
Capital market developments in Africa

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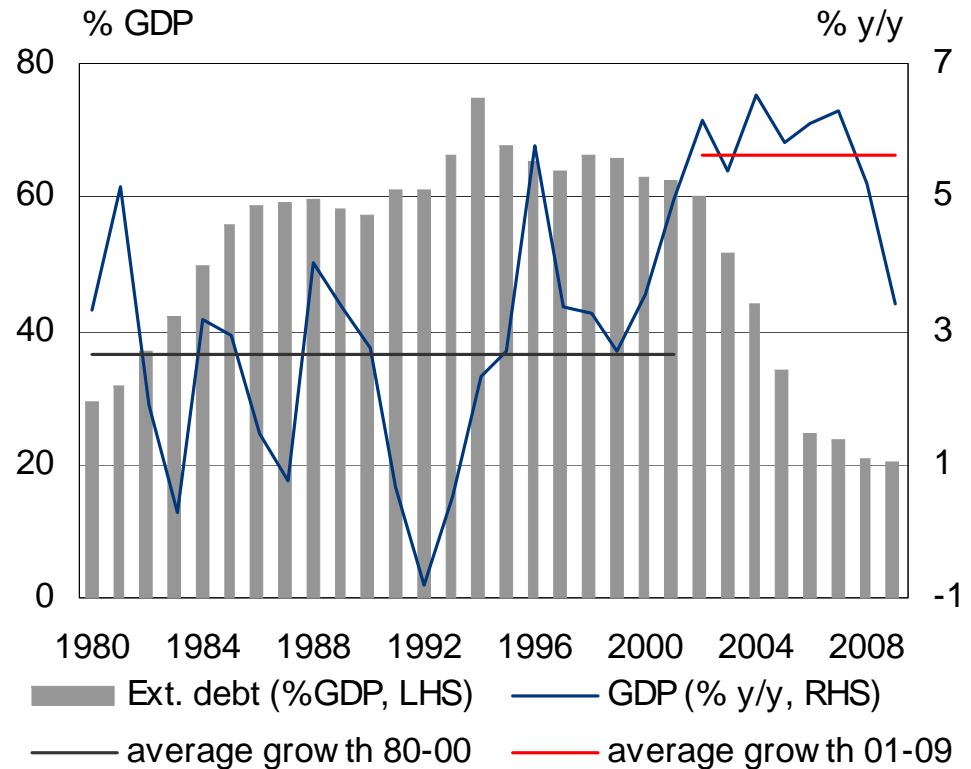
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- Impact of the global financial crisis
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- What can be done
- How can bond markets help growth
- Opportunities for Africa

Recent Development in African capital markets

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- Global growth and the search for yield by investors opened up new markets
- USD bearish trades led to more unconventional FX trading, namely frontier markets FX
- Further support came from the commodity price cycle, debt relief, other concessional cash-flows and remittance flows
- While internally, several African countries improved policy making.
- Human capital returning and a growing urban population supported continued high growth

