African Central Banks; Rethink Role or Stay the Course?

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Joseph Mubiru Lecture

by
Dr. Ngozi Okonjo-Iweala
Board Chair, Gavi Alliance
Minister of Finance, Nigeria (2003-2006, 2011-2015)
Managing Director, World Bank (2007-2011)
at
The 50th Anniversary of the Bank of Uganda

[Pleasantries]

1. Let me start by offering my warm congratulations to the Bank of Uganda on its 50th Anniversary! This auspicious occasion is a good time to take stock of how far we have come and the challenges we confront as the journey continues. We meet even as global macroeconomic uncertainty is extremely high and politics is growing increasingly insular and populist, as witnessed by the recent Brexit vote and the divisive presidential election campaign in the USA.

2. In our ever more connected world, the African continent has not been without its travails. The most tangible factor has been the big drop in commodity prices starting in 2014. A combination of slowing growth, a big fall in the terms of trade for commodity exporters and large fiscal and current account deficits has tarnished the Africa Rising narrative: was it simply a product of a large windfall driven by China's almost insatiable appetite for commodities until 2014? We

know that this is not the whole story. That policies, institutions and governance have greatly improved in Africa over the last decade.

3. Yet, we must heed the warnings signs. The most recent forecast, from the IMF's July Update of the World Economic Outlook, has drastically cut the growth projection for 2016 from 3% in April to just 1.6%, with a forecast of 3% for 2017. These would be the worst growth outcomes in 15 years, with oil exporters hit particularly hard. The shocks include slowing growth in China, a major trading and investment partner of Africa and prime driver of the commodity super cycle; a massive loss in income for commodity exporters, energy and non-energy; tightening financial conditions reflected in higher commercial borrowing costs; and severe drought in Ethiopia, Malawi and Zimbabwe. Angola, Mozambique, the Republic of Congo and Zambia have suffered credit downgrades.

4. The point I wish to stress is that slowing growth and falling terms of trade *may not be* just a temporary rough patch. The consequences could linger especially in countries where public and private sector balance sheets have been overextended in terms of rising debt levels, worsening dynamics and currency mismatches. This is the environment in which African central banks need to define their strategy in conjunction with fiscal policy and structural reform as they seek to control inflation and help promote inclusive growth.

5. But we now live in an age of unconventional monetary policy. This raises a fundamental question for African central banks. **Do we need a change in paradigm, or should African central banks stay the course established over the**

last decade, when have been focusing on price stability? Recall that, in earlier decades, they had a much broader remit that included being a source of fiscal deficit and development finance. This is the question I will be addressing in this Memorial Lecture honoring the memory of the brilliant Joseph Mubiru, whose life was tragically cut short, but whose legacy of excellence endures.

6. In answering the question, I shall draw lessons for African central banks from recent central banking developments in the advanced countries, or developed markets, as well as in major emerging markets. The weight of the experience points to being highly circumspect about unconventional monetary policy. Indeed, the overwhelming priority for African central banks is to pursue low and stable inflation in order to make their currencies credible stores of value, thus promoting financial deepening and long run growth. In the last section, I shall focus on the situation in Uganda.

DM Central Banks: Adapting to Crisis

7. Just a decade ago, the Great Moderation held sway. Inflation targeting was viewed as the ultimate stage in the evolution of monetary policy. It was the logical destination for responsible, mature central banks. Monetary policy would be conducted in an idyllic setting: the capital account is open, the currency floats with little or no intervention and central bank independence is the cornerstone of credibility and good macroeconomic management.[1] With long run growth assured, central banks would operate counter-cyclically to

[1] Rose, Andrew K. (2007). "A stable international monetary system emerges: Inflation targeting is Bretton Woods, reversed." Journal of International Money and Finance 26, 663-81.

minimize fluctuations around the trend, ensuring low inflation and full-employment growth. Monetary policy had arrived.

