

Practical Impediments in Developing Local Currency Bond Markets and Future Reforms

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at

Joint Commonwealth Secretariat/Caribbean Association of Debt Managers'
(CARADEM) Forum 2013

Montego Bay, Jamaica, 17-18 June 2013

Outline

- Introduction
- What is the RGSM?
- Successes of the RGSM
- Impediments in developing local currency bond markets in the Eastern Caribbean Currency Union
- Development plan for the RGSM

Introduction

- In 2002 the 8 member states of the ECCU took a decision to develop their own local currency bond market - RGSM.
- This was an imperative given the environment:
 - A decline in Overseas Development Assistance (ODA);
- Challenges of
 - Low levels of economic growth;
 - The erosion of trade preferences;
 - Inadequate economic and social infrastructure;
 - Relatively high public debt;
 - Strained fiscal situation.

What is the RGSM?

- The RGSM is an arrangement aimed at integrating the markets for government securities across the ECCU.
- The auction process allows:
 - a more transparent and competitive environment for raising finance.
- A network of licensed brokers allows:
 - investors in any ECCU country and in the diaspora to purchase securities issued by any Government.
 - the reduction in transaction cost of investors
- Listing the securities on the ECSE allows:
 - A liquid market for securities through the existence of a formal secondary market
- No physical certificates (electronic records)

What is the RGSM?

- Goals of the RGSM:
 - Raise capital for Governments at least cost
 - Provide investment opportunities for residents
 - Develop Money and Capital Markets in the ECCU

Successes of the RGSM

- Utilisation of the RGSM by the Member Governments
- Relatively high level of cross border activity
- Market determined rates
- Reduction in the cost of Government short term borrowing
- Investment opportunities for residents

