NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

Uganda Vision 2040

JULY 2018

Key Economic Highlights

- GDP growth in FY 2017/18 is estimated at 5.8 percent compared to the 4.0 percent growth in 2016/17
- Over the medium term, growth is expected to strengthen further, with support from improved private sector credit due to the easing of monetary policy stance, improved productivity in the agriculture sector as well as impacts from public investment in infrastructure projects.

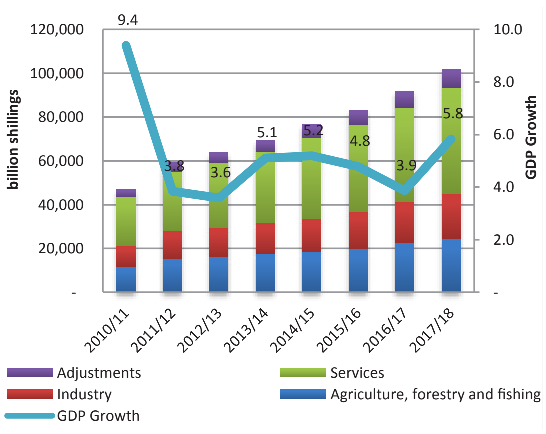
  Monthly headline inflation increased to 0.4 percent in July 2018 recording a 0.6 percentage point increase from -0.2 percent in June 2018
- Developments in the forex market indicate less volatility in the foreign exchange market, with the end period exchange rate falling by 4.6 percent to 3701.4 Shs per US$
- The fiscal deficit worsened to Ushs.670billion in July as compared to the Ushs.66.5 billion deficit in June 2018 due to the large fall in revenues and grants.
- The trade deficit widened in the month of June, amounting to US$ 190.7 million from US$ 132 million in May 2018
- The gross foreign exchange reserves declined by 3 percent to US$3220.7 million in June 2018, an equivalent of 4.6 months of imports cover.

1.1. Real Sector Developments

Bank of Uganda's composite index of economic activity (CIEA) indicating the short term growth predictions points towards continued strengthening of growth, with the CIEA growth in the fourth quarter averaging at 0.6 percent compared to the 0.5 percent average growth in the third quarter. To this end, GDP growth in FY 2017/18 is estimated at 5.8 percent compared to the 3.9 percent growth in 2016/17(Figure 1). This growth stemmed from increased growth in all the sectors, largely driven by increased growth in the services sector to 7.2%, followed by the industry sector to (6.2 %) and lastly the agriculture sector (3.2%) that improved mainly due to improved weather conditions.

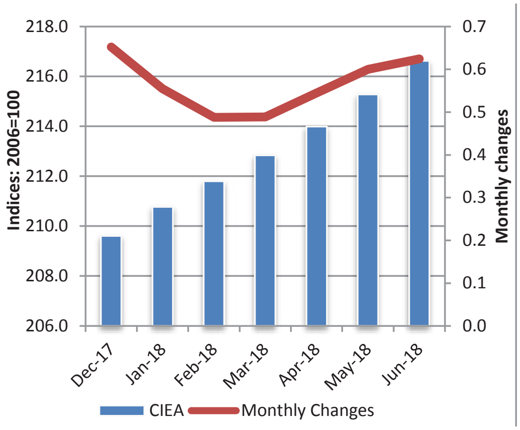
Over the medium term, growth is expected to strengthen further, with support from improved private sector credit due to the easing of monetary policy stance, improved productivity in the agriculture sector as well as impacts from public investment in infrastructure projects.

Figure 1: Annual GDP



Source: UBoS 2018

Figure 2: Composite Index of Economic Activities



Source: Bank of Uganda

Note:

**Index less than 50 implies negative expectations/ pessimistic*
**Index greater than 50 implies positive expectations/optimistic*

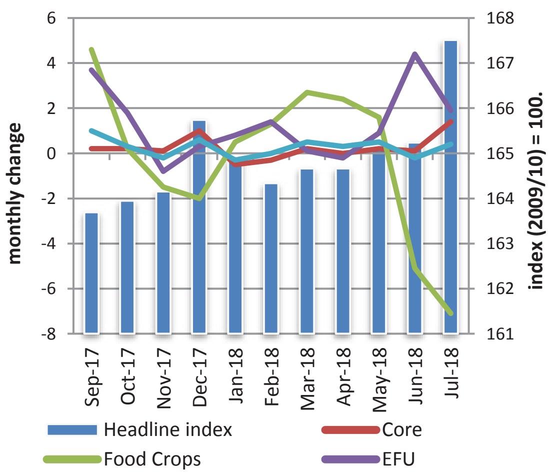
1.2. Monetary and Financial Sector Development

