

Current Inflation Trends: Main Drivers, Causes and Policy Implications

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1.1 Introduction

Inflation is a measure of price changes for a group of items in a determined and fixed consumption basket of goods and services. Inflation rate, therefore, measures the rate at which prices change. Price changes are measured against a benchmark (reference) period called base period, usually denoted by 100 – i.e., any movements in prices are measured from this reference period.

The overall or all items inflation is referred to as the Headline Inflation. This captures the price changes of all items in the consumption basket. It is important to mention that within the all items (Headline) inflation, are items that are prone to volatile price changes due to unpredictable/irregular factors. When these items are excluded from the all items basket, then the measure is referred to as Core (or Underlying) Inflation. For the case of Uganda, the Core Inflation excludes as electricity, fuel products and metered watered water, as well as food crops, fresh milk and tobacco leaves. Important to note is that it is only food crops and perishable food such as fresh milk, whereas processed foods are categorized in the Core inflation. The items that are excluded from the Core are further classified and reported separately. For example, electricity, fuel products and metered water are classified in Energy, Fuel and Utilities (EFU) Inflation category. Food crops and related food items. Table I gives the Consumer price index classification by major categories.

Table 1: Consumer Price Index by Major Categories

| No. | CORE | FOOD CROPS & RELATED ITEMS | EFU |
|-----|---|---|--|
| 1 | Cassava processed, Dried beans, Ground nuts, Peas, Rice, Grains, Grains Flour, | Matooke (clusters & bunches), Banana (ndizi & bogoya) | Electricity, Water metered |
| 2 | Meat, Chicken, Eggs, Fish, Milk (processed), | Potatoes (Irish & sweet), Cassava (fresh) | Paraffin, Kerosene, Motor fuel (Petrol & Diesel) |
| 3 | Bread, Sugar, Tea leaves, Coffee, Salt, Cooking fats and oils | Fruits (Passion, Mangoes, Oranges, Water Melon, Pineapples, Papaya, & Avocado | Propane gas |
| 4 | Soft drinks, Alcoholic drinks, & Tobacco | Vegetables (Tangerines, Onions, Garlic, Tomatoes, Cabbage, Bbugga, Carrots, Green pepper, Egg plant, Pumpkin, Beans fresh, etc. | |
| 5 | Clothing & Footwear, Domestic fuel & Soap | Milk (fresh) | |
| 6 | Rent, Building materials, Furniture | Cassava (dry fermented) | |
| 7 | Transport fares, Education costs, Health goods and services, Communication services, Hotel and Restaurant services & Hair dressing services | Tobacco leaves | |
| 8 | Electricals and electronics | | |

Currently, the computation of Uganda's inflation is benchmarked on 2005/06 prices, hence Base 2005/06=100. This is measured as Annual inflation measures capturing year-on year price changes as well as Monthly Inflation that captures changes between months.

The paper consists of three sections. The next section (section 2) focuses on Uganda's inflation trends from July 2006 to April 2011. Section 3 tries to identify the major drives and causes of inflation. Finally, Section 4 provides policy implications and institutional recommendations.

1.2 Recent Inflation Trends

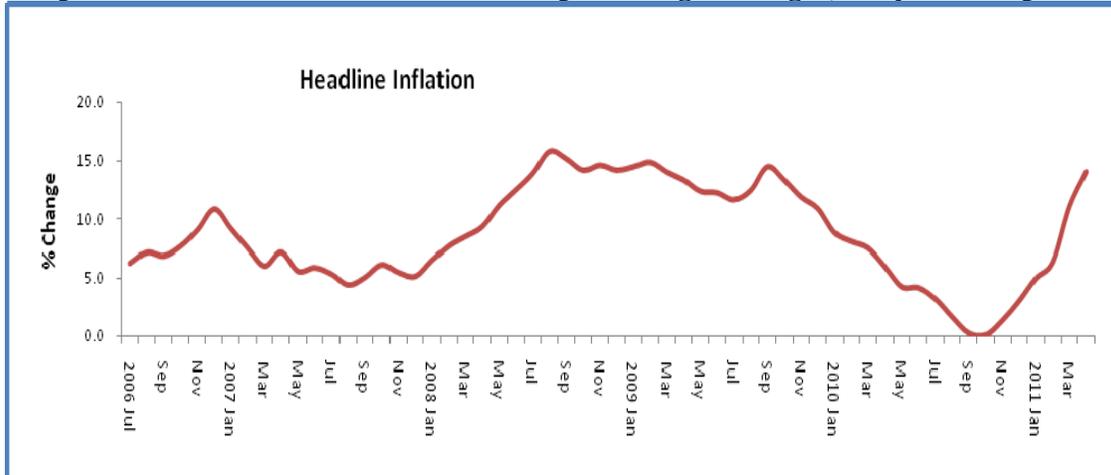
This section explains the inflation trends for the different categories. It also attempts to trace the correlations and relationships between the different inflation categories.

1.2.1 Annual Headline Inflation Trends

With the exception of December 2006, the Annual Headline Inflation rates maintained a single digit figure (below 10%) between June 2006 and April 2008. In May 2008, the Headline Inflation rate rose to above 11.2%. The rising trend continued up to February 2009 when the Headline Inflation rate was 14.9%. Note that in between, in August 2008, there was a dramatic rise of Headline Inflation rate to 15.9% (the highest ever Headline inflation since July 2006) before easing to 15.2% in September 2008 and then to 14.2% in October 2008.

