

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

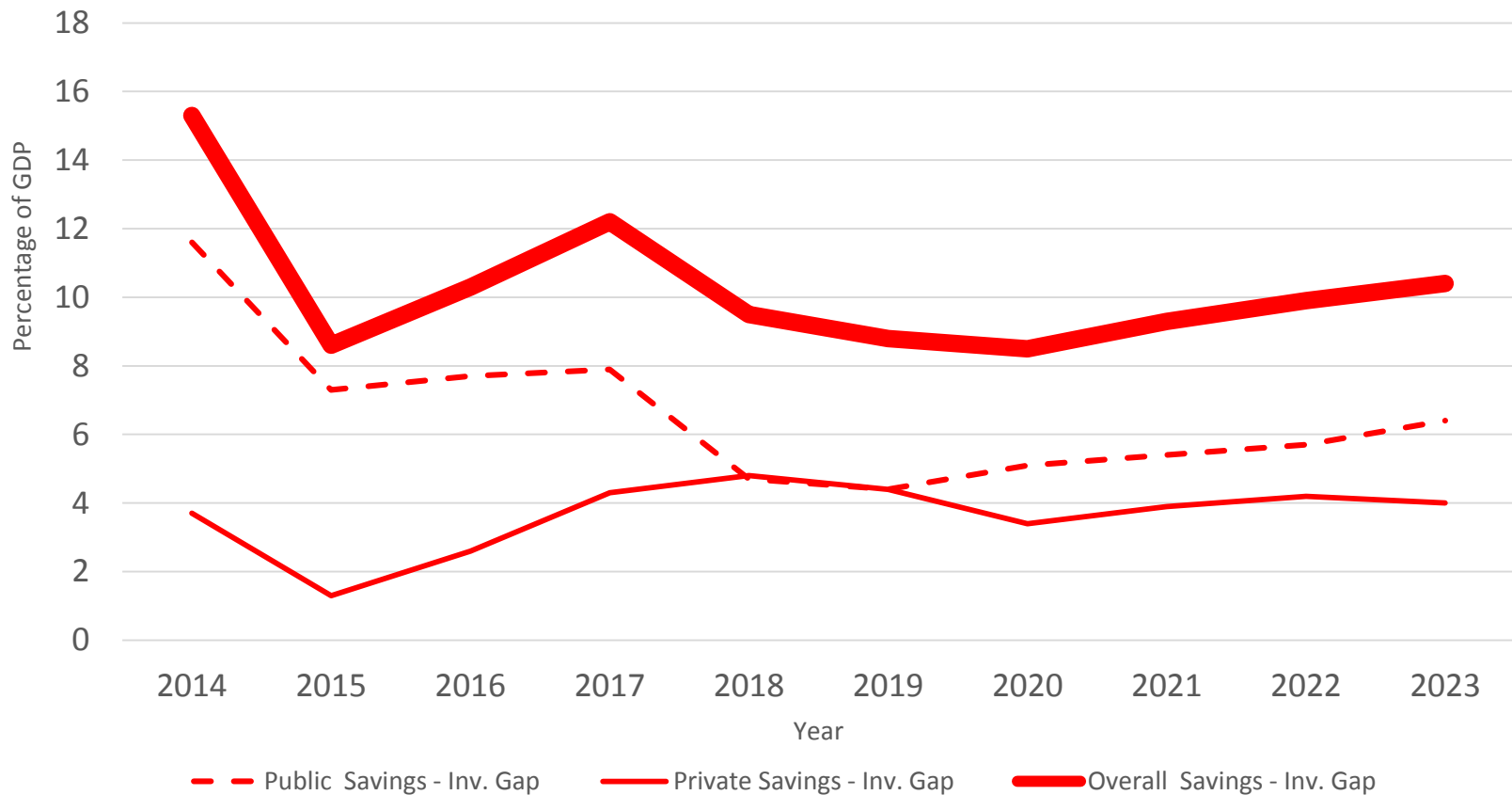
Mitigates impact of original sin:

- 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

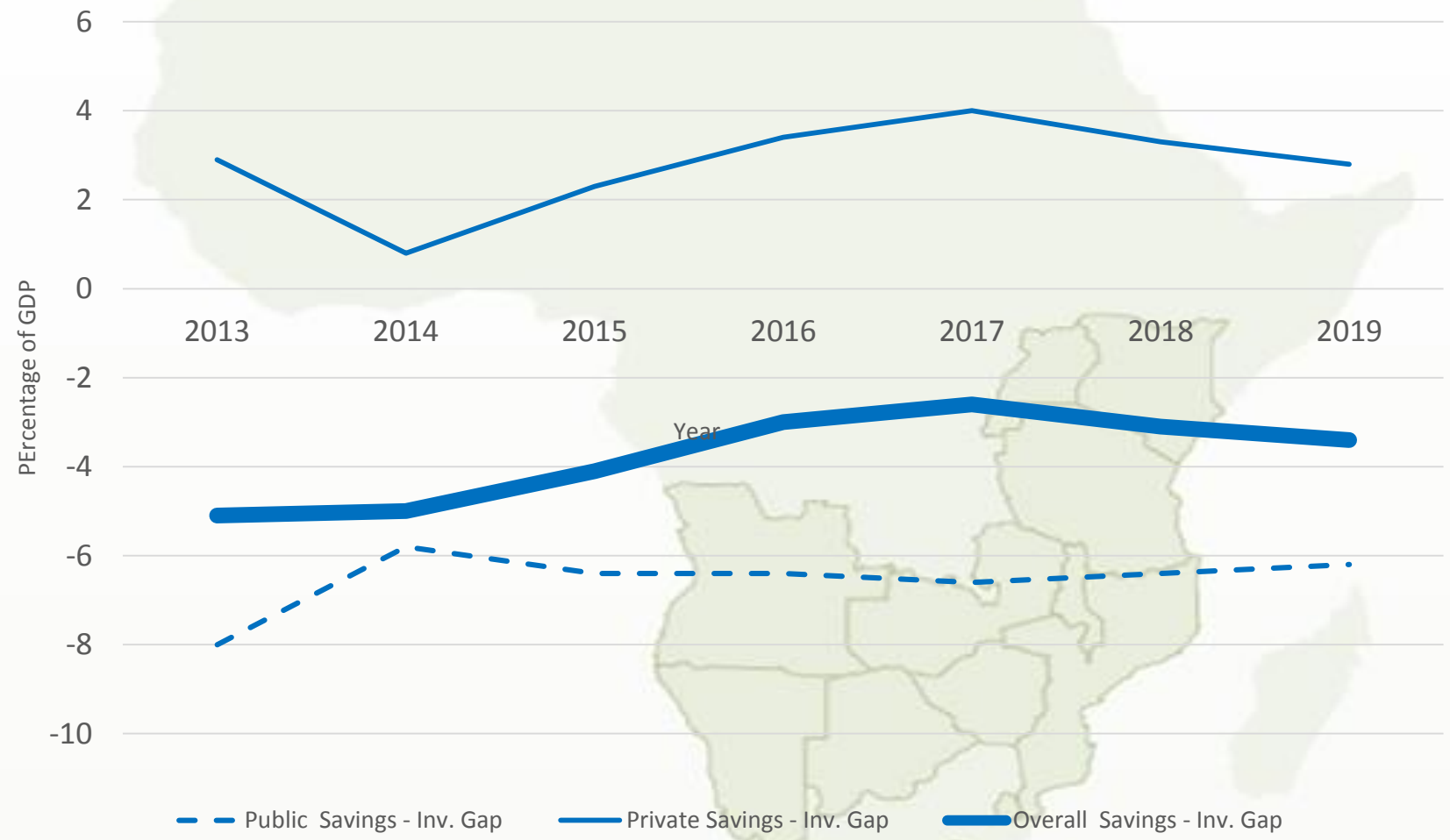
- Macroeconomic environment
- Money market
- Primary market
- Investor base
- Secondary markets
- Custody and Settlement
- Debt market regulation

