

PLACE OF GOVERNMENT SECURITIES



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Summary

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RECENT TRENDS

Global, Africa and WAMU bond markets...

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ROLE OF LOCAL CURRENCY BOND MARKETS..

Benefits, breaking the vicious circle

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ISSUES AND REQUIREMENTS FOR LIQUID MARKETS ...

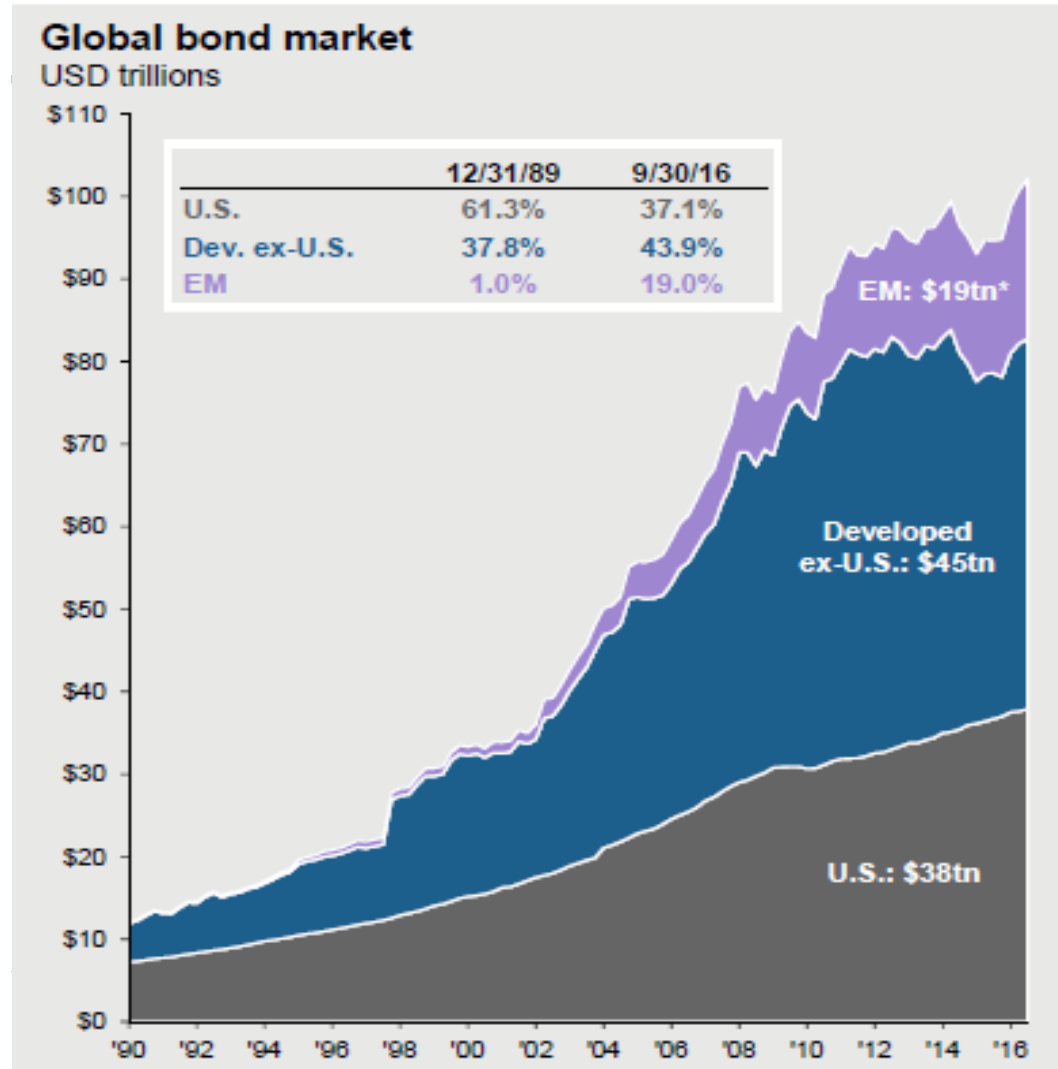
Some issues with LCBMs, further issues in WAMU

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CONCLUSIONS...

