NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

FEBRUARY 2017

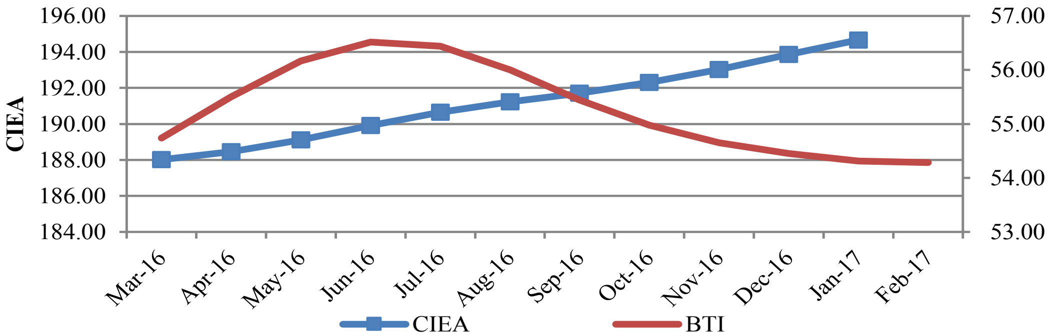
State of the Economy

1.1.Developments in the Real Sector

In the real sector, the Composite Index of Economic Activity (CIEA) over the last 12 months has shown positive prospects of growth in the economy. The Business Tendency Indicators point towards positive expectations of growth in economic activity in the economy despite the decline of the index to 54.28 in February from 54.31 in January as seen in figure 1. This decline is an indication of a slowdown in growth of the economy which has led to a lowered GDP forecast for 2016/2017 of 4.5 percent from 5 percent.

+Figure 1: Composite Index of Economic Activity and Business Tendency Indicators

Source: Bank of Uganda

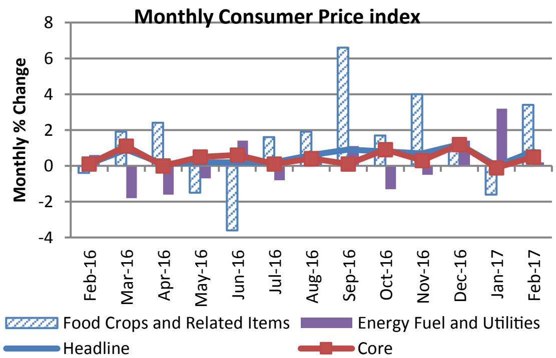


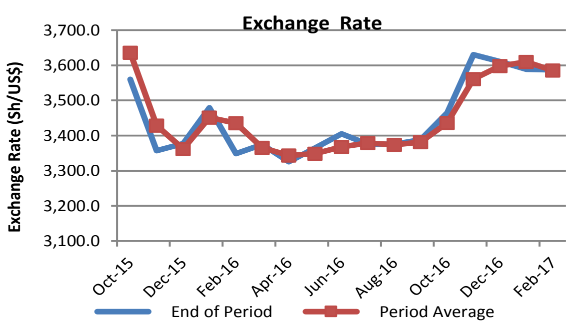
1.2. Developments in the Monetary Sector

Developments in the Financial Sector reveal that the Consumer price Index in February 2017 experienced an upsurge in monthly headline inflation to 0.8 percent in February from 0 percent in January on account of the rise in inflation of food crops and other related items (Figure 2). The rise in inflation was majorly attributed to an increase in international oil and food prices. On the other hand, core inflation rose to 0.5 percent in February, a 0.6 percent rise from the previous period (Uganda Bureau of Statistics ,UBOS, 2017). However, Bank of Uganda's short term inflation forecasts show that inflation will rise but is expected to return to the 5 percent target within the 12 months of the year. Consequently, the Central bank rate was lowered to 11.5 percent in February to stimulate economic activity.

The exchange rate movements in the month of February show a modest improvement in the end of period and period average exchange rates to 3,586.7 UGX/US$ and 3,585.3 UGX/US$ respectively, a decrease of 0.05 and 0.7 respectively from the previous rates in January (figure 2).

Figure 2: Uganda Consumer Price Index (CPI) (July 2009 – June 2010= 100)and Exchange Rates





Source: BoU

Outstanding private sector credit dropped in February 2017 to UGX 12,034.3Bn from UGX 12,056.6Bn in January.

