



# NATIONAL PLANNING AUTHORITY

## MONTHLY ECONOMIC UPDATE



AUGUST 2020

### Key Economic Highlights

- 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 US\$ 3,785.7/US\$ from US\$ 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 programmed 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.

#### 1.1 Real Sector

**Real Gross Domestic Product (GDP) growth is projected in the range of 3 - 4 percent in FY2020/21 below the NDPIII target of 4.5 percent (UBOS, 2020).** This is largely as a result of COVID-19 pandemic which has disrupted economic activities, and negatively impacted agriculture, production, manufacturing and supply chain disruptions.

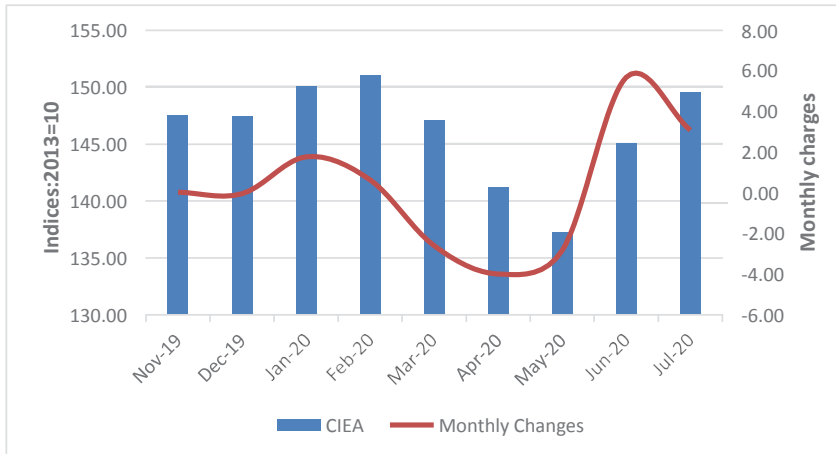
Economic activity is gradually returning to normal although it is still below the pre-lockdown levels of February 2020. This is evidenced in the improvement in the Composite Index of Economic Activity (CIEA), which is a short-term indicator of economic activity. It increased to 149.52 in July<sup>1</sup> from 145.04 in June (see in Figure 1). This was as result of loosening the restrictions of COVID-19 that were imposed in March, which saw an increase in private investment and private consumption. It is anticipated that as the economy continues to ease the



<sup>1</sup>CIEA comes with one-month lag

lockdown and enforcement of anti-COVID-19 spread, the level of economic activity will bounce back to the pre-lockdown levels.

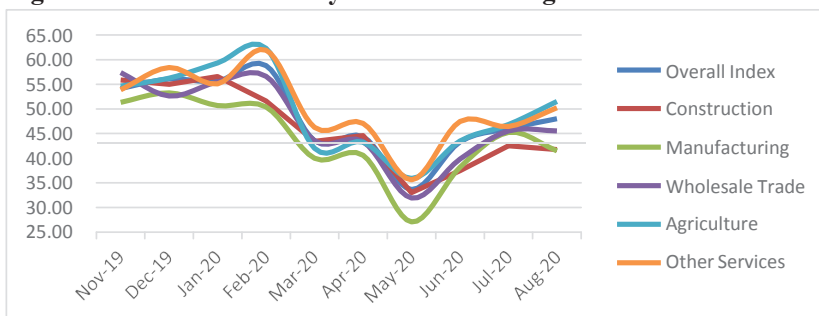
**Figure 1: Composite Index of Economic Activity**



Source: Bank of Uganda

The Business Tendency Indicator (BTI) for August increased to 48.0 from 45.98 in July, which is an indication of rising optimism among the business community. Despite the increase in the BTI, it remained below its threshold of 50<sup>2</sup>, which is an indication of less than satisfactory optimism in the business community. Figure 2 captures the overall value of the index with higher optimism being registered in agricultural and other business service enterprises while manufacturing, wholesale trade and construction post less optimism tendencies. The increment in the overall BTI was as a result of loosening the lockdown as saloons, arcades and other business outlets were opened.

