

# LOCAL CURRENCY BOND MARKETS

**Crisis prevention : why local bond markets are more resilient?**



**BCEAO**

BANQUE CENTRALE DES ÉTATS  
DE L'AFRIQUE DE L'OUEST

# OVERVIEW

- 1. INSTITUTIONAL FRAMEWORK OF WAMU**
- 2. WHY WAMU LOCAL CURRENCY BOND MARKETS ARE MORE RESILIENT TO SHOCKS?**
- 3. RECENTS TRENDS**

# 1. INSTITUTIONAL FRAMEWORK OF WAMU 1/3

□ **West African Monetary Union (WAMU) was created in 1962 with 8 countries :**

↳ Benin,

↳ Burkina Faso,

↳ Côte d'Ivoire,

↳ Guinea-Bissau,

↳ Mali,

↳ Niger,

↳ Senegal

↳ and Togo ;

# 1. INSTITUTIONAL FRAMEWORK OF WAMU 2/3

- ❑ **The Union is characterized by a monetary cooperation mechanisms between France and the CFA Franc Member States based on the four fundamental principles below :**
  1. An unlimited convertibility granted by the French Treasury ;
  2. The CFA franc is pegged to euro, current rate 1 €= 655,957 CFA franc ;
  3. The free transferability, current transactions or capital movements within the monetary union and within the Franc Zone which include France ;
  4. And the centralization of the reserves of change in the a common pool managed by the Central Bank of West African States (BCEAO) and at least 50% of the foreign reserve are invested in an overnight deposit with the French Treasury.

# 1. INSTITUTIONAL FRAMEWORK OF WAMU 3/3

- ❑ The Union is also based on the principle of solidarity and equality of the Member States.
- ❑ In 1994, the Union was strengthened by an economic integration with the creating the West African Economic and Monetary Union (WAEMU) by the same member states.
- ❑ The WAMU bond market was launched in 1998 to replace the direct refinancing provided by the central bank (BCEAO) to member states in order to promote a more transparent, efficient and harmonized market-based funding framework and allow private companies to raise public funds.

## 2. WHY WAMU LOCAL CURRENCY BOND MARKETS ARE MORE RESILIENT TO SHOCKS? 1/3

- ❑ **WAMU securities market have grown sharply from XOF 1 256 billion (€1,9 billion euro) in 2009 to XOF 9 462 billion (€14,43 billion) in 2017 with an average yearly increase of 30% driven by the quoted factors below :**
  - ↪ A market discipline backed on the economic and monetary union;
  - ↪ The credibility of the local currency CFA franc ;
  - ↪ Market driven by local actors mainly financial institutions ;
  - ↪ An independent central bank accepting the government securities as collateral in its refinancing operations ;
  - ↪ An harmonized banking and financial regulations (common Central bank, unique banking supervisory entity, Market regulation authority and unique Insurance corporation supervisory authority) : financial stability strengthening with Basel 2 & 3 rules implementation, macro-prudential framework and financial stability fund ;

## 2. WHY WAMU LOCAL CURRENCY BOND MARKETS ARE MORE RESILIENT TO SHOCKS? 2/3

- ❑ **WAMU securities market have grown sharply from XOF 1 256 billion (€1,9 billion euro) in 2009 to XOF 9 462 billion (€14,43 billion) in 2017 with an average yearly increase of 30% driven by the quoted factors below :**
  - ↪ A strong macro-economic background : low inflation less than 2% yoy, Nominal GDP of 58 199 bl XOF (898 billion euros), growth rate : 6.7% in 2017 and more than 6% during the last 6 years and debt ratio Debt/GDP of 46%, 112 millions inhabitants and political stability ;
  - ↪ Countries could get money to repay their local currency debt through direct taxes on raw materials (cocoa, gold, cashew, fish, oil) or through indirect taxes on consumer ;
  - ↪ A real-time gross settlement system (RTGS) denominated "STAR-UEMOA" managed by the central bank (BCEAO) enabling cross regional bank transfers ;

## 2. WHY WAMU LOCAL CURRENCY BOND MARKETS ARE MORE RESILIENT TO SHOCKS? 3/3

- ❑ **WAMU securities market have grown sharply from XOF 1 256 billion (€1,9 billion euro) in 2009 to XOF 9 462 billion (€14,43 billion) in 2017 with an average yearly increase of 30% driven by the quoted factors below :**
  - ↳ A securities settlement system known as "SAGETIL-UMOA" used for central bank's money market operations as well as transactions on Bond trading, Repo and interbank deposit ;
  - ↳ A financial integration allowing cross regional transfers and funding which reduced transaction costs ;
  - ↳ Broadening of the bond market by the issuance of islamic bonds “sukuk” by three member states of the Union (Cote d'Ivoire, Senegal et Togo);
  - ↳ A relatively young market with unsophisticated instruments (T-bill, bond).



### 3. RECENT TREND 1/1

#### ❑ RECENT TREND MANAGED BY A REGIONAL DEBT ISSUING AGENCY ON BEHALF OF Mof IN COORDINATION WITH THE CENTRAL BANK :

- ↪ **Standardization of the securities** : issuance of securities along the rate curve (vanilla bond with invested capital paid in fine), increased notional of outstanding by reopening facilities
- ↪ **Longer tenor and liquidity** : increasing securities maturities, secondary market with primary market dealers
- ↪ **Market infrastructure** : Enhanced market transparency, building a yield curve, quotation and trading platform, benchmark policy
- ↪ **Diversification** : diversified international investors and issuers, widen scope and profile of investors, reduced concentration of market of banking system



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