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Animé par l'Agence UMOA-Titres

# RESULTS 2019 OUTLOOK 2020



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## Marché des Titres Publics

Animé par L'Agence UMOA-Titres

Agence UMOA-Titres is the regional agency supporting the issuance and management of government securities in the WAEMU area. Established in March 2013 by the Central Bank Governor upon authorization of the WAMU Council of Ministers, its missions is to work actively for the establishment of a standard government securities market within the union.

The Government securities market is the single local market, by tender, exclusively dedicated to the financing of the WAMU Member States. These sovereign issuers seek, through appropriate procedures, the issuance of government securities by specific actors, either for their own account or for that of third parties.

# Spotlight on the financing of WAEMU member states through government securities issued by auction in 2019

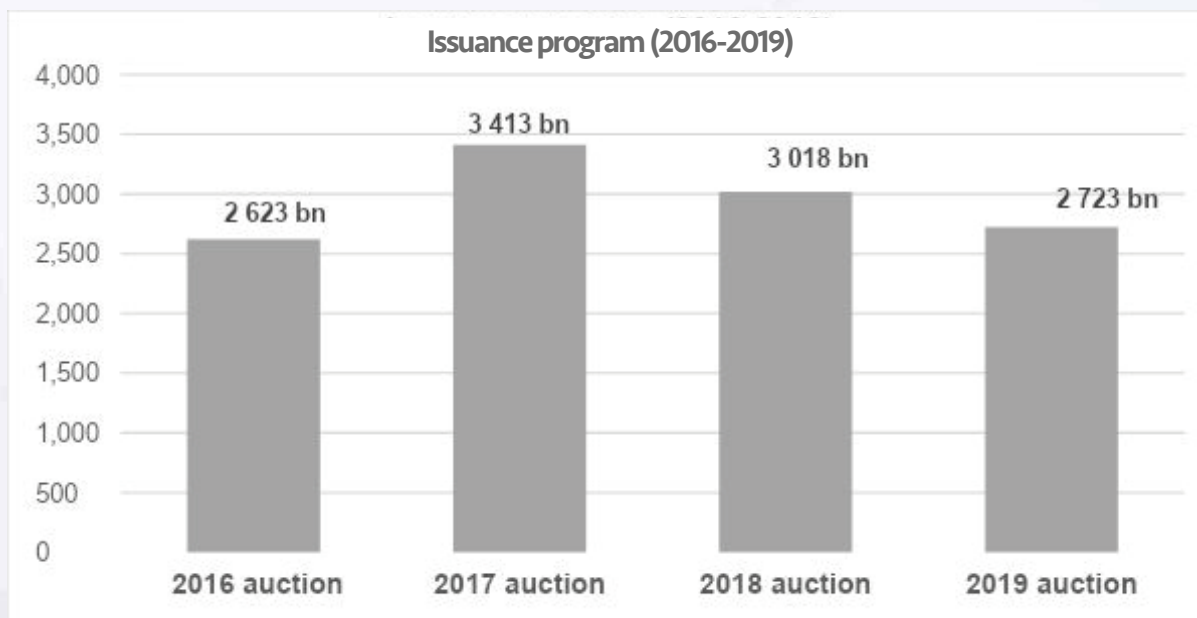
## Background

As part of financing their budget deficits, WAEMU member States have solicited investors through the financial markets. These financings have been carried out:

- on the regional market via the usual issuance channels, i.e. bond issues but also through public offerings;
- on the international markets via Eurobonds.

