NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

Uganda Vision 2040

FEBRUARY 2019

Key Economic Highlights

i. While the FY 2018/19 has been marked by recovery in GDP growth the short-term indicator of economic activity-the Composite Index of Economic Activity (CIEA)- depicts a slower pace of growth in economic activity in the last four months to January 2019.
ii. However, the overall Business Tendency Indicators Index recorded at 60.3, points towards positive expectations of growth in February 2019, mainly driven by the construction sector and other sectors.
iii. Consequently, the economy is forecast to grow at 6.3 percent in FY2018/19.
iv. Monthly headline inflation recorded a modest rise from 0.2 percent in January to 0.3 percent in February 2019, mainly attributed to a rise in food crops inflation.
v. The month on month private sector credit growth declined by 1.1 percent in January 2019 from a growth 0.9 percent in December 2018 and this impedes private sector growth.
vi. The government fiscal operations resulted into a fiscal deficit of 615 billion shillings in January 2019 from a surplus of 461 billion shillings in December 2018 on account of lower government revenues and grants that were insufficient to meet the higher government spending and lending during this period.
vii. During January 2019, the trade deficit recorded a reduction of 10 percent to a deficit of US$ 207.6 million as a result of increased receipts from exports by 3.8 percent coupled with a reduction in the import bill by 2.5 percent during this period.
viii. Consequently, the improved external sector performance resulted in accumulation of more reserves to 4.7 months of imports in January 2019 from 4.6 months of imports of goods and services in December 2019.

1.0. State of the Economy

1.1. Real Sector Developments

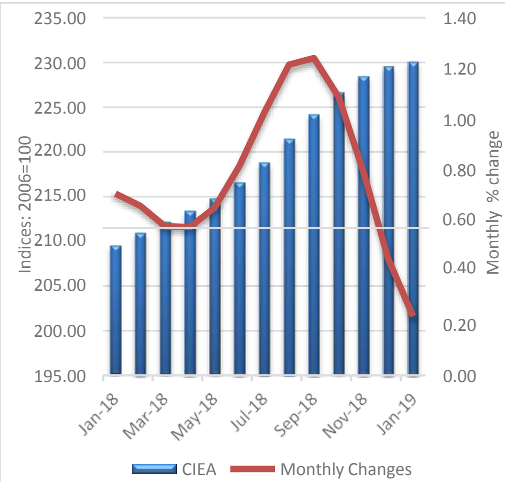
Growth in real GDP continues to show an upward trend in FY 2018/19 compared with the previous FY 2017/18. While the FY 2018/19 has been marked by recovery in GDP growth rising to 6.8 percent in Q1 from 5.2 percent in Q4 of FY2017/18 the short-term indicator of economic activity-the Composite Index of Economic Activity (CIEA)- depicts a slower pace of growth in economic activity in the last four months to January 2019 (see Figure 1). Nonetheless, the overall Business Tendency Indicators Index (BTI) recorded at 60.3, points towards positive expectations of growth in February 2019, mainly driven by the construction sector and other sectors (Figure 2). Similarly, all the other sectors indicate positive expectations in economic activity since their BTI indices are all above the 50 percent threshold.

The economy is forecast to grow at 6.3 percent in FY2018/19, supported by the expansionary monetary policy, improved productivity in the agriculture sector and continued increased government spending on infrastructure projects1. However, the positive economic outlook

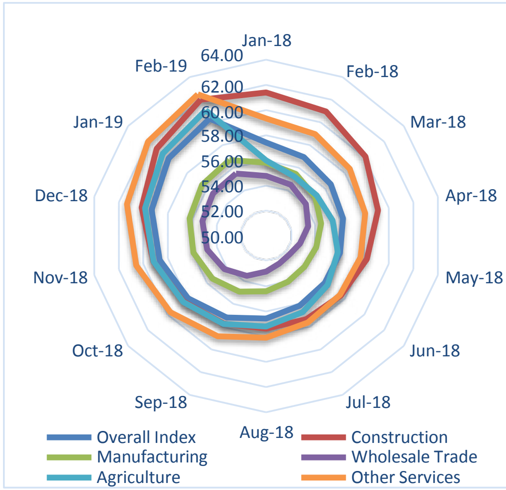
[1] Bank of Uganda's Monetary Policy Statement for February 2019.

could be affected by risks including the negative effects of climate change on agriculture, uncertainty in the external economic environment driven by trade wars and Brexit and volatility in the exchange rate.