8. Ten years later, the situation could not be more different as consequence of the Global Financial Crisis of 2008-9, which I shall refer to as the GFC. The US Federal Reserve Board has completed three rounds of Quantitative Easing, with QE3 brought to a close at the end of October 2014. By then, the balance sheet of the Federal Reserve System had swelled by 400%, from USD 0.9 trillion in August 2008 to $4.5 trillion. But last December, the normalization of US monetary policy began, with the Fed hiking the policy rate, the Fed Funds Rate, by 25 basis points, lifting off above the zero lower bound where it had stayed for seven years.

9. Meanwhile, "unconventional monetary policy" has become the order of the day in DMs. Massive ongoing QE is being carried out by two major central banks, the Bank of Japan (BoJ) and the European Central Bank (ECB). Negative nominal policy rates have been adopted by the ECB, BoJ, Swiss National Bank (SNB), and central banks of Denmark and Sweden; the "zero lower bound" has been breached. And sovereign bond yields are below or close to zero out to ten years for Japan, Germany and Switzerland. Citi estimated in early July 2016 that more than 50% of the outstanding government debt in 10 countries, including France, Germany and Japan, was trading at negative nominal yields.

10. In the Eurozone, Mario Draghi took over as President of the ECB in November 2011, when fallout from the burgeoning Greek debt crisis included fears of a sovereign debt crisis in the Eurozone periphery, which includes big countries like Italy. Draghi has risen to the occasion and acted not merely to save the

euro, but also to prevent a government solvency crisis in the Eurozone periphery by keeping long-term interest rates low.

11. Yet, in spite of the prompt and massive unconventional action by DM central banks, growth remains anemic and inflation is well below targets! As Mario Draghi has repeatedly stressed, monetary policy cannot do it alone. **This is a lesson for Africa: if monetary policy is to deliver the goods, it must be formulated in concert with fiscal and structural policy and improved governance and institutions.**

Why not Unconventional Monetary Policy in Africa?

12. The unconventional steps taken by DM central banks after the GFC begs the question: why can't central bankers in Africa adopt unorthodox measures to lower long-term interest rates and spur growth? Let me now illustrate why unconventional monetary policy should be viewed with caution by Africa by citing significant examples from prominent emerging markets, including Brazil, China and India.

a. Brazil

13. Between 2001 and 2008, Brazil painstakingly rebuilt its macroeconomic credibility **by sustained adherence to old-fashioned policies**, such as ramping up primary fiscal surpluses to improve debt dynamics. It created a good climate for private investment and promoted social inclusion and poverty alleviation. By the time the GFC occurred, macroeconomic volatility and high inflation appeared relics of the past.

14. But after the GFC, Brazil took unorthodox steps to shore up growth. In addition to cutting the SELIC, the central bank's policy rate, by a huge 525 basis points between Aug 2011 and Oct 2012, a much bigger role was carved out for Brazil's National Bank for Economic and Social Development, BNDES, and other public sector banks, whose market share increased from 34% to 45% of total credit between Dec 2007 and July 2012. Various targeted tax breaks were also implemented as part of so-called rules-based industrial policy. There was obvious merit to some measures, such as some loosening of fiscal policy for a country which had earned an investment grade credit rating in 2008, and a push to increase private investment in infrastructure. But something clearly went wrong.

15. Brazil's potential growth has dropped considerably with private sector confidence taking a beating. Actual growth came in at *minus* 3.6% in 2015 with minus 3.3% expected for 2016. The SELIC has been hiked to 14.25%, by far the highest policy rate among the world's large economies, at a time when most central banks are cutting rates. 2015 inflation came in at over 10%, well above the upper end of the target inflation range of 4.5% $\pm$ 2% with a similar inflation outcome expected this year. According to the IMF, subsidized lending by the public banks has diminished the impact of the central bank's rate hikes. The 2014 Article IV consultation notes: "The widespread use of subsidized lending weakens monetary policy transmission and distorts credit markets. Introducing a direct link between the policy rate (SELIC) and the subsidized lending rate (TJLP) would increase the effectiveness of monetary policy. Reducing the gap between the SELIC and the TJLP…..would also lower the recurrent fiscal cost arising from the cumulative stock of policy lending by government."

