NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

Uganda Vision 2040

APRIL 2018

Key Economic Highlights

- Global growth in 2017 was the fastest since 2011, recorded at 3.8 percent and is expected to pick up to a rate of 3.9 percent in both 2018 and 2019
- The economic growth outlook is positive, with expectations of recovery on account of an improved external environment, improvement in the agricultural sector production in addition to increased investment
- Inflationary pressures decreased during year ending April 2018, with annual headline inflation registered at 1.8 percent.
- There was increased pressure on the Uganda Shillings leading to a higher exchange rate, of 3,713 Ushs per US$ at the end of April 2018 from 3,687 Ushs per US$ at the end of March 2018.
- Tax Revenue and grants fell short of the government expenditures giving rise to a fiscal deficit of 11.8 billion.
- April was marked by a widening trade deficit of US$215.8 million arising from a fall in exports amidst a rising import bill.

1.0. Developments in the World Economy

Developed under the theme of Cyclical Upswing and Structural Change, IMF's World Economic Outlook April 2018 indicates that global growth in 2017 was the fastest since 2011, recorded at 3.8 percent. With financial conditions still supportive, global growth is expected to pick up to a rate of 3.9 percent in both 2018 and 2019.

It was noted that whereas upside and downside risks to the short-term outlook are generally balanced, risks beyond the next several quarters lean to the downside. Downside concerns include a possibility of a sharp tightening of financial conditions, declining popular support for global economic integration, growing trade tensions and risks of a

shift toward protectionist policies, and geopolitical strains.

Tighter financial conditions in the United States are prone to having spillovers to other economies, including through a reduction in capital flows to emerging markets. The large expansionary fiscal policy in the United States, yet the current account deficit is already larger than justified by fundamentals, combined with persistent excess current account surpluses in other countries, is projected to widen global imbalances. Anxiety about technological change and globalization is on the rise and, when coupled with wider trade imbalances, could lead to a shift toward inward-looking policies, disrupting trade and investment. Recent import restrictions announced by the United States, and retaliatory actions by China, and potential retaliation by other countries also increase concerns in this regard and threaten to damage global and domestic activity and sentiment.

Similarly, changes in US tax policies are expected to worsen income polarization, which could affect the political climate for policy choices in the future. Additionally, climate change, geopolitical tensions, and cybersecurity breaches pose additional threats to the subdued medium-term global outlook. The report recommends that the current recovery offers a window of opportunity to advance policies and reforms that secure the current upswing and raise medium-term growth to the benefit of all. This should be attained through policies that focus on strengthening the potential for higher and more inclusive growth, building buffers to deal more effectively with the next downturn, improving financial resilience to contain market risks and stability concerns, and fostering international cooperation (International Monetary Fund IMF, 2018).

2.0. State of the Economy

2.1. Real Sector Developments

The results released by UBOS indicated that GDP growth in the second quarter of 2017/18 declined to 6.6 percent from 7.5 percent in quarter 1, driven by the drastic fall in agriculture sector growth mainly due to a fall in food crop production. The industry and services sectors however, grew by 5.3 percent and 8.9 percent respectively. The Bank of Uganda Composite Index of Economic Activity (CIEA) points towards a recovery in growth, evidenced by the higher growth in the index by 0.2 percent in April as compared to the 0.18 percent growth in March 2018 (Figure 2). The Business Tendency indicator (BTI) which is an indicator of the business expectations, exhibits continued confidence in the business environment largely driven by the positive expectations in the other sectors especially Construction and Manufacturing sectors (Figure 1). To this end the economic growth outlook is positive, with expectations of recovery on account of an improved external environment, improvement in the agricultural sector production in addition to increased investment (Bank of Uganda BoU, 2018).

