NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

APRIL 2020

Key Economic Highlights

- The GDP for the FY2019/20 is projected to be between 3-4 percent because of the coronavirus pandemic that has disrupted demand, production, supply chains and movement of factors of production..
- Economic activity in April, 2020 was subdued due to the outbreak of coronavirus pandemic. This has been evidenced by a fall in the economic indicators like Purchasing Manager's Index (PMI) that fell to 21.6; the lowest level recorded .The Composite Index of Economic Activity (CIEA) dropped from 145.4 in March to 139.5 in April, and the Business Tendency Indicator (BTI) fell below the threshold of 50, and fell to 44.4.
- Annual Headline Inflation for April 2020 rose to 3.2 percent from 3.0 percent recorded in the previous month, largely driven by an increase in core inflation from 2.5 percent to 3.4 percent in the month.
- In April 2020, the Ugandan Shilling depreciated by 0.3 percent against the US Dollar. The average midrate was recorded at UShs 3,785.7/US$ from UShs 3,772.9/US$ in March 2020, mainly due to higher demand for the US dollar which outmatched the supply.
- Government operations during April 2020 resulted in an overall fiscal deficit of Shs 1,037.14 billion which was higher than the programed deficit of Shs 712.04 billion due to shortfalls in domestic revenues and grants.
- The trade deficit narrowed further to USD 127 million in April 2020 from USD 176 million in March 2020 because of a fall in the import bill.

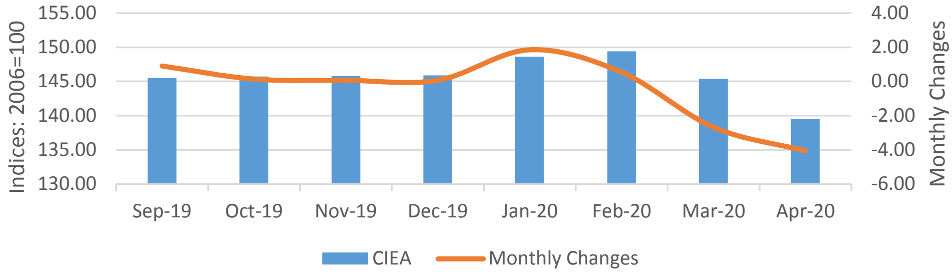
1.0 State of the Economy

1.1 Real Sector

Economic activity in April 2020 was subdued due to the outbreak of coronavirus (COVID-19). Indeed, Bank of Uganda revised its growth rate projection for FY2019/20 to 3-4 percent, from 5-6% as previously projected. The services sector was projected to slow down significantly, with considerable effects on trade, hotels and accommodation, repairs, transport, storage, financial and insurance activities, mainly caused by a decline in tourism, travel restrictions and supply chain disruptions.

The Composite Index of Economic Activity (CIEA) decreased. According to Bank of Uganda, the CIEA, the short-term indicator of economic activity fell to 139.5 in March from 145.4 in March as seen in Figure 1. This was as a result of a fall in private investment and private consumption because of disruptions brought about by the COVID-19 pandemic in the supply chain.

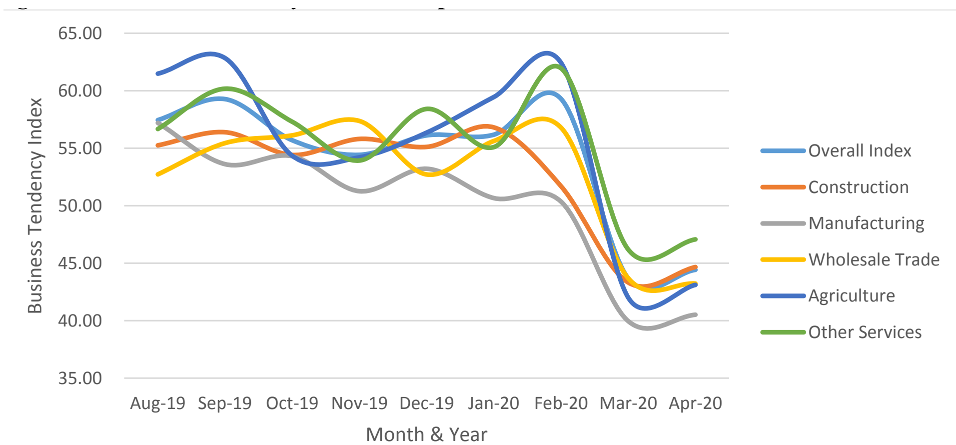
Figure 1: Composite Index of Economic Activity, April 2020