The high inflation levels persisted, cascading between 14.7% and 14.1% until March 2009, before falling to 13.4% in April 2009. The declining trend continued, though still in double digits, until January 2010 when Headline inflation rate was recorded at 8.9% and reached the lowest level at 0.2% in October 2010. Subsequent months witnessed rising inflation trend. In November 2010, the Headline inflation rate rose to 1.4% and to 3.1% in December 2010 and kept accelerating to 6.4% in February 2011, and rose sharply to 11.1% in March 2011. The rate for April 2011 was recorded at 14.1%. The movements in the Annual Headline inflation rate are shown in Graphs 1.

Graph 1: Headline Inflation - Annual percentage changes, July 2006-April 2011

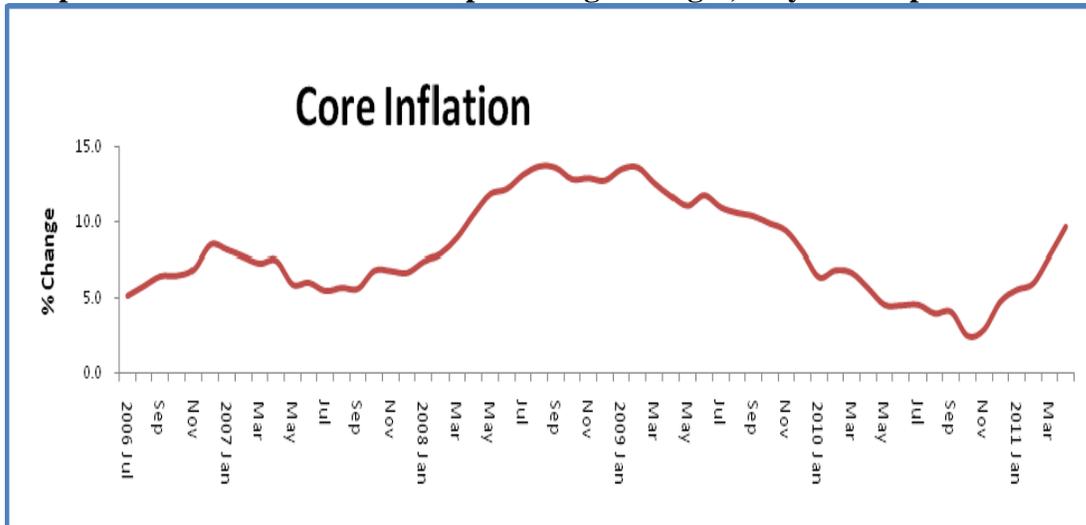


Source: Uganda Bureau of Statistics

1.2.1 Annual Core Inflation Trends

The Annual Core inflation had a similar trend to the Annual Headline inflation. Between June 2006 and February 2008 (again with the exception of December 2006), the Annual Core Inflation rate remained below 8.0% until March 2008 when it rose to 9.0% and jumped above 10% in April 2008. In May 2008, the Core Inflation rates rose to above 11.0%. The rising trend continued up to February 2009 when Core Inflation rate peaked at 13.6%. It then commenced a downward trend. In April 2009, Core Inflation rate was 11.7% and declined systematically to 2.5% in October 2010. Thereafter, it started rising to 4.8% in December 2010. Between January and April 2011, the Annual Core Inflation rate continued to rise from 5.6% in January 2011 to 7.8% in March 2011 and to 9.7% in April 2011. Graph 2 plots the movements for the period between July 2006 and April 2011.

Graph 2: Core Inflation - Annual percentage changes, July 2006-April 2011



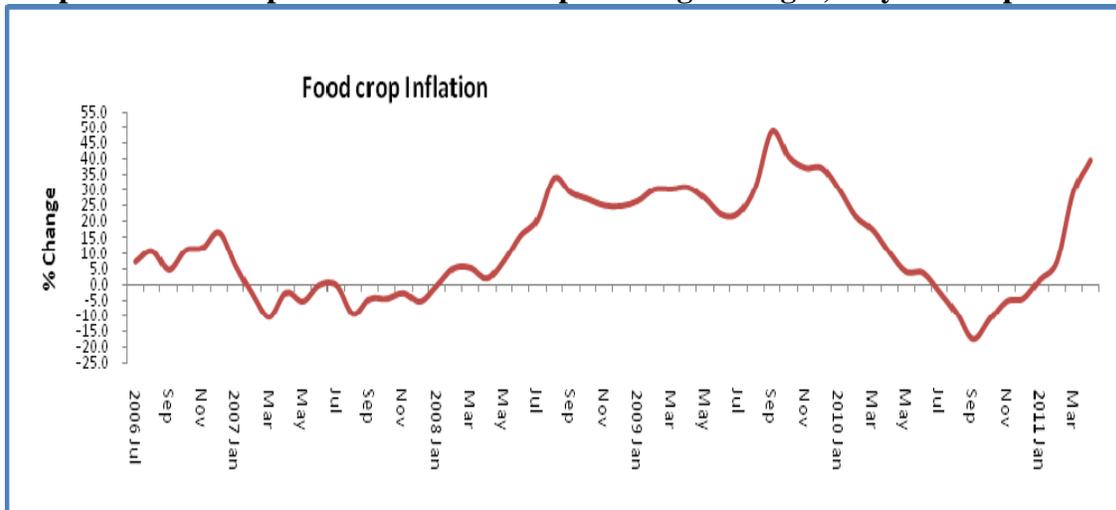
Source: Uganda Bureau of Statistics

1.2.3 Food Crops Inflation Trends

Between July and November 2006, the Annual Food Crops inflation rate was below 12%, although it temporarily rose to 16.4% in December 2006. This was followed by a sustained decline in Food Crops inflation during 2007: falling from 5.6% in January 2007 to -10.6% in March 2007 before marginally rising to -9.6% in August 2007 and to -5.5% in December 2007. Then in 2008, the negative levels reversed when Food Crops inflation started rising from -0.5% in January 2008 to double digits levels. By June 2008, when the financial crisis started in USA, Europe and East Asia, the Food Crops Inflation rate had risen to 15.4% from 4.8% in February 2008.

