NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

Uganda Vision 2040

JULY 2017

Key Economic Highlights

(i) Real GDP growth is estimated to have slowed to 3.9 percent in FY2016/17, down from 4.8 percent in FY 2015/16 reflecting domestic factors and external headwinds, including the drought in the EAC region

(ii) Both core and headline inflation have remained with the target of single digit for most of FY 2016/17. As at end of June 2017, core and headline inflation stood at 4.9 percent and 6.4 percent respectively

(iii) Despite the continued easing of monetary policy reflected in the continued reduction in the Central Bank Rate to 10 percentage points as of end of June 2017, private sector credit growth has remained subdued.

(iv) Much as Uganda registered a 20 percent increase in the value of exports, the in crease in the import bill outstripped the gains in the exports thereby widening the trade deficit.

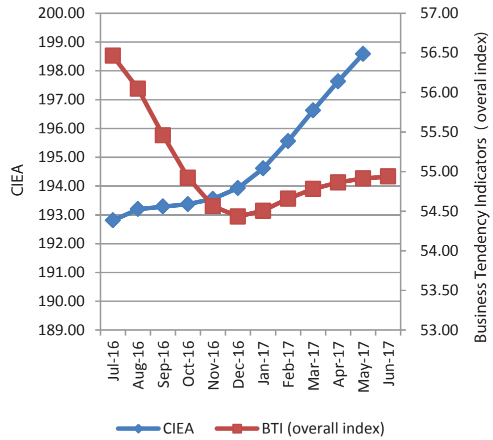
State of the Economy

1.1. Real Sector Developments

The FY 2016/17 was marked by subdued growth owing to factors that include the prolonged drought that affected agricultural production, poor implementation of the NDPII projects by the MDAs and local governments as highlighted in the Certificate of Compliance Assessment Report coupled with the slow growth of private sector credit (Bank of Uganda BoU, 2017). To this end, growth in FY 2016/17 is projected at 3.9 percent, a fall from the 4.8 percent growth in 2015/16. Nonetheless, Quarter on Quarter GDP growth at the end of quarter 3 2016/17 indicates a 10.8 percent rise in quarterly GDP to UGX. 22,939 billion from UGX. 22,110 billion (Figure 2).

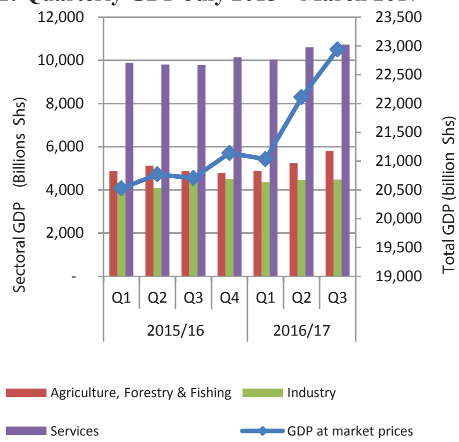
Similarly, the business tendency indicators and Composite Index of Economic Activity (CIEA) for the months of June (54.9) and May (198.6) respectively point towards a recovery in growth of the economy especially in the agricultural sector (Figure 1). The economy is consequently projected to grow at 5.0 percent in FY 2017/18 on account of the expected improvement in the government efficiency in implementation of projects, higher private sector credit arising from the easing of the monetary policy stance (for example, the recent reduction of the Central Bank Rate (CBR)) as well as improved weather patterns.

Figure 1: Indicators of Economic Activity



Source: BoU

Figure 2: Quarterly GDP July 2015 – March 2017



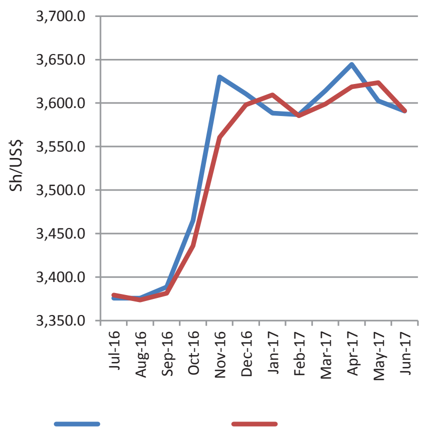
Source: UBoS

2. Monetary and Financial Sector Developments

The monetary sector was marked by some volatility in the prices of goods and services, with annual headline inflation rising to a record 7.2 percent in the month of May owing to an upsurge in food crops prices, but dropped to 6.4 percent in June 2017 mainly as a result of improved weather conditions. On the contrary, core inflation remained relatively stable, falling to 4.9 percent in June 2017 from 5.1 percent in May 2017. Annual Food crops and related items inflation reduced to 18.1 percent from 23.1 percent while Energy fuel and utilities inflation also reduced to 5.7 percent from 7.1 percent in June 2017. Consequently the CBR was reduced from 11 percent by one percentage point to 10 percent in a bid to reduce inflation to the BoU target of 5 percent as well as stimulate domestic output.

