NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

Uganda Vision 2040

MAY 2018

Key Economic Highlights

- The economy is expected to recover, as evidenced by the growth in the Bank of Uganda's high frequency indicator of economic activity, the CIEA
- The recovery in growth over the medium term will largely be supported by the recovery in food crop production, increased private and public investments in infrastructure projects.
- Annual headline inflation persisted on a downward trend, falling to 1.7 percent in the year ending May 2018 from 7.3 in the year ending May 2017.
- Developments in the financial market indicate increased pressure on the Uganda shilling against the dollar, leading to further depreciation of the shilling by 1.5percent in May.
- The overall fiscal deficit reducing to 582 billion shillings from 620 billion shillings registered in April 2018.
- The trade deficit widened to USD215 million in May 2018, owing to a rise in the import bill by 4.9 percent coupled with a reduction in the exports receipts by 11.5 percent to USD 264 million.

1.0. State of the Economy

1.1. Real Sector Developments

The economy is expected to recover, as evidenced by the growth in the Bank of Uganda's high frequency indicator of economic activity the Composite Indicator of Economic Activity (CIEA) to 0.20 percent from the 0.18 percent growth recorded in March 2018 (Figure1). Likewise, the Business Tendency Indicators reflect positive expectations in the economy, mainly driven by positive business expectations in the construction and agriculture sectors, respectively (Figure 2).

The recovery in growth over the medium term will largely be supported by the recovery in food crop production, increased private and public investments in infrastructure projects. However, there are downside risks to growth which include the exchange rate volatility, increase in oil prices and a weaker current account position.

Figure 1: Composite Index of Economic Activities

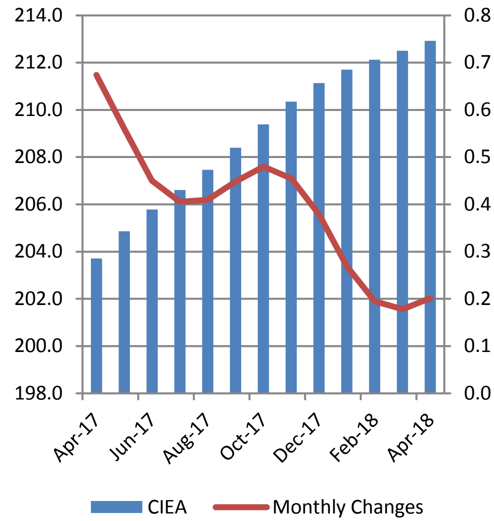
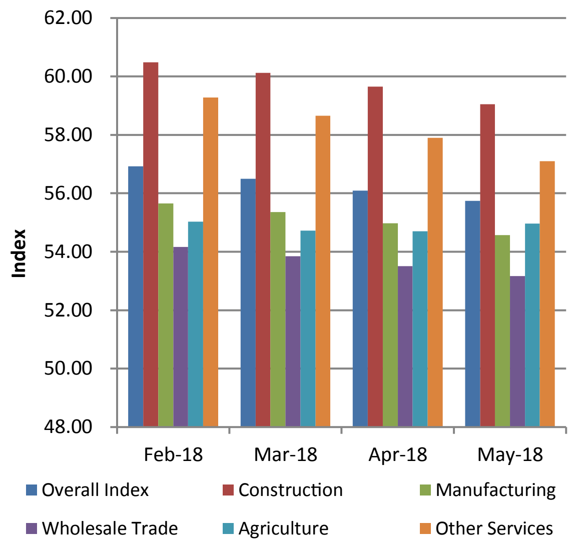


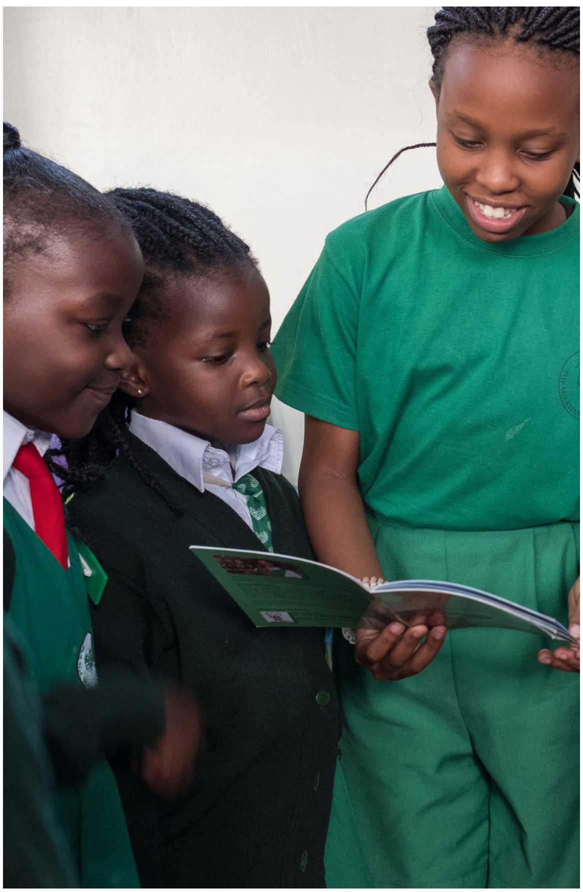
Figure 2: Business Tendency Indicators (BTI)



