

Bond market developments : A Regional Perspective

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East African GDP Growth Rates

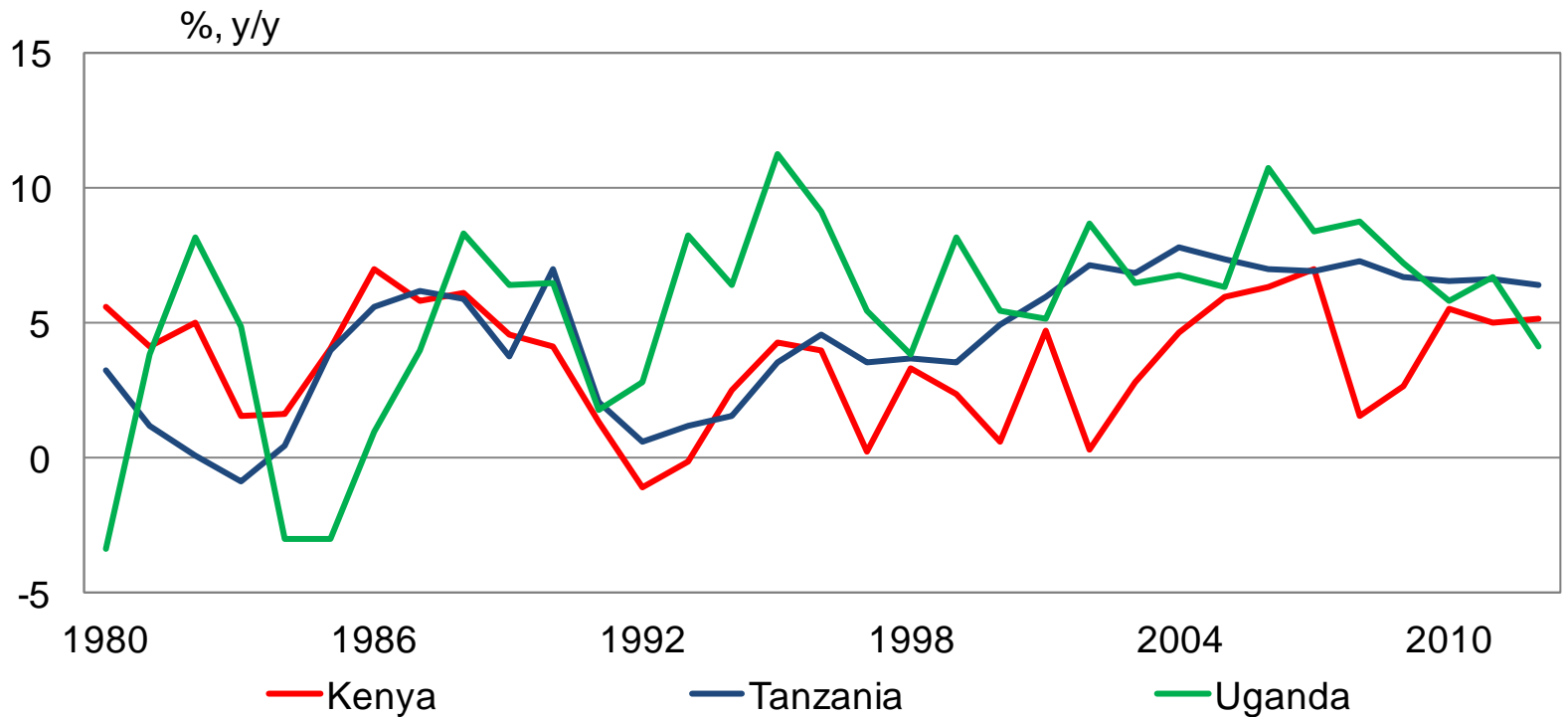
Faster economic growth

Rise in government funding needs

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Conclusion

Significant Volatility But Positive Trend



Source: IMF

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Governments plan to foster faster growth

