Capital market developments in Africa

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May 2009
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Recent Development in African capital markets

- 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

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

Source: EMTA, JP Morgan
Impact of the global financial crisis

- 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

<table>
<thead>
<tr>
<th>Bank</th>
<th>Market Value March 2009</th>
<th>Market Value Q2 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABSA</td>
<td>8.5</td>
<td>5.3</td>
</tr>
<tr>
<td>Standard Bank</td>
<td>16</td>
<td>8.7</td>
</tr>
<tr>
<td>MS</td>
<td>49</td>
<td>19</td>
</tr>
<tr>
<td>Credit Agricole</td>
<td>67</td>
<td>20</td>
</tr>
<tr>
<td>Barclays</td>
<td>9.1</td>
<td>10.2</td>
</tr>
<tr>
<td>Unicredit</td>
<td>9.3</td>
<td>17</td>
</tr>
<tr>
<td>Goldman Sachs</td>
<td>100</td>
<td>43.5</td>
</tr>
<tr>
<td>BNP</td>
<td>108</td>
<td>28</td>
</tr>
<tr>
<td>Credit Suisse</td>
<td>75</td>
<td>24.5</td>
</tr>
<tr>
<td>Deutsche Bank</td>
<td>76</td>
<td>228</td>
</tr>
<tr>
<td>Societe Generale</td>
<td>20</td>
<td>23.2</td>
</tr>
<tr>
<td>Santander</td>
<td>116</td>
<td>6.57</td>
</tr>
</tbody>
</table>

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

• 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

- 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

- 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**

**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

• 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

<table>
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<tr>
<th>Local Pension Fund’s Exposure to Govt Debt</th>
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<tbody>
<tr>
<td><strong>USDbn</strong></td>
</tr>
<tr>
<td>Brazil</td>
</tr>
<tr>
<td>Colombia</td>
</tr>
</tbody>
</table>

Source: JP Morgan
Ghana 2007-2008 Government Financing

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

<table>
<thead>
<tr>
<th>Fiscal (GHS)</th>
<th>Current Account (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deficits after grants</strong></td>
<td><strong>Deficit</strong></td>
</tr>
<tr>
<td>-1132 Eurobond</td>
<td>-4909 Eurobond</td>
</tr>
<tr>
<td>-1983 Privatisation</td>
<td></td>
</tr>
<tr>
<td><strong>-3115 GHS bonds</strong></td>
<td></td>
</tr>
<tr>
<td><strong>2696</strong></td>
<td></td>
</tr>
</tbody>
</table>

**Source: Standard Bank**
Opportunities for Africa

- 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

Growth in domestic public debt

Source: World Bank, Bloomberg, Standard Bank Group

Source: World Bank, Standard Bank Group
Comparative bond market indicators – maturity spectrum of selected African debt capital markets

Source: Standard Bank Group
## Nigeria: market development

### 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

**Nigerian stock exchange index**

Source: Reuters, Standard Bank Group

**Volume of government bond issuance**

Source: Debt Management Office, Standard Bank Group
Nigeria: next steps

• 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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