Chart 1: Number and Value securities issued on the RGSM

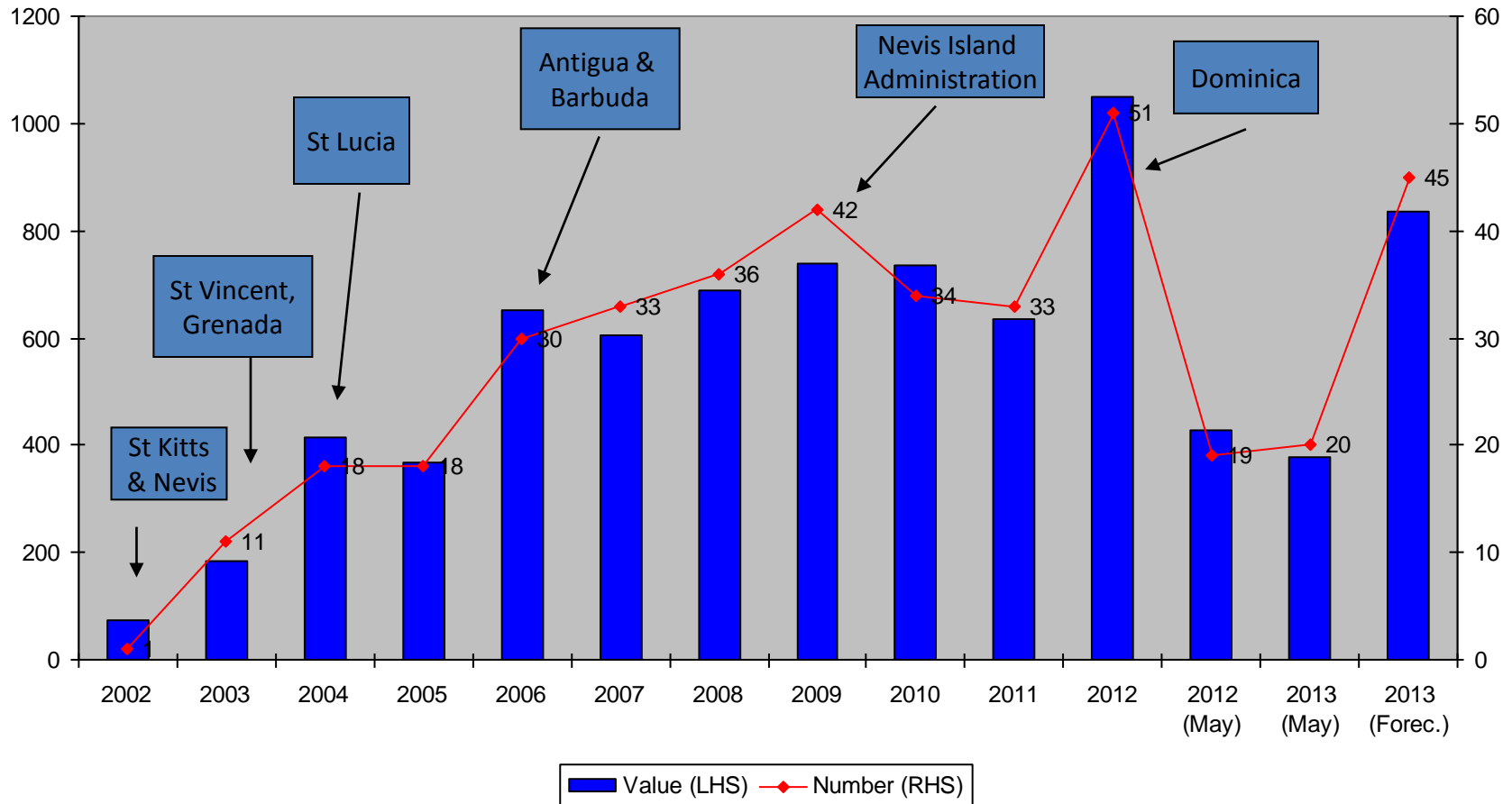


