CENTRAL BANK OF KENYA

Remarks by

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at the

MARKET LEADERS FORUM DINNER

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Members of the Market Leaders Forum,
Officials from the Treasury,
Colleagues at the Central Bank of Kenya,
Ladies and Gentlemen,

Let me take the opportunity to welcome you all to this event which has been organized to take stock of our achievements for the year, review challenges encountered and develop the plans for the future. At the outset I wish to commend the market leaders for the effort and success in taking this market to a higher level. As you may be aware, Kenya's bond market is now regarded among the top and fastest growing in Africa and this could not have been without the strong partnerships that we have continuously cultivated. We are however still a long way to achieve liquidity, market efficiency and stability.

The 2012-13 financial year was a great success with respect to raising the borrowing requirement for the Government. The Market Leaders Forum together with market stakeholders contributed significantly to the success of the bond market in terms of the following:

1. *Successful financing of the FY 2012-13 Borrowing Plan:* Treasury's target for the year was successfully achieved reflecting a sterling performance especially given that this was the highest in the history of domestic borrowing at Kes. 165bn.

2. *Benchmark Bonds Program Implementation:* Successful implementation of this program during the year was critical for addressing bond market fragmentation and increasing liquidity in the market. All 17 bonds valued at Kes 209.8bn issued in the year were benchmark tenors, out of which 5, worth Kes 5.4bn were issued through reopen auctions. Overall, 16 benchmark bonds have been reopened since 2009 when the strategy was first employed, bringing into the market more than Kes. 183 billion and providing critical financing for the country's fiscal gaps.

3. *Longer Maturity Profile of Domestic Debt:* Average maturity profile of government bonds in the debt portfolio rose to 7.3 years by end June 2013 compared to 6.2 years at the beginning of the year. These are encouraging outcomes given that in 2001, the average maturity of all government securities was about 8 months. This is indeed a reflection of the continued success in reducing rollover risk associated with short term debt which is essential for a well-functioning secondary market for bonds.

4. *Global recognition for Kenya:* Infrastructure Bond program and the plan by the government to issue a Euro bond in the current financial year also signifies that the domestic market has matured over time and gained confidence from both local and foreign investors. This is evidenced by the stable country's credit rating and an attractive environment for investors.

5. *Automation of primary market processes:* In an effort to enhance efficiency and safety of its operations, the Central Bank launched the T-24 system in all its operations in April 2012. I would like to thank the stakeholders for being patient while the bank was experiencing challenges leading to the implementation of the new system. Going forward the bank is working towards providing internet banking which will allow for services such as: online bidding faster dissemination of auction results and statements for government securities.

6. *Competitiveness at auctions:* The use of an auction-based method in the issuance of government securities over the years has promoted price discovery and competitive prices at the primary market which is a key ingredient for the secondary market.

7. *Kenya Government Bond Index:* In October 2012, the Nairobi Securities Exchange (NSE) launched the FTSE NSE Kenya Shilling Government Bond Index as a benchmark tool for measuring market performance. This was a great step in market development because the market now has the benefit of further opening up to the rest of the world and increasing Kenya's financial sector competitiveness.

Ladies and Gentlemen, as you all know our success has not been without challenges along the way. Just to mention a few, the slow pace of reforms particularly in the secondary market has promoted market illiquidity and hampered faster growth. But above all, economic vibrancy has been constrained by shocks in both the domestic and international environment beyond our control and this has at times affected the momentum of our market development.

I wish to emphasize that a well-developed and proper functioning financial market is critical to economies all over the world as it enhances effectiveness of monetary policy, cushions the economy against external vulnerabilities while mobilizing long term financing for public and private sector development. Therefore, the development of a robust financial market is not only a priority of the Central Bank of Kenya but for every stakeholder in this market to embrace.
Towards this objective I urge all the stakeholders to continue to build a competitive bond market that supports the country's development agenda under Vision 2030. In cognizance with today's theme of *'Taking Kenya's bond market to the next level'*, we as stakeholders have set for ourselves a number of initiatives which are ongoing or for the future. These include:

1. Further support to the benchmark bonds program through strategies for building liquidity such as bond reopening, and initiating approaches to smoothen the debt maturity structure such as bond exchanges through switches and conversions.

2. Promoting financial literacy to ensure market confidence and increased numbers of investors, so as to enhance further market deepening.

3. Fast-tracking financial markets reforms particularly at the secondary market including diversification of existing products, improving the legal and operational framework and expanding the trading platform to incorporate Over the Counter trading. But we also need to review and develop mechanisms to reduce insider activities and fraud so as to mitigate these risks and increase the integrity of our financial markets.

4. At the primary market level, enhancement of products that will include; the issuance of project specific infrastructure bonds with bond service costs matched with income streams from the projects as well as more products to promote national savings and attract small investors and the Kenyan diaspora.

As I conclude, I wish to thank the Market Leaders Forum for its invaluable contribution towards market development and at the same time call upon all the stakeholders to take up the challenge of enhancing market efficiency and transparency.

With these remarks, ladies and gentlemen, I invite all of you to relax and enjoy the rest of the evening.

Thank you for your attention.