Louis Kasekende: Overview of the Ugandan economy

Opening remarks by Dr Louis Kasekende, Deputy Governor of the Bank of Uganda, at a workshop for launch of the revised reporting returns for commercial banks, credit institutions and MDIs, Kampala, 19 February 2010.

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The Executive Director Supervision
The Executive Director Research/Directors
Staff of Bank of Uganda
Staff of Commercial Banks, Credit Institutions, Microfinance Deposit taking Institutions, and Bank of Uganda
Distinguished Resource Persons
Ladies and Gentlemen.

Good morning.

You are once again very welcome to this workshop concerning the launch of the revised reporting forms of assets and liabilities for financial institutions supervised by Bank of Uganda. Thank you for honoring our invitation and for your continued close cooperation with the Bank of Uganda, in the pursuit of overall macroeconomic stability for our country.

Ladies and gentlemen, on account of prudent macroeconomic management, the Ugandan economy has remained resilient on the whole in the face of the global financial crisis, which later culminated into a global economic recession. The gradual effects of the global economic slowdown on the Ugandan economy can be viewed from two angles: first, there was a sudden exit of offshore players in September and October 2008. Second, the balance of payments was adversely affected through reductions of export earnings in some sectors, portfolio flows, interest income on offshore investments, and remittances. The Bank of Uganda responded by letting the economy adjust to these exogenous shocks through the flexible exchange rate policy stance. Secondly, Bank of Uganda continued to pursue a monetary policy stance to ensure price stability. Most recently, Bank of Uganda’s monetary policy has aimed at boosting aggregate demand in the economy in order to support economic growth. The recovery of the balance of payments is now being observed. There is now stability in the financial markets and rapid reduction of inflation.

Overall, real GDP turned out to be 7.1 percent in the financial year 2008/09 and is projected at 6.3 percent for this financial year 2009/10. Despite the economic slowdown, this performance remains remarkable given that the IMF (World Economic Outlook, January 2010) projection for Sub Saharan African region is only 1.5 percent for 2009 and 4.3 percent for 2010.

It is worth noting that the financial sector has continued to remain safe and sound on account of prudent risk-based supervision and regulation. The sector was not affected by the toxic assets that led to the global financial crisis in the first place. Particularly, the banking sector in Uganda has not suffered the large deterioration in asset quality that affected banks in many countries. The average capital adequacy ratio of Ugandan banks has remained well above the prudential minimum of 12 per cent for the past three years and the banks’ overall liquidity remained good.

However caution should be exercised to ensure that, in the medium to long term, banks remain solvent, profitable and liquid while allowing for increased intermediation to finance economic activity. In addition, it is important that financial innovation and outreach continue to take place to meet customer needs. In this regard, the Bank of Uganda, in 2009 set up the Financial Stability Department which was charged with the mission of identifying and assessing potential systemic risks to the structure and functioning of the financial system and to develop measures to reduce those risks.

Bank of Uganda will continue to pursue a monetary policy stance aimed at boosting aggregate demand and growth while maintaining price stability. The Bank of Uganda also intends to introduce major reforms to the monetary policy in the next five years; which will include shifting to an inflation targeting regime as well as the transition to a single currency in the East African Community.

I wish to stress that to enable adoption of these new reforms as well as a smooth transition to a monetary union and advancement of data harmonization efforts in the East African Community; it is of paramount importance that financial institutions, among other data providers, submit timely and accurate statistics, based on international best practice. The reporting forms, which we are about to launch, have been designed to enable you to submit data to Bank of Uganda, which is comparable across nations both within and outside the East African Community. These revised forms will enable Bank of Uganda to collect more comprehensive and appropriate data to guide the conduct of monetary and credit policies.

Finally, I thank you for all the efforts you have put in, the comments and feedback on the proposed changes, as all of these have enabled the revision of the reporting forms to be a success. We look forward to your continued efforts in the improvement of the quality of statistics.

I wish you fruitful deliberations during this half day workshop.

I now declare the new reporting forms launched.

I thank you.