Chart 2: Treasury Bill Issuance (in US\$m)

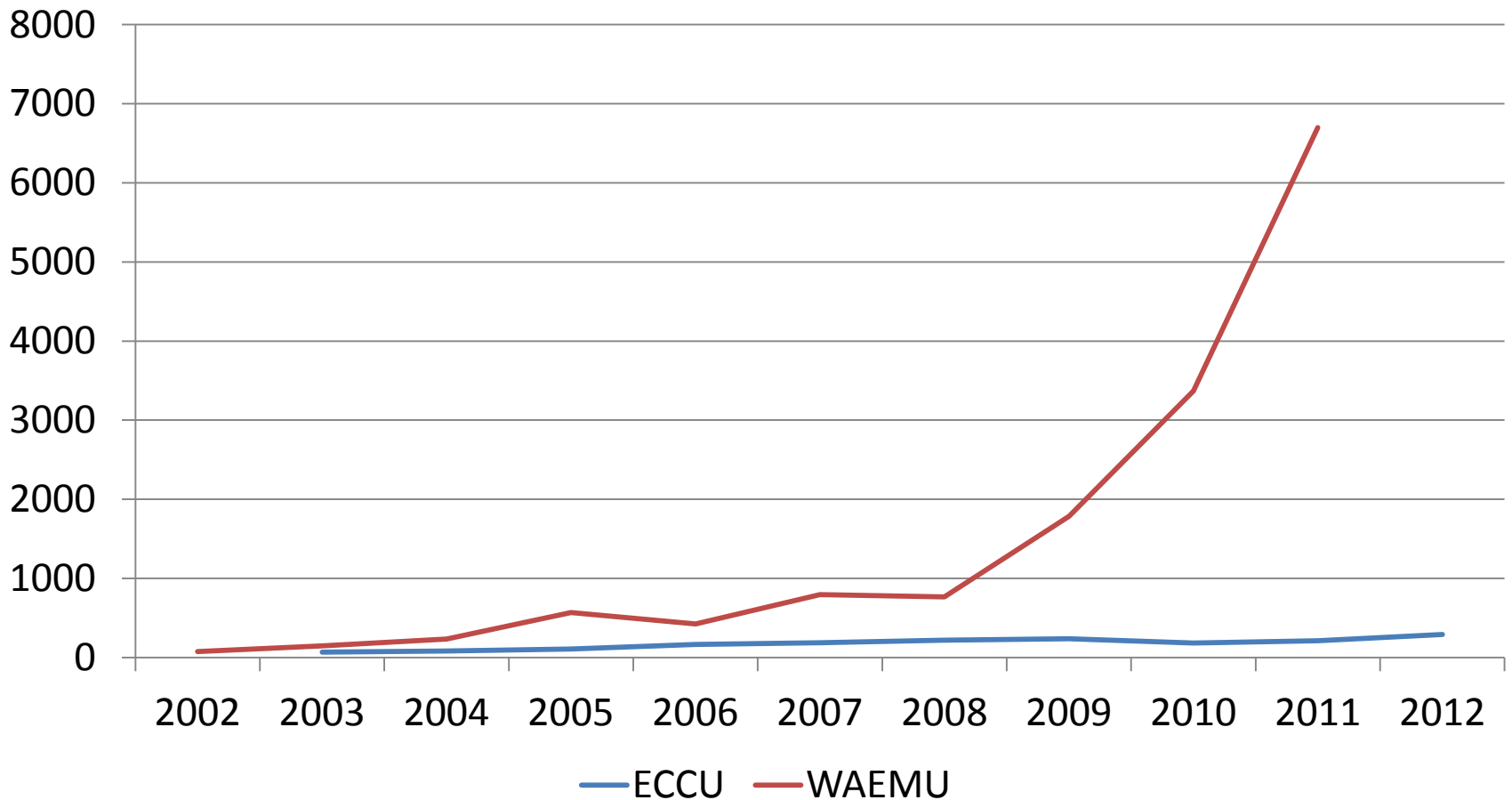
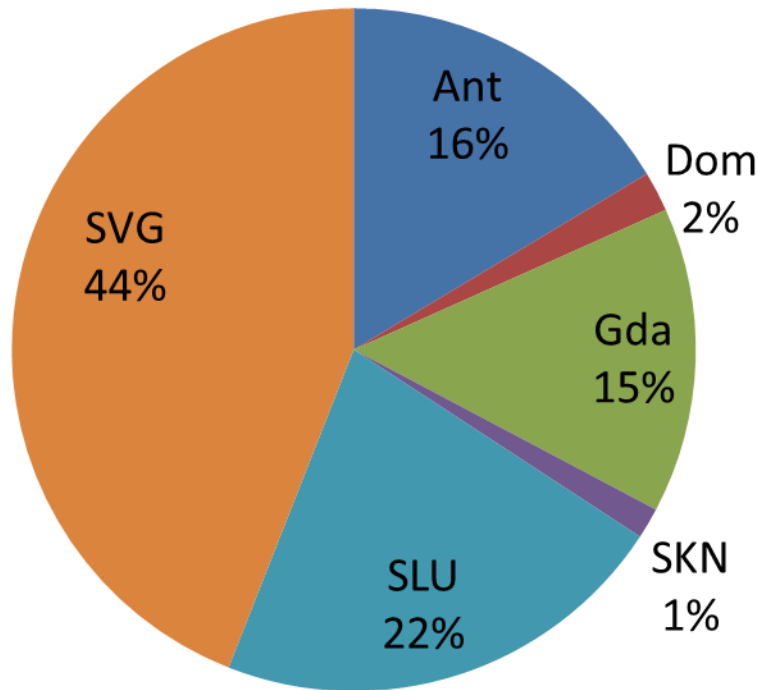


