NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

Uganda Vision 2040

SEPTEMBER 2017

Key Economic Highlights

(i) The current economic trends in FY 2017/18 Q1 indicate positive but declining business sentiments as is depicted by the overall Business Tendency Index and a slow down in economic activities.

(ii) Despite the continued easing of monetary policy as indicated by the reduced Central Bank Rate (CBR) from 10 percent in June to 9.5 percent in October 2017, growth in private sector credit (PSC) remained subdued recording an average growth of approximately 0.5 percent over Q1 period for FY 2017/18.

(iii) In Q1 of FY 2017/18, the Uganda shilling weakend against the USD due to increased demand of foreign exchange from manufacturing, oil, telecom sectors as well as forex purchases by BoU, amidst subdued forex inflows.

(iv) Preliminary fiscal data by the end of August 2017 indicate that the country registered UGX 1,076.9 billion in revenue and grants albeit with a shortfall of UGX 234.5 billion mainly due to poor performance of grants.

1.1. Real Sector Developments

The economy continued to show an overall upward trend across all quarters of FY 2016/17 as per the latest UBOS data released at the end of September 2017, despite remaining below the planned growth targets. The economy registered lower average growth of 0.9 percent in the first half of FY2016/17 mainly due to bad weather conditions that affected the agricultural sector compared to 1.9 percent attained in the second half mainly attributed to improved performance in the subsectors of cash crops, manufacturing and trade. The projected growth albeit below NDPII target for the year 2017/18 is 5.5percent. However, current economic trends in FY 2017/18 Q1 indicate positive but declining business sentimates as is depicted by the the overall Business Tendency Index (BTI) (Figure 1).

The changes in the Composite Index of Economic Activity (CIEA) over Q1 in FY 2017/18 depicts a slump in economic activities (Figure 2). The decline in optimism about the future of real sector activities as well as the decline in economic activities has ramifications on the attainment of Uganda's projected growth, and the the middle-income status goal.

Figure 1: The Business Tendency Index

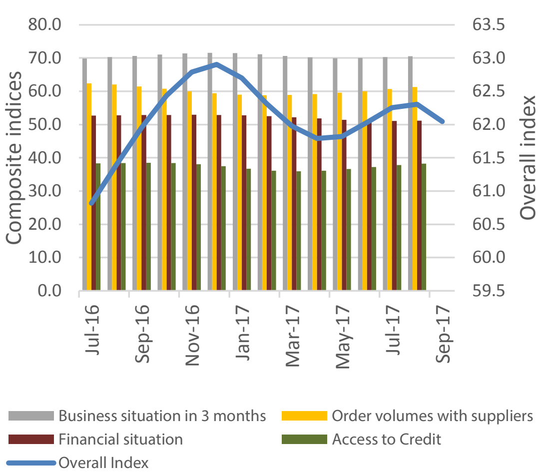
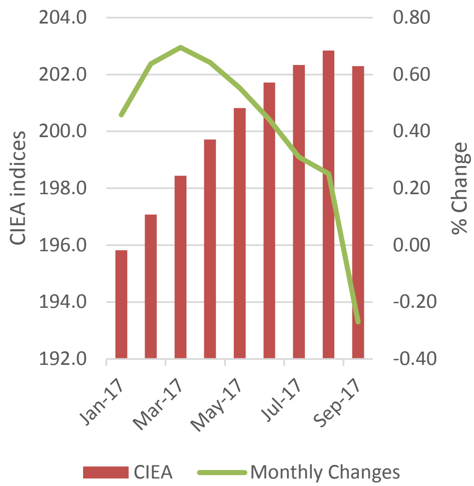


Figure 2: Composite Index of Economic Activities



Source: Bank of Uganda

1.2. Monetary and Financial Sector Developments

Latest developments in the monetary sector point towards higher volatility in prices, with inflation increasing further way from the BoU medium term target. Annual headline and core inflation increased marginally to 5.3 percent and 4.2 percent in September 2017 from the respective rates of 5.2 percent and 4.1percent in August 2017. The monthly headline inflation for September 2017 increased by 1.0 percent from the 0.2 percent rise recorded in August 2017.

