

Emmanuel Tumusiime-Mutebile: Review of the past five years and prospects for the future

Speech by Mr Emmanuel Tumusiime-Mutebile, Governor of Bank of Uganda, at a get-together reception, Kampala, 17 March 2006.

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Ladies and Gentlemen

I am pleased to welcome you all to this get-together reception.

I am sure some of you may be wondering what this get-together is all about but as most of you know, the President of the Republic of Uganda, His Excellency Yoweri Kaguta Museveni re-appointed me as governor for my last term of five years in office. Allow me publicly to express my gratitude to H.E The President for renewing his confidence in me and giving me the opportunity to continue serving this great institution as Governor. I hope he might be tempted to change the constitution to allow me to run for a third term.

I am pleased that you have been able to join me in celebrating this achievement. All of you assembled here this evening and many others who are not with us this evening have in one way or another helped me succeed in the last five years at the helm of the central bank. I am indeed very grateful to the Management and Staff of Bank of Uganda for being there for me. I also highly appreciate the continued harmonious relationship between the various arms of government and not least with the Ministry of Finance and the donor community. I thank them all.

I want to make a few comments to outline some of our achievements in the last five years at the Bank and where we want to go for the next 5 years.

On the 2nd March 2001 in my maiden speech at this very venue, I made a pledge to you and to the whole country on my policy priorities as Governor. These were first, control of inflation, second, exchange rate stability, third, enhanced and strong bank regulation and supervision, fourth, enhancing communication at all levels in the Bank.

I am pleased to say that during these past five years we have recorded remarkable achievements in all these areas.

On the inflation front, I am sure you are aware that we maintained low and stable inflation levels averaging 5% per annum; Some of the best results in Africa. The conduct of monetary policy will continue to focus on maintaining overall macroeconomic stability and low inflation. We have achieved this largely due to a combination of very strict financial discipline and sound monetary policies by the Bank conducted within the framework of fiscal and monetary policy programmes agreed between the Ministry of Finance and the Bank.

One of the measures agreed upon during this period was the phased transfer of Government Donor funded project accounts from commercial banks to the central bank. The main objective of transferring these resources was to moderate the liquidity in the banking system created by government expenditure and thus limit the use of government securities for mopping up liquidity and thereby to reduce the upward pressures on interest rates and on the exchange rate. I am glad to report that this has been largely successful.

The Bank in conjunction with Government launched the Government Treasury bond in January 2005 as an additional monetary policy tool and to make the financial sector deeper and more robust. Some of you who are in the know, know that some of our collaborators in the international field did not think that we should launch this bond, I doubted their seriousness and went ahead and launched the bond much to their shock and the bond has been declared one of the most successful programmes of tendering issue in Africa. I have forgiven them.

With regard to exchange rate policy, the Bank has maintained a flexible market determined exchange rate. The Bank has from time to time been forced to intervene to avoid volatility and to ensure stability in the market. I am pleased to note that commercial banks and other market participants heeded my warning at that time that the Bank of Uganda would not allow the exchange rate of the shilling to

become one-way bet for speculators. And just in case there are some speculators who still doubt my resolve, I will burn their fingers if they attempt this kind of speculation.

Financial Institutions regulation and supervision have been strengthened with the enactment of the Financial Institutions Act 2004 and the Micro Finance Deposit Taking Institutions Act 2003. This legal framework coupled with improved supervision methodologies and prudent management of monetary and exchange rate policies have contributed to the strengthening of the financial sector. This is reflected in the growth of banks' deposits and assets and increased private sector credit.

The banking sector has also witnessed a tremendous improvement in the payment system with the introduction of ATMs, electronic funds transfer system including the Real Time Gross Settlement (RTGS). This will hinder money laundering, over any rogue-elephant banks. Chief executives must understand that, while I want good relationships with them, they must not deal with matters that might force the central bank to intervene. I have no problem with dfcu bank ltd; the bank is conducting itself in an orderly manner consistent with Bank of Uganda's requirements.

It is my sincere hope that despite the expenditure pressures, obviously attend to an election year that I hope the Ministry of Finance will carefully consider the consequences for interest rates and exchange rate stability of increased deficit financing or borrowing domestically. I hope that on this matter we can quickly find agreement between the Bank and the Ministry. Should any agreement fail, the central bank will not accept to take any measures that are inconsistent with our desire to have stable and low inflation and stable and strong financial system. If anybody doubts my resolve on this matter, they can try it.

The management of forex bureaux and money transfer has also been streamlined with the enactment of the Foreign Exchange Act 2004 which abolished formerly the Exchange Control Act 1964 which was laying in abeyance. Let me take this opportunity to invite those interested in Money Transfer business to come to us for licenses.

One problem that has persisted is the relatively high interest rates and bank charges levied by commercial banks. I will continue to urge the financial institutions for more realistic rates and charges to the customers in order to promote the culture of saving in the country.

My policy priorities for the five years that is past remain for the five years to come. Before I conclude let me thank the board of directors who have attended this function and governor emeritus Onegi Obel for having honoured my invitation to come. Let me emphasize that all the Emeritus governors are on my permanent invitation list.

As you know we have announced that Bank of Uganda will be celebrating its 40th Anniversary in August and once again I am glad that President Museveni has given me the unique opportunity to be governor when the Bank is celebrating its 40th Anniversary. I have already announced that as part of our corporate social responsibility on the occasion of the 40th Anniversary, we shall donate a motorized water system for an IDP camp in Gulu. It estimated to cost shs 100 million and the Bank is happy to contribute this to the stabilization of Kitgum and Gulu.

I also want to invite you in advance to come and celebrate our 40th anniversary. I will be honoured if as many of you as possible would attend these events. Among other events will be a Public lecture and a Charity Walk whose proceeds will be used to donate a specialized heart machine to Mulago Hospital. If we buy this machine in advance of the walk, I will be committing you as my friends to meet the cost of this machine and I am confident you will not let me down.

Today is a special day in another way, the Uganda Banker's Association (UBA) had a general meeting today and agreed to re-elect most if not all their current executives. I am pleased to announce that Mr. Samwiri Njuki, MD Orient Bank has been re-elected as Chairman UBA and Mr. Nick Mbuvi, MD Barclays has been re-elected Vice Chairman of UBA. Congratulations.

Let me conclude by once again thanking you for being here this evening. May God bless you all.