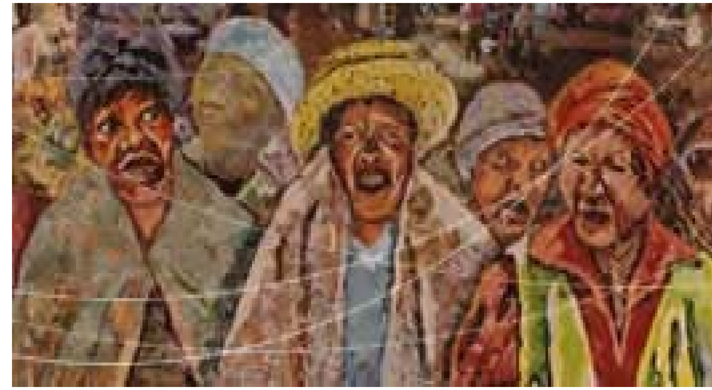
Building better markets

Integration of Regional Financial Markets



May 2009

Constraints on regional cross border flows

Development of regional bond market given lack of yield curve

Encouraging non-financial entities to regional markets

Are region-specific institutions required

Conclusions

Regional financial integration is the elimination of barriers to capital movement between open or competitive regional markets in the region

Regional integration cannot come to fruition without economic integration at monetary, fiscal & investment policy level

Constraints on regional cross border flows

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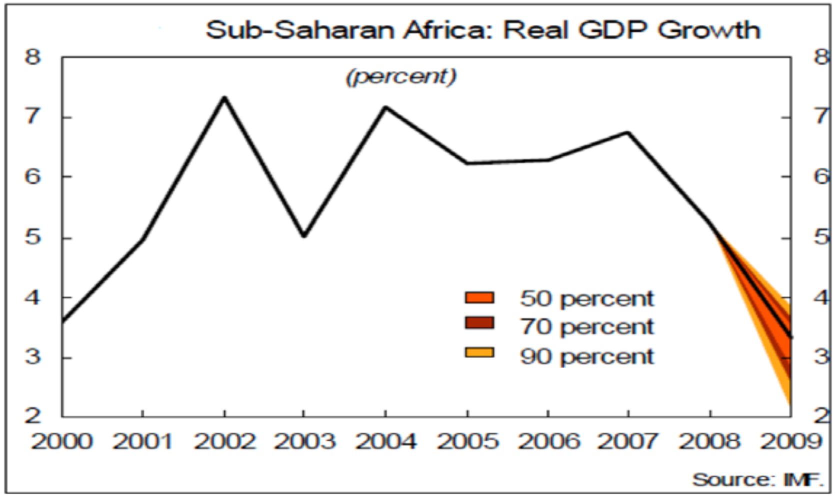
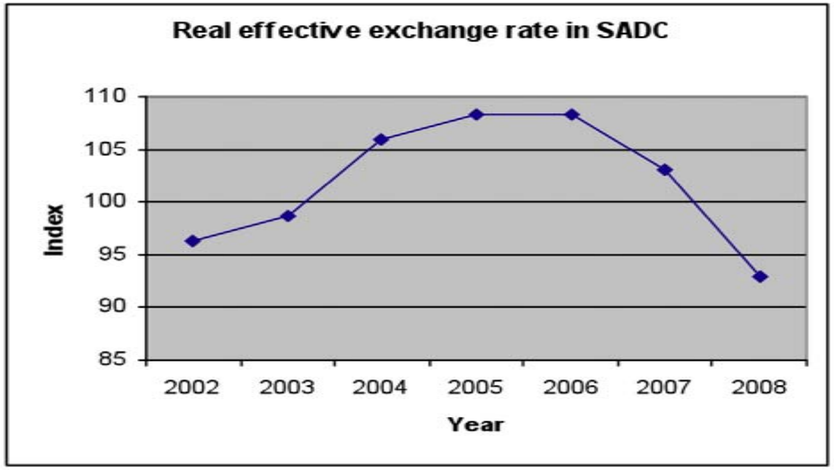
Divergent economic situations

