

Local Currency Bond Markets Conference
South African Reserve Bank (SARB) Conference Centre, Pretoria, South Africa

Thursday, 8 March 2018

Venue: SARB Conference Centre Auditorium

11.00 – 12.00	Registration
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12.00 – 13.00	Finger lunch
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Programme Director: Mr Nimrod Lidovho, SARB

13.00 – 13.15	Welcome address by Governor Lesetja Kganyago , SARB
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13.15 – 13.45	Opening remarks "Facing up to the original sin - The German experience of establishing a local currency bond market" by Andreas Dombret , Board Member, Deutsche Bundesbank
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13.45 – 14.30	Keynote "Local currency markets – the case of a development bank" Joachim Nagel , Member of the Executive Board, KfW
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14.30 – 14.45	Coffee break
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14.45 – 15.30	"African growth and prosperity: the important role of local currency bond markets" by Stacie Warden , Executive Director, Center for Financial Markets, Milken Institute
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15.30 – 16.15	Expert speech "Challenges of development of LCBM in emerging markets" Leon Myburgh , SARB
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16.15 – 17.15	Bilateral talk "CWA: Development of financial markets in Africa" moderated by Deputy Governor Daniel Mminele , SARB Dondo Mogajane and Ludger Schuknecht , co-chairs of G-20 Africa Advisory Group, ZAF/GER
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Venue: SARB Conference Centre Banqueting Room

18.00 – 21.00	Conference dinner
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18.00 – 18.20	Dinner remarks by Deputy Governor Daniel Mminele , SARB
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Friday, 9 March 2018

Venue: SARB Conference Centre Auditorium

Programme Director: Mr Martin Dinkelborg, Deutsche Bundesbank

9.00 – 10.30	<p>Panel discussion “The role of central banks in establishing primary markets” moderated by Zafar Parker, SARB</p> <p>Holger Spies, Deutsche Bundesbank Joseph N. Besong, Ph.D, CMF Cameroon Financial Markets Commission Magda Ghoneim, Central Bank of Egypt Abdrew Maatla Motsomi, Deputy Governor Bank of Botswana</p>
10.30 – 11.00	Coffee break
11.00 – 12.30	<p>Panel discussion “Rating, ranking & standards – transparency and Good Governance as key elements for a functioning bond market” moderated by Martin Dinkelborg, Deutsche Bundesbank</p> <p>Jan Martin Witte, KfW Christopher Egerton-Warburton, Lion’s Head Capital Siaka Fanny, Ministry of Finance Ivory Coast Saleem Karimjee, IFC</p>
12.30 – 13.30	Lunch
13.30 – 14.30	<p>Panel discussion “Bond market development – importance of market management and establishing a benchmark yield curve” moderated by, Cédrique Achille Mbeng Mezui, African Development Bank Group</p> <p>Martin Pontzen, Deutsche Bundesbank Anthony Julies, National Treasury, SA Zakeya Ibrahim, Central Bank of Egypt Eden Mabilana, Bank of Mozambique</p>
14.30 – 14.45	Coffee break
14.45 – 15.45	<p>Panel discussion “Crisis prevention – why local currency bond markets are more resilient to shocks” moderated by Joseph N. Besong, Ph.D, CMF Cameroon Financial Markets Commission</p> <p>Hendrik Nel, SARB Peter Kruschel, German Federal Financial Supervisory Authority Ibrahim Sagara, BCEAO Elsie Addo Awadzi, Deputy Governor Bank of Ghana</p>
15.45 – 16.00	Closing remarks
16.00 – 17.00	Farewell cocktail

Dr Andreas Dombret
Member of the Executive Board
of the Deutsche Bundesbank

**Facing up to the original sin –
Experiences of establishing a local currency bond market**

Opening Remarks at the “Local Currency Bond Markets” Conference
organised by the South African Reserve Bank (SARB)
and the Deutsche Bundesbank
in Pretoria, South Africa

Thursday, 8 March 2018

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1 Introduction

Dear Governor Lesetja Kganyago

Dear Deputy Governor Daniel Mminele

Ladies and gentlemen

I am very honoured to be here today at the Conference Centre of the South African Reserve Bank (SARB) in Pretoria. This conference is another symbol for the close partnership between the SARB and the Bundesbank. This partnership, together with our joint chairmanship of the G20 Africa Advisory Group, gave the impetus for this event. The Africa Advisory Group coordinates the G20 “Compact with Africa” initiative that aims at promoting inclusive growth and investment in Africa. I am convinced that this conference on local currency bond markets will provide valuable insights on how the initiative’s goals can be reached.

Let me start with a reminder of why we are all here today. True, we have

come to talk about local currency bond markets. But why are they important for a country's financial system?

Time and again, throughout the history of economic development, emerging economies have given in to the temptation to over-borrow abroad, which often gives rise to a significant currency mismatch on their aggregate balance sheets. Risky borrowing in foreign currencies can be tempting because it is often cheaper than raising funds at home – last but not least as foreign creditors accept lower interest rates when the exchange rate risk is born by the debtor. In blunt terms, over-borrowing abroad is called the “original sin” of an emerging currency because – although it comes at low cost in good times – it may cause serious damage to the economy when there is an abrupt currency shift.

In contrast, the existence of a functioning local currency bond market can lower financing costs at home and thereby provide the incentive to reduce foreign currency exposure. In the face of volatile global capital flows, it can therefore help making emerging economies crisis-proof. What is more, sound local currency bond markets support the development of a country's financial sector and can channel foreign capital into an emerging economy, a valuable source of long-term financing for both the government and the private sector.

Now, some of you may be thinking: Why is a German discussing these issues – given that German sovereign bonds count internationally as “safe haven” investments and are traded on a very deep and liquid market by international standards? To give you my short answer right away: This hasn't

been the case from the outset. In my speech, I would therefore like to draw upon the German story 70 years ago in order to illustrate the lessons we have learned and to outline why this conference may become a catalyst for local bond market development in developing and emerging economies.

2 The German bond market – where it started in 1948

Let us travel roughly 70 years back in time.

At the end of World War II, Germany and its economy were devastated. Large parts of its industrial plants and of its infrastructure lay in ruins – and so did its financial system. War expenses had been financed via the printing press, and the German currency had lost its value.

It was only in 1948, when the Allied powers governing the country at that time initiated a fundamental reform of the German currency, marking a turning point. The introduction of the D-Mark and the foundation of a new central bank went hand in hand with the transformation of the German economy from a centrally planned to a market-based system. This laid the foundation for what is known as the “German economic miracle” of the 1950s and 60s.

And this is where local currency bond markets come into play. Their development in Germany was already envisaged at the outset of economic policy reforms. But as you might suspect, the German bond market, too, got off to a very bumpy start in 1948. The country and its currency faced a lack of trust – and so did its bond market. People were very hesitant about saving long-term, and many initial public offerings of bonds were disappointing. Just to

give you an idea: during the first 18 months of the D-Mark, only about half of all bond IPOs received funding on the infant German capital market.

So we, too, have experienced that political will is one thing and implementation is another, and that establishing a functioning bond market denominated in the local currency hinges on a number of factors.

Let me now single out the aspects of bond market policies in Germany that I believe are still instructive for today's policymakers.

3 The institutional framework

Again, let's zoom back to 1948. It quickly became clear that the undeveloped German bond market needed two things: sound regulation and an independent central bank.

There is no question that regulation can be very useful in establishing certain financial instruments and certain financial markets. For instance, when the German bond market was still in its infancy, there was a law in place that required debt to be denominated in local currency unless the central bank gave its special approval for foreign denomination. Undoubtedly, such preferential legal treatment of bonds denominated in local currency was conducive to bond market development and to the D-Mark becoming its nominal anchor. But, if not applied prudently, regulation can also be a hindrance. Especially when it becomes too intrusive and when it suspends the market mechanism. That is exactly what happened in Germany after the 1948 currency reform. Heavy price and interest rate controls were imposed on market forces and put a serious drag on the emerging bond market.

Back then we also had to learn our lesson about implementing a sound regulatory regime; that it needs to be a catalyst, not an impediment to the infant capital market.

But it turned out that regulation was not the only key to a successful currency and functioning bond market in the emerging post-war economy in Germany. At least equally important was the existence of an independent central bank that could credibly commit to its single mandate of ensuring price stability. During the 1950s, such credible commitment to stable prices, combined with sound fiscal policies, was instrumental in anchoring inflation expectations and in achieving the kind of macroeconomic stabilisation that formed the foundation of the “economic miracle” I just mentioned. And this also had a significant impact on investors’ confidence in local currency bond markets. In short: without a credible central bank, there is no stable currency. And without a stable currency, there can be no thriving bond markets.

4 The central bank as a facilitator

Leaving institutional arrangements aside, which concrete positions can and should a central bank take when it comes to shaping local currency bond markets? In other words, how should a central bank act operationally? Well, during the second half of the last century, we at the German central bank interpreted our role as that of a facilitator to the market.

There were three key aspects to this role. First, providing support to market participants. When capital markets were liberalised in the mid-1950s, interest rate volatility surged. Consequently, the German central bank promoted the

foundation of a capital market commission, a discussion platform, that consisted of the most important market participants. Its primary task was to align the timing and volume of upcoming bond issuances with prevailing market conditions. In this way, liquidity shortages and excessive price hikes on the market were to be prevented. As time went by and bond markets got more mature, the cooperative work of the capital market commission was replaced by yearly and quarterly issuance calendars for sovereign bonds.

A second aspect of the operational role of central banks concerns engaging in market management. In terms of market management, the Bundesbank's strategy has always been clear-cut. In 1957, the Bundesbank Law stipulated that the issuer of a bond is responsible for market management and market smoothing operations. Indeed, the Bundesbank has since conducted market management for federal government bonds; but we have done so on behalf of the government, not on our own behalf. Let me stress here that the Bundesbank's approach is just one of many, and that there is no right or wrong approach. This is only one way in which a central bank is able to maintain independence and avoid fiscal dominance.

This brings me to the third aspect of the facilitation role that the German central bank opted for. In the early stages of capital market development, market management of sovereign bonds can be crucial for many reasons. One main reason is that financing conditions in most credit markets critically depend – usually via price quotations – on the price that the sovereign has to pay for its debt. In other words, a central bank's market management for government bonds can facilitate the establishment of a benchmark debt yield curve. And a sound benchmark is key to a functioning overall bond market.

That is how we did it. And there might be a lot of other ways of doing it. I want to emphasise again, however, that when embarking on the development of domestic bond markets, every central bank should be wary of trading its institutional independence for market involvement. Because providing the sovereign with market management services always entails the potential of exposing the central bank to unwanted fiscal pressures.

5 Conclusion

Ladies and gentlemen, what can the German experience teach us? First, it can teach us that the political will to enhance local currency bond markets needs to be accompanied by a number of supporting factors. A well-balanced regulatory regime and a stable currency – defended by an independent central bank – certainly are among these factors.

Second, while I am convinced that regulation and central bank independence are universally valid, the concrete strategy a country's central bank may follow in promoting local currency bond markets is not. As every country finds itself confronted with unique challenges, the ways to tackle them are unique as well. And though I hope you regard my anecdotes and remarks based on the example of Germany as inspirational, every central bank has to find its own strategy.

In my speech, I have touched upon some of the topics of tomorrow's panel discussions, such as market management, the benchmark yield curve and, in particular, the role of the central bank. I am convinced that tomorrow's discussions will shed light on these and many other aspects of bond market development.

I wish you all fruitful discussions and an inspiring conference.

Thank you to the South African Reserve Bank for hosting us and to you all for your attention.

