# STUDY ON MANAGING SOVEREIGN DEBT IN TIMES OF CRISIS:

## Insights from the Covid-19 pandemic and lessons for the future

CHAPTER

3

Local Currency Bond Markets

# FOREWORD

The dark clouds of the COVID-19 pandemic that suddenly descended upon the global economy spared nobody and triggered one of the most devastating global health and economic crises in modern history. The pandemic placed severe strain on the public finances of all types of economies. For developing countries in particular, debt levels that were already high before the pandemic increased further, exacerbating existing debt vulnerabilities at a time when pressure to spend on health and social services became unavoidable.

The IMF noted that the impact of COVID-19 was historic and unusual in its severity as the debt stress it induced exceeded past experiences across a number of dimensions, including the dramatic increase in government borrowing needs, sharp downturn in economic activity, strain in market conditions, and disruption in operations (IMF, 2020).

The pandemic also resulted in the materialisation of a number of operational risks as governments were required to adjust. One of the main challenges of the pandemic to the environment was how to meet increased government borrowing requirements against a backdrop of volatile market conditions, both locally and globally. In addition, the adoption of remote working arrangements changed the overall control environment in which staff performed their roles, thus exacerbating the vulnerability of the Debt Management Offices to operational risks.

As part of efforts to harness a range of lessons and insights emerging from the pandemic, MEFMI, with the support of FSD Africa, commissioned a study to document debt and related policies and practices that countries adopted to manage public debt and support debt markets during the crisis. The study covered four themes: (a) macroeconomic policy interventions, (b) external financing operations, (c) local currency bond markets and (d) governance and operational risk management frameworks for public debt.

In December 2022, MEFMI and FSD Africa organised a seminar to validate the findings and recommendations from the study. The content of the study has now been finalised and has been released as separate chapters, while a study summary has also been produced.

This is Chapter One of the study. It focuses on macroeconomic policy interventions while the pandemic was unfolding, along with the main lessons learnt.

We hope that the findings and lessons from this study will be useful in informing policy makers and debt practitioners of pertinent actions needed in both normal times and in times of crisis.

Readers can access the Study Summary and the other chapters here.

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# ACRONYMS

| | |
|---|---|
| AfDB | African Development Bank |
| ATM | Average time to maturity |
| BADEA | Arab Bank for International Development |
| BNA | National Bank of Angola |
| BoT | Bank of Tanzania |
| BoZ | Bank of Zambia |
| CBE | Central Bank of Eswatini |
| CBL | Central Bank of Lesotho |
| CIs | Credit institutions |
| CRR | Cash reserve requirements |
| CSD | Central securities depository |
| DMO | Debt management office |
| DMS | Debt management strategy |
| DSSI | Debt Service Suspension Initiative |
| EAC | East Africa Community |
| EME | Emerging market economy |
| FSD | Financial Sector Deepening |
| FX | Forex |
| G20 | Group of Twenty |
| IFB | Infrastructure bond |
| IMF | International Monetary Fund |
| LCBM | Local currency bond market |
| LMO | Liability management operation |
| LRR | Liquidity reserve requirement |
| MDI | Microfinance deposit-taking institution |
| MEFMI | Macroeconomic & Financial Management Institute of Eastern and Southern Africa |
| MSMEs | Micro small and medium enterprises |
| NATSAVE | National Savings & Credit Bank |
| OECD | Organization for Economic Cooperation Development |
| PPE | Personal protective equipment |
| RBZ | Reserve Bank of Zimbabwe |
| REPO | Repurchase agreement |
| RTGS | Real-time gross settlement |
| SDR | Special drawing rights |
| SMEs | Small and medium enterprises |
| SOEs | State-owned enterprises |
| SSA | Sub-Saharan Africa |

# 1. INTRODUCTION

The COVID-19 pandemic that spread across the world in early 2020 triggered one of the most devastating global health and economic crises in modern history. The crisis affected all facets of socio-economic functioning, permeating through the financial markets. According to the IMF, the impact of COVID-19 on developing countries was historic and unusual in its severity as it induced debt stresses that exceeded past experiences across several dimensions (IMF, 2020). These included a sudden increase in government borrowing needs, a sharp downturn in economic activity, strain in market conditions and disruption in normal operations.

As reviewed in Chapter Two of this study, managing sovereign debt proved complex and challenging, particularly for debt managers in developing economies. Most of them entered the crisis with pre-existing vulnerabilities (AfDB, 2021), especially limited fiscal space due to other localised shocks. Faced with significantly narrow fiscal space compared to its situation during the 2008/09 global financial crisis, sub-Saharan Africa was caught with limited room for manoeuvre. Specifically, 16 countries were either at high risk of debt distress or already in debt distress prior to the pandemic. In addition, their funding conditions remained highly vulnerable to global risk dynamics and therefore historically more volatile than in advanced economies (OECD, 2020). The stage of development and efficiency of local currency bond markets exacerbated debt managers' challenges.

Operational challenges escalated to unprecedented levels during the crisis. It became evident that the pandemic created challenges on how to meet increased government borrowing requirements against a backdrop of volatile market conditions, both locally and globally. Worse still, the adoption of remote working arrangements changed the overall control environment in which staff performed their roles, thus exacerbating the vulnerability of debt management offices (DMOs) to operational risks. Generally, it is more challenging to manage risks in a dispersed remote working situation than in an office environment.

As the crisis unfolded and its associated risks became more apparent, sovereign DMOs took steps to align their borrowing operations and strategies to the new operating environment. Firstly, borrowing operations refocused inward, with modifications to the size and frequency of auctions (auction calendar), instrument choices (new instruments and maturity lines), broadening of issuance techniques and the introduction of a post-auction option facility, as well as stepping up market management activities. In some instances, these were complemented by coordinated support from central banks. Consequently, the share of domestic debt to total debt issuance increased notably, compared to the foreign debt component – which became more costly to service due to currency depreciation.

Second, issuers mostly employed strategies targeting the re-profiling of debt redemption structures to manage refinancing risk, debt service costs and liability management operations, reviewing primary-dealer regulations and investor relations to align borrowing programmes with market demand. Some DMOs activated business continuity plans while others reviewed them to ensure critical functions (government financing and debt repayments) remained operational. Some countries did nothing, given the limited existence or non-existence of comprehensive business continuity plans within their frameworks.

To mitigate the adverse effects of the crisis, some authorities undertook unprecedented measures that created a departure from sound practices. For example, some governments expanded the use of private placements and supplementary non-competitive auctions to reduce pressure on primary dealership systems, and to gain additional flexibility in the execution of financing programmes. Central banks in some jurisdictions implemented bond-buying programmes to ease concerns over the market absorption capacity of expanded borrowing programmes, helping to reduce risk premia on

government securities. Re-engineering the sovereigns' debt management policies and practices became necessary to ensure government financing needs were met with minimal disruption to the smooth functioning of local currency debt markets.
While the impact of the COVID-19 pandemic on debt levels has been the subject of much discussion and analysis, there has been less focus on how the pandemic and resultant policy responses affected local currency bond markets in the MEFMI region, and whether the outcome would have been different if markets were well developed.

This chapter therefore provides insights into how the COVID-19 pandemic affected local currency bond markets (LCBMs) in the MEFMI region by assessing the performance of the markets and the changes in policies and strategies, among other things. This is to inform governments' future reforms with respect to positioning LCBMs and related debt management policies to increase resilience to future crises.

### 1.1 Objectives

Overall, this chapter provides an assessment of the performance of the LCBMs, and the policies, practices and strategies that MEFMI countries deployed to manage domestic public debt and support LCBMs during the crisis. The chapter's specific objectives are:

i) to assess the impact of the pandemic on LCBMs and policy responses by countries to support LCBMs for enhanced resilience to future crises;
ii) to assess how debt management offices aligned their governance practices to prioritise LCBMs' effectiveness and deal with other risks during a crisis; and
iii) based on insights from survey results, distil the main lessons and present policy options to help governments build resilience to future crises regarding LCBMs.

### 1.2 Methodology

In line with the different areas covered by this study, this review of LCBMs in the MEFMI region also made use of a combination of desk reviews and dedicated questionnaires prepared by researchers, which aimed at soliciting feedback from key stakeholders. In this light, both secondary and primary sources of information and data have been used. As part of the desk research, the study analysed domestic debt management operations and markets in the MEFMI countries based on the IMF's World Economic Outlook, IMF Fiscal Monitor, IMF Regional Economic Outlook for Sub-Saharan African (SSA), World Bank Global Economic Outlook, OECD reports and IMF COVID-19 Responses Tracker. It also reviewed other sources and publications on LCBMs, with a focus on MEFMI countries. Publications from specific countries were also reviewed, including periodic reports by ministries of finance and central banks (as posted on their websites).

The questionnaire was submitted to all member countries to gain insights into the challenges induced by the COVID-19 pandemic on LCBMs and overall debt management practices. Targeted respondents included debt managers at the DMOs and central banks of MEFMI countries, namely: Angola, Botswana, Eswatini, Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, Tanzania, Uganda, Zambia and Zimbabwe.

# 2.

# LOCAL CURRENCY BOND MARKETS ACROSS THE WORLD DURING COVID-19

## 2.1 LCBMs around the world

The literature covering the role of LCBMs in emerging markets and developing economies during the COVID-19 pandemic is extensive. The lessons from such reviews provide an important background to this study.

Chris Heitzig et al (2021) recognised the important role played by LCBMs in facilitating public borrowing during the pandemic as access to international capital markets through Eurobonds had become difficult for many African countries. Their paper indicates that prior to COVID-19, outstanding stock of Eurobonds issued by African countries had risen from US$1.7 billion in 2011 to US$47 billion in 2019. As the pandemic set in, it became difficult for countries to access international capital markets. Dooley and Kharas (2021) reported that only two sub-Saharan African countries, Côte d'Ivoire and Benin, had issued Eurobonds since the start of the pandemic.

As the crisis intensified, domestic bond issuance became the main source of funding, with outstanding stock of domestic bonds rising by 42 per cent above the 2017–2019 average, for most of the sub-Saharan African countries. The outstanding domestic bonds rose from an estimated US$34 billion in 2019 to US$73 billion in 2020. Chris Heitzig et al (2021) found uneven recovery between local currency and hard currency debt assets in emerging markets and developing economies. While yields of local currency bonds rose rapidly in 2021, surpassing their pre-pandemic level, hard currency bond yields declined significantly for low-rated issuers, but stabilised for higher-rated issuers. This has, however, changed as advanced countries started raising policy rates to stem rising inflation. The Russia-Ukraine war has also complicated the situation. In addition, further tightening of external financial conditions has led to a sharp increase in Eurobond yields, especially for emerging markets and developing economies. It became difficult for these countries to access international capital markets because of high interest rates and many were experiencing weakening exchange rates as capital outflows increased further.

Edwards (1985) noted that country-specific fundamentals are key to the pricing of sovereign debt securities for emerging markets. Strong domestic fundamentals contribute to lower funding costs (Baldacci and Kumar 2010), while tight global financial conditions widen spreads (Ebner 2009; Peiris 2010). Global risk appetite becomes prevalent during stress periods (González-Rozada and Yeyati, 2008). This is because as it interacts with domestic vulnerabilities, it can amplify the impact on borrowers, especially those with weaker fundamentals (Nickel, Rother and Rülke, 2009). A case in point is during the taper-tantrum in May 2013 where countries with weaker fundamentals were significantly affected. Lower-rated bond issuers are more vulnerable to swings in global investor risk sentiment than higher-rated issuers, as suggested by analysis of yield sensitivity to global risk-aversion shocks. Greater foreign participation also helps reduce local currency yields (Ebeke and Lu, 2015), which reflects the investor confidence channel as well as the role of foreign investors in the development of local bond markets (Peiris, 2010).

A study by the World Bank (2021) noted that local currency marketable debt as a share of total government debt increased in emerging market and developing economies because of better macroeconomic conditions and increased perception about the importance of developing domestic debt markets. The local currency share of total government debt in emerging market and development economies increased from 18.9 per cent in 2011 to 46.6 per cent in 2019.

