NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

Uganda Vision 2040

DECEMBER 2017

Key Economic Highlights

i. Year on Year growth in the first quarter of 2017/18 of 7.5 percent up from the 2.1 percent growth recorded in Q1 of FY 2016/17 signals better growth prospects for the financial year. This is supported by the index of economic activity for quarter 2.

ii. There were subdued inflationary pressures with annual headline inflation falling from 5.3 percent recorded at the end of quarter one to 3.3 percent at the end of the second quarter of FY 2017/18 while depreciation of the Uganda shilling against the US dollar continued.

iii. There was subdued growth in private sector credit during the first 2 months of Q2 of FY 2017/18, most likely due to the sustained central bank rate at 9.5 percent during this period.

iv. Year on year quarterly performance reflects an improvement in the fiscal operations of the country by 19 percent, with the overall fiscal deficit recorded at 1,386.55 billion shillings at the end of Q1 2017/18. The fall in the deficit was attributed to the decline in government development expenditure by 34 percent coupled with a fall in wages and salaries over the period.

v. The country's position with the rest of the world (BoP) narrowed by 9.5 percent to a surplus of US$130.2 million at the end of Q1 2017/18, leading to a build-up in reserve assets to US$ 127.6 million.

1.0. State of the Economy

1.1. Real Sector Developments

The first quarter of 2017/18 exhibited an upward trend in growth withyear on yearquarterly growth in Q1 of FY 2017/18 estimated at 7.5 percent from the 2.1 percent growth recorded in Q1 of FY 2016/17.However quarter on quarter GDP growth in Q1 of FY 2017/18 recorded a decline in growth to 1.3 percent from 2.5 percent in Q4 of FY 2016/17 as shown in Figure 1.

The decline in growth was mainly attributed to the agriculture, forestry and fishing sub-sector (0.3%) and the services sector (1.5%)particularly the decline of cashcropsby 1.4 percent in Q1 from a growth of 11.2 percent in Q4 of FY 2016/17 as well as a decline in accommodation and food service sector to 3.9 percent. Nonetheless, growth was driven by the industry sector, particularly the electricity and manufacturing sector that grew by 4.2 percent and 3.7 percent respectively(UBoS, 2017).

The Composite Index of Economic activity, BoU's high frequency indicator of economic activity points towards strengthening of economic activity in the second quarter of FY2017/18, with economic activity expected to rise by 1.34 percent (Figure 2).However, a number of critical factors including exchange rates, private sector credit and food crop pricesremain a risk to the positive outlook.

These factors have to be monitored closely and dealt with to ensure a stable and conducive macroeconomic environment.

Figure 1: QuarterlyGDP Q1 2014/15 – Q1 2017/18

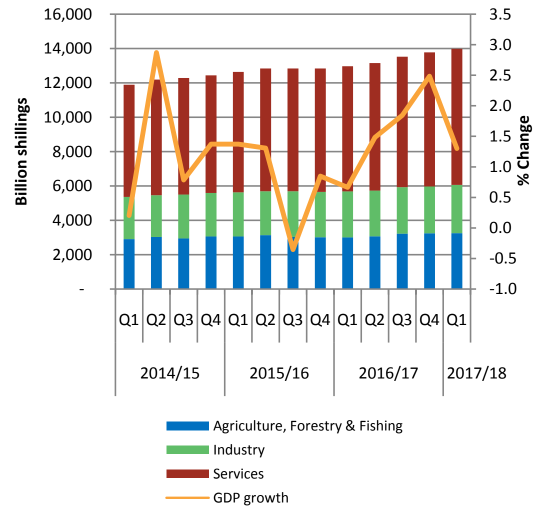
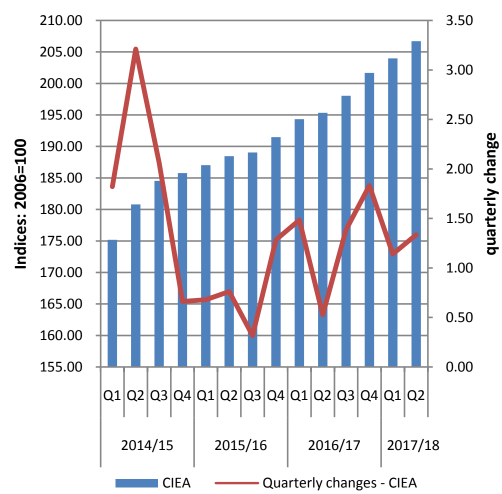


