Regional Government Securities Market: Achievements, Challenges and Reforms
1. Context

2. What is the RGSM?
   i. Objectives of the RGSM
   ii. Principal players
   iii. RGSM Lifecycle
   iv. RGSM Performance

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4. Challenges

5. Reform Programme
The RGSM has been beneficial to the most of the Participating Governments as it has:

- Increased the investor base for government securities
- Reduced the cost of borrowing for governments on short term credits
- Provided a greater opportunity for debt management

It has also provided an alternative source of investment for local entities across the Eastern Caribbean Currency Union (ECCU).

However, the weak demand for long term securities has impeded the governments’ abilities to implement their Medium Term Debt Management Strategies (MTDS).
CONTEXT
8 countries

- 6 Independent Countries
- 2 Overseas Territories of the United Kingdom

Pop¹, 628,000

GDP²
US$6.81 billion

Per Capita Income
US$10,878

Economic driver:
Tourism and related services

Common Currency
EC$

- Ranging from 5,215 in Montserrat to 182,273 in Saint Lucia
- Eastern Caribbean dollar (EC$), is shared amongst the 8 countries:
  - EC$ has been pegged to the US dollar at US$1.00 to EC$2.70 since July 1976.

¹- 2017 mid-year population estimate
²- 2016 GDP in constant prices
Selected ECCU Debt Indicators

• Total Public Sector Debt as at June 2017 was US$5 billion with a debt to GDP ratio of 71.4 per cent.

• Debt Service ratio for 2016 was estimated at 26.8 per cent

• Outstanding debt on the RGSM as at June 2017 was US$0.5 billion.

• As at December 2017 there were 64 securities that were issued on the RGSM available for trading on the secondary market.
Debt Indicators reflect high level of stress...

Table 1: Public Debt Stock and Ratios

<table>
<thead>
<tr>
<th>Country</th>
<th>Total Public Debt – US$m (September 2017)</th>
<th>Debt to GDP (December 2016) In per cent</th>
<th>Debt Service to Revenue (2016) In per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla</td>
<td>175.2</td>
<td>54.3</td>
<td>22.6</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>1,148.2</td>
<td>76.9</td>
<td>66.5</td>
</tr>
<tr>
<td>Commonwealth of Dominica</td>
<td>383.3</td>
<td>67.6</td>
<td>8.0</td>
</tr>
<tr>
<td>Grenada</td>
<td>845.3</td>
<td>80.4</td>
<td>31.8</td>
</tr>
<tr>
<td>Montserrat</td>
<td>3.9</td>
<td>5.1</td>
<td>0.3</td>
</tr>
<tr>
<td>St Kitts and Nevis</td>
<td>584.2</td>
<td>63.2</td>
<td>13.0</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>1,161.0</td>
<td>67.0</td>
<td>26.6</td>
</tr>
<tr>
<td>St Vincent and the Grenadines</td>
<td>655.3</td>
<td>83.1</td>
<td>24.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>4,956.4</strong></td>
<td><strong>71.4</strong></td>
<td><strong>26.8</strong></td>
</tr>
</tbody>
</table>

Source: Eastern Caribbean Central Bank, Member Governments DMOs
What is the RGSM?
Established in November 2002, the RGSM is an arrangement aimed at integrating the markets for government securities across the Eastern Caribbean.

A network of licensed brokers allows investors in any ECCU country and in the diaspora to purchase securities issued by any government.

The majority of the securities issued on the RGSM are listed on the Eastern Caribbean Securities Exchange (ECSE) which facilitates trading on the secondary market.

The RGSM utilizes the technological and institutional framework of the Eastern Caribbean Securities Exchange (ECSE).

Since June 2016, the ECSE utilizes the Montran software to undertake the auctions.

All securities on the RGSM are issued in a ‘dematerialized’ form (No physical certificates).

The auction process allows a more transparent and competitive environment for the issuance of government securities.

The interest on RGSM securities is tax free to residents of the ECCU.
Objectives of the RGSM

The respective Ministers for Finance (Monetary Council) have set the following objectives for the RGSM:

- A vehicle to raise funds for governments, at least cost;
- Provide investment opportunities for residents; and
- Develop money and capital markets in the ECCU.
Principal Players

**Issuers**
(Participating Governments)

**Intermediaries**
(Licensed brokers, financial advisers)

**Investors**
(Institutional: Commercial Banks, Credit Unions, Insurance Companies, Businesses, Private Pension Funds; Public Sector Entities: Social Security; and Retail: Households, etc.)

