NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

MARCH 2021

Key Economic Highlights

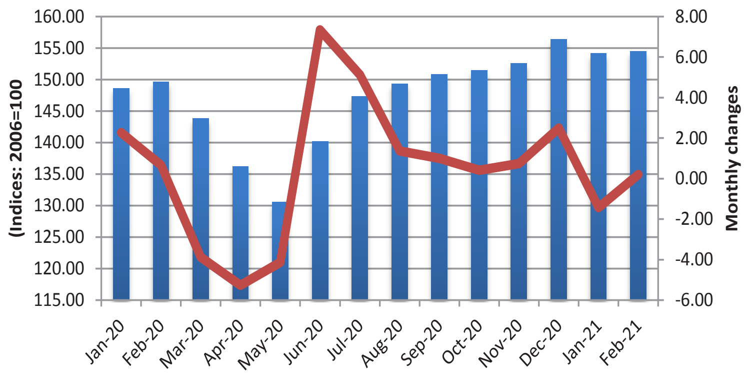
- Economic recovery remains sluggish due to the continued partial lockdown of some activities in the services sector like education, tourism, entertainment and food services.
- In Q3 FY 2020/21, the composite index of economic activity (CIEA) recorded a 1.4 percent fall in activity in January, although economic activity picked up by 0.2 percent in February 2021.
- In the medium term, economic recovery is projected to increase due to; the increased uptake of the COVID-19 vaccine in the country; a rebound in the tourism sector as countries lift their lockdown measures; and increased demand for exports
- The year ending March 2021 was marked by upward inflationary pressures, with annual headline inflation rising to 4.1 percent as compared to 3.8 percent in the year ending February 2021. The inflationary pressures were driven by the increased prices of food and related items as well as Energy, fuel and Utilities.
- The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 7 percent with a band of +/- 2 percentage points in March 2021, on account of the inflation outlook which projects inflation will remain subdued, dropping to 4.5 percent in 2021 but to return to 5 percent in the medium term. Maintaining CBR at 7 percent is also to support economic recovery.
- The Uganda Shilling slightly appreciated against the US Dollar in the month of March 2021, trading at an average rate of UGX.3,662.9 per US$ as compared to UGX.3,667.3? per US$ in February 2021 on account of the reduced demand for the dollar by the corporate sector alongside inflows from remittances, offshore investors and NGOs.
- The overall government fiscal operations for February 2021 resulted in a fiscal deficit of UGX 689.72 billion which was UGX 111.89 billion lower than the planned deficit of UGX 801.61 for this period. This performance was mainly attributed to the lower government spending during this period that offset the revenue and grants shortfall during the same period.
- The trade deficit narrowed in February 2021 to US$ 178.1 million from US$ 196.8 million in January 2021 owing to the growth in export receipts which offset the rise in the import bill during this period

1.0 State of the Economy

1.1 Real Sector

Economic recovery remains sluggish due to the continued partial lockdown of some activities in the services sector like education, tourism, entertainment and food services. The latest GDP estimates from the Uganda Bureau of Statistics indicate that economic activity increased in the Q2 FY 2020/21, with GDP growth estimated at 1.6 percent from a contraction in economic growth of 0.1 percent in Q1 FY 2020/21, mainly driven by recovery in the services sector. In Q3 FY 2020/21, the composite index of economic activity (CIEA) recorded a 1.4 percent fall in economic activity in January, although economic activity picked up by 0.2 percent in February 2021 as shown in Figure 1.

