

PERFORMANCE OF THE ECONOMY

February 2017

MACROECONOMIC POLICY DEPARTMENT

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

www.finance.go.ug

Contents

1.0 HIGHLIGHTS.....	3
2.0 REAL SECTOR DEVELOPMENTS	4
2.1 INFLATION.....	4
2.2 Business Tendency Index (BTI) and Composite Index of Economic Activity (CIEA)	6
3.0 FINANCIAL SECTOR DEVELOPMENTS.....	6
3.1 Exchange Rate	6
3.2 Private Sector Credit.....	7
3.3 Government Securities	8
4.0 EXTERNAL SECTOR.....	9
4.1 Merchandise Trade Balance	9
4.2 Merchandise Exports	10
4.2 Imports.....	11
5.0 FISCAL SECTOR	12
5.1 Overview.....	12
5.2 Revenues and Grants.....	13
Domestic Revenues.....	13
Tax revenue.....	13
Non-Tax Revenue.....	14
Grants.....	14
5.3 Expenditure and net lending	14

1.0 HIGHLIGHTS

Inflation: Headline inflation rose to 6.7% for the year ending February 2017 from 5.9% recorded for the year ended January 2017. This increase was as a result of a rise in both core and food crops inflation.

Business Tendency Index (BTI) and Composite Index of Economic Activity (CIEA): The high frequency indicators of economic activity remained positive. The Composite Index of Economic Activity (CIEA) increased from 193.86 in December 2016 to 194.67 in January 2017. BTI remained positive, standing at 54.28, well above the threshold of 50.

Exchange Rate: The shilling was stable during the month, appreciating marginally by 0.67% against the US dollar, from an average midrate of Shs 3,609.5/US\$ in January 2017 to Shs 3,585.4/US\$ in February 2017.

Private Sector Credit: In the month of January 2017, the stock of outstanding Private Sector Credit (PSC) marginally declined by 0.03% to Shs.12,069.5 billion from Shs.12,072.7 billion in December 2016. This however was a less decline compared to the previous one of 0.92% recorded in December 2016.

Government Securities: Shs 470 billion (at cost) was raised in the primary market. All resources raised in auctions of Treasury instruments during February were used for refinancing of maturing securities.

Merchandise Trade Balance: The merchandise trade deficit amounted to US\$ 116.2 million in January 2017 compared to US\$ 69.6 million in December 2016. The widening of the trade deficit was due to a combination of a reduction in exports receipts and an increase in the import bill.

Fiscal performance: Revenue and grants amounted to Shs 1,023.3 billion resulting into 92.5% performance against a Shs 1,106.5 billion target while expenditure and net lending totalled to Shs 1,174.5 billion against a target of Shs 1,513.7 billion, indicating a performance of 77.6%. This resulted into a fiscal deficit of Shs 151.2 billion for the month.

2.0 REAL SECTOR DEVELOPMENTS

2.1 INFLATION

Headline inflation rose to 6.7% for the year ending February 2017 from 5.9% recorded for the year ended January 2017. This increase was as a result of a rise in both core and food crops inflation, as shown in the summary table below.

Table 1: Summary of Inflation Statistics

	January 2017	February 2017
Headline	5.9	6.7
Core	5.3	5.7
EFU	1.4	1.0
Food Crops and Related Items	14.5	18.8

Source: Uganda Bureau of Statistics

Annual food crops inflation rose to 18.8% in February 2017 from 14.5% the previous month, mainly on account of an increase in prices of vegetables in the month of February. The increase in food crop inflation in general, and vegetable inflation in particular, was caused by poor harvests in the face of a long dry spell in most parts of the country.

Core inflation remained marginally above its 5% target, increasing slightly to 5.7% for the year ending February 2017 from 5.3% for the year ended January 2017. The main driver of this change was other goods inflation¹, which registered an increase of 0.7 percentage points over the same period. Annual inflation of services² also rose by 0.1 percentage points to 5.9% in February from 5.8% the previous month.