It should be recalled that world commodity prices rose rapidly prior to the crisis and maintained the upward trends and Uganda's food prices situation was no exception. Notice that the highest Food crops inflation rate registered was in September 2008 when it peaked 48.3%. Food Inflation continued rising throughout the crisis period and beyond until February 2010 easing to 21.5% that month from 30.0% in January 2010. Subsequent months registered decreases in Annual Food crops Inflation rate, declining to single digit to 3.9% in June 2010 before dropping further to negative figures in July to December 2010. The movements of food price changes for the period between July 2006 and April 2011 are shown in Graph 3.

Graph 3: Food Crops Inflation - Annual percentage changes, July 2006-April 2011



Source: Uganda Bureau of Statistics

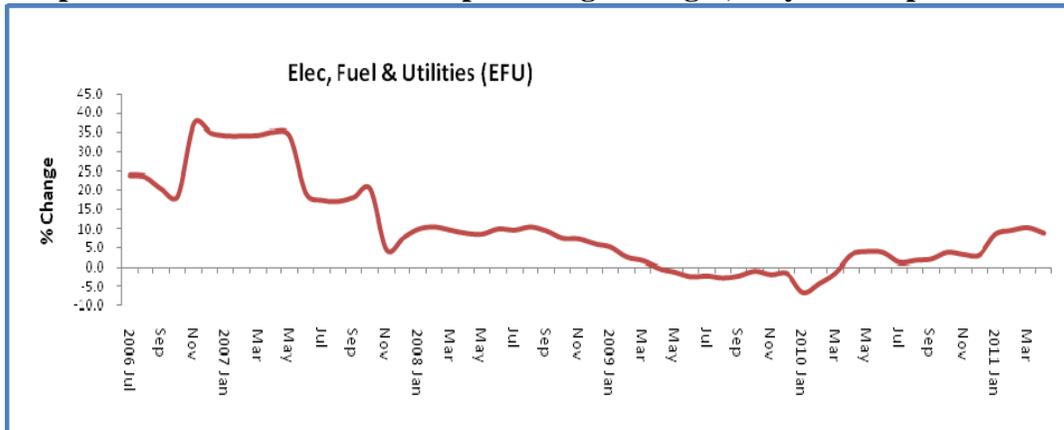
Note, however, that although Food Crops Inflation rates remained in negative figures, the levels consistently rose from -17.6% in September 2010 to -4.6% in December 2010 and started registering positive figures in 2011. In fact, Annual Food Crops inflation rose to 1.5% in January 2011 and dramatically quadrupled to 6.9% in February 2011 and to 29.1% in March 2011. The April 2011 Annual Food Crops inflation rate was 39.3%.

1.2.4 Annual EFU Inflation Trends

The pre-crisis period was characterized by rising energy prices. Between July 2006 and May 2007, Annual EFU inflation rate rose from 23.8% to 35%. Thereafter, the EFU inflation started declining steadily, registering negative levels from April 2009 until March 2010 owing to decreasing crude oil prices on world market. From April 2010 to December 2010, the Annual EFU inflation rate was rising at an average rate of 3.2%. It

however started rising sharply to 8.6% in January 2011 and 10.4% in March 2010 before slightly easing to 9.0% in April 2011. The trends are shown in Graph 4

