NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

FEBRUARY 2020

Key Economic Highlights

- Economic growth in Africa was estimated at 3.4 percent in 2019, which is almost the same as in 2018
- In Uganda, economic growth increased to 5.6 percent in Q2 of FY 2019/20 from 4.5 percent in Q1, mainly driven by the rise in growth in the services sector.
- The business tendency indicators point towards positive expectations in economic activity in the month of February FY2019/20 with an index of 56.8.
- Economic growth in FY 2019/20 was projected at 5.5 -6.0 percent but there are downside risks to growth in the global and domestic environment, key of which is the outbreak of the COVID-19 (Corona Virus).
- The inflationary pressures recorded a modest increase during in the year ending February 2020, with headline inflation rising to 3.4 percent from 3 percent during the year ending February 2019.
- In the financial market, the Uganda shilling strengthened against the US dollar, trading at a period average rate of 3,676 Shs per US$ in February as compared to 3,680 Shs per US$ in January 2020
- The government fiscal operations during February 2020 recorded a higher overall fiscal deficit of Ushs.729.8 Billion as compared to the planned fiscal deficit of Ushs.462.8 owing to lower than planned revenue receipts and grants during this period.
- The external position improved in February 2020 with the trade deficit reducing from US$ 205.5 million in January 2020 to US$ 193.8 million in February 2020 as a result of the fall in the import bill by 6.9 percent.

1.0. Economic Developments in Africa

1.1. African Economic Outlook January 2020 by the African Development Bank

Economic growth in Africa was estimated at 3.4 percent in 2019, which is almost the same as in 2018. The slower than anticipated growth is partly due to the moderate expansion of the continent's big five economies; Algeria, Egypt, Morocco, Nigeria, and South Africa, whose joint growth rate averaged 3.1 percent, as compared with the average growth of 4.0 percent for the rest of the continent. Africa's growth is forecast to pick up to 3.9 percent in 2020 and 4.1 percent in 2021. East Africa maintained its lead as the continent's fastest growing region, with an estimated average growth of 5.0 percent in 2019, while North Africa is the second fastest, with a growth rate of 4.1 percent. West Africa's growth increased to 3.7 percent in 2019, from 3.4 percent in 2018. Central Africa grew at 3.2 percent in 2019, from 2.7 percent in 2018 and Southern Africa's growth slowed from 1.2 percent to 0.7 percent in 2019 as a result of the devastation of the Idai and Kenneth cyclones (African Development Bank Group, 2020).

There's an improvement in the growth fundamentals, as the drivers of growth are gradually shifting toward investments and net exports, and away from private consumption. In 2019, investment expenditure accounted for more than half of GDP growth dynamics and net exports were also a strong contributor to growth especially among commodity exporters, as oil prices recovered. However, there are downside risks to the growth outlook. Global trade volumes slowed from annual growth of 5.7 percent in 2017 to 1.1 percent in 2019, with the slowdown especially acute for metals and food, two of Africa's major export commodities. Extreme weather events, particularly storms and floods that affected Southern Africa in the first half of 2019 and the expected return of El Niño conditions to East Africa could usher in severe droughts and suppress agricultural output and growth. In countries holding elections in the next two years, there may be socio-political pressures to increase public spending, which could undermine fiscal consolidation plans. And risks associated with terrorism, conflict, insurgency, social unrest and the Corona Virus Pandemic will also weigh on economic activity in African countries.

Inflation remains persistently high. Nonetheless, the average inflation rate for the continent reduced by 2 percentage points, from 11.2 percent in 2018 to 9.2 percent. Fiscal balances improved in the past two years, with the weighted average deficit-to-GDP ratio in Africa declining from 5.9 percent in 2017 to 4.8 percent in 2019. Debt continues to rise. Public and publicly guaranteed debt levels are high and rising in most African economies, with the median ratio of government debt-to-GDP rising over 56 percent in 2018 from 38 percent 10 years earlier. African governments have had a structural shift in the composition of debt, with less reliance on concessional lending from multilateral institutions and official Paris Club creditors, broader access to long-term finance from international capital markets, and financing from emerging bilateral creditors, such as China. Similarly, higher domestic borrowing (reaching more than 35 percent of GDP) in part reflects elevated government spending and capital investment to close the infrastructure gap.