Need for significant funding

- All EA governments have visions of transforming their economies into middle income status
 - Vision 2025 in Tanzania
 - Vision 2030 in Kenya
 - Vision 2040 in Uganda
- There is a need for considerable investment in infrastructure
 - Roads
 - Rail
 - Power

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Investments in the hydrocarbon sector across the region a catalyst for growth

FDI playing a prominent role

- Surge in interest in exploration of hydrocarbons in the region
 - Significant natural gas discoveries in Tanzania
 - Commercially viable quantities of oil found in Uganda
 - Some oil found in Kenya
- Commercial production will be preceded by large investments
 - Off-shore gas in Tanzania reportedly sufficient to justify the construction of an LNG plant
 - Refinery to be constructed in Uganda
 - Oil pipeline to handle oil exports from Uganda, South Sudan and Kenya in Lamu (LAPSET)

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Faster economic growth

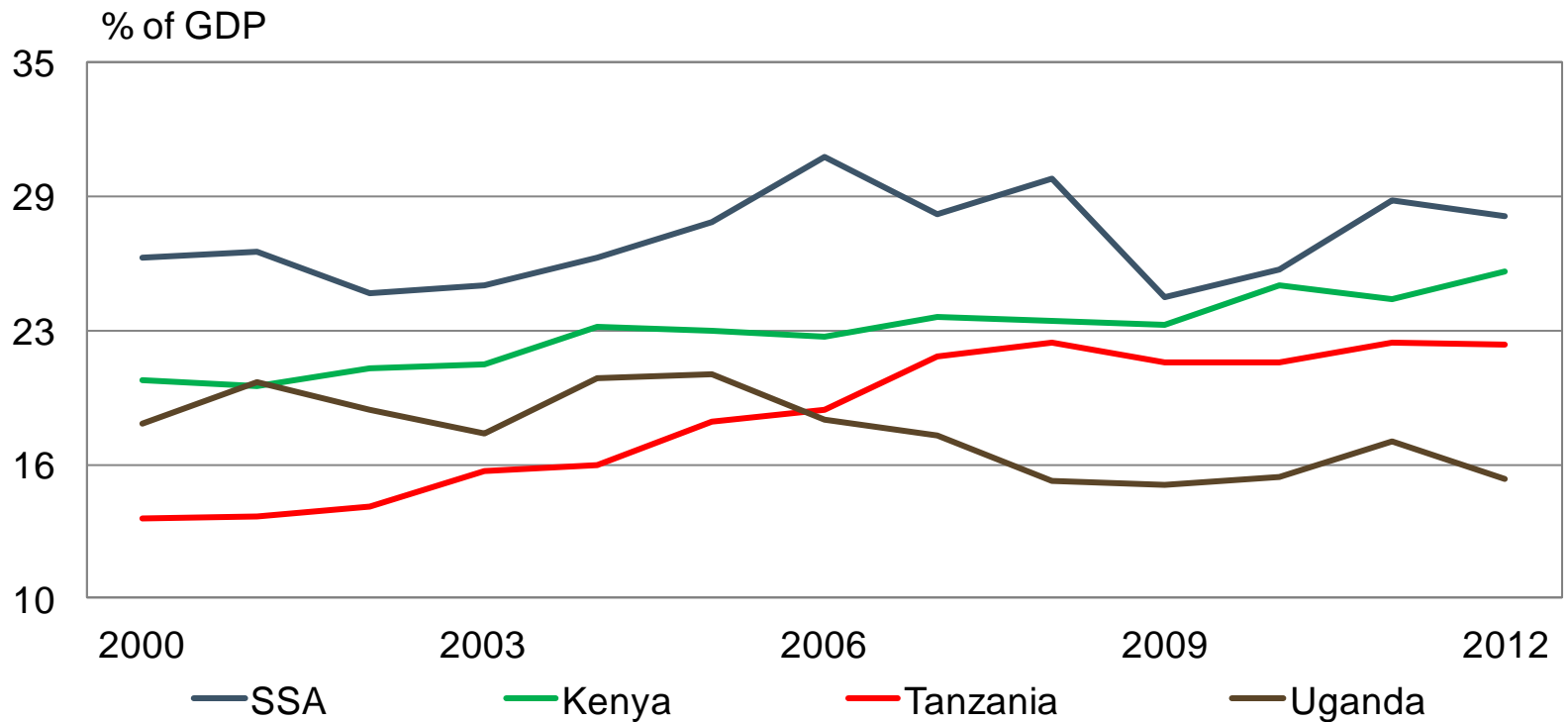
Rise in government funding needs

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To fund such a significant increase in investment spending ...

