

MEETING OF ISSUERS OF GOVERNMENT SECURITIES OF THE WAEMU

COUNTRY CASES: ATTRACTING FOREIGN INVESTORS

Dakar, Senegal

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A GENERAL FRAMEWORK TO ASSESS THE PROBLEM

- Access to primary and secondary markets by foreign investors
- Communication with foreign investors and transparency
- Settlement of bonds and custody arrangements for foreign investors
- Regulatory issues



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- The perfect storm
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- International Clearing and Securities Depositories

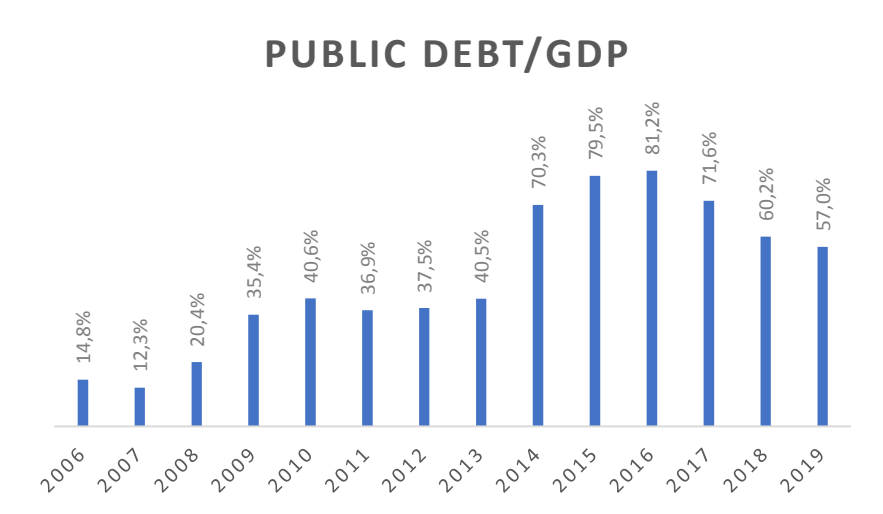
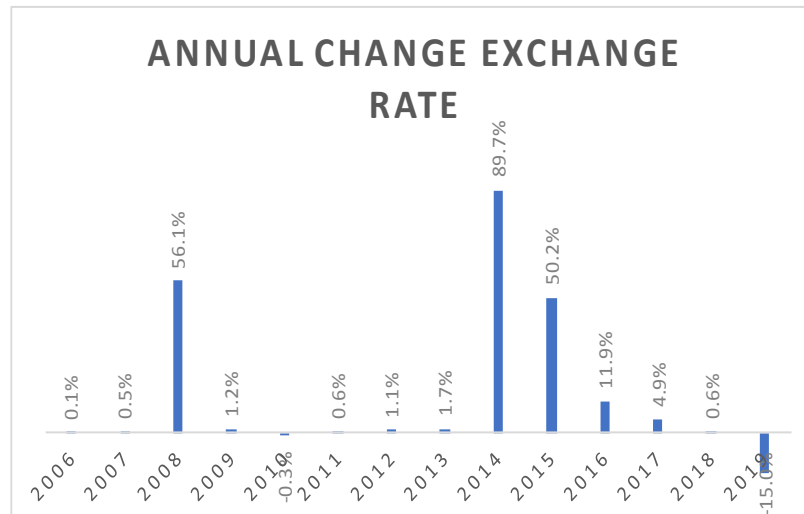
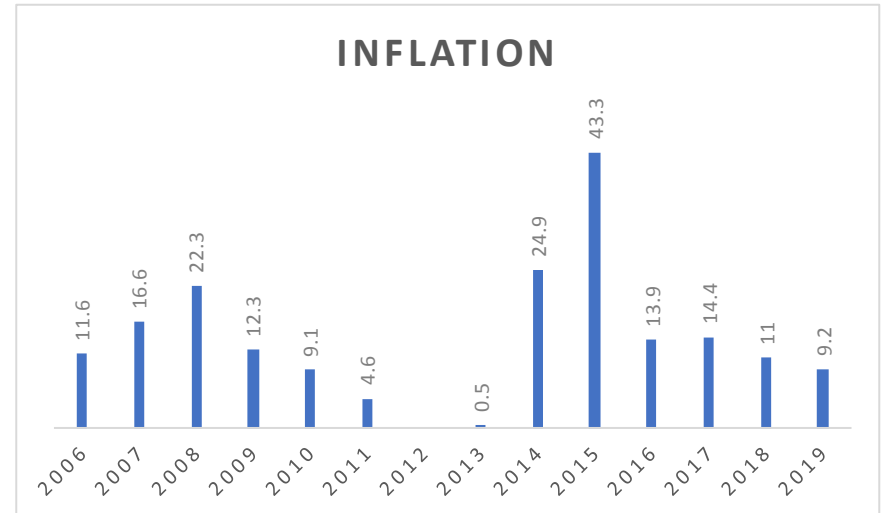
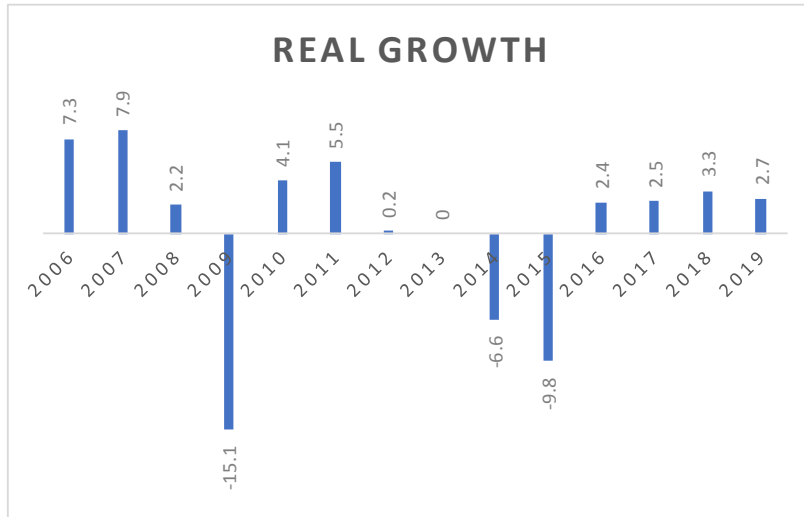
II. The case of Panama

