NATIONAL PLANNING AUTHORITY
MONTHLY ECONOMIC UPDATE

SEPTEMBER 2020

Key Economic Highlights

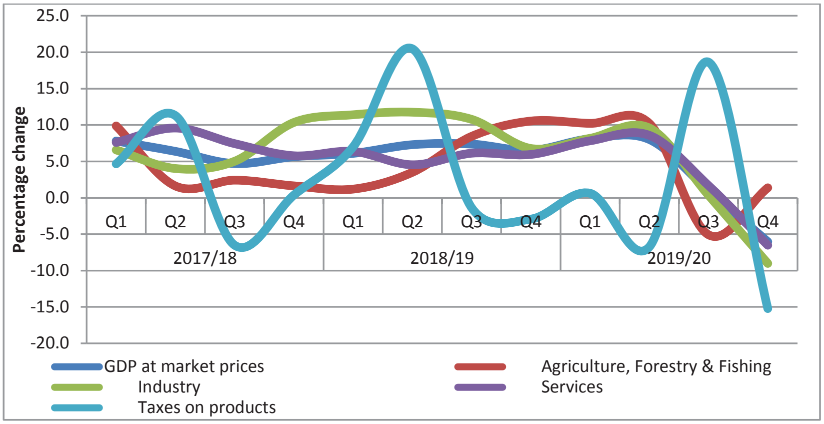
- The economy contracted by 6 percent in the last quarter of FY 2019/20 from the 1 percent growth recorded in Q3 FY 2019/20 mainly driven by the contraction of the industry sector by 9 percent.
- The composite index of economic activity (CIEA), increased in the first two months of quarter 1 FY 2020/21, an indication of increased economic activity following the easing of lock down restrictions. However, economic growth is still fragile and predicted to contract in the range of 0.2 and 0.5 percent in 2020.
- The annual headline inflation declined to 4.5 percent in the year ending September 2020 from 4.6 percent in the year ending August 2020, mainly attributed to the fall in the Energy, Fuel and Utilities (EFU) inflation.
- The Uganda Shilling appreciated against the US Dollar in the quarter ending September 2020, trading at an average rate of Shs.3,692 per US$ as compared to Shs.3,771 per US$ in the quarter ending June 2020 on account of higher inflows of foreign exchange from export receipts, NGOs, personal transfers and offshore investors.
- The overall fiscal operations during September 2020 resulted in a fiscal deficit of Shs. 764.99 billion, which was lower than the planned fiscal deficit of Shs. 1,084.1billion. This was due to the lower government spending on account of slow implementation of government projects due the COVID-19 pandemic.
- The external sector was marked by a narrowing trade deficit in September 2020, recorded at USD 197.64 million from USD 277.62 million in August 2020 as a result of the 11.3 percent fall in the import bill.

1.0 State of the Economy
1.1 Real Sector

The recently released GDP series by the Uganda Bureau of Statistics (UBoS) indicate that the economy contracted by 6 percent in the last quarter of FY 2019/20 from the 1 percent growth recorded in Q3 FY 2019/20 (Figure 1). This was mainly driven by the contraction of the industry sector by 9 percent as compared to the growth of 0.3 percent in Q3 particularly resulting from the large fall in economic activity in the mining & quarrying and the manufacturing sub-sectors. The services sector also recorded a decline in economic activity by 6.5 percent from a growth of 1.7 percent in Q3 mainly arising from declined economic activity in Arts, entertainment & Recreation, as well as accommodation and food services.

On the contrary, there was a rise in economic activity in the Agriculture sector, with economic growth recorded at 1.4 percent in Q4 from a fall in economic growth of 5.1 percent due to increased food crop production during this period.