Monthly headline inflation increased to 0.4 percent in July 2018 recording a 0.6 percentage point increase from -0.2 percent in June 2018 as seen in Figure 3. The increased inflationary pressure was attributed to core inflation that increased to 1.4 percent from 0.1 percent in June 2018, mainly as a result of increased prices of services, particularly the transport and communication sectors. Energy Fuel and Utilities (EFU) inflation also contributed to the rising inflationary pressure although at a lower rate, rising by 1.9 percent from 4.4 percent at the end of June 2018 due to increased prices of fuel and diesel. However, food and related items inflation fell further to minus 7.1 percent, recording a 2 percentage point drop due to increased production amidst favourable weather conditions.

At the end of July, annual inflation was recorded at 3.1 percent, however over the medium term, the increase in prices is expected to continue towards the medium term target of 5 percent as food prices recover; the effect of tax increase kicks in; and import prices rise due to increased global inflation. The Bank of Uganda therefore maintained the Central Bank rate at 9 percent and the band at +/- 3 percentage points (Bank of Uganda, 2018).

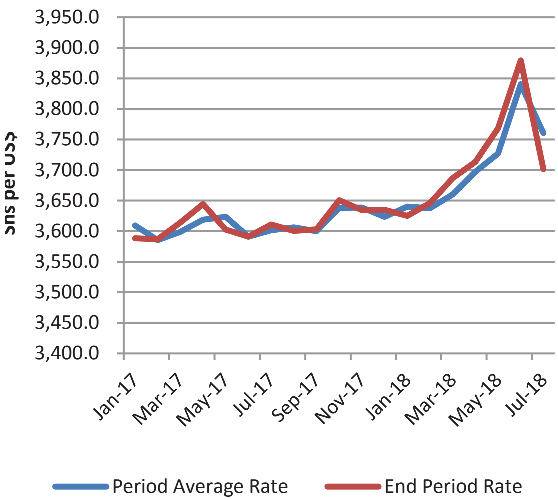
Developments in the financial market indicate less volatility in the foreign exchange market, with the end period exchange rate falling by 4.6 percent to 3701.4 Shs per US$ while the average period rate declined by 2.1 percent to 3760.4 Shs per US$ in July 2018 (Figure 4). The depreciation pressures on the shilling over the quarter to June 2018 were largely attributed to speculative activity in the foreign exchange market, which have since stabilized.

Figure 3: Monthly CPI and Inflation 2017



Source: UBOS

Figure 4: Monthly Exchange Rates



Source: BoU

Private Sector Credit (PSC)

Year on Year private sector credit growth indicates a recovery in credit to the private sector recorded at 10.6 percent in June from 8.9 percent in May 2018 (Figure 5). The boost in credit was on account of easing monetary policy stance that in turn improved domestic demand as well as the reduction in constraints on the supply side. On a sectoral basis, trade (20.3 %) and Building, Mortgage, Construction & Real estate (20.2%) received the largest share of credit in June 2018 while the agriculture sector received the least share of credit recorded at 12.3 percent. This continued trend is contrary to the NDPII which highlights Agriculture as a key sector to drive growth.

According to Bank of Uganda, PSC is expected to improve further as a result of the improving Non-Performing Loan ratios and anticipated increase in credit demand as banks ease overall credit standards further due to improvement in the asset quality.