3-Botswana : (Savings – Investment)

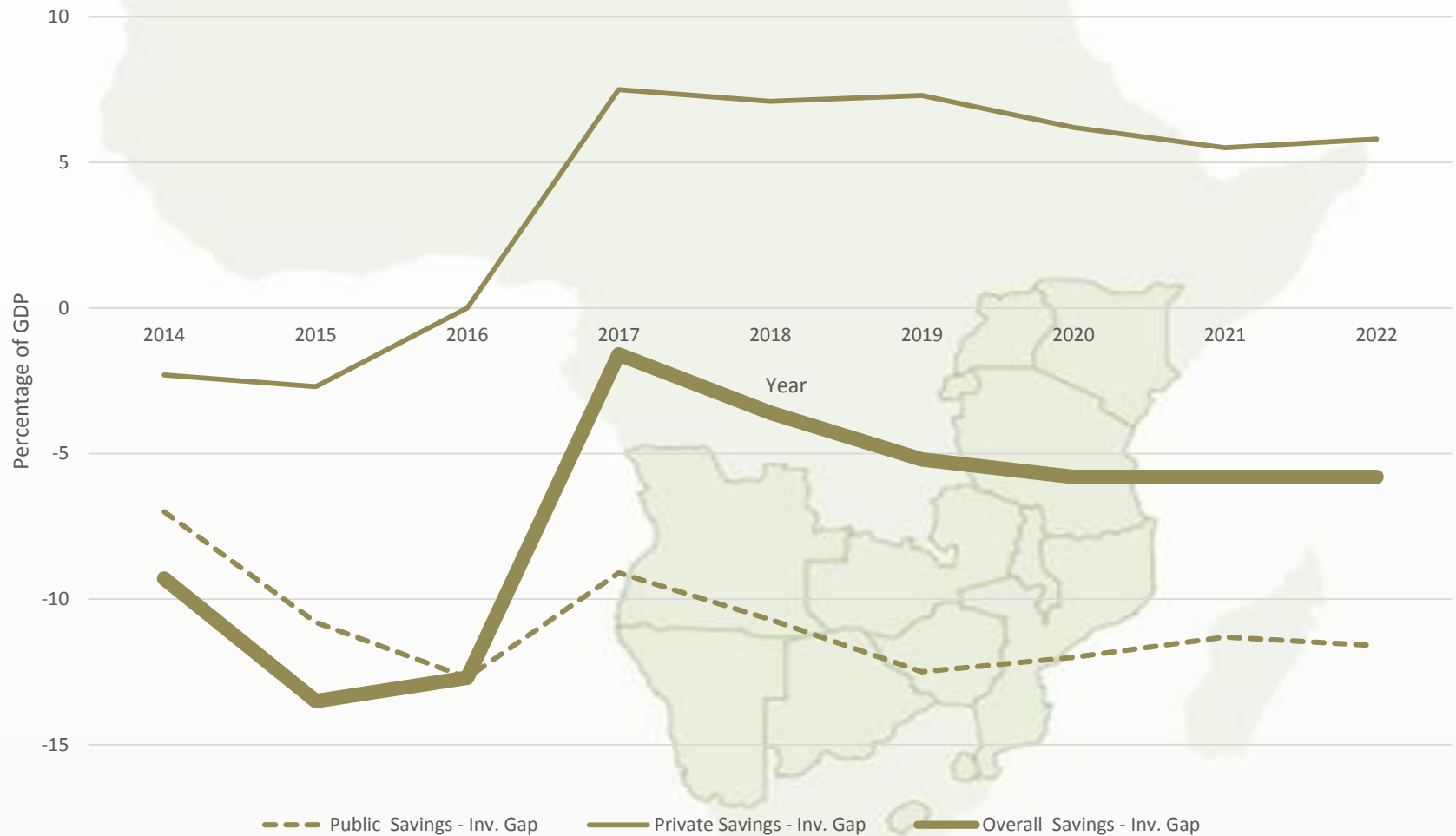


Source: IMF Article IV 2018

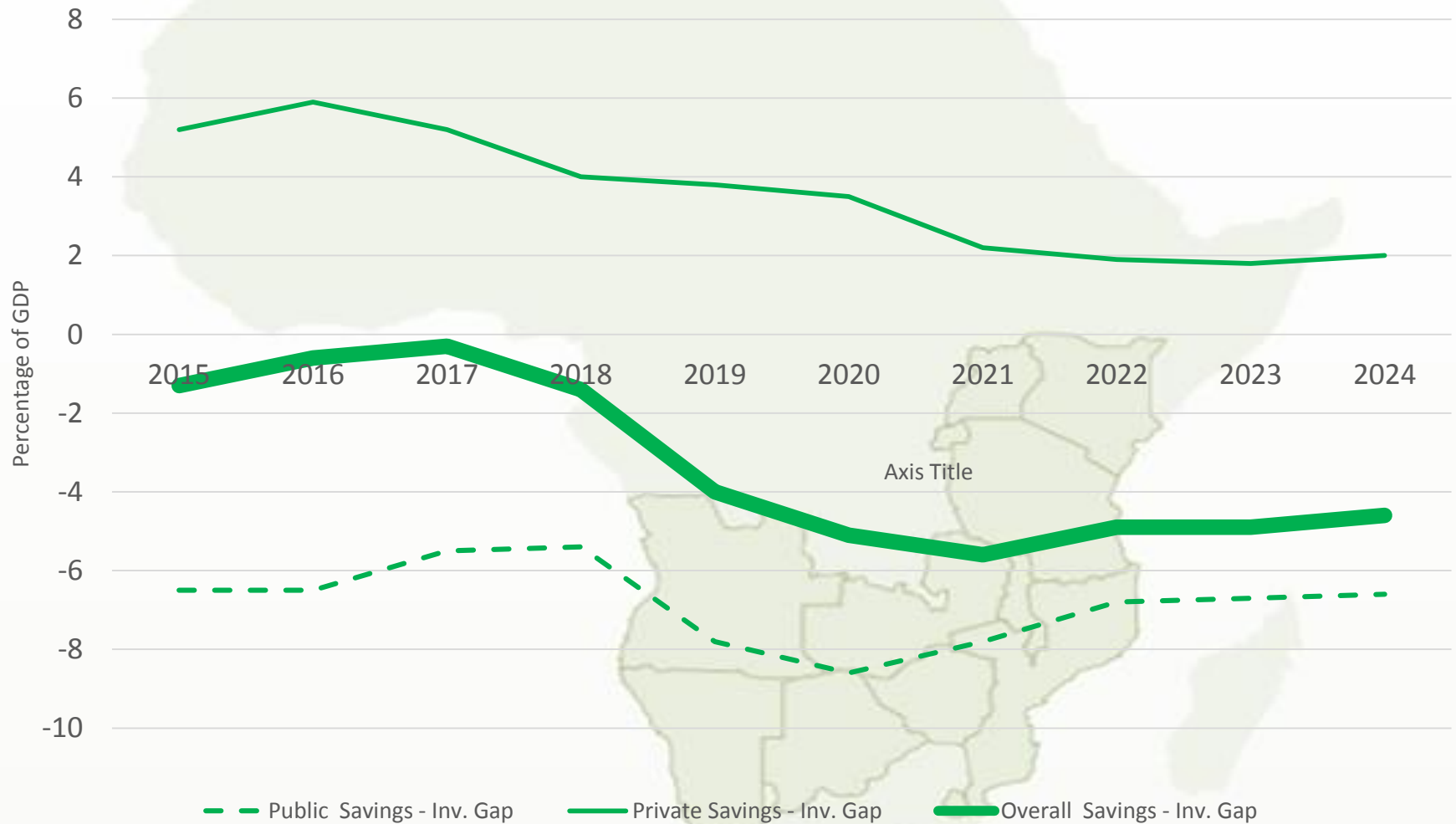
3- South Africa: (Savings – Investment)



