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# TECHNICAL

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## NOTES & MANUALS

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## Preparing an Annual Borrowing Plan

Oumar Dissou, James Knight, Miriam Tamene,  
Leandro Secunho, and Diego Rivetti



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Prepared by Oumar Dissou, James Knight, Miriam Tamene,  
Leandro Secunho, and Diego Rivetti

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## Abbreviations

ABP	annual borrowing plan
ABPT	Annual Borrowing Plan Tool
ATM	average time to maturity
ATR	average time to refixing
BO	back office
CMU	Cash Management Unit
DMS	debt management strategy
DMU	Debt Management Unit
DX	domestic currency
FJD	Fijian dollar
FO	front office
FX	foreign currency
GFN	gross financing need
IMF	International Monetary Fund
MO	middle office
MTDS	medium-term debt management strategy
MTDS AT	Medium-Term Debt Management Strategy Analytical Tool
T-bills	Treasury bills
T-bonds	Treasury bonds
TSA	Treasury Single Account
WAEMU	West African Economic Monetary Union
WB	World Bank
XOF	WAEMU franc

## Executive Summary

**Emerging market and low-income countries have made good progress in formulating debt management strategies in recent years, but implementation challenges remain.** To support these efforts, in 2009, the International Monetary Fund (IMF) and the World Bank (WB) published guidelines to develop a medium-term debt management strategy (MTDS). The MTDS framework and its accompanying analytical tool (MTDS AT) supported the capacity-building efforts of the IMF and WB that began in earnest in the early 2000s. Countries' progress on implementation has been mixed.

Implementing a debt management strategy (DMS) requires higher-frequency data and preparation of a clear plan of action through an annual borrowing plan (ABP). A DMS typically has a horizon of 3–5 years. Its implementation requires an action plan for the year ahead. The ABP requires more detailed information than the DMS. Furthermore, several factors determine the timing and size of borrowing within a given year, including the time profile of the gross financing need (GFN)—reflecting the seasonality of revenues and expenditures, and debt service.

Against this background, this note covers the process for preparing an ABP. The note is supported by an Excel-based tool (ABPT). The ABPT links directly with the MTDS AT, allowing for easier data sharing and ensuring data consistency between the two tools. The ABPT helps users to organize their domestic debt issuance operations, emphasizing the key role of Treasury bills (T-bills), which often serve both debt and cash management functions, alongside that of Treasury bonds (T-bonds). It also allows users to plan external borrowing.

Besides supporting the DMS, an ABP has several benefits. It helps the authorities to identify refinancing risk in advance, provide feedback on the feasibility of financing assumptions, and detect financing gaps. In addition, it contributes to market development, facilitates engagement with investors, and promotes transparency.

The ABP also plays a critical role in the formulation of the macroeconomic framework, in particular through its linkage with (1) debt management; (2) fiscal policy; (3) cash management operations and forecasts (inflows and outflows); (4) monetary policy, given the impact of government securities operations on market liquidity; and (5) market development.

The note describes key steps for preparing an ABP. These include identifying the debt coverage, obtaining the most recent GFN with the highest frequency, assessing macro and market conditions, identifying borrowing instruments, validating the ABP against DMS targets, and monitoring and reviewing the ABP.

Publication of the ABP is strongly recommended. The timing of publication and the level of detail will differ from country to country. However, a version that could present a high-level borrowing composition should accompany the budget, with a more refined version to follow. For government securities, an issuance calendar should be published.

The front office of the Debt Management Unit (DMU) should be in charge of preparing the ABP in close collaboration with the middle office. The middle office should also be involved, given its role in DMS development, risk management, and collaboration with other parts of government.



# I. Introduction

**A framework to develop a medium-term debt management strategy (MTDS) was published in 2009 jointly by the International Monetary Fund (IMF) and World Bank (WB) (WB-IMF 2019a).** Drawing on the work in the aftermath of the sovereign debt crises in the late 1990s and early 2000s (in East Asia, Latin America, and elsewhere), and following the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative, in which official sectors provided debt relief to low- and lower-middle-income countries, the IMF and WB ramped up public debt management capacity-building support to their member countries. They published the MTDS framework and its accompanying analytical tool (MTDS AT) and provided a range of technical and capacity-building support, including guidance on developing a debt management strategy (DMS). The MTDS guidance for country authorities was updated in 2019 to incorporate more recent developments, including the wider variety of sovereign debt instruments. Since 2020, online training on the MTDS framework and MTDS AT has been available through the IMF's massive open online course (<https://www.imf.org/en/Capacity-Development/Training/ICDTC/Courses/MTDSX>) and the WB's interactive manual (<https://www.worldbank.org/en/programs/debt-toolkit/mtds>) on using the MTDS AT.

A DMS typically has a time horizon of 3–5 years and is implemented through an annual borrowing plan (ABP). The ABP lays out the government's borrowing plan for the year ahead, providing more detailed cash flow information than the DMS. Several factors determine the timing and size of borrowing within a given year, including the time profile of the gross financing need (GFN)—reflecting the seasonality of primary revenues and expenditures, and the debt-servicing schedule—market conditions, investor demand, and the need to adhere to sound primary market practices (for example, well-managed auctions and the development of benchmark bonds).

Several emerging and low-income countries have made good progress in formulating a DMS, and many regularly publish their DMS.<sup>1</sup> However, they have been less successful in their implementation through an ABP; feedback suggests that a key hurdle is the difficulty in translating the DMS into an actionable plan for the year ahead.<sup>2</sup>

Against this background, the IMF and WB have prepared this technical note on designing an ABP and an accompanying Excel-based tool (ABPT). The ABPT links directly with the MTDS AT (allowing for easier data sharing and ensuring data consistency between the two tools) and uses a similar layout and terminology. It draws attention to the importance of coordination between debt management, cash management, and monetary policy operations through the impact of debt management activity on government cash balances and money market liquidity. The ABPT also supports users in structuring their domestic debt issuance activities, highlighting the central role of Treasury bills (T-bills), which frequently serve both debt and cash management functions, alongside Treasury bonds (T-bonds).<sup>3</sup>

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<sup>1</sup> This note uses the acronym MTDS to refer to the MTDS framework and DMS to refer to a country's debt management strategy. A list of countries' DMS publications can be found on the World Bank Medium-Term Debt Management Strategy web page (<https://www.worldbank.org/en/programs/debt-toolkit/mtds>).

<sup>2</sup> The WB Debt Transparency Heatmap (<https://www.worldbank.org/en/topic/debt/brief/debt-transparency-report>) provides evidence that several countries still do not develop and publish an ABP; however, there has been progress since the annual assessment was first published in 2021.

<sup>3</sup> In this note, "government securities" refers to conventional debt instruments; it does not discuss the additional considerations or features that arise with securities that are sharia compliant or that meet environmental, social, and governance (ESG) standards.

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## II. Annual Borrowing Plan

### A. What Is an ABP?

**An ABP is a single-year financing strategy that aims to meet the government's GFN for the year ahead.** It supports the debt manager's primary objective to meet the government's financing requirement, including debt service, on time and at the lowest possible cost, subject to a prudent degree of risk. Taking into consideration projections of revenues, expenditures, and debt service payments, the ABP outlines the financing plan to meet the GFN in the year ahead.

For countries that have a DMS, the ABP represents the implementation plan of the first-year financing strategy of the DMS. The DMS aims to comply with the government's medium-term debt management objectives in accordance with its cost-risk preference (Figure 1). The DMS will often outline a financing plan for each year of the 3–5-year strategy period, consistent with the medium-term fiscal framework, setting out the financing sources by types of instruments and/or creditors, and currency—for example, foreign (FX) or domestic (DX).<sup>4</sup> It also includes targets for debt portfolio risk indicators (whether expressed as point targets, ceilings, or a range) that the financing strategy aims to achieve, over the set time horizon (Table 1).

**Table 1. DMS: Illustrative Key Outputs and Targets**

Gross Financing (in local currency, millions) <sup>1</sup>			
Sources	Year 1	Year 2	Year 3
Multilateral	5,750 [40]	5,500 [40]	5,000 [37]
Bilateral	750 [5]	650 [5]	500 [4]
FX commercial loan	750 [5]	650 [5]	500 [4]
Treasury bills (T-bills)	4,000 [28]	3,000 [22]	2,500 [19]
Bonds	3,250 [22]	4,000 [29]	5,000 [37]
Debt Portfolio Risk Targets			
Risk Type	At the Start of Strategy Period	At the End of Strategy Period	
Exchange Rate			
• FX debt as a percentage of total	50	45	
Interest Rate			
• Debt refixing in 1 year (%)	30	25	
• ATR in years	7	9	
Refinancing			
• Debt maturing in 1 year (%)	20	15	
• ATM in years	8	10	