- Divergent GDP and GNI throughout region
  - Angola 21.1%, Comoros -1%, Mozambique 7.3%, RSA 5.1%, Tanzania 7.1%
  - General shift from dependency on agriculture
- Weak currencies & limited currency convertibility
  - Exchange rate volatility & depreciation makes conversion into hard currency & hedging hard
- Inflation differentials within region



Divergent foreign policies, political motives & commitment

- Political stability
  - Investors seek to avoid rather than mitigate this risk
- Regional integration requires regional unity for success



...Lack of macro-economic stability is over-riding constraint. Regional integration increases economic linkages, & regional marco-economic objectives encourage regional investment

Economic indicators (GDP and GNI) for the SADC countries

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	GDP (current US$ bn)		GDP growth (annual %)		GNI (current US$ bn)		GNI per capita (current US$)	
	2004	2007	2004	2007	2004	2007	2004	2007
Angola	19.8	61.4	11.2	**21.1**	14.6	43.0	940	**2,540**
Botswana	9.8	12.3	6.2	5.3	7.8	11.5	4,320	**6,120**
Comoros	0.4	0.4	-0.2	**-1.0**	0.3	0.4	550	680
Congo, Dem Rep	6.6	9.0	6.6	6.5	6.4	8.6	110	**140**
Lesotho	1.3	1.6	4.2	4.9	1.3	2.1	660	1,030
Madagascar	4.4	7.4	5.3	6.2	5.2	6.4	290	320
Malawi	2.6	3.6	5.7	**7.9**	2.8	3.5	220	**250**
Mauritius	6.1	6.8	4.7	4.7	5.8	7.0	4,670	**5,580**
Mozambique	5.7	7.8	7.9	**7.3**	5.1	7.1	260	330
Namibia	5.6	7.0	6.6	5.9	4.8	7.2	2,410	3,450
Seychelles	0.7	0.7	-2.9	6.3	0.7	0.8	8,240	**8,960**
South Africa	216.0	283.0	4.9	**5.1**	168.2	273.9	3,630	**5,720**
Swaziland	2.3	2.9	2.5	3.5	1.8	2.9	1,610	2,560
Tanzania	11.4	16.2	6.7	7.1	11.6	16.3	310	410
Zambia	5.5	11.4	5.4	6.0	4.6	9.2	410	770
Zimbabwe	4.7	n/a	-3.8	n/a	7.3	n/a	560	n/a

Sectoral contributions for the SADC countries (value added as a percentage of GDP)