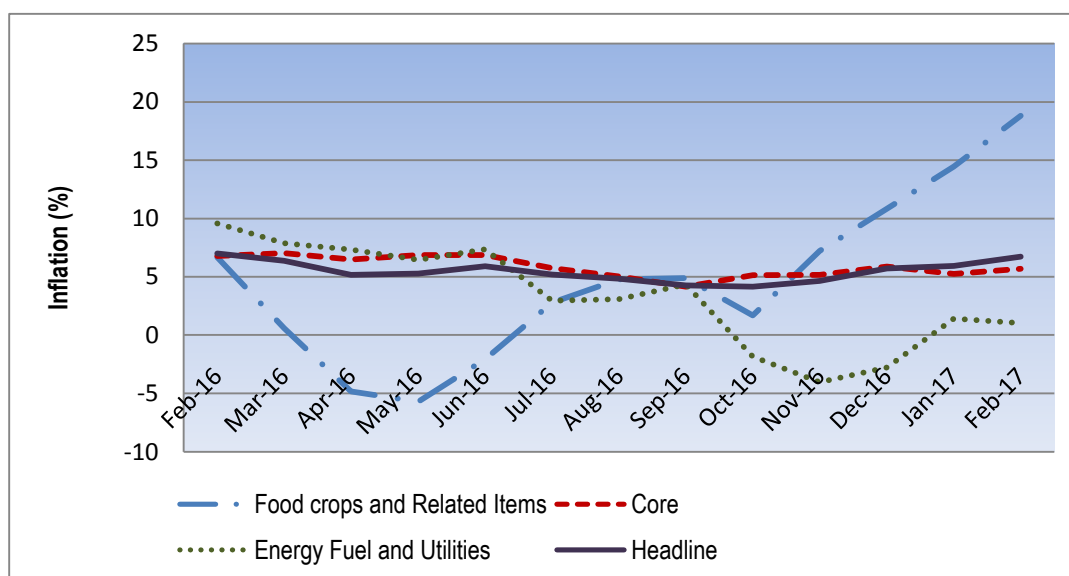
On the other hand, Energy, Fuels and Utilities (EFU) Inflation receded to 1% in February 2017 compared to 1.4% the previous month, mainly due to a sharp decline in annual inflation for solid fuels that was recorded at -2.1% from 2.4% over the same period. In particular, there was notable decline in charcoal prices in February compared to January 2017.

Figure 1 depicts the Inflation trend over the past year, and illustrates the volatile nature of food crop and EFU inflation.

¹ Other goods inflation accounts for manufactured foods, Beverages & tobacco, clothing & footwear, etc.

² Services inflation accounts for rent, house maintenance & repair,, transport & Communication, health, education, etc.

Figure 1: Annual Inflation, February 2016 – February 2017



Source: Uganda Bureau of Statistics

Table 2: Headline Inflation in EAC Partner States:

	November 2016	December 2016	January 2017	February 2017
Burundi	7.1%	9.6%	12.9%	NA ³
Kenya	6.7%	6.4%	7.0%	9.04%
Rwanda	9.1%	11.0%	12.0%	13.4%
South Sudan	457.2%	479.7%	NA	NA
Tanzania	4.8%	5.0%	5.2%	5.5%
Uganda	4.6%	5.7%	5.9%	6.7%

Source: Respective Bureaux of Statistics.

In the EAC region, inflation was generally on an upward trend, majorly driven by rising food prices in all the partner states resulting from food shortages brought about by the prolonged dry spell. Tanzania registered the least rise from 5.2% in January to 5.5% in February.

Consumer prices in Rwanda increased by 13.4% year-on-year in February 2017 compared to 12% the previous month. This was majorly driven by an increase in prices for food and non-alcoholic beverages and transport costs.

As food prices continued to rise sharply due to supply shortages caused by prolonged drought Kenya's consumer prices increased by 9.04% year on year in February 2017, compared to a 7% rise the previous month.

