Monthly Report

PERFORMANCE OF THE ECONOMY

March 2017

MACROECONOMIC POLICY DEPARTMENT

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

www.finance.go.ug

Contents

List of Acronyms

EFU	-Electricity Fuel and Utilities
CIEA	-Composite Index of Economic Activity
BTI	-Business Tendency Index
PSC	-Private sector Credit
CBR	-Central Bank Rate
EAC	-East African Countries
USD	-United States Dollar
UGX/Shs	-Ugandan Shilling
NPL	-Non Performing Loans
FoB	-Freight on Board
VAT	-Value Added Tax
PAYE	-Pay As you Earn
KShs	-Kenyan Shilling
TZShs	-Tanzanian Shilling
R. Franc	-Rwanda Francs
B. Franc	-Burundi franc
OPM	-Office of the Prime Minister

SUMMARY

- **In the real sector**, a reduction in headline inflation was registered for the first time in six months on account of a slow-down in core inflation. Annual headline inflation slowed to 6.4% in March compared to 6.7% in February following a slow-down in the price of services. The indices used to proxy economic activity - Composite Index of Economic Activity (CIEA) and the Business Tendency Index (BTI), show positive sentiments and continued recovery in economic activity.

- **In the financial sector**, the shilling was relatively stable against the US dollar, registering a marginal depreciation of 0.4%. On the downside, there was a marginal decline by 0.1% in outstanding credit to the private sector. In the domestic securities market, Shs 606.8 billion (at cost) was raised of which Shs 582 billion used for debt re-financing and Shs 24.8 billion used to finance the budget. Yields continued to decline across all tenors during the month compared to the previous month, partly due to the excess liquidity in the money market as well as market perceptions of a drop in rates given the downward trend of the CBR.

- **From the external sector**, the merchandise trade deficit narrowed (on a monthly basis) by 8%, from US$ 118 million in January 2017 to US$ 108.6 million in February 2017. During the month, the import bill fell by US$ 14.4 million. Compared to February 2016, the trade deficit deteriorated by 35% due to a higher increase in import bill that offset the increase in the exports.

- **In the fiscal sector,** revenue and grants amounted to Shs 1,130.3 billion which was a 0.6% above the month's target, while overall expenditures performed at 103% against their monthly target.

