

## Emmanuel Tumusiime-Mutebile: The primary dealer system in Uganda

Remarks by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the Annual Primary Dealer Award Ceremony, Kampala, 25 February 2010.

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Distinguished Guests  
Ladies and Gentlemen

Let me take this opportunity to welcome you all to this function which is organized to recognize the best performing Primary Dealer in Uganda Government Securities for the year 2009.

The Bank of Uganda introduced the primary dealer system in February 2003. The main objectives were to:

- i. Promote financial markets development
- ii. Facilitate secondary market trading and market efficiency through the reduction in the costs associated with issuing government securities

By and large these objectives have been achieved. The Primary Dealer system has contributed to the growth of the government securities market. During the year 2009, the bid cover ratio in the primary market was 2.346 (compared to 1.445 in 2008), an indicator that there was increased demand for government securities.

Furthermore the Primary Dealers have continued to provide liquidity in the secondary market by quoting effective two-way prices in all market conditions. The turnover in the secondary market increased from 1.555 trillion the previous year to 1.909 trillion in 2009. This is a big achievement.

However, there are still outstanding challenges. Just to mention a few, volatility in the interbank rates, wide bid/ask spreads, thin trading during tight market conditions, buy and hold trading strategies and low horizontal repo trading activity among others.

In order to address these challenges BOU has undertaken a comprehensive review of the PD regulatory framework in order to enhance the system and to create a more competitive market environment.

Effective 1st September 2009, risk based approach to capital for PDS was introduced.

In addition, market making valuations have been reinforced whereby PDS clearly indicate what is available in categories for sale, trading and held until maturity.

Let me also mention that Bank of Uganda has now embarked on the second phase of reforms which will involve introduction of non-bank PDS, through a Tiering system as well as underwriting provisions.

Consultations are ongoing and it is our expectation that in the 1st quarter of the new financial year we shall be ready to implement.

Furthermore, in order to enhance the above-mentioned PD reforms, Bank of Uganda has embarked on a process of acquiring a state of art Central Securities Depository system, which will provide among other functionalities, e-bidding in primary auctions, automated repo auctions, and secondary market trading at the primary dealer level.

Turning to today's function, this is the 5th ceremony BOU is hosting to recognize the PD of the year. I wish to acknowledge the role this year's award winner has played especially in providing more consistent coverage in the primary auction and repo operations and particularly their pricing.

Ladies and gentlemen, on behalf of the Bank of Uganda, I wish to announce that **STANDARD CHARTERED BANK UGANDA** is the Primary Dealer of the **YEAR 2009**. I now invite the Managing Director to receive the award.

Congratulations.

I thank you.