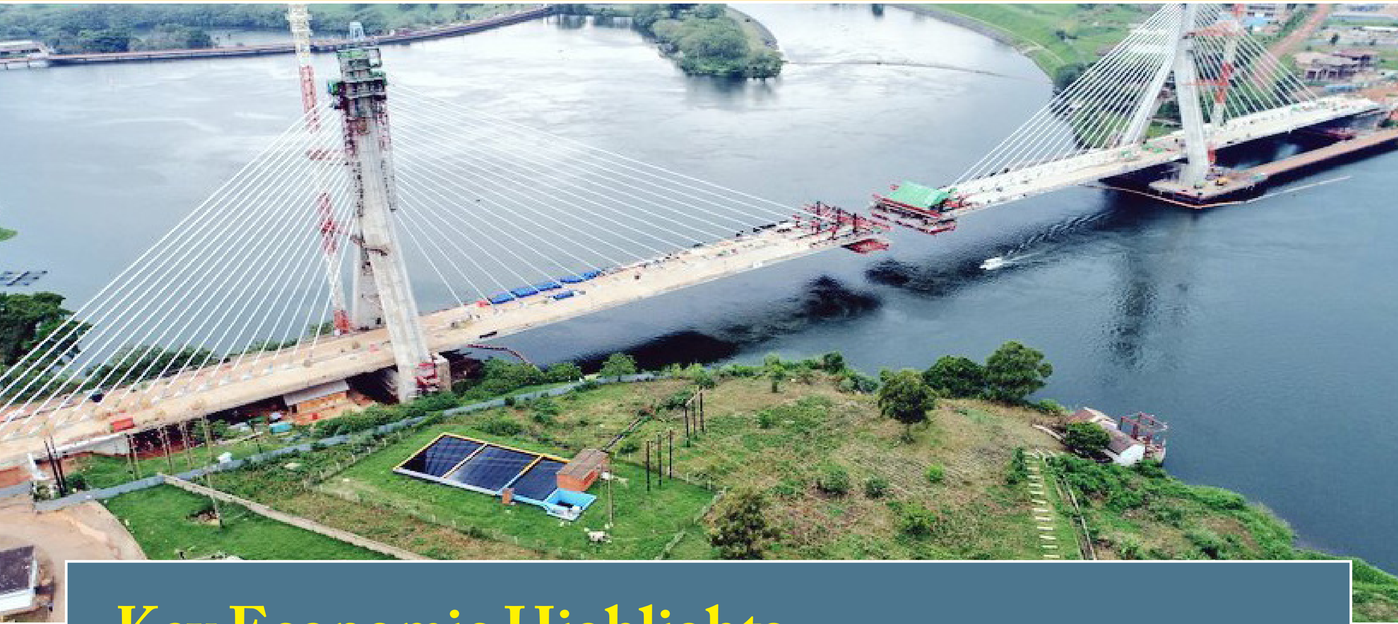
NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

FEBRUARY 2018



Key Economic Highlights

- The Business Tendency Indicators point towards positive expectations in the business environment in the month of February, largely boosted by the construction and manufacturing sector.
- Annual headline inflation remained subdued during the year ending February 2018 recording a 0.9 percentage point drop to 2.1 percent from 3percent recorded at the year ending January 2018.
- Credit to the private sector declined by 1.3 percent as at the end of January despite the sustained easing of monetary policy stance by the Bank of Uganda whose policy rate stood at 9.5 percent for the past 4 months to January 2018.
- In January, the revenue and grants fell short of the government's expenditure and lending giving rise to a fiscal deficit of Ushs.473 billion.
- The trade deficit reduced to USD102 million in January 2018 from a deficit of USD141 million recorded in December 2017, owing to a fall in the import bill coupled with a rise in the exports receipts.

