NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

MAY 2017

State of the Economy

1.1. Real Sector Developments

Global growth is projected to increase from an estimated 3.1 percent in 2016 to 3.5 percent in 2017 according to the IMF World Economic Outlook (2017). Activity is projected to pick up distinctly in emerging market and developing economies as macroeconomic constraints experienced by commodity exporters are gradually expected to improve, supported by the partial recovery in commodity prices. In sub-Saharan Africa, a modest recovery is expected in 2017. Growth is projected to rise from 1.4 percent registered in 2016 to 2.6 percent in 2017 although this is too low to put the region back to the path of rising living standards. The anticipated upward trend in growth in the sub-region is largely driven by specific factors in the largest economies (for example, Nigeria, South Africa, Angola etc), which faced challenging macroeconomic conditions in 2016.

At the National level, real GDP was estimated at UGX 14,187 billion in the second quarter of FY 2016/17, an increase of 0.8 percent from the first quarter due to the growth in the services sector. The agricultural sector as well as the industrial sectors on the contrary declined over the same period as a result of a fall in value added in the food crops sector due to the changing weather patterns, and the a fall in mining and quarrying as well as manufacturing. In manufacturing, the cost of production remains on the rise, especially for the manufacture of sugar and tea processing with the resulting effect of increased household expenditure especially on sugar items.

The Composite Index of Economic Activity (CIEA) points to a rise in economic activity in March 2017, but at a slower rate of 0.4 percent as compared to 0.6 percent growth in February 2017 as shown in Figure 2. This is in line with the anticipated slower growth of the economy in 2017 to the range of 3.5 to 4 percent down from earlier estimate of 5 percent (IMF). In addition to the bad weather, the slow growth is also attributed to low private sector credit and slow execution of externally financed public infrastructure investment. The Business Tendency Indicators (BTI) signal positive prospects for growth over the next month, shown by a rise in the overall index by 0.24 percent to 55.03 in April 2017. The improvement in prospects in manufacturing sub-sector continues to surpass other sectors with a rise in the manufacturing index by 1.4 percent (Figure 1).

According to Bank of Uganda, given the trends in the third quarter of the fiscal Year and the fact that the country is now experiencing better weather for agriculture, it is expected that in the second half of the fiscal year, the economy should gain back some of the output losses which it suffered in the first half. However, the forecasts of real GDP growth for the full fiscal year point to 4 percent which remains way below the NDPII target of 5.9 percent for 2016/17.

Nevertheless, the supply side shock to agriculture is expected to improve in the next fiscal year, which will enable real output to revert to its medium term trend. This means that the economy is highly likely to experience growth of more than 5 percent in 2017/18 (Bank of Uganda, 2017), against the annual target of 6.4 percent in the NDPII.

Figure 1: Business Tendency Indicators

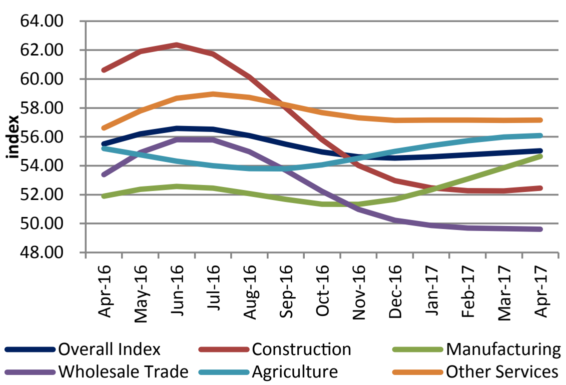
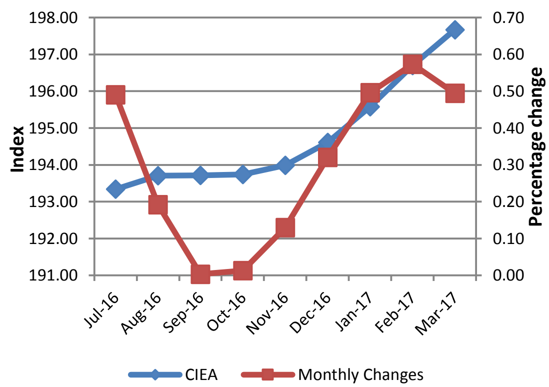


Figure 2: Composite Index of Economic Activity



Source: Bank of Uganda

1.2. Monetary and Financial Sector Developments

The rise in global inflation since August 2016 has been attributed to the increase in commodity prices, with global consumer price inflation also rising on account of the increase in the retail prices of gasoline and other energy related products. The rise has been strong especially for advanced economies, with the 12 month consumer price inflation in February standing slightly above 2 percent. Conversely, core inflation increased much less and remains well below central bank targets in nearly all of the advanced economies.