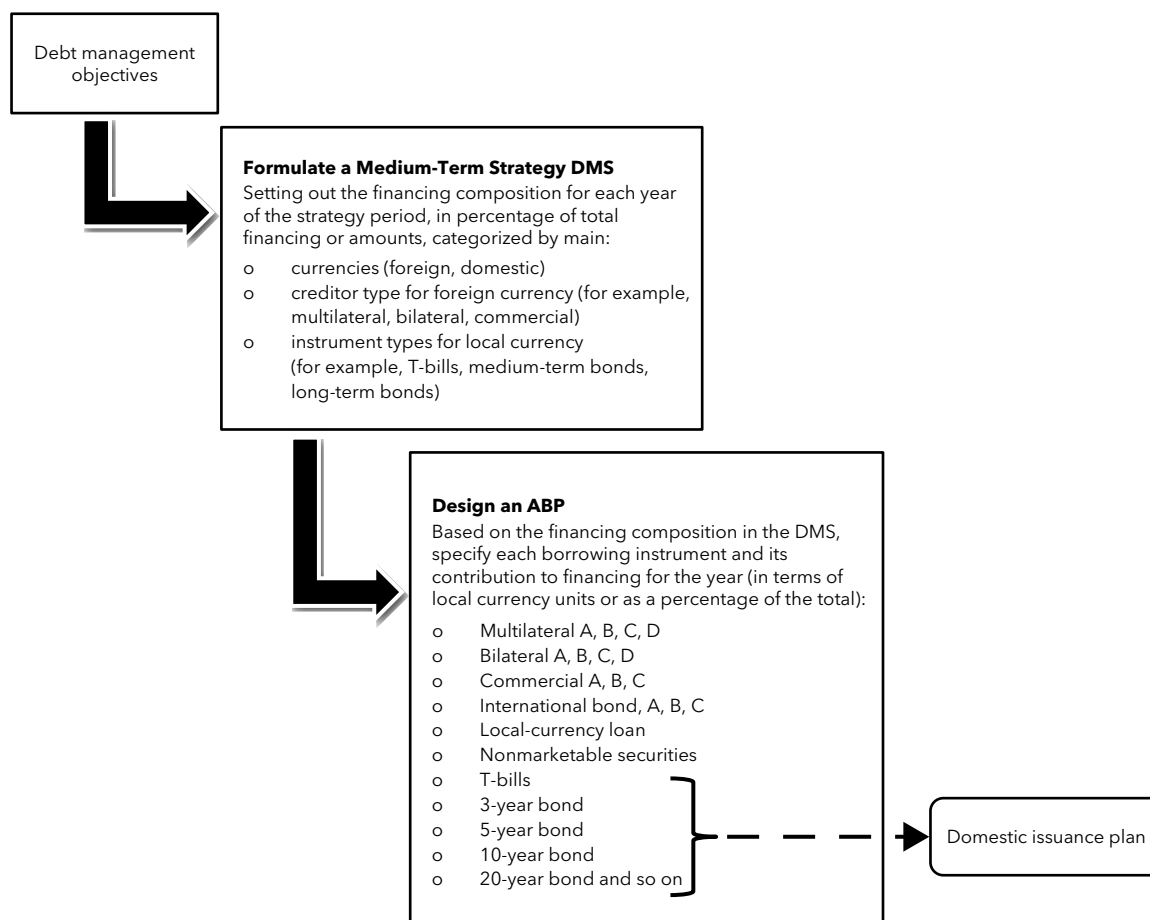
Source: IMF and WB staff.

Note: ATM = average time to maturity; ATR = average time to refixing; FX = foreign currency.

<sup>1</sup> Numbers in square brackets represent the percentage of the total, and because of rounding, they may not sum to 100.

The ABP covers the first-year financing strategy of the DMS in greater detail, the outcome of which should result in a debt composition that transitions the sovereign's debt portfolio toward the DMS targets.

<sup>4</sup> Throughout this note, external and domestic debt are defined by their currency denomination (FX or DX), not by the residence of creditors.

**Figure 1. Meeting Debt Management Objectives through DMS and ABP**

Source: IMF and WB staff.

Note: ABP = annual borrowing plan; DMS = debt management strategy.

The ABP includes details on the specific instruments, such as loans and securities, to be used and/or the relevant creditors in the forthcoming year (Table 2). For FX borrowing, planned disbursements from each official creditor, loans from the private sector (including commercial loans), and any planned international bond issuance should be included.<sup>5</sup> For DX borrowing, the financing plan should distinguish between loans (including from the monetary authorities if applicable), nonmarketable, and marketable securities, with an indication of the split between tenors (Figure 1).<sup>6</sup> As in the DMS, the ABP can express the financing composition in either nominal amounts by currency or as percentages of the total.

<sup>5</sup> Although FX-denominated domestic securities should be considered in the DMS and the ABP as external borrowing, they should normally be included in the domestic issuance calendar when issued through auctions.

<sup>6</sup> See WB (2021). The minimum content of an ABP is the separation of projected sources of funding between domestic and external borrowing, and between marketable and nonmarketable instruments.

**Table 2. ABP: Illustrative Gross Financing Based on DMS for Year 1**

Gross Financing Need	Local Currency (in millions)	
Revenues and grants	12,000	
Primary expenditure	(18,000)	
Interest payments	(1,850)	
Other flows (for example)		
Asset sales	50	
On-lending	(200)	
Principal payments	(6,500)	
Gross financing need	(14,500)	
Sources/Instruments	Local Currency (in millions)	Percentage of Total (%)
External		
Official creditors		
Multilateral	5,750	40
Bilateral	750	5
Commercial loans	750	5
Domestic		
Government securities		
T-bills	3,750	26
T-bonds	3,250	22
Other		
Net change in cash balances <sup>1</sup>	(250)	(2)
Total	14,500	100

Source: IMF and WB staff.

<sup>1</sup> A negative change signifies cash drawdown, which contributes to financing. Thus, domestic sources are projected to contribute 50 percent of total financing, with 2 percent sourced from cash drawdown.

## B. Benefits of an ABP

The process of preparing the ABP helps policymakers to focus on the detailed financing options for the year ahead. Even if the period between completing the DMS and preparing the ABP is short, new information on borrowing conditions may have to be reflected.<sup>7</sup> In shifting the focus from the 3–5-year DMS to the year immediately ahead, debt managers have to consider expected market conditions and other shorter-term factors whose impact will be felt in the time horizon of the ABP.

An iterative information-sharing process during ABP design and budget formulation ensures their consistency and strengthens coordination with policy implementation. In designing the ABP, debt managers should incorporate the fiscal borrowing needs reflected in the government's annual budget. In turn, in developing the annual budget, the fiscal authorities should reflect not only debt service projections provided by the debt manager but also their advice on the sums that can be realistically borrowed. Without this interaction, debt manager may be required to borrow in amounts that may not be feasible or that will have an undesirable impact on debt composition (for example, shortening of average maturities). A consequence could be to destabilize the domestic debt market, leading to higher and more volatile yields. The ABP should also inform the budget process, including providing inputs for monitoring gross or net borrowing limits.<sup>8</sup>

<sup>7</sup> For example, developments in global financial markets might make it challenging to tap the international capital market as previously planned, causing that part of the financing plan to be reassessed.

<sup>8</sup> Fiscal rules may include annual borrowing limits (by currency or instrument), debt ceilings, or primary balance targets.

An ABP allows the authorities to:

- *Manage refinancing risk.* The design process of the ABP facilitates risk management, in particular for in-year refinancing risk by enabling the consideration of a range of mitigating approaches. This includes the buildup or use of cash buffers or liability management operations, such as buybacks or exchanges in which a portion of maturing debt is redeemed for cash or exchanged for other securities ahead of its maturity.
- *Provide feedback on the feasibility of borrowing the amounts needed to cover the GFN.* The ABP enables debt managers to inform the fiscal authorities whether the GFN resulting from their proposed budget can be met through borrowing, thus allowing revisions of the budget if necessary.
- *Detect and address potential in-year financing gaps.* The ABP facilitates informed decisions on how financing needs will best be met, taking into account borrowing conditions. Developing and implementing an ABP is a dynamic exercise that depends on new information on borrowing conditions. As such, the ABP helps detect and address well in advance potential in-year financing gaps and constraints that may affect its successful implementation.<sup>9</sup>
- *Engage effectively with investors and stakeholders.* The communication of the ABP and the issuance calendar facilitates the relationship with investors and enhances transparency. Market consultations on the issuance calendar provide opportunities to engage effectively with investors and stakeholders. The publication of the issuance calendar contributes to more transparent and predictable debt issuance operations, which facilitates investor planning. Active communication about the ABP reduces information asymmetry between issuers and investors and may contribute to reducing the risk premium demanded by investors.
- *Plan a debt issuance profile that supports market development objectives.* The ABP preparation process helps to develop the domestic debt market by enabling a careful assessment of the pace at which a benchmark yield curve can be built and which benchmark maturities can be launched.
- *Monitor progress against the DMS.* An ABP designed in accordance with a DMS facilitates the monitoring of progress against the DMS by tracking cost-risk indicators.
- *Increase the transparency of debt management operations and provide discipline to borrowing activities.* Publishing the ABP and issuance calendars is a sound debt management practice; indeed, transparency gives credence to the ABP. Publication of the ABP also strengthens the government's commitment to predictable issuance activities and can contribute to reducing uncertainty related to issuance activities. In contrast, opportunistic issuance or issuance on a discretionary basis in terms of timing, maturity, and size will constrain investors' ability to anticipate and plan for issuance activities and can increase the risk premium over time.