State of the Economy

1.1. Real Sector Developments

There have beengrowing positive expectations about the economy indicating positive growth outturns in the immediate future. This is evidenced by the movements in the Business Tendency Indicators(BTI)that point towards positive business sentiments in the business environment in the month of February as indicated in Figure 1. The positive expectations have been largely boosted by the construction and manufacturing sector activities. They are also due to positive the growth in consumption and solid investment activity though, flaws in the financial system, mainly the low level of credit in the private sector, present downsides to the growth outlook. Much as there are positive sentiments regarding the business environment, the Bank of Uganda's Composite Index of Economic Activity (CIEA)which indicates the short-term growth predictions indicates lower growth in economic activity (0.46 percent) in Januaryas seen in Figure 2.

Figure 1: Business Tendency Indicators(BTI) Figure

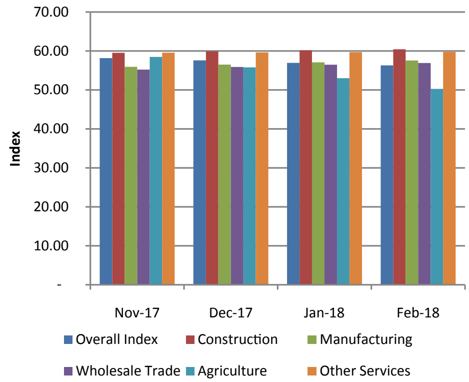
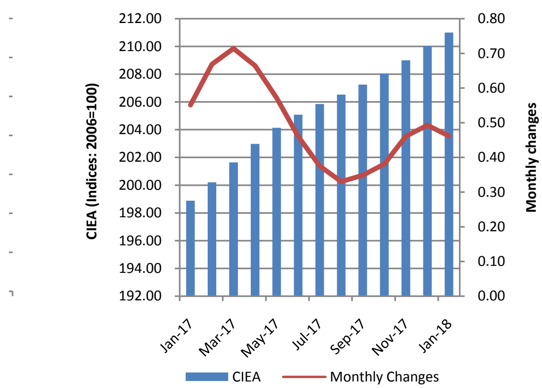


Figure 2: Composite Index of Economic Activities



Source: Bank of Uganda 2018Source: Bank of Uganda

Note:

* Index less than 50 implies negative expectations/pessimistic Index greater than 50 implies positive expectations/ optimistic

1.2. Monetary and Financial Sector Development

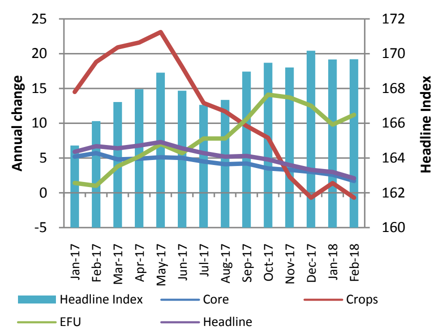
Annual headline inflation remained subdued during the year ending February 2018 recording a 0.9 percentage point drop to 2.1 percent from 3percent recorded at the year ending January 2018 as seen in Figure 3.The drop was attributed to a fall in food crops inflation to minus 0.7 from 1.4 percent recorded in January alongside core inflation that dropped by 0.9 percentage points to 1.7 percent owing to a drop in sugar prices.

The fall in crops inflation was as a result of a drop in food prices due to increased food crop production. Nevertheless, the Annual Energy, Fuels and Utilities (EFU) Inflation increased to 11.2 percent for the year ending February 2018 compared to 9.8 percent recorded for the year ended January 2018 mainly due to the rise in Liquid Energy Fuels prices that registered a 2.1 percentage point increase in annual Inflation.

On the other hand, Core inflationdecreased by 0.3 percent in February 2018 from the earlier drop of 0.5 percent recorded in January 2018, although this was offset by the Monthly Food crops inflation that increased by 1.3 percent in February 2018 from the 0.5 percent rise recorded in January 2018. Furthermore, Energy Fuel and Utilities Inflation increased by 1.4 percent in February 2018 from the 0.8 percent rise in January 2018. To boost economic and private sector credit growth and ensure that inflation stays within the targets, theBoU reduced the Central Bank Rate (CBR) by 50 basis points to 9.0 percent(UBoS, 2018).

