NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

MARCH 2017

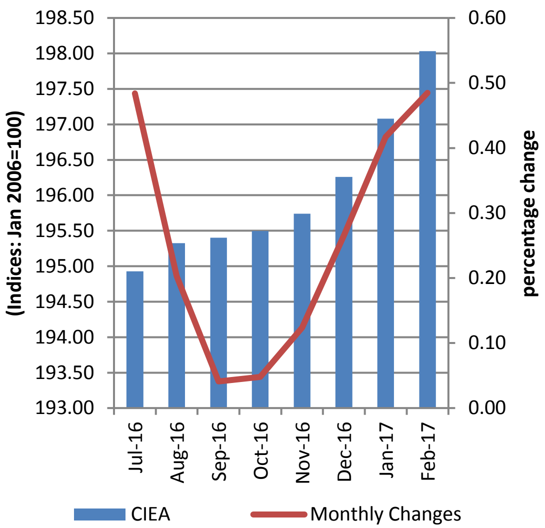
1.0. State of the Economy

1.1. Real Sector Developments

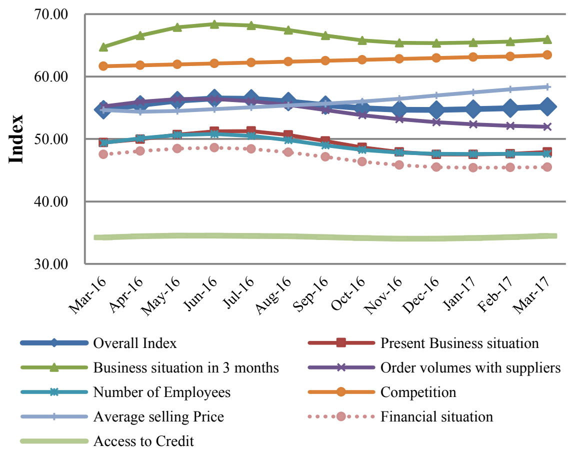
The performance of the economy reveals that quarterly real GDP rose by 0.8 percent in the second quarter of 2016/17 from a decline of 0.1 percent in first Quarter, mainly due to the services sector which grew by 2.1percent in the same period as compared to the decline in the industry and agriculture sector growth (Figure 1).

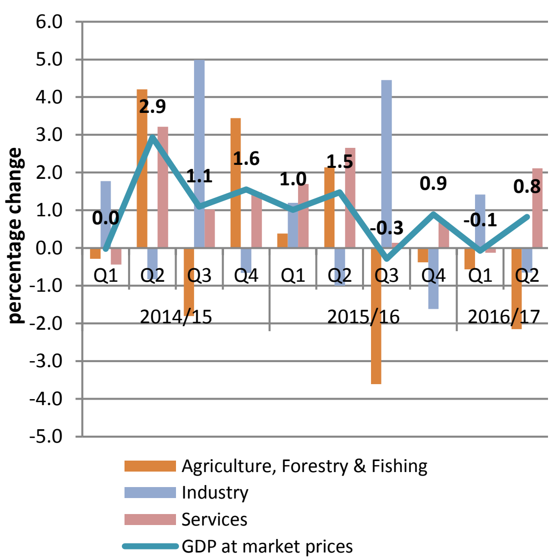
This is also in line with the composite index of economic activity (CIEA) that shown continued rise from September 2016 to February 2017. As at the end of February 2017, the CIEA was 198.03 which is an increase of 0.5 percent from January. These developments are a signal of rising economic activity in the near. Business expectations are positive as reflected in the business tendency indicators, signalling better performance on economic activity in the next quarter.

Figure 1: Composite Index of Economic Activity; GDP Growth Rates and Business Tendency



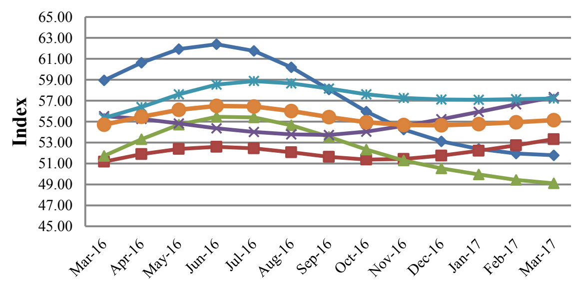
Business Tendency Indicators





Business Tendency by Sector

Index less than 50 implies negative expectations/pessimistic; while greater than 50 implies positive expectations/optimistic.



