NATIONAL PLANNING AUTHORITY
MONTHLY ECONOMIC UPDATE

Uganda Vision 2040

FEBRUARY 2021

Key Economic Highlights

- Based on the Business Tendency Indicator (BTI) Index, there is continued improvement in investor sentiment which signals a continuation of economic recovery following the Covid-19 pandemic effects.
- There is a boost in business confidence as evidenced in the Purchasing Managers' Index (PMI) for February 2021. It shows evidence of higher new orders placed which is partly attributed to the staggered re-opening of schools as well as the end of the election cycle that has reignited economic activity.
- Despite the increase in the stock of outstanding private sector credit from UGX 17,845 bn in December 2020 to UGX 17,911 bn in January 2021, its growth fell from 2.2percent to 0.4percent. With private sector credit growth likely to remain subdued in the short- term due to weak economic growth and increased risk aversion by lenders, its improvement will largely depend on the recovery in the level of economic activity in the long run.
- With the overall Government spending increasing largely due to covid-19 mitigation efforts and fiscal stimulus aimed at keeping the economy resilient in the face of the covid shock, rationalization of expenditure and continued accumulation of domestic debt needs to be addressed. This will help check on the rising fiscal deficit.
- Informal Cross Border Trade (ICBT) export earnings have been rising consistently in the last 7 months and their share in the total export earnings is almost the size of coffee earnings. For example, in December 2020 and January 2021 the ICBT earnings were USD39.8 million and USD42.8million respectively while coffee earned USD37.7 million and USD39.7 million over the same period.

1.0 State of the Economy

1.1 Real Sector and Price Developments

Based on the Business Tendency Indicator (BTI) Index, there is continued improvement in investor sentiment which signals a continuation of economic recovery following the Covid- 19 pandemic effects. The index rose to 52.7 at the end of February 2021 compared to 50.3 in January 2021 (Figure 1.0). This means that the level of optimism that top business executives have about current and expected outlook for production, new order levels, employment, prices and access to credit is positive as evidenced by the BTI value being above the 50-threshold mark. Construction, Manufacturing, and Wholesale sector activities depicted the highest improvements while Agriculture and other services maintained the positive outlook that they have depicted in the last three months.

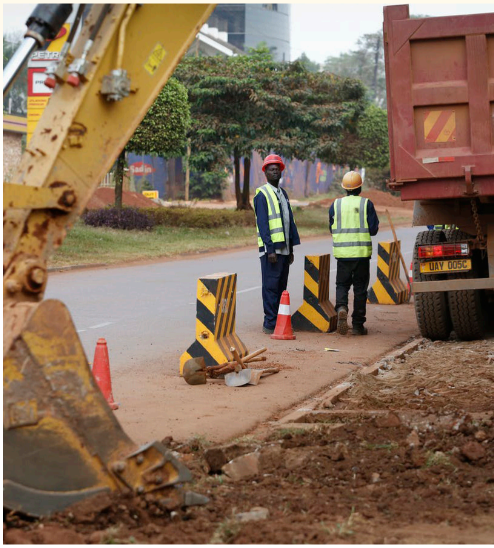
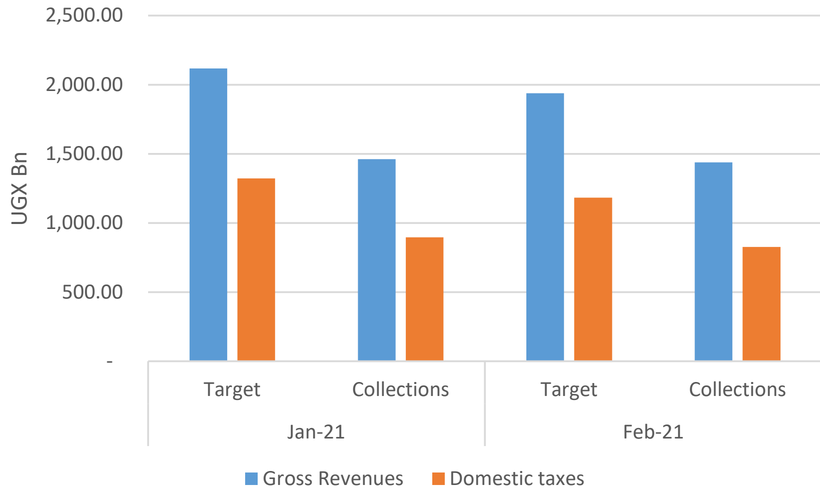