- The problem with the issuance
- The Social Security Fund
- Hybrid syndications

The case of Ukraine

Revising the issuance policy, communicating with investors and adopting an international clearing and securities depository

THE "PERFECT STORM" IN 2014-2015: RECESSION AND INFLATION AS THE HRYVNYIA COLLAPSES



THE RESPONSE: DEBT RESTRUCTURING AND IMF PROGRAM

- The restructuring terms included a 20 per cent haircut and a four-year maturity extension (led by Franklin Templeton and limited holdout)
- US\$17.5 billion standby program conditioned on reform commitments, including the requirement to strengthen public finances to make debt more sustainable.
- After a 9-month break the MoF resumed its issuances of local currency bonds in January 2016 and held 240 auctions through the year, but 60 percent of those failed due to lack of bids or bids rejected.

THE DMO WAS UNABLE TO ATTRACT INVESTORS

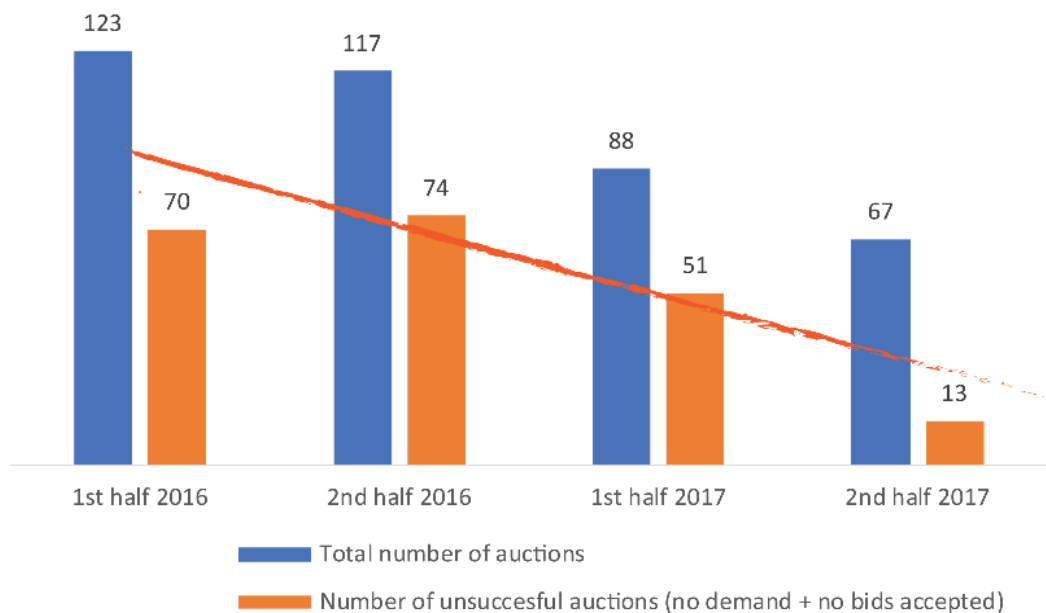
- Intended cut-off rate of the auctions based on the capacity of repayment (too low), invariably below the market interest rate
- The debt office was in the dark about what the UAH investors were willing to buy
- In 2016 75 percent of all outstanding UAH bonds had less than 35 days between maturity dates, sometimes with volumes below USD20 million
- Investor base comprised only of state and commercial banks, no natural demand for medium and long-term securities. Non-resident investors, active before the war, disappeared due to political and economic uncertainty.

COMMUNICATION TRIGGERED THE CHANGE

- In January 2017, the debt office started calling each and every one of the banks who had a potential interest to invest in the domestic UAH bonds. Calls on Mondays were followed-up with auctions on Tuesdays.
- This was augmented with regular meetings with the primary dealers where the authorities would talk about the amount and the type of securities to be auctioned and receive feedback.
- The objective was to open a two-way communication channel about auction plans and gauge the demand.
- In parallel, the debt office also placed government securities at market interest rates, enhancing the investors' interest.