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Issuance of German Federal Securities / Bund Bidding System BBS

Structure

1 German Federal Debt Management

- 1.1 Institutional framework in Germany
- 1.2 German Finance Agency
- 1.3 Deutsche Bundesbank

2 Debt instruments of the Federal Republic of Germany

- 2.1 Federal Bonds ("Bunds")
- 2.2 Five year Federal notes ("Boblis")
- 2.3 Federal Treasury notes ("Schätze")
- 2.4 Treasury discount paper ("Bubills")

3 Basic features of the auction procedure

4 Bund Issues Auction Group

5 Bund Bidding System (BBS)

- 5.1 Basics
- 5.2 Submission of bids / Bidding screen
- 5.3 Monitoring the auction procedure
- 5.4 Simulation tool / Allotment decision
- 5.5 Auction result / Publication in the market
- 5.6 View on the system

6 Annex

1 German Federal Debt Management

1.1 Institutional framework in Germany

☒ **Federal Ministry of Finance, Berlin (www.bundesfinanzministerium.de):**

Issuer

☒ **German Finance Agency, Frankfurt (www.deutsche-finanzagentur.de):**

Central service provider for Germany's Federal debt management

☒ **Deutsche Bundesbank, Frankfurt (www.bundesbank.de):**

Fiscal agent of the Federal Government on behalf of the German Finance Agency and for the account of the Federal Government

1 German Federal Debt Management

1.2 German Finance Agency

Established in September 2001, private limited company, wholly-owned by the Federal Republic of Germany. Purpose: Professional debt management in the name and for the account of the Federal Republic of Germany.

Responsibilities:

- ☒ Decision on debt instruments and fixing of the conditions of the Federal securities.
- ☒ Publication of the issuance calendar.
- ☒ Reduction of interest costs.
- ☒ Ensuring the benchmark-status of the German Federal securities in the European government bond market.

1 German Federal Debt Management

1.3 Bundesbank

Bundesbank as „fiscal agent“ of the Federal Government and provider of bank services to the German Finance Agency is involved in the Federal debt management:

- ☒ Providing the primary market platform Bund Bidding System (BBS) and technical handling of auction procedures.**
- ☒ Price management operations with German Federal securities through the German stock exchanges.**

2 Debt instruments of the Federal Republic of Germany

2.1 Federal Bonds (“Bunds“)

- ☒ Fixed coupon securities, issued by auction on price basis**
- ☒ Denominated in Euro**
- ☒ Fixed maturities of 10 or 30 years**
- ☒ Benchmark status in the European government bond market**
- ☒ Underlying instrument for the Bund Future contract at Eurex**
- ☒ Each bond has a volume of up to Euro 26 billion**
- ☒ Currently 39 bonds outstanding with a total volume of Euro 728.5 billion**
- ☒ Listed on the regulated market at the German stock exchanges; price management through Bundesbank**
- ☒ Linker: 5 inflation-linked bonds outstanding with a total volume of Euro 60 billion**

2 Debt instruments of the Federal Republic of Germany

2.2 Five year Federal notes (“Bobls“)

- ☒ Fixed coupon securities, issued by auction on price basis**
- ☒ Denominated in Euro**
- ☒ Fixed maturity of 5 years**
- ☒ Benchmark status in the European government bond market**
- ☒ Underlying instrument for the Bobl Future contract at Eurex**
- ☒ Two new series every year**
- ☒ Volume per series: Up to Euro 21 billion**
- ☒ Currently 12 series outstanding with a total volume of Euro 213 billion**
- ☒ Listed on the regulated market at the German stock exchanges; price management through Bundesbank**
- ☒ Linker: One issue of inflation linked Federal notes outstanding with a total volume of Euro 15 billion**

2 Debt instruments of the Federal Republic of Germany

2.3 Federal Treasury notes (“Schätze“)

- ☒ Fixed coupon securities, auctioned on price basis**
- ☒ Denominated in Euro**
- ☒ Fixed maturity of 2 years**
- ☒ Underlying instrument for the Schatz Future contract at Eurex**
- ☒ 4 new issues every year**
- ☒ Volume per issue: Up to Euro 14 billion**
- ☒ Currently 9 issues outstanding with a total volume of Euro 110 billion**
- ☒ Listed on the regulated market at the German stock exchanges; price management through Bundesbank**

2 Debt instruments of the Federal Republic of Germany

2.4 Treasury discount paper (“Bubills“)

- Zero bonds, issued by auction on price basis**
- Denominated in Euro**
- Fixed maturity of 6 months**
- Volume per issue: Euro 2.0 billion**
- 6 issues outstanding with a volume of Euro 12 billion**
- Not listed (short term money market instrument)**

3 Basic features of the auction procedure

☒ **Publication of an annual issue calendar and a detailed quarterly issue calendar in advance by the German Finance Agency.**

☒ **The auction timetable at any auction:**

8 days before the auction ($T - 8$): Announcement of each individual auction

1 day before the auction ($T - 1$): Invitation to bid and publication of the complete characteristics of the auction paper (coupon, maturity, volume).

On the auction day (T): Submission of bids / Allotment

On the value date ($T + 2$): Payment and delivery

3 Basic features of the auction procedure (cont.)

- ☒ The auction procedure is the most important issue instrument of the German Government: The auction papers finance more than 95% of the German Government borrowing.**
- ☒ The Bundesbank is the provider of the primary market platform Bund Bidding System (BBS) and carries out the auctions in cooperation with the Finance Agency. The Bundesbank is responsible for the entire technical handling of the auctions.**
- ☒ Only members of the „Bund Issues Auction group“ are entitled to participate directly in the auctions.**
- ☒ Currently 36 members (credit institutions, securities trading firms and securities trading banks) which are resident in a member state of the European Union. Members are admitted by the German Finance Agency; application is possible at any time.**

4 Bund Issues Auction Group

- ☒ **The members are expected to achieve a minimum share of 0.05% of the total issue amount allotted at auctions in one calendar year; members, which fail to reach the minimum share will be excluded from the Auction Group.**
- ☒ **The members need a TARGET account for cash settlement and a delivery custody account at Clearstream Banking Frankfurt AG (CBF).**
- ☒ **Annual and semi-annual publication of a ranking list of the Auction Group members by size of their shares in a press release of the German Finance Agency. The ranking list is intended to generate an incentive to engage in the primary market of German Federal securities.**

5 Bund Bidding System (BBS)

5.1 Basics

- ☒ **BBS is web-based. The bidder needs no special hardware or software. The bidder only needs a standard PC with a standard operation system (Windows) and standard browser (IE, Firefox).**
- ☒ **The access to BBS is secured by user ID and password.**
- ☒ **Backup solution: Submission of bids via fax to our customer support.**
- ☒ **BBS is able to operate auctions of fixed nominal bonds (including inflation linked bonds) and zero bonds (Bubills) on price basis. Allotment on multiple price basis. Denomination in Euro only. No buyback operations, security lending activities or cash balances are available.**

5 Bund Bidding System (BBS)

5.2 Submission of bids / Bidding screen

- ☒ **Submission of bids: Bidding period lasts from 8.00 a.m. to 11.30 a.m. Frankfurt time.**
- ☒ **The bidding amount interval is 1 million Euro. The price interval for price bids is 0.01% (Bunds and Bobls), 0.005% (Schätze) and 0.00005% (Bubills).**
- ☒ **Within the bidding period the bidders are able to submit or delete bids at any time until deadline.**
- ☒ **Two kinds of bids are allowed: Competitive bids (price bids) and non-competitive bids.**
- ☒ **The bidders are able to use the full bidding period because of the quick response mechanism of the system.**

5 Bund Bidding System (BBS)

5.2 Submission of Bids / Bidding screen (cont.)

- ☒ **The optimized bidding screen is one of the most important features of the bidding system. The design of the screen is very comfortable, userfriendly and self-explanatory.**
- ☒ **The bidding screen works with a plausibility check according to the auction rules: The bidder receives a warning message if the entries or bidding data are not allowed. It is not possible to enter bids which do not correspond with the bidding rules.**
- ☒ **The countdown time towards the deadline is displayed on the screen, also the system time.**
- ☒ **Bids submitted after deadline are invalid and are rejected automatically by BBS.**

5 Bund Bidding System (BBS)

5.3 Monitoring the auction procedure by Finance Agency, Ministry of Finance and Bundesbank

- ☒ **There are 2 surveys available for monitoring the bidding process: Decision list and list of bidders.**
- ☒ **The decision list is the most important survey. The bids are sorted by prices and the bids are accumulated. The list of bidders displays the bids with the name of the bidders.**
- ☒ **Only Finance Agency, Ministry of Finance and Bundesbank have a view on these lists.**
- ☒ **After bidding deadline expiry the Finance Agency uses the integrated simulation tool to test different varieties of allotment. Then the Finance Agency decides very fast and efficiently about the auction result. The Ministry of Finance and the Bundesbank do also have a view on the simulation tool.**

5 Bund Bidding System (BBS)

5.4 Simulation tool / Allotment decision

- ☒ **Allotment mode (US-style procedure or multiple price method):**
 - **Bids below the lowest accepted price are not considered**
 - **Bids above the lowest accepted price are allotted at the price specified in the bid.**
 - **Bids at the lowest accepted price and non-competitive bids can be scaled down by allotment rates on a percentage basis.**
 - **Non-competitive bids are allotted at the weighted average price of the price bids allotted.**

- ☒ **The Finance Agency uses three parameters for adjusting the auction result in the simulation tool:**
 1. **Fixing the lowest accepted price.**
 2. **Fixing the allotment rate for marginal price bids.**
 3. **Fixing the allotment rate for non-competitive bids.**

5 Bund Bidding System (BBS)

5.4 Simulation tool / Allotment decision (cont.)

- ☒ **The simulation tool displays the alternatives of allotment by changing the three parameters. After choosing the lowest accepted price the Finance Agency can vary the allotment rates for marginal bids and non-competitive bids.**
- ☒ **Finally the Finance Agency chooses a version in the simulation tool and suggests it by phone to the Ministry of Finance and the Bundesbank.**
- ☒ **After the release of the allotment by the Bundesbank the auction result is calculated immediately by the system.**

5 Bund Bidding System (BBS)

5.5 Bidders' view on the auction result / Publication in the market

- ☒ **Information of the Auction group directly via BBS: Usually two or three minutes after bidding deadline the bidders can view their individual auction result and the global auction result on the system.**
- ☒ **The global auction result is also published as fast as possible via information services like bloomberg or reuters (own pages of the Bundesbank) and by press release of the Bundesbank.**

5 Bund Bidding System (BBS)

5.6 View on the system: Start page

DEUTSCHE BUNDESBANK EUROSYSTEM

Bundesrepublik Deutschland Finanzagentur GmbH

Deutsch Contact Help

Homepage [Logout](#)

- Interne Anweisungen
- Support
- Auction announcement
- Invitation to bid
- Bids
- Allotment
- Analysis
- Basic data of the auction
- Correction of auction
- Structure of bidders
- Contact
- Logout

BUND BIETUNGS SYSTEM

5 Bund Bidding System (BBS)

5.6 View on the system: Invitation to bid

Display invitation to bid

Auction: DE0001135001 - Federal bond

Auction-ID: X20080001
Securities designation: 3.50 % Federal bond issue of 2006 (2016)

Characteristics of the issue

Coupon:	3.5000 %	Interest begins to accrue on:	04/07/2006
Maturity date:	04/07/2016	First coupon date:	04/07/2007
Coupon date:	04/07 ann.	Accrued interest:	128 day(s)
First coupon period:	365 day(s)	Stripping facility:	Yes
Interest calculation method:	act/act		

Envisaged issue volume
(incl. amount set aside for secondary market operations): 8.000 EUR bn

Time schedule of the auction procedure

Date of invitation to bid:	06/11/2006		
Bidding period from:	07/11/2006 08:00 o'clock	Bidding period until:	07/11/2006 11:30 o'clock Frankfurt time
Stock exchange listing:	07/11/2006		
Value date:	09/11/2006		

Information text: Demonstration Bank of Italy



In addition, the auction rules, the special conditions for auction procedures of the Deutsche Bundesbank in the Bund Bidding System and the issue terms for Federal securities shall apply.