If current trends persist, Africa will not eliminate extreme poverty by 2030. The extreme poverty rate (weighted by population) will fall from 33.4 percent in 2018 to only 24.7 percent in 2030, which is far above the 3 percent Sustainable Development Goal target. However, improving the quantity and quality of growth could accelerate the pace. Africa's per capita consumption would need to grow by 10.25 percent a year to meet the 3 percent Sustainable Development Goal target by 2030. Bold policy measures are therefore required to improve both the quality and quantity of growth, in order for Africa to meet the 3 percent target only by 2045.

Policy Recommendations

(i) Deepen structural reforms to diversify Africa's productive base and revive growth Improve productivity by alleviating constraints in the business environment.

- o Foster structural transformation and economic diversification to speed up growth
- o Improve competitiveness by addressing exchange rate misalignments.

(ii) Sustain macroeconomic stability and improve public financial management

- o Improve the quality of fiscal consolidation and create more fiscal space
- o Better target the energy subsidies that re-emerged in many countries in response to the recovery in oil prices
- o Improve the efficiency of public investment through building capacity, strengthening expenditure governance frameworks, and properly planning and monitoring investment projects.
- o Find the right trade-off between public debt and public development financing.

(iii) Strengthen domestic capacity to cushion extreme weather events

- o Adopt climate-smart agricultural production techniques
- o Provide platforms for contingent and aggregate risk sharing by households

(iv) Address obstacles to labour mobility to enhance growth's inclusiveness

- o Reform labour regulations and employment policies to ensure the free movement of labour.
- o Increase the transferability of skills and qualifications across sectors or the acquisition of sets of new skills and qualifications to meet the requirements of receiving sectors

(v) Expand social safety nets and increase the efficiency of existing programs

2.0. State of the Uganda's Economy

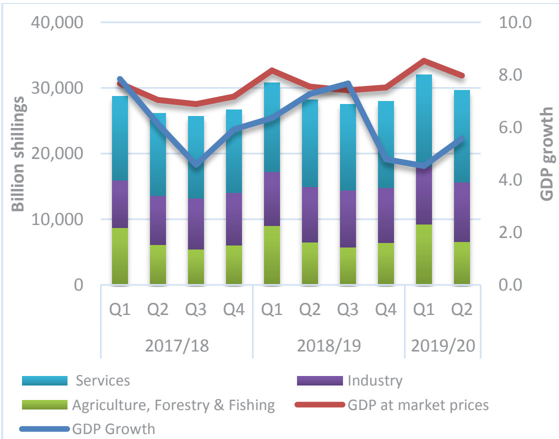
2.1. Real Sector Developments

Economic growth increased to 5.6 percent in Q2 of FY 2019/20 from 4.5 percent in Q1, mainly driven by the rise in growth in the services sector (Figure 1). The services sector growth rose to 6.6 percent in Q2 FY 2019/20 from 3.6 percent in Q1 on account of the leapfrog rise in the growth of Professional, Scientific & Technical services by 23.3 percentage points to 26 percent and the 11-percentage point rise in growth of trade and repair services to 11.8 percent during this period. However, growth in the Agriculture and industry sectors declined by 0.8 percentage points and 0.7 percentage points to 1.3 percent and 6.4 percent respectively in Q2 FY 2019/20. The decline in growth of the Agriculture sector was mainly a result of the fall in growth of the fishing sector, whereas the lower growth in the industry sector was due to the fall in growth in the manufacturing sector.

Similarly, the composite index of economic activity indicates an increase in economic activity in January by 0.24 percent as compared to the 0.14 growth in economic activity in December FY2019/20 (Figure 2). Furthermore, the business tendency indicators point towards positive expectations in economic activity in the month of February FY2019/20 with an index of 56.8. The expectation of increased economic activity during this period is driven by positive sentiments on activities in other services and the construction sector.

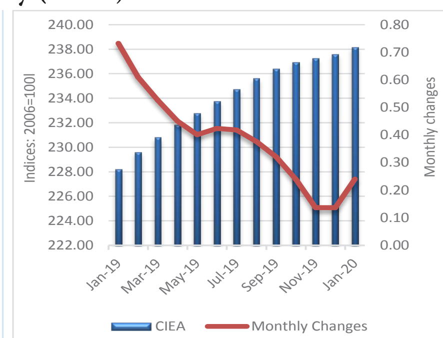
Economic growth in FY 2019/20 is projected at 5.5 -6.0 percent according to the Bank of Uganda forecasts. However, there are downside risks to growth in the global and domestic environment, key of which is the outbreak of the COVID-19 (Corona Virus) that has lowered the near term growth projections and brought uncertainty in the growth prospects in the medium to long term as the impact of the pandemic are yet to be established. Furthermore, the invasion of locusts in several parts of the country is likely to affect economic activity in the agriculture sector (Bank of Uganda, 2020).