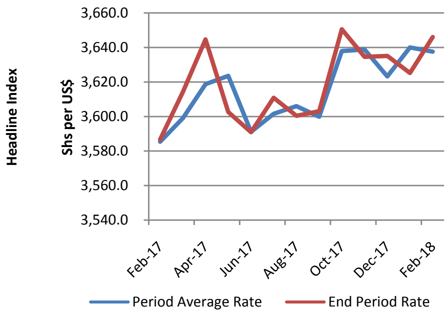
Developments in the financial market indicate continued volatility in the foreign exchange market, with the end period rate increasing by 57 percent to UGX 3,645.9 per USD while the average period rate declined by 6.8 percent to UGX 3,637.5per USD in February 2018(Figure 4).In the outlook, the shilling is expected to depreciate further as the dividends payment period by corporate companies sets in.

Figure 3: Monthly CPI andInflation 2017



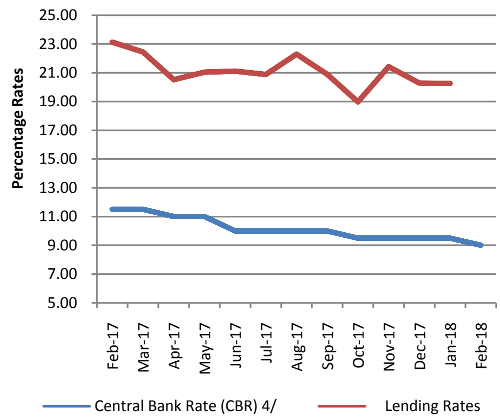
Source: UBOS

Figure 4: Monthly Exchange Rates



Source: BoU

Figure 5.0: Lending rates& CBR



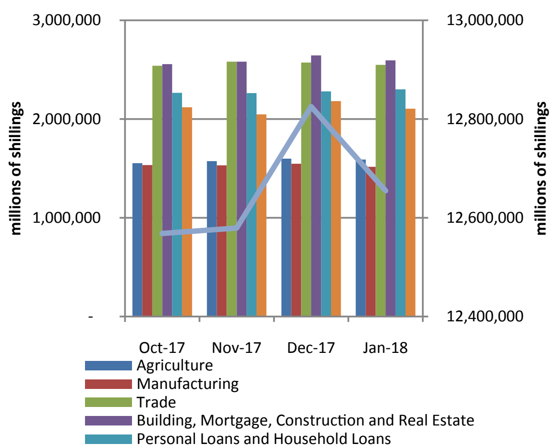
Source: BoU (2018)

1.2.1 Private Sector Credit (PSC)

Credit to the private sectordeclined by 1.3 percent as at the end of January despite the sustained easing of monetary policy stance by the Bank of Uganda whose policy rate stood at 9.5 percent for the past 4 months to January 2018 (Figures 5.0 and 6.0).To further boost private sector credit and economic growth, BoU reduced its policy rate to 9 percent in February. At the end of January, most credit was channelled to the building, construction and mortgage and trade sectors.

The Agriculture and Manufacturing sectors which are keydrivers of sustainable growth received the least credit.The disconnect between the central bank policy signals and the lending rates needs to be addressed.

Figure 6.0: Sectoral Private Sector

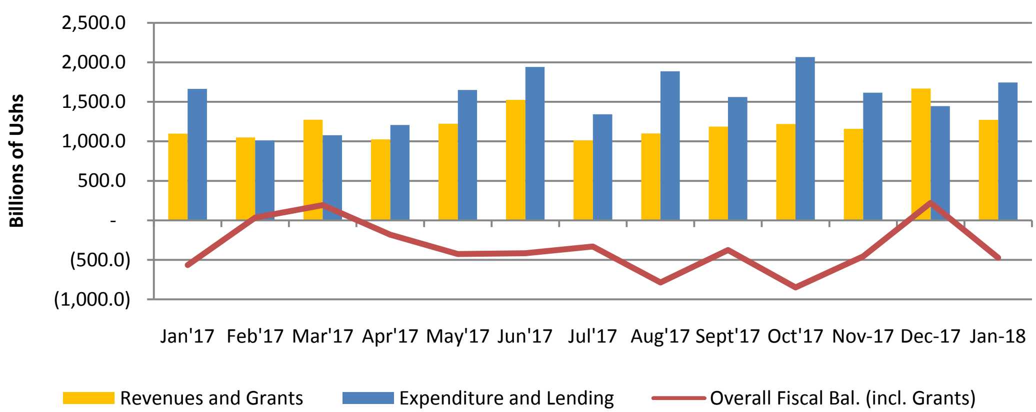


Credit(outstanding as at end period)

