« Public debt management’s insight on trend and policies to promote secondary markets in medium size markets »

West African Monetary Union Public Debt Market

Washington, April 25th
I. Background information
II. Secondary market: situation and main challenges
III. Outlook - Expectations
### WAMU Zone : Key figures

#### WAMU Zone : Creation and members
- WAMU Zone was created in May 12, 1962
- Made up originally of 7 countries: Bénin, Burkina – Faso, Côte d’Ivoire, Mali, Niger, Sénégal and Togo;
- Guinee – Bissau joined the WAMU on May 2\textsuperscript{nd}, 1997
- Single currency union: XOF (CFA)
- Currency pegged to the Euro at the rate: 1 Euro = 655,957 XOF;
- Independent Central Bank: BCEAO

#### WAMU Zone : Key economic indicators
- Area: 3,509,600 km\^2
- Population (millions): 112.4
- Population growth rate: 3.5%
- 2016 nominal GDP (estimation): 58,199,60 billions CFA
- 2016 estimated growth rate: 6.8%
- Annual inflation rate: 0.3%;
- 2016 Debt/ GDP rate: 46%;
- Debt composition: External debt represents 2/3 of the total public debt

#### Financing issues of the States Members
- Central Bank of West African countries used to lend directly money to states members to cover budgetary deficit and cash shortfalls;
- End of that system in 1999
- Reduction of the foreign aid to WAEMU countries due to financial and economic crisis
- Ambitious infrastructure and development plans of the states members
History of the Agence UMOA Titres

- 1999, switch from a funding from the central Bank to funding from the Capital markets: mission assigned to CB
- 2008 Financial Crisis and drop in public aid and launch of development plan: Identification of financial markets as main source of funding;
- In 2013, the Council of Ministers of WAMU state’s members decided to create the Agence UMOA Titres by in order to boost the public securities market;
- End of 2013, launch of operations

Missions

- Support of the issuance and management of public securities and debt and treasury management;
- Identify the most suitable means to raise financial resources required for state financing on regional and international capital markets;
- Diversification of the investor base: national, regional and international;
- Work with the institutions concerned, notably the BCEAO and the Regional Council for Public Savings and Financial Markets (CREPMF), to ensure the proper functioning and the deepening of the regional financial market
Agence UMOA Titres : Main tasks

• Providing assistance to WAMU member states’ treasury department regarding:
  • market issue strategy development, and issuance structuring: planning and defining the characteristics of the issues based on states’ financing needs, expected macroeconomic trends and the need for sustainability in national public finances;
  • coordination of the issuing schedules of WAMU member states through a yearly calendar;
  • helping national treasuries develop management frameworks for market risks, counterparty risks and operational risks inherent in public debt securities management;
  • operational management of regional market issues through hands-on management of securities issues and monitoring of their settlement on behalf of national treasuries;
  • assisting national treasuries in their international market transactions through organization of securities issues (foreign currency bonds or Eurobonds);
  • Sovereign Debt Market deepening project: Trading platform, information, standardization ...
### Composition, Advantages and Requirements

- **Since March 2016**, establishment of the primary dealer system
- 29 primary dealers with 23 commercial banks and 6 brokers
- **Advantages**: Targeted auctions, access to non-competitive bids, differed payment of the amount subscribed in an auction, ...
- **Requirements**: subscribe to 5% of the amount of each auction, market making for the secondary market, advising and providing information to treasury departments and AUT

### Recent trends

For the first 12 months of operations, the PD were able to achieve the following:

- Out of a total volume issued of 3,388.2 billion CFA, the PD were responsible for more than 55%.
- Out of a total volume of 805.5 billion CFA reserved for PD on a Non Competitive Bids, the PD subscribed for more than 15%.

### Market making

- Subscribe to 5% of the amount of each auction;
- Obligation to intervene on the secondary market: acting on 2 at least 2% of securities and repos trades each semester);
- Give prices of benchmark securities on a weekly basis
II. Main challenges of secondary market development

WAMU Zone: A dynamic primary market

Public Securities auction amounts (in billions XOF)
WAMU Zone: Weaker activity on the secondary market

II. Main challenges of secondary market development
II. Main challenges of secondary market development

WAMU Zone: Secondary market main challenges

- **Securities characteristics**
  - Amortizable bonds
  - Small notional amounts
  - Short term securities

- **Securities market infrastructure**
  - Huge part of investors are commercial banks trading for their own account or for few clients
  - Direct access to auction market: only allowed to FI with an account at the Central Bank
  - Market fragmentation: auction vs syndication market

- **Lack of information and transparency**
  - Late implementation of a deal booking system for OTC market
  - No price discovery
  - No trading platform
  - No yield curve
Outlook, Expectations of the WAMU Zone market

- Standardization of securities
  - Issuing on all the maturities of the yield curve
  - Type of amortization: all the securities till 5 years are in fine
  - Increasing the notional amount of outstanding securities through reopening
  - Increasing the maturity of securities

- Infrastructure
  - Enhance market transparency
  - Building a yield curve
  - Quotation and transaction platform
  - Benchmark policy

- Broadening and diversifying Investors base
  - Enlarge the scope and profile of investors and attract international investors
  - Lower sector based concentration and systemic risk
  - Extend market liquidity

- Others developments
  - Rating of countries
  - Monetary policy decisions
  - Introduction of Basel II/ Basel III
THANK YOU FOR YOUR ATTENTION!