Figure 1: Quarterly GDP



Source: UBoS 2020

Figure 2: Composite Index of Economic Activity (CIEA)



Source: Bank of Uganda 2020

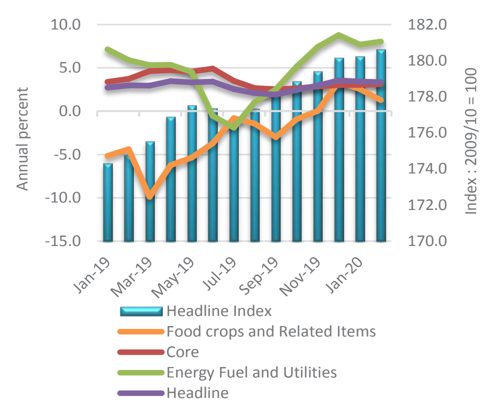
2.2. Monetary and Financial Sector Development

2.2.1. Inflation and Exchange rate Developments

The inflationary pressures recorded a modest increase during in the year ending February 2020, with headline inflation rising to 3.4 percent from 3 percent during the year ending February 2019 (UBoS, 2020). The upward pressure on prices was driven by the increase in prices of food crops and related items from -4.4 percent during the year ending February 2019 to 1.3 percent during the year ending February 2019. This was largely on account of increased food prices particularly vegetables and bread and cereals. The pressure on prices increased further as a result of the increase in Energy Fuel and utilities prices to 8 percent from 5.6 percent during the same period as a result of increased prices of solid fuels. However, Core Inflation declined during this period from 3.8 percent during the year ending February 2019 to 3.1 percent during the year ending February 2020 mainly due to the fall in prices of communication and transport services. The Bank of Uganda projects that inflation will converge to the medium-term target of 5 percent. However, there exist some risks to the inflation projection including the invasion of locusts and unpredictable weather patterns that could affect food crop prices, as well as domestic and external shocks including the Corona Virus Pandemic. According to the February Monetary Policy Statement, the macroeconomic developments suggest that the inflation will converge to the policy target of 5 percent in the medium term.

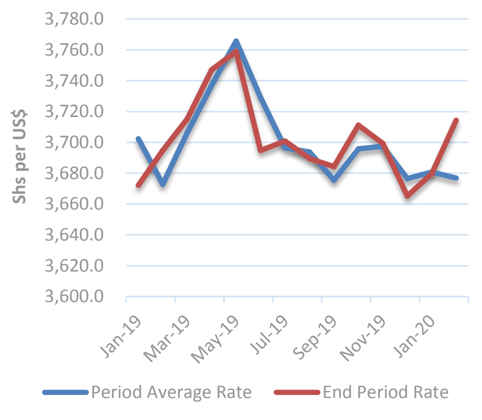
In the financial market, the Uganda shilling strengthened against the US dollar, trading at a period average rate of 3,676 Shs per US$ in February as compared to 3,680 Shs per US$ in January 2020 (Figure 6). The appreciation of the shilling was on account of the lower demand foreign currency as compared to the large foreign exchange inflows from exports.

Figure 5: Inflation



Source: UBoS 2020

Figure 6: Exchange rates



Source: BoU 2020

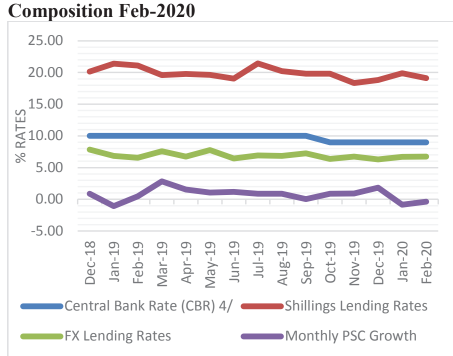
2.2.2. Private Sector Credit

The Central Bank Rate was maintained at 9 percent with band of +/-3 percent and the rediscount rate and bank rate maintained at 13 percent and 14 percent respectively (Bank of Uganda, 2020). This was on account of the macroeconomic developments in the economy, particularly the projection that inflation will converge to the medium-term target of 5 percent. Consequently, the shillings lending rate for commercial banks reduced to 19.1 percent in February 2020 from 19.9 percent in January 2020, whereas the foreign currency lending rates recorded a slight increase from 6.71 in January 2020 to 6.73 in February 2020 (Figure 7).