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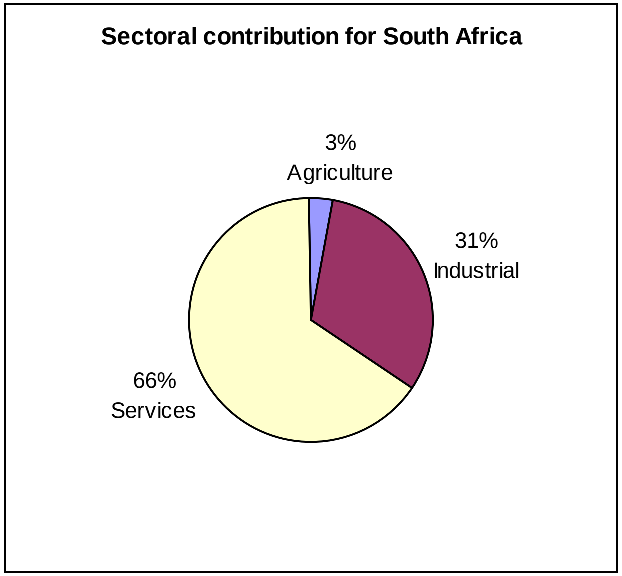
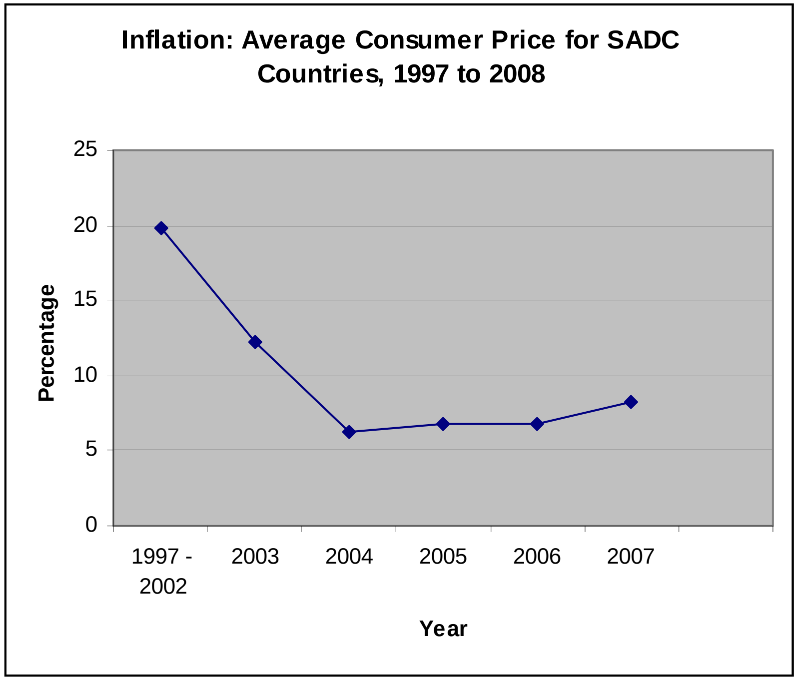
	Agriculture		Industry		Services	
	2004	2007	2004	2007	2004	2007
Angola	9	9	66	**70**	25	**21**
Botswana	2	**2**	53	49	45	49
Comoros	51	**47**	12	**12**	37	n/a
Congo, Dem Rep	47	**42**	24	28	28	29
Lesotho	17	12	40	47	42	41
Madagascar	29	26	16	**17**	55	56
Malawi	37	34	19	20	44	45
Mauritius	6	5	30	28	64	**67**
Mozambique	27	28	27	26	45	47
Namibia	10	11	30	30	60	**59**
Seychelles	3	3	28	28	69	**69**
South Africa	3	**3**	31	**31**	66	**66**
Swaziland	9	7	47	49	44	43
Tanzania	46	n/a	17	n/a	37	n/a
Zambia	23	22	28	38	49	40
Zimbabwe	17	n/a	21	n/a	62	n/a



Inflation Average Consumer Prices for the SADC countries (annual percentage change)

	2005	2006	2007	2008
Angola	33.3	23.0	13.3	12.2
Botswana	8.6	11.6	7.1	12.6
Comoros	3.0	3.4	4.5	**4.8**
Congo, Dem Rep	21.4	13.2	16.7	**18.0**
Lesotho	3.4	6.1	8.0	10.7
Madagascar	18.4	10.8	10.4	9.2
Malawi	15.5	13.9	7.9	8.7
Mauritius	4.9	8.9	9.1	8.8
Mozambique	6.4	13.2	8.2	10.3
Namibia	2.3	5.1	6.7	10.3
Seychelles	0.6	-1.9	5.3	**37.0**
South Africa	3.4	4.7	7.1	**11.5**
Swaziland	4.8	5.3	8.2	13.1
Tanzania	4.4	7.3	7.0	10.3
Zambia	18.3	9.0	10.7	12.4
Zimbabwe	237.8	1016.7	**10,452.6**	n/a
SADC	6.8	6.8	8.2	11.6



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Constraints on regional cross border flows

Development of regional bond market given lack of yield curve

Encouraging non-financial entities to regional markets

Are region-specific institutions required

Conclusions

Developing regional bond markets given lack of yield curve & limited maturities

- Government commitment & managed debt strategies
- Strengthen domestic institutional investor base
- Legal & regulatory framework must support market development
- Capital market infrastructure required

Liquidity is the over-riding requirement. Liquid markets have standardised bond at points on the yield curve. Also require diverse participants with different requirements…

