NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

Uganda Vision 2040

JUNE 2019

Key Economic Highlights

i. Economic growth decelerated in the third quarter of FY 2018/19 recording growth of 5.6 percent from 6.8 percent recorded in Q2.

ii. The Composite index of Economic Activity (CIEA), BOU's short term indicator of economic activity, indicates an increased growth in economic activity in the short term evidenced by increased growth in economic activity in Q3.

iii. The monetary sector developments indicate that the inflationary pressures in the economy remained subdued in the year ending June 2019 recording a modest rise to 3.4 percent as compared to 2.1 percent during the year ending June 2018.

iv. The Uganda shilling appreciated against the US dollar, trading at 3,695 Ushs per US$ at the end of quarter 4 of FY 2018/19 from 3,715 Ushs per US$ at the end of quarter 3.

v. The overall fiscal operations at the end of June 2019 recorded an overall fiscal deficit of 33.7 billion shillings, a shortfall from the target of 116.5 billion shillings deficit.

vi. The Balance of Payments (BoP) recorded a Surplus of 76 million US$ in Q3 of FY 2018/19, an improvement from the US$ 40 million surplus recorded in Q2 of 2018/19

1.0. State of the Economy

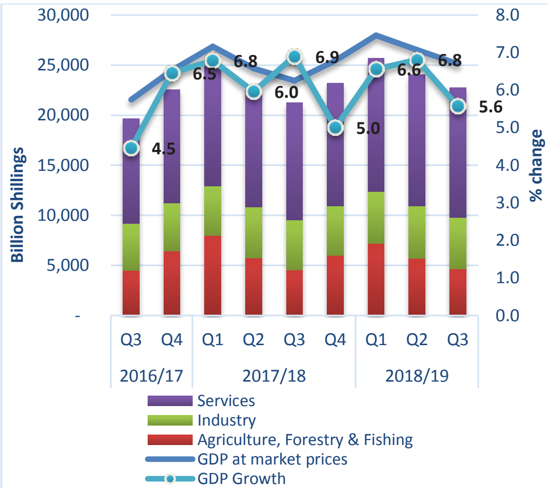
1.1. Real Sector Developments

Economic growth decelerated in the third quarter of FY 2018/19 recording growth of 5.6 percent from 6.8 percent recorded in Q2. The slowdown in growth was driven by the services and industry sectors that declined by 2.3 percentage points and 0.6 percentage points respectively (Figure 1). The lower growth in the services sector was attributed to lower value added in economic activities from the Administrative & Support Services; Arts, Entertainment & Recreation and Information & Communication sub sectors whereas lower growth in the industry sector was on account of lower value added in the mining and quarrying as well as the construction economic activities. However, the agriculture sector registered a modest increase in growth of 0.1 percentage points to 4.8 percent in Q3 of FY 2018/19, resulting from increased value added in the cash crops and agriculture support services activities.

Nonetheless, the Composite index of Economic Activity (CIEA), BOU's short term indicator of economic activity, indicates an increased growth in economic activity in the short term, evidenced by an average growth in economic activity of 0.43 percent during Q3 as compared to the average monthly growth of 0.3 percent for the three months in Q2. Additionally, the Business Tendency indicators overall index recorded a monthly average for Q4 FY 2018/19 of 57.9, an indication of positive prospects in economic activity driven by activities in the construction and agriculture sectors. (Figure 2).

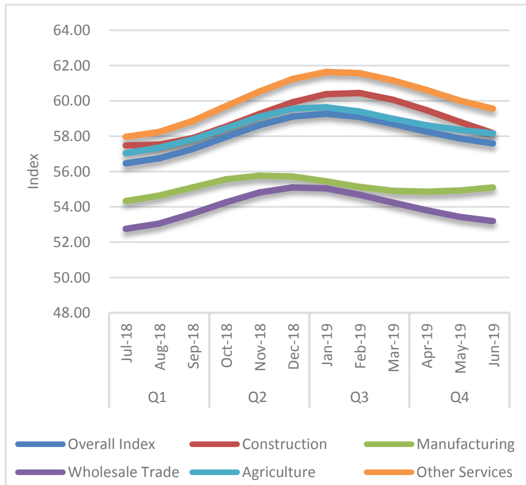
That notwithstanding, the economic growth prospects are subject to a number of risks including the global trade tensions that might affect the country's external sectors and exchange rates, the threat of climate change which has an impact on economic growth as well as the slow implementation if the NDPII projects.

