Debt Funding for Ghana's development

Prepared for: Ghana investment forum **July 2010**



SSAR* Bond House

**Sovereign/Supranational/Agency/Regional*

Euromoney Awards for Excellence 2009

Best Global Bank

HSBC has adopted a clear policy of focusing expansion on emerging markets, and on the international connectivity of those markets with the developed world.

It is a truly global bank.

EuroWeek Awards 2009

Most Impressive Bank for Public Sector Issuers in Euros

Euromoney Awards for Excellence 2009

Best Global Debt House

Highly notable is the acceleration in the scale and depth of its business. Being able to source capital worldwide is one of the key strengths of this institution.

EuroWeek Awards 2009

Most Impressive Bank for Sovereign Borrowers

HSBC

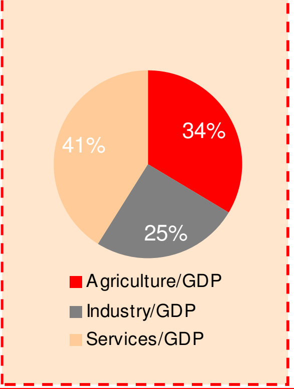
The world's local bank

Ghana needs investment to sustain growth

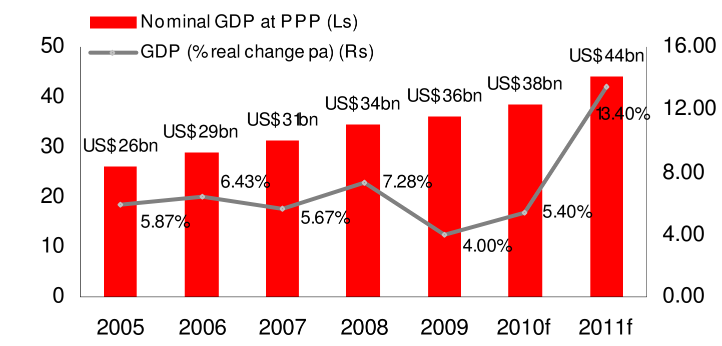
- Supported by continuous growth in agriculture and services, as well as the rising demand for gold, the real GDP is forecasted to grow by 5.4% in 2010
- Having reached a peak in 2009, inflation is now on the downward trend, as food inflation has fallen sharply

