NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

OCTOBER 2019

Key Economic Highlights in Uganda

- The quarterly composite index of economic activity indicates that growth remained subdued during the Q1 of 2019/20.
- Similarly, the monthly business tendency indicators index points towards subdued economic activity in October with an index of 57.7 as compared to the 57.8 index in September 2019/20.
- Headline and core Inflation remained subdued during the year ending October 2019 falling from 3.0 percent and 3.5 percent to 2.5 percent and 2.6, respectively during the year ending October 2018.
- The Uganda shilling slightly strengthened against the USD in October 2019, recording an end period rate of UGX3,711 per USD compared to UGX3,684 per USD in September 2019.
- The government fiscal operations during October 2019 registered a lower overall fiscal deficit of UGX1,083.9 billion against the planned deficit of UGX1,810.2 billion because the government fiscal expenditure during this period was less expansionary than programmed.
- The trade deficit worsened in September 2019, recording an increase from USD 190 in September 2019 to USD209 million. This was mainly driven by the decline in export receipts by 7.6 percent from USD320.5 to USD296.3 million.

1.0. Regional Economic Developments

1.1. Highlights from the IMF Sub-Saharan Africa Regional Economic Outlook: Navigating Uncertainty

Growth in sub-Saharan Africa is projected to remain at 3.2 percent in 2019 and rise to 3.6 percent in 2020. The Growth is forecast to be slower for about two-thirds of the countries in the region due to a more challenging external environment, continued output disruptions in oil-exporting countries, and weaker-than-anticipated growth in South Africa which is the largest economy. Growth is projected to remain strong in non-resource-intensive countries, with an average of approximately 6 percent while growth is expected to move at a slow pace in resource-intensive countries at about 2½ percent (International Monetary Fund, 2019).

Inflation is expected to ease going forward. The average sub-Saharan African-wide debt burden is expected to stabilize, while elevated public debt vulnerabilities and low external buffers will continue to limit policy space in several countries.

There are downside risks on the economic outlook including; the threat of rising protectionism, reversal in capital inflows on account of tightening global financial conditions, and a faster-than-anticipated slowdown in China and in the euro area. In the region, near-term downside risks include climate shocks, intensification of security challenges, and the potential spread of the Ebola outbreak beyond the Democratic Republic of the Congo. Additionally, fiscal uncertainties,

including those ahead in some countries due to elections, could add to deficit and debt pressures. Over the medium term, a successful implementation of reforms, including the African Continental Free Trade Area (AfCFTA), could pose significant upside risks.

Reduction of risks and promotion of sustained growth across all countries in the region requires the following strategies; carefully calibrating the near-term policy mix; building resilience, including to weather-related, health, and security challenges, through mobilizing domestic revenue, streamlining inefficient subsidies, and improving public financial management to strengthen sovereign balance sheets and create fiscal space for development needs; Raising per capita growth rates, especially for resource-intensive countries, to sustain improved social outcomes and create jobs, as well as comprehensively tackling tariff and nontariff barriers in the context of the AfCFTA, developing regional value chains, and implementing reforms to boost investment and competitiveness.

1.1.1. Competition, Competitiveness, and Growth in Sub-Saharan Africa

More than 70 percent of the countries in the region are in the bottom half of countries globally in terms of competition indicators. Firm mark-ups are about 11 percent higher in sub-Saharan African countries relative to other emerging market economies and developing countries and are more persistent. Empirical analysis suggests that increased competition can boost real per capita GDP growth rate by about 1 percentage point through improved export competitiveness, productivity growth, and investment. It can also substantially improve the purchasing power of consumers by lowering prices of goods and services, especially of food and other essential items. Competition also helps to increase labour's share in output, potentially having important distributional consequences.