Source: Bank of Uganda

1.2. Monetary and Financial Sector Developments

The annual headline inflation as at the end of March 2017 was 6.4, a decline from 6.7 in the year ending February 2017 (Figure 2). Similarly, on a monthly basis, headline inflation declined to 0.6 percent in March 2017 from 0.9 percent in the previous period. The decline was due to a decrease in core inflation from 0.6 percent to 0.2 percent. The energy fuel and utilities inflation and food crops and related items inflation on the other hand rose to 0.9 and 3.6 respectively.

The foreign exchange market observed a rise in the Period Average and End Period Rates (UShs per US$), with the end period rate rising to 3,614 at the end of March from 3,587 in February, while the period average rate rose to 3,599 Shs per US$ from 3,585 over the same period. This was attributed to the heightened demand for the USdollar by the energy and manufacturing sectors as well as corporate entities as the period for payment of dividends approaches (Sanya, 2017).

The credit to the private sector outstanding as at end of February 2017 declined by 0.1 percent to Ushs12,056.85 million, from January 2017 levels. This development was due to a reduction in credit to the Electricity and Water by 7.4 percent as well as a 5.4 percent decline in credit to the Building, Mortgage, Construction and Real Estate sector. As shown in figure 3, the Building, Mortgage, Construction and Real Estate sector had the highest share of credit in the month of February, while the mining and quarrying sectors received the least credit.

Figure 2: Headline Inflation, Core Inflation, Food Crops & EFU

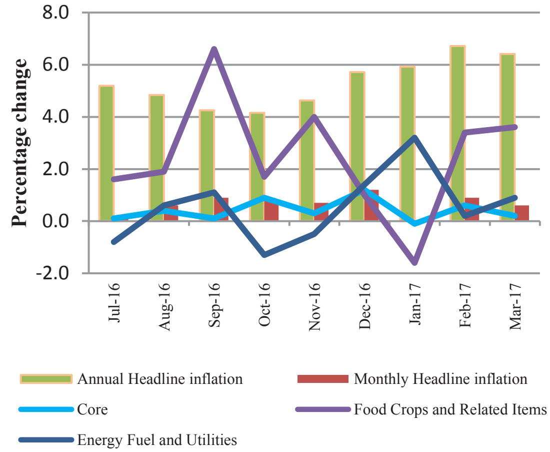
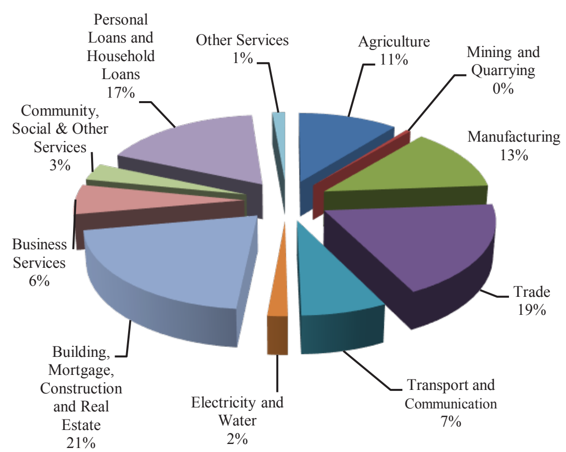


