

The discussion above has given some light on the major causes of inflation in Uganda as identified by the different empirical studies on the subject. This gives us the direction to discuss the available policy options and those that are already existing.

12.4.7 Policies to Curb Inflation

- (i) Reduction of monetary growth so as to enable the control of inflation without inflicting on the overall economic growth.
- (ii) Unification of the exchange rate markets. An important policy reform in this line was the introduction of foreign exchange bureaux thereby legalising the black market. On top of this there was the starting of forex auction system in Bank of Uganda in early 1992. All these aimed at the reduction of the exchange rate premium which was considered to be the price signal.
- (iii) Trade liberalisation aimed at promoting external competitiveness were very instrumental in reducing inflation. The non-traditional exports were encouraged so as to broaden production and particularly the export sector of the country. As a result of this liberalisation, there was no more need for crop finance and farm inputs were made available.
- (iv) There has also been the restructuring of the government revenue system mainly through improved tax administration and tax collection. This was done by introducing the Uganda Revenue Authority(URA) in 1990. This has enhanced the capacity of the government to collect more revenue to finance its budget other than depending on borrowing from the Central Bank.
- (v) There has been attempts to encourage investment and help the rural poor in their production efforts. Productivity has improved for most consumer goods and capacity utilisation has also greatly improved. However, there is still need to improve facilities such as buffer stock facilities that will help stabilise food supply and hence food prices. This is very important given the seasonal variation impact on food prices and given the significance of food prices to the overall Consumer Price Index(CPI).
- (vi) As regards physical infrastructure, the road net work rehabilitation begun under the Economic Recovery Programme(ERP). This has reduced the problem of poor roads and the distributional costs of food and other consumer goods. The programme of road rehabilitation continues and each district under the decentralisation process has been given a road maintenance unit. This has led to improved rehabilitation and management of the road infrastructure.
- (vii) There has been increased donor system of assistance through import support loans and grants. These have provided budgetary support by financing over 80% of the fiscal deficit. This donor assistance has also eased the supply pressures by providing foreign exchange to import more goods to compliment domestic production.
- (viii) In an attempt to reduce the fiscal deficit government has tried to cut down public expenditure through public service reforms, that is retrenchment of civil servants, rationalisation of public enterprises to encourage efficiency, privatisation and demobilisation of the armed forces. All these are aimed at reducing government expenditure in order to have a manageable fiscal deficit.