Source: Bank of Uganda 2018

1.2. Monetary and Financial Sector Development

Annual headline inflation persisted on a downward trend, falling to 1.7 percent in the year ending May 2018 from 7.3 percent in the year ending May 2017. The drop was mainly attributed to the fall in food crop inflation that decreased to -0.2 percent from 23.1 percent in May 2017 owing to better climate conditions that favoured food production. Core inflation also declined to 1.1 percent in May 2018 from 5.1 in May 2017 as a result of sugar and services inflation that declined during this period. The Annual Energy, Fuels and Utilities (EFU) Inflation remained high, recording a 3 percentage point increase to 10.3 percent for the year ending May 2018 compared to May 2017 due to higher fuel prices. (Uganda Bureau of Statistics UBOS, 2018).



Developments in the financial market indicate increased pressure on the Uganda shilling against the dollar, leading to further depreciation of the shilling by 1.5percent in May from 0.7 percent depreciation in April 2018. To this end, the end period exchange rate was recorded at 3,768 Shs per US$ at the end of May 2018 from 3,713 Shs per US$ recorded at the end of April 2018. The increased pressure on the US dollar was mainly due to increased demand for the dollar by corporate players as well as importers of fuel during this period.

Figure 3: Monthly CPI and Inflation 2018

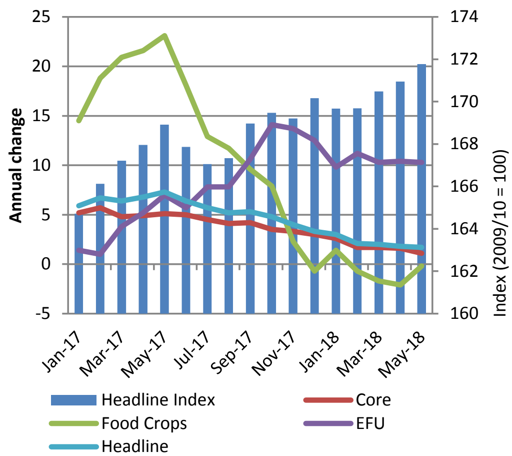
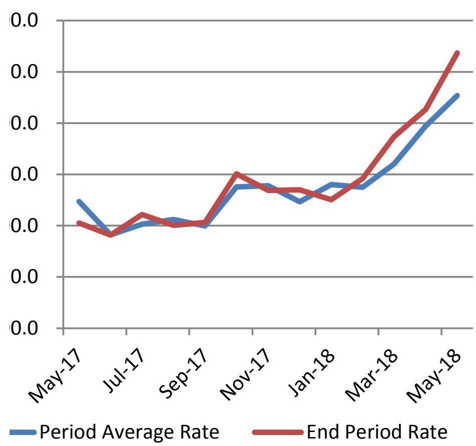


Figure 4: Monthly Exchange Rates



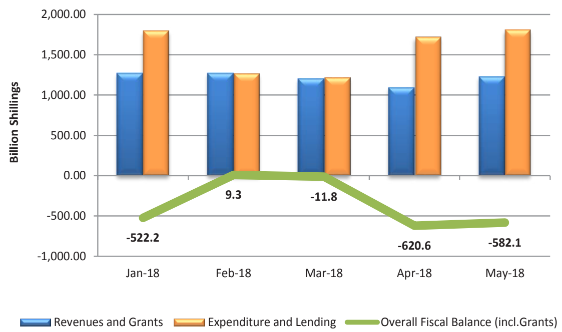
Source: UBOS

1.3. Fiscal Sector Developments

The overall fiscal operations indicate a meagre improvement in May 2018, with the overall fiscal deficit reducing to 582 billion shillings from 620 billion shillings registered in April 2018. This performance was on account of increased revenues and grants by 11.5 percent and 43 percent, respectively. The tax revenues amounted to 1,167.6 billion shillings mainly coming from PAYE, VAT on imports and petroleum duty. The Non-Tax revenue (NTR) increased by 4.8 percent to 36.8 billion shillings in May 2018 as a result of improved collaboration between Uganda Revenue Authority (URA) and institutions that collect NTR.

The expenditure and lending rates increased by 5 percent, largely owing to increased current expenditures particularly interest payments. The interest payments increased to 226.9billion shillings in May from 103 billion shillings paid in April 2018. In contrast, development expenditures decreased by 15 percent due to the 50 percent decline in external development expenditure while net lending decreased by 78 percent since expenditure towards Hydro Power projects was made during the first half of the financial year.

