maintaining a strong two-way communication policy with investors and intermediaries such as primary dealers, rating agencies and other government departments, are instrumental in reducing the type of market noise that can unnecessarily spur borrowing costs. A well designed communication strategy enables debt management offices to i) ensure awareness of fiscal, economic and debt management developments; ii) gauge investor appetite, grasp investment trends and obtain feedback on investor needs, and iii) provide investors with the information they need on a timely basis including changes in auction dates or new issuance.

In light of the growing importance of online communication during the pandemic, sovereign issuers should use electronic communication tools to disseminate information. For example, public announcements disseminated via emails, websites and social media accounts can be quite effective in reaching out to all types of investors including retail investors.

3.6. Role of contingency tools to weather the storm

Liquidity management is critical to enable the government to meet its extended obligations during the pandemic. Borrowing conditions for sovereign issuers can become extremely challenging when rising funding pressures coincide with sudden shifts in market sentiment to a more risk averse mood and deteriorations in perceptions of sovereign risk. In this regard, some level of flexibility is necessary to provide issuers with room for manoeuvre in financing plans. Country experiences suggest that the availability of contingency funding tools, which provide flexibility for issuance plans, is critical for confronting challenges in periods of market stress (OECD, 2019[3])). Today, the role of flexibility in issuance programmes has become more important given the uncertainty associated with control of the pandemic, and governments' borrowing needs. In addition to providing flexibility, putting contingency funding plans into practice would also help to boost market confidence in governments' ability to repay debt as well as respond the pandemic. This is, in particular, relevant for the countries with high redemption profiles and limited access to deep financial markets.

Over the last decade, many governments have established contingency funding tools in case of a significant increase in borrowing needs. If not pre-established, DMOs should develop appropriate contingency funding plans where needed. Commonly used contingency funding sources are:

- immediate access to asset portfolio/liquidity buffer
    - issuance of short-term instruments, such as T-Bills and commercial paper;
    - increase auction size and tap existing bonds
- hold syndications and private placements
- establish overdraft facility arrangements with CBs, and
- set-up credit lines with commercial banks

One of the most commonly used contingency funding tools is a liquidity buffer (LB) policy, which provides DMOs with an immediate access to cash (Box 3.2). Keeping a liquidity buffer cushions event risks and increases financial flexibility to the extent of its availability. In view of the pandemic, DMOs can recalibrate cash buffers to provide additional flexibility. It is important to note that during the crisis, reducing funding risk should take priority over concerns about containing costs. One way of building up cash buffers is to increase auction size and tap existing bonds, another one is to issue short-term securities in markets. Building additional flexibility, such as boosting cash reserves, 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.

During the crisis, issuance methods other than auctions would be useful in raising liquidity. Holding syndications for example, helps to retain flexibility in aligning demand with supply as each syndication is sized taking into account the size and quality of end-investor demand. Similarly, private placements, which can be arranged at short notice, are useful for supporting issuance programmes.

The magnitude of the changes in borrowing needs and market conditions will largely depend on recovery of the global economy and how the outbreak evolves, both of which remain highly uncertain. Given the significant amount of uncertainty, sovereign issuers should prepare for longer term disruptions in view of potential increases in liquidity needs. As discussed, they can issue T-bills to build up cash buffers, or look for alternative financing sources, such as additional credit lines with commercial banks, or tapping institutional investors (e.g. foreign or domestic pension funds, insurance companies) through private placements. In addition, temporary arrangements with other government entities can be made so that idle liquid assets available to other government bodies can be withdrawn in the case of emergency. Lastly, when borrowing from other sources becomes unreasonable or inadequate (or impossible), governments should consider financing assistance from bilateral and multilateral resources (e.g. the IMF and the World Bank).

Box 3.2. Liquidity buffer practices of sovereign debt management offices in the OECD area

A cash buffer policy is a liquidity management plan aimed at having cash-like financial assets readily available to address liquidity and refunding risks associated with governments' budget execution and debt management. It is used to manage differences between cash inflows and outflows, and to address short-term loss of market access due to operational issues (e.g. a natural disaster, a cyber-attack or terror attack may hinder auctioning debt).

Keeping a LB has become a widespread practice amongst DMOs in OECD countries over the last decade. A 2017 survey on LB practices amongst the member of the OECD Working Party on Debt Management revealed that 28 DMOs including Canada, Denmark, France, Italy, Portugal, Turkey and the United States maintain a LB as a precautionary measure for extraordinary periods. The survey indicates that the level of cash buffer varies significantly amongst respondent DMOs. They keep cash buffer levels ranging from 5 days to one year of total outlays, including debt payments. Although levels are variable across countries, the most common buffer level is sufficient to meet one month of debt redemptions on average.

The minimum level of LBs depends on various factors such as access to liquid markets, gross borrowing needs and potential funding risks in coming periods. Ideally, the level should be sufficient to meet financing needs during periods of liquidity strains, while taking the cost of keeping idle cash into account. In general, countries adjust the level in order to cover financing obligations for a certain period of time (e.g. survival period) or for a certain percentage of debt.

Over time, the policy regarding the minimum level of liquidity buffer is adjusted to the evolving market structures and changing financing needs. For example, when there is an expected event that might have an impact on borrowing needs or market conditions, a debt management office might benefit from building up the buffer beforehand to provide additional flexibility. This would also help to boost investors' confidence.

An important aspect of cash buffer practices is the need for close coordination amongst relevant authorities as generally, several entities are involved in government cash management operations. It requires a timely flow of information on budget and cash flow projections between the ministry of finance and debt management team. Similarly, coordination is necessary between the central bank and DMO, as most governments keep their cash buffers in their accounts at national central banks. This is a common practice in view of credit risk considerations.

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Notes

[1] In the OECD area, cash and debt management functions are mostly integrated. If not integrated, cash and debt management should be closely coordinated.

[2] The ways-and means facility is the government's overdraft account with the BoE and provides the government with cash advances from the BoE. The government usually uses this facility to finance its day-to-day spending, before the BoEs sells government bonds to the market. This facility is normally capped at GBP 370 million. See press releases from HM Treasury here, and BoE here.

[3] The World Health Organisation (WHO) declared COVID-19 a pandemic on March 11, 2020. https://www.who.int/dg/speeches/detail/who-director-general-s-opening-remarks-at-the-media-briefing-on-covid-19---11-march-2020

[4] A post-auction option facility or non-competitive subscription gives successful bidders the option to purchase an additional amount allocated to them at a particular auction. Its price is based on the average price of all competitive bids submitted.

[5] As market makers, banks act as both agency traders to match buyers and sellers, and as principal traders stepping in to buy and sell securities on behalf of clients using their own balance sheets. Hence, primary dealer banks are seen as reliable liquidity providers. However, more stringent rules on capital requirements following the GFC have made banks less willing to act as intermediaries by providing so-called warehouse of risk, instead looking to connect buyers and sellers immediately.

[6] A predictable issuance programme: i) raises DMO's credibility, accountability; ii) allows transparent allocation; iii) reduces uncertainty for investors; iv) facilitates better communication and marketing. This, in turn, – based on expert judgment and investors' feedback – broadens the investor base, lowers risk premiums and decreases borrowing costs and fosters secondary market liquidity.

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