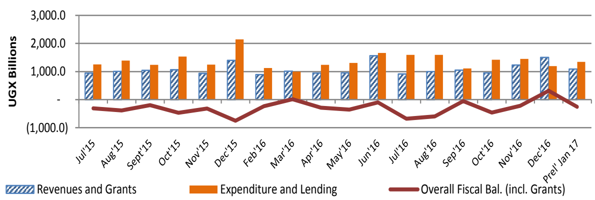
This was probably due to the commercial banks tightening the non-price terms and conditions for credit to the household sector and further tightening of credit standards for enterprises and long term loans in order to reduce non-performing loans as they expected the default rate on loans to both enterprises and house-holds to increase in the three months to March 2017 (Bank of Uganda, 2016/17).

1.3. Developments in the Fiscal Sector

The government's fiscal operations during the past 12 months ending January 2017 showed a persistent overall fiscal deficit (including grants) which was attributed to the lower levels of grants and revenue collected as compared to the government's expenditure and lending as shown in Figure 3. In the month of January, revenues and grants amounted to UGX 1088.6 Billion, which is a shortfall from the government's expenditure and lending of UGX 1344.7 Billion during the period, giving rise to a UGX 256.2 Billion fiscal deficit.

The deficit was majorly on account of the decline in grants from UGX 121.1 Billion in December to UGX 2.6 Billion in January. In terms of domestic revenues, the deficit was due to lower collections of international trade taxes, direct domestic taxes, and non-tax revenues. (MoFPED, 2017).

Figure 3: Overall Fiscal Operations July 2015 – January 2017



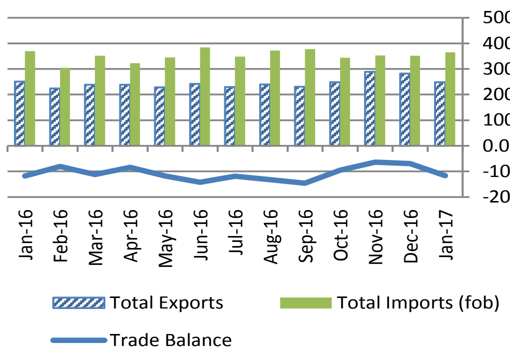
Source: MoFPED, Government Financial Statistics

1.4. Developments in the External Sector

The external sector developments indicate a widening trade deficit in the month of January 2017, on account of the fall in export receipts and an increased import bill as seen in figure 4. The recorded export earnings were US$ 248.5 million in January 2017 from US$ 281.99 million in December 2016.

The lower receipts from exports were mainly due to reduced receipts from non-coffee formal exports, particularly, tobacco, beans, oil re-exports, fish and its products as well as other non-coffee exports. That notwithstanding, the lower value of coffee and ICBT exports receipts also contributed to the lower exports receipt in January 2017 (Table 5).

Figure 4: Trade Balance



Source: Bank of Uganda

Table 5: Composition of exports and Imports

	Oct-16	Nov-16	Dec-16	Jan-17
Total Exports	**249.20**	**288.97**	**281.99**	**248.45**
1. Coffee (Value)	24.23	50.41	51.42	48.98
2. Non-Coffee formal exports	186.48	205.24	196.48	166.46
3. ICBT Exports	38.49	33.33	34.09	33.01
Total Imports (fob)	**343.91**	**352.69**	**351.54**	**364.70**
Government Imports	5.80	12.77	26.55	7.11
Project	3.65	10.64	26.55	6.20
Non-Project	2.16	2.13	0.00	0.91
Formal Private Sector Imports	310.92	313.01	301.58	329.64
Oil imports	50.24	50.64	50.65	60.73
Non-oil imports	260.67	262.37	250.93	268.91

Source: Bank of Uganda

The imports of merchandise increased in January 2017 to US$ 364.7 million from US$ 351.5 million in December 2016. This performance was attributed to a rise in the Formal Private Sector Imports, especially the oil imports as indicated in table 5.

Uganda's imports during January 2017 mainly originated from Asia, COMESA and Middle East with a share of 49.9 percent, 17.1 percent and 13.72 percent respectively, while the COMESA remained the major destination for exports with the Middle East, and the European Union following respectively.

2.0. Other Developments in the Economy

2.1. Regional and international Trade

Regional economic integration is also a vital area in the development of the Ugandan economy. Progress in establishing the East Africa Common Market is underway following the establishment of the single customs territory, however, there's still a gap in infrastructure required to facilitate seamless trade across the EAC countries. Uganda in its efforts to attain a middle income status has embarked on a number of efforts to bridge this gap including the introduction of a Regional Electronic Cargo Tracking System (RECTS), and accreditation of new Authorized Economic Operators (AEOS) to facilitate trade through monitoring transit cargo under customs control in Kenya, Rwanda and Uganda.

