NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

SEPTEMBER 2019

Key Economic Highlights

- **Following the rebasing of GDP by the UBOS, the economy expanded tremendously leading to a rise in GDP value added from UGX109,945 billion to UGX128,499 billion in FY 2018/19.**
- **The Composite index of Economic Activity (CIEA), points towards subdued growth in economic activity in the short term, evidenced by an average growth in economic activity of 0.34 percent in the first two months of Q1 2019/20**
- **The inflationary pressures in the economy remained subdued in the year endingSeptember 2019, with inflation reducing further to 1.9 percent from 3.7 percent during the year ending September 2018**
- **The Uganda shilling strengthened against the USD, trading at an average rate of UGX3,689 per USD during Q1 FY 2019/20 from UGX3,695 per USD during Q4 FY 2018/19**
- **The overall fiscal operations in September 2019 recorded a higher fiscal deficit of UGX692 billion against the planned UGX623 billion as a result of lower revenues and grants that fell short of the target collections by 16 percent**
- **The Balance of Payments (BoP) recorded a deficit of USD120 million in Q4 FY2018/19 from a surplus of USD84 million in Q3 of FY 2018/19. This was mainly on account of the worsening current account deficit by 18 percent to USD938.8 million coupled with a fall in the balance on the financial account.**

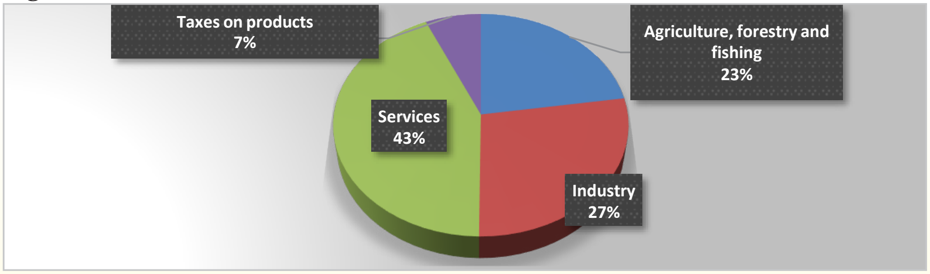
1.0. State of the Economy

1.1. Real Sector Developments

As relative prices and the structure of the economy change over time, it is necessary to update the base year of GDP regularly. It also provides an opportunity to make changes including the introduction of new methodologies and standards. GDP Rebasing means replacing the old base period with a more recent base year for computing the constant price estimates.

Following the rebasing of GDP by the Uganda Bureau of Statistics from 2009/10 to 2016/17, the economy expanded tremendously leading to a rise in GDP value added from UGX109,945 billion to UGX128,499 billion in FY 2018/19. GDP growth consequently rose to 6.5 percent from the earlier projection of 6.1 percent for this period. The new estimates were largely a result of the expansion in growth in the industry sector by 5 percentage points (p.p) to 10.8 percent mainly on account of increased growth in economic activity in the mining and quarrying sub-sector (24p.p) of the economy. The Agriculture sector also expanded with growth increasing by 1.2 percentage points to 5 percent largely due to increased growth in the fishing (13p.p) and livestock (5.6p.p) subsectors. However, economic activity in the services sector shrunk evidenced by the lower growth of 4.9 percent from the earlier estimate of 7.2 percent (Figure 2). The overall GDP estimates point towards a transformation of the economy to industrialisation as envisioned in the NDPII. Nonetheless, the services sector continues to have the largest contribution to GDP estimated at 43.5 percent, while the industry sector and agriculture sector contributed 26 percent and 23.5 percent respectively (Figure 1).

