

Workshop on Public Debt Issuance During Crises

Organized by the Brazilian National Treasury

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Agenda

- *“What recommendations can you offer on how public debt management offices should prepare for unexpected crises?”*
 - Debt Management Strategy (accountability, adaptability, diversification, risk mitigation)
 - Sound Primary Markets (predictability, market consultation)
 - Secondary Market Soundness (market functioning, price discovery)
 - Transparency (reports, press releases, investor relations)
 - Operational Risks (BCP/DRP, procedures manual, trained staff)
- *“What instruments should be considered to enhance competition in primary government securities auctions?”*
 - Investor Base Diversification
 - Primary Dealers (and variants)
 - Customized Auction Rules
 - Alternative Issuance Mechanisms

What do we mean by government debt management?

Textbook

“Public debt management is the process of establishing and implementing a strategy for managing debt to achieve the government’s financing, risk and cost objectives and other goals, such as developing the domestic debt market”

WB/IMF Revised Guidelines for Public Debt Management, 2014

- Debt managers DO NOT control neither the LEVEL of financing needs nor the LEVEL of debt.
- However, it’s their key role to pursue a debt COMPOSITION that “**increases government resilience to (external) financial shocks**”.

How to prepare for crises? (1/2)

The practice

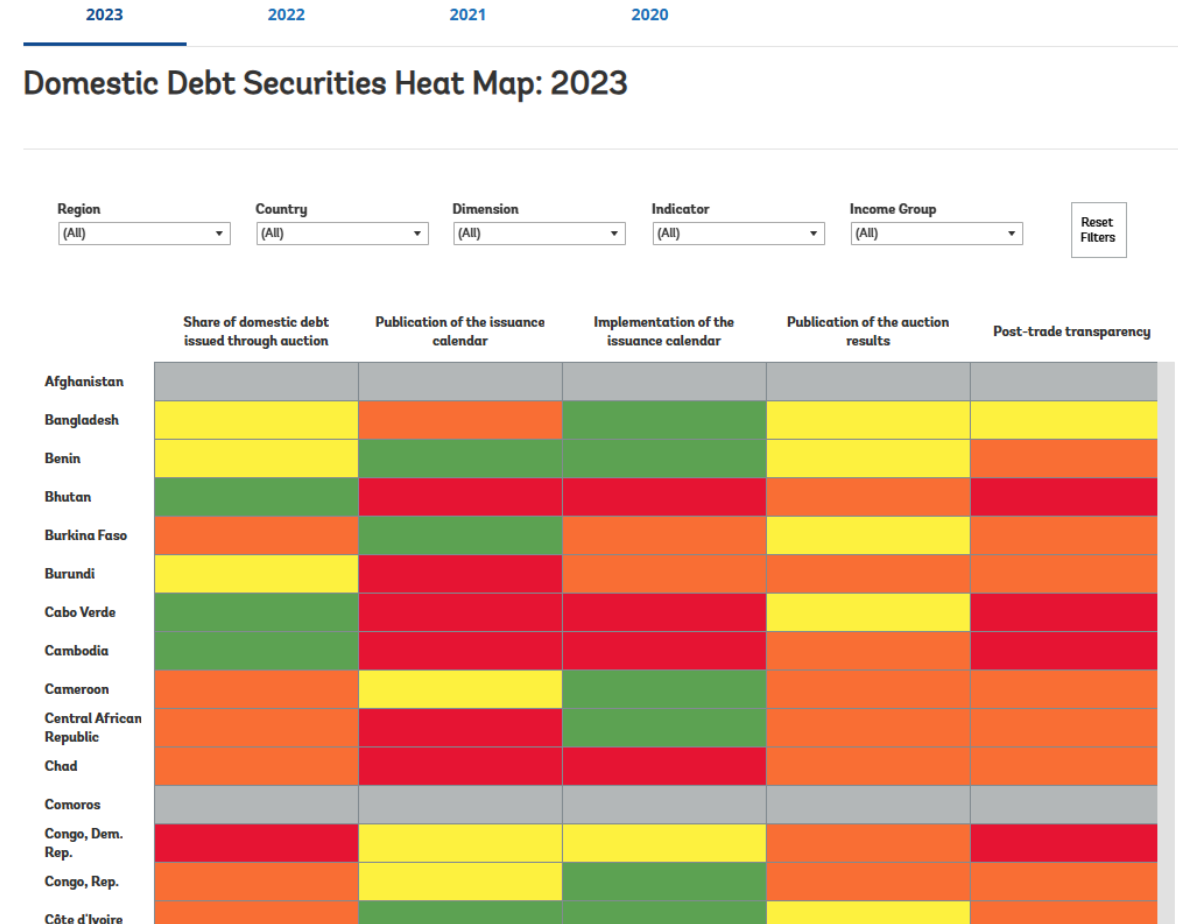
1) Debt Management Strategy

- Accountability: credibility and no opportunistic/random approach – extraordinary measures should be seen as such
- Adaptability: balance between predictability and flexibility (mindfulness about market conditions and needs)
- Diversification: of sources of funding (dom/ext, marketable/loans) and investor base (different investment horizons)