To promote development of LCBMs, the World Bank in March 2021 published a Guidance Note on local currency bond market development. Even though many emerging market and developing economies have regularly promoted and adopted policies to develop their LCBMs over time, different crises and banking sector and macroeconomic shocks in some countries have slowed LCBM growth. There are many benefits to developing LCBMs: they can help to diversify government funding sources, safeguard sovereign portfolios from currency and maturity mismatches, and prevent or ameliorate financial crises in emerging markets (September 2002 Global Financial Stability Report, Chapter IV). Silva and Velandia-Rubiano (2010) found that some emerging

markets that shifted the composition of their public debt portfolios towards local currency debt issuance and improved their macroeconomic fundamentals were less prone to the global financial crisis.

The funding challenges faced by many countries because of the COVID-19 pandemic are one more example of the importance of developing domestic debt markets to increase economic resilience. The Group of Twenty (G20) also recognised the importance of LCBMs in improving the resilience of domestic economies and financial systems by endorsing an action plan to support LCBM development, in November 2011.

Central banks of some emerging markets economies (EMEs) launched asset purchase programmes for the first time, not only to address liquidity challenges, but also to support local currency bond markets. Government bond purchases by EME central banks have generally been small (below 1.5 per cent of GDP) relative to advanced economy central bank purchases, which have accounted for up to 15 per cent of GDP. Some EME central banks have purchased government bonds in the primary market to help their governments to finance large fiscal deficits. The scale of the fiscal response to the COVID-induced economic crisis has been larger than those to any previous crises, and this response has generally been funded by EMEs issuing local currency debt.

Central banks began purchasing government debt at issuance or providing funds directly to the government, despite the deepening of their LCBMs. For instance, the Bank of Indonesia announced a deficit burden-sharing arrangement with the Indonesian Ministry of Finance in July 2020, in which it would purchase government bonds in the primary market to assist in financing the government's fiscal response to the COVID-19 crisis. The central bank's purchases have targeted health and social security spending and support for businesses, as the government's fiscal response to the pandemic.

In the Philippines, the central bank directly purchased government bonds through a pre-existing 'provisional advance' facility with the Philippine fiscal authority. In September 2020, the limit on the size of this facility was increased to 30 per cent of average government revenues over the previous three years, from 20 per cent. Direct financing could be consistent with central bank objectives during periods of market dysfunction where it may be difficult for the government to access sufficient funding via financial markets, or where other monetary policy tools are exhausted, and inflation is forecast to fall short of target over the policy horizon (Bartsch et al, 2019).

## 2.2 LCBMs in selected countries in Africa

The FSD Africa (2021) study covering Ethiopia, Kenya, Ghana, Nigeria and South Africa showed the role of domestic market development in managing vulnerabilities arising from high public indebtedness. Such development does not only reduce reliance on foreign borrowing, but it also lays the foundation for more efficient intermediation of scarce domestic savings. The study concluded that deeper and liquid domestic markets have a high capacity to absorb greater domestic debt issuance and limit the risks associated with increased domestic debt refinancing. It showed that these countries eased liquidity conditions in the financial markets by cutting policy interest rates in response to the COVID-19 crisis. This not only mitigated the adverse macroeconomic effects of the demand shock, but also helped to reduce both the cost of servicing domestic debt and growth in government indebtedness.

The Central Bank of Ghana and the South African Reserve Bank implemented the purchase of long-term government bonds and the sale of short-term securities programmes. This reduced yields on long-term securities, bringing down the benchmark government yield curve and, in turn, lowering cost of borrowing by the government and the private sector issuance. The purchase of government securities by the central banks, whether on the secondary market or directly from the government, led to debt monetisation as reflected in the significant expansion of the central banks' balance sheets in terms of outstanding government securities as a share of GDP. While these measures supported government financing especially during the crisis and contributed to stable and liquid local currency bond markets, they may have negative consequences if used for an extended period. Together with direct lending by central banks to governments, they often lead to distortions in pricing and secondary trading. They should therefore be used in moderation, especially in less developed markets and in times of liquidity strains or crisis to maintain stability and maintain government borrowing.

Use of domestic debt financing contributes to deep and liquid LCBMs, thus providing room for more domestic debt issuance and establishment of a well-defined government securities yield curve, a key pricing benchmark for private securities and loans. This reduces pricing risk and increases liquidity in LCBMs. Care should however be taken to avoid the risk of crowding out the private sector, especially in shallow and developing markets. When the government competes with the private sector for limited domestic private savings, it pushes up the cost of borrowing for the private sector. In less deep markets, when the government issues large volumes of bonds, it puts pressure on the government curve, thus raising the borrowing cost. In addition, there is a notable increase in credit to the public sector but declining credit to the private sector. Some policy measures, such as regulatory requirements for banks and other financial institutions to hold a certain proportion of government securities as part of liquidity requirements, also contribute to the crowding out of the private sector.

Several African countries are increasingly issuing short-term domestic debt as evidenced by short average maturity of domestic debt. This raises refinancing risks, a concern for many investors. In addition, where domestic investors perceive the government's external debt to be unsustainable, risks associated with external debt exposure are likely to impact domestic debt markets. Predictability of public debt issuance, minimising refinancing and foreign exchange risks, and adopting market-friendly issuance procedures, are therefore becoming more critical to these countries' debt management practices. The 2021 FSD Africa study notes that South Africa and Kenya have been proactive in adopting more market-friendly policies than the other case study countries.

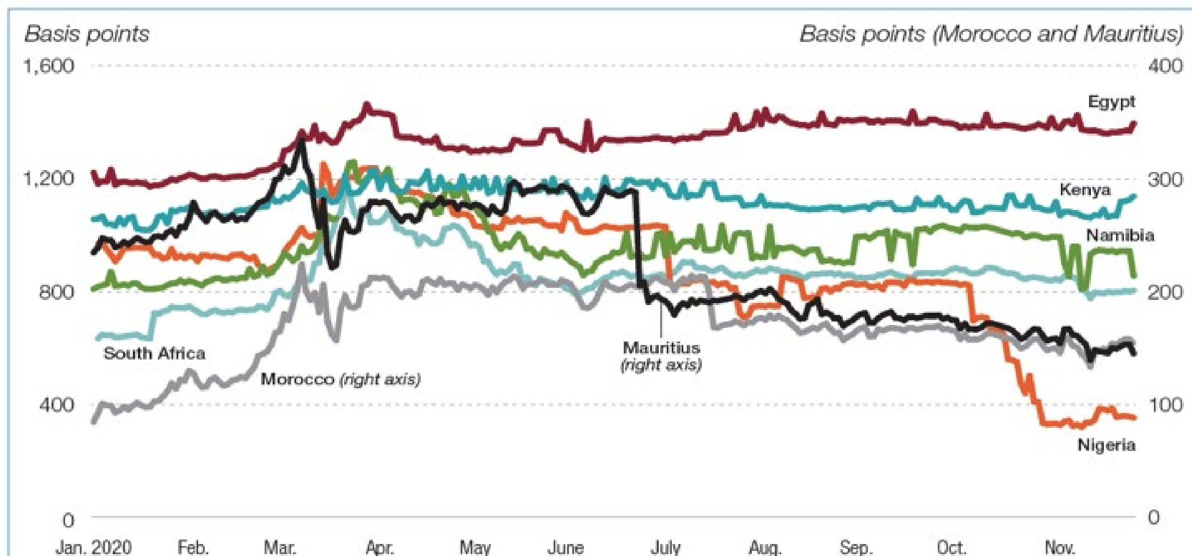
Aligning debt instruments to the needs of domestic and foreign investor bases is key to the growth of LCBMs. Liquidity of the instruments is essential for both secondary market trading and primary market performance. This contributes to market deepening, which is critical in absorbing any shocks to the local financial markets and facilitates issuance of large volumes of bonds without necessarily affecting pricing and overall borrowing costs.

The discussion that dominated most LCBMs during and post-pandemic was whether there would be need for changes, timing, and sequencing of changes to debt management strategy. The FSD Africa (2021) study concluded that to mitigate the impact of increased debt issuance on interest rates, the cost and risk of alternative debt strategies needs to be weighed against the timing and sequencing required to move to the desired debt composition. Moving too fast to a long-term debt portfolio could shift the yield curve upwards, resulting in revaluation losses to investors in long-term debt securities. On the other hand, slow transition may reduce the liquidity of long-term instruments, requiring institutional investors to take on more risk.

Strategies that involve innovative products, such as Sukuks bonds in Nigeria, could become useful in diversifying funding sources, both domestically and abroad. Exploring the issuance of green bonds to fund climate-related or environmental-purpose projects, a niche market for specific investor needs, could also become beneficial. Such bonds attract more investors interested in how proceeds are used and, in turn, reduce sovereign borrowing costs on the conventional bonds.

The study notes that the pandemic showed vulnerabilities of reliance on international capital markets as a key source of debt financing for many African countries. Increased risk perception by investors has led to an estimated US$90 billion capital outflow from Africa since January 2020. In addition, increased investor risk aversion has led to intense market volatility and widening spreads on African sovereign bond yields (Figure 3.1).

**Figure 3.1: The 10-year Bond Spreads for Selected African Countries**

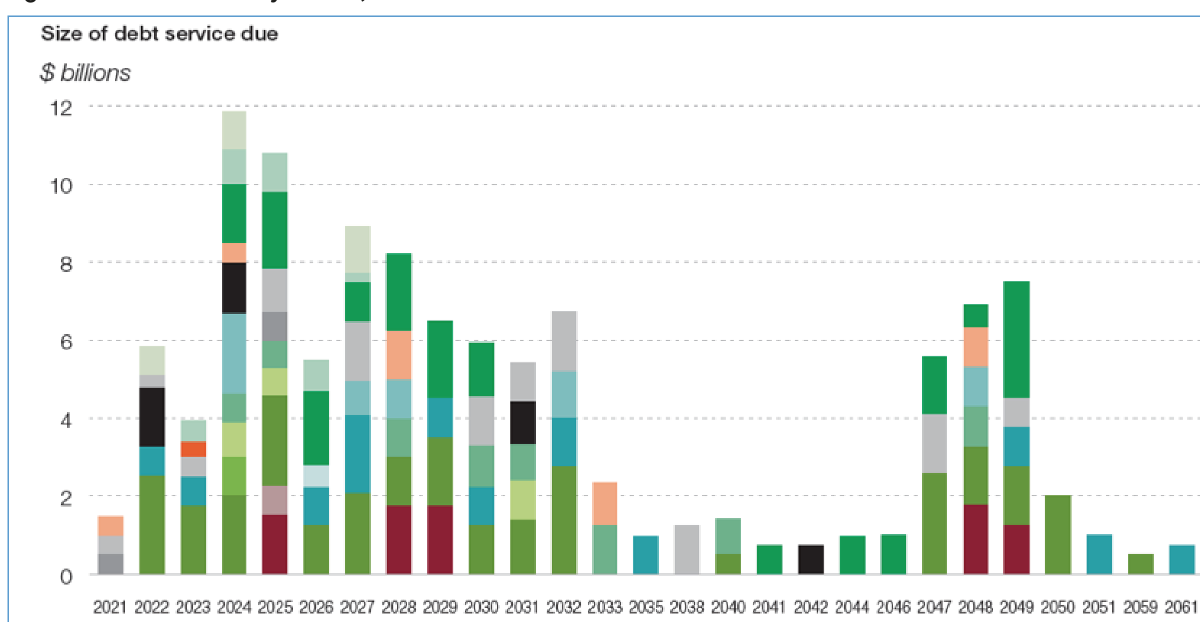



*Source: FSD staff calculations based on Bloomberg database.*

Tightened global financing conditions in early 2022, as advanced economies tightened monetary policy to stem global inflation, have raised interest rates further. This has made it more expensive for governments to issue bonds in international capital markets to support critical funding of economic recovery and refinancing of maturing debt.