Key Figures

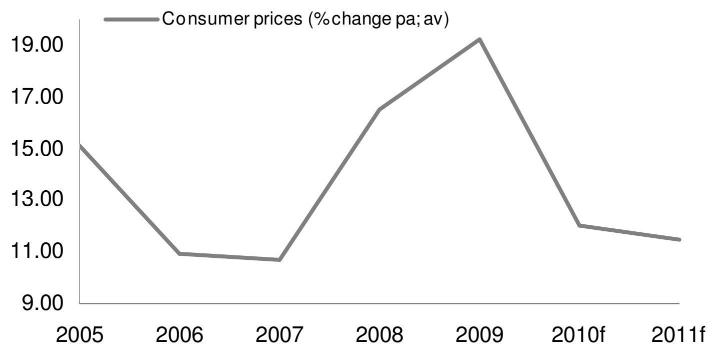
GDP Composition



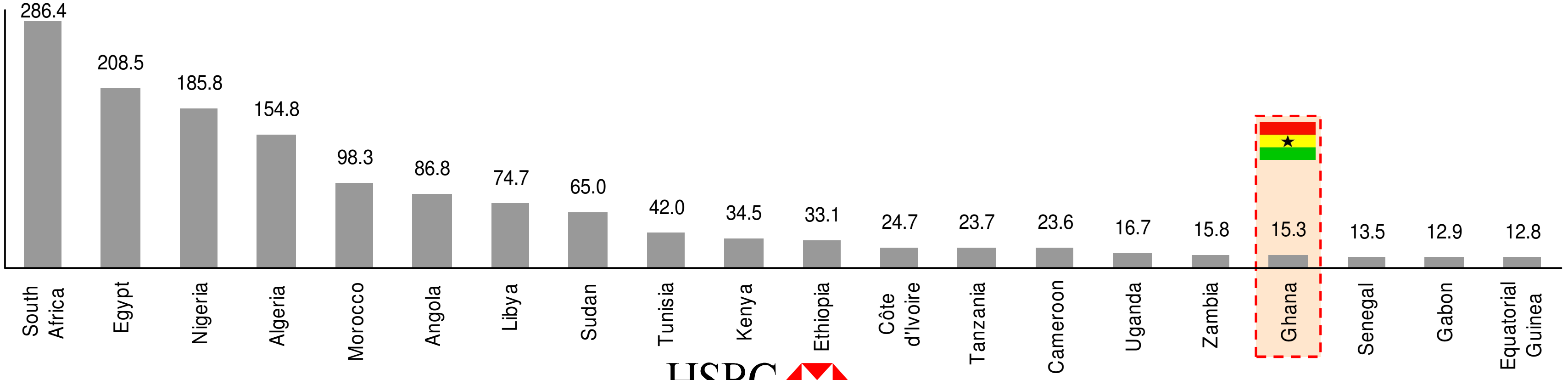
GDP Growth



Inflation



2010 Forecast nominal GDP ($bn) - Top 20 African Countries



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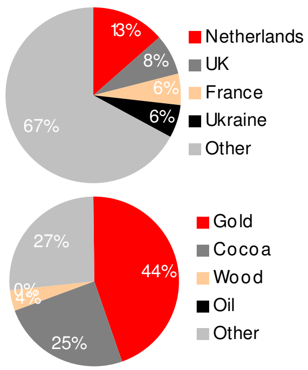
Source: The Economist Intelligence Unit, June 2010

Ghana needs investment to sustain growth (cont.)

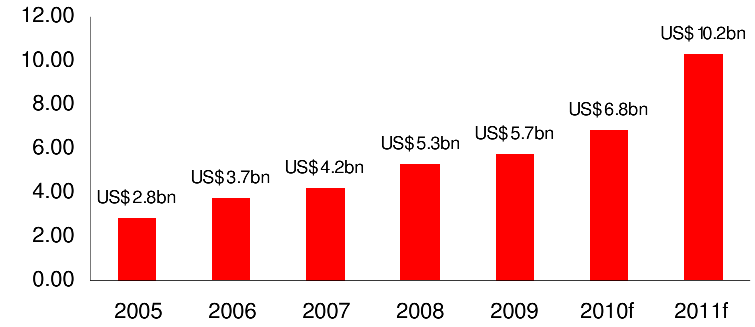
- It is important for Ghana to use income from natural resources to secure sustainable economic future