Figure 1: Sector Contribution to GDP 2018/19

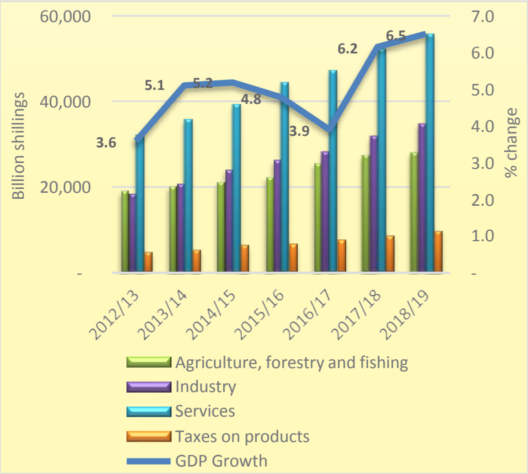


Source: UBoS 2019

The Composite index of Economic Activity (CIEA), the short term indicator of economic activity, points towards subdued growth in economic activity in the short term, evidenced by an average growth in economic activity of 0.34 percent in the first two months of Q1 2019/20 as compared to the monthly average change in economic activity of Q4 FY 2018/19 recorded at 0.35 percent (See Figure 3).

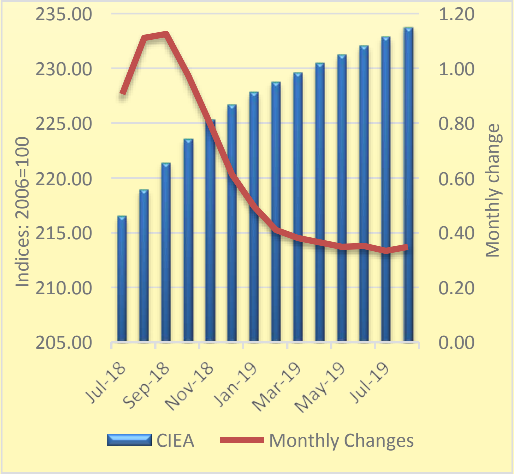
The unfavorable domestic economic outlook could be worsened by the hostile global trade environment, the widening fiscal and current account deficits, in addition to the increased government domestic borrowing that can lead to higher lending interest rates (Bank of Uganda, 2019).

Figure 2: Annual GDP Rebased



Source: Bank of Uganda

Figure 3: Business Tendency Indicators 2018/19



Source: Bank of Uganda

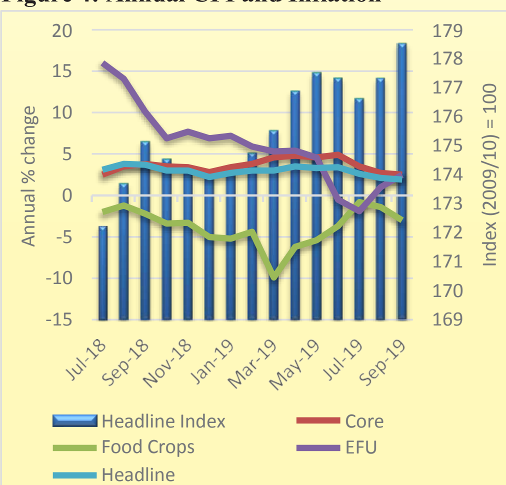
1.2. Monetary and Financial Sector Developments

1.2.1. Inflation and Exchange rate Developments

The monetary sector developments indicate that the inflationary pressures in the economy remained subdued in the year ending September 2019 with inflation reducing further to 1.9 percent from 3.7 percent during the year ending September 2018. The lower inflation mainly resulted from the decline in Energy Fuel and utilities (EFU) inflation from 10.1 percent in the year ending September 2018 to 2.5 percent in the year ending September 2019 particularly arising from the fall in electricity inflation from 12.9percent to minus 1.9 percent during this period. Annual Core inflation also declined to 2.5 percent in the year ending September 2019 from 3.8 percent during the year ending September 2018 on account of services inflation that declined from 4.5 percent to 1.5 percent during this period. Furthermore, food crops prices declined further by 3.3 percent from a decline of 2.2 percent during the same period due to the increased harvest during this period. The Inflation forecasts from the Bank of Uganda indicate that inflation will remain below the target of 5 percent until 2020 and is forecast to converge to 5 percent within the medium term of 2 to 3 years (Bank of Uganda BoU, 2019).