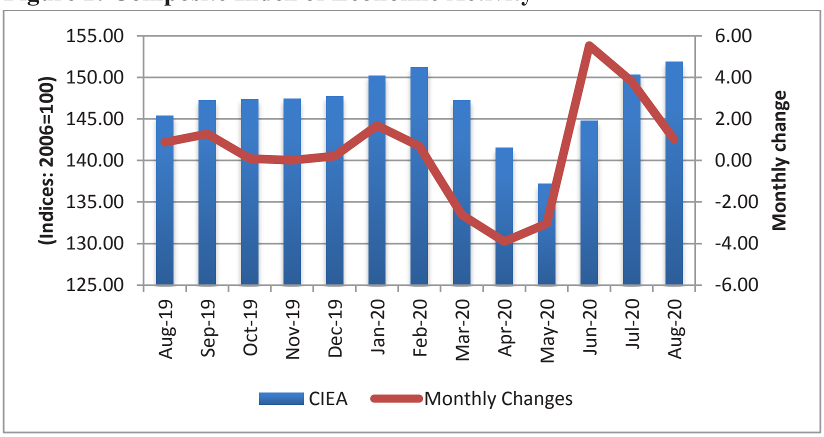
Figure 1: Quarterly GDP



Source: UBoS 2020

The composite index of economic activity (CIEA), which is Bank of Uganda's short term indicator of economic activity, increased in the first two months of quarter 1 FY 2020/21. The index increased from 144 in June 2020 to 151.85 in August 2020, an indication of increased economic activity in the economy following the easing of lock down restrictions (Figure 2).

Figure 2: Composite Index of Economic Activity

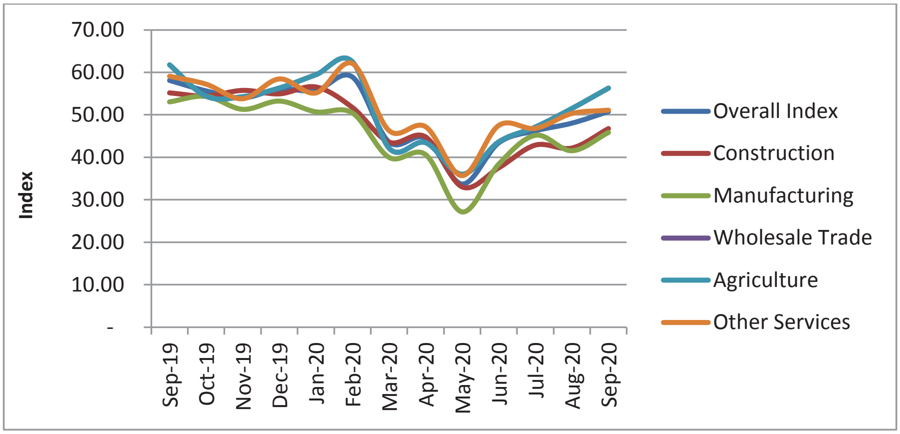


Source: Bank of Uganda 2020

The Business Tendency Index (BTI) increased above the 50 threshold in September 2020, from 48.04 in August 2020 to 50.76. This is an indication of positive business expectations arising from increased business activity due to the easing of lockdown restrictions. The improvement in business expectations was mainly seen in the construction and manufacturing sectors. The construction sector BTI increased from 42.18 in August to 46.76 in September 2020 whereas the manufacturing sector index increased from 41.55 to 45.84 during the same period (Figure 2).

According to the BoU monetary policy statement, economic growth recovery is being supported by the easing of the lockdown, the stability of the exchange rate, and the slight improvement in both foreign and domestic demand. However, economic growth is still fragile and predicted to contract in the range of 0.2 and 0.5 percent in 2020.

[1]Figure 2: Business Tendency Indicator for August 2020



Source: Bank of Uganda 2020

2.0 Monetary Sector Developments

2.1 Inflation rate

The annual headline inflation declined to 4.5 percent in the year ending September 2020 from 4.6 percent in the year ending August 2020 (Figure 3). The fall was mainly attributed to the fall in the Energy, Fuel and Utilities (EFU) inflation that declined from 4.3 percent in the year ending August to 2.3 percent in the year ending September 2020. The decrease in EFU inflation was due to Liquid Energy Fuels Inflation that declined to -4.2 percent during the year ending September 2020 as compared to the -3.7 percent recorded during the year ended August 2020. Food crops and related items inflation also contributed to the fall in inflation, recording a 0.8 percentage point decrease in inflation from minus 5.4 for the year ending August 2020 to minus 6.2 for the year ending September 2020. This was on account of the Annual Vegetables Inflation that declined to minus 3.7 percent during the year ending September 2020 from 0.4 percent during the year ended August 2020.