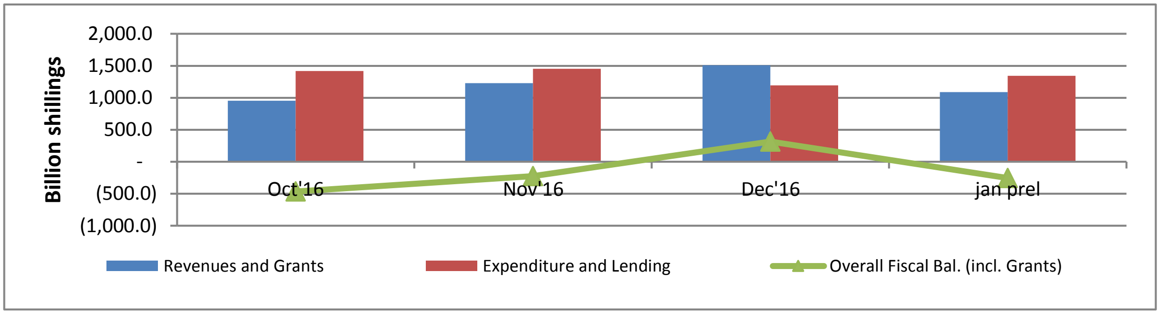
Figure 3: Sectoral shares of credit to the private sector in February 2017.



1.3. Fiscal Sector Developments

Preliminary estimates of the overall fiscal balance by the end of January 2017 still indicated a deficit of Ushs 256.2billion, signifying a shortfall in revenue and grants required to fund the government's expenditure during the period. The revenues declined to 1085.9 billion Shs on account of a decline in tax revenue collections while the grants declined more considerably by 98 percent to Ushs 2.6 billion. On the expenditure side, the rise in government spending was attributed to the 46.2 percent increase in current expenditures to 933.5 billion Ushs as seen in figure 4. This is an indication of a worsening fiscal balance that is leading to the higher debt burden in the country.

Figure 4: Fiscal Performance, January 2017

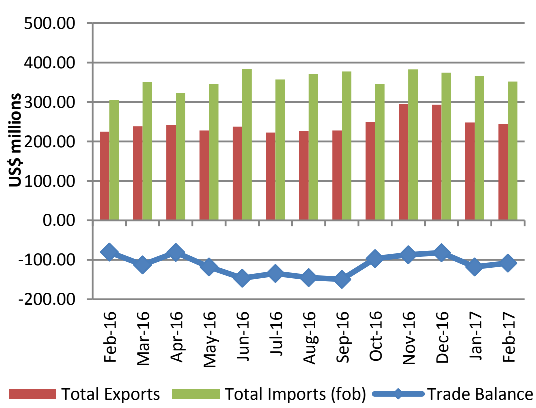


Source: Bank of Uganda

1.4. External sector Developments

In the external sector, the month of February was marked by a narrowing trade balance to a deficit of US$108 million from a US$118 million deficit in January on account of a decrease in the import bill, particularly the government imports that reduced by 61 percent (figure 5). The private sector imports further exacerbated the decrease with a 1percent reduction. The import bill for this period amounted to US$351 million while export earnings were US$244 million. The exports declined in February mainly due to a fall in the non-coffee formal exports by 2.6 percent, predominantly tea and fish and its products (excluding regional).This is illustrated in table 1 below.

Figure 5: Trade Balance in US$ millions



Source: Bank of Uganda

Table 1: Composition of Exports and Imports

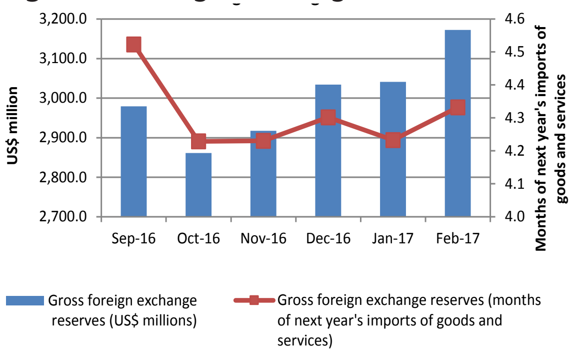
	Nov-16	Dec-16	Jan-17	Feb-17
Trade Balance	**-86.96**	**-81.58**	**-117.51**	**-107.95**
Total Exports	**295.89**	**292.97**	**248.45**	**243.63**
Coffee (Value)	295.89	292.97	248.45	243.63
Non-Coffee formal exports	204.32	195.80	166.46	162.07
Total Imports (fob)	**382.85**	**374.55**	**365.96**	**351.58**
ICBT Exports	41.16	45.75	33.01	33.06
Government Imports	42.16	48.44	8.37	3.24
Project	40.03	48.44	7.46	3.24
Non-Project	2.13	0.00	0.91	0.002
Formal Private Sector Imports	313.10	301.81	329.64	326.27

Source: Bank of Uganda

Asia continued to be the largest source of Uganda's imports in February followed by the Middle East and COMESA. Likewise, COMESA remained the biggest destination of Uganda's exports followed by the European Union and the Middle East followed respectively.