3- Namibia: (Savings – Investment)



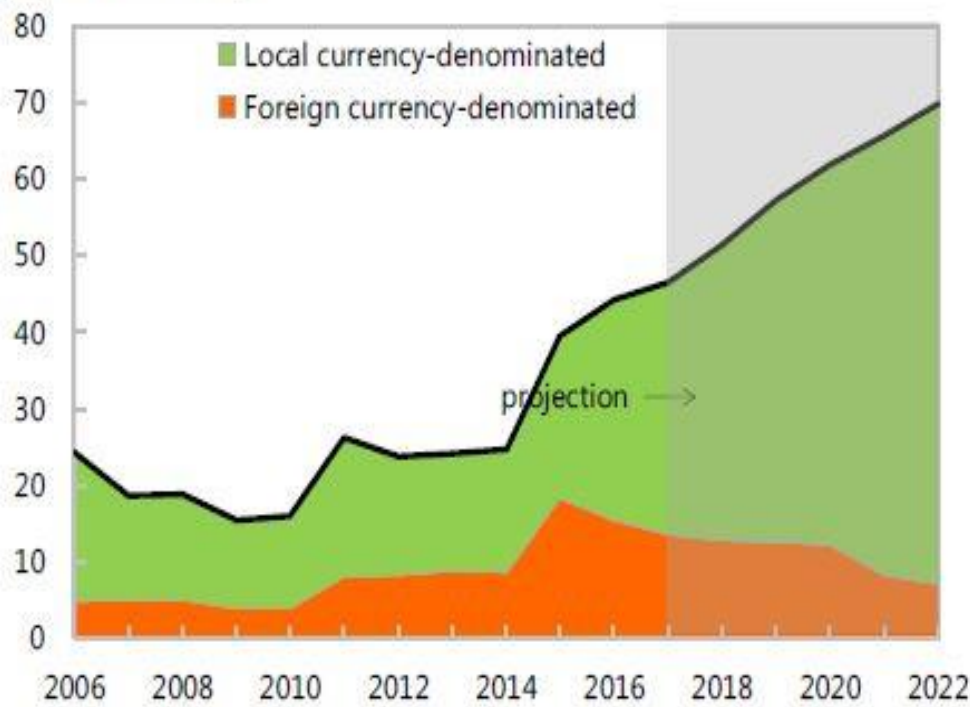
3-Mauritius : (Savings – Investment)



3-Namibia: Debt composition

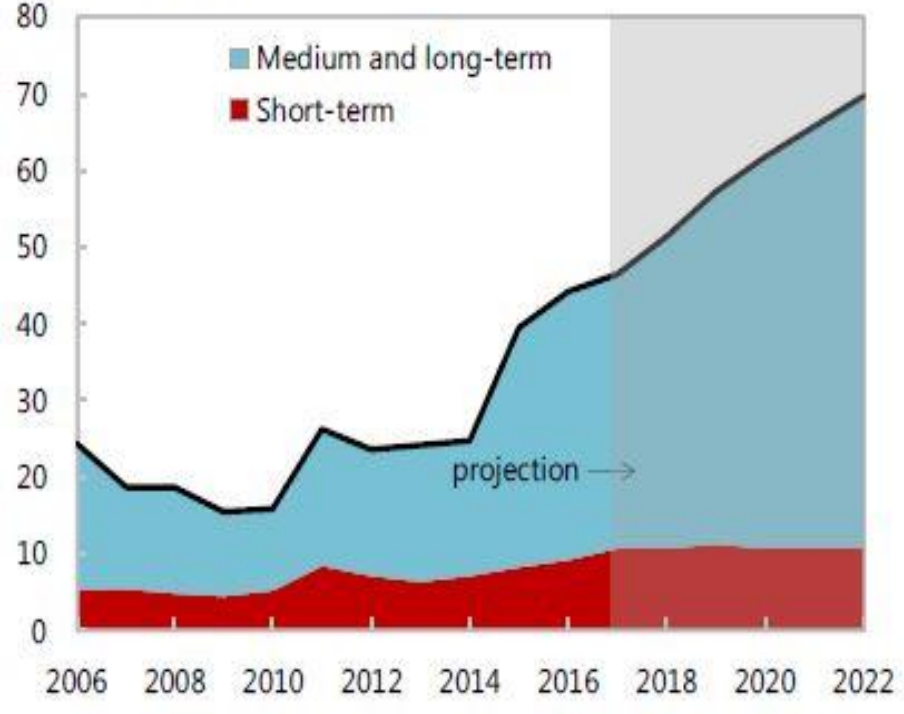
By Currency

(in percent of GDP)



