



Investing on the Regional Government Securities Market (RGSM)

14th Annual OECS Credit Union Summit
St Vincent and the Grenadines
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Outline

1. What is the RGSM?
2. The Governance structure of the RGSM
3. The Role of Government Securities
4. The Performance of the RGSM
5. The Role of the Credit Unions on the RGSM
6. Governments macroeconomic performance
 - a. Economic Growth
 - b. Inflation rate
 - c. Balance of Payments and Reserves
 - d. Fiscal performance
 - e. Public Debt
7. Efforts to strengthen confidence in government securities



1. What is the Regional Government Securities Market (RGSM)?

- ▶ The RGSM is an arrangement aimed at integrating the markets for government securities across the ECCU:
 - Primary Market – where securities are purchased directly from the Issuer
 - Secondary market – market where previously issued securities are traded using the platform of the Eastern Caribbean Securities Exchange.
- ▶ Established by the ECCB Monetary Council with the aim to:
 - Raise funds for the government at the lowest possible costs
 - Provide investment opportunities for residents of the ECCU
 - Develop the money and capital markets in the ECCU

What is the Regional Government Securities Market (RGSM)? (cont'd)



- ▶ First auction was held in November 2002
- ▶ A network of licensed brokers allows:
 - investors in any ECCU country and in the diaspora to purchase securities issued by any ECCU Government.
- ▶ The auction process allows:
 - a more transparent and competitive environment.
- ▶ Dematerialisation: No physical certificates (electronic records)
- ▶ Tax free to residents of the ECCU.

2. Governance Structure

- ▶ Oversight of the RGSM is undertaken by the Regional Debt Coordinating Committee (RDCC):
 - Membership
 - Head of the Ministry of Finance (Financial Secretary/Permanent Secretary/Director General) from each member government
 - Governor ECCB
 - RDCC meets three (3) times a year
 - Secretariat services provided by the ECCB
 - Formal arrangement with the ECSRC to undertake enquiries into the operation of the market
 - Formal arrangement with the ECSE to use the auction software and services



Governance structure (cont'd)

- ▶ The RGSM forms part of the Eastern Caribbean Securities Market (ECSM) that includes:
 - Eastern Caribbean Home Mortgage Bank (ECHMB)
 - Eastern Caribbean Securities Exchange (ECSE)
 - Eastern Caribbean Securities Regulatory Commission (ECSRC)
- ▶ Securities Act 2001 is the governing Law for the ECSM
- ▶ The Act exempts governments from publishing a prospectus:
 - However, RDCC has required governments to publish a prospectus with minimum disclosure standards
- ▶ ECCB acts as fiscal agent to the governments (Fiscal Agent Agreement)

Governance structure cont'd

- ▶ Brokers are required to be licensed and staff certified
- ▶ Currently there are six licensed brokers that are members of the ECSE that operates as a Self Regulatory Organization (SRO)
- ▶ ECSRC has a code of conduct for the operations of the Licensed Brokers



Licensed Broker Dealers in the ECCU (as at 31 August 2016)

1. St Kitts Nevis Anguilla National Bank
2. Bank of Nevis
3. Bank of St Vincent and the Grenadines
4. ECFH Global Investment Solutions
5. First Citizens Investment Services (formerly CMMB)
6. Grenada Cooperative Bank

3. The Role of government securities

- ▶ Government securities play a key role in the economic and financial development of a country.
- ▶ A public policy objective of many developing countries is to be able to borrow in local currency
- ▶ Not only for raising funds for governments but as
....
 - An investment asset
 - Collateral
 - IBM transactions
 - Repo facilities
 - Borrowing by banks from the Central Bank
 - Benchmark for interest rates
 - Benchmark for Other issuers – Corporates

Role of government securities (cont'd)

- ▶ Not only for raising funds for governments but as (cont'd)
 - An instrument for Liquidity and risk management
 - Minimise the cost of borrowing
 - Ability to better manage the debt portfolio:
 - Currency risks
 - Maturity structure
 - Diversify the investor base



Table 1: RGSM rates compared to Overdraft rates from the commercial banks as at 31 August 2016 (in per cent)

Sovereign	Overdraft Rate	91 day Treasury bills	180 day Treasury Bills	365 day Treasury Bills
Antigua and Barbuda	11.000	–	5.000	4.764
Dominica	7.500	3.917	–	–
Grenada	8.000	4.817	–	5.000
Saint Lucia	10.000	5.331	3.583	–
St Vincent and the Grenadines	9.000	2.953	–	–
ECCU Weighted Simple/Average	9.100	3.996	3.874	4.884