In emerging market economies, the revival in headline consumer inflation has been as a result of higher fuel prices that have only of late started to outweigh the downward pressure arising from the earlier exchange rate depreciations (International Monetary Fund IMF, April 2017).

Similarly, in Uganda, the Annual headline inflation as at the end of April 2017 rose to 6.8 percent, from 6.4 percent at the end of March 2017 as shown in Figure 3. This was on account of food crops and related items inflation that increased to 5.3 percent at the end of April as compared to 3.8 percent in the previous period owing to prolonged drought. The core inflation likewise marginally increased during this period to 4.9 percent as compared to 4.7 percent during the year ending March 2017.

Monthly headline inflation during April rose by 0.4 percent which is lower than the rise in March of 0.7 percent. This was mainly as a result of lower food crops and related items inflation that reduced to 2.9 percent in April 2017 (UBoS, April 2017). The monthly core inflation showed a similar trend, with prices rising by 0.1 percent in April from 0.2 percent in March 2017. In an effort to offer continued support to private sector credit and growth, Bank of Uganda (BoU) reduced the Central Bank Rate (CBR) by 0.5 percentage points to 11 percent in April 2017. The band on the CBR was however maintained at +/-3 percentage points and the margin on the rediscount rate at 4 percentage points on the CBR.

The exchange rate movements indicate rising pressure on the Uganda shilling causing further depreciation to an end period rate of UGX/USD3,644 in April from UGX/USD3,614 in March 2017as seen in Figure 4. This was mainly due to the strengthening of the USD on the global foreign exchange market.

Figure 3: Annual and Monthly Inflation

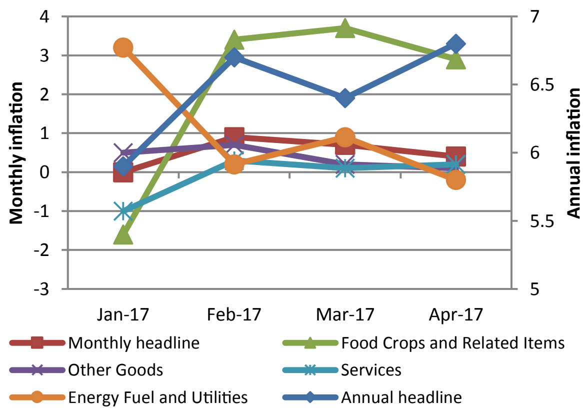
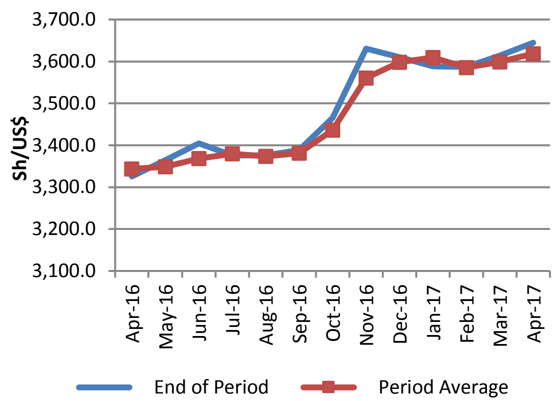


Figure 4: Exchange Rates



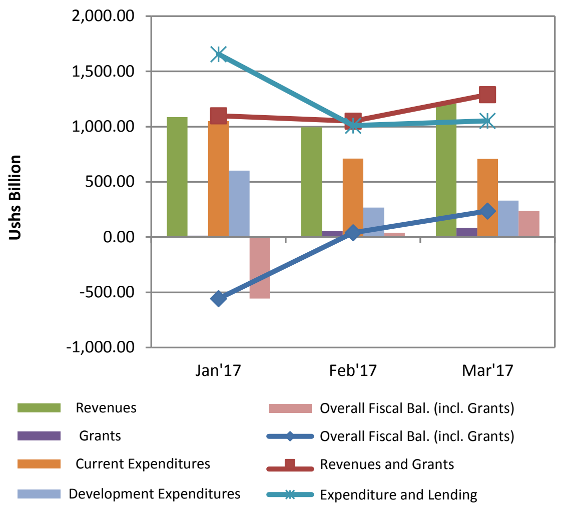
Source: Bank of Uganda

1.3. Fiscal Sector Developments

The Government's revenues and grants during the month of March 2017 exceeded the expenditures, giving rise to a higher overall fiscal balance (including grants) of UGX 236.3 billion as compared to UGX 40.3 billion that was recorded in February 2017. These developments were mainly attributed to the rise in revenues and grants by 21.3 percent and 49.9 respectively (Figure 5). This eased the pressure on government's need for financing through borrowing. This is a positive outcome amid the country's need to manage the rising debt levels.