By Maturity

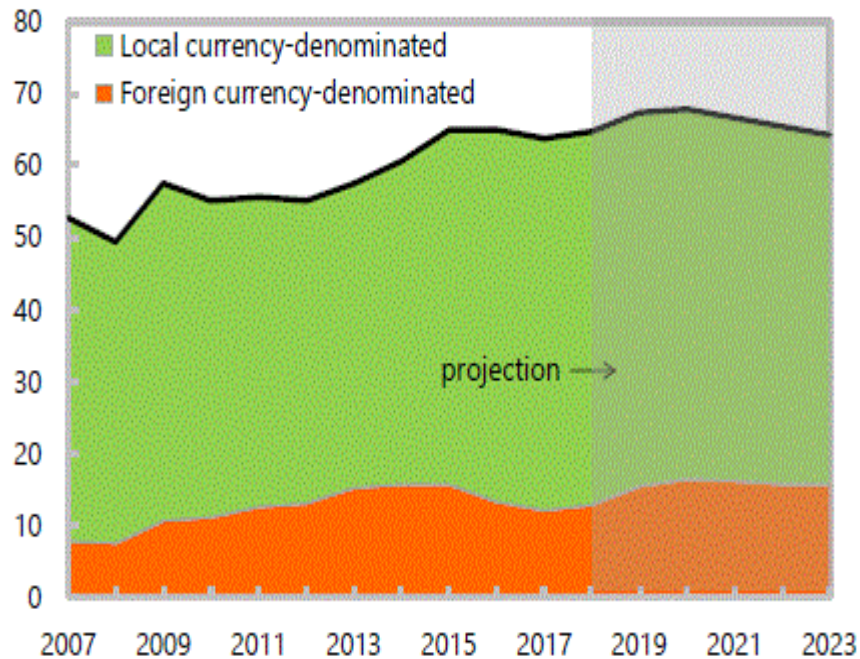
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3 – Mauritius: Debt Composition

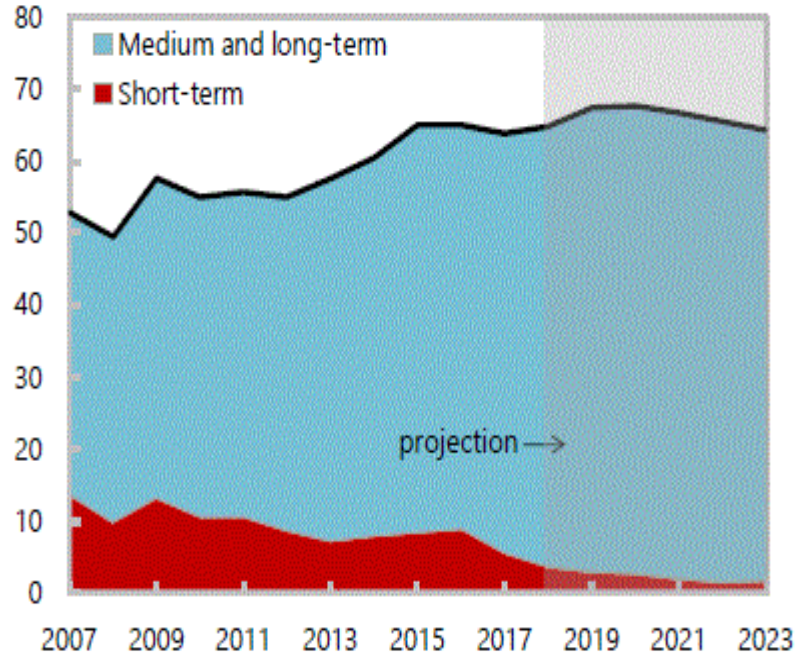
By Currency

(in percent of GDP)



By Maturity

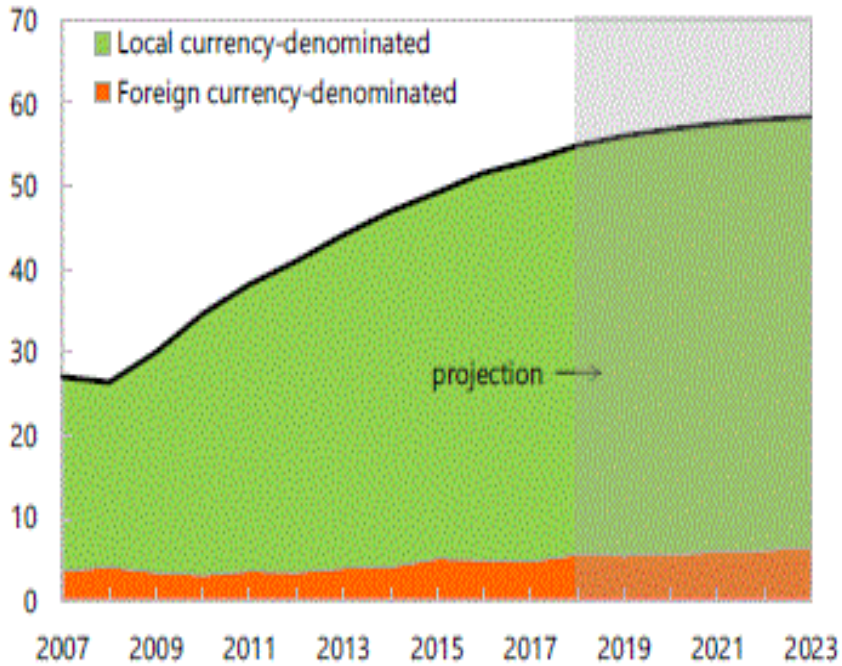
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3-South Africa: Debt Composition

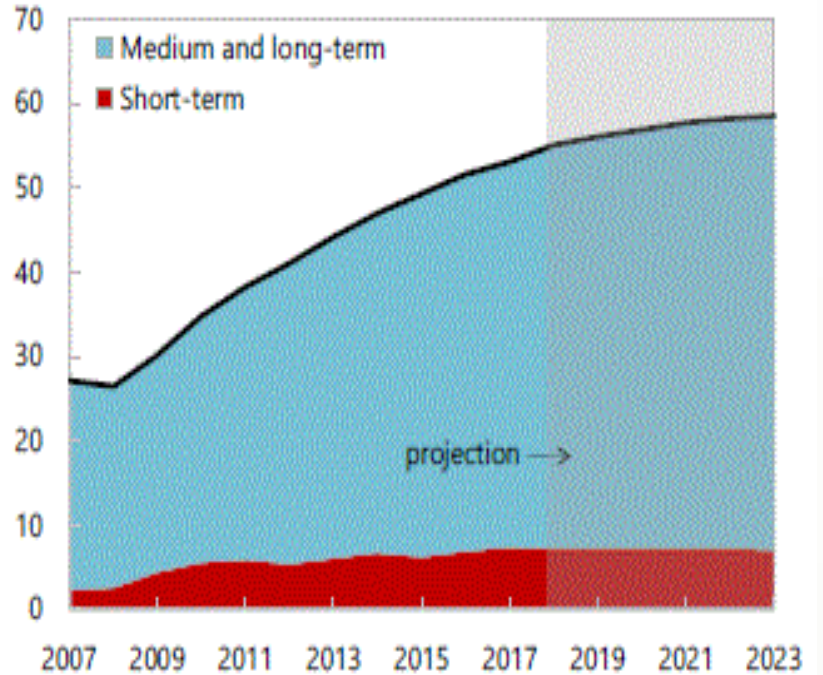
By Currency

(in percent of GDP)