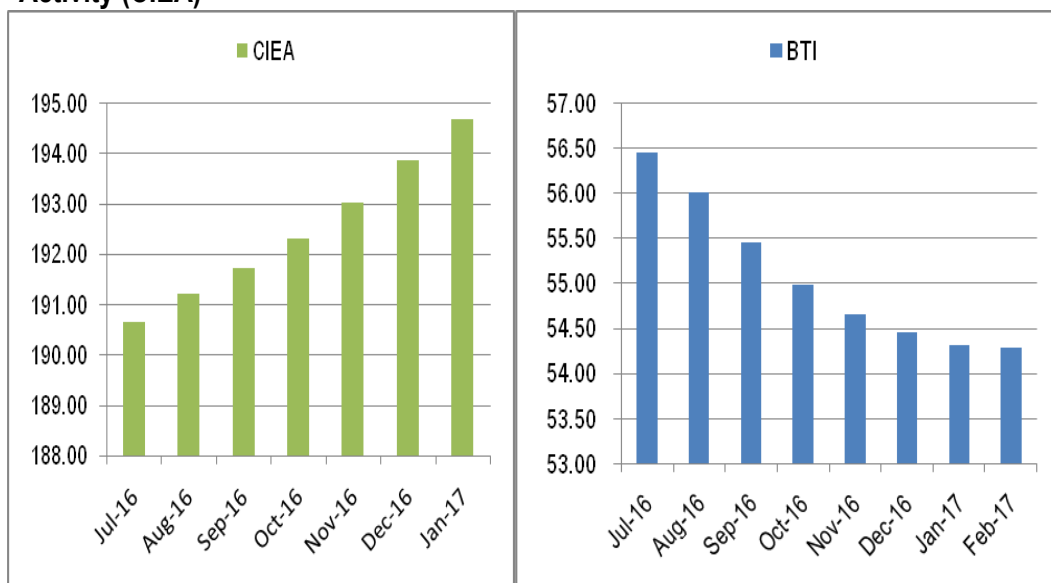
³ NA means information was not available at the time of publishing this report

2.2 Business Tendency Index (BTI) and Composite Index of Economic Activity (CIEA)

The high frequency indicators of economic activity remained positive. The Composite Index of Economic Activity (CIEA) increased from 193.86 in December 2016 to 194.67 in January 2017.

At the same time, investors' sentiments about doing business in Uganda remained positive, as shown by the BTI which stood at 54.28 in February, well above the threshold of 50. Figure 2 below shows the trends in the high frequency indicators of economic activity.

Figure 2: Trends in the Business Tendency Index (BTI) and Composite Index of Economic Activity (CIEA)



Source: Bank of Uganda

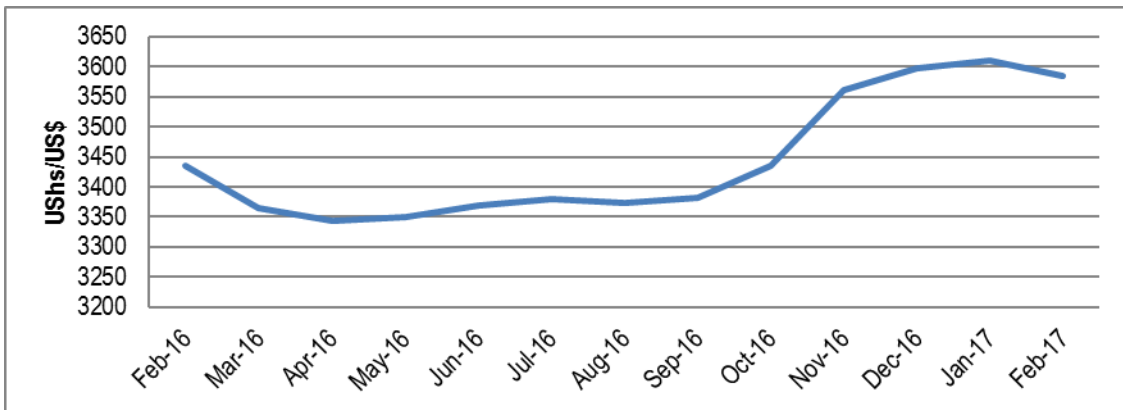
3.0 FINANCIAL SECTOR DEVELOPMENTS

3.1 Exchange Rate

The shilling was stable during the month, appreciating marginally by 0.67% against the US dollar, from an average midrate of Shs 3,609.5/US\$ in January 2017 to Shs 3,585.4/US\$ in February 2017. Within the month under review, the shilling appreciated by 0.07% having opened at a midrate of Shs 3,589.3/US\$ and closed at Shs 3,586.7/US\$.