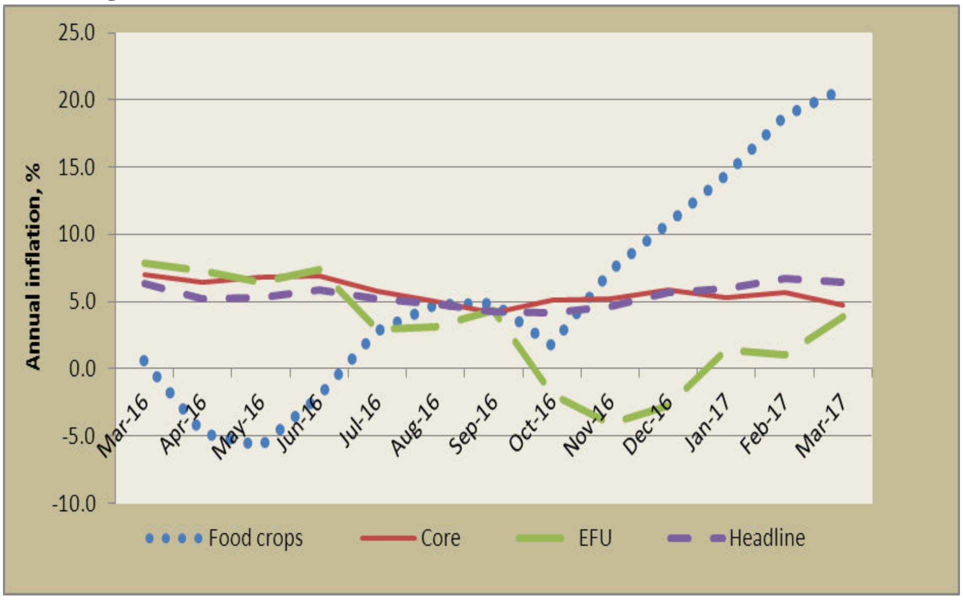
REAL SECTOR

Inflation

Annual headline inflation declined from 6.7% in February 2017 to 6.4% in March 2017. This is the first time in six months that annual headline inflation has recorded a decline. This decline was attributed to a slow-down in annual core inflation from 5.7% in February 2017 to 4.8% in March 2017, as prices recorded in the services sector, especially education, were lower as compared to a year ago. The slow-down in core inflation more than offset the increase in prices of food crops, energy, fuel and utilities.

Food crop inflation increased from 18.8% in February 2017 to 20.7% in March 2017, as the food supply shortages in the market continue to affect prices. The supply shortage followed poor harvests caused by the prolonged dry conditions in most parts of the country. At the same time, the rise in prices for both solid (such as charcoal) and liquid fuels contributed to an increase in the energy, fuels and utilities index. The annual energy, fuel and utilities inflation increased to 3.8% in March 2017 from 1.0% registered in February 2017. Figure 1 below illustrates inflation developments over the last twelve months.

Figure 1: Annual Inflation Rates (March 2016 – March 2017)



Source: Uganda Bureau of Statistics

Inflation within the EAC Partner States

Within the region, Rwanda and Uganda registered slight reductions in headline inflation for the year ending March 2017. Inflation in the rest of the EAC partner states continued on an upward trend. The main driver for the increase remains rising food crop prices emanating from effects of the drought conditions the region experienced over the last months.

Table 1: Inflation across the East African Community Partner States

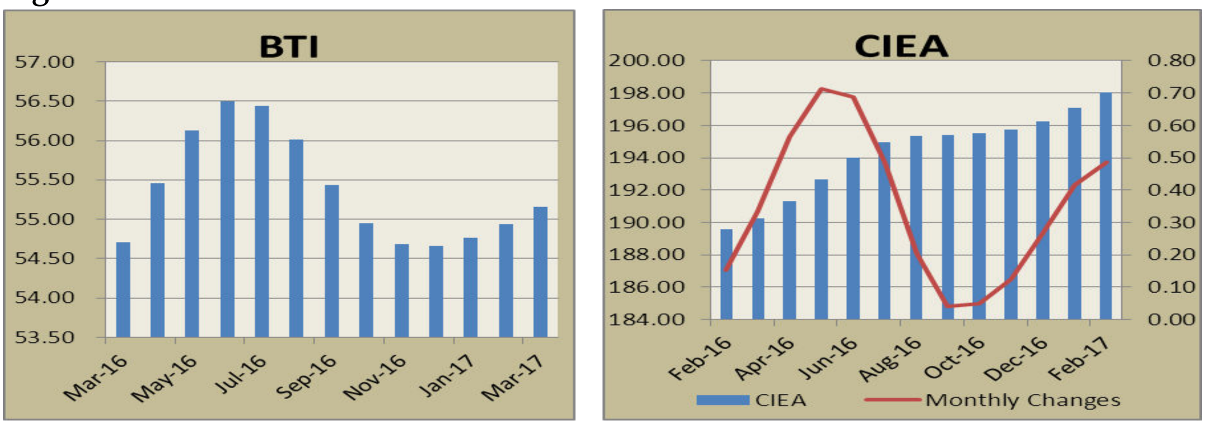
	Nov' 2016	Dec' 2016	Jan' 2017	Feb' 2017	Mar' 2017
Burundi	7.1%	9.6%	12.9%	20.7%	21.1%
Kenya	6.7%	6.4%	7.0%	9.04%	10.28%
Rwanda	9.1%	11.0%	12.0%	13.4%	13.0%
South Sudan	457.2%	479.7%	371.8%	425.9%	na
Tanzania	4.8%	5.0%	5.2%	5.5%	6.4%
Uganda	4.6%	5.7%	5.9%	6.7%	6.4%