Figure 2: Composite Index of Economic Activities



Source: UBoS 2017Source: Bank of Uganda

2.1. Monetary and Financial Sector Development

The monetary sector developments reflect subdued inflationary pressures with annual headline inflation falling from 5.3 percent recorded at the end of quarter one to 3.3 percent at the end of the second quarter of FY 2017/18 and a 0.7 percent drop in the inflation recorded in November 2017. This was largely driven by a fall in food crops inflation by 3 percent, particularly Vegetables Inflation that declined to minus 0.9 percent and Fruits inflation that dropped to minus 1.6 percent for the year ending December 2017 due to increased produce following the improved weather conditions.Likewise, core inflation declined to 3 percent in December 2017/18 from 4.2 percent at the end of the first quarter of FY2017/18 and 3.3 percent for the year ended November 2017, mainly as a result of a fall in sugar prices following increased production. BoU's inflation outlook projects that inflation will remain subdued, although core inflation is expected to rise to 5 percent in FY 2018/19. However, this will be dependent on factors like the exchange rate, prices of food crops and the external environment.

The financial market was marked by depreciation in the Uganda shilling against the US dollar,with the end period exchange rate recorded at 3,635 Shs per US dollar in Q2 of FY 2017/18 from 3,603 Shs per US dollar recorded in Q1 owing to increased demand for the dollar amidst a limited supply (figure 4). It is expected that strengthening of the global economy as well as increased demand for imports is likely to cause further depreciation. Based on the economic and inflation outlook for the financial year 2017/18 as well as the fiscal stimuli during this period, the central bank decided that the currently monetary policy was sufficient to enable macroeconomic stability and resolved to maintain central bank rate at 9.5 percent throughout Q2 of FY 2017/18 with a band of +/- 3 percentage points(Bank of Uganda BoU, 2017).

Figure 3: Monthly CPI andInflation 2017Figure

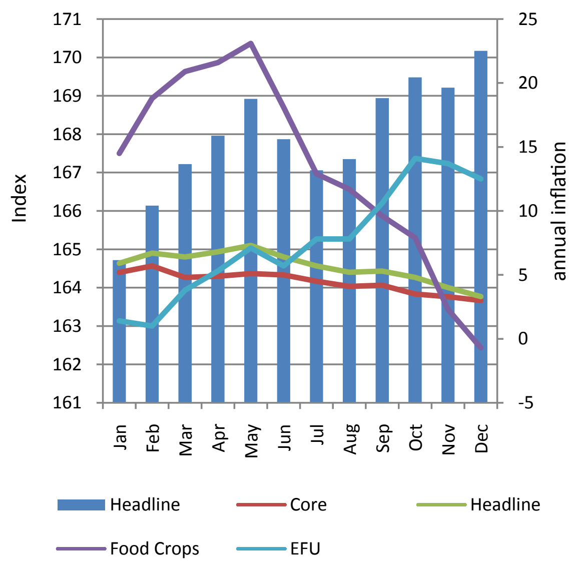
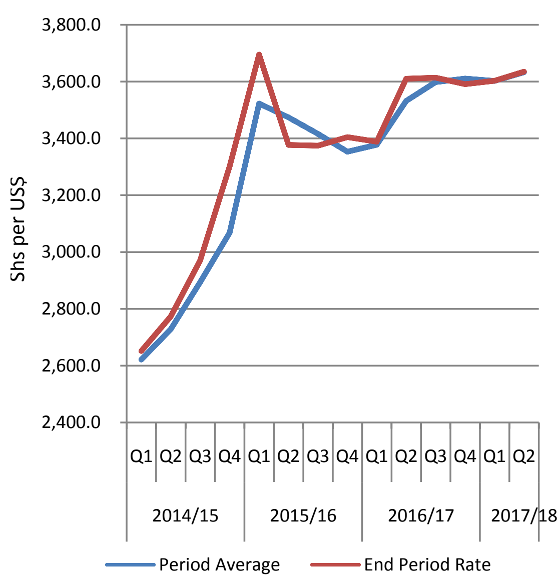


Figure 4.0: Monthly Exchange Rates



Source: UBOS

Private Sector Credit (PSC)

Credit to the private sector has grown steadily throughout the year in line with eased monetary policy through the reduction of the central bank rate, which in turn affects the lending rates. However, there's an indication of subdued growth during the first 2 months of Q2 of FY 2017/18, most likely due to the sustained central bank rate at 9.5 percent during this period(Figure 6).