- Risk mitigation: early identification of risks and actions to reduce demand constraints (market development) / cash buffers

2) Sound Primary Markets

- Predictability (timely auction calendars and results, clear issuance strategy, act as price taker)
- Market consultation (balance between issuer and investors objectives, readiness for extraordinary actions)

Extreme crisis episodes call for actions outside of the debt manager's textbook. Sound public debt management is characterized by predictability, transparency, and consistency. In periods of severe crisis rules and guidelines do not apply, and countries seek non-traditional funding sources.



How to prepare for crises? (2/2)

The practice

3) Secondary Market Soundness

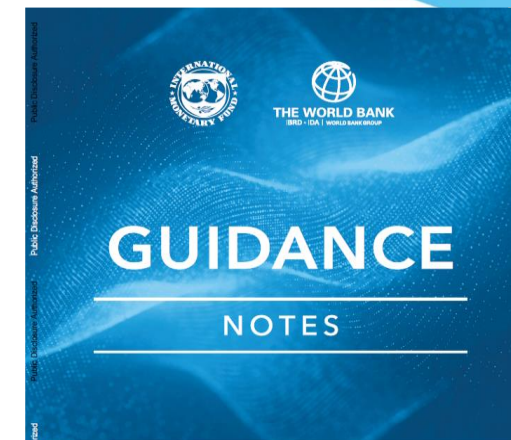
- a) Market functioning: PDs' role, DMO/CB roles and coordination
- b) Price discovery: pre and post trade transparency

4) Transparency

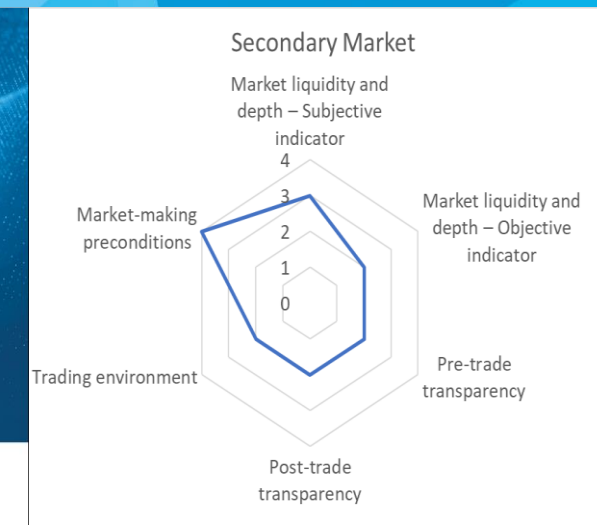
- a) Reports, press releases: debt coverage and operations
- b) Investor relations: focused strategy, outreach, continuous communication with market participants

5) Operational Risks

- a) Business Continuity and Disaster Recovery Plans
- b) Procedures manual
- c) Trained staff



Developing Government Local Currency Bond Markets



2024 2023 2022 2021 2020

Debt Reporting Heat Map: 2024

Date of assessment: October, 2024

Region (All) Country (All) Dimension (All) Indicator (All) Income Group (All) Reset Filters

	Data accessibility	Instrument coverage	Sectorial coverage	Information on recently contracted exte...	Periodicity	Time lag	Debt Management Strategy (DMS)	Annual Borrowing Plan (ABP)	Additional statistics / Memo Items
Bhutan									
Burkina Faso									
Burundi									
Cabo Verde									
Cambodia									
Cameroon									
Central African Republic									
Chad									
Comoros									
Congo, Dem. Rep.									

