NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

Uganda Vision 2040

OCTOBER 2017

Key Economic Highlights

(i) *Trends in the real sector activities depicted by the Composite Index of Economic Activity (CIEA) as well as the Business Tendency Indicator (BTI) Index respectively depict positive movements and optimism in the business community as at the end of October FY2017/18.*

(ii) *There has been a marginal increase in PSC from UGX 12,224 Bn in August to UGX 12,350 Bn in September 2017 which is a 1 percent growth due to tightening of terms and conditions for credit arising from the increasing Non-Performing Loan portfolios of banks as well as the high interest rates charged.*

(iii) *The government fiscal operations during the month of August indicated a widening fiscal deficit amounting to UGX 709.7 billion from a deficit of UGX 391 billion in July 2017 on account of a shortfall in revenue and grants required to fund the increased government spending.*

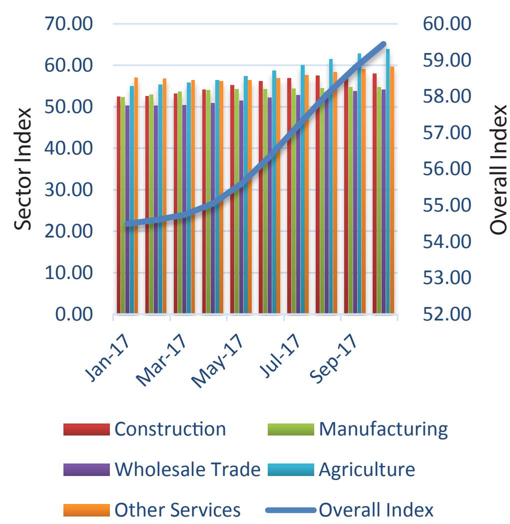
(iv) *Despite the effort to address several bottlenecks in the economy, Uganda's global ranking in the ease of doing business dropped by 8 places to 122 out of 190 countries as compared to the rank of 115 in the previous year.*

1.0. State of the Economy

While Uganda's real GDP growth for FY 2016/17 has been revised upwards from 3.9 to 4.0 percent it still turns out to be less than the NDPII projection of 5.9 for this period which complicates the attainment of the lower middle-income status goal by the end of 2020. This e real GDP growth outturn also compares less favourably with 4.7 percent registered in the previous financial year (FY) 2015/16 which is mirrored in the decline in performance in agriculture, industry and services sectors. At present the agricultural sector contribution to GDP is 21.5 percent, while the industry and services sectors contribute 18.6 percent and 51.9 percent respectively.

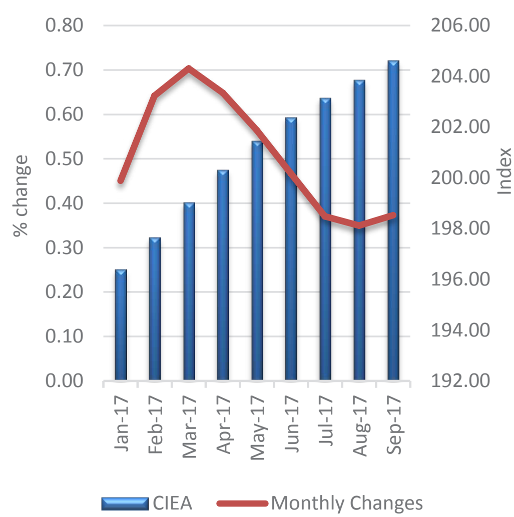
The monthly trends in the real sector activities depicted by the Composite Index of Economic Activity (CIEA) at the beginning of October FY2017/18 show a slight improvement in economic activities. The month-to-month CIEA increased from 0.35 in August to 0.37 in September signalling a positive trend that implies positive growth in GDP (see Figure 2). Similarly, the expectations of the business community estimated by the Business Tendency Indicators (BTI) also indicates positive expectations in the month of October as seen in Figure 1, with the overall BTI index rising to 59.45 in October down from 58.8 in September. The business community showed highest expectations towards Agriculture and Other services activities while they showed the least expectations towards Wholesale trade activities.