Figure 6: Monthly Overall Fiscal Operations



Source: MoFPED 2018

1.4. External sector Developments

The trade deficit widened to USD215 million in May 2018 from a deficit of USD159 million recorded in April 2018, owing to a rise in the import bill by 4.9 percent to USD480 million coupled with a reduction in the exports receipts by 11.5 percent to USD 264 million (see figure 9). The higher Import bill was as a result of increased government project imports from USD11 million in March 2018 to USD 50.8 million in April 2018, in addition to a rise in oil imports by 7.1 percent. The fall in exports receipts during this period was driven by a 16 percent fall in non-coffee exports receipts particularly beans and maize, coupled with an 8 percent fall in coffee export receipts.

Figure 9: Trade Balance

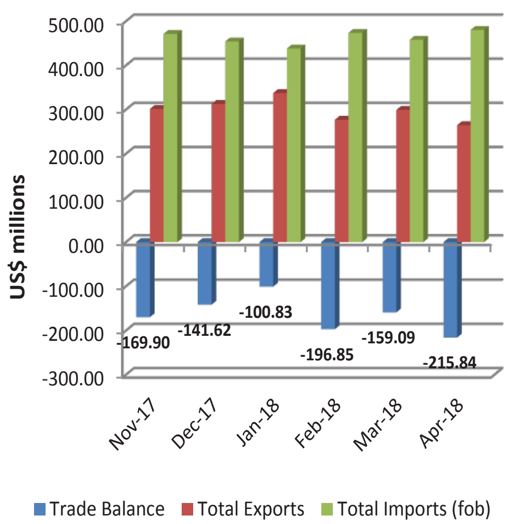


Figure 10: Monthly Exports and Imports (US$)

	Jan-18	Feb-18	Mar-18	Apr-18
Total Exports	337.45	276.95	299.05	264.61
Coffee (Value)	43.66	41.63	35.74	32.73
Non-Coffee formal exports	232.73	189.17	213.71	179.60
ICBT Exports	61.06	46.16	49.60	52.27
Total Imports (fob)	438.28	473.80	458.14	480.45
Government Imports	9.70	51.82	11.88	50.84
Project	9.70	50.58	11.11	50.84
Non-Project	0.00	1.24	0.77	0.00
Formal Private Sector Imports	391.19	401.07	421.25	396.23
Oil imports	66.88	78.42	81.31	87.09
Non-oil imports	324.32	322.65	339.94	309.15
Estimated Private Sector Imports	37.39	20.91	25.02	33.37

Source: BoU 2018

2.0. Other new developments in the Financial Sector

2.1. Emerging Financial services Technology (Fin Tech)

Fin tech refers to a new industry that uses technology and innovations to improve activities/services in finance with an aim to compete with traditional financial methods in the delivery of financial services. Fin Tech has played a revolutionary role in changing the way financial services and banks operate over the years. Up until a few years ago, Fin-tech was embedded within financial institutions as an enabler for their operations, but of recent, the Fin tech companies are identifying new ways of providing financial services while creating an identity for themselves.

They have been targeting some of the most

profitable elements of the financial services value chain. This has led to customers demanding better services, seamless experiences regardless of channel, and more value for their money. Regulators are demanding more from the industry too, and have started to adopt new technologies that will revolutionise their ability to collect and analyse information (PwC, 2016).

In developing markets, where branch networks are typically less dense, particularly in rural areas, physical distribution will continue to evolve, and banks have partnered with new entrants to create alternative distribution channels. For example, M-PESA in Kenya and mobile money in Uganda, handle deposits and payments using customers' cell phones. In light of this, new channels of transaction have been developed by banks, from ATMs to internet banking to mobile banking to complement bank branches which, has largely improved convenience and inclusion in the use of banking services. The recent innovation to improve efficiency and access to financial services to customers is Agency banking where a commercial bank appoints a third party (agent) to transact business on its behalf.

Over the past few years, the financial services industry has seen drastic technology-led changes. One of the concerns is the speed of change in technology because the time it takes to go from breakthrough technology to mass-market application is narrowing. For instance, in the United States, it took the telephone 76 years to be adopted by half the population; while the smartphone did it in less than ten years. Currently, we are witnessing technologies like block chain ((a decentralised ledger, or list, of all transactions across a peer-to-peer network, with which participants can transfer value across the Internet without the need for a central third party) move from a development stage to an established technology in a tiny fraction of the time it took for the Internet to be accepted as a standard tool.

By 2020, it is expected that the 'new normal' operating model will be centred on the customer and context. That is, companies will change the way they interact with their customers based on the context of the exchange. They will offer a seamless Omni channel experience, through a smart balance of human and machines (PwC, 2016). FinTech will drive the new business model; the use of Block chain will increase; 'Customer intelligence' will be the most important predictor of revenue growth and profitability; Advances in robotics and Artificial intelligence will start a wave of 'reshoring' and localization; Cyber-security will be one of the top risks facing financial institutions; and Regulators will have to turn to technology too in order to effectively regulate the dynamic financial sector.

In the wave of all this technological advancement, the Ugandan financial sectors needs to take cognizance of these emerging issues and prepare to tap into the opportunities that will arise from these changes as well as develop systems to regulate such sophisticated and complex systems.

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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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