In order to improve product market competition, the following strategies are required; reduce structural and regulatory barriers; an effective competition policy framework that includes a strong competition law backed by an independent and adequately resourced competition authority; trade and investment policies that encourage foreign competition; and supportive fiscal and procurement policies

1.1.2. Domestic Arrears in Sub-Saharan Africa: Causes, Symptoms, and Cures

Domestic arrears have been persistent in many Sub-Saharan countries, which is a reflection of weak public financial management. Furthermore, arrears have increased in recent years to about 3.3 percent of GDP in 2018, following the 2014 commodity price shock. However, despite the prevalence of arrears, their causes, effects, and consequences are not well understood.

The Regional Outlook report indicates that domestic arrears negatively impact private sector activity and the delivery of social services while increasing banking sector vulnerabilities and undermining citizens' trust in the government. Arrears also weaken the ability of fiscal policy to support growth, casting doubt on the merit of relying on arrears financing to avoid spending cuts.

The report highlights the approaches to clear arrears including verification (classify the size and type of expenditure arrears, to whom they are owed, when the arrears were incurred, and if any penalties on the arrears will be applied,), prioritization strategy and finally liquidation (for instance cash payments, Bilateral agreement with creditors, securitization, and Netting arrangements). To prevent their accumulation, the report proposes measures including public financial management reforms, building buffers, and timely external support.

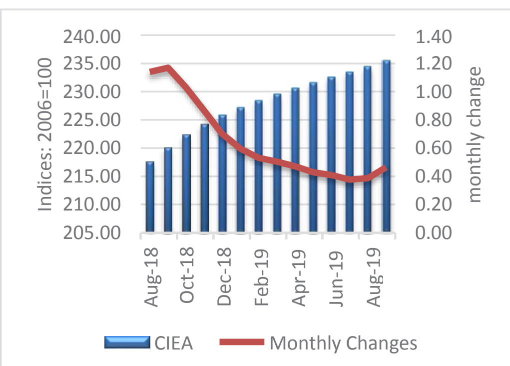
2.0. State of the Economy

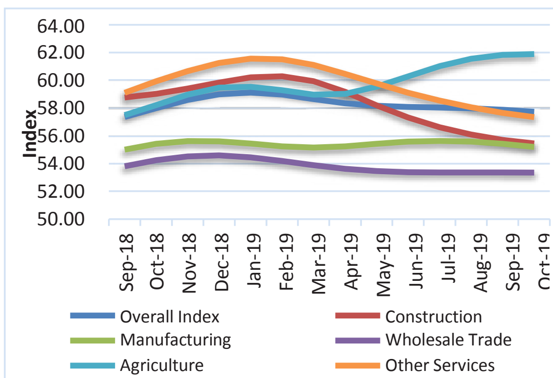
2.1. Economic Growth

Following the fall in GDP growth to 5.4 percent in Q4 2018/19 from 5.6 percent in Q3, the composite index of economic activity indicates that growth remained subdued during the Q1 of 2019/20. This is evidenced by the lower growth in economic activity of 1.2 percent during this period as compared to 1.4 percent in Q4 of 2018/19 (Figure 1). Similarly, the business tendency indicators index points towards slightly lower positive expectations in economic activity in October with an index of 57.7 as compared to the 57.8 in September 2019/20. Lower positive expectations were recorded in all the sectors except Agriculture which recorded higher positive expectations in economic activity (61.9) in October as compared to September (61.8), see Figure 2. This could be attributed to the lower demand and economic activity in the economy.

According to Bank of Uganda, the economic outlook is uncertain due to the unfavourable global economic environment that is characterised by trade tensions in the region particularly with Rwanda as well as political instability in South Sudan, coupled with domestic factors like rising trade deficits and domestic borrowing that could lead to rising interest rates (Bank of Uganda, 2019).