16. Brazil's credit rating has been slashed substantially below investment grade and its proudest accomplishments, taming inflation and restoring sustainability to public debt dynamics, have been compromised. The country is now embroiled in a serious political crisis and corruption scandal involving Petrobras, with the President suspended in May amidst impeachment proceedings.

b. China

17. I shall next discuss China, a major trading partner and an important source of infrastructure loans for Africa. **Big challenges have arisen for China after the GFC as the result of a massive increase in leverage and related financial vulnerability as the growth drivers switched from investment and exports to social housing, real estate and public investments in infrastructure.** Let me give three examples of rising financial vulnerability: First, trust funds, which are part of the so-called "wealth management products" now account for some 20% of GDP and constitute the core of the "shadow banking" system. Some 50% of trust fund proceeds are invested in real estate, infrastructure, energy and mining, with companies in these sectors taking a big hit. Wealth management products had their genesis in financial repression: with household deposits in banks severely taxed via financial repression, wealth management products with their much higher guaranteed returns, became a natural, albeit much more risky, alternative. Second, local governments, which account for 80% of public infrastructure investments, have seen their debt skyrocket. Some 50% of local government revenues come from land sales. Third, the real estate sector, which has become a major engine of growth post GFC, is described by the IMF in China's 2014 Article IV consultation, as being at the center of a "web of vulnerabilities".

18. In this environment, the approach of the central bank, the Peoples' Bank of China, PBoC, has been to support the financial sector through rate cuts, liquidity injections and regulatory forbearance. Various measures have also been taken to support the Shanghai and Shenzhen stock exchanges in view of last summer's equity market rout. And the seeming lack of will to confront the problem of non-performing loans in commercial banks has fueled concern that PBoC may be supporting growth at the expense of rising financial vulnerability. While there is no doubt about China's headline-making historic economic accomplishments over the past three decades, and I am a great fan of that, **the indecisiveness about addressing rising vulnerability in the domestic financial system** after the GFC has become a major concern and potential headwind to growth.

c. India

19. I come now to the case of India, which has clearly been doing things right while sticking to orthodoxy. Indian economic growth is one of the few bright spots in the global economy. India formally adopted an inflation targeting regime in March 2015, setting a target for CPI-based inflation of 4% with a band of plus or minus 2% beginning in the 2016/17 financial year. But this was preceded by meticulous preparation to build credibility under the Reserve Bank of India's Governor, Raghuram Rajan. Rajan took the helm of India's monetary policy in 2013, a year which saw the county bracketed together with Brazil, Indonesia, Turkey and South Africa as the Fragile Five.

20. The first challenge was to exit the Fragile Five by lowering the current account deficit, bolstering foreign exchange reserves by attracting dollar deposits from

the Indian diaspora overseas and establishing RBI's seriousness about lowering consumer price index- or CPI-based inflation, which was in double digits, by hiking rates; with wage awards being based on the CPI, India was rapidly losing competitiveness relative to China and other emerging markets. Rajan's goal was simple: make the Indian Rupee a credible store of value, thus dulling the seduction of gold, and raise interest rates above CPI inflation, making rupee-denominated assets attractive. Intermediate targets were also set for inflation: less than 6% by January 2016, which was met, and less than 5% by January 2017.

21. Rajan reminds us of the reasons why low inflation is important in a speech made only a few weeks ago on June 20. First, low and predictable inflation makes the currency a credible store of value. Second, the ones who benefit from negative real interest rates are rich industrialists and the Government, with the inflation tax hurting the middle class savers and the poor. **Inflation is a tax that hurts the poor.** But what struck me most is Rajan's call for staying the course and adopting tried-and-tested orthodoxy—because it works. It enables sustained growth and lowers volatility. To quote him—and recall that he is a former IMF chief economist—"Decades of studying macroeconomic policy tells me to be very wary of economists who say you can have it all if only you try something out of the box. Argentina, Brazil, and Venezuela tried unorthodox policies with depressingly orthodox consequences."[2]