In January 2018, the revenue and grants fell short of the government's expenditure and lending giving rise to a fiscal deficit of UGX473 Bn. This is an indication of a poor performance as compared to the fiscal surplus of UGX222 billion registered in December 2017 (Figure 7.0).This performance was attributed to the lower government receipts alongside larger fiscal expenditures.The shortfall in revenues was due to a fall in tax revenue and grants for budget support by 23 percent and 94 percent respectively.

The fall in revenues was attributed to lower collections of VAT and excise duty largely as a result of lower revenue collections from beer, phone talk time and sugar. The stiff competition in the telecom sector led toa lowercost of phone talk time and consequently lower collections. Furthermore, VAT on sugar was affected by a decline in manufacturing of sugar as a result of lower supply of sugar cane(MoFPED, 2018).The expenditure and lending increased as a result of expenditure overruns on interest payments and salaries leading to an increase of 10.4 percent and 7.4 percent respectively as well as an increase in domestic development expenditures by 37 percent.

Figure 7.0: Quarterly Overall Fiscal Operations



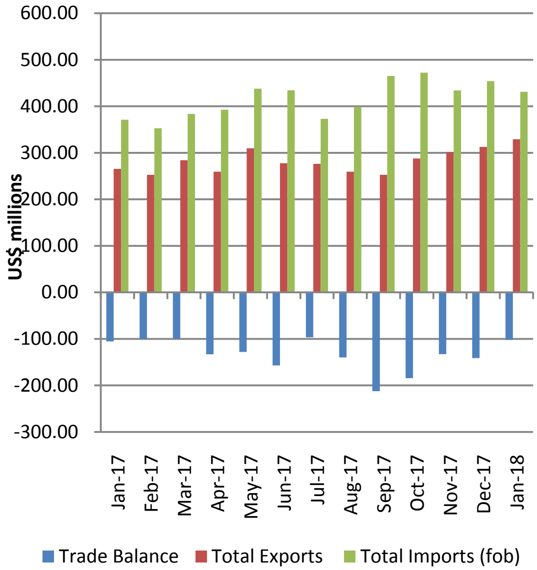
Source: MoFPED 2018

1.4. External sector Developments

The trade deficit narrowed to USD102 million in January 2018 from a deficit of USD141 million recorded in December 2017, owing to a fall in the import bill by 5 percent to USD431 million coupled with a rise in theexports receipts by 5 percent to USD329 million.

The lower Import bill was as a result of a drastic fall in government imports, particularly project imports from US$ 49 million in December 2017 to US$ 2 million registered in January 2018. However, the private sector import bill increased by 2 percent as a result of higher oil prices. This increase was nonetheless offset by the large decline in government imports. The higher receipts from exports were largely attributed to higher receipts from non-coffee exports by 10 percent, particularly simsim, gold and electricity, in addition to a 2 percent rise in the receipts from coffee exports. This was mostly a result of higher volumes of exports of these products.

Figure8.0: Trade Balance



Source: BoU 2018Source: BoU 2018

Figure 9.: Monthly Exports and Imports (USD)

	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Total Exports	**252.81**	**287.63**	**301.43**	**312.65**	**329.19**
Coffee (Value)	38.58	43.74	49.39	42.72	43.66
Non-Coffee formal exports	174.22	195.25	200.96	211.26	232.73
ICBT Exports	40.00	48.64	51.09	58.67	52.80
Total Imports (fob)	**465.03**	**472.07**	**434.14**	**453.96**	**431.22**
Government Imports	64.97	27.77	12.89	49.17	2.97
Project	64.93	27.73	11.04	49.06	2.97
Non-Project	0.03	0.04	1.86	0.10	0.00
Formal Private Sector Imports	376.98	406.50	404.50	382.08	391.19
Oil imports	67.70	69.58	77.80	62.03	66.88
Non-oil imports	309.28	336.92	326.70	320.04	324.32
Estimated Private Sector Imports	23.08	37.80	16.75	22.72	37.06

Source: BoU 2018Source: BoU 2018

2.0. Other Developments in the Economy

2.1. The Uganda Demographic Health Survey

The Uganda Demographic and Health Survey (2016 UDHS) was conducted by the Uganda Bureau of Statistics from 15th June to 18th December 2016 with a purpose of providing data that is needed to monitor and evaluate population, health, and nutrition programmes on a regular basis(UBoS, 2016).

