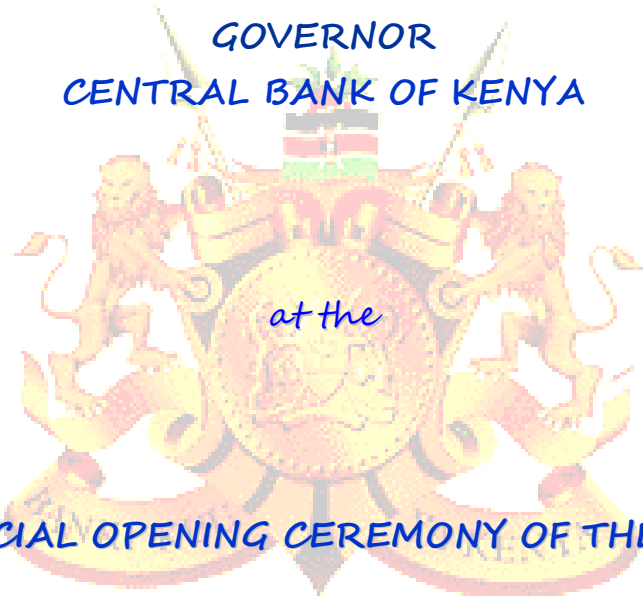


REMARKS

by

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at the

OFFICIAL OPENING CEREMONY OF THE
RAMP WORKSHOP ON FUNDAMENTALS OF
FIXED INCOME RISK MANAGEMENT

*Fairmont Norfolk Hotel, Nairobi
Monday, January 20, 2014*

1. Ladies and Gentlemen, it is my great pleasure to be here this morning at the commencement of this RAMP workshop on Fundamentals of Fixed income risk management. I would like to thank the World Bank RAMP team for inviting me. May I, first and foremost, take this opportunity to welcome you all to Nairobi and wish you Happy 2014. The weather is normally quite pleasant in Nairobi at this time of the year and I hope you will enjoy your stay. If you get time, you may wish to visit different

places exhibiting our heritage which include the Nairobi National Park, which is not far from here, and other important places like the National Museum, the National Archives, etc.

2. Ladies and gentlemen, we are greatly honoured as a country and thankful to the workshop organizing team for choosing to hold a RAMP workshop for a third time here in Kenya since Central Bank of Kenya joined RAMP almost five years ago.

3. Official foreign exchange reserves, ladies and gentlemen, as you are all aware are in many countries a major national asset. Even in the rich and developed economies, foreign exchange reserves are considered important. First, for us they form the appropriate buffer to cushion ourselves from shocks as well as to support the market in such periods. Second, in a country with a floating exchange rate and an open capital account, foreign exchange reserves are

an important tool of monetary policy.

- 4. In recent decades, foreign exchange reserves held by central banks have surged to record levels. But there are challenges of holding and managing foreign exchange reserves. The risks mostly relate to fluctuating value of the base currencies and so alter the balance sheet of central banks. The foreign exchange reserves management and investment has been hampered by the aftermath of the global financial crisis - with negative real*

*interest rates for a prolonged period of
time.*

- 5. Prior to the global financial crisis, the compensation structure and incentives in the financial sector created strong motives for excessive risk-taking during boom years. Derivatives created a room where risk assessment and risk pricing were not*

appropriately followed. Modern risk management methods may also have intensified the cycle because of their reliance on metrics such as value at risk that are highly sensitive to recent performance, especially volatility. In good times, volatility declined, and value at risk along with it. This pattern generated a pro-cyclical willingness to take on risk and leverage, amplifying and propagating the boom-bust cycles.

6. Ladies and gentlemen, the consequences of this excessive risk-taking as you all know, was a vicious cycle of a collapse of confidence, asset fire sales, evaporation of liquidity, and a deleveraging free fall that followed, which was the mirror image of the vibrant mortgage market that preceded it. Governments and central banks around the world took extraordinary actions to prevent a full collapse of the global financial system and markets.

But what we have witnessed was bad enough - the deepest and most prolonged recession in generations, with recovery being agonizingly slow, held back, in part, by the ongoing efforts of overleveraged households and financial institutions to repair their balance sheets. The governments' banks bailout and economic stimulus packages led to huge budget deficits in sovereigns balance sheets which culminated in the sovereign debt crises, which were experienced in the major economies, with the Euro zone

debt crisis threatening to get out of hand.

- 7. Ladies and gentlemen, safeguarding the foreign exchange reserves requires prudence in their management, and prudence can only be achieved if central banks have well-trained and highly skilled staff who understand the risks inherent in investment assets and how to mitigate those risks. The World Bank's Reserves Advisory and Management Programme (RAMP) has played an important role to this*

end, by assisting central banks in building and enhancing capacity in foreign exchange reserves management in central banks. Building a strong talent base with deep risk expertise in central banks through recruitments and retention of the necessary expertise continues to be a critical challenge for most central banks. However, I must hasten to say that central banks participating in the RAMP program have greatly benefited from the advice, training and capacity building imparted by

experts and practitioners in the world of investment, from the World Bank Treasury.

- 8. This workshop is worthwhile as it seeks to provide a solid foundation and framework for fixed income risk management that allows the participants to measure, monitor, and report portfolio risk and performance.*

The objective of this workshop is to provide a strong understanding and analytical capacity for risk and performance measurement and reporting for fixed income portfolios. It's my sincere hope that the knowledge to be gained in this workshop will be put to good use in our day to day operations of central banks' work in foreign exchange reserves management.

9. Finally, it is now my great honour and humble duty to declare this workshop officially opened

Thank you.
