Emmanuel Tumusiime-Mutebile: Uganda's financial sector at 50 – achievements, challenges and expectations for the future

Remarks by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the annual general meeting of the Uganda Institute of Banking and Financial Services, Kampala, 14 June 2013.

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The Board Chairperson of the Uganda Institute of Banking and Financial Services Members of the Board of Directors of the Institute,

Members of the Institute present,

CEOs of Financial Institutions and all Bankers Present,

Invited Guests in your respective capacities,

Ladies and Gentlemen,

It is a great pleasure for me to address this AGM of the Uganda Institute of Banking and Financial Services. I will begin by thanking the Board and members of the Institute for arranging the AGM and for their choice of theme: "Uganda's financial sector at 50; Achievements, Challenges and Expectations for the future" which is clearly very pertinent for everyone involved in the sector.

In keeping with this theme, I want to share with you my thoughts on what I believe are the most pressing challenges facing the financial services industry in Uganda today. These are challenges which must be confronted if the industry is to contribute fully to our efforts to transform the structure of the economy and move it towards middle income status. I would like to highlight three issues in particular; the need to reduce interest rate spreads in the banking industry; strengthening the financing of small and medium scale enterprises and the diversification of our financial sector.

The regional Financial Sector Assessment Program, which was conducted in May of this year, showed that bank interest rate spreads in Uganda are the highest in the East African region after Burundi and among the highest in the world. The interest rate spread in Uganda in 2012 was 15 percent, compared to less than 12 percent in both Kenya and Tanzania. Spreads are high mainly because of heavy overheard costs and high profits earned by banks. Overheads and profits before tax accounted for 42 percent and 28 percent of banks' gross income respectively in the 12 months ending in March of this year. Unless we can reduce spreads, it will be very difficult to bring bank lending rates down to levels which are more affordable for borrowers.

To reduce interest rate spreads it will be necessary for banks to cut overheads as a share of their income, by becoming more efficient. The banking industry is very profitable in Uganda: the average return on assets earned over the last 12 months was 3.6 percent. But banks should also recognize that high lending rates, although they enable large profits to be made in the short run, may damage the long run prospects for the banking industry if they stifle the growth of bank lending to the private sector.

Since the turn of the millennium, bank intermediation has grown dramatically in Uganda. Credit to the private sector has risen from 6 percent of GDP in 2000 to 14 percent of GDP today. This is an important achievement which demonstrates that the banking industry has strengthened its contribution to the broader economy. Nevertheless, there are still important gaps in the credit market which will have to be closed. In particular, many small and medium scale enterprises still struggle to obtain the finance they need, in the forms which are most appropriate, to support their business activities and investment requirements. Part of the reason for this lies with the borrowers themselves, especially with regard to poor business management. But banks also have a contribution to make in enhancing access to credit by small and medium scale enterprises; for example by strengthening their capacities for evaluating the business prospects and creditworthiness of loan applicants and by developing new ways of securing loans to business enterprises.

Although the financial sector in Uganda has grown strongly since the turn of the millennium, less progress has been made in terms of diversification. The growth of the non bank financial sector, with the exception of NSSF, has been rather disappointing. Our insurance industry, for example, is only a fifth of the size of its counterpart in Kenya in terms of assets. As our economy expands and becomes more sophisticated, I believe that demand for non bank financial products, such as life insurance, will increase. Consequently, unless the financial sector can diversify its product range to meet this demand, customers in Uganda might be forced to look to firms elsewhere in the region to purchase financial services.

I hope that the forthcoming amendments to the Financial Institutions Act, which will allow banks to undertake bancassurance in partnership with insurance companies and to offer Islamic financial products to their customers, together with the liberalization of the pensions industry, will help to stimulate the diversification of our financial sector.

With these remarks, I would like to thank the Management and Board of Directors of the Uganda Institute of Banking and Financial Services for giving me an opportunity to speak at this year’s AGM. I also want to wish all of the stakeholders in the financial services industry the best of luck for the next fifty years. We have together overcome enormous challenges in the first fifty years of independence, especially in the 1970s and 1980s when the economy collapsed. The industry hung on and survived during the economic turmoil of those years and then rose, Phoenix like, to recover in the 1990s. With the same spirit of enterprise, hard work and cooperation we can help to ensure that the next half century is one of prosperity, sustainable growth and structural transformation for the Ugandan economy.

Thank you very much for listening.