How have countries dealt with crises? (1/2)

The practice

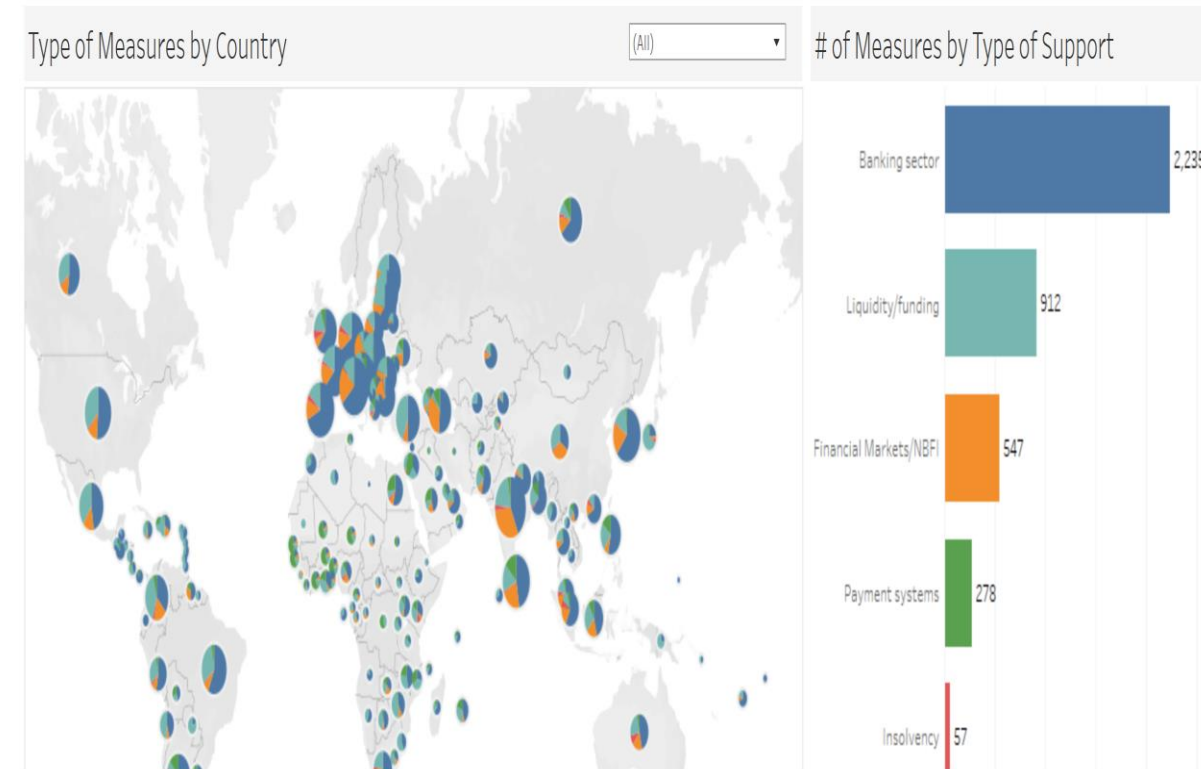
- To meet higher and unanticipated funding needs during periods of severe crises, debt managers have used a mix of traditional and non-traditional tools.

Traditional	Non-traditional
<ul style="list-style-type: none">○ Adjustments to the borrowing plan: shortening of tenors, change in auction frequency, rebalance of domestic and external sources, issuing of new type of securities, e.g., F.X. linked domestic bonds○ Increase in private placements○ Increased funding from multilateral and bilateral institutions○ Using cash reserves○ Asset sales	<ul style="list-style-type: none">○ Large central bank purchases in the secondary markets○ Financial repression○ Use of available liquidity within the public sector○ Overdraft facilities with the central bank

Financial Sector Support Measures in Response to COVID-19

This dashboard tracks measures that countries are rolling out in support of Financial Sector in response to the COVID-19 pandemic. It is updated using information from official sources, other international organizations, and World Bank Group regional teams. It is a living tool that is not exhaustive and has not been subject to standard WBG quality controls. Please send comments to the following email address: tcdata360@worldbank.org