Graph 4: EFU Inflation - Annual percentage changes, July 2006-April 2011

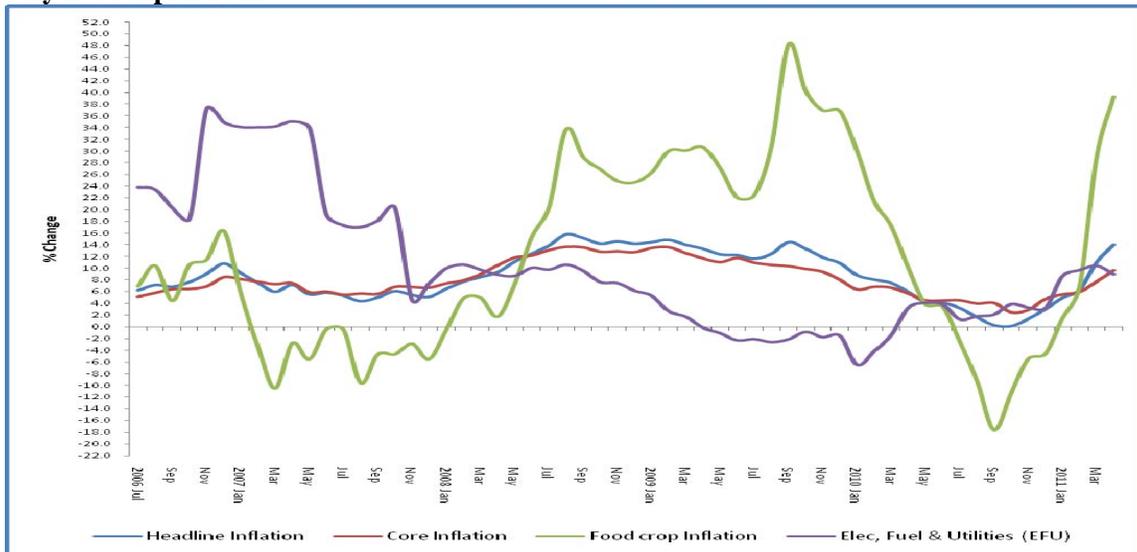


Source: Uganda Bureau of Statistics

1.2.5 Inflation Rates Movements: Are there any Correlations?

Graph 5 shows the trends for Annual Headline, Core, Food Crops and EFU inflation rates plotted together to help understand how inflation rates for all the major categories have evolved over time.

Graph 5: Headline, Core, Food Crops, EFU Inflation rates - Annual percentage changes, July 2006-April 2011



Interesting patterns of price movements emerge from Graph 5. First, the Headline and Core Inflation rates tended to move smoothly together through the July 2006 – April 2011 period. Second, when Food Crops inflation rose, the Headline and Core tended to experience an upward movement. The converse is also true. When Food Crops inflation dropped the Headline and Core experienced a downward trend. This is consistent over the period as shown by the upward and downward slopes for the three categories. Third and most crucially, there is evidence of a lot of uncertainty in the Food Crops inflation movements, with violent fluctuations. Finally, the correlation between the EFU inflation movements and the others (Headline, Core and Food Crops) is somewhat ambiguous,

except for a “special (crisis) period” between September 2008 and August 2009 where inflation rates for all categories had downward movements but still with no clear cut correlations.

What is important to note is that while the EFU prices were falling drastically between January 2007 and July 2008, inflation rates for Food Crops and Core were rising unabated. Yet more intriguingly, when the EFU inflation rates started surging upwards between January and June 2010, the Food Crops inflation rates declined dramatically. The Core and Headline Inflation rates also dropped (though not as much as the prices of Food Crops) during January – June 2010. In particular, during the period when Food Crops Inflation rates reached negative level (between July and December 2010), the Headline Inflation rates were also declining rapidly. Most importantly, the Annual Core remained below 5.0% during the same period, declining from 4.2% in August 2010 to 2.9% in November 2010 before rising to 4.8% in December 2010. Thus, the trend in Food Crops Inflation is positive and highly correlated to the Headline Inflation and slightly to Core inflation.

Inflation for all categories continued to rise between January and April 2011. However, between March and April 2011, the inflation increased at a decreasing rate for all categories, except for the Core.

In particular, the monthly percentage changes for Headline, Food Crops and EFU inflation in April 2011 were lower than the changes recorded in March 2011. For example, the monthly Headline inflation rose by 3.0% for April 2011 compared to 4.1% recorded in March 2011. Similarly, monthly Food Crops inflation rose by 8.6% compared to 17.4% recorded in March 2011 and monthly EFU rose by 1.3% in April compared to 1.9% in March 2011. In contract, monthly Core inflation went up by 1.9% in April compared to 1.7% in March 2011.

1.3 Main Drivers and Causes of Inflation

One of the major drivers of inflation is increase in food prices. Of recent, food prices have been increasing due to reduced supplies to the market. Reduced supplies are mainly attributed to a spell of drought in the country that began late December 2010 to early March 2011, which affected production of main food commodities. Moreover, there was an increased demand for Uganda’s food commodities by neighbouring countries (mainly South Sudan, Kenya and Rwanda). In addition, rising fuel prices have filtered through to transport sector, which has in turn raised the cost of Food Crops’ distribution to markets. There are three reasons why fuel prices are rising. First, world crude oil prices are high and continue to increase. Since all of the fuel products on the market are imported, it turns out that the country is importing inflation. Second, there have been oil supply shortfalls in the face of Middle East Crisis and rising demand of fuel products due to the combined effects of increasing population and household income. Third, the shilling has been experiencing depreciation pressures from international currencies especially the US Dollar, which is the main unit of international transaction. This makes imports of fuels very costly.

Thus, the rising food prices have been precipitated by both the supply-side and demand-side factors, both domestic and international, as described above some of which might persist in the medium term. The increase in food prices reflects a complex interplay of temporary and long-term factors. Factors that may be reversible include drought, especially if current rains continue. High fuel prices and hence higher cost of fertiliser products have contributed to higher prices for all agricultural commodities. Higher costs of farm inputs including seeds and implements have constrained production fuelling rising food prices. Generally, inelastic supply response, increasing domestic consumer demand and other external factors have contributed to food shortages and hence rising food prices. Note that the other external factor not mentioned above is the increasing prominence of bio-fuel sector in the USA and EU that is currently receiving much political support and subsidies, due to the need to reduce reliance on petroleum. This aspect appears to have fuelled global demand for cereals, especially maize, which go into ethanol production.

In addition, prices of imported foodstuffs have been rising. This is also true for all the other imported goods. Global inflation in Uganda's major trading partners such as China, India and Kenya has continued to rise, translating into higher domestic inflation. Besides, the increase in prices of imported industrial raw materials passes-through to domestic costs of production and consequently to higher Core Inflation.

