



Remarks by
Michael Atingi-Ego
Deputy Governor

Town Hall Meeting

Masaka

6 May 2022

Hon. Members of Parliament

Religious leaders

Resident District Commissioner

LCV Chairperson and the leadership team

Mayor - Masaka City

Chief Administrative Officer and the technical team

Distinguished participants

Ladies and gentlemen

Good morning to you all.

Thanks to the leaders of Masaka and everybody for extending such a warm welcome to me and my team from the Bank of Uganda (BoU). Thank you to the people of Masaka for the gracious hospitality extended to the central bank by hosting the BoU's branch in Masaka City. It is good to be here in one of our nation's oldest districts. We are honoured and privileged to speak with you today.

As a public institution, the BoU has engaged the public that we serve through town hall meetings since 2016. Our former Governor, the Late Prof. Emmanuel Tumusiime-Mutebile championed initiatives that put a human face on the central bank. Town hall meetings, such as this one, are part of his enduring legacy. We thank the leaders of Masaka for the condolences and support rendered to the BoU when we lost our dearly departed gallant governor.

We meet at a time of surging oil and food prices spiked by the war in Ukraine that came on top of major supply disruptions caused by the Covid-19 pandemic.

It is at times like these that transparency and communication become essential supports to the policy process, not least by facilitating a shared understanding of the evolution, impact, and optimal response to the shocks hitting our economy and the world. Broadly, the BoU is committed to sharing its thinking as well as getting feedback on its policies and operations, in good and bad times.

I am reminded of the words of James Quinn Wilson, an American academic, political scientist, and an authority on public administration, who remarked that **“Agencies differ in two main respects: Can the activities of their operators be observed? Can the results of those activities be observed?”** We are here today to openly discuss our work and its impact as well as to learn from you, the people that we serve.

The BoU’s work is determined by the laws of Uganda.

Article 162 of the Constitution of the Republic of Uganda specifies the functions of the Bank as follows:

“The Bank of Uganda shall—

- a) promote and maintain the stability of the value of the currency of Uganda;
- b) regulate the currency system in the interest of the economic progress of Uganda;
- c) encourage and promote economic development and the efficient utilisation of the resources of Uganda through effective and efficient operation of a banking and credit system; and
- d) do all such other things not inconsistent with this article as may be prescribed by law.”

In addition, Section 4 of the Bank of Uganda Act states that

(1) The functions of the Bank shall be to formulate and implement monetary policy directed to economic objectives of achieving and maintaining economic stability.

(2) Without prejudice to the generality of subsection (1), the bank shall—

- a) maintain monetary stability;
- b) maintain an external assets reserve;
- c) issue currency notes and coins;
- d) be the banker to the Government;
- e) act as financial adviser to the Government and manager of public debt;
- f) advise the Government on monetary policy;
- g) where appropriate, act as agent in financial matters for the Government;
- h) be the banker to financial institutions;

- i) be the clearinghouse for cheques and other financial instruments for financial institutions;
- j) supervise, regulate, control and discipline all financial institutions and pension funds institutions;
- k) where appropriate, participate in the economic growth and development programmes.

The Bank performs these functions by fostering price stability and a sound financial system - our mission. For illustration purposes, let me briefly highlight some examples of the BoU's execution of its mandate.

As indicated, the BoU is responsible for the formulation and implementation of monetary policy. This refers to the regulation of supply and demand for money in the economy to maintain the value of money and ensure price stability. The BoU executes this role by setting a policy interest rate, the Central Bank Rate (CBR), that guides short-term inter-bank lending rates and thereby influences the cost of borrowing from financial institutions. By adjusting the CBR the BoU can drive lending interest rates to increase, decrease, or remain broadly the same thereby influencing how much resources are available to boost or moderate economic activities. In this way, the Bank influences overall demand given the prevailing supply conditions so as to achieve the target annual average core inflation of 5% over a period of 2 – 3 years ahead. The BoU has established a strong record of keeping inflation at or below the inflation target.

The BoU has exclusive authority to design, print, issue and manage the circulation of banknotes and coins in Uganda. Effective management of currency circulation facilitates business transactions while regulating monetary stability. You may be aware that the BoU has 9 currency branches across the country, including in Masaka, to ensure smooth availability and integrity of the currency.

The BoU ensures that the market-determined shilling exchange rate versus other currencies adjusts up or down in a smooth manner by intervening whenever there is excessive volatility due to occasional spikes in the demand or supply of forex. The central bank also maintains foreign exchange reserves to enable the country to meet its obligations to

the rest of the world such as paying for imports and servicing foreign debt on time.

BoU makes and receives payments on behalf of the Government, including for government ministries, departments, and agencies. Similarly, the Bank advances short-term loans to the Government, within legal limits, to ensure smooth delivery of public services. We also advise the Government on various economic and financial matters within our purview, either proactively or on-demand.