The shilling appreciation was as a result of subdued corporate activity with the available demand being matched by inflows from remittances, offshore investors, coffee and fish export receipts and NGOs. Figure 3 below shows the trends in the exchange rate between February 2016 to February 2017.

Figure 3: UShs/US\$ Exchange Rate Trend (February 2016- February 2017)



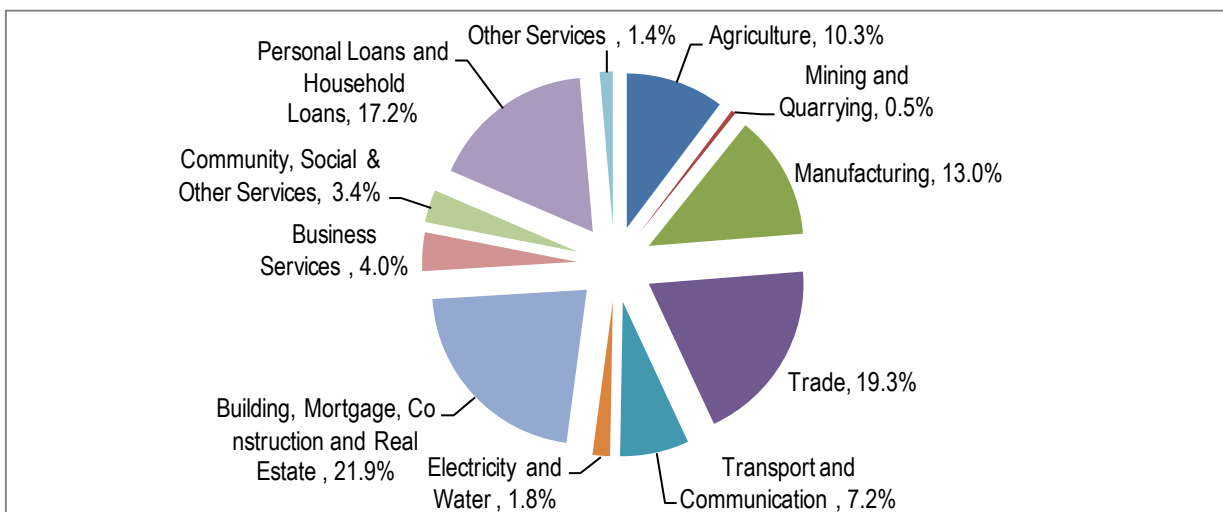
Source: Bank of Uganda

3.2 Private Sector Credit

In the month of January 2017, the stock of outstanding Private Sector Credit (PSC) marginally declined by 0.03% to Shs.12,069.5 billion from Shs.12,072.7 billion in December 2016. This however was a less decline compared to the previous one of 0.92% recorded in December 2016. The financial sector asset quality indicators registered an increase in Non-Performing Loans (NPLs) to total gross loans from 7.69% in September 2016 to 10.47% in December 2016, implying higher risk of default. This may have increased risk averseness amongst lending institutions, leading them to constrict credit extension.

Figure 4 illustrates the distribution of the stock of outstanding PSC by sector, and it shows that the building, mortgage, construction and real estate sector accounted for 21.9% of outstanding PSC at the end of January 2017. Other notable holders of credit by sector include trade (19.3%); personal and household loans (17.2%); manufacturing (13.0%) and agriculture (10.3%).

Figure 4: Distribution of Outstanding Stock of PSC by Sector



Source: Bank of Uganda

At sector level, there was positive growth in the stock of outstanding credit to the Mining and quarrying sector (2.78%); Business services (2.61%); Personal Loans and Household loans (5.08%); and other services (68.39%), whose share altogether was approximately quarter of the total PSC stock. The sector that contributed most to the decline of PSC was Building, Mortgage, Construction and real estate which grew by -3.22% with a share of 21.9% of the total PSC stock. Table 3 below shows monthly PSC growth by sector.