**Figure 2: Business Tendency Indicator for August 2020**



Source: Bank of Uganda

<sup>2</sup> BTI index less than 50 implies negative expectations and BTI greater than 50 implies positive expectations.

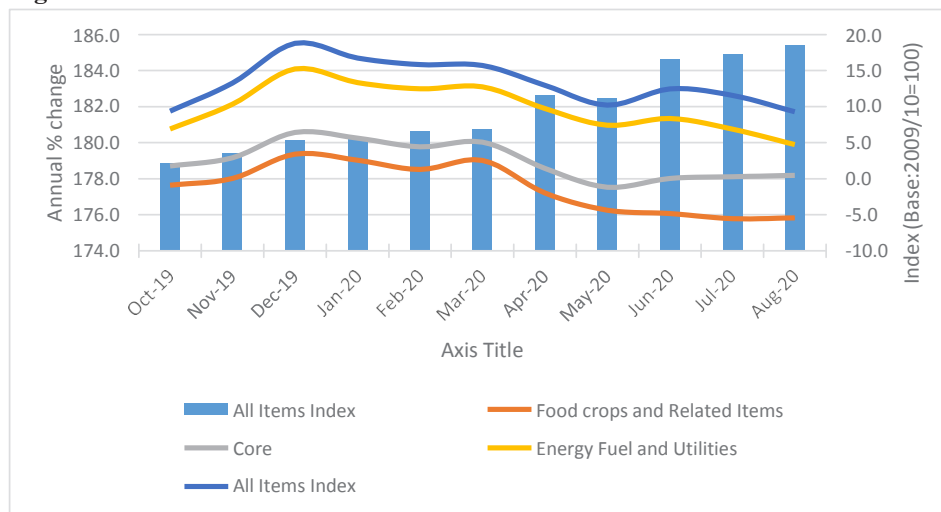
**The Purchasing Manager’s Index (PMI) increased to 54.6 in August 2020 from 50.3 in July which indicates a gradual rise in business activity and a signal of economic recovery processes.** It was the second straight month of expansion in the business sector, amid some loosening of restrictions because of the coronavirus pandemic. Both output and new business orders continued to grow. On the price front, input prices increased for the third straight month, mainly as a result of purchases, transportation and utilities costs moved higher. Meanwhile, selling prices rose for the second straight month as companies passed on higher cost burdens to their customers.

**1.2 Inflation rate**

**The Annual Headline Inflation for August 2020 declined to 4.6 percent from 4.7 percent registered for July 2020** (see in Figure 3). The decrease in Annual Headline inflation is mainly attributed to the annual Energy Fuel and Utilities (EFU) inflation that declined to 4.3 percent in August 2020 compared to the 6.6 percent recorded in July 2020. The decline in (EFU) was as a result of a fall in the solid fuels like charcoal and firewood.

**The annual Core Inflation increased to 5.9 percent in August 2020 from 5.8 percent in July 2020.** This was mainly due to annual services inflation that recorded 9.6 percent increase for August 2020, compared to 9.2 percent for July 2020. Specifically, Transport services inflation rose to 50.7 percent in August 2020, compared to 47.6 percent rise in July 2020. This was as a result of observing the Standard Operating Procedures (SOPs) of carrying half capacity passengers in public vehicles.