The Private sector credit reduced further by 0.4 percent in February 2020 to Ushs.14,834 billion from a 0.8 percent decline in January 2020. This is mainly attributed to the prevailing high lending rates and the corona virus pandemic which has greatly affected economic activity and investments. The most affected sectors were the electricity and water sector and the mining and quarrying sector which recorded a decline in private sector credit of 13.9 percent and 13.5 percent respectively. At the end of February 2020.

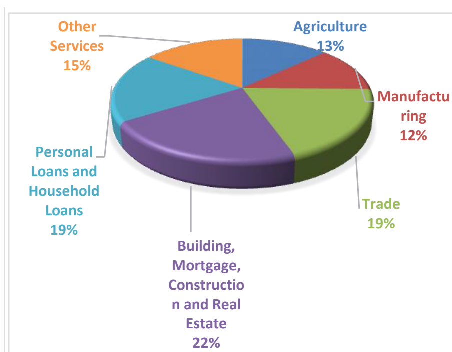
The Building, Mortgage, Construction and Real Estate sector was extended to the largest amount of credit, recording a share of 22 percent of total credit outstanding during this period while the Agriculture and Manufacturing sectors had the least share of credit, recorded at 13 percent and 12 percent respectively (Figure 8). This trend in private sector credit is not in line with the national development Plan priorities which include Agriculture and Manufacturing. More effort needs to be geared towards extending credit to these critical sectors that are supposed to drive growth.

Figure 7: Interest Rates



Source : BoU 2020

Figure 8: Private Sector Credit Composition Feb-2020



Source : BoU 2020

2.3. Fiscal Sector Developments

The government fiscal operations during February 2020 recorded a higher overall fiscal deficit of Ushs.729.8 Billion as compared to the planned fiscal deficit of Ushs.462.8 (Table 1). This performance was a result of lower than planned revenue receipts and grants during this period, with a performance of 83.9 percent. The revenue receipts during this period amounted to Ushs. 1,408.35 billion falling short of the planned revenue of Ushs.1,567.4 billion by Ushs. 159 billion. The revenue shortfall was driven by the shortfall in non-tax revenue receipts by Ushs.24.6 billion, in addition to the tax revenue shortfall of Ushs.134.5 billion. The grants received also fell short of the planned grants by Ushs.123 billion, recording grants of Ushs.62.5 billion in February 2020.

The expenditure and lending recorded a performance of 99.9 percent, with an outturn of Ushs.2,200 billion against planned expenditures amounting to Ushs.2,216 billion. The current expenditures exceeded the planned spending by Ushs.157.1 billion, amounting to Ushs.1,184.7 billion. The excess spending was mainly due to spending on interest payments that was recorded at Ushs.255.8 billion as compared to the target of Ushs.179.2 billion, driven by the excess spending on domestic interest payments. Other recurrent expenditures also recorded a higher outurn in spending recorded at Ushs.538.7 as compared to the planned spending of Ushs.459.7 billion.

However, the development expenditure outturn was lower than the planned spending of Ushs. 1,146.75 billion, with recorded spending of Ushs. 967.6 billion. The lower spending was mainly due to lower external development expenditure, recorded at 241.48 billion against the planned spending of 650.6 billion during this period, resulting from lower than planned disbursement caused by slow execution of projects (MoFPED, 2020).