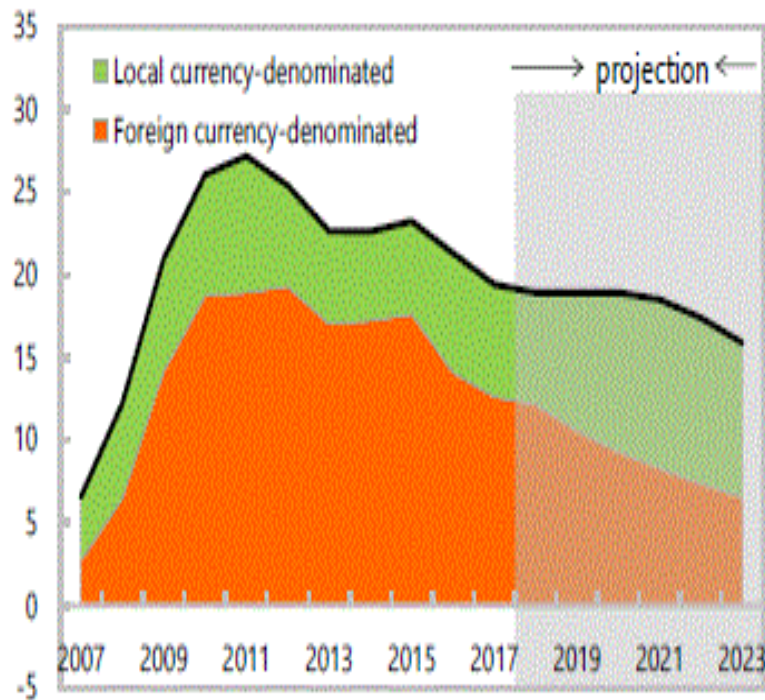
By Maturity

(in percent of GDP)

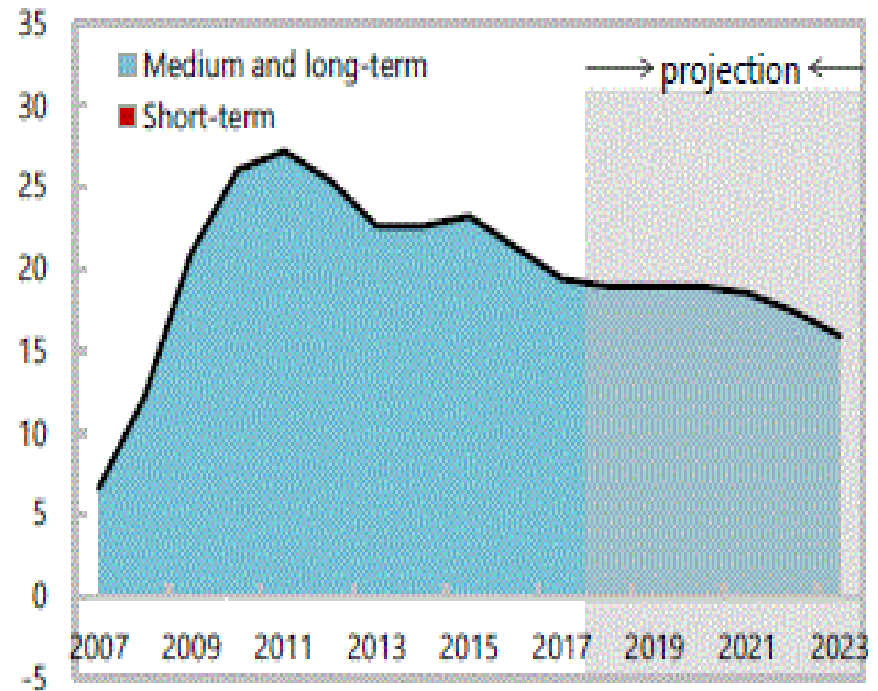


3 -Botswana: Debt Composition

By Currency
(in percent of GDP)



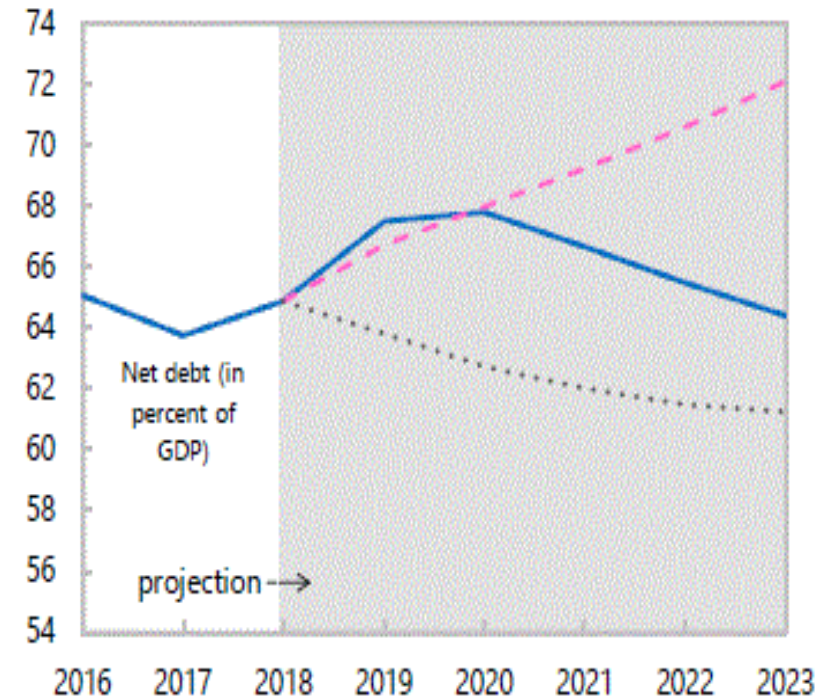
By Maturity
(in percent of GDP)