... Kenya has limited scope to raise taxes



Source: IMF

To fund such a significant increase in investment spending ...

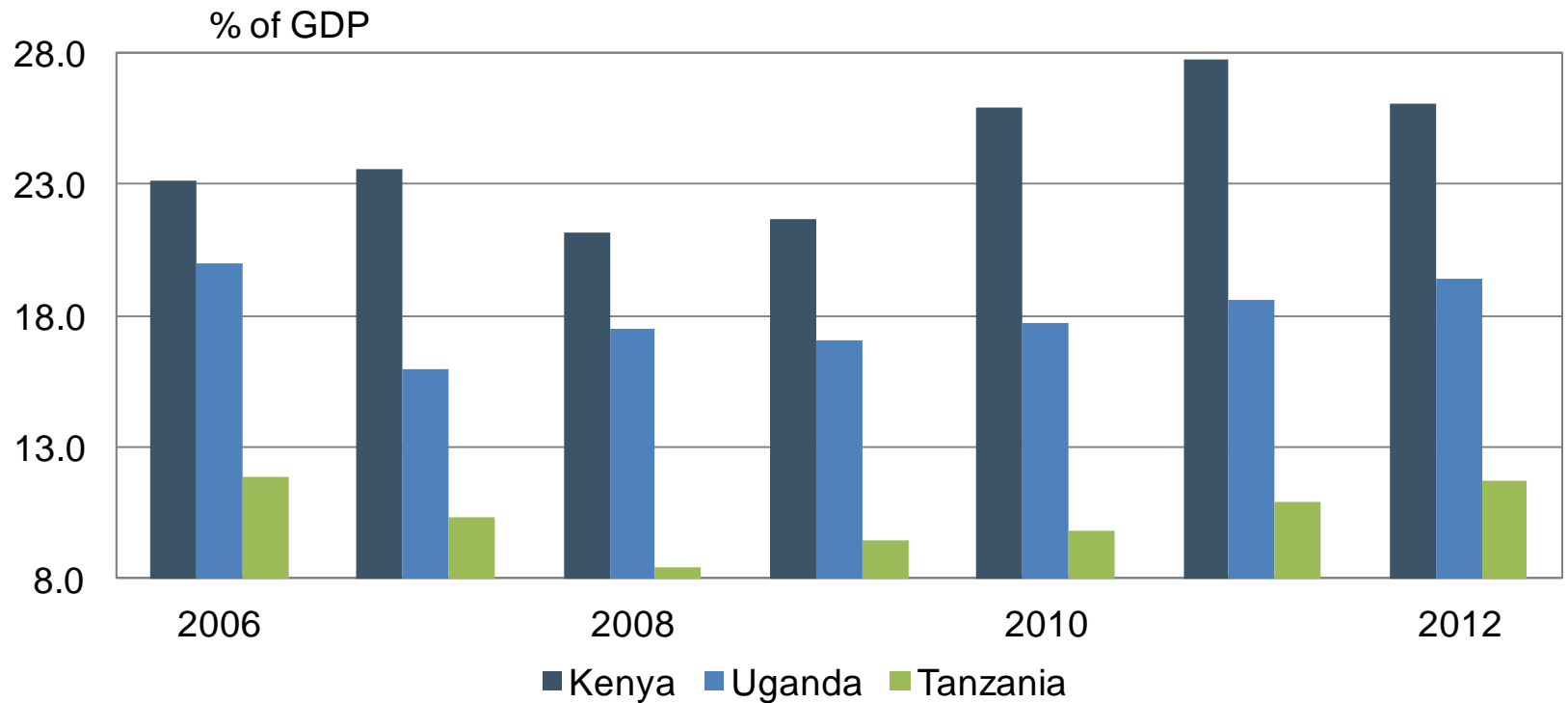
... Kenya has limited scope to raise domestic borrowing

