NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

JANUARY 2019

Key Economic Highlights

- GDP growth during Q1 of FY2018/19 increased to 6.8 percent as compared to the 5.2 percent growth recorded in Q4 of 2017/18 owing to majorly increased value added in food and cash crops, as well as increased food processing output.
- Annual headline inflation remained subdued in the year ending January 2019, recording a decrease of 0.3 percentage points to 2.7 percent compared to the 3.0 percent registered during the year ended January 2018 mainly due to increased food supplies resulting from favourable weather conditions.
- The Uganda shilling strengthened against the US Dollar in January 2019, trading at UGX3672.1 as compared to UGX3713.4 per USD at the end of December 2018 due to decreased import demand and increased USD inflows from Ugandans returning for end of year holidays.
- The government fiscal operations recorded a fiscal deficit of UGX615 billion from a surplus of UGX461 billion in December 2018 due to increase in interest payments, recurrent expenditure and investments in infrastructure.
- The external position improved recording a narrowed trade deficit of USD 207.6 million from USD 231.7 million in December 2018 due to improved to increased export receipts especially coffee and fish and fish products during the period alongside a decreased import bill.

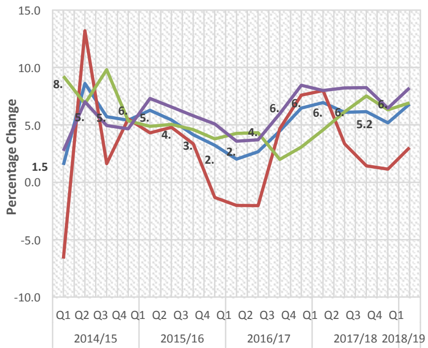
1.0. State of the Economy

1.1. Real Sector Developments

The economy witnessed an increase in growth down from 5.2 percent registered in Q4 of FY2017/18 to 6.8 percent in Q1 of FY2018/19 (see Figure 1.0). This aggregate increase in growth is furthered reflected in increased value added in Agriculture, Industry and Services Sectors. Agriculture value added rose from 1.1 percent to 3.0 percent owing to increased food and cash crop output as a result of favourable whether conditions. While Industry sector value added increased from 6.3 percent to 6.9 percent as a result of increased food processing activities, services sector value added increased from 6.5 to 8.2 percent due to increase in imported commodities and Government expenditure on compensation of employees.

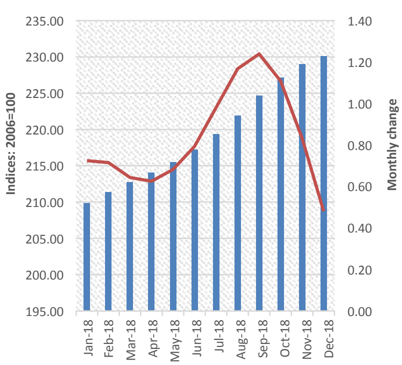
While Q1 FY2018/19 showed a positive GDP growth trend, the Q2 trend proxied by the Composite Index of Economic Activity (CIEA) reveals a slowdown in growth of economic activity. This is evidenced by the lower average growth in the CIEA which stands at 0.8 percent against the 1.1 percent average growth in the CIEA in Q1 of FY 2018/19, see Figure 2.0. Nonetheless, the Business Tendency Indicators Index value of 59.9 points towards positive expectations among the business community. This therefore lends credence to the upward economic growth projections during the rest of FY2018/19 on account of increased private sector credit growth, increased infrastructure investment and improved productivity in agriculture (Bank of Uganda, 2018).