RESULTS WERE ENCOURAGING

Decrease in Unsuccessful UAH Auctions 2016-17*

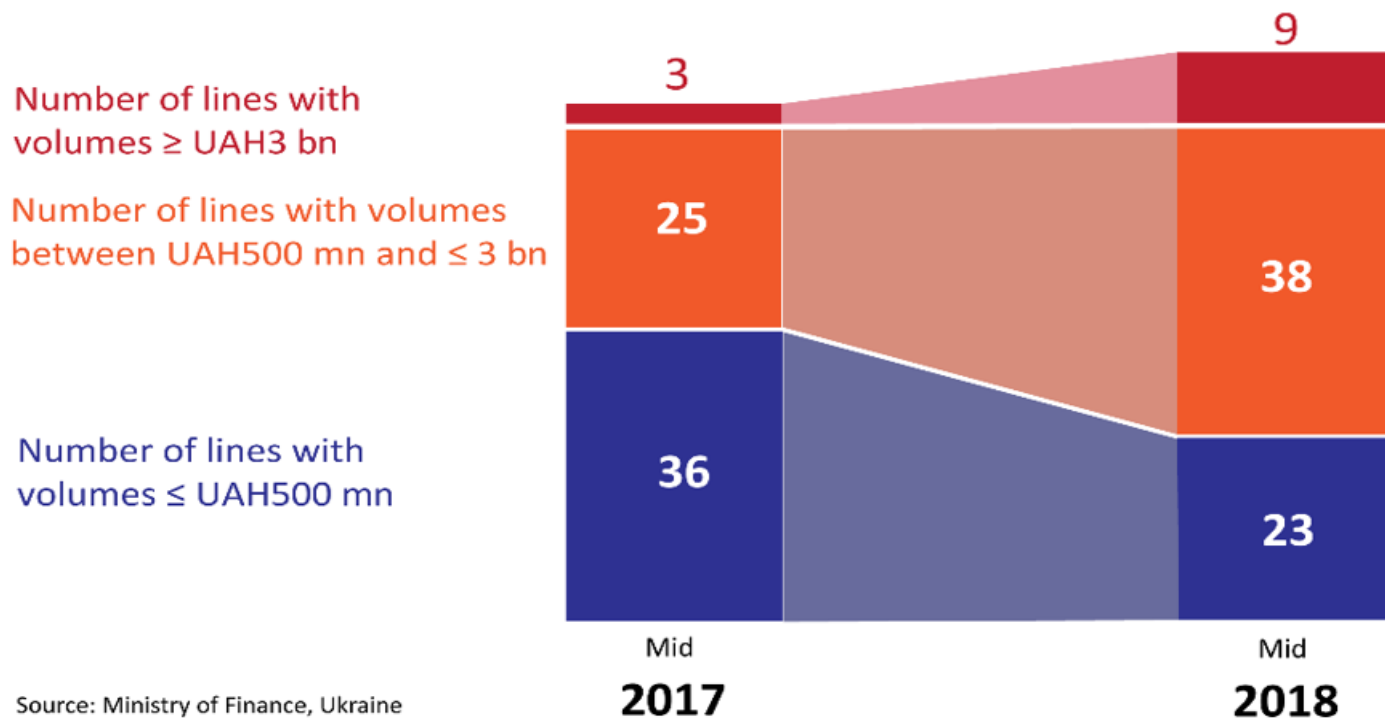


* Source Ministry of Finance - Ukraine

The ongoing communication with market players allowed the debt office to “sell” the need to consolidate the securities in the much-fragmented market.

COMMUNICATION HELP DMO REALIZE THE NEED TO CONSOLIDATE THE SECURITIES

Ukrainian Debt Office gradually pushed the market towards securities with bigger volumes