This was due to monthly food crops & related items inflation that increased by 4.6 percent during the month of September 2017 from the earlier rise of 0.9 percent recorded in August 2017. In addition, Monthly Core Inflation registered an increase of 0.1 percent in September 2017 from the 0.0 percent stability recorded in August 2017. Also, the monthly Energy Fuel and Utilities (EFU) Inflation increased by 3.7 percent for the month of September 2017 from the 0.6 percent rise recorded in August 2017.

Despite the continued easing of monetary policy as indicated in by the reduced Central Bank Rate (CBR) from 10 percent in June to 9.5 percent October 2017, growth in private sector credit (PSC) remained subdued recording an average growth of approximately 0.5 percent over Q1 period for FY 2017/18. This is slightly lower than the 0.6 percent average growth recorded in the quarter ending June 2017 (Q4) which was an improvement from an average growth of -0.5 percent that was recorded in the quarter ending March 2017(Q3).

As at the end of August 2017, private sector credit (PSC) stood at UGX 12.224 trillion reflecting a modest increase of 0.4 percent as compared to the 1.3 percent increase recorded at the end of June 2017(Figure 4). The growth was largely driven by credit to the Building, Mortgage, Construction and Real estate sector and the trade sector each contributing 20.3 and 20.5 percent of credit to the private sector.

Figure 3: Monthly CPI and Inflation 2017

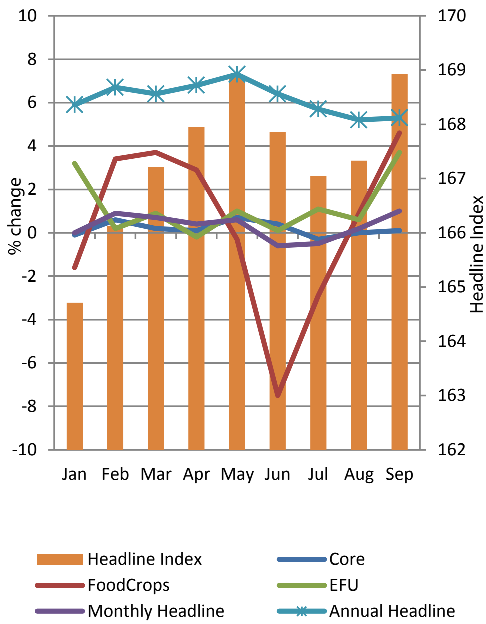
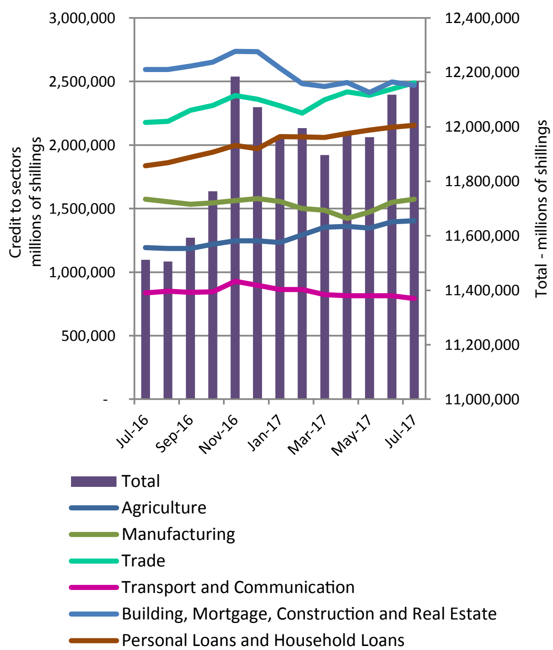


