

**Local Currency Bond Markets Conference
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Panel I

**The Role of Central Banks in establishing
Primary Markets**

Magda Ghoneim, CFA

Section Head

Money & Capital Markets Desk

Markets Division

Central Bank of Egypt

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Role of the CBE in establishing Primary Markets

Strategic Objective

As an agent for the MoF in primary market issuance, the CBE's strategic objective is to prepare the grounds and build a strong infrastructure that is viewed as indispensable for the development of the government debt market.

General Overview

- Government has been issuing debt into the open market since the 1990's.
- In 2002 a PD decree was issued by the MOF.
- Since 2009 a regular issuance calendar was put in place where MOF started to build Benchmark Bonds through frequent and regular issues and reopenings to ensure sizable amounts and a good variety of tenors on the curve.
- New products were introduced such as Zero-coupon bonds, Floating rate notes, Corridor linked deposits, Project CDs ex: Suez Canal Project, hard currency issues and more to address investor needs.
- In addition, in 2009 an automated primary auction portal system was launched linking all banks to the CBE via direct screens. Non-PD banks enter their bids directly on the portal system but under a PD's name. Results are published within a few minutes after the end of the bidding time. Government Auctions take the form of multiple prices Dutch auctions whereby CB OMO deposits are currently a mix between fixed, variable and the newly implemented corridor linked instruments.

General Overview (cont'd)

- Later this year (2018), a new outsourced Primary Auction system will replace the current one. It is being developed by market pioneers in that field using best practice to improve efficiency of the auctions.
- The new primary auction system will be part of the new mega project- sponsored by the **Mena Transition fund** led by **AFDB, EBRD** and other Financial Institutions- to create:
 1. A national Central Depository System (CSD) integrating Primary and Secondary Transaction settlement and centralizing all at the Central Bank of Egypt
 2. Primary Auction System for Government Debt and CB OMOs
 3. Collateral Management System
 4. Data Warehouse
 5. Yield Curve and ETP

Primary Dealers Decree

- A Primary Dealers' decree was issued by the MOF back in 2002 that has proven success in ensuring full coverage of MOF issuances even in turbulent times.
- **Main features:**
 - Banks and authorized bond dealers can obtain the PD license upon approval from MoF, CBE and the Financial Supervisory Authority.
 - Primary Dealers shall:
 1. **guarantee to underwrite Government Securities** issued in Primary Markets
 2. and **enhance Secondary Market trading activities** according to certain provisions and procedures.
 - A renewal of the PD license is requested yearly, may be revoked if entity is non-compliant.
 - MoF performs a quarterly assessment of the licensed PDs and creates league tables/ rankings based on qualitative and quantitative aspects.

The way forward towards a more successful primary market

1) A revised PD decree:

- As part of our continuous efforts for improvement, a new decree is being drafted in collaboration between MOF, CBE, our consultant appointment for the mega CSD project and market players. It will be based on best global practice after being customized to the local market.
- The new PD decree shall aim to:
 - i. Change the role of PDs and their relationship with the MOF by **obliging them to bring liquidity to the secondary market** and make firm executable quotations in exchange of **being rewarded via access to non-competitive bids in the primary market**.

2) Transparency:

- Existence of a medium term strategy and Sound ALM Policies of the DMO
- Existence of historical details of issuances (comprehensive database in progress)
- Better adherence to issuance calendar with improved government cash flow projections

The way forward towards a more successful primary market (cont'd)

4) **Primary Liquidity:**

- Open and liberalize the market to a wider range of participants by possibly allowing non-bank financial institutions to become PDs thereby enhancing market competitiveness and efficiency.
- Engaging less active and new investor types to subscribe in government debt

5) **Depth of issuance:**

- Regulatory changes to allow for new types of instruments to meet investor demand (Futures, Forwards, Sukuk...)
- Longer tenor of issuance (in progress)

6) **Enhancing the secondary market:**

- An ETP is viewed as indispensable as it shall be the only way for MOF and CBE to enforce quoting obligations and enhance and monitor pre-trade and post-trade transparency.
- Non-PDs may become market makers on the new ETP we are planning to host to provide firm quotations for a certain number of hours throughout the day.