NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

Uganda Vision 2040

DECEMBER 2020

Key Economic Highlights

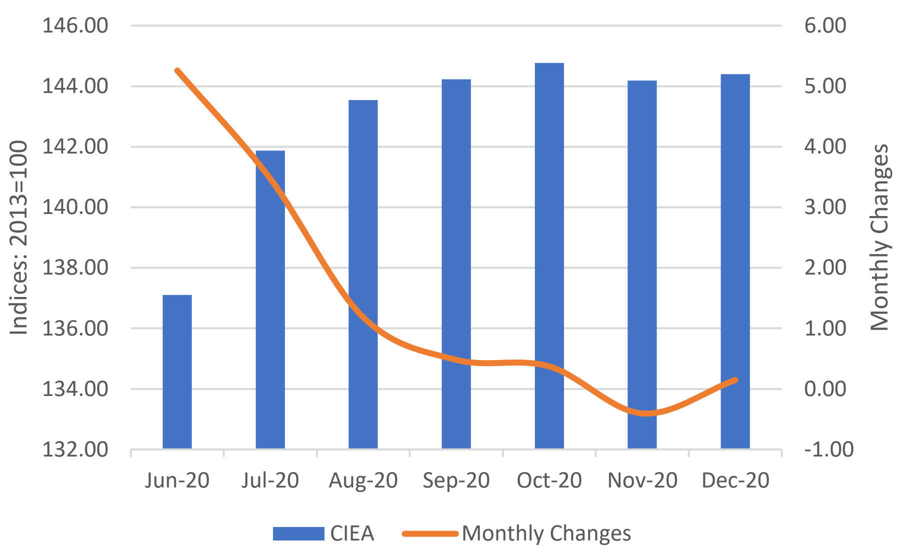
- Whereas the Composite Index of Economic Activity (CIEA) indicates a significant drop in the level of economic activity between June 2020 and September 2020, there is a positive movement between November and December which proxies a recovery in quarterly GDP growth
- Investor sentiment has been on a gradual rise since June 2020, it is yet to reach the pre-lockdown levels as evidenced by the trends in the Monthly Business Tendence Index (BTI). Since September all through to end of December 2020 the BTI value has been above the 50 threshold which represents positive sentiment that underly private sector activity
- Expenditure pressures especially related to combating the effects of COVID-19 and the conducting of general elections coupled with projected shortfall in revenue have raised the financing gap by almost UGX6 trillion in FY2020/21. The fiscal deficit is thus projected at 10.4percent of GDP higher than the NDPIII projection of 7.8percent for the period.
- The surge in the fiscal deficit has led to further borrowing, ultimately leading to the accumulation of the debt stock from 41.2 percent in FY2019/20 to 49.9percent projected for FY2020/21. The provisional total public debt stock as at end October 2020 stood at UGX63,352.8 billion, corresponding to an increase of 13.8 percent from June 2020 compared to an increase of 3.9 percent over the same period the previous year
- There was a marginal growth in private sector credit growth which implies existence of a slow recovery in economic activity and the implementation of the COVID-19 response measures in the prudential regulations for commercial banks in the mitigation of the effects of the pandemic on the financial sector
- Uganda's external trade as at the end of November 2020 showed a widened deficit in the merchandise trade balance to USD427.83 million from USD375.37 million recorded in October 2020 due to significant increase in merchandise import payments

1.0 INTRODUCTION

2.0 Real Sector and Price Developments

Despite the reduction in projected growth for FY2020/21 from 4.5percent to 3-4percent as a result of lagged effects of COVID-19, there is continued moderate recovery in the level of economic activities. Whereas the Composite Index of Economic Activity (CIEA) indicates a significant drop in the level of economic activity between June 2020 and September 2020, there is a positive movement between November and December which proxies a recovery in quarterly GDP growth (Figure 1.0). This continued recovery is as a result of the easing of the restrictions surrounding the spread of the COVID-19 pandemic that has enable private investments to take place. The continued recovery is further evidenced by Stanbic Bank's Purchasing Manager Index (PMI) for November that stood at 53.9, above its average level. It specifically indicated there was an increase in purchasing activity with the expansion of input buying feeding through to higher inventories, while suppliers worked to improve delivery times in order to keep hold of business.

