Michael Atingi-Ego: ABSA Economic Outlook and 2023 Africa Financial Markets Index

Keynote speech by Mr Michael Atingi-Ego, Deputy Governor of the Bank of Uganda, at the ABSA Economic Outlook Forum and 2023 Africa Financial Markets Index presentation, Kampala, 6 February 2024.

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Mr. Ramathan Ggoobi, PS/ST, MoFPED
Mr. Mumba Kalifungwa, Managing Director, ABSA Bank Uganda.
All protocol observed
Ladies and gentlemen
Good morning to you all.

Thank you very much for inviting me to the Economic Outlook Forum and presentation of the 2023 Africa Financial Markets Index (AFMI). It is always an honour for the Bank of Uganda to participate in this event, which has proven to be a valuable platform to highlight developments in the African financial markets. The ABSA Financial Markets Index continues to gain traction on the continent, now covering 28 African countries, up from 17 in 2017 and representing approximately 80% of the continent's GDP.

In this seventh year of the index's existence, I am pleased that Uganda has maintained its ranking of being first in the region and fourth in Africa. This is commendable, considering that our economy, like many others, was adversely affected by the COVID pandemic and the effects of the Russia-Ukraine war. The resulting global supply chain shocks put pressure on domestic inflation in the second half of 2022, and the higher interest rates caused liquidity tightness, effectively disrupting access to financial resources. However, the Bank of Uganda's decisive macroeconomic and macroprudential policy measures have helped to shield the domestic economy and financial system from the complete pass-through of various external shocks. The initiatives we are undertaking to deepen our financial markets, which I will expound on in a moment, have contributed to curbing exchange rate volatility and lowering inflation. Real GDP growth for the quarter ended September 2023 was 5.3%, and the economy is projected to grow at 6% in the financial year 2023/24. Inflation moderated towards the end of 2022, and the outlook is for inflation to remain below 5% in the near term. The Ugandan banking system remains resilient, supported by a strong supervision and regulation framework which has enabled banks to lower their exposure to systemic risks and build sufficient capital buffers. The implementation of the Basel II International Capital Framework that commenced in March 2023 has added a safeguard against operational risks. The recent increase in the minimum ongoing capital requirements of commercial banks will further ensure the soundness of the banking sector and increase the sector's capacity to finance high-value capital investments.

Arising out of the implementation of the National Financial Inclusion Strategy 2017-2022, Uganda has experienced increased access to financial services by the wider population through the proliferation of mobile financial services and products. In the year 2023 alone, the values of insurance and micro-savings amounted to UGX 3.4 billion and UGX 527.9 billion, respectively, while the value of micro loans disbursed amounted to UGX 1.2 trillion. To build on this momentum, the National Financial Inclusion Strategy 2023-2028 will focus on deepening savings and credit markets by expanding the usage of diversified financial products and services. One such product is "Project Okusevinga" by the Bank of Uganda, an initiative that will enable the buying and selling of government securities on mobile phones using mobile money balances. When rolled out, we anticipate that it will improve retail investment in bills and bonds. Additionally, the finalisation of the Islamic banking and regulatory framework and related tax laws in August 2023 will facilitate the emergence of Islamic banking services and financial products.

Our performance in the Index has been enhanced by the Bank of Uganda's adoption of Environmental, Social, and Governance (ESG) policies in our Strategic Plan 2022/27. I am glad to report that the Bank of Uganda has been accepted into the Sustainability Standards Certification Initiative (SSCI) and that several banks have also been accepted into the SSCI. We encourage all financial institutions to join, as it will boost responsible banking practices in the sector. Another key development in this area is that the Uganda Bankers' Association has developed an ESG framework to guide the member institutions to systematically manage ESG risks and opportunities by formulating robust sustainable financing solutions, identifying and addressing potentially adverse effects, and complying with regulatory reporting and disclosure requirements.

Despite these positive developments, our score dropped by a percentage point from 64% to 63%, mainly on account of reduced FX reserves and liquidity that resulted from flight to quality as offshore funds exited frontier markets amid the rising interest rate environment in their home countries. Nonetheless, it is worth noting that the Bank of Uganda has embarked on drawing up various financial market reforms to build robust FX reserves that are resilient to unanticipated systemic risks. Uganda is currently engaged in the market-wide adoption of the International Swaps and Derivatives Agreement (ISDA) to facilitate derivatives trading as a risk management and hedging tool, as well as a funding tool. This is in addition to the already adopted Global Master Repurchase Agreement (GMRA). The adoption of these agreements has broadened the BOU tool kit for monetary and foreign exchange policy implementation and reserve build-up operations, hence further strengthening the resilience of Uganda's financial markets. BOU also launched the Repo guidelines to the international community on the sidelines of the IMF-World Bank meetings in Morocco this year, and these can now be found on the Bank of Uganda website.

The gazetting of the Financial Preference and Appraised Book Value regulations in April 2023 led to an increase in horizontal repo transactions. This has greatly reduced credit risk among interbank players and facilitated a more efficient monetary policy transmission. Uganda has now commenced the process of drafting a Uganda Netting Financial Agreements Bill, which, when complete, will give Uganda a clean netting opinion, effectively reducing risks such as settlement risk and credit risk and hence enhancing investor confidence in Uganda's financial markets. Markets that have been granted a clean netting categorization have observed several-fold increases in investor participation in their markets and, hence, enhanced access to capital.

Ugandan government securities have also gained global visibility through international listing on the FTSE Frontier Emerging Market Index, effective July 2023. We are also in discussions to list on the ABABI Index of the AfDB and, thereafter, the JP Morgan

Emerging Market Index. These indices provide global visibility for our government securities attracting more offshore investment which should in theory eventually lower government borrowing costs. The Ugandan market is also in the process of adopting the FX Global code of conduct to support ethical trading in the financial markets.

Despite our improvements in numerous areas, we are still plagued by the extremely low capacity of local investors, characterized by pension assets per capita of only about $125. This has adversely affected our performance under Pillar 4: "Capacity of Local Investors", with a score of just 14%. We, therefore, recognise the need for further pension sector reforms to ensure that pension assets are invested in the real sector of the domestic economic growth.

The Bank is intentional about increasing efforts to develop the domestic financial markets. We have and continue to create a conducive environment to attract, retain and efficiently allocate capital for economic growth and development, even though the dividends are yet to materialise. We, therefore, need to dedicate resources to address legal and infrastructure challenges and develop innovative products that are market-responsive, including ESG products, increased access for the diaspora, improved infrastructure, sukuk bonds, and formalising the commodities market, among others.

Uganda's position as the leading financial market in the region should prompt us to question why Uganda should not ambition to establish itself as a financial centre to rival others in the region. In this regard, I would like to inform you that the Ministry of Finance Planning and Economic Development has appointed the Bank of Uganda to chair the Uganda Fixed Income Market Steering Committee, which is comprised of key stakeholders in Uganda's financial markets. This Committee will spearhead the development of strategies specifically geared towards addressing the stumbling blocks to fixed-income market development in Uganda and generally developing the financial markets landscape in Uganda.

In conclusion, I would like to appreciate ABSA once again for spearheading this initiative and OMFIF's continued contribution to the development of Africa's financial markets.

I thank you all for your attention.