Figure 1: The Business Tendency Index



Source: Bank of Uganda

Figure 2: Composite Index of Economic Activities



Source: Bank of Uganda

2.1. Monetary and Financial Sector Development

There has been a decline in the headline inflation from 5.3 percent registered in September FY2017/18 to 4.8 percent registered at the end of October FY 2017/18 (see Fig 3.0). This was largely attributed to a decline in the core inflation from 4.2 percent in September to 3.5 percent and foods crops inflation from 9.6 percent in September to 7.8 percent in October. The fall in core inflation was due to services inflation that fell to 2.3 percent in October from 4.1 percent in September. The lower food crops inflation was because of a decline in vegetables inflation to 6.5 percent and fruits inflation that also declined to 9.7 percent. BoU forecasts suggest that inflation may remain within the medium-term target of 5 percent although there is an indication of a possibility of higher food crops inflation resulting from the pests affecting some crops and the very heavy rains in some parts of the country. Besides the Central Bank Rate still remains at 9.5

percent for the second month running which is partly an indication of lower inflation expectations.

Since the beginning of August up to the end of October FY 2017/18 the economy has continued to witness depreciation in the Uganda shilling owing the increased demand of foreign currency against subdued foreign currency inflows. The financial market indicates increased volatility in the exchange rates at the end of October 2017 with the end period exchange rate rising by 1.3 percent to UGX 3,650 per USD while the period average exchange rate similarly increased by 1.1 percent to UGX 3,637 per USD as at the end of October 2017 (see Figure 4.0).

Figure 3: Monthly CPI and Inflation 2017

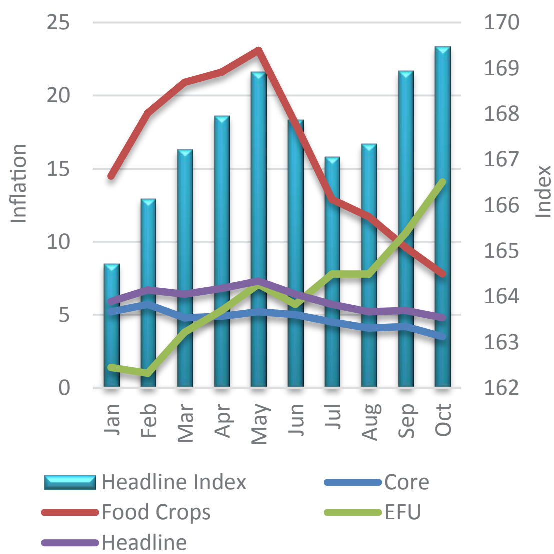
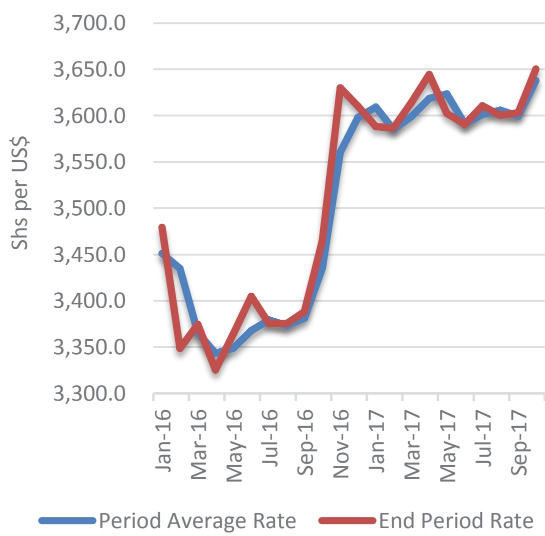


Figure 4.0: Monthly Exchange Rates



Source: Bank of Uganda

Private Sector Credit (PSC)

In an effort to stimulate growth through increased private sector credit, the Bank of Uganda has sustained the easing of monetary policy since March 2016 by lowering the CBR.

At the end of October 2017, the CBR was lowered further to 9.5 percent from 10 percent that had been maintained in the previous four months. As a result, there has been a marginal increase in PSC from UGX 12,224 billion in August to UGX 12,350 billion in September 2017 which is a 1 percent growth (see Figure 5.0). This marginal growth is attributed to a number of issues including the tightening of terms and conditions for credit arising from the increasing Non-Performing loan portfolios of banks as well as the high interest rates charged.

Nonetheless, BOU's Bank lending survey report projects that commercial banks will ease the terms and conditions for credit as a result of anticipated increase in economic activity and stabilised Uganda shilling which will in turn decrease the default rate on loans. During September, the trade sector obtained the highest share of PSC while Mining and Quarrying sector and Others obtained the least credit (Figure 6.0).

