



CSBAG BUDGET NEWS BRIEF



242ND EDITION | 13TH -19TH FEBRUARY 2017

Advocating for a People Centered Budget that Dignifies Humanity



Our economy is not growing: where are the answers!

“The CBR is the operating target of monetary policy. It is set once every two months and is publicly announced by Bank of Uganda. This sets the rate at which the economy is growing. A lot of questions and concerns are going on about the stunted growth of Uganda’s economy. In this Week’s edition, CSBAG shares with you its response to the Bank of Uganda Monetary Policy Statement.

On Friday, 15th February 2017, the Governor Bank Uganda, Prof. Emmanuel Tumusiime-Mutebile released the Monetary Policy Statement for February 2017 explaining the Consumer Price Index and Economic Growth estimates, The annual headline inflation to 5.9% from 5.7% in December 2016 was attributed to the higher inflation of food crops as well as electricity, fuel and other utilities

The MPS states that the economic prospects are more optimistic for FY 2017/18, with GDP expected to grow at 5.5 percent, driven by improved public infrastructure investment, a recovery in private sector investment and improvements in agricultural production and consumption. The MPS also reveals GDP growth projection for FY 2016/17 has been revised downwards to 4.5 percent from the 5.0 percent since the last Monetary Policy Committee meeting.

Uganda has since October 2015 witnessed easing of the Monetary Policy by the Bank of Uganda and this was done alongside reducing rates for the earnings on Treasury Bills in all the three categories. This development was supposed to be a disincentive for commercial banks who prefer to invest in Treasury Bills for higher secured returns.

Comparison of growth rate from Oct 2015 to Dec 2016 for CBR, 182 days TB and lending rates

CSBAG however has observed, as illustrated in the figure 1 below, that from October 2015 to December 2016, the CBR has reduced on average by 1.83%, the 182days TB by 1.47% and the lending rates by only 0.12%. This development brings further to question the ability of the CBR to act an effective market signal to direct the price of credit on the financial subsector.

The conduct of business amongst commercial banks, through the overnight lending rates, is still costly as shown by the 12.58% average rate from October 2015 to December 2016. The overnight lending rate increased from 10.77% in December 2016 to 11.11% in January 2017. This development has continued to be a constraint to reducing the cost of credit to borrowers in Uganda, especially for investment in agriculture.