Table 3: Monthly PSC Growth by Sector

	January 2016	December 2016	January 2017	Sectoral share of outstanding stock PSC – January 2017
Agriculture	1.8%	-0.04%	-0.57%	10.3%
Mining and Quarrying	13.9%	-4.25%	2.78%	0.5%
Manufacturing	1.7%	1.03%	-0.63%	13.0%
Trade	0.9%	-1.20%	-1.13%	19.3%
Transport and Communication	3.7%	-3.39%	-2.86%	7.2%
Electricity and Water	0.1%	-12.44%	-4.43%	1.8%
Building, Mortgage, Construction and Real Estate	1.2%	-0.12%	-3.22%	21.9%
Business Services	12.7%	0.07%	2.61%	4.0%
Community, Social & Other Services	2.0%	5.11%	-3.82%	3.4%
Personal Loans and Household Loans	1.2%	-1.30%	5.08%	17.2%
Other Services	-5.6%	-19.74%	68.39%	1.4%
TOTAL PSC	0.7%	-0.92%	-0.03%	

Source: Bank of Uganda.

3.3 Government Securities

During the month, there were 2 T-Bill auctions and 1 T-Bond auction. In the primary market, Shs 470 billion (at cost) was raised, of which Shs 294.54 billion was from T-Bills and Shs 176.18 billion was from T-bonds. All resources raised in auctions of Treasury instruments during February were used for refinancing of maturing securities, as redemptions exceeded issuances during the month. Table 4 below provides a summary of proceeds from the Government Securities market for FY2016/17.

Table 4: Issuance of Government Securities in Shs Billion (FY 2016/17)

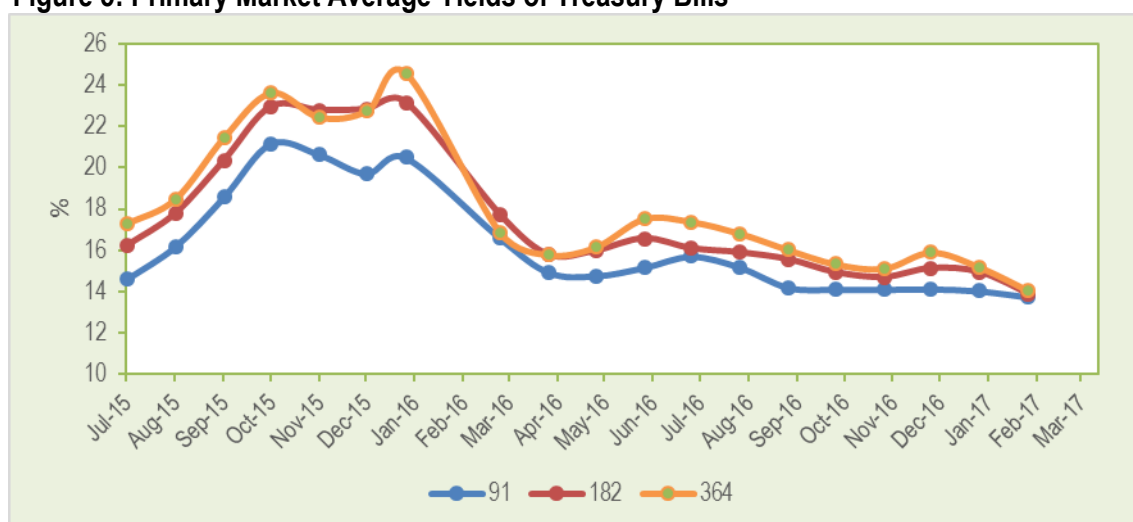
	Total Issuances	Net Domestic Borrowing	Refinancing
Q1 2016/17	2,009	679	1,330
Q2 2016/17	1,463	60	1,403
January 2017	466	128	338.2
February 2017	470	-19	490
FY2016/17 to date	4,408	848	3,561

Source: Auction Results, MoFPED

Yields on Treasury Bills

All tenors were over-subscribed with an average bid to cover ratio of 2.42⁴. The yields across all tenors follow a declining trend from the previous month as shown in figure 5. The average weighted yields to maturity were 13.7%, 13.9% and 14.1% for the 91, 182 and 364 day tenors respectively. This compares with 14.0%, 14.9% and 15.2% for the 91, 182 and 364 day tenors in January 2017 (see figure 5). The increased subscription, alongside excess liquidity in the money markets and an expectation of a drop in the rates, explains the downward shift in the yield curve.

