Remarks by

Michael Atingi-Ego

Deputy Governor

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Permanent Secretaries

Chairperson Uganda Bankers' Association

Chief Executive Officers of Financial Institutions

Executive Director Uganda Bankers' Association

Dr Hippolyte Fofack - Chief Economist & Director, Research & International Cooperation, Afreximbank - the Keynote Speaker

Distinguished participants,

Ladies and gentlemen.

Good morning to you.

Before I delve into my remarks, I beg your indulgence to take a moment to remember our departed gallant Governor, the Late Prof. Emmanuel Tumusiime-Mutebile, who died in January 2022. I am humbled to speak to you today in the place where he spoke previously.

Spare a thought for the lives lost during the catastrophic Covid-19 pandemic that struck the world in "a crisis like no other".

Ladies and gentlemen, it is an immense privilege to address the fifth annual bankers' conference. I am most pleased that Prof. Benedict O. Oramah, President of Afreximbank, will address us through his trusted delegate Dr Fofack, our keynote speaker.

"**Bridging Financing Gaps in the Manufacturing, Tourism, and Agribusiness Sectors for Economic Recovery & Growth Post-2021"** is an aptly chosen theme for this year's conference. In Ezekiel 22:30, the prophet says on behalf of God, "I looked for anyone to repair the wall and stand in the gap for me on behalf of the land, so I wouldn't have to destroy it. But I couldn't find anyone."

The Covid-19 pandemic, geopolitical conflict, and climate change have breached the safeguards for lives and livelihoods with unfamiliar havoc. The Russia-Ukraine war sucked the momentum out of the economic recovery following the ending of lockdowns and social distancing measures to contain the spread of the pandemic. Shortages of essential commodities have spiked inflation, resulting in tighter monetary conditions worldwide. In addition, drought has added pressure to strained supplies of agricultural produce, thereby hiking the risk of hunger.

Moreover, protectionism abroad has forced the prioritization of domestic industrial capacity. But uncertainty about economic growth expectations due to several shocks hitting the economy has made banks shy in advancing credit to the private sector for fear of potential defaults due to poor business prospects. This financing gap will constrain the rejuvenation and enhancement of local industrial capacity to cover the supply shortages bedevilling the economy.

It is a testament to an active social consciousness that the banking fraternity is examining its duty and capacity to seize the moment and step into the breach caused by the crises ravaging lives and livelihoods today.

In examining whether financial institutions are up to the task and responsibility of supporting industrial recovery for higher economic growth, this conference demonstrates that the banking sector seeks ways of "stepping into the breach".

We are pleased to see that the banking sector is responding to the call by H.E. President Yoweri Kaguta Museveni for the financial industry to actively support the community in which they operate on top of making profits for their shareholders.

Recall that H.E. The President recently asserted that **"The financial sector is the key to sustainable economic development through mobilization and use of domestic savings and investment. But, unfortunately, the sector is not reaching its full potential, and it is far away from playing its due role in bringing prosperity to all Ugandans"**.

This conference shows that the banking sector is ready to meet the challenge posed by H.E. The President by exploring their role in propping up and powering forward Uganda's industrial capacity, especially in manufacturing, tourism/hospitality, and agribusiness.

Ladies and gentlemen, please read the conference magazine paying particular attention to the foreword by the Chairperson – Uganda Bankers' Association; the Permanent Secretary – Ministry of Trade, Industry and Cooperatives; and the Permanent Secretary – Ministry of Tourism, Wildlife and Antiquities. Their statements indicate the potential impact of manufacturing and tourism on the economic recovery and the specific approaches the banking sector can take to unleash these sectors.

We expect that by the end of this conference, it will be clear how the banking sector can play its role in unlocking the full potential of finance in catalyzing economic growth for the prosperity of all Ugandans.

The banking sector can play its envisaged role of spurring the economic recovery because it remains solid and resilient, having entered the pandemic with sufficient capital and liquidity buffers.

The Bank of Uganda (BoU) regulatory and supervisory framework, supplemented with interventions such as credit relief measures, restriction of dividends and discretionary payments, and liquidity assistance, steeled the banking sector from the worst effects of the prevailing shocks.

Consequently, banks hold strong liquidity buffers underpinned by growth in liquid assets (mainly Government securities) and deposits; the aggregate liquidity coverage ratio was 184.5% in June 2022, above the minimum prudential requirement of 100%.