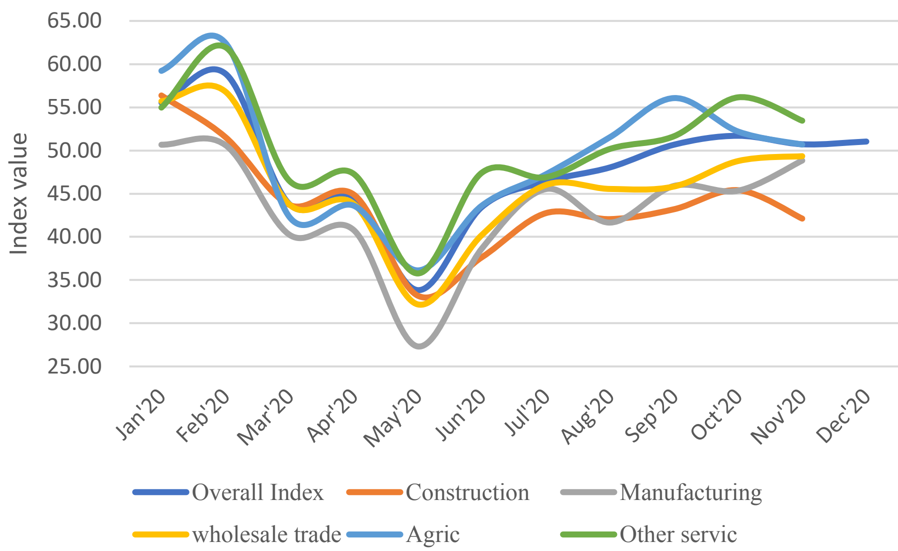
Figure 1: Composite Index of Economic Activity



Source: Bank of Uganda (2021)

It is evident that at the height of the lockdown period, investor sentiment was dampened, falling to its lowest level in May 2020 (Figure 2). Whereas investor sentiment has been on a gradual rise since June, it is yet to reach the pre-lockdown levels as evidenced by the trends in the Monthly Business Tendence Index (BTI). Since September all through to end of December 2020 the BTI value has been above the 50 threshold which represents positive sentiment that underly private sector activity. Specifically, Agriculture, Manufacturing, and Wholesale Trade activities show a higher positive outlook than all other activities. Construction depicts less optimism which is not surprising given the focus on revamping aggregate demand and import substitution actions implemented by Government in the quarter ending as a means of responding to COVID-19 effects. With positive business sentiment, the gains in GDP growth are projected at 3-4 percent which is below the NDPIII target of 4.5percent.

Figure 2 Business Tendency Index (BTI) as at end of December 2020



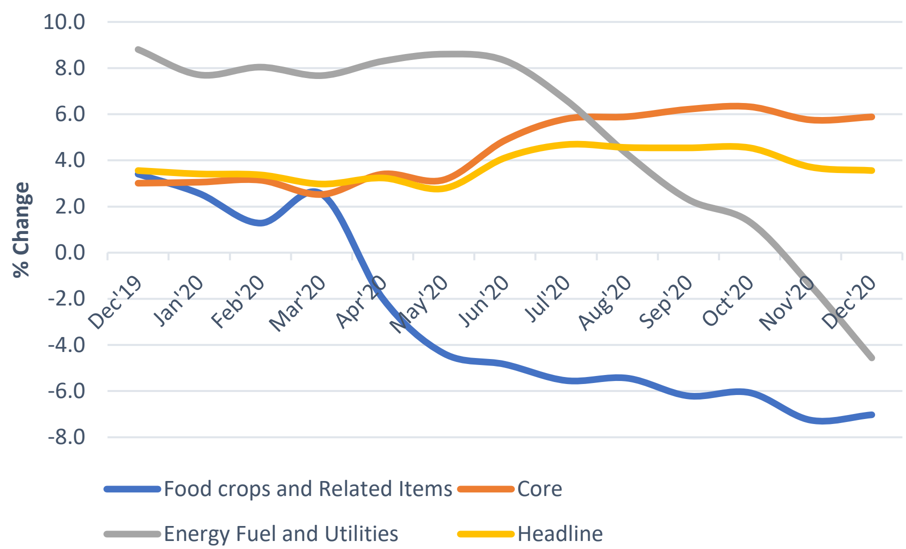
Source Bank of Uganda (2021)

