NATIONAL PLANNING AUTHORITY

MONTHLY ECONOMIC UPDATE

SEPTEMBER 2022

Key Economic Highlights

i. The real sector depicts a positive outlook in the short run despite the challenges of increased input prices witnessed in the recent months. All the short-term indicators of economic activity, that is, the CIEA, BTI and PMI are above their threshold values although still below the pre-covid 19 growthaveragesThisis an indication that economic activity is yet to bounce back to its potential level

ii. The inflation outlook continues to be out of the medium-term target of 5 percent as envisaged in the NDPIII. The annual headline inflation, increased to 10.0 percent in September from the 9.0 percent recorded in August largely on account of increased food prices particularly cereals.

iii. Annual Energy, Fuel, and Utilities (EFU) inflation rate decreased from 19.6 percent to 18.7 percent in the year ended September. This was mostly due to a sharp decline in the prices of crude oil prices (Brent) on the global market by 22.5 percent. Changes in international prices of crude oil explain 40 percent of the pump prices in Uganda.

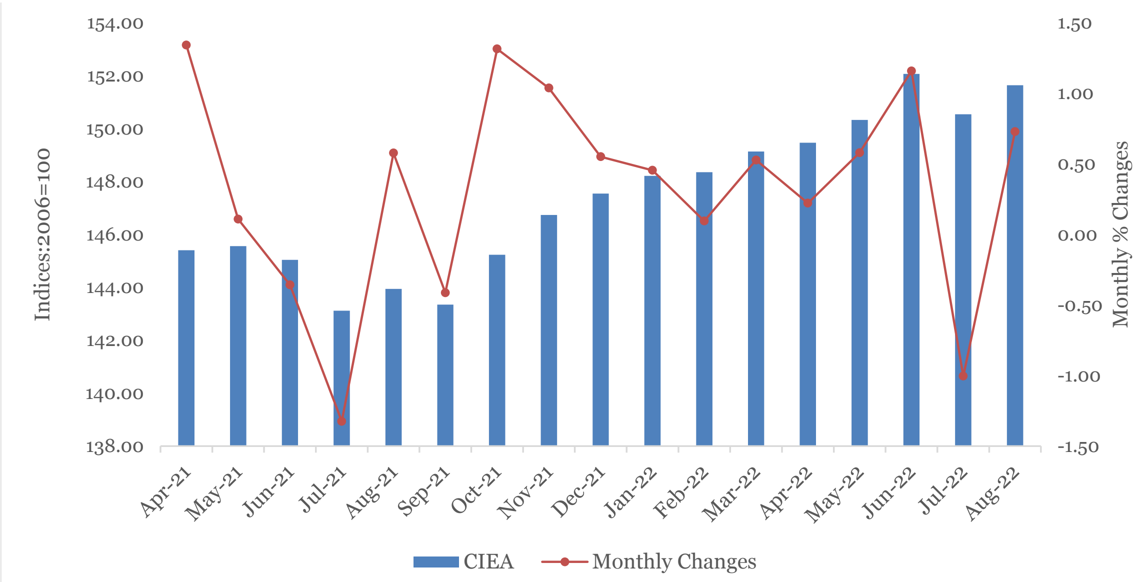
iv. The Ugandan shilling appreciated against the US Dollar by 0.2 percent from an average rate of UGX 3,832.38 in August to trade at an average of UGX 3,825.59. This appreciation was mainly caused by a dollar surplus that outpaced demand throughout the month, this was mostly driven by an increase in export revenues and tourist receipts.

v. Government operations in September totaled a surplus of UGX 23.93 billion as a result of a combination of higher-than-anticipated revenue and lower-than-anticipated expenditures for the month in a bid to control inflationary pressures.

1.0 State of the Economy
1.1 Real Sector

1. **The overall level of economic activity improved in the month ending September owing to an increase in aggregate demand. The Composite Index of Economic Activity (CIEA), increased slightly by 0.7 percent from 150.5 in July to 151.6 in August (Figure 1).** This indicates slight uplift of several economic sectors; notably in the manufacturing industry, which saw an increase in output as well as higher energy demand. This was attributable to fairly constant fuel costs throughout the month.

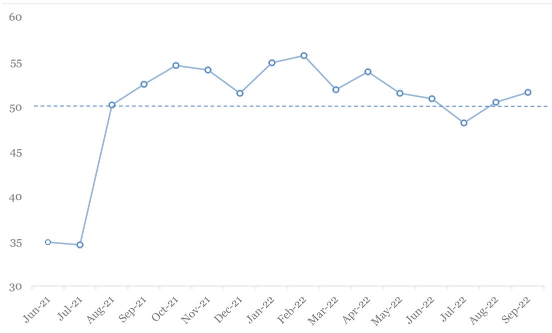
Figure 1: Composite Index of Economic Activity



Source: Bank of Uganda

2. The Stanbic Bank Headline Purchasing Managers Index (PMI) recorded 51.6 in September, increasing from 50.5 the previous month, the highest reading in five months (Figure 2). This indicated an improvement in business conditions and output particularly in agriculture, industry, and services sectors but reductions were signalled in construction, wholesale and retail trade. The improvement was largely due to improved demand factors that were accompanied by increases in output and new orders. However, despite these increases, firms reduced employment and expenditure/input costs continued increasing. There were higher prices for cement, construction materials, electricity, food products including sugar which resulted in higher selling prices.