Figure 1.0 Business Tendency Index



Source: BoU, 2021

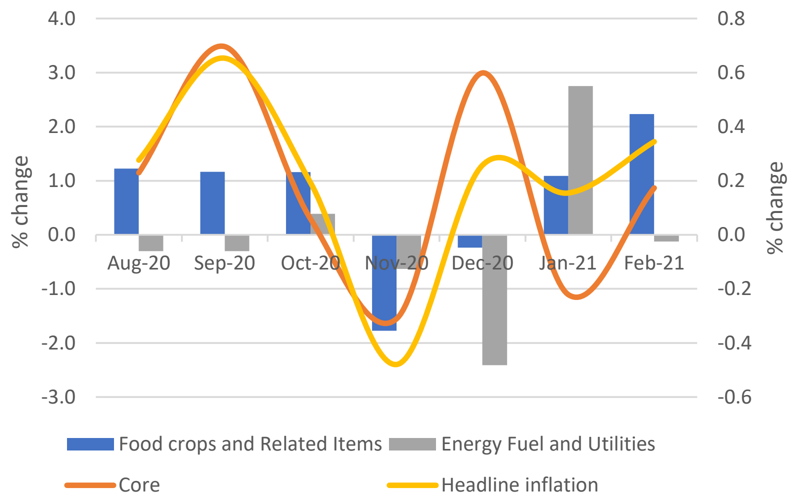
Similarly, Stanbic Bank's Purchasing Managers' Index (PMI) for February also indicates a boost in business confidence. The Stanbic Bank Uganda PMI rose to 51.2 in February of 2021 from 49.8 in the prior month, signalling an improvement in business conditions. Higher new orders placed partly attributed to the staggered re-opening of schools as well as the end of the election cycle and its related tensions has led to an increase in economic activity and exuberance. Much as there is renewed exuberance in the business community, the economic upturn is proceeding at an uneven pace as social distancing measures continue to weigh heavily on certain activities in the service sector, particularly education, hospitality, and tourism (Bank of Uganda, 2021).

As a result of a revamping of economic activity, growth is projected in the range of 3.0- 3.5percent for FY2020/21 and 4.0-4.5percent in FY2021/22 before picking up to the pre-covid range of 6.0-7.0percent in FY2023/24. This is premised on the availability of the covid-19 vaccine in Uganda and the global roll-out of the vaccines for covid-19 and its new variants. In addition, accommodative monetary and fiscal policies are expected to support the growth in output and gradual recovery of the economy. The risks to the economic outlook include: weakness in global economic activity that affects global demand, weather-related and natural disasters, trade policy uncertainties and sluggishness in public investment management.

1.2 Price Developments

There was a slight increase in the headline inflation from 0.2percent recorded in January to 0.3percent at the end of February 2021 (Figure 2.0). This increase in the monthly headline inflation is largely attributed to: (i) increase in monthly core inflation; and (ii) the rise in monthly food crops and related items inflation. Monthly core inflation rose to 0.2percent in February 2021 from a drop of 0.2percent in January 2021largely due to a rise in monthly services inflation that increased by 0.2percent compared to the 0.9percent drop recorded in January 2021. Similarly, the monthly food crops and related items inflation increased by 2.2percent in February compared to 1.1percent in the previous month and this was largely caused by the rise in the prices of vegetables. It is only the energy, fuel and utilities inflation that dropped by 0.1percent in February compared to the 2.8percent rise in the previous month. This drop was largely attributed to a general decline in the prices of solid fuels and liquid gas. Generally, inflation is projected to remain within the NDPIII single digit target .