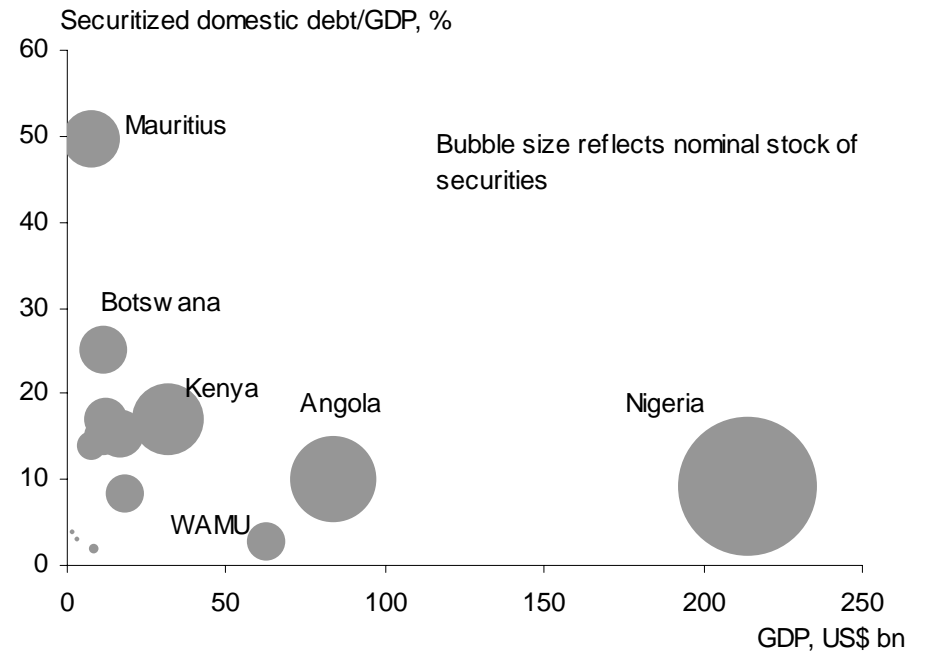
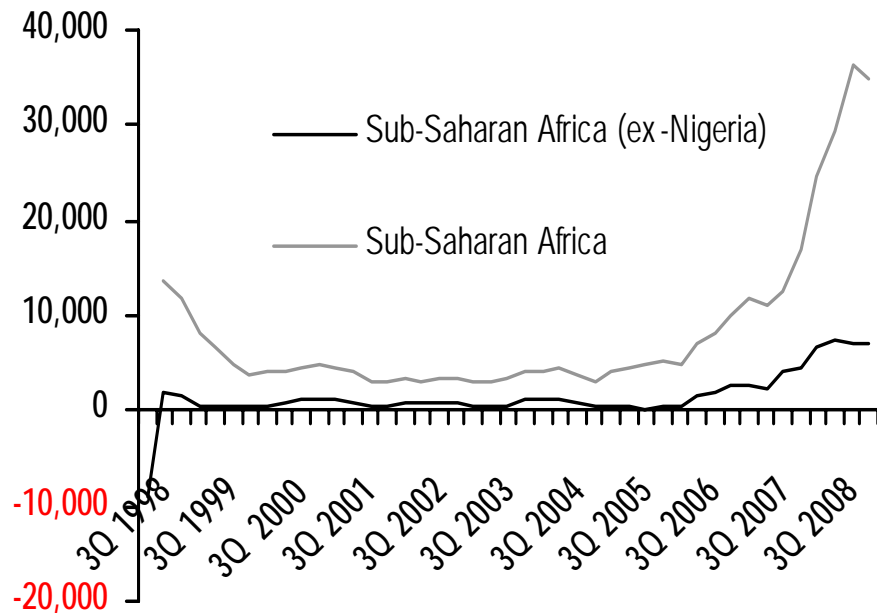


Sources: IMF WEO & IFS, Standard CIB Global Research

Recent Development in African capital markets

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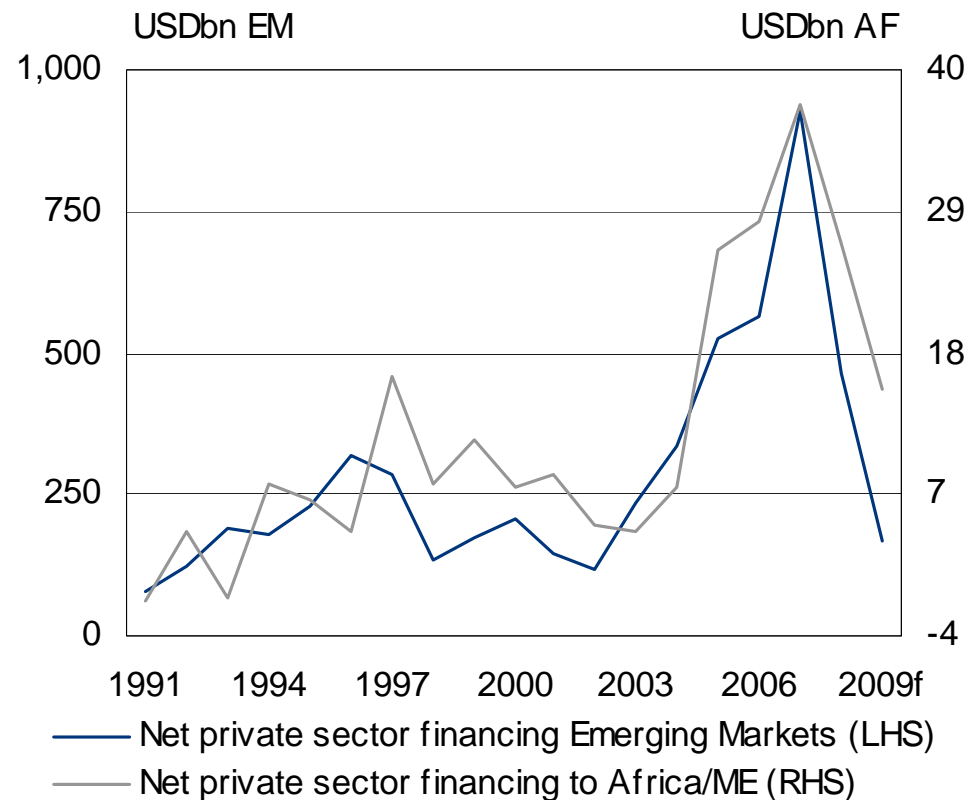
- In capital markets trading volumes grew
- Absolute debt level is still low relative to peers