Figure 5.0: Private Sector Credit & CBR

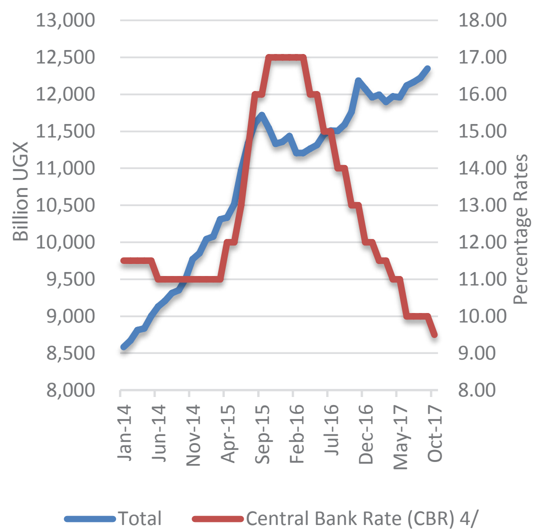
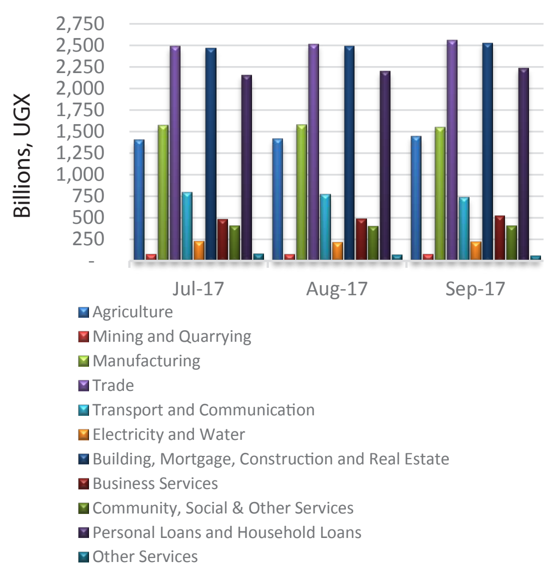


Figure 6.0: Sectoral Private Sector Credit

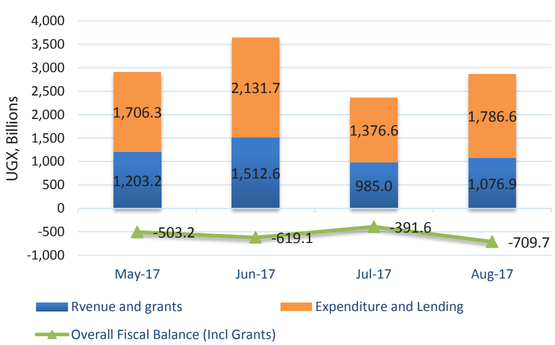


Source: Bank of Uganda

1.3. Fiscal Sector Developments

The government fiscal operations during the month of August indicated a widening fiscal deficit amounting to UGX 709.7 billion from a deficit of UGX 391 billion in July 2017 on account of a shortfall in revenue and grants required to fund the increased government spending (Figure 7.0). The revenues and grants increased by 9.3 percent mainly due to the increase in revenues by 11 percent, while the grants declined drastically by 54 percent to UGX 14 billion. On the expenditure side, government expenditure and lending rose by 30 percent to UGX 1,786.6 billion with the current and development expenditures recorded at UGX 951.1 billion and UGX 752.2 billion respectively while net lending amounted to UGX 7.6 billion in August 2017.

Figure 7.0: Overall Fiscal Operations



Source: MoFPED

1.4. External sector Developments

The month of September was marked by a worsening trade deficit recorded at USD 212.9 mainly as a result of a rising import bill to USD467 and decreasing value of exports to USD 254.8 (Figure 8). The rising import bill was due to the increase in the government imports bill by 207.2 percent particularly because of the increase in project imports, as well as the increase in the formal private sector imports bill by 7.8 percent. The value of exports during September 2017 declined by 2 percent mainly due to the 18 percent fall in coffee exports. The value of non-coffee exports increased by 2.1 percent, while the ICBT exports value rose by 0.8 percent (Table 1.0).