Summary of lessons from Emerging Markets

[2] Rajan, Raghuram. June 20, 2016. "The fight against Inflation: a measure of our institutional development." Speech at Tata Institute of Fundamental Research, Mumbai. https://rbi.org.in/Scripts/BS_SpeechesView.aspx?Id=1007

22. Now let me distil a few lessons. Brazil's experience point to the risks and costs of letting central banks and public banks become fiscal agents and trying to promote growth through large amounts of subsidized lending. This is not to say that some amount of subsidized lending targeted at SMEs and managed fiscally through the budget is not important. As a carefully crafted and targeted instrument to lift up the small enterprises, it can work. At the same time, it is vitally important to avoid domestic corruption and political shocks of the type that have befallen Brazil.

23. China offers several lessons. Let me focus on three. First, a prolonged and excessive reliance on financial repression can lead to undesired and risky responses such as the rise of shadow banking and unregulated financial instruments promising high returns as people try to escape the financial repression tax. Second, the massive forex reserves China has built up may have to be used to absorb potential losses in the clean up of the domestic financial sector. Already, some US$775 billion have been used up to support the Renminbi in the six months August 2015 to January 2016. **Building up forex reserves is not enough. Central banks have to be proactive in anticipating potential sources of vulnerability and heading them off, through macro-prudential tools, for example.** Third, China is held up as a stellar example of cleverly used industrial policy to grow rapidly.[3] But remember: China is not your standard small, open economy, a description that would apply to much, if not all, of Africa. No multinational could ignore its domestic market of over one billion. China could exploit its bargaining power to transfer technology as a quid pro quo for access to its market.[4] **The lesson for Africa: create a good**

[3] Rodrik, Dani. 2011. "The Future of Economic Convergence." Harvard Kennedy School RWP11-033.
[4] Holmes, Thomas, Ellen McGrattan and Edward Prescott. 2013. "Quid pro quo: Technology capital transfers for market access in China". VoxEU 08 November.

climate for private investment and FDI in manufacturing and agri-business. Couple this with structural reform to spur competition and innovation.

24. India's experience is a wake-up call for getting the basics right and resisting opportunistic and costly experimentation. We cannot let monetary and exchange rate policy be captured by economic and political elites for their limited goals of personal enrichment.

25. Let me complement this with lessons from Russia and Turkey. Russia tried in the late 1990s to achieve inflation targets while fiscal deficits and public debt dynamics were out of control. This was a futile quest that eventually backfired. With regard to Turkey, lack of transparency in the conduct of monetary policy as well as its politicization lowered credibility and served to fuel costly procrastination, de-anchoring inflationary expectations and then forcing a massive tightening in January 2014.

Financial Sector Challenges

26. These are important policy lessons for us in Africa. We must also acknowledge that our financial sectors face severe challenges and let me say a few words about that. The challenges include dollarization in loans and deposits, concentration risks in bank lending and a preference in lending to the government.[5] Furthermore, the ability to conduct monetary policy in an inflation-targeting regime requires that the financial infrastructure, including a well-functioning interbank market, be in place to facilitate monetary policy transmission. This would ensure that changes in the bank policy rate affect the

[5] See, for example, IMF 2016. *Regional Economic Outlook, Sub-Saharan Africa, Time for a Policy Reset*. Chapter 3 "Financial Development and Sustainable Growth", page 66.
https://www.imf.org/external/pubs/ft/reo/2016/afr/eng/pdf/sreo0416.pdf

marginal cost of funds for commercial banks and eventually, for borrowers and lenders. Such transmission depends on the depth of the financial system in terms of the ratio of bank assets and liabilities to GDP, bank sector private credit to GDP and the use of local currency bank deposits as a store of value by the general public. It also depends upon the competitiveness in the banking system, lowering the degree of informality in the economy and strengthening the legal protection of creditors.[6]

27. Studies uniformly show that African countries lag other developing regions in indicators of financial development. A sustained effort is required to improve corporate and bank governance, manage volatility from external and domestic sources, remedy the informality reflected in weaknesses in registration, proper land titles and documentation, and so on. Such obstacles *can be overcome* through programs of financial inclusion and the gradual building up of the necessary financial infrastructure.