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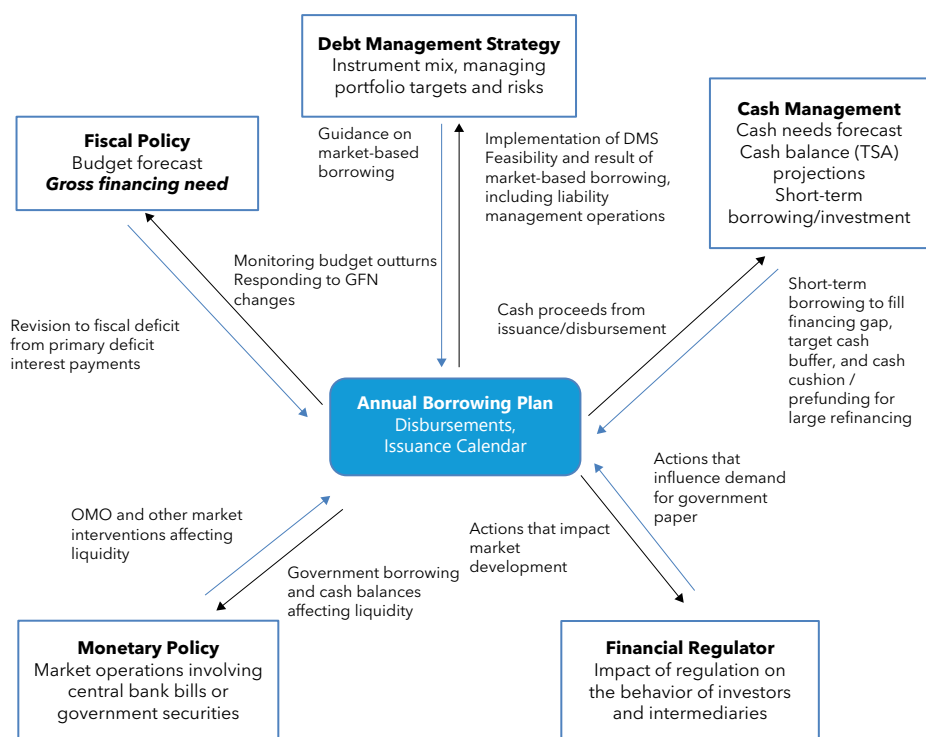
<sup>9</sup> Similarly, the ABP can help to identify in-year excess cash balances.

### III. The ABP within the Macroeconomic Framework

The ABP is designed to meet the government's GFN, which is typically formulated based on forecasts on budgetary execution of the primary balance (revenues and primary expenditures) and debt service payments, both interest and principal.<sup>10</sup> Information on the primary balance is usually taken from the proposed (approved) budget or the most up-to-date medium-term fiscal framework, while debt service projections should ideally be directly extracted from the debt recording system.<sup>11</sup> In some cases, adjustments will have to be made to account for potential discrepancies between actual cash flows and how and when they are reflected in the budget. A credible ABP therefore requires accurate and up-to-date projections of revenues and primary expenditures, including their profile within the year as well as for the year.

To have a predictable and reliable ABP, it is important to have sound debt management and fiscal policies, effective cash management, close coordination and good communication with monetary policy authorities, and a stable regulatory environment. Figure 2 summarizes the key macroeconomic linkages.

Figure 2. ABP and Key Macroeconomic Interlinkage



Source: IMF and WB staff.

Note: DMS = debt management strategy; GFN = gross financing need; OMO = open market operations; TSA = Treasury Single Account.

<sup>10</sup> Flows from transactions in non-debt-related financial assets may also need to be taken into account—for example, privatization receipts.

<sup>11</sup> If the ABP is developed some time before the start of the year to which it applies, debt managers will need to adjust information taken from the debt recording system by adding debt-servicing costs arising from disbursements and issuance of government securities before the end of the year. The same applies to nonmarketable instruments expected to be placed before the end of the year.

- *ABP and DMS.* Debt managers are responsible for designing both the ABP and the DMS; they should design the ABP, ensuring its consistency with the DMS, and monitor its progress and performance against the DMS. If the financing environment changes, requiring an adjustment to the ABP, the implications for the DMS should also be examined. Debt managers should establish in advance their tolerance for divergence from the DMS's financing composition and cost-risk indicators, with a breach of these levels prompting a review of the DMS.
- *ABP and fiscal policy.* Ensuring that sufficient funds are raised to cover the GFN requires a close working relationship between the fiscal authorities and the debt manager. This coordination is necessary both during the preparation of the budget and during the budget implementation. Material midcourse revisions to the government's budget may require adjustments to the ABP and may be communicated to debt managers at the earliest opportunity. Coordination should extend to those responsible for budget execution, which may be within the Treasury Department. The seasonality and volatility of revenues and expenditures in previous years can usefully inform the design of the ABP. Regular and frequent updates to revenue and expenditure projections also support early detection of any financing shortfall and review of future issuance plans or other policy responses.
- *ABP and cash management.* Strong coordination is needed with the unit responsible for cash flow and cash balance projections at the Treasury. Cash management transactions are not intended to contribute to net financing but instead manage the fluctuation and volatility of government cash flows. Debt management operations can support that function by raising additional finance (for example, changing the planned size of T-bill issuance) to cover temporary shortfalls in the government's cash position or by undertaking liability management operations to adjust the profile of redemptions (for example, by conducting voluntary debt exchanges at market rates) (IMF 2010). Managing large cash flow fluctuations by avoiding bunching of maturities is also important to reduce refinancing and liquidity risks. Efficient cash management facilitates the publication of reliable issuance calendars and enhances the stability of debt issuance, thereby supporting the predictability and transparency of debt issuance and minimizing the need to revise the ABP. A debt manager's issuance choices need to consider not only the requirements of the ABP and the demands of the market but also the government's need for cash. Cash management operations commonly use government securities—shorter-term T-bills (usually with a maturity of 3 months or less) or repos—and a single front office for all these transactions is strongly recommended to avoid competing transactions and confusing or inconsistent market signals.
- *ABP and monetary policy.* Central governments play a major role in the domestic bond market because they are often the dominant borrower. As a result, they influence money market liquidity. Changes in the government's cash balances at the central bank, beyond those planned or agreed with the monetary authorities, will have consequences for monetary policy. A regular flow of information between the debt and cash managers and the monetary authorities is therefore necessary. These exchanges should cover cash flow forecasts and coordination on instruments and their use for debt or cash management and monetary policy, including the timing of issuance of such instruments (IMF 2012).
- *ABP and financial regulation.* The debt manager should maintain a regular dialogue with financial regulators. Changes to regulatory requirements affecting market practice or investment behavior could alter investors' risk appetite, with implications for the demand for government debt (for example, regulations that limit nonresidents' holding of government securities may shrink the pool of investors, or changes in prudential regulations may reduce bank willingness to warehouse T-bonds). On the other hand, debt management choices, such as trying to achieve a cost objective by focusing issuance at the short end of the yield curve, may undermine an established policy objective to develop the domestic capital market and increase the vulnerability of the government to financial shocks.

## IV. Steps in Formulating an ABP

**An approved DMS is the starting point in formulating an ABP.** As noted, the DMS is designed to help achieve the government's debt management objectives, setting out a path for the composition of the debt portfolio that reflects the government's preferences for cost and risk. The ABP guides the implementation of the DMS. The steps here are intended to help in the preparation of the ABP; their sequencing is provided as guidance—in practice, many of these steps are undertaken simultaneously and not necessarily in the sequence presented.

### Step 1: Identify the DMS and Its Debt Coverage

The ABP should be derived from the DMS and ideally should be developed at the same time. If the DMS is updated annually and follows the same timeline as the budget preparation process, then the first year of the DMS would be a good starting point for designing the ABP. Even when the DMS is not updated regularly or has been developed outside the budget preparation cycle, it can still be used to inform the financing composition and selection of instruments in the design of the ABP. To ensure that the financing composition does not diverge too much from DMS targets, any material deviation should be kept within predefined thresholds (see step 6) unless the deviations are intentional (for example, if demand for long-term instruments turns out to be stronger than expected and lengthening maturity is one of the DMS's targets).

The DMS, as well as defining target risk indicators 3–5 years ahead, should generally contain the expected debt composition at the end of each year of the strategy period. The indicators at the end of Year 1 should serve as a guide for the design of the ABP, although refinements undertaken in developing the ABP (for example, updated macro-fiscal and market projections and a more detailed mix of borrowing instruments) may justify adjusting risk indicators.

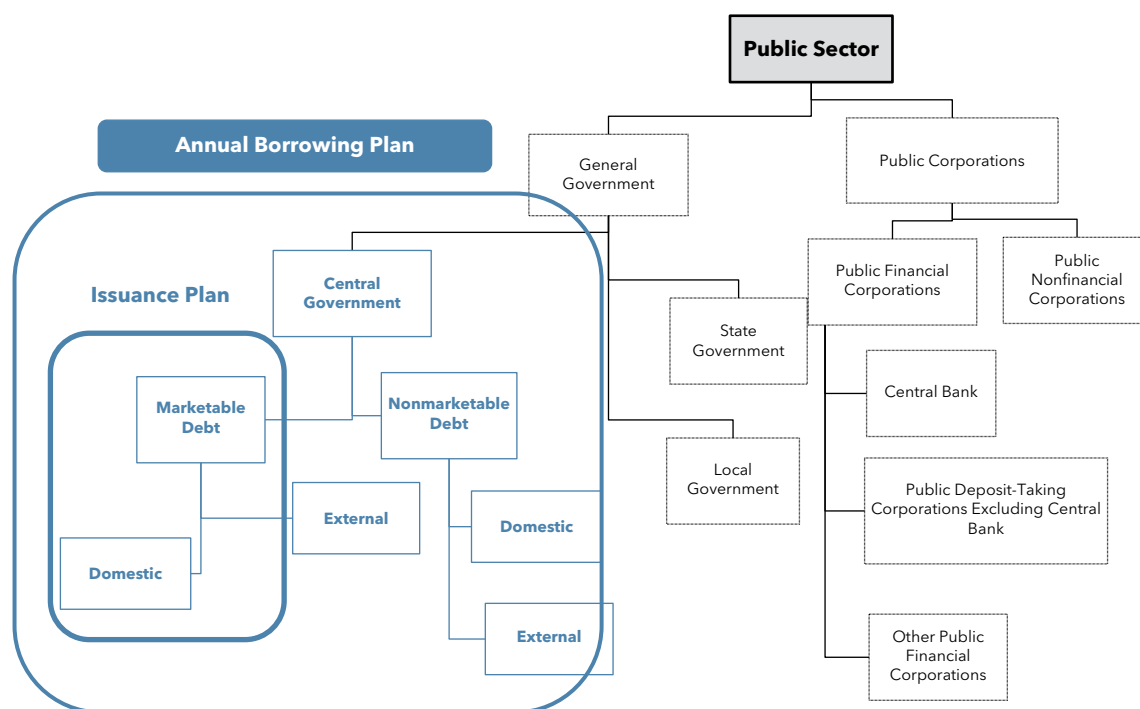
The ABP should use the same debt coverage as the DMS. Typically, the coverage is of central government debt (Figure 3).<sup>12</sup> Differences in coverage between the ABP and DMS sometimes arise—for example, when the DMS includes guaranteed debt. As for the DMS, the ABP should be prepared using data as comprehensive, accurate, and timely as possible (WB-IMF 2019b).