Figure 1: Composite Index of Economic Activity (CIEA) [2]**Figure 2: Business Tendency Indicators**



Source: Bank of Uganda 2019



Source: Bank of Uganda2019

1.2. Monetary and Financial Sector Development

Monthly headline inflation recorded a modest rise from 0.2 percent in January to 0.3 percent in February 2019, mainly attributed to food crops inflation that recorded a 1.7 percentage point increase to 2.1 percent (Figure 3). The increase in food crops inflation was driven by monthly vegetables inflation that increased to 4.0 percent during February 2019 from the 1.0 percent recorded in January 2019. The Energy, Fuel and Utilities (EFU) prices recorded a lower rise of 0.2 percent in February 2019 from a rise in prices of 1.0 percent in January 2019, owing to solid fuels inflation that was recorded at 0.5 percent during the month of February 2019 from a 2.5 percent inflation recorded in January 2019. Similarly, core inflation registered a decline of 0.1 percentage points to 0 inflation from 0.1 percent inflation in January due to the monthly other goods inflation that registered a 0.0 percent inflation during February 2019 from the 0.4 percent in January.

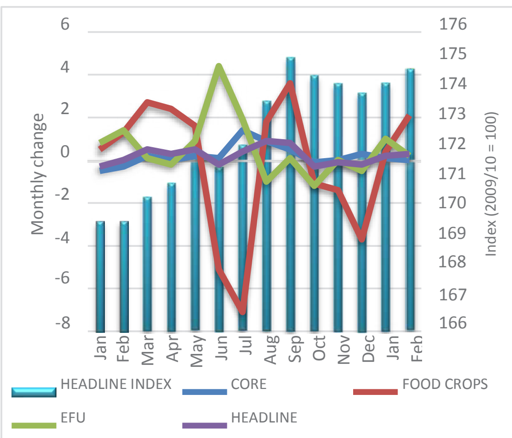
Annual inflation for the year ending February 2019 also increased to 3 percent from 2.7 percent in January driven by core inflation that increased by 0.4 percentage points due to the rise in communication inflation during the same period (MoFPED, 2018). The good inflation performance was driven by the stronger shilling and improved agriculture performance. Given the

[2] Index less than 50 implies negative expectations/pessimistic; Index greater than 50 implies positive expectations/optimistic

continued performance of inflation, the Central Bank Rate was maintained at 10 percent in February. In the medium term, headline and core inflation are forecast to peak at 5.5 and 5.3 percent respectively in the first quarter of 2020 (Bank of Uganda, 2019). Nonetheless, the inflation is subject to risks in the areas of food crop prices, domestic demand, economic environment and the exchange rate trends.

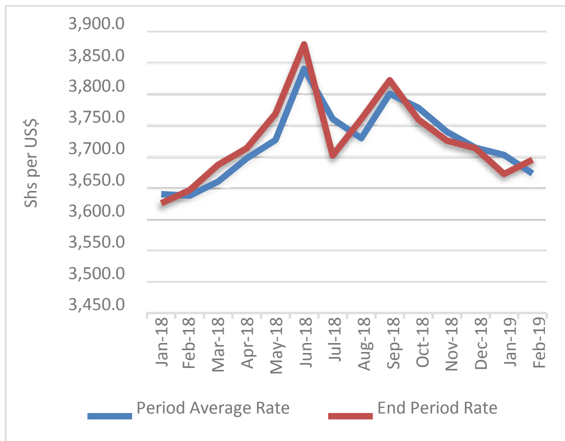
The Uganda shilling (UGX) depreciated against the United States Dollar (USD) in February 2019, with the end period rate trading at UGX3694.79 per USD from UGX3672.11 per USD at the end of January 2019. To the contrary, the period average rate indicated continued appreciation of the shilling against the USD, recording a 0.8 percent appreciation to UGX3672.8 per USD (Figure 4). The strengthening of the UGX is attributed to increased dollar inflows from various sectors of the economy amid declining dollar demand which gave the local currency a boost.