The depreciation of the shilling against international currencies has complicated the whole story. The shilling appreciated against the US Dollar by 1.1% on a monthly basis but depreciated by 13.7% on annual basis in April 2011, to an average of UGX 2,367.4 per US Dollar. Central to this continued depreciation is largely a weak current account balance, owing to the widening of the Uganda's trade deficit. Expenditure on imports has increased more than the foreign exchange earnings from exports. For example, the overall trade deficit has worsened from US \$ 1.97 Billion in 2009 to US \$ 2.58 Billion in 2010. This is even a higher trade deficit compared to a deficit of US \$ 2.1 Billion in 2008 when there was a global financial crisis. A year earlier, in 2007, the deficit was US \$ 1.7 Billion. Table 1 gives the monthly external trade sector performance for January 2010 to March 2011.

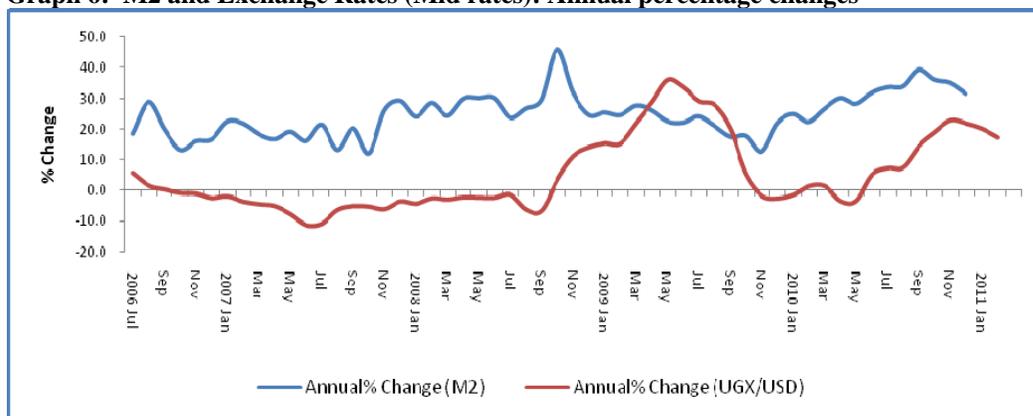
Table 1: Monthly Exports, Imports, Trade Balance (US \$) and Month-on Month Exchange rate (UGX/US\$)

| Year | Month | Exports | Imports | Trade balance | Annual %age Change (UGX/US\$) |
|------|-------|---------|---------|---------------|-------------------------------|
| 2010 | Jan | 197,443 | 351,591 | (154,147) | -1.5 |
| 2010 | Feb | 193,179 | 380,405 | (187,226) | 1.4 |
| 2010 | Mar | 198,079 | 397,059 | (198,980) | 1.5 |
| 2010 | Apr | 173,112 | 384,283 | (211,171) | -3.5 |
| 2010 | May | 173,831 | 423,328 | (249,498) | -3.4 |
| 2010 | Jun | 168,077 | 383,004 | (214,928) | 5.2 |
| 2010 | Jul | 156,521 | 388,448 | (231,926) | 7.3 |
| 2010 | Aug | 178,752 | 391,448 | (212,696) | 7.5 |

| | | | | | |
|------|-----|---------|---------|-----------|------|
| 2010 | Sep | 157,763 | 379,152 | (221,389) | 14.4 |
| 2010 | Oct | 173,238 | 405,913 | (232,675) | 19.0 |
| 2010 | Nov | 183,906 | 414,455 | (230,548) | 22.9 |
| 2010 | Dec | 195,673 | 431,753 | (236,080) | 21.8 |
| 2011 | Jan | 152,065 | 464,078 | (312,013) | 20.1 |
| 2011 | Feb | 158,611 | 412,532 | (253,921) | 17.2 |
| 2011 | Mar | 171,974 | 495,058 | (323,083) | 13.7 |

The weakening current account balance has been exacerbated by speculative carry trade dominated by offshore activity with an average share of 29% of the large deals (BOU) in foreign exchange market between November 2010 and March 2011. According to BOU, the real effective exchange rate appreciated by 0.75% in March 2011 compared to a depreciation of 0.51% in February 2011, owing to higher domestic inflation at 11.1% compared to foreign inflation of 6.4%. Note that there was a sharp depreciation of the shilling between October and December 2010, and a corresponding growth in money (M2). The Headline Inflation rate started rising November 2010 from declining levels in the previous period, as shown in Graph 6.

Graph 6: M2 and Exchange Rates (Mid rates): Annual percentage changes

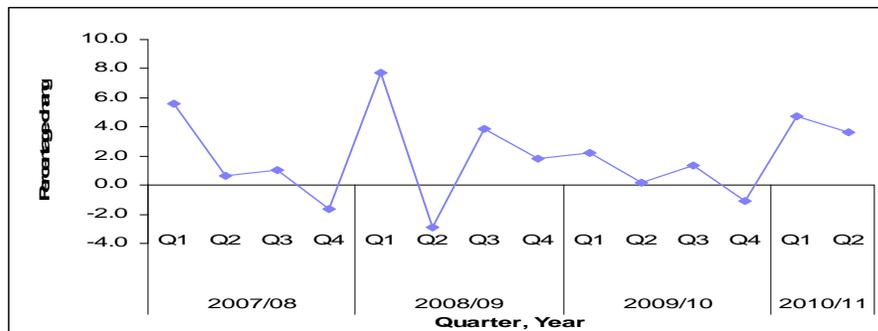


Source: Bank of Uganda

The persistent volatility in the exchange rate represents risk and uncertainty and this could deter economic growth. Furthermore, long-term exchange rate fluctuations affect the competitiveness of domestic export and import competing industries. Yet, there were signs of strong growth in the first half of FY 2010/11 as shown in Graph 7 below.