Impact of the global financial crisis

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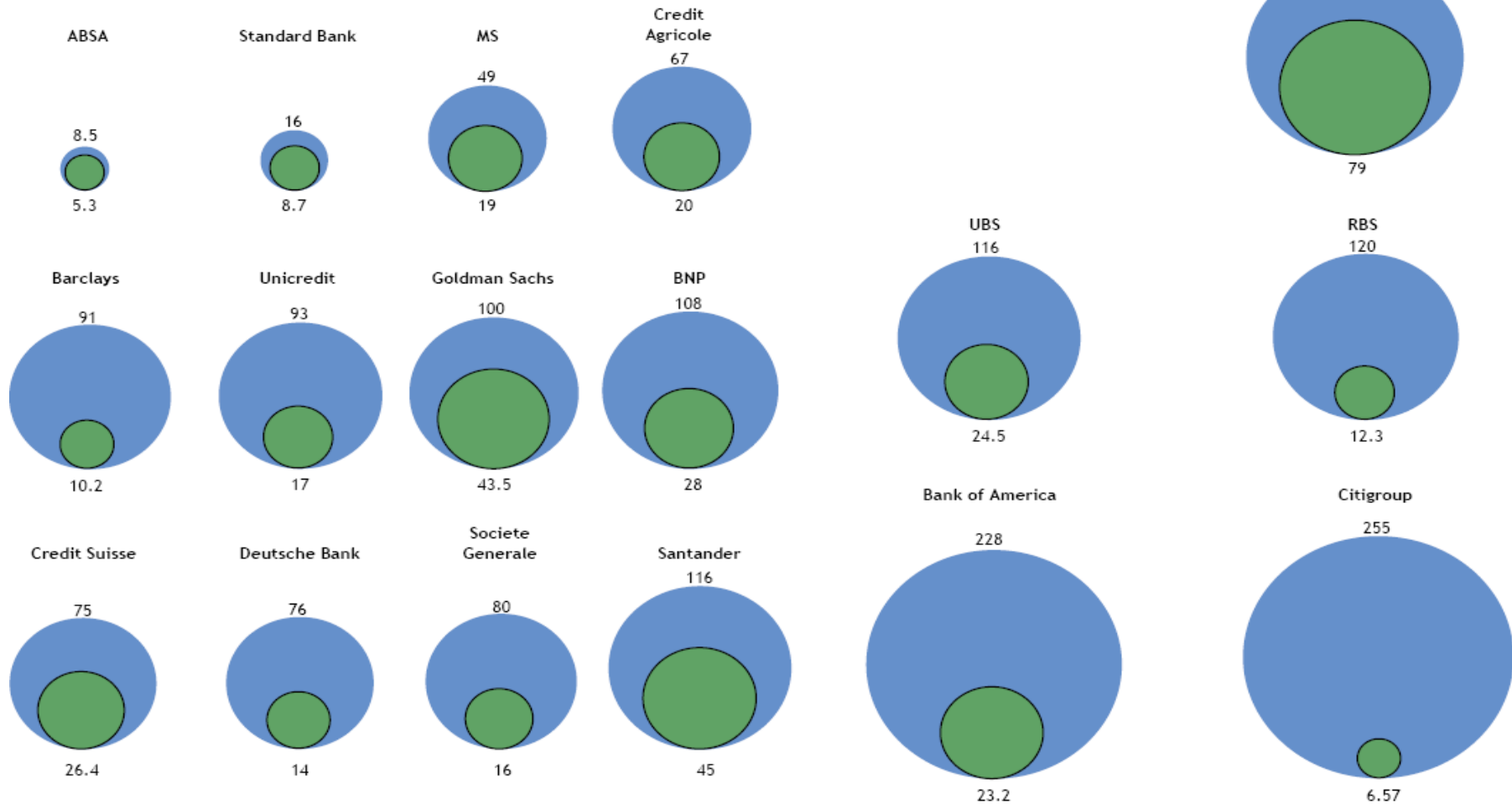
- A sharp reversal in all flows into emerging markets.
- Remittance flows have also fallen – World Bank predicts global remittance to drop by 8% y/y in 2009
- The timing is crucial for African countries to
 - Take this opportunity and build the necessary capital market infrastructure to accommodate future inflows especially given the scarcity of capital globally