Figure 5: Primary Market Average Yields of Treasury Bills



Source: Bank of Uganda

4.0 EXTERNAL SECTOR

4.1 Merchandise Trade Balance

On a monthly basis, the merchandise trade deficit amounted to US\$ 116.2 million in January 2017 widening by 67.1%, from US\$ 69.6 million in December 2016. The widening of the trade deficit was due to a combination of a reduction in exports receipts and an increase in the import bill.

Compared to January 2016, the trade deficit narrowed by 1.6% due to a reduction in imports.

⁴ The bid to cover ratio is an indicator for demand of government securities in a given auction. A ratio equal to 1 means that the demand for a particular security is equal to the amount offered by government. A ratio less than 1 means the auction is under subscribed and a ratio greater than 1 means that the auction is over subscribed.

4.2 Merchandise Exports

The total value of exports dropped by 11.9%, from US\$ 281.99 million in December 2016 to US\$ 248.45 million in January 2017 due to declines in the export volumes of coffee (the largest export), tobacco, beans, flowers, fish and its products. Coffee volumes in January 2017 amounted to 404,673 (60) kilo bags worth US\$ 48.98 million.

Compared to the same month last year, export receipts decreased by 1.1% mainly due to a fall in the exports of tobacco, beans, fish and tea. There was an increase of 52.6% in the coffee exports due to an increase in both volumes and price. Coffee prices and volumes increased by 26.1% and 21% respectively between January 2016 and January 2017. Table 5 below shows the performance of exports.

Table 5: Performance of Exports (US\$ million)

	January 16	Dec 16	January 17	January 16 Vs January 17 Percentage change	January 17 Vs Dec 16 Percentage change
Total Exports	251.32	281.99	248.45	-1.1%	-11.9%
1. Coffee (Value)	32.10	51.42	48.98	52.6%	-4.7%
Volume (60-Kg bags)	334,393	424,451	404,673	21.0%	-4.7%
Av. unit value	1.60	2.02	2.02	26.1%	-0.1%
2.Non-Coffee formal exports	183.73	196.48	166.46	-9.4%	-15.3%
o/w Tobacco	0.79	5.18	0.40	-98.1%	-92.4%
Gold	27.26	23.28	29.07	6.6%	24.9%
Cotton	1.42	4.12	7.60	436.0%	84.6%
Fish (excl. regional)	13.48	12.90	12.02	-10.9%	-6.8%
3. ICBT Exports	35.49	34.09	33.01	-7.0%	-3.2%

Source: Bank of Uganda

Destination of Exports

In the month of January 2017, the East African Community ⁵remained the major destination for Uganda's exports, followed by the Rest of Africa, and the Middle East. However exports to the EAC region fell by 15.8% from US\$ 95.11 million in January 2016 to US\$ 80.9 million in January 2017. This drop could be attributed to drought since majority of Uganda's exports to the region are food crops. South Sudan took the largest share of EAC exports (34.1%), followed by Kenya (33.1%) and Rwanda (20.9%). The table below shows the destination of exports.

⁵ East African Community countries include Kenya, Tanzania, Rwanda, Burundi, South Sudan

Table 6: Destination of exports

	January 2016	January 2017
European Union	15.6%	16.4%
Rest of Europe	1.3%	2.1%
The Americas	2.2%	2.7%
Middle East	15.8%	17.7%
Asia	7.3%	9.5%
East Africa	37.8%	32.2%
Rest of Africa	19.7%	19.3%
Unclassified	0.2%	0.1%

Source: Bank of Uganda

4.2 Imports

The value of merchandise imports increased by 4% in January 2017, from US\$ 351.54 million recorded in December 2016 to US\$ 364.70 million. This increase was mainly driven by the increase in private sector imports (up 9%) owing to higher import volumes.⁶ Although government imports significantly declined (down 73%), the increase in the value of private sector imports offset the decline.