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<sup>12</sup> The methodology discussed in this note for designing an annual borrowing plan also applies to noncentral governments, though their borrowing options will be limited by their authority to borrow. Coordination with the central government is important for countries where subnationals or large public corporations tap the market (specifying tenors, type of securities, frequency of issuance, and so on) should be agreed. See WB-IMF 2021a for more information on sound practices of the sovereign bond market.

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**Figure 3. Debt Coverage for the ABP**

Source: WB 2015.

**Step 2: Obtain the Most Recent Annual Gross Financing Need and Its In-Year Time Profile**

The ABP drawn from the DMS will have to be revised to take into account any variation in the GFN. To ensure that the ABP fully meets the annual GFN, it is important to obtain and incorporate the most recent and comprehensive information. Depending on the time elapsed between GFN preparation and the time of the DMS and the ABP, there could be changes to the size of the GFN, which may require the ABP to be revised (Table 3). For example, if a large infrastructure project that was paused at the time of DMS preparation is now expected to resume, the ABP will have to incorporate funding for the new spending, requiring an adjustment to the ABP.<sup>13</sup> Changes, for example, in privatization or on-lending plans could have a significant impact on the GFN. The Debt Management Unit (DMU) should obtain the most up-to-date information on the GFN and other flows by liaising with the Cash Management Unit (CMU), which has responsibility for cash flow forecasting, and other relevant units in government.

<sup>13</sup> For projects linked to loan financing, a pause in the project will delay both the funding and expenditure, resulting in no changes to net financing. In the planning stage of the ABP, a note can be made to highlight such types of loans linked to expenditures.

**Table 3. Illustrative GFN: At DMS and ABP Stages**

(In millions of local currency)	At DMS Stage	At ABP Stage
Revenues and grants	12,000	11,900
Primary expenditure	(18,000)	(18,235)
Interest payments	(1,850)	(1,925)
Other flows (for example)	(150)	(140)
Asset sales	50	10
On-lending	(200)	(150)
Principal payments	(6,500)	(6,600)
Gross financing need	(14,500)	(15,000)

Source: IMF and WB staff.

Note: ABP = annual borrowing plan; DMS = debt management strategy.

The ABP should allow for cash balance requirements. Governments may need to build a cash buffer for precautionary reasons or to increase cash balances ahead of a large debt redemption. The size and design of the cash buffer, which has to take account of a range of factors, is usually determined by the CMU, but it should be informed by discussions with the DMU (Hürçan, Koç, and Balibek 2020). The buffer should be replenished in the following year if it has been drawn down during the year.<sup>14</sup> Any changes in target cash balances must be factored into the GFN and the ABP.

### Step 3: Identify the Borrowing Instruments for the ABP

**Table 4. Typical Borrowing Instruments**

Nonmarketable	Marketable
<b>Foreign Currency</b> <ul style="list-style-type: none"> <li>• Official creditors               <ul style="list-style-type: none"> <li>♦ Multilateral</li> <li>♦ Bilateral</li> </ul> </li> <li>• Commercial loans</li> </ul>	<b>Foreign Currency</b> <ul style="list-style-type: none"> <li>• International bonds</li> </ul>
<b>Domestic Currency</b> <ul style="list-style-type: none"> <li>• Special government securities</li> <li>• Commercial loans</li> <li>• Central bank loans</li> <li>• Retail instruments</li> </ul>	<b>Domestic Currency</b> <ul style="list-style-type: none"> <li>• T-bonds</li> <li>• T-bills</li> </ul>

Source: IMF and WB staff.

<sup>14</sup> It is important to distinguish between a cash buffer that is maintained to support an unexpected cash flow shortfall and that which has been set aside purposely for use from a previous period. For example, proceeds from an international bond issued at the end of the previous year set aside to be used as a financing source for the current year are different from the regular cash buffer maintained for unanticipated events. A similar distinction applies to cash balances built up ahead of a large redemption.

When preparing the ABP, it is important to assess whether the debt instruments assumed in the DMS and the sums to be raised through each remain realistic. In the time elapsed since the preparation of the DMS, financing conditions may have changed, warranting a reassessment of the choice of instruments. For example, the DMS might have included issuance of a Eurobond, but changes in global financial market conditions might mean that such issuance is no longer possible or advisable; this will also have implications for the DMS (see footnote 7).

There might be sources of finance that were not considered in the DMS. The availability of financing sources that carry better terms, which were ruled out for various reasons (for example, judgments about the availability of concessional finance from international financial institutions), should be revisited.

Instruments in the ABP should be organized by their key features (Table 4) and take into account feedback from creditors. In preparing the ABP, the risks associated with each instrument should be analyzed. For example, if a large loan is conditional on certain conditions being met, and there is a delay in meeting those conditions, then this implies changing the assumed timing of the disbursement of that loan. Similarly, feedback from domestic market participants or the central bank may suggest it is advisable to delay the issuance of a long-term bond.

Instruments should be defined in the ABP at the most specific level possible. The DMS will often be developed with simplified representative instruments, because there may be little benefit from greater specification. But the ABP is designed for a shorter and higher-frequency period and is an implementation plan. It is therefore desirable that the plan reflects the precise characteristics of the instruments that the government wants to issue (for example, 3-, 6-, and 12-month T-bills, coupon payment frequency, and so on). This will enable the debt manager to define instruments that are feasible when designing the ABP (Table 5).

**Table 5. Illustrative DMS and ABP: Moving from the DMS to an ABP**

DMS Financing Mix for Year 1			ABP for Year 1		
(Percentage of total) <sup>1</sup>	GFN at DMS Stage <sup>2</sup>	GFN at ABP Stage <sup>3</sup>	(in millions of local currency)	GFN at DMS Stage <sup>2</sup>	GFN at ABP Stage <sup>3</sup>
Total financing	100	100	Total financing	14,500	15,000
Foreign currency financing	50	50	Foreign currency financing	7,250	7,500
Of which:			Through:		
Multilateral	40	40	Multilateral	5,750	
			World Bank (IDA) Loans		2,250
			Caribbean Development Bank loan		1,875
			Inter-American Development Bank loan		1,875
Bilateral	5	5	Bilateral	750	
			Paris Club		750
Commercial loans and bonds	5	5	Commercial loans and bonds	750	
			International bond 10-year		750
Local-currency financing	50	50	Local-currency financing	7,250	7,500
Of which:			Through:		
T-bills	26	27	T-bills	3,750	
			3-month T-bills		2,500
			6-month T-bills		1,500
Short- and medium-term bonds	15	15	Short- and medium-term bonds	2,200	
			2-year bond		1,250
			5-year bond		1,000
Long-term bonds	7	7	Long-term bonds	1,050	
			7-year bond		750
			10-year bond		250
Net change in cash balances	(2)	(2)	Net change in cash balances-	(250)	(250)

Source: IMF and WB staff.

Note: ABP = annual borrowing plan; DMS = debt management strategy; GFN = gross financing need; IDA = International Development Association.

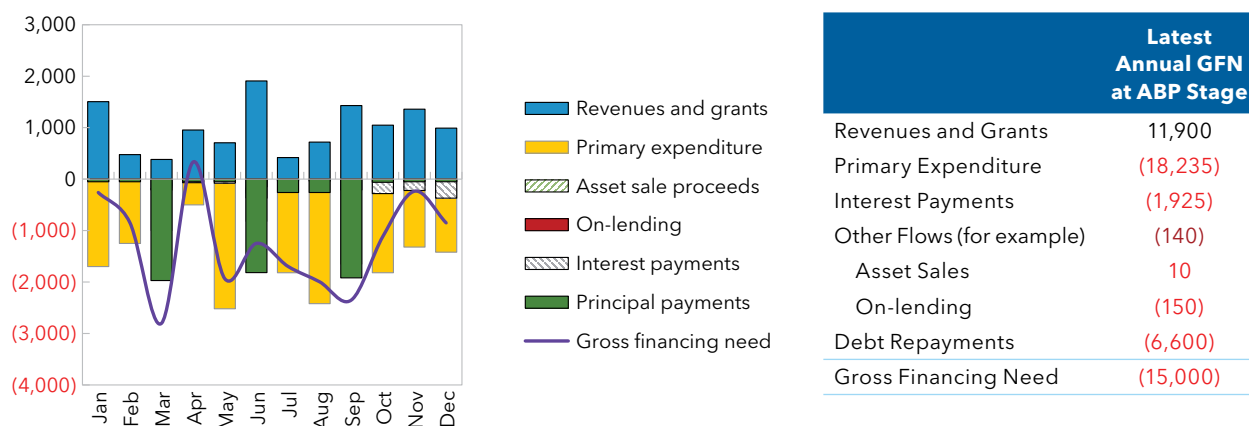
<sup>1</sup> The percentage total may not sum to 100 because of rounding.

<sup>2</sup> GFN at DMS stage: as in Table 2, where GFN could still be subject to revision before ABP preparation, and individual borrowing may not have been specified.