Sources: IIF, Standard CIB Research

Write downs and deleveraging hit banks capital

- Market Value as of March 3rd 2009, \$Bn
- Market Value as of Q2 2007, \$Bn



J.P.Morgan

While JPMorgan considers this information to be reliable, we cannot guarantee its accuracy or completeness

Source: Bloomberg, Mar 3rd 2009

Current state of African bond markets

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- South African bond market is developed while Nigeria, Egypt and Kenya have a sufficiently developing capital markets. But the rest of SSA capital market are still in their infancy
- Yield curves generally do not exist and when they do, they seldom go out further than five years – issuance is on irregular basis
- Lack of government benchmark makes it difficult for corporates to access the debt capital markets
- Most markets are illiquid and offer vanilla products and small size of markets generally prevents foreign participation

What can be done

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- Building a yield curve - need for regular benchmark auctions rather than ad hoc single issuances
- Primary dealer system and clear rules on 2-way pricing for market makers to create liquid secondary market and facilitate price discovery, Nigeria has done well in this regard.
- Get rid of taxes on income (Zambia, Egypt)
- Remove regulatory costs of corporate issuance
- Regulatory improvements around disclosure will be key to more sustainable DCM markets. Maybe move to IFRS?

What can be done - continued

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- Development of repo markets to allow hedging of interest rate swaps (IRS) and quicker downside price corrections in rising rate environments
- Need for derivative market to allow companies to manage their risks
- Documentation and legislation that would allow netting of derivative positions
- Introducing floating rate instruments, sub-national markets and CPI-linkers (which are also an important part of getting a proper inflation targeting regime up and running i.e. Israel)
- Greater pools of domestic liquidity via pension funds and insurance - regulatory reform in these areas is key to supporting capital markets
 - Raising domestic savings rates
 - Pension reforms – mandatory, contributory schemes
 - Insurance industry consolidation – mandatory cover in certain insurance categories
 - Banks must offer a wide range of dedicated long term savings products
- Finally, there still need to be an incentive to get the macro picture right, too much volatility makes regulatory reform a secondary issue in most African markets

What can be done

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Characteristics of a liquid bond market

- Regular issuance
- Regulatory environment
- Transparency
- Liquid benchmark issues
- Long dated maturities
- Primary dealership
 - Contractual
- Domestic Savings industry

What needs to happen?

- Government's need to plan and communicate issuance programme
- Platform must be in place to re-open issues to create liquid benchmarks
- Debt relief must be combined with sustainable fiscal policy in order to make longer-dated instruments attractive
- Regulators must make primary dealer/market maker status attractive to ensure liquidity is provided

How can bond markets help growth

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- Long term investment critical for sustainable economic growth
- Corporates must be able to lock in long-term funding to pursue aggressive growth and development strategies
- Affordable leverage is critical for increasing long-run returns on equity
- Bank issuance allows matching of longer term assets and liabilities – crucial for system stability in emerging markets

Local Pension Fund's Exposure to Govt Debt

USDbn	2002	2008
Brazil	40	156
Colombia	4	22

Source: JP Morgan

Ghana 2007-2008 Government Financing

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- Ghana has successfully tapped the capital market during 2007 and 08 to finance nearly all of their Fiscal deficit financing requirement

Fiscal (GHS)