Figure 1: Quarterly GDP



Source: *Bank of Uganda*

Figure 2: Business Tendency Indicators 2018/19



Source: Bank of Uganda

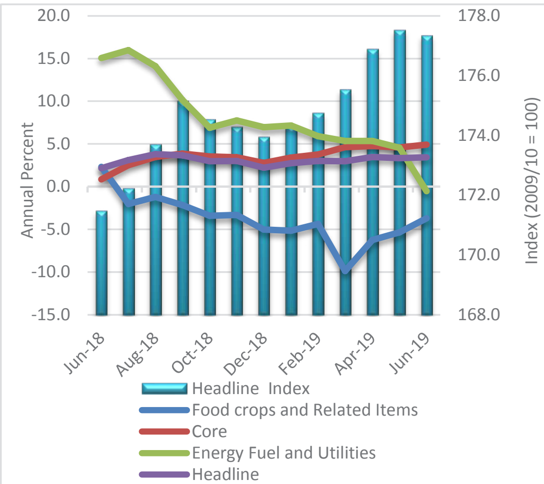
1.2. Monetary and Financial Sector Developments

The monetary sector developments indicate that the inflationary pressures in the economy remained subdued in the year ending June 2019 recording a modest rise to 3.4 percent as compared to 2.1 percent during the year ending June 2018. The low inflation was mainly as a result of energy, fuel and utilities (EFU) inflation that declined by 15.6 percentage points to minus 0.5 percent coupled with the 6-percentage point decline in the food crops and related items inflation to minus 3.7 percent during the year ending June 2019. The decline in the EFU inflation was on account of the gradual fall in the international oil prices in addition to the decline in the solid fuel inflation, particularly charcoal; whereas the fall in prices of food crops and related items was due to the favourable weather conditions during this period. Nonetheless, this slightly was offset by core inflation that increased by 4.9 percentage points to 4.1 percent culminating into a moderate increase in headline inflation.

The bank of Uganda inflation forecasts indicate that over the medium term, inflation will rise and peak at 6.4 percent in the third quarter of FY 20/21 (Bank of Uganda BoU, 2019). However, there are risks associated with this outlook including the uncertainty of the weather conditions and the trend of the exchange rate which is impacted by internal and external economic conditions.

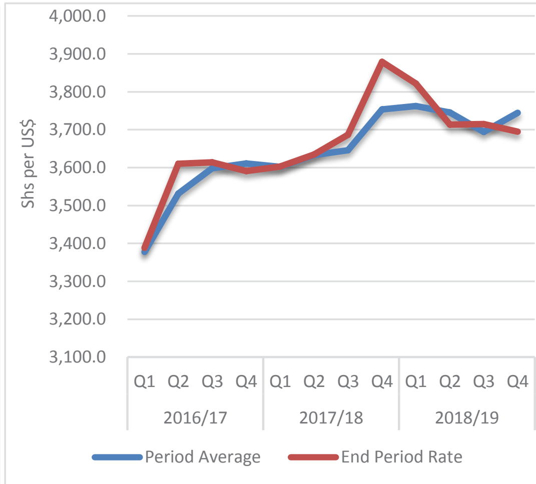
In the financial market, the Uganda shilling appreciated against the US dollar, trading at 3,695 Ushs per US$ at the end of quarter 4 of FY 2018/19 from 3,715 Ushs per US$ at the end of quarter 3 (Figure 4). In the short term, the exchange rate is projected to remain stable due to subdued dollar demand. However, in the short to medium term, the exchange rate is projected to depreciate faster due to increased dollar demand and uncertainty in the global financial markets.

Figure 3: Monthly CPI and Inflation



Source: UBoS

Figure 4: Exchange Rates



Source: BoU

Private Sector Credit

The central bank maintained the central bank rate (CBR) at 10 percent and the band on the CBR at +/-3 percentage points throughout the fourth quarter of FY 2018/19 given the prevailing monetary conditions in the economy. The commercial bank lending rates consequently declined marginally to 19.7 percent in the quarter ending May from 20.9 in the quarter ending February. The lower lending rates translated into higher growth in private sector credit recorded at 5.5 in the quarter ending May as compared to the 0.3 percent growth in the quarter ending February 2019 (Figure 5).

