

Emmanuel Tumusiime-Mutebile: Uganda's banking sector

Speech by Prof Emmanuel-Tumusiime Mutebile, Governor of the Bank of Uganda, at the Uganda Bankers' Association dinner, Kampala, 27 November 2009.

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The Guest of Honor, Hon Minister of Finance, Planning and Economic Development
Distinguished Guests,
Ladies and Gentlemen,

Allow me to congratulate Uganda Bankers Association (UBA) for organizing this inaugural annual dinner. You must continue so that you allow the Chairmen and members of the board of directors of banks to understand some of the things we discuss every month between the Governor and chief executives of banks.

I wish to take this opportunity to congratulate all the banks upon satisfactory operating results for the year ended 2008 and hope that the operating results for the year ended 2009 will be as good if not better despite the world trends.

When I first stated that the world financial crisis would not affect Uganda's banking and financial sector, I was called all sorts of names: "crank"; one newspaper said I should go back to school!

They have not apologized because now at the end of it all, the crisis hasn't affected Ugandan banks. But the economic crisis may be having second round effects, but all the banks are strong, safe and sound.

I also take this opportunity to thank banks for enabling us maintain a sound and stable financial sector. Many other countries envy what you have done and let us continue working together to ensure that we are the envy of those people who sometimes call us names because of other events unrelated to banking.

The banking sector has remained largely profitable and solvent with average capital averaging 22 percent of risk weighted assets as in the third quarter of 2009. It is testament to the prudent macroeconomic policies and the strengthening of banking supervision that the bank has put in place.

Notwithstanding, it's important to note the second round effects of the economic crisis due to external shocks which has affected both the current and capital accounts and reduced growth in aggregate demand must be felt. Slower growth in aggregate demand has put real GDP growth lower with GDP growing at 7 percent in 2008/09 which was lower than 9.5 percent growth rate projected. But this growth rate is still much higher than the rates of sub Saharan African countries. Let us not go down and say economic situation is bad because it's good and together with you we can make it even better.

And in particular I want to tell you that BOU is determined to ensure that the current appreciation of the exchange rate will not lead to an unnecessary reduction in aggregate domestic demand. We will take and use every measure at our disposal to ensure that this does not happen and that the economy remains buoyant.

I have said before that I am not committed to a particular exchange rate of the shilling but because of the problems that are happening now which lead to a reduction in domestic demand, the BOU will ensure that the appreciation of the exchange rate doesn't worsen the situation regarding aggregate demand.

We are not changing the policy of not having an exchange rate level to defend. I am saying that we will not allow the appreciation of the exchange rate to cause other problems on our

goals. I am not changing the rule which we have followed all this while that the BOU will not intervene in the market except when there is volatility.

I herewith therefore announce that, from tomorrow, November 28, 2009, in addition to volatility, we will, until further notice, intervene to stop excessive appreciation of the exchange rate.

We have a challenge of ensuring financial access. We have a challenge of ensuring that agricultural credit is made available to a wider sector of Uganda's population since it's agricultural. I must say that while Stanbic Bank has come up with additional program to the Finance Minister's agricultural credit program, I still want to see other banks come up and offer more credit.

I am very committed to a liberal financial system and I am not persuaded that edicts about interest rates work. Let's work together and make sure that financial inclusion is expanded. Let make sure that any attempts by some of the remaining elements in government who want to control interest rates are not given the chance to do so. It will be disaster if we attempt to control interest rates.

Mr. Minister, Hon. Prof Kamuntu, since you are the first person to free the shilling to float and to liberalize interest rates, I am glad to invite you to address this gathering.