Figure 1.0: Quarterly GDP Growth



Source: Bank of Uganda 2018

Figure 2.0: Composite Index of Economic Activity (CIEA)



Source: Bank of Uganda2018

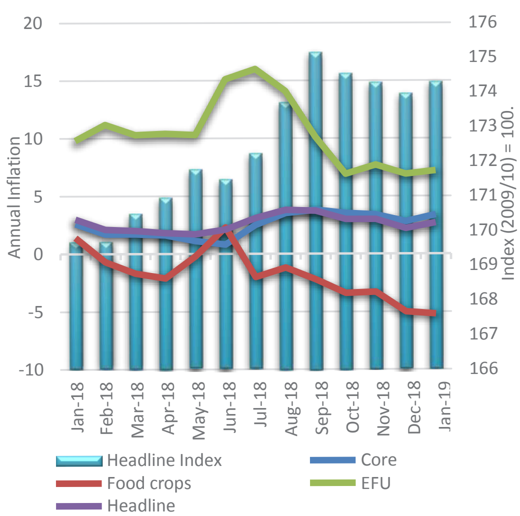
1.2. Monetary and Financial Sector Development

Annual headline inflation remained subdued in the year ending January 2019, recording a decrease of 0.3 percentage points to 2.7 percent compared to the 3.0 percent registered during the year ended January 2018 (Figure 3.0). The decrease was mainly attributed to food crops inflation that reduced to -5.2 percent from 1.4 percent as a result of improved weather conditions that lead to increased agriculture productivity. The Energy Fuel and Utilities (EFU) inflation also declined by 2.6 percentage points to 7.2 percent, while core inflation increased from 2.6 percent to 3.4 percent during the same period.

On a monthly basis, headline Inflation increased in January 2019 to 0.2 percent up from minus 0.2 percent recorded in December 2018. The increase was attributed to the monthly food crops and related items inflation, particularly vegetables inflation that increased by 1.0 percent during the month of January 2019. Similarly, monthly core inflation registered a 0.1 percent rise in January 2019 from the earlier 0.3 percent increase recorded in December 2018 due to the other goods inflation that registered a 0.4 percent rise during this period. The Monthly EFU inflation increased by 1.0 percent during the month of January 2019 from the minus 0.5 percent drop recorded in December 2018 as a result of monthly solid fuels inflation that registered a 2.5 percent rise during the month of January 2019 from the minus 1.5 percent recorded for the month ended December 2018 (UBoS, 2019).

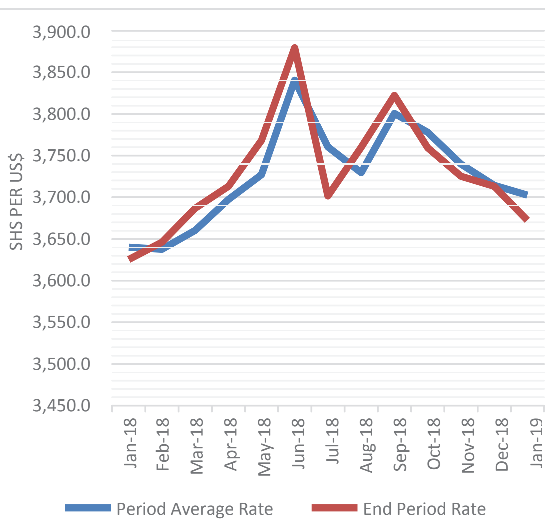
In the Financial sector, the Uganda shilling strengthened against the US Dollar in January 2019, trading at UGX3672.1 per USD as compared to UGX3713.4 per USD at the end of December 2018. Similarly, the period average exchange rate indicates an appreciation in the Uganda shilling, recording a 0.3 percent appreciation to UGX3702.4 per USD in January (see Figure 4.0) The reduced pressure on the shilling likely resulted from decreased demand for US dollars for imports in the economy after the Christmas period as well as inflow of the US dollar from Ugandans from abroad who returned for the holidays.

Figure 3.0: Annual CPI and Inflation 2018



Source : UBOS

Figure 4.0: Monthly Exchange Rates



Source : BoU

The monetary policy stance has over the last year largely been tightened as the Central Bank Rate (CBR) rose form 9.5 percent in January 2018 to 10 percent in January 2019 to contain the rising inflation outlook. It is important to note that the Central Bank of Uganda has maintained the CBR at 10 percent since October 2018. At the same time, yield on treasury bills did not significantly change to impact a reallocation of resources between private and public sector credit from the banking system.