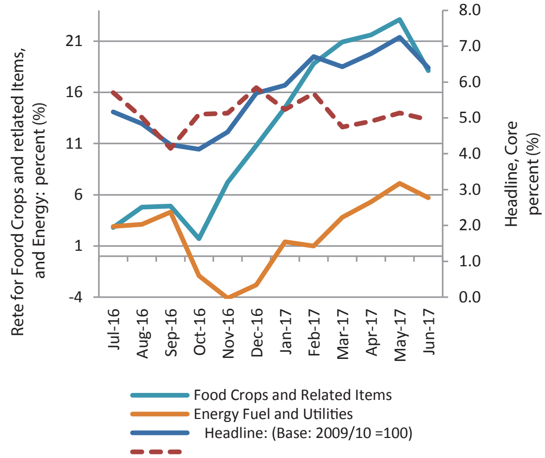
The foreign exchange market remained relatively stable over the first half of 2017. However, the Uganda shilling experienced an appreciation in the month of June, with the end of period and period average exchange rates appreciating by 0.3 percent and 0.9 percent to UGX. 3590.9 and UGX. 3591, respectively.

Figure 3: Exchange Rates



Source: BoU

Figure 4: Annual Inflation



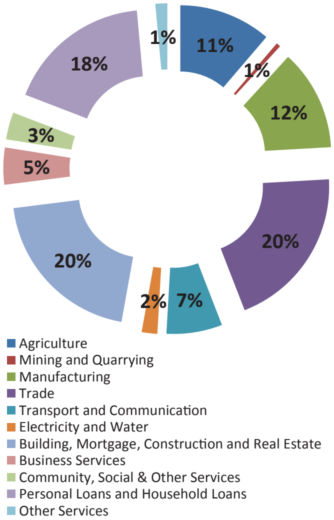
Source: UBoS 2017

Private Sector Credit (PSC)

Private sector credit growth remained subdued in FY 2016/17 despite the continued easing of monetary policy. This resulted from banks remaining cautious about lending because of the high levels of Non-Performing loans in the recent periods (Senyonyi, 2017). The sector recorded a 0.1 percent declined in PSC to 11,962,177.8 million shillings at the end of May 2017, with the trade sector and Building, Mortgage, Construction & Real Estate sector receiving the largest Credit share of (20% each) while Mining and quarrying and other services received the least share of 1 percent each.

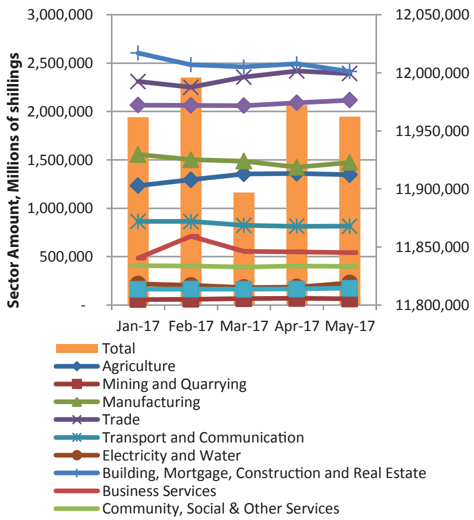
Given the reduction in the Central Bank Rate (CBR) to 10 percent in June from 11 percent, commercial bank rates are expected to go down and subsequently spur private sector borrowing.