Figure 5.0: Total PSC

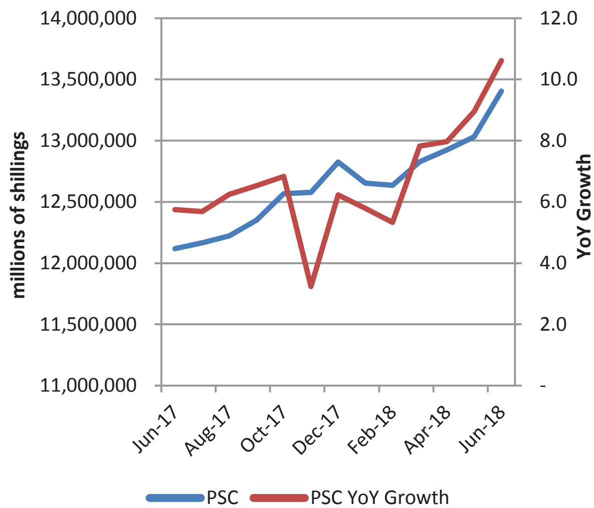
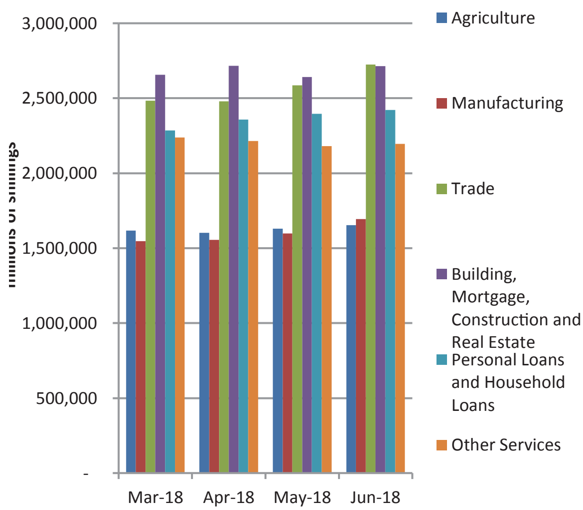


Figure 6.0: Sectoral PSC

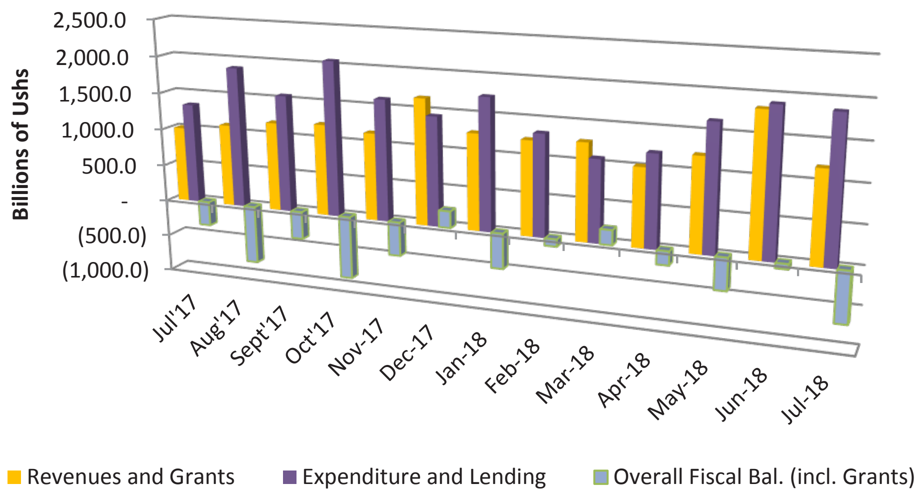


Source: BoU

1.3. Fiscal Sector Developments

Preliminary estimates from the Ministry of Finance, Planning and Economic Development indicate a fall in revenues in July 2018, recorded at Ushs.1,196.6 billion as compared to Ushs.1,836.8 billion in June 2018. The fall was largely driven by the 42 percent decline in inflows of grants in addition to the 34 percent fall in domestic revenues. On the expenditure side, the total government spending was estimated at Ushs.1,866.3 billion, a slight decline from the total spending in June 2018 which amounted to Ushs.1,903.2 billion. The lower spending was as a result of lower project disbursements in externally financed projects. However the lower spending was insufficient to offset the fall in revenues and grants. This culminated into a worsening of fiscal deficit of Ushs.670billion in July as compared to the Ushs.66.5 billion deficit in June 2018 (Figure 7).
For the outlook, domestic revenue is projected to increase to 14.5 percent of GDP in FY 2018/19 from 14 percent of GDP in FY 2017/18 on account of additional tax measures and improvements in tax administration, while total government expenditure as a share of GDP is projected to increase to 22.5 percent (MoFPED, 2018).