Source: Respective national bureaus of statistics

Business Tendency Index and Composite Index of Economic Activity

The high frequency indicators of economic activity remained positive, showing the improving sentiments investors have about doing business as well as a recovery in the level of economic activity. The Business Tendency Index (BTI), which measures investor confidence and business sentiments, was recorded at 55.2 for March. This is above the threshold of 50 and implies positive sentiments about the economy. The Composite Index of Economic Activity (CIEA) has been on a gradual increase since October 2016, indicating improvement in the level of economic activity. Figure 2 below shows how the indices have been performing over the last twelve months.

Figure 2: Trends in the BTI and CIEA



Source: Bank of Uganda

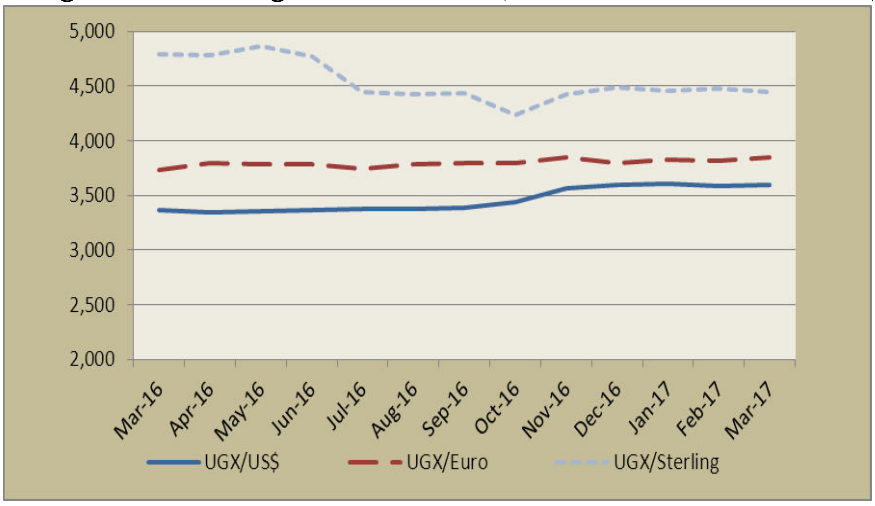
FINANCIAL SECTOR

Exchange Rate

In the foreign exchange market, the Shilling was relatively stable, registering a marginal depreciation of 0.4% from a monthly average of Shs 3,585.3/US$ in February 2017 to an average of Shs 3,599/US$ in March 2017. Similarly, within the month there was a marginal depreciation by 0.7% in the exchange rate, with the shilling opening the month at a mid-rate of 3,588.3/US$ and closing at Shs 3,614.2/US$.

The stability in the foreign exchange market is attributed to low corporate sector activity in the manufacturing, telecom and oil firms coupled with sustained inflows from private remittances, offshore investors and export receipts. Figure 3 shows trends in the exchange rate of the shilling against major currencies.

Figure 3: Exchange Rate Trends (March 2016 – March 2017)



