Bank of Namibia

Opening remarks at the retreat for Heads of Reserves Management.

By: Mr Ebson Uanguta, Deputy Governor

Bank of Namibia

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The Director of MEFMI's Financial Sector Management, Mr. Alphious Ncube

Distinguished Resource Persons,

The Programme Officer

Other MEFMI Staff,

Dear Participants,

Ladies and Gentlemen,

It is my honour and pleasure to officiate over the opening ceremony at this retreat for Heads of Reserves Management, themed **SELECTION, MANAGEMENT AND MONITORING OF EXTERNAL FUND MANAGERS AND CUSTODIANS** organized by MEFMI.

I wish to extend an especially warm welcome to all of the delegates who have come from outside Namibia and to wish them an enjoyable stay and I hope you will have some time to explore this beautiful city

Ladies and gentlemen,

It is befitting at the start of this Retreat to pay tribute to the outstanding work of MEFMI in building capacity. An invaluable feature of MEFMI's programmes is their design which is achieved through keen market understanding to keep abreast of investment and fund management developments. MEFMI provides an excellent example of the benefits to be gained from building up indigenous institutions at the regional level in Africa to serve the needs of their clients and members for skills transfer both at an individual and institutional level.

Ladies and gentlemen, to the business of the day:

Let us begin by addressing the traditional central bank motive for holding reserves which has always been primarily to offset government payments as and when required. However, with most central banks holding reserves of up to several months of import cover, this role has been satisfied several times over.

The other major reason for holding reserves has been to create a buffer that enables countries to better deal with external shocks, and since 2008, the role of reserves as a buffer against external shocks has been played out the world over as these central bank reserves have been utilised against the effects of the financial crisis. During the period, 2008 to present Central banks have used up to $81 billion of reserves through capital outflows and currency market interventions.

Before we go further, it is important to address the growth path taken by Central Bank Reserves in the past decade. Central Bank Foreign Exchange Reserves have grown exponentially over the past decade, from about $2 trillion in 2002, to in excess of $10 trillion as of 2012. The development in the MEFMI region has also followed the same growth path, with Foreign Exchange Reserves growing an average 70% in the ten years to 2012. In many countries, political and economic stability as well as balanced fiscal policies have increased investor confidence, thereby attracting substantial foreign direct investment (FDI). With such growing foreign exchange reserves, central banks have recognised the need to diversify their investments and enhance the efficiency of the management of their reserves.

In the past, central banks have been hesitant to employ fund managers due to various reasons: the need to ensure the absolute safety of their assets. Something they could not always ensure when they committed their funds to institutions who might be good fund managers but whose security and creditworthiness could not be fully guaranteed. However, the rise of custodians, who ensure the ability to split management of funds and custody of assets reassured central banks that funds placed with external fund managers could be made sufficiently secure.

Central Banks expect their funds to be available as and when they are required, these liquidity needs were not always assured with external fund managers, not when there was a callback time of up to two weeks. However the advent and growth of repo markets and other such tools, for managing and accessing short-term liquidity, have reduced the recall time from external fund managers.

Ladies and gentlemen,

The views of central banks with regard to external fund managers have significantly changed over the years as their reserves have grown and they have recognised a need to have them expertly managed. This is not to say they do not have the capacity to do so, no, it is to say there are some inherent advantages that exist in using external fund managers:

External fund managers provide diversification of investment - this is twofold; first, in the choice of instruments and second, in the separation of the portfolios managed internally within the central bank from that managed externally by the fund managers;

External fund managers have expertise in certain areas in investments in which the Central Banks do not necessarily have, for example, in equities and real estate, which offer diversification of the investment tranche of the Foreign Exchange Reserves.

External fund managers often offer training for central bank staff in addition to offering fund management and this is vital for central banks that are entering the reserves management arena. The central banks then establish an ‘internally managed portfolio’, the management of which acts as a training tool and allows for the transfer of knowledge and expertise. The central bank also receives market information and technical expertise from the external fund managers;

External fund managers give the central bank an opportunity to take advantage of conditions prevailing in the different markets in which they have a presence. Using external fund managers in these different markets, in which they have a presence, mitigates any price risks and ensures better liquidity management.

Ladies and gentlemen,

With that short contextual brief, I would like to highlight the objectives of this retreat, which are to understand the process of selecting, managing and monitoring external fund managers and custodians. In addition, to bringing to the fore the importance of the legal issues and implications of engaging external fund managers and custodians.

In addition, cognisance is given to the prevailing low-yield investment climate, and the challenges currently faced in earning a decent return without taking excessive risk. Thus, there will be two extraordinary presentations – only because they are not strictly within the objectives of this retreat – touching on the alternative sources of return in Reserves Portfolios.

Ladies and gentlemen,

Before we get to business, I would like to acknowledge the presence of the technical cooperating partners of MEFMI present here today who work hand in hand with MEFMI to strengthen capacity building in the region – The BIS, The World Bank, The Bank of New York Mellon, State Street Global Advisors and Investec. Welcome and thank you for accepting to partner with MEFMI in strengthening capacity within the region.

Ladies and gentlemen,

I am confident the presentations will be enriching and will elicit deliberations on external fund managers, custodians and their management. I wish you the best and encourage you to participate actively during the discussions. Use every opportunity to tap into the vast experience of the resource persons.

Last but not least, I wish to thank the MEFMI Secretariat for organizing this important workshop.

With these remarks, ladies and gentlemen, I declare this retreat officially open and wish you all successful deliberations.

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