Print

User id: EXN00001

5 Bund Bidding System (BBS)

5.6 View on the system: Entry of bids

The screenshot displays the Bund Bidding System (BBS) interface. At the top left, the logos for Deutsche Bundesbank Eurosystem and Bundesrepublik Deutschland Finanzagentur GmbH are visible. The main navigation bar includes links for 'Homepage', 'Bids', and 'Enter / Display'. A left-hand menu contains buttons for 'Auction announcement', 'Invitation to bid', 'Bids', 'Allotment', 'Contact', and 'Logout'. The 'Bids' button is currently selected, showing 'Enter / Display'.

The main content area is titled 'Enter bids' and displays the following information:

- Auction:** DE0001135291 Federal bond
- Securities designation:** 3.50 % Federal bond issue of 2005 (2016)
- Last bidder:** Lasttestbenutzer fuer ABSNeu, null (EXN0) [Bidding rules](#)
- Bidding period until:** 03/11/2006 15:00 o'clock Frankfurt time
- Auction will be closed in:** 7 minute(s) 56 second(s)
- Total bids:** 700 EUR mn

A table of current bids is shown below:

	Amount: EUR mn	Price bid: %	Cancel
Bid 1	100	non-competitive	<input type="checkbox"/>
Bid 2	100	100.10	<input type="checkbox"/>
Bid 3	150	100.09	<input type="checkbox"/>
Bid 4	150	100.08	<input type="checkbox"/>
Bid 5	100	100.05	<input type="checkbox"/>
Bid 6	100	100.04	<input type="checkbox"/>
Bid 7			<input type="checkbox"/>

Buttons for 'Send' and 'Print' are located below the bid table.

A 'Bidding rules' pop-up window is open, showing the following details:

- Auction:** DE0001135291 Federal bond
- Auction-ID:** X20080031
- Securities designation:** 3.50 % Federal bond issue of 2005 (2016)
- Minimum bid:** 1 EUR mn
- Bidding interval:** 1 EUR mn
- Price interval:** 0.01 %
- Non-competitive bids:** Yes (Note: To record non-competitive bids please enter '0')
- Yield bids:** No
- Auction style:** american

At the bottom left, the logo for 'BUND AUCTION SYSTEM' and the version number '01.02.0007' are visible.

5 Bund Bidding System (BBS)

5.6 View on the system: Decision list

Decision list							
Auction-ID: X20080031		Auction date:		03/11/2006			
ISIN: DE0001135291		3,50 % Anleihe des Bundes von 2005 (2016)					
all amounts in EUR mn							
No.	Price in %	Yield in %	Bids per price	Price bids accumulated	Competitive bids accumulated	Average price in %	Average yield in %
1	non-competitive	-----	3,520	-----	3,520	-----	-----
2	100.15	3.48	900	900	4,420	100.15	3.48
3	100.14	3.48	430	1,330	4,850	100.15	3.48
4	100.13	3.48	75	1,405	4,925	100.15	3.48
5	100.12	3.48	165	1,570	5,090	100.14	3.48
6	100.11	3.48	200	1,770	5,290	100.14	3.48
7	100.10	3.49	795	2,565	6,085	100.13	3.48
8	100.09	3.49	450	3,015	6,535	100.12	3.48
9	100.08	3.49	300	3,315	6,835	100.12	3.48
10	100.07	3.49	135	3,450	6,970	100.12	3.48
11	100.06	3.49	70	3,520	7,040	100.11	3.48
12	100.05	3.49	225	3,745	7,265	100.11	3.48
13	100.04	3.49	445	4,190	7,710	100.10	3.49
14	100.03	3.49	150	4,340	7,860	100.10	3.49
15	100.02	3.50	125	4,465	7,985	100.10	3.49
16	100.00	3.50	100	4,565	8,085	100.10	3.49
17	99.97	3.50	10	4,575	8,095	100.10	3.49

Allotment of non-competitive bids					
Allotment rate in %, Amounts in EUR mn					
95	3,344.00	70	2,464.00	45	1,584.00
90	3,168.00	65	2,288.00	40	1,408.00
85	2,992.00	60	2,112.00	35	1,232.00
80	2,816.00	55	1,936.00	30	1,056.00
75	2,640.00	50	1,760.00	25	880.00
				20	704.00
				15	528.00
				10	352.00
				5	176.00

Refresh	Print	Export data
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5 Bund Bidding System (BBS)

5.6 View on the system: Simulation tool

Allotment simulation (final)

Auction-ID: X20080031
 Lowest accepted price: 100.07 %
 Total issue amount: 8,000.000 EUR mn

	Ver. 1	Ver. 2	Ver. 3	Ver. 4	Ver. 5	Ver. 6	Ver. 7	Ver. 8	Ver. 9	Ver. 10
Lowest accepted price	100.07	100.08	100.09	100.10	100.11	100.12	100.13	100.14	100.15	
Bids at lowest accepted price	135.000	300.000	450.000	795.000	200.000	165.000	75.000	430.000	900.000	
Bids above lowest accepted price	3,315.000	3,015.000	2,585.000	1,770.000	1,570.000	1,405.000	1,330.000	900.000	0.000	
Allotment of price bids in total	3,450.000	3,315.000	3,015.000	2,565.000	1,770.000	1,570.000	1,405.000	1,330.000	900.000	
Non-competitive bids	3,520.000	3,520.000	3,520.000	3,520.000	3,520.000	3,520.000	3,520.000	3,520.000	3,520.000	
Total allotment	6,970.000	6,835.000	6,535.000	6,085.000	5,290.000	5,090.000	4,925.000	4,850.000	4,420.000	
Amount set aside for secondary market operations	1,030.000	1,195.000	1,465.000	1,915.000	2,710.000	2,910.000	3,075.000	3,150.000	3,500.000	
Total amount	8,000.000	8,000.000	8,000.000	8,000.000	8,000.000	8,000.000	8,000.000	8,000.000	8,000.000	

	Delete	Delete	Delete	Mark	---- Versions of allotment rates ----			
Lowest accepted price				100.07	100.07	100.07		
Bids at lowest accepted price				135.000	135.000	135.000		
Bids above lowest accepted price				3,315.000	3,315.000	3,315.000		
Allotment rate of marginal bids				100.00	100.00	100.00		<input type="button" value="calculate"/>
Allotment of bids at the marginal price				135.000	135.000	135.000		
Allotment of price bids in total				3,450.000	3,450.000	3,450.000		
Non-competitive bids				3,520.000	3,520.000	3,520.000		
Allotment rate of non-competitive bids				90.00	95.00	100.00		<input type="button" value="calculate"/>
Partial allotment of non-competitive bids				3,168.000	3,344.000	3,520.000		
Total allotment				6,618.000	6,794.000	6,970.000		
Amount set aside for secondary market operations				1,382.000	1,296.000	1,030.000		
Total amount				8,000.000	8,000.000	8,000.000		
	<input type="button" value="choose"/>							

5 Bund Bidding System (BBS)

5.6 View on the system: Auction result

Display allotment

Auction: DE0001135291 - Federal bond
Auction-ID: X20080031
Securities designation: 3.50 % Federal bond issue of 2005 (2016)
Auction date: 03/11/2006 Value date: 05/11/2006

Your allotment

Total amount: 490.000 EUR mn Average price: 100.09 %

Allotment in EUR mn	Price in %	Bid in EUR mn	Price in %
90.000	100.12	100	non-competitive
100.000	100.10	100	100.10
150.000	100.09	150	100.09
150.000	100.08	150	100.08
not considered		100	100.05
not considered		100	100.04

Global allotment

Bids: 8,095.000 EUR mn
of which Price bids: 4,575.000 EUR mn
Non-competitive bids: 3,520.000 EUR mn
Allotment 6,618.000 EUR mn
Lowest accepted price: 100.07 % Allotment rate of bids at lowest accepted price: 100.00 %
weighted average price: 100.12 % Allotment rate of non-competitive bids: 90.00 %
weighted average yield: 3.48 % Cover ratio: 1.2
Amount set aside for secondary market operations: 1,382.000 EUR mn
Issue volume: 8,000.000 EUR mn

Print

5 Bund Bidding System (BBS)

5.6 View on the system: Analysis (in-house)

Analysis of auctions allotted

Auction in period: until

Auction:

  Bidding survey:

  List of bidders

  Decision list

  Auction result

  Accumulated allotment per bidder total Auction group foreign central banks

  Detailed allotment per bidder total Auction group foreign central banks

  Data of invitation to bid

  Global allotment

  Auction analysis over a specific period Date of: until
MFI-Number:

6 Annex

Useful links:

www.bundesbank.de

www.deutsche-finanzagentur.de

www.bundesfinanzministerium.de



The Role of Central Banks in Establishing Primary Markets

Andrew M. Motsomi
Deputy Governor
Bank of Botswana

March 9, 2018



PRESENTATION OUTLINE

- **Introduction**
- **Background**
- **Monetary Policy Operations**
- **Domestic Bond Issuance Programme**



INTRODUCTION

- The Bank of Botswana has established primary markets securities in two key areas:
 - (a) market-based monetary policy operations; and
 - (b) domestic capital market development .
- An overarching theme is the challenge of market development in the context of an economy where the Government has no immediate borrowing needs.



BACKGROUND

- Bank of Botswana moved from direct to market-based monetary operations.
- Government had run an uninterrupted sequence of fiscal surpluses, eliminating any need to borrow.
- There was complete absence of short-term government debt (T-bills).
- Government should more proactively prepare for the time when access to capital markets for debt finance might be needed.



MONETARY POLICY OPERATIONS

- Bank of Botswana Certificates (BoBCs) were introduced in 1991 in the absence of T-bills as the basis OMOs.
- BoBCs can also be used as collateral for accessing the overnight Credit Facility.
- BoBCs comprise the bulk (approximately 90 percent) of money market instruments.
- BoBCs were necessitated by conditions of chronic excess liquidity, meaning that the primary focus of monetary operations was liquidity absorption.



MONETARY POLICY OPERATIONS CONT....

- BoBCs were initially issued with a range of maturities of up to one year.
- Today, with less excess liquidity and a sharper focus on the front of the yield curve, only 14- and 91-day papers are issued.
- access to BoBCs has been increasingly restricted, given their role as a monetary policy instrument.
- At the end of 2010, total BoBCs were equivalent to 20 percent of GDP.



MONETARY POLICY OPERATIONS CONT....

- These restrictions came in two phases:
 - a) In 2009, access to BoBCs was limited to commercial banks only.
 - b) In 2011, to encourage more productive bank lending, the Bank imposed a cap on BoBCs issuance.
 - growth in bank lending accelerated sharply to the extent that some banks experienced liquidity shortages;
 - predictably, the limited supply caused money market rates to fall sharply, increasingly misaligned with the monetary policy stance.
 - To address this distortion, the cap was relaxed in late 2016, and money market rates have subsequently normalised.



Domestic Bond Issuance Programme

- In 2001, Botswana was awarded the highest investment grade sovereign credit rating in Africa.
- In 2008, a P5 billion Government issuance programme was approved by Parliament, subsequently extended to P15 billion (approx. USD1.5 billion).
- Total issuance stands at P10.2 billion or approximately 6 percent of GDP.
- The central bank acts as government's agent for the bond issuance programme.



Domestic Bond Issuance Programme CONT...

- However, Government's appetite for debt has reduced as public finances have improved.
- Currently bonds are auctioned on a single price basis, adding to the interest costs incurred by Government, and possibly contributing to the reluctance to borrow.
- Limited primary issues have contributed to the lack of liquidity in the secondary market.
- Demand is also uneven across the maturity spectrum with banks preferring the shorter-dated bonds for liquidity management, and pension funds focussing on the longer maturities.