Source: Bank of Uganda

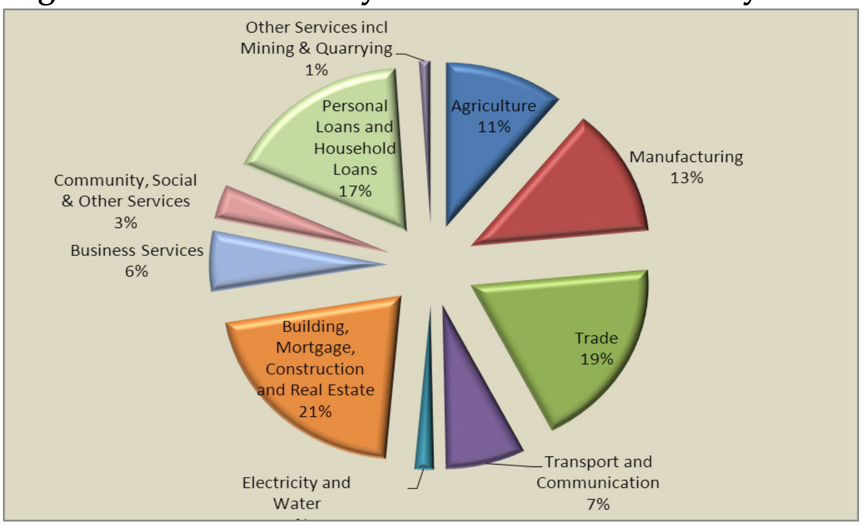
Within the region, all EAC partner states currencies - with the exception of South Sudan, were relatively stable against the US dollar. The Burundi and Rwanda francs registered marginal depreciations, while the Kenyan shilling marginally appreciated against the US dollar. The value of the Tanzanian shilling remained unchanged from the previous month's level.

Private Sector Credit

The stock of outstanding Private Sector Credit (PSC) marginally declined by 0.1% in February 2017 to Shs 12,056.8 billion from Shs 12,069.5 billion in January 2017. The decline was largely driven by the regulatory requirements to provision for bad loans, which has heightened risk aversion within banks amidst rising Non-Performing Loans (NPLs). The demand[1] for credit has remained relatively robust compared to the supply[2] of credit which has remained tight, an indication that the relatively subdued growth in PSC could be driven by tightening credit standards. The continued decline in the stock of outstanding PSC poses downside risks to private investment growth and continued recovery of domestic economic activity.

By sector, building, mortgage, construction and real estate sector accounted for 21% of outstanding PSC at the end of February 2017. Other notable holders of credit by sector include trade (19%); personal and household loans (17%); manufacturing (13%) and agriculture (11%). Figure 4 illustrates the distribution of the stock of outstanding PSC by sector.

Figure 4: Stock of PSC by Sector as at end February 2017



Source: Bank of Uganda

Over the month, business services (45.9%) agriculture (4.8%), mining and quarrying (4.01%) and other services (0.6%) recorded the largest expansion in credit, whilst there was a contraction in credit to building, mortgage, construction & real estate (-

[1] Proxied by the number and value of loan applications in commercial banks

[2] Supply for credit measured as a proxy for the number and value of loan approvals

5.4%), manufacturing (-3.8%), personal & household loans (-0.25%). Table 2 below shows monthly PSC growth by sector.

Table 2: Monthly PSC Growth by Sector

	Feb-16	Jan-17	Feb-17	%tage share of Outstanding stock of PSC, Feb-17
Agriculture	-1.59%	-0.57%	4.78%	10.80%
Mining and Quarrying	3.23%	2.78%	4.01%	0.50%
Manufacturing	-2.55%	-0.63%	-3.77%	12.50%
Trade	-5.95%	-1.03%	-2.99%	18.80%
Transport and Communication	8.65%	-2.86%	-0.32%	7.20%
Electricity and Water	-4.27%	-4.43%	-7.38%	1.70%
Building, Mortgage, construction and Real Estate	-2.02%	-3.22%	-5.35%	20.80%
Buisness Services	-5.12%	2.61%	45.88%	5.90%
Community, Social & Other services	-2.97%	-3.82%	-1.04%	3.40%
Personal Loans & Household Loans	-0.18%	5.08%	-0.25%	17.10%
Other Services	4.13%	68.39%	0.60%	1.40%
Total	-2.00%	-0.03%	-0.10%	100.00%

Source: Bank of Uganda

Government Securities

During the month, Shs 606.8 Billion at cost was raised from the domestic securities primary market, of which Shs 442.6 Billion was from T-Bills and Shs 164.2 Billion was from T-bonds. Shs 582 Billion was used for refinancing of maturing securities within the month, while the remainder (Shs 24.8 Billion) was utilized for financing the domestic budget as shown in Table 3 below.