The value of merchandise imports in January 2017 declined by 1% compared to the value recorded in January 2016. However, private sector imports grew by 8% while Government imports declined by 81%. Table 7 shows the performance of Uganda's imports for the month.

Table 7: Performance of Merchandise Imports in January, 2017 (US\$ Millions)

	Jan-16	Dec-16	Jan-17	Dec-16 Vs Jan-17 % change	Jan-16 Vs Jan-17 % change
Total Imports (fob)	369.45	351.54	364.70	4%	-1%
Government Imports	37.68	26.55	7.11	-73%	-81%
Project	29.40	26.55	6.20	-77%	-79%
Non-Project	8.28	0.00	0.91	-	-89%
Formal Private Sector Imports	305.37	301.58	329.64	9%	8%
Oil imports	51.58	50.65	60.73	20%	18%
Non-oil imports	253.79	250.93	268.91	7%	6%
Estimated Private Sector Imports	26.39	23.41	27.95	19%	6%
Total Private Sector Imports	331.76	324.99	357.59	10%	8%

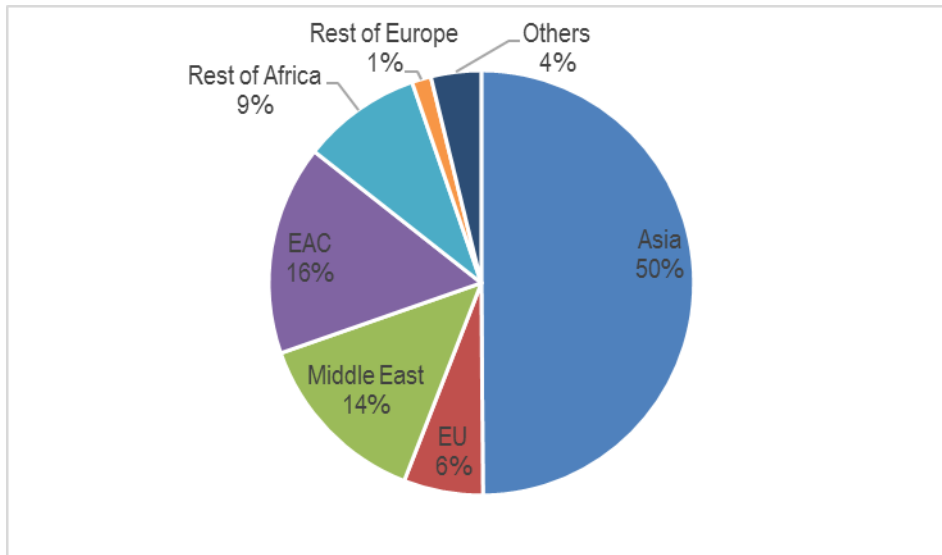
Source: Bank of Uganda

⁶Non-oil Import Volume Index and Oil Import Volume Index increased by 11% and 29% respectively in January, 2017 (Bank of Uganda).

Origin of Imports

Asia, EAC and Middle East were the largest sources of imports, contributing 50%, 16% and 14% respectively during the month. Of the total Imports from Asia, 86% was from China, India, Indonesia and Japan. More than two-thirds of the imports from Asia were from India and China. Whereas EAC was the 2nd largest source of imports, 90% of the imports from EAC was from Kenya and Tanzania. Figure 5 shows the origin of imports.

Figure 5: Origin of Imports by Percentage Share in January, 2017



Source: Bank of Uganda

5.0 FISCAL SECTOR

5.1 Overview

Revenue and grants amounted to Shs 1,023.3 billion resulting into 92.5% performance against a Shs 1,106.5 billion target while expenditure and net lending totalled to Shs 1,174.5 billion against a target of Shs 1,513.7 billion, indicating a performance of 77.6%. This resulted into a fiscal deficit of Shs 151.2 billion for the month as seen in table 8 below.

