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PRESS STATEMENT ON THE RISING PRICES OF ESSENTIAL COMMODITIES

Ladies and Gentlemen,

1. I have come here to address the nation on the rising prices of some of the essential goods and services. In particular, the prices of cooking oil, laundry bar soap, fuel (petrol and diesel) and some services such as transport fares and education services have recently increased and caused discomfort among the public.
2. According to information from the Uganda Bureau of Statistics (UBOS), cooking oil has registered the highest rise in price by 21% between December 2021 and February 2022, and a 77.6% rise in the past one year.
3. The price of Laundry Bar Soap has increased by 20% between December 2021 and February 2022, and by 47.8% in the past one year, while fuel (petrol) has risen

by 15.3% in the past three months and by 34% during the past one year. Among other items.

4. As a result, the Consumer Price Index (CPI) for February 2022 increased to 3.2% from 2.7% in January 2022.
5. The rise of prices in Uganda, however, is much lower compared with current global trends. Inflation has risen everywhere in the world including in advanced nations, emerging economies and poor countries. For example, annual inflation rate in the U.S. accelerated to 7.9% in February of 2022, the highest they have recorded in 40 years, since January of 1982.
6. In the UK, inflation has increased to 5.5% in February 2022, the highest they have recorded since May 1992. Likewise, prices have increased in several of the emerging economies such as Brazil (11.0%) and India (6.1%), as well as in developing countries including Ethiopia (33.6%), Kenya (5.4%), Rwanda (5.8%) etc.
7. At 3.2% in February this year, Uganda's inflation remains within the target (of 5%) and one of the lowest in the region despite the increase in prices of some of the essential items.

Reasons for price increase of some essential goods:

8. The recent increase in the prices of essential commodities are a result of events that have occurred outside Uganda. Uganda is a net-importer of intermediate raw materials used in production of items such as refined cooking oil and laundry bar soap. The causes are as follows:
 9. *First*, the effect of COVID-19 restrictions across the world disrupted supply-chains leading to higher transport costs and shortage of intermediate raw materials used to produce items such as soap, cooking oil and others. In the recent past, global economy has faced high shipping costs, a shortage of shipping containers, and higher fuel prices; leading to supply shortages globally. In addition, adverse weather conditions in South America has led to low production of wheat and edible oils.
 10. *Secondly*, the full opening of economies globally following relative containment of Covid-19 has led to a rapid rise in aggregate demand for a number of fast-moving-goods (FMGs) beginning with oil, yet production levels had been constrained by Covid-19 restrictions.

This has led to increase in prices everywhere in the world.

11. *Lastly*, the situation has been worsened by the Russia-Ukraine conflict which has further disrupted supply of oil, cereals such as wheat, corn, and sunflower oil, as well as essential metals like aluminium and nickel. The two countries are major producers and exporters of these commodities.

12. As a result of the above factors, prices of several commodities and services in Uganda have increased significantly and raised overall inflation. The affected commodities include cooking oil, soap, fuel, and education services.

Facts about specific items

Laundry bar soap and cooking oil

13. The prices of cooking oil and laundry soap have risen mainly due to the rising price of crude palm oil at international markets. Approximately 70% of crude palm oil used as an input in production of these two commodities is imported. Manufacturers import this raw material mainly from Malaysia and Indonesia-the

two leading surplus producers of palm oil. In 2021, the two countries accounted for 84% of palm oil exports (Indonesia 59% and Malaysia 25%).

14. In the past two years, crude palm oil prices have almost doubled driven mainly by two factors:
 - a) Increased demand for palm oil, driven by the growing importation by China and India-the two largest buyers of palm oil globally, and
 - b) Severe labour shortages in Malaysia due to Covid-19 protocols, export restrictions introduced in Malaysia and Indonesia that limit the export of crude palm oil as well as extreme weather conditions in Malaysia and Brazil which have affected palm oil production.
15. In addition, the decrease in the global sunflower and soybean oil exports from Brazil, Peru, Argentina, which are close substitutes of crude palm oil, has increased the demand for palm oil and related products thereby propping up the prices.
16. Furthermore, the on-going geopolitical tensions between Russia and Ukraine - the two nations that account for half of the global supply of palm oil

substitutes has exacerbated the global shortages resulting in higher prices of raw materials.