Key Figures

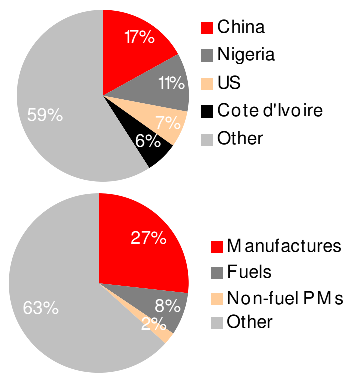
Exports 2009



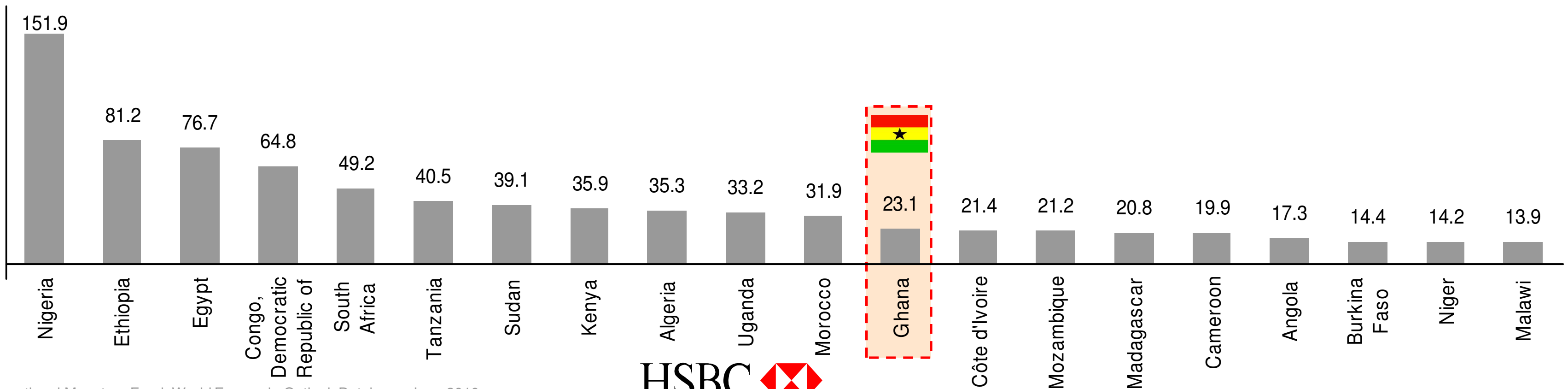
Exports total FOB



Imports 2009



2009 Population (m) - Top 20 African Countries



Source: International Monetary Fund, World Economic Outlook Database, June 2010

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Role of international banks in Africa

Inward investment into Africa continues to be led by multi-lateral agencies

Private sector banks have a responsibility to support this initiative

However, lending is becoming more selective as the bank sector adopts a more conservative capital structure and capacity is constrained

Unfortunately frontier Emerging Markets are to suffer most from retrenching bank strategies

The markets are witnessing a shift in project financing from bank lending (for complex projects, projects under construction) to capital markets for operational and more highly rated projects, alongside bank loans

International Lending Appetite

Balance Sheet Constraints	• Banks have yet to recover pre-crisis capital adequacy levels • Redefined benchmarks emerging from expectations of higher quantity and quality of bank capital • A potential new back-stop leverage ratio could contain bank balance sheets
Domestic economy taking priority in bank lending	• Government aid packages reinforce banks' roles in supporting domestic real economies • Non-domestic loan books are likely to shrink under home supervisory / political pressures
Tighter lending criteria and less advantageous risk based pricing	• Anticipation of an increase in default rates following the cyclical downturn • Higher cost of capital • Pressure to term out the funding profiles • Punitive liquidity provisions for ALM in the existing balance sheet • Market backdrop of significant FIG refinancing spikes in 2010-12 created by Government Guarantee Schemes

Rising Capital Requirements on new Loans

- New capital benchmarks are emerging
- Bank capital including core equity capital is being redefined
- Banks are required to hold higher quantity and quality of capital
- Rigorous stress tests underline the importance of an additional capital buffer sufficient to defend an extreme scenario
- Banks are obliged to set aside more capital for each unit of risk taken
- Pro-cyclical behaviour of lenders' IRB-Advanced models is driving up RWAs on well performing assets
- Increased capital requirement for project financing

Shift in Market Capacity

From 2010, it is expected that overall bank lending will increase from 2009 levels, but will be more selective