<sup>3</sup> GFN at ABP stage: as in Table 3, where GFN has been updated, and here in Table 5, individual borrowing instruments are specified.

#### Step 4: Formulate a Granular ABP

Once the ABP has been designed to meet the annual GFN, it would be helpful to develop a more granular ABP that considers quarterly or monthly financing requirements. For this reason, a breakdown of the annual GFN by quarter or month is essential (Figure 4), because it will allow the DMU to prepare an ABP with a similar financing frequency. Debt managers should obtain from the cash flow forecasting unit a granular cash flow profile for the year.

**Figure 4. Main Components of Gross Financing Need**

Source: IMF and WB staff.

The frequency and granularity of the ABP (for example, monthly or quarterly) will be determined by the frequency of the cash flow projections (see Annex A). For each period within the year, the GFN needs can be matched with the cash flow from borrowing instruments or cash balances. When cash managers can control the level of cash balance, the timing of GFN needs can be decoupled from the timing of the borrowing instruments. For example, debt managers may start prefunding a few months ahead of large maturities to ensure timely redemptions.

The ABPT is a tool designed to assist debt managers in developing an annual borrowing plan (Box 1). The ABPT is based on monthly cash flows.

Some borrowing transactions may be linked to specific expenditures. If there are financing flows that are related to meeting certain performance or conditions, they should be identified and linked accordingly. For example, a multilateral creditor may link disbursements to meet certain conditions. Delays or acceleration in implementing such conditions imply adjustments to both the GFN (expenditure) and the funding schedule (ABP).

When preparing the granular ABP, it is advisable to start with external financing sources. Loans and drawdowns from official creditors are often arranged in advance, whereas the negotiation of external commercial loans requires significant preparation. In both cases, the DMU has limited control over timing, but it should be able to make projections by consolidating information on the pipeline of disbursements of existing and new loans and making assumptions on the timing of external loan disbursements or the issuance of external securities.<sup>15</sup>

<sup>15</sup> If, contrary to preferred practice, the DMU is not in direct dialogue with creditors for new FX disbursements or leading the process for issuing international bonds, it must establish a system for regular updates from the responsible units.

### BOX 1. The Annual Borrowing Plan Tool

The Annual Borrowing Plan Tool is a Microsoft Excel-based tool that complements the guidance provided in this technical note. Its purpose is to support the quantitative development of an annual borrowing plan (ABP) using monthly or quarterly cash flows as well as the government securities issuance calendar.

The tool is best used in conjunction with the jointly developed IMF-WB Medium-Team Debt Management Strategy Analytical Tool, but it can also be used independently. It helps debt managers to critically evaluate the feasibility of covering the financing need and monitor the progress of ABP execution during the year.

At the design stage of the ABP, the tool allows comparison of the implied debt portfolio risk indicators at the end of the ABP year to inform how the ABP will perform against risk targets.

Instructions within the tool include the types of data required and a description of its key features. Detailed information and concepts on how the tool works can be found in the Annual Borrowing Plan Tool manual.

Source: IMF and WB staff.

External borrowing projections should normally be converted to local currency using the most recent exchange rate.<sup>16</sup> This enables a proper evaluation of the consolidated impact on the Treasury Single Account (TSA) of domestic and external borrowing flows, providing inputs for cash flow forecasting and cash management.

In the domestic market, estimates should first be produced for any nonmarketable financing. These may have been prearranged and used for policy reasons (for example, on-lending through the central bank of a special drawing right allocation), or represent planned commercial loans or receipts from a retail savings program.<sup>17</sup> Producing such estimates will allow the debt manager to plan the issuance of marketable securities. The preparation of an issuance plan will highlight the potential vulnerability of meeting the GFN, for example, a lack of market absorption capacity to meet the financing requirement.

The portion of the ABP where the borrowing will take place through marketable government securities will form the basis of the issuance plan. The issuance plan must conform to sound debt management practices. It may comprise direct placements, syndications, auctions, exchanges, and buyback operations. In all cases, debt managers should maintain transparency by announcing the operations beforehand and posting the results afterward and let prices adjust to clear the market (step 5). In the case of auctions, debt managers should publish auction calendars, maintain consistent ranges for auction sizes (which may differ by tenor), organize the frequency and sequencing of auctions (holding T-bill tenders more frequently than those of T-bonds), build benchmark bonds (defining a target minimum outstanding to enhance liquidity and price discovery), and use short-term instruments to smooth issuance and to address minor variations in the GFN.

A good understanding of the investor base when preparing the issuance plan is advisable. Investor characteristics, their behavior, their instrument preferences, and the pattern of their demand should be factored into the design of any issuance calendar. For example, demand may be subdued at quarter-ends when liquidity is relatively scarce. Regular consultation with both investors and intermediaries can provide

<sup>16</sup> Assumptions may sometimes have to be made about the lags between the receipt of external flows and their conversion to domestic currency. FX projections for the intra-year period may also have to be made (for example, using constant real exchange rates based on projected inflation for countries with high inflation).

<sup>17</sup> Commercial loans can also be used as a short-term safety net in response to unanticipated cash outflows.

useful feedback to the DMU on demand preferences, recent developments in the securities market, and priorities (for example, new operational practices or new instruments) (IMF 2020).

Domestic securities are the most flexible financing vehicle when local markets are relatively developed and liquid. In countries with those markets, the periodic issuance of government securities (as communicated through an auction calendar) allows the DMU to influence the timing of flows.<sup>18</sup> A deep and resilient local currency debt market allows debt managers to respond to changes in GFN or market conditions swiftly and efficiently, often without major adjustments to the ABP. For most economies, T-bills are the most suitable instrument to meet unforeseen in-year financing gaps.

The DMU should monitor market rates closely because they affect new borrowing terms, as well as the interest payments on at least some of the existing debt stock. Debt managers should be ready to adjust the financing program to accommodate changes in market rates. Government securities that need to be refinanced within the year carry both refinancing and interest rate risk. Floating-rate instruments will carry interest rate risk. Foreign-currency-denominated securities carry exchange rate risk.

### Step 5: Produce Issuance Calendars

The issuance calendar for government securities should be published as a stand-alone document or as a part of the ABP. All government securities operations, including liability management operations (buybacks and exchanges), should be included in the plan. The plan should also specify methods of issuance (for example, auctions, syndications, and private placements). The calendar should include as much information as possible about all issuances in the domestic market.<sup>19</sup>

The issuance calendar informs investors of future government debt issuance in the domestic market. Publishing the calendar well in advance gives investors time to prepare for the upcoming operations and intermediaries time to market the bonds. If possible, the issuance calendar covering the whole year should be published (for example, stipulating the dates when auctions will be held, and the types of instruments that will be offered).<sup>20</sup> Further details should be disclosed closer to the point of issuance, with quarterly and monthly auction calendars providing more specific details (tenors, currency, and indicative offering amounts). Box 2 summarizes the steps involved in producing an issuance calendar. Box 3 describes the issuance calendars of Côte d'Ivoire and Fiji.

The issuance calendar should be designed in close coordination with the CMU at the Treasury and the central bank. The choice of instruments, their amounts, and the timing of auctions should be informed by debt service projections, above-the-line cash flow forecasts, and minimum cash balance (Figure 5). Debt managers should coordinate with cash managers on several aspects, including the size and maturity profile of the securities to be issued. Setting settlement dates to match redemption dates can help to smooth cash flows, and coupon and redemption dates should, where possible, coincide with weeks or days of strong cash inflows (for example, when taxes are paid). Operational arrangements must ensure timely debt service payments. The front office of the DMU should be in charge of responding to changes in the forecast of cash

<sup>18</sup> Issuance should take place at the prevailing market rate, implying some uncertainty over the amount of the financing that can be raised. Debt and cash managers should use debt management tools to mitigate such risks, including building or reducing cash buffers.

<sup>19</sup> Domestic debt securities should ideally be issued primarily by auction to ensure more transparent price discovery and support the development of the market. For country experiences, see WB-IMF (2021b).

<sup>20</sup> Indicative total issuance amounts with ranges should be considered where the budget is relatively credible. Where the budget is not credible, publication of a full-year issuance calendar may not be possible (Step 7: Publish the ABP and Issuance Calendars).

flow requirements.<sup>21</sup> As noted, coordinating with the central bank will also be important when designing the issuance plan. In general, debt managers should avoid holding auctions when the central bank is conducting money market operations. Central bank liquidity-draining operations compete directly with the government's efforts to raise financing, potentially resulting in weaker demand. Similarly, central bank liquidity-injection operations can be undermined if the government is in the market trying to raise financing.

## **BOX 2. Steps Required to Produce an Issuance Calendar**

1. Identify financing instruments and their relative contributions to the financing need based on the debt management strategy.
2. Determine the financing need to be met by issuance of domestic marketable government securities (obtain weekly or monthly breakdown of the gross financing need).
3. Decide the instruments to be issued (specifying their tenor, for example, 3-month and 6-month T-bills, 3-year, 5-year, and 10-year bonds). For bonds, specify the number of issuances and target size.
4. Organize auctions, by setting out the offering size range for each bond, the frequency and sequencing of issuance (for example, 3-year bond, in local currency 100–200 million at each auction to be offered every other week).
5. Organize maturities by security (for example, 3-year bonds to mature on May 15 and November 15).
6. Determine any liability management operations (setting out the type of operation, timing, and target size).
7. Produce the issuance calendar.
8. Determine the frequency, format, and detail of communication (for example, an indicative annual calendar and a more detailed quarterly calendar).
9. Review and adjust periodically based on market conditions, demand, and updates on the budget forecast.

Source: WB 2015.