Table 1: Number of auctions on the RGSM (as at 30 May 2013)

	Treasury Bills	Bonds	Total
Anguilla	0	0	0
Antigua and Barbuda	53	4	57
Dominica	5	1	6
Grenada	39	1	40
Montserrat	0	0	0
St Kitts and Nevis	4	1	5
Saint Lucia	62	32	94
St Vincent and the Grenadines	117	8	125
Total	280	47	327

Chart 3: Securities raised on the RGSM

Treasury Bills



Bonds

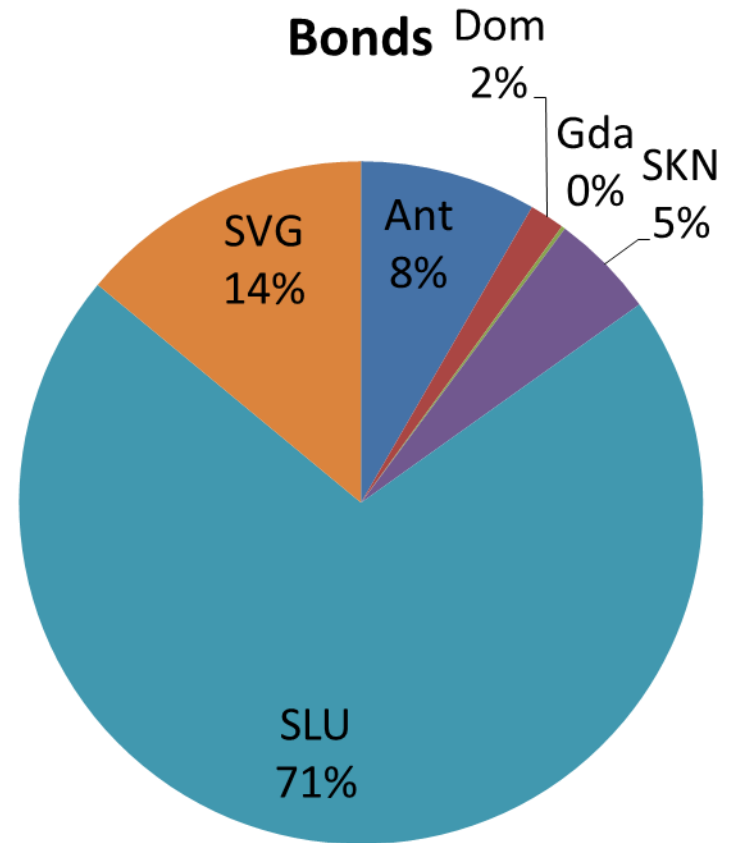


Chart 4: Issuance of T. bills in WAEMU(2011)