Deficits after

grants	External inflows	
-1132	Eurobond	862.5
-1983	Privatisation	1125
-3115	GHS bonds	708
		2696

86.5%

Current Account (USD)

Deficit

External inflows

-4909	Eurobond	750
	Privatization	900
	GHS bonds	616
	other FDI	1988
		4254

86.7%

Source: Standard Bank

Opportunities for Africa

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- Fastest growing mobile telecoms market globally with >30% CAGR
- 10% of World proven oil reserve*
- 30% of the planet's mineral resources including:
 - Gold – 40%
 - Cobalt – 50%
 - Manganese - 80%
 - Platinum Group Metals – 90%
- While Sub Saharan Africa only represents
 - 1.6% of Global GDP
- Capital market development is crucial for African growth prospects

* Excluding Ghana

Source: Bloomberg, Standard CIB Research, IMF World Economic Outlook



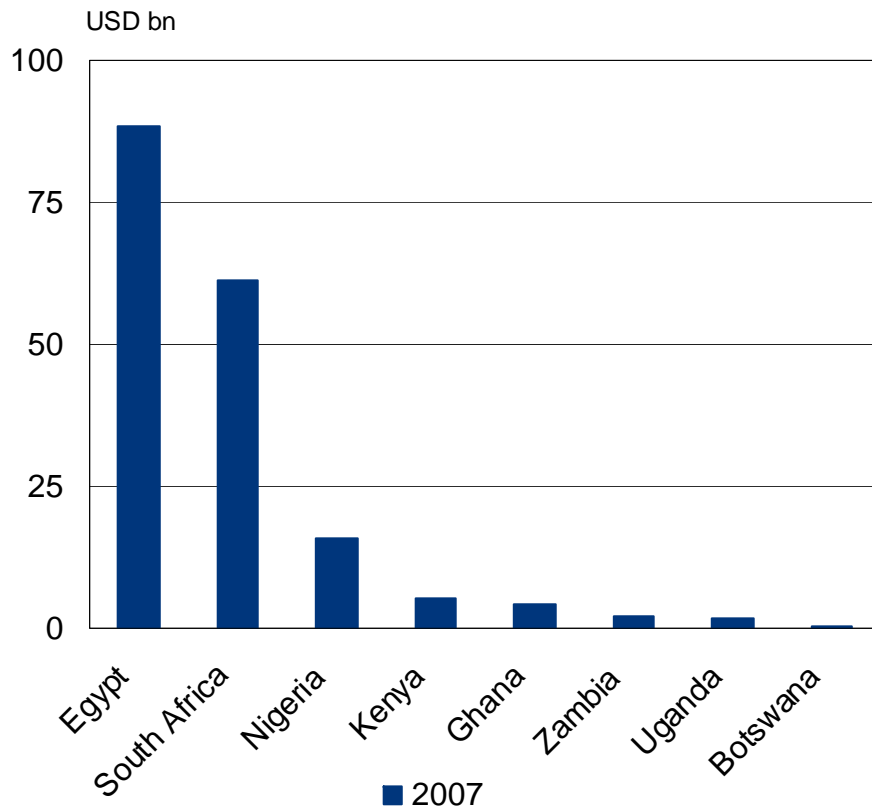
Questions



Annex

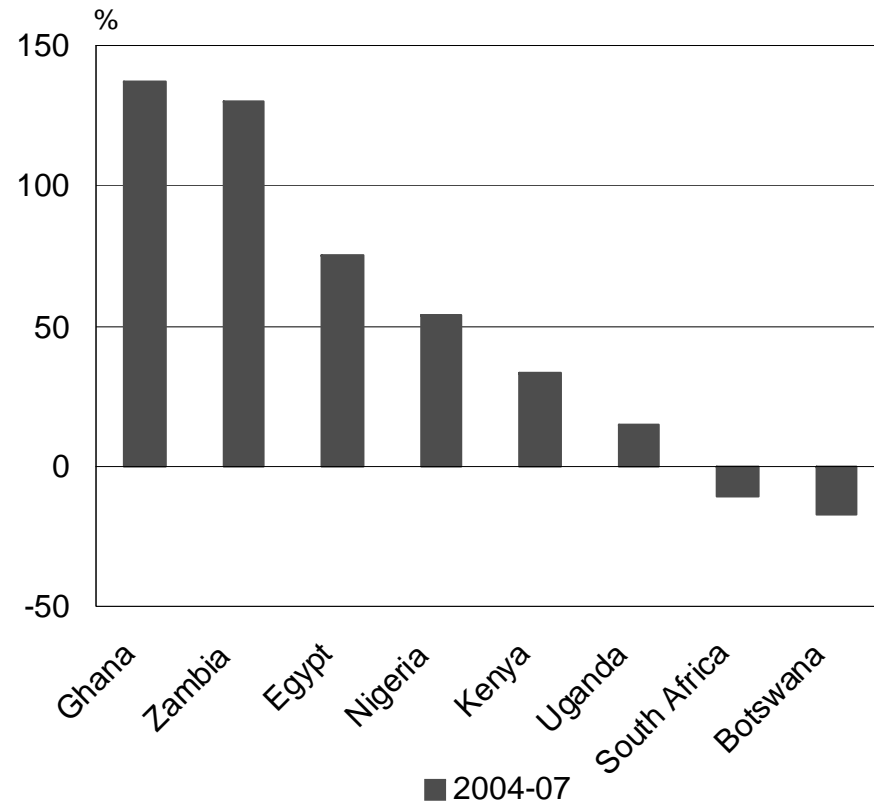
Comparative bond market indicators – size and growth in domestic public sector debt

