

Njuguna Ndung'u: Initiatives, developments and achievements of the Kenya Government Securities Market

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the launch of the FTSE-NSE Kenya Government Bonds Index, Nairobi, 3 October 2012.

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The Chairman of the Nairobi Securities Exchange (NSE);

Chief Executive, NSE, Mr Peter Mwangi;

Officials of the FTSE Group;

Capital and Financial Market Executives;

Members of the Media;

Ladies and Gentlemen:

At the outset let me thank the Nairobi Securities Exchange Chief Executive for inviting me to participate in this auspicious moment of the launch of the FTSE-NSE Kenya Government Bonds Index. This achievement is indeed critical for the development of a robust domestic financial market in Kenya. Today's event comes at a time when we as market players take pride in the success of our efforts in spearheading market development. This collaboration among market players has been instrumental in developing one of the fastest growing Bond Markets in Africa as the Kenyan Bond Market is ranked among the top in Africa. Ladies and Gentlemen: let me take a few minutes to make some remarks on the initiatives and developments that have underlined the achievements of Kenya Government Securities Market. Over the last one decade, the Central Bank of Kenya in liaison with stakeholders in the financial sector has contributed significantly to the following successes:

1. ***Longer maturity profile of domestic debt instruments:*** average maturity profile of government securities rose from 8 months or ratio of 76:24 in Treasury bills to Bonds in June 2001 to 5 years 5 months or ratio 20:80 currently. With a well-functioning secondary bond market in place, the Government no longer faces rollover risks associated with short term debt instruments.
2. ***Benchmark bonds implementation:*** successful implementation of Treasury Bonds benchmarks and reopening to increase their liquidity since April 2009 was a critical step towards addressing the Bond market fragmentation problem and in the development of a reliable yield curve in our market. About 16 benchmark bonds have so far been reopened bringing into the market more than Ksh.138 billion and providing critical financing for the national recurrent and development budget as per Government's fiscal policy.
3. ***Project-specific (infrastructure) bonds*** – The Government of Kenya took a bold step in February 2009 to issue the first project/sector specific bond with an aim to fund key infrastructure projects and set pace for public, private as well as supranational agencies to tap the market for long term funding through bond issuance. Five infrastructure bonds worth Ksh.130.85bn have so far been issued thereby increasing the range of products in the market for purposes of diversification.
4. ***Creating more investment opportunities to spur national savings*** – The issuance of a 30-year Savings Development Bond in 2011 and the reduction of minimum entry into Treasury bills market from Ksh.1,000,000 to Ksh.100,000 in January 2009 were key milestones towards promoting a savings culture among the populace and in widening the investor base for the Government Securities market.

5. ***Putting in place the Automated Trading System (ATS)*** – The introduction of the ATS at the NSE in November 2009 was a great step towards achieving bond trading efficiency, effective pricing, increased market confidence and transparency as well as enhanced reliability and firming of the yield curve.

Ladies and gentlemen, a well-developed and functioning financial market is regarded as the lubricant for the economy. In order to further enhance the proper functioning of the financial market, the Central Bank together with other market stakeholders has been working on a number of initiatives to further enhance the bond market so as to support the country's development agenda under Vision 2030. These reforms include:

- Development of the Over The Counter trading platform,
- Introduction of online bidding for government securities,
- Implementation of government securities market makers.

The step taken by the Nairobi Securities Exchange to introduce the FTSE NSE Government Bond Index is a welcome initiative for this market as the index will play a key role in providing a benchmark tool for measuring market performance. It will also facilitate diversification through emergence of new financial products and market participants thereby encouraging foreign investors. Finally, it will have the benefit of opening up the market to the rest of the world and increasing Kenya's financial sector competitiveness in the region and across the world. It surely does set the pace for the regional market. I wish therefore to congratulate the Nairobi Securities Exchange for the foresight of developing the bond index.

With these remarks, ladies and gentlemen, ***I now declare the FTSE NSE Kenya Shilling Government Bond Index formally launched.***

Thank you all for your listening