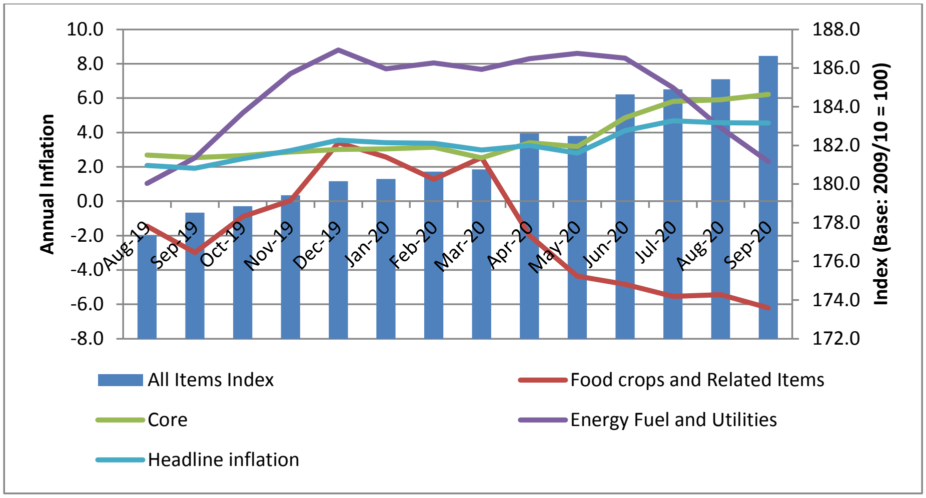
However, core inflation increased to 6.2 percent for the year ending September 2020 from 5.9 percent for the year ended August 2020. The increase in Annual Core Inflation was mainly due to Annual Services Inflation, particularly transport services Inflation that rose to 62.5 percent for the year ending September 2020 from 50.7 percent recorded for the year ended August 2020 (Uganda Bureau of Statistics, 2020).

The bank of Uganda projects upside risks to inflation in the near term, causing core inflation to remain above the 5 percent target. There are no foreseen demand side

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

pressures, although cost push pressures from higher taxes on imported consumer and intermediate products and social distancing measures are likely to occur. This could cause inflation to rise further in near term. Additionally, inflation pressures could be exacerbated by price pressures coming from increased household spending as lockdown measures are eased further. Nonetheless, gradual slow own and recovery of the economy will cause inflation to gradually converge to 5 percent by 2022 (Bank of Uganda BoU, 2020). In light of this, the Central Bank Rate (CBR) was maintained at 7 percent, and the band on the CBR also maintained at +/-2 percentage points.

Figure 3: CPI and Inflation rates



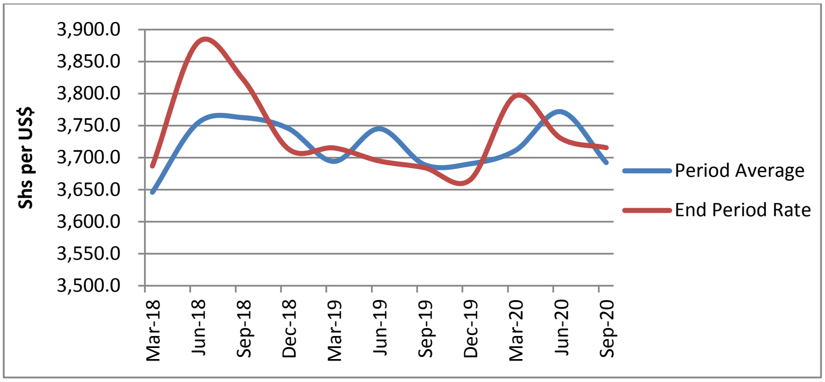
Source: Bank of Uganda

1.2 Exchange rate

The Uganda Shilling appreciated against the US Dollar in the quarter ending September 2020, trading at an average rate of Shs.3,692 per US$ as compared to Shs.3,771 per US$ in the quarter ending June 2020. This strengthening of the shilling was on account of higher inflows of foreign exchange from export receipts, NGOs, personal transfers and offshore investors (Figure 4).