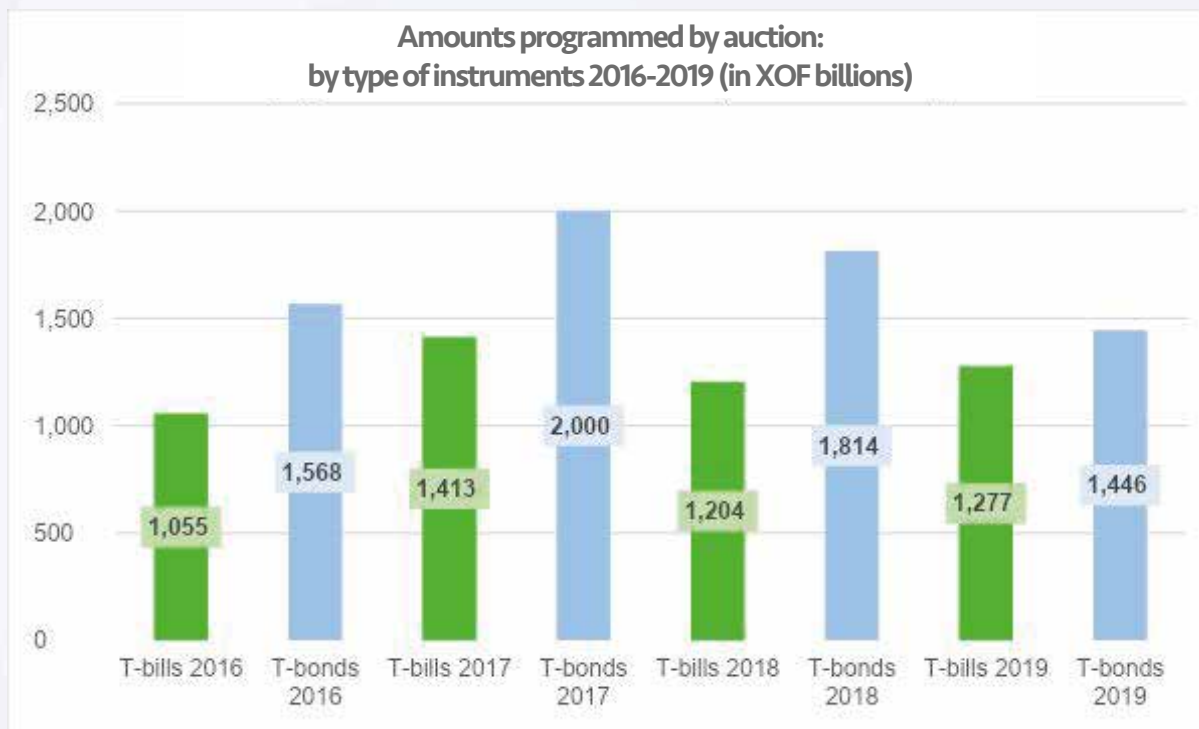
As of 1 January 2019, the indicative financing program of WAMU States on the market by auction for an initial amount of XOF 2,723 billion in 2019, is down by 10% compared to the 2018 program which was XOF 3,018 billion. This issuance program was consistent with the performance of the States over 2018 (XOF 2,433 billion) given Senegal's absence on the regional market since 2017.

The issuance program of the States of the Union on the market by auction for the 2019 financial year as published by Agence UMOA-Titres at the end of December 2018 therefore revealed a forecast amount of XOF 2,723 billion spread over 118 operations.



Source : Agence UMOA-Titres

Within the initial 2019 calendar, the majority of issues of T-Bonds represent 53% of the overall volume, compared with almost 47% for T-Bill issues. This allocation is justified by the desire of issuing governments to extend the average life of the debt and reduce the refinancing risk observed on the domestic debt portfolio. Indeed, issuances carried out in 2017 and 2018, in a context of moderate liquidity, were strongly directed towards short-term maturities, thus degrading indicators over the life of the debt stock.

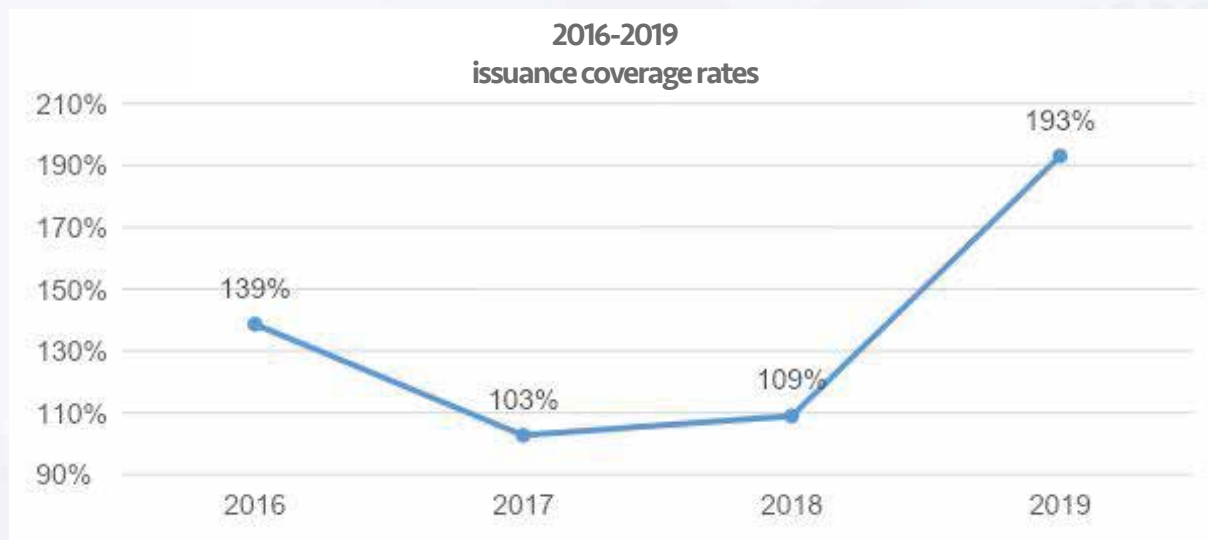


Source: Agence UMOA-Titres

## Execution

At the end of the 2019 financial year, the States had raised more than XOF 3,420 billion, up 41% compared to 2018; i.e. an increase of XOF 987 billion on the regional auction market. Debt service on the Government Securities Market for 2019 is XOF 3,485 billion, i.e. XOF 3,112 billion in principal repayments and XOF 373 billion in interest. In relation to commitments, net financing relating to the issuance of government securities is positive at XOF 308 billion against a negative situation in 2018 of XOF 203 billion.