Banks hold sufficient capital; all met the capital adequacy requirements, capital conservation buffer, and the respective systemic risk capital buffer requirements, where required.

Solvency stress tests showed that banks were resilient to potential shocks, including credit risk, in March 2022. In addition, increased profits boosted the capital and liquidity of banks.

But as banks take on the mantle of stepping into the breach by restoring credit growth to the pre-pandemic levels and above, they must maintain fidelity to prudential standards, primarily because the non-performing assets ratio increased to 5.8% in March 2022, and the operating environment remains challenging.

The recent shilling exchange rate depreciation and inflation surge complicate the operating environment further. Therefore, we hope today and tomorrow's conference sessions will consider how bank financing can stimulate productivity growth and high-value exports to boost overall growth and forex inflows.

We also urge the banking sector to finance enterprises and activities that preserve and protect the environment so as to manage climate risk. Slanting financing towards the "industries without smokestacks" such as tourism and agribusiness promotes the environmental, social and governance principles consistent with a sustainable financial sector.

It is, therefore, my hope that this conference will also address the very topical matters related to Environmental, Social and Governance (ESG) sustainability and how these pillars can best be incorporated in financing and investment decisions, more so in the manufacturing and hospitality sectors, which have been singled out for today's discussions.

In the hospitality sector, Uganda is referred to as the *Pearl of Africa* because of its beautiful scenery, diversity of wildlife, hospitable and friendly people with different cultures, and amazing climate all year round. This offers excellent opportunities for banks in several sustainable ventures that involve funding the reduction of greenhouse emissions and improving resource efficiency in crucial tourism value chains such as foods and beverages, accommodation, meetings, conferences and events. For instance, banks could develop funding opportunities for eco-tourism ventures.

Similarly, there are several opportunities in manufacturing where banks can play an immense role in promoting sustainable and circular value chains, for example, funding sustainable buildings and construction and circularity in the textiles and plastics value chain to increase reuse and recycling rates.

However, all of this requires deliberate effort to craft financing instruments that are specifically aimed at promoting ESG to affect the long-term sustainability in these and other value chains to support the socio-economic transformation of the communities in which the projects operate. Value chain financing is critical to supporting value addition in the identified sectors.

Ultimately, it will take a multi-pronged and multi-sectoral approach to sustain the recovery and achieve high economic growth at the transformative levels of 7% per annum and above post-pandemic.

The BoU's most significant contribution to sustainable economic recovery is fostering price stability and a sound financial sector. Therefore, within our mandate, the BoU is prepared to do whatever it takes to restore inflation to low and stable levels in line with maintaining macroeconomic stability.

In conducting monetary policy, we are guided by our judgement that average core inflation should be at 5% two to three years ahead. This is because inflation above the 5% target retards economic growth by compromising long-term planning and hurting savings and investment.

When inflation surged recently, driven by external factors and drought, the BoU increased the central bank rate (CBR) and augmented the monetary tightening by raising the cash reserve requirements for banks to 10%.

The tight monetary stance will be maintained and enhanced to prevent the price increases, which are now generalized across consumer goods and services, from becoming persistent and spiralling out of control.

As I come towards the end of my remarks, I thank the members of the Uganda Bankers Association for leveraging technology to maintain service delivery of financial services throughout the pandemic. Thanks also for delivering and matching the Government's Small Business Recovery Fund (SBRF) to support small businesses hit by the pandemic.

Amidst the ongoing challenges and uncertainty, the BoU and Government appreciate the vital role played by the financial sector in maintaining stability, service delivery, and reassurance.

We look forward to the amping up of the banking sector's role in supporting our recovery with new investments, lending, and innovation to keep the economy advancing. I am optimistic that this conference will craft a fruitful way forward by answering the question – are financial institutions up to the task and responsibility of filling the financing gap in manufacturing, tourism and agribusiness? – in the affirmative.

In conclusion, by taking cognizance of and implementing the above, we become the ones to answer the cry in Ezekiel 22:30, "I looked for anyone to repair the wall and stand in the gap for me on behalf of the land, so I wouldn't have to destroy it. But I couldn't find anyone."

Let me end my remarks by thanking the Uganda Bankers Association for convening this conference on a vital theme and the President of Afreximbank for delegating Dr Hippolyte Fofack to deliver the keynote address.

Let us turn our attention to Dr Fofack and welcome him to address the conference.

I thank you all for listening to me.

God Bless You All.