Figure 4: Private Sector Credit 2016/17

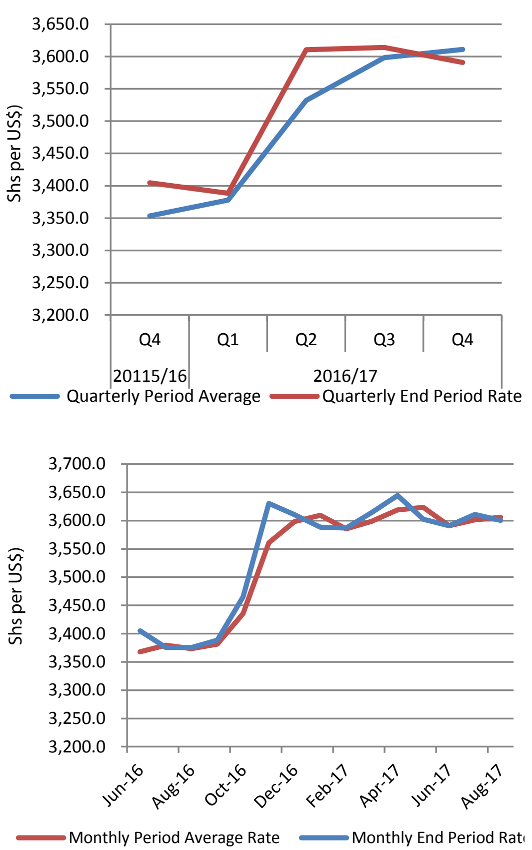


Source: UBoS

FinancialMarket

In Q1 of FY 2017/18, the Uganda shilling weakend against the USD due to increased demand of foreign exchange from manufacturing, oil, telecom sectors as well as forex purchases by BoU, amidst subdued forex inflows. The shilling depreciated by 0.3 percent trading to UGX 3,603 per USD at end of September 2017 from UGX 3,591 at the end of the quarter ending June 2017. Similarly, the monthly end period exchange rate as at the end of September 2017 pointed to a depreciation of the UGX which traded at UGX 3,603 compared to UGX 3,600 per USD at the end of August 2017. This performance was on account of increased demand of foreign exchange against the subdued forex inflows.

Figure 5: Quarterly and Monthly Exchange Rates

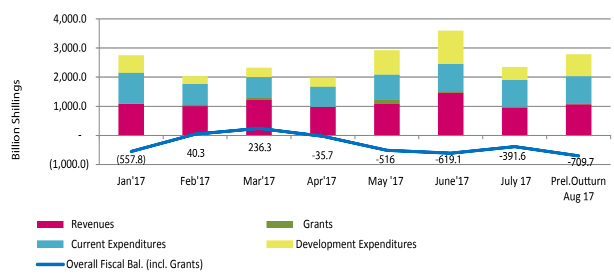


Source: BoU

1.3. Fiscal Sector Developments

Preliminary fiscal data by the end of August 2017 indicate that the country registered UGX 1,076.9 billion in revenue and grants albeit with a shortfall of UGX 234.5 billion mainly due to poor performance of grants. Domestic revenues amounted to UGX 1,062.9 billion out of which UGX 1,034.3 billion was tax revenues and UGX 28.6 billion was non-tax revenue. Tax revenues registered a shortfall of UGX 39.4 billion or 3.7 percent of the target for the month of August.

Figure 6: Overall Fiscal Operations



Source: MoFPED

Expenditure and net lending during the month of August mounted to UGX 1,786.6 billion against the projection of UGX 1,852.3 billion. This resulted into a fiscal deficit of UGX 709.7 which is much bigger than UGX 391.6 recorded in July 2017 due to increasing development expenditures that increased by 69 percent to UGX 752.2 billion amidst a large fall in grants by 54 percent and a modest rise of 4.1 percent to UGX 951.5 billion in current expenditures (Figure 6).

