

# **Development of the Debt Markets**

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# History

- Central Government largest borrower
- High Risk
- High Inflation
- High borrowing requirement
- Prescribed Assets
- Limited pool of investors
- Limited Market transparency
- Low Liquidity
- Efficient Money Market
- South Africa -solid financial system

# Liquidity

- Leads to
  - Reduced cost of borrowing
  - Confidence in the financial market
  - Sustainability of markets
  - Growth of the market
  - Increased pool of market participants
  - Free flow of financial assets
  - Globally competitive

# Liquidity

- SA Experience
  - Benchmark issues
    - Early creation through consolidation
    - Split maturities now bullet bonds
  - Market makers
    - Original spreads too tight - created volatility
    - Market making on new issues at certain threshold
    - Panel of 10 ensures
      - Competition
      - Auction oversubscription
- Steady issuance
- Sound fiscal policy

# Primary Market

## Government

- SARB government's agent
- Funding done on Ad hoc basis
- Pre Market making - government over parastatal
- SARB undertook Market Making
- Transparency
  - Primary Dealers
    - Domestic/international mixture
  - Auctions
    - Regular
    - Only funding mechanism
    - Change from multi price to uniform
  - Disclosure
    - Funding program

# Primary Market

## Non Government

- Mixture of
  - Own market making
  - Market making outsourced
  - Auctions and taps
- Increased growth
  - Corporate bonds mainly
- Market facilitation

# Secondary Market

- Slow start
  - Non transparent pricing
  - Non immediate trade execution
  - Long settlement periods
- Improvements
  - Floor migration
  - Bank involvement in trading
  - Price makers
  - Shorter settlement period - T+3
  - Electronic enhancements
  - Scrip immobilised
  - ATS halted

# Developments

- Instruments and markets
  - Spot
  - Repo
  - Options
  - Futures
  - FRA's
  - Swaps
- Effects
  - Derivatives no guarantee of growth
- Exchange/BTA relationship

# Developments

- Participants
  - Domestic
  - Foreign
- Effects
  - Domestic participants loyal
  - Foreign banks
    - Potentially fickle
    - Bully boy tactics
    - Staying power - added value
    - New breed of participant

# Investors

- Captive investor base
  - Prescribed assets
  - Exchange control
- Domestic Investor base stable
  - Provide market focus
    - Lower transaction costs
    - Efficient trading methods
    - Efficient settlement facilities
    - Stimulate innovation
- Foreign investor base growing
  - Foreign issuance
- Retail bond issuance

# Conclusion

- Ensure solid foundation
- Transparency essential
- Accept assistance - not blindly
- Markets evolve - ensure at correct pace
  - Participant come and go
  - Instruments come and go
- Nurture investors