Figure 5: Sectoral Shares of PSC May 2017



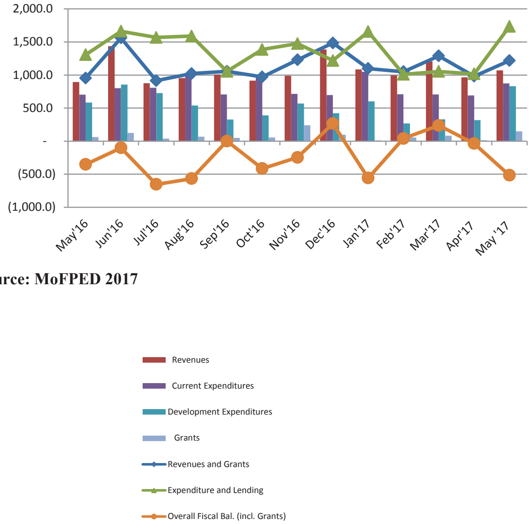
Source: Bank of Uganda

Figure 6: PSC to Sectors



The revenues and grants both increased, with revenues rising by 10.5 percent to UGX 1,069 billion while grants had a leapfrog rise of 971.9 percent to .UGX 149 billion at the end of May 2017 mainly arising from a disbursement from the African Union towards peace keeping operations in Somalia. Similarly, development expenditures recorded a sharp rise of 162.6 percent to UGX 833 billion to finance development projects, while re-current expenditures indicated a modest increase of 26.3 percent to UGX 873 billion from UGX 691.1 billion in April. The development expenditures therefore largely accounted for the rise in the fiscal deficit in May 2017

Figure 7: Overall Fiscal Operations



Source: MoFPED 2017

1.3. Fiscal Sector Developments

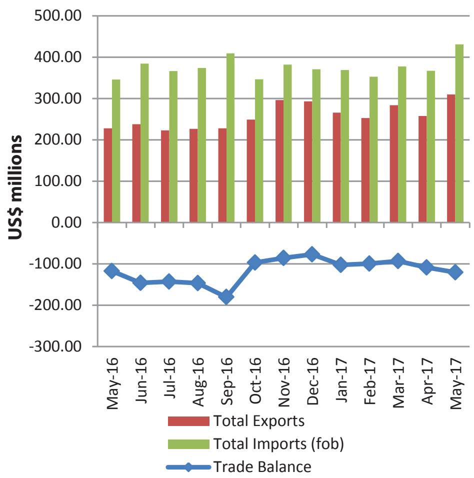
The revenue and grants as at the end of May 2017 amounted to UGX 1,218 billion , falling short of the government expenditure and lending of UGX 1,734 billion and consequently giving rise to a higher overall fiscal deficit of UGX 516 billion compared to the UGX 35.7 billion deficit recorded in April 2017.

1.4. External sector Developments

The month of May was marked by a widening trade deficit amounting to USD120.95 million arising from an increasing import bill (Figure 8). Despite the 20 percent rise in the value of exports during the period to USD 309.6 million, the increase was insufficient to cover the import bill of USD 430.55 million.

As indicated in Table 1, the increase in the value of exports was mainly driven by the 26 percent increase in non-coffee exports particularly beans, flowers and simsim. The rise in imports on the other hand was majorly driven by government imports, especially projects imports due to the large number of government projects being undertaken. There's need for concerted effort to improve the performance of the export sector so as to narrow the trade deficit - gap between exports and imports.

Figure 8: Trade Balance May 2016 –May 2017



Source: BoU

Figure 9: Composition of Exports and Imports (USD mil)

	Jan-17	Feb-17	Mar-17	Apr-17	May-17
Total Exports	**265.36**	**252.77**	**283.88**	**257.57**	**309.60**
1. Coffee (Value)	48.98	48.50	50.44	39.26	47.57
2. Non-Coffee formal exports	166.46	162.07	190.65	173.35	218.72
3. ICBT Exports	49.91	42.19	42.78	44.96	43.31
Total Imports (fob)	**368.41**	**352.53**	**377.56**	**366.73**	**430.55**
Government Imports	**10.20**	**3.62**	**7.73**	**13.22**	**37.57**
Project	9.28	3.62	7.73	11.27	35.31
Non-Project	0.91	0.00	0.00	1.94	2.26
Formal Private Sector Imports	**329.64**	**326.27**	**344.41**	**320.96**	**360.80**
Oil imports	60.73	61.11	73.97	65.41	60.37
Non-oil imports	268.91	265.16	270.44	255.55	300.43
Estimated Private Sector Imports	28.57	22.64	25.41	32.56	32.18
Total Private Sector Imports	358.21	348.91	369.82	353.52	392.98

COMESA continues to be the largest destination of Uganda's exports, particularly Kenya and South Sudan, while the second largest destination is the middle East dominated by the United Arab Emirates. In terms of imports, the biggest source of Uganda's imports is Asia, with imports coming mainly from India and China.