1.4. External sector Developments

The trade deficit worsened during the last quarter of 2016/17 giving rise to a deficit of USD 418.1 million from a trade deficit of USD 305.3 million in the quarter ending March 2017 (Figure 7). The value of exports during the period increased by 5.6 percent to USD846.7million, but were insufficient to cover the import bill that increased by 14.2 percent to USD 1,264.9. The higher value of exports was due to the increase in the export of non-coffee formal exports, particularly beans and tobacco that increased by 132 percent and 77 percent respectively. The rise in the import bill on the other hand was attributed to the high rise in government imports by 298.6 percent as indicated in Table 1.

Figure 7: Trade Balance

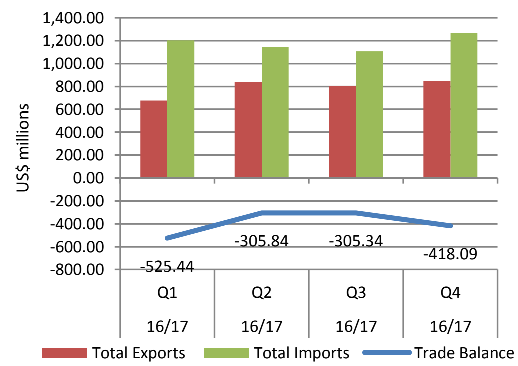


Table 1: Quarterly Exports and Imports 2017

	Q1 16/17	Q2 16/17	Q3 16/17	Q4 16/17
Total Exports	677.11	837.81	802.00	846.79
Coffee (Value)	80.01	126.06	147.93	136.43
Non -Coffee formal exports	503.96	586.35	519.19	580.13
ICBT Exports	93.15	125.40	134.89	130.24
Total Imports	1,202.6	1,143.6	1,107.3	1,264.9
Government Imports	148.0	138.6	30.4	121.1
Project	134.6	134.4	29.5	113.5
Non -Project	13.4	4.3	0.9	7.6
Formal Private Sector Imports	968.8	925.9	1,000.3	1,052.7
Oil imports	154.5	151.5	195.8	191.9
Non -oil imports	814.3	774.4	804.5	860.7
Estimated Private Sector Imports	85.8	79.1	76.6	91.1

Source: BoU

During the month of July in FY 2017/18 there was a narrowing of Uganda's trade deficit mainly on account of a lower import bill driven by a 51 percent decline in the government import bill which outstripped the decline in exports. It is important to note that Uganda's export earnings dropped by 2.4% in July 2017 compared with June 2017 following declines in most export commodities like coffee, fish & its products, gold, beans, cotton and tea. The decline in exports of coffee, fish & its products, beans, cotton and tea is mainly attributed to the fall in their volumes while the fall in gold is due to the drop in the price of gold.

2.0. Other Developments in the Economy

2.1. Key Highlights of the 2016/17 Uganda National Household Survey

The released the 2016/17 Uganda National Household Survey which is the sixth national household survey (UBOS, 2017). The survey collected socio-economic data required for measurement of human development and for monitoring social goals, with particular focus on the measurement of poverty and unemployment inline with the Sustainable Development Goals (SDGs) and NDPII among other development frameworks. The following gives some key highlights from the recently released survey data:

2.1.1 Labourforce Characteristics and Earnings

While the national unemployment rate stands at 9.2 percent, the size of the working population was 15 million, of whom it is estimated the employed labourforce increased from 8.8 million in 2012/13 to about 10 million in 2016/17. The rest of the workers (about 6million) are subsistence workers. Nationally, the Labourforce Participation Rate (LFPR) was 52 percent and Employment to Population Ratio (EPR) was 48 percent. Nationally, 38 percent of persons in employment were in paid employment with a higher proportion of males (46%) compared to females (28%). Service and sales workers constituted the highest proportion of the employed population (29%). Agriculture sector accounted for the largest share of employment (36%). The overall median monthly wage of an employee was UGX. 168,000 per month with the median wage in urban areas UGX 220,000 almost twice that in rural areas (UGX. 120,000).