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Sources: Ministries of Finance; IMF

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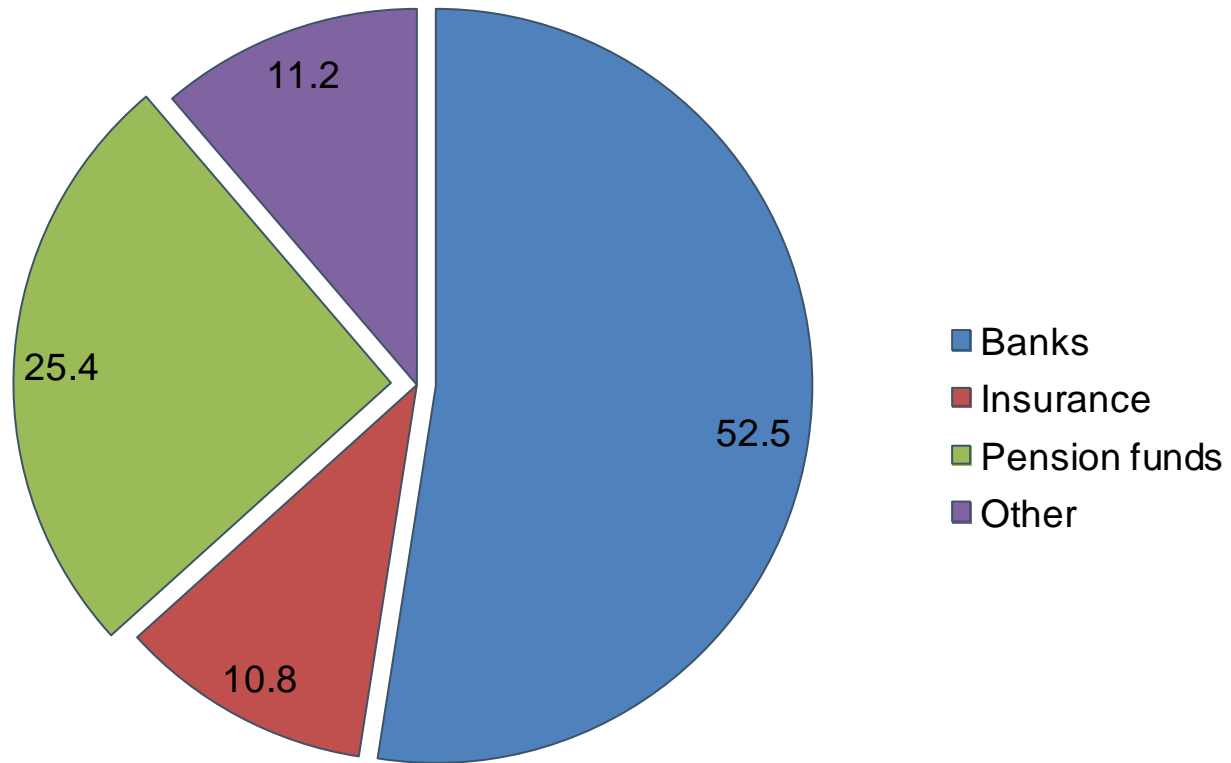
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Local funding sources an option

But the scope is limited

Share of holdings of T-bonds and T-bills



Source: Central Bank of Kenya

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Development Assistance?