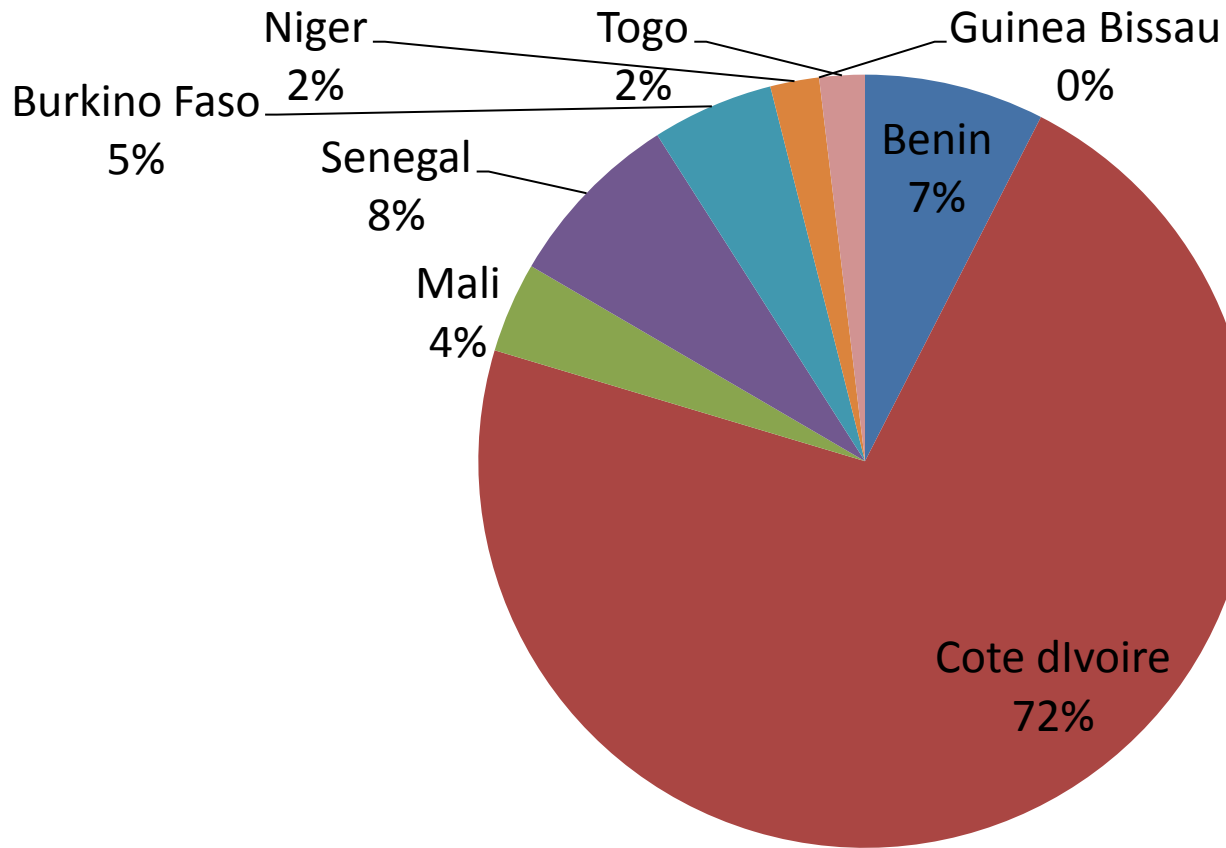


Chart 5: Number of cross border bids

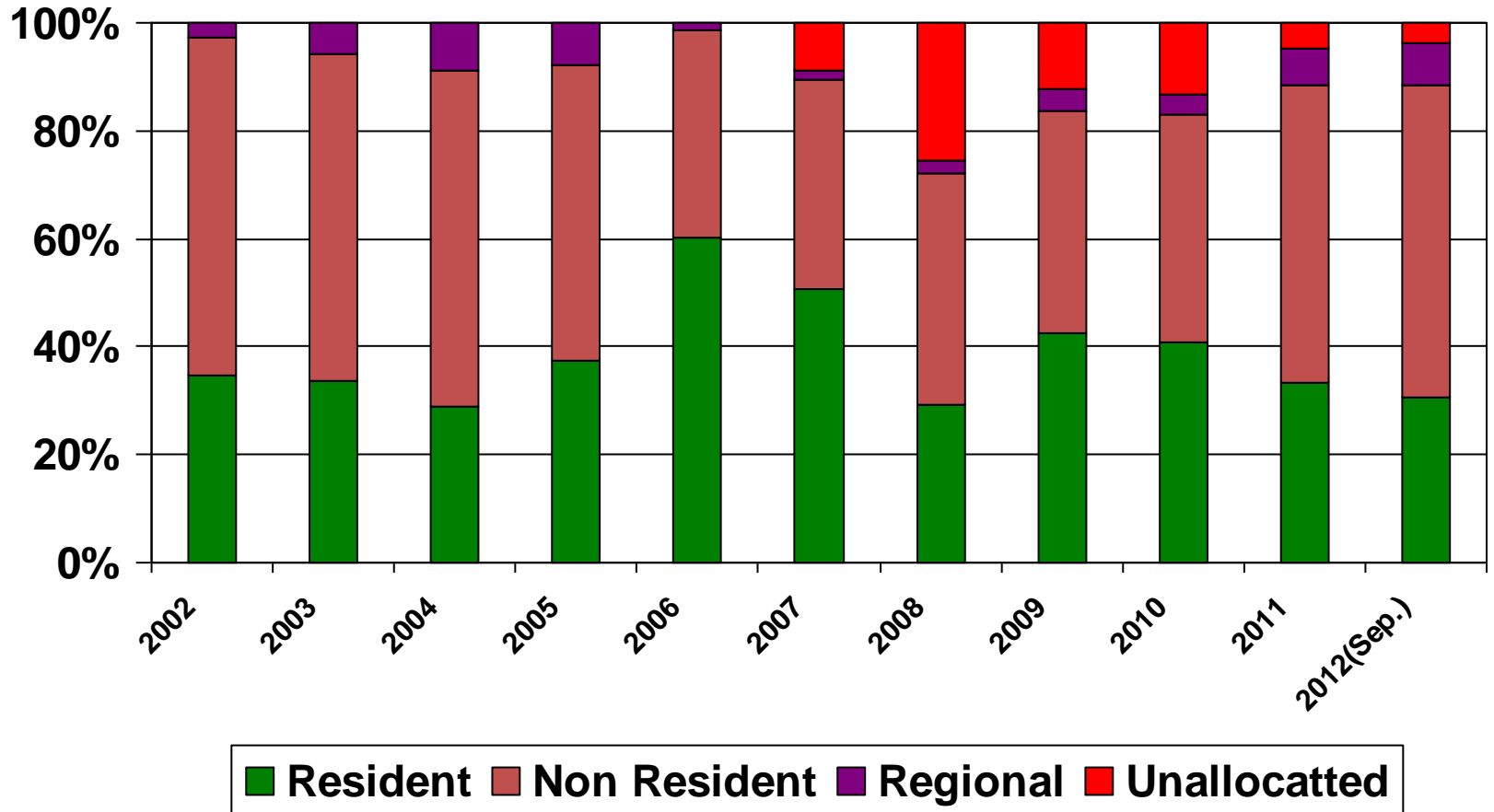


Table 2: Potential Quarterly ‘Savings’ from RGSM Usage

Issuer	Offer Amt (EC\$m)	RGSM rate (%)	Overdraft rate (%)	Gross Savings (EC\$000)	ECSE Fees (EC\$000)	Net Savings (EC\$000)
Antigua and Barbuda	15	5.000	11.500	243	16	227
Dominica	20	2.990	7.750	178	16	162
Grenada	40	5.000	8.500	349	16	333
Saint Lucia	27	2.500	11.000	572	16	556
St Vincent and the Grenadines	60	2.990	9.000	899	16	883
ECCU total	162	-	-	2,241	80	2,161

