BANK OF UGANDA

Remarks by

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Deputy Governor of the Bank of Uganda

Launch of the 10-Year Capital Markets Development Master Plan

Kampala, Serena Hotel
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The Chief Guest, H. E the President of the Republic of Uganda,

The Hon. Minister of Finance, Planning and Economic Development,

Cabinet and State Ministers, Hon. Members of Parliament,

The Chairman, CMA Board, Chairman, the Capital Markets Masterplan Steering Committee, Distinguished guests, ladies and gentlemen,

Good morning.

I am delighted to be here this morning to participate in the launch of the Capital Markets Development Master Plan. I am speaking on behalf of the Governor of the Bank of Uganda, Prof. Emmanuel Tumusiime-Mutebile, who is unable to be here due to personal reasons. I would also like to point out that the Governor is the Chairman of the Financial Markets Development Committee (FMDC). This committee was set up to steer the development of the financial sector and to ensure that the sector maximizes its contribution to the economy. The FMDC coordinates reforms across the banking, capital markets, insurance and pensions sectors.

The premise behind the creation of the FMDC in 2008 was the recognition of the vital and varied roles which the financial system must perform to support economic development.

In essence, the financial system must mobilize savings from households and corporations, and allocate those savings to a variety of economic agents which can put them to productive use. In addition, the financial system must also provide other financial services which are needed in a modern economy, such as payments and insurance services.

Savings are a scarce resource in a developing economy like ours; hence it is essential that the process of allocating these savings – sometimes referred to as intermediation – is very efficient. As demands for investable funds far outstrip their supply, the task of the financial sector is to ensure that these scarce resources are allocated only to those firms and households which are best able to use them productively and, in doing so, to generate income for the savers who have provided the funds; for example in the form of interest or dividends.

For practical reasons, a market based financial system, driven by the profit motive, is much more likely to generate efficient allocations of scarce financial resources than a system characterized by state controls, although that does not obviate the need for appropriate prudential regulation, by institutions such as the Bank of Uganda and the Capital Markets Authority, to safeguard the interests of savers and other users of the financial system.

While we recognize that financial markets are characterized by market failures, it is often very difficult, in practice, for governments to correct these failures and efforts to do so are often counterproductive.

An important component of the financial system is the capital market, which entails funds being mobilized by firms, institutions or the government directly from savers through the issuance of equities or bonds. Although market based financial systems are sometimes contrasted with bank based systems, this is in some respects a false dichotomy. The capital market is not a substitute for the banking sector. Instead capital markets and the banking sector are complements; each catering for different needs of the economy in terms of financial services.

In particular, efficient capital markets are much better suited than commercial banks to provide long term finance to the corporate and public sectors. The capital market is also better placed to accommodate the needs of investors – both institutional and personal – who require long term assets and have a higher appetite for risk than is typical among depositors in commercial banks. As the business sector of our economy develops and as a larger share of the population are able to participate in institutional vehicles for savings, such as pension schemes, the demand for capital market instruments will grow.

In this regard, I would like to note that one of the most important reforms for stimulating capital market development in this country is the genuine liberalization of the pensions sector, so that all pension providers licensed by the Uganda Retirement Benefit Authority can compete on a level playing field to manage both mandatory and voluntary pension contributions. We have been discussing pension reform for the last 20 years. We have put in place the appropriate regulatory structure. Now is the time to liberalize the sector and open it up to competition. Monopoly is never conducive to the vibrant growth of a market.

To conclude, I would like to commend the Capital Market Authority for their efforts to spearhead the preparation of the Master Plan for the capital market. The Bank of Uganda is proud to have contributed to these efforts and we will continue to play a role in supporting capital markets development in our country.

Thank you for listening.