Figure 2.0 Monthly Headline and Core Inflation



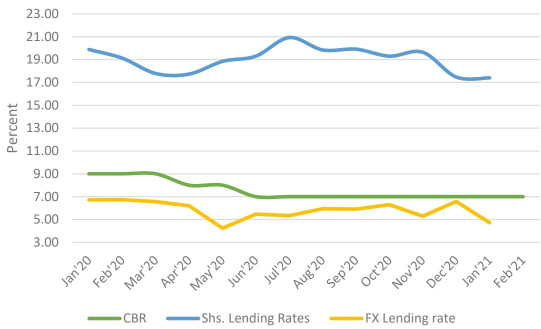
Source: UBOS, 2021

1.3 Monetary Sector Developments

1.3.1 Interest Rates

Despite the continued accommodative monetary policy stance that has seen the central bank rate falling to 7.0percent for the last nine months, the lending rates have averaged at 19.2percent during this period. However, as at the end of January2021, the lending rates showed some decline to 17.4percent from 19.6percent recorded in November 2020 (Figure 3.0). The major reasons for the continued high lending rates are: (i) the high overhead and operating costs faced by financial intermediaries and (ii) the high domestic borrowing by the Government. The magnitude of Government domestic borrowing is captured in the domestic debt stock to private sector credit which has been above the 75percent threshold in the Public Debt Management Framework in the last 5 years running. In the current covid-19 times, and even beyond, the high lending rates are likely to stifle economic recovery, especially private investment. This also contributed to the rising number of non-performing loans which have risen from 5.1percent in the quarter ending September 2020 to 5.3percent in the quarter ending December 2020. To achieve a reduction in lending rates, Government needs to reduce its appetite for domestic borrowing to less than 1percent of GDP as per the NDPIII.

Figure 3.0 Central Bank Rate and Lending Rates

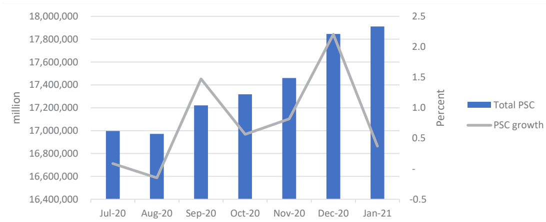


Source: BoU, 2021

1.3.2 Private Sector Credit

Despite the increase in the stock of outstanding private sector credit from UGX 17,845 bn in December 2020 to UGX 17,911 bn in January 2021, its growth fell from 2.2percent to 0.4percent (Figure 4.0). This is against the backdrop of easing of monetary policy coupled with macroprudential measures introduced by the central bank in response to covid-19. The lower growth in private sector credit could be partly attributed to the sluggish economic activities as the economy slowly returns to normalcy. Besides, some other services such as tourism and education are still constrained by some covid-19 restriction measures. According to Bank of Uganda (2021), 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 recovery in the level of economic activity.