The rise in revenues was on account of an upsurge in non-tax revenues that rose to UGX 34.3billion in March from UGX 22 billion in February 2017 as well as tax revenues that rose by 7.2 percent to UGX.1042.9billion in March.

Figure 5: Overall Fiscal Operations



MoFPED 2017 (GFSM)

1.4. External sector Developments

The month of March was marked by a narrowing 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 (Figure 6). The leapfrog rise in export receipts was greatly due to the rise in value of Informal Cross Border Trade (ICBT) exports and coffee exports that increased by 37.5 and 17.6 respectively. The rise in the import bill on the other hand, was attributable to the government imports that increased by 18.5 percent in March 2017 mainly on account of project imports as is depicted in Table 1.

Figure 6: Trade Balance December-March 2016/17

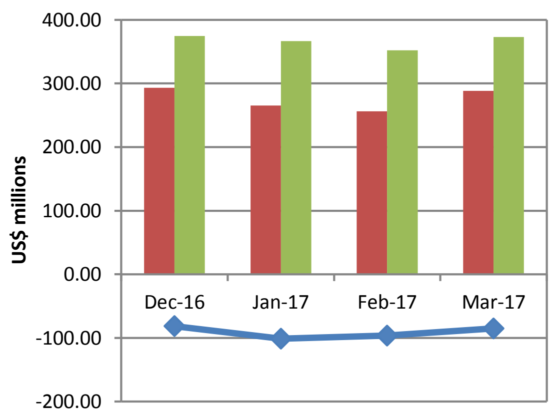


Table 1: Monthly Imports and Export Composition

	Dec-16	Jan-17	Feb-17	Mar-17
Trade balance	**-81.58**	**-101.23**	**-96.12**	**-85.08**
Total Exports	**292.97**	**265.36**	**256.18**	**288.19**
1. Coffee (Value)	195.80	166.46	162.07	190.65
2. Non-Coffee formal exports	45.75	49.91	45.61	47.09
3. ICBT Exports	113.23	78.09	78.45	107.85
Total Imports (fob)	**374.55**	**366.59**	**352.31**	**373.27**
Government Imports	48.44	8.37	3.24	3.84
Project	48.44	7.46	3.24	3.84
Non-Project	0.00	0.91	0.00	0.00
Formal Private Sector Imports	301.81	329.64	326.27	344.41
Oil imports	50.65	60.73	61.11	73.97
Non-oil imports	251.16	268.91	265.16	270.44

Source: BoU

In terms of direction of trade, COMESA remained the main destination of Uganda's exports in March 2017 with a 49 percent share, whereas the European Union and Middle East were second and third with shares of 19 percent and 16 percent respectively. The dominance of exports to COMESA resulted from the increased exports to South Sudan by 67.5 percent to 50.89 US$ millions (21 percent share). Imports on the other hand were mainly from Asia, Middle East and COMESA respectively.

2.0. Other Developments in the Economy

2.1. Islamic Bonds: An Alternative Means of Financing Uganda's infrastructure deficits

Uganda needs a substantial amount of funds to finance its infrastructure deficit (approximately USD 7,329 million over the NDPII period) yet it has limited access to affordable long term finance. The country therefore needs to explore alternative affordable sources of long term financing such as the Susuk-Sharia compliant bonds.

The susuk is gaining momentum globally and the market has grown approximately to USD281billion in 2013 from USD 15 billion in 2001. In Africa, such bonds have been issued in Ivory Coast, Senegal and Togo with a total value of USD1.3 billion.

The Parliament of Uganda approved the Financial Institutions Amendment Act early last year to allow Islamic finance, agency banking, bank assurance and Islamic insurance, but the regulations to operationalize the law await gazetting, after which the market will be open for the susuk. (Kulabako Farida et al, 2017)

2.2. Upsurge in Sugar prices

The economy has been faced with a rising trend of sugar prices over the recent months from November 2016 with the peak at 23.9 percent in the year ending April 2017 as shown in Figure 7. The ministry of trade, Uganda Bureau of Statistics (UBOS) and private players like Uganda

Sugarcane Manufacturers Association (USMA) give common reasons for the rise in sugar prices that include drought and the exchange rate depreciation that were experienced last year.