As at the end of November 2017, the largest proportion of credit was directed towards the building, mortgage, construction and real estate sector due to the current real estate boom in the economy as well as the trade sector which is key in promoting economic activity in the economy (2,581,515 million shillings and 2,581,129 million shillings respectively). However key sectors like agriculture and manufacturing received the least credit during this period.

There's need for concerted effort to promote credit in these two sectors as they are vital in the attainment of the country's development agenda. Programs like the agricultural credit facility need to be implemented more effectively and adequate sensitisation done. In addition, the central bank needs to put in place measures to ensure that commercial banks reduce their lending rates in line with the central bank rate to make sure that the interest rates are more affordable (Figure 5).

Figure 5.0: Lending rates & CBRFigure

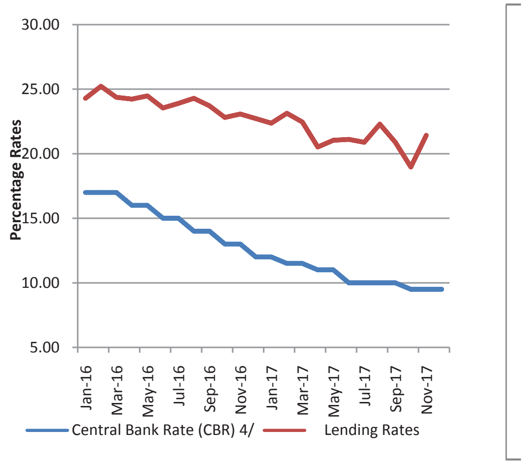
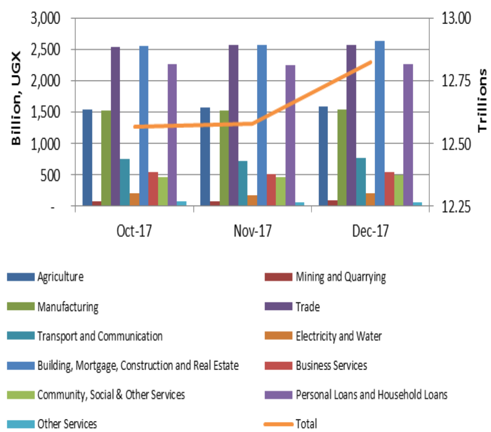


Figure 6.0: Sectoral Private Sector Credit(outstanding as at end period)



Source: UBOS

1.3. Fiscal Sector Developments

Year on year quarterly performance reflects an improvement in the fiscal operations of the country by 19 percent, with the overall fiscal deficit recorded at 1,386.55 billion shillings at the end of Q1 2017/18 (Figure 7). This is attributed to the higher revenue collections amounting to 3,162.92 billion shillings in Q1

FY 2017/18 as compared to 2,834.93 billion shillings recorded in Q1 of 2016/17, coupled with lower government development expenditures due to lower disbursements to fund government development projects.

The higher revenue was partly attributed to the introduction of new measures and strengthening of tax administrative measures which raised Shs 47.65 billion by end of the first quarter of 2017/18. In addition, reinstating VAT on wheat grain at 18 percent raised Shs 27.7 billion in the first quarter(MoFPED, 2017). Year on year grants disbursements declined by 5.8 percent, particularly due to low project absorption.

During the month of November, the revenues and grants fell short of the total government expenditure and lending giving rise to an overall fiscal deficit of 209 billion shillings. Nonetheless this was an improvement from the 779.9 billion shillings fiscal deficit recorded at the end of October 2017. The fall in fiscal deficit is attributed to the decline in government development expenditure by 34 percent coupled with a fall in wages and salaries over the period.The revenues collected as at the end of November 2017 amounted to 1142.5billion shillings, registering a 5.7 percent rise from the previous period while expenditure and lending amounted to 1,178.9 billion shillings (Figure 8).