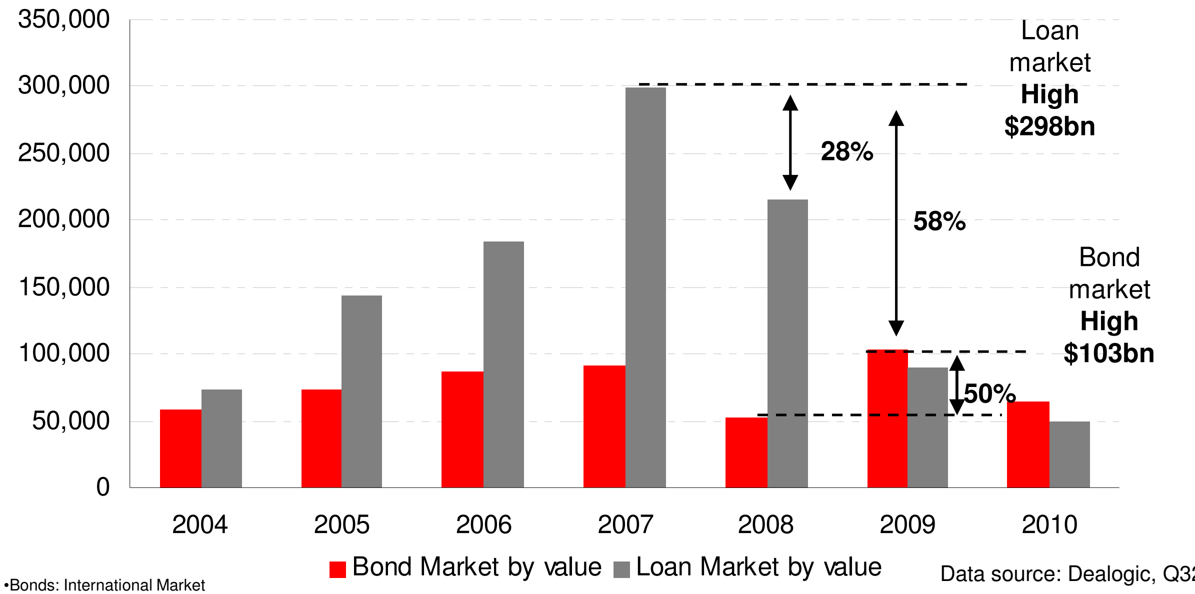
For countries such as Ghana, this means that less established borrowers or projects may not get the right level of support

Focus should therefore be on investing time and effort to establish multiple sources of financing, including capital markets

Shift in Ma\rket Capacity

- Significant growth in lending had underpinned growth in EMEA, in particular the funding for infrastructure/mega projects
- Since 2009, we have observed a shift to capital market financing, which partially addresses the shortfall from significant lending contraction

CEEMEA 2004- 2010YTD (US$bn)*



•Bonds: International Market
•Loans: USD, GBP, EUR, CHF

Data source: Dealogic, Q32010

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Using international markets to fund the gap

Blending of existing techniques and products will provide the solution to the current situation

If done correctly, all parties from investors through to sponsors will benefit

- Loan funding of project and infrastructure financing has become increasingly sophisticated
- Bank technology can manage complex risk such as construction phase and project stabilisation
- Bond markets have also developed cash-flow funding techniques although are structurally less able to manage greenfield risk
- Capital markets investors are seeking duration and stable investment
- Using loan and bond markets can solve for the ever changing dynamics in infrastructure financing
- It is for countries such as Ghana to ensure, they are positioned appropriately to take full advantage of the markets