Despite evidence of economic recovery from the effects of COVID-19 as evidenced in the high frequency indicators of economic activity, there is significant uncertainty to the general economic outlook. Whereas GDP growth in FY2020/21 is projected at 3-4percent, and 5-6percent in FY2021/22, this is premised on the following: (i) containing the spread of COVID-19 and developing its vaccine; (ii) a well-managed general election environment and processes that would permit private and public investment continuity; (iii) recovery and strengthening of the global economy; (iv) a conducive environment for agricultural production and (v) solving the regional geopolitical tensions to facilitate the free flow of factors of production. With all these conditions holding, the planned development interventions in the NDPIII and its attendant Plan Implementation Action Plans (PIAPs) will be able to be implemented.

Inflation has largely been kept within single digit largely due to stable food and energy prices. The annual headline inflation for the year ending December 2020 fell to 3.6percent from 3.7percent recorded in November 2020 largely due to a decline in Energy Fuel and Utilities (EFU) Inflation from minus1.4percent to minus4.6percent resulting from a reduction in solid fuels inflation (Uganda Bureau of Statistics, 2021). Both headline and core inflation rose between May and October 2020 largely due to the restrictions on use of various transport modes which led to the increase in the cost of transportation of goods and services. Besides, as a result of enforcing restrictions of COVID spread, public transport charges were increased following the requirement to operate services at half capacity.

The annual food crops and related Items inflation registered a minus 7.0percent for the year ending December 2020 compared to minus 7.3percent recorded for the year ended November 2020 which was attributed to a slight rise in the prices of fruits, and bananas. Generally, food crop and energy prices have remained subdued for the last six months and dampened the impact on overall inflation.

Figure 3 Inflation for December 2019-December 2020



Source: UBOS

3.0 FISCAL SECTOR DEVELOPMENTS

3.1 Revenue Developments

The impact of COVID-19 has led to the downward revision of the domestic revenue target planned for FY2020/21 by 14percent and this is likely to have an impact on the fiscal deficit given the emerging expenditures in mitigating the effects of the global pandemic. Planned domestic revenue in the appropriated budget for the FY2020/21 was UGX21,810.66 Bn but owing to COVID-19 it has been revised to UGX18,220 Bn of which UGX5,528.4 Bn had been collected as at end of October 2020 representing 25percent of the target for the whole year. Since the NDPIII revenue strategy focuses on improving compliance and efficiency in tax revenue collections, URA has instituted a number of administrative measures while also implementing the Government's COVID-19 rescue measures bordering on deferment of tax collections. With tax deferrals being implemented, and the global impact of COVID-19, it is difficult to attain the domestic revenue, NTR and grants targets.