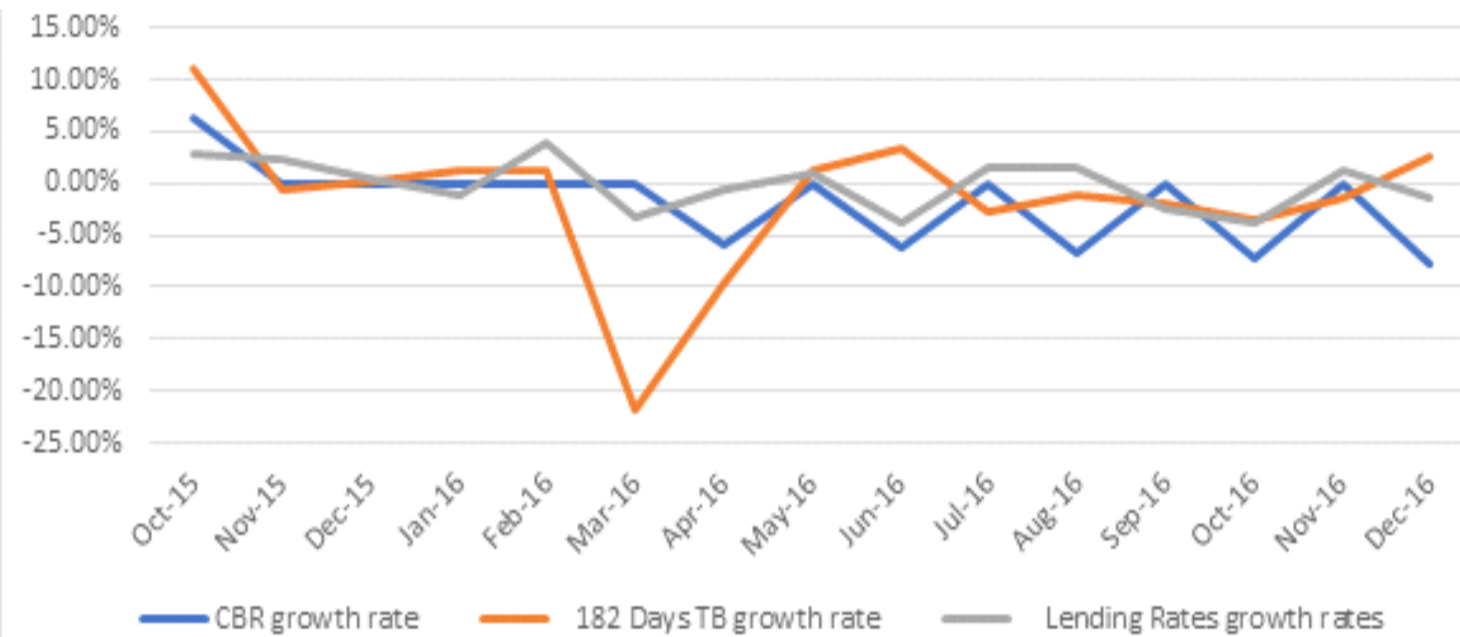


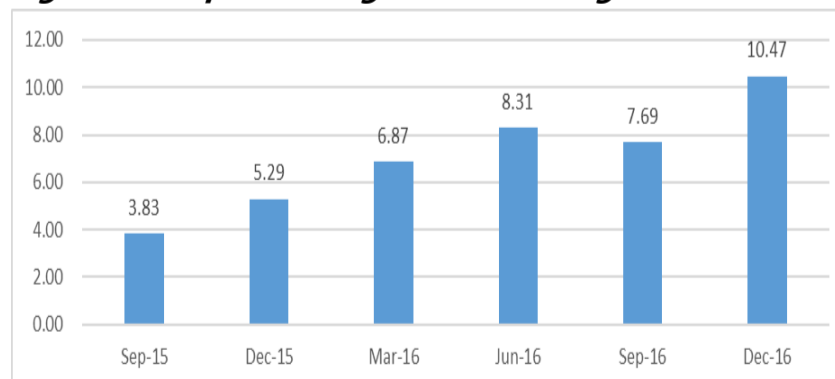
Figure 1. Graph showing the comparison of growth rate, CBR, 182 days TB and lending rates from October 2015-December, 2016

PLs to total gross loans

The Financial subsector also seems to be going through a tougher time than that that meets the eye. The Non-Performing Loans have increased to 10.47% of the total gross loans, another indication as to why the commercial banks continue to be hesitant to lend money to the private sector.

The increasing inability of business to pay back the money borrowed from the commercial banks has an inherent design in to fail through the high lending rates but more importantly the business environment is not favorable.

Figure 2: Graph showing NPLs to total gross loans



Source: Bank of Uganda statistics

The Bank of Uganda has over time made GDP projections and revisions based on adverse effects of weather on agriculture but the fiscal policy never adequately make financial provisions to deal with both software and hardware to alleviate the risk of adverse weather.

To the contrary, we see efforts geared towards high level infrastructure projects like Oil Roads and Hydro Power dams, investments that will only come to light and greater.

use with key growth sectors unlocked. The need to fund the various budget strategies that always have agriculture production and productivity at the fore front but never allocated enough funds for irrigation and extension service provision is now more than ever.

We are afraid the Monetary Policy Committee with continue to set growth rates and continue to revise then down wards since the key ingredients to unlock what needs to be done are known but not yet financed. It is no wonder that the GDP projections from the FY 2016/17 have been revised down from 5% to now 4.5%. We hope the FY doesn't end with a GDP of 3.5%, owing to the strong draught and famine alerts in various parts of the country.

Recommendations

To steer clear the negative possibilities above, CSBAG, continues to implore government to have the following as actions to be implemented urgently;

- Finance the agriculture sector adequately and most importantly in the areas that have the most positive impact on the country as whole, like irrigation and extension service provision.
- Bank of Uganda should regulate the commercial banks beyond the moral persuasions. Adopt more direct measure of controlling the cost of credit in Uganda and consider capping interest rates.
- Fully integrate National ID data to Commercial Bank Information systems like CRB to ease the risk of lending to unreliable customers.

UPCOMING CSO EVENTS

Event: Strategic meeting to develop alternative Local Government tax proposals FY2017/18
Date: 21st February 2017
Venue: Nob View Hotel

EVENT: Planning and Reflection meeting on the CSO budget advocacy Roadmap FY 2017/18.
DATE: 22nd February 2017
VENUE: Nob View Hotel

CSBAG IN PICTURES



CSOs hosted by UDN issued a press statement on the proposed A 9 seater helicopter bus EC- 145 for the speaker! In the FY2017/18 budget at Uganda Debt Network on Sunday, 19th February 2017



Mr. Julius Mukunda, Coordinator, Civil Society Budget Advocacy Group hosted on TV west in Mbarara district to unpack the National Budget Framework Paper FY2017/18 on Thursday, 16th February 2017.