Chart 6: Bids by investor type

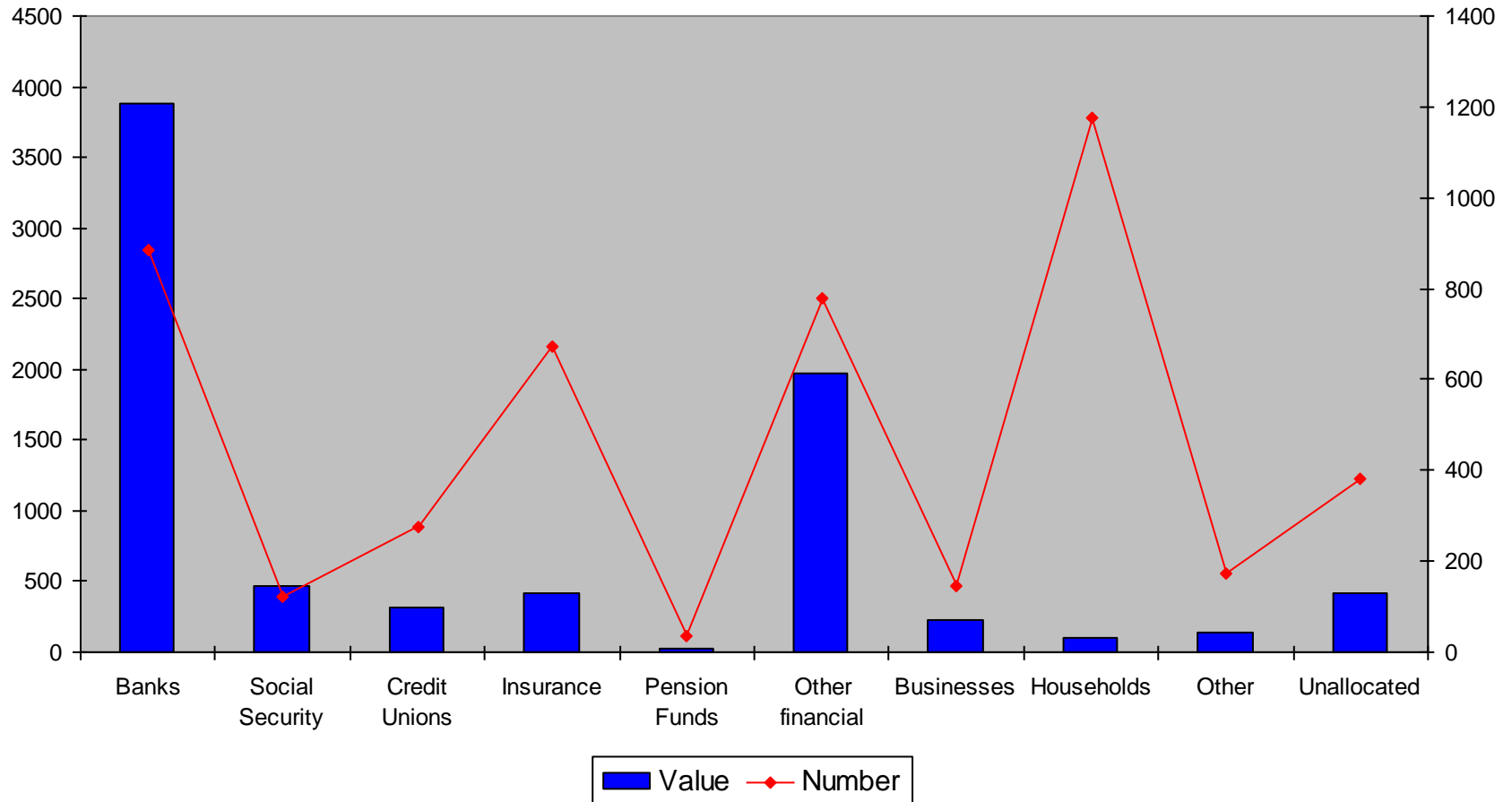


Chart 7: 91-day Treasury Bill yields for Selected Countries

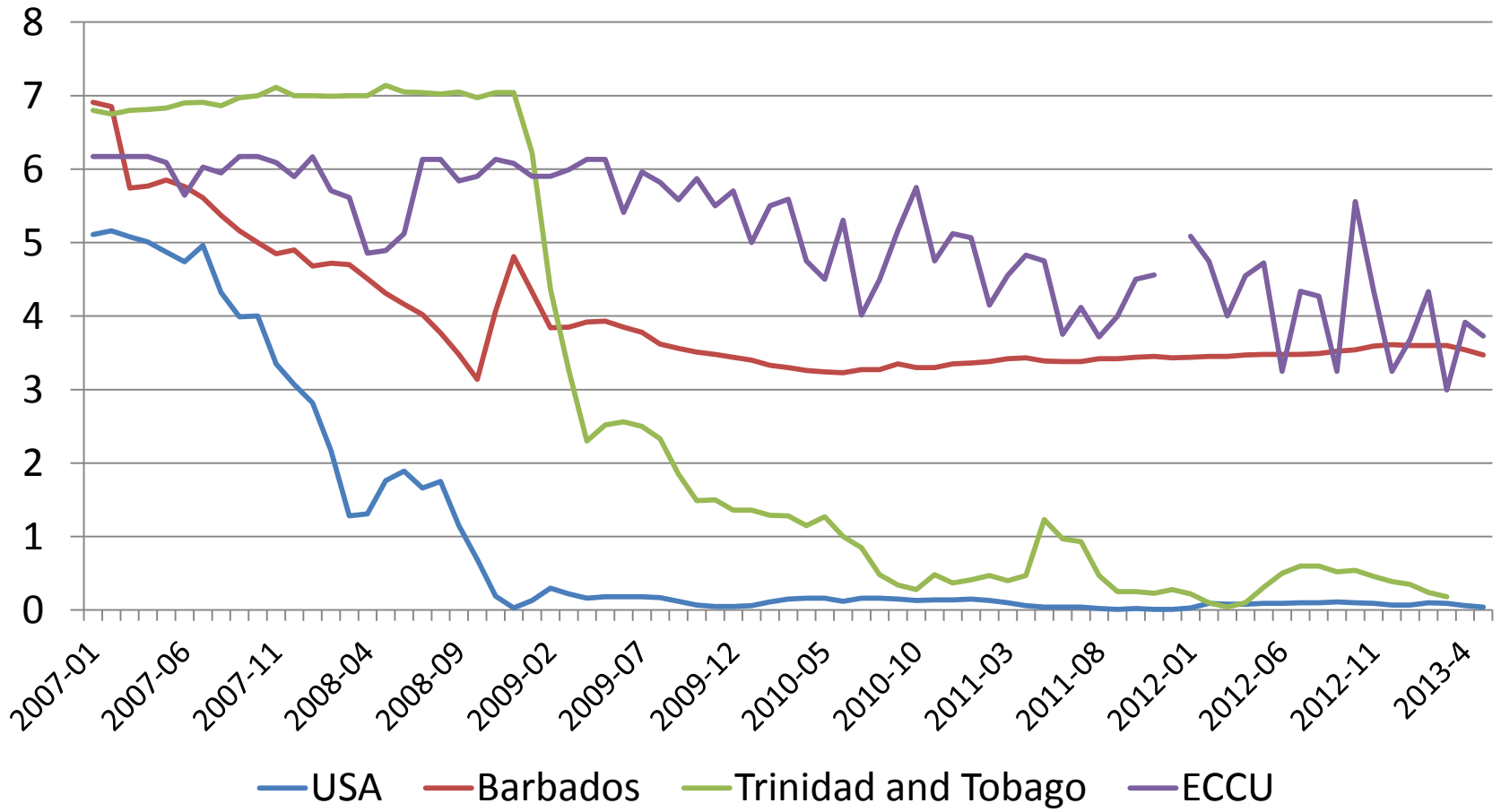


Chart 8: Yields and size of bonds on the RGSM 2012 - 2013

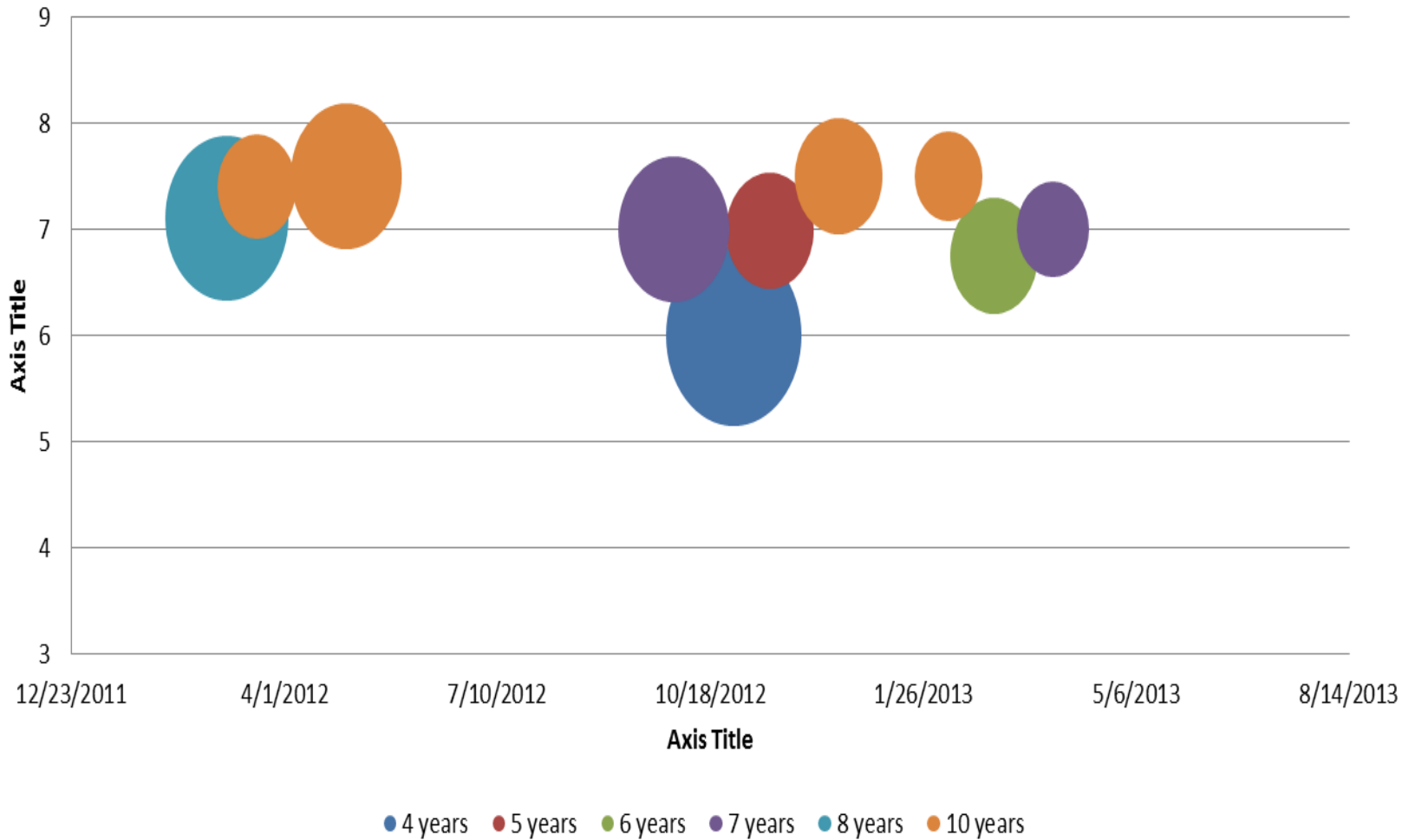


Table 3: Recent International Bond Issues

Country	Rating	Year	Tenor	Amount	Rate
Costa Rica	BB (S&P)	2013	12 years	US\$500 m	4.375
		2013	30 years	US\$500 m	5.625
Rwanda	B (S&P)	2013	10 year	US\$400m	6.875
Angola	BB- (S&P)	2012	7 years	US\$1 b	7.000
Honduras	B+ (S&P)	2013	11 years	US\$500 m	7.500
Paraguay	BB- (S&P)	2013	10 years	US\$500 m	4.625
Mongolia	BB- (S&P)	2013	10 years	US\$1 b	5.125
Bolivia	BB- (S&P)	2013	10 years	US\$500 m	4.875
Zambia	B+ (S&P)	2013	10 years	US\$750 m	5.375

Impediments in developing local currency bond markets

- Notwithstanding the number of successes of the RGSM there remain a number of impediments to the further development of the RGSM:
- Impediments can be categorised in two areas:
 - Market infrastructure