At the end of May, the credit outstanding to the private sector was 14,915 billion shillings mainly credited to the trade sector (21%) and Building, Mortgage, Construction and Real Estate sector (20%) while the Agriculture and manufacturing sectors received the least credit (Figure 6). There's need increase the credit to these sectors which are key to the transformation of the economy as indicated in the National Development Plan II.

Figure 5: Monthly Private Sector Credit

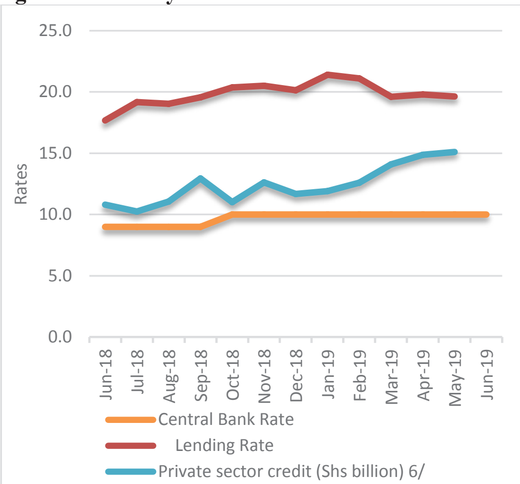


Figure 6: Monthly Interest Rates and PS C growth

Source: BoU

1.3. Fiscal Sector Developments

The overall fiscal operations at the end of June 2019 recorded an overall fiscal deficit of 33.7 billion shillings, a shortfall from the target of 116.5 billion shillings deficit. The lower fiscal deficit is on account of lower than planned expenditure and lending which recorded a performance of 90 percent coupled with lower that planned revenue collections that registered a performance of 96 percent. The lower expenditure and lending were mainly driven by lower current expenditures by Ushs 119.8 billion shillings in addition to development expenditures that also recorded lower spending by Ushs 98.2 billion shillings. This performance in June resulted from MDAs spending a large proportion of the released funds in the first two months of the fourth quarter in preparation from the close of the financial year.

With regard to revenues, the tax revenue receipts were also less that the target for this period, registering revenues of 1,856.5 billion shillings against a target of 1,925.10 billion shillings. This was due to the shortfall in revenues from indirect domestic taxes, particularly excise duty which recorded a performance of 80 percent (MoFPED, 2019).

Table 1: Fiscal Operations Performance June 2019 (Billion shillings)

	Program	Outturn	Difference	Performance
Revenues and grants	2,030.10	1,899.80	-130.30	94%
Revenues	1,925.10	1,856.50	-68.60	96%
Tax	1,884.10	1,811.70	-72.40	96%
Nontax	41	44.8	3.80	109%
Grants	105	43.3	-61.70	41%
Budget support	44	18.9	-25.10	43%
Project support.	61.1	24.4	-36.70	40%
Expenditures and lending	2,146.60	1,933.40	-213.20	90%
Current expenditures	1,048.30	928.5	-119.80	89%
Wages and salaries	353.2	371.5	18.30	105%
Interest payments	185.9	153	-32.90	82%
Other recurrent expenditure	509.2	404	-105.20	79%
Development expenditures	1,083.20	985	-98.20	91%
Overall fiscal balance (incl. grants)	-116.5	-33.7	82.80	29%