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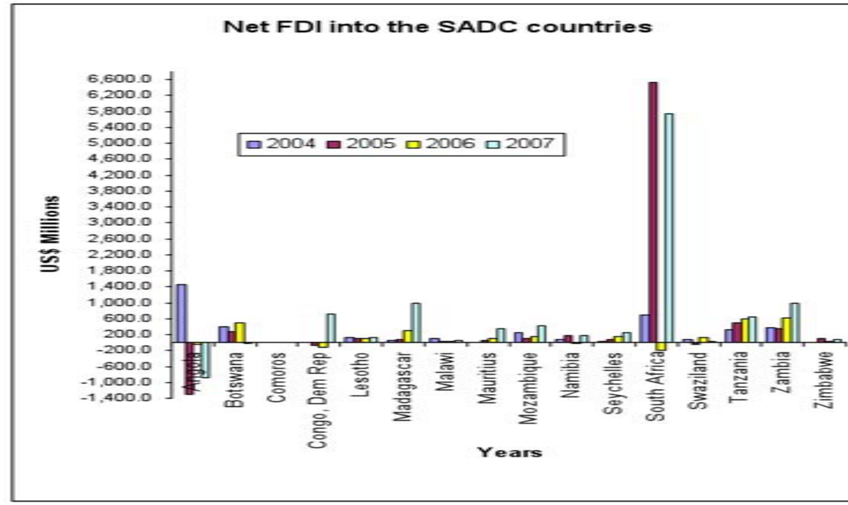
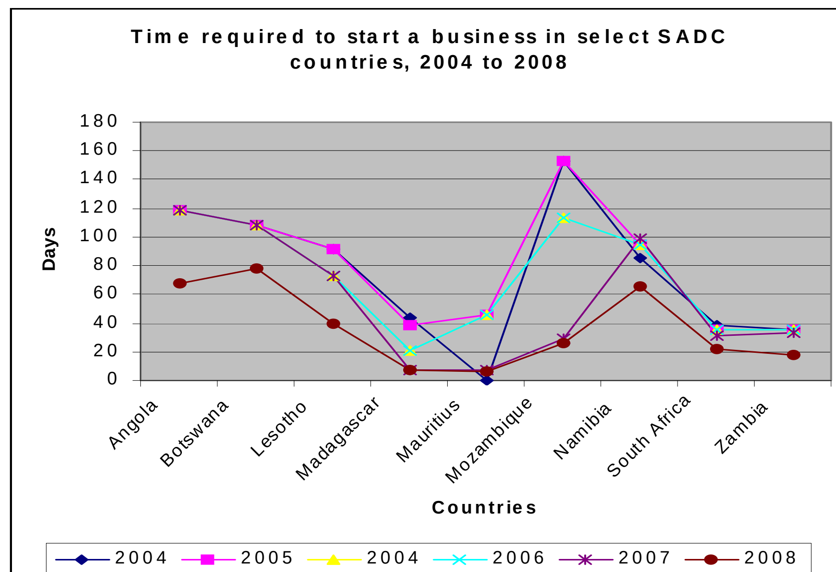
Encouraging access by non-financial firms to regional markets

- Policies that provide political stability
- International policies conducive to investment
- Economic fundamentals
- Regulatory & admin frameworks that support investment
- Incentivise investment





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Are region-specific institutions required?

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- Competing integration initiatives and objectives
- Limited country resources and budget to participate in various initiatives
- Rather co-ordinate competing initiatives into complimentary initiatives
- Consider an external “supra-body” with overall authority to drive initiatives
- Determine the overall priorities and the correct sequential steps to deliver integration

In a way developing regional market specific institutions is pre-mature at this stage…

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- Promote economic fundamentals and political policies that encourage investment
- Facilitate trade through investment agreements and investment initiatives
- Make it easier and quicker to establish a business or to make an investment
- Adopt legislative and administrative processes that secures investment protection and certainty

Regional integration is hampered by divergent economic conditions that creates a spillover from fragile or less-developed countries – to what extent will more developed economies sacrifice their sovereignty for regional integration without compensation?