28. But there are other impediments not so easy to deal with, such as the fragmentation in Africa and small average country size, which makes it hard to reap economies of scale in providing a diverse menu of financial products such as insurance, mortgage loans and various savings products owing to limited demand.[7] Once again, market-based solutions might arise and we are beginning to see these, such as cross-border banks and the development of financial conglomerates. But this naturally calls for more complicated supervisory and regulatory frameworks. Innovations may also emerge to

[6] A useful survey is contained in Ndulu, Benno and Joseph Leina Masawe. 2015. "Challenges of Central Banking in Africa." The Oxford Handbook of Africa and Economics: Volume 2: Policies and Practices. Edited by Celestin Monga and Justin Yifu Lin.

[7] See Beck, Thorsten and Robert Cull. 2013. "Banking in Africa," World Bank WPS 6684. It compares the African financial sector with other developing regions.

enable low-cost payments, such as M-Pesa in Kenya; but while filling a vacuum in the payments framework, such innovations may not be an adequate substitute for long-term development finance because of their short-term transactional nature.[8]

29. The lesson here is clear. African countries need to improve the infrastructure underlying the financial sector while also pursuing the needed financial deepening. This is an ongoing quest, which will obviously be aided by credible monetary and fiscal policy and continuing institutional reform to make local currency assets a desirable store of value.

30. But what about the challenges posed by the diminished medium term prospects for growth and the terms of trade? The IMF suggests a "Policy Reset". In many countries, particularly oil and non-energy commodity exporters, fiscal space and foreign exchange reserves are running low. Besides, external financing conditions are tighter, including FDI prospects, and the terms of trade shock is likely to persist. The Policy Reset would center on keeping exchange rates flexible and market-determined in order to maintain competitiveness and preserve scarce foreign exchange reserves; and ensuring fiscal adjustment given the persistent nature of the external shock, combined with greater domestic resource mobilization (DRM) from non-commodity sectors. Keeping fiscal deficits under control would also lower current account deficits, which are exceptionally high in most African countries.

31. This bit of orthodoxy may grate on our nerves but remember Africa's rise in the last two decades has occurred partly on the back of good macro-economic

[8] See Beck and Cull (2013), page 31.

policy. We need to bear this in mind in light of all the unconventional monetary policy we have been exposed to since the GFC. Based on the disparate experiences of Brazil, China, India, Russia and Turkey, and given the present structure of our economies, I am convinced the continent still needs to stay the course of sound conventional macro-economic policies. **That it is the right way to go. In fact, I see one overwhelming priority:** make the domestic currency a credible store of value, which will facilitate financial deepening, help control inflation and create a strong foundation for long run growth. Clearly, part of this package includes a focus on financial stability through macro-prudential tools focused on real estate and external borrowing by private banks and corporates, which may develop currency mismatches.

So what about Uganda?

32. This brings me to the last section of my speech, which I shall start by making a few observations on Uganda. In a speech on April 16 marking the start of the Bank of Uganda's 50th Anniversary celebrations, Governor Emmanuel Tumusiime-Mutebile noted: "In the coming decades, our monetary policy will continue to prioritise, above all else, the control of inflation. This is because low and stable inflation is a precondition for mobilising high levels of savings and investment and for efficient resource allocation, which are essential for sustained economic growth." In a speech last November on the role of the central bank in the post 2015 era, the Governor had observed: "Sound monetary policy is a prerequisite for a stable macro-economy, with low inflation, although it is not always sufficient in the absence of sound fiscal policy."

33. I am delighted to say that the Bank of Uganda practices what it preaches! Last year, in the face of a depreciating currency and rising inflation expectations, the Bank of Uganda hiked interest rates by 600 basis points, the highest by any central bank in Africa. This eventually stabilized the exchange rate, even leading to a nominal appreciation of the Ugandan shilling against the US dollar. The willingness to hike indicates clear resolve on the part of the Bank of Uganda to meet its medium term target of 5% for annual core inflation. It also preserves foreign exchange reserves at a time when these are a crucial buffer against global uncertainty and is definitely preferable to introducing restrictions to stabilize the exchange rate, which fuels parallel markets for foreign exchange, lowers central bank credibility and hurts the private sector and economic growth.