3.2 Expenditure Developments

As of end of October 2020, UGX11,684Bn for both domestic and recurrent expenditure components for the Annual budget. The major expenditure drivers so far in the first half of FY2020/21 have been mainly related to mitigating the health challenges posed by COVID-19 as well as alleviating its impact on the economy and the livelihoods of the vulnerable population. According to (Ministry of Finance, Planning and Economic Development, 2020), the COVID-19 related expenditures in the first half of FY2020/21 included: Public health response measures, for which UGX170.03 Billion was released to enhance health systems through:(i). increasing direct health expenditures for both Covid-19 interventions and capacity strengthening; and (ii) support to scientists and innovators engaged in scientific research for Covid-19 interventions. Government also released UGX2,223.10 Billion for economic recovery interventions of which UGX221.10

Billion was earmarked for agricultural inputs and extension services; UGX130 Billion for labor-intensive work for vulnerable able-bodied persons affected by COVID-19; UGX416.00 Billion for Emyooga fund meant to support skills-based enterprise groups. Further UGX was disbursed to UDB to support provision of affordable credit for small, medium and largescale enterprises, UGX138 Billion was disbursed to UDC for public private partnership investments to the 16-import substitution production lines and export promotion, UGX77 Bn was disbursed to SACCCOs and the Uganda Micro-Finance Support Centre, while UGX673 Billion was released for settlement of domestic arrears. And finally, Government expended resources on social protection interventions, for which UGX64.77 Billion was for the provision of relief food, and increased coverage for the elderly persons under the Social Assistance Grant for the Elderly (SAGE).

Expenditure pressures especially related to combating the effects of COVID-19 and conducting elections coupled with projected shortfall in revenue have raised the financing gap by almost UGX6 trillion in FY2020/21. As of end of October 2020, the financing deficit of UGX5,588.2Billion was financed through domestic and external borrowing (Table1.0). In that regard, Parliament approved a supplementary budget and related financing amount to UGX4.3 trillion from domestic sources and USD 600 million from external sources to facilitate financing of part of the deficit. The fiscal deficit is thus projected at 10.4percent of GDP higher than the NDPIII projection of 7.8percent for the period.

Table 1: Over view of Fiscal Operations (UGX Bn)

	Jul'2020	Aug'2020	Sep'2020	Oct'2020	Total
Revenue & Grants	**1,299.0**	**1,623.7**	**1,646.7**	**1,526.5**	**6,095.84**
Revenue	1,224.9	1,397.1	1,492.6	1,413.9	5,528.43
Grants	74.1	226.6	154.1	112.6	567.41
Expenditure and Lending	**2,826.4**	**3,489.1**	**1,925.1**	**3,443.4**	**11,684.04**
Current Expenditures	1,568.5	2,089.3	1,259.0	1,678.4	6,595.22
Wages and Salaries	393.7	431.7	405.6	461.8	1,692.88
Interest Payments	473.2	308.3	399.1	281.7	1,462.29
Domestic	293.8	248.6	300.7	196.5	1,039.68
External	179.3	59.7	98.4	85.2	422.61
Other Recurr. Expenditures	701.6	1,349.3	454.3	934.9	3,440.05
Development Expenditures	1,203.9	649.8	619.4	1,682.8	4,155.99
Domestic Development	931.6	481.7	356.2	1,464.1	3,233.57
External Development	272.3	168.1	263.3	218.8	922.42
Net Lending/Repayments	-	543.7	1.9	8.8	554.42
Domestic Arrears Repaym.	54.0	206.3	44.8	73.3	378.41
Primary Balance	(1,054.3)	(1,557.1)	120.7	(1,635.2)	(4,125.9)
Overall Fiscal Bal. (excl. Grants)	(1,601.5)	(2,092.0)	(432.5)	(2,029.5)	(6,155.6)
Overall Fiscal Bal. (incl. Grants)	(1,527.4)	(1,865.4)	(278.4)	(1,916.9)	(5,588.2)
Financing:	**1,527.4**	**1,865.4**	**278.4**	**1,916.9**	**5,588.20**
External Financing (Net)	1,730.5	134.8	310.0	135.3	2,310.60
Domestic Financing (Net)	(1,180.0)	2,389.9	91.8	1,126.1	2,427.77
Bank Financing (Net)	(1,408.6)	2,153.6	(80.5)	749.6	1,414.09
Non-bank Financing (Net)	228.6	236.3	172.3	376.5	1,013.67
Errors and Omissions	977.0	(659.3)	(123.4)	655.5	849.84