Figure 7: Quarterly Overall Fiscal Operations Figure

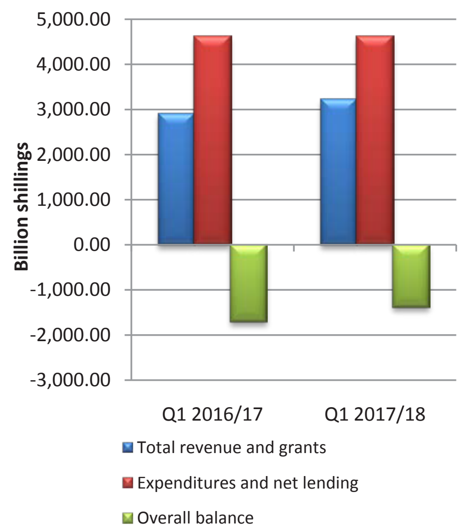
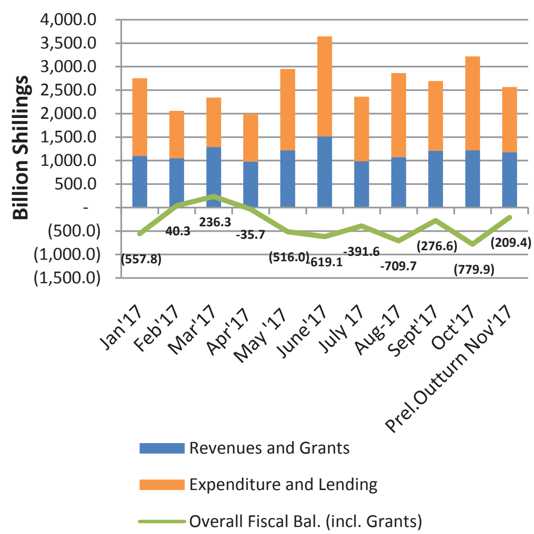


Figure 8 : Overall Fiscal Operations 2017



Source: MoFPED 2017

1.4. External sector Developments

The Balance of payments narrowed by 9.5 percent to a surplus of US$130.2 millionat the end of Q1 2017/18, leading to a build-up in reserve assets to US$ 127.6 million.

The current account balance reduced to a deficit of US$ 307.7 in Q1 2017/18 from a US$367.02 million deficit recorded in Q4 of FY 2016/17, mainly attributed to the 42 percent decrease in the services account deficit, and increase in the secondary income account surplus to US$368.7 million. The increased secondary income account surplus is a result of increased HIPC assistance to the country as well as more transfers to NGOs from abroad. The goods account was indicates a widened deficit amounting to US$ 448.5 million in Q1 2017/18, driven by the fall in exports by 6.8 percent as a result of a fall in cotton and simsim production. The import bill reduced to US$ 1237.1 million largely owing to a fall in non-project imports but was insufficient to offset the reduced value of exports (figure 10).

Figure 9: Trade Balance

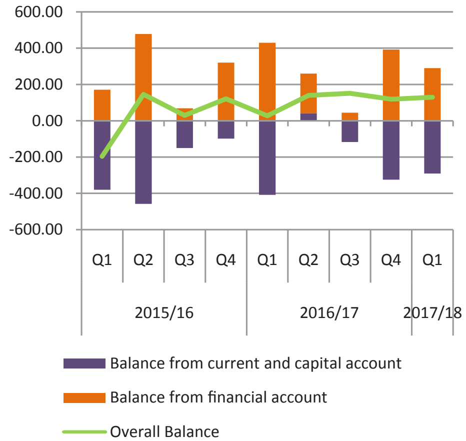
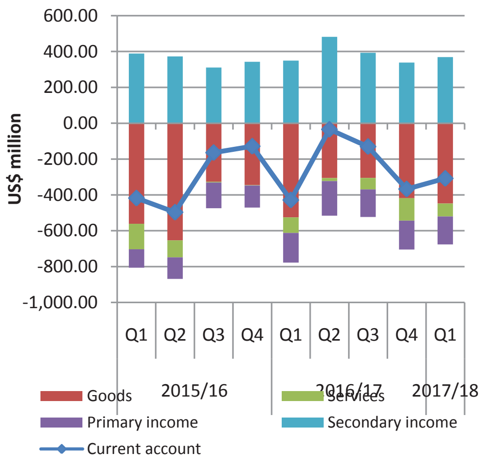