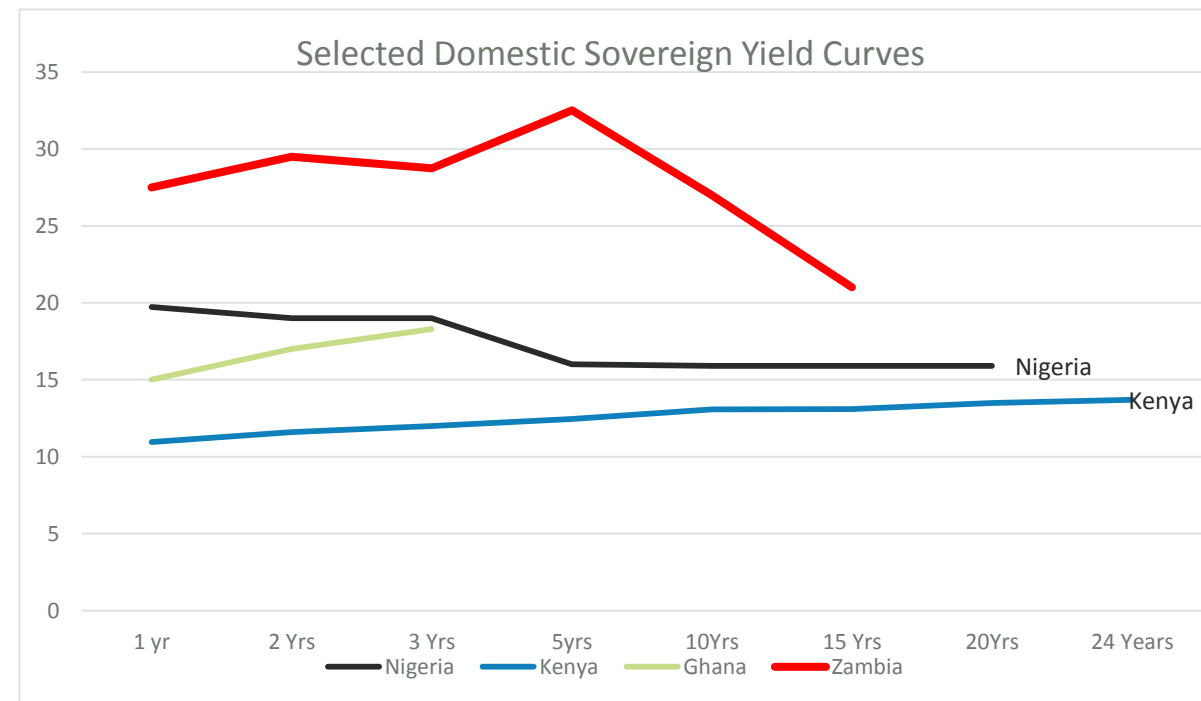
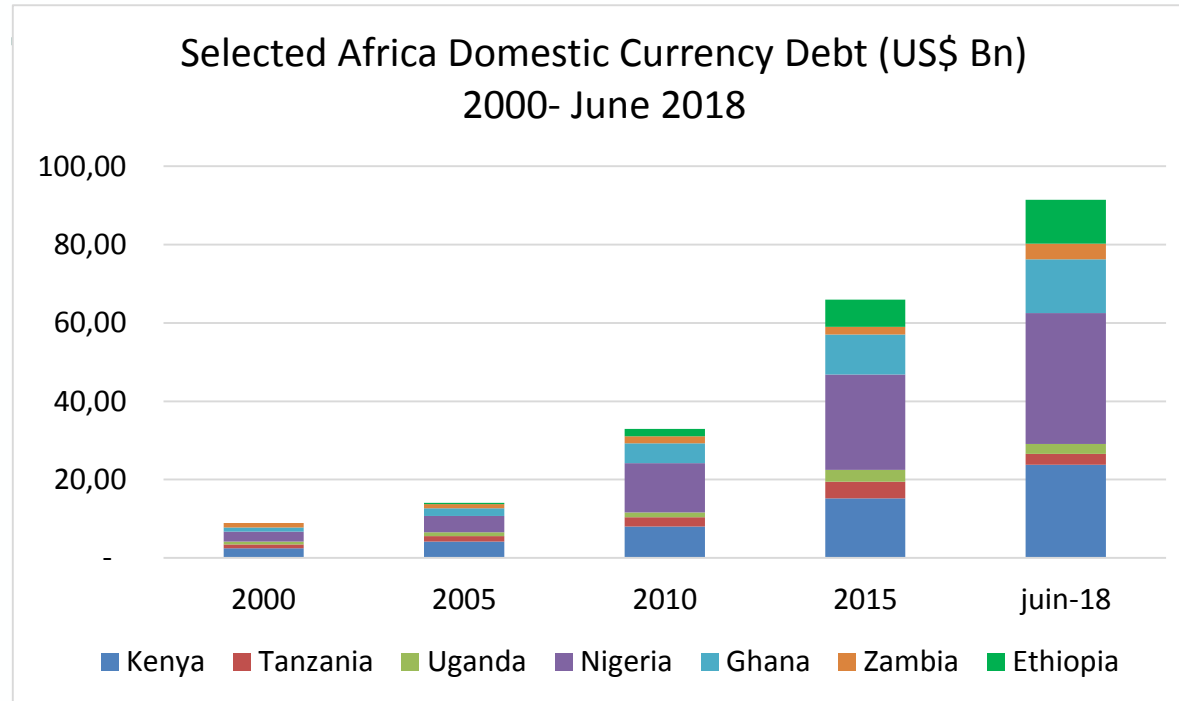
Towards an adaptive approach to LCBM development

