Uganda bows to global financial crisis

By Walter Wafula

28 Oct 2008

Ugandans are beginning to feel the pinch of the wild financial mess that is ravaging American, European and Asian economies. In the past few weeks share prices of the nine listed companies at the Uganda Securities Exchange have danced to a rhythm echoed by falling stock prices across global financial markets.

On Monday, 27 October, Uganda's stocks plunged further to their lowest levels for the second time in many months as share prices of all the six local and three cross-listed companies headed south. Stock analysts at Kampala brokerage firms like Renaissance Capital and MBEA Brokerage Services have attributed the drop in prices to the increased amount of shares being dumped by foreign investors.

The MBEA index which tracks the performance of only the locally listed companies, registered a 7.2% loss on Monday as it dropped about 60 points from 817 last week. The USE All Share Index which accounts for all the nine companies was also down by about 10.3%. Market capitalisation of the locally listed companies which are the active stocks dropped to UGX1,640 billion from UGX 1,770 billion at close of last week.

The negative trend has been caused by global stock markets like the New York Stock Exchange, UK's Financial Times Stock Exchange and Germany's Frankfurt Stock Exchange continuously plummeting. The ripple effect of dipping share prices at these leading financial markets has dampened confidence levels in the West and East and has hurt Ugandan investors who are now counting billions of losses after every trading session. At least UGX600 billion has vanished from the market in the past month due to a mix of factors in addition to the current global financial crisis and economic slow down.

Nicholas Malaki an investment manager at the American Insurance Group (Kenya) said in an interview that the market slump is a result of foreign investors in emerging and frontier markets unwinding their positions given that these markets are considered more risky than the more mature markets. “Related to this is the uncertainty of whether these markets have bottomed out or whether they could weaken further,” he said.

“This uncertainty is likely to keep away new investors for a while, a move which could weigh down on their currencies. To avoid a double loss on price movements and currency, such investors would be willing to get fast liquidity even at lower prices and exit the market,” said Malaki.

Coupled with the continued appreciation of the dollar against global currencies like the Pound, Euro and Chinese Yen, the Uganda shilling has equally lost ground to the dollar, depreciating to its lowest value since 2003.
In response to the currency changes, fuel dealers around Kampala quickly raised prices at fuel pumps while others were suspected of hoarding petrol which became scarce 48 hours later. Shell Uganda's country manager, Ivan Kyayonka

attributed the price rise to the depreciation of the shilling against the dollar and the ban on four-axle fuel trucks from Kenya to Uganda by the former's authorities according to *New Vision* on October 27.

But following the steep decline in the value of the national currency, Emmanuel Tumusiime Mutebile, governor of the Bank of Uganda last week announced that the Central Bank was injecting $30,000 or UGX600,000 in the money markets to boost the strength of the shilling, and warned the country of tougher times ahead.

ABOUT WALTER WAFULA

Walter Wafula is a seasoned journalist who has reported for the *Daily Monitor* newspaper in Kampala-Uganda. He is also a contributor on Bizcommunity.com website. Email Walter at wafwalt@yahoo.com and connect on LinkedIn.
- Pepsi confirms Konshens & Alaine Kampala concert - 14 Jun 2013
- Agency clients should know what they want - 18 Jan 2013
- Samsung targets infrastructure deals in Africa - 26 Nov 2012
- Pay TV subscribers get rewarded - 22 Nov 2012
- Forum lines up top business minds in Uganda - 12 Nov 2012

View my profile and articles...