3-Mauritius: Gross debt & financing

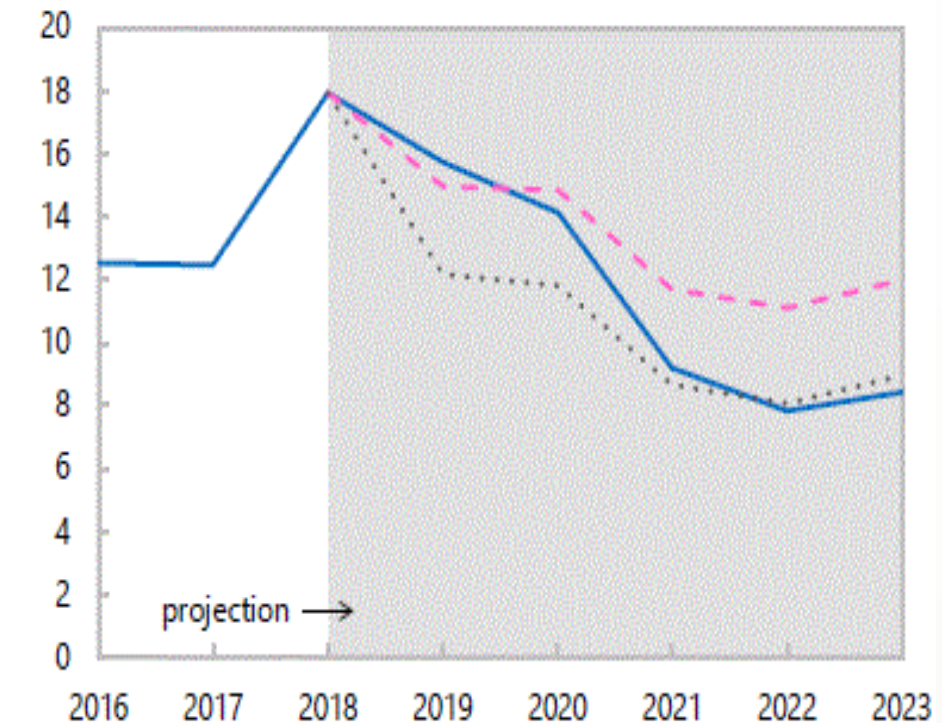
Gross Nominal Public Debt

(in percent of GDP)

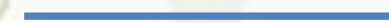


Public Gross Financing Needs

(in percent of GDP)



Baseline Scenario



Historical Scenario



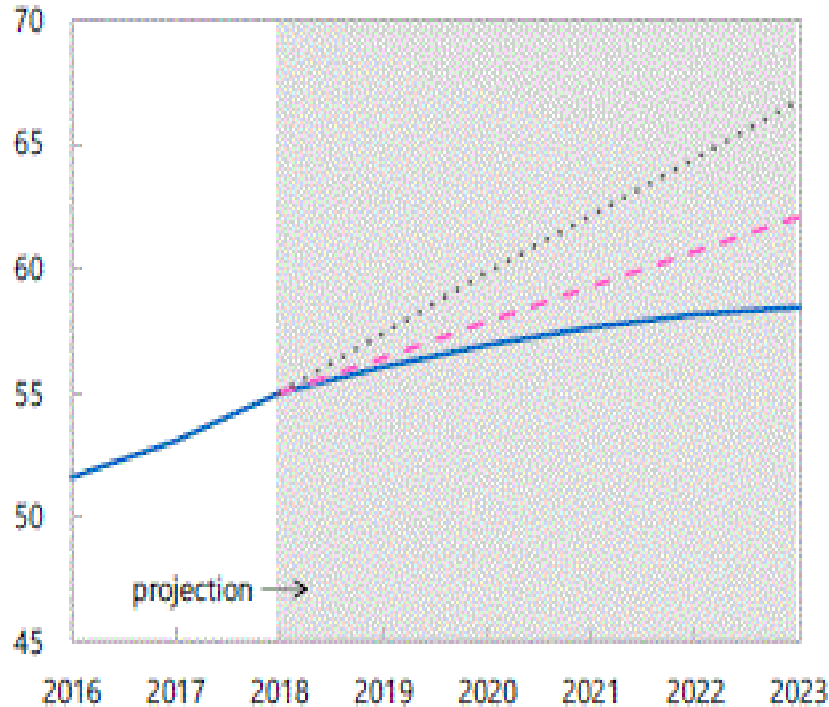
Constant Primary balance Scenario



3- South Africa: Gross debt & financing

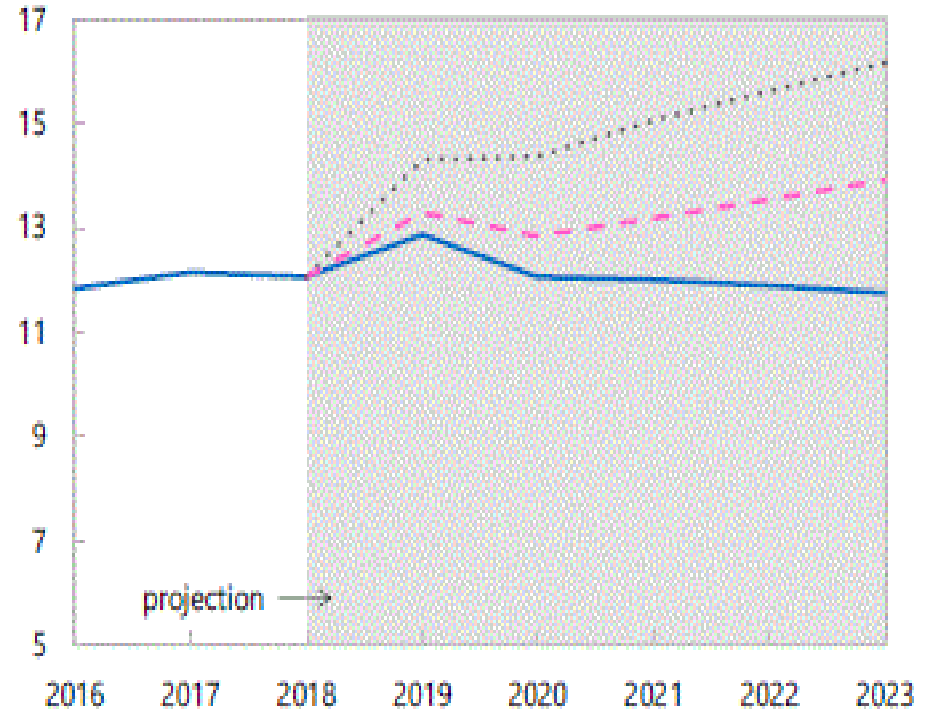
Gross Public Debt

(in percent of GDP)

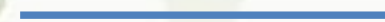


Public Gross Financing Needs

(in percent of GDP)