**Eastern Caribbean Securities Exchange**
(Depository and Registry)

**Eastern Caribbean Central Bank**
(Fiscal Agent, Facilitator of Market Development)

**Eastern Caribbean Securities Regulatory Commission**
RGSM Lifecycle

- Calendar of Issues prepared by governments
- Approval of the prospectus/addendum by the oversight body (Regional Debt Coordinating Committee)
- Investors deposit funds with licensed brokers
- Licensed brokers place bids in the auction
  a. 9am to 12 midday
- Funds are remitted to issuing government
- Funds are paid to investors mainly via electronic transfers
- 2 days prior to maturity, government places funds in account at ECCB to settle payments to investors
- Announcements made by governments
- Issuance and payment processes
- RGSM lifecycle graph
1. Number of auctions
   • By issuing government
   • By instrument type
2. Amount of funds raised
3. Value of bids by investor type
4. Interest rates by maturity
The RGSM has been skewed towards the short end of the market ...

Table 2: Number of Issues by Instrument Type, as at December 2017

<table>
<thead>
<tr>
<th>Country</th>
<th>Treasury Bills</th>
<th>Bonds</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anguilla</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Antigua and Barbuda</td>
<td>87</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Commonwealth of Dominica</td>
<td>23</td>
<td>4</td>
<td>27</td>
</tr>
<tr>
<td>Grenada</td>
<td>91</td>
<td>1</td>
<td>92</td>
</tr>
<tr>
<td>Montserrat</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>St Kitts and Nevis</td>
<td>4</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>Saint Lucia</td>
<td>124</td>
<td>48</td>
<td>172</td>
</tr>
<tr>
<td>St Vincent and the Grenadines</td>
<td>171</td>
<td>12</td>
<td>183</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>500</strong></td>
<td><strong>79</strong></td>
<td><strong>579</strong></td>
</tr>
</tbody>
</table>
Activity on the RGSM has risen steadily …

Chart 1: Value of Funds Raised on the RGSM, as at December 2017 (US$m)

Source: Eastern Caribbean Central Bank
ECCU yield curve has steepened due to a sharp decline in rates on the short end...

**Chart 2: Weighted average interest rates (in per cent)**

Source: Eastern Caribbean Central Bank
Achievements
Governments have been able to raise funds through the RGSM
The cost of short term borrowing has declined
There has been an expansion in the investor base as a result of greater cross border activity
Governments have been able to continue to borrow in local currency
An increase in investment assets for residents
Opportunity for greater debt management by the DMOs
The investor base has grown steadily ...

Chart 3: Number of Investor Bids on the RGSM

Source: Eastern Caribbean Central Bank
Securities purchased by non-residents (outside of the issuing country) continued to remain around the 60 per cent mark…

Chart 4: Share of the value of bids by residency of investor

Source: Eastern Caribbean Central Bank
Governments have limited their foreign currency exposure by issuing mainly in local currency...

Chart 5: Value of Securities Issued by Currency (US$m)

Source: Eastern Caribbean Central Bank
Challenges
Challenges

1. Despite the increase in the number of auctions on the RGSM, not all the governments are participating on the RGSM;
2. Issuance still is mainly concentrated on short-dated securities and the number of bonds remains relatively low;
3. Procedures for governments to issue on the RGSM remain onerous;
4. Sufficient data are not readily available to the brokers and public to make fully-informed decisions;
5. Most of the brokers are relatively inactive on the RGSM;
6. Other investors have not grown significantly to reduce the dominance of the commercial banks on the market; and
7. Activity on the secondary market continues to remain very low.
The data show a vast disparity in the activity of the brokers...

Chart 6: Value of Bids by Broker (US$m)

Source: Eastern Caribbean Central Bank
Activity on the secondary market remains disappointing…

Chart 7: Number of Trades on the Secondary Market

Source: Eastern Caribbean Securities Exchange
Reforms
1. Investigating the feasibility of introducing a Primary Dealer System in the ECCU.

2. Considering the impact of not announcing the Reserve Price to the Public.

3. Researching the potential outcomes of various auction methodologies. (Uniform vs Discriminatory).

4. Encouraging the governments to adopt pro active Investor relations programmes.

5. The creation of an ECCU Public debt website or webpage to provide relevant information to market players.
Thank you for your attention...