

## **Summary of the proceedings of the Local Currency Bond Markets Conference held at the South African Reserve Bank on 8 and 9 March 2018**

The conference on the 'Development of Local Currency Bond Markets' (LCBM) was held in Pretoria, South Africa on 8 and 9 March 2018 at the South African Reserve Bank (SARB) Conference Centre.

The conference was held under the 'Compact with Africa' initiative which was introduced under Germany's Group of Twenty (G20) Presidency in 2017. The compact is coordinated by the Africa Advisory Group, currently jointly chaired by Germany and South Africa.

The conference was attended by approximately 150 public and private sector participants from twenty African countries and eight members of the G20 to discuss the challenges and opportunities related to the development of local currency bond markets as a means of ensuring long-term financing for governments and companies alike in Africa, and of reducing external vulnerability.

The conference was opened by Mr Lesetja Kganyago, Governor of the SARB who spoke on South Africa's experience in developing the local currency bond market. He noted that the development of capital markets was a long-term task, involving well-sequenced structural measures. He further mentioned that LCBM can play an important role in mobilising resources for infrastructure investment which is at the center of the Compact with Africa initiative.

Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank, shared Germany's experience in developing the local currency bond market and the lessons learnt on the way to becoming a 'safe haven' for investments. He highlighted

the role of sound institutional arrangements, a well-balanced regulatory regime and a stable currency in supporting the development of LCBM in Germany.

Dr Joachim Nagel, Member of the Executive Board of Kreditanstalt für Wiederaufbau (KfW), noted that the advantages of further financial market development with regard to the impacts on growth far outweigh the potential risks from too large financial systems on financial and macroeconomic stability for most developing and emerging countries. He explained that while the efficiency of financial institutions in low income and emerging markets may be close to those in advanced economies in some instances, there remains a large gap between the groups with respect to the development of financial markets. Dr Nagel also pointed out the approaches that KfW was taking to stimulate investment in bond issues of local financial institutions, using its African Local Currency Bond Fund as an example. He mentioned that KfW, as a leading global institution in the development of Green Bonds was willing to utilise its experience and resources to further infrastructure investment in a sustainable manner on the Continent.

Ms Staci Warden, Executive Director of the Center for Financial Markets at the Milken Institute, highlighted the advantages and opportunities related to the development of LCBM in Africa. She identified three different stages of development of LCBMs in which African countries were categorised. The first stage is usually characterised by high dollarisation in a country, the second stage relates to the development, money markets are active and a limited activity in secondary trading exists. The third stage is characterised by market-led deepening of the bond market, with authorities having the task of setting prudential requirements. Ms Warden also emphasised that the infrastructure needs and long term growth potential in Africa offers ample opportunities for private sector and sovereign wealth fund managers to pursue productive investment outlays.

Mr Leon Myburgh of the SARB emphasised the importance of well sequenced reforms to underpin the development of LCBM. He outlined seven key principles and essential building blocks required for the development of such markets.

As co-chairs of the G20 Africa Advisory Group, Mr Dondo Mogajane, the Director-General of the South African National Treasury and Dr Ludger Schuknecht, the Chief Economist and G20 Deputy of the German Ministry of Finance, concluded the first day

of the conference with a conversation on the 'Compact with Africa' initiative, moderated by Mr Daniel Mminele, Deputy Governor, SARB. They reaffirmed the opportunities available for African countries under the Compact with Africa initiative and the role that the G20 countries could play to support African countries.

Following the first day of the Conference that was devoted to discussions by policy makers and key role players in the market, the second day of the Conference was devoted to panel discussions by experts and practitioners involved in the area of bond markets. Four panel discussions took place and focused on issues related to the role of central banks in establishing primary markets, the role of LCBM in mitigating risks, the role of rating agencies and the importance of a benchmark yield curve in the development of LCBM. Some salient issues emanating from the panel discussions are highlighted below.