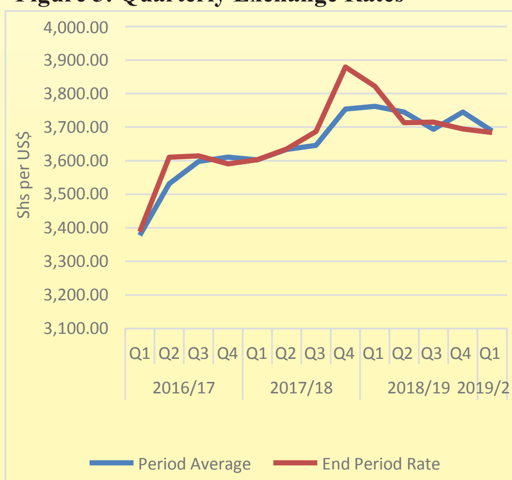
In the financial market, the Uganda shilling slightly strengthened against the US dollar, trading at an average rate of 3,689Ushs per US$ during quarter 1 FY 2019/20 from 3,695Ushs per US$ during quarter 4 FY 2018/19 (Figure 5). The appreciation of the shilling against the US dollar was due to the increase in supply of US dollars from inward remittances and inflows from offshore investors. According to BoU forecasts, the relative stability of the exchange rate is expected to continue in the short term due to the absence of shocks.

Figure 4: Annual CPI and Inflation



Source : UBoS

Figure 5: Quarterly Exchange Rates



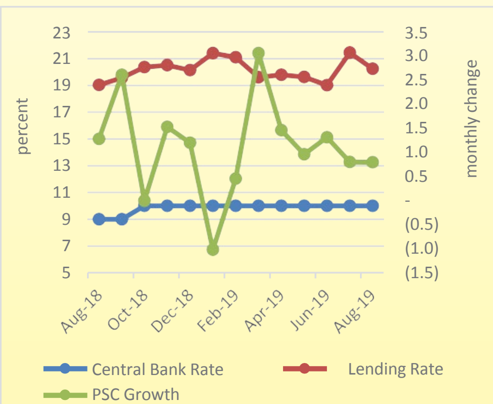
Source : BoU

1.2.2. Private Sector Credit

Given the positive developments in the monetary and real sector developments, the monetary policy committee decided that the prevailing Central Bank Rate (CBR) was accommodative enough to support growth and the inflation would remain within the target of 5 percent. The CBR was therefore maintained at 10 percent with a band of +/-3 percentage points, and the marginon the rediscount rate at 4 percentage points.

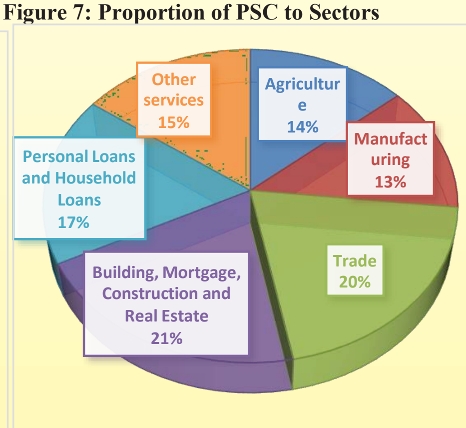
Despite the accommodative monetary policy, the lending rates remain high with an average of 20.2 percent in the quarter ending August 2019. However, there was a modest reduction in the lending rates in August to 20.2 percent from 21.4 percent in July 2019. The reduction in lending rates was insufficient to stimulate a higher rate of private sector credit (PSC) growth and consequently, growth in PSC stagnated at 0.8 percent as was recorded in July 2019 (Figure 6). The credit outstanding to the private sector at the end of August was therefore recorded at 15,357 billion shillings from 15,226 billion shillings in July 2019. The largest proportion of credit was extended to the Building, Mortgage, Construction and Real Estate sector (21%) and Trade sector (20%) respectively while Agriculture sector (14%) and Manufacturing sector (13%) received the lowest proportion of credit extended during this period (Figure 7). These are the key sectors supposed to drive growth in the NDPII therefore deliberate effort should be made to increase access to credit in these two sectors.