Figure 3: Annual CPI and Inflation 2018



Source : UBOS

Figure 4: Monthly Exchange Rates



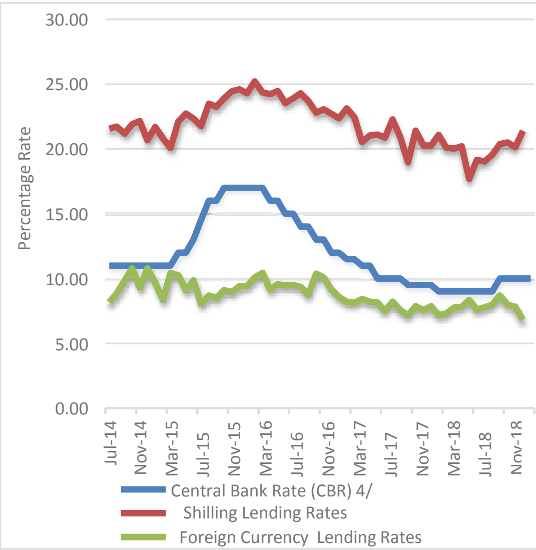
Source : BoU

Interest Rates

The Central Bank Rate (CBR) was maintained at 10 percent in February 2018 from 9 percent in September based on the projections of economic activity and the inflation outlook which indicates that inflation will remain within the Central bank target of 5 percent. In line with the monetary policy stance, the shilling lending rates show an upward trend from October 2018 when the CBR was raised. At the end of January, the shilling lending rate was recorded at 21.4 percent from 20.2 in December 2018. To the contrary, the foreign currency lending rates have been declining since November 2018, recording a 1 percentage point decline to 6.8 percent in January 2019 from December 2018 (Figure 5).

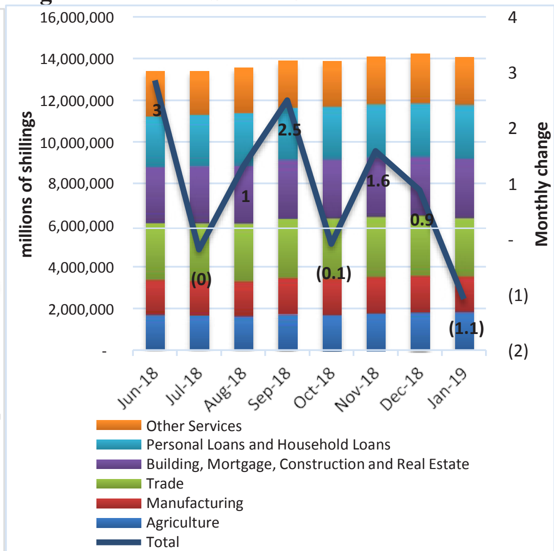
The rising shilling lending rates translated into decreasing private sector credit growth from December 2018 to January 2019 as seen in Figure 6, given the fact that shilling denominated loans cover a larger proportion of private sector credit. In line with this, month on month private sector credit declined by 1.1 percent from a growth 0.9 percent in December 2018.

Figure 5 : Interest Rates



Source : BoU

Figure 6: Private Sector Credit



Source : BoU

1.3. Fiscal Sector Developments

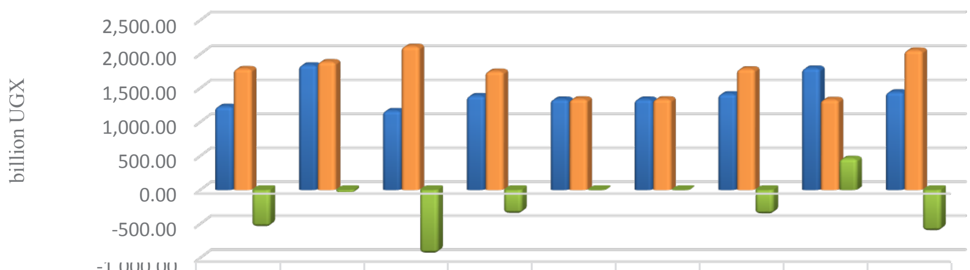
There was a widening of the fiscal deficit in January 2019 owing to the lower revenues and grants outturns which were insufficient to meet the higher government spending and lending operations. The government fiscal operations resulted into a fiscal deficit of UGX615 billion in January 2019 from a surplus of UGX461 billion in December 2018 on account of lower government revenues and grants that were insufficient to meet the higher government spending and lending during this period (Figure 7).

While there was a decrease in tax revenue collections in January 2019, there was an increase in non-tax revenue collections. The government revenues recorded a decrease of 19.5 percent in January to UGX1780.5 Billion due to a decline in tax revenues from UGX1264.6 billion in December 2018 to UGX1749.2 billion in January 2019; while the non-tax revenues increased from UGX31.3 billion to UGX59 billion during the same period on account of streamlined collection of non-tax revenues.