Source: Government Finance Statistics Data Base

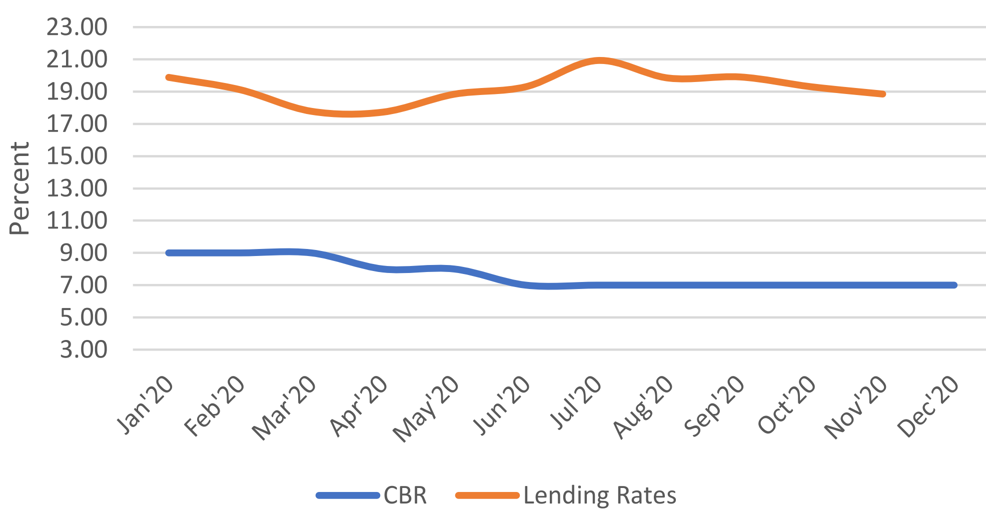
The surge in the fiscal deficit has led to further borrowing, ultimately leading to the accumulation of the debt stock from 41.2 percent in FY2019/20 to 49.9percent projected for FY2020/21. The provisional total public debt stock as at end October 2020 stood at UGX63,352.8 billion, corresponding to an increase of 13.8 percent from June 2020 compared to an increase of 3.9 percent over the same period the previous year (Bank of Uganda, 2020). While the NDPIII prioritises external concessionary borrowing, there is an increase in domestic interest payment as compared to external payment which is a signal of increased domestic borrowing that is susceptible to suppressing private investments. More disturbing is the fact that as commercial banks remain averse to lending to the private sector following the COVID-19 shock, they may lobby Government to take on more commercial loans in the domestic market as a means for them (commercial banks) to survive the COVID-19 knock-on effects. Hence, there is need for Government to remain committed to its fiscal and debt sustainability objective in order for it to achieve its development aspirations.

4.0 MONETARY SECTOR DEVELOPMENTS

4.1 Interest Rate Developments

There is a continued disparity between the commercial lending rate and the central bank rate (CBR) despite easing of the monetary policy throughout the COVID-19 response and mitigation period. The lending rates have averaged 19.7percent in the last six months while Bank of Uganda's policy rate has been fixed at 7percent (Figure 4) and the deposit rates average at 2.4percent for the same period. This represents high interest rate spreads that are largely attributed to high overhead costs, high interest rates on government bonds, and high levels of bank capitalization (in compliance with the regulatory requirements) and profits (Jefferis, Kasekende, Ntungire, & Rubatsimbira, 2020). Of particular concern is the increase in the level of perceived risk of default by private entities compared to Government during the COVID-19 pandemic era. The commercial banks are more risk-averse to channeling credit to the private sector following the reduction in profitability of businesses as a result of the COVID-19 challenges. Therefore, investing in health enhancing measures leading to the development of the COVID-19 vaccine is necessary and urgent.

