Keynote Address

Michael Atingi-Ego
Governor

From Financial Liberation to Economic Transformation: Uganda's Journey Toward Prosperity

Mestil Hotel, Kampala

Friday, 30 May 2025

From Financial Liberation to Economic Transformation: Uganda's Journey Toward Prosperity

(As prepared for delivery)

Distinguished organisers and participants, fellow Ugandans, ladies and gentlemen.

It is a profound honour to stand before you today, at this crucial juncture in our nation's story. We gather not merely to reflect on the past, but to **reignite our collective vision, to galvanise our shared efforts, and to secure a future** —a future defined by shared prosperity and economic empowerment. My theme today, "From Financial Liberation to Economic Transformation: Uganda's Journey Toward Prosperity," encapsulates a narrative of courage, resilience, and unwavering national ambition.

Uganda's economic journey, particularly since the late 1980s, has been one of profound change. It began with the Economic Recovery Programme, a direct response to a protracted period of civil strife, economic mismanagement, and political instability. Our nation faced daunting challenges: **rampant inflation, a contracting productive base, low tax revenue, and a public administration on the brink**. The pre-reform era was characterised by a heavily regulated economy, with stifling controls over prices, interest rates, exchange rates, and severely limited access to foreign exchange. The overarching objective was clear: **stabilise, restructure, rebuild, and restore macroeconomic stability**.

The Shackles of Repression: A Look Back

Thirty years ago, the dream of a loan for an individual farmer seeking seeds, or a small business aiming to expand, on their own merit, was often met with a resounding "no". This was the era of financial repression—a **suffocating blanket** woven from credit controls, rigid interest rates disconnected from reality, and severely limited access to even basic financial services for the vast majority of our people. Our financial system, tightly regulated and heavily taxed, was more a barrier than a bridge to progress. It systematically eroded its vital role in mobilising and efficiently allocating savings, leading to a profound misallocation of our precious national resources.

Imagine, if you will, the vibrant entrepreneurial spirit of Uganda, constrained, **almost choked**, by a system that simply couldn't, or wouldn't, enable its full expression. The very heart of our financial system, the Bank of Uganda, found its monetary policy—the very lever of economic stability—subdued, rendered subordinate to narrow fiscal considerations. Decisions about our money supply and inflation were not driven by economic merit but often by immediate budgetary needs, hindering meaningful long-term growth. Our banking system was state-dominated, monopolistic, inefficient, and fragile, burdened by non-performing loans and a palpable lack of public confidence.

The Uganda Commercial Bank (UCB), once a near-monopoly, was itself insolvent, a stark symbol of the challenges we faced.

The Dawn of Liberation: A Revolution of Opportunity

But Uganda, with its characteristic courage and foresight, made a bold and transformative decision. Since the late 1980s, under visionary leadership, we embarked upon a comprehensive program of pro-market economic reforms. This was not just a policy shift; it was a "liberation revolution" —a liberation not only for our financial sector but for our broader economy and, indeed, for the aspirations of every Ugandan citizen. The promise was clear, compelling, and revolutionary: **opening our financial doors would usher in a new era of competition, leading to more efficient resource allocation, greater financial stability, and ultimately, vastly improved prospects for inclusive growth across all sectors of our economy**.

The rationale for liberalising the financial sector was multifaceted and strategic:

- **To foster a competitive and efficient financial system**.
- **To contribute to greater financial stability** by strengthening bank regulation and supervision.
- **To promote financial deepening, product innovation, and access** by households and firms to financial services.
- **To undo financial repression**, allowing interest rates to become market-determined.
- **To improve the incentive structure and business climate** to promote savings mobilisation and investment.
- **To facilitate the transition from direct to indirect monetary policy control**.
- **To significantly improve bank supervision and regulation**.
- **To address the financial distress of state-owned banks** through rigorous restructuring and privatisation.

The Journey of Liberation: Milestones of Progress

Our journey of liberation began by systematically dismantling the archaic controls that had shackled our financial potential. A pivotal moment arrived in 1992 with the liberalisation of interest rates. This was a crucial step, allowing the true value of money to be determined by the forces of supply and demand, rather than by arbitrary decree. It meant savers could earn a fair return, and borrowers would face costs reflecting genuine market conditions, encouraging prudent decisions.