This study further recognises the increasing share of the domestic bond issuances and contingent liabilities from public-private partnerships and shorter maturities of new debt and their implication on higher refinancing risks. Higher borrowing from non-Paris Club and commercial creditors has meant shorter maturities and higher refinancing risks. Increased issu¬ance of 10-year Eurobonds by many African coun¬tries since 2013 and preference for non-Paris Club loans with maturities shorter than those of multilateral concessional long-term loans will cause bunching of maturing sovereign debt liabilities coming due in 2024 and 2025, a time when these countries are expected to be recovering from the recessions caused by the pandemic. This is likely to elevate risks of debt distress, negatively affecting the LCBMs in case of defaults – hence the need for the countries most affected to begin debt resolution and restructuring negotiations before risks material¬ise (Figure 3.2).

**Figure 3.2: Debt Maturity Profile, 2021–61**




*Source: AfDB, African Economic Outlook.*
*Note: Colours indicate different countries*

Cognisant of this problem, several African countries have taken deliberate measures to lengthen the maturity of their LCBMs. Countries like Ghana, Kenya, Nigeria and Tanzania have issued bonds of maturities longer than 15 years.

Countries also adopted other measures that indirectly contributed to the stability and continued functioning of LCBMs. In the IMF COVID-19 Tracker, many countries lowered cash reserve requirements (CRR), injecting additional liquidity to help banks support borrowers. Banks were also directed to suspend dividend and bonus payments for at least 90 days. Central banks were on standby to provide exceptional liquidity support to distressed banks, to provide liquidity to commercial banks for a longer period through reverse REPOs of up to 91 days, and to buy treasury bonds held by microfinance deposit-taking institutions (MDIs), banks and credit institutions (CIs) to ease liquidity distress. These actions aimed to support banks and borrowers, and they contributed to liquid and stable LCBMs in the MEFMI region.

# 3.

# REVIEW OF IMMEDIATE POLICY RESPONSES TO COVID-19 BY MEFMI COUNTRIES

A desk review of published documents and information posted on the websites of central banks, debt agencies and ministries of finance, as well as information on MEFMI countries from the IMF COVID-19 Policy Response Tracker, provides insights into the measures taken to minimise the socio-economic impact of the pandemic. It also highlights the measures taken on LCBMs, in terms of operations, policies and performance.

**Angola** reported its first case of COVID-19 on 21 March 2020, while community transmission started on April 27. The World Bank, United Nations, European Union, African Development Bank and European Investment Bank provided financial support and resources to complement the government's efforts to mitigate the effects of the pandemic. In June 2021, the IMF approved the Fifth Review of the ongoing EFF program and disbursed US$772 million in budget support, accommodating COVID-19 vaccine procurement.

The National Bank of Angola (BNA) reduced the rate on its seven-day permanent liquidity absorption facility and expanded its credit stimulus programme to selected sectors in March 2020. It subsequently reinstated its Permanent Overnight Liquidity Provision facility to provide liquidity support to banks totalling Kz100 billion, and extended access to large non-financial corporations on a discount line created for the purchasing of government securities.

To ensure that the government safeguarded its ability to continue servicing its debt on schedule, under the prevailing circumstances, Angola applied for the G20 Debt Service Suspension Initiative (DSSI). It also secured selected debt re-profiling operations with some of its large creditors and worked closely with the BNA to increase the rollover rate in domestic financing. It also encouraged the National Social Security Institute to allocate more resources to purchase of treasury bonds. All these measures had a profound impact on the liquidity, functioning and performance of the LCBM in Angola.

**Botswana** recorded its first case on 31 March 2020. The government declared a state of emergency on 2 April 2020, and adopted a list of containment measures, including social distancing and travel bans. As part of policy measures, the Bank of Botswana's Monetary Policy Committee cut the bank rate by 100 basis points cumulatively, from 4.75 per cent to 3.75 per cent by October 2020, to support the domestic economy. It also reduced the primary reserve requirement from 5 per cent to 2.5 per cent, to inject liquidity. Banks and nonbanks offered loan restructuring and payment holidays for affected sectors. The Bank of Botswana relaxed rules to meet capital requirements and introduced measures to improve liquidity. The measures included reducing the capital adequacy ratio for banks to 12.5 per cent from 15 per cent, and regulatory forbearance for non-performing loans. Overnight funding costs were reduced, access to repo facilities broadened, collateral constraints for bank borrowing from the central bank were extended to include corporate bonds and traded stocks, and electronic payment transaction limits were raised. These measures, together with fiscal spending and tax measures, positively impacted the LCBM in Botswana.

**Eswatini** reported its first COVID-19 case on 14 March 2020. On 17 March, the government declared a national state of emergency, and instituted containment measures. To support government efforts to mitigate the severe impact of the pandemic, the IMF Executive Board approved US$110.4 million in emergency financial assistance under the Rapid Financing Instrument, on 29 July 2020. The World Bank also approved a US$40 million loan on 19 November to support economic recovery in Eswatini. The Central Bank of Eswatini (CBE), for its part, reduced the discount rate by a cumulative 275 basis points to 3.75 per cent and kept it unchanged. It also cut the reserve requirement by 100 basis points to 5 per cent, and reduced the liquidity requirement to 20 per cent, from the pre-COVID 25 per cent, for commercial banks and to 18 per cent (from 22 per cent) for the development bank. Further, it encouraged greater use of electronic payments and encouraged banks to consider loan restructuring and repayment holidays. The CBE began enhancing its

liquidity management framework and tools, and on 15 July 15 it issued a notice outlining new facilities and changes to existing ones. These measures supported liquidity and the smooth functioning of the LCBMs in Eswatini.

**Kenya** confirmed its first COVID-19 case on 14 March 2020, and the government adopted several containment measures. As part of the FY2019/20 budget, it initially earmarked KSh40 billion (0.4 per cent of GDP) for COVID-related expenditure. More fiscal measures were implemented to mitigate the socio-economic impact of the pandemic. To complement the government measures, the Central Bank of Kenya, on 24 March 2020: cut its policy rate by 100 bps to 7.25 per cent; lowered banks' cash reserve ratio by 100 basis points to 4.25 per cent; and increased the maximum tenor of repurchase agreements from 28 to 91 days. It also announced flexibility for banks regarding loan classification and provisioning for loans that were performing on 2 March 2020 but were restructured due to the pandemic. The central bank also encouraged banks to extend flexibility to borrowers' loan terms based on pandemic-related circumstances and encouraged the waiving or reducing of charges on mobile money transactions to disincentivise the use of cash. On 15 April, the central bank suspended for six months the listing of negative credit information for borrowers whose loans became non-performing after 1 April. On 29 April, the bank cut its policy rate by 25 basis points to 7 per cent, ensuring a liquid and well-functioning LCBM, in terms of primary and secondary market performance.

**Lesotho** reported its first COVID-19 case on 14 May 2020 and created an inter-ministerial committee to coordinate its response, together with a range of containment measures. To support government efforts in dealing with the pandemic, the IMF Executive Board approved SDR34.9 million (50 per cent of quota) in emergency financial assistance under the Rapid Credit Facility and the Rapid Financial Instrument, on 29 July 2020. The Central Bank of Lesotho (CBL), following an extraordinary meeting of its Monetary Policy Committee on 23 March 2020, increased the NIR target floor from US$630 million to US$660 million and cut the CBL policy rate by 100 basis points from 6.25 per cent to 5.25 per cent. To encourage the use of non-cash payments, the CBL negotiated with mobile network operators to remove fees for transactions below M50 and temporarily raised mobile money transaction limits. The CBL further cut its policy rate to 3.50 per cent on 28 July 2020 and raised the NIR floor to US$800 million on 24 May 2021 to safeguard the peg between the loti and the South African rand. Other measures, including banks and insurance companies suspending dividend payouts to shore up capital and liquidity, were instrumental in supporting LCBMs.

The first three cases of COVID-19 in **Malawi** were confirmed on 2 April 2020. Besides the fiscal measures taken by the government, the Reserve Bank of Malawi instituted policy measures that were critical to mitigating the adverse impact of the pandemic. The bank cut its policy rate by 150 basis points to 12 per cent, reduced the domestic currency liquidity reserve requirement (LRR) by 125 basis points to 3.75 per cent (aligned with the foreign currency LRR) and the Lombard Rate to 12.2 percentage points. An emergency liquidity assistance framework was implemented to support banks in the event of worsening liquidity conditions and to provide support to banks on a case-by-case basis. To support small and medium enterprises (SMEs), commercial banks and microfinance institutions were asked to restructure SME loans and provide a moratorium on their debt service until the end of June 2021. Fees on mobile money transactions were temporarily waived to encourage cashless transactions. These measures impacted Malawi's LCBMs positively.

**Mozambique** reported its first COVID-19 case on 22 March 2020, with the first peak of infections in September 2020. Early on, the government asked Mozambique's development partners for US$700 million to help deal with the economic impact of the pandemic. To ease liquidity conditions, the central bank reduced reserve requirements by 150 basis points in March 2020 for both foreign currency and domestic currency deposits, to 11.5 per cent and 34.5 per cent respectively. To support financial markets and encourage prudent loan restructuring, Mozambique's central bank: introduced a foreign currency credit line for institutions participating in the interbank foreign exchange market, in the amount of US$500 million, for a period of nine months; lowered fees and charges for digital transactions through commercial banks, mobile banking and e-currency, for a period of three months; waived specific provision on foreign currency loans, until 31 December, and introduced the requirement for exporters to exchange 30 per cent of forex (FX) proceeds into domestic currency. The bank cut its policy rate by 250 basis points to 10.25 per cent and lifted the twice-a-week access restriction on the standing lending facility introduced in October 2016. However, with the exception of the FX conversion requirement and the exemption from constituting additional provisions that was extended until end of June 2021, the measures were waived and the central bank increased its policy rate by 300 basis points in January 2021 to 13.25 per cent.

**Namibia** reported its first case of COVID-19 on 13 March 2020, with daily reported cases increasing rapidly in late 2020 and early 2021. To deal with the socio-economic impact of the pandemic, the government of Namibia launched the Economic Stimulus and Relief Package on 1 April 2020, totalling N$8 billion (4.25 per cent of GDP). This covered

expenditure on health, wage subsidies for affected sectors, and income grants; and guarantees to support low interest loans for small and agricultural businesses, and individuals. The Bank of Namibia, on the other hand, announced its participation in the operationalisation of the loan guarantee programme, providing N$50 million in capital targeted to SME credit. In addition, it cut its policy rate by 250 basis points to 3.75 per cent on 19 August 2020, since a state of emergency was declared. The central bank also allowed banks to grant loan payment moratoria of up to 24 months, relaxed the determination on liquidity risk management, reduced the capital conservation buffer rate to 0 per cent for at least 24 months to support credit, and postponed the effective date of implementation of the 25 per cent single borrower limit and concentration risk limit.

**Rwanda** confirmed its first case on 14 March 2020, and launched administrative and policy measures to limit the spread of COVID-19 and mitigate its socio-economic impact. To complement fiscal measures taken by the government, the National Bank of Rwanda announced a raft of policy measures for liquidity support on 18 March 2020. These included: an extended lending facility, worth RWF50 billion (0.5 per cent of GDP), to allow liquidity-constrained banks to borrow at the policy rate and benefit from longer maturity periods; treasury bond purchases through the rediscount window for the next six months; and a 100-basis-point cut in the reserve requirement ratio, to 4 per cent, effective from 1 April 2020. Loan repayment conditions were also eased for impacted borrowers, and charges on electronic money transactions waived for three months. On 30 April, the central bank cut the policy rate by 50 basis points to 4.5 per cent. In October, the extended lending facility and the T-bond rediscounting window were extended until further notice. The central bank restricted dividend distribution by financial institutions to preserve capital positions. It also issued guidelines to banks and microfinance institutions on the classification and provisioning of restructured loans, which were extended in June 2021. All these measures contributed to a liquid and full-functioning LCBM in Rwanda.