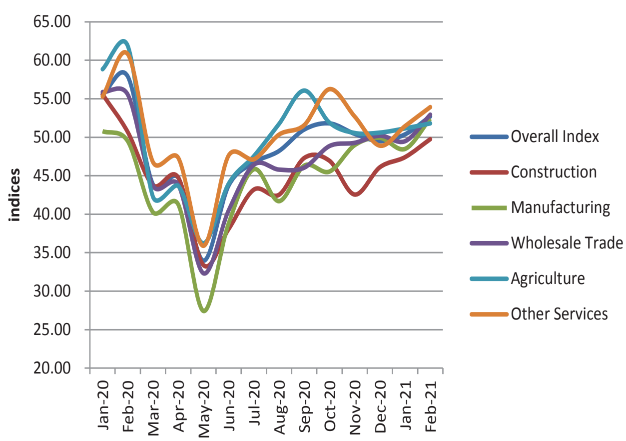
Figure 1: Composite Index of Economic Activity



Source: Bank of Uganda 2021

The Business Tendency Index (BTI) points towards even higher positive expectations in the business environment, with the overall index rising to 52.7 in January 2021 from 50.4 in January 2021. There are positive business sentiments in all the sectors, with the highest expectations coming from the other services sector, wholesale trade and Manufacturing respectively. While the least business expectations are in the Agriculture sector. To the contrary, there are negative business expectations in the construction sector in February, most likely due to the fact that the economic activity in this sector has not yet fully recovered.

Figure 2: Business Tendency Indicators



Source: Bank of Uganda 2021

In the medium term, economic recovery is projected to increase due to; the increased uptake of the COVID-19 vaccine in the country; a rebound in the tourism sector as countries lift their lockdown measures; and increased demand for exports (Bank of Uganda BoU, 2021). Nonetheless, downside risks like low private sector credit, low global demand, high government spending demands amidst a meagre resource envelope could affect economic recovery.

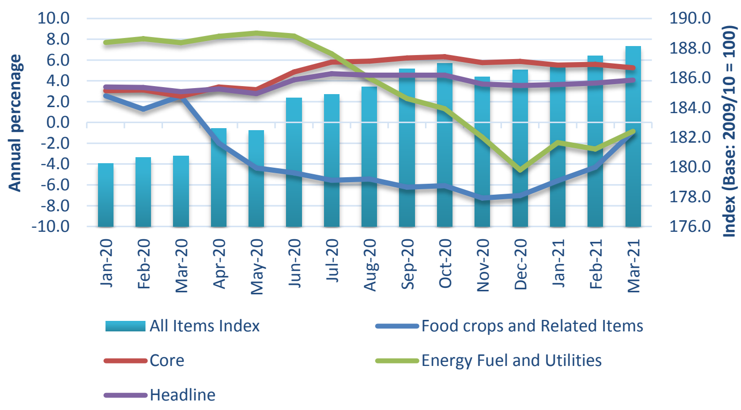
1.2 Monetary Sector Developments

1.2.1. Inflation rate

The year ending March 2021 was marked by upward inflationary pressures, with annual headline inflation rising to 4.1 percent as compared to 3.8 percent in the year ending February 2021 (Figure 3). The inflationary pressures were driven by the increased prices of food and related items as well as Energy, fuel and Utilities, respectively. The food and related items inflation increased to minus 0.9 percent in the year ending March 2021 from minus 4.3 percent in the year ending February 2021, due to the vegetables inflation that increased from 4.7 percent in the year ending February 2021 to 0.6 percent in the year ending March 2021. The Energy, Fuel and Utilities (EFU) inflation also increased during this period, rising to minus 0.8 percent during the year ending March 2021 from minus 2.6 in the year ending February 2021. This was attributed to solid fuels inflation, particularly charcoal inflation that was recorded at 0.3 percent in the year ending March 2021 as compared to minus 3.4 percent in the year ending February 2021.

However, core inflation decreased from 5.6 percent during the year ending February 2021 to 5.3 percent during the year ending March 2021. The decreased inflation was driven by the fall in the annual services inflation, particularly transport services inflation that decreased from 56.3 percent in the year ending February 2021 to 53.6 percent in the year ending March 2021. The annual other goods inflation also contributed to the lower core inflation during this period, recording an inflation rate of 2 percent in the year ending March 2021 as compared to the 2.3 percent inflation recorded in the year ending February 2021.