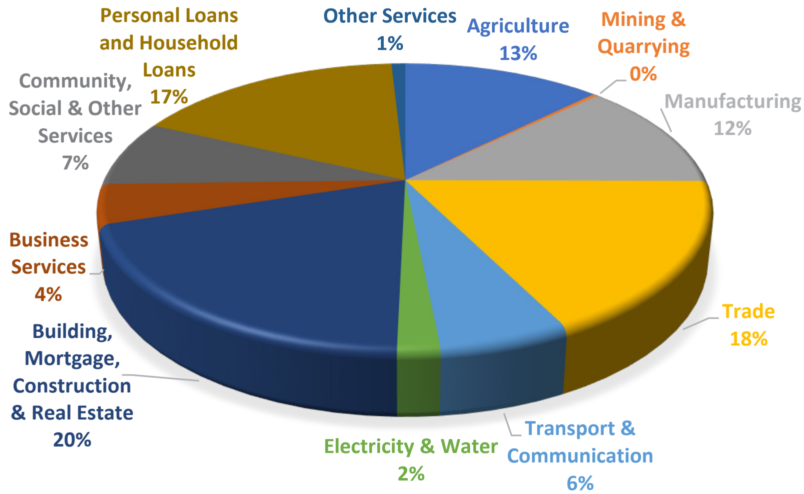
Figure 4.0 Private Sector Credit



Source: BoU, 2021

A sectoral decomposition of private sector credit for the month of January 2021 indicated that the largest share (20percent) was received by the Building, Mortgage, Construction and Real Estate sector followed by Trade at 17.5percent and Personal loans and household loans at 17.1percent. Despite the deliberate effort to channel credit to productive sectors of Agriculture, mining and quarrying, as well as utilities of water and electricity, these sectors have registered a low credit uptake. Through the use of the available development finance institutions, resources should be channeled mainly through these sectors in order to spur sustainable growth and growth in per capita incomes.

Figure 5.0 A sectoral distribution of Private sector credit as at end of January 2021

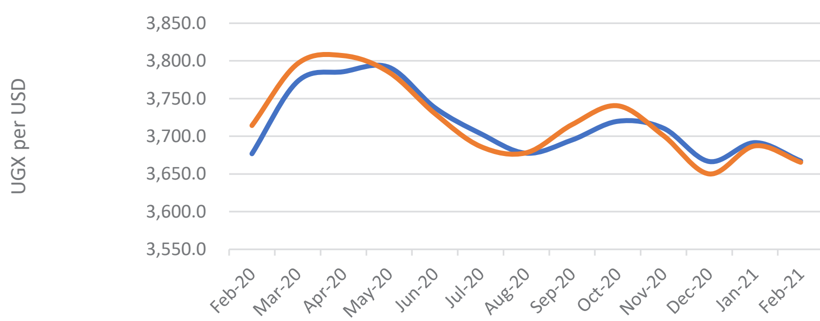


Source: BoU, 2021

1.3.3 Exchange rate

The Uganda shilling strengthened against the USD in the month of February by appreciating by 0.65percent compared with a 0.68percent depreciation in January. The relative stability partly reflects subdued aggregate demand in both the domestic and global economy as the world battles with covid-19 spread. Going forward, Bank of Uganda projects a likely depreciation in the exchange rate on account of recovery in demand that is projected to worsen the current account deficit.

Figure 6.0 Exchange rate Movements February 2020- February 2021



	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
Period Average Rate	3,676	3,772	3,785	3,791	3,737	3,703	3,677	3,695	3,719	3,710	3,666	3,691	3,667
End Period Rate	3,714	3,796	3,807	3,784	3,730	3,686	3,678	3,715	3,740	3,700	3,650	3,687	3,665

Source: BOU, 2021

1.4 Fiscal Sector Developments

1.4.1 Overall expenditure

The overall spending by Government has increased largely due to covid-19 mitigation efforts and stimulating the economy as a means of keeping it resilient in the face of the covid shock. The half year expenditure needs for FY20/21 increased to UGX 6,358 bn compared to UGX4,853 bn for the same period in FY2019/20 before covid-19 (Table 1.0). This corresponds to a 30percent increase in the budget deficit. Interest payments as a proportion of the total expenditure has risen from 11 to 12 percent. While the proportion of domestic interest payments in the total interest payments has reduced from 84percent to 71.4percent, the absolute level of domestic interest payment has increased. There is need to curtail domestic borrowing as well as rationalize total expenditure and lending.

