NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

JUNE 2017

State of the Economy

1.1. Real Sector Developments

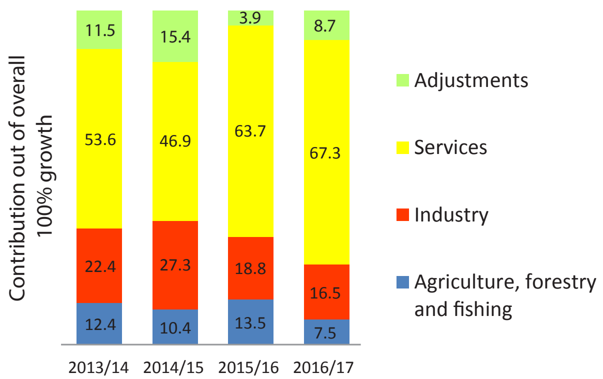
Selected Macroeconomic Indicators for 2016/17		
Indicator	**Estimated Actual**	**NDPII Target**
GDP Growth	3.9 percent	5.9 percent
Inflation	7.2 percent	5.0 percent
Overall Fiscal Deficit to GDP	3.6 percent	7.4 percent
Private Sector Credit Growth	6.3 percent	12.4 percent
Reserves (Months of imports)	5.1 months	4.3 months
Non Perf Loans to Gross loans	6.3 percent	-

As indicated in the update of May 2017, prospects of increased global growth to 3.5 percent per annum continued to prevail in June 2017. This growth is based on the expected improvement of the performance financial markets and the cyclical recovery in manufacturing and trade.

It is observed that major economies continue to experience pressures for inward looking policies, because of low productivity growth and high income inequality. These challenges will therefore continue to affect developing countries, including Uganda.

For the Quarter ending June 2017, GDP is estimated at UGX 24,393 billion, up from the estimated UGX 23,335 billion in the third quarter of the same year. This performance is lower than it should have been in real terms because of the effect of the long dry spell which affected productivity of the agriculture sector. Services sector has contributed more to growth, unlike industry and agriculture whose contribution has declined. At the end of June 2017, Uganda's real GDP was estimated to have grown by 3.9 percent to UGX 57,914billion. In nominal terms, this is UGX 90,514 billion, given the estimated changes in price deflators of 4.8%.

Figure 1: Contribution to Overall Growth in GDP by economic activity – Constant 2009/10 prices (Percent)



The cash crop sector, mining and quarrying, as well as financial and insurance services are facing contraction. On the positive side, food crops, manufacturing, construction, Information and communication, accommodation and food service are the main activities keeping the economy growing.

The Composite Index of Economic Activity (CIEA) points to a decelerating rise in economic activity in April 2017. The deceleration of economic activity at the start of quarter four is much higher than the average acceleration in quarter three of the financial year (Figure 3). The present business and financial situation as well as access to finance presented the greatest pessimism (negative expectations) in the 4th quarter 2016/17 despite overall optimism on account of improved business situation in the last three months. Wholesale trade and other services still face high levels of business expectations, or deterioration as observed in the trends of the indicators in Figure 2. The performance of this quarter consolidated the inability of the economy to register growth in tandem with the NDPII targets for the second year, with an annual gap of 33 percent

Figure 2: Business Tendency Indicators

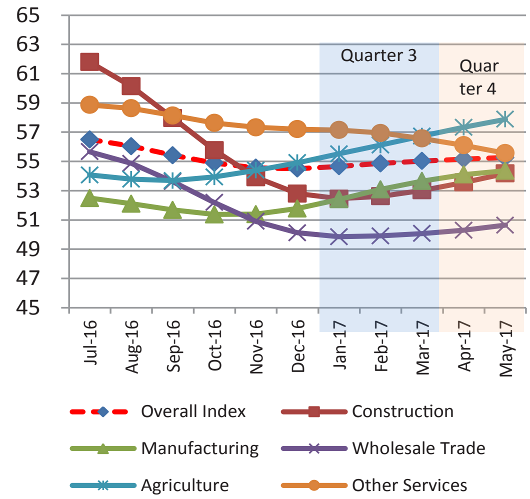
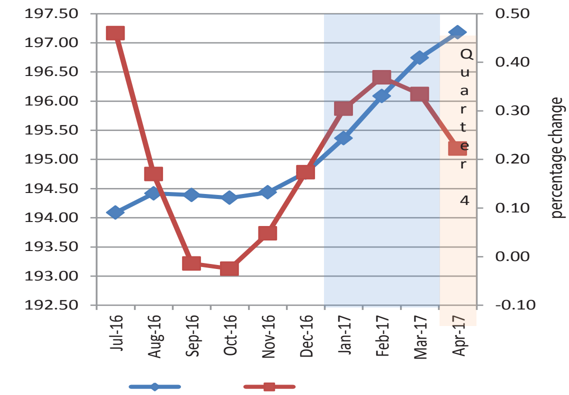