Figure 1: Business Tendency Indicators (BTI)

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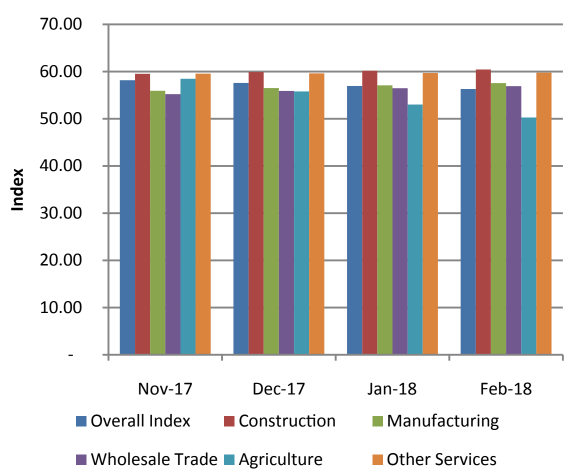
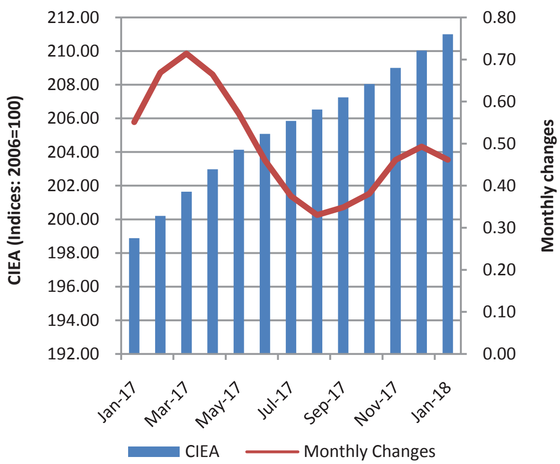


Figure 2: Composite Index of Economic Activities



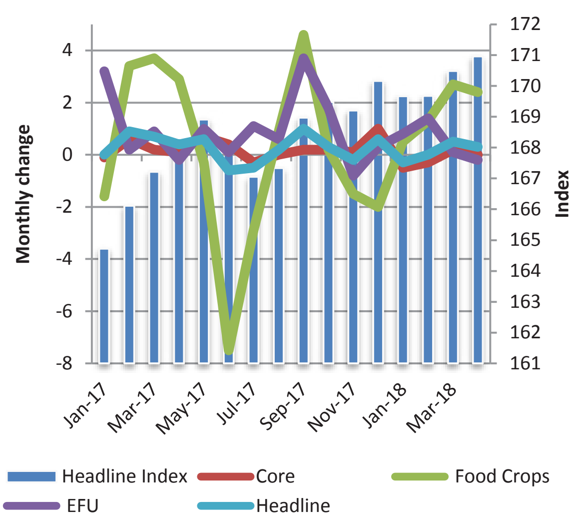
Source: Bank of Uganda

2.2. Monetary and Financial Sector Developments

Inflationary pressures remained subdued during the year ending April 2018, with annual headline inflation registered at 1.8 percent from 1.7 percent recorded during the year ending March 2018. The subdued inflationary pressures were largely as a result of a greater fall in food crop prices (2.1 percent) in the year ending April 2018 as compared to the fall in prices during the year ending March 2018. However, the Energy Fuel and Utilities inflation increased to 10.4 percent during this period due to an increase in diesel and kerosene prices respectively. Similarly, monthly headline inflation decreased to 0.3 percent from the 0.5 percent recorded in March 2018 as a result of a 0.3 percentage point decrease in food crops and EFU inflation to 2.4 percent and – 0.2 percent respectively in April 2018. On the other hand, Monthly core inflation was recorded at 0 percent from 0.2 percent in March (Figure 3) (Uganda Bureau of Statistics UBoS, 2018).