Sources are dwindling

- Concessional funding
 - Low interest rates, grace periods on principal and interest repayments, very long maturities
 - Frequently disbursements are not timely, compromising budget execution
 - Meant for low income countries, expectation that they will graduate out of it
- The financial crisis and the resultant economic weakness in developed countries
 - Providing development assistance is becoming hard to justify
 - More demanding in terms of conditionality

Grants, and concessional borrowing, already declining

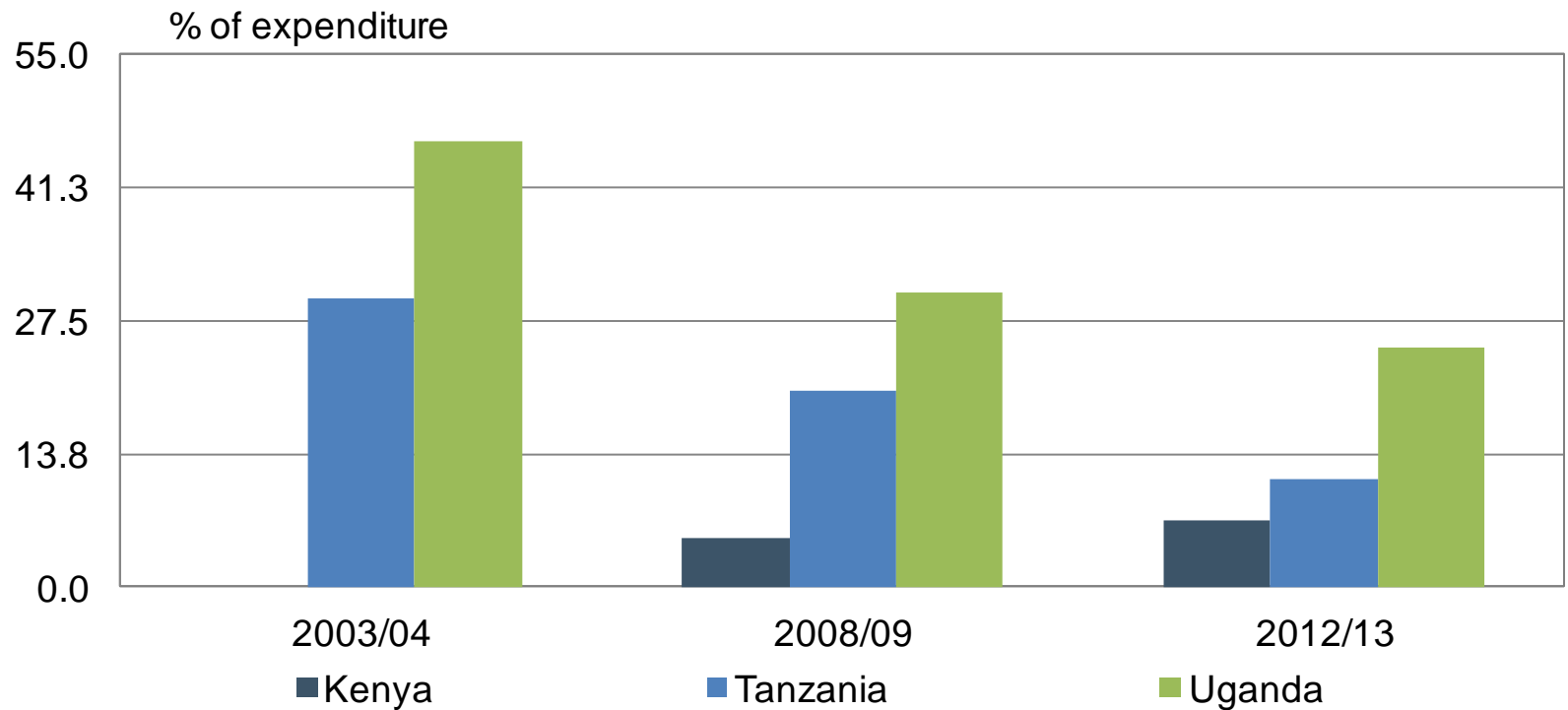
No way to go back to it

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Source: Finance ministries

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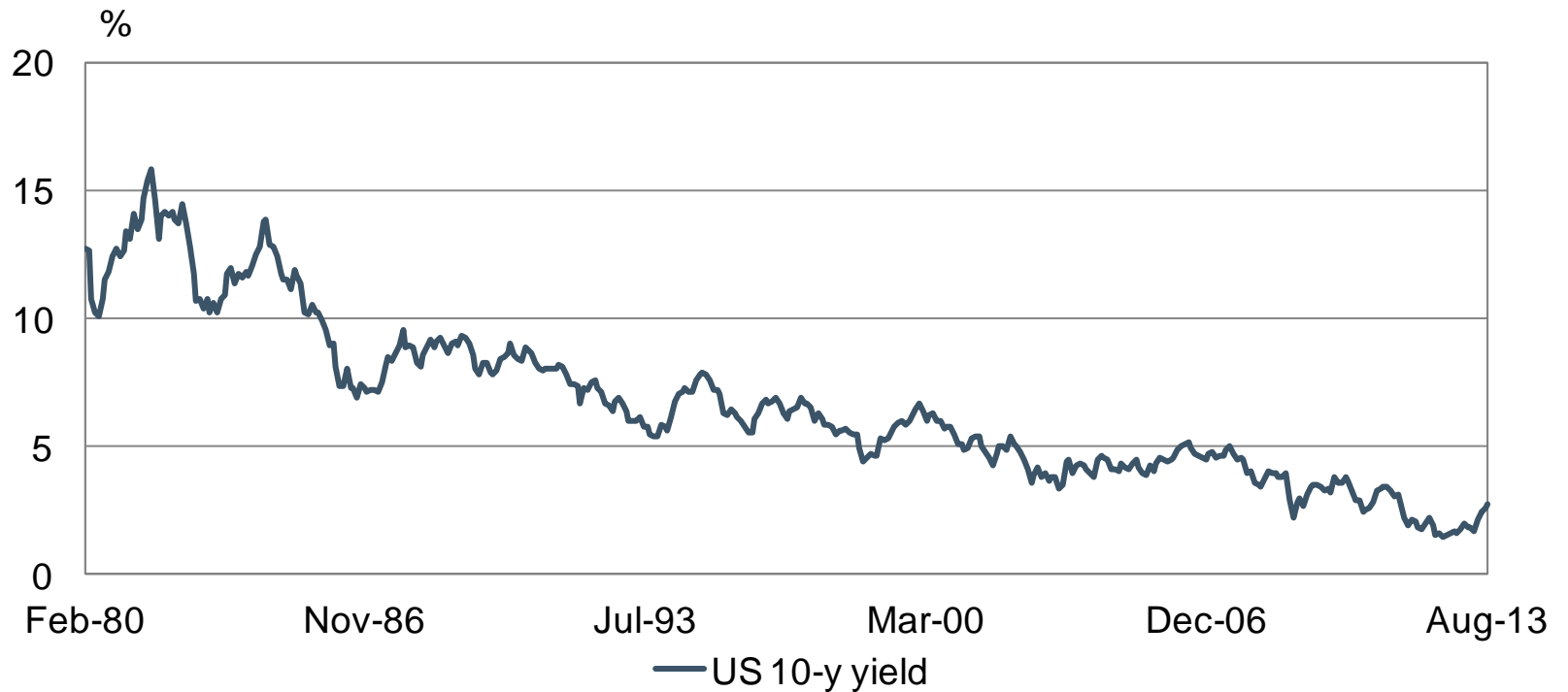
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Historically low global interest rates