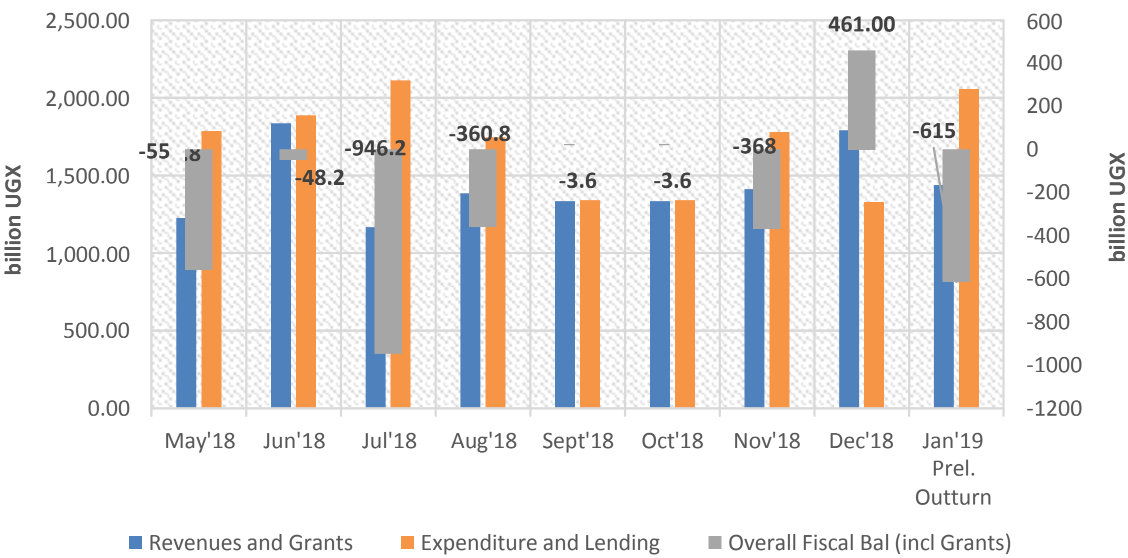
1.3. Fiscal Sector Developments

The government revenues and grants reduced by 20 percent to UGX1,440 Billion, falling short of the expenditure and lending which recorded an increase of 54.6 percent to UGX2,055 Billion in January 2019. The government operations therefore culminated into a fiscal deficit of UGX615 billion from a surplus of UGX461 billion in December 2018 (Figure 5.0). The Revenues and grants decreased mainly due to the decline in tax revenue collections from UGX1,780.5 billion in December 2018 to UGX1,431billion in January 2019. During this period, tax revenues fell by

21.6 percent to UGX1,372 Billion, while grants declined to 9 percent in January 2019 from 9.9 percent in December 2018.

The increase in interest payments, recurrent expenditure and investments in infrastructure was a key driver of increased Government spending. The increase in government expenditure in January 2019 was driven by current expenditure that recorded a 68.5 percent rise to UGX1,286 billion mainly as a result of increased interest payments for external debt from UGX26.9 million to UGX65 billion. Development expenditures also increased by 62 percent due to the increase in domestic spending on infrastructure investment. However, net lending/repayments decreased by 58 percent mainly as a result of reduction in domestic arrears repayment.