34. But one should be clear that the ability to hike rates in this fashion would be impossible without good economic governance and assured central bank independence. And so I also congratulate President Museveni and the political leadership of Uganda. In fact, the positive effects of last year's prompt hikes have enabled the Bank of Uganda to cut its policy rate by 200 basis points this year. In addition, the scale of monetary policy tightening in 2015 would not have been feasible had pubic indebtedness been excessive, because this would have immediately worsened public debt dynamics. And in a sign of pragmatic self-confidence, Uganda has entered into an agreement with the IMF under the Policy Support Instrument (PSI) program, which enhances credibility by signaling that macroeconomic policies are sound and that the country does not need balance of payments support.

Where is Uganda's Economy Now?

35. **But good monetary policy needs to be supported by sound fiscal policy, sectoral and structural reform.** We have seen some positives on this in Uganda but challenges remain. Uganda's recent economic performance has been favourable. Its fiscal policy stance has focused on enhanced revenue mobilization and improved public spending efficiency with some success, creating room for priority social and infrastructure investment. GDP growth has been significant, averaging about 7 percent over the past two decades, which is higher than the average growth in Sub-Saharan Africa for the same period. Growth has also been broadly inclusive- creating about half a million jobs each year- just enough to absorb new entrants into the labour market. This has also been accompanied by a steady fall in poverty with the absolute poverty rate almost halving during this period.

36. But as I said earlier there are significant challenges. Growth has not resulted in a material shift in shares of economic sectors over the past 15 years and the economy has not created enough jobs in high productive sectors. In addition, current job creation levels would have to be hiked considerably in order to absorb the doubling of new labour market entrants predicted by the ILO in the next decade. This means that despite improvements, inequality and job creation remain as central concerns.

37. In addition, a tough external environment has already resulted in slowed growth for the last 3 years which poses policy challenges. Climate change has resulted in additional risks and according to the New Climate Economy, this could be costing Uganda up to US$3-6 billion per annum in the near future if not addressed. We are already seeing some of these risks manifested in agricultural production. For example you would recall that in 2010 Uganda

suffered crop losses estimated at 16 percent because of extreme weather conditions. Successfully implementing Vision 2040 with a primary goal of achieving "A transformed Ugandan Society from a peasant to modern and prosperous country in 30 years" would therefore require appropriate sectoral and structural reform that is climate conscious to complement sound fiscal and monetary policy.

Energy

38. First and foremost, even in this low oil price environment and in the context of the immense infrastructure challenges facing the sector, Uganda must manage its fledgling oil sector responsibly, transparently and in an environmentally sound manner. It should learn from the mistakes of sister and brother countries on this continent and elsewhere. Part of the potential revenues generated from this sector, estimated at US$3 billion per annum at current oil prices should be saved to cushion future volatility and support future generations. It should also be directed to finance much needed infrastructure to serve as a base for growth whilst avoiding the Dutch Disease and crowding out broader diversification. Uganda's infrastructure deficit- particularly in energy and transportation- is a cross cutting constraint on economic growth. Per capita energy consumption at 3.7kWh is one of the lowest in the world. But this infrastructure deficit is also an opportunity. With three-quarters of Uganda's infrastructure still unbuilt, Uganda has the opportunity to lead in investing in sustainable and low carbon infrastructure reaping its attendant benefits in the long term. The potential for renewable energy in Uganda is substantial especially for solar and hydro enabling a clean energy transition with limited additional costs.