Table 1.0 A snap shot of Fiscal operations (UGX Bn)

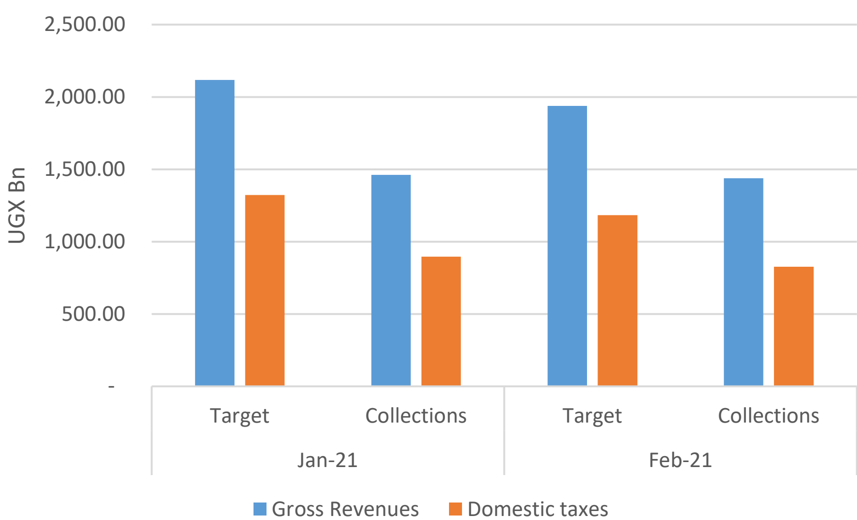
	Oct-20	Nov-20	Dec-20	1st Half FY20/21	1st Half FY2019/20
Revenue & Grants	1,538.3	1,502.6	2,972.4	10,515.1	9,767.42
Revenue	1,414.9	1,459.8	2,771.5	9,750.5	9,111.96
Tax	**1,345.6**	**1,362.7**	**2,450.1**	**9,054.9**	**8,501.36**
NTR	69.3	97.1	321.4	695.5	610.61
Grants	123.4	42.8	200.9	764.6	655.45
Budget Support	61.4	29.3	22.8	333.0	198.77
Project Support	62.0	13.6	178.1	431.6	456.69
Expenditure and Lending	**3,453.6**	**2,645.7**	**2,196.7**	**16,873.1**	**14,620.54**
Current Expenditures	1,674.6	1,485.8	1,351.7	9,419.8	7,596.49
Wages and Salaries	460.7	443.6	431.7	2,564.6	2,376.90
Interest Payments	281.7	257.1	326.0	2,045.3	1,618.94
Domestic	196.5	196.5	224.8	1,460.9	1,365.54
External	85.2	60.6	101.2	584.4	253.40
Other Recurr. Expenditures	932.2	785.1	594.0	4,809.9	3,600.65
Development Expenditures	1,697.0	1,024.3	755.6	6,284.9	6,049.58
Domestic Development	1,462.4	776.3	393.0	4,399.8	4,003.64
External Development	234.7	248.0	362.6	1,885.0	2,045.93
Net Lending/Repayments	8.8	3.2	0.1	568.5	717.50
Domestic Arrears Repaym.	73.2	132.4	89.3	599.9	256.97
Primary Balance	(1,633.6)	(886.0)	1,101.7	(4,312.7)	(3,234.2)
Overall Fiscal Bal. (excl. Grants)	(2,038.7)	(1,185.9)	574.8	(7,122.6)	(5,508.6)
Overall Fiscal Bal. (incl. Grants)	(1,915.3)	(1,143.1)	775.7	(6,358.0)	(4,853.1)
Financing:	**1,915.3**	**1,143.1**	**(775.7)**	**6,358.0**	**4,853.12**
External Financing (Net)	140.3	15.0	429.8	3,164.8	1,589.51
Domestic Financing (Net)	1,129.7	1,015.7	(673.6)	3,675.6	2,436.71
Bank Financing (Net)	753.2	668.2	(1,252.1)	1,736.0	1,461.26
Non-bank Financing (Net)	376.5	347.5	578.4	1,939.6	975.45
Errors and Omissions	645.2	112.4	(531.8)	(482.4)	826.90

Source: Government Finance Statistics Data base and NPA computations

1.4.2 Revenue Developments

Despite the improvement in revenue collections for February 2021, compared to January, the overall collections of UGX 1,414.9 bn was below the target of UGX 1,904.9 bn (Figure 7.0 and Table 2.0). This is largely attributed to non-compliance and the economic slowdown following the gradual return to normalcy after the extended lockdown period. The poorly performing tax hurdles include: corporate income tax; presumptive tax; withholding tax; rental tax; as well as excise duty. The dwindling collections in most of these categories could be partly attributed to the reduced business profits in the face of reduced economic activities in the face of covid-19. There are also tax administration challenges that constrain the rental tax collections, withholding and presumptive taxes. Going forward, the tax collectors need to improve on tax administration measures and Government should desist from introducing new tax measures which do not boost production if revenue performance is to improve.