Figure 2: Purchasing Managers Index (PMI)

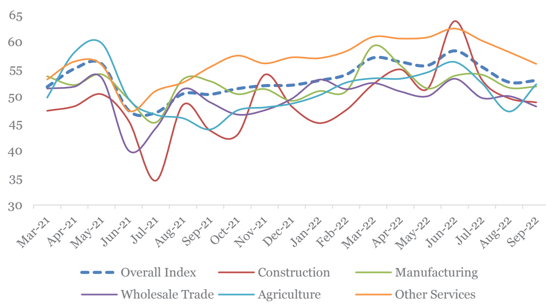


Source: Stanbic Bank Uganda

3. The Business Tendency Indicator (BTI) Index pointed towards positive expectations in the business environment in September, as marked by the BTI's rise from 52.62 in August to 52.93 (Figure 3). The index's key indications reveal that market players anticipate improvements in access to credit and an improvement in their financial performance in the months ahead. Agribusiness and manufacturing were the two industries where optimism was most prevalent, owing to the increased demand.

4. The real sector depicts a positive outlook in the short run despite the challenges of increased input prices witnessed in the recent months. All the short-term indicators of economic activity, that is, the CIEA, BTI and PMI are above their threshold values although still below the pre-covid 19 growth averages. This is an indication that economic activity is yet to bounce back to its potential level.

Figure 3: Business Tendency Index



Source: Bank of Uganda

1.2 Monetary sector Developments

1.2.1 Inflation rate

5. The inflation outlook continues to be out of the medium-term target of 5 percent as envisaged in the NDPIII. The annual headline inflation, increased to 10.0 percent in September from the 9.0 percent recorded in August. This was the highest annual headline figure since July 2012. The increase was mostly caused by the rise in the cost of commodities under core inflation (Figure 4), which rose from 7.2 percent to 8.1 percent the year ending September. In addition, the

"Agribusiness and manufacturing were the two industries where optimism was most prevalent, owing to the increased demand."

headline inflation rate for the month of September rose to 1.5 percent from the 1.0 percent reported the month before.

6. Similarly, annual food crops inflation climbed from 18.8 percent in the year ended August to 21.6 percent in the year ending September. The dry weather from the past few months of the year contributed to the ongoing increase in food costs. Notable, price level increases were in rice inflation; which almost doubled when it increased to 32.2 percent in September from 17.5 percent the previous month and sugar inflation which increased to 29.3 percent in September from 20.1 percent over the same period.

7. However, annual Energy, Fuel, and Utilities (EFU) inflation rate decreased from 19.6 percent to 18.7 percent in the year ended September. This was mostly due to a sharp decline in the prices of crude oil prices (Brent) on the global market by 22.5 percent.

Changes in international prices of crude oil explain 40 percent of the pump prices, taxation explains 31percent and costs related to distribution and fuel dealers' margins constitute the other 29percent. It is noted that the international crude oil price per barrel has been reducing since June 2022. It is therefore anticipated that the pump prices in the domestic economy will fall further.

Figure 4: Annual Headline, Core, Food crops and EFU Inflation

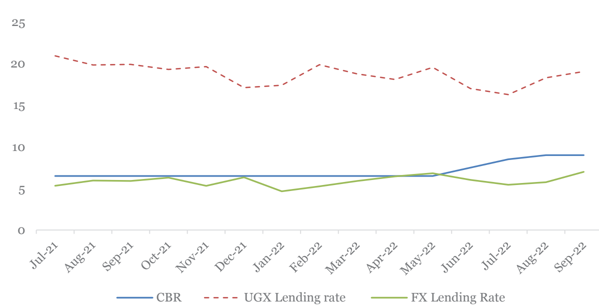
Source: UBOS

1.2.2 Interest Rates

8. Regarding monetary policy, the central bank rate was maintained at 9.0 percent in September on account of containing inflation to single digit in the medium term (Figure 5) in the face of an uncertain economic outlook. The weighted average of the Commercial Banks' rates in shillings climbed from 15.53 percent in July to 17.29 percent in August .

The Central Bank's monetary tightening stance and interest rates on government-issued debt securities were the driving forces behind this trend. In contrast, the weighted average of foreign currency-denominated loan rates fell 0.1 percentage point to 6.42 percent in from July to August.