The positive developments in the external sector led to an increase in the stock of reserves in the month of February by 2.3 percent to US$ 3172.5 Miilion, represented by 4.3 months of imports as shown in the figure 6 below. This will provide an increased buffer against economic shocks in the economy.

Figure 6: Foreign Exchange Reserves



2.0. Other Developments in the Economy

Pension Sector Reforms

The pension sector reforms have dominated the economic debate in the economy during the month of March. This is in cognizance of the NDPII objectives to Increase national savings to GDP ratio as well as liberalizing the pension sector to facilitate access to long term development finance.

To this end, a Bill has been placed before parliament to provide for among others (i) the liberalization of the retirement benefits sector; (ii) fair competition among licensed retirement benefits schemes for mandatory contributions; (iii) to expand coverage of retirement benefits; (iv) to provide for mandatory contribution and benefits for all employees in the formal sector; (v) to provide for voluntary contributions for those who are self-employed and those in the informal sector; (vi) to provide for the conversion of the public service pension scheme into a retirement benefits contributory fund; (vii) and to provide for healthcare benefits (Parliamnet of Uganda).

Domestic Private Savings are a key driver of investment and economic growth in the country as they provide access to long term finance, stimulate the development of an efficient capital market and increase the national savings to GDP ratio, and thereby act as a vehicle for higher economic growth. This Bill is therefore critical as the country aims to attain a middle income status by 2020. In addition, liberalization of the pension sector will provide entry to other players and therefore a wider coverage since the current player NSSF mainly targets the formal sector.

However, the sector faces a number of challenges which if addressed could make the sector a spring-board to the country's economic growth trajectory. These include, but not limited to; (i) Low Coverage; (ii) Poor Governance of Schemes & Sector as a whole undermining trust and confidence in the sector; (iii) products that are not tailored to the need of the customers; (iv)

Inadequate policy and legal framework to encourage self and informal sector participation; (v) and Lack of incentives to participate even in the formal sector. (Moses Bekabye, 2017)

The Insurance Bill 2016

In an effort to enhance financial inclusion and develop the financial sector, the Insurance Bill 2016 was passed by parliament. The bill intends to repeal the Insurance Act Cap.213; to amend and replace the law relating to insurance by incorporating the International Association of Insurance Supervisors (IAIS)'s Insurance Core principles (ICP) which are a benchmark for insurance business in the world and the recommendations to the Financial Action Task Force (FATF) including providing for anti-money laundering and countering financing of terrorism. The aim is to provide for regulation of insurance businesses; to continue the existence of the In-surance Regulatory Authority as the body responsible for regulation of insurance businesses; and to provide for related purposes.

Uganda's compliance to the ICP and FATF recommendations, will give investors confidence and bankers willingness to lend and thereby causing the reinsurers to reduce their rates (Parliament of Uganda).

Automation to Enhance Financial Sector Services

Uganda like the rest of Africa mainly depends on cash as the main mode of payment due to limited technology and low inclusion in terms of banking. Access to new technologies such as online payments and mobile money services has been a key driver that continues to present revolutions in the money markets especially East Africa.

The Bank of Uganda is working on a strategic plan to reduce the use of paper money payments in Uganda's money markets by 2022 and enhance and enable e-payments. A new system by Craft Silicon called the 'Instant Interbank Transfer system' was launched and is aimed at providing risk free and less costly money transfer ranging from Ush.500,000 and Ush.5 million (Nakaweesi, 2017).

SMEs in particular are set to benefit from this system as it's expected to offer more convenience, safety, extended working hours for the business community. It will also enhance access to credit and ease the loan repayment process, as well as simplify the deposit of some fees like insurance premiums, trade licenses and taxes.

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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.

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