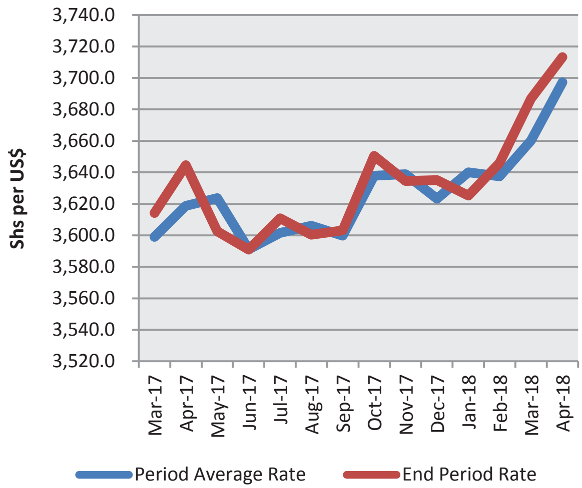
The financial market points towards continued volatility in the exchange rate, with the Uganda shilling trading at 3,713 Ushs per US$ at the end of April 2018 as compared to 3,687 Ushs per US$ recorded at the end of March 2018 (Figure 4). The increased pressure on the shilling was on account of increased demand for the dollars due to higher import demand.

Figure 3: Monthly CPI and Inflation



Source: UBoS

Figure 4: Exchange Rates

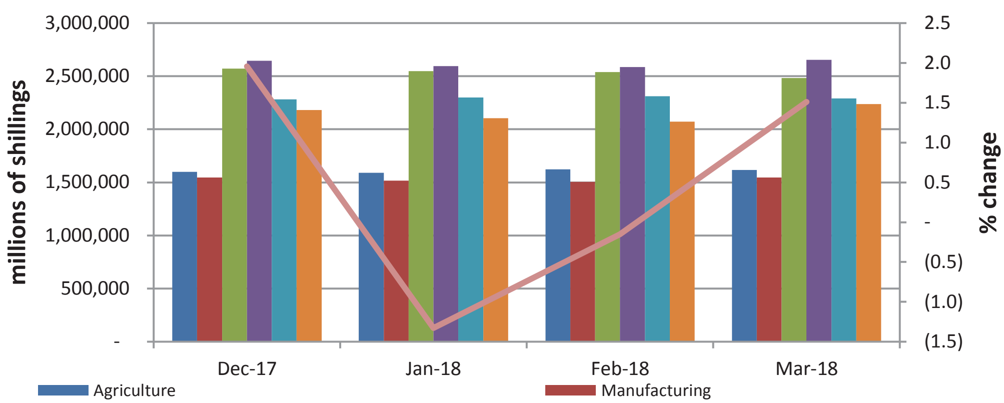


Source: BoU

Private Sector Credit

Private sector credit (PSC) growth remained subdued during the month of March, recorded at 1.5 percent as compared to the 0.5 percent growth registered in February 2018, mainly due to decline in growth in the Trade sector, Personal loans and Mortgages Sector and the Agriculture sector by 2.1 percent, 0.9 percent and 0.4 percent, respectively. The largest share of credit was extended to the building, Mortgage, Construction and Real estate sector (20.7%) and the trade sector (19.4%), while the least share of credit went to the manufacturing (12.1%) and agriculture sector (12.6%). Growth is private sector credit is however projected to increase as non-performing loans fall and growth recovers.

Figure 5: Monthly Private Sector Credit (PSC)