2.0. Other Developments in the Economy

2.1. The New Integrated Macro-Economic Model for Government Launched

The Government of Uganda in collaboration with different stakeholders embarked on developing an Integrated Macro-Economic Model (IMEM) for Government in 2011 with an aim of improving policy analysis by assessing the impact of policies at the macro, sectoral and micro (household) level.

The model was also developed to overcome some of the limitations of the existing frameworks including; inadequacy in answering some of the policy questions; focus on only macro level economic variables; inadequate assessment of impacts on poverty, incomes, and inequality; inadequate analytical tools to deal with the ever evolving and sophisticated economy; some frameworks lacked behavioural equations which made it hard to determine and forecast key variables like growth; and lack of labour market statistics and modelling within the existing frameworks.

The model is comprised of 3 sub-integrated models; Macro-econometric Model (uses time series data), Dynamic Computable General Equilibrium Model (uses the Social Accounting Matrix) and the Micro-simulation model (uses UNHS data). The framework uses a model integration approach by linking the economy wide model (macro –econometric model) to the sectoral level using the CGE model and thereafter linking the sectoral level to the household level using the Micro-simulations model.

The development of the model was finalised in January 2017 and was launched in June 2017. The National Planning Authority was part of the core team that was involved in the development of this model with other key players in the economic management sub sector. To be able to develop sufficient capacity at NPA, the macroeconomics department has taken lead in transferring knowledge to the entire Macroeconomics Team at NPA as a way of building institutional capacity. It is anticipated that the new model is going to boost macroeconomic framework formulation for the subsequent NDPs and other planning documents.

2.2. The 2017 Eighth Review of Economic performance Report under The Policy Support Instrument

In July 2017, the Executive Board of the International Monetary Fund (IMF) concluded the 2017 Article IV consultation with Uganda and completed the eighth review of Uganda's economic performance under the Policy Support Instrument (PSI).

Performance under the Policy Support Instrument

The PSI is an instrument of the IMF designed for countries that do not need balance of payments financial support. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies.

Performance under the PSI through March 2017 was noted to be broadly satisfactory. The Financial and Monetary authorities met the cornerstones of their quantitative program, but missed some program targets. Specifically, the authorities met all end-December and continuous quantitative assessment criteria (QAC), including the overall deficit, net international reserves, and non-accumulation of external arrears.

The BoU achieved its inflation target of December 2016 and March 2017. The indicative targets on poverty alleviating expenditures were met and preliminary data indicate that the target on domestic arrears clearance was met at end-December. However, the indicative target on revenue collection in December and in March was narrowly missed, reflecting subdued economic activity, henceforth government issued two guarantees for Uganda Development Bank to allow the bank to pick up its lending activities. The authorities made some progress on structural reforms, with one structural benchmark met on time, three implemented with delay, and the remaining six not met, though the authorities intend to implement them going forward.

Most markedly, the authorities approved the Anti-Money Laundering and Countering Financing of Terrorism (AML/CFT) legislative agenda that will support Uganda's exit from the Financial Action Task Force "grey" list. The Ministry of Finance, Planning, and Economic Development published reconciled reports on the stock of outstanding domestic arrears at end-June 2016 (3.2 percent of GDP). Looking ahead, continued capacity building and a focus on prioritization and selectivity should facilitate reform implementation (International Monetary Fund, IMF, 2017). Pending reforms include:

- Sending the BoU Act Amendments to Parliament: it took longer than expected to agree on some technical aspects between the Ministry of Finance, Planning, and Economic Development and the BoU. An understanding has now been reached, and the draft amendments are about to be shared with cabinet.
- Finalizing and publishing the report on end-December unpaid bills: the authorities have compiled information on gross ettlements of domestic arrears in the first half of the year. Capacity constraints have slowed the reporting on unpaid bills, and further work is needed to strengthen domestic arrears monitoring within the fiscal year.
- Publication and issuance of the Appraisal User Manual: expected by end-June. The Manual has been finalized, but the actual printing and distribution has been delayed.
- Sending to cabinet a policy for regulating mobile money: the authorities are revisiting the best course of action to provide for a sound regulatory framework.

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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