The first confirmed cases in **Tanzania** were reported on 17 March 2020. The government spent US$8.4 million to deal with the effects of COVID-19. It received grants and accessed a contingency reserve of US$3.2 million to fund additional health spending to mitigate the risks of the pandemic. To support the private sector, the government expedited the payment of verified expenditure arrears with priority given to affected SMEs, paying US$376 million in March 2020. It also expanded social security schemes by US$32.1 million to meet the increase in withdrawals of benefits by those who were newly unemployed due to COVID-19. The Bank of Tanzania (BoT) cut the discount rate from 7 per cent to 5 per cent and reduced collateral haircuts requirements on government securities. The BoT Statutory Minimum Reserves requirement was reduced from 7 per cent to 6 per cent on 8 June 2020 and the BoT provided regulatory flexibility to banks and other financial institutions that provided loan restructuring operations on a case-by-case basis. The daily transactions limit for mobile money operators was raised from about US$1,300 to US$2,170 and the daily balance limit was raised from US$2,170 to US$4,340. These measures supported liquidity and therefore the functioning of LCBMs.

The first COVID-19 case in **Uganda**, in March 2020, prompted the authorities to institute administrative and policy measures to limit the spread of the disease and minimise its socio-economic impact. The fiscal measures taken saw the country's public debt grow by 20.5 per cent in the 12 months to June 2020, following USh6.4 trillion of borrowing from the IMF, Trade and Development Bank and Stanbic Bank, to counter economic distress. However, excess liquidity in the banking sector following accommodative monetary policy saw T-bill yields initially decline, before rising in October 2020 as inflation picked up. In addition, the rising government financing needs pushed up financing costs, with 10-year T-bond yields rising by 200 basis points in the first half of FY2020/2021.

Uganda also purchased treasury bonds held by MDIs and CIs to ease liquidity pressures. This measure, combined with reduced demand for credit from the private sector and reduced taxable income, was expected to create increased demand for LCBMs, thus meeting increased appetite for public debt to compensate for compromised tax revenue collection. This was achieved through the purchase of treasury bonds held by MDIs and CIs, and the provision to MDIs and CIs, which do not hold treasury bills or bonds in their portfolios, of increasing liquidity secured by their holdings of unencumbered fixed deposits or placements with other Supervised Financial Institutions (SFIs). On 21 January 2021, the Bank of Uganda also gave investors a chance to convert any maturing bonds into other bond(s) of longer maturities. At the close of the switch auction period, some treasury bonds maturing on 21 January 2021 had been converted into different longer tenors, to mature between 2023 and 2040. While the objective of this was to address a cash crunch triggered by the effects of COVID-19, it had implications on the primary and secondary market for LCBMs. A report by Thomson Reuters indicated that a total of USh486.7 billion (US$131.72 million) of treasury bonds, initially maturing on 6 January 2021, were switched into long-term maturities. Switches however came with costs. The original bond had a yield of 11 per cent but the new switched paper had yields ranging from 16 per cent to 17.8 per cent. This implied increased cost

to compensate for term premium.

**Zambia** recorded its first COVID-19 cases on 18 March 2020, and the number of new daily cases peaked in early August. Among other remedial measures, the government issued a ZK8 billion bond (2.3 per cent of GDP) to finance COVID-related expenses, including health spending, arrears clearance, grain purchases, and the recapitalisation of a non-bank financial institution (NATSAVE). The Bank of Zambia's (BoZ) Monetary Policy Committee cut its policy rate cumulatively by 350 basis points to 8 per cent on 19 August 2020, to ease liquidity pressures caused by the pandemic. The BoZ also provided ZK10 billion (2.9 per cent of GDP) of medium-term liquidity support to eligible financial service providers and scaled up open-market operations to provide short-term liquidity support to commercial banks. It also embarked on a bond purchase programme worth ZK8 billion to provide liquidity to the financial sector. The BoZ revised the rules governing interbank foreign exchange market operations to support its smooth functioning by strengthening market discipline and providing a mechanism to address heightened volatility. It also revised loan classification and provisioning rules, and extended the transitional arrangement to IFRS9. The BoZ allowed financial service providers to renegotiate the terms of credit facilities with borrowers affected by the pandemic. Non-bank financial institutions were allowed to use capital instruments that did not qualify as common equity Tier 1 and Tier 2 capital for the purposes of computing regulatory capital.

Before the COVID-19 pandemic, **Zimbabwe** already faced a severe drought and macroeconomic policy shocks, with significant adverse implications for economic stability, growth and the humanitarian situation. The COVID-19 pandemic worsened this already difficult situation. The government launched a US$2.2 billion domestic and international humanitarian appeal on 2 April 2020, which was increased by 25.8 per cent (US$618.6 million). The main support came from the European Union, the United Kingdom, Japan, Sweden, the Global Fund, the African Development Bank and the World Bank. The government also secured a US$10 million loan from the Arab Bank for International Development (BADEA) for the procurement of PPE and laboratory equipment.

In March 2020, the authorities returned to the multicurrency system, allowing both the Zimbabwean dollar and the US dollar to be used as legal tender. The Reserve Bank of Zimbabwe (RBZ) also introduced a Z$5 billion medium-term bank accommodation lending facility at 10 per cent per annum and increased the private sector lending facility from Z$1 billion to Z$2.5 billion. In its February 2021 Monetary Policy Statement, the RBZ adjusted the statutory reserve ratio on demand and/or call back to 5 per cent, which had been lowered to 2.5 per cent in June 2020. The RBZ policy rate was increased to 40 per cent after being lowered to 15 per cent per annum in March 2020 to stem speculative borrowing. In June 2021, the Monetary Policy Committee maintained the bank policy rate at 40 per cent and the interest rate on the Medium-Term Accommodation Facility at 30 per cent per annum and reduced the reserve money growth target from 22.5 per cent per quarter to 20 per cent per quarter.

In summary, authorities in the MEFMI countries took appropriate measures that largely minimised the socio-economic impact of the COVID-19 pandemic and contributed to liquid and well-functioning financial markets. While some measures were unprecedented, they ensured minimal interruptions in LCBM operations and functioning.

# 4.

# SURVEY OUTCOMES: ANALYSIS AND DISCUSSIONS

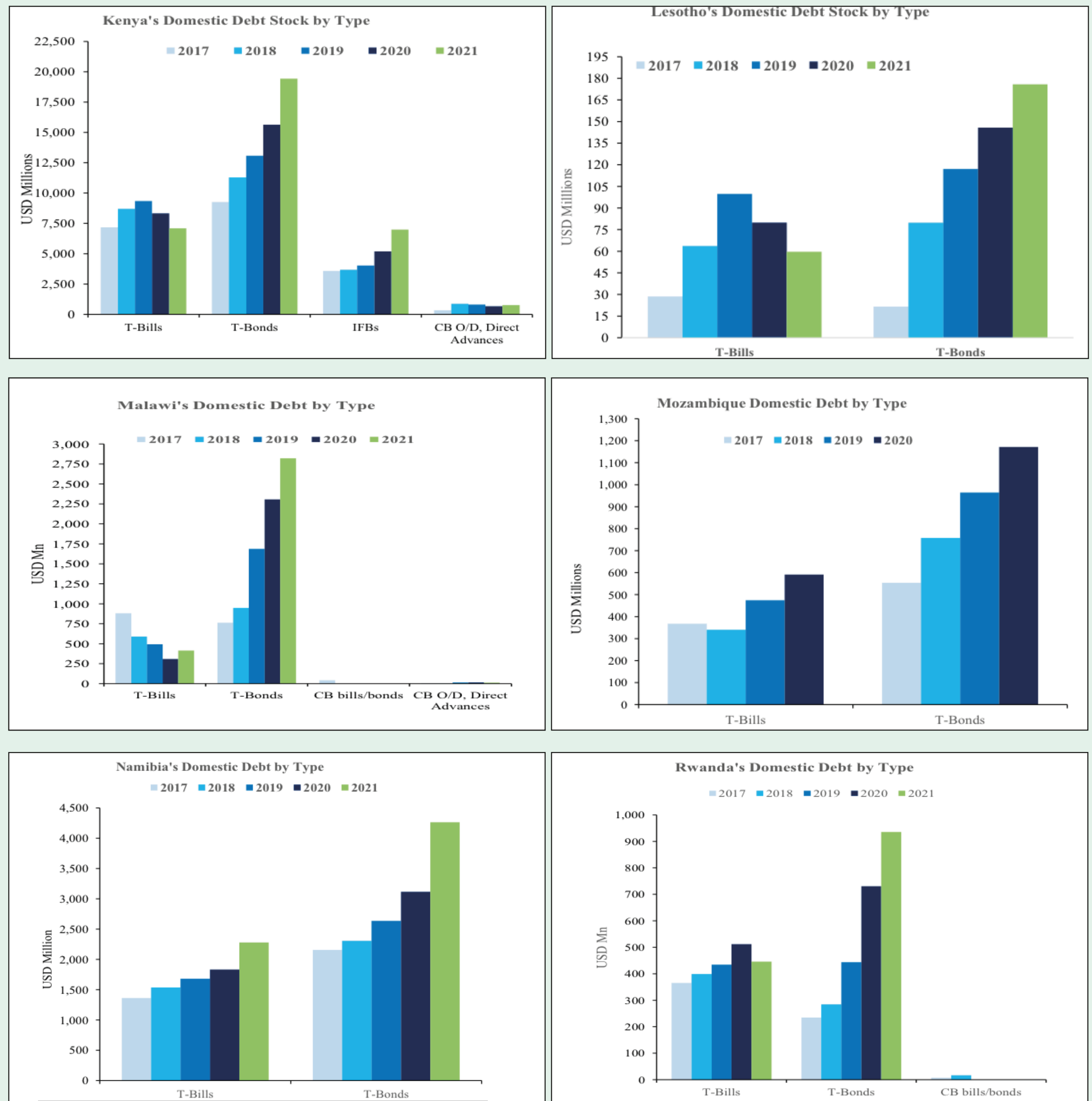
The MEFMI Secretariat sent out questionnaires to its 13 member countries to establish how the COVID-19 pandemic impacted domestic debt management operations and the functioning of LCMBs. Twelve countries completed the questionnaire and submitted feedback. One country, however, did not submit its feedback, citing challenges in getting approval from authorities. Some of the countries which submitted their answers provided incomplete information on some questions. Nonetheless, this chapter analyses the feedback received from all the countries that submitted answers. The results are analysed by thematic area, rather than by country or by question.