<sup>21</sup> Many countries have successfully established a Cash Coordination Committee or similar to ensure a systematic response to the in-year cash flow forecasts. The committee may be chaired by a senior treasury or debt management official and include other relevant functions. Its main responsibility is to review cash flow outturns, review revised cash flow forecasts, and decide on the action needed to ensure cash adequacy over the period ahead—which will at a minimum often imply some changes to T-bill issuance plans.



### BOX 3. Issuance Calendars of Côte d'Ivoire and Fiji

Many countries prepare quarterly issuance calendars providing investors and intermediaries sufficient time to consider their investment across the yield curve. In some cases, issuers also provide a program for the full year ahead. This box shows two such examples.

The West African Economic Monetary Union (WAEMU) (<https://www.umoatitres.org/en/>) publishes quarterly issuance calendars for its members.<sup>1</sup> For example, Côte d'Ivoire's calendar for the second quarter of 2023 includes the auction dates and the instruments that were projected to be offered, with their amount (in face value).

XOF billions <sup>a</sup>	April 2023				May 2023				June 2023			
	4	11	25	Total	9	16	30	Total	13	20	27	Total
<i>T-bills</i>												
3 months						30.0				30.0		
6 months	17.5	30.0			35.0		17.5		30.0			
12 months		35.0			30.0					30.0		
<i>Bonds</i>												
3 year	17.5					17.5			17.5		17.5	
5 year			35.0			17.5	17.5		17.5		17.5	
7 year	30.0						30.0					
Total	65.0	65.0	35.0	165.0	65.0	65.0	65.0	195.0	65.0	60.0	35.0	160.0

<sup>a</sup> XOF is the WAEMU's currency, Communauté financière d'Afrique franc.

Fiji publishes a yearly issuance calendar as part of its ABP (<https://www.finance.gov.fj/annual-borrowing-plan/>), indicating the dates and types of operations, the targeted amount of issuance, and the tenor of instruments.

Year	2022					2023						
Months	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
<b>Bonds</b>												
Dates	17	14	12	2	7	4	1	1	5	3	7	5
	31	28	26	16	21	18	15	15	19	17	21	19
FJD millions <sup>b</sup>												
10 year	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
15 year	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	30.0	30.0
20 year	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	25.0	45.0	51.7
Total	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	50.0	80.0	86.7
Reopening		Yes	Yes		Yes	Yes		Yes	Yes		Yes	Yes
Benchmark	Yes			Yes			Yes			Yes		
Investor consultation	Yes			Yes			Yes			Yes		

(continued)

<b>T-bills</b>									
Dates	17	28	12	23	14	4	1	1	18
FJD millions <sup>b</sup>									
3 months	10.0	10.0	0.5	10.0	5.0	0.5	3.0	9.9	8.0
6 months	27.0	20.0	0.5	20.0	6.0	2.0	3.0	22.0	8.0
12 months	28.1	24.0	1.0	22.0	6.0	2.0	3.0	23.0	9.0
Total	65.1	54.0	2.0	52.0	17.0	4.5	9.0	54.9	25.0

<sup>b</sup> FJD is Fijian dollar.

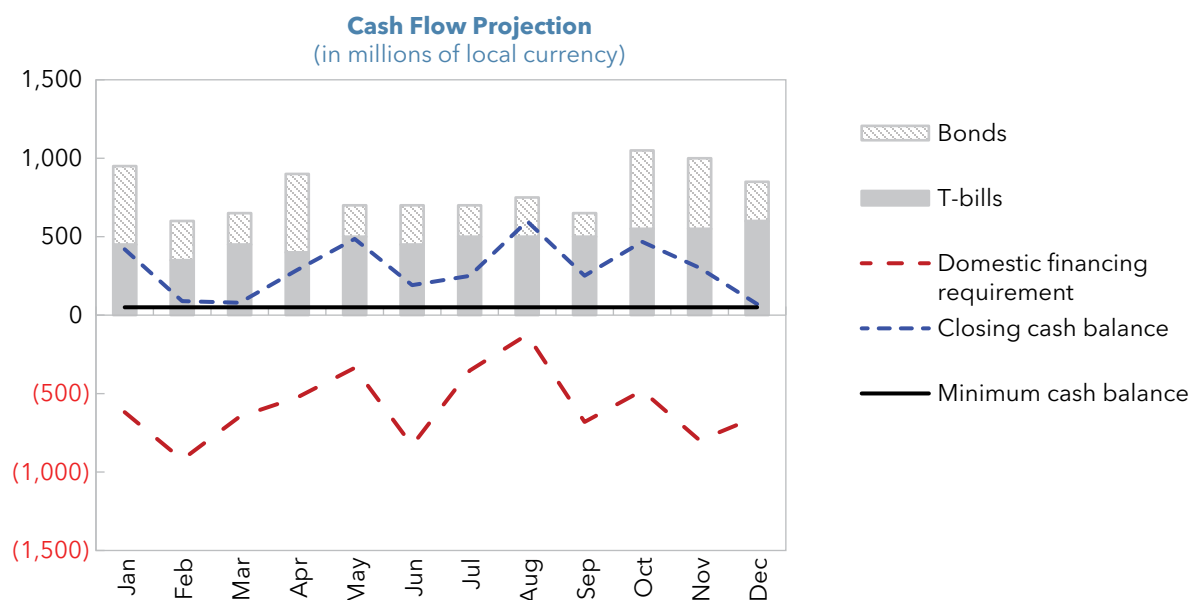
The publication notes the following:

- Information regarding 2- to 5-year tenors will be announced in advance; the main investors for these instruments are banks.
- Prior to issuance, the Ministry of Finance will provide the type of issuance (new benchmark or reopening), International Security Identification Number, tenor, amount for each item, maturity, interest payment date, coupon rate, noncompetitive tender details, and tender form.

Sources: West African Economic Monetary Union and Fiji Ministry of Finance.

<sup>1</sup> The countries comprising WAEMU are: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

**Figure 5. Illustrative: Monthly Domestic GFN, Cash Buffer, and Auction Calendar**



Source: IMF and WB staff.

### Step 6: Validate the ABP against the DMS Targets

It is advisable to define acceptable thresholds for deviations from the DMS, ideally before formulating the ABP. Deviations may occur because of changes in market conditions (demand, prices), in the availability of financing sources or in the size of the GFN (unexpected fiscal developments). Exceeding the thresholds should trigger a review of the ABP or even of the DMS (if the prospects for closing the gap are low) and should be communicated to policymakers. The approach to setting a threshold for deviation can be simple (for example,  $\pm 5$  percent), or it can be informed by cost-risk indicators, for example, when deviations make it difficult to comply with risk targets over the strategy period. In either case, any significant divergence from the DMS should be explainable and based on sound arguments—for example, breaching an exchange rate risk target could be a result of securing highly concessional loans. In-year changes to the ABP must be similarly monitored against the DMS target.

Because the ABP is prepared, its design should be assessed against the cost-risk targets in the DMS. Table 6 shows a stylized example of the process, identifying the indicators before ABP implementation, their expected value after ABP implementation, and the medium-term goal—that is, the DMS targets at the end of the strategy period. It is advisable to assess the projected risk indicators after ABP implementation against those before the ABP implementation and indicators at the end of the strategy period. Before adopting an ABP, its relative contribution to meeting the DMS targets should be assessed, with any reasons for possible deviations explained.

**Table 6. Stylized DMS Targets**

Risk Indicators	Before the Design of ABP	Projections Based on ABP Implementation (at the end of Year 1)	Projections at the End of the Strategy Period (for example, in 3 years) <sup>1</sup>	DMS Targets
	Year 0	Year 1	Year 3	
Refinancing				
FX average time to maturity (years)	9.3	11.8	13.8	[10.0-15.0]
DX average time to maturity (years)	3.7	3.1	2.9	[3.0-5.0]
Interest rate				
FX debt refixing in 1 year (in %)	29	25.9	27.1	[25.0-30.0]
DX debt refixing in 1 year (in %)	39.3	30.2	25.1	[25.0-40.0]
Exchange rate				
Ratio of FX debt maturing in 1 year to FX reserves (in %)	6.6	4.3	3.1	[4.5-6.5]

Source: IMF and WB staff.

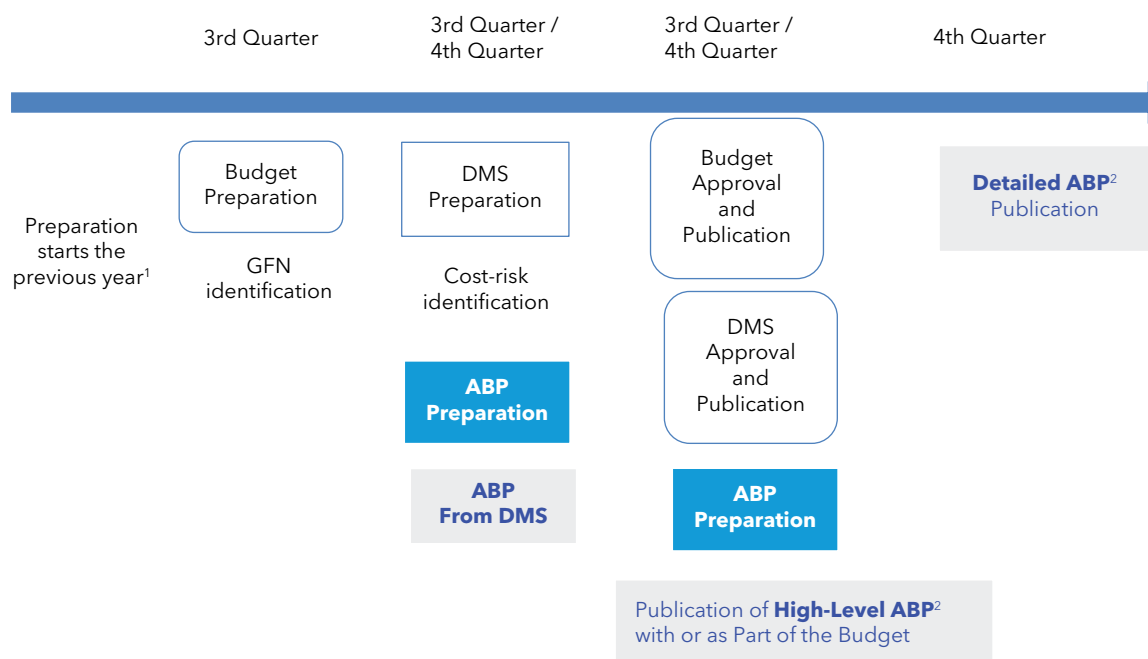
Note: DX = domestic currency; FX = foreign currency.