Following swiftly, the foreign exchange market was opened up, and by July 1997, Uganda took the bold and decisive step of moving to a fully liberalised capital account. This bold move was part and parcel of our stabilisation and reform policies. The key motivation was to close the savings-investment gap and promote sustainable long-term growth.

Domestic savings were insufficient; external financing was crucial. Liberalising the capital account was strategically intended to attract foreign direct investment (FDI) and portfolio flows, facilitate the crucial transfer of foreign technology and managerial know-how, diversify investment risk, and contribute to the robust development of financial markets. Furthermore, it aimed to encourage the return of investor capital and allow for the free movement of capital and accessibility to foreign currency.

This was a momentous decision for a developing economy. While it presented initial, understandable challenges, its long-term benefits have been undeniable. Critically, it imposed a new level of macroeconomic discipline on both the government and the Bank of Uganda. With capital free to move, any irresponsible fiscal or monetary policies would immediately be met with capital flight—a powerful incentive for sound management. Conversely, it facilitated the attraction of much-needed foreign direct investment, bringing capital, technology, and expertise into our thriving economy. It signalled to the world that Uganda was open for business, ready to compete on the global stage based on sound macroeconomic policies.

A central challenge, and indeed a **crucible of invaluable lessons**, came in the form of the Uganda Commercial Bank, or UCB. As the largest government-owned bank, UCB had become a living embodiment of the problems of the past. It was, to put it mildly, in dire straits: technically insolvent, burdened with a staggering 75 percent non-performing loans, grotesquely over-expanded, and plagued by chronic poor management and political interference. It was, as many aptly described it, "the biggest bank and the biggest problem". Its continued existence threatened the stability of the entire financial system and drained public resources through repeated bailouts that ultimately exacerbated inflation. The decision to privatise UCB to Stanbic Bank in 2002 was not easy, but it was a crucial component of our comprehensive financial sector reforms. This monumental shift turned a longstanding liability into a dynamic, market-driven player that now effectively supports government financing needs.

Alongside these structural reforms, we concurrently strengthened our regulatory framework. The Financial Institutions Act of 1993, meticulously reinforced and updated in 2004, provided a robust legal and supervisory foundation. This legislation significantly enhanced the Bank of Uganda's capacity for oversight, enabling it to better supervise financial institutions, detect nascent risks, and effectively address critical issues such as insider lending, which had previously plagued our banking sector.

These legislative and regulatory reforms were not mere bureaucratic exercises; they were fundamental to **building trust, fostering stability, and ensuring the long-term health** of our financial system. They laid the bedrock upon which our future prosperity could be built.

Today's Realities: Challenges and Continued Progress

Despite the significant strides made, we remain acutely aware that the journey to full economic transformation is ongoing and presents its own set of contemporary challenges. One persistent issue that continues to demand our attention is the stubbornly high interest rate spreads in Uganda. While our reforms aimed to foster a more efficient and competitive financial sector, leading to lower interest rates and narrower spreads, the evidence on this particular outcome has been mixed. Uganda's interest rate spreads have remained persistently high compared to regional peers. On average, commercial bank lending rates hover around 18 percent, while deposit rates languish at approximately 5 percent. This translates to an average spread of a **staggering 13 percent**. Why does this persist?

Several factors contribute:

- **High Overhead Costs**: Infrastructure, labour rigidity, loan loss provisioning, and judicial inefficiency all add to costs, which are passed on to borrowers.
- **Government Borrowing**: Heavy reliance on domestic borrowing crowds out private sector credit and reduces banks' incentives to cut margins.
- **Market Structure**: Despite increased competition, the market remains concentrated, limiting the full benefits of competition.
- **Non-Performing Loans (NPLs)**: These force banks to price in greater risk, impacting lending rates.
- **Structural Constraints**: Weak credit data, poor collateral enforcement, and high borrower risk keep spreads wide and limit affordable finance—especially for SMEs.
- **Mismatched Financing:** Long-term investment needs are often funded through short-term commercial bank credit, leading to liquidity mismatches and higher borrowing costs.

Bold reforms are needed to de-risk lending and improve intermediation. We are not complacent; indeed, we are actively and strategically tackling these structural impediments. One key area of focus is improving the efficiency of our judicial system in handling commercial disputes.