 - Macroeconomic factors

Market Infrastructure

- Weak Investor base
 - Small number of investors
 - Fragmentation of key institutional investors
 - Conservative outlook of investors

Market Infrastructure cont'd

- Intermediaries
 - Mainly commercial banks
 - Potential conflict of interest
 - Difficulties in operating across countries
 - Small market
 - small profits
 - But High fees

Market Infrastructure cont'd

- Secondary market
 - Low level of activity due to:
 - Buy and hold culture of most investors
 - Low volume of bonds issued
 - Absence of continuous two way pricing
 - 'Repo' market operated by some licensed brokers
 - Absence of long term investors
 - High level of liquidity in the banking system

Macroeconomic Factors

- Fiscal imbalances
- High revenue to Debt ratios
- High levels of debt
- Negative impact of Debt restructurings
- Weak cash flows

Development Plan for the RGSM

- Five year Development Plan
 - Broadening the investor base
 - Development of collective investment schemes such as mutual funds and Unit Trusts
 - Facilitating the development of private pension funds
 - Encourage the formation of investment clubs
 - Rationalisation of the insurance sector and credit unions
 - Greater efforts at investor education
 - Issuing of diaspora bonds
 - Accreditation of the local stock exchange (ECSE) in Canada
 - Institutionalise discussions between Government and investors

Five year Development Plan Cont'd

- Intermediaries
 - Remove remaining impediments within the Single Financial Space
 - Re-look requirements for the establishment of intermediaries

Development Plan for the RGSM

- Development of the Secondary market
 - Undertake further research on the cost-benefit of the introduction of the Primary Dealer System (PDS).

Development Plan for the RGSM

- Macroeconomic Factors:
 - Fiscal consolidation
 - Improved debt management
 - Explore the use of Private Public Partnerships
 - Pro Private sector policies
 - Implementation and enforcement of fiscal targets and rules

THANK YOU