### 4.1 Public domestic debt stock, maturity and holders

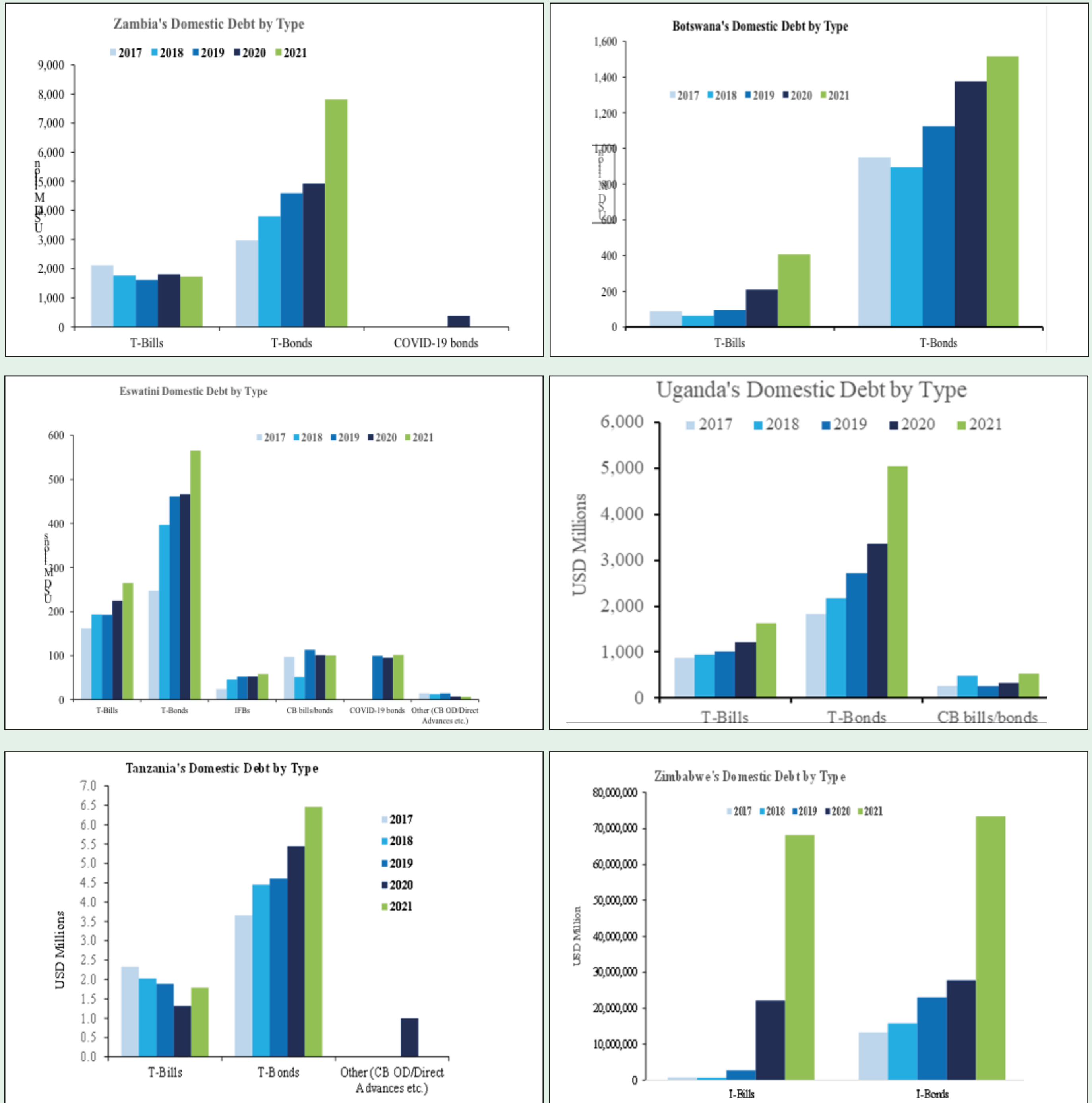
Overall, domestic debt increased faster across the MEFMI region during the pandemic period (2020–2021) than it did in the pre-COVID-19 period (2017–2019). The stock of outstanding domestic debt, mainly comprised of treasury bonds, increased at a faster rate in 2020–2021 than it did during the pre-COVID-19 period. During the COVID-19 period, eight countries issued more treasury bonds than treasury bills to raise money in the domestic securities markets. Of these, Kenya, Lesotho, Rwanda and Tanzania reported an increase in stock of treasury bonds in the pandemic period against a decline in stock of treasury bills. Namibia, Botswana and Zimbabwe recorded a consistent increase in treasury bill stock during the pandemic period, which reflected uncertainties related to the COVID-19 shock. Zimbabwe saw the largest increase in treasury bill stock in 2021. This could have been because the country had pre-existing vulnerabilities that made it difficult to issue long-term bonds (Box 3.1).

Besides conventional treasury bonds and bills, there were other securities used by countries in the MEFMI region to raise domestic financing. Kenya and Eswatini, for instance, issued infrastructure bonds (IFBs) to raise money from LCBMs. IFBs were most attractive and recorded huge oversubscriptions in Kenya, mainly due to their tax-exempt feature and relatively attractive coupon rates that offered positive returns to institutional investors. Kenya, Malawi and Eswatini used the central bank overdraft facility, or ways and means or direct advances, while Malawi, Rwanda, Uganda and Eswatini issued central bank bills to raise money to finance the government. Zambia and Eswatini were the only countries that reported issuing COVID-19 bonds, whose proceeds funded COVID-19-related expenses. While some of these instruments have traditionally been used to mop up liquidity as part of monetary policy operations, their use during the pandemic period was mainly for budget support. This was because central banks at the same time were pursuing expansionary monetary policy to mitigate the impact of the pandemic on market liquidity and overall economy.

### Box 3.1: Stock of Public Domestic Debt by Instrument in the MEFMI Region, 2017–2021



### Cont. Stock of Public Domestic Debt by Type in the MEFMI Region, 2017–2021




*Source: Computations from survey feedback.*

**Overall, more countries took advantage of ample liquidity and low demand for credit by the private sector to issue long-dated securities. As a result, average time to maturity (ATM) of the stock of domestic debt increased during the COVID-19 period (2020–2021), signifying lower refinancing risk but high debt cost.** Eight countries reported an increase in the ATM of outstanding stock of domestic debt in the range of 0.9 to 2.6 years during the COVID-19 period. Four countries on the other hand reported shortening of ATM by between 0.2 and 2.1 years during the pandemic period (Table 3.1).

**Table 3.1: Average Time to Maturity of Outstanding Domestic Debt (Years)**

| COUNTRY | pre-COVID-19 Period(2017 - 2019) | COVID-19 Period(2020-2021) | Change (Years) |
|---|---|---|---|
| Kenya | 5.0 | 7.6 | 2.6 |
| Lesotho | 6.7 | 6.5 | -0.2 |
| Malawi | 3.0 | 2.7 | -0.3 |
| Mozambique | 4.0 | 5.0 | 1.0 |
| Namibia | 10.0 | 8.4 | -1.6 |
| Rwanda | 2.3 | 3.2 | 0.9 |
| Tanzania | 4.3 | 6.7 | 2.4 |
| Zimbabwe | 5.2 | 6.5 | 1.4 |
| Zambia | 5.4 | 6.7 | 1.3 |
| Eswatini | 1.7 | 2.6 | 0.9 |
| Botswana | 8.1 | 6.0 | -2.1 |
| Uganda | 3.8 | 4.9 | 1.1 |

*Source: Survey feedback.*

Four countries had their overall stock of domestic debt maturing in less than five years during the COVID-19 period compared to six countries in the period before the pandemic. Countries with a large stock of outstanding treasury bonds had the longest ATMs. This significantly mitigated rollover or refinancing risk of domestic debt, which was prudent debt management strategy, especially in taking advantage of low interest rates because of ample liquidity arising from accommodative monetary policy and subdued demand for private sector credit arising from the unfavourable business environment. There was no crowding out of the private sector as banks had excess liquidity against low demand for loans due to uncertainties caused by the pandemic. Debt managers in the region however need to be ready to review their strategies in the event of interest rate reversals because of economic recovery, changes in policy rates, tightening external conditions and other developments. In such cases, there is a need to carefully balance debt management policy and operations to achieve and maintain minimal refinancing risk and optimal cost of debt. Continued issuance of long-term debt in an environment of rising interest rates could lead to high cost of domestic debt, which is counter-productive to lengthening the maturity profile of debt. A good balance between cost-risk objectives is important for debt managers in the post-COVID-19 environment.

**The COVID-19 pandemic impacted the investor base in the MEFMI region.** Typical holders of government securities include banks, government and private pension funds, insurance companies, individual/retail investors, foreign investors, and central banks. The survey results indicate that eight countries reported changes in investor holdings of government securities during the COVID-19 period.

While commercial banks are the largest holders of domestic debt securities in the MEFMI countries, their proportionate share declined in seven out of the eight countries during the pandemic. Uganda recorded the largest decrease, of 21.5 per cent, on its holding in the pre-COVID-19 period. Malawi was the only country that recorded an increase in commercial banks' holding of government securities (Table 3.2).

| INVESTOR GROUP | Kenya | | Lesotho | | Malawi | | Rwanda | | Tanzania | | Zambia | | Eswatini | | Uganda | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2017-2019 | 2020-2021 | 2017-2019 | 2020-2021 | 2017-2019 | 2020-2021 | 2017-2019 | 2020-2021 | 2017-2019 | 2020-2021 | 2017-2019 | 2020-2021 | 2017-2019 | 2020-2021 | 2017-2019 | 2020-2021 |
| Commercial Banks | 52.00 | 50.55 | 59.16 | 53.37 | 23.75 | 37.29 | 58.23 | 53.82 | 36.47 | 32.50 | 36.26 | 27.38 | 33.00 | 32.00 | 60.67 | 39.20 |
| Pensions (all) | 27.90 | 29.90 | - | - | 4.98 | 3.76 | 26.83 | 23.11 | 25.33 | 26.80 | 31.16 | 22.10 | 46.00 | 43.50 | 27.93 | 37.60 |
| Insurance Companies | 6.13 | 6.35 | 21.31 | 33.50 | 11.07 | 8.34 | 6.06 | 4.45 | 8.47 | 7.75 | 0.34 | 0.52 | 3.33 | 3.00 | 1.47 | 2.15 |
| Individuals/retail | 3.00 | 3.00 | 19.48 | 13.04 | 0.42 | 0.09 | 3.43 | 5.25 | 3.33 | 5.25 | 2.53 | 2.49 | 1.67 | 1.00 | 1.10 | 2.60 |
| Foreign Investors | 4.00 | 4.00 | - | - | 13.09 | 21.00 | 1.59 | 6.61 | - | - | 15.38 | 21.10 | - | - | 4.13 | 8.40 |
| Central Bank | 3.67 | 2.70 | 0.05 | 0.09 | 43.61 | 22.85 | - | - | 20.53 | 15.85 | 11.22 | 22.67 | 9.33 | 10.50 | 0.33 | 0.95 |
| Others (Specify) | 6.30 | 5.00 | - | - | 3.06 | 6.65 | 3.87 | 6.76 | 5.83 | 11.75 | 3.12 | 3.73 | 6.67 | 10.00 | 4.37 | 9.10 |

Countries that issued more long-term debt (Uganda, Tanzania and Kenya) recorded an increased share of domestic government securities held by pension funds during the COVID-19 period compared to the pre-COVID-19 period. Conversely, countries that issued more short-term debt recorded a decline in shares of domestic debt held by pension funds. A similar trend was noted in the holdings of securities by the insurance sector across the region. Long-term bonds are the preferred asset class for pension funds and life insurance for asset-liability matching.

Analysis of the foreign investor bases in the LCBMs within the MEFMI region was key to this study, given the critical role of the investors in deepening the market. During the pandemic period, Malawi, Rwanda, Zambia and Uganda recorded notable increases in the share of domestic debt securities held by foreign investors. This however remained relatively unchanged in Kenya, at 4 per cent, and the rest of the countries did not provide data. If the data has been correctly captured, then the increase in foreign investor holdings could be explained by the search for yield as interest rates remained low in advanced countries due to accommodative monetary policies during the pandemic period. This is a useful finding for the region in implementing strategies for deepening LCBMs and dealing with shocks emanating from capital flight from the region because of unfavourable external conditions.

The survey findings also reveal an important role played by central banks in the LCBMs within the MEFMI region. The central banks of Malawi, Zambia, Tanzania and Eswatini held more than 10 per cent of outstanding stock of domestic debt securities during the COVID-19 period. This was a demonstration of the stabilising role of the apex bank in crisis periods, but such actions should consider an appropriate balance to minimise pricing distortions in LCBMs, especially during normal times.

### 4.2 Market Operations: Auctions, Methods and Practices

The COVID-19 pandemic affected market operations (Table 3.3). Low subscription rates were recorded on government securities issued during the COVID-19 period compared to the pre-COVID-19 period. Of the countries that responded to the question on this matter, Eswatini recorded an increase in treasury bill oversubscription rates during the pandemic period. Lesotho reported increased subscription rates for treasury bonds, while Zambia reported increased subscription rates for treasury bills and bonds. The pandemic could have impacted LCBMs either through reduced propensity to invest following the decline in incomes as the crisis unfolded, or because issuers might have increased offer sizes to borrow more to fund pandemic-induced expenditures. Further research is needed to identify the key reasons for low subscription rates.