Figure 1: Composite Index of Economic Activity (CIEA) [1]**Figure 2: Business Tendency Indicators**





Source: Bank of Uganda 2019

Source: Bank of Uganda2019

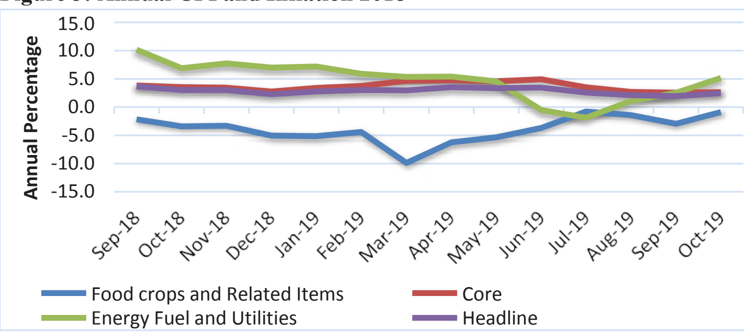
[1] Index less than 50 implies negative expectations/pessimistic
Index greater than 50 implies positive expectations/optimistic

2.2. Inflation

Headline and core Inflation remained subdued during the year ending October 2019 falling to from 3.0 percent and 3.5 percent to 2.5 percent and 2.6, respectively during the year ending October 2018 (Figure 3). The low inflation was driven by the strengthened Uganda shilling, in addition to lower domestic demand and low food prices. Energy fuel and utilities inflation also dropped to 5.1 percent in October 2019 from 6.9 percent in October 2018 mainly as a result of lower prices of liquid fuels and electricity respectively. The lower electricity prices were mainly due to the lower power tariffs during thi s period. However, food crops and related items inflation increased during this period to minus 0.9 percent in October 2019 from minus 3.4 percent in October 2018 mainly owing to the increase in prices of bread and vegetables by 20 percentage points and 7.2 percentage points respectively. The higher price of vegetables is due to lower production of vegetables during this period. (Uganda Bureau of Statistics, 2019).

The Bank of Uganda Monetary Policy statement for October indicates that the Annual core inflation is now projected to remain below the 5 percent target until the Q4 of 2020 and inflation is forecasted to converge to the 5 percent target in the medium-term (2-3 years). Given the positive inflation outlook, the BoU, in their recent monetary policy stance statement, reduced the CBR by 100 basis points to 9 percent in october 2019 in order to support economic growth. The band on the CBR was maintained at +/-3 percentage points and the margin on the rediscount rate and bank rate were also maintained at 4 and 5 percentage points on the CBR, respectively.

Figure 3: Annual CPI and Inflation 2018

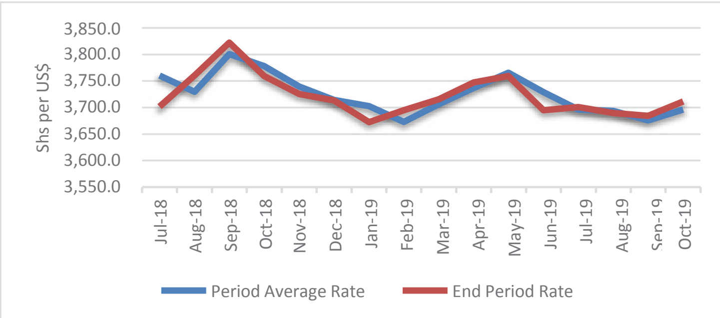


Source: UBoS 2019

2.3. Exchange Rates

The Uganda shilling slightly strengthened against the US Dollar in October 2019, recording an end period rate of Ushs.3,711 per US$ from Ushs. 3,684 per US$ in September 2019. Similarly, the period average rate recorded an appreciation in the Uganda shilling during the same period to Ush. 3,696 per US$ from Ushs. 3,675 per US$ (Figure 4). The appreciation of the shilling was supported by lower demand for the dollar reflected by lower imports, as well as inflows from offshore investors and remittances.

Figure 4: Exchange Rates



Source : BoU

2.4. Fiscal Balance

The government fiscal operations during October 2019 registered a lower overall fiscal deficit of Ushs.1,083.9 billion against the planned deficit of Ush.1,810.2 billion (table 1). The performance was because the government fiscal expenditure during this period was less expansionary than programmed, amounting to Ushs.2,672 billion in spending which is less than the programmed expenditure of Ushs. 3,461.9 billion shillings. This was mainly driven by the lower than planned current expenditures particularly salaries that registered spending of Ushs 211 billion which is a performance of 38 percent while the spending on interest payments amounted to Ushs 169 billion (68 percent) and the other recurrent spending registered a performance of 82 percent with spending of Ushs. 875.7 billion. Development expenditures were also less than programmed with spending amounting to Ushs. 1325.2 billion against the programmed spending of Ushs.1431.3 billion. This was largely due to the external development spending that was less than the programmed spending due to the underperformance of externally financed projects during the month, leading to a performance of 75 percent. However, domestic development expenditures were more than the programmed spending, registering a 101 percent performance with spending of Ushs. 973.5 billion.