Figure 7.0 Tax revenue Collection Performance for January and February 2021



Source: URA Data base, 2021

Table 2.0 Revenue Performance by Category (UGX Bn)

	Jan-21				Feb-21			
	Target	Collection	Surplus/ Deficit	Outturn vs Target	Target	Collections	Surplus/ Deficit	Outturn vs Target
Net tax and Non-Tax Revenue	2,084.6	1,441.9	(642.7)	69.2%	1,904.9	1,414.9	(490.0)	74.3%
Gross Revenues	2,118.0	1,462.2	(655.8)	69.0%	1,938.3	1,439.0	(499.4)	74.2%
Domestic taxes	1,322.1	896.1	(426.0)	67.8%	1,182.3	827.1	(355.2)	70.0%
Taxes on international Trade	795.9	566.1	(229.8)	71.1%	756.0	611.8	(144.2)	80.9%
Total Tax Refunds	(33.4)	(20.3)	13.1	60.7%	(33.4)	(24.0)	9.4	71.9%
Direct Domestic Taxes	611.8	466.2	(145.5)	76.2%	542.9	377.6	(165.3)	69.5%
-PAYE	329.4	249.3	(80.1)	75.7%	329.5	255.5	(74.0)	77.5%
-Corporate Tax	41.7	34.2	(7.6)	81.9%	23.6	6.4	(17.2)	27.2%
-Presumptive Tax	3.3	0.7	(2.6)	21.6%	3.2	0.8	(2.4)	25.1%
-Withholding Tax	154.9	103.4	(51.5)	66.8%	118.1	70.9	(47.3)	60.0%
-Rental Income Tax	13.8	4.3	(9.5)	31.2%	9.2	3.0	(6.2)	32.7%
Tax on Bank Interest (w/o BoU)	9.3	8.7	(0.6)	94.1%	8.0	6.8	(1.3)	84.2%
Treasury Bills (BoU)	51.3	60.9	9.7	118.8%	44.9	30.3	(14.6)	67.5%
-Casino Tax	3.4	1.8	(1.5)	54.1%	2.8	1.8	(1.1)	62.7%
-Other	4.7	2.8	(1.9)	59.3%	3.5	2.1	(1.4)	59.7%
Indirect Domestic Taxes	549.8	372.2	(177.6)	67.7%	525.1	367.2	(157.9)	69.9%
Excise duty:	208.3	140.0	(68.4)	67.2%	180.2	116.2	(64.0)	64.5%
Value Added Tax:	341.4	232.2	(109.2)	68.0%	344.9	251.0	(93.9)	72.8%
Taxes on International Trade	795.9	566.1	(229.8)	71.1%	756.0	611.8	(144.2)	80.9%
-Petroleum duty	226.3	210.5	(15.9)	93.0%	223.6	207.2	(16.4)	92.7%
-Import duty	161.6	100.7	(61.0)	62.3%	149.1	112.1	(37.0)	75.2%
-Excise duty	23.6	13.3	(10.3)	56.3%	23.0	12.5	(10.6)	54.1%
-VAT on Imports	300.8	203.2	(97.6)	67.6%	283.5	230.4	(53.1)	81.3%
-Withholding Taxes	23.4	11.0	(12.4)	46.9%	20.0	13.8	(6.2)	69.0%
-Temporary Road Licenses	13.4	6.6	(6.8)	49.0%	11.0	6.3	(4.7)	57.3%
Infrastructure levy	22.8	5.1	(17.7)	22.4%	22.3	7.4	(14.9)	33.2%
Hides & Skins levy	1.8	0.3	(1.6)	14.8%	1.2	0.2	(1.1)	12.9%
-Stamp duty & Embossing Fees	8.0	6.6	(1.4)	82.9%	9.2	6.2	(3.0)	67.5%