The overall median monthly wage of UGX 168,000 of an employee translates into an annual gross income of UGX 2,016,000 which compares less favourably with the middle-income target of UGX 3,500,000. Another important development is the decline in dependency ratio from 107 in 2012/13 to 97 in 2016/17, and this is important in contributing to the quality of the population at household level.

2.1.2 Household Expenditure and Welfare

While Uganda's average household monthly expenditure has risen from from UGX 328,200 in 2012/13 to UGX 351,600 in 2016/17 representing a real increase of 7 percent, the proportion of the population living in poverty has also increased from 20 percent to 27 percent which translates into about 10 million people. The increase in poverty was more evident in the Eastern region than in the Northern region which traditionally has been the poorest region. The proportion of people living in poverty increased significantly in absolute terms, although income inequality reduced in all except in the Western region. A significant decline in poverty was observed in the Northern region. The increase in poverty has been largely attributed to changes in the general climate that have affected agricultural production coupled with increasing challenges in access and land use.

2.1.3 Household Assets, Income Sources and Financial Services

Majority of owner occupied houses (41%) were jointly owned by male and female members of households while ownership of assets such as bicycles, radios, motorcycles and cars was dominated by males. The main source of earnings for the majority of households (43%) was subsistence farming while for one in every four households (25%) it was wage employment.

There were varying perceptions of savings with four in every ten household respondents perceiving savings as "putting money in a special place or account for the money to be safe". Keeping money at home/secret place was the most commonly used mechanism for saving (33%) followed by saving with Village Savings and Loan Associations (VSLAs) (16%). In addition, there is increased use of mobile money services by the majority of the households.

2.1.4 Household Enterprises

Overall, 37 percent of households in Uganda had household enterprises. The majority (71%) of the households with household enterprises were male headed. Working proprietors formed the bulk of the total work force of household enterprises (54%). Also, 92 percent of household enterprises were started by the owners mostly with own household savings (78%). In addition, 54 percent of the enterprises used their own household savings to expand compared to 11 percent which borrowed from commercial banks and micro finance deposit taking institutions.

2.2 Rebasing of the Producer Price Index (PPI)

The Producer Price Index (PPI) is a measure of changes in prices of goods either as they leave the place of production (output prices) or as they enter the production process (input prices). Uganda's current PPI uses output prices with the products priced at basic prices i.e. exclusive of taxes like VAT and excise duty. The PPI weights should be updated at least every five years or more often where evidence shows that there are rapid changes in production patterns. To this effect, UBOS undertook the process of rebasing the PPI with the aim of making the PPI more comprehensive by putting into consideration the changes in manufacturing patterns such as closure of some manufacturing establishments, emergence of new manufacturing establishments, and disappearance of products as well as appearance of new products in the production chain.

The new PPI cover both manufacturing and utility sectors, and use the weights calculated from the 2009/10 supply and use tables. These PPIs include 886 products compared to 680 products used before and data collection is be done from 208 selected manufacturing and 14 utility establishments instead of the 170 manufacturing establishments used in the previous index.

Trends

The current trends of PPI reveal an increase in PPI for manufacturing and utility by 7.0 percent for the year ending July 2017 as compared to the year ending July 2016. The increase came from a 6.6 percent increase in producer prices for manufacturing and an 11.9 percent increase in producer prices for utilities. On a monthly basis, the PPI recorded an increase of 0.8 percent in producer prices for manufactured goods in July 2017 from a 1.0 percent decrease in June mainly due to an increase in producer prices of leather products and basic metals. While the producer prices for utilities recorded a decrease of 0.4 percent July 2017, following a decrease of 0.4 percent in June 2017. The decreased prices in July were on account of the decreased prices of generated electricity (UBOS, 2017).

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(2017). *Uganda National Household Survey 2016/17. Kampala: Uganda Bureau of Statistics.*

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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