Figure 6: Monthly Interest Rates and PSC growth



Source: BoU

Figure 7: Proportion of PSC to Sectors



Source: BoU

1.3. Fiscal Sector Developments

The overall fiscal operations in September 2019 recorded a higher fiscal deficit of 692 billion shillings against the planned 623 billion shillings as a result of lower revenues and grants that fell short of the target collections by 16 percent. The expenditure and lending during this period were also lower than planned, registering a 91 percent performance, but the expenditure was still higher that the revenues as it also experienced a shortfall as compared to the planned revenues. The shortfall in revenues was mainly due to non-tax revenues that registered a shortfall of 37 billion shillings (31%) coupled with the tax revenue shortfall of 142 billion shillings (10%). The grants received amounted to 69 billion shillings which was also less than the target of 173 billion shillings.

The Lower expenditure and lending mainly resulted from the poor performance of net lending and repayments (2%) particularly the 187 billion shillings in lending by Exim Bank towards Hydro Power Plants that did not materialise. In addition, the development expenditures recorded a performance of 92 percent against the planned spending of 1,071 billion shillings on account of the poor performance of externally financed projects. The payments of domestic arrears which is a key issue in public finance management was also low with only 39 billion shillings paid against the planned target of 64 billion shillings in September. There's need to increase commitment to clear all domestic arrears which are affecting private sector operations. Table 1 below provides a detailed breakdown of the performance.

Table 1: Fiscal Operations Performance August 2019 (Billion shillings)

	Program	Outturn	Performance	Deviation
Revenues and grants	1,733	1,450	84%	-283
Revenues	1,560	1,381	89%	-178
Tax	1,441	1,300	90%	-142
Non-tax	118	82	69%	-37
Grants	173	69	40%	-104
Expenditures and lending	2,356	2,143	91%	-213
Current expenditures	1,098	1,150	105%	52
Wages and salaries	380	379	100%	0
Interest payments	368	335	91%	-33
o/w domestic	313	279	89%	-35
o/w external	55	56	103%	1
Other recurrent expenditure	350	435	124%	85
Development expenditures	1,071	989	92%	-82
Domestic	381	703	185%	322
External	690	286	41%	-404
Net Lending/repayments	187	4	2%	-183
Domestic arrears repayment	64	39	61%	-25
Overall fiscal balance (incl. grants)	**-623**	**-692**		**-69**

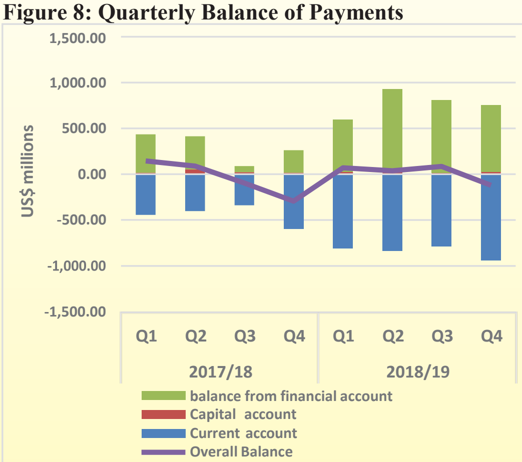
Source: MoFPED 2019

1.4. External sector Developments

The Balance of Payments (BoP) recorded a deficit of US$ 120 million in Q4 2018/19 from a surplus of US$ 84 million in Q3 of FY 2018/19, (Figure 8). This was mainly on account of the worsening current account deficit by 18 percent to US$938.8 million coupled with a fall in the balance on the financial account by 7 percent to US$728.9 million which was consequently insufficient to fund the current account deficit. The worsening of the current account deficit was driven by the deteriorated trade deficit due to the fall in exports receipts from US$1204.4 million in Q3 to US$ 961.5 million in Q4 FY 2018/19 largely from the fall in export receipts from simsim, gold and beans. However, the import bill registered a modest decline of 0.5 percent to US$1787.2 million owing to a 43 percent fall in the import bill from non-monetary gold. Nonetheless, the primary income deficit improved by 2.6 percent to US$ 300.4 million whereas the secondary account surplus increased by 23 percent to US$ 425.2 million due to increased inflows of project aid and personal transfers during this period (Figure 9).