<sup>1</sup> Based on the DMS.

## Step 7: Publish the ABP and Issuance Calendars

A high-level ABP should be published alongside the budget or at the time of budget approval, ideally before the start of the budget year.<sup>22</sup> The high-level ABP should be based on the ABP prepared by the DMU, with a general breakdown of financing sources. Internal work should start as soon as an estimate of the GFN is available and revised as the budget goes through different iterations. This process will help to identify financing gaps or unrealistic issuance plans that will have to be revised before the budget is finalized (Figure 6).<sup>23</sup>

**Figure 6. ABP: Indicative Timeline for Preparation and Publication**



Source: IMF and WB staff.

Note: ABP = annual borrowing plan; DMS = debt management strategy; GFN = gross financing need.

<sup>1</sup> This is the year prior to the year the ABP will be implemented. For example, if the ABP is for year 2025, the previous year is 2024. Preparation for the 2025 ABP should start in earnest in 2024.

<sup>2</sup> To recap, four types of ABPs have been discussed in this technical note:

- ABP based on DMS.
- High-level ABP: the ABP commonly published alongside the budget.
- Detailed ABP: the high-level ABP with more specific instruments, accompanied by amount and/or percentage ranges. Published as a stand-alone document.
- Granular ABP: High-frequency cash flow—monthly or quarterly—that is prepared for internal purposes with as much specificity as possible on instruments (Annex A). The preparation should start as early as possible and be updated throughout the year for the remaining months.

Typically, there is not enough time to prepare a detailed ABP at the time of the budget publication. In those circumstances, the DMU should prepare a high-level overview of the financing sources, showing, for example, nominal amounts (or percentages of the total) from different sources (for example, multilateral, bilateral official, concessional, T-bills, T-bonds, and so on). The high-level ABP should be part of the

<sup>22</sup> In some countries (for example, Sri Lanka), the ABP is published as part of the budget.

<sup>23</sup> Countries subject to the IMF Debt Limits Policy should refer to the IMF's Guidance Note on Implementing the Debt Limits Policy, Annex III for a borrowing plan template that must accompany a country's fiscal program. Countries under WB's Sustainable Development Financing Policy must observe the conditions on sustainable borrowing and investment practices (<https://ida.worldbank.org/en/financing/debt/sustainable-development-finance-policy>) (IMF 2021).

budget document and supplemented later by publication of a stand-alone detailed ABP, which specifies the amounts expressed as ranges rather than exact amounts (for flexibility) (Table 7). Publication of the detailed ABP should not be delayed excessively and should be published before the beginning of the year for which the ABP is being prepared. The publication of the stand-alone document enhances transparency and accountability, and makes a clear connection with the DMS, including target cost and risk indicators.<sup>24</sup>

**Table 7. Stylized High-Level and Detailed ABP**

High-Level ABP	(In millions of local currency)	Percentage of Total	Detailed ABP	(In millions of local currency)	Percentage of Total
External					
Multilateral	5,750	40	External		
Bilateral	750	5	Official creditors		
Commercial loans	750	5	Multilateral	[5,500–6,500]	[30–50]
Domestic			World Bank	[2,500–3,500]	[15–25]
T-bills	3,750	27	Caribbean Development Bank	[1,500–2,500]	[10–15]
Bonds	3,250	22	Inter-American Development Bank	[750–1,500]	[5–10]
			Bilateral	[700–800]	[3–7]
Net change in cash balance	(250)	(2)	Paris Club	[700–800]	[3–7]
			Commercial loans	[700–800]	[3–7]
			International loan	[700–800]	[3–7]
			Domestic		
			Government securities		
			T-bills (3 months)	[2,000–3,000]	[15–20]
			T-bills (6 months)	[1,000–2,000]	[5–15]
			2-year bond	[1,000–1,500]	[5–10]
			5-year bond	[1,000–1,500]	[5–10]
			7-year bond	[500–1,000]	[2–7]
			10-year bond	[150–350]	[1–3]
			Net change in cash balance	(250)	(2)
			Total	15,000	100

Source: IMF and WB staff.

A domestic issuance calendar should also be published. Although the ABP should allow some flexibility on the adherence to the broad composition of financing sources (external, domestic), the publication of domestic issuance calendars, particularly those with a shorter horizon, is critical. Large deviations from the amounts and instruments presented in the ABP or frequent auction cancellations undermine the credibility of the ABP. In cases of elevated uncertainty about future cash flows, debt managers should assess the trade-off between shortening the calendar's horizon and publishing a more reliable document. It can also

<sup>24</sup> See the World Bank's Debt Report Heat Map for emerging and low-income country examples of annual borrowing plans (<https://www.worldbank.org/en/topic/debt/brief/debt-transparency-report>).

be useful to expressly indicate that the T-bill issuance program or auction size is subject to greater variation than the Treasury bond equivalents, in order to facilitate the smoothing of cash flows across the TSA.

### **Step 8: Monitor and Review the ABP Regularly**

Key risks to within-year budget cash flows should be monitored closely. The policy units responsible for budget formulation and Treasury cash flow forecasting should monitor and communicate to the DMU changes to budget cash flows. In particular, transactions or events that could lead to unexpected gaps in the GFN as the year progresses will need special attention.

Updates to the ABP are likely as budgets and borrowing needs are revised. The ABP should be reasonably robust to exogenous shocks, which ideally can be dealt with through the use of buffers, but circumstances may arise requiring the updating of the ABP. Variation in budget cash flows leading to a significant change to the GFN with a sizable impact on the annual borrowing should be communicated to debt manager to adjust the ABP.<sup>25</sup>

The trade-off between predictability and flexibility to respond to shocks is particularly important when the domestic bond market is less liquid. In those cases, where the market is underdeveloped, there is a benefit to having the capacity for issuing T-bills or short-term T-bonds to respond quickly to changes in the GFN.<sup>26</sup>

Market conditions and investor risk sentiment will also influence the DMU's ability to respond to shocks. Borrowing capacity may be affected by external factors, including global financial conditions. Domestic shocks—for example, problems in a big domestic bank—may similarly cause reluctance to invest. As a result, debt managers must keep abreast of market developments, continuously monitoring financial conditions globally and domestically, and be ready to amend their domestic issuance plan or provide feedback to fiscal authorities to amend the budget.

Economies with weaker macroeconomic frameworks tend to revise the ABP more frequently. Sound fiscal and monetary policies are important to effectively implement an ABP. Repeated revisions to the budget resulting from weak fiscal frameworks inevitably lead to frequent amendments to the ABP. The ability to execute the ABP will also depend on the monetary authorities' ability to anchor inflation, and the credibility of the monetary authorities will, in turn, influence investor appetite for government securities.

The outcome of the ABP will be a key input for updating the DMS. Information gathered throughout the year should inform DMS formulation, which should be updated on a rolling annual basis.

Material revisions to the ABP should be communicated to the public. The publication of the revised ABP should be accompanied by an explanation of the main changes and their causes. If revisions to the ABP are so significant as to imply divergence from the DMS, an early review of the DMS might be warranted. In any case, annual debt management reports should assess the execution of the ABP, potential divergences from quantitative targets, and the reasons for such deviations.

<sup>25</sup> Within-year variation in the timing of cash flow should be dealt with through cash management.

<sup>26</sup> In some cases, the reverse applies, particularly for low-income countries where funding projections (availability of financing) should inform fiscal authorities, so that expenditure can be adjusted or slowed to avoid arrears.

## V. Institutional Arrangements

**Within the DMU, the front office (FO) should take the lead in preparing the ABP with input from the middle office (MO).** The FO is best placed to provide advice given its regular interaction with creditors and investors and grasp of the potential demand for government securities.<sup>27</sup> The back office (BO) has the critical responsibility to provide accurate debt service projections. Regular interactions with other policy units (cash management, fiscal/budget, monetary, financial regulation) will also be necessary (Figure 2). Figure 7 summarizes the roles of each of the three offices within the DMU in preparing and implementing the ABP.

A formal definition of responsibilities helps ensure that all inputs to the ABP are received on time. The fiscal and budget units of the Treasury would typically estimate the GFN, which is an input into both the DMS and the ABP. However, involving the DMU in the elaboration of the GFN helps to identify early whether the financing gap may be met through borrowing. The DMU's inputs for the GFN are of even greater importance in countries where the budget law sets the amounts to be financed externally or domestically, or by different debt instruments (including T-bills and T-bonds).<sup>28</sup>

The cash management function is an integral part of the development and implementation of an ABP. As noted, forecasts of future cash flows of revenues, primary expenditures, and cash balances are key for debt issuance planning and execution. The cash flow forecasting unit is typically well-placed to provide those projections to the DMU. However, the FO should be the sole agent in the market, borrowing and investing excess cash. A unified FO avoids any risk of conflicting market signals or uncertainty about the authorities' intentions. It also allows the FO to use the full range of instruments, taking account of the objectives of the DMS, the demands of the market, and the shape of the yield curve, but also the government's demands for cash and the profile of cash flows.<sup>29</sup>

Forecasting and management loan disbursements linked to meeting some conditions require coordination with the relevant units. Although the FO of the DMU should be involved in negotiating these loans, the ministries responsible for meeting the conditionalities or sector line ministries (for example, the Ministry of Education) should coordinate with the BO to improve the predictability of dates of related disbursements.