Source: MoFPED 2019

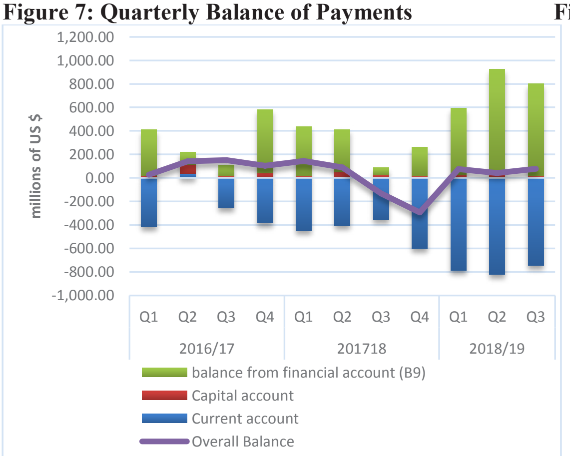
Source: MoFPED 2019

1.4. External sector Developments

The Balance of Payments (BoP) recorded a Surplus of 76 million US$ in Q3 of FY 2018/19, an improvement from the US$ 40 million surplus recorded in Q2 of 2018/19 (Figure 7). The improvement was driven by the 9.2 percent reduction in the current account deficit due to the fall in the trade deficit (28%) and primary income deficit (11%) (Figure 8). The Trade deficit reduced from US$ 787.7 million in Q2 to US$ 566.7 million in Q3 2018/19 resulting from a rise in export receipts by 30 percent to US$ 1,204.4 million driven by increased simsim and gold export receipts. The lower primary income deficit was on account of lower outflows of income to foreigners from Foreign Direct Investments and investment income.

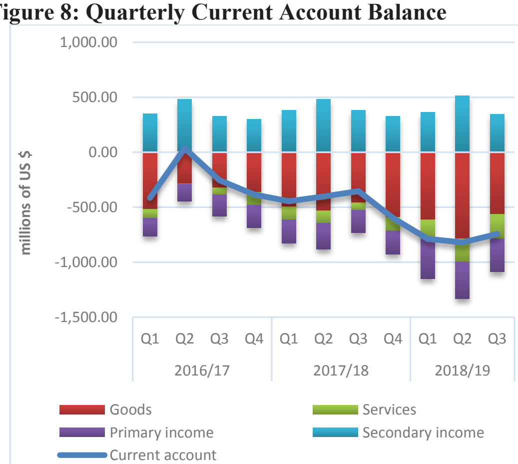
The capital account surplus declined, registering a fall of 46 percent to US$ 16.8 million due to lower capital transfers into the economy. Similarly, the financial account surplus recorded a 12 percent fall to US$784.6 million although this was still sufficient to finance the balance on the capital and current account. This led to an increase in the build up of reserves to 4.3 future months of imports of goods & services in Q3 from 4.1 in future months of imports of goods & services in Q2 2018/19. Nonetheless, the surplus on the financial account is estimated to increase at the end of FY 2018/19 owing to increased foreign direct investments inflows into the extractive sector and increased disbursement of project support loans.

Figure 7: Quarterly Balance of Payments



Source: BoU 2019

Figure 8: Quarterly Current Account Balance



Source: BoU 2019

2.0. Other Developments in the Economy

2.1. The Proposed Coffee Bill

Uganda is among the largest producers and exporters of coffee in the world with 348,632 bags in May 2019 worth USD 33.27 million (UCDA, 2019). Government has hereby put in place a number of interventions to meet the required standards and demand for coffee although these have not effectively addressed the existing challenges. The proposed coffee bill is therefore going to replace the Uganda Coffee Development Authority Act Cap 325 1994 in order to address these issues.

It's intended to reform and provide authority to the Uganda Coffee Development Authority (UCDA) to regulate, promote and oversee the coffee sub-sector, on-farm, and off-farm activities in the Coffee Value Chain, provide for a coffee auction system to ease trade in the sub-sector, as well as create and enforce penalties. The UCDA will also be able to register coffee farmers, coffee nursery operators, coffee farmer organizations, coffee value chain actors and issuance of licenses. Through this bill, the government not only looks at the marketing of coffee but also the control of on-farm activities that would later affect the quality and prices of coffee; for instance, the quality of seedlings in one's nursery bed, drying and grading, rehabilitation and disease control in the sector.

Given the competition on the international market with countries like Ethiopia, Brazil among others, the bill will have a positive impact on the coffee sub-sector as it will provide a central overseeing body for all coffee-related activities, the UCDA. It will also increase research in the coffee industry, promote good farming practices and coffee consumption on the local market. The implementation of these interventions, coupled with good governance will ensure the production of quality standard coffee that has been a major problem facing Uganda on the international market. In turn, this increases the bargaining power and competitiveness of Uganda on the coffee market that will eliminate the problems of price fluctuations that have continuously affected farmers.

However, there's criticism regarding the provisions made in the bill with a general view that it is too stringent and might instead lead to lower numbers of people engaging in coffee production. There's therefore need for consensus to be built between the regulators and coffee farmers in order to ensure that the provisions in the bill are implemented effectively by all the relevant stakeholders.

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

Learn more at:

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

Design & Layout - **INTUITION** | sonkojndesign@yahoo.com | +256 772 472949