Domestic Bond Issuance Programme CONT...

- Demand is now more even following the decision in 2017 to remove the ceiling of six months on outstanding maturity.
- A further concern is the adequacy of the system of Primary Dealers (PDs) that is used to market the bonds.
- There is limited foreign participation in the domestic bond market.
- The Bank is in the early stages of a project to introduce retail bonds to further diversify revenue sources and support financial inclusion.



I THANK YOU FOR YOUR ATTENTION



South African Reserve Bank

Principles for developing local currency bond markets

**Presenter: Leon Myburgh
Head: Financial Markets Department**

March 2018

Overview

- 7 pillars for developing Local Currency Bond Markets
 - Macro economic environment
 - Money market
 - Primary market
 - Investor base
 - Secondary markets
 - Custody and Settlements
 - Debt market regulation
- Essential building blocks versus facilitators for efficiency
- A quick overview of the South African experience



What is a well-developed LCBM?

- The UK's Fair and Effective Markets Review (2015) defined an effective market as follows:

“Effective FICC markets are those which also: (i) allow end-users to undertake investment, funding, risk transfer and other transactions in a predictable way; (ii) are underpinned by robust trading and post-trade infrastructures enabling participants to source available liquidity; (iii) enable market participants to form, discover and trade at competitive prices; and (iv) ensure proper allocation of capital and risk.”

- They also defined fair markets, but this will not be covered here



7 pillars of market development

- The World Bank (2007) lists six pillars*
 - Money market
 - Primary market
 - Investor base
 - Secondary markets
 - Custody and Settlements
 - Debt market regulation
- ...but in addition
 - Macroeconomic environment

* The following slides draw heavily on the World Bank's "Developing the Domestic Government Debt Market: From Diagnostics to Reform Implementation"



Money market development

- An efficient money market is a prerequisite for a well developed bond market
- Three conditions for developed money markets:
 - Monetary policy plays a key role and must use transparent market-based implementation methods instead of direct methods (e.g. reserve requirements, credit ceilings, controlled interest rates)
 - Adequate government management systems that provide reliable estimates of future government cash flows and forecasts of aggregate bank liquidity
 - Banks and other financial institutions with incentives to develop efficient liquidity and risk management services



Money market development (continued)

- Other factors to consider:
 - Clear market conventions (pricing formulas, information, transparency, documentation, etc)
 - Strong and well-regulated banks support interbank lending
 - Robust legal/regulatory structure to support repo markets
 - Credible interest rate benchmarks



Primary market principles

- Clear, transparent, and effective debt and cash management strategies by the government
- Progressive phases of issuance methodology:
 - Public subscriptions and retail distribution networks
 - Wholesale market-based mechanisms (e.g. auctions)
 - Tapping existing issues, buybacks and switches
- Multi-price auctions are suitable in less developed markets to encourage participation while single-price auctions are appropriate in more advanced markets
- Varied models for access to auctions
- Transparent process with timely published results
- Coordination between central bank and government on the instruments used for monetary policy and funding



Investor base features

- A well-functioning bond market requires different types of investors to ensure liquid secondary markets:
 - Commercial banks: Typically want short-dated assets but can also have demand for long-dated assets if there is a well-developed repo market. The longer the maturity, the greater the need for good risk management
 - Non-financial corporates tend to place funds in short term instruments
 - Retail can have strong demand for inflation-protected assets



Investor base features (continued)

- Contractual savers (pension funds, life insurance, ect) have natural demand for long-dated debt. This market should: 1) not be treated as a captive source of funding through prescribed assets, 2) constitute of public and private sector participation which is not dominated by small players, 3) be mature in their development (rapid growth leads to buy-and-hold strategies), and 4) have adopt sophisticated asset allocation strategies and professional asset management practices
- Mutual funds behavior sits between retail investors and long-term savers
- Foreign investors



Efficient secondary markets

- Requires diversified participants
- Benefits of primary dealership is greater when there are many investors
- Large benchmark standardized bond issues
- Permissible transactions should include spot, repo, forward, short-selling, and securities lending. It could also include switches, strips, futures and options.
- Standardised conventions for pricing, trading units, settlement, etc
- It can be a quote driven market or an order driven market or a hybrid. Government bonds tend to be quote driven



Efficient secondary markets (continued)

- Obligatory trading via exchanges can introduce inefficiencies
- Transparency in pre-trade price discovery (though there is a trade-off between transparency and liquidity at times) and post trade
- There must be adequate prudential, trading, and conduct regulation of market participants
- Interdealer brokers add transparency while retaining anonymity of dealers



Secure custody and settlement

- Efficient custody and settlement critical due to large transaction volumes
- Bond and money markets are very sensitive to cost structure
- Delivery-versus-payment an essential component to eliminate principle risk
- Pre-settlement risk is avoided through speedy confirmation of trades
- Rolling settlement cycles reduce time to settlement
- Securities lending and repo markets mitigate risk of settlement failure



Secure custody and settlement

- Settlement risk is reduced through Central Securities Depositories which allow for the dematerialization of script. They also support the introduction of DvP.
- Operational risks must be minimized through efficient controls, contingency planning, etc



Debt market regulation

- Must achieve fair, efficient and transparent markets by discouraging manipulation, unfair trading practices, and equitable access
- Must reduce systemic risk through adequate capital requirements and effective internal control systems
- Investor protection
- Clear and well regulated disclosure requirements that adhere to global standards
- Appropriate tax treatment
- Clear and fair bankruptcy legislation
- Legal/regulatory prescriptions should not create captive investors as this will reduce liquidity



Macroeconomic environment

- Aldegan et al found amongst others in their empirical study of bond market development in Sub-Saharan Africa that the following matter for bond market development:
 - The size of the economy
 - Per capita GDP
 - Perceptions of corruption
 - Efficiency and reliability of regulation
 - Stability and level of interest rates
 - Volatility of the exchange rate
 - Savings is a key determinant



Defining priorities

- Eichengreen (2008) introduces the concept of differentiating between reforms that do not have 'side effects' and those that do
- He proposes prioritizing those that do not have side-effects and recommends implementing them independently
- Those with side effects must be implemented as part of a carefully sequenced reform agenda
- A complementary process is to identify the reforms that are 'essential building blocks' and those that act as facilitators of efficiency



Essential building blocks within the 7 pillars

- Money markets
 - Central banks use market based open-market transactions and should not destabilise markets
 - Good cash management by government
 - Clear market conventions
 - Well-developed repo market
 - Well regulated banking sector
- Primary markets
 - Transparent and predictable issuance process
 - Well defined debt management strategy
 - Coordination on use of instruments between central bank and government



Essential building blocks within the 7 pillars (cont.)

- Investor base
 - Multiple market sectors with competition within each sector to ensure varied motivation for participation in the primary and secondary markets
- Secondary markets
 - Benchmark issues across the yield curve
 - Ability to trade spot, forward, short sell, and repo
 - Standardised conventions
 - Transparency in pre- and post-trade price discovery
 - Adequate regulation of market participants and behaviour



Essential building blocks within the 7 pillars (cont.)

- Custody and settlement
 - Delivery versus payment
 - Low cost structures
 - Central Securities Depository
- Debt market regulation
 - Disclosure requirements
 - Clear conduct regulations
 - Fair and transparent bankruptcy legislation
- Macroeconomic environment
 - Stable, transparent and prudent policies
 - Small economies should consider a regional approach to market development



Coordinated national effort

- Developing capital markets requires a coordinated approach that involves many different role players
- Domestic circumstances will dictate the key priorities and the sequence of events
- Or as the World Bank (2007) says, there is a:

“...need for tailoring policy advice and reform programs to the specific requirements of each country and to the level of development of each country’s financial system. “



The South African experience 1970/80s — Unstructured market

- Issuance in domestic bond market was dominated by government and semi-government debt
- NT issued bonds at par, periodically when needed, on an open-ended tap basis
- No benchmark bonds or market rates existed, very little transparency
- SARB initiated establishment of the Bond Market Association (BMA) – a self-regulatory organisation



The South African experience 1989/early 90s — More structure

- NT created benchmark bonds across the yield curve in order to improve liquidity through buy backs and consolidation of smaller issues
- Transparency improved with information about the borrowing requirement, maturity structures & new instruments made available
- Establishment of NT Tax and Loan accounts
- SARB acting as market-maker – improving the liquidity and marketability of government bonds
- SARB a leading participant in the bond derivatives market



The South African experience

Mid/late 90s – formalising the bond market

- BMA was granted an exchange licence in 1996 and transformed into the Bond Exchange of South Africa (BESA), which was taken over by JSE in 2009
- BESA adopted the G30 recommendations on clearing and settlement and established the Universal Exchange Corporation (UNEXcor) Sept 1994
- Start of immobilisation and dematerialisation of all equity, bonds and most money market instruments
- Settlement reduced from every 2nd Thursday to T + 3
- April 1998, 12 primary dealers appointed (9 currently). SARB's role reduced to conducting auctions on behalf of the NT



The South African experience

Mid/late 90s – formalising the bond market

- BESA and the Actuarial Society of South Africa (ASSA) launched 3 total return indices, i.e Govi, Othi and Albi
- Inflation-linked bonds: introduced in 2001 and by 2005, there were 4 ILBs in issuance – total outstanding amounted to 9% of total local currency government debt and estimated at 22.8% for 2017/18
- By 2006, a range of indices (not only bond) were released to provide the market with a tool to measure the performance of the credit market, and its portfolio construction



The South African experience

Money market initiatives

- Structured operational coordination between SARB/NT via SCBFM/FMS since 2007 and since 2015, regular cash-coordination meetings between FMD and NT
- SAMOS introduced in March 1998—RTGS and DvP
- Since introduction of repo-based refinancing system in March 1998, regular refinements to enhance money market (including interbank)
- Before March 1998, SARB conducted repos/carries for liquidity management and bond funding
- Currently, there is a drive to initiate significant reform of reference rates and broader money market transparency



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Market Management

- 
1. Continuous Manipulation of prices via purchase and sell orders
 2. Smoothed prices, prevention of accidental prices
 3. Provision with liquidity to get fair and orderly prices

Disadvantages

Costs (i.e. transaction costs, fees)

