



AfDB and TCX contribute to further development of the capital markets in Africa.

If countries and corporates can borrow in their own currency abroad, they benefit from deeper and more liquid international capital markets while avoiding exposure to the currency risk that comes with typical USD or EUR denominated issuances.

Reducing currency mismatches on state or private companies' balance sheets increases the resilience of a country's financial sector. It makes debt service predictable in the currency the borrower earns and therefore allows for better financial planning. This is especially relevant when financial markets are volatile, as is the case during the ongoing Covid-19 crisis, where currency risk can prove devastating for borrowers.

However, issuing local currency bonds in offshore markets is challenging. The perceived risks of emerging and frontier currencies are often high in the eyes of foreign investors.

To reduce this barrier, TCX is increasingly active in creating, together with its shareholders, offshore yield curves for frontier market currencies. Increasing risk transparency in this way is crucial for developing these markets.

That is why TCX with the AfDB are thrilled to issue such a note in Kenyan shilling.

Othman Boukrami from TCX explains "Specifically, this is done by structuring synthetic local currency notes with the AfDB. The structure allows the AfDB to issue bonds denominated in KES, while at the same time entering into a swap agreement with TCX. TCX provides the KES exposure, which it has accumulated by hedging the currency risk of various development projects in Kenya.

It would not have been possible without Hassatou N'Sele's leadership and her team as well as Stefan Nalletamby's commitment to developing the local currency financial markets. AfDB's strategic role in developing African capital market is further established with this transaction "

Hassatou N'Sele from AfDB says: "The beauty of this transaction is that FX risk is being transferred from the local borrowers to the swap counterparty, TCX and then transferred back to the international investor. With this 2-yr KES note the AfDB has launched its first KES offshore issuance since 2007 at a very competitive rate, fulfilling our role as a leader in supporting Kenya's capital markets development."

While offshore and onshore are generally separate markets, spillover effects through price and risk transparency could ultimately contribute further to the development of local markets.

With AfDB as an issuer, African currencies further benefit from additional volumes and visibility.

The ultimate goal is for any country and corporate to be able to finance themselves in their own currency, without being confined to the domestic liquidity pool, or forced to take the currency risk that comes with hard currency issuances. TCX and AfDB will continue to fulfill their mission to boost markets development and hopefully to see more transactions in Africa.

For more information, please contact communications@tcxfund.com.