Emmanuel Tumusiime-Mutebile: Reforming the government debt market

Speech by Mr Emmanuel Tumusiime-Mutebile, Governor of Bank of Uganda, at the Bank of Uganda/Uganda Securities Exchange Workshop on reforming the government debt market, Kampala, 18 May 2011.

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The Chairman of Uganda Securities Exchange
Chief Executives of Financial Institutions
Resource Persons
Distinguished Guests
Ladies and Gentlemen

It is a great pleasure for me to be here this morning to officiate at the opening of this extremely important, somewhat technical workshop. I would like to welcome all of you. I would also like to thank the Uganda Securities Exchange for collaborating with the Bank of Uganda to organize the workshop.

The aim of the workshop is to discuss a number of important reforms to the debt markets in Uganda; reforms which are under consideration and about which we would like to hear your views. The reforms are intended to contribute to making debt markets deeper, more liquid and more efficient. As such they will benefit borrowers, investors, financial institutions and the wider economy. In particular, I would like this workshop to agree on practical steps to encourage and enable broker dealers to play an active role in the debt markets.

Over the last decade, we have achieved substantial progress in promoting the growth of the domestic capital markets, for both bonds and equities. Uganda is now regarded as a “frontier market”, because the country is able to attract portfolio investment from abroad into its capital and money markets. Therefore, we are well and truly on the road to becoming an emerging market.

Nevertheless, we must also acknowledge that our financial markets are still characterized by certain weaknesses. These weaknesses include the low levels of liquidity in the secondary market as well as a narrow investor base, which is largely confined to the commercial banks and a few non bank financial institutions. Participation by the general public in the securities markets is very low. Markets are not as fully transparent as is desirable. The listing of Government securities on the stock exchange has not yet been accompanied by vibrant trading of securities.

There are also problems with the efficiency and volatility of our securities markets. Evidence for this is the often erratic bidding behavior at bond market auctions, with bids which are at odds with prevailing secondary market rates and a normal positively sloped bond yield curve. In part this reflects a lack of transparency in the securities markets; for example, the closing prices and yields on the secondary markets are not available to all market participants. It also reflects the need to improve the understanding of key market issues by some participants.

A number of proposals will be made at this workshop to address the problems I have just highlighted. One of the main objectives of the proposals is to strengthen the participation of broker dealers in the securities markets. Broker dealers can help to widen market demand for debt securities by engaging in the retail securities business, with individuals, non bank financial institutions and non financial companies. Widening market demand and promoting secondary market trading should also enhance the liquidity of Government securities.

One of the possible measures to strengthen the participation of broker dealers in the debt markets is to allow them access to the Central Depository System for securities.

We would like to strengthen the transparency of the securities markets, by ensuring that all potential market participants can access data on prices and yields on a daily basis. We will propose that data on the prices, yields and amounts of securities traded daily should be made available to the public. We are also intending to publish each day a pricing matrix for Treasury Bills and Bonds, so that investors can readily ascertain the prevailing market yield on a debt security of any maturity.

The workshop will also consider changes to the methodology for assigning bond coupons. Currently the bond coupon is determined prior to the auction, with bids made on a price basis. We will discuss asking investors to bid on the basis of yields, with the coupon assigned after the results are determined, which is the normal practise in more developed markets. The advantage of such a change is that it will eliminate significant price discounts and premiums in the primary auctions, which occur when the yields demanded by the market differ from the pre-assigned bond coupon.

This workshop is one of a number of ongoing initiatives to promote the deepening and diversification of financial markets, under the auspices of the Five Year Financial Markets Development Plan. In addition, there is an active work programme within the East African Community to promote the regional integration of capital markets. The Bank of Uganda is spearheading the creation of regional intermediaries that will support the efficient trading of Government securities within the integrated financial market framework in the East African Community. In implementing all these reforms which will be discussed in this workshop, the Bank of Uganda is very pleased to acknowledge the technical support of the Department of Treasury of the government of the United States of America.

To conclude, I wish to pledge Bank of Uganda's continued support to reforms to deepen the capital markets and make them more efficient. I would now like to declare this workshop officially open.