Figure 3: Composite Index of Economic Activity



Source: Bank of Uganda

1.2. Monetary and Financial Sector Developments

In Uganda, inflation in the ending quarter has been on the rise. The main contributor to monthly inflation is the increase in prices of food and non-alcoholic beverages, which constitute the largest share of consumption basket. During the month of May, monthly price changes rose from 0.4 to 0.6 percent.

This has contributed to raising the annual headline inflation rate as at end of May to 7.2 percent up from 6.8 percent, despite forecasts for the East African region that had indicated that inflation would ease between 2016 and 2017. Inflation in Sub-Saharan Africa is expected to decline over the next year by about 3percent, and by about 20 percent in East Africa.

Figure 4: Recent Inflation Trends

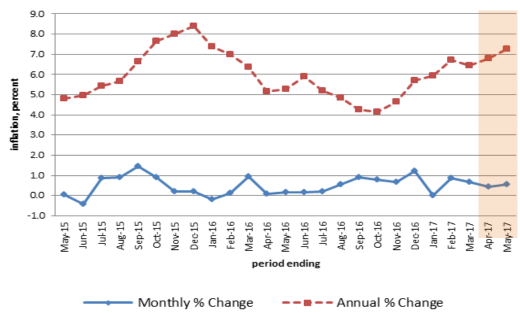
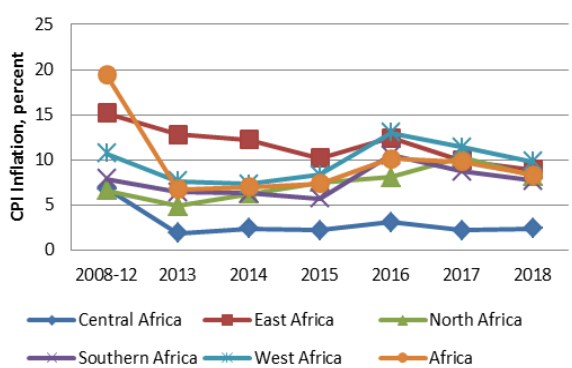


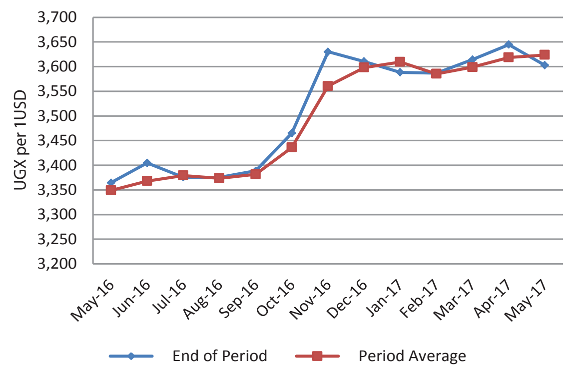
Figure 5: Inflation Trends in Africa



The efforts to support private sector credit and growth were consolidated with a further reduction in the Central Bank Rate (CBR) from 11 percent in April 2017 to 10 percent in June 2017.

The quarterly average therefore is a reduction from 11.7 percent (quarter 3) to 10.7 percent (quarter 4). In the last three months, the stock of non-performing assets was on the decline from 10.5 percent in December 2016 to 6.4 percent in March 2017, but returns on financial assets remain low in the sector.