Figure 3: CPI and Inflation rates

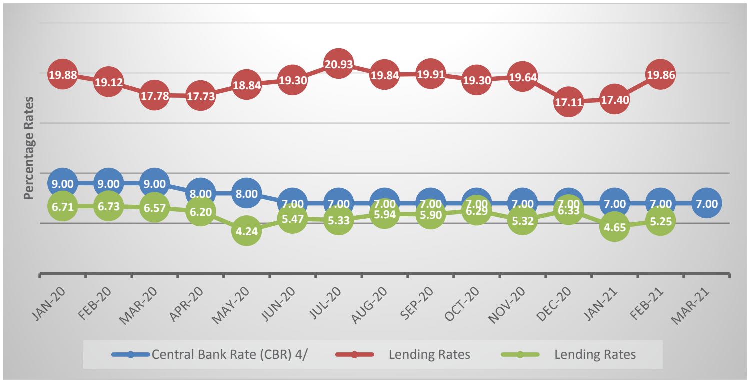


Source: Bank of Uganda 2021

1.2.2. Interest Rates

The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 7 percent with a band of +/- 2 percentage points in March 2021 to support the economic recovery process (Figure 4). In addition, the decision was on account of the inflation outlook which projects inflation will remain subdued, dropping to 4.5 percent in 2021 but return to 5 percent in the medium term. Despite the low CBR, the commercial bank lending rates continue to rise, with the shillings lending rate recorded at 19.8 percent in February 2021 from 17.4 percent in January 2021.

Figure 4: CBR and Lending Interest Rates



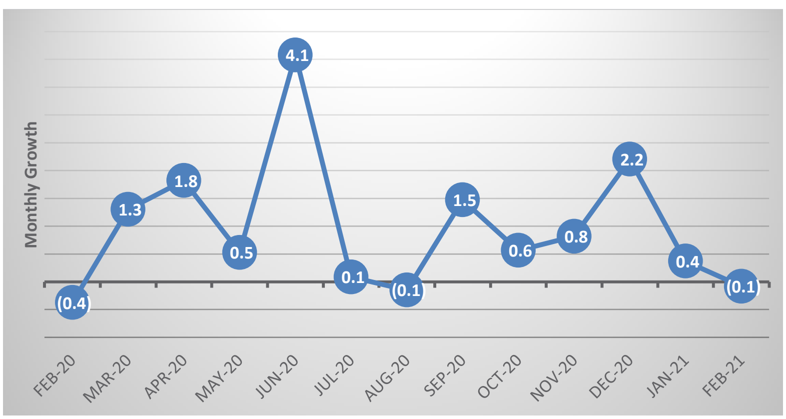
Source: BoU 2021

1.2.3. Private Sector Credit

Growth in the stock of outstanding Private sector credit declined by 1.0 percent in February 2021 to UGX 17,896.9 billion. This is likely due to the fact that interest rates increased during this period and businesses are yet to fully recover from the effects of the pandemic (Figure 5).

The Bank of Uganda has provided Credit Relief Measures and COVID-19 Liquidity Assistance Program and plans to extend this for six months from 1st April to financial institutions that are supervised by the Bank of Uganda to support extension of credit. However, the private sector is still weak and unable to access credit given the high cost. More interventions need to be undertaken to lower the high lending rates.

Figure 5: Private Sector Credit Growth

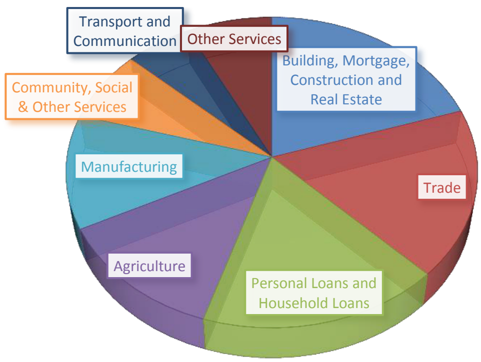


Source: Bank of Uganda 2021

During the month of February 2021, the Building, Mortgage, Construction and Real Estate sector and trade sector continued to take the largest proportion of credit amounting to 20 percent and

17.5 respectively (Figure 6). However, the priority NDPIII sectors of Agriculture and Manufacturing were extended credit amounting to 13 percent and 12 percent respectively. The transport and communication sector which encompasses ICT received the least proportion of credit (6%), which is a disservice to government's efforts to digitize the economy