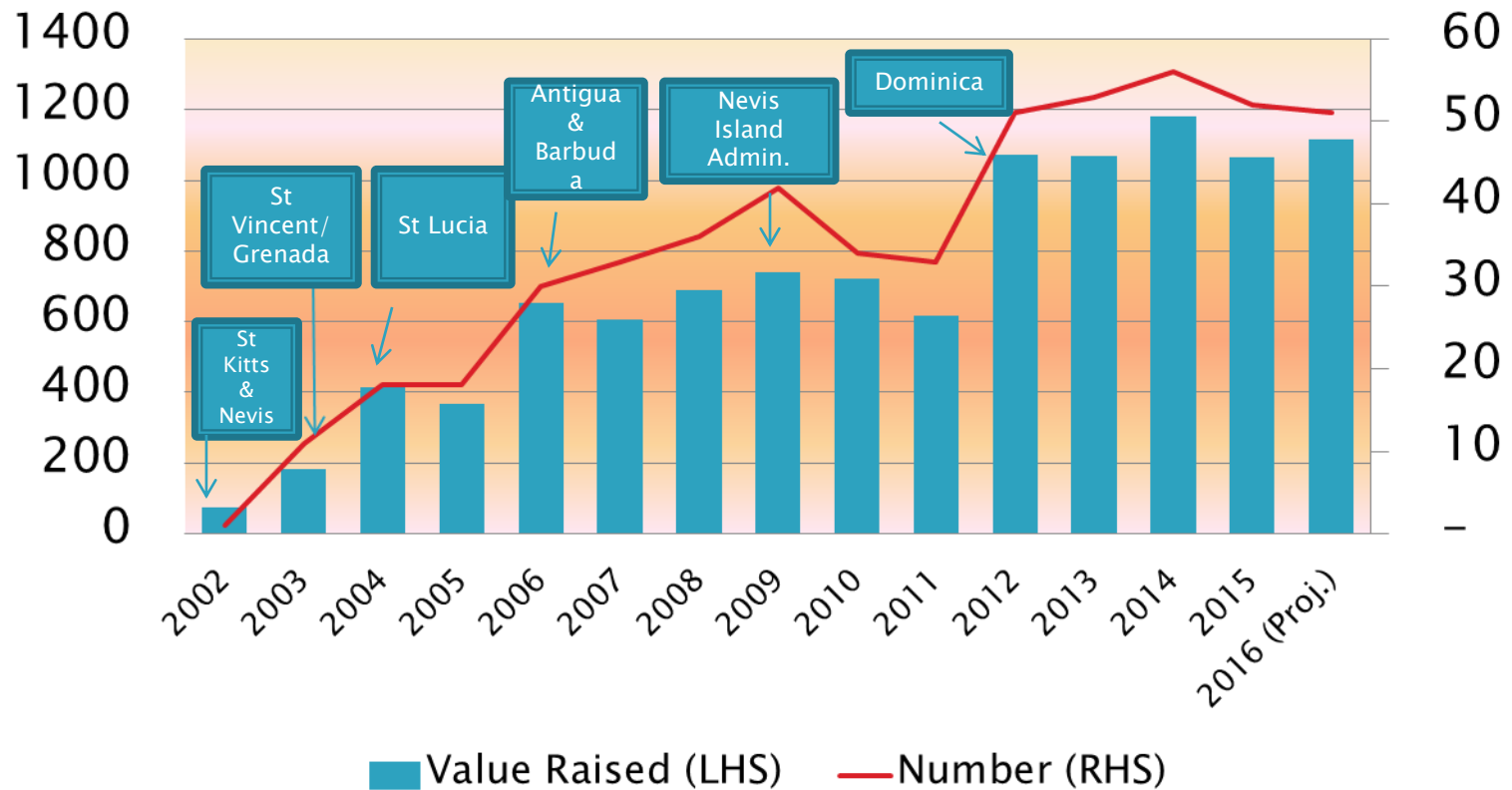
Table 2: Number of auctions

(as at 31 August 2016)

	Treasury Bills	Bonds	Total
Anguilla	0	0	0
Antigua and Barbuda	75	10	85
Dominica	18	3	21
Grenada	75	1	76
Montserrat	0	0	0
St Kitts and Nevis	4	1	5
St Lucia	104	45	149
St Vincent and the Grenadines	155	11	166
Total	431	71	502

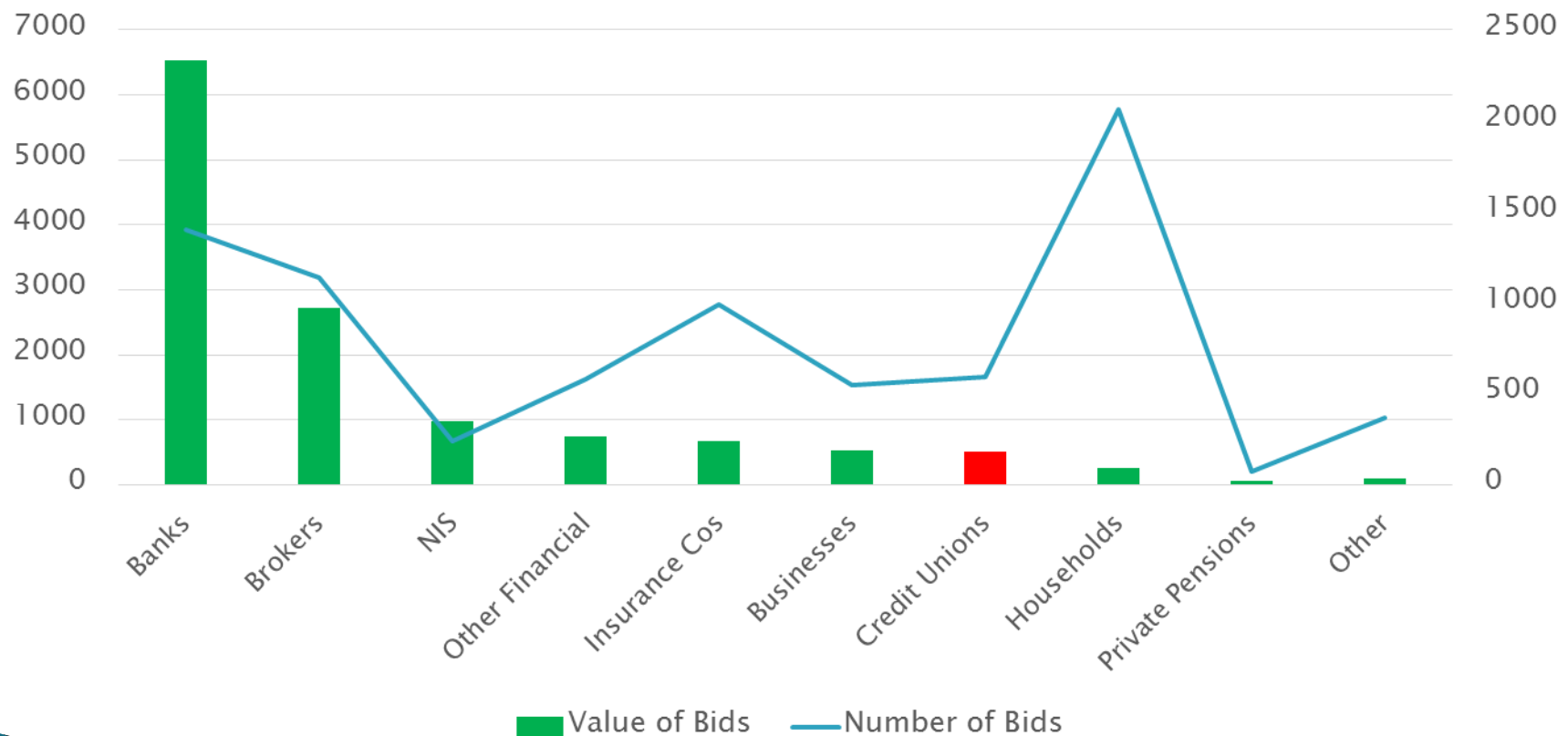
Since the inception of the RGSM, the number of auctions have grown steadily

Chart 1: Number & Value securities issued/raised on the RGSM



The commercial banks are the dominant investor on the RGSM by value accounting for 50 per cent of the value of bids.