Agriculture

Reforms in the agricultural sector are of vital importance because up to 76 percent of Ugandan households earn income from this sector. Agriculture has also played a pivotal role in Uganda's positive growth story over the past couple of decades. Research by the New Climate Economy which is currently working with the Ugandan government and in partnership with the Economic Policy Research Center, estimates that increases in agricultural income accounted for about 77 percent of the poverty reduction seen between 2010 and 2013. However the productivity of the sector is significantly low- the average productivity of a Ugandan agricultural worker in 2012 was US$581. To put this in perspective, the industrial sector is almost ten times more productive with an average productivity of $5,106. This needs to be addressed with the appropriate policy in order to achieve the ambitious targets that the government has set for this sector including increasing marketed output by 50 percent by 2025.

39. Modernising Uganda's agricultural sector with new technologies to increase productivity in the sector is an important first step. There is significant potential to do this. For example, investment in productive working capital is low with only 2 percent of farmers using tractors. The use of improved crop varieties is similarly low with estimates ranging between 13 percent and 22 percent. Uganda has successfully entered innovative markets such as horticulture and innovation along critical agricultural value chains needs to be encouraged. Unlocking the potential of Uganda's agriculture sector would also require significant improvements to rural land rights which would simultaneously increase farmer's access to credits and investments, which in turn, would raise productivity. Also, investing in the right kind of infrastructure

is critical- access roads connecting rural farmers to urban markets at reduced costs, irrigation to increase crop yields, improved communication technology to give farmers access to information on improved farming practices etc.

40. The challenges in this sector are further complicated by climate change impacts, which are depleting natural capital and leading to significant crop losses. Almost 46 percent of all land in Uganda is being severely degraded and soil erosion averages over 5 tons per hectare per year. Therefore it is important that policy geared at stimulating the agriculture sector is also climate friendly and sustainable.

Business Environment

41. Reforms aimed at improving the business environment by cutting red tape are also important particularly in achieving Uganda's industrialisation goals. This government has already done a good job in making improvements to the business climate over the years. Between 2015 and 2016, Uganda improved from 135/189 to 122/189 in the World Bank's Doing Business report- a significant improvement in just one year! However challenges remain that still need to be addressed- for example, getting a business registered still takes on average 32 days. Addressing this along with access to credit for the private sector would be instrumental in achieving growth, particularly in the industrial sector.

Industry

42. With the right policies and investments, the industrial sector- manufacturing in particular- can play a key role in Uganda's growth story in the coming years. Uganda's growth in the past 15 years has not been accompanied by significant

structural transformation. According to World Bank data, Industry's share of GDP has actually declined in the last decade from 25 percent in 2005 to 20.5 percent in 2015 and the sector accounts for less than 5 percent of total employment. This needs to be addressed. In manufacturing, there is potential to scale up agro-processing in key agricultural products such as coffee, tea, sugar cane and cassava. Similarly, there is potential to develop a petrochemicals industry in light of Uganda's budding oil sector. This process of industrialisation would enable Uganda create high productivity employment opportunities and increase incomes. In addition, the diversification into industry will also increase the economy's resilience to climate change with fewer poor people and less dependence on the agricultural sector, which is the most climate vulnerable sector in Africa.

Conclusion

43. Let me conclude by stating that although Uganda's Vision 2040 sets an ambitious development goal, it is one that I see as very much within reach. Stable institutions, good governance and investment in human capital would be integral to its success. Improved macro-economic policy has laid a good foundation to achieving this goal but as we have seen, this needs to be complemented with bold real sector reform targeted at the sources of growth. Such reform must focus on building for the next generation to ensure they are gainfully employed. Any nation that neglects to make employment of its youth and women a centerpiece of structural and sectoral reform is harbouring a ticking time bomb. I know that I am preaching to the converted here and I have spoken long enough. As Warren Bennis, a renowned American scholar on leadership, said- "Leadership is the capacity to translate vision into reality". Uganda's economic success in the coming decades is dependent on the

leadership to translate a well-articulated vision into reality for the everyday Ugandan man and woman.

44. The Bank of Uganda can be justly proud of the foundation it is helping to lay for sustained long run growth although there is still a long way to go. But there is so much potential for Uganda- in the words of Kofi Annan: "Africa's creativity and resilience are enormous…It is time for African leaders to unlock this huge potential." Once again, please accept my hearty congratulations as we look forward to another 50 years! Thank you.