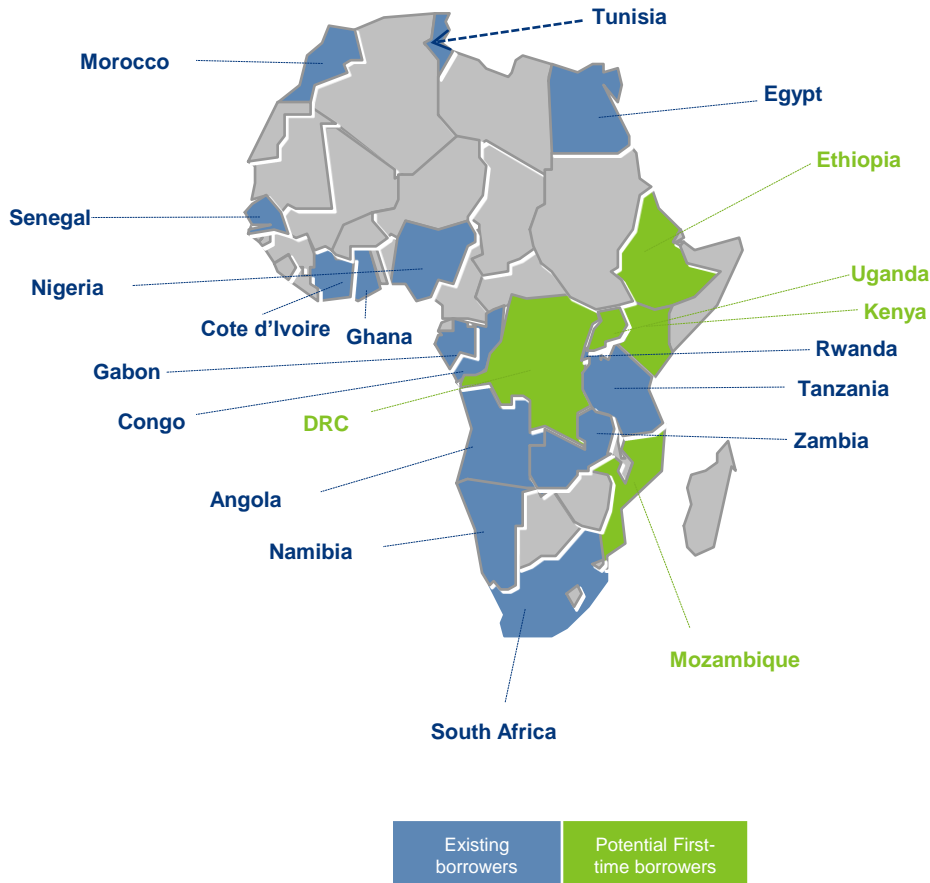
“Cheap” source of financing



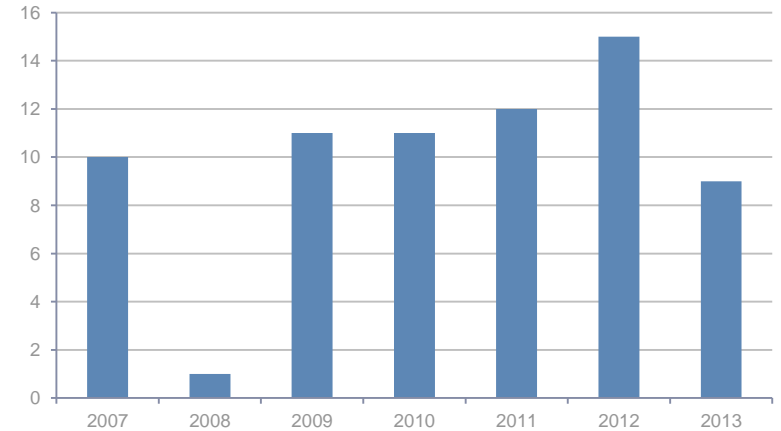
Source: Bloomberg

African Sovereigns are Increasingly Accessing the International Capital Markets

Accessing the Capital Markets is a Growing Trend for African Sovereigns



African hard currency bonds issued USD(bn)



\$5.5bn of African hard currency bonds have been issued during 2013, indicative of current market conditions.