Graph 7 reveals that there was a recovery in economic activity during the first half of FY 2010/11, growth having slowed down since the second half of FY 2008/09.

Graph 7: Quarterly Growth Rates, Seasonally adjusted GDP at constant (2002) market prices



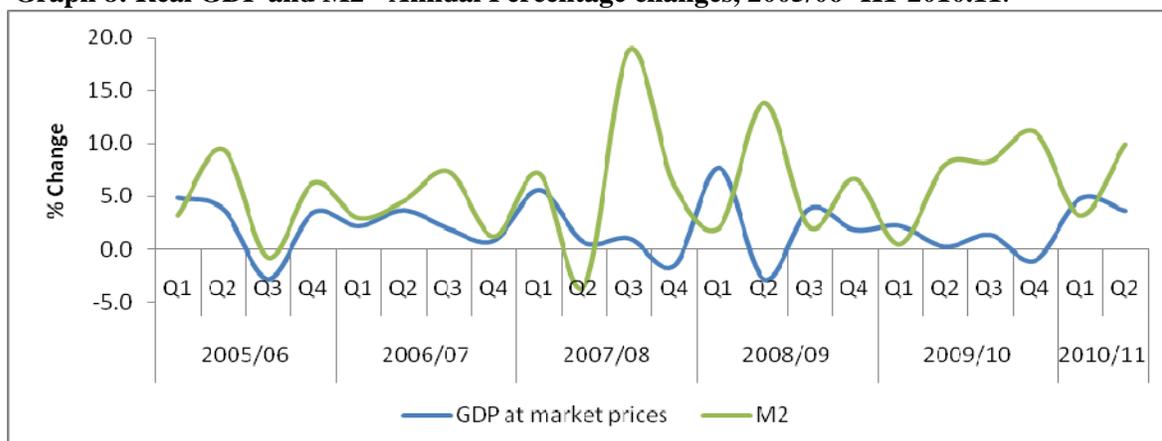
Source: Uganda Bureau of Statistics

Note: Q denotes a quarter of the year. Q1 covers periods July-September, Q2 covers October-December, Q3 January-March and Q4 April- June for respective financial years.

GDP grew by 4.8% between July and September 2010 (Q1-2010/11) and by 3.6% between October and December 2010 (Q2-2010/11), averaging 4.2% in the first half of FY 2010/11. Most importantly, the acceleration in first half growth (H1-2010/11) was accompanied by strong growth in monetary aggregates. In particular, from July to March 2011, annual growth in M2 averaged 33.3% compared to a growth of 22.4% in the corresponding period of July 2009 – March 2010 as shown in Graph 8 below.

Note that strong growth in monetary aggregates was supported by a corresponding growth in economic activity from FY 2005/06 until first half of 2007/08 (H1-2007/08) when the economy grew between 10.0% and 8.9%. For obvious reasons, however, the story during the crisis period (from Q3-2007/08 to Q3-2008/09) is mixed when the economy slowed down until end of FY 2009/10. It was then necessary to stimulate aggregate demand during the post-crisis period for the economic activity to recover. Consequently, there was a strong rebound in growth in Q1-2010/11, closing the output gap. This could have resulted in overheating of the economy with attendant inflationary pressures.

Graph 8: Real GDP and M2 - Annual Percentage changes, 2005/06- H1-2010.11.

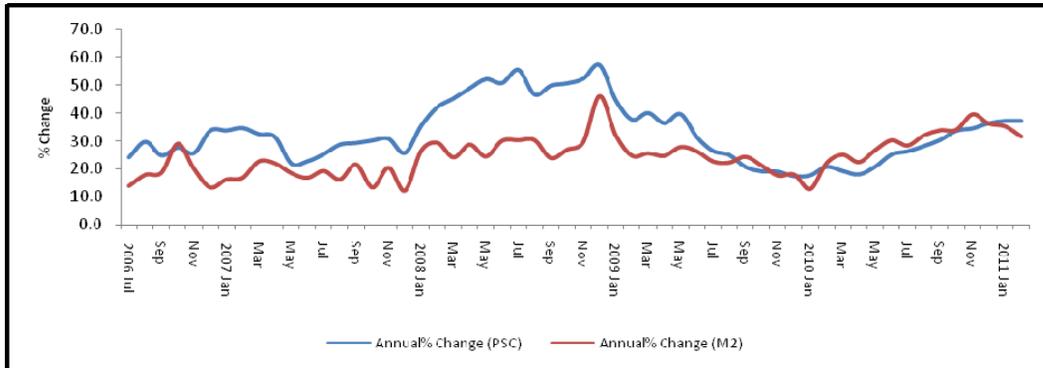


Source: Uganda Bureau of Statistics and Bank of Uganda

At the same time, between July 2010 and March 2011, private sector credit continued to grow, averaging 32.5% compared to 19.0% in the corresponding period of 2009/10 as

shown in Graph 9. See last segment of the graph (July 2009 –March 2011) for clearer understanding.