Figure 6: Credit Allocation to Sectors

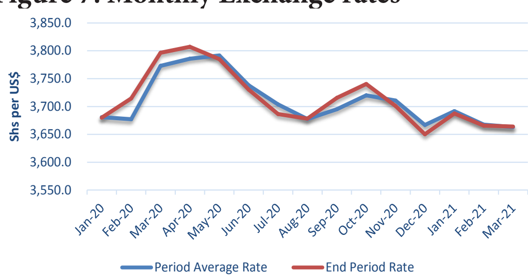


Source: Bank of Uganda 2021

1.2.4. Exchange rate

The Uganda Shilling slightly appreciated against the US Dollar in the month of March 2021, trading at an average rate of UGX.3,662.9 per US$ as compared to UGX.3,667.3 per US$ in February 2021 as seen in Figure 7. This was on account of the reduced demand for the dollar by the corporate sector alongside inflows from remittances, offshore investors and NGOs.

Figure 7: Monthly Exchange rates



Source: Bank of Uganda 2021

1.3 Fiscal Sector Developments

The overall government fiscal operations for February 2021 resulted in a fiscal deficit of UGX 689.72 billion which was UGX 111.89 billion lower than the planned deficit of UGX 801.61 for this period (Table 1). This performance was mainly attributed to the lower government spending during this period, which was estimated at UGX 2,325.66 billion as compared to the planned spending of UGX 801.61 billion. This offset the UGX 366.95 revenue and grants shortfall during this period. The lower government spending was mainly driven by development expenditures, particularly external development expenditures which were recorded at UGX 548.23 billion as compared to the planned expenditure worth UGX 852.23 billion. According to the Ministry of Finance this was a result of expenditure front-loading by some government MDAs during the first month of the 3rd quarter (MoFPED, Ministry of Finance, Planning and Economic Development, 2021).

The revenues and grants recorded a shortfall amounting to UGX 366.95 billion in February 2021, mainly resulting from the shortfall in revenues which amounted to UGX 275.24 billion as compared to the shortfall in grants which was estimated at UGX 91.71 billion. The government revenue collections for February 2021 amounted to UGX 1,414.95 billion as compared to the target revenues of UGX 1,690.19 billion for this period. The shortfall in revenues was mainly registered in tax revenues which recorded a shortfall of UGX 241 billion whereas non-tax revenues recorded a shortfall of UGX 34 billion shillings. The significantly lower tax revenue collections were attributed to the continued effect of government COVID-19 related lockdown measures leading to restrictions on economic activities. Under domestic direct taxes, the shortfall in collections were mainly registered from Pay as

You Earn (PAYE) due to the many staff layoffs by firms during the pandemic and Corporate tax due to low profitably of firms during this period of the pandemic. Indirect domestic tax collection shortfalls were mainly registered under excise duty and Value Added Tax (VAT) tax heads owing to low economic activity. International trade taxes also recorded shortfalls as a result of low import demand.

Collections from grants amounted to UGX 220.99 billion in February 2021, against a target of UGX 312.7 billion. The lower collections were mainly registered under grants for budget support which registered a shortfall of UGX 88.02 billion while project support grants recorded a shortfall of UGX 3.69 billion. The shortfall in grants is most likely attributed to the global impact of the Corona virus on incomes and economic activity in Uganda's key development partner states.

Table 1: Overall Fiscal Operations February 2021 (Billion Shillings)