Outstanding domestic public debt



Source: World Bank, Bloomberg, Standard Bank Group

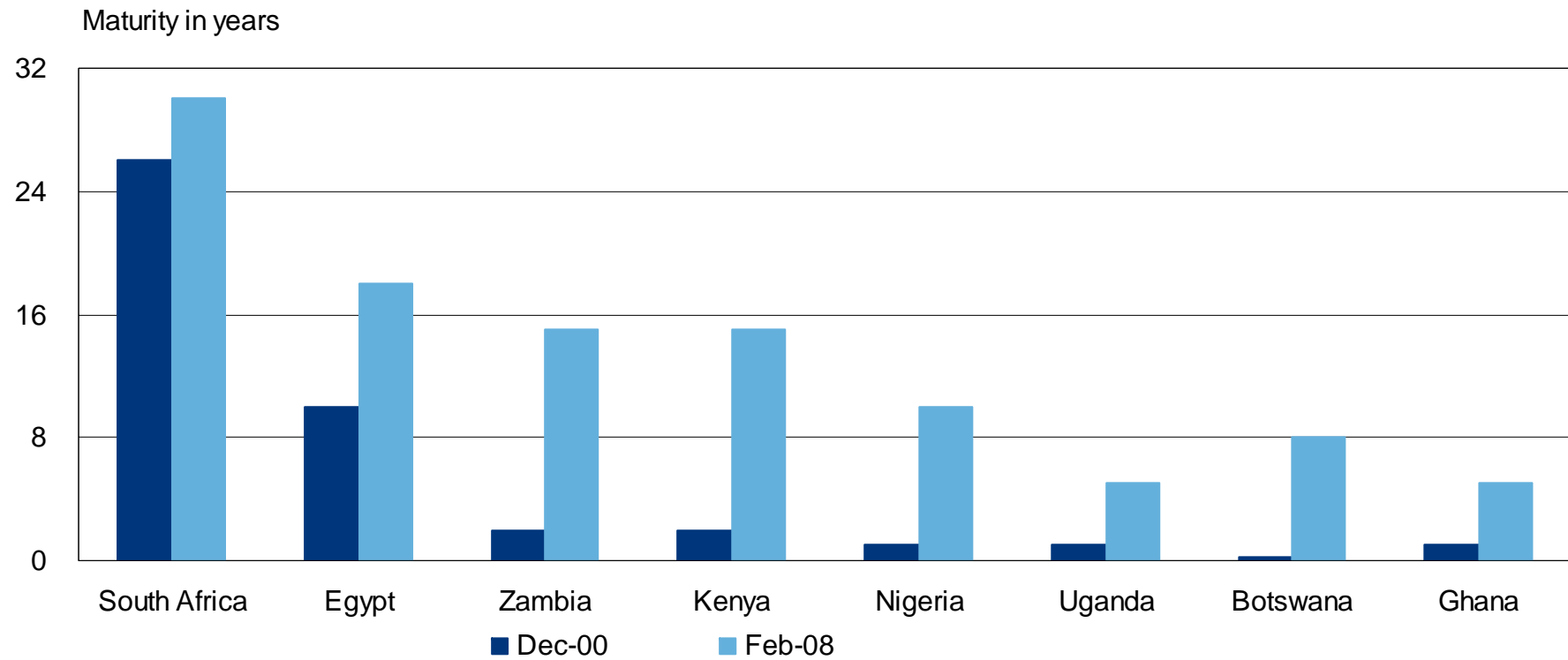
Growth in domestic public debt



Source: World Bank, Standard Bank Group

Comparative bond market indicators – maturity spectrum of selected African debt capital markets

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Source: Standard Bank Group

Nigeria: market development

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Role of government

- Establish/strengthen regulators
 - Nigerian stock exchange
 - Securities and exchange commission
 - Debt management office
 - Central bank of Nigeria
- Create primary dealer/market maker system
- Regular bond issuance calendar
- Electronic securities trading platform
- Pension reform creating sustainable growth in investible funds

Role of market participants

- Market coordination and self-enforcement
 - Money markets association of Nigeria
 - Bond market steering committee
