BUSINESS

Industry, services and agriculture boost growth

By Samuel Sanya

The benchmark Central Bank Rate (CBR) has been held for four months with Uganda's economic growth set to leap to 5.8% in the current financial year 2017/18 that ends in June.

Prof. Emmanuel Tumusiime Mutebile, the governor Bank of Uganda revealed to journalists yesterday that the leap in growth from 3.9% in the previous financial year is due to improvement in agricultural output. He also attributed the growth to strong improvement in industry and service sectors.

Mutebile said the economy will perform even more robustly next financial year, with projected growth of 6% due to the multiplier effects of public infrastructure investments, and improving agricultural productivity.

He also said increased private sector investment and household consumption as well as the continued strengthening of the global economy will spur Uganda's economic growth in the financial year 2018/19.

Consequently, Mutebile announced that the benchmark Central Bank Rate (CBR) will remain at 9% in June and July.

"The Bank of Uganda assesses that the current stance of monetary policy is appropriate given the forecast inflation trajectory and current state of the economy," Prof. Mutebile said.

BETWEEN THE LINES: Leap in growth

Prof. Emmanuel Tumusiime Mutebile, the governor Bank of Uganda said, the leap in growth from 3.9% in the previous financial year is due to improvement in agricultural output as well as strong improvement in industry and service sectors.

Exchange rate, taxes and inflation to test economy

The governor, however, warned that a likely rebound in food prices and increased taxes could cause a rise in inflation towards the Central Banks 5% target in the next financial year from the current lows of 1.75%.

He also warned that a combination of gradual increase in global inflation and the weakening of the shilling, which has fallen by sh100 in one month to trade at 3810/3820 buying and selling respectively in June, is likely to make imports even more expensive.

Uganda imports more than it exports, creating a shortage of dollars. Dr Adam Mugume, the Bank of Uganda executive director for research, noted that imports increased by 17% in the three months ended April while exports increased less steeply at 11%, making hard currency harder to acquire.

Emmanuel Mutebile

In the financial year 2017/18, the current account deficit as a ratio of Gross Domestic Product (GDP) is projected to increase to 5.3% from 3.4% in the prior financial year, Bank of Uganda said in a statement.

Mugume said 69% of all Uganda's imports constitute raw material which cannot be easily substituted.

He noted that by keeping the CBR fixed for two more months, the Central Bank is waiting for the full effect of previous rate cuts to sweep through the entire economy.

"Forex denominated loans which had negative growth before April have started to rise. Credit to the private sector increased by 7.8% in April up from 3.9% mostly to the manufacturing and construction sectors," Dr Mugume said when commenting on the effect of previous Central Bank Rate cuts.

Experts weigh in

Stephen Kaboyo, the CEO of Alpha Capital Partners, said the monetary policy meeting came against a backdrop of very low inflation environment and at a point in time when there were domestic risks emanating from the volatility of the shilling in the recent past and its vulnerability.

"High fuel prices that have risen on account of, primarily, the global oil prices and the yet to be announced new fiscal measures that include tax on fuel," Kaboyo said.