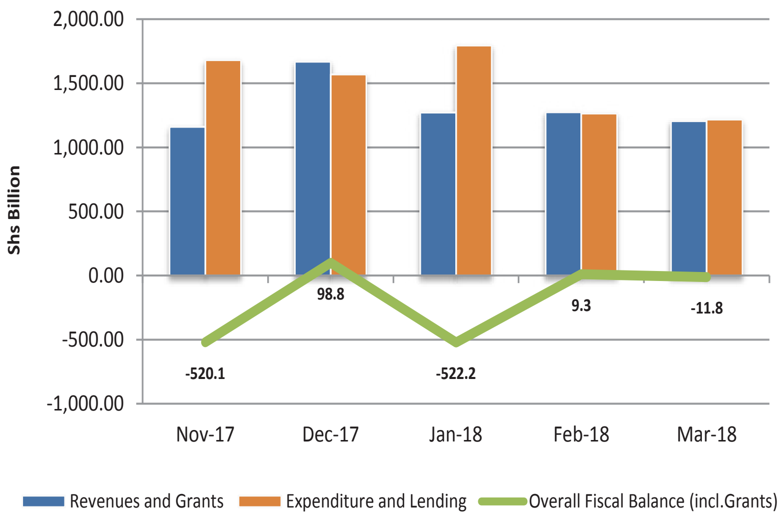


Source: BoU

2.3. Fiscal Sector Developments

In April, revenue and grants amounted to Shs.1,204 billion falling short of the government's expenditure and lending of Shs. 1,216 billion and giving rise to a fiscal deficit of Shs. 11.8 billion which is a decline in performance as compared to the Shs. 9.3 billion surplus recorded in February 2018. The performance was mainly due to the drastic fall in grants by 94 percent to Shs. 6.6 billion. The revenues however increased by 3.2 percent to Shs.1,197.8 billion, as a result of higher tax revenues, while non-tax revenues decreased by 4.5 percent. The expenditure and lending reduced by 3.8 percent during the same period, amounting to Shs.1,216.3 billion.

Figure 6: Overall Fiscal Operations



Source: MoFPED 2018

2.4. External sector Developments

April was marked by a widening trade deficit to US$215.8 million due to the fall in exports amidst a rising import

bill (Figure 1). The value of exports increased by 11.5 percent , mainly driven by a fall in value of non-coffee exports particularly beans and tobacco that fell by 91 percent and 73 percent respectively. Coffee exports also declined by 8.4 percent, while Informal cross border trade exports value increased by 5.4 percent.

The Import bill rose by 4.9 percent in April, largely driven by increased government project imports to fund the various government development projects, while the non-project government imports declined by 99 percent. The formal private sector import bill reduced by 5.9 percent owing to lower value of non-oil imports. However, the oil imports bill rose by 7.1 percent because of the surge in the price of oil in the world market (Table 1). The trade balance continues to operate at a deficit, which negatively affects the country's balance of payments.

Figure 7: Trade Balance

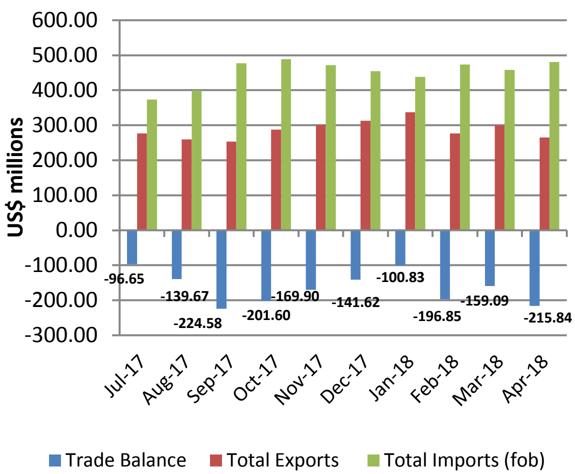
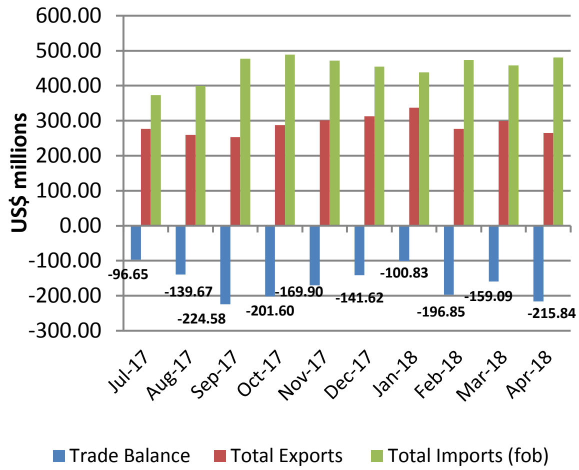


Table 1: Imports and Exports of goods (US$ millions)



Source: BoU

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The **National Planning Authority** was established by the **NPA Act (15 of 2002)** in accordance with Article 125 of the 1995 Constitution of the Republic of Uganda to produce comprehensive and integrated development plans for the country, elaborated in terms of the perspective Vision, long and medium–term plans.

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