Figure 6: Exchange Rates



(Source: UBoS)

1.3. Fiscal Sector Developments

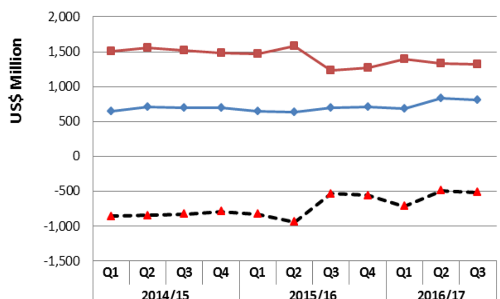
While government continues with its infrastructure investment agenda, there are continued shortfalls in the total revenue collected to fund some of the projects which by implication impacts the fiscal deficit. Total revenue (target) excluding refunds for FY 2016/17 was estimated at UGX 13, 259.29 billion, of which UGX 12, 929.28 billion is tax revenue, UGX 330 billion is non-tax revenue (NTR) and UGX 177.52 billion is fees and licenses. This does not include Appropriation in Aid (AIA) which is estimated to be UGX 671.98bn. However, the net revenue collections up to April 2017 amounted to UGX 10,263.16 billion against the target of UGX 10,619.18, registering a shortfall of UGX 356.02 bn. The growth in revenue has been lower than anticipated owing to the slowdown in the level of economic activity, the depreciation of the shilling whose gains from valuation of imports are being offset by the decline in dutiable import volumes.

Uganda's external debt public and publicly guaranteed debt remains sustainable and at a low risk of distress. There has been a rise in domestic interest payments throughout different quarters as a result of government's rising stock of domestic debt. By the end of the final quarter in FY 2016/17, the fiscal deficit stood at 3.6 percent of GDP less than the planned 7.4 percent for the period. Expenditure and net lending is projected to fall to 19 percent of GDP from 22.4 percent due to underperformance of externally financed development budgets.

1.4. External sector Developments

Whereas the month of March was marked by a narrowing of the trade deficit with the value of export receipts rising at a much higher rate of 12.5 percent as compared to the import bill that increased by 5.9 percent, the quarter experienced a 5% worsening of the deficit (Figure 6). During the quarter, merchandise imports marginally declined, while the fall in exports was larger by 2 percent.

Figure 7: Quarterly Performance of the Trade



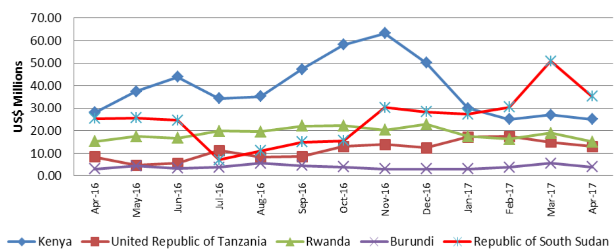
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
	2014/15				2015/16				2016/17		
Total Exports	646	707	696	690	645	636	700	707	677	838	810
Total Imports (c.i.f)	1,506	1,558	1,523	1,479	1,474	1,577	1,236	1,270	1,392	1,330	1,325
Trade Balance	-860	-851	-826	-790	-829	-941	-537	-563	-715	-492	-516

Source: BoU

On average, the elasticity of income from exports improved, with more income resulting from more volume of exports, compared to the previous quarter, when there was a decline in income from increased volumes. The export commodity that experienced a fall in income despite an increase in export volume was Gold, while pulses including soya beans had an increase in income despite a decline in volume of exports. Tobacco, beans and sugar experienced the worst decline in volume of exports during the quarter, and the income declined.

The decline in imports was mainly registered in machinery equipment and vehicles, chemical and related products, petroleum products. Whereas the COMESA continues to be Uganda's largest export destination, it is important to note the decline to key sub-markets within the region especially Kenya.

Figure 8: Monthly Exports to East African Community Countries.



Uganda needs to take greater interest in the prosperity of the republic of South Sudan as a growing destination, in addition to smoothing exports to Kenya, as efforts to increase exports in the country take root (Figure 8), by focusing on productivity of the commodities demanded by these two countries.