The central bank should be consulted at the planning and implementation stages of the ABP (preferably within a coordination committee). The monetary authority is well positioned to provide inputs on liquidity management (aspects related to the predictability of flows, instrument coordination, and demand for government securities), FX flows, and banking regulatory issues and to contribute to the common objective of developing the domestic debt market.

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<sup>27</sup> In countries where the DMU is short staffed or where capacity is concentrated in the MO, it may be appropriate for the MO to take the lead in preparing the ABP with inputs from the FO.

<sup>28</sup> Countries, where the budget stipulates the split between foreign- and local-currency borrowing, include Kyrgyz Republic, Nepal, Pakistan, and Tajikistan.

<sup>29</sup> In the case of debt market operations required by the CMU solely for cash management purposes, a formal coordination with the DMU is needed. For example, through an MoU that specifies the maximum tenor that can be used, the day of the week for issuance, and so on.

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**Figure 7. ABP Responsibilities within the DMU**

Designing and Implementing the ABP: The Role of Each Office within the DMU

Front Office	Middle Office	Back Office
<ul style="list-style-type: none"> <li>• New loan negotiations</li> <li>• ABP preparation</li> <li>• Domestic securities debt issuance</li> <li>• Designing auction calendar</li> <li>• Auction process and management</li> <li>• Monitoring lending/on-lending and guarantees including their impact on GFN</li> <li>• Liquidity management to address deviation from ABP</li> <li>• Market monitoring to ensure ABP feasibility</li> </ul>	<ul style="list-style-type: none"> <li>• Designing DMS</li> <li>• Support ABP development</li> <li>• DMS-and ABP-related policies</li> <li>• Supporting macro-fiscal unit on DSA monitoring consistency with ABP</li> <li>• ABP dissemination among investors, rating agencies, the public and policymakers</li> </ul>	<ul style="list-style-type: none"> <li>• Recording and reconciliation of debt data (key input for ABP)</li> <li>• Management of disbursements and related administration (given implications for ABP)</li> <li>• Debt statistics and reports, including internal ones on ABP implementation</li> </ul>

Source: IMF and WB staff.

Note: ABP = annual borrowing plan; DMS = debt management strategy; DSA =Debt Sustainability Analysis; GFN = gross financing need.

Transparency is key for the credibility of the ABP. It is sound practice that the Public Debt Management Law mandates the publication of the DMS, the ABP, and public debt management reports within a formally defined time period. Compliance with defined deadlines and the quality assurance of these documents requires close coordination both within and outside the DMU. The procedures, timing, and responsibilities should be defined in an internal procedures manual (and in a Memorandum of Understanding or other instrument in the case of external actors), to both strengthen the processes and raise each stakeholder's awareness. An end-of-year assessment of the ABP implementation is also highly recommended to promote the authorities' accountability, including the consistency with (or potential deviations from) the relevant DMS. This can be through a debt management publication, such as an annual debt management report. The end-of-year assessment should be led by the MO.



# ANNEX 1. Gross Financing Need and Granular ABP

Annex Table 1.1. Illustrative Monthly GFN and Granular ABP

(In millions of local currency)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Gross financing need	2,495.90	1,651.93	1,669.59	632.60	2,409.49	(144.28)	2,533.05	1,935.26	888.44	1,396.89	1,218.16	538.48
Primary deficit	192.96	772.89	618.32	(453.66)	1,813.70	(1,087.28)	1,399.95	1,699.42	219.26	770.62	(39.14)	427.94
Existing and new debt <sup>1</sup>												
Interest payment	245.08	181.33	288.36	122.41	80.49	167.44	187.41	127.85	197.77	155.05	216.13	81.19
Foreign currency	53.60	25.53	149.75	11.80	17.74	83.53	58.16	32.59	29.71	11.21	30.15	17.51
Local currency	191.48	155.81	138.61	110.62	62.75	83.91	129.25	95.25	168.06	143.85	185.98	63.69
Overall deficit	438.04	954.23	906.67	(331.25)	1,894.19	(919.84)	1,587.36	1,827.27	417.03	925.68	177.00	509.14
Asset sale	0.00	0.00	0.00	0.00	10.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
On-lending	0.00	0.00	0.00	0.00	0.00	(150.00)	0.00	0.00	0.00	0.00	0.00	0.00
Existing and new debt <sup>1</sup>												
Principal payment	2,057.86	697.70	762.92	963.85	525.31	625.56	945.69	107.99	471.41	471.21	1,041.16	29.34
Foreign currency	1,725.26	29.14	243.98	146.12	56.54	10.21	8.43	28.13	246.05	75.14	57.56	13.45
Local currency	332.60	668.56	518.95	817.73	468.76	615.35	937.26	79.86	225.36	396.07	983.60	15.89
Gross financing sources	2,571.45	1,597.77	1,734.96	738.68	2,230.84	188.68	3,938.68	1,488.68	788.68	1,088.68	538.68	588.68
Foreign currency	1,000.00	750.00	750.00	0.00	1,250.00	0.00	3,750.00	750.00	250.00	500.00	0.00	0.00
World Bank	1,000.00	500.00	0.00	0.00	750.00	0.00	0.00	0.00	250.00	0.00	0.00	0.00
Caribbean Development Bank	0.00	0.00	750.00	0.00	0.00	0.00	0.00	750.00	0.00	0.00	0.00	0.00
Inter-American Development Bank	0.00	250.00	0.00	0.00	500.00	0.00	0.00	0.00	0.00	500.00	0.00	0.00
International Bond	0.00	0.00	0.00	0.00	0.00	0.00	3,750.00	0.00	0.00	0.00	0.00	0.00
Domestic currency <sup>2</sup>	1,571.45	847.77	984.96	738.68	980.84	188.68	188.68	738.68	538.68	588.68	538.68	588.68
T-bills*	1,171.45	297.77	684.96	188.68	580.84	188.68	188.68	188.68	188.68	188.68	188.68	188.68
2-year bond	0.00	300.00	0.00	300.00	0.00	0.00	0.00	300.00	0.00	300.00	0.00	300.00
3-year bond	300.00	0.00	300.00	0.00	300.00	0.00	0.00	0.00	300.00	0.00	300.00	0.00

Annex Table 1.1. Illustrative Monthly GFN and Granular ABP

(In millions of local currency)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
5-year bond	0.00	200.00	0.00	200.00	0.00	0.00	0.00	200.00	0.00	0.00	0.00	0.00
7-year bond	100.00	0.00	0.00	0.00	100.00	0.00	0.00	0.00	0.00	100.00	0.00	100.00
10-year bond	0.00	50.00	0.00	0.00	0.00	0.00	0.00	50.00	0.00	0.00	50.00	0.00
20-year bond	0.00	0.00	0.00	50.00	0.00	0.00	0.00	0.00	50.00	0.00	0.00	0.00
(+Overfinancing/-Shortfall)												
Monthly financing gap	75.55	(54.16)	65.36	106.08	(178.66)	332.96	1,405.63	(446.58)	(99.76)	(308.21)	(679.48)	50.20
Cumulative	75.55	21.39	86.76	192.83	14.18	347.13	1,752.77	1,306.18	1,206.42	898.21	218.74	268.94
*Memo												
T-bill financing												
Disbursements (cash proceeds)												
3 months	496.28	297.77	496.28	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6 months	392.16	0.00	0.00	0.00	392.16	0.00	0.00	0.00	0.00	0.00	0.00	0.00
12 months	283.02	0.00	188.68	188.68	188.68	188.68	188.68	188.68	188.68	188.68	188.68	188.68
Principal payments <sup>3</sup>	0.00	0.00	0.00	500.00	300.00	500.00	400.00	0.00	0.00	0.00	400.00	0.00
3 months	0.00	0.00	0.00	500.00	300.00	500.00	0.00	0.00	0.00	0.00	0.00	0.00
6 months	0.00	0.00	0.00	0.00	0.00	0.00	400.00	0.00	0.00	0.00	400.00	0.00
12 months	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net financing	1,171.45	297.77	684.96	(311.32)	280.84	(311.32)	(211.32)	188.68	188.68	188.68	(211.32)	188.68
3 months	496.28	297.77	496.28	(500.00)	(300.00)	(500.00)	0.00	0.00	0.00	0.00	0.00	0.00
6 months	392.16	0.00	0.00	0.00	392.16	0.00	(400.00)	0.00	0.00	0.00	(400.00)	0.00
12 months	283.02	0.00	188.68	188.68	188.68	188.68	188.68	188.68	188.68	188.68	188.68	188.68

Source: IMF and WB staff

<sup>1</sup> Estimate of debt service payments for new debt (expected to be incurred in the ABP planning year) should be included as part of the GFN to ensure that sufficient funds are raised to meet such requirements.

<sup>2</sup> Domestic currency financing should follow sound debt management practices: relying primarily on medium- and long-term instruments, maintaining a regular amount of bond issuance, using T-bills to manage cash flow variation, and maintaining a positive cash balance. In the absence of active cash management, the implications of adhering to such practice could mean keeping idle cash at the central bank (Treasury Single Account).

<sup>3</sup> In this stylized table, principal payments of T-bills include imputed interest payments.

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