Figure 10: Monthly Exports and Imports (US$)



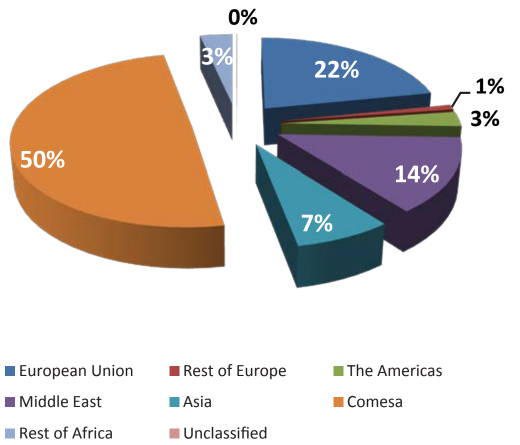
Source: BoU Source: BoU

Direction of Trade

COMESA remains the largest destination of Uganda's exportsin Q1 of FY 2017/18,covering half of the country's exports.In particular,Uganda exports mainly to Kenya, S.Sudan and DRC majorly. The European Union is the second destination of exports covering a 22 percent share, followed by the Middle East with a 14 percent share **(Figure 11).**

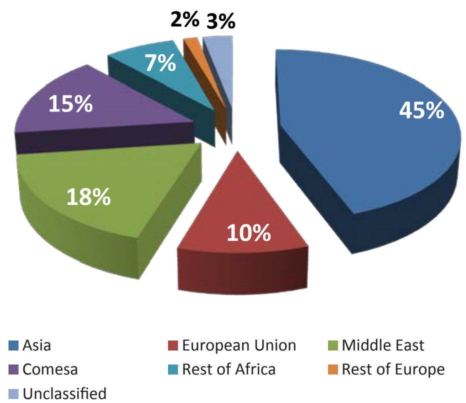
The biggest source of Uganda's imports is Asia, particularly China and India. This is followed by the Middle East and COMESA with shares of 18 percent and 15 percent respectively(Figure 12). However, trends in imports reveal a decline in imports from Kenya in Q1 2017/18 and Q4 2017/18 by 6.3 percent and 6.8 percent respectively due to the political instability in the country during this period as the country carried out the presidential elections.

Figure 11: Direction of Exports Q1 2017/18



Source: BoU

Figure 12: Source of Imports Q1 2017/18



Source: BoU

2.0. Other Developments in the Economy

2.1. The Upswing in Petrol Pump Prices

Fuel prices have been rising continuously over the last 3 months,from 0.96 US dollars per litre of petrol in October (UGX3,491) to 0.99 US dollars (UGX 3600) at the end of December 2017. Diesel prices although lower showed a similar trend, increasing from 0.83US$ per litre (UGX 3,018) to 0.85 US$ per litre (3,091) over the same period (Figure 13).This has been attributed to supply cuts in oil production by OPEC and Russia after a deal was reached to cut production in order to support oil prices,exerting upward pressure on oil prices. This trend is likely to continue as OPEC may agree to prolong supply curbs beyond March when producers meet. It's also anticipated that OPEC will extend its deal through the end of 2018 when the group meets in November, according to a Bloomberg survey of analysts and traders (Summers, 2017). This was worsened by the fall in US oil stockpiles, leading to lower supply. The oil prices have been recorded at all-time highs of US$ 58 per barrel since the fall in prices in 2015.

Higher oil prices tend to make production more expensive for businesses and directly affect the prices of goods made with or services that use petroleum products like transportation andmanufacturing which is evident in the current fuel pump prices and transportation costs. The trends in global oil prices need to be monitored closely to enable policy makers counter the effects of the volatile prices on economic activity in the country.

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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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