In the coming months, BoU projects that the exchange rate will remain stable owing to matched corporate activity. However, there's a likelihood of depreciation due to the market uncertainty caused by the COVID-19 pandemic (Bank of Uganda BoU, 2020).

Figure 4: Exchange rate for August 2020



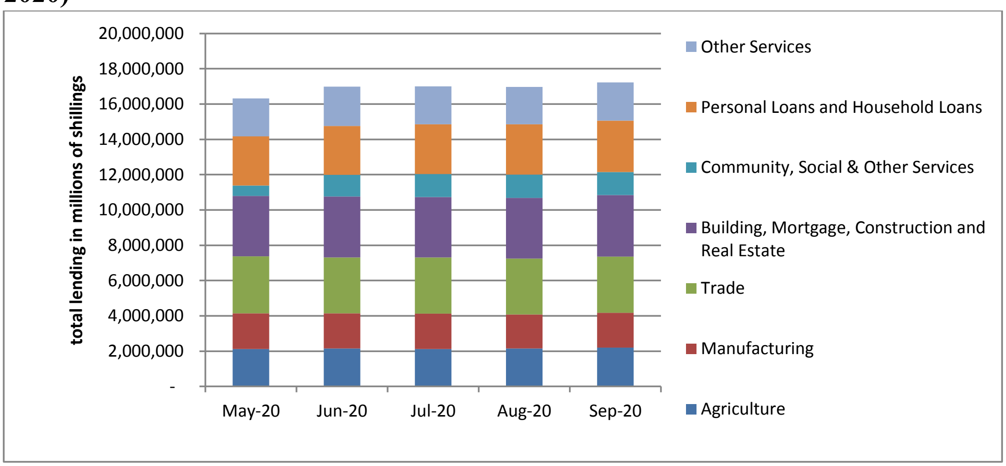
Source: Bank of Uganda

1.3 Private Sector Credit

The stock of outstanding credit at the end of September 2020 increased by 1.5 percent to Shs. 17,221.466 billion from Shs. 16,971.37 billion in August 2020. This was mainly attributed to the 2.6 percent increase in credit to the Agriculture sector players from Shs.2,146 billion in August 2020 to Shs.2,202 billion in September 2020. The credit to Personal Loans and Household Loans and other services also increased greatly during September 2020 by 2.2 percent and 2.1 percent respectively (Figure 5).

During September 2020, the Building, Mortgage, Construction and Real Estate sector and trade sector received the largest proportion of credit, estimated at 20 percent and 18 percent respectively, whereas the Community, Social & Other Services sector (8%) and manufacturing sector (11%) received the lease credit during this period.

Figure 5: Outstanding total lending in millions of Uganda shillings (May – September 2020)



Source: Bank of Uganda

1.4 Fiscal Sector Developments

The overall fiscal operations during September 2020 resulted in a fiscal deficit of Shs. 764.99 billion, which was lower than the planned fiscal deficit of Shs. 1,084.1billion. The lower deficit was due to the lower government spending that deviated from the planned spending by Shs.751.3 billion on account of slow implementation of government projects due the COVID-19 pandemic (Bank of Uganda, 2020). The low spending was mainly attributed to lower spending on domestic development projects and other recurrent expenditure. Government's domestic arrears repayments continue to fall below target, recording an outturn of Shs.45 billion against the planned repayment of Shs.128.2 billion in September 2020. This has had a negative impact on private sector liquidity and investment. Priority should be given to payments of these arrears especially during this period of the pandemic so as to ensure that the private sectors are able to stay afloat amidst the after effects of the lockdown.

The revenue shortfall of Shs.228 billion also contributed to the lower government expenditure, particularly arising from lower non-tax revenue collections that amounted to Shs.67 billion as compared to the planned collections of Shs.128.99 billion. Tax revenue collections also fell short of the planned target of Shs.1,588 billion, amounting to Shs.1,421.95 billion. Additionally, the government expected to receive Shs.204 billion worth of grants but did not receive grants during this period. This worsened the shortfall in government's funds for expenditure.