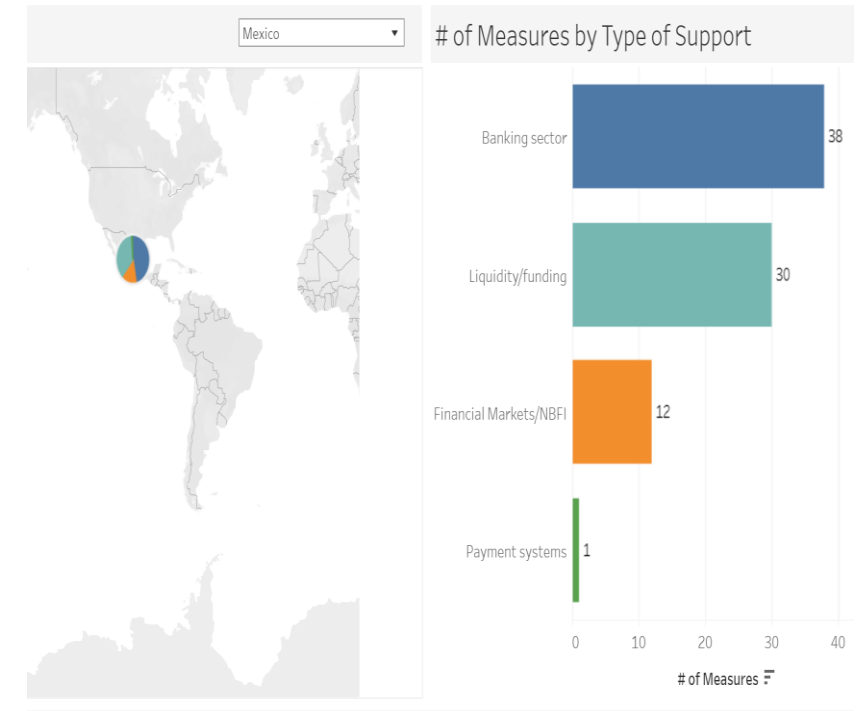
For a specific deep dive by CGAP on measures taken in support of the microfinance sector, please see *Microfinance & COVID-19: Examples of Regulatory Responses affecting Microfinance Providers* at <https://www.cgap.org/research/data/microfinance-covid-19-examples-regulatory-responses-affecting-microfinance-providers>



How have countries dealt with crises? (1/2)

A country example – Mexico (2020)

- Background: COVID-19 outbreak stroke high volatility in the domestic market and unprecedented capital outflows (USD 3-4 millions daily)
- Sequenced approach given high uncertainty:
 1. Adjustment in the domestic borrowing strategy: increase the offer of short-term (and liquid) instruments and reduce the supply of illiquid long-term bonds – market support;
 2. Reduction of total domestic borrowing compensated by external bond issuances (USD 6 billion 3-tranche in April 2020, amid credit rating cuts and increased interest rates) – refinancing risk management;
 3. Proactivity before pension funds: negotiation to buy long-term bonds from foreign investors' outflows, with a promise of undertaking future LMOs for portfolio rebalancing – price contention;
 4. Adjustment on PDs rules: exclusive exchanges and increase green shoe benefit, but no change on obligations was done;
 5. Coordination with the central bank: actions to support the functioning of the money and government securities market (e.g. accepting long-term securities in repos, temporary exchange of corporate to government bonds)



How to enhance competition in auctions? (1/2)

There is no silver bullet

1) Investor Base Diversification

- a) banks: intermediary and focused on short-term tenors (captive regulatory demand, can be helpful as PDs)
- b) mutual funds: critical to channel individuals' and companies' savings, importance of tax and regulatory framework
- c) pension funds/insurance companies: relevant to extend maturities, size depend on public policies (DMO can support and should reach out)
- d) foreign investors: key for market dynamism and reduce sovereign-bank nexus, cautious needed about in/outflows volatility (e.g. Egypt)
- e) retail investors: can foster competition (e.g. Belgium, Spain), but financial education is a barrier and contribute little to market development

2) Primary Dealers (and variants)

- a) exclusive participation in the auctions might be needed for the system functioning (pilot market making programs can be useful – e.g. Albania)
- b) pre-conditions for well functioning (market size, banking and non-banking diversification, sound primary market, macroeconomic environment)
- c) balance of obligations and privileges needs to be constantly reassessed and calibrated, as needed
 - i) adequate/sufficient benefits should create competition and avoid collusion
 - ii) rewarding for client's demand create businesses for PDs
 - iii) PDs as privileged counterparts of the DMO (rewards linked to performance – LMOs, syndication, derivatives, green shoe, etc)

How to enhance competition in auctions? (2/2)

There is no silver bullet

3) Customized Auction rules

- a) limited allocation per bidder (e.g. large pensions fund in Panama and Bolivia distorting prices)
- b) American, Dutch and “Spanish” auctions
- c) Hybrid auctions
- d) Calibration of the green shoe exercise timing – foster competition (e.g. Colombia was an extreme case – 12 days)

4) Alternative Issuance Mechanisms

- a) syndication: preferably for new (long-term) benchmarks (first big issuance) – can be linked to PD’s performance
- b) private placement should be avoided (detrimental for competition and the PD system)

Thank you.



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