Remarks
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At the

High Level Stakeholders' Engagement on Building a 21st Century Ugandan Economy

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The Bank of Uganda (BoU) has not only successfully achieved its inflation objective of low and stable inflation, but has done so while supporting economic activity. In the last two Financial Years (FY), Uganda's economy has grown on average by 6.1 per cent from a growth of 3.9 per cent in FY2016/17. Investor surveys suggest that business conditions and sentiments are strong. Credit to the private sector has improved; helped by accommodative monetary policy stance.

The economy is expected to maintain this growth momentum and is projected to grow by between 6.0 and 6.3 per cent in FY 2019/20, and between 6.5 and 7.0 per cent in the medium term. The growth prospects are supported by private sector credit growth; public investment in infrastructure; higher agricultural output due to favourable weather and positive government interventions in agriculture; pick-up in activity in the mineral sector; improved regional security (with peace in South Sudan and DRC), which are expected to boost Uganda's exports.

There are downside risks to growth, including:

a) Lower external demand due to a depressed global economy.
b) Political and policy uncertainty, which are very elevated in several major economies with global growth continuing to be biased downwards. Already, the probability for a global recession is very high.

c) Climate change which will increase uncertainty of weather patterns and constrain the agricultural sector.

Domestic inflation remains subdued, with the annual headline and core inflation averaging 2.7 per cent and 3.7 per cent, respectively, in the quarter to August 2019. The inflation outlook is favourable, with inflation projected to stabilize around the 5.0 per cent target in the medium term. Given the current inflation outlook, BoU has kept the policy rate on hold since October 2018. Low inflation protects the purchasing power of Ugandans, especially for the poor households.

BoU has successfully ensured financial sector stability, including through resolving commercial banks that posed systemic risks by being very highly interconnected, both by the number and size of transactions with the other commencial banks. Currently, commercial banks are well-capitalized, liquid, and profitable. Improvements in asset quality have contributed to an easing of lending standards and credit recovery. The latest stress tests indicate that the banking system can withstand shocks.

As the current credit expansion cycle gains momentum, BoU remains focused on maintaining strong supervision to ensure that banking sector loans and advances do not drastically worsen if the economic growth momentum unexpectedly slows down. Although bank supervision and regulatory structures broadly follow international best practices, BoU has stepped up the strengthening of commercial banks' financial reporting, internal controls, and governance. Weaknesses in these areas were at the core of the most recent commercial bank failures.

Despite strong economic performance since the early 1990s, Uganda's financial sector remains shallow. Private sector credit could play a bigger role in supporting growth that is the case at this moment. Private sector credit remains low at 12 per cent of GDP. Although large corporates have access to credit on more favourable terms, smaller firms in need of financing have limited options. They often do not meet financial accounting standards that would facilitate access to long-term capital. A law to allow movable assets as collateral has been passed. However, legal uncertainty over property rights and lengthy proceedings to recover collateral continue to weigh down on banks' credit risks. The stock market remains largely untapped with only 9 listings of domestic companies and rather limited trading in the shares of those that are listed.

On a more positive note, around 85 per cent of Ugandans have access to financial services, including through mobile money. The BoU together with other stakeholders is implementing a five-year financial inclusion strategy so as to improve financial literacy, develop the credit infrastructure and promote formal savings, investment, and insurance while ensuring consumer protection. In 2018, access to financial services benefited from the introduction of agency banking. Uganda has recently issued regulations for Islamic banking and preparations are underway for the introduction of the first Islamic financial products. The BoU in collaboration with other stakeholders is working towards adopting the National Payments System Act, which will provide a legal basis for BoU to supervise the mobile money sector and support modernise of the financial system.

In conclusion, Uganda has made impressive development gains over the last 3 decades, while maintaining macroeconomic stability. The prudent approach to fiscal and monetary policy has served the country well. The challenge is to build on this momentum so as to achieve economic take-off in the next few years.