Figure 5: Interest Rates

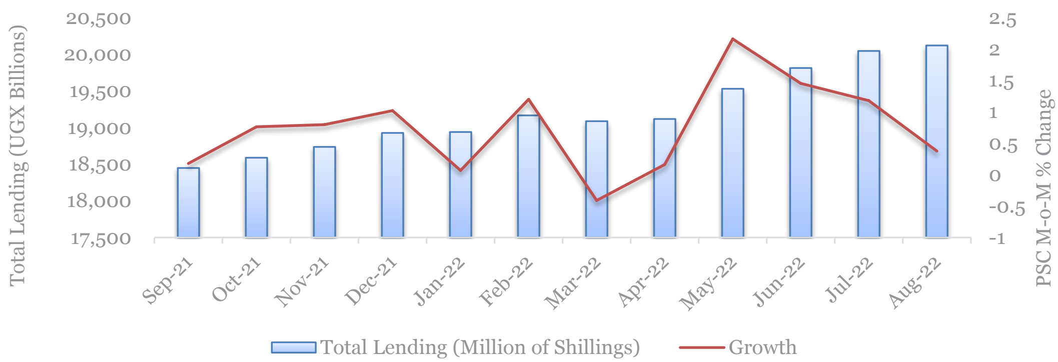


Source: Bank of Uganda

1.2.3 Private Sector Credit

9. The stock of credit outstanding as at the end of August marginally increased by 0.4 percent to UGX 20,115 million from UGX 20,041 million at the end of July, as compared to a 9.1 percent increase annually (Figure 6). The lower credit uptake is attributed to the persistently high lending rate which increased to 17.29 percent in August as compared to 15.53 percent in July, and increased risk averseness of banks towards lending in the face of rising inflationary pressures.

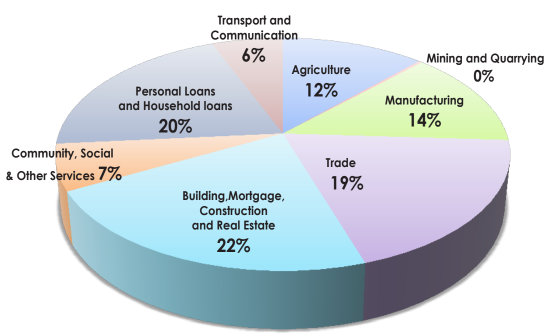
Figure 6: Private Sector Credit Outstanding (UGX in billions)



Source: Bank of Uganda

10. Building, Mortgage, Construction and Real Estate took the largest share of credit approved in August at 22 percent followed by Personal Loans and Household Loans at 20 percent and Trade at 19 percent (Figure 7). Furthermore, Agriculture and Manufacturing took a moderate share of credit at 12 and percent, yet these are primary sectors of the economy meant to drive production. Deliberate steps should be taken to increase the uptake of credit to productive sectors in order to accelerate economic recovery and sustainable wealth creation.

Figure 7: Share of Credit by Sector (In percent of the total lending)

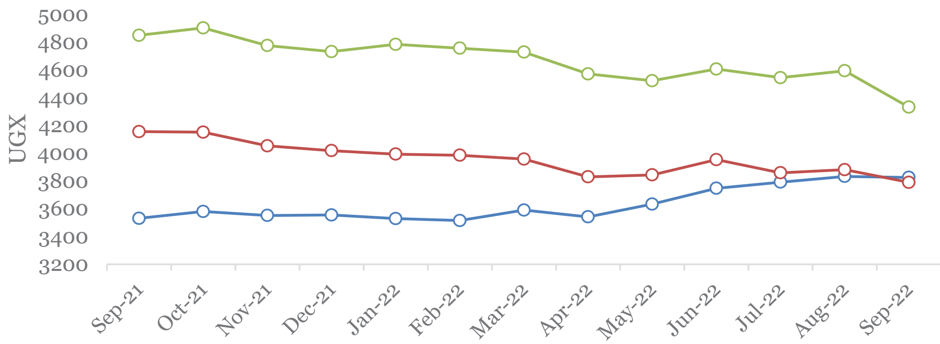


Source: Bank of Uganda

1.2.4 Exchange Rate

11. The Ugandan shilling appreciated against the US Dollar by 0.2 percent from an average rate of UGX 3,832.38 in August to trade at an average of UGX 3,825.59 (Figure 8). This increase in value was caused by a dollar surplus that outpaced demand throughout the month, this was mostly driven by an increase in export revenues and tourist receipts. Similarly, the Shilling appreciated by 2.4 percent and 5.7 percent, against the Euro and the Pound Sterling, respectively.

Figure 8: Monthly Exchange Rates Figures



Source: Bank of Uganda

1.3 Fiscal Sector Developments

12. According to preliminary figures, government operations in September totaled a surplus of UGX 23.93 billion as a result of a combination of higher-than-anticipated revenue and lower-than-anticipated expenditures for the month (Table 1).