Source: Bank of Uganda

Investment sentiments about doing business in Uganda were pessimistic in April 2020, as the Business Tendency Indicator (BTI) remained below the threshold of 50 . The Business Tendency Indicator for April 2020 slightly improved to 44.4, from 43.6 of March 2020, as seen in Figure 2. This shows that investors were less optimistic about investing due to the pandemic that led to disruptions in supply chains, travel restrictions and lockdown of the entire country, hence no business could take place.

Figure 2: Business Tendency Indicator, April 2020



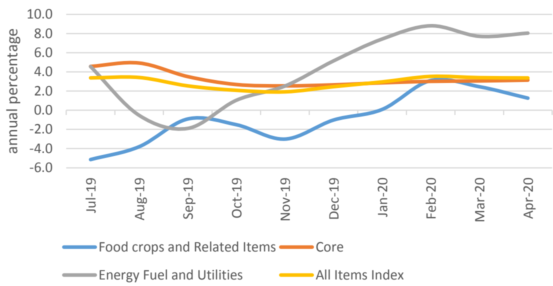
Source: Bank of Uganda

1.2 Inflation Developments

Annual headline inflation for April 2020 was recorded at 3.2 percent, a rise from 3.0 percent recorded in March 2020, as seen in Figure 3. This was largely explained by core inflation, which increased to 3.4 percent from 2.5 percent in March 2020, on account of price increases for processed foods like maize flour and rice as a result of increased demand. In addition, Energy Fuel and Utilities (EFU) inflation also increased in April to 8.3 percent from 7.7 percent in March 2020. This was explained by the rise in the prices of solid fuels, specifically charcoal, because of increased demand as a result of lockdown. This is because most of the population was at home during the lockdown period.

On the contrary, annual food crops inflation decreased to negative 2 percent during this month compared to 2.5 percent recorded in March 2020. This was mainly due to a drop in fruit prices during this period, specially bananas. Vegetables' inflation also reduced to 6.5 percent in April from 8 percent in the previous month.

Figure 3: Annual inflation rates for April 2020

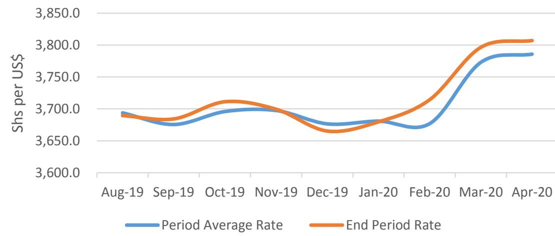


Source: Bank of Uganda

1.3 Exchange rate Developments

The Ugandan Shilling depreciated by 0.3 percent against the US Dollar, at an average midrate of UShs. 3,785.7 per USD, in April, 2020 from UShs 3772.9 per USD, in March 2020. This is as seen in Figure 4. The deprecation was largely driven by higher demand for the US Dollars, as offshore investors continued to exit the domestic market in speculation of tightened global financial market due to the coronavirus pandemic, and lower supply (inflows) of foreign currency, arising from reduced tourism during the COVID-19 lockdown.