The auctioned issues by WAEMU States on the regional market recorded a coverage rate at the end of December 2019 of around 193%, a first on the market since the 139% ceiling reached in 2016. This reflects the good liquidity of the market and the renewed appetite of investors for the regional Government Securities Market.



Source : Agence UMOA-Titres

This favorable liquidity situation was just as beneficial for T-Bonds, which recorded a coverage rate of 198%, as it was for T-Bills, which came out with a coverage rate of 188%..

These results highlight the renewed confidence of investors, mainly credit institutions in the WAEMU area, which are once again massively positioned on medium-term securities.



This shift in investor appetite could be explained by strategic adjustments linked to changes in regulations and liquidity conditions in the area. Thus, WAEMU countries raised 1,645 billion T-Bills and nearly 1,775 billion T-Bonds on the Government Securities Market in 2019.

It is also worth noting the development of the instruments used. The standardization of instruments introduced a few years ago has made it possible to mobilize more and more securities with repayment in fine structure and medium- to long-term maturities. Thus, most of the countries in the region that have mobilized securities over 5 years have done so on a long-term basis, and Senegal has been able to open up a significant deposit over 7 years in fine through its various market interventions. In order to deal with refinancing risk and in line with the business continuity plan drawn up in 2017 and implemented with Senegal and Côte d'Ivoire, other States in the area, with the support of AUT, have carried out active debt management operations.

Thus, Côte d'Ivoire carried out two securities operations in 2019 in the months of May and October replacing nearly XOF 232 billion of securities maturing in 2019 and 2020 by new securities maturing in 2022 and 2024. These operations made it possible to manage refinancing risk and improve the average debt maturity while keeping the cost of the operation under control.

Mali and Guinea-Bissau have also successfully carried out buy-back operations on securities maturing in 2019. These buy-back operations enabled them to manage their refinancing risk and optimize their cash flow and boost the secondary market.

In view of the market liquidity level in 2019 and the renewed interest of investors, Agence UMOA-Titres has implemented a strategy to support this positive market momentum with regard to issuance planning. These include increasing the frequency of government intervention for greater regularity and opting for longer average maturities (5 years and 7 years) at open auctions in order to extend the average debt maturity. In addition, this involved the systematic assimilation of securities issued with the aim of reducing the fragmentation of these securities and improving their liquidity on the secondary market.



## Interview of Mr Adrien DIOUF, Managing Director of Agence UMOA-Titres

### 1. With Senegal's operation on the Government Securities Market, Agence UMOA-Titres ended the year in style. What is your assessment of the securities WAEMU member States issued in 2019?

Yes indeed, the year ended very well for our States. However, before going any further, I would like to seize this opportunity to wish all the actors and stakeholders of the regional financial market the very best for 2020. One year ends, another begins. We need to consolidate our performances with a view to raising the Regional Financial Market to the best international standards.

Coming back to 2019 assessment, it can be said that more than XOF 3,420 billion were raised by auction by WAEMU members States, i.e. an increase of 41% compared to 2018. This increase represents additional XOF 987 billion in the coffers of our States. In terms of volume mobilized per instrument over a year, 1,645 billion in T-Bills (Treasury Bills) and 1,775 billion in T-Bonds (Treasury Bonds) thus reaching a new record. The structure of securities issued was also particularly satisfactory. Indeed, more and more issuers and investors are opting for maturities up to 7 years, thus making it possible to pursue the standardization of debt instruments and extend the maturity of the debt portfolio.


Several large-scale operations were held, including the one in Senegal on December 6 last year, which raised XOF 200 billion. These include Côte d'Ivoire's securities trading operations in May and October 2019. In these operations, Côte d'Ivoire was able to trade nearly 282 billion securities maturing in 2019 and 2020 against new securities maturing in 2022 and 2024, with financial terms in line with market conditions.

Therefore, it was a year the Agency stood out in its core business, which remains fund-raising, but also in operations in which its cutting-edge expertise in active debt management and its knowledge of the local debt market were pledges of added value for our States.

