

## **Njuguna Ndung'u: Kenya's macroeconomic developments and key financial sector reforms**

Address by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the Launch of Suntra Investment Bank Unit Trusts, Nairobi, 7 April 2008.

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Mr. Nguru Wachira, Chairman of Suntra Investment Bank, Mr. James Murigu – Managing Director, Distinguished Guests, Ladies and Gentlemen.

I feel honoured by your invitation to grace this important occasion because it is not only a milestone to Suntra Investment Bank, but it is also a significant development in our capital market.

### **Kenya's macroeconomic environment and future prospects**

Ladies and Gentlemen, the Kenyan economy has grown steadily in the recent past with all sectors registering expansion, and therefore creating more employment and investment opportunities for many citizens. This growth has introduced new challenges to regulators particularly in the financial sector. For effective monetary policy, you also require an active and efficient financial sector.

To ensure that Kenyans reap the benefits of economic growth, Central Bank has pursued deliberate policies that have achieved relatively stable and low underlying inflation, even with supply shocks, the current inflation bout is related more to supply constraints rather than monetary overhang, stable exchange rate even with some minor volatilities, a strong balance of payments position, low and stable interest rates, and substantial inflows of both official capital and foreign direct investment. It is noteworthy that since KenGen IPO was floated, many Kenyans have a high appetite of investing in the stock market which has boosted activity at the Nairobi Stock Exchange. KenGen IPO showed that investment opportunities constraints the boost in investment. Unfortunately this growth has not come without challenges ranging from payments, settlements, investors' returns to safety of investors' assets to the stock exchange, brokers, Capital Markets Authority.

Despite these challenges it is gratifying to note the significant growth in the Fixed Income segment of the Nairobi Stock Exchange and the vibrancy we have seen of the capital markets in general. This has lengthened the maturity profile of the bond market. The Central Bank of Kenya, in consultation with Market Leaders Forum successfully issued another 15-year Treasury bond thus enhancing the continued deepening of the local money and capital markets. A sure way to assess long-term prospects and economic confidence in future.

### **Ongoing key reforms to propel further growth and efficiency in financial markets**

Financial sector is singled out as a key industry that would play a pivotal role in successful implementation of the Vision 2030 through mobilization of long term financial resources. This will make Nairobi a financial hub of the region.

The Central Bank of Kenya in collaboration with the Treasury and other stakeholders are carrying out significant reforms to spearhead further growth and efficient functioning of the financial markets. Some of these reforms relate to the introduction of an efficient trading platform. The proposed phased introduction Primary Dealership will further deepen the capital markets. The proposed reduction of the threshold for investment in Kenya Government Treasury bills will undoubtedly pave way for wider public participation in government debt markets as the Government starts implementing Vision 2030. Further, I

would like to commend the teams comprising of Central Bank of Kenya and the Nairobi Stock Exchange that have been working to connect CBK's-CDS with the NSE's Automatic Trading System(ATS) to facilitate online trading of bonds in the secondary market. If successfully implemented, Delivery versus Payment arrangements will be greatly enhanced to the extent that Over-The Counter (OTC) trading can effectively take place. The CBK and the Treasury are also working on a Benchmark Bonds programme to be rolled out in the near future.

### **Investment banking in Kenya**

We have witnessed a steady growth of investment banks in Kenya. Kenya now boasts of 12 investment banks, 19 investment advisors and 7 stockbrokers. Investment bankers and brokerage firms play a critical role in contributing to the efficient functioning of securities and equities markets in the economy. With the deluge of information available to market participants today, the value of investment analysts' opinions – both to investors and issuers – is greater than ever before. If we aspire to be the financial hub of the Region more investment banks and other intermediary financial institutions (like discount houses) must take firm root under the close supervision of the regulatory body.

Effective supervision will help prevent unprofessional activities by players by ensuring that brokers, investment banks financial advisors among others, provide the appraisal, the screening and the monitoring roles as required.

### **Suntra Investment Bank Unit Trusts**

Let me now turn main reason that we have gathered here: The Suntra Investment Bank's *UNIT TRUST*. Suntra Investment Bank (SIB) Ltd has been active in the Capital Market.

Distinguished Guests, we are here to celebrate with SIB Ltd as they continue to create value in the country's Capital Markets by introducing new products. Suntra Unit Trusts are packaged to benefit Kenyans on many levels by efficient risk management and guaranteed positive return on assets. Unit Trusts go hand-in-hand with other traditional products they have in stock. Unit Trusts provide a sure avenue for investor diversification. Perhaps this is good to solve the supply side constraints of investment and also in small and manageable units.

As approved / licensed Investment firms, Unit Trusts can facilitate / foster efficient liquidity management during an IPO since they have the privilege of depositing funds (settling / paying for shares) after allocations have been announced. This means that investors' money will be held in the bank accounts of Unit Trusts and not concentrated with the receiving banks. The entry of SIB in this line with the efficiency they promise is great indeed.

*With these few remarks, Ladies and Gentlemen, it is my humble duty to officially declare Suntra Investment Bank Unit Trusts launched.*

Thank you for your kind attention.