Source: URA Database, 2021

1.5 External sector Developments

1.5.1 Trade Balance

Uganda's trade balance registered an improvement from USD432.1 million in December to USD298.6 million in January 2021, largely on the account of the 30-percentage point reduction in the import bill as compared to the 9-percentage point reduction in export earnings (Table 3.0). Despite the increase in coffee earnings, the overall export earnings declined largely on account of the reduction in the gold export earnings that fell from USD211.3 million to USD170.7 million. Gold earnings have for the last few years dominated export earnings following a friendly fiscal regime that permits importation of unprocessed gold for processing and re-export. There is therefore need to invest in the beneficiation of gold in the country for higher earnings.

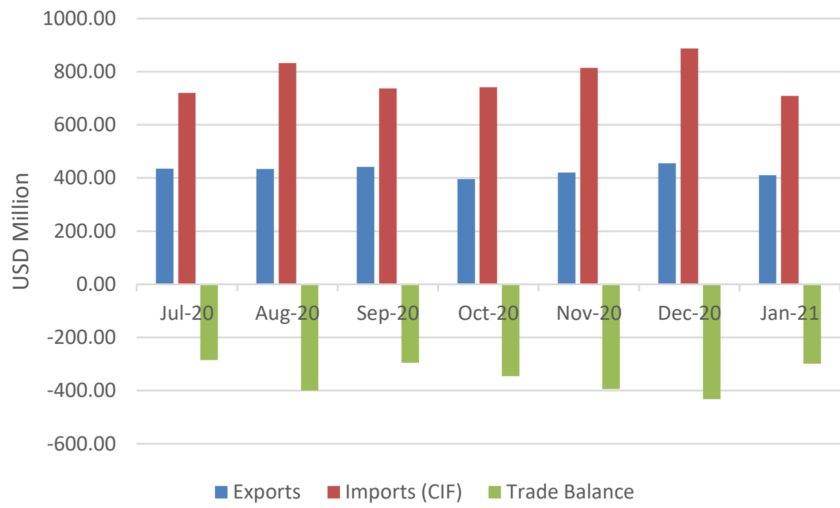
Table 3.0: Selected External Trade Statistics

	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
Exports	**434.95**	**433.96**	**441.78**	**396.31**	**420.58**	**455.52**	**410.40**
Coffee	**49.98**	**46.06**	**44.64**	**38.61**	**38.29**	**37.78**	**39.73**
Non-Coffee	**368.67**	**369.14**	**372.16**	**324.15**	**343.61**	**377.85**	**327.83**
o/w Gold	221.98	221.71	221.73	165.70	173.90	211.35	170.75
o/w Cotton	2.29	2.00	1.95	5.99	2.50	0.30	1.34
o/w Tea	6.59	6.26	5.63	7.59	7.96	7.32	6.56
o/w Tobacco	3.38	3.01	2.63	3.15	4.61	7.16	6.34
o/w Fish & its prod	8.77	8.87	10.39	12.65	12.92	9.87	10.60
o/w Maize	7.47	11.49	9.65	6.23	5.15	2.96	7.09
o/w Beans	2.46	2.41	1.48	4.59	9.46	11.78	5.17
o/w Flowers	5.84	5.21	4.59	4.16	3.41	4.05	4.48
o/w Oil re-exports	3.96	4.04	4.74	7.01	7.73	8.16	7.37
o/w Others	102.31	99.54	102.93	102.84	111.72	107.66	101.43
ICBT Exports	**16.30**	**18.77**	**24.99**	**33.55**	**38.69**	**39.89**	**42.84**
Imports (CIF)	**720.36**	**832.96**	**736.72**	**742.07**	**814.18**	**887.62**	**709.09**
Total Imports (fob)	606.55	695.54	618.24	617.82	680.83	746.32	597.46
Government Imports	40.96	55.78	4.09	8.35	13.72	21.92	62.34
Project	40.96	55.78	4.09	8.35	13.72	21.92	55.33
Non-Project	0.00	0.00	0.00	0.00	0.00	0.00	7.02
Formal Private Sector Imports	563.93	637.71	611.70	605.78	662.69	719.55	529.72
Oil imports	47.96	63.62	57.23	60.53	51.40	88.82	61.23
Non-oil imports	515.97	574.08	554.47	545.25	611.29	630.72	468.49
Estimated Private Sector Imports	1.66	2.05	2.45	3.69	4.42	4.86	5.39
Total Private Sector Imports	565.59	639.76	614.15	609.47	667.11	724.41	535.11
Trade Balance	**(285.42)**	**(399.00)**	**(294.94)**	**(345.76)**	**(393.60)**	**(432.10)**	**(298.68)**