Table 8: Fiscal Operations, February 2017

	Outturn Feb'16	Projection Feb'17	Prel. Outturn Feb'17	Performance Feb'17	Deviation Feb'17
Revenues and Grants	893.8	1,106.5	1,023.3	92.5%	(83.2)
Revenues	821.9	1,049.5	994.8	94.8%	(54.7)
Tax	795.3	1,019.7	973.0	95.4%	(46.7)
Non-Tax	26.6	29.8	21.9	73.4%	(7.9)
Grants	71.9	57.0	28.4	49.8%	(28.6)
Budget Support	29.0	1.1	-	0.0%	(1.1)
Project Support	43.0	55.9	28.4	50.8%	(27.5)
Expenditure and Lending	1,121.1	1,513.7	1,174.5	77.6%	(339.2)
Current Expenditures	698.4	810.9	812.4	100.2%	1.5
Wages and Salaries	274.1	277.7	277.8	100.0%	0.1
Interest Payments	128.3	130.4	168.3	129.1%	37.9
Domestic	102.1	115.7	153.9	133.0%	38.2
External	26.2	14.7	14.4	98.1%	(0.3)
Other Recurr. Expenditures	296.0	402.8	366.3	90.9%	(36.5)
Development Expenditures	393.9	691.0	319.7	46.3%	(371.3)
Domestic	294.5	447.1	217.7	48.7%	(229.4)
External	99.4	243.9	102.0	41.8%	(141.9)
Net Lending/Repayments	-	11.8	0.9	7.7%	(10.9)
o/w HPP GoU	-	-	0.9	-	0.9
o/w HPP Exim	-	11.8	-	-	(11.8)
Domestic Arrears Repayment	28.9	-	41.4	-	41.4
Overall Fiscal Bal. (incl. Grants)	(227.3)	(407.2)	(151.2)	-	-

Source: Ministry of Finance, Planning and Economic Development

5.2 Revenues and Grants

Total revenue and grants registered a shortfall of Shs 83.2 billion or 7.5% against the Shs 1,106.5 billion projection for the month. The shortfall was largely attributed to grants, which performed at only 49.8%.

Domestic Revenues

Domestic revenue collections during February 2017 amounted to Shs 994.8 billion against a target of Shs 1,049.5 billion, posting an achievement rate of 94.8%. Both tax revenue and non-tax revenue were short of their monthly targets by 4.6% and 26.6%, respectively.

Tax revenue

All tax categories performed lower than their targets for the month with major shortfalls registered in taxes on international trade and transactions.

Taxes on international trade and transactions performed at 91% with major shortfalls registered in VAT on imports, import duty and petroleum duty. Taxes on incomes, profits and capital gains registered a shortfall of Shs 10.3 billion on account of lower collections in corporate taxes, withholding taxes which reflects low earnings during the month.

On the upside, excise duty performed higher than its target due to increased production of beer and spirits/waragi while taxes on goods and services were almost on target, registering a slight shortfall of Shs 0.9 billion attributed to performance of VAT on domestic goods and services.

Non-Tax Revenue

The total non-tax revenue received during the month amounted to Shs. 21.9 billion against a target of Shs 29.8 billion. The shortfall is explained by less than anticipated receipts from Ministries, Departments and Agencies from provision of certain goods and services; fines, fees and penalties.

Grants

There were no budget support grants received during the month while only Shs 28.4 billion was received as project support grant against a target of Shs 55.9 billion.

5.3 Expenditure and net lending

Total expenditure for February 2017 amounted to Shs 1,174.5 billion which is lower than the target of Shs 1,528.9 billion indicating a performance of only 77.6%. This is largely attributed to the underperformance of both components of the development expenditure budget, with externally financed development budget falling short of projections by 58.2% while domestic development expenditures fell short by 51.3%. External development spending is tied to external finance disbursements (both loans and grants), which were below projections for the month while domestic development spending was affected by low absorption by some MDAs.

Recurrent expenditure, on the other hand, was on target with a performance of 100.2%. Payment of wages and salaries to public sector employees performed at 100%. Interest payments were higher than projected by Shs 37.9 billion with domestic interest payments being higher as a result of increased borrowing requirements which has led interest payments for short term treasury bills to go beyond what was projected at the start of the financial year. Non-wage recurrent spending, however, was lower than projected by Shs 36.5 billion.