Recent Trends – Global Bond Market



- Global bond markets are estimated at US\$102.8 trillion (2018).
- Significant accumulation of debt since global financial crisis.
- Share of Emerging markets rose to 15% in 2018 from only 5% in 2009.
- LCBMs in EM debt securities' issuances share rose to 87.6% in 2017.
- The increase in local currency market borrowing (relative to total debt) led to a lowering of the foreign currency risk in EMs.

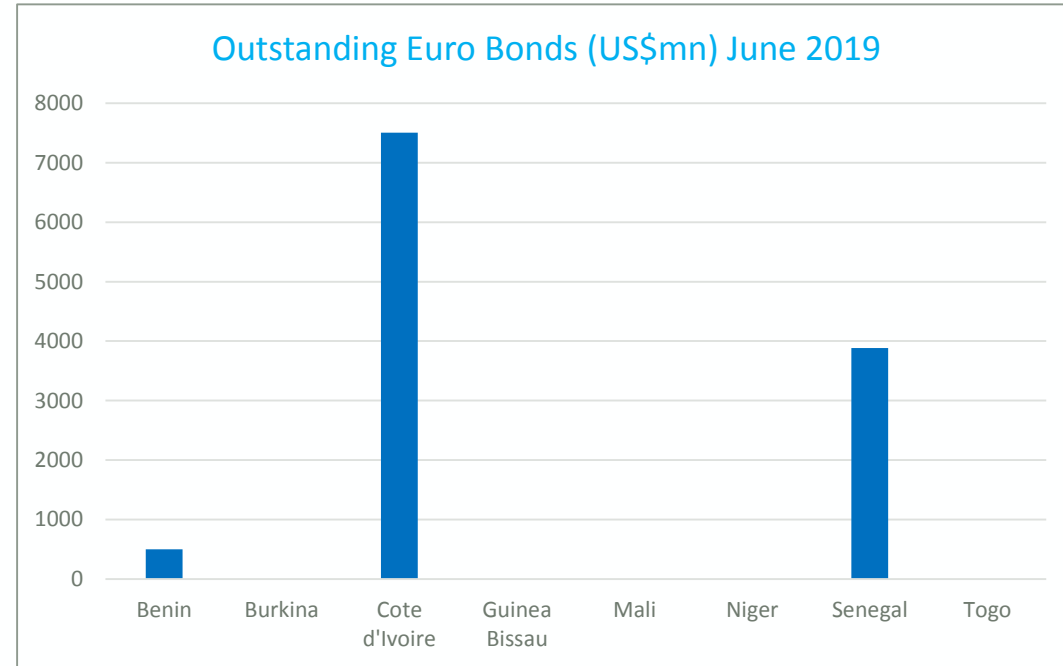
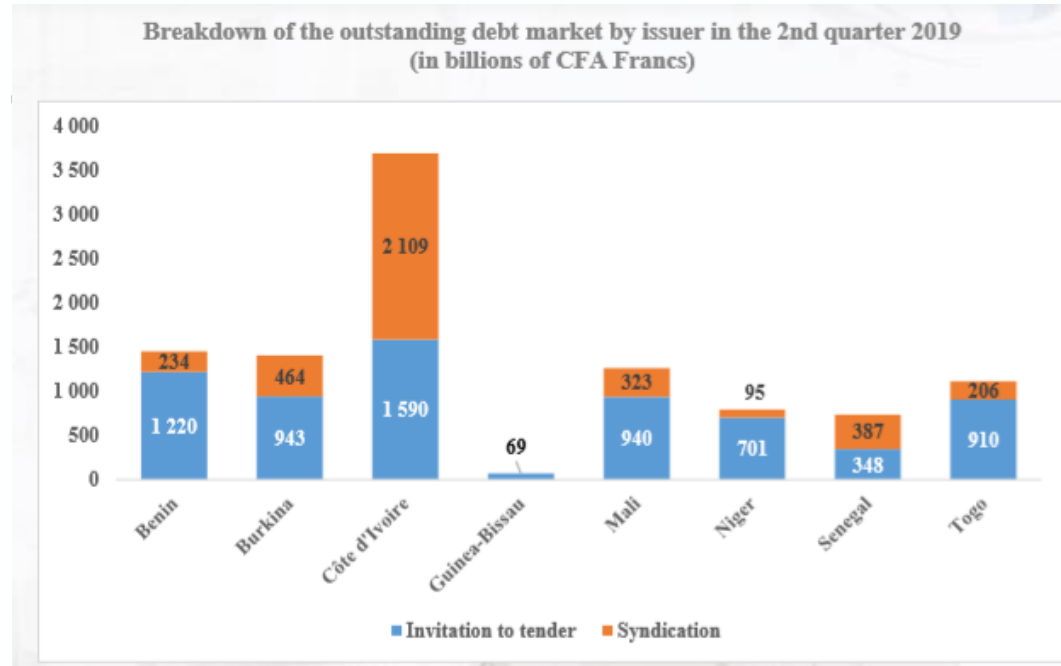
Recent Trends – Africa Government Bond Market