**Figure 3: CPI and Inflation rates**

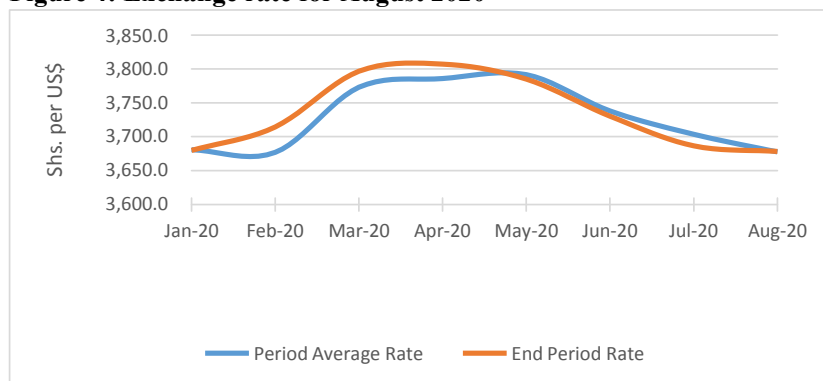


Source: Bank of Uganda

### 1.3 Exchange rate

The Ugandan Shilling appreciated slightly by 0.2 percent against the US Dollar, at an average midrate of Ushs. 3,677.5/USD in August 2020 from Ushs. 3,703.5/USD in July, as a result of increased forex inflow (see in Figure 4). The Uganda Shilling appreciation was as a result of loosening restrictions brought about by COVID-19 pandemic, and optimistic investor sentiments as evidenced in the improved Business Tendency Index. Consequently, these increased inflows of foreign currency. Therefore, it is envisaged that the shilling will become more stable in the coming months when the international borders and the airport are opened.

**Figure 4: Exchange rate for August 2020**

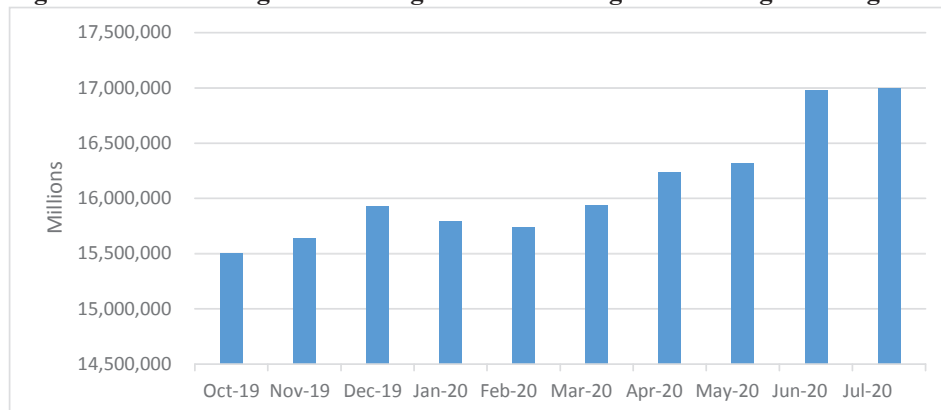


Source: Bank of Uganda

### 1.4 Private Sector Credit

Despite the persistent reduction in the Central Bank Rate (CBR), since April lending rates have not reduced. The Bank of Uganda adopted a loose monetary policy stance since April by reducing the CBR from 9.0percent to 7.0percent currently. The CBR was revised downwards to 7.0percent since June 2020 and still stands at that. Conversely, the lending rate increased from 19.3 percent in June to 20.9 in July. This was because of high demand for credit, increased domestic borrowing by Government and the high perceived risk of lending to the private sector during such unprecedented times as these.

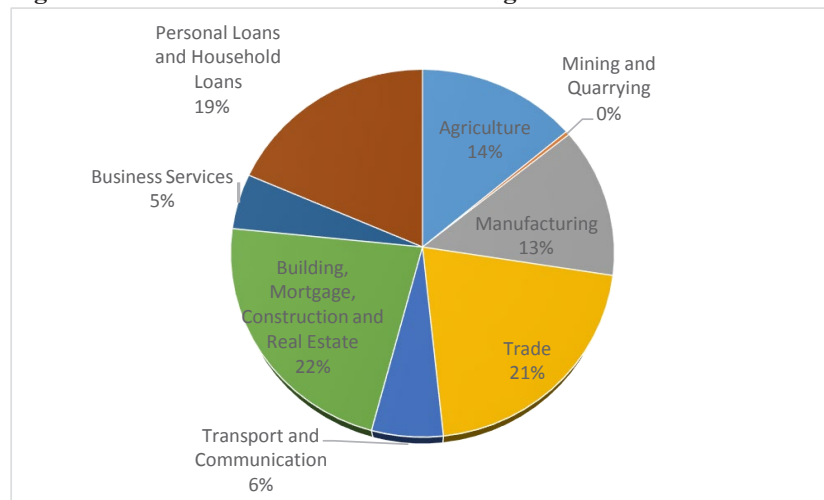
**Figure 5: Outstanding total lending in millions of Uganda shillings for August**