- Commitment to provide consistent two-way quotes
- Leveraging external market expertise through foreign participation
- Strong drive to diversify shareholder base through equity capital markets

Nigeria: market development

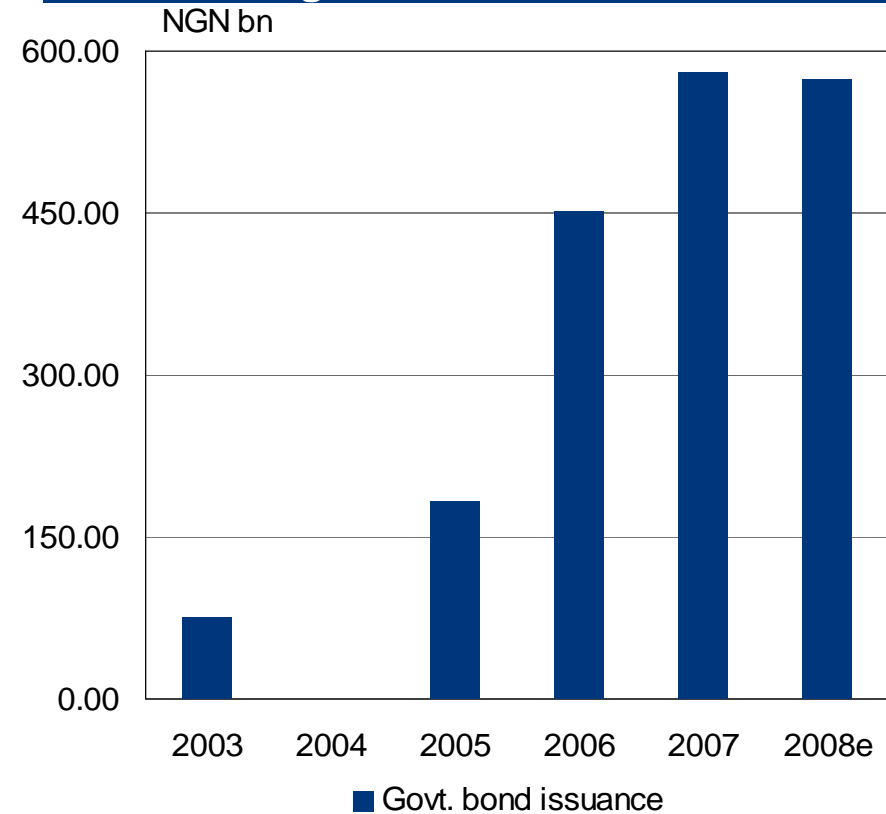
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Nigerian stock exchange index



Source: Reuters, Standard Bank Group

Volume of government bond issuance



Source: Debt Management Office, Standard Bank Group

Nigeria: next steps

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- Debt capital markets
 - Focus on development of liquid benchmark sovereign issues
 - Establishing framework for corporate issuance
 - Grow repos market – introduce interest rate swaps
 - Dollar sovereign curve for pricing corporate eurobonds
- Equity capital markets
 - Continue to encourage listing from top Nigerian corporate names
 - Further promote timely and transparent reporting

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