Local currency debt (ex-South Africa) rose more than nine fold between 2000 and June 2018

Yield curves have lengthened
But real interest rates are very high crowding out private sector

Recent Trends – WAMU Bond Market



- Low average maturity profile 2.13 years (June 2019)
- Issuances segmented into two markets (tender and syndication)

- Outstanding Euro bonds higher than domestic securities for two issuers
- Average maturity profile is higher for the Euro bonds (issuances of up to 30 years) compared to LCBM – up to 7 years.

Benefits of LCY Government Bond Markets

Public Sector

- Permit governments to undertake large projects e.g. infrastructure
- Allow smooth implementation of different fiscal (expansion and contraction) cycles
- Supports monetary policy implementation

Financial Sector

- Creates benchmark for pricing non-government securities (bonds and equity)
- Provide supporting infrastructure (e.g. CSD) for non-government instruments
- Provide safer, more liquid savings vehicles for institutions

Risk Management

- Reduce foreign currency risk in the debt portfolio (addresses 'original sin')
- Reduces refinancing risks
- Enhances efficiency of resource allocation in the financial system

LCBMs Development – Breaking the Vicious Circle

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- AU Agenda 2063 focuses on domestic resource mobilization.
 - Diminishing traditional financing sources e.g ODA flows.
 - Graduation from IDA means greater reliance on commercial financing.
 - Unpredictable Eurobond markets.
 - Benefits of borrowing in your own currency.
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LCBMs Development – Requirements for Liquid Market

Stable Macroeconomic Environment

Orderly Market

- Primary
- Secondary
- Transparency
- Low transaction costs & taxes

Large amount outstanding

- Benchmark bonds
- Standard Features

Diversified investor base

- Domestic Institutional
- Foreign

Robust Money Markets

- Repo markets (vertical and horizontal)

Efficient price discovery, trading and settlement platforms

Some Issues with LCBMs

Secondary market liquidity

Credibility of the government as an issuer of securities and as a rational policymaker

Improves investor confidence and enhances demand for government securities

❑ Appropriate technical and institutional regulatory infrastructure

❑ DMO leads market-based approach to debt management

❑ Appropriate market infrastructure

❑ Improves price discovery & transparency

❑ Reduces settlement risks

❑ Diversified investor base

❑ Domination by banks

❑ Limited institutional investors

❑ Sound banking system

❑ Affects essential inter-bank & repo markets

Well-functioning money markets

Ability to recycle liquidity

Further Issues with LCBMs - WAMU

Fragmentation

Fragmented Markets – Auction & syndications
Fragmented issues – non-standard features
Different tax rates

Capacity Gaps

Limited fixed income markets knowledge
Limited trading culture – ‘hold to maturity’ mindset

Price discovery is difficult

Limited trading platforms e.g Bloomberg & Reuters/Refinitiv

Potential for regional market

But decision-making process can be slow
Division of responsibilities between National DMOs and AUT can be unclear

Towards an Adaptive Approach to LCBM

