

SPEECH OF THE DEPUTY GOVERNOR AT THE CLOSING GALA DINNER OF ICPAU'S 10TH ANNUAL SEMINAR ON FRIDAY, 11 NOVEMBER 2005

The President of the ICPAU

Distinguished Participants in the just ended 10th Annual ICPAU Seminar

Ladies and Gentlemen

I feel greatly honoured and privileged to have been invited to officiate at your closing Gala Dinner of the ICPAU's 10th Annual Seminar. I wish to congratulate all of you who attended the seminar and hope that you will all endeavour to apply the ideas you have learnt during these last three days.

Before I say something about the theme of your conference, let me use this opportunity to share with you recent developments in the economy generally and more specifically in the financial sector.

The Bank of Uganda views price stability as the primary objective of monetary policy. However, the ultimate objective is to sustain growth of the Uganda economy. We take comfort from the recent performance of Uganda economy. In 2004/5, GDP growth rate was recorded at 5.7 per cent per

annum; slightly higher than 5.6 per cent per annum recorded in the preceding financial year. Over a period of the past 10 years, the average growth rate has been recorded at 5.9 per cent per annum. On inflation, the average underlying inflation rate for the past 10 years has been recorded at 4.5 per cent per annum. In the same period, the Bank of Uganda has maintained a comfortable level of foreign exchange reserves. By the end of June 2005, international reserves were at levels sufficient to cover 5.9 months of imports of goods and services.

The financial sector has recorded very satisfactory progress since the turbulence of 1997/8. According to the World Bank's Financial Sector Assessment Report which was updated in November 2004 and published in April 2005, Uganda's financial sector continues to be stable, sound and healthy and more resilient and sophisticated than in the past. However, while increased sophistication of the financial sector in terms of financial innovation and application of superior IT systems are welcome developments, the commercial banks' risk profile have in the process, become quite complicated and therefore pose new challenges to financial sector managers.

As you are aware, the process of cooperation and integration of the East African economies was given momentum with the revival of the E.A. Community. Included in the complex structure of the Community is the Monetary Affairs Committee under the auspices of the Ministers of Finance. This is a Committee of Central Bank Governors of the member states of the Community whose main mandate is to harmonize, integrate and maintain macroeconomic and financial stability in the region. In this regard, the three Central Banks have been cooperating more actively in the last 10 years or so. The Governors formally meet once a year in Arusha to review progress made in implementing decisions they have taken in the previous year. These decisions cover issues on the conduct of monetary policy, regulation of the financial sector, payment systems, information technology, developments in the foreign exchange and financial markets and joint training programmes.

In preparation for the adoption of a single currency in the region, some years back, the three Central Banks agreed on certain basic convergence criteria on issues such as desirable levels of inflation, real GDP growth rate, foreign exchange reserve levels and fiscal deficits. These are reviewed in the annual meetings to gauge progress and initiate action that would remove constraints identified.

To facilitate trade, the Governors agreed several years ago for the currencies of the three countries to be traded freely. This has in our view worked very well. The three Banks and the banking industry in the region are now working on the introduction of a simpler, more secure way of moving funds across the borders of the region. The three countries have already implemented Real Time Gross Settlement systems (RTGS), which is a secure and fast method of moving funds from one party to another.

What now remains to be done is to work on the technicality of connecting the three RTGS's. Elsewhere under the payments system, various standards of payment instruments, products and message carriers have been agreed and are operational. In the financial markets, harmonization of systems, rules, procedures and products, with the aim of deepening these markets, is ongoing.

With regards to banking supervision, more and more emphasis is being placed on how the banking sector is managing their key risks. Cooperation in this area for some years now has involved joint inspections of our banks in the region. Whenever one Central Bank carries out onsite inspection of a supervised institution under its jurisdiction, supervising staff from the other

Central Banks join their colleagues to conduct the exercise. As a result inspection processes, procedures and reports have been greatly harmonized.

As you are all aware, global standards in many areas of our working lives are increasingly becoming the norm. The Basel accords on supervised financial institutions and systemically important payment systems provide guidance on the weighting and management of risks on balance sheets in supervised financial institutions and the management of risk in payments systems considered systemically important respectively. Both these are very important for financial system stability.

I am also aware that the International Financial Reporting Standards are increasingly being accepted worldwide as the global standards for writing books of accounts. Indeed, I have been advised that your own institute, which regulates the accounting profession in Uganda, formally adopted these Standards some years back as the basic standards for preparing books of accounts in Uganda. The Bank of Uganda adopted these Standards since the financial year 2000/2001. Being regulators of the financial sector, we are keen to ensure that banks apply these standards for preparing their books of accounts. It is only you, professional Accountants, who can provide that

assurance either as independent auditors or accountants. This is why the Financial Institutions Act 2004 places onerous responsibilities on your shoulders in certifying the accounts of these institutions. Consider, for example, the application of International Accounting Standard 39, which deals with the recognition and measurement of financial instruments in the books of accounts. Since the Standard classifies financial instruments into various categories, the certification of holdings by banks of the various classes and in particular those held for trading, will help the Central Banks to determine at any time the potential capacity of financial markets participants to play in that market and how this may impact on liquidity and monetary policy management. It is therefore very clear that your professional work provides a very useful input in economic management. Clearly therefore, Accountants provide a strong partnership with Central Bankers in economic and financial management. In developing and growing this partnership, it is therefore important for all of us to be conscious at all times of where we came from, where we are currently and where we are going.

Of course globalization continues to bring with it many benefits and challenges too. Take for example, financial transactions of transnational or

multinational companies. We are all familiar with some of the record keeping practices of some of the companies where the front office transactions are carried out in one country, the middle office work in another and the back office business yet in a third country, such as India, for example. I have sometimes wondered how accountants cope and deal with all these before they certify the truth and fairness of such transactions.

One other challenge that we continue to face is that of extending professional accountancy services to smaller and more rural based institutions such as savings and cooperative credit organizations and non-deposit taking micro finance institutions. Being relatively smaller institutions, they are not able to attract or indeed pay for professional accountancy services. And yet, without receiving consistent professional accounting services and advice, they are not likely to grow on a sustainable basis. Given the potential contribution to the deepening of the financial systems and the growth of the economy, something ought to be done. Perhaps the institute should investigate the possibility of organizing its members to provide such services along the lines of FIDA - the group of women lawyers who provide free or subsidized legal services to vulnerable groups. If the institute can come up with a well-considered proposal, BOU

together with others may be able to look at it positively. After all, the Bank as you all know, has been a major contributor to the institutes' budget on a consistent basis for several years now. This partnership needs to be strengthened on a continuous basis for both our mutual benefits.

Finally, I wish to thank the institute for organizing monthly and annual seminars to provide appropriate opportunities for continuous professional development of Accountants in the country. Keep it up. As BOU highly values training, we shall always have strong participating teams as is visibly evident during this seminar that has just ended. I wish you an enjoyable dinner and night.

Thank you.