Baseline Scenario



Historical Scenario



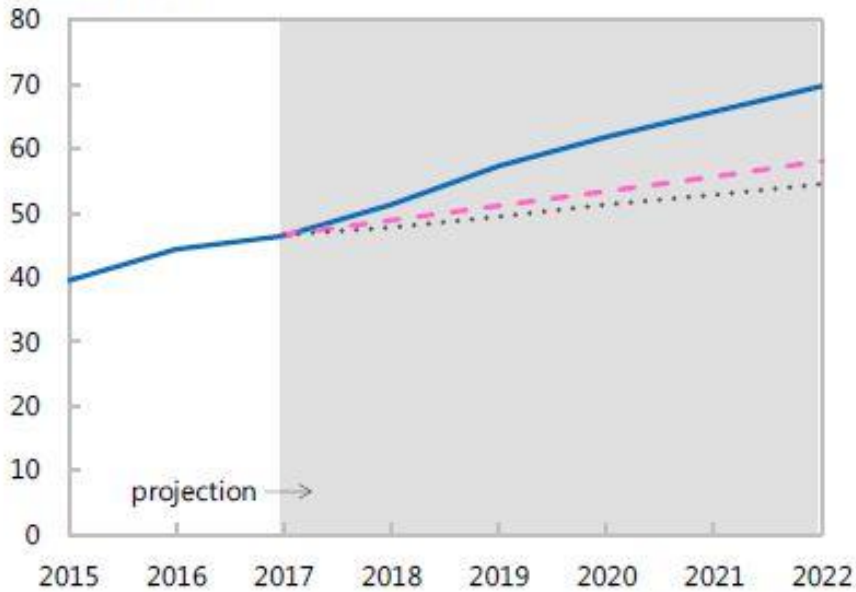
Constant Primary balance Scenario



3-Namibia: Gross debt & financing

Gross Nominal Public Debt

(in percent of GDP)

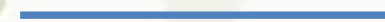


Public Gross Financing Needs

(in percent of GDP)



Baseline Scenario



Historical Scenario



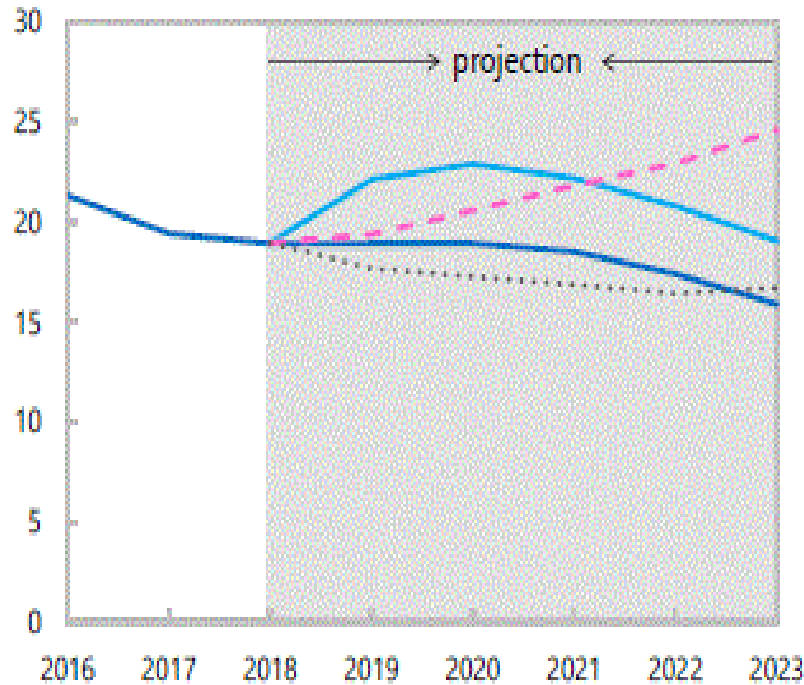
Constant Primary balance Scenario



3- Botswana: Gross debt & financing

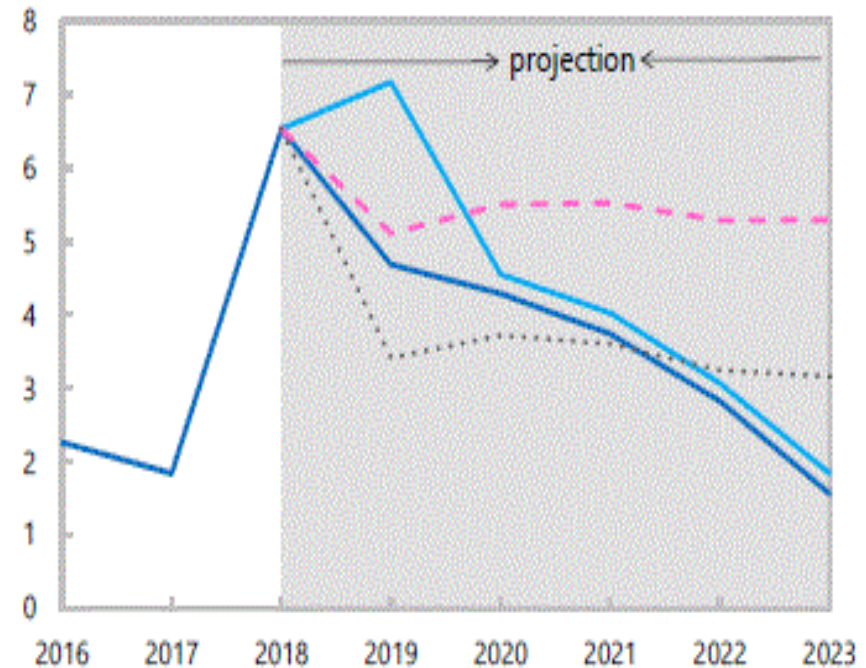
Gross Nominal Public Debt

(in percent of GDP)