Figure 8.0: Trade Balance

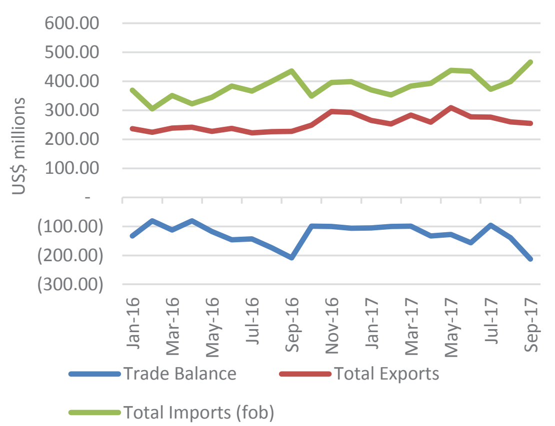


Figure 9.0: Trade Balance

	Jun-17	Jul-17	Aug-17	Sep-17
Total Exports	277.63	276.30	259.99	254.81
Coffee (Value)	49.59	49.50	47.06	38.58
Non -Coffee formal exports	188.06	183.13	170.58	174.22
ICBT Exports	39.97	43.67	42.35	42.00
Total Imports (fob)	434.53	372.95	398.76	467.00
Government Imports	38.17	18.50	21.15	64.97
Project	34.76	16.28	21.08	64.93
Non -Project	3.41	2.22	0.07	0.03
Formal Private Sector Imports	370.91	325.79	349.62	376.98
Oil imports	66.17	66.54	61.59	67.70
Non -oil imports	304.75	259.25	288.04	309.28

Source: MoFPED

2.0. Other Developments in the Economy

2.1 Uganda Doing Business Assessment 2018

The Doing Business project looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle. It captures several important dimensions of the regulatory environment as it applies to local firms and provides quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency (World Bank, 2017). It was launched in 2002 and is aimed at encouraging economies to compete towards more efficient regulation; offering measurable benchmarks for reform; and serves as a resource for academics, journalists, private sector researchers and others interested in the business climate of each economy.

Uganda's Ranking

Uganda's global ranking in doing business dropped by 8 places to 122 out of 190 countries as compared to the rank of 115 in the previous year. The best rank was obtained from getting credit (55 out of 190), followed by enforcing contracts which was ranked at 64 out of the 190 countries and paying taxes ranked at 84 out of 190. Generally, the relatively good rank attained in getting credit is attributed to the fact that Uganda's credit bureau coverage and credit registry coverage are facilitating credit access. On the enforceability of contracts, the good ranking is attributed to a fair score registered in the quality of judicial processes in Ugandan courts of law.

Uganda was ranked worst in the area of getting electricity and starting a business ranking at 173 out of 190 and 165 out of 190 respectively. The indicator of getting electricity performs poorly because the cost of electricity is high, the reliability of electricity supply and the transparency of tariff index are poor, and there are complicated processes in the application for electricity and unnecessary delays. On starting businesses the poor score is attributed to presence of a number of procedures and unnecessary payments required.

Uganda made one reform in the 2018 assessment under Trading across Borders by reducing the time for export documentary compliance and border compliance through allowing for electronic document submission and processing of certificates of origin and by further developing the Malaba One-Stop Border Post.

Sub-Saharan Africa Rankings

In comparison with its peers in the Sub-Saharan region, Uganda performs poorly with many of its comparators. Economies that perform better than Uganda in terms of ease of doing business global rankings include: Mauritius which is in 25th position, followed by Rwanda (41), and Kenya (80) as the region's top ranked economies. Nevertheless, Uganda performs better than Tanzania and Burundi which rank 137 and 164 respectively. The SSA region is well represented in this year's global top 10 improvers, based on reforms undertaken by Malawi, Nigeria, and Zambia. Malawi, which implemented four reforms, made significant improvements in the area of Getting Credit by adopting a new law that sets clear rules related to bankruptcy procedures and by establishing a new credit bureau. Nigeria also improved access to credit by guaranteeing borrowers the right to inspect their credit data from the credit bureau and also made starting a business faster by allowing electronic stamping of registration documents. Reforms in Zambia also included the strengthening of access to credit by adopting a new Movable Property Act and by setting up a new collateral registry (World Bank, 2017).

Notwithstanding the strides made to improve doing business in the region, the Sub-Saharan Africa region continues to struggle with getting electricity. On average, obtaining an electricity connection takes 115 days in the region, compared to the global average of 92 days (World Bank, 2017).

Bibliography

World Bank. (2017). ***Doing Business 2018: Reforming to Create Jobs.***

World Bank. (2017). ***News Release Doing Business 2018 Sub-Saharan Africa.***

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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