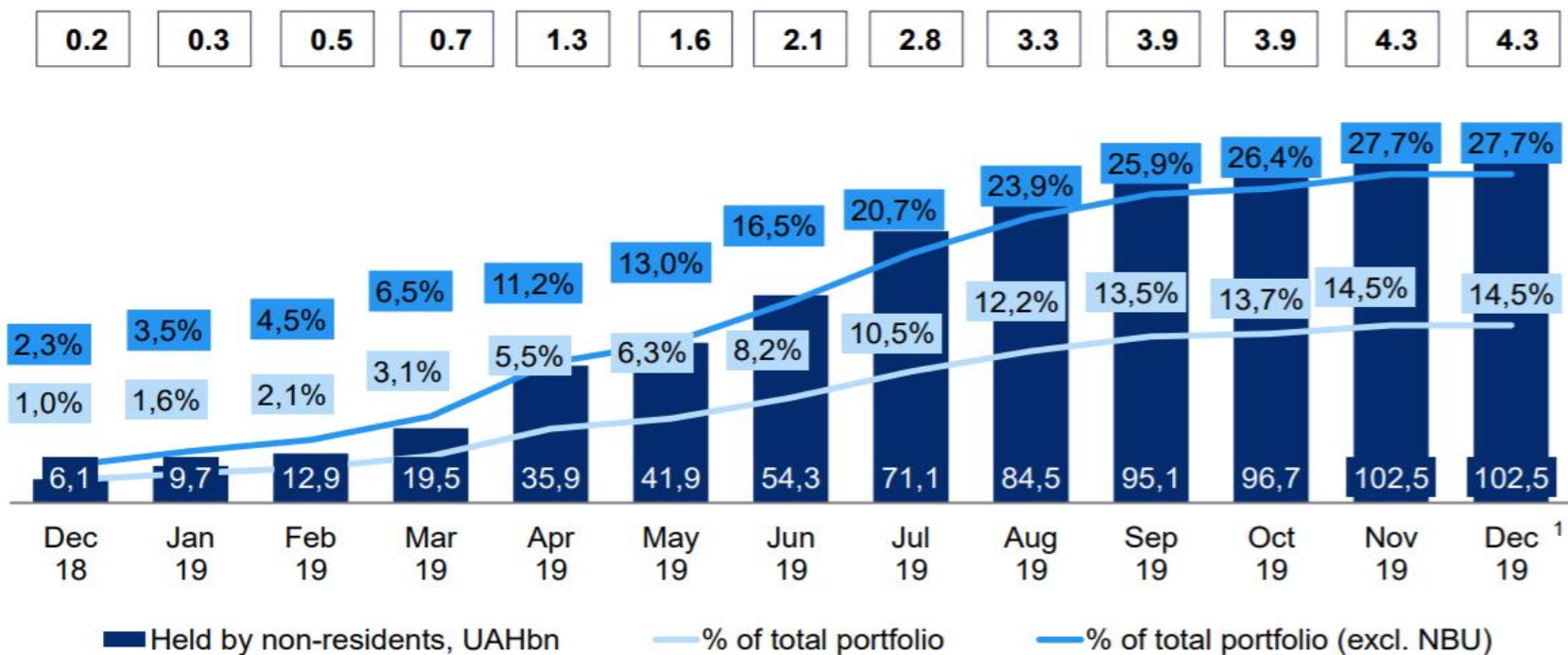
ATTRACTING FOREIGN INVESTORS WAS THE NEXT STEP

- With a pension reform somewhere down the road and a limited life insurance industry, expanding the investor base to non-residents was crucial.
- In 2018, the team explored Credit Linked Notes (CLN) and Global Depository Notes (GDN). Both allowed non-resident investors to acquire local currency securities without taking the convertibility risk.
- The authorities also started discussions to make UAH government securities eligible in Clearstream.
- The team also investigated the possibility of issuing a local currency Global bond as an effective marketing tool to attract foreign investors. Later, with the mitigation of convertibility and repatriation risks, the idea was to invite foreign investors to the domestic market.

ACTIONS TRANSLATED INTO TANGIBLE RESULTS

Non-residents' domestic government bond portfolio

Held by non-residents, USDbn



Source Ministry of Finance of Ukraine

June 2018: currency liberalization, November 2018: adoption of the concept of the nominee holder, May 2019: link with Clearstream

The case of Panama

Bookbuilding of a local law bond with a hybrid syndicate including foreign and local banks

PANAMA: A DIFFERENT CHALLENGE

- Dollarized economy with easy access to the international capital markets
- Strong fiscal accounts and low funding needs
- $\frac{3}{4}$ debt Eurobonds and $\frac{1}{4}$ raised in the domestic market
- Risk of closure of international capital markets

THE PROBLEM IS THE ILLIQUIDITY OF THE LOCAL MARKET

- Whereas typical tickets of globals are USD20-30 million, tickets for local government securities are USD0.5 million
- Too little issuance: 4 bond auctions per year
- Auctions are relatively small and most paper is bought by the Social Security Fund at very high prices
 - Banks don't want to buy because interest rates are too low at some point even lower than globals
- There are 6 lines only two of them with more than USD1 billion (relatively small compared to other countries)

New 7-Year Euroclearable Local Treasury Note

Transaction Highlights

- Panama's first internationally local law bond (144-A/ Reg S)
- Bond listed on LatinClear and trades in Euroclear.
- Strong participation from international and local accounts. Initial Price: T+150bps Final spread: T+140bps.