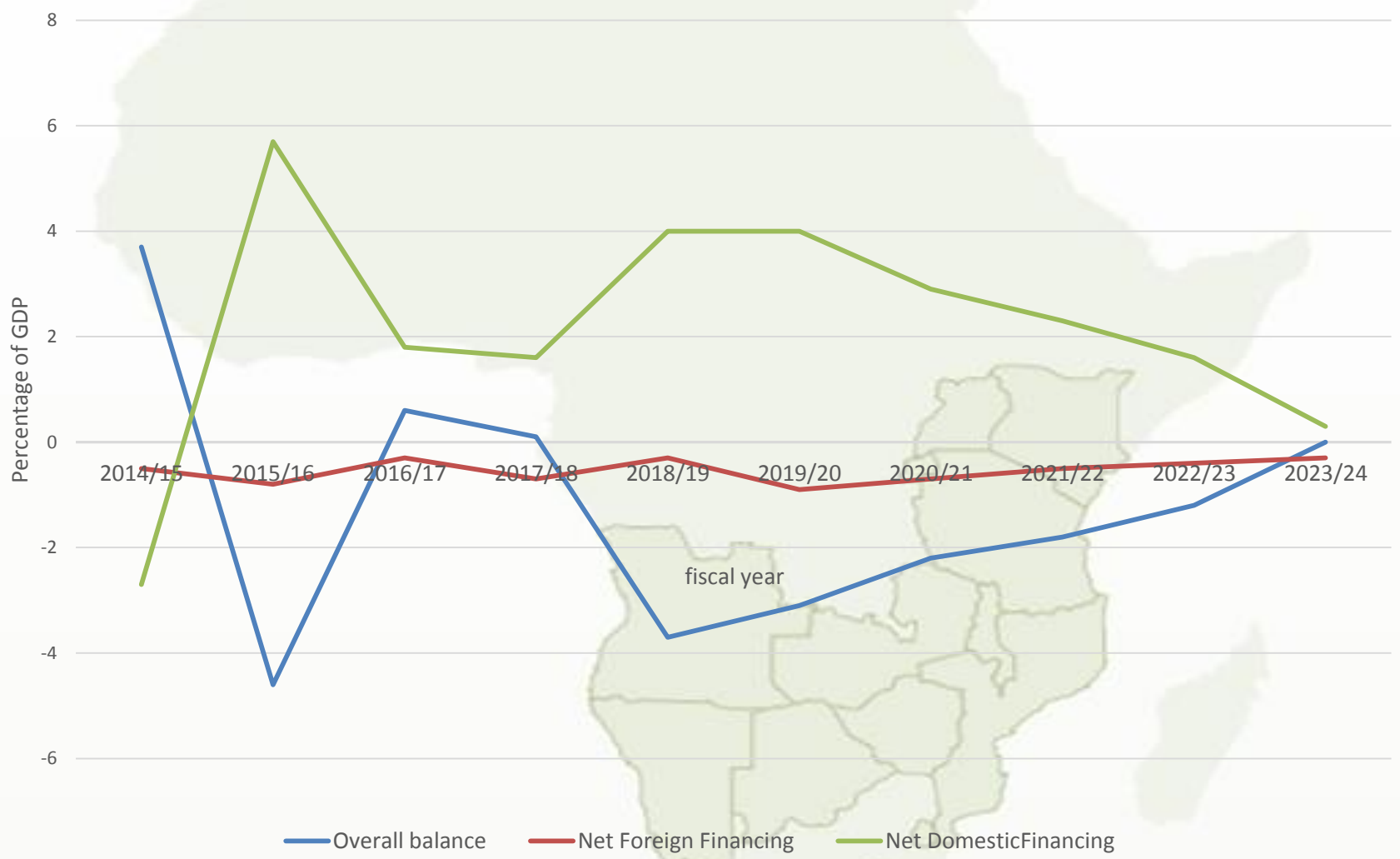
Public Gross Financing Needs

(in percent of GDP)



- Baseline Scenario —————
- Contingent liability Shock Scenario —————
- Historical Scenario - - - - -
- Constant Primary balance Scenario - · - · -

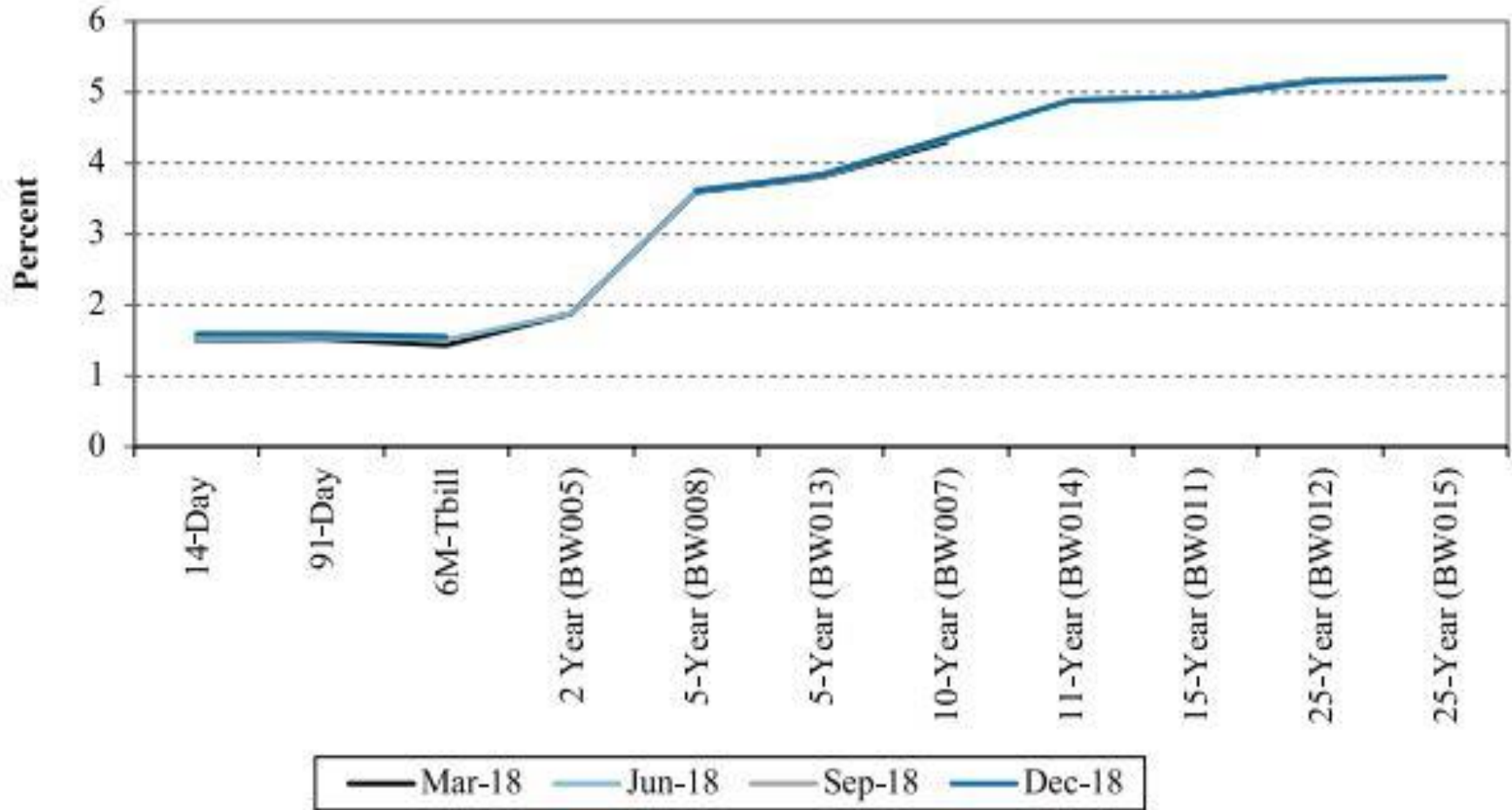
4- Botswana Financing of Overall balance



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