Figure 4: Exchange rates movement



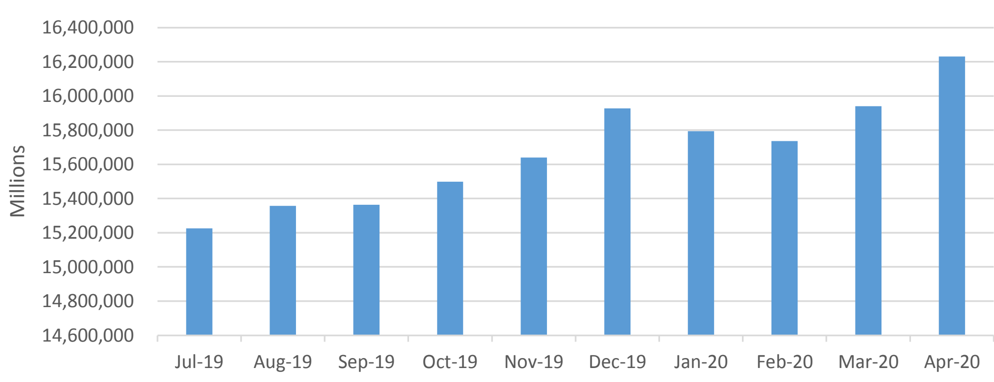
Source: Bank of Uganda

1.4 Private Sector Credit

A favorable monetary policy was adopted by Bank of Uganda, so to curb the adverse effects of COVID-19 pandemic. The Central Bank Rate (CBR) was revised downward to 8 percent in April, 2020 from 9 percent in March 2020. In addition, lending rate for credit eased in March 2020 to 17.8 percent and further to 17.7 percent for shilling denominated credit in April 2020.

The stock of outstanding private sector credit increased to UShs. 16,230.7 million in April from UShs. 15,940.6 million in March 2020, denoting a recovery from negative growth rates recorded in the first two months of the year. This was explained by increase in both Uganda Shilling and foreign currency denominated partly due to reduction in lending rates. This is as illustrated in Figure 5.

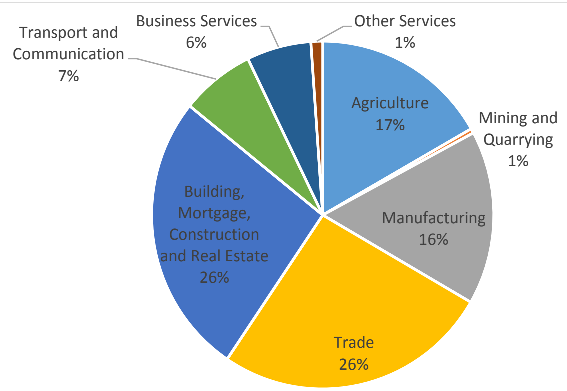
Figure 5: Outstanding total lending in millions of Uganda Shillings



Source: Bank of Uganda

The COVID-19 pandemic is however likely to reduce the demand for credit on account of slackening economic activity, at least in the short-term. Furthermore, given the exposure of Ugandan businesses to the banking system, slackening economic activity will have a toll on Non-performing loans (NPLs) as these businesses may be unable to service their debt obligations. The sectors that are likely to be most affected include trade, tourism, transportation and construction. Private sector credit extensions to these sectors constitute 45 percent of the total private sector credit.

Figure 6: Sectoral shares of credit to Private sector, April 2020



Source: Bank of Uganda

1.5 Fiscal Sector Developments

Preliminary estimates from the Ministry of Planning and Economic Development recorded a fiscal deficit of UShs. 1,037.14 billion, which was higher than the programmed deficit of UShs. 714.04 billion. The higher deficit was due to the shortfalls in revenues and grants which performed at 55 percent. Expenditure and net lending performed below programmed in the month of March at 81.2%. Domestic revenue collections amounted to UShs. 937.64 billion in the month, registering a shortfall of UShs. 648.18 billion as both tax and non-tax revenue performed below their respective targets. This is as illustrated in the table 1.