**Table 3.3: Auctions Performance (Per Cent)**

| COUNTRY | Treasury Bills | | Treasury Bonds | | Change in T-bills Subscription | Change in T- bonds Subscription |
|---|---|---|---|---|---|---|
| | Pre-COVID19 Period | COVID-19 Period | Pre-COVID-19 Period | COVID-19 Period | | |
| Kenya | 118.9 | 111.6 | 142.0 | 139.0 | -7.2 | -3.0 |
| Lesotho | 248.9 | 211.9 | 63.9 | 80.9 | -37.0 | 17.0 |
| Malawi | 100.0 | 73.9 | 100.0 | 82.6 | -26.1 | -17.4 |
| Mozambique | - | - | 60.5 | 52.5 | | -8.0 |
| Namibia | 187.9 | 173.2 | 264.5 | 251.0 | -14.8 | -13.5 |
| Rwanda | 130.6 | 118.0 | 122.4 | 89.3 | -12.6 | -33.2 |
| Zimbabwe | - | - | 93.0 | 40.7 | | -52.3 |
| Zambia | 47.2 | 120.3 | 73.8 | 101.7 | 73.1 | 27.9 |
| Eswatini | 148.0 | 202.5 | 113.3 | 106.0 | 54.5 | -7.3 |
| Botswana | 156.1 | 149.8 | 163.3 | 109.8 | -6.3 | -53.5 |
| Uganda | - | 175.0 | - | 147.0 | - | - |

*Note: Angola and Tanzania did not complete this question. Empty spaces indicate missing data.*

It would be useful to undertake further research on the strategies employed by Zambia that led to a significant increase in subscription rates for both treasury bills and bonds in the primary market. This could reveal useful information for the region as a whole. In addition, Kenya and Namibia presented a generally stable market in terms of investor demand and issuer supply during the pre-pandemic and pandemic periods. This can partly be attributed to the level of LCBM development and fairly diversified investor bases in those countries. A review of debt management and market operation strategies in Kenya and Namibia would be useful to provide more information.

Various investor groups altered their portfolio composition of treasury bills and bonds to reflect risks related to the pandemic. The study reveals that different investor groups reacted differently as the pandemic evolved, either by limiting their portfolio holdings, varying the maturity structure of their securities or increasing their holdings of government securities issued in the local markets. The picture is mixed across countries in the MEFMI region, indicating heterogeneity in the region's LCBM characteristics in terms of investor base, instruments and level of market development.

For instance, commercial banks and pension funds in Kenya, Rwanda and Tanzania recorded increased demand for long-term government bonds during the COVID-19 period compared to the period 2017–2019. Pension funds not only participated directly in the primary auctions, but also bought bonds from secondary markets, highlighting a preference for asset preservation and flight to quality. The pandemic impacted negatively on returns in the stock market and properties market, leaving fixed income (bonds) as the most attractive asset class for pension firms with guaranteed returns. In Tanzania, commercial banks maintained strong demand for long-dated bonds, an indication of flight to safety and liquidity preservation during the crisis.

Lesotho, Malawi, Uganda and Zimbabwe reported a shift in demand by institutional investors for government securities. The survey data shows portfolio shifts from long-term (bonds) to short and medium-term securities during the COVID-19 period. These portfolio shifts partly reflected the prevailing uncertainties associated with the pandemic, hence the increased demand for treasury bills and short-dated bonds. In Namibia, commercial banks maintained a strong presence in treasury bills and short-dated bonds, while pension funds and insurance companies held more medium to long-dated treasury bonds. The difference in demand for securities by different investor groups among the various countries can partly be attributed to the level of investor diversification, market depth and different blends of instruments issued.

The type of auction method used in issuing securities is key to the success of developing LCBMs, and is also a reflection of the level of market development. During crisis periods, authorities can vary the use of different issuance methods to ensure minimal market distortions while also ensuring governments meet their borrowing targets. This study sought to establish which auction methods were used for issuing treasury bills and bonds, and whether there were changes to these methods during the pandemic.

The survey results indicate that the auction methods used in the MEFMI region to issue government securities included open-ended auctions (and their variants, like reopen auctions), private placements, syndication and tap sales. All these methods were in operation during the COVID-19 period. Countries that used auctions and reopen auctions for both competitive and non-competitive bids for treasury bills and bonds included Kenya, Lesotho, Malawi, Rwanda, Uganda, Zambia and Eswatini. Tanzania used auctions for both competitive and non-competitive bids for treasury bonds and bills, while Zimbabwe used auctions for non-competitive bids only. On the other hand, countries that used auctions and reopen auctions on either competitive or non-competitive pools included Mozambique (non-competitive) and Namibia (competitive). Tap sales were used in Kenya, Malawi, Uganda, Tanzania and Zimbabwe, while private placements were used by Mozambique, Rwanda, Uganda and Zimbabwe.

In both the pre-COVID-19 and COVID-19 periods, auctions were open to all investors who wanted to purchase securities in the MEFMI countries, except in Tanzania, which restricted participation to investors from the East Africa Community (EAC) region, and Zimbabwe, which allowed participation only through primary dealers (commercial banks). Kenya allows all investors with central securities depository (CSD) accounts, including retail (individual) investors, to participate in its auctions. To open a CSD account, one must have an account with a local commercial bank or can invest through a client and/or nominee account with a commercial bank or other institutional investor, like an investment bank, insurance company, mutual fund, etc. Lesotho allowed individuals, societies, insurance and pension firms, parastatals, private organisations, commercial banks and central banks to participate. In Malawi, investors participated through their commercial banks where their CSD accounts were held and maintained. None of the countries studied introduced a post-auction facility or new issuance mechanisms during the COVID-19 period.

Auction practices such as issuance size, frequency and method reflect the level of market development, liquidity conditions and other market dynamics. The survey data indicates that there were no significant changes in frequency and type of security issuance among the countries that provided feedback. Some countries however increased or reduced their auction

sizes, depending on the type of securities. For instance, Malawi almost doubled the amount of treasury bills issued during the COVID-19 period (averaging MWK850 million) compared to the pre-COVID-19 period (MWK476 million on average). This explains the decline in the ATM to 2.7 years for Malawi during the COVID-19 period. Kenya on the other hand increased its auction sizes for treasury bonds, to take advantage of the liquidity premium on higher demand for safe assets, resulting in a lengthening of ATM of domestic debt.

Most countries maintained the same frequency of issuance of treasury bills and bonds during the COVID-19 period as was the case in the pre-COVID-19 period. Issuance of treasury bills was maintained on weekly basis in Kenya, Malawi, Namibia, Rwanda and Tanzania, across all tenors. Uganda issued treasury bills bi-weekly in both periods. Treasury bonds were issued on a monthly basis in Kenya, Uganda and Rwanda, fortnightly (twice a month) in Malawi and Mozambique, and weekly in Namibia and Tanzania, during both periods of analysis. Zimbabwe moved to weekly issuance of treasury bills during the COVID-19 period, from fortnightly or/and monthly in the pre-COVID-19 period. Lesotho maintained its bi-weekly pre-COVID-19 issuance of central bank bills in the COVID-19 period, but increased the frequency of treasury bill and bond issuance to quarterly during the COVID-19 period, from annual issuance in the pre-COVID-19 period.

Kenya, Malawi, Namibia and Tanzania maintained the multiple price auction method for issuance of both treasury bills and bonds. Lesotho, Uganda and Mozambique used uniform price auction for issuance of both treasury bills and bonds. Zimbabwe used the uniform price auction method for treasury bills as no treasury bonds were being issued in the country, due to low market uptake and factors other than COVID-19. Rwanda applied multiple price auctions for treasury bills and book building for treasury bonds during both periods.

### 4.3 Debt management strategies, borrowing plans and issuance calendars

Cognisant of the important role played by a well-functioning and operational debt management strategy (DMS), this study sought to establish whether MEFMI countries had fully operational DMSs in both periods. In addition, the study sought to establish the existence of borrowing plans and issuance calendars, and whether their implementation was affected by the COVID-19 pandemic.

Most MEFMI countries had operational debt management strategies, which guided debt issuance and management both before and during the pandemic. For transparency, these strategies were published in the media and implemented as per the set timelines. Countries with published and implemented DMSs included Kenya, Malawi, Rwanda, Zimbabwe and Lesotho. Kenya reported variation in the outturn of its DMS from its original strategy, while Lesotho's DMS was only partly implemented. Namibia, on the other hand, had a fully implemented but unpublished DMS. Tanzania, Uganda and Zambia had published DMSs, but these were not implemented. Mozambique and Eswatini did not have DMSs in place. In terms of changing DMSs as a response to COVID-19 risk, most countries review their DMS once a year, and some countries reported variation of outcome from their pre-COVID strategy, as discussed elsewhere in this study.

A published and operational borrowing plan ensures certainty in government securities issuance, a key planning tool for investors. The survey results indicated that Kenya, Lesotho, Mozambique, Namibia, Zimbabwe, Zambia, Botswana and Eswatini published annual borrowing plans for the domestic market. Uganda, Rwanda and Tanzania did not publish their annual borrowing plans. Malawi did not have borrowing plan in place. With the exception of Uganda, the rest of the MEFMI countries that answered this question reported no major changes in their borrowing plans during the pandemic period compared to the prior period, except on increased size of auction offers.

Issuance calendars proved important tools for debt management operations, by guiding investors on type of securities, size of issuance and timing of issuance. A well-designed and implemented calendar gives certainty to investors and enhances domestic secondary market trading. Kenya, Malawi, Mozambique, Namibia, Rwanda, Tanzania, Zimbabwe, Zambia, Botswana and Eswatini all had operational and published securities issuance calendars for their domestic markets. Overall, there were major changes to issuance calendars during the COVID-19 period compared to the period prior to COVID-19. Lesotho had an issuance calendar for treasury bonds and its frequency was changed to quarterly issuance during the COVID-19 period, from annual issuance in the pre-COVID period.

Major changes in issuance calendars included variation to maturity of securities, taxation, coupon rates and frequency of calendar review. Lesotho reduced interest rates on the 91-day treasury bills and started issuing treasury bonds on a quarterly basis instead of an annual basis, to raise more money. Zimbabwe reported changes in securities tenors to reduce the bunching of maturities and address investor preferences. Some countries like Kenya recorded a steady increase in interest rates, especially on treasury bonds, to reflect the rising rate of inflation as investors searched for positive real return. In addition, there were increased reviews of issuance calendars in several countries to ensure borrowing targets were met. Uganda reported an increase in issue sizes, greater than that which had been planned for in its calendar, although the calendar is not published.

Botswana increased its securities issuance frequency from quarterly to monthly, and increased the size of its bond programme from BWP15 billion to BWP30 billion (US$1.5 billion to US$3 billion) following authorisation by its parliament. Zambia reviewed its tax policy to remove withholding tax on government bonds in 2020, having reduced the handling fee on government securities to 1 per cent from 2 per cent in 2019 to reduce transaction costs incurred by investors and promote investment in government securities. Uganda introduced a 20-year treasury bond to take advantage of the ample liquidity and extend the yield curve. All these were major incentives for the development of LCBMs in the MEFMI region, besides having played a role in dealing with the effects of the pandemic. Kenya, Malawi, Mozambique, Namibia, Rwanda, Tanzania and Eswatini reported no changes to their issuance calendars in response to the COVID-19 crisis.

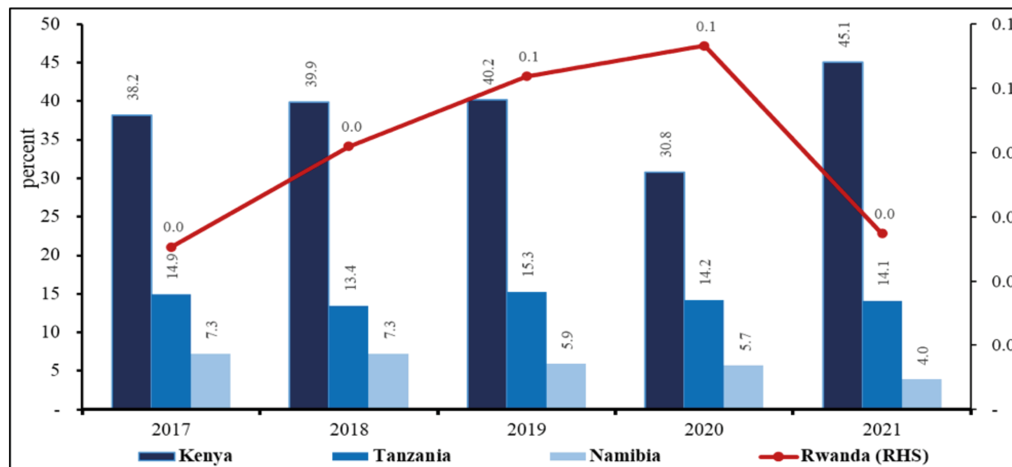
Zambia and Namibia were the only MEFMI countries that issued new securities and/or modified existing securities in response to the COVID-19 pandemic. Zambia issued a COVID-19 bond to raise resources needed to fund COVID-19-related expenses. The Bank of Namibia, on the other hand, introduced a repo lending window to enable banks to finance COVID-related borrowing to mitigate impact on businesses. The facility, however, has not yet been utilised, because there was limited corporate appetite for taking in more debt. Outside the MEFMI region, countries introduced new debt instruments such as pandemic bonds, green bonds, new bond maturity structures, new T-bill tenors, new repo instruments, hedging instruments (swaps, forwards, futures, etc.) and use (or modification) of securities lending facilities, among other instruments.

