

CENTRAL BANK RATE KEPT

A year ago, President Yoweri Museveni appointed Michael Atingi-Ego as the governor of Bank of Uganda, alongside Prof. Augustus Nuwagaba as deputy governor. Atingi-Ego was previously serving as deputy governor.

Since the appointments, the central bank has largely held its monetary policy stance steady, keeping the benchmark central bank rate at 9.75%. The rate remains higher than that of the pre-pandemic times, partly reflecting pressure from external economic conditions.

With the rate at those levels, the cost of capital remains a major concern for businesses. Economists say cutting the benchmark rate is one way of making borrowing cheaper and easing financing pressures in the market.

In a recent interview with *New Vision's* **Ali Twaha**, the central bank's leadership reflected on their biggest challenges, achievements and outlook since taking over.



Atingi-Ego (right) and Prof. Nuwagaba were appointed in February last year

Q Over the past 12 months, the central bank has largely maintained the benchmark lending rate despite a decline in inflation figures, among other external factors. What kind of indicators or data are you waiting for to

ease the policy rate?

A [Atingi-Ego] The uncertainty that is prevalent out there is one of the reasons why we have not lowered the rate. There is what we call the downside risks and the upside risks. And in terms of inflation, I think the risks are

more tilted to the upside, given the factors that are beyond our control.

Now, if you were to ease today and those factors crystallise, it means inflation is going to go up. Are you going to again raise after three months? What kind of signal are

you sending then? So, we are preferring to err on the side of maintaining the rate, given the uncertainty which is out there, which could make the inflationary pressures crystallise.

And those factors are beyond our control. If you look at what's happening in the global environment, there is a lot of uncertainty. Look at what's happening in the US, for example, in terms of the Federal Reserve. You don't know what direction the rates are going to take. There are all these geopolitical factors that could affect the supply and disrupt the supply rules. Look at what's happening in the Middle East. So, you need to be very cautious in not sending mixed signals. You are coming here today, we are easing. Then you come back here in May, we are raising. Then you begin to say, "but what are you doing to the markets?"

So, we are preferring to just maintain the rates

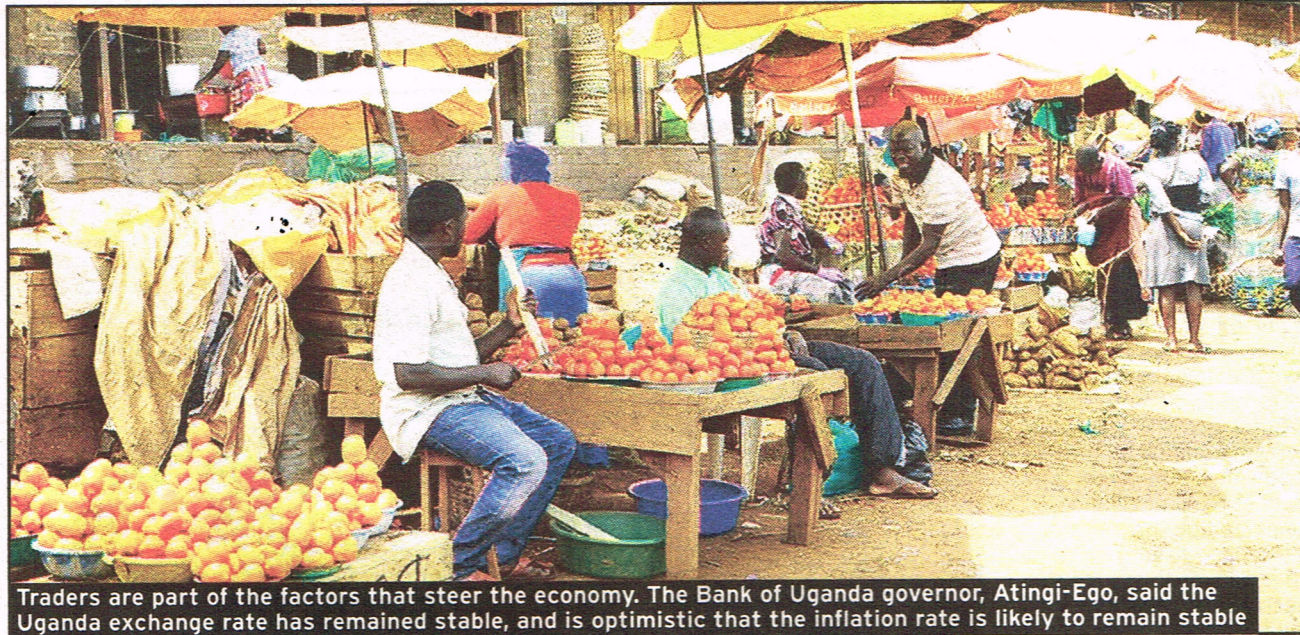
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The economy is not creating employment. When you look at aggregate demand function, when they say the economy is doing well, one thing people want to see is – if you are in the US or Europe, is employment. Its the first thing they look at, before you talk about another thing. And this is going to be a very big problem to Uganda, even politically. So, we want to work very hard to ensure that this output gap can create employment.

Unfortunately, it is largely in the services sector. Gross domestic product in Uganda is driven by the services sector. And this is not the sector where most of the people are employed.

But we are doing very well. And finally, I think the major challenge is digitisation. If you go to Kenya, you will find that M-Pesa is almost involved in 99.9% of the transactions. Most of them are zero-



Traders are part of the factors that steer the economy. The Bank of Uganda governor, Atingi-Ego, said the Uganda exchange rate has remained stable, and is optimistic that the inflation rate is likely to remain stable

rated. But here, it is not easy to have e-payments.

Our e-payments are heavily constrained by two major factors. I think one of them is financial inclusion. People are not financially literate to be able to apply

these tools.

But also, taxes are still high. We need to work with the minister of finance so that we do something on reducing taxes on e-payments. That would digitise the economy. It

would make our printing of currency, which is one of the material cost centres here, low. And then you have many people doing digital payments. Forexample, there is my mother, whom I can send

money to pay workers at home, and they are paid via mobile money.

In terms of the outlook, governor, any final remarks you would like to share?

[Atingi-Ego]: We have come through an election period and people are asking, "what is the impact of these on the economic activity?" But going by the early indicators, the exchange rate has remained stable. Inflation, like we have said, is likely to remain stable as well. So, we think that economic activity has not been affected to a large extent. If anything, it just remained stable. That's what we think.

But of course, once we get the data for January, we'll be able to talk more confidently because numbers don't lie. So, we are waiting for the data from January, and maybe for the first quarter of this calendar year, to properly assess the impact. But we want to believe that going by the early indicators, we think that activity remained buoyant. Unlike in the past, by now you'd be seeing all these variables flying through.