

Business

•FTSE Down -0.19% at 5638.80 •CAC Up 0.20% at 3143.74 •DAX Down -0.24% at 6043.64
 •DOW JONES Down -0.45% at 12359.92 •OIL Down 47CTS at \$112.59

Ministries fueling high inflation

Uganda's inflation has hit a high of 27% and the fiscal deficit is projected to reach 6.8% this year. DR. FRED MUHUMUZA, the economic advisor to the finance minister, explained to SAMUEL SANYA the causes and possible solutions to the problems

Speculation is rife that high expenditure during the general elections last year led to the high inflation and interest rates Uganda is facing. What is your opinion?

According to my assessment, the major area that was driving the inflation has been food shortages. It defies logic to think that because someone has gotten extra money that they will consume three times their usual amounts of food to drive up inflation. Food intake, for instance salt usage, is usually fixed regardless of income.

So, people could have bought other consumables, durables, or gone into house construction since the money was simply a windfall and prices in these areas were seen to significantly rise last year. These items are all non-food, which could explain why core inflation, a component of headline inflation that the Bank of Uganda (BOU) is striving to control, went up last year.

Inflation has dropped to 27%, from 29% due to a 6% drop in food inflation. However, food production is seasonal and inflation may go up again during the coming dry season. It is still too early to celebrate.

It is the role of the finance ministry to direct resources through the national budget, why aren't sectors like agriculture receiving the largest funding?

We have gradually been increasing funding to address structural constraints in productive sectors of economy, in this case, the agricultural sector over the past 10 years. The problem has always been in identifying the core priorities among the priorities in all the sectors. We have completed this activity in some sectors.

The budget is part of a story, but the actual story is; what is the budget doing? Sadly, in some areas, where we have picked out the core priorities, the transformation mechanism that enables budgeted money to give you the actual service is still inefficient in that a budget of sh10m gives you less than what it should. This is a value-for-money problem.

For instance, the Uganda National Roads Authority will tell you that they gave the Mbarara-Katuna road tender to the best-evaluated bidder, but in Rwanda, where the terrain is similar, the best-evaluated bidder costs half as much. This means that we could have done an extra 150km of roads had we followed a similar vetting model.

Most of the excess liquidity that BOU



PICTURE BY MARK OWOR

is trying to mop out through the high interest rates is being caused by poor absorption by some sectors. The solution is not to increase interest rates, but first to locate the leak and close it. I believe we are putting in more money in energy, public administration and the transport sectors than we need to at the moment. Maybe, the sh1.2 trillion for the energy sector should be reduced and gradually increased only when it can be absorbed. Once the absorption capacity has been built, the issue of excess liquidity will cease.

Some analysts argue that the purchase of military aircraft reduced Uganda's reserves, thereby leading to massive currency depreciation. What is your view on this? Some people think that the country's dollar reserves exist to stop the shilling from depreciating, but that a big misconception. The reserves exist to boost trade through creating confidence in the shilling.

We have never gone below three months' worth of imports and, yet that is a strong enough proxy indicator about the strength of the currency. People took it that because we bought

Excess cash BOU is trying to mop-up by rising rates is caused by poor absorption capacity by government sectors

fighter jets so the currency was depreciating. No way!

Even if we had five-and-a-half-months' worth of import reserves, the Central Bank was not going to start strengthening the shilling since, in a liberalised market like Uganda, the BOU had to leave the exchange rate to depreciate even further for the situation to self-correct, through market forces of demand and supply.

What happened was that all of a sudden we had less in terms of export revenues and there was a bigger demand for imports.

According reports, higher expenditure on projects in the energy, transport and public administration

sectors will cause a 6.8% fiscal deficit, why is this so?

These are sectors that are critical to the economic success of the country whereby investments cannot be postponed until the economy improves.

So, if you do not have money now, you would rather run a deficit and look for some money maybe through deficit financing to ensure necessary investments in these sectors.

Public administration costs went up tremendously due to an increase in the number of districts. New districts involve high start-up costs such as the building of new offices and staff recruitment in addition to the recurrent fixed costs.

Mid-last year, the country was plunged into a 24-hour load shedding regime due to the non-payment of arrears owed to thermal generators. Have they been fully paid?

The arrears then amounted to about sh200b, but there was a release of sh56b at the end of last year, which was apportioned to the different thermal generators.

Even right now, more arrears are being generated and we still have sh200b or more to pay in arrears. The downside is that consumers will have to meet part of these costs through tariff increments.

The policy will be to regularly review the tariffs quarterly, annually or semi-annually so that when the costs change, consumers do not get shocked. The Government subsidies will not be completely removed since consumers cannot meet the full magnitude of the electricity costs.

The Basajjabalaba compensation case has dragged on for weeks now, what lessons can be drawn from it? This is a clear case of institutional failure across the entities involved, calling for institutional reforms beyond mere reshuffles. The compensation was handled through established government institutions; the Attorney General, the finance ministry, the government valuer, State House and others.

If we do not have a stringent budget and institutional reforms, oil money will come and such lavish spending across sectors will increase, weakening the economy, and increasing excess liquidity to push interest rates in excess of 50%.

We need budget and institutional reform, to ensure that government institutions are well structured, staffed and designed so that the chief executive of this country gets the right information to make decisions. With sound institutions, non-issues like individuals, tribes and names will not matter as systems will be much more efficient. Without that, we will find development in this country an uphill task.

Renown architect honoured

Celebrated Ugandan architect William Ssentongo has received two meritorious awards in recognition of his distinguished service and contribution to the development of architecture in Uganda and Africa, writes MATHIAS MAZINGA. Ssentongo got the Africa Union of Architects Award and the Uganda Society of Architects Award honours at the architects' annual general meeting at the Imperial Royale Hotel in Kampala recently. "We are proud of your illustrious service with the Uganda Society of Architects and African Union of Architects, plus

your long record of architectural practice. You inspire architects of all ages; the young and old alike," said Kenneth Amunsimire, the Uganda Society of Architects secretary. Ssentongo has drawn amazing architectural plans for Kampala's buildings like Communications House, Workers House, Statistics House, State House Entebbe and of recent, Centenary Bank's Mapeera House and the Parliament chambers. Ssentongo is also the founder member of African Union of Architects, which he also headed for over 10 years.



William Ssentongo