

Njuguna Ndung'u: Launch of the Reconstituted Market Leaders Forum

Talking notes by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the Launch of the Reconstituted Market Leaders Forum, Nairobi, 6 July 2011.

* * *

**Distinguished Chief Executives;
Directors; Members;
Ladies and Gentlemen:**

1. Thank you all for finding time to attend this inaugural meeting of the reconstituted Market Leaders Forum.
2. As background information to our meeting today, I wish to mention that the Market Leaders Forum, popularly known as MLF, was formed in 2001 to promote and support the development of the Government Bonds Program. The membership of the Forum was drawn from stakeholders in the Government Securities Market that included Commercial Banks, Fund Managers, Stockbrokers, Investment Banks and Capital Markets Authority.
3. The Forum meets monthly and is chaired by the Governor, Central Bank of Kenya. The meetings of the Forum are purely consultative. The Bank takes into account the recommendations of the MLF in making decisions on bonds issuance, pricing and tenors and on other issues relating to the Financial Markets, and more specifically Government Securities Market. But it is also a good meeting to discuss macroeconomic situation policy issues.

Achievements

4. Since its inception, the Forum has contributed significantly to the deepening and development of the financial markets in Kenya. Through the cooperation and support of the Forum the financial market has realized great milestones including:
 - i. **Lengthening of Debt Maturity Profile:** The initial objective of the MLF was to lengthen the maturity profile of securities in the domestic debt portfolio in order to minimize refinancing risks associated with short term debt and to also deepen the local financial markets. This has successfully been achieved with the ratio of Treasury bills to bonds in the portfolio currently at 23:77 from 70:30 in 2001 and average maturity of all securities standing at 5 years 11 months up from 8 months in 2001. The average maturity for bonds alone is 8 years so far. In 2008, CBK issued the first long-dated paper of 20-years maturity. This was followed by successful issuance of a 25-year bond in 2010 and a debut 30-year savings development bond in 2011.
 - ii. **Secondary Market Infrastructure Development:** In 2008, the CBK in partnership with the Nairobi Stock Exchange adopted the Automated Trading System (ATS) for Treasury bonds. The Adoption of ATS has improved efficiency and confidence in the Secondary bond market with the settlement cycle shortening to T+3. This initiative and other debt market developments have seen the secondary market activity improve with annual turnover increasing from Ksh.84.14 Bn (\$1.05 Bn) in 2009 to Ksh.466.07 Bn (\$5.83 Bn) in 2010. In 2008, the Horizontal Repurchase Agreement was introduced between commercial banks to improve liquidity in the market. The CBK together with the MLF has also moved to diversify bonds portfolio, mobilize a large mass of local and foreign investors to invest in government securities and thus deepening the bonds market in Kenya. As a result of these successes, the bond market has attracted private issuers of fixed income securities like corporate bonds and thereby diversified the investment opportunities.

- iii. **The establishment and implementation of the benchmark bonds program:** In conjunction with MLF, CBK has spearheaded the establishment and implementation of the benchmark bonds program in 2007. CBK adopted the introduction of a benchmark bond program to address the problem of bond fragmentation and thereby improve liquidity at the secondary market and firm up the yield curve.
- iv. **Infrastructure Bonds (IFBs) Issuance:** A total of four infrastructure bonds have been issued since 2009. Proceeds from these bond issues were specifically meant for financing certain infrastructural projects. These projects include those in the **Transport Sector** – e.g. Construction of new roads and rehabilitation of old ones. **Water sewerage and irrigation** – e.g. Construction of water supply and sewerage systems, water reservoir dams, boreholes and irrigation schemes around the country. **Energy** – e.g. Drilling of Electricity Generating Steam Wells (geothermal), upgrading the National Grid System with New Transmission Lines and expanding the Rural Electrification project. A debut IFB worth Ksh18.5 bn (USD231.25 mn) was successfully issued in February 2009. The largest successful single IB of USD 395mn issued in August 2010. Three other IFBs of total value: USD 807.5mn issued so far. In 2011 the CBK, in cognizance of the tenets of Kenya's Vision 2030 of promoting savings among Kenyans, successfully issued a debut 30-year Savings Development Bond.

Appreciation

It is with sincere delight that I commend and highly thank the exiting members of the MLF for their invaluable contributions, support and cooperation without which the aforementioned milestones would not have been realized. Thank you once more.

Responsibilities

5. The Forum will continue to be advisory through consultative engagements to advise the Bank on aspects of financial markets development including the following:
 - i. Implementation of the Government Borrowing Programme.
 - ii. Review performance of Government Securities in the Secondary Market and advice on issuance of Government Securities.
 - iii. Issues relating to trading of Government Securities in the secondary market.
 - iv. Development of efficient financial markets through dissemination of market information, marketing and investor education.
 - v. Deepening of money and capital markets and efficient functioning of the financial markets.
 - vi. Peer influence among stakeholders on policy reforms in their sectors.
 - vii. Promote development and harmonization of financial markets and practices in the region.
 - viii. Introduction of new financial markets products/developments for the consideration of the Bank.
 - ix. Initiate, recommend and co-ordinate introduction of new financial markets products/developments for consideration by the Bank.

Review of forum membership

6. As you have all observed over the last decade or so, the financial landscape in Kenya has undergone many transformations. The sector has seen the entrance of new players and stakeholders. For example, most brokerage firms converted into investment banks with varying business focus.

7. These dynamic developments have shown the need to include other emerging segments of the financial market in the Forum. Furthermore, change dynamics in the financial market sector have precipitated high representation turnovers in the MLF. It therefore became necessary to re-constitute the Market Leaders Forum to reflect the evolving financial landscape in Kenya and to enhance the relevance and effectiveness of the MLF in stimulating the government securities market in an expanding and dynamic financial market.

8. I congratulate all of you who have been nominated by your respective institutions or umbrella organizations to the MLF membership.

9. It is my hope and expectation that reconstitution of the Forum will re-energize the relevant financial sector development debate to effectively address emerging challenges in the financial markets and bring in new perspectives in the approach to financial sector growth in line with the Government policy to make Nairobi the Financial Hub for East and Central Africa.

Meetings

10. The Forum will meet monthly.

I warmly welcome the new members of the Forum and look forward to working with them in the coming days. The Financial Markets Department will continue hosting monthly technical meetings to review progress and provide advice on an ongoing basis.

Thank you all very much for your time and for listening.