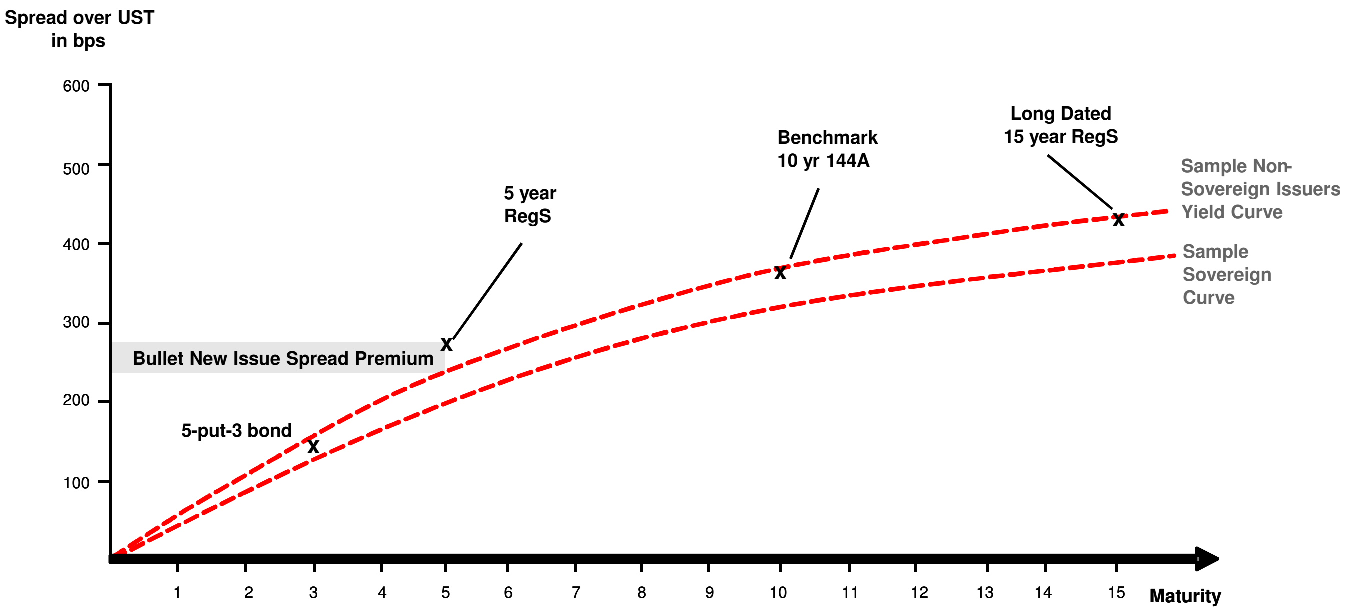
Sovereign Benchmark

Ghana has significant investment requirements which will need to be funded both via the government and through direct 3rd party investment

In order for this to be achieved in the most efficient and controlled manner, the government needs to develop its international funding benchmark

The most effective means to set a benchmark is to create a yield curve, a setting of a series of anchor points across the duration spectrum – typically 5, 10 and 30 year – and, to the extent appropriate, across a number of currencies

Sample Yield Curves



Yield curve plot points for illustrative purposes only

Note – Maturity and Spreads are indicative only.

Rating Penetration and Maintenance

Ratings provide an independent and universally respected comparative measure of the debt servicing capability of an individual entity and facilitate access to a broad range of capital sources, tenors and investors, thereby increasing financial flexibility

In this context the Government of Ghana has the responsibility to maintain the best ratings in order to benefit the dependencies that will benchmark against them

What are Credit Ratings?

- Credit ratings are opinions of credit risk – expressing the agency's opinion about the ability and willingness of the issuer to meet its financial obligations in full and in a timely manner
- Whilst used by investors in making investment decisions ratings are not buy, sell or hold recommendations

Rating Penetration

- There is a standard pattern of rating penetration by issuer classification within specific markets:

Sovereigns → **Financial Institutions (primarily banks)** → **Government Related Entities** → **Utilities** → **Corporates**

Ongoing Rating Maintenance Considerations

- It is important to recognise that putting in place a formal credit rating is merely the beginning of a long term relationship with the rating agencies with ongoing maintenance requirements existing
- In addition to scheduled annual update meetings issuers should look to maintain regular dialogue with your rating analysts and indeed other agency personnel as opportunities arise
- Below are some recommendations as to how to manage your rating agency dialogue:

Maintain regular dialogue with your lead analyst
Advise them of the latest news flow, where possible prior to its public release – agencies dislike reading about things in the press

Be creative in when updating the agencies
Vary the focus, consider providing updates based on topical issues in additional to the required base material

Broaden your rating relationship
Take advantage of meeting agency officials, whilst they may not directly rate you they could sit on your rating committee

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