We are working closely with the judiciary to streamline processes for credit recovery and to aggressively reduce the colossal case backlogs in our commercial courts. It is estimated that a staggering UGX 7 trillion is currently locked up in commercial court cases—a massive amount of unproductive capital that could otherwise be fueling our economy. Expediting these processes is not just about legal efficiency; it is about **unlocking capital, fostering investor confidence, and ensuring that contracts are enforceable**.

Simultaneously, our macroeconomic landscape continues to show robust signs of progress and stability. Uganda has registered remarkable and sustained economic growth, averaging an impressive 7 percent per annum for over two decades. This consistent growth has been a testament to our sound economic management and resilient domestic foundations.

Efforts to strengthen the business environment, improve infrastructure, and sustainably reduce the cost of finance are reinforcing investor confidence and attracting increased private sector participation. While export diversification has been impressive, a continuous focus on sustaining and expanding overall export performance remains a key strategic imperative to ensure long-term balance of payments stability and sustained economic growth. This is the **HOPE that propels us forward**—the tangible evidence that our reform efforts are yielding fruit and that our potential is steadily being realised.

Building the Future: The 10X Transformation & The BoU's Indispensable Role

Now, we turn our gaze decisively to the future—a future defined by **audacious ambition and strategic action**: the **10X Transformation**. This monumental transformation rests upon three crucial pillars, each meticulously designed to propel us toward our shared goal, anchored by the pivotal role of the Bank of Uganda in fostering socioeconomic transformation. Our mission is clear: "To Promote Price Stability and a Sound Financial System, in Support of Socioeconomic Transformation," a mandate that aligns perfectly with broader government development objectives under frameworks such as the National Development Plan IV (NDP IV), which prioritises higher household incomes, full monetisation of the economy, and employment creation. Indeed, the BoU's Strategic Plan commits to initiatives such as financial inclusion, financial market development, and digitalisation, all of which are central to Uganda's socioeconomic advancement.

Securing the Foundation: Macroeconomic and Financial Stability

A stable macroeconomic and financial environment is not merely an aspiration; it is the **indispensable bedrock** upon which Uganda's economic transformation must stand. The Bank of Uganda's efforts are primarily anchored in the following strategic focus areas:

- **Price Stability: A Pillar of Macroeconomic Confidence**: Price stability is fundamental to macroeconomic stability and sustained economic growth. It enhances business confidence, encourages investment, promotes efficient resource allocation, and supports long-term development planning. Since 1987, Uganda has made significant progress in controlling inflation, reducing it from a staggering peak of 250% to single-digit levels by the mid-1990s, and maintaining broad stability since 1992.

Over the past decade, inflation has averaged a commendable 4.0%, comfortably below our 5% target, reflecting the effectiveness of the BoU's inflation-targeting regime. This prudence is complemented by sound fiscal policies.

- **Financial Sector Stability and Soundness**: The BoU is steadfast in its responsibility for maintaining a sound, deep, and resilient financial system—essential for effective financial intermediation and economic transformation. Major reforms have fostered a vibrant banking industry characterised by stronger capital buffers, lower non-performing assets, and increased profitability.
- **Fiscal Discipline and Public Finance Management**: Recognising that the government cannot finance our ambitious 10-fold growth strategy alone, Uganda's government has adopted a multi-pronged strategy to restore fiscal discipline, improve budget credibility, and enhance the efficiency of public spending. This targets rigorous fiscal consolidation and meticulous management of domestic arrears, a crucial supportive mechanism.

The Pillars of Transformation: Building Uganda's Future

Our journey towards economic transformation is built upon these three strategic pillars:

1. Deeper Financial Markets: Unleashing the Power of Domestic Capital

As the saying goes, "a shallow river cannot carry heavy boats". Similarly, our financial system, while more developed, still faces limitations in providing the kind of deep, long-term financing that large-scale industrialisation and transformative projects require. Therefore, the first pillar is the imperative of cultivating **deeper financial markets**. A well-developed financial system is instrumental to Uganda's economic development and growth, serving as a key mechanism for mobilising domestic savings and facilitating efficient investment. It helps **pool savings, facilitates the exchange of goods and services, allows risk diversification, and profoundly influences savings and investment decisions**.

