

STATEMENT
BY
DR. J. D. ROGERS
GOVERNOR,
BANK OF SIERRA LEONE

ON THE OCCASION OF THE
LAUNCHING OF
CAPITAL DISCOUNT HOUSE
ON

FRIDAY 22, APRIL 2005

Mr. Chairman,
Honourable Minister of Finance,
Heads of Bank and Non-Bank Financial Corporate Institutions,
Distinguished Ladies and Gentlemen,

It is with profound pleasure that I join you here this afternoon and make a statement on this momentous occasion marking the official launching of Capital Discount House. With major improvement in the overall security situation in the country in the last few years, we continue to see increased confidence returning to the economy.

Mr. Chairman, Distinguished Guests,

The establishment of a second Discount House within the financial sector of Sierra Leone, presently dominated by commercial banks, constitutes a critical milestone and a welcome initiative. This is particularly so because of the important services Discount Houses can provide to commercial banks, the corporate sector, the government and the general public in their intermediation role in the money market. This is in addition to the significant contribution to the economy through effective response to the requirement for financial deepening, a *sine qua non* for efficient management of the macro economy of the country.

A cursory analysis of the role of Discount Houses would reveal that historically they have played a key role in transmitting monetary policy signals. Principally, Discount Houses are known as “market makers” in the sense that they quote buy/sell prices at which they stand ready to deal in government securities in the secondary market thereby contributing to the liquidity of these instruments. In their intermediation role in the money market, they borrow secured funds from surplus commercial banks funds and invest in short-term securities. In the process, they derive their profit from the margin between the yield on the securities and the cost of funds borrowed. They also benefit from dealing profits and commissions.

In Sierra Leone however, Discount Houses have not been very active in market making. Their intermediation role in the money market remains limited even so in the context of an already implemented “Master Repurchase Agreement”, to which all participants in the money market have signed up. The significance of this role in transmitting monetary signals and in the development of both the inter-bank market and the secondary market for treasury bills cannot be overemphasized.

Owing to these weaknesses, the signaling effect of monetary policy has been limited. Consequently, the Bank of Sierra Leone has had to recourse to upward revision from 10% - 12% in the minimum reserve requirement of commercial banks as a

first line of defence in monetary management, effective December 2004. Additionally, a number of wide ranging reform measures have been put in place in an effort to promote development and stimulate activity in the secondary market, required to support Open Market Operations, the Bank's key instrument of monetary policy. Among these, the privileged status hitherto accorded the Discount House in accessing the 'Tap' system of the central bank was removed and supplanted by a more liberalised and transparent counterparty arrangement now extended to all commercial banks. As a result, commercial banks can now transact their surplus funds directly with the Bank of Sierra Leone by purchasing treasury bills of various maturities in the secondary market according to their requirements.

To facilitate efficient liquidity management in the system, money market participants would normally be expected, first, to transact liquidity amongst themselves under a secured contract arrangement, as those provided under the repurchase agreement. This would contribute not only to developing but also to reducing cost of funds in the inter-bank market. The intervention role of the Central Bank would therefore remain that of lender of last resort where it would have to transact only the net liquidity position of the market. Discount Houses are expected to continue to play an active role in the secondary market by developing new products with attractive prices, suitable to the requirements of counterparties.

During the course of the year, the Bank will be implementing 'repo' agreement as additional instrument for greater flexibility and efficiency in monetary operations. Counterparty relationship with the Bank in the secondary market then would no longer be limited to outright transactions as currently is the case.

Distinguished Guests, Ladies and Gentlemen,

Today we are witnessing the birth of yet another financial intermediary, Capital Discount House which will no doubt contribute to the deepening and broadening of the financial sector. We wholeheartedly welcome this initiative and publicly recognize the efforts of the shareholders of this venture. I am pleased to note that this is a 100% Sierra Leonean owned company. This buttresses the point that confidence has finally returned to the national investment environment.

It is hoped that with the advent of Capital Discount House one of their principal aims would be to create an alternative investment mechanism through which government borrowing will gradually shift to the private sector.

While the Bank continues to rely on the active cooperation of all institutional players for the efficient conduct of monetary policy, I would like, on this note, to take the opportunity, on behalf of the Board of Directors and Management of the Bank of Sierra Leone, to wish Capital Discount House every success and

sustainability in its operations in a dynamic financial system with substantial growth potential, *ceteris paribus*.

I thank you all for your attention.