Risk for the trader to go long or short

Danger of misuse by market participants

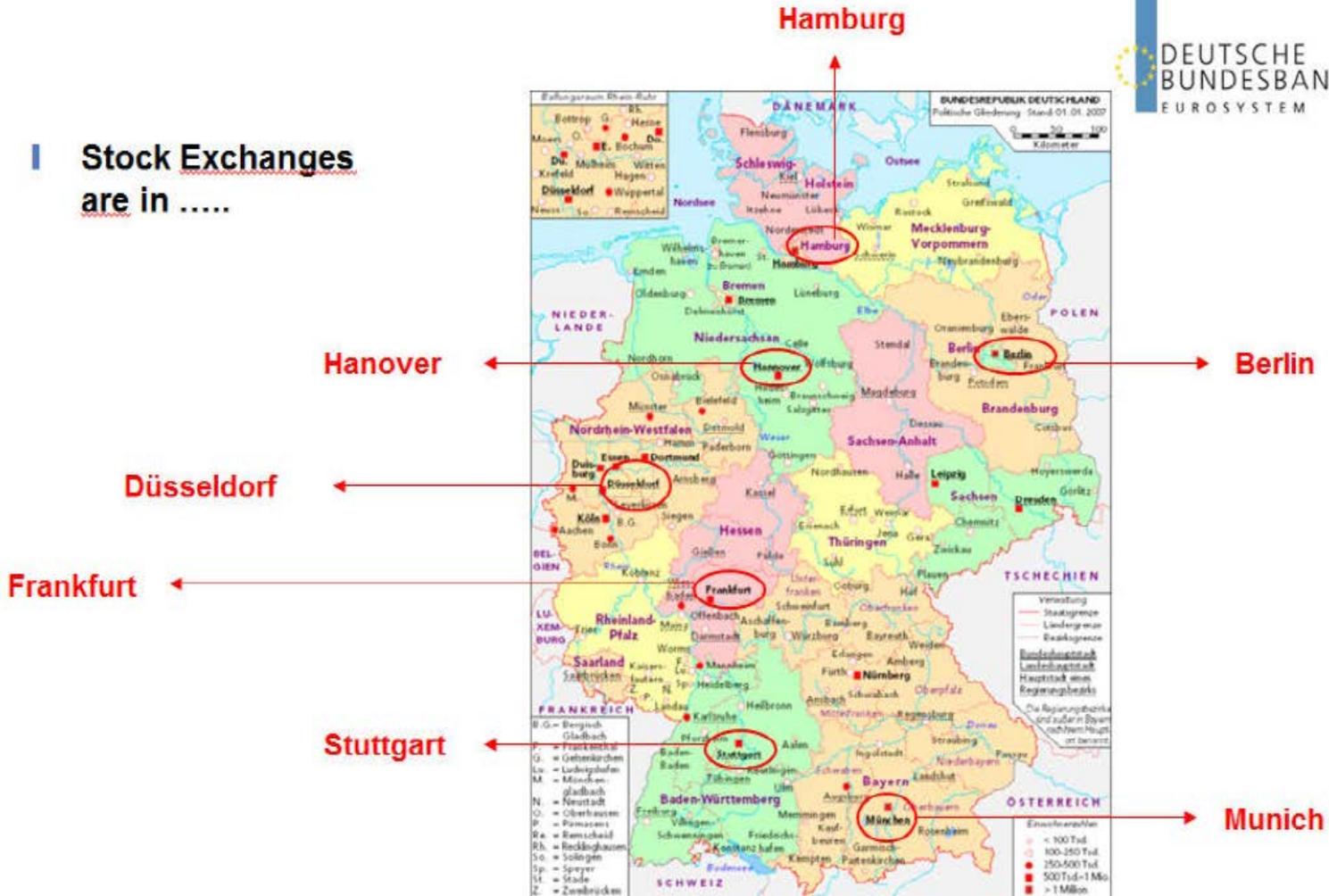
Self regulation of the market might be hindered

Trade off between liquidity and yield

Price management operations today



Stock Exchanges are in



How to find a „Fair Price“?

1. Perfect Market → market prices
2. Illiquid markets
 1. Comparison with another (liquid) bond
 2. Calculation via yield curve
 3. Calculation via money market or future prices
 4. Consulting prices in trading systems
 5. Consulting prices in information systems
 6. Calculation via asset swap history
 7. Comparison with another more liquid bond of another asset class

Who benefits from Price Management Operations?

- **Private investors**
 - Liquid markets
 - Constantly fair prices
- **Institutional investors**
 - Liquid markets for high amounts
 - Constantly fair prices also via inter-bank- and electronic dealing
 - Efficient primary and secondary markets
- **Issuer (Federal Ministry of Finance)**
 - Efficient primary and secondary markets for high volume issues
 - Lower yield than other European Euro bonds
 - Deutsche Mark/Euro was/is reserve currency
 - German government bonds are benchmark in Europe

65 years of successful Price Management Operations

1. High liquidity for German Government Bonds on all dealing platforms
 2. Fair and similar prices through all markets
 3. Prominent position for German Government Bonds among other European bonds
 4. Benefits for issuer as well as for investors
- ➔ **Price Management Operations have been a success and should therefore continue**

Thank you for your attention.

LOCAL CURRENCY BOND MARKETS

Crisis prevention : why local bond markets are more resilient?



BCEAO

BANQUE CENTRALE DES ÉTATS
DE L'AFRIQUE DE L'OUEST

OVERVIEW

- 1. INSTITUTIONAL FRAMEWORK OF WAMU**
- 2. WHY WAMU LOCAL CURRENCY BOND MARKETS ARE MORE RESILIENT TO SHOCKS?**
- 3. RECENTS TRENDS**

1. INSTITUTIONAL FRAMEWORK OF WAMU 1/3

□ **West African Monetary Union (WAMU) was created in 1962 with 8 countries :**

↳ Benin,

↳ Burkina Faso,

↳ Côte d'Ivoire,

↳ Guinea-Bissau,

↳ Mali,

↳ Niger,

↳ Senegal

↳ and Togo ;

1. INSTITUTIONAL FRAMEWORK OF WAMU 2/3

- **The Union is characterized by a monetary cooperation mechanisms between France and the CFA Franc Member States based on the four fundamental principles below :**
 1. An unlimited convertibility granted by the French Treasury ;
 2. The CFA franc is pegged to euro, current rate 1 €= 655,957 CFA franc ;
 3. The free transferability, current transactions or capital movements within the monetary union and within the Franc Zone which include France ;
 4. And the centralization of the reserves of change in the a common pool managed by the Central Bank of West African States (BCEAO) and at least 50% of the foreign reserve are invested in an overnight deposit with the French Treasury.

1. INSTITUTIONAL FRAMEWORK OF WAMU 3/3

- ❑ The Union is also based on the principle of solidarity and equality of the Member States.
- ❑ In 1994, the Union was strengthened by an economic integration with the creating the West African Economic and Monetary Union (WAEMU) by the same member states.
- ❑ The WAMU bond market was launched in 1998 to replace the direct refinancing provided by the central bank (BCEAO) to member states in order to promote a more transparent, efficient and harmonized market-based funding framework and allow private companies to raise public funds.

2. WHY WAMU LOCAL CURRENCY BOND MARKETS ARE MORE RESILIENT TO SHOCKS? 1/3

- ❑ **WAMU securities market have grown sharply from XOF 1 256 billion (€1,9 billion euro) in 2009 to XOF 9 462 billion (€14,43 billion) in 2017 with an average yearly increase of 30% driven by the quoted factors below :**
 - ↪ A market discipline backed on the economic and monetary union;
 - ↪ The credibility of the local currency CFA franc ;
 - ↪ Market driven by local actors mainly financial institutions ;
 - ↪ An independent central bank accepting the government securities as collateral in its refinancing operations ;
 - ↪ An harmonized banking and financial regulations (common Central bank, unique banking supervisory entity, Market regulation authority and unique Insurance corporation supervisory authority) : financial stability strengthening with Basel 2 & 3 rules implementation, macro-prudential framework and financial stability fund ;

2. WHY WAMU LOCAL CURRENCY BOND MARKETS ARE MORE RESILIENT TO SHOCKS? 2/3

- ❑ **WAMU securities market have grown sharply from XOF 1 256 billion (€1,9 billion euro) in 2009 to XOF 9 462 billion (€14,43 billion) in 2017 with an average yearly increase of 30% driven by the quoted factors below :**
 - ↪ A strong macro-economic background : low inflation less than 2% yoy, Nominal GDP of 58 199 bl XOF (898 billion euros), growth rate : 6.7% in 2017 and more than 6% during the last 6 years and debt ratio Debt/GDP of 46%, 112 millions inhabitants and political stability ;
 - ↪ Countries could get money to repay their local currency debt through direct taxes on raw materials (cocoa, gold, cashew, fish, oil) or through indirect taxes on consumer ;
 - ↪ A real-time gross settlement system (RTGS) denominated "STAR-UEMOA" managed by the central bank (BCEAO) enabling cross regional bank transfers ;

2. WHY WAMU LOCAL CURRENCY BOND MARKETS ARE MORE RESILIENT TO SHOCKS? 3/3

- ❑ **WAMU securities market have grown sharply from XOF 1 256 billion (€1,9 billion euro) in 2009 to XOF 9 462 billion (€14,43 billion) in 2017 with an average yearly increase of 30% driven by the quoted factors below :**
 - ↳ A securities settlement system known as "SAGETIL-UMOA" used for central bank's money market operations as well as transactions on Bond trading, Repo and interbank deposit ;
 - ↳ A financial integration allowing cross regional transfers and funding which reduced transaction costs ;
 - ↳ Broadening of the bond market by the issuance of islamic bonds “sukuk” by three member states of the Union (Cote d'Ivoire, Senegal et Togo);
 - ↳ A relatively young market with unsophisticated instruments (T-bill, bond).

3. RECENT TREND 1/1

❑ RECENT TREND MANAGED BY A REGIONAL DEBT ISSUING AGENCY ON BEHALF OF Mof IN COORDINATION WITH THE CENTRAL BANK :

- ↳ **Standardization of the securities** : issuance of securities along the rate curve (vanilla bond with invested capital paid in fine), increased notional of outstanding by reopening facilities
- ↳ **Longer tenor and liquidity** : increasing securities maturities, secondary market with primary market dealers
- ↳ **Market infrastructure** : Enhanced market transparency, building a yield curve, quotation and trading platform, benchmark policy
- ↳ **Diversification** : diversified international investors and issuers, widen scope and profile of investors, reduced concentration of market of banking system



BCEAO

BANQUE CENTRALE DES ETATS
DE L'AFRIQUE DE L'OUEST



THE FINANCIAL MARKETS COMMISSION - CAMEROON (CMF)

LOCAL CURRENCY BOND MARKETS: ROLE OF CENTRAL BANKS IN THE DEVELOPMENT OF TWIN ISSUANCE PRIMARY MARKETS

JOSEPH N. BESONG, PhD
Secretary General



- ❑ A TWIN ISSUANCE MODEL FOR GOVERNMENT LCBM DEVELOPED IN CAMEROON FROM 2010 EVEN BEFORE THE G20 RECOMMENDATION.
- ❑ THE PRIMARY SYNDICATED AND AUCTION MARKETS
- ❑ THE ROLE OF THE CENTRAL BANK IN THE DEVELOPMENT OF PRIMARY MARKETS IN THE ZONE CAN BE ASSESSED WITH TWO LENSES.





LA COMMISSION DES MARCHÉS FINANCIERS (CMF)

A- Role of Central bank in the development of the syndicated LCBM: case of Cameroon

Year of government bond issuance	Amount	Success factors/Constraints
2010	200 billion XAF (400 mil dollars) @ 5.6% 5 years	None, excess liquidity in the banking sector
2011	Black out	Central bank denies refinancing
2012	Black out	Central bank denies refinancing
2013	80 billion XAF @ 5.9% 5 years	Refinancing begins
2014	150 billion XAF @ 5.5% 5 years	Refinancing continues
2015	Black out	
2016	165 billion XAF @ 5.5% 5 years	Refinancing continues
2017	Black out	Countries fail to respect a convergence criteria of non-accumulation of arrears. Central bank places 100% weight on bonds issued by these countries, limiting the capacity of banks to respect prudential ratios.



LA COMMISSION DES MARCHÉS FINANCIERS (CMF)

B- Role of the Central Bank in the development of the auction LCBM primary markets

- Volume of Treasury bill issuances 2015 – 2017 (billion XAF)

Issuers	2015	2016	2017
Cameroon	125,2	174,2	173,4
Congo	-	-	23,7
Gabon	132,0	273,9	387,2
Equatorial Guinea	15,0	60,0	78,0
CAR	16,0	19,0	23,0
Chad	142,0	269,7	160,7
Total	430,2	796,8	845,9



- Volume of 2-year Treasury note issuances 2015-2017 (billion XOF)**

Issuers	2015	2016	2017
Gabon	17,5	20,3	8,0
Chad	139,3	174,4	26,8
Total	156,8	194,7	34,8





THANK
YOU



**Local Currency Bond Markets Conference
South African Reserve Bank (SARB) Conference Centre,
Pretoria, South Africa**

Panel I

**The Role of Central Banks in establishing
Primary Markets**

Magda Ghoneim, CFA

Section Head

Money & Capital Markets Desk

Markets Division

Central Bank of Egypt

March 9th, 2018

Role of the CBE in establishing Primary Markets

Strategic Objective

As an agent for the MoF in primary market issuance, the CBE's strategic objective is to prepare the grounds and build a strong infrastructure that is viewed as indispensable for the development of the government debt market.