2.0. Other Developments in the Economy

2.1. The National Budget 2017/18 and the NDPII

The National Budget is a tool that is used to implement the Country's strategic plan, the National Development Plan 2015/16 – 2019/20. The budget was presented to Parliament on

June 8, 2017, and was based on the medium-term budget framework which is consistent with NDPII. It focuses on eight areas, which address the objectives of the NDPII. The theme of the Budget for 2017/18 is 'Industrialization for Job Creation and Shared Prosperity'.

The 2017/18 Budget recognizes that current economic challenges and uncertainties will have an effect on the medium term growth prospects and weak implementation of major projects/programmes. Policy measures have been proposed to revamp economic growth and improve efficiency in government operations. These measures include:

- ***Provision of affordable credit for private sector investments*** through capitalization of UDB, specifically for agriculture, tourism and industrial financing, aimed at lowering investment costs and make Ugandan businesses and products competitive both in the domestic and international markets.

- ***Scaling down government domestic borrowing*** to avoid crowding out of the private sector in the financial market.

- ***Implementing the "Buy Uganda, Build Uganda" policy*** through increasing production, quality and productivity of the strategic commodities identified in the National Export Development Strategy (NEDS) to meet both domestic consumption requirement and export demand particularly in the already negotiated trade blocs such as EAC, COMESA and EU.

- ***Promoting Local Content*** by ensuring that Government procurement targets purchase of locally produced goods and services

- ***Reduction of arrears owed by Government to the Private Sector*** (UGX. 300.86billion to be settled in FY 2017/18).

- ***Fast-tracking the passing of pending Commercial Laws,*** to enable private sector development.

- Reviewing the PPDA Act and inclusion of necessary amendments to eliminate delays in procurement and low absorption across MDAs on infrastructure projects.

- ***Enforcing the implementation of Strategic Investment Plans,*** through the directive to have all MDA/LGs to submit their Strategic Investment Plans as a precondition for release of funds in FY 2017/18.

- ***Improving Public Investment Management,*** through building capacity of the PPP Unit and Project Analysis Department under MoFPED, Prime Minister Delivery Unit and NPA for them to conduct monthly assessment on progress on implementation of all Government projects.

- ***Timely payment to Government Suppliers.*** All purchases by government from the private sector be cleared within 14 days from the date of invoicing to avoid stifling private sector investment and associated consequences such as increase in rates of non-performing loans.

In this budget, the proportion that is spent on Development Expenditure is 39.4% of the total expenditure while 60.6 percent is to be spent on recurrent expenditure. Figure 9 shows the sectoral budget allocations as a percentage of the overall budget, indicating the Works and Transport sector as the biggest beneficiary from the budget with a 15 percent allocation of the total budget. This is followed by the Local government and Energy & Mineral Development sectors with a 9 percent and 8 percent allocation respectively. The ICT sector had the least allocation of 0.46 percent, while the Social Development, Lands Housing and Urban Development and Tourism Trade and Industry sector each had an allocation of 1 percent of the total budget.

Financing of the Budget

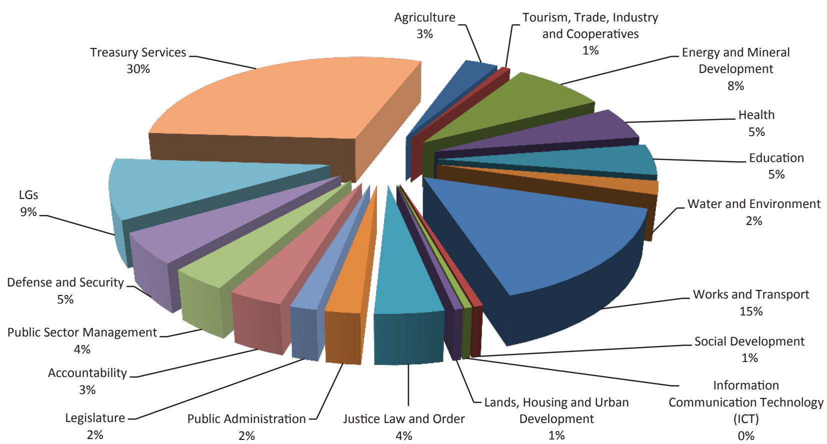
Total domestic sources will finance 75.5% of next year's Budget. The resource envelope for FY 2017/18 amounts to Shs 29,008 billion detailed as follows:-:

- Domestic Revenue amounting to Shs 15,062 billion of which Shs 14,686 billion will be collected by URA as tax revenue and Shs 376 billion as Non Tax Revenue;

- Domestic borrowing amount to Shs 954 billion.