Chart 2: Value and Number of Bids by Investor Type



The growth in investments by the banks on the RGSM is driven by the absence of lending opportunities and the build up of excess reserves

Chart 3: Excess Reserves held by the Banks at the ECCB (EC\$m)

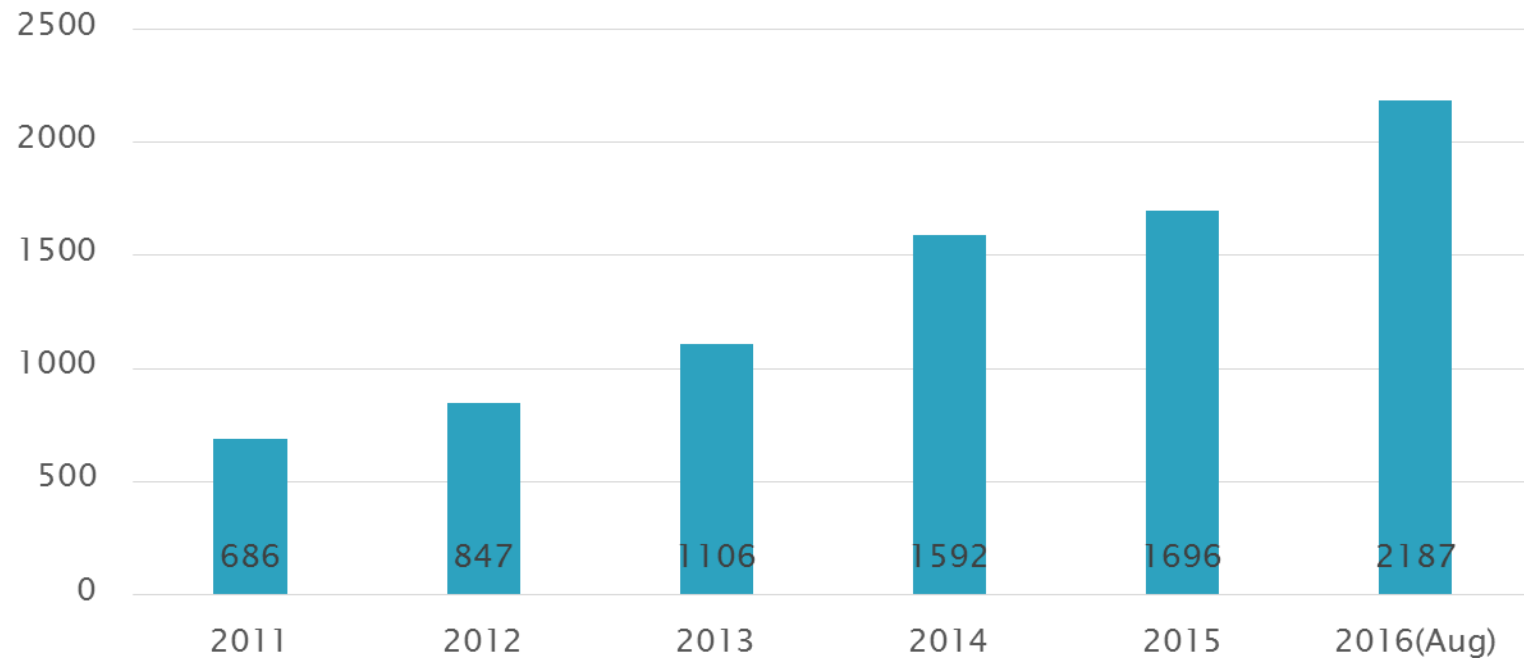


Table 3: Participation of Credit Unions on the RGSM

Residency of Credit Union	Number of Credit Unions as at August 2016	Participated in the RGSM 2002 to 2016	Participated on the RGSM in 2016
Antigua and Barbuda	6	1	1
Dominica	7	5	1
Grenada	10	8	4
St Kitts and Nevis	4	1	–
Saint Lucia	16	16	5
St Vincent and the Grenadines	4	9	3
Other (Anguilla, Montserrat, OECS)	3	1	2
ECCU AREA	50	41	16

Table 4: Number of bids by Credit Unions by Issuing Government



	ISSUING GOVERNMENT						
Residency of Credit Union	ANT	DOM	GDA	SKN	SLU	SVG	ECCU
Antigua and Barbuda	9	1	1	0	13	2	26
Dominica	6	2	3	–	1	8	20
Grenada	45	11	84	2	31	26	199
St Kitts and Nevis	–	–	–	1	–	–	1
Saint Lucia	11	4	9	–	52	22	98
St Vincent and the Grenadines	11	4	26	1	41	156	239
Other (Anguilla, Montserrat, OECS)	1	–	2	–	1	3	7
ECCU AREA	83	22	125	4	139	217	590

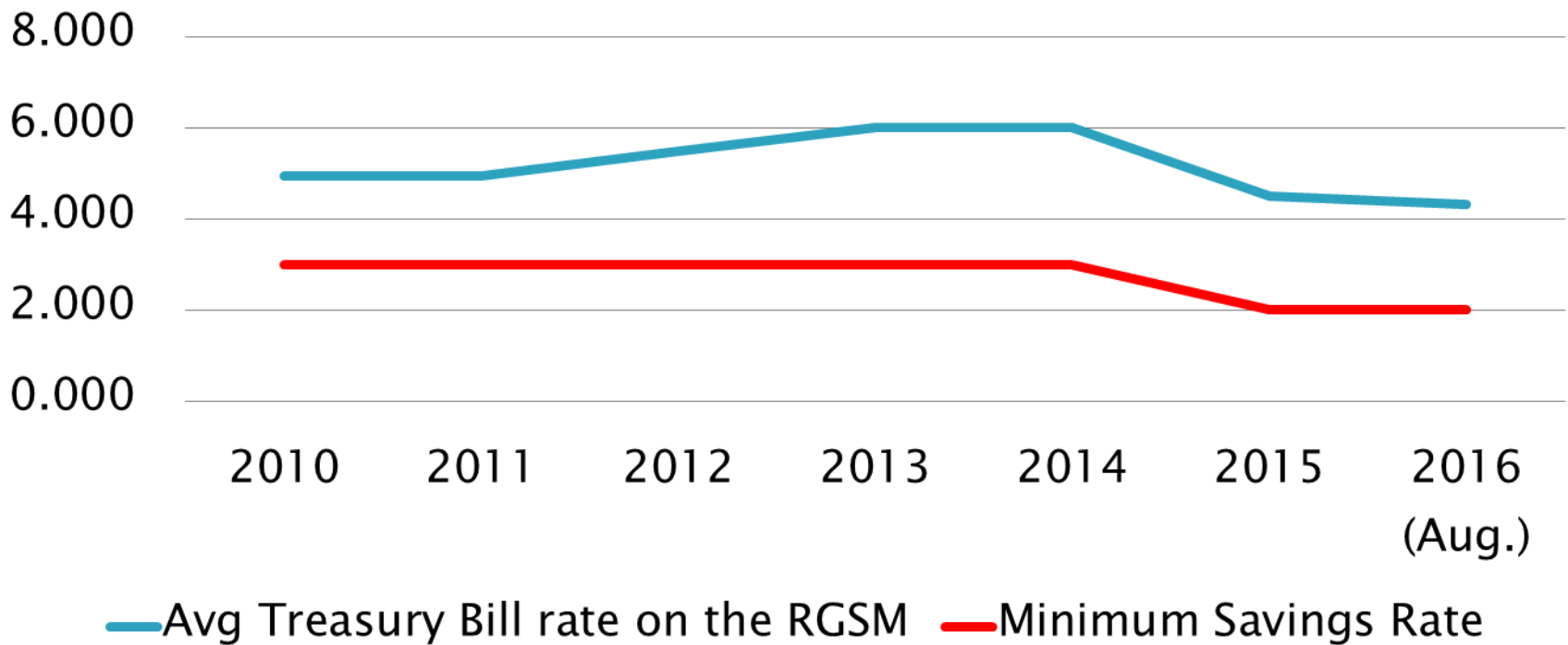
Table 5: Number and Value of bids by Credit Unions by Instrument Type