### 2. In concrete terms, what made headlines for Agence UMOA-Titres in 2019?

As in previous years, Agence UMOA-Titres has maintained its momentum with the aim of building, in collaboration with all stakeholders, a Government Securities Market capable of ensuring the efficient financing of WAEMU member States' development. Actions have also been taken to enable issuers in the WAEMU area to raise capital at controlled costs and to respond to investors' concerns while working to raise a Government Securities Market to international standards.





To this end, we can return to these active debt management operations, which aim, among other goals, to deal with the refinancing risk of governments. This type of operation is thus becoming a permanent feature of our business in view of the importance of the debt market for our countries. To meet the demand we had to reorganize and set up a dedicated team. These operations made it possible, in particular, to manage refinancing risk and improve the average maturity of debt while keeping debt costs under control.

Similarly, we are trying to change the paradigm within the Agency as per debt repayment. The key word now is not to let a debt reach maturity by choosing, through over-the-counter transactions on the secondary market, the moment of its repayment. These repurchase transactions significantly reduce maturities and smooth cash flow over the period in question. This has been the case with several countries, including the examples already mentioned above of Côte d'Ivoire and Senegal, but also Benin, Mali and Guinea-Bissau.

Moreover, giving the trends of States' debt stocks, but also of our market which is gaining in maturity, these are typically transactions that are likely to multiply over the coming years and become common practice.

2019 was also decisive for the Government Securities Market, which was able to impose the repayment in fine structure as a standard for investors, and most especially it demonstrated an enhanced capacity to raise fund. Thus, the Government Securities Market has clearly positioned itself as a market capable of raising substantial funds at controlled costs over the longest maturities that our market can offer.

Finally, Agence UMOA-Titres has embarked on the pursuit of key projects to build the capacity of market players through CISI-UMOA financial certification, the development and dissemination of yield curves for issuers in the WAEMU area, and finally the profiling and segmentation of the banking investor base.

### **3. You mentioned CISI-UMOA financial certification that Agence UMOA-Titres launched in March 2019. What is your assessment of this new capacity building offer for market players?**

As part of its capacity building actions in behalf of market players, Agence UMOA-Titres, in partnership with the prestigious London-based Chartered Institute for Securities & Investment (CISI), developed the CISI-UMOA financial certification program, which was deployed in March 2019 in all the WAEMU member States. The program is, at this stage, composed of two sequenced test modules, starting with an initial module (level 1) on "Financial Services Fundamentals", followed by a more advanced module (level 2) on "Bond Markets". To date, it has nearly 300 candidates registered in the area, some of whom have been registered directly by their employers, who are also involved in the Government Securities Market. This reflects the market interest in the program. Sessions are held quarterly. Three examination sessions have been held since the inception of the program.

This program, set up by Agence UMOA-Titres, plays a catalytic role in driving the movement, though its vocation is to serve the entire financial market. It is not the Agency's goal to manage this program forever as it will have to be driven by the market players who are the ultimate beneficiaries and therefore best placed to assess the capacity building needs in all segments of the financial market. To this end, a steering committee made up of players from the academia and representatives of professional associations (APSGI, APSGO, CIPRES, FABEF, COFEB, academics) is being set up to define the next modules to be implemented and to develop career paths in line with the needs of the regional financial market.

### **4. What progress has been made on the project to develop and disseminate a market yield curve?**

As a reminder, Agence UMOA-Titres brainstormed, in collaboration with development partners, as part of market structuring actions, on the development of a yield curve within the Union. In 2018, the work led to the development of a methodology for implementing an initial version of yield curves by issuing State.

Thus, the Agency finalized and implemented the methodology for constructing the yield curves for each issuer. These curves are published weekly on the Agency's website and also relayed on our social pages for wide distribution. This is the first step. This curve, which today is based on the primary market, is set to evolve with the development of the secondary market.

## 5. **The Government Securities Market will be buoyant in 2019; what message would you like to send to investors?**

I wish to renew my best wishes for this New Year. I also note that many challenges lie ahead in the New Year. Since "the tree should not hide the forest", we wish to raise awareness among all market players, issuers, investors and stakeholders on the importance of good market practices.

One of the major challenges in the local sovereign debt market remains the broadening and diversification of the investor base. In addition, several reforms are to be implemented, ranging from the establishment of market infrastructures for better accessibility thereof to the standardization of the instruments issued (issuance of benchmark securities).

Agence UMOA-Titres, in collaboration with various stakeholders, has started projects in this direction to be continued in 2020. These projects include:

- The establishment of a platform for the listing of securities and
- The rating at the regional level of each issuing State.

In terms of financing needs, WAEMU States should still have recourse to the internal market at the same levels as those observed in previous years. Efficient communication with market players will be at the heart of issuers' concerns with a view to improving the coverage of their operations both in terms of mobilization and resource costs.



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