Table 1: Overall fiscal performance for April 2020

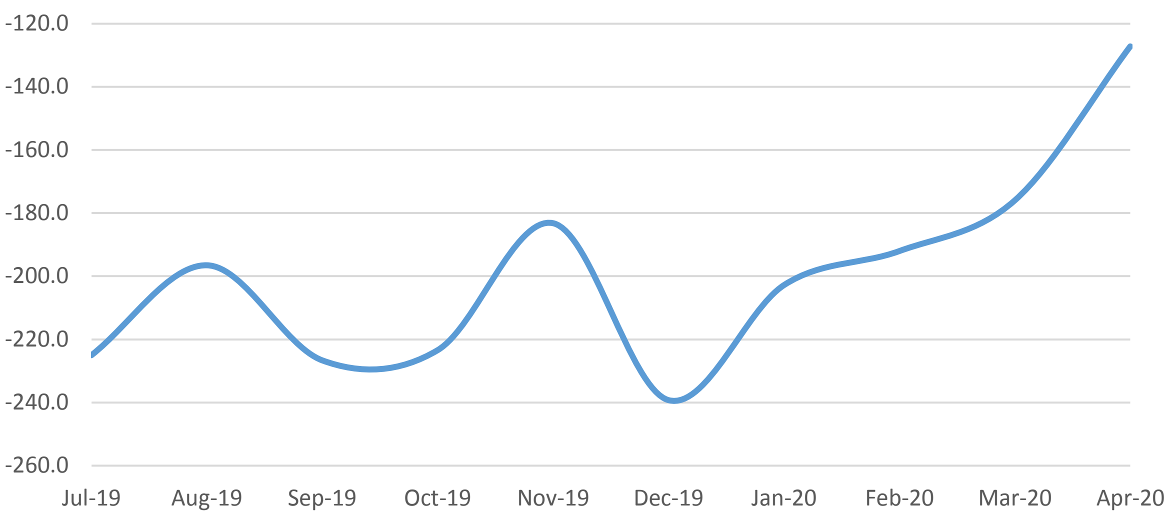
Billion Shs	Program	Outturn	Performance	Deviations
Revenues and grants	1,755.65	965.87	55.0%	-789.78
Revenues	1,585.82	937.64	59.1%	-648.18
Grants	169.83	28.23	16.6%	-141.60
Expenditure and lending	2,467.69	2,003.01	81.2%	-464.68
Current expenditure	1,331.17	1,034.55	77.7%	-296.62
Development expenditures	1,107.76	965.59	87.2%	-142.17
Net lending/repayments	28.75	0.02	0.1%	-28.74
Overall fiscal balance (including. Grants)	-712.04	-1,037.14		

Source: Ministry of Finance Planning and Economic Development

1.6 External Sector Developments

The trade deficit widened by 28 percent in comparison to March, 2020 and narrowed further to USD 127 million in April, 2020 from USD 176 million in March; according to Bank of Uganda as illustrated in Figure 7. This was as a result of a fall in the import bill because of the pandemic, which brought about disruptions in supply chains and travel restrictions. In addition, Asia, especially China where Uganda majorly imports from, was the first to be hit by the pandemic, therefore negatively affecting Uganda's import from China.

Figure 7: Trade Balance (USD Millions)



Source: Bank of Uganda

Exports fell in April 2020 to USD 207.2 million, from USD 315 million in March, 2020 as a result of the fall in coffee exports to USD 36.93 million in April, 2020 from USD 45.87 million in March, 2020. Additionally, non-coffee exports also fell from USD 218.14 million in March, 2020 to USD 169.26 million in April 2020; hence low export bill.

The import bill greatly declined as a result of fall in government imports, which fell from USD 31.32 million in March, 2020 to USD 19.27 million in April, 2020. Oil imports also fell from USD 71.48 million in March, 2020 to USD 40.50 million in April, 2020. This was as a result of the pandemic which affected international trade due to travel restrictions, closure of borders, quarantine and lockdown of countries, hence production was affected and supply chains were disrupted due bans on transportation.

Table 2: Monthly Exports and Imports

	Jan-20	Feb-20	Mar-20	Apr-20
Trade Balance	-202	-192.0	-176.0	-127.2
Total Exports	386.02	356.12	315.52	207.17
Coffee (Value)	48.19	46.73	45.87	36.93
Non-Coffee formal exports	288.00	257.85	218.14	169.26
ICBT Exports	49.83	51.53	51.52	0.97
Total imports(fob)	588.83	548.14	491.49	334.36
Government imports	37.57	20.22	31.32	19.27
Project	24.78	20.22	31.32	19.27
Non-project	12.78	0.00	0.00	0.00
Formal private sector imports	543.73	521.97	454.80	.314.96
.Oil imports	.87.60	.81.00	.71.48	.40.50
.Non-oil imports	.456.13	.440.96	.383.32	.274.46
.Estimated private sector imports	.7.53	.5.96	.5.37	.0.13

Source: Bank of Uganda, 2020

2.0 Other Developments in the Economy

2.1 Coronavirus Pandemic in Uganda

On 12 January 2020, the World Health Organization (WHO) confirmed that the novel Coronavirus was the cause of a respiratory illness in a cluster of people in Wuhan city Hubei China Province which was reported to the WHO on 31st December 2019.