- 'The role of central banks in establishing primary markets': Panelists focused on the appropriate institutional arrangements needed to establish primary markets which included an effective primary dealer system, and appropriate instruments to meet investors' needs. The need for effective interaction among national treasuries, central banks and the private sector was emphasised. These issues need to be addressed to ensure that primary markets beyond the infancy stage of development on the continent.
- 'Rating, Ranking and Standards – transparency and Good Governance as key elements for a functioning bond market': this panel emphasised the need for transparency and good governance if countries wanted to obtain an investment friendly credit rating from leading rating agencies. However, some panelists felt that the rationale underpinning the rating accorded to African countries is not always fully understood and there is a perception that countries on the continent are not always held to the same standards that apply to other developing countries.
- 'Bond market development – importance of market management and establishing a benchmark yield curve': The panel agreed that while the establishment of the benchmark yield curve was essential in bond market development, the process takes a long time. To establish a yield curve, price

and trading information were needed, both on a historical and real-time basis. While some progress has been made over the last decade, many African countries still experienced institutional and data constraints which hindered the development of a yield curve.

- 'Crisis prevention – why local currency bond markets are more resilient to shocks': The panel concluded that while the development of LCBM could mitigate against shocks, no country can become completely immune against external shocks. Hence, the need to ensure that the policy toolkit is adequately endowed with the necessary tools for the effective monitoring of shocks impacting the domestic economy.

**Local Currency Bond Markets Conference**  
**South African Reserve Bank Conference Centre, Pretoria, South Africa**  
**8 and 9 March 2018**

**Thursday, 8 March 2018**

Facebook: [Part 1](#) ; [Part 2](#)

Welcome address

South African Reserve Bank (SARB) Governor Lesetja Kganyago

Opening remarks:

‘Facing up to the original sin - Experiences of establishing a local currency bond market’ by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank

[Dombret.pdf](#)

Keynote address:

‘Local currency bond markets – the case of a development bank’ by Dr Joachim Nagel, Member of the Executive Board of Kreditanstalt für Wiederaufbau (KfW)

[Nagel.pdf](#)

‘African growth and prosperity: the important role for local currency bond markets’ by Ms Staci Warden, Executive Director, Center for Financial Markets, Milken Institute

[Warden.pdf](#)

‘Principles for developing local currency bond markets’ by Mr Leon Myburgh, SARB

[Myburgh.pdf](#)

Bilateral talk: ‘Compact with Africa: Development of financial markets in Africa’

Co-chairs of the G20 Africa Advisory Group, Mr Dondo Mogajane, the Director-General of the South African National Treasury and Dr Ludger Schuknecht, the Chief Economist and G20 Deputy of the German Ministry of Finance, moderated by SARB Deputy Governor Daniel Mminele

**Friday, 9 March 2018**

Panel discussion:

‘The role of central banks in establishing primary markets’ moderated by Mr Zafar Parker, SARB

Panel members: Mr Holger Spies, Deutsche Bundesbank [Spies.pdf](#)  
Dr Joseph Besong, La Commission des marchés financiers (CMF) of Cameroon [Besong.pdf](#)  
Ms Magda Ghoneim, Central Bank of Egypt [Ghoneim.pdf](#)  
Deputy Governor Andrew Motsomi, Bank of Botswana [Motsomi.pdf](#)

Panel discussion:

‘Rating, ranking and standards – transparency and Good Governance as key elements for a functioning bond market’ moderated by Mr Martin Dinkelborg, *Deutsche Bundesbank*

Panel members: Mr Jan Martin Witte, KfW  
Mr Christopher Egerton-Warburton, Lion’s Head Capital  
Mr Siaka Fanny, Ministry of Finance, Ivory Coast

Panel discussion:

‘Bond market development – importance of market management and establishing a benchmark yield curve’ moderated by Mr Cédrique Mbeng Mezui, African Development Bank Group

Panel members: Dr Martin Pontzen, Deutsche Bundesbank [Pontzen.pdf](#)  
Mr Anthony Julies, South African National Treasury  
Ms Zakeya Ibrahim, Central Bank of Egypt  
Mr Eden Mabilana, Banco de Moçambique

Panel discussion:

‘Crisis prevention – why local currency bond markets are more resilient to shocks’ moderated by Dr Joseph Besong, CMF Cameroon

Panel members: Mr Peter Kruschel, German Federal Financial Supervisory Authority  
Mr Ibrahim Sagara, Banque Centrale des États de l’Afrique de l’Ouest [Sagara.pdf](#)  
Ms Staci Warden, Milken Institute  
Mr Christopher Egerton-Warburton, Lion’s Head Capital