Key Findings

Fertility;the data indicates that there is a declining trend in fertility since the 1980s. The Total Fertility Rate declined from 7 children per woman in 1988-89 to 5 children per woman in 2016. Fertility is noticeably higher among rural women than among urban women, and rural women will on average give birth to nearly two more children during their reproductive years than urban women (6 and 4, respectively).

Early childhood Mortality;during the 5 years immediately preceding the survey, the infant mortality rate was 43 deaths per 1,000 live births. The child mortality rate was 22 deaths per 1,000 children surviving to age 12 months, while the overall under-5 mortality rate was 64 deaths per 1,000 live births. The neonatal mortality rate was 27 deaths per 1,000 live births and the post neonatal mortality rate was 16 deaths per 1,000 live births. The under-5 mortality rates have declined over time, from 116 deaths per 1,000 live births 10-14 years before the survey (2002-2006) to 64 deaths per 1,000 live births in the 0-4 years prior to the survey (2012-2016), while the Infant mortality decreased from 71 deaths per 1,000 live births in the 5 years prior to the 2006 UDHS, to 43 deaths per 1,000 live births.

Malaria; The prevalence of malaria in children was 30 percent. Children in rural areas are almost three times more likely to test positive than urban children (35 percent and 12 percent respectively). Substantial regional variations exist with malaria prevalence in children, with the lowest in Kampala sub region (1 percent) and highest in Karamoja sub region (70 percent). Malaria prevalence declines as wealth increases, from 52 percent of children in the lowest wealth quintile to 5 percent of children in the highest wealth quintile.

Domestic Violence; Domestic violence is extensivelyrecognized to be of great concern, not just from a human rights perspective, but also from economic and health perspective in Uganda.Women in Uganda are more than twice as likely to experience domestic especially sexual violence as compared to men. More than 1 in 5 women age 15-49 (22 percent) report that they have experienced sexual violence at some point in time compared with less than 1 in 10 (8 percent) men. Furthermore, Thirteen percent of women and 4 percent of the men reported experiencing sexual violence in the 12 months preceding the survey..

Early Childhood Development; The early childhood period is crucial not only for individual health and physical development, but also for cognitive and social-emotional development. Events in the first few years of life are formative and play a vital role in building human capital.

A 10-item module was used to calculate the EarlyChildhood Development Index (ECDI). The ECDI is based on benchmarks that children are expected to reach if they are progressing in their development at a pace similar to the majority of children in their age group.

The primary purpose of the ECDI is to inform public policy regarding the developmental status of children in Uganda. Each of the 10 items is used in one of four domains to determine if children ages 36-59 months are developmentally on track in that domain. The domains include: Literacy, numeracy, Physical, Social-emotional and Learning.The ECDI score is calculated as the percentage of children who are developmentally on track in at least three of these four domains.
The data indicates that more than 6 in 10 children aged 36-59 months (65 percent) are developmentally on track in at least three of the four domains. The ECDI score increases with age, from 58 percent at age 36-47 months to 70 percent at age 48-59 and the ECDI score is higher for urban children than rural children (70 percent versus 63 percent).

The proportion of children developmentally on track varies by sub region, from a low of 55 percent in West Nile sub region to a high of 74 percent in Bugisu sub-region. The ECDI also increases with the mother's education, rising from 60 percent among children whose mothers have no education to 80 percent among those whose mothers have more than secondary education(UBoS, 2016).

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MoFPED. (2018). Monthly Performamce of the Economy report, January.
UBoS. (2016). Uganda Demographic and Health Survey.
UBoS. (2018). CPI Publication for February 2018.

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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