The BoU licenses, supervises, and regulates financial institutions, i.e., commercial banks, credit institutions, microfinance deposit-taking institutions, forex bureaus and money remitters, following the different applicable laws and regulations. In regulating and supervising financial institutions we prioritize the safety of depositors' money and the stability of the financial system. Currently, customer deposits in licensed deposit-taking institutions are protected up to UGX 10 million by the Deposit Protection Fund of Uganda.

Following the enactment of the National Payments Systems Act 2020, the BoU is also responsible for the regulation, supervision, and oversight of payment systems to ensure effective, secure, and reliable payments. To date, thirteen payment service providers and payment system operators are licensed and operational, with more in the pipeline.

Ladies and gentlemen, let me shine a light on the BoU's role as the administrator of the Government's Agricultural Credit Facility (ACF) for the provision of affordable medium and long-term funding for value addition projects in the agricultural sector such as agro-processing and the grain trade to transform agriculture in the country.

The latest data from the Uganda Bureau of Statistics show that 65% of the households in Masaka are engaged in either crop growing or livestock farming. However, 42% of the households depend on subsistence farming as a main source of livelihood. We appeal to the leaders of Masaka to champion the modernization of agriculture and the promotion of value-adding projects to deliver our people from subsistence to the commercial economy. Masaka has an industrial base, with coffee processing companies, soft drinks factories, metal works factories and so on, that should be scaled higher through backward linkages to the farmers and

forward linkages to the markets in the cities, across the East African region, and beyond.

We call upon the players in Masaka's agricultural sector to apply for loans through the respective financial institutions regulated by the BoU to advance value addition projects. Moreover, through the block allocation innovation under the ACF, smaller players who lack traditional collateral can obtain loans based on alternative forms of collateral such as movable property, chattel, inventories, and even the moral character and credit history of potential borrowers.

Recently, the BoU began administering the Government's Small Business Recovery Fund, which was set up to provide affordable loans to small businesses that were negatively affected by the Covid-19 pandemic. The SBRF, like the ACF, can be accessed through the various supervised financial institutions - commercial banks, micro deposit-taking institutions, and credit institutions.

We urge the leaders here to drive the uptake of these facilities in the Masaka region such as by encouraging potential borrowers to visit the eligible financial institutions, gather more information, apply, and obtain credit for the advancement and expansion of their businesses.

Before I conclude my remarks, let me address two current issues of concern i.e., the Bank's role in cushioning the economy from the effects of the Covid-19 pandemic and the rising prices of essential commodities in Uganda.

To maintain service delivery and financial stability the BoU extended unprecedented liquidity support and Credit Relief Measures to supervised financial institutions and eligible borrowers to prop them up during the pandemic starting in 2020.

The measures were intended to reduce the harmful impact of the pandemic on businesses and the economy, in the following ways - (i) by enabling borrowers to deal with the unfavourable impact of the pandemic on their ability to repay loans; and (ii) by reducing the risks faced by lenders because of exposure to borrowers that were hit by the pandemic.

Even after the expiry of these measures and full re-opening of the economy, the BoU has maintained the Credit Relief Measures for the

education and hospitality sectors, which remained under lockdown for an extended period.

In addition, BoU will maintain the Covid-19 Liquidity Assistance Program, to support supervised financial institutions that may come under liquidity stress, until the economic situation normalizes.

Turning to the current crisis occasioned by surging prices of essential commodities, it is evident that the price hikes reflect supply-side bottlenecks in the global environment. Specifically -

- Higher imported inflation due to repressed demand following the opening of the economies, labour supply-demand mismatches, and rising energy prices.
- High energy prices due to supply disruptions attributed to the Russian-Ukraine war and limited supply by OPEC+.
- Global supply chain disruptions due to lockdowns and logistical bottlenecks (lack of containers and China's zero-tolerance policy on Covid-19).
- Drought in Brazil affected the production of soya bean oils.
- On the domestic front, the recovery of domestic demand as the economy opened fully, supply disruptions at the border with Kenya, coupled with higher pricing of education services to accommodate the requirements to comply with the SoPs, contributed to the growing inflationary pressures.

The BoU is monitoring inflationary developments very closely and stands ready to take appropriate action to maintain price stability. Uganda's inflation is rising but remains below the levels observed abroad, especially in the developed economies. In April 2022, annual headline and core inflation rose to 4.9% and 4.3%, respectively, from 3.7% and 3.6%, in March 2022.

For now, inflation has remained below the target of an annual average of 5% over a 2-3 year period. Moreover, the economic recovery that had gained momentum following the reopening of the economy lost some of its steam with the outbreak of the war in Ukraine. Also, there are indications that the relatively strong shilling exchange rate has helped to

limit the growth in consumer prices. Nevertheless, commodity prices and inflationary pressures are still evolving.

In line with its price stability mandate, the BoU is closely tracking the inflation today as well as its potential future path and stands ready to adjust the CBR to prevent generalized and persistent inflation going forward, as may be necessary.

We welcome discussions on this and other issues during the Q&A session.

Thank you all for your attention.