Table 1: Monthly Overall Fiscal Operations

(Billion UShs)	Program	Outturn	Performance	Deviation
Revenues and grants	1,753.51	1,470.83	83.9%	-282.68
Revenues	1,567.44	1,408.35	89.9%	-159.09
Tax	1,464.27	1,329.81	90.8%	-134.46
Non-tax	103.17	78.54	76.1%	-24.63
Grants	186.08	62.48	33.6%	-123.60
Budget support	13.41		0.0%	-13.41
Project support	172.67	62.48	36.2%	-110.19
Expenditures and lending	2,216.26	2,200.70	99.3%	-15.56
Current expenditures	1,027.61	1,184.73	115.3%	157.12
Wages and salaries	388.71	390.27	100.4%	1.56
Interest payments	179.19	255.79	142.7%	76.60
o/w domestic	126.93	175.84	138.5%	48.91
o/w external	52.25	79.95	153.0%	27.70
Other recurrent expenditure	459.72	538.66	117.2%	78.94
Development expenditures	1,146.75	967.6	84.4%	-179.15
Domestic	496.15	726.13	146.4%	229.98
External	650.6	241.48	37.1%	-409.12
Net lending/repayments	41.9	1.45	3.5%	-40.45
HPP GoU	-	1.45		
HPP Exim	41.9		0.0%	-41.90
Domestic arrears repayment	-	46.93		
Overall fiscal balance (incl. grants)	-462.75	-729.87	157.7%	-267.12

Source: MoFPED 2020

2.4. External sector Developments

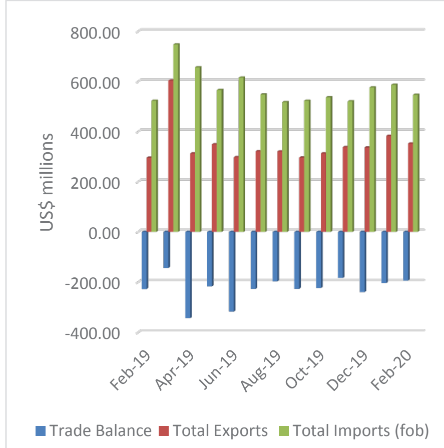
The external position improved in February 2020 with the trade deficit reducing from US$ 205.5 million in January 2020 to US$ 193.8 million in February 2020 (Figure 9). The smaller trade deficit resulted from the fall in the import bill by 6.9 percent from US$ 587 million in January 2020 to US$ 546 million in February 2020. This was mainly due to the fall in government imports by 46 percent to US$ 20.2 million particularly driven by the fall the non-projects import bill. Formal private sector imports also recorded a decline of 4 percent from US$ 543 million in January to US$521 million in February 2020 mainly due to the oil import bill that declined by 7.5 percent, coupled with the 3.3 percent decline in the non-oil import bill. This could partly be a result of the disruption of economic activity from one of the country's main source of imports China due to the Corona Virus Pandemic.

The export receipts declined during this period from US$383 million in January 2020 to US$352 million in February 2020, driven by the fall in export receipts from non- coffee exports and coffee exports respectively. Non- coffee exports receipts fell from US$ 288 million in January to US$257 million in February 2020 mainly on account of lower export receipts from beans (56.5%), Maize (27.4%) and Gold (14.5%) respectively. Likewise, coffee export receipts declined from US$48.1 million in January 2020 to US$ 46.7 million in February 2020 resulting from the fall in the export price of coffee during this period (Table 2).

The improved external sector developments resulted into accumulation of more reserves to 4.3 months of imports in February 2020 from 4.1 months of imports of goods and services in January 2020. This is in line with the requirement of reserves of at least 3 months of imports of goods and services that are an adequate buffer against external economic shocks.

Figure 9: Trade Balance

Table 2: Monthly Exports and Imports (US$)



Source: BoU 2019

Table 2: Monthly Exports and Imports (US$)

	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20
Trade Balance	-223.40	-183.20	-239.24	-203.45	-193.82
Total Exports	313.60	338.19	336.92	383.62	352.91
1. Coffee (Value)	36.90	42.19	31.87	48.19	46.73
2. Non-Coffee formal exports	231.97	244.41	251.86	288.00	257.85
3. ICBT Exports	44.73	51.58	53.19	47.43	48.33
Total Imports (fob)	537.00	521.39	576.16	587.06	546.73
Government Imports	31.70	26.67	43.58	37.57	20.22
Project	31.35	24.92	43.58	24.78	20.22
Non-Project	0.35	1.75	0.00	12.78	0.00
Formal Private Sector Imports	500.38	488.83	526.10	543.73	521.97
Oil imports	83.32	78.05	86.17	87.60	81.00
Non-oil imports	417.07	410.79	439.93	456.13	440.96
Estimated Private Sector Imports	4.92	5.89	6.48	5.76	4.55
Total Private Sector Imports	505.30	494.72	532.58	549.50	526.52

Source: BoU 2019

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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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