- The Petroleum Fund resource earmarked for Oil roads development, amounting to Shs 125.28 billion;

Figure 9: Sectoral Budget Allocations



MoFPED 2017

- Budget Support amounting to Shs 34.95 billion;

- External financing for projects amounting to Shs.7,075.4 billion of which Shs. 5,476 billion is in loans, and Shs. 1,599 billion is grants;

- Appropriation in Aid, collected by Government departments amounting to Shs 757 billion; and

- Domestic Debt Re-financing will amount to Shs 4,998 trillion.

Revenue Mobilization;

Government's revenue mobilization strategy will focus on enhancing tax administration by building a stronger compliance culture. Tax administration will be enhanced through taxpayer education, strengthening detection of non-complaint taxpayers, recovery of tax arrears and combating smuggling, undervaluation and under declaration. The automation of online assessments and the electronic tracking of transit goods from Mombasa are also ongoing.

Tax Amendments

Income Tax

i. As an incentive for businesses to invest upcountry, deductions for accelerated depreciation have been introduced. This will allow recovery of costs of acquiring plant and machinery and construction of industrial buildings much faster before the payment of corporate income tax.

ii. To improve compliance in rental income, minimum rental charges based on location and value of properties will be issued, as basis for rental tax for noncompliant taxpayers.

iii. The Bujagali Energy Limited has been exempted from Corporate Income Tax as part of the effort to reduce the cost of power;

iv. The income of a body established by an Act of Parliament to regulate the conduct of professionals, such as the Institute of Certified Public Accounts of Uganda and the Uganda Law Society has been exempted;

v. The interest on outstanding tax and the penal tax has been limited to the principal amount to enhance tax compliance. This measure will also apply to interest due as at 30th June 2017; and

vi. The income of a Savings and Credit Cooperative Society is exempted to promote savings.

Value Added Tax

i. VAT payable on the taxable supply made to Government departments and agencies by a contractor executing an Aid funded project will be deemed to have been paid. This will avoid unwarranted delays in the execution of such projects hitherto caused by lack of counterpart funding.
ii. VAT on crop extension services, animal feeds and premixes, deep cycle batteries and composite lanterns, irrigation works, sprinklers and ready to use drip lines has now been exempted

iii. Interest on outstanding VAT and the penal tax is also limited to the principal amount similar to the Income Tax Act

Excise duty

Excise Duty Act has been amended to introduce specific rates equivalent to the current advalorem rates on beer and soft drinks. This will ease administration and reduce time and money spent in disputes, including the determination of taxable value.

2.2. Progress on developments in the oil and gas subsector

Hoima Oil Refinery: The GOU aims at constructing a green field refinery with a capacity of 60,000 barrels of crude oil per day in Hoima. So far government has issued three production licenses to Total E & P Uganda B.V (the operator for EA1) and five to Tullow Uganda Operations Private Limited (the operator of EA2) in August 2016. The production licenses give a licensee a right to develop and produce for 25 years.

Oil- related infrastructure projects: These are aimed at enabling the smooth production of oil by 2020. Currently, discussions are underway with EXIM Bank of China to provide USD 303.3M to finance the following oil roads: Hoima-Butiaba-Wanseko; Masindi-Biiso; Kasese-Lwera via Bugoma Forest; Wanseko-Bugungu; Buhimba-Nalweyo-Kakindu-Kakumiro; Lusalira- Nkonge- Ssembabule; Kyotera-Rakai; Kabale-Kiziranfumbi; Tangi gate Bridge; Bridge after Paraa Crossing; and Hohwa-Nyairongo-Kyarushesha. Feasibility studies for these oil roads are on-going and contracts are expected to be awarded in the FY 2017/18. Additionally government secured USD 95 million from the World bank for the construction of Kyenjojo to Kabwoya whereas Kabwoya- Kigumba is being financed by the AfDB.

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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