Residence of Credit Union	Number		Value of Bids (EC\$m)	
	Treasury Bills	Bonds	Treasury Bills	Bonds
Antigua and Barbuda	21	5	19.2	1.9
Dominica	16	4	6.2	1.7
Grenada	186	13	118.2	6.3
St Kitts and Nevis	–	1	–	0.1
Saint Lucia	86	12	50.7	5.6
St Vincent and the Grenadines	224	15	270.5	25.2
Other (Anguilla, Montserrat)	6	1	0.5	0.5
ECCU AREA	539	51	465.3	41.3



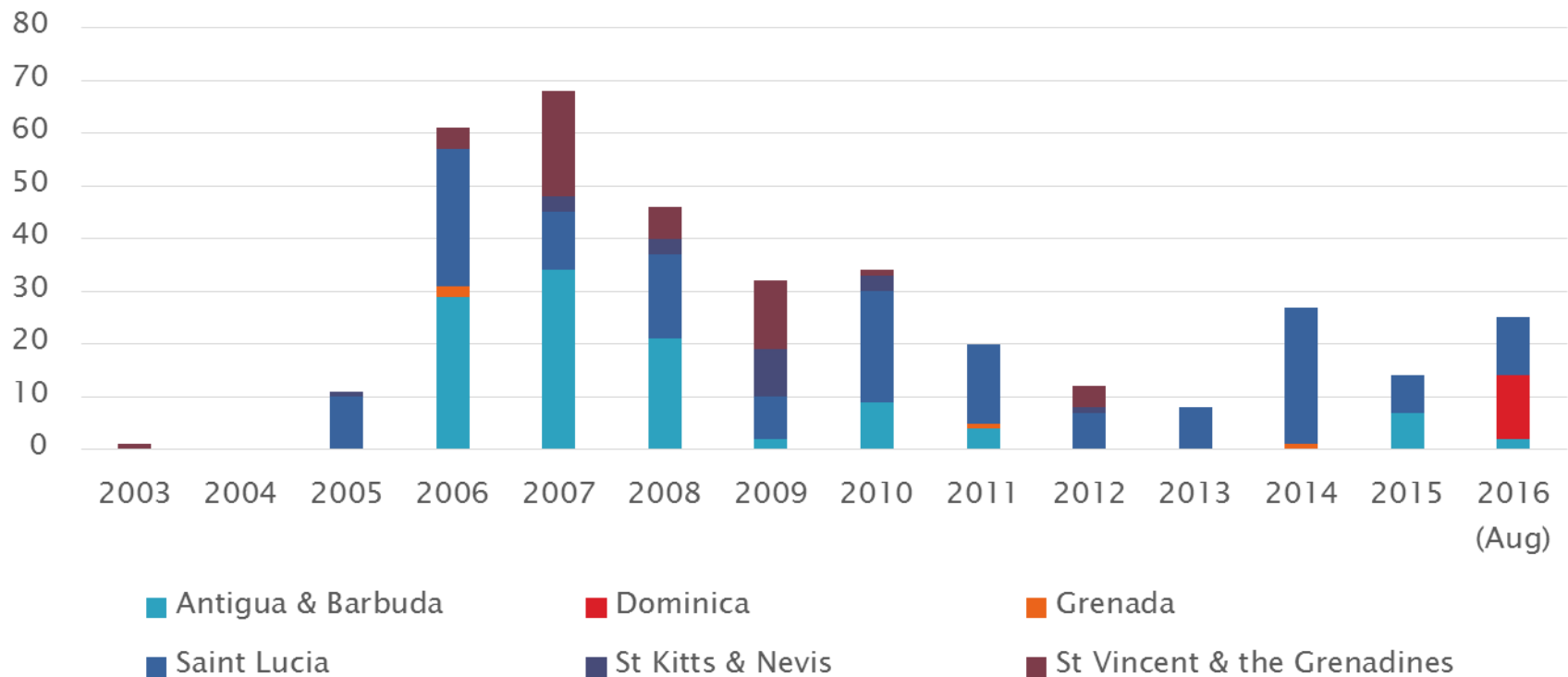
The return on government treasury bills has been at least 2 percentage points higher than the minimum savings rate at the banks

Chart 4: Avg. T. bill rate on the RGSM compared to the Minimum Savings Rate



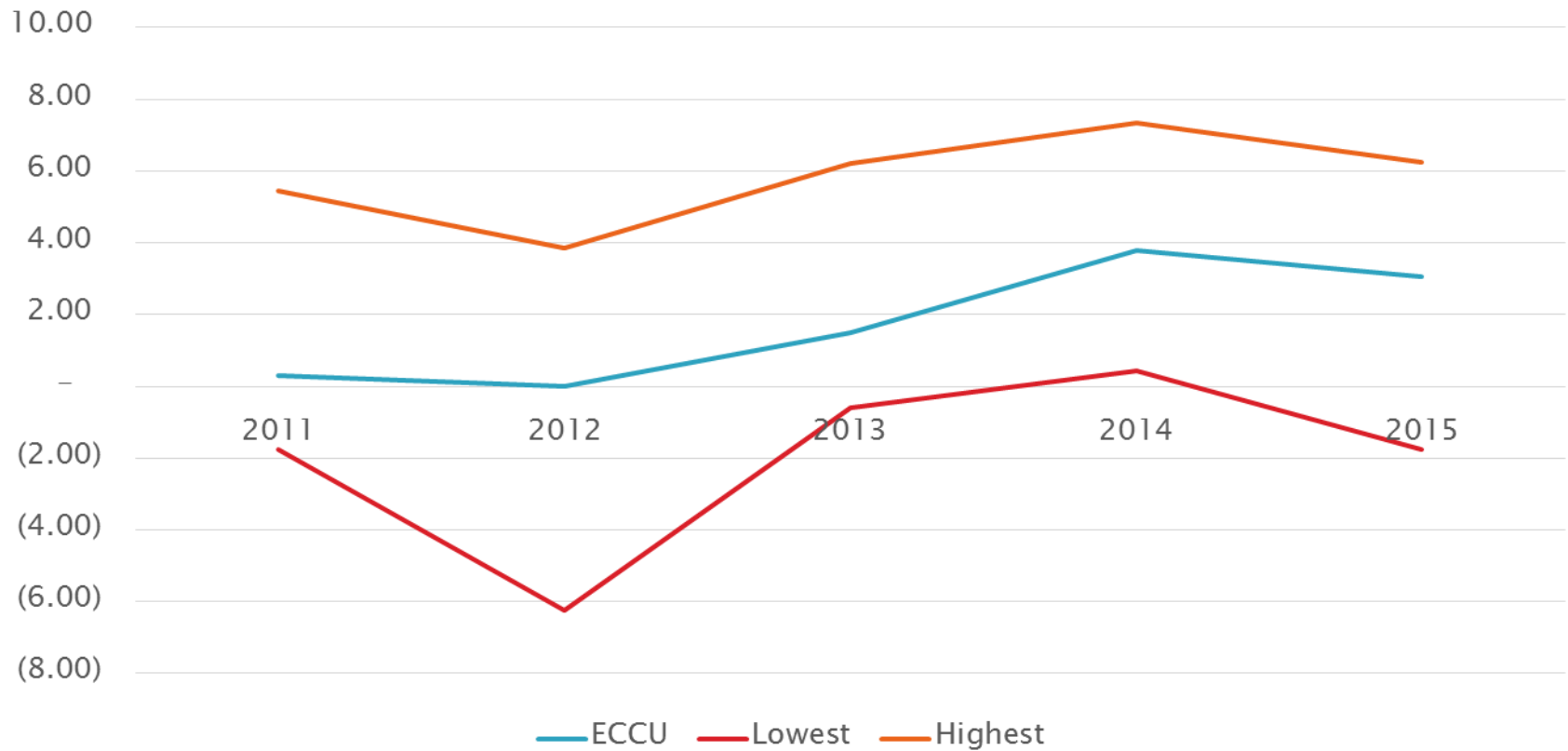
Trading on the secondary market has been relative low