Source: Bank of Uganda

There was a marginal increase in the stock of credit to the private sector largely due to increased perceived risk, Government fiscal operations which all contributed to keeping the cost of credit high. The stock of outstanding credit to private sector increased from Ushs. 16,981.8 million in July to Ushs. 16,996.6 million in August which denotes a 0.1percent marginal increase and hence a slight recovery (see in Figure 5). Building, Mortgage, Construction and Real Estate, Trade, and Personal Loans and Household Loans got the highest credit while mining and quarrying received none (see in Figure 6).

**Figure 6: Private sector share of credit August 2020**



Source: Bank of Uganda

## 1.5 Fiscal Sector Developments

The overall fiscal operations in August 2020 resulted in an overall fiscal deficit of Shs. 1,821.33 billion, which was lower than the planned deficit of Ushs. 2,606.83 billion. This was as a result of reduced government expenditure, majorly attributed to reduced foreign travels.

Domestic revenue collections amounted to Ushs. 1,379.49 billion in August 2020, posting a surplus of Ushs. 343.40 billion, against the programmed target of Ushs. 1,036.09 billion. Tax revenue was Ushs. 1,320.71 billion which registered a surplus, while, non-tax revenue (NTR) performed below target of Ushs. 106.94 billion, as it registered a deficit of Ushs. 58.78 billion. The NTR was low because the Ministries, Departments and Agencies (MDAs) that offer such services were not fully operating due to the restrictions of COVID-19 pandemic.

Government expenditure for August were Ushs. 3,205.68 billion against the planned Ushs. 3,919.83 billion. This was majorly on account of low performance in development expenditure (see in Table 1).

**Table 1: Overall Fiscal Operations August 2020**

Billions (Ushs.)	Program	Outturn	Performance	Deviation
<b>Revenue and grants</b>	1,215.72	1,384.35	113.9%	168.63
<b>Revenues</b>	1,036.09	1,379.49	113.1%	343.40
<b>Tax</b>	929.14	1,320.71	142.1%	391.57
<b>Non tax</b>	106.94	58.78	55.0%	-48.17
<b>Grants</b>	179.63	4.86	2.7%	-174.77
<b>o/w project support</b>	163.73	4.86	3.0%	-158.87
<b>Expenditure and lending</b>	3,919.83	3,205.68	81.8%	-714.15
<b>Current expenditure</b>	2,019.22	2,092.37	103.6%	73.15
<b>Wages &amp; salaries</b>	443.62	430.57	97.1%	-13.05
<b>Interest payments</b>	308.32	308.32	100.0%	0.00
<b>Other current expenditure</b>	1,267.28	1,353.48	106.8%	86.20
<b>Development expenditure</b>	1,855.37	842.98	45.4%	-1,012.38
<b>Net lending/repayment</b>	0.00	61.97	-	61.93
<b>Domestic arrears</b>	45.24	208.35	460.6%	163.11
<b>Overall fiscal balance</b>	(2,704.11)	(1,821.33)		
<b>Domestic fiscal balance</b>	(1,964.49)	(1,364.69)		