Table 1: Overall Fiscal Operations September 2020

(Billion Shs)	Program	Outturn	Performance	Deviation
Revenues and grants	1,921.11	1,488.98	78%	-432.13
Revenues	1,717.02	1,488.98	87%	-228.04
Tax	1,588.03	1,421.95	90%	-166.08
Non-tax	128.99	67.03	52%	-61.96
Grants	204.09	0	0%	-204.09
o/w Project support	165.31	105.37	64%	-59.94
Expenditures and lending	3,005.22	2,253.97	75%	-751.25
Current expenditures	1,557.97	1,260.41	81%	-297.56
Wages and salaries	415.85	405.93	98%	-9.92
Interest payments	399.09	399.09	100%	0.00
o/w domestic	300.72	300.72	100%	0.00
o/w external	98.37	98.37	100%	0.00
Other recurrent expenditure	743.04	455.39	61%	-287.65
Development expenditures	1,150.68	946.64	82%	-204.04
Domestic	536.24	359.84	67%	-176.40
External	614.44	586.8	96%	-27.64
Net lending/repayments	168.39	1.91	1%	-166.48
HPP GoU	0	1.91		1.91
HPP Exim	168.39	0	0%	-168.39
Domestic arrears repayment	128.2	45.01	35%	-83.19
Overall fiscal balance (incl. grants)	**-1,084.11**	**-764.99**	**71%**	**319.12**
Domestical fiscal balance	-406.99	-79.82	20%	327.17

Source: MoFPED

1.5 External sector Developments

The external sector was marked by a narrowing trade deficit in September 2020, recorded at USD 197.64 million from USD 277.62 million in August 2020 (Table 2). The improved trade deficit was a result of the 11.3 percent fall in the import bill from USD 693.8 million in August to USD 615.5 million in September 2020, driven by the fall in the government project imports bill. The Government projects import bill dropped by 92 percent from USD55.9 million in August to USD 4.1 million in September. Additionally, the formal private sector import bill dropped by 4.4 percent to USD 611.34 million, mainly driven the 10 percent fall in the oil import bill, coupled with the 3.5 percent fall in the non-oil import bill.

The exports sector recorded a modest increase in export receipts of 0.4 percent, mainly driven by the increase in the export receipts from Informal Cross Border Trade (ICBT) and non-coffee formal exports respectively. ICBT export receipts increased by 7.8 percent from USD 1.05 million in August to USD 1.14 million in September 2020. Additionally, Non-coffee formal export receipts increased by 0.81 percent from USD 369.2 million USD 372.2 million during the same period. However , coffee export receipts declined by 3.1 percent, from 416.3 million in August to 417.9 million in September 2020 due to the 15 percent fall in the volume of coffee exports.

Table 2: Composition of the Trade Balance, March 2020 – July, 2020

	May-20	Jun-20	Jul-20	Aug-20	Sep-20
Trade Balance	**-144.75**	**-205.56**	**-185.55**	**-277.62**	**-197.64**
Total Exports	**290.88**	**338.14**	**419.47**	**416.27**	**417.93**
Coffee (Value)	42.48	39.99	49.98	46.06	44.64
Non-Coffee formal exports	247.86	296.91	368.38	369.15	372.16
ICBT Exports	0.54	1.23	1.11	1.05	1.14
Total Imports (fob)	**435.63**	**543.70**	**605.02**	**693.89**	**615.56**
Government Imports	25.62	20.68	40.96	55.78	4.09
Project	25.62	20.68	40.96	55.78	4.09
Non-Project	0.00	0.00	0.00	0.00	0.00
Formal Private Sector Imports	**409.95**	**522.88**	**563.93**	**637.98**	**611.34**
Oil imports	33.89	56.73	47.96	63.62	57.23
Non-oil imports	376.06	466.15	515.97	574.36	554.11
Estimated Private Sector Imports	**0.07**	**0.14**	**0.13**	**0.12**	**0.13**
Total Private Sector Imports	410.01	523.02	564.06	638.11	611.47

Source: Bank of Uganda

References

Bank of Uganda BoU. (2020). *Monetary Policy Statement; October.* Kampala.

Bank of Uganda BoU. (2020). *State of the Economy Report September 2020.*

Uganda Bureau of Statistics. (2020). *CPI Publication for September .* 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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