### 4.4 Secondary market activity and issuers other than government

An important component of the LCBM in any jurisdiction is a well-functioning, deep and vibrant secondary market to facilitate entry and exit from domestic securities markets. This gives confidence to investors to participate in the primary markets and supports the growth and development of the overall LCBM. It also acts as a shock absorber in periods of crisis, as investors faced with liquidity constraints can quickly liquidate their securities with minimal impact on the value. This study sought to assess how secondary market trading activity of bonds was affected by the COVID-19 shock. It also sought information on activities of other issuers of debt in the local currency bond markets within the MEFMI region. Four of the twelve countries which completed the questionnaire reported trading activity in their secondary markets during the COVID-19 period. These were Kenya, Tanzania, Namibia and Rwanda. These countries also reported improved trading activity during the pandemic period as compared to the period before the pandemic. Kenya recorded the highest turnover ratio of 45 per cent in 2021, as well as over the preceding pre-COVID-19 review period (Figure 3.3). Kenya's bond trading turnover rose to KSh949 billion (US$8.7 billion) in 2021 from KSh636.6 billion (US$5.9 billion) in 2020 and KSh571.6 billion (US$5.5 billion) in 2019. This represented 25 per cent average year-on-year growth from 2019 to 2021. The increased activity was partly attributed to higher institutional demand for long-dated bonds in the primary market, as institutions searched for yield and safe assets during the crisis. In addition, increased demand for infrastructure bonds that were tax-exempt, compared to the conventional fixed coupon bonds, also contributed to higher turnover during the period. Bond turnover in Tanzania and Namibia improved marginally during the COVID-19 period compared to the period before COVID-19.

Improved secondary market activity during the COVID-19 period was key to market stability during the pandemic. It not only provided much-needed liquidity to holders and investment opportunities for those with cash, but it also contributed to a stable yield curve. The MEFMI region had very few active secondary bond markets, thus it is difficult to obtain quality data to assess the impact of the pandemic on LCBMs. This study used both secondary market average trading yields and average yields from primary market issuance to assess how the pandemic impacted countries' yield curves.

**Figure 3.3: Treasury Bond Turnover Ratio (Annual Traded Volume/Outstanding Tradable)**



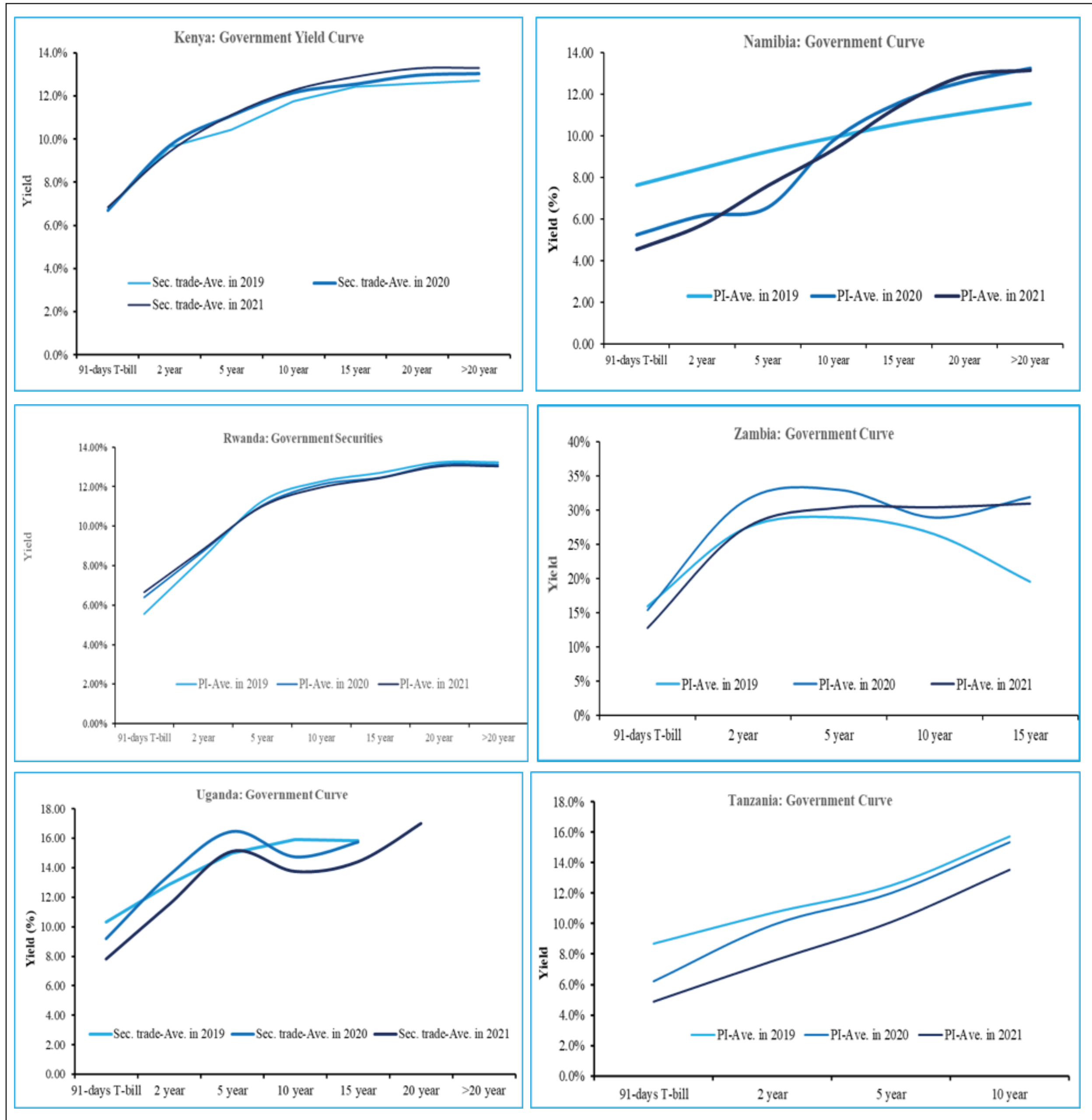

*Source: Survey feedback.*

Kenya had the longest normal sloping yield curve stretching to 25 years following active secondary trading and vibrant primary markets. Rwanda, Namibia and Botswana had normal sloping yield curves trading across the maturity spectrum. Tanzania had a steep yield curve with maturities ranging from one year to 10 years. Uganda had a humped yield curve, while Zambia's curve was inverted. The change in position and shape of the yield curves depicted prevailing economic and market conditions in the region in the periods before and during COVID-19 (Figure 3.4).

**This study also sought to establish whether there were issuers other than the government in the domestic markets during the pandemic period.** The results indicate that Mozambique, Namibia, Rwanda and Zimbabwe reported some bond issuance by private corporates, state-owned enterprises (SOEs) and supranational bodies. Of the countries that reported debt issuance in local currency by issuers other than central government,[1] Namibia had the highest number of issuers and largest size of bonds issued during the period. The issuers included local banks (US$393 million), non-bank corporates (US$17.5 million), supranational entities (US$12 million) and SOEs (US$40.4 million) in both 2020 and 2021. Local banks in Mozambique issued US$43 million at a subscription rate of 100 per cent in 2020. Rwanda's non-bank corporates issued US$3.3 million (100 per cent subscription) in 2021. Zimbabwe's local banks and non-bank institutions issued US$2.4 million (70 per cent subscription) and US$1 million (50 per cent subscription) respectively in 2020–2021. This development was important for the MEFMI region as it indicated growing confidence in LCBMs, providing the required resources to finance capital projects and programmes. Debt management offices in the region therefore need to strengthen their market development initiatives so that more issuers can raise long-term capital for economic development while contributing to further deepening of LCBMs.

[1] These include: local banks (private and public owned), other corporates (non-bank institutions), supranational organisations (AfDB, IFC, etc.), sub-nationals (local governments, municipalities, etc.) and SOEs (parastatals).

**Figure 3.4: Select Countries' Yield Curves**




*Note: PI = primary issuance yields. Sec. trade ave = secondary trading average yields.*

### 4.5 Liability management operations, market rules and other policy measures

As part of prudent debt management practices, different jurisdictions apply various liability management operations (LMOs) to effectively manage debt maturity risk and cost, and to improve the characteristics of their debt portfolios. The most commonly used LMOs are buy-backs, switches or bond exchanges, rollovers and sinking funds. This study sought to identify MEFMI countries that used LMO methods during the COVID-19 period and the pre-COVID period.

Rollover of maturing debt into newly issued debt was the most used LMO by countries that responded to this question. Rollovers were conducted by matching new issuance with maturing securities. Except for Lesotho and Mozambique, all countries used the rollover technique, in both the period before and the period during COVID-19, for both treasury bonds and treasury bills. Rollover operations in Zimbabwe involved changing the tenor and/or interest rate on maturing treasury bills to delay the date of payment.

Malawi and Mozambique used buy-backs to manage

maturing bonds in both periods. Malawi used buy-backs to reduce huge maturities in September 2020 but indicated that this operation was not related to COVID-19. Mozambique indicated use of buy-backs during the pre-COVID period but did not specify the circumstances under which they were used. The Bank of Uganda also purchased treasury bonds held by MDIs and CIs to ease liquidity pressures.

The countries that reported the use of switches to manage maturing treasury bonds and bills during both periods were Kenya, Malawi, Uganda and Namibia. Kenya successfully conducted the inaugural switch operation in June 2020, exchanging significant treasury bill maturity for a new six-year infrastructure bond. This not only contributed to the effective management of refinancing risk by lengthening the debt maturity, but also to the fostering of secondary market trading. Namibia conducted switch operations before and during COVID-19, with regular switch auctions on off-the-run bonds nearing maturity conducted prior to the maturity date during the year. Malawi used switch operations in the post-COVID-19 period but did not indicate the nature of the operations. The Bank of Uganda undertook conversions of bonds which were maturing on 21 January 2021 into other longer-dated bonds, maturing between 2023 and 2040.

A sinking fund is also one of the key LMO tools for effective debt management. While sinking funds are specifically built to pay off maturing debt, they can become useful in crisis periods when the market is unable to support rollover of maturing debt. Sinking funds are however not equivalent to emergency fund or cash buffers meant to cushion market uncertainties in crises. Namibia and Zimbabwe were the only countries in the MEFMI region that used sinking funds as a liability management operation, either prior to COVID or during the pandemic. Namibia maintains two sinking funds, one denominated in local currency for domestic debt management and another one, denominated in the US dollar, for external debt management. These accounts are funded on a quarterly basis in preparation for upcoming bond maturities. Zimbabwe reported to have used its sinking fund to repay maturing debt obligations but did not provide details on how the fund was operated.

Key to the success of a well-functioning and vibrant LCBM is the assurance to investors that they can easily enter and exit the market without incurring substantial transaction costs/losses to their investments. This instils market confidence and therefore attracts a wider investor base, thus contributing to liquidity and market deepening. Cognisant of this fact, this study sought to establish whether countries in the MEFMI region introduced restrictions for entry or exit by local and/or foreign investors in the pre-COVID and/or the COVID period. Such restrictions, also known as market frictions, include regulations, policies, procedures and operational limits, for entry through buying or exit through selling of securities in the local currency bond markets. Such restrictions usually aim to manage volatility of interest rates or local currency in the case of elevated risks, or can be used to increase the performance of auctions.

