

# GOVERNMENT REITERATES COMMITMENT TO FURTHER DEVELOP THE BOND MARKET

By Koobonye Ramokopelwa

**The Finance Minister, Peggy Serame has reiterated Government's long standing support for the development of a vibrant bond market which is key to the country's socio-economic advancement.**

There are initiatives that Government has lately been coming up with to bolster the bond market, which among others include the issuance of more bonds along the yield curve, the recently launched Government Borrowing Strategy (GBS) as well as strategic collaborations with the International Monetary Fund (IMF) with regards to the technical aspects of the development of the market.

"It is indisputable that our bond market had garnered tremendous growth over the 20 year-long sustained presence of Government debt securities. This illustrates Government's commitment to the overall development of our capital market. The announcement of new legal instruments and formation of regulatory bodies, acquisition of improved financial market infrastructure, expansion in terms of quantum of issuance, increased frequency of issuance, diversity of market participants as well as instruments over these years, are some noteworthy successes," said the Finance Minister when officially launching the GBS and the Auction Calendar for the 2023/2024 financial year on 13 June, 2023 at Bank of Botswana. According to Serame, despite the impressive achievements in the domestic bond market, the domestic capital market is still facing challenges that we collectively have to surmount. The secondary market for Government securities is still characterised by lack of liquidity, stemming from a high degree of instrument fragmentation as well as a relatively narrow investor base. The results of this structural feature is the payment of a premium by issuers (and ultimately the taxpayer) to investors, to compensate them for the risk of holding relatively illiquid securities.

"Therefore, Government with the invaluable assistance from our multilateral development partners such as the IMF is actively engaged in identifying deficiencies and implementing reforms in the various sub-sectors of the domestic bond market. A Local Currency Bond Market Technical Mission was conducted by the IMF back in August 2022. The Mission identified several potential areas for improvement across all the building blocks of the domestic bond market, including money market transparency, legal framework for repo transactions, primary market pricing and predictability of issuance, secondary market liquidity and depth, investor relations management, as well as clearing and settlement risks associated with our financial market infrastructure

are some of the crucial potential areas for reform," state the Minister. The IMF officials further observed that, there is significant scope to make progress on the authorities' goal to shift funding from non-concessional external borrowing to the domestic bond market. This shift in the composition of borrowing would also facilitate the building of a robust yield curve and increased depth in benchmark bond issuance.

"Further improvements in the domestic debt market and in demand for benchmark securities will require implementing primary market reforms, and once these reforms are completed, a commitment by the authorities to allow rates to be determined competitively in auctions. Improved auction rules, including how to deal with outlier bids, and an overhaul of the primary dealer agreement, would alleviate critical bottlenecks to market development. Moreover, measures to enhance communication with market participants will be invaluable to increase transparency and investor appetite, especially non-bank financial institutions as well non-resident demand for domestic government securities," said IMF. The endeavour to develop and launch a borrowing strategy by Government, which has taken into account the current economic landscape underscores the importance and the need to enhance transparency and accountability in the management of public debt. "Over the medium-term, external as well as domestic debt financing instruments will be a prominent feature of the fiscal budget, as Government continues to roll out the post-pandemic Economic Recovery Plan as well as the Transitional National Development Plan," promised Serame.

Botswana Government started issuing bonds way back in March 2003, in accordance with the then Stock, Bonds and Treasury Bills Act, 1976 (later to be re-enacted with amendments, as the Stock, Bonds and Treasury Bills Act, 2005). This issuance was initially quite modest, constituting three bonds with maturities of two years, five years and twelve years. BW002, with a five-year maturity, was the first ever Government Bond, issued in March 2003, and was followed by BW003 (12 years) and BW001 (2 years), in the next two months. In 2004, the Bond Issuance Note Programme was formalised, enabling the issuance of both Government bonds and Treasury Bills, up to a limit of P5 billion. The objective of this Programme was primarily to support the development of the domestic capital market, given that Government was generally running budget surpluses and did not need to borrow to finance its spending.

Issuances under the Programme reached the limit in September 2010, after which Parliament approved the raising of the limit

from P5 billion to P15 billion in February 2011. Under the expanded Bond Issuance Programme, bonds with maturities as long as 18 and 25 years were issued. This was particularly useful in the pricing of corporate bonds with similar maturities, and to investors, specifically pension funds and insurance companies, who preferred longer dated securities to match the duration of their longer term liabilities. The extension of bond maturities meant that the risk-free yield curve, which is based on the pricing of government securities, now covered a full spectrum of bond durations needed by the domestic capital market.

The upper limit on the P15 billion Bond Issuance Programme was doubled to P30 billion, following Parliamentary approval in September 2020 when the domestic debt outstanding had reached the upper limit of P15 billion. "This assisted with interventions by Government to address the economic and financial disruption brought on by the COVID-19 pandemic, as the proceeds from borrowing were used to finance the budget," noted the Finance Minister. Some of the major projects that Government has used proceeds from issuance of bonds include, the construction of the Botswana International University of Science and Technology (BIUST) and the University of Botswana Medical School.