Nonetheless, URA's half year target for 2018/19 UGX7,826 Bn was surpassed with a surplus of UGX308.6 billion. The strong performance was driven by direct domestic taxes, that recorded a surplus of UGX151.6 billion. PAYE and Corporation tax also registered significant surpluses of UGX89.93 billion and UGX115.59 billion respectively. This performance resulted from bonus payments made by companies to their employees, increased focus on management of specific taxes paid by government institutions and the upgrade of the integrated financial management system that boosted timely payments and access to government payments. International trade also registered a surplus of UGX88.7 billion, owing to increased import volumes especially during the festive season. The performance is expected to improve further during the rest of the year given the fact that URA launched an Anti-VAT fraud campaign in 2018, continued expansion of the tax base through the Tax payer Register Expansion Program, the block management system initiatives and audit efficiency. The grants recorded a decline of 9 percent to UGX9 billion in January on account of a fall in budget support grants.

Government expenditure and lending increased by 54 percent to UGX2,055 Billion due to increased current and development expenditures. The current expenditures increased by 68 percent because of increased other re-current expenditures and external interest payments whereas the development expenditure increased from UGX429.1 billion to UGX699 billion owing to increased domestic development expenditures. Net Lending /repayment declined by 58 percent in January 2019 on account of reduced domestic arrears repayment during this period.

Figure 7: Monthly Overall Fiscal Operations



	May'18	Jun'18	Jul'18	Aug'18	Sept'18	Oct'18	Nov'18	Dec'18	Jan'19 Prel.
Revenues and Grants	1,227.00	1,836.80	1,164.90	1,384.40	1,333.50	1,333.50	1,411.60	1,790.50	1,440
Expenditure and Lending	1,782.90	1,885.00	2,111.10	1,745.10	1,337.10	1,337.10	1,779.60	1,329.50	2,055
Overall Fiscal Bal (incl Grants)	-555.8	-48.2	-946.2	-360.8	-3.6	-3.6	-368	461.00	-615

Source: MoFPED 2019

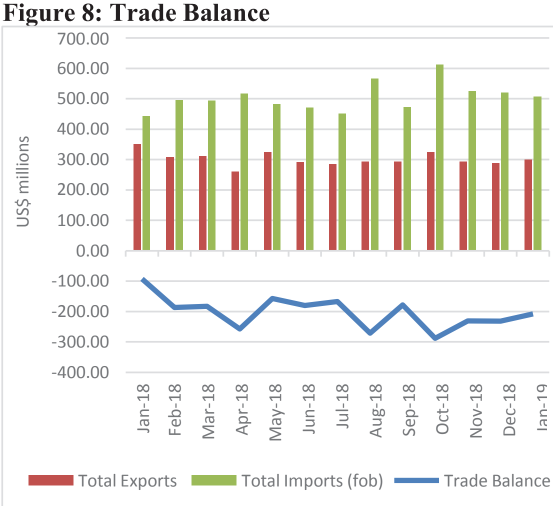
1.4. External sector Developments

There was a reduction in the size of the trade deficit in January 2019 owing to increased export earnings especially coffee coupled with a reduction in the total import bill. The trade deficit recorded a reduction of 10 percent to a deficit of USD 207.6 million in December 2018. The performance was as a result of increased receipts from exports by 3.8 percent coupled with a reduction in the import bill by 2.5 percent during this period (Figure 8).

The increased export receipts were driven by coffee exports that increased by 21 percent to 39.2 US$ millions in January 2019 due to increased volumes of coffee exports, while non-coffee export receipts recorded a modest increase of 2.2 percent on account of increased export receipts from simsim, hides and skins and electricity. To the contrary, ICBT export receipts recorded a decline of 1.6 percent mainly due to lower export receipts from vanilla. Furthermore, this trade could have been impacted by the increased trade tensions between Uganda and Rwanda in addition to the political instability in South Sudan. The lower imports resulted from lower government imports that recorded a 58 percent decline in January 2019 particularly due to a fall government project imports during this period. On the other hand, formal private sector imports registered an increase of 1.5 percent due to an increased non-oil import bill, see Table 1.