The study findings indicated that Kenya, Malawi, Mozambique, Namibia, Uganda and Rwanda did not have entry and/or exit restrictions in their LCBMs. However, in Lesotho, securities could only be sold upon completion of 75 per cent of maturity time. The sale of securities prior to this minimum holding period attracted penalties in the form of heavy discounts. Tanzania had restrictions provided in the Foreign Exchange Rate Act, while Zimbabwe's restrictions related to removal of the multicurrency system on 24 June 2019 and transfer to the Reserve Bank, where all RTGS dollar balances in relation to legacy debts were registered with the bank in fulfilment of the Exchange Control on 22 February 2019. Other countries surveyed in this study did not provide feedback on this question.

A default or delayed payment (technical default) of maturing local currency debt poses risks and costs to the issuer. Defaults erode investor confidence and attract huge risk premia in the pricing of new securities. This study sought to assess whether countries in the MEFMI region defaulted or delayed repayment of maturing debt prior to or during COVID-19. The results indicated that only Zimbabwe defaulted or delayed payments on domestic government debt principal or interest during the COVID-19 period. Zimbabwe delayed payment of debt interest due to liquidity constraints as interest rates continued to rise because of uncertainties related to the pandemic.

The World Bank database shows that, as of March 2022, 48 of 73 eligible poor countries had participated in the Debt Service Suspension Initiative since its establishment in May 2020, by G20 countries with the support of the World Bank and IMF. The DSSI helped countries concentrate their resources on fighting the pandemic and safeguarding the lives and livelihoods of millions of the world's most vulnerable people, instead of servicing their debt obligations during the crisis. The DSSI expired in December 2021 and a total of US$12.9 billion in debt-service payments owed by participating countries to their creditors had been suspended. With exception of Rwanda, Botswana and Zimbabwe, all MEFMI countries participated in the DSSI. Lang, Mihalyi and Presbitero (2021) show that the DSSI might have lowered yield

[29] See Utz, R., Mastruzzi, M., Ahued, F. & Tawfik, E., An overview of potential impact of COVID-19 crisis on the accumulation of Government Expenditure Arrears, World Bank, 2020.

spreads for eligible countries, with a considerable decline in borrowing costs compared to similar, ineligible countries. The decline was also found to be stronger for countries that received a larger debt service relief, suggesting that the impact of the DSSI on sovereign spreads works through the liquidity provision channel. Habtamu, Ouattara and Tiffin (2021) found that participation in the DSSI did not adversely affect borrowing costs of SSA frontier markets as initially feared. Instead, it may have lowered the yield spreads for participating SSA frontier markets, but the impact was moderate and subject to considerable uncertainty. This benefit must have been passed to the MEFMI countries that participated in the initiative.

Market communication, stakeholder coordination and investor relations, among other policy measures, proved effective in the operations of LCBMs, maintaining stability and overall domestic debt management practices during the COVID-19 pandemic. Kenya and Malawi, for instance, introduced virtual market engagement forums in 2020–2021 that enhanced communication and coordination among different players during the pandemic period. Tanzania and Uganda took deliberate measures to issue long-dated bonds supported by increased preference for these instruments by institutional investors, to tap increased liquidity in the market and extend the yield curve. Uganda introduced Primary Dealership reforms aimed at boosting activity in the secondary market and operationalised the Bloomberg trading platform to enhance market efficiency and transparency. All these were effectively communicated to the market through stakeholder engagements and press releases.

Other policy and operational measures taken by the authorities in the MEFMI region during the pandemic cut across fiscal, monetary and financial policies, communication and coordination, operational efficiency at marketplace, and others, as summarised in Annex 1. The measures helped households and businesses to cope with the effects of the COVD-19 crisis and provided stability and confidence in the domestic debt market. Such measures provide useful lessons for country and region preparedness in the event of future crises.

# 5. CONCLUSION AND POLICY LESSONS FOR THE MEFMI REGION

This chapter, on the impact of the COVID-19 pandemic on local currency bond markets in the MEFMI region, assessed the performance of the LCBMs, and the policies, practices and strategies deployed by MEFMI countries to manage domestic public debt and support LCBMs during the crisis. Specifically, this chapter analysed the impact of the pandemic on domestic debt markets and the policy responses deployed by countries to cushion LCBMs and strengthen resilience to future crises. It also assessed how debt management offices aligned their governance practices to prioritise the effectiveness of LCBMs and deal with other risks during a crisis, and the chapter draws policy insights to help countries prepare for future crises.

As a background, most LCBMs in the MEFMI countries are nascent. They are characterised by narrow investor bases with banks as the largest holders, government-dominated issuance, less sophisticated investors and inactive secondary trading. They are shallow and illiquid. Some countries in the region have also faced frequent macroeconomic fragilities, with volatile and high inflation, interest rates and exchange rates. Other countries have restrictions to entry and/or exit to their LCBMs.

In terms of debt management, MEFMI countries already faced high debt levels before the pandemic set in. This situation increased their vulnerability to the COVID-19 shock. The latter required a lot of resources to finance health-related expenditures, while also leading to a significant decline in revenues thanks to closure of economic activities. Data on debt as well as information on debt management operations remains scant and requires improvement. This is reflected in the incomplete questionnaires submitted by some countries, and the lack of any response from one country, which cited lack of approval to share information.

LCBMs in the MEFMI region display different levels of market depth and breath. This means that policy measures to mitigate future crises should be well domesticated to each country's level of market development. The COVID-19 crisis therefore provides an opportunity for each country to learn from what worked to sustain stability, and leverage on it to deal with potential crises in the future.

In response to the crisis, MEFMI countries like the rest of the world instituted fiscal, monetary and financial policy measures to mitigate the socio-economic and financial impact of the COVID-19 pandemic on households and businesses. These measures were useful in providing the much-needed liquidity that not only calmed the markets, but also ensured stabilised LCBMs. As a result, interest rates were generally stable, and markets recovered from the initial shock. The establishment of the Debt Service Suspension Initiative by the G20 in May 2020 further contributed to the stability of the LCBMs as it reduced pressure on debt burdens.

Lastly, institutional, legal and market reforms that have taken place over time in the region seem to have played a significant role in ensuring that debt management policy and operations remained functional. Primary market issuances were not heavily undersubscribed during the period. With the exception of Zimbabwe, which was already vulnerable before the pandemic, no country in the region defaulted on its domestic debt service because of the crisis. Continued market engagement, investor relations and enhanced policy coordination steered the countries through the pandemic. Having a well-formulated and implementable debt management strategy with sufficient market transparency was key. The role of multilateral institutions such as the IMF, World Bank, African Development Bank and G20, among others, was critical in ensuring stability.

The main lessons learnt for the MEFMI countries are as follows:

i) Countries must strengthen their debt management operations as well as debt management policies to ensure that there are strong institutions that are transparent.
ii) Alongside this, it is important to have strong

institutions responsible for effective debt management. This will ensure adequate preparation, effective coordination and quick policy response, to minimise the impact of similar crises in the future.

iii) Further reforms need to be undertaken to develop and deepen LCBMs in the region. These should include addressing taxation policy on debt securities, restrictions to entry or exit from LCBMs and widening investor and issuer bases, among other reforms.

iv) Marketplace operations also need further reforms, especially to grow institutional investors, diversify instruments, encourage foreign investors and support trading of securities. A deep and well-developed market acts as a shock absorber to crises and therefore instils public confidence.

v) There is a need to further strengthen debt management strategies, with more focus on building sinking funds and/or cash buffers to deal with market volatility or adverse swings in the face of a crisis. These should be well planned, implemented and monitored to ensure they meet their intended objectives. Sinking funds should be backed by strong legal, institutional and administrative structures.

vi) Communications, coordination and collaboration with local, regional and international partners are key to preparing for a rainy day. These important pillars would not only provide much-needed information to deal with a crisis but also the necessary resources to address shortfalls, as was the case with the DSSI.

vii) Countries also need to have proper communication channels, to ensure seamless information flow for enhanced market confidence during the crisis.

viii) Capacity building at all levels and across all the institutions involved is critical to ensure adequate preparedness in dealing with future crises.

ix) Countries need to have proper technology that captures all necessary data and information that is needed for decision making.

x) Countries need adequately skilled personnel to analyse markets and other developments, prepare policy briefs on emerging scenarios, and devise policy options.

xi) Continuous learning from other countries and regions on ways to prepare for and deal with crises is essential.

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### Annex I: Measures that Supported Stability of LCBMs in the MEFMI Region

| MEASURE | KENYA | LESOTHO | UGANDA | NAMIBIA | ZIMBABWE | MALAWI | RWANDA | TANZANIA |
|---|---|---|---|---|---|---|---|---|
| Waiver or reduction of taxes (PAYE) | VAT cut from 16% to 14%; 100% tax relief for those earning up to KSh24,000; PAYE cut from 30% to 25% and corporation tax from 30% to 25%. | Deferred tax collection for Mar – Sept 2020; formal businesses allowed to pay taxes due in small portions until March 2021. | Withholding tax on bonds with tenors above 10 years cut from 20% to 10%. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. |
| Lowering of central bank rate | CBR cut to 7% from 8.25% to lower cost of credit. | Support to economic activity after COVID-19 restrictions. | CBR cut from 7.5% to 6.5%. | Repo rate cut by a total of 275 bps in 2020. | CBR cut from 7% to 5%. | No action reported on this policy measure. | No action reported on this policy measure. | No action reported on this policy measure. |
| Reduction of cash reserve ratio | CRR cut to 4.25% from 5.25% to inject liquidity in banks to support distressed borrowers. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | CRR cut from 7% to 6%. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. |
| Extension of repo maturity | Repo maturity extended to 91 days from 28 days. | No action reported on this measure. | Repo maturity extended to 79 days. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. |
| Waiver of charges on mobile money transactions | Charges on low value mobile money transactions of up to KSh1,000 removed. | Mobile money transaction charges reduced. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | Mobile money transaction charges reduced, not 100% waiver. | No action reported on this measure. | No action reported on this measure. |
| Central bank purchases of government bonds | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. |
| Restructuring of clients' loans | Loan restructuring programme introduced – between Mar 2020 and Feb 2021, a total of KSh1.7 trillion restructured (57% of total loan book). Loan restructuring period ended in Mar 2021.. | Loans renegotiated with clients to meet their obligations. Insurance companies directed to negotiate with policyholders for easier payment options. | No action reported on this measure | Loan payment freeze allowed banks to grant loan payment holiday for 6– 24 months. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. |

| MEASURE | KENYA | LESOTHO | UGANDA | NAMIBIA | ZIMBABWE | MALAWI | RWANDA | TANZANIA |
|---|---|---|---|---|---|---|---|---|
| Enhanced communication, consultation and investor relations | Increased engagement with local institutional investors through regular virtual market forums. | No action taken on investor relations. | More regular meetings to harmonise cash and debt management operations. | No investor engagement. | Enhanced investor communication and consultations. | No action reported on this measure. | No action reported on this measure. | Enhanced investor communication and consultations. |
| Improved coordination between debt and cash management | Enhanced coordination between monetary and fiscal authorities. | Lack of coordination between monetary and fiscal authorities. | No action reported on this measure. | Lack of coordination between monetary and fiscal authorities. | Enhanced coordination between monetary and fiscal authorities. | No action reported on this measure. | No action reported on this measure. | Lack of coordination between monetary and fiscal authorities was noted. |
| Clearance of verified pending bills to suppliers | Pending bills of KSh13.1 billion cleared by end of June 2020. | Acceleration of payment of overdue and undisputed invoices for goods and services to government, totalling N$800 million. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure . | No action reported on this measure. | Clearance of pending bills. |
| Other measures | Temporary suspension of listing to the credit reference bureaus of borrowers with loans overdue/arrears.<br><br>KRA expedited payment of all verified VAT refunds of KSh10 billion, and allowed offsetting of withholding VAT to improve cash flows for businesses. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | No action reported on this measure. | Other unspecified measures taken. | Created Extended Lending Facility for Banks (ELFB) of RWF50 billion to provide liquidity for distressed banks. | No action reported on this measure. |

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