Uganda's financial system has undergone significant transformation, reflected in our notable rise in the Absa Africa Financial Markets Index (AFMI), moving from around 10th place to an impressive 4th place. This substantial leap is largely attributed to our strong macroeconomic environment, diligently maintained by the Bank of Uganda.

Further financial development requires comprehensive pension reforms, absolutely paramount to mobilising the vast, untapped potential of long-term capital within our borders. The National Development Plan IV (NDPIV) advocates for multiple public pension funds and, critically, expanded coverage to include the vibrant informal sector.

This expansion will not only provide much-needed social security for millions but also substantially increase the volume of long-term investable funds. The benefits are manifold: a larger pool of domestic savings will naturally lower borrowing costs for critical infrastructure projects and private sector investment, accelerating economic activity and increasing returns for savers. Deeper capital markets provide the patient capital that enables major investments in infrastructure, industrialisation, and human capital development, essential for sustained high-level growth.

The BoU also plays a catalytic role, supporting innovative financing instruments such as infrastructure bonds, green bonds, sukuk (Islamic bonds), and diaspora bonds. The government, in collaboration with key stakeholders—including the Bank of Uganda, the Ministry of Finance, Planning and Economic Development, and development partners—is conducting a green finance landscape study and formulating a regulatory framework for green bonds. This initiative aims to align Uganda with international standards for sustainable investment.

Developing retail markets for bonds and equities to enable individual investor participation, along with establishing a robust secondary market, are key priorities. Initiatives such as creating a mutual funds industry—allowing savers to invest in diversified government securities—could reduce the government's reliance on banks for funding. Additionally, the introduction of products under the Okusevinga project will enable small investors to invest in Government of Uganda securities with as little as UGX 10,000. These innovations aim to pool resources from the bottom of the pyramid to support wholesale financing for larger national projects.

To further diversify its capital markets, Uganda is preparing to introduce futures contracts for both soft (agricultural) and hard (mineral) commodities. This move aims to stabilise prices and improve farmers' access to credit. Amending the Uganda Capital Markets Authority Act to regulate commodity exchanges is a strategic step that will enhance agricultural marketing and support agro-industrialisation. By offering a transparent, structured, and efficient marketplace, this initiative tackles key barriers in the agricultural value chain and aligns with Uganda's broader development goals.

2. Smart Resource Allocation: Directing Capital to Drive Growth

The second pillar focuses on **smart resource allocation**, channelling capital into our most productive sectors. This means strategically directing capital to where it can generate the greatest impact and ignite inclusive growth. We are expanding our **credit registries**. These vital tools allow financial institutions to more accurately assess credit risk, distinguish between good and bad borrowers, and ultimately extend credit more efficiently, reducing perceived risk for lenders and potentially leading to lower interest rates and greater access to finance.

Furthermore, we are actively supporting the formalisation of artisanal mining through the innovative Domestic Gold Purchase Program, bringing this previously informal sector into the mainstream financial system.

The BoU acts as Fund Administrator for key government initiatives aimed at providing targeted financing, such as the Agricultural Credit Facility (ACF) and the Small Business Recovery Fund (SBRF). The ACF has demonstrated significant success, disbursing a cumulative UGX 1.12 trillion to 6,587 beneficiaries nationwide, with MSMEs representing a remarkable 93% of total beneficiaries. Crucially, micro borrowers, often without traditional collateral, account for 67% of beneficiaries.

The fund supports value addition across the agricultural value chain and maintains an exceptional loan quality with a non-performing loan ratio of only 0.6 percent. Similarly, the SBRF, established as a stimulus response to the Covid-19 pandemic, has grown to UGX 69.96 billion, supporting 3,496 small businesses, reaching micro-enterprises with 78.2% of funded projects.

These funds are robust Public-Private Partnerships, demonstrating immense potential for leveraging private sector credit to support vulnerable MSMEs. Given their proven success in reaching the unserved and underserved, it is vital to **double their capital**, allowing for scaling up their impact and further contributing to economic transformation.

Ultimately, we are working with stakeholders on meticulously designed interventions to channel capital into our most productive sectors: **our resilient and thriving agriculture sector, our rapidly expanding manufacturing base, critical infrastructure development that connects markets and facilitates trade, and groundbreaking innovation** that will define our future competitiveness.