Figure 4: Lending Rates versus the Central Bank Rate



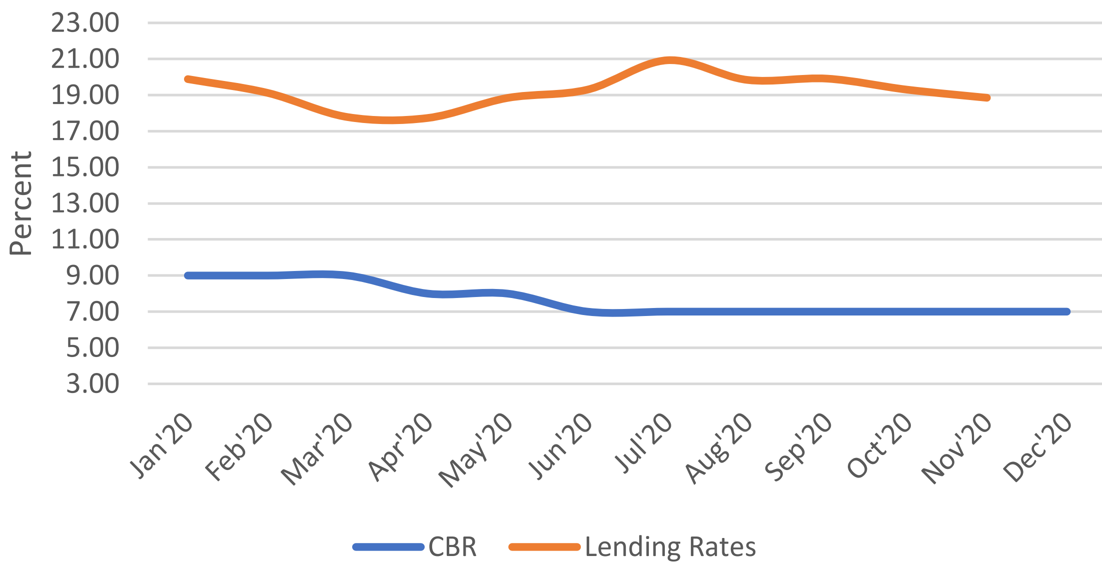
Source: Bank of Uganda

4.2 Private Sector Credit

There was a marginal growth in private sector credit growth which implies existence of a slow recovery in economic activity and the implementation of the COVID-19 response measures in the prudential regulations for commercial banks in the mitigation of the effects

of the pandemic on the financial sector. The stock of private sector credit grew by 0.82percent in November 2020 compared to 0.56percent growth in October 2020. Despite the fall in the stock of private sector credit between July and August, it has since gradually increased with the positive investor sentiment since the months of September to date (see Figures 2 and 5)

Figure 5: Stock of Private Sector Credit as of November 2020



Source: Bank of Uganda

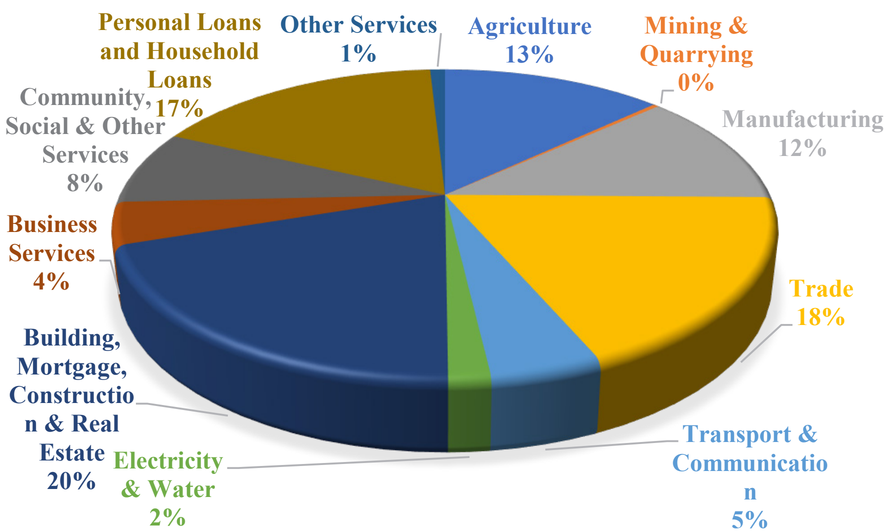
Building, mortgage, construction and real estates, trade, personal and household economic activities take the largest share of private sector credit (Table 2 and Figure 6). Agriculture and manufacturing activities that are meant to drive the growth of industrialization and household incomes as per NDPIII attract less credit. There is need to channel adequate credit to such activities in order to support the agro-industrialization agenda of NDPIII and thus support employment growth. In light of the COVID-19 challenge private sector credit growth is likely to remain subdued in the short-term due to weak economic growth and increased risk aversion by lenders. In the long-run, credit growth remains dependent on total recovery in the level of economic activity.