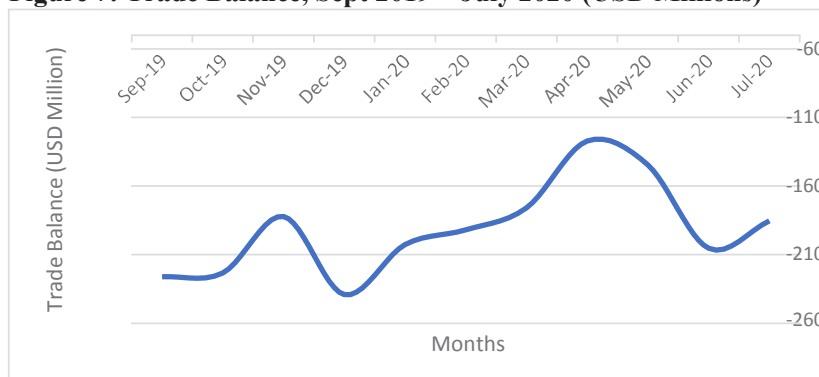
Source: MoFPED

## 1.6 External sector Developments

The trade deficit narrowed by 10 percent in July as compared to 42 percent in June 2020 largely on account of increased coffee and gold export earnings. The trade deficit fell to USD 185.4 million in July<sup>3</sup> from USD 205.4 million in June (see in Figure 7). This is further elaborated by an increase in export earnings from USD 338.4 million in June to USD 419 million in July as a result of an increase in coffee and gold exports. Conversely, the import bill increased in July to USD 605.04 from USD 543.74 recorded in June 2020 (see in Table 2).

<sup>3</sup> Data on external trade comes with lag of one month.

**Figure 7: Trade Balance, Sept 2019 – July 2020 (USD Millions)**



Source: Bank of Uganda

Whereas both coffee and non-coffee exports improved, there was a decline in Informal Cross Border trade (ICBT). The export receipts increased in July to USD 419.6 Million from USD 338.4 Million in June because of increase in both coffee and non-coffee formal exports. Coffee exports recorded the highest value since the year started in July of USD 49.98 Million from USD 39.99 million recorded in June 2020. Similarly, gold exports also recorded an increase in July, 2020 of USD 161.32 million from USD 221.98 Million in June 2020. However, ICBT receipts recorded a decline in July 2020 of USD 1.24 million from USD 1.45 Million in June 2020, as a result of closure of regional borders due to the COVID-19 pandemic.

**Table 2: Composition of the Trade Balance, March 2020 – July, 2020**

	Mar-20	Apr-20	May-20	Jun-20	Jul-20
<b>Trade Balance (US\$ Million)</b>	-175.97	-127.21	-144.71	-206.40	-185.4
<b>Total exports</b>	315.5	207.2	290.9	338.4	419.6
<b>Coffee (Value)</b>	45.87	36.93	42.48	39.99	49.98
<b>Non-Coffee formal export</b>	218.14	169.26	247.86	296.91	368.38
<b>ICBT Export</b>	51.52	0.97	0.59	1.45	1.24
<b>Total imports (fob)</b>	491.49	334.36	435.64	543.74	605.04
<b>Government import</b>	31.32	19.27	25.62	20.68	40.96
<b>Project</b>	31.32	19.27	25.62	20.68	40.96
<b>Non-project</b>	0.00	0.00	0.00	0.00	0.00
<b>Formal Private sector import</b>	454.80	314.96	409.95	522.88	563.93
<b>Oil imports</b>	71.48	40.50	33.89	56.73	47.96
<b>Non-oil imports</b>	383.32	274.46	376.06	466.15	515.97
<b>Estimated Private Sector Imports</b>	5.37	0.13	0.08	0.19	0.16

Source: Bank of Uganda

## 1.7 Conclusion

The overall outlook of the economy is positive and points to a gradual recovery. Whereas the investment sentiments of the business sector are not to the level of the pre-COVID-19 times, there is evidence of optimism regarding the peaking of economic activity, which is supported

by marginal increases in private sector credit. The gradual easing of the lockdown measures while also adhering to standard operating procedures is meant to protect the wellbeing of citizens while also preserving their livelihoods. Whereas the country is witnessing an increase in the COVID-19 cases, the Government is endeavoring to strike a balance between the objective of protecting health while at the same time keeping the health of the economy sound.

## 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.*



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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