Joint Bookrunners



Local Broker Dealer

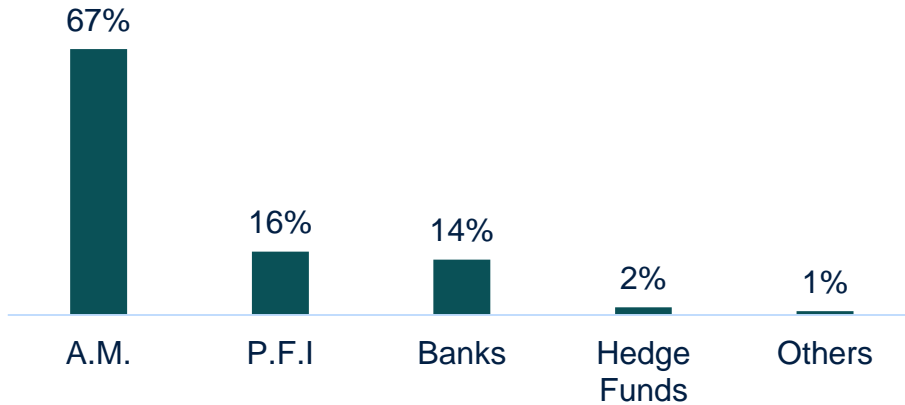


Final Terms and Conditions

Issuer Rating	Baa1/BBB+/BBB
Rank	Senior Unsecured
Format	144A/Reg S
Principal Amount	US\$1.0 billion
Maturity	April 17th, 2026
Coupon	3.750%
Issue Price	99.847%
Yield to Maturity	3.775%
Listing	LatinClear and Euroclear
Governing Law	Law of the Rep. of Panama

Demand reached 2x oversubscription

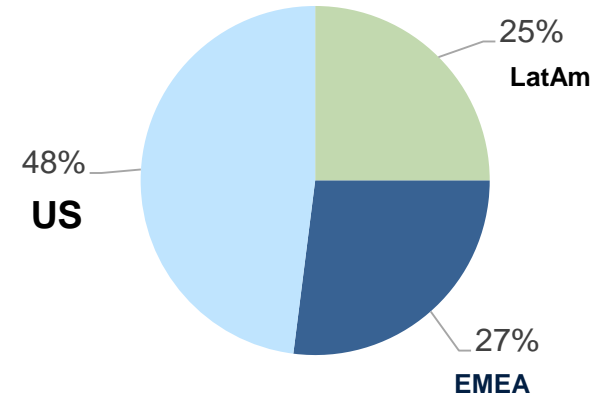
Allocation By Investor Type



Source: Directorate of Public Financing

The notes were allocated to asset managers (67%), pension funds & insurance companies (16%), banks (14%), and hedge funds (2%).