Figure 5.0: Monthly Overall Fiscal Operations



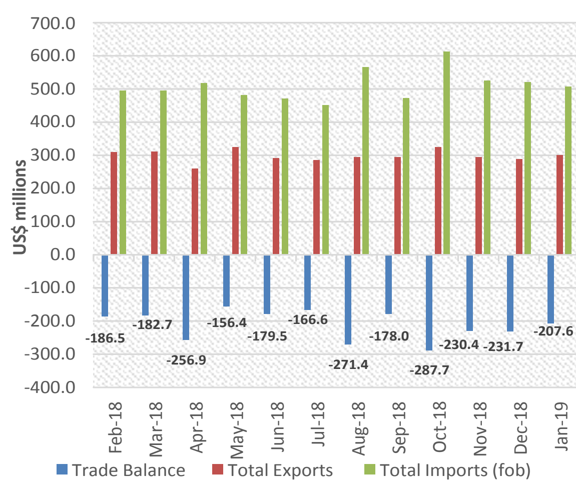
Source: MoFPED 2019

1.4. External sector Developments

The external position improved recording a narrowed trade deficit of USD 207.6 million from USD 231.7 million in December 2018. The improved performance was attributed to increased export receipts during the period alongside a decreased import bill (Figure 6.0). The major export earners that performed better included: coffee export earnings that rose from USD32.4 million in December 2018 to USD39.2 million in January 2019; fish and fish products whose earnings increased from USD17.1 million in December 2018 to USD7.7 million in January 2019. Other export items with significant positive increased contributions included: simsim; maize; tea and gold.

Generally, the non-coffee exports receipts registered a modest increase of 2.2 percent, while the informal cross border trade exports recorded a decline of 1.6 percent. Conversely, the lower import bill was driven by a decrease in government imports by 55 percent particularly project imports whereas the formal private sector imports increased by 4.8 percent as a result of a higher import bill of non-oil imports, see Table 1.0.

Figure 6.0: Trade Balance



Source: BoU 2019

Table 1.0: Monthly Exports and Imports (USD)

		Sep-18	Oct-18	Nov-18	Dec-18	Jan-19
Total Exports	**Coffee (Value)**	**28.91**	**35.22**	**41.96**	**32.41**	**39.24**
	Non-Coffee formal exports	**226.02**	**256.21**	**213.38**	**219.03**	**223.85**
	ICBT Exports	**38.84**	**33.74**	**38.63**	**37.07**	**36.48**
Total Imports (fob)	Government Imports	**471.81**	**612.85**	**524.37**	**520.18**	**507.14**
	Project	17.29	87.47	40.30	36.59	15.22
	Non-Project	0.00	0.00	0.00	0.00	1.12
	Formal Private Sector Imports	450.23	520.75	479.48	479.09	486.22
	Oil imports	76.89	91.92	85.45	88.22	76.76
	Non-oil imports	373.34	428.84	394.02	390.87	409.47
	Estimated Private Sector Imports	4.29	4.62	4.59	4.50	4.57

Source: BoU 2019

The country has witnessed a decline in its gross international reserves. As at the end of January 2019, the gross foreign exchange reserves had declined by 6 percent from the level of January 2018, despite an increase of 3.4 percent between January and December 2018. It is important to note that the momentum for increased reserves started in August 2018. These reserves can support lower months of imports (4.7 compared to 5.1 a year ago).

2.0. Other developments in the Economy

2.1. Worsening Trade Balance Between Uganda and EAC

Uganda's trade with the countries in the East African Community has worsened over the last two months despite the ongoing efforts towards regional integration. The country recorded a trade deficit of USD 22.7 million and USD22.9 million in December 2018 and January 2019 respectively from a surplus of USD 6.8 million in November 2018.

The deficit is majorly attributed to the worsening trade balance between between Uganda and Kenya since October 2018 from the trade surplus that was recorded during the previous months. This is due to the decrease in exports to Kenya while the imports from Kenya are on an upward trend. This partly resulted from non-tariff barriers and unsettled disputes; for instance, misclassification of imported intermediate inputs as final goods which impact industrial competitiveness between the countries. In addition, the loop holes in the EAC Common External Tariff policy render the smaller, less industrialised and landlocked countries in the region like

Uganda less competitive. There's therefore need to expedite the process of review of the Common External Tariff, in order to negotiate the most effective tariff regime. The trade deficit has also resulted from continued political instability in the region which greatly affected Uganda's exports to South Sudan.

Figure 7.0 Trade Balance Between Uganda and the EAC Member States

Source: BoU 2019

References

Bank of Uganda. (2018). Monetary Policy Statement, December. Kampala: BoU. UBoS. (2019). CPI Publication for January 2019.

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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