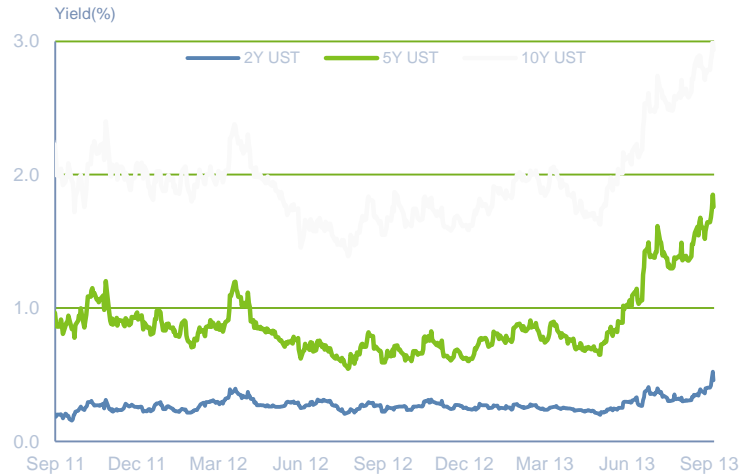
However, there still remains investor appetite for emerging market risk and there is a strong pipeline for new issues in Q3 and Q4 2013

Key points

The subject of 'Fed-Tapering' and therefore of more expensive dollar borrowing costs has continued to be the dominant theme for Emerging Markets, with currencies, fixed income and equities suffering as investors position themselves for the normalisation of global interest rates

New issuances in the primary bond markets have remained quiet in August as a result of the holiday season and the wider market tension observed since June. Investors will be closely watching the outcome of the upcoming FOMC meeting on September 18th for an indication of if and when the Fed will cut its asset purchasing programme

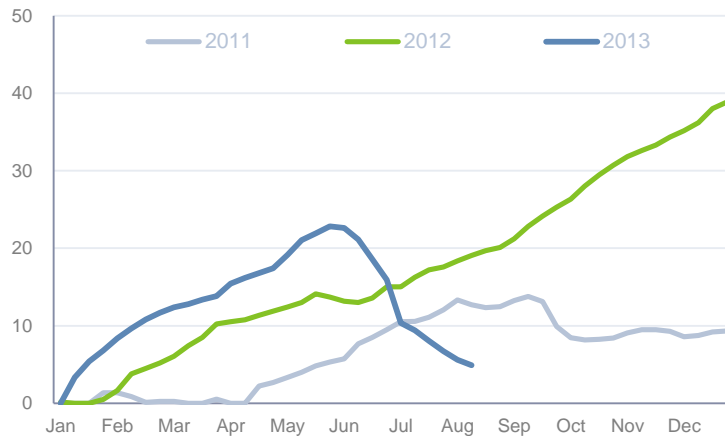
US Treasury Yields 2011-13 Year-to-Date



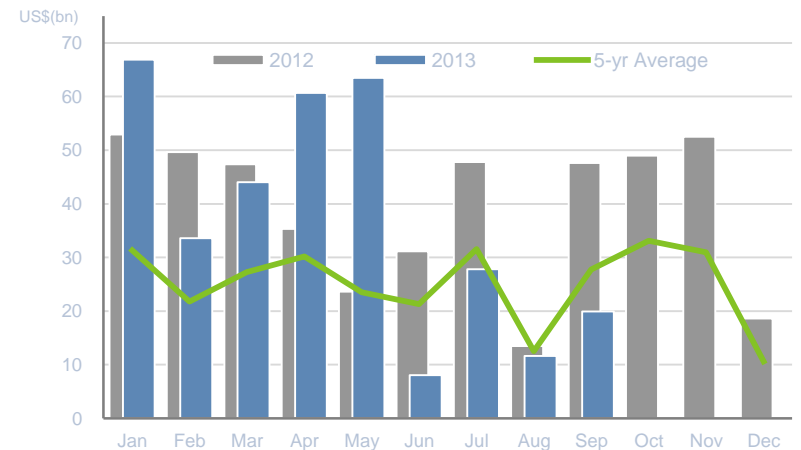
EMBI+ Index



EM Fixed Income Fund Flows USD(bn)



Total EM Intl Bond Issuance by Month USD(bn)



Source: Bloomberg, Standard Bank Debt Capital Markets, Standard Bank Research
As of 18 September, 2013

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- There has been an acceleration in growth since the early 2000's
- Governments have ambitious goals for transforming their economies
- These goals raise the funding needs for government
- Kenya has the ability to take on more debt
- Eurobond issuance is a viable option