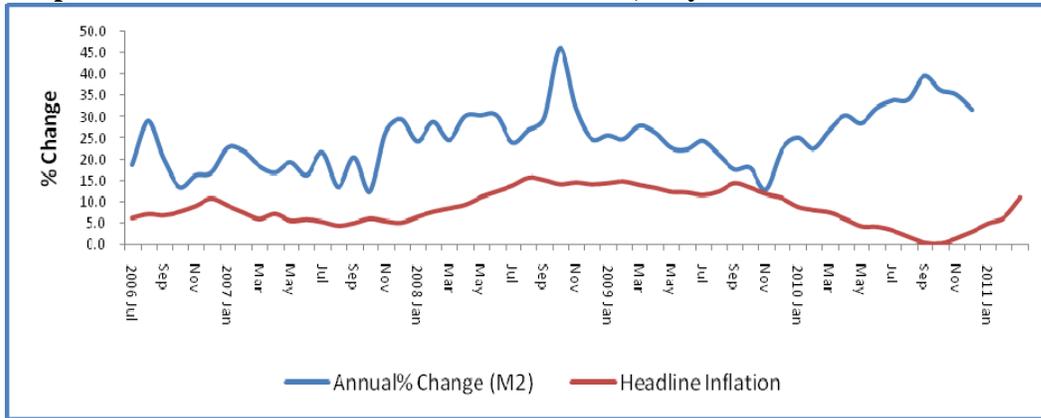
Graph 9: Private Sector Credit and M2 - Annual Percentage changes, July 2006 – March 2011.



Source: Bank of Uganda

According to BOU, net credit extension remained robust between July 2010 and March 2011: net extensions averaged UGX 110.7 billion per month compared to UGX 49.6 billion per month during the previous corresponding period, July 2009 to March 2010. The credit conditions boosted demand and hence could have subsequently contributed to rising rates of inflation. Graph 10 shows the pattern of growth of money and Headline inflation over July 2006 to March 2011.

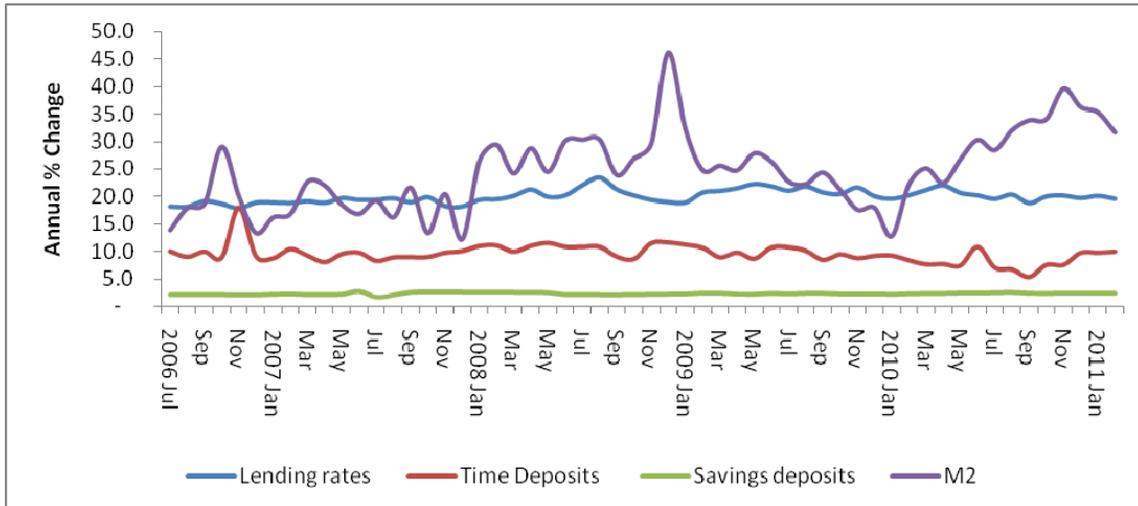
Graph 10: M2 Growth and Headline Inflation rate, July 2006 –March 2011



Source: Bank of Uganda, Monetary Survey

Another issue worth noting is how commercial bank interest rates namely lending, time deposits and savings rates have discouraged households from saving and hence continue to promote current consumption. The spread between lending rates and time deposits rates is wide and that between lending rates and savings rates is very wide as shown in Graph 11. The differential between lending rates and savings rates should not be this large if the country is to realise sufficient savings. These spreads (bandwidths) need to be very close (tight) so that the wedge between borrowing from and saving in commercial banks is diminished. Households would find it attractive to open savings accounts in banks, ensuring that all income generated from production is not spent on current consumption and consequently reducing the amount of currency in circulation. Competition among commercial banks could reduce the wide disparity.

Graph 11: Commercial Bank Interest rates and Money supply: Annual Percentage Changes, Jul 2006 – March 2011



Source: Bank of Uganda

By suppressing current consumption, individuals/households make available a pool of funds that firms use to buy capital goods for investment. Put simply, households must be encouraged to save, which would in turn facilitate firms to borrow these savings to invest.

Without the initial availability of savings, it would not be possible to invest and there would be no expansion of capital and output.

The important question, however, is as to whether the current arrangement in which commercial banks cooperate under the umbrella of Uganda Bankers' Association (UBA) with their selfish interests encourages healthy competition. This might not be possible because the UBA may be tempted to act like a cartel, making the interest rate instrument sterile in the current situation. Competition can only come from another source to neutralise the cartel tendencies.

