Business

Uganda's economic growth skewed — report

Bank of Uganda in Kampala. File

Uganda's economy is among the fastest growing in the world, but the impact of this growth is felt by a small fraction of the country.

With the current volatility in foreign exchange, interest rates and inflationary pressures, the economy needs a rethink to involve majority of the population in the production and growth processes.

A draft paper by the Makerere University-based Economic Policy Research Centre (EPRC) faults Bank of Uganda's policies that have bred "the Kampala economy" instead of an entire economy for Uganda.

For instance, Uganda's average GDP growth of 8.2 per cent per annum since 2005 has been driven by the services sector (averaging 8.8 per cent growth) and urban-based economic activities, particularly construction, which averaged 12.2 per cent growth up to 2009.

As a consequence, incomes of the poor have not grown as per the political rhetoric that under the current regime every rural agricultural household will prosper and earn at least Ush20 million ($7,836) per annum.

GDP per capita has grown dismally, partly due to a fast growing population and persistent unemployment.

With high food prices driving inflation, and much of the credit going towards consumption, the economy faces bigger challenges — the paper, "Putting peoples incomes at the centre of managing macroeconomic policies in Uganda: Inclusive drowth and production of tradables," concludes.

Significantly, growth in the agriculture sector, which is perceived to be the most inclusive sector as it employs about 70 per cent of the population, has not matched that of services and construction sectors.

At 1.3 per cent per annum, agriculture has grown at a lower rate than that of the population itself, at 3.2 per cent per annum.

"The performance of Uganda's agriculture sector since 2002 has been poor and consistently lower than the population growth.

Uganda is now in a situation known as the Malthus Trap — where food supply is inadequate for feeding the population," write EPRC's Lawrence Bategeka and Dorothy Nampewo.

In the 2010/11 financial year, agriculture grew by 0.9 per cent — and the trends in the current financial year are worse, as the first two quarters have posted negative growth figures.

Top performing cash crops, including horticultural products, grew minus 15 per cent in the last financial year, while the fisheries division grew by only 0.3 per cent.

In part, this is down to more people going into urban-based economic activities, whereas agriculture is practised in rural areas.

The common phenomenon is that of many youth engaging in urban oriented *boda boda* (motorcycle) business, depriving rural areas of enough labour force to work the land.

Even the food crops sub-sector that should ease food inflation has not done better. This explains why the food prices are spiralling out of reach for many.

The average wholesale price of maize grain in June 2011, for instance, was Ush1,000 ($0.39) per kg compared with Ush300 ($0.11) the same month in 2010.

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It is this situation, EPRC economists argue, that creates an economy that is not inclusive enough as agriculture from which majority of households eke out a living is weakly participating in economic growth.

Top government executives share EPRC's concerns that Uganda's agriculture and export sectors remain stunted for an economy that has enjoyed stable macroeconomic fundamentals to the point of winning plaudits from the IMF.

"I think these [IMF and BoU] people are holding this country at ransom; if you have controlled inflation for all this time, what has it translated into? This talk of stable macroeconomics is deceptive.

"Why are we still running to Washington instead of going to China, which is actually growing," asked National Planning Authority chairman Wilberforce Kisamba Mugerwa.

But IMF senior resident representative to Uganda Thomas Richardson says that stable macroeconomics is the reason why Uganda has remained one of the fastest growing economies in the world, even when faced with the emerging inflationary pressures.

Mr Richardson adds, however, that while Uganda's macroeconomics regime has held steady, coupled with a well-regulated financial sector, its central government lacks the fiscal discipline of the Chinese government.

The other puzzle is why BoU's policies that have remained shielded from scrutiny over the past two decades have failed to deliver export growth.

It was only after 2005 that this changed, not because of the central bank's deliberate competitive foreign exchange regime, per se, but rather because of the emergence of the South Sudan exports market.

To spur export growth, BoU should have minded the level of interest rates, which constrain production of tradable goods the same way a non-competitive exchange rate does.

As it is, the biggest beneficiaries of this policy flaw are commercial banks, while farmers engaged in production of agricultural export commodities are the losers, the EPRC economists reveal.

"It is not correct, therefore, to absolve the monetary policy and blame only fiscal policy for the challenges the Uganda economy finds itself in today.

There is a view that monetary policy is overburdened as regards the control of inflation; that fiscal authority is not doing enough in terms of supporting the productive sector," they argue.

While BoU should continue to pursue macroeconomic stability, it should be mindful that this could suffocate productive sectors, raise unemployment and stagnate or even reduce household incomes.

Uganda should also drop tax exemptions given to a select club of "investors" as the country's tax-GDP ratio has stagnated, and compares badly with countries at similar level of development.

This would see Uganda's tax-GDP ratio rise from 12.5 per cent today to 18 per cent within one year.