Chart 5: Number of trades of government securities on the Secondary Market



While economic growth rates remain below the desired levels, growth has picked up again in most countries in the ECCU

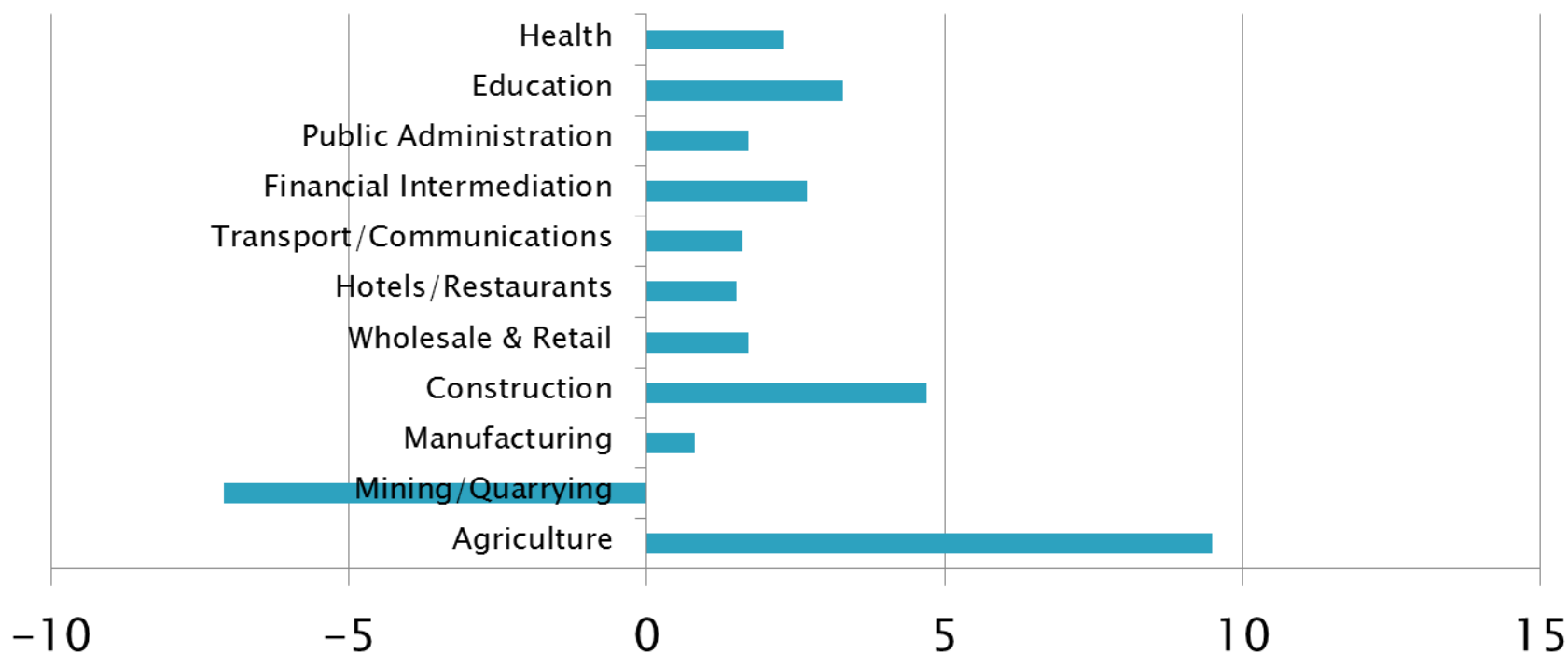
Chart 6: Real growth rates in the ECCU (in per cent)



Economic growth in the currency union was wide spread across the economic sectors in 2015



