

Emmanuel Tumusiime-Mutebile: Uganda's Primary Dealer System

Remarks by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the Annual Primary Dealer Award Ceremony, Kampala, 31 January 2013.

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Distinguished Guests

Chief Executive Officers of Primary Dealer Banks

Members of the Press

Ladies and Gentlemen

Good Afternoon

It is my pleasure and honor to welcome you to this ceremony, at which we will recognize the best performing Primary Dealer in Uganda Government Securities in 2012.

Introduced in 2003, the main objective of the Primary Dealer System is to promote financial markets development and to reduce the costs associated with issuing government securities, by:

- 1) Increasing demand for government securities;
- 2) Increasing market efficiency, thereby making government securities easier to buy and sell;
- 3) Encouraging secondary market trading of government securities, and;
- 4) Improving the quality of market information that is shared amongst the participants and with the Central Bank.

By and large, the Primary Dealer (PD) model, that requires all investors in government securities to access the primary market through a PD, is proving successful in achieving its objectives. In particular, the PDs have contributed to the growth of the securities market by ensuring high and consistent demand for securities at the primary auctions. Over the last five years, most of the primary auctions for government securities have been oversubscribed by large margins, with the auction bid-coverage ratio for both Treasury bills and bonds averaging more than 200 percent, which is an indication of the strong demand for government debt by investors.

The Primary Dealers have also contributed to the growth of the secondary market in government securities by quoting effective two-way prices. The ratio of secondary market turnover to the stock of outstanding securities increased from 35 percent in 2011 to 58 percent in 2012, which reflects the increasing buoyancy of the secondary market.

Despite the progress we have made in developing the government securities market in Uganda, we will not rest on our laurels. Instead the Bank of Uganda, in collaboration with all of the stakeholders, is implementing further reforms to enhance market efficiency, transparency and competition. These reforms include the following:

- i) The process of upgrading the Reuters system to allow real time reporting and viewing of market activity – thereby enhancing market transparency and minimizing price distortions – is in the final stages of implementation. The first stage of the upgrade, involving 10 commercial banks, is expected to be ready by the end of March of this year and the second stage, involving all of the remaining banks, by June.
- ii) The enhanced Central Securities Depository (CSD) system is in the final stages of user acceptance testing. Among the envisaged benefits from the CSD to the market

participants will be electronic bidding, trading and reporting. We hope that the CSD can go live in April of this year.

- iii) The securities pricing matrix that will provide a yield curve for all on-the-run and off-the-run government securities has been finalized and will shortly be posted daily on the BOU website and on the Reuters information system. Generating a daily yield curve will require the PDs to provide two-way secondary market price quotes in a timely manner.
- iv) The BOU is working closely with Ministry of Finance, Planning and Economic Development to improve the predictability of government debt issuance through the introduction of a bond calendar and to further improve market liquidity by issuing benchmark bonds.
- v) The consultative process on debt market reforms is still ongoing. We expect that this will lead to the introduction of Non-bank Broker/Dealers in the securities market and that this will boost the retail end of the market

Before I announce the winner of the Primary Dealer of the Year award, I want to explain briefly how we determine the winner. Each of the PDs is graded in five categories: i) their contribution to the volume of bids in the primary market; ii) the volume of bids they bring to the auction from other investors who are not PDs; iii) the competitiveness of their pricing in the primary market; iv) their market share in the secondary market for securities and in the repo market; and v) their contribution to the market intelligence which is provided to the BOU and which is valuable in helping us to manage liquidity and plan debt issues. The contribution of each PD to the primary and secondary market is deflated by the size of its balance sheet, to ensure that size alone cannot guarantee that a PD will win the award.

I now come to the announcement of the winner of the 2012 Primary Dealer of the Year Award. The winner is Stanbic Bank, mainly on account of its contribution to the volume of bids in the primary market, the competitiveness of its pricing in the auctions and the market intelligence it has supplied to the BOU. I would now like to invite the Managing Director to receive the award.

Congratulations to Stanbic Bank and thank you for listening.