According to the Gross Domestic Product statistics produced by UBOS, for the first half of this financial year (2016/17), manufacturing growth declined by 2.8% partly due to the decline in sugar production as a result of drought.

According to USMA, during the month of April 2017, millers under this organization increased factory price by 4 percent to UGX185,000 per 50 bag of sugar to accommodate the rising production cost and the depreciation of the shilling against major foreign currencies especially the USD which depreciated by 8.2% year on year in April 2017 compared to a 6.9% depreciation recorded in March 2017. Wholesale prices further shot up to UGX 210,000 per 50 kg bag when millers added 4% cost, which in turn led to the current hike in retail prices. Generally, the production costs for key food products have been increasing since September 2016, sugar inclusive (UBOS, 2017).

The other cause of price hikes arose from the shortage of sugar-cane, a major input in the manufacturing of sugar. The average cane price has risen by over 100% from UGX 85,000 in April 2016 to around UGX160,000 by April 21, 2017 and since it is a major input in the industry, its prices have a direct effect on the final sugar price. Because of scarcity of cane, millers are producing at below the installed capacities which directly increase the cost per unit produced and the price of sugar.

Furthermore, the speculation across the region could also be one of the reasons behind current upsurge in sugar price in the region. For instance, at factory price, a 50kg bag of sugar in Kenya cost KES6,000 (USD58) against Uganda's UGX185,000 per bag. This could have recently attracted informal exports of sugar across the borders.

Lastly, other underlying causes of sugar price hikes are concerned with high taxes involved in the process of sugar manufacturing. Uganda's tax structure on sugar is very high recorded at 21.3% (VAT 16% and 3.3% excise duty) compared to Kenya's VAT of 16%. (www.sugaronline.com, 2017)

Government has intervened to control the escalating price of sugar by reaching an agreement with traders to reduce the retail prices of sugar that is locally milled to make it affordable for Ugandans. Accordingly, a ceiling price of UGX5,000 per kilogram has therefore been set countrywide.

Figure 7: Annual percentage changes in Sugar prices

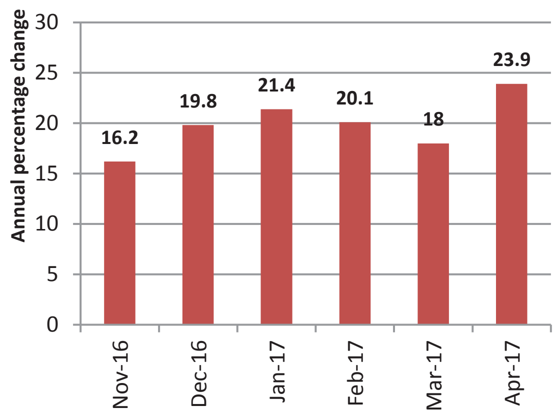
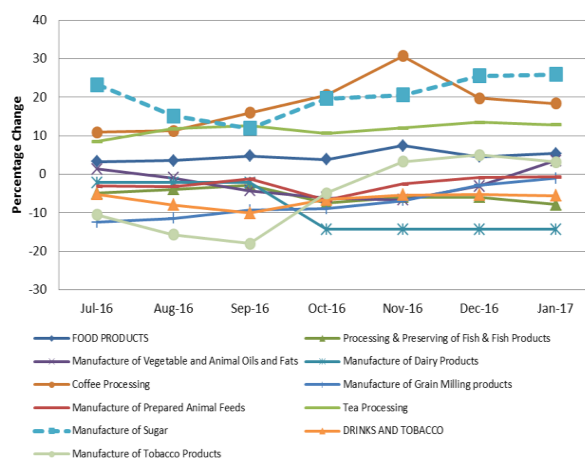


Figure 8: Annual Changes in Producer Price Indices for Selected Food Products, incl. Sugar



Source: UBOS

Bibliography

Bank of Uganda. (2017). ***Remarks by Prof. Emmanuel Tumusiime Mutebile, UBA Informal Dinner.*** Kampala.

International Monetary Fund IMF. (April 2017). World Economic Outlook.
Kulabako Farida et al. (2017). Islamic Bonds: A Way to Fund Uganda's Infrastructure Deficit. New Vision, 22-23.

UBOS. (2017). ***Producer Price Indices for Manufacturing - January 2017. Press Release. Kampala:*** UBOS.

UBoS. (April 2017). ***UGANDA CONSUMER PRICE INDEX: 2009/10=100***.
www.sugaronline.com. (2017, April). ***Rising sugar Prices Bad News for Consumers.*** Retrieved from www.sugaronline.com: http://www.sugaronline.com/news/website_contents/view/1250590

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.