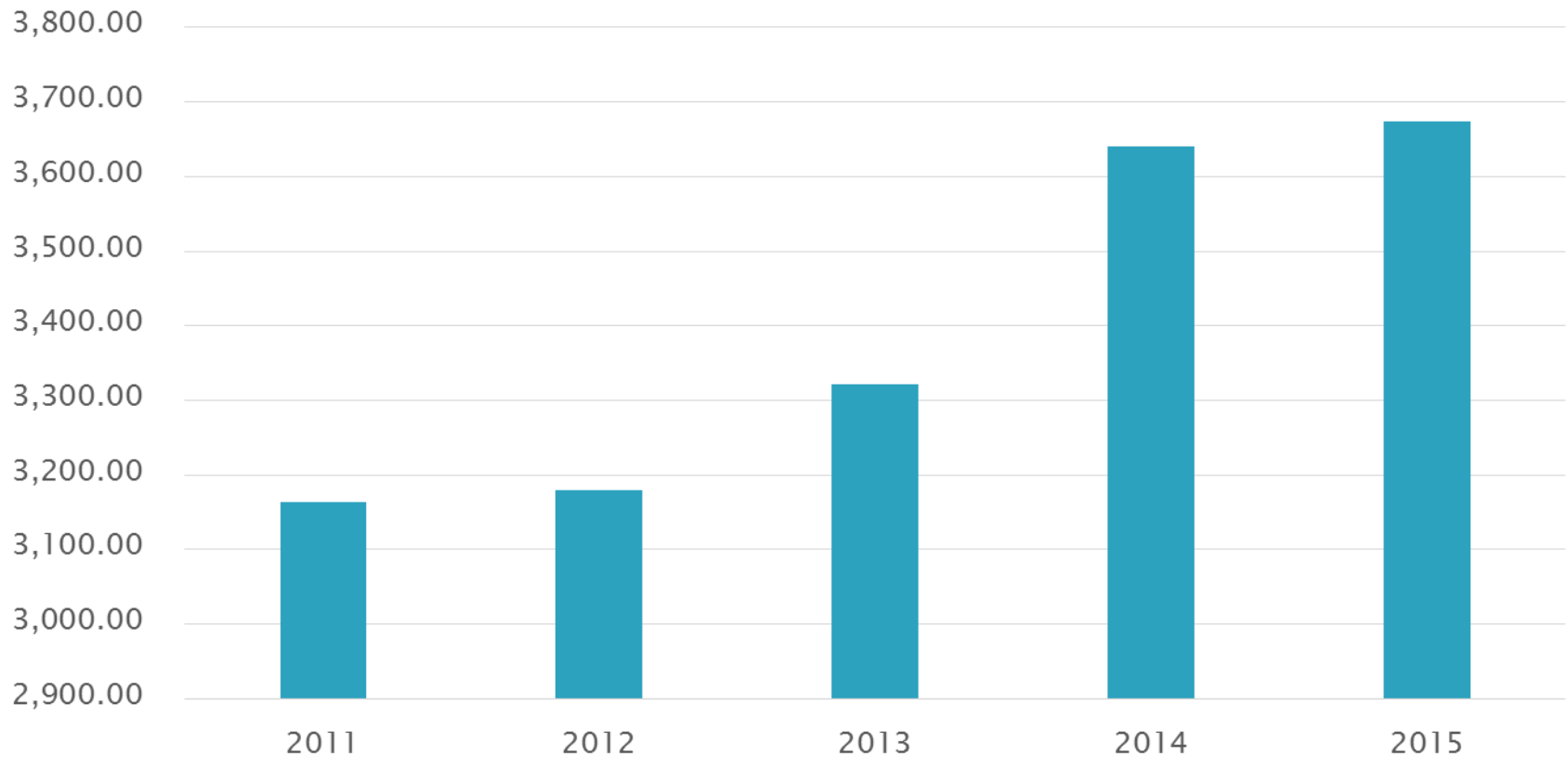
Chart 7: Real growth rate by economic sector
2015 (in per cent)



Activity in the main tourism industry continued to grow in 2015 as indicated by the higher level of visitor expenditure

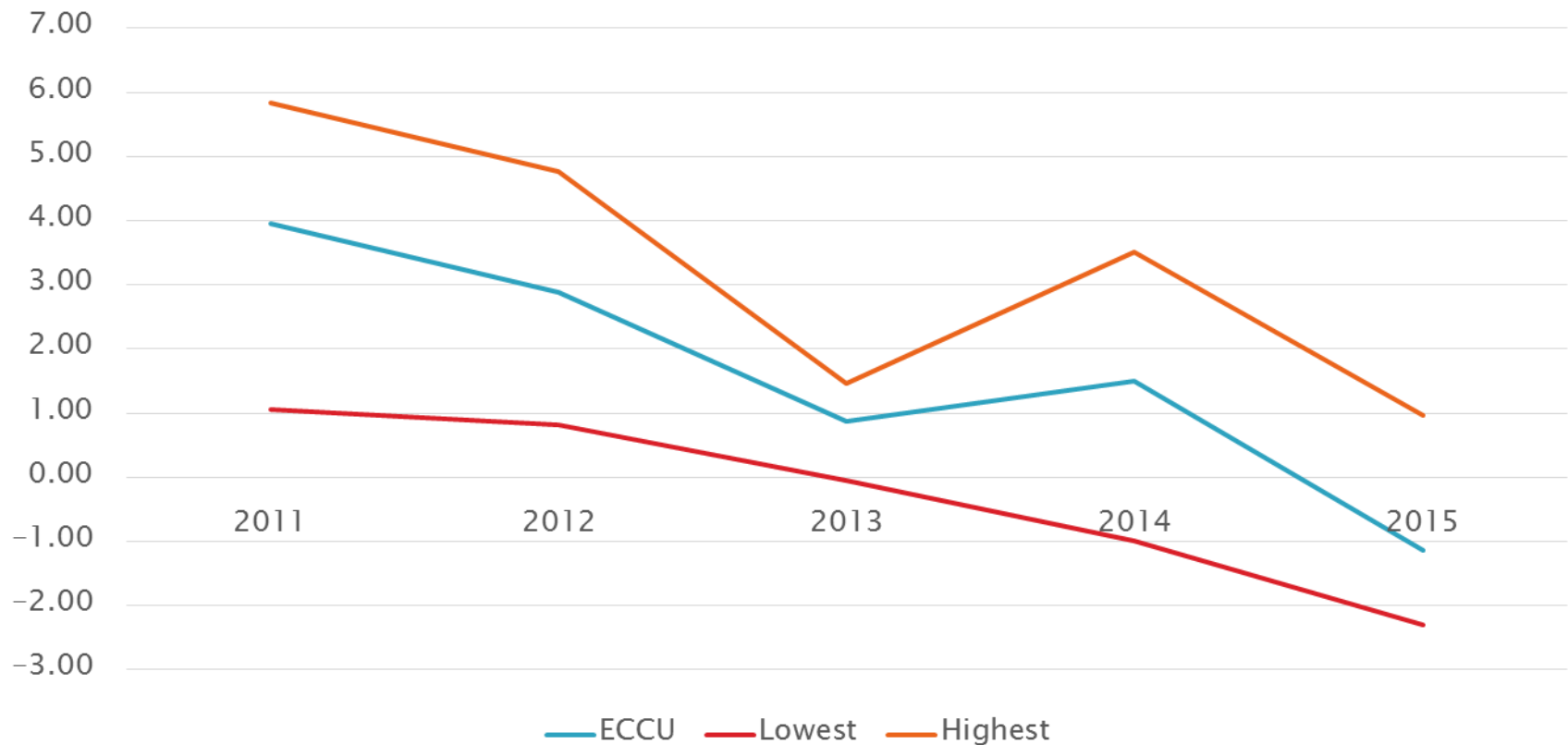


Chart 8: ECCU visitor Expenditure (EC\$ million)