In summary, inflation has been driven by both domestic and external factors. One main domestic factor is increasing food prices owing to supply constraints. The second domestic factor is exchange rate depreciation. The third one is strong growth in aggregate demand that responded to acceleration of economic activity in the first half of FY 2010/11. External factors included increasing crude oil prices on international market and global inflation in Uganda's major trading partners, implying imported inflation. Finally, high demand for the country's food commodities in the region and rest of the world has put pressure on domestic food prices, owing to supply rigidities.

1.4 Policy Implications

Risks to rising inflation are still high. Annual Headline inflation has accelerated since December 2010. The high Headline inflation is largely attributed to increasing food prices due to prolonged drought. External factors, mainly high international oil prices and global inflation have contributed to the acceleration of Headline inflation. Consequently, the pressures have spilled over into Core inflation. If the current high levels of inflation persist, in double digits for longer period, the economy would slow down rapidly and eventually contract, with adverse household welfare effects. Therefore, immediate policy measures need to be taken to tame the rising inflation without undermining growth.

The question then is how to respond in a way that will help mitigate the short-term negative macroeconomic and welfare outcomes of high inflation while at the same time ensuring that policy actions needed for long-term development and increased food supply are not jeopardised.

1.4.1 Short- and Medium- term Actions

- (1) Foreign exchange market interventions are an optimal monetary response. Thus, Bank of Uganda interventions in the foreign exchange market should continue to tame the continuing depreciation of the shilling. Halting the depreciation of the exchange rate would suppress the rising producer price inflation and imported inflation - imports would become cheaper, including fuel products consequently reducing the risks to further Core inflation increases.
- (2) On high aggregate demand, BOU should continue tightening monetary policy. Disregarding the current inflation would warrant BOU to over tighten policy in future, which might have an adverse impact to the economy. Thus, BOU should

suppress aggregate demand now to prevent inflation from getting out of hand and avoid contraction of the economy with negative welfare consequences.

1.4.2 Medium-term Strategies and Policy Actions

- (3) In the medium- to long-term, the current commercial banking sector should have to be made competitive. Why should there be a large disparity between lending rates and savings rates? High lending rates and low savings rates discourage rural development as small farmers and businesses find it difficult to borrow from commercial banks. Yet, their savings with very low rate of return in commercial banks, if any, are eroded by prohibitive bank charges. To address this, Government should establish a “competitive” commercial bank, for instance, an agricultural bank as has been suggested in some circles, to be a source of affordable credit at the same time providing attractive savings rates to smallholder farmers and enterprises scattered across the country. This action would consequently force UBA to respond with desirable rates. In doing so, more money would be channeled into real sector activities and the surplus saved given the attractive savings rates, which in turn would be lent to firms for capital formation. The mechanism from savings to investment and production including manufacturing is a simple starting point of all the theory of economic growth.
- (4) A close eye should be kept on developments in regional market particularly for food commodities. If regional food prices continue rising, Government should set price floor (minimum prices) for food commodities to protect smallholder farmers from being exploited by exporting businesspersons. This measure would also protect the producers of food commodities from future price falls during bumper harvest period. If prices on food exports keep on escalating, an export tariff on food commodities should have to be imposed. The proceeds from the export tax would be saved as a stabilization fund, to be used in future to purchase food commodities from farmers when prices of their produce fall or, indeed, used as lump sum transfers to vulnerable communities when food prices escalate in future.
- (5) Price ceilings should also be placed on other goods. This would eliminate price distortions that lead to departures from the efficient allocation. Speculators with selfish interests who tend to distort prices should be put in line by bureaucratic commands. The commands should be based on concerted negotiations with wholesalers and retailers to avoid hoarding. An independent office to oversee the price setting mechanism and enforce market discipline in the goods market should be established, therefore. This measure would protect the consumers from being exploited by speculative trading.

1.4.2 Long-term Strategies and Policy Actions

The long-term strategies to address the existing supply constraints should be put in place.

- (6) For Food Crops Inflation, the supply constraints range from production, to storage and distribution to markets. Focus should be placed not only on safety nets aimed

at cushioning vulnerable communities and urban consumers from food inflation, but also on providing right investments and incentives to produce sufficient food. In line with the Millennium Development Goals (2000) and Maputo Declaration, policy reforms aimed at revitalizing agricultural systems needed to create growth, reduce absolute poverty reduction and eliminate hunger and malnutrition should be implemented. The service delivery mechanism of Government agencies such as NAADS, research/extension services and sub-national governments in agriculture and other related sectors must be reexamined. Poor adoption of technologies by smallholder farmers, who constitute the bulk of food producers in the country, remain a serious constraint to agricultural development. These farmers need adequate access to credit, improved seed varieties and fertilizers as well as modern farm implements. Better coordination among service providers such as agricultural research institutions, subject matter specialist (in crop and animal husbandry), extension workers and chiefs (at parish and sub-county level) will be vital for sustainable development. Central government should have to keep a close eye on institutional aspects related to “elite capture” of government projects and programmes aimed at promoting agriculture. In sum, delivery of appropriate farm inputs and technologies for production and post-harvest technology, in particular introduction of byelaws to enforce food granaries at household level as well as establishing national food silos in the four regions, for food security will be critical in curbing rising food inflation.

- (7) On EFU inflation, an elaborate Government policy on fuel products focusing on entire value chain is needed. Refurbishing and stocking national fuel reserves (for imported fuel products and future domestic production) should be given high priority. Other aspects that require serious consideration could include government collaborating with private sector in distribution and marketing petroleum products. These strategies would ensure steady supplies and consequently stable fuel prices.