REMARKS BY DR. LOUIS KASEKENDE, DEPUTY GOVERNOR, BANK OF UGANDA, AT THE DINNER IN HONOUR OF DR. ZHOU XIAOCHUAN GOVERNOR PEOPLES' BANK OF CHINA

PEARL OF AFRICA RESTAURANT, KAMPALA SERENA HOTEL

MAY 19, 2014

Honourable Minister responsible for Finance, Mrs. Maria Kiwanuka

The Governor of the Peoples' Bank of China

The Ambassador of the Peoples' Republic of China to Uganda

Board of Directors, Bank of Uganda

Permanent Secretary/Secretary to the Treasury

Permanent Secretary, Ministry of Foreign Affairs

Chairman, Uganda Bankers Association

Chairman, Uganda Manufacturers' Association

The President, Uganda Chamber of Commerce and Industry

Executive Director, Private Sector Foundation

Executive Director, Uganda Investment Authority

Chairperson, Association of Uganda Foreign Exchange Bureaus

Chairperson, Kampala City Traders Association (KACITA)

Distinguished Delegates from the Peoples' Bank of China

Management Staff of the Bank of Uganda

Ladies and Gentlemen

Good evening

The purpose of this dinner is to welcome the Governor of the Peoples' Bank of China Dr. Zhou Xiaochuan and his delegation. Dr. Xiaochuan, it is a great honour to welcome you to Uganda, on your first visit ever to this country. It marks the growing importance of China to Uganda and our hope is that your visit will cement the relationship between the Peoples Bank of China and Bank of Uganda and also boost trade and investment between China and Uganda.

Over the last decade, China has become a very valuable partner for development in Uganda, as evidenced by the increasing bilateral trade between the two countries, project aid, and the significant investments by the Chinese Government in the areas of infrastructure development such as road construction, hospitals, railway, electrical power and communications, and oil.

Apart from strengthening trade and direct investments between China and Uganda, I believe that there is a great deal to learn from China's achievements, which include steady and robust growth for two decades, often with the highest annual growth rates in the world; a record in poverty reduction that is unparalleled in human history; and among the world's Top 2 in economic size, trade, technology, science and other areas of the 21st century. China has been very successful in structural transformation, modernisation and economic growth.

Let me highlight three major lessons of China's development which are of relevance to Uganda and Africa: first, the structural transformation has involved shifting huge numbers of workers from low productivity agriculture to modern industries, while simultaneously increasing agricultural production. Central to this impressive trend has been high rates of private investment in labour intensive industries.

The second lesson is the importance of the demographic transition in driving development. The structural advantage of the demographic dividend has contributed to more than 30 percent of China's total economic growth. China cut its total fertility rate to slightly under 2 children per woman and, as a result, was able to reduce the age dependency ratio to only 36 per 100 workers. In contrast, Uganda has a total fertility rate and age dependency ratio of 6.1 and 104, respectively, among the highest levels in the world. Therefore, a reduction in the fertility rate and the age dependency ratio would contribute to driving structural transformation and economic growth in any developing country.

Third lesson I would like to draw from China is the maintenance of a competitive real exchange rate that supported export led growth. This is in marked contrast to some economies in the Sub Saharan Africa region where the exchange rates have often been overvalued, thereby reducing incentives in the export sector. An undervalued exchange rate that increases the size of the tradable sector would stimulate economic growth.

This morning, the Bank of Uganda senior management had the opportunity of meeting the Governor with his delegation. We shared the economic experiences of the two countries and a number of issues came out, which would be of great interest to the investor and banking community in Uganda. I will share with you the following:

1. Over the last 10 years, foreign exchange management in China has been transformed extensively leading to lifting restrictions on the use and international settlement of the Renminbi and that the currency is now fully convertible;

2. The Peoples' Bank of China has a number of swap arrangements with several Central Banks in advanced, emerging, and developing economies;

3. China permits direct investment into the Chinese bond and securities markets through an agent correspondent bank;

4. China is open to correspondent relationships with financial institutions;

5. A number of windows have been developed for medium to long term financing of trade and investments and that the Governor will soon be signing a US$2 billion Joint Investment Fund with the President of the African Development Bank.

The opportunities for trade and financing are many and the Ugandans can position themselves to trake advantage of these opportunities.

Further, the Peoples' Bank of China and the Bank of Uganda agreed this morning on staff and information exchanges to pursue issues of common interest in central banking. We look forward to a continued collaboration and dialogue between the Peoples' Bank of China and the Bank of Uganda and hope that China and Uganda will derive mutual benefits from this collaboration.

Thank you for listening.