The improved external sector developments resulted into accumulation of more reserves to 4.7 months of imports in January 2019 from 4.6 months of imports of goods and services in December 2019. 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 8: Trade Balance



Source: BoU 2019

Table 1: Monthly Exports and Imports (US$)

	Oct-18	Nov-18	Dec-18	Jan-19
Total Exports	325.17	293.96	288.52	299.57
Coffee (Value)	35.22	41.96	32.41	39.24
Non-Coffee formal exports	256.21	213.38	219.03	223.85
ICBT Exports	33.74	38.63	37.07	36.48
Total Imports (fob)	612.85	524.37	520.18	507.14
Government Imports	87.47	40.30	36.59	16.34
Project	87.47	40.30	36.59	15.22
Non-Project	0.00	0.00	0.00	1.12
Formal Private Sector Imports	520.75	479.48	479.09	486.22
Oil imports	91.92	85.45	88.22	76.76

Source: BoU 2019

2.0. Other developments in the Economy

2.1. African Economic Outlook 2019 by the African Development Bank

The theme of the African Economic Outlook 2019 from the African Development Bank is regional integration for Africa's economic prosperity, with emphasis on integration for trade and economic cooperation and the delivery of regional public goods. The report focuses on three key areas; Africa's macroeconomic performance and prospects; Jobs, growth, and firm dynamism and Integration for Africa's economic prosperity.

With regard to macroeconomic performance, the report highlights that economic growth in Africa is on a recovery path. Africa recorded an increased growth of 3.6 percent and 3.5 percent in 2017 and 2018 respectively from 2.1 percent growth in 2016. Economic growth is projected to accelerate to 4 percent in 2019 and 4.1 percent in 2020 in the medium term, although this growth is insufficient to counter the persistent problems of fiscal and current account deficits, continued rising debt, unemployment and poverty. Nonetheless, several countries achieved fiscal consolidation between 2016 and 2018 by increasing tax revenue and, at times, lowering expenditures. The increase in revenue was partially due to higher commodity prices and increased growth, but several countries also implemented tax reforms. **Domestic resource mobilization has improved but falls short of the continent's developmental needs**.

Africa's external imbalances have worsened, measured by both the current account and the trade balance. The weighted average current account deficit was 4 percent of GDP at the end of 2017 and has been deteriorating since the end of the 2000s. This poses a threat to external sustainability and requires sharp adjustments in the future.

Additionally, the gross government debt-to-GDP ratio had reached 53 percent in by the end of 2017. Of 52 countries with data, 16 countries including Algeria, Botswana, Burkina Faso, and Mali had a debt-to-GDP ratio below 40 percent; while 6 countries Cape Verde, Congo, Egypt, Eritrea, Mozambique, and Sudan had a debt to GDP ratio above 100 percent. Although debt vulnerabilities have increased in some African countries, the continent as a whole is not exposed to systematic risks of debt distress.

Inflationary pressures have eased in Africa, with average inflation falling from 12.6 percent in 2017 to 10.9 percent in 2018 and is projected to further decline to 8.1 percent in 2020. Inflation was highest in South Sudan, at 188 percent, due to the lingering economic crisis, and lowest, at 2 percent or less, in members of the Central African Economic and Monetary Community and the West African Economic and Monetary Union and particularly in members of the CFA zone because of its link to the euro.

East Africa continues to have the fasted growth with GDP growth estimated at 5.7 percent in 2018, followed by North Africa at 4.9 percent, West Africa at 3.3 percent, Central Africa at 2.2 percent, and Southern Africa at 1.2 percent. East Africa is projected to achieve growth of 5.9 percent in 2019 and 6.1 percent in 2020.

With regard to job growth, Africa's working-age population is projected to increase from 705 million in 2018 to almost 1 billion by 2030, intensifying the pressure to provide decent jobs. The report indicates that at the current rate of labour force growth, Africa needs to create about 12 million new jobs every year to prevent unemployment from rising.

In terms of integration for economic prosperity, Africa has been integrating along various dimensions for the past 60 years. According to research by the African Development Bank, five key trade policy actions were identified that could potentially bring Africa's total gains to 4.5 percent of its GDP, or U$134 billion a year:

- eliminating all applied bilateral tariffs in Africa;
- keeping rules of origin simple, flexible, and transparent;

- removing all nontariff barriers on goods and services;
- implementing the World Trade Organization's Trade Facilitation Agreement to reduce cross border time and transaction costs tied to nontariff measures and;
- negotiating with other developing countries to reduce their tariffs and nontariff barriers, by 50%

Africa's growth forecasts are however subject to a number of risks including; further escalation of trade tensions between the United States and its main trading partners alongside the strengthening of the US dollar, which have increased the volatility of some commodity prices and pressured the currencies of emerging countries; costs of external financing could further increase if interest rates in advanced countries rise faster than expected; extreme weather conditions due to climate change resulting in lower agricultural production and GDP growth; and political instability and security problems in some areas could weaken economies (African Development Bank Group, 2019).

References

African Development Bank Group. (2019). *African Economic Outloon 2019.* Abijan.
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Bank of Uganda. (2019). *Monetary Policy Statement, February.* Kampala.

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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