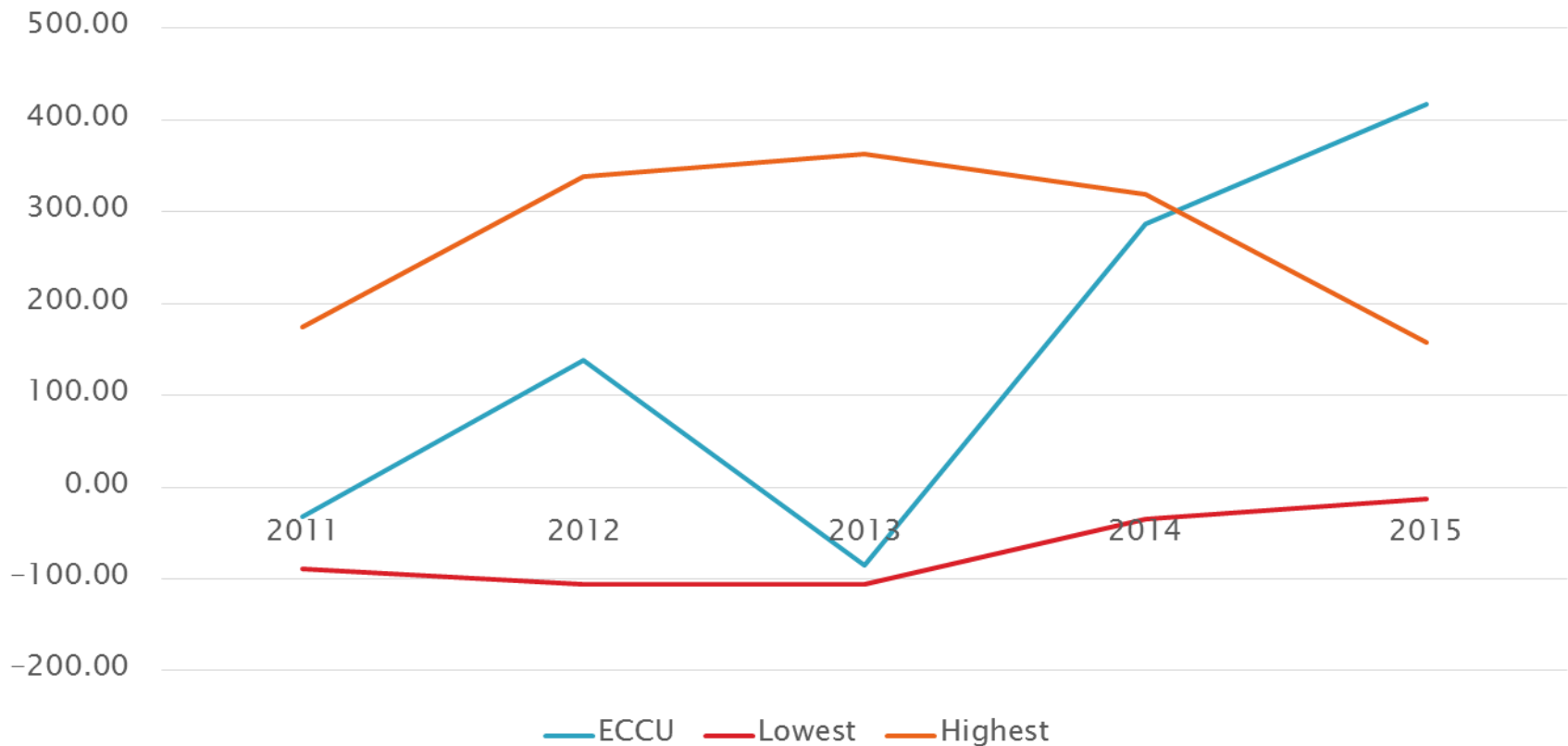
Inflation rates have trended downwards to the extent that there was deflation in 2015 at the currency union level

Chart 9: Inflation rates in the ECCU (Period Average)



There was a general improvement in fiscal performance across the currency union as reflected by the strong increase in the primary balance

Chart 10: Primary balances after grants (EC\$m)



The overall balance of payments continued to fluctuate but the reserves at the Central Bank continued its steady climb

Chart 11: Selected Balance of Payments indicators (EC\$m)

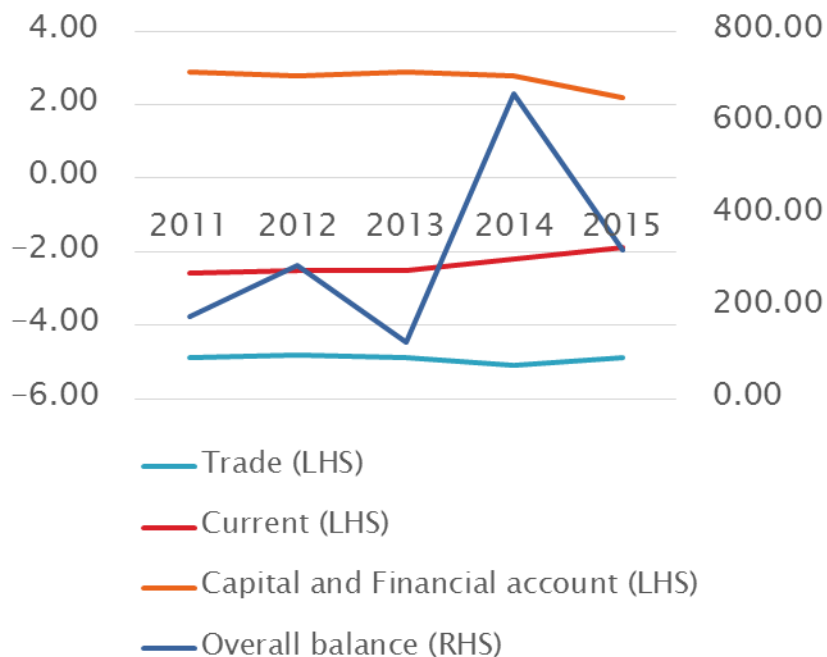
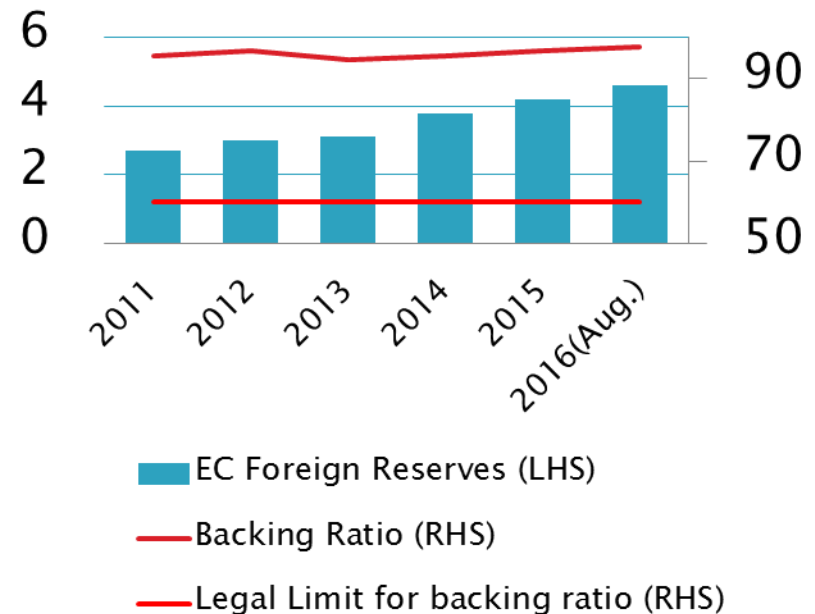


Chart 12: EC Foreign Reserves (EC\$b) and Backing Ratio (%)



