



CSBAG BUDGET NEWS BRIEF



254th EDITION | 17th -23rd April 2017

Advocating for a People Centered Budget that Dignifies Humanity



Policy and institutional reforms are needed for Uganda's economy to recover - Analysis

UPCOMING CSO EVENTS

Event: Presenting CSO Position on Agriculture Sector Ministerial Policy Statement for FY 2017/18

Date: 18th April, 2017

Convener: Parliament Committee on Agriculture

Venue: Kampala Serena Hotel

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Public Finance Management Practices That Deliver For Citizens

Session Date: 20th April 2017 | Venue: IMF HQ2-03B-838B
Time: 11:00AM-12:30PM

Organised by CSBAG & OXFAM Uganda @ IMF/World Bank Spring Meetings 2017

The session will feature an expert panel moderated by Vivek Ramkumar- Senior Director of Policy, International Budget Partnership

Panel

Ian Gary – Accountable Development Finance, Oxfam America

Keith Muhakanizi- Permanent Secretary/Secretary to the Treasury, Ministry of Finance, Planning and Economic Development- Uganda

Victoria Perry- Assistant Director, Fiscal Affairs Department, International Monetary Fund

Julius Mukunda- Executive Director, Civil Society Budget Advocacy Group – Uganda

#IMFspringmeetings #PublicFinance #SMCSO17



Deductive reasoning draws conclusions from similar experiences whereby one can argue that infrastructure and manufacturing will cause growth in Uganda just as they did in China.

Investing in infrastructure

Inductive logic is where one argues that investing in infrastructure will lower the cost of doing business and hence increase production and growth. While each of the above can be true, logic requires understanding the underlying premises and the context. China, for example, has, not zero but, negative tolerance to corruption. Basic economics requires a market (demand for goods and services) to the extent that the customer is treated as "the king". While economist argued that "supply will create its own demand", that is the extreme exception. Otherwise, there would be no empty arcades in town and inventories would not have increased by 80 per cent between 2011 and 2015. Most of the business failures in Uganda today and the related non-performing loans are not necessarily a result of bad management but lack of aggregate demand.

In such it is better to import goods than do local manufacturing, which has huge overheads and is less flexible to reduced demand. It gets worse when potential manufacturers are lured into highly priced risk-free government bills and bonds. All the above are symptoms and not causes of an economic structure but are a direct cause of slower growth.

The solution will neither come from legislation against imports or massive infrastructure projects. Serious logic is needed on the side of fiscal policy (the budget) to avoid bad ventures based on thinking that youth programmes will succeed where many other businesses have failed. Furthermore, borrowing at 16 per cent for two years to invest in roads whose return is 20 years portrays no logic. Such are the policies that need to change but that can only happen within restructured institutions. The mindset within many government entities is geared towards big budgets that lead to more debt, which makes government a predator on the economy rather than a strategic developmental agent.

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Economic growth is not a chance event although it can benefit from chance events. There must be a plan that guides deliberate actions that are derived from a coherent or logical way of thinking. The logical critical thinking is what motivates policy and the implementation of deliberate actions is what underlies institutions. Uganda has broad outlines of policy, which many have confused for 'good policies' and literary has no institutions to do implementation. Both have to be resolved since implementation of bad policies leads to disaster that can quickly turn into a catastrophe. It is no wonder that, despite doubling the national budget from Shs13.2 trillion in 2013/14 to Shs 26.4 trillion in 2016/7, the economy has not recovered to register meaningful growth rates.

Budget deficit

Big budgets in an environment of inappropriate policies and weak institutions can only result in persistent deficits and growing debt with limited hope for recovery. In 2011, I pointed out how an unsustainable budget deficit and debt were causing structural economic distortions for Uganda that were going to undermine growth and worsen the trade deficit (Sunday Monitor, August 28 2011). Six years later, my position has not changed. The economy will continue to suffer the cancerous distortion until the necessary institutional and policy reforms are made. My concern was not only about the growing size of debt but also the false economic logic being pursued. Economic logic, as a tool for developing reasonable conclusions, may be deductive or inductive.