General Overview

- Government has been issuing debt into the open market since the 1990's.
- In 2002 a PD decree was issued by the MOF.
- Since 2009 a regular issuance calendar was put in place where MOF started to build Benchmark Bonds through frequent and regular issues and reopenings to ensure sizable amounts and a good variety of tenors on the curve.
- New products were introduced such as Zero-coupon bonds, Floating rate notes, Corridor linked deposits, Project CDs ex: Suez Canal Project, hard currency issues and more to address investor needs.
- In addition, in 2009 an automated primary auction portal system was launched linking all banks to the CBE via direct screens. Non-PD banks enter their bids directly on the portal system but under a PD's name. Results are published within a few minutes after the end of the bidding time. Government Auctions take the form of multiple prices Dutch auctions whereby CB OMO deposits are currently a mix between fixed, variable and the newly implemented corridor linked instruments.

General Overview (cont'd)

- Later this year (2018), a new outsourced Primary Auction system will replace the current one. It is being developed by market pioneers in that field using best practice to improve efficiency of the auctions.
- The new primary auction system will be part of the new mega project- sponsored by the **Mena Transition fund** led by **AFDB, EBRD** and other Financial Institutions- to create:
 1. A national Central Depository System (CSD) integrating Primary and Secondary Transaction settlement and centralizing all at the Central Bank of Egypt
 2. Primary Auction System for Government Debt and CB OMOs
 3. Collateral Management System
 4. Data Warehouse
 5. Yield Curve and ETP

Primary Dealers Decree

- A Primary Dealers' decree was issued by the MOF back in 2002 that has proven success in ensuring full coverage of MOF issuances even in turbulent times.
- **Main features:**
 - Banks and authorized bond dealers can obtain the PD license upon approval from MoF, CBE and the Financial Supervisory Authority.
 - Primary Dealers shall:
 1. **guarantee to underwrite Government Securities** issued in Primary Markets
 2. and **enhance Secondary Market trading activities** according to certain provisions and procedures.
 - A renewal of the PD license is requested yearly, may be revoked if entity is non-compliant.
 - MoF performs a quarterly assessment of the licensed PDs and creates league tables/ rankings based on qualitative and quantitative aspects.

The way forward towards a more successful primary market

1) A revised PD decree:

- As part of our continuous efforts for improvement, a new decree is being drafted in collaboration between MOF, CBE, our consultant appointment for the mega CSD project and market players. It will be based on best global practice after being customized to the local market.
- The new PD decree shall aim to:
 - i. Change the role of PDs and their relationship with the MOF by **obliging them to bring liquidity to the secondary market** and make firm executable quotations in exchange of **being rewarded via access to non-competitive bids in the primary market**.

2) Transparency:

- Existence of a medium term strategy and Sound ALM Policies of the DMO
- Existence of historical details of issuances (comprehensive database in progress)
- Better adherence to issuance calendar with improved government cash flow projections

The way forward towards a more successful primary market (cont'd)

4) **Primary Liquidity:**

- Open and liberalize the market to a wider range of participants by possibly allowing non-bank financial institutions to become PDs thereby enhancing market competitiveness and efficiency.
- Engaging less active and new investor types to subscribe in government debt

5) **Depth of issuance:**

- Regulatory changes to allow for new types of instruments to meet investor demand (Futures, Forwards, Sukuk...)
- Longer tenor of issuance (in progress)

6) **Enhancing the secondary market:**

- An ETP is viewed as indispensable as it shall be the only way for MOF and CBE to enforce quoting obligations and enhance and monitor pre-trade and post-trade transparency.
- Non-PDs may become market makers on the new ETP we are planning to host to provide firm quotations for a certain number of hours throughout the day.

African Growth and Prosperity: The Important Role for Local Currency Bond Markets

Staci Warden
Executive Director
Center for Financial Markets

Finance Matters

- **Helping companies create the appropriate capital structure for growth.**
- **Helping investors – including pensions, foundations and sovereigns – achieve a strong rate of return.**

These are crucial elements of prosperity, which drives human progress.

$$P = \sum F t_i^* (\sum H C_i + \sum S C_i + \sum R A_i)$$

$$P = \sum F t_i^* (\sum H C_i + \sum S C_i + \sum R A_i)$$

Financial Technology

Innovative processes & components including:

- Convertible bonds
- Preferred stock
- High-yield bonds
- Collateralized loans
- Collateralized bonds
- Equity-linked securities
- Securitized obligations (mortgages, credit cards, etc.)
- Derivatives

Human Capital

Productivity:

- Skills
- Education
- Training
- Experience
- Creativity
- Habits
- Values

Social Capital

- Rule of law
- Property rights
- Public health
- Universal education
- Religious freedom
- Police/fire protection
- Cultural resources
- Universal suffrage
- Protection of creditors
- Rigorous financial reporting standards
- Transparent markets
- Regulatory continuity

Real Assets

- Cash
- Receivables
- Real estate
- Factories
- Capital equipment
- Roads
- Buildings
- Infrastructure