The outbreak of this pandemic caused worldwide lockdown, quarantine and closure of borders and airports. Therefore, the Government of Uganda set up measures towards the end of March, 2020 to counter the spread of the pandemic, which was extended up to April, 2020. On 22nd March 2020, the President issued a Directive banning all passenger planes coming in; and all borders were closed. The country maintained a partial lockdown during this period. Nonetheless, cargo planes and trucks bringing in goods in the country were allowed to operate, nonetheless, the economy was affected in numerous ways. Also, the pandemic came at a time when the government was tackling the locust invasion in the Northern and Eastern parts of the country.

2.1.1 Effects of the Pandemic and its associated Mitigative Measures on the Economy

The partial lockdown affected key sectors of the economy, including trade, tourism, transport, and other services. For instance, the Informal Cross Border Trade (ICBT) fell tremendously from USD 51.52 million in March, 2020 to USD 0.97 million in April 2020.

The impact of the prevention measures during the month was manifested in the key indices of economic activity which track current business conditions and the outlook. The Purchasing Manager's Index fell for a second consecutive month, signaling a further deterioration in business as production levels fell. The Business Tendency Indicator (BTI) fell below the threshold of 50 which showed that investment sentiments about doing business in Uganda were pessimistic. The Composite Index of Economic Activity (CIEA) which measures economic activity also fell. Preliminary estimates from the Uganda Bureau of Statistics show a fall in GDP to 3-4 percent, from the pre-pandemic projection which was 5-6 percent.

There also existed shortfalls in revenue due to restrictions, lockdown policies and closure of country borders. Low revenue was augmented by increased government expenditure to purchase test kits, medical masks and other equipment for the health sector which led to budget deficit.
Furthermore, the pandemic worsened Uganda's position with the rest of the world because there

was a reduction in inflows of Foreign Direct Investments, remittances and tourism. This will further lead to depreciation of the shilling against other currencies because of reduced foreign exchange. Notably, during the advent of the coronavirus pandemic, the Uganda Shilling depreciated by 4 percent against the US Dollar, from Ushs. 3,676.9 in February, 2020 to Ushs. 3,844 by 23rd March, 2020. This is also partly explained by the exit of offshore investors of Government securities, in search of safe-havens. For example, between 21st February, 2020 and 13th March, 2020, offshore holding of government securities declined by UShs. 130 billion.

Nonetheless, coronavirus is not without opportunities. For example, the reduction of imports has led the country to re-strategize towards the achievement of the import substitution strategy. This has been manifested in the development of an Import Substitution Action Plan, an activity that was led by the National Planning Authority (NPA). The Action Plan follows 10-point criterion to select priority commodities (goods and services) for import substitution. This criterion includes: value/volume of imported goods and services; existence of some domestic production capacity; presence of raw materials; technological complexity involved; strategic importance of goods and/or services; high potential for job creation; essential commodity or service; linkages with other sectors or industries; capital requirements; and previous/ongoing Government investment.

The prioritised products are: Petroleum and petroleum products; iron and steel; medical and pharmaceutical products; and veterinary drugs and medicines; cereals; plastics; vegetable fats and oils; textiles; salt; fertilizer; and sugars and sugar preparations. The prioritized services are: Transport, Construction and Medical Services. Indeed, local production activities for public health related products like face-masks, sanitizers and pharmaceutical products increased during the period.

The pandemic has also created digitization efforts in the country, by adopting virtual and online meeting spaces and ways of conducting business among others.

2.1.2 Mitigative Measures to Cushion the Economy against the coronavirus pandemic effects

The Government undertook a number of mitigative measures to cushion the economy against the effects of the coronavirus pandemic and its associated lockdown policies. These measures were in terms of public health policies, fiscal policy and monetary policy. These included:

- Undertaking massive awareness health campaigns on the pandemic and mitigative measures like handwashing among others.
- Distribution of food to citizens, especially the urban poor, during the lockdown period.
- The Central Bank Rate (CBR) was further reduced from 9 percent to 8 percent.
- Support to businesses through Uganda Development Corporation (UDC) and Uganda Development Bank (UDB); and
- Deferment of a number of taxes among others.

References

Bank of Uganda. (2020). Monetary Policy Report April 2020. Kampala

Ministry of Finance, Planning and Economic Development. (2020). Performance of the Economy Report April 2020. Kampala.

National Planning Authority (2020). Import Substitution Action Plan. Kampala, Uganda

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.