Uganda and Post-Conflict Recovery: 1995 (Postscript)

Since launching the first Reconstruction and Development Plan in 1987, Uganda has made steady progress in macroeconomic stabilization. After a brief setback in FY 1991/92, the government introduced a policy shift to encourage private saving and investment. The components of this policy were:

- Foreign exchange controls have been eliminated and the shilling is determined on the market.
- Marketing of cash crops has been opened to competition, although in practice the old marketing boards still market a large share of the crops.
- Price controls have been eliminated. The role of the government in cash crops has subsequently shifted towards supervision and quality control.
- The Ugandan Revenue Authority was established in an attempt to broaden the government's revenue base.
- The size of the civil service and army were cut in half.
- The Ugandan Investment Authority was established to provide information and licenses, greatly simplifying the old system.
- The Bank of Uganda stopped controlling the level of interest rates.

Uganda has achieved a degree of macroeconomic stability. Vast improvements have been made on the inflation front as reduced fiscal deficits and restrictions on government borrowing from the Bank of Uganda brought inflation to below 10 percent by 1993, a far cry from the 200 percent rate observed in the mid-1980s. Exporters are actually having to deal with an appreciating Ugandan shilling, something unheard of for a generation.

Production has responded to the economic and political stability of the Museveni regime. Growth in real gross domestic product (GDP) picked up again after a disappointing FY 1991/92, averaging between 5 and 10 percent per year, as all formal sectors -- agriculture, industry and services -- expanded. Growth in the non-monetary sector has slowed. In particular, the food crop sector, recently freed from a myriad of government regulations and in position to export to drought-stricken areas of Africa, posted very strong gains (12.3 percent increase) in FY 1992/93. The manufacturing sector grew almost 15 percent in FY 1993/94, although a crumbling infrastructure continues to be a problem. To be sure, some infrastructure has been renovated; many roads, in particular, have been completely resurfaced.

The value of exports continued to fall until the world price of coffee recovered in FY 1994/95. However, export diversification has been quite successful: nontraditional exports doubled in 1993 and are currently about 30 percent of total exports. There is still, however, a large gap between exports and imports.

This case is the third in a series of three created by Frank Warnock and Patrick Conway of the University of North Carolina at Chapel Hill on the subject of Ugandan economic growth. Thanks to Phillip English and Jorge Araujo for useful comments on its content.

While macroeconomic stability and the removal of various disincentives have helped Uganda recover from its crisis, a number of economic problems still face Uganda. Foremost is the low levels of investment and savings, which by 1995 increased to 18 and 5 percent of GDP, respectively. At the heart of the problem is the weak performance of the financial sector, which is still far too narrow, consisting of only the seriously undercapitalized Bank of Uganda, ten commercial banks -- still dominated by the now privatized Uganda Commercial Bank -- and two development banks. Bad loans are taking their toll on the banking system, as the widening spreads between deposit and lending rates point to profitability problems. Moreover, the public is still somewhat wary of the financial sector, although the ratio of time deposits to GDP has risen by 1993 to 2.3 percent of GDP. A financial-sector reform program has been designed with the World Bank. Among the recommendations of that program is a recapitalization of the Bank of Uganda to enable a strengthening of regulatory powers.

The government, even with the establishment of the Revenue Authority, still suffers from low revenue collection. Foreign aid finances 60 percent of government spending. As AIDS continues to sap the resources of the nation, there is a great need for human capital investment, particularly in the areas of health and education. Government spending for health and education has increased steadily in real terms in the 1990s, mostly to increase salaries. Spending in these areas as a share of GDP still falls short of averages for Sub-Saharan Africa.