(Billion UShs)	Program	Outturn	Deviation	Performance
Revenues and grants	2,002.89	1,635.94	-366.95	81.7%
Revenues	1,690.19	1,414.95	-275.24	83.7%
Tax	1,580.06	1,338.85	-241.21	84.7%
Non-tax	110.13	76.1	-34.03	69.1%
Grants	312.7	220.99	-91.71	70.7%
Budget support	109.48	21.46	-88.02	19.6%
Project support	203.22	199.53	-3.69	98.2%
Expenditures and lending	2,804.50	2,325.66	-478.84	82.9%
Current expenditures	1,331.28	1,302.14	-29.14	97.8%
Wages and salaries	441.53	406.9	-34.63	92.2%
Interest payments	256.98	250.29	-6.69	97.4%
o/w domestic	207.13	207.13	0.00	100.0%
o/w external	49.85	43.17	-6.68	86.6%
Other recurrent expenditure	632.77	644.95	12.18	101.9%
Development expenditures	1,397.49	1,009.28	-388.21	72.2%
Domestic	545.26	461.05	-84.21	84.6%
External	852.23	548.23	-304.00	64.3%
Net lending/repayments	-	2.96		
O/w HPP GoU	-	2.96		
Domestic arrears repayment	75.74	11.28	-64.46	14.9%
Overall fiscal balance	-801.61	-689.72	111.89	86.0%

Source: MoFPED 2021

1.4 External sector Developments

The trade deficit narrowed in February 2021 to US$ 178.1 million from US$ 196.8 million in January 2021 owing to the growth in export receipts which offset the rise in the import bill during this period (Table 2). The receipts from exports increased by 8 percent to US$ 447.1 million in February 2021, driven by the growth in coffee export receipts. Coffee exports receipts increased by 27 percent in February 2021 from US$ 39.7 million in January 2021 to US$ 50.6 million on account of the increased volume of coffee exported during this period. Non-coffee exports also contributed to the rise in export receipts in February 2021, recording a growth of 10.6 percent to US$ 362.6 million. This performance was driven by the growth in export receipts from Hides and skin, Cotton and flowers. On the contrary, Informal Cross Border Trade (ICBT) exports declined by 20 percent during this period from US$42.8 million in January 2021 to 33.9 million in February 2021. The fall in receipts from ICBT exports was driven by the 65.9 percent fall in export receipts from maize following the ban on the export of Uganda's maize to Kenya which is a major export destination for Uganda's maize.

The import bill increased by 2.95 percent to US$ 625.14 million in February 2021 due to the rise in the formal private sector import bill by 7.2 percent. The Formal private sector import bill increased from US$ 529.7 million in January 2021 to US$ 567.6 million in February 2021 as a result of the increased import bill of both oil and non-oil imports by 9 percent and 6.9 percent, respectively. However, government imports declined by 26 percent from US$ 72 million to US$ 53 million during this period.

Table 2: Composition of the Trade Balance, August 2020 – Feb 2021 (Million US$)

	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20	Jan-21	Feb-21
Trade Balance	**-261.57**	**-176.46**	**-221.51**	**-260.25**	**-291.40**	**-196.80**	**-178.09**
Total Exports	**433.96**	**441.78**	**396.31**	**420.58**	**455.52**	**410.40**	**447.05**
1. Coffee (Value)	46.06	44.64	38.61	38.29	37.78	39.73	50.55
2. Non-Coffee formal exports	369.14	372.16	324.15	343.61	377.85	327.83	362.60
3. ICBT Exports	18.77	24.99	33.55	38.69	39.89	42.84	33.90
Total Imports (fob)	**695.54**	**618.24**	**617.82**	**680.83**	**746.92**	**607.20**	**625.14**
Government Imports	**55.78**	**4.09**	**8.35**	**13.72**	**21.92**	**72.09**	**53.09**
Project	55.78	4.09	8.35	13.72	21.92	65.07	53.09
Non-Project	0.00	0.00	0.00	0.00	0.00	7.02	0.00
Formal Private Sector Imports	**637.71**	**611.70**	**605.78**	**662.69**	**720.14**	**529.72**	**567.59**
Oil imports	63.62	57.23	60.53	51.40	88.82	61.23	66.75
Non-oil imports	574.08	554.47	545.25	611.29	631.32	468.49	500.84
Estimated Private Sector Imports	2.05	2.45	3.69	4.42	4.86	5.39	4.47

Source: Bank of Uganda 2021

References

Bank of Uganda BoU. (2021). Monetary Policy Statement; February. Kampala.
MoFPED, Ministry of Finance, Planning and Economic Development. (2021). Performance of the Economy Monthly Report: February. Kampala.

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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