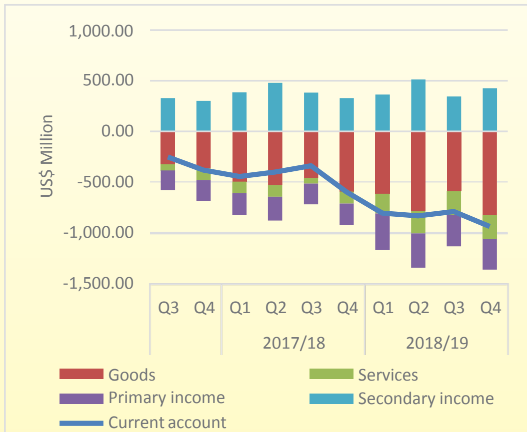
The capital account surplus increased from US$ 16.9 million in Q3 to US$ 25.8 million in Q4 2018/19 resulting from an increase in the inflow of capital transfers. Conversely, the financial account which is supposed to fund the deficit on the current account declined to US$728.9 million due to the decline in inflows from portfolio investments by 45 percent particularly in Equity and investment fund shares by deposit taking institutions as well as the decline in inflows towards other investments by 29 percent. Despite the unfavourable external position during this period, the reserves were maintained at an equivalent of 4.38 months of imports of goods and services as was recorded in Q3 of 2018/19.

Figure 8: Quarterly Balance of Payments



Source: BoU 2019

Figure 9: Quarterly Current Account Balance



Source: BoU 2019

2.0. Other Developments in the Economy

2.1. The NSSF Amendment Bill 2019

The Ministry of Gender, Labour and Social Development tabled the NSSF Amendment Bill 2019 before Parliament in August 2019 to address the gaps that have been identified in the NSSF Act Cap 222 of 1985 in order to expand social Security coverage by making contributions to the National Social Security Fund mandatory for all workers in the formal sector and also allowing workers in the informal sectors to make voluntary contributions to the National Social Security Fund. In addition, the Bill seeks to enhance the spectrum of benefits available to workers and to improve management of the National Social Security Fund. The Bill has however caused contention from the general public particularly by those who do not agree with some of the amendments.

The highlights of the amendments to the NSSF Act are highlighted below (Ministry of Gender Labour and Social Development, 2019);

a) to provide for the appointment of a stakeholder board comprised of representatives of Government, employers and employees;
b) to clearly specific the different roles of the Ministers responsible for social security, finance and public service in the management of the Fund
c) to expand social security coverage by providing for mandatory contribution of all workers regardless of the size of the enterprise or number of employees and also allowing voluntary contributions to the Fund;
d) to empower the Fund to recover from a third party any sum owed to a defaulting contributing employer
e) to provide for midterm access to voluntary contributions;
f) to provide for the deference of taxes on contributions and scheme income to the time of payment of benefits
g) to empower the board to introduce new benefits in consultation with the Minister;
h) to enhance fines in the Act.

The objectives and principles underpinning the amendments are good for the savers and economy although there's need to improve some elements of the bill in order to achieve the intended objective and consensus from the public (BDO East Africa, 2019). Some of the improvements that could be considered include;

i. The proposed tax regime needs to be improved. For instance, the Bill proposes that the investment income shall be exempt from tax which will ensure that NSSF will have more funds to reinvest and generate more return. However, this proposal is an amendment to the income tax Act yet NSSF has no mandate to withhold tax on a member's benefits.

ii. Lending to government needs to be removed or restricted to shield the fund from risk of government interference in the fund's investment decisions.

iii. The Bill provides an obligation for NSSF to recover funds owed from any defaulting third party employer but does not provide any consequence in case the third party does not comply with NSSF. The consequences should be provided for in the Bill.

iv. The Bill also proposes that a member may have mid-term access to his/her benefits. There's need to clearly state what mid-term means and also specify what proportion of the funds can be accessed during that time while putting into consideration the objective of the fund which is social protection after retirement.

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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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