Over the years, the Botswana Bond Market Association (BBMA) has praised Government for the support aimed at developing the bond market. Furthermore, the Association, comprising of bond market participants as members, and the Botswana Stock Exchange (BSE) as its Secretariat, has through its recent Strategy called the Botswana Bond Market Development Strategy for 2022-2026, commended Government and made some recommendations which, they believe, can further contribute to the development of the bond market. The Association has among others, commended Government, for strengthening the risk free yield curve and the transparency of its issuances. "Since the previous Botswana Bond Market Development Strategy of 2010, Government has introduced new tenors across the curve, as well as in the money market space with new T-Bills and Certificates. Bank of Botswana has transitioned to monthly auctions with the annual calendar made publicly available. Increased issuances and frequency of issuances have helped close up some of the gaps and avail instruments on a continuous basis."

The Association further advised that, "Progressively, there has to be consistent issuance along key maturity points to maintain a robust yield curve. Having more tenors and issuance across different

## Government Reiterates Commitment To Further Develop The Bond Market (cont'd)

maturity points will allow the market to derive a more useful yield curve and facilitate the pricing of other products such as corporate bonds. The risk-free yield curve currently has some wide gaps therefore there is need to consider issuing 2years, 3years, 5years, 7years, 10years, 15years bonds, 20 years and beyond," said the BBMA.

BBMA has applauded the establishment of a benchmark index that is independent, with clearly defined index rules and methodology, replicable and published timely, emphasizing that it is crucial for the development of the bond market. The index is currently computed and published by the BSE. "The Botswana Bond Index Series (BBIS) is crucial in performance reporting, performance management, among others. It has gone a long way complementing the availability of almost real-time fair values for listed bonds, which is beneficial for market practitioners", said the Association which has previously joined hands with BSE to host several bond market conferences and roundtables.

In its new Strategy for 2022-2026 which has been informed by extensive engagements with bond market participants and stakeholders, the Association will be focusing on 3 Strategic Goals; (1) Issuances – to expand the product offering, diversity and number of issuers; (2) Participation and Awareness – programmes to facilitate skills transfer, financial literacy and access to market data; and (3) Partnerships – to increase the BBMA visibility in the global securities market.

In an interview, Kopano Bolokwe, Head of Product Development at BSE who is also the BBMA Secretary General remarked, "The BBMA has established a functional relationship with Bank of Botswana and this places the BBMA in a pole position to adequately lobby Government for issuances of non-conventional bonds such as infrastructure bonds, retail savings bonds, inflation-linked bonds and sustainable bonds as per our Strategy. In addition, we want to take this conversation to key decision makers within State-Owned Enterprises (SOEs), to educate them and encourage them to wean themselves off Government subvention and establish presence in the bond market as we saw with Botswana Savings Bank (BSB) quite recently".

In December 2022, BSB registered a P1 Billion Note Programme with the BSE, and successfully entered the BSE bond market by issuing bonds and short-term debt instruments - Commercial Papers - totalling just over P192 Million. This was hugely ululated by the BSE, which has recently launched its Commercial Paper listings requirements, as it helped resuscitate the short term debt securities market, adding onto the prevailing issuances by RDC Properties. According to the BSE, Commercial Paper is a short-term debt instrument, with maturities ranging from 30 days to 365 days, that is predominantly issued to investors to raise finance for accounts payables, inventories, short term liabilities. It is one of the widely used instrument in raising working capital.

Against this background, the BSE has hailed Commercial Paper as a viable instrument for balance sheet optimisation, adding that, "Investment funds with a liquidity driven short-term focus such as professionally managed Money Market Funds or Liquidity Funds, which are structured as Unit Trusts, are some of the key investors in Commercial Paper. These are funds which are looking for instruments that mature in a shorter period of time, behave like more or less like cash, and it is readily easy to enter and exit the positions. A listed Commercial Paper carries the credential of improved liquidity due to the ease of entry and exit as it is in the public market where all its information including pricing is visible to the wider public and the investor community".

Indeed, a momentous time for Botswana bond market as various stakeholders converge to foster a conducive environment for the domestic bond market to thrive. The ACI Botswana Financial Markets Association Representative, when speaking at the official launch summed it impressively quoting the saying that, "When we marvel and stand in awe of skyscrapers and meticulously constructed architecture, all we can see with the naked eye are beautifully painted structures with endless heights. But what we do not see underground is the foundation that will stand the test of time". On this occasion, the foundation being the monumental launch of the 2023/24 Government Borrowing Strategy and Auction Calendar.

## GOVERNMENT BORROWING STRATEGY FOR FISCAL YEAR 2023-24