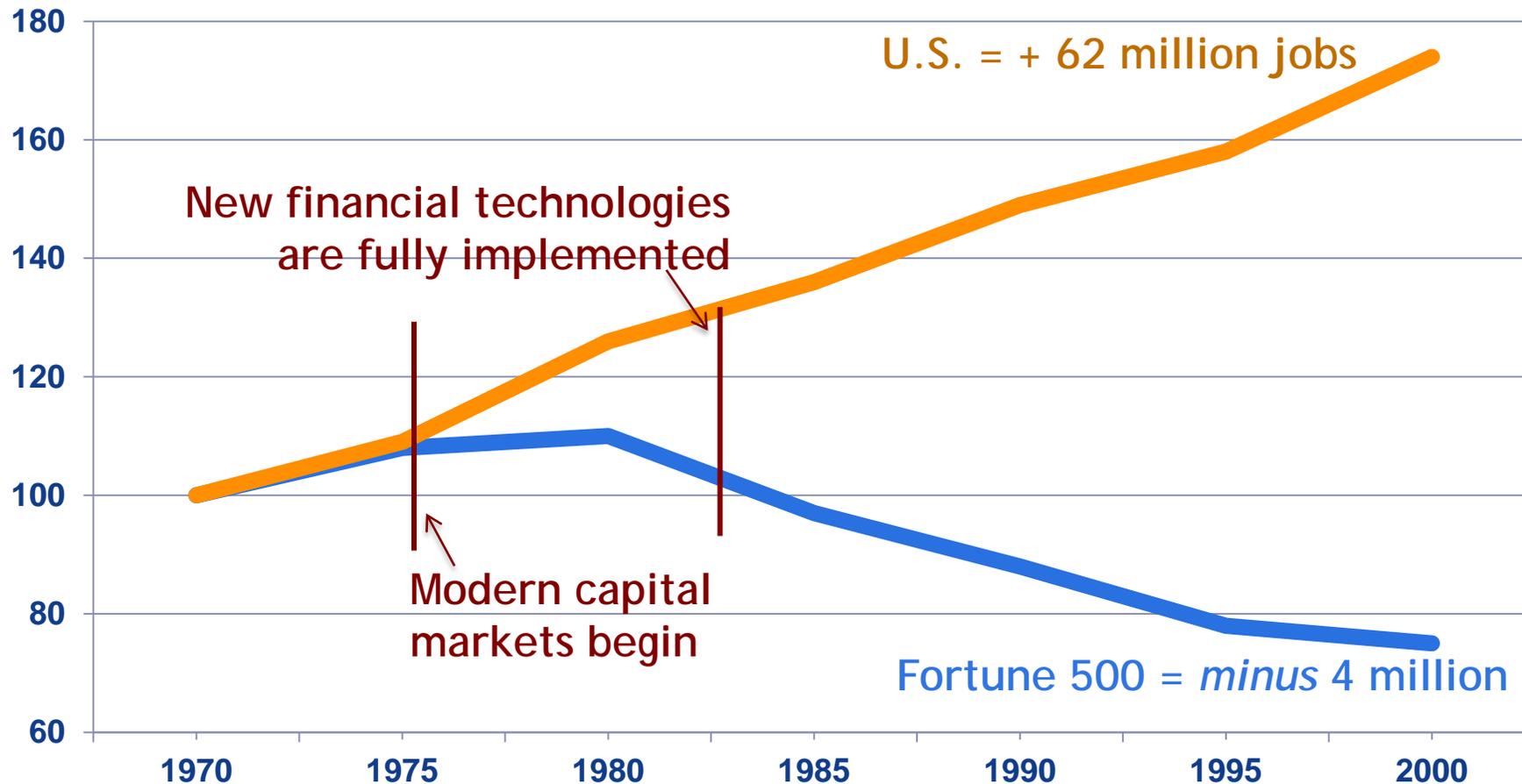
Center for Financial Markets

Class of 2017-2018



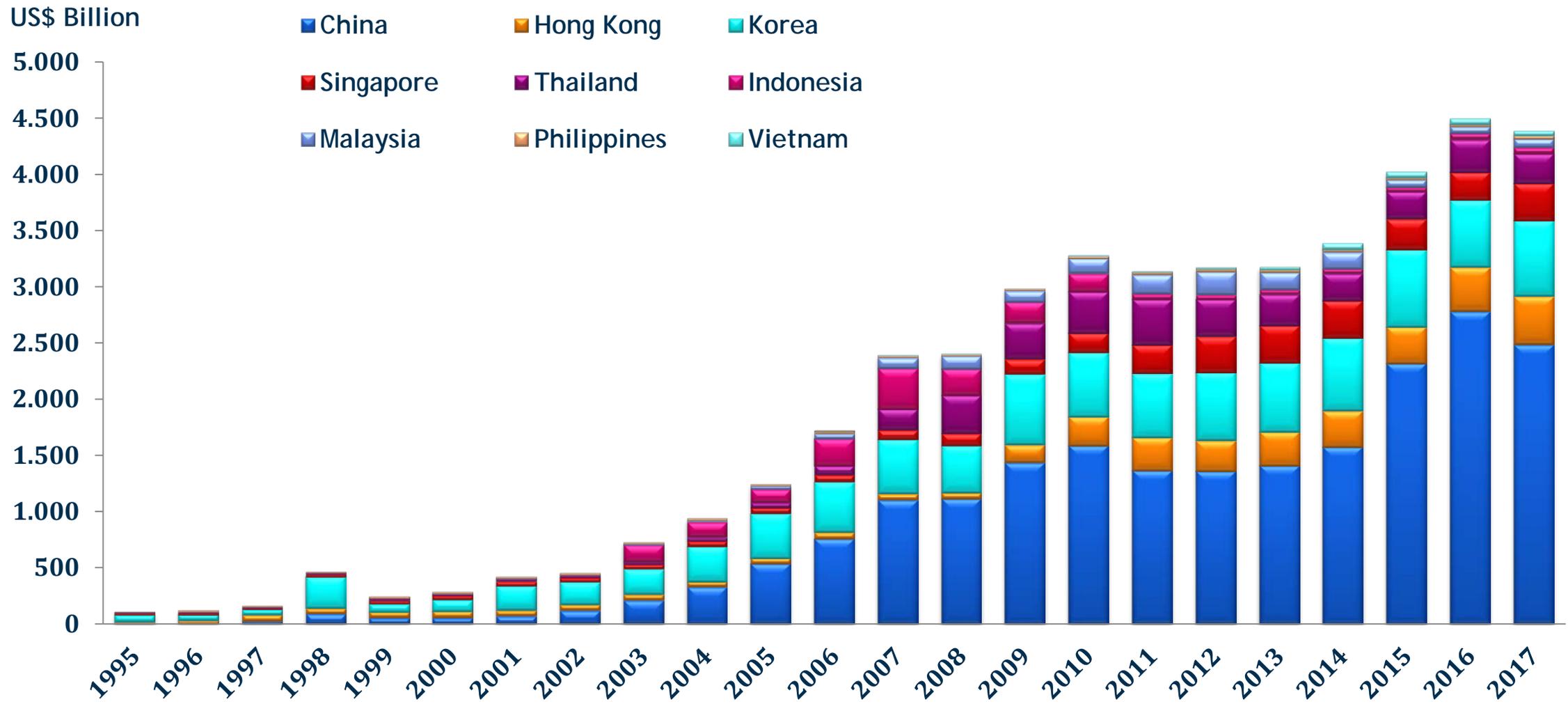
America Goes to Work

U.S. and Fortune 500 Employment



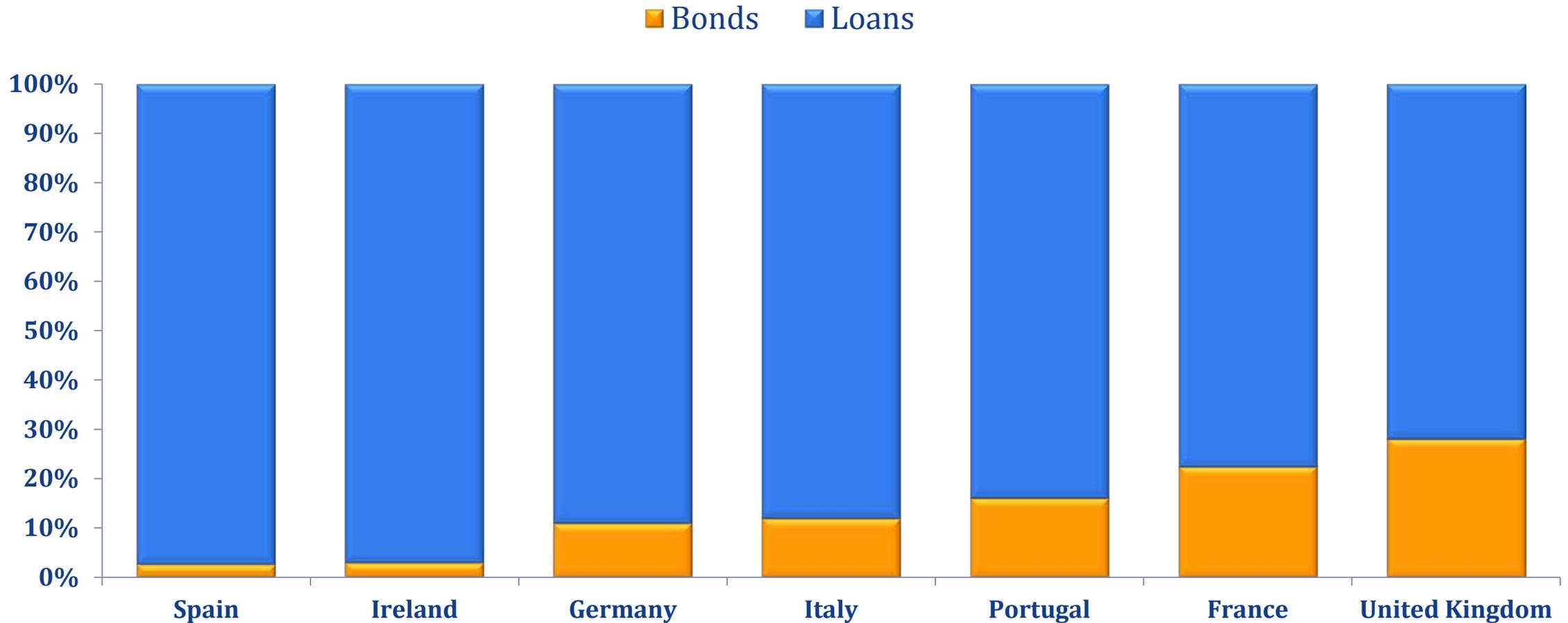
Source: Bureau of Labor Statistics, Bloomberg, Thomson Reuters.

Issuance of Local Currency Bonds, Emerging Asian Countries



European Credit Is a Bank Market

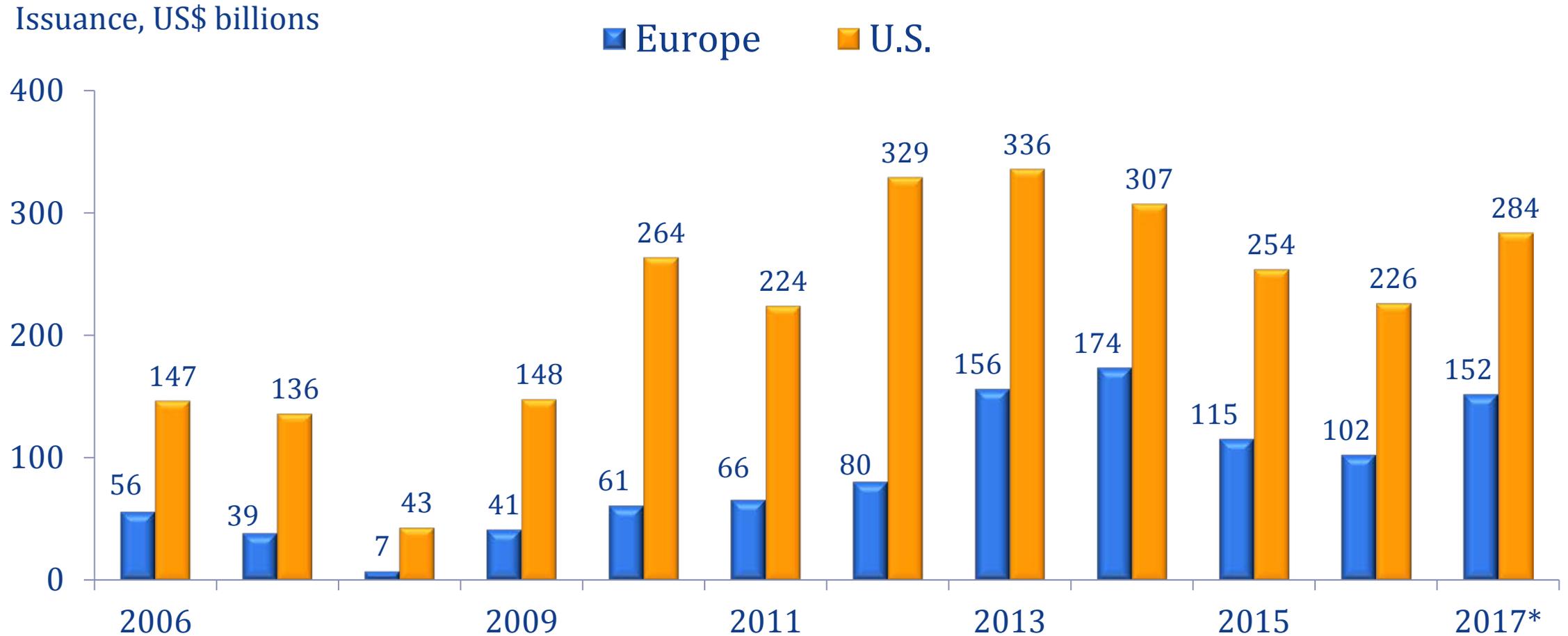
Bonds and loans as a share of total corporate debt, Q4 2016



Note: Non-consolidated loans and debt securities.

Source: ECB (7/19/2017).

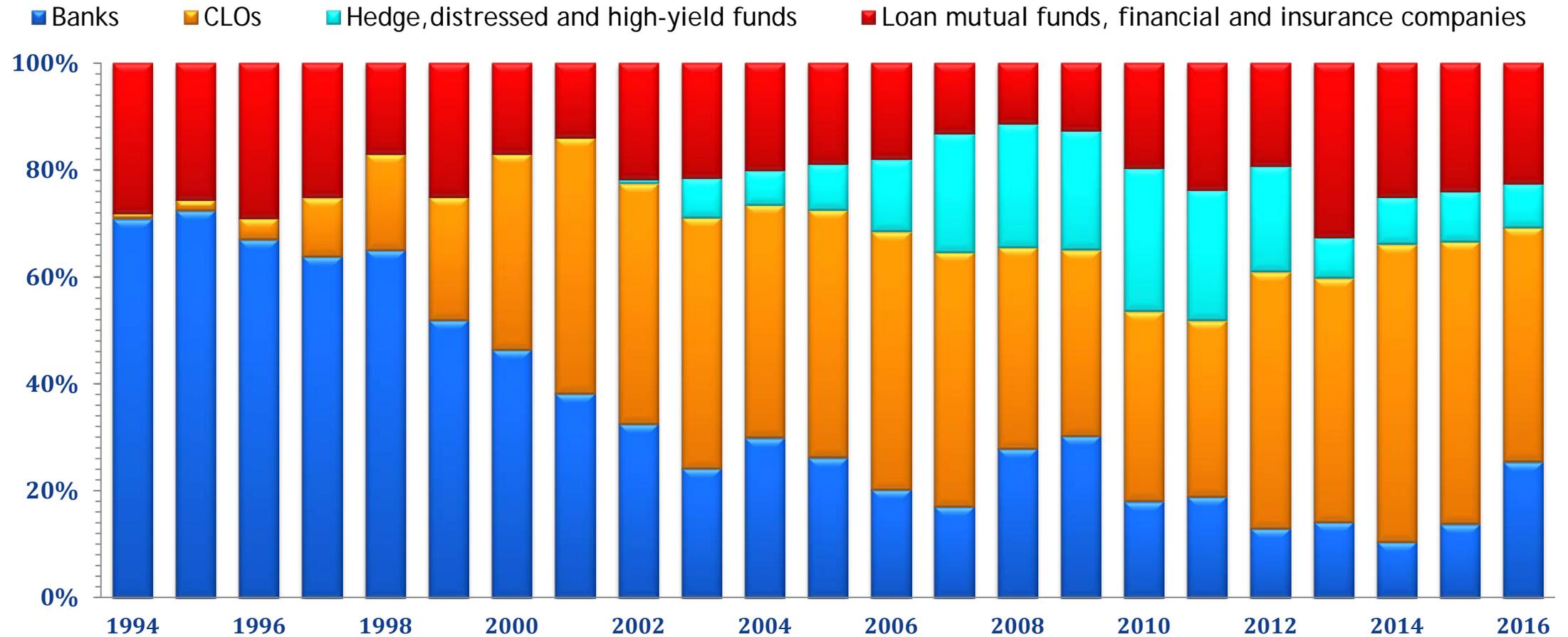
U.S. vs. Europe High Yield Debt Markets



Source: Thomson Reuters, SIFMA.