Since 2010 the Debt to GDP ratio for the ECCU has declined by 6.65 percentage points to 75.7 per cent

Chart 13: Debt to GDP ratio (in per cent)

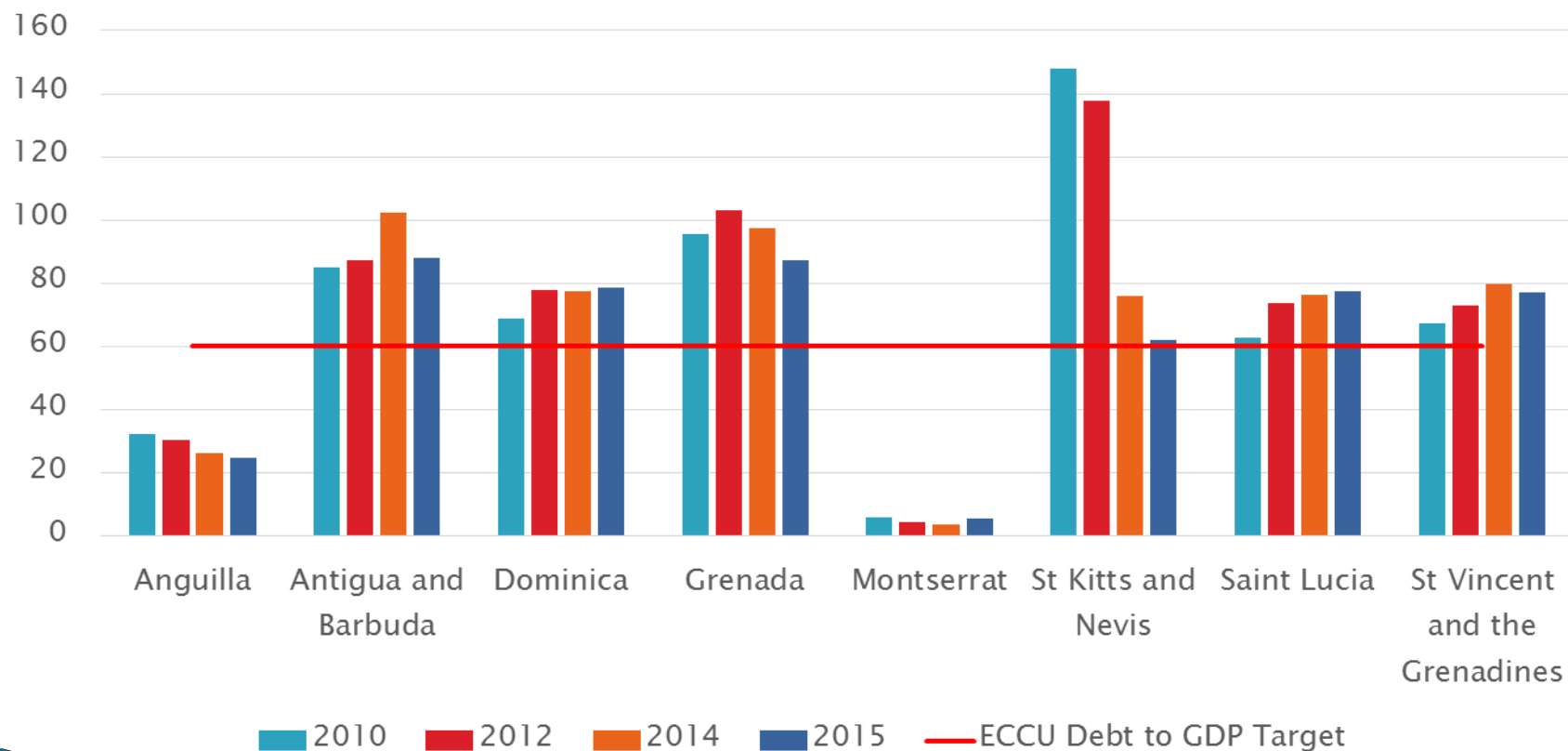


Table 6: Public Sector Debt Service to Revenue Ratio (in per cent)

	2010	2011	2012	2013	2014	2015
Anguilla	138.4	5.0	8.3	9.1	8.5	9.4
Antigua and Barbuda	34.8	33.2	35.0	38.9	34.4	53.1
Dominica	9.5	14.1	15.2	12.5	14.9	13.0
Grenada	21.9	29.4	32.7	35.1	39.3	27.5
Montserrat	0.5	0.4	0.3	0.4	0.3	0.3
St Kitts and Nevis	43.0	50.3	36.2	17.6	25.8	20.5
Saint Lucia	37.5	23.5	27.6	37.1	26.6	26.4
St Vincent and the Grenadines	34.4	25.1	24.9	28.5	24.8	26.1
ECCU	36.8	28.7	28.2	27.7	26.8	27.9

Table 7: S&P Credit Ratings as at August 2016



QUALITY	RATINGS	CARICOM COUNTRIES	OTHER COUNTRIES
Investment Grade	AAA		Australia, Canada, Germany
	AA+		USA
	AA		France, Chile, United Kingdom
	AA-		
	A+	Bermuda (Japan, Ireland
	A	St Maarten (M)	Mexico
	A-	Trinidad and Tobago	
	BBB+	Anguilla, TCI	Mauritius (M)
	BBB	Saint Lucia	Panama, Philippines
	BBB-	Montserrat, The Bahamas	
Speculative Grade	BB+	Dominica	
	BB		
	BB-		Bangladesh, Costa Rica, Cyprus,
	B+	Suriname	Papua New Guinea, Cook Islands, Fiji, Rwanda,
	B	St Vincent and the Grenadines, Barbados, Jamaica,	
	B-	Belize	Greece, Ghana,
	SD	Grenada	



5. Efforts to strengthen confidence in government securities

- ▶ The ECCB monetary Council has established a target for the Debt to GDP ratio – 60% by 2030
- ▶ With the assistance of the Canadian Government the Debt Management and Advisory services (DMAS) programme at the ECCB focuses on:
 - Debt Sustainability Assessments (DSA)
 - Medium Term Debt Management Strategies (MTDS)
 - Annual Borrowing plans
- ▶ Governments have also improved their cash flow management processes



Efforts to strengthen confidence in government securities (cont'd)

- ▶ Various commissions also established by the Council have provided guidelines
 - Tax Reform and Administration Commission
 - Public Expenditure Review Commission
- ▶ Two member states have formal rules approved by Parliament: Anguilla and Grenada
- ▶ Consideration is being given to the development of a ECCU Public debt website
- ▶ Development of an Investor Relations Programme for the member states and the ECCU



Efforts to strengthen confidence in government securities (cont'd)

- ▶ Regional Calendar of Issues:
 - Provides information (Auction date, amount and instrument type) on upcoming securities to be issued by member governments on the RGSM.
 - Updated Monthly and available on websites for Governments, ECSE and the ECCB

THANK YOU