By directing capital to these engines of growth, we can generate a multitude of well-paying jobs, significantly boost our export earnings, and create inclusive wealth that reaches every corner of our nation, transforming livelihoods and communities.

3. Strengthening Institutional Capacity and Governance: The Bedrock of Sustainable Growth

The third and foundational pillar is the unwavering commitment to **strengthening institutional capacity and governance**. True economic transformation cannot occur without robust, transparent, and accountable institutions. The Bank of Uganda, as the custodian of our financial stability, is at the forefront of this endeavour. We are **relentlessly committed to upholding the highest international standards, actively engaging with stakeholders, providing clear communication, and continually seeking innovative solutions**.

In addition to our internal strengthening, we are working closely with the judiciary to address challenges in credit recovery, reducing case backlogs, and vigorously promoting alternative dispute resolution methods. This comprehensive institutional strengthening ensures that Uganda's financial system is not merely growing in size but, more importantly, **growing with integrity and purpose**.

It is a system built on trust, efficiency, and a clear mandate to serve the broader economic development objectives of the nation. The BoU continues to strengthen the regulatory and supervisory framework, issuing new guidelines on cyber and technology risk, amending Credit Reference Bureau regulations, and exploring ESG-driven solutions.

Strategic Partnerships and Thematic Programmes: Collaborating for Progress

The BoU collaborates with multiple stakeholders to advance inclusive and sustainable development:

- **Promoting Financial Inclusion**: The BoU is at the forefront of promoting financial inclusion, a cornerstone for economic transformation. We are implementing the second National Financial Inclusion Strategy (NFIS) II (2023-2028), aiming to reduce financial exclusion and deepen the usage of quality and affordable formal financial products. Key actions include promoting digital payment adoption, strengthening digital security, and enhancing interoperability.
- **Diversifying Reserves through the Domestic Gold Purchase Programme (DGPP):** To strengthen Uganda's macroeconomic stability and resilience amid global uncertainty, the BoU (working with the government and stakeholders) launched the DGPP to diversify our foreign exchange reserves. By purchasing locally mined and refined gold, we will build robust external buffers that anchor price and exchange rate stability. In addition to its monetary policy role, the DGPP will support broader development goals—establishing a structured domestic gold market, improving payment terms for artisanal miners, and promoting local value addition through support to Uganda's gold refining industry.
- **Environmental, Social and Governance (ESG) Integration**: In collaboration with the Uganda Bankers' Association, the BoU supports the integration of ESG practices into bank operations. The Industry ESG Framework, launched in 2024, is a landmark initiative transforming how financial institutions manage sustainability risks and opportunities. This is about building a financial sector that not only generates profit but also contributes meaningfully to a more sustainable and equitable Uganda for generations to come.
- **Investment for Industrial Transformation and Employment (INVITE)**: In partnership with the Government of Uganda and the World Bank, the BoU is supporting the implementation of the INVITE project—a flagship USD

200 million initiative under the Private Sector Development Programme of NDP IV. This project is designed to accelerate industrial growth, drive inclusive economic transformation, and boost household incomes through job creation.

Complementing this effort, the Uganda Bankers' Association has pledged an additional USD 300 million to enhance regional export capacity. The implementing partners are working to develop de-risking mechanisms that will enable banks to lend these funds at significantly lower interest rates than current market levels.

INVITE is our commitment to **unlocking Uganda's industrial potential, strengthening value chains, and positioning the private sector at the centre of sustainable, transformative growth**.

- **Supporting the Ten-fold Growth Strategy**: The Uganda Bankers Association is actively collaborating with the Bank of Uganda on specific initiatives to support the Government of Uganda's Ten-fold Growth Strategy. This joint effort focuses on strengthening the financial sector, enhancing regulatory frameworks, and expanding investment channels. These initiatives are designed to **mobilise the capital, innovation, and institutional coordination** necessary to achieve the country's ambitious economic growth targets, thereby contributing to inclusive and resilient development.

Harnessing Digitalization for Inclusive Growth: The Future is Now

Digital financial services are central to the BoU's strategy to scale financial inclusion and reduce cash dependency. We are promoting electronic payments through guidelines on mobile money, agent banking, and the Uganda National e-Payments Strategy. Mobile money usage has grown significantly, with 64 percent of Ugandans aged 16 and above using mobile money by 2023, a remarkable increase from 54 percent in 2018. Overall, access to formal financial services reached 68 percent by 2023, largely attributed to this surge.