Table 3: Government Securities Issuances FY2016/17 – Shs bn

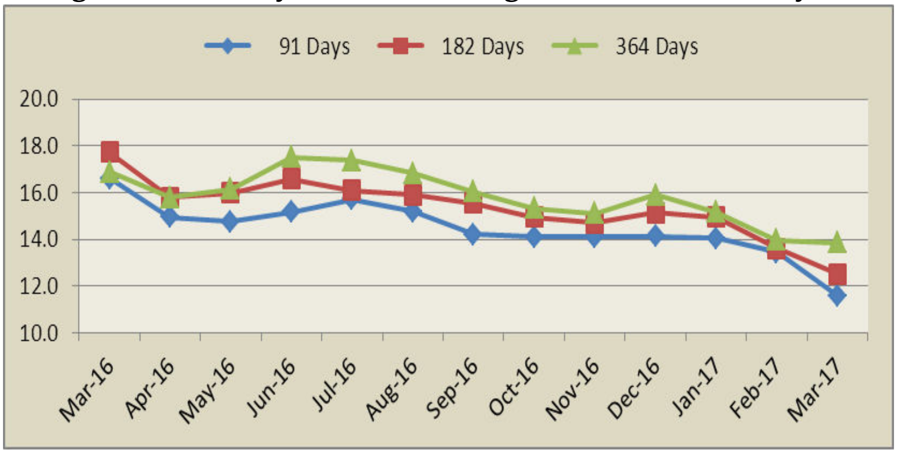
	Total issuances	Domestic borrowing	Re-financing
Q1 2016/17	2,009	679	1,330
Q2 2016/17	1,463	60	1,403
January 2017	466.2	128	338.2
February 2017	470	-19	489
March 2017	606.8	24.8	582
July 2016 – to-date	5,015	872.8	4,142.2

Source: Auction Results, MoFPED

Yields on Treasury Bills

There were three T-Bill auctions in March 2017, which were all over-subscribed with an average bid-to-cover ratio of 2.83. Yields continued to decline across all tenors during the month compared to the previous month as shown in Figure 5. The average weighted yields to maturity were 11.6%, 12.5% and 13.9% for the 91, 182 and 364 day tenors, respectively, compared with 13.4%, 13.6% and 14.0% in February 2017. The decline in yields can be attributed to the excess liquidity in the money market highlighted by the high bid to cover ratios, as well as market perceptions of a drop in rates given the downward trend of the CBR.

Figure 5: Primary Market Average Yields of Treasury Bills



Source: Bank of Uganda

EXTERNAL SECTOR

Merchandise Trade Balance

On a monthly basis, the merchandise trade deficit narrowed by 8%, from US$ 118 million in January 2017 to US$ 108.6 million in February 2017. This was due to a reduction in the import bill, which more than offset the fall in the export revenues.

Compared to February 2016, the trade deficit deteriorated by 35% due to a higher import bill that offset the increase in the export receipts.

[3] The bid to cover ratio is an indicator of demand for government securities in a given auction. A ratio equal to 1 means that the demand for a particular security as represented by the bid amount, 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.

Merchandise Exports

The total value of exports in February 2017 increased to US$ 24.63 million, from US$ 224.64 million registered in February 2016 posting an improvement rate of 8.5%. This was mainly due to increases in the exports of coffee, electricity, and maize. There was a 93.1% increase in the value of coffee exports due to an increase in both volumes and price. Coffee prices and volumes increased by 46.3% and 32%, respectively between February 2016 and February 2017. Table 4 shows performance of exports.