Figure 7: Quarterly Overall Fiscal Operations



Source: MoFPED 2018

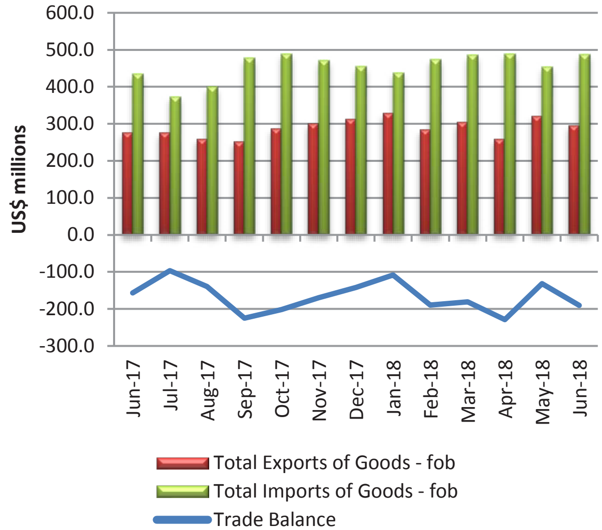
1.4. External sector Developments

The external sector developments indicate a widening trade deficit in the month of June, amounting to US$ 190.7 million from US$ 132 million in May 2018(Figure 9). This arose from a rising import bill alongside lower export receipts during the period. The higher import bill was mainly driven by government imports that increased to US$23.8 million in June from US$11.1million due to a higher volume of imports during this period.

The rising oil prices also contributed to the rise in the total import bill, with the oil imports rising by 14 percent to US$ 102.4 million. The lower export receipts during this period were largely on account of the decline in non-coffee export receipts by 9.8 percent to US$ 214.7 million (Table 1), particularly due to a fall in the prices of gold and maize.

As a result of the developments in this sector, the gross foreign exchange reserves declined by 3 percent to US$3220.7 million in June 2018, an equivalent of 4.6 months of imports cover. The reserves were in line with the requirement of at least 3 months of imports cover, which is an indication of adequate reserves to buffer the economy from external shocks.

Figure 9: Trade Balance



Source: BoU 2018

Table 1: Monthly Exports and Imports (US$)

	Mar-18	Apr-18	May-18	Jun-18
Trade balance	(180.7)	(228.9)	(132.0)	(190.7)
Total Exports	304.67	259.28	321.58	296.33
1. Coffee (Value)	35.74	32.73	34.13	33.60
2. Non-Coffee formal exports	213.71	179.60	238.11	214.70
3. ICBT Exports	55.22	46.94	49.34	48.03
Total Imports (fob)	485.37	488.20	453.61	486.98
Government Imports	37.97	59.19	11.05	23.82
Project	37.20	59.18	11.05	23.22
Non-Project	0.77	0.00	0.00	0.60
Formal Private Sector Imports	421.25	396.23	406.36	435.53
Oil imports	81.31	87.09	89.66	102.41
Non-oil imports	339.94	309.15	316.70	333.12

Source: BoU 2018

2.0. Other Developments in the Global Economy

2.1. New country classifications by income level: 2018-2019

The World Bank assigns the world's economies into four income groups, namely; high, upper-middle, lower-middle, and low income. The income category of a country is one of the factors that influence lending decisions. This assignment is based on the GNI per capita (current US Dollars) calculated using the Atlas method. The classifications are updated on the 1st of July each year. The classifications change for two reasons; in each country, factors such as income growth, inflation, exchange rates, and population change, influence GNI per capita; and to keep the dollar thresholds which separate the classifications fixed in real terms, by adjusting them for inflation. This year, the thresholds moved down slightly due to low price inflation and the strengthening of the US dollar (Table 2). Following these changes, Uganda is still classified under the low income countries; however, keeping track of these thresholds is vital as the country strives towards attaining the goal of lower-middle income status by 2020.

Table 2: Updated Income Thresholds FY 2018/19

Threshold	GNI/Capita (current US$)
Low-income	< 995
Lower-middle income	996 - 3,895
Upper-middle income	3,896 - 12,055
High-income	> 12,055

Source: World Bank 2018

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Bank of Uganda. (2018). Monetary Policy Statement for June 2018. Kampala.
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World Bank . (2018, July 1). World Bank Country and Lending Groups . Retrieved August 2018, from The World Bank: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519

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.

NATIONAL PLANNING AUTHORITY
Planning House , Clement Hill Road Plot 17B,
P.O. Box 21434.Kampala - Uganda
Tel: +256 414 250 229 / 0312 310 730

Learn more at:

www.npa.ug www.facebook.com/NPAUGANDA #@NPA_UG **For any queries Email:** research@npa.ug.

Design & Layout - **INTUITION** | sonkojndesign@yahoo.com | +256 772 472949