Despite this growth, significant barriers persist, particularly concerning the costs and efficiency of cashless payments:

- **Fragmented Pricing Structure**: Inconsistent and often misunderstood pricing discourages wider adoption. The cost of sending UGX 30,000 can vary widely, from UGX 600 to UGX 3,800, depending on the provider, which can be prohibitive.
- **Interoperability Issues**: A lack of seamless interoperability between different mobile money services, telecoms, and financial institutions makes it challenging to transfer money across platforms, adding complexity and cost.

- **Regulatory Challenges**: Aligning regulations and improving infrastructure to effectively support digital financial services remains a focus.

The BoU is addressing these issues through regulatory reforms, including updates to the National Payments System (NPS) Act (2020), development of fair competition regulations, and cybersecurity enhancements. We are fast-tracking the review of the NPS regulatory framework to address bottlenecks hindering the accelerated adoption of digital payments. We are promoting cashless financial transactions, and a regulatory sandbox is in place for fintech innovations.

Talks with the Government of India are in progress to introduce a National Payments Switch in Uganda, modelled after the Unified Payment Interface (UPI). The goal is to enhance interoperability, efficiency, and affordability in the country's payment systems. A compelling example of this digital innovation in action is the Wendi mobile wallet, developed by PostBank, which promotes accountability and traceability of government funds under the Parish Development Model (PDM), thereby enhancing access to finance for marginalised communities and providing vital payment data on borrower behaviour.

Overall Progress and Future Outlook: A Vision of Prosperity

Despite challenges in financial market development, including formal financial exclusion and limited access in rural areas, with approximately 31% of the population still living in subsistence agriculture, efforts continue across multiple fronts to build a more developed, competitive, and inclusive financial system in Uganda.

This commitment to responsible and sustainable growth is part of a **virtuous cycle**. Our stable macroeconomic environment, meticulously managed by the Bank of Uganda in close collaboration with the Ministry of Finance, Planning and Economic Development, is proving to be a magnet for smart, long-term investment.

The consistent economic growth we have enjoyed for two decades, coupled with rising private investment and improving export diversification, provides a solid foundation. The NDPIV's ambitious projection of double-digit growth, reaching 10.13% by FY2029/30, with a target GDP per capita of USD 2,942, is not just a number. It is the **roadmap to firmly entrenching Uganda's middle-income status**, ensuring that our prosperity is not fleeting but firmly rooted and sustainable.

The Bank of Uganda plays a multifaceted and foundational role in Uganda's socioeconomic transformation. Through its commitment to **price stability, financial sector resilience, inclusion, market development, and innovation**, the BoU not only anchors macroeconomic stability but also catalyses structural change.

Initiatives like the DGPP and strategic partnerships on ESG and digital finance underscore the BoU's proactive approach to aligning monetary policy with inclusive and sustainable development.

Conclusion: Our Commitment, Our Mission, Our Moment

Ladies and gentlemen, we have come a long way. We chose to liberate our financial system three decades ago, **boldly breaking free from the shackles of repression**. Today, we choose to focus intensely, strategically, and with unwavering resolve, on **transformation**.

Economic transformation is not, and never can be, solely a government project. It is a profoundly Ugandan project. It is a collaborative effort that draws on the ingenuity, hard work, and shared vision of every citizen.

Every mobile money transaction that connects a remote farmer to a distant market, every business loan that enables a young entrepreneur to turn an idea into a reality, every pension contribution that builds a secure future for our elders – **each of these actions, seemingly small on their own, are vital bricks in the grand edifice of our shared prosperity**.

Our journey has been one of profound change:

- **From financial repression to true financial liberation**;
- **From the fiscal burdens of public intervention to the empowering discipline of market forces**;
- **And from shallow, fragmented markets to the thriving, deep, and interconnected financial system we are building today**.

We have laid the foundation through liberation. We are now diligently building the structure through transformation. And tomorrow, with the continued dedication of the Bank of Uganda, the dynamism of our financial sector, the strategic vision of our government, and the boundless spirit of the Ugandan people, **we will prosper – together**.

This is our commitment. This is our mission. And this is our moment.

Thank you. God bless!