This will improve the ease of doing business in Uganda and the East African community by mitigating the challenges that were previously encountered like, lack of complete transit monitoring mechanism leading to cases of dumping, delayed bond cancellation and refund processing as well as poor information exchange and thereby promote growth of regional and international trade. (Business Guide Africa, 2017) On the international scene, the first multilateral deal (Trade Facilitation Agreement, TFA) at the World Trade Organization which seeks to expedite the movement, release and clearance of goods across borders came into force in February 2017.

Implementation of the TFA is predicted to reduce members' trade costs by an average of 14.3 per cent, with developing countries having the most to gain, according to a 2015 study carried out by WTO economists.

The TFA is also likely to reduce the time needed to import goods by at least 1.5days and to export goods by almost two days, representing a reduction of 47 per cent and 91 per cent respectively over the current average. In addition, it is also expected to help new firms export for the first time and developing countries are predicted to increase the number of new products exported by as much as 20 per cent, with least developed countries (LDCs) likely to see an increase of up to 35 per cent, according to the WTO study (World Trade Organisation, WTO, 2017).

2.2. Local Content

The government of Uganda adopted the Buy Uganda Build Uganda (BUBU) Policy in October 2014 with an aim of increasing the consumption of local products through public procurement and encouraging the Private Sector to consume locally originating products thereby increasing the participation of the locally established firms in domestic trade (MoTIC). However, implementation has not been effective due to lack of an enabling law through which legal obligations are imposed to specific persons and bodies based on which failure to comply leads to penalties and sanctions.

To this end, a private member's bill entitled: The Local Content Bill 2017 is being developed to be tabled to Parliament. The objective of the bill is to provide a legal framework to ensure the maximization of value-addition and job creation through the use of local expertise; goods and services; businesses and financing in all undertakings where public funds are used. It will also ensure that certain goods and services that are available in Uganda are exclusively procured from Uganda.

In order to provide an enabling environment for local participation, The Public Procurement and Disposal of Public Assets Authority (PPDA) has also issued guidelines aimed at promoting the local citizens' participation in providing goods and services to government. The guidelines provide for exclusive reservation of public contracts by threshold to national providers which apply to procurements for supplies, works and services to benefit national providers.

Accordingly, the thresholds shall be applied on procurements for road works whose estimated cost is Shs10 billion and below, procurements for supplies whose estimated cost is Shs1 billion and below, other public sector works whose estimated cost is Shs5 billion and below and procurements for services whose estimated cost is Shs200 million and below (PPDA, Public Procurement and dispoasal of Assets Authority, 2017).

Bibliography

Business Guide Africa. (2017, February 28). Trade Mark East Africa. Retrieved from MINISTER KYAMBADDE LAUNCHES URA ELECTRONIC CARGO TRACKING:
https://www.trademarkea.com/news/minister-kyambadde-launches-ura-electronic-cargo-tracking/

Bank of Uganda, B. (2016/17). Bank Lending Survey Report Q2.

MoFPED, M. o. (2017). Performance of the Economy, January 2017.

MoTIC, M. o. (n.d.). BUBU-BUY UGANDA BUILD UGANDA POLICY. Retrieved from http://www.mtic.go.ug/index.php?option=com_content&view=article&id=225:bubu-launch&catid=2&Itemid=195

PPDA, Public Procurement and dispoasal of Assets Authority. (2017). Public Procurement and dispoasal of Assets Guideline.

Riley, G. (n.d.). Importance of trade for developing countries. Retrieved from tutor2u:
https://www.tutor2u.net/economics/reference/importance-of-trade-for-developing-countries

Uganda Bureau of Statistics ,UBOS. (2017). UGANDA CONSUMER PRICE INDEX: 2009/10=100, February 2017.

World Trade Organisation, WTO. (2017, February). WTO's Trade Facilitation Agreement enters into force. Retrieved from World Trade Organisation:
https://www.wto.org/english/news_e/news17_e/fac_31jan17_e.htm

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.

NATIONAL PLANNING AUTHORITY · PLANNING FOR DEVELOPMENT

NATIONAL PLANNING AUTHORITY
Planning House , Clement Hill Road Plot 17B,
P.O. Box 21434.Kampala - Uganda
Tel: +256 414 250 229 / 0312 310 730

Learn more at:

www www.npa.ug www.facebook.com/NPAUGANDA #@NPA_UG **For any queries Email:** research@npa.ug.