Source: BOU, 2021

There was a decline in the import bill from USD887.6 million in December 2020 to USD709.1million in January 2021 which corresponds to a 20.1percent decrease. This decrease can largely be attributed to the fall in formal private sector imports of both oil and non- oil owing to election related anxiety. Despite the doubling of Government imports, it was not high enough to lead to an overall increase in the import bill. With a reduction in the export earnings coupled with a bigger reduction in the country's import expenditure, the net effect has been an improvement in the trade balance deficit as is shown in Figure 8.0.

Figure 8.0 Status of Uganda's Trade Balance



Source: BoU, 2021

Informal Cross Border Trade (ICBT) export earnings have been rising consistently in the last 7 months and its share in the total export earnings is almost matching with the size of coffee earnings. For example, in December 2020 and January 2021 the ICBT earnings were USD39.8 million and USD42.8million respectively while coffee earned USD37.7 million and USD39.7 million over the same period. Concerning ICBT earnings two major issues arise: (i) the DRC is the largest trade partner, closely followed by South Sudan (Table 4.0); and (ii) trade flows between Rwanda and Uganda have dwindled and this is a concern in terms of welfare loss to the border communities in South Western Uganda. Going forward, the DRC roads and other border markets infrastructure projects need to be fast-tracked in order to support bigger trade volumes. Both Rwanda and Uganda Governments should devise means of improving their trade relations in order to tap into the ICBT opportunities which have declined in the past 1-2 years.

Table 4.0 Direction of ICBT Export Earnings between Uganda and her Partners (USD, Million)

	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21
Burundi	0.00	0.00	0.00	0.00	0.00	0.00	0.00
DR Congo	10.09	12.95	14.38	18.11	21.42	23.59	22.11
Kenya	4.15	3.16	3.91	5.77	6.99	5.62	6.64
Rwanda	0.14	0.15	0.94	1.19	1.02	0.21	0.08
South Sudan	1.40	1.94	4.03	3.72	4.77	5.47	7.86
Tanzania	0.53	0.57	1.73	4.76	4.49	5.00	6.14
Total	**16.30**	**18.77**	**24.99**	**33.55**	**38.69**	**39.89**	**42.84**

Source: BoU, 2021

1.6 Conclusion

The overall state of the macro economy points to positive sentiment across the business community recovery albeit with some challenges that require redress by Government in the short to medium term. Full recovery to the pre-covid-19 growth trajectory is expected in FY2023/24 or even before provided that vaccine to the current breed of covid -19 and its variants is received across the globe. With Covid-19 under check, economic activities will return to their pre-covid- 19 levels and so will gross domestic product. The challenges of domestic resource mobilization that are currently characterized by the lower revenue collections against the fiscal targets, can only be addressed by growing the economy's output, and employing effective tax administration mechanisms.

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Bank of Uganda. (2020). Bank Lending Survey Report Q2 FY 2020/21. Kampala. Bank of Uganda. (2020). Monetary Policy Statement - December. Kampala.
Bank of Uganda. (2021). Monetary Policy Report February 2021. Kampala: BoU.

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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