Table 2 Sectoral Share of Private Sector Credit (June-November 2020)

	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Agriculture	12.7	12.5	12.6	12.8	12.9	13.0
Mining & Quarrying	0.3	0.3	0.3	0.3	0.3	0.3
Manufacturing	11.7	11.9	11.4	11.5	11.7	11.9
Trade	18.7	18.7	18.6	18.5	18.4	18.3
Transport & Communication	5.6	5.2	5.2	5.2	4.7	4.6
Electricity & Water	1.7	1.8	1.7	1.9	1.9	1.7
Building, Mortgage, Construction & Real Estate	20.3	20.1	20.3	20.2	20.2	20.0
Business Services	4.5	4.4	4.4	4.2	4.4	4.4
Community, Social & Other Services	7.2	7.7	7.8	7.7	7.7	7.7
Personal Loans and Household Loans	16.3	16.6	16.7	16.8	16.9	17.1
Other Services	1.0	0.9	0.8	0.9	0.9	0.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Uganda

Figure 6 Distribution of Private Sector Credit across Economic Activities as at end of November 2020



Source: Bank of Uganda

5.0 EXTERNAL SECTOR DEVELOPMENTS

5.1 Trade Balance

Uganda's external trade as at the end of November 2020 showed a widened deficit in the merchandise trade balance to USD427.83 million from USD375.37 million recorded in October 2020 due to significant increase in merchandise import payments. Payments for merchandise imports rose by 9.6percent to about USD810.88 million from USD739.23 million driven substantially by a rise in Government imports for projects and the non-oil formal private sector imports (Table 3). The increase in private sector both Government and private sector imports indicates the gradual reopening of international borders that has eased the free movement of merchandise and factors of production.

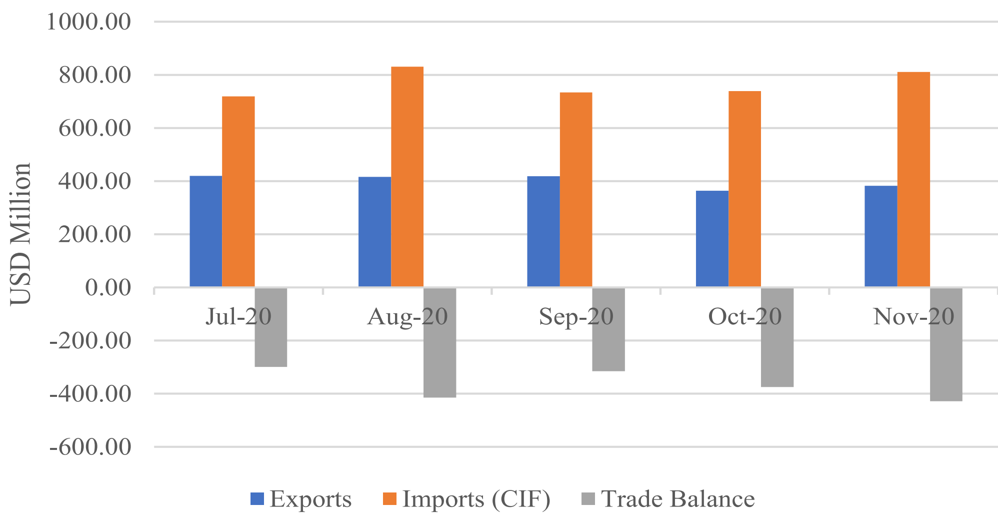
Table 3 Selected External Trade Statistics