The revenue receipts fell short of the programmed revenues by Ushs.101 billion amounting to Ushs. 1,436 billion mainly due to tax revenues that registered a shortfall of Ushs.97.9 billion partly because of underperformance of indirect domestic taxes specifically Value Added Tax in the services sector and excise duty. Direct domestic taxes also contributed to the lower tax revenue receipts registering a shortfall of UShs 32.5 billion owing to lower than planned collections from PAYE, corporate tax and rental income tax. Furthermore, international trade taxes also recorded a shortfall of UShs 12.6 billion resulting from underperformance in collections from import duty, excise duty and VAT on imports. However, the grants outturn of grants exceeded the program grants registering a performance of 134 percent with grants amounting to Ushs.132.4 billion.

Table 1: Overall Fiscal Balance October 2019

(Billion UShs)	Program	Outturn	Performance	Deviation
Revenues	1,538.20	1,436.50	93%	-101.70
Grants	113.5	152.4	134%	38.90
Expenditures and lending	3,461.90	2,672.80	77%	-789.10
Domestic arrears repayment	83.7	72.8	87%	-10.90
Overall fiscal balance	-1,810.20	-1,083.90	60%	726.30

Source: MoFPED 2019

2.5. Trade Balance

The trade deficit worsened in September 2019, recording an increase from USD190 million in September 2019 to USD209 million. This was driven by the decline in export receipts by 7.6 percent from USD320.5 to USD296.3 million. The fall in export receipts was on account of a reduction in coffee export receipts by 25 percent from USD46.3 to USD34.6 million due to lower volumes of coffee exported. The fall in Non-Coffee formal exports from USD233.3 million to USD 220.5 also contributed to the decline in exports receipts. However, the informal cross border trade export receipts increased by 0.9 percent to USD41.2 million in September 2019.The import bill recorded a small decline of 1 percent mainly due to the increase in government imports that increased by 15.5 percent to US$ 20.2 million particularly driven by project imports.The Formal Private Sector Imports also reduced by 0.3 percent to US$480.6 million due to the fallin the non-oil import bill (Table 2).

Table 2: Monthly Exports and Imports (USD)

	Jun-19	Jul-19	Aug-19	Sep-19
Trade balance	**-282.19**	**-226.93**	**-190.18**	**-209.17**
Total Exports	**298.03**	**317.56**	**320.51**	**296.31**
Coffee (Value)	31.91	45.27	46.34	34.66
Non-Coffee formal exports	225.52	230.22	233.36	220.49
ICBT Exports	40.60	42.08	40.81	41.16
Total Imports (fob)	**580.22**	**544.49**	**510.69**	**505.48**
Government Imports	**83.55**	**19.29**	**24.01**	**20.28**
Project	72.43	19.29	24.01	20.28
Non-Project	11.12	0.00	0.00	0.00
Formal Private Sector Imports	**491.83**	**520.78**	**482.31**	**480.66**
Oil imports	81.16	78.77	69.46	83.53
Non-oil imports	410.67	442.01	412.85	397.12
Estimated Private Sector Imports	**4.83**	**4.42**	**4.38**	**4.54**

Source: BoU 2019

References

Bank of Uganda. (2019). *Monetary Policy Statement for October 2019.* Kampala.
International Monetary Fund. (2019). *Regional Economic Outlook, Sub-Saharan Africa: Navigationg Uncertainty. October.*

Uganda Bureau of Statistics. (2019). *Uganda Consumer Price Index, October 2019.* 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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