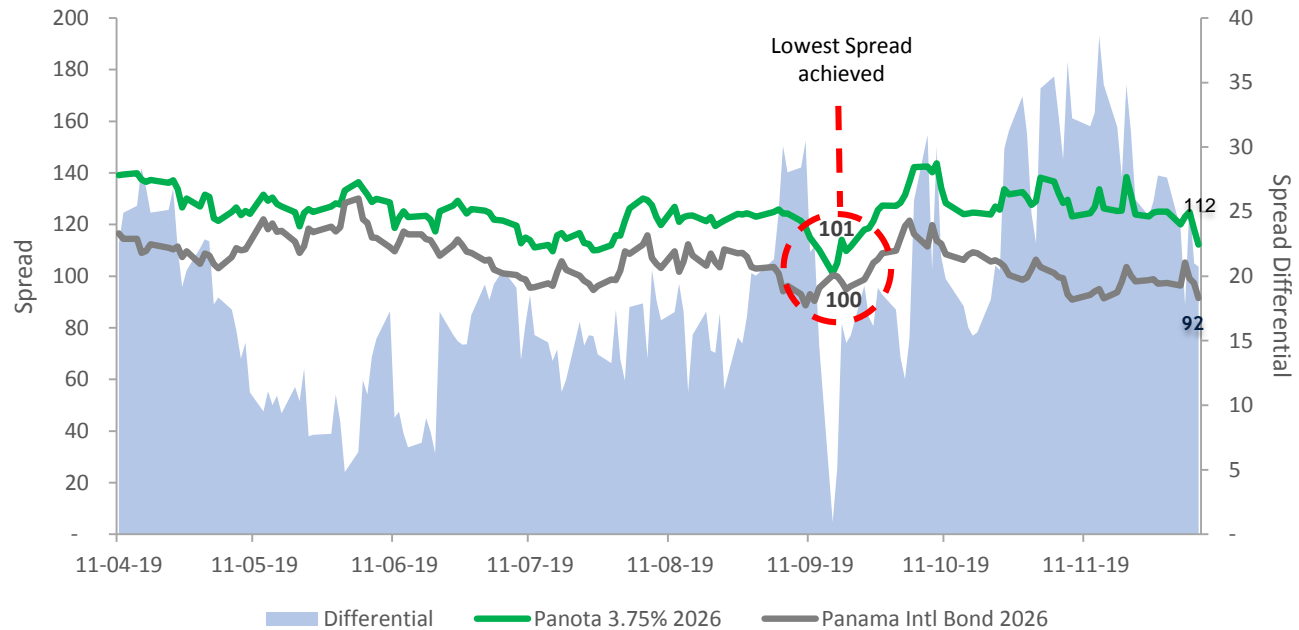
Allocation By Region



Source: Directorate of Public Financing

48% was allocated to U.S. investors, 27% went to Europe and 25% to Latin American investors.

Spread differential 2026 local bond vs 2026 Global Bond



Source: Directorate of Public Financing

2026 local law bond records an average differential of 19 basis points compared to Panama Global Bond of same maturity

BOOK BUILDING OF A LOCAL LAW BOND WITH HYBRID SYNDICATE VERSUS REGULAR AUCTIONS

Advantages	Disadvantages
Attract foreign investors	Fragment secondary market between local and international trading pools
Strengthen price discovery	Limit space for regular auctions
Faster incorporation into global indices	Operation is more complex and requires special documentation
Better control of allocation process	Legal and operational fees
	Foreign investors may prefer book building and refuse to participate in the auctions
	Need for a very clear issuance strategy

Appendix

Framework for assessing the participation of foreign investors in the domestic debt market

ACCESS TO PRIMARY AND SECONDARY MARKETS

- Can foreign investors buy government securities? How? What type of securities and sector of the curve would they prefer? Why? Can foreign resident holdings be traced? Hungary vs Brazil
- If they buy in the primary/secondary market do they come through PDs? If it's the secondary market do they trade OTC, or, in an ETP?
- Does the issuer have policies to enhance liquidity and attract foreign investors?
- Are government securities part of local currency indices?

COMMUNICATION WITH FOREIGN INVESTORS AND TRANSPARENCY

- Evaluation method of the Institute of International Finance (IIF) and Data Transparency: (i) institutionalized Investor Relation office; (ii) dissemination of macroeconomic data and policy information; and (iii) feedback channels
- IMF Special Data Dissemination Standard (SDDS) and forward looking information and market relevant data (fiscal position, central government debt and external debt). Data dissemination : (i) passive via website; (ii) active via formal channels between the authorities and investors
- Evaluate Investor Relation Programs annually by comparing service quality, timeliness, accuracy and relevance of information for all targeted investor groups and the technology used with IR best practices

Only a small minority of the countries surveyed had dedicated Investor Relation units

SETTLEMENT OF BONDS AND CUSTODY ARRANGEMENTS FOR FOREIGN INVESTORS

- Local bonds are typically settled and held using a local custody arrangement, which non-resident investors may not have access to. There are several solutions:
 1. Credit linked notes (GDNs): issued by a financial intermediary to mirror particular local debt securities while trading in U.S. dollar terms and settling in Euroclear, Clearstream or the Depository Trust Company (DTC)
 2. Use international/global custodians, i.e. foreign banks that have subsidiaries in the given country and also in the country, where the investor is domiciled and offer custody services to investors
 3. Use an ICSD: Euroclear/Clearstream/DTC.
- Another approach is to issue local currency bonds in the international capital market under NY or London jurisdiction. These GoS are typically cleared and settled in a ICSD

Euroclearability is not always a pre-condition for foreign investors' participation (e.g. Colombia and Brazil)



REGULATORY ISSUES

- Conditions for selling and buying foreign currency
 - Restrictions on capital flows and convertibility risk
- Taxation on coupons and capital gains and in some cases on FX transactions
- Reporting obligations on FX and security transactions

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