	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20
Exports	**419.47**	**416.27**	**417.93**	**363.86**	**383.05**
Coffee	**49.98**	**46.06**	**44.64**	**38.61**	**38.29**
Non-Coffee	**368.38**	**369.15**	**372.16**	**324.15**	**343.61**
o/w Gold	221.98	221.71	221.73	165.70	173.90
o/w Cotton	2.29	2.00	1.95	5.99	2.50
o/w Tea	6.59	6.26	5.63	7.59	7.96
o/w Tobacco	3.38	3.01	2.63	3.15	4.61
o/w Fish & its prod. (excl. regional)	8.77	8.87	10.39	12.65	12.92
o/w Maize	7.47	11.49	9.65	6.23	5.15
o/w Beans	2.46	2.41	1.48	4.59	9.46
o/w Flowers	5.84	5.21	4.59	4.16	3.41
o/w Oil re-exports	3.96	4.04	4.74	7.01	7.73
o/w Others	102.01	99.56	102.93	102.84	111.72
ICBT Exports	**1.11**	**1.05**	**1.14**	**1.10**	**1.15**
Imports (CIF)	**718.83**	**830.86**	**733.41**	**739.23**	**810.88**
Total Imports (fob)	605.02	693.46	615.14	614.98	677.52
Government Imports	40.96	55.78	4.09	8.35	13.72
Project	40.96	55.78	4.09	8.35	13.72
Non-Project	0.00	0.00	0.00	0.00	0.00
Formal Private Sector Imports	563.93	637.56	610.91	606.50	663.67
Oil imports	47.96	63.62	57.23	60.53	51.40
Non-oil imports	515.97	573.93	553.69	545.97	612.26
Estimated Private Sector Imports	0.13	0.12	0.13	0.13	0.14
Total Private Sector Imports	564.06	637.68	611.05	606.63	663.80
Trade Balance	**(299.37)**	**(414.59)**	**(315.48)**	**(375.37)**	**(427.83)**

Source: Bank of Uganda

While there was an increase in total exports to USD383.05 million from USD363.86 million between October and November 2020, this represented a 5percent increment which was lower than the 9.6percent increase in the import bill. Coffee exports slightly declined from USD38.6 million to USD38.3 million while the non-coffee exports increased from USD324.1 million to USD343.6 million. Gold exports contributed the largest share of the non-coffee exports and significantly outstrip Uganda's traditional chief export earner- coffee. The overall trade balance worsened as a result of a higher growth of the import bill compared to the export earnings (Figure 7)

Figure 7: Status of Uganda's Trade Balance



Source: Bank of Uganda

6.0 CONCLUSIONS

While returning the economy to its pre-COVID-19 growth rate remains short run economic objective, the overall development objective of macroeconomic policy is to foster an environment in which the NDPIII goal and objectives can be attained. Economic growth projection for FY2020/21 has been revised from the earlier anticipated level of 4.5percent downwards to 3-3.5percent owing to the lagged effects of COVID-19. However, a gradual increase is projected beyond FY2021/22 above 4 percent and further up at 5-6 percent in FY2022/23 and beyond. This is premised on the recent global developments in the discovery of COVID-19 vaccine that can help address the health and socioeconomic challenges associated with the pandemic. It is also premised on continued political stability during and after the general elections, faster recovery in domestic and global demand as well as rationalizing Government expenditure.

7.0 References

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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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