Developing Local Currency Bond Markets.

BOND MARKET CONFERENCE
Avani Hotel, Gaborone, Botswana
20th June 2019
1-Developed Bond Markets

Important role on improving the efficiency in economic management through
- Expanding opportunities available to financing large scale projects,
- Contribute to better allocation of capital,
- Providing non-inflationary financing to government;
- Facilitating public debt management.
1-Developed Bond Markets

- Improve resource allocation through channeling local and foreign savings into domestic investments
- Contribute to diversified financing and investment sources - good for overall financial market stability
- Strengthen balance sheets through matching various asset and liability tenors for different market players needs.
1-Developed Bond Markets

Mitigates impact of original sin:
- Low interest rates on external loans could lead to over borrowing and give rise to currency mismatches;
- Unforeseen shocks could damage the economy e.g. deteriorate the risk of debt distress and access to finance.
- With volatile capital flows, this could make the country crisis-proof
2- Developing Bond Markets

• Macroeconomic environment
• Money market
• Primary market
• Investor base
• Secondary markets
• Custody and Settlement
• Debt market regulation
3-Botswana: (Savings – Investment)

Source: IMF Article IV 2018
3- South Africa: (Savings – Investment)

Year | Public Savings - Inv. Gap | Private Savings - Inv. Gap | Overall Savings - Inv. Gap
--- | --- | --- | ---
2013 | -4 | -6 | -10
2014 | -2 | -4 | -8
2015 | 0 | 2 | 4
2016 | 2 | 4 | 6
2017 | 4 | 6 | 8
2018 | 6 | 8 | 10
2019 | 8 | 10 | 12

Source: IMF Article IV 2018
3- Namibia: (Savings – Investment)
3-Mauritius: (Savings – Investment)

Source: IMF Article IV 2018
3-Namibia: Debt composition

Source: IMF Article IV 2018
3 – Mauritius: Debt Composition

Source: IMF Article IV 2018
3-South Africa: Debt Composition

Source: IMF Article IV 2018
3 - Botswana: Debt Composition

Source: IMF Article IV 2018
3-Mauritius: Gross debt & financing

Gross Nominal Public Debt

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<tr>
<th>Year</th>
<th>Baseline Scenario</th>
<th>Historical Scenario</th>
<th>Constant Primary balance Scenario</th>
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Source: IMF Article IV 2018, Page 37
3- South Africa: Gross debt & financing

Source: IMF Article IV 2018, page 68
3-Namibia: Gross debt & financing

Source: IMF Article IV 2018, Page 56
3- Botswana: Gross debt & financing

Source: IMF Article IV 2018, page 43
4- Botswana Financing of Overall balance

Percentage of GDP

Year

Overall balance
Net Foreign Financing
Net Domestic Financing

Source: IMF Article IV 2018
4 - The Case of Botswana

- Strong macroeconomic environment-low inflation and strong fiscal balances;
- Market based monetary policy operations;
- Limited primary issues contributing to lack of liquidity in secondary market;
- Need to develop capital market for future needs when government surpluses decline;
- Limited foreign participation;
- Primary Dealership Issues;
- How to support market development in the context of limited government borrowing needs.
4-Botswana yield curve
4 - Refinements to the Bond Market

- What is the appropriate number of tenors?
- Could reopening of bond issuance justify a reduction in the number of tenors?
- With its strong position, could government buy-back of bonds and continue primary issuance as an initial support to making the secondary market liquid?
- What would be the residual challenges for effective benchmarking to take place?
4 - Issues for consideration

- Clearly defined and prioritized debt management objectives that balance between sovereign debt, running down banking system balances and bond market development

- Government commitment to supply enough securities even in the context of its surplus balances? Short- or long-term tenor?

- Monetary Operations: Use central bank or government securities?
5 - Next Phase

• Basic primary market building blocks in place.
• Secondary markets and corporate bond market development challenges remain;
• Improving liquidity is key; requires enhancing market infrastructure through legal and regulatory framework, clearing and settlement system, repo market.
• Market info dissemination mechanism to facilitate trading and protect investor interests
• Coordinated stakeholder approach to identify country specific impediments to and reform sequence for bond market development -legal, regulatory, accounting and tax issues
5- Next Phase

• Corporate bond market development – depends on company financing patterns
• Well developed yield curve facilitates the pricing of corporate bonds.
• Identifying impediments and finding solutions to corporate bond market development also requires national coordinated efforts taking into account country specific factors.
5- Additional Suggestions

• Work with International Organizations to develop LCBM – CwA, WB Joint Capital Market Development for country specific intervention on developing liquid, diverse and long-term financing.

• AfDB - promotion of bond market data transparency

• MDB’s expanding the range of EM currencies in the bond issuance to support LCBM.

• MEFMI-organizational framework, debt data management and domestic debt management.

• EM securities continue to rise with LCB dominating; up to 88% from 84% in 2016 and 2015 respectively.
6- Concluding Remarks

• Based on the PIH-Justification exists to continue building reserves. Need for a robust external position for intergeneration reasons given the exhaustible commodity export revenues.

• Given its aspiration to become a higher income country; Botswana should work towards increasing borrowing in its own currency.

• Original Sin Hypothesis and the current composition of debt shows nearly 70% - this needs to be reversed reinforced by the previous points.
6- Concluding Remarks

• Addressing the frequency issuance, illiquidity, fragmentation and size of the current bond market important for LCBM development.

• LCBM could facilitate raising long-term finance for the private sector and fixing existing infrastructure gaps.

• Contribute towards Industrialization strategy Botswana is pursuing including private sector driven inclusive growth and job creation.
THANK YOU