17. Lastly, the supply of raw materials has further been affected increasing logistic and transport costs. Transport and logistics providers have increased their prices to meet the growing demand for their services following the full re-opening of most economies in the second half of 2021 and early 2022. To offset the increases in freight and transport related costs, manufacturers are passing on these costs to consumers.

Domestic fuel prices

18. Domestic fuel prices have also increased considerably mainly due to two factors;

- a) Increase in international oil prices by over 70% between January 2021 and February 2022 leading to the rise in domestic pump prices, and
- b) Impact of the recent fuel shortages caused by a strike at the Uganda-Kenya border in Malaba related to Covid-19 testing requirements. This caused an artificial shortage of fuel.

19. The rise in domestic fuel prices has partly contributed to increase in the distribution costs for the manufacturers since they rely on trucks to transport both raw materials and final products to markets.

Artificial supply shortages

20. While the recent increase in the prices of some essential items, especially laundry bar soap and cooking oil, is a cost-driven phenomenon explained majorly by international factors, it has come to the attention of government that some unscrupulous speculators are taking advantage of the situation by hoarding essential commodities in order to create artificial supply shortages and drive-up prices.

21. We are working with the relevant agencies to investigate this matter and we will take action against any operators found to be engaged in this practice.

Government response:

22. As we may all observe, the main causes of the recent increase in commodity prices are external and thus beyond the ability of policy makers in any one

country to deal with directly. We should not panic or alarm our people. This is a temporary situation that is going to subside sooner or later. Government is going to respond as follows:

23. Government through Bank of Uganda will continue to monitor the situation and respond, whenever necessary, with appropriate monetary policy to ensure inflation stays within target and maintain macroeconomic stability.
24. Government will continue to support our farmers to grow more food and vegetable seeds and cereals to take advantage of the rising global and regional prices to boost our export earnings.
25. Government will also continue to support the citizens and businesses to recover their sources of livelihoods from the impact of the Covid-19 pandemic so that they can weather such shocks. The provision of funds such as EMYOOGA, money in UDB, Microfinance Support Centre and the Small Business Recovery Fund is meant to help Ugandans revive their businesses and offer employment and markets for products produced in Uganda.

26. In addition, Government has started implementing the Parish Development Model so that the 39% of the households in subsistence may join the money economy and build capacity to withstand shocks such as price hikes.
27. Furthermore, the environment of high global commodity prices presents opportunities for Uganda to take advantage of. In the oil sector, we have completed all pre-conditions for production including securing the required financing and right of way for oil and gas related projects. We will expedite implementation of project activities to ensure timely start of oil production to bring in more dollars to boost our reserves so that Bank of Uganda has enough arsenal to fight the inflation.
28. The global shortage of palm oil, sunflower, and soybeans provide an opportunity for Uganda to scale-up production of the commodities to replace the imported content. Government had already foreseen shocks that may arise from disruptions in countries where we import raw materials and embarked on mitigating actions. We have partnered with BIDCO to grow palm oil in Kalangala and will provide more land

to BIDCO and Bukora Ltd in Sango Bay to grow more palm oil. In addition, we are also working with 40,000 farmers in northern Uganda to grow sunflower and soybeans for manufacturing oil.


29. To cushion consumers against high fuel prices, government - through the Ministry of Energy and Mineral Development is re-considering its regulatory role in the domestic fuel market to ensure that fuel price movements are a true reflection of the economic environment. In so doing, we will benchmark the approaches taken by our neighbors in the region.

30. In the medium to long term, we will continue to focus on infrastructure development – in particular road maintenance and the rehabilitation of the meter gauge railway in order to reduce on the time and cost of transportation.

Conclusion

In conclusion, fellow countrymen and women, the recent rise in prices of some of the essential goods and services is a temporary shock, having been caused by disruptions in the global supply chains due to Covid-19 and geopolitical tensions. The situation will soon normalize. We are

monitoring the situation and will respond with appropriate policy interventions to ensure macroeconomic stability and affordable cost of living for all Ugandans. We will also ensure that we take advantage of these global crises to boost our Import Substitution Industrialization strategy to support private sector to produce domestically some of the intermediate goods used to produce most of the affected goods and service.



Matia Kasaija (MP)

**MINISTER OF FINANCE, PLANNING AND ECONOMIC
DEVELOPMENT**