Table 4: Performance of Exports (US$ million)

	Feb-16	Jan-17	Feb-17	%age change Jan 2017 & Feb 2017	%age change Feb 2016 & Feb 2017
Total Exports	**224.64**	**248.45**	**243.63**	**-1.90%**	**8.50%**
1. Coffee (Value)	**25.12**	**48.98**	**48.5**	**-1.00%**	**93.10%**
Volume (60-Kg bags)	269,439	404,673	397,883	-1.70%	47.70%
Av. unit value	1.54	2.02	2.03	0.70%	32.00%
2.Non-Coffee formal exports	**164.36**	**166.46**	**162.07**	**-2.60%**	**-1.40%**
o/w Electricity	1.33	5.36	7.81	45.60%	487.90%
Gold	26.13	29.07	21.56	-25.80%	-17.50%
Cotton	2.1	7.6	6.49	-14.70%	208.70%
Fish (excl. regional)	9.39	12.02	9.79	-18.60%	4.20%
3. ICBT Exports	**35.15**	**33.01**	**33.06**	**0.10%**	**-6.00%**

Source: Bank of Uganda

Destination of Exports

The East African Community remained the major destination for Uganda's exports in February 2017, followed by *Rest of Africa*, and the *European Union*. However exports to the *EAC* region fell by 0.1% from US$ 82.5 million in February 2016 to US$ 82.4 million in February 2017, due to a decline in exports to Kenya and Rwanda. This was offset by an increase in exports to Burundi and South Sudan, which rose by 42.1% and 52.8% respectively, over this period. South Sudan took the largest share of EAC exports (36.9%), followed by Kenya (26.9%) and Rwanda (18.2%). Table 5 shows the shares of Uganda's exports by destination.

Table 5: Shares of Exports by Destination

	Feb 16	Feb 17
European Union	15.6%	18.8%
Rest of Europe	4.4%	2.6%
The Americas	2.6%	1.6%
Middle East	16.3%	14.2%
Asia	8.4%	9.2%
EAC	36.7%	33.8%
Rest of Africa	15.8%	19.7%
Others4	0.2%	0.02%

Source: Bank of Uganda

Merchandise Imports

Total merchandise imports (f.o.b)[5] amounted to US$ 351.6 million in February 2017 down from US$ 365.9 million in January 2017, marking a third consecutive month on month decline. Both Government and private sector imports (in value terms) registered declines of 61% and 1% respectively. The decline in the value of imports is underpinned by a drop in import volumes[6] during the month, with government imports declining in line with the procurement cycle.

Compared to February 2016, the value of merchandise imports increased by 15% in February 2017. There was an 80% decline in the value of government imports, which was more than offset by an increase in private sector imports. The increase in the value of imports was attributed to increases in both prices and volumes[7]. Table 6 shows the performance of imports.

[4] Others include Australia, Iceland

[5] *f.o.b stands for Free on Board*

[6] *Import Volume Index stood at 129.90 in February, 2017 down 38% from 206.72 in the previous month.*

[7] *-The Import Volume Index increased by 4% from 191.96 in February 2016 to 199.59 in February 2017.*

- Import Price index stood at 131.06 in February 2017 from 113.10 in February 2016 (up 16%).

- Average crude oil prices rose from 31.03 $/bbl in February, 2016 to 54.35$/bbl in February 2017(Global Economic Monitor Commodities)