Note: * Till the end year of 2017; All European High Yield Issues; US High Yield Corporate Debt. (1/29/2018)

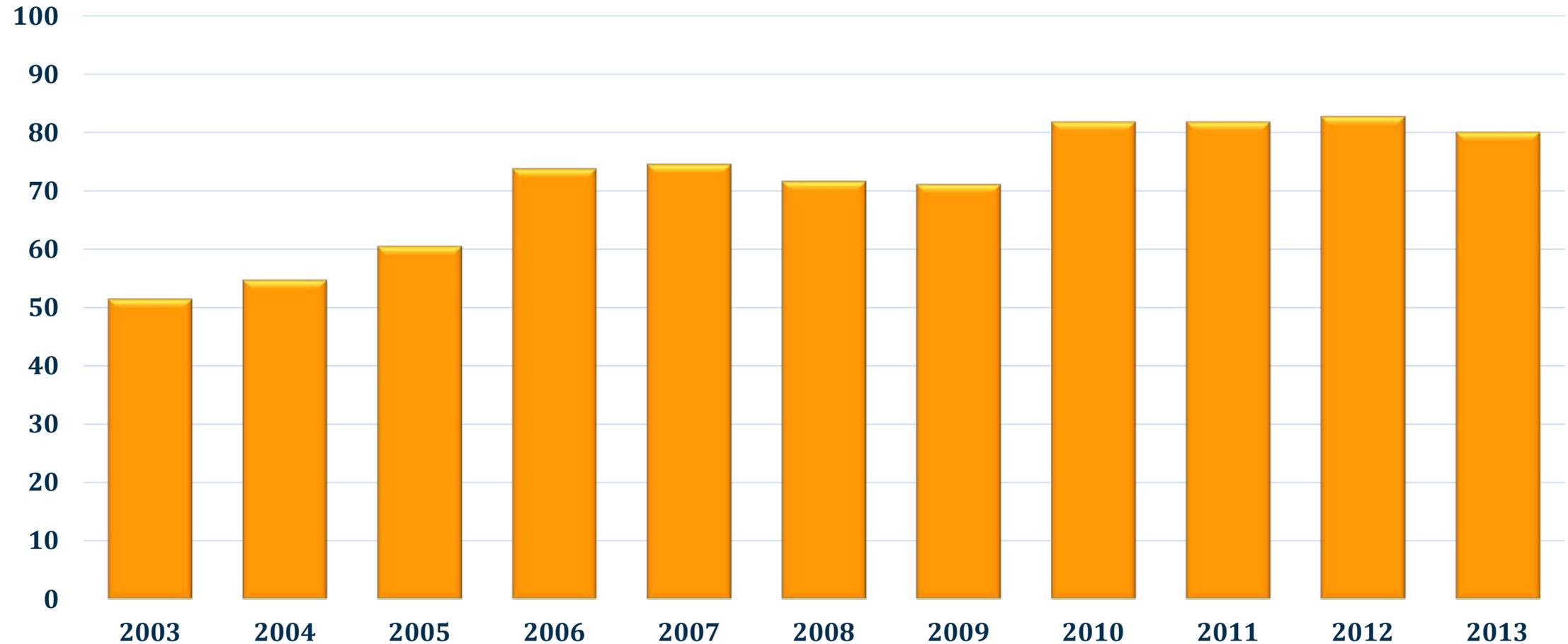
Institutional Investor Base for Non-Investment Grade Loans



Sources: S&P LCD (4/11/16).

Central Government Marketable Debt in Sub-Saharan Africa (% of Total Central Government Debt)

Percent



Source: OECD (2015), African Central Government Debt 2014: Statistical Yearbook, OECD Publishing, Paris.

Financial Technologies

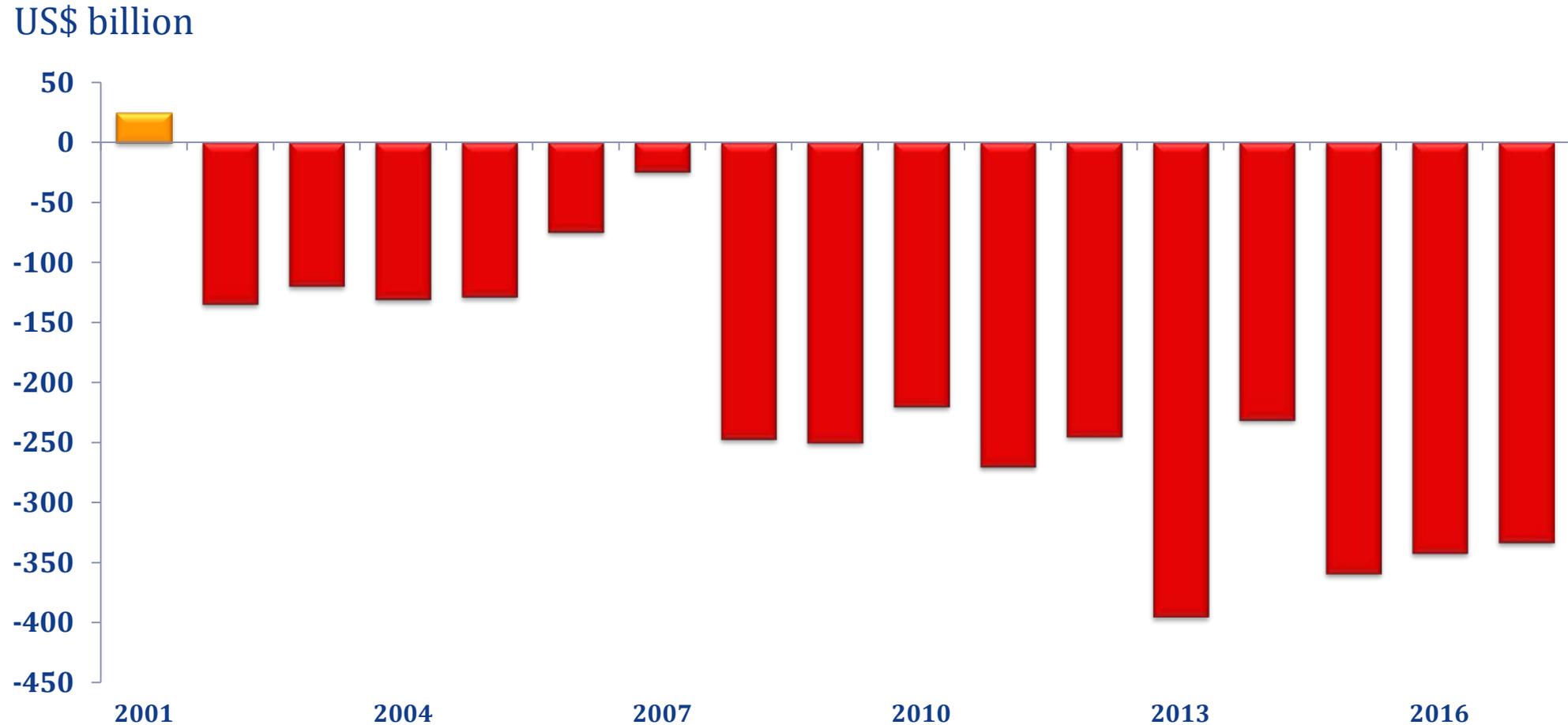
- ❖ **Inflation-indexed bonds**
- ❖ **Corporate bonds**
- ❖ **Project bonds**
- ❖ **Sub-sovereign bonds**
- ❖ **High-yield bonds**
- ❖ **Convertible bonds**
- ❖ **Collateralized loan obligations**
- ❖ **Collateralized bond obligations**
- ❖ **Securitized mortgages**
- ❖ **Securitized credit cards**

Global Liquidity - Sovereign Wealth Funds

(US\$ Billions)

1. Government Pension Fund of Norway	\$999
2. China Investment Corp.	\$900
3. Abu Dhabi Investment Authority	\$828
4. Kuwait Investment Authority	\$524
5. SAMA Foreign Holdings of Saudi Arabia	\$494
6. Hong Kong Monetary Authority	\$457
7. SAFE Investment Company of China*	\$441
8. Government of Singapore Investment Corp.	\$359
9. Qatar Investment Authority	\$320
10. National Social Security Fund (China)	\$295

Funding of the 100 Most-Underfunded S&P 500 Defined-Benefit Pension Plans



Source: Bloomberg (02/01/2017).

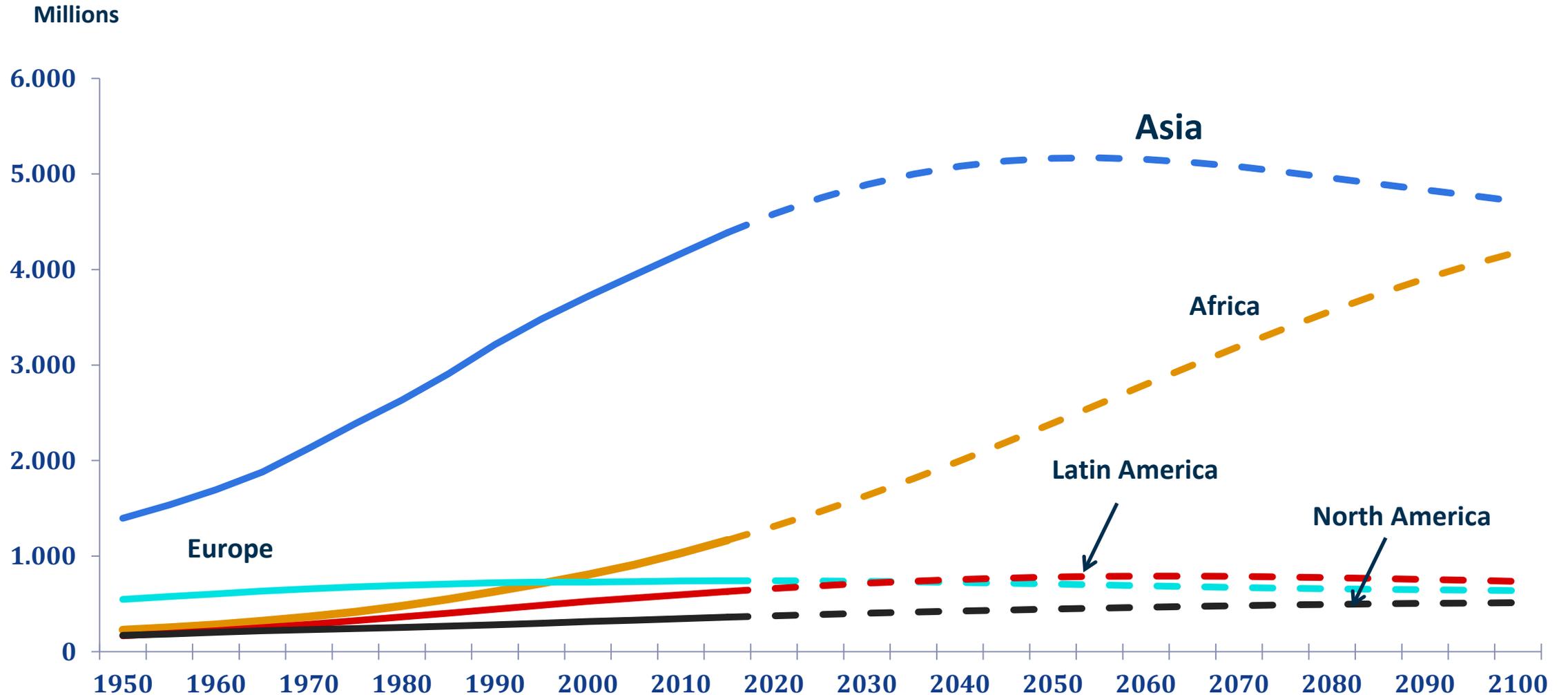
Note: 2017 data is as of latest fiscal year.

Median Age Around the World

Nigeria	19.1
Rwanda	18.6
Kenya	18.0
Zimbabwe	17.8
D.R. Congo	16.5
Uganda	15.0
ALL AFRICA	19.7

Japan	44.6
Germany	43.7
UK	40.5
Russia	38.5
US	36.9
China	35.2
ALL WORLD	30.4

21st Century Population Growth Will Be in Africa



Source: United Nations. Note: Latin America includes the Caribbean, dashed values are projected.

Trending in Africa

- **By 2030, one in five people will be African.**
- **By 2050, Africa will add 1.3 billion people, more than doubling its population.**
- **2 billion babies will be born in Africa by 2050.**
- **By 2050, more than one-third of all children under 18 will be African, versus 10% in 1950.**