13. In terms of revenue, Government brought in UGX 2,057 billion in September as opposed to its projection of UGX 1,923 billion, a surplus of UGX 134.0 billion. This was linked to a month-long domestic income surplus and greater than anticipated project support grants. The amount of domestic revenue collected for the month of September was UGX 1,821.81 billion, with a surplus of UGX 24.59 billion due mostly to surplus tax revenue collections throughout the month.

Table 1: Fiscal Operations September 2022

UGX Billion		Program	Outturn	Performance	Deviation
Revenues and grants		1,922.98	2,056.49	106.9%	133.5
Revenues		1,797.22	1,821.81	101.4%	24.59
	Tax	1,675.26	1,712.34	102.2%	37.08
	Non-Tax	121.96	109.47	89.8%	-12.49
Grants		125.77	234.68	186.6%	-108.91
	0/w Project support	116.28	234.68	201.8%	-118.4
Expenditures and Lending		2,433.88	2,032.56	83.9%	-390.32
Current expenditures		1,630.03	1,506.77	92.4%	-123.26
	Wages and salaries	505.22	487.1	96.4%	-18.11
	Interest payments	501.32	641.77	128.0%	140.46
	o/w domestic	345.25	485.71	140.7%	140.46
	o/w external	156.06	156.06	100%	0
	Other recurrent expenditure	623.5	377.9	60.6%	-245.6
Development expenditures		733.59	493.85	67.3%	-239.74
	Domestic	403.67	135.65	33.6%	-268.02
	External	329.92	358.2	108.6%	-28.28
Net Lending/ repayment		0	0	-	0
	o/w HPP GoU	0	0	-	0
HPP Exim		0	0	-	0
Domestic arrears repayment		59.25	31.93	53.9%	-27.32
Domestic fiscal balance		-499.89	23.93	-	-

Source: Ministry of Finance

14. Preliminary figures on Government expenditure in September totaled UGX 2,033 billion, which is an 84 percent performance rate versus the September objective of UGX 2,423 billion. This result was mostly caused by lower-than-expected spending on recurring and development expenditure.

1.4 External Sector Developments

15. Uganda's external position improved slightly by 4 percent in August, representing a narrowing of the trade deficit to USD 310.7 million from USD 324.3 million in July (Table 2). This was as a result of an increase in the exports by 47.8 percent during this period. The exports increased to USD 507.5 million in August as compared to USD 343.3 million in July, owing to an increase in majorly non-coffee exports which increased from USD 218.19 in July to USD 394.76 million. Among the non-coffee exports that had a significant contribution to export earnings are gold, maize, cement, sugar and base metals and products.

Table 2: Monthly Composition of the Trade Balance (Million US$)

	Feb 2022	March 2022	April 2022	May 2022	June 2022	July 2022	Aug 2022
Trade Balance	**-300.9**	**-292.9**	**-239.3**	**-293.2**	**-365.1**	**-324.3**	**-310.7**
Total Exports	**328.7**	**363.7**	**338.3**	**351.2**	**365.1**	**343.3**	**507.5**
Coffee (Value)	72.17	80.99	70.85	73.01	83.79	83.52	71.15
Non-Coffee formal exports	215.83	240.75	225.89	236.76	239.64	218.19	394.76
ICBT Exports	40.75	42.01	41.61	41.46	41.69	41.59	41.58
Total Imports (fob)	629.66	656.69	577.62	644.42	730.24	667.62	818.20
Government Imports	54.73	27.87	12.18	28.16	33.38	17.10	14.91
Project	54.73	27.87	12.18	28.16	33.38	17.10	14.91
Non-Project	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Formal Private Sector Imports	565.86	619.80	556.72	607.32	687.97	641.67	794.41
Oil imports	100.02	123.15	117.49	112.80	158.58	175.30	183.11
Non-oil imports	465.84	496.66	439.23	494.52	529.38	466.37	611.29
Estimated Private Sector Imports	574.93	628.82	565.44	616.26	696.86	650.52	803.30

Source: Bank of Uganda

16. The import bill increased by 22.6 percent from US$ 667.62 Million in July to US$ 818.20 million in August. The increase was majorly attributed to an increase in Formal Private Sector imports from US$ 641.67 Million to US$ 794.41 Million in August majorly mineral products, chemical and related products. However, Government imports reduced as a result of low funding in implementation of government projects due to low releases for the first quarter of the Financial Year.

1.5 Conclusion

17. While the economy is yet to fully recover to its pre-covid-19 levels, there is positive business expectations as depicted in the increasing demand and output. Further, the domestic fuel pump prices are gradually declining and this is expected to continue in the coming months. The reduction in the prices of fuel is expected to positively impact a significant number of input prices.

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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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