Table 6: Performance of Merchandise Imports in USD million

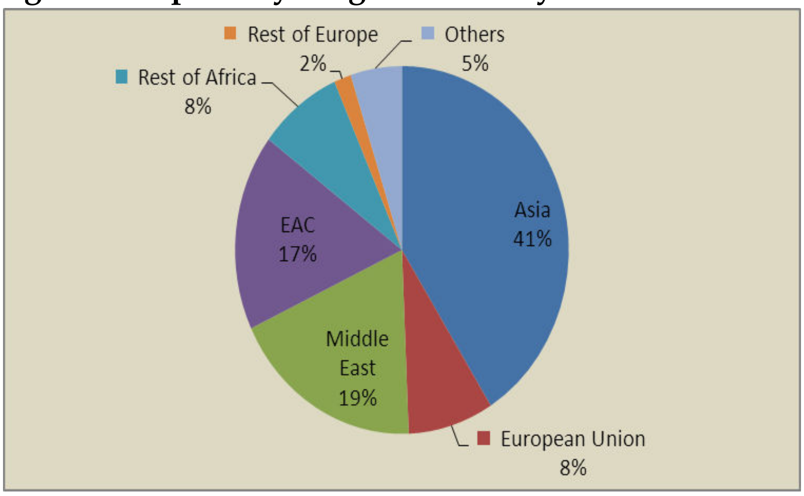
	Feb-16	Jan-17	Feb-17	%age change Jan 2017 Vs Feb 2017	%age change Feb 2016 Vs Feb 2017
Total Imports (fob)	**305.13**	**365.96**	**351.58**	**-4%**	**15%**
Government Imports	16.02	8.37	3.24	-61%	-80%
Project	16.02	7.46	3.24	-57%	-80%
Non-Project	0	0.91	0	-100%	-
Formal Private Sector Imports	264.07	329.64	326.27	-1%	24%
Oil imports	41.95	60.73	61.11	1%	46%
Non-oil imports	222.12	268.91	265.16	-1%	19%
Estimated Private Sector Imports	25.04	27.95	22.07	-21%	-12%
Total Private Sector Imports	289.11	357.59	348.34	-3%	20%

Source: Bank of Uganda

Origin of Imports

Asia was the largest source of imports during the month, contributing 41% of total imports. The other sources include; *Middle East* and *EAC*, which accounted for 19% and 17%, respectively. Of the imports from Asia, a total of 80% was from China, India and Japan, while Kenya and Tanzania accounted for a combined 94% of imports from the *EAC* region. Table 7 shows the origin of imports for the month of February 2017.

Figure 7: Imports by Origin - February 2017



Source: Bank of Uganda

FISCAL SECTOR

Overview

The fiscal operations during the month resulted in a lower than projected surplus, as overall spending turned out higher than the projected levels. The suplus amounted to Shs 26.7 billion or 52% of the expected level. A summary of fiscal operations are shown in table 7.

Table 7: Fiscal Operations, March 2017

	Outturn Mar'16	Projection Mar'17	Prel. Outturn Mar'17	Performance	Deviation
Revenues and Grants	1,011.7	1,123.6	1,130.3	100.6%	6.7
Revenues	958.2	1,072.6	1,076.7	100.4%	4.1
Tax	932.4	1,045.4	1,042.9	99.8%	(2.5)
Non-Tax	25.8	27.2	33.8	124.2%	6.6
Grants	53.5	51.0	53.6	105.2%	2.6
Budget Support	18.7	-	-	n.a	-
Project Support	34.8	51.0	53.6	105.2%	2.6
Expenditure and Lending	997.3	1,071.6	1,103.6	103.0%	31.9
Current Expenditures	589.4	693.7	747.9	107.8%	54.2
Wages and Salaries	239.0	346.1	274.8	79.4%	(71.3)
Interest Payments	168.3	170.0	279.3	164.3%	109.3
o/w Domestic	154.3	125.9	257.9	204.9%	132.0
o/w External	14.0	44.1	21.4	48.5%	(22.7)
Other Recurr. Expenditures	182.1	177.6	193.8	109.1%	16.2
Development Expenditures	404.9	368.1	333.3	90.6%	(34.7)
o/w Domestic	163.2	163.6	195.9	119.8%	32.4
o/w External	241.7	204.5	137.4	67.2%	(67.1)
Net Lending/Repayments	-	9.9	1.6	16.5%	(8.3)
o/w HPP GoU	-	-	1.6	n.a	1.6
o/w HPP Exim	-	9.9		n.a	(9.9)
Domestic Arrears Repayment	3.0	-	20.7	n.a	20.7
Overall Fiscal Bal. (incl. Grants)	14.4	51.9	26.7	52%	(25.2)

Source: MoFPED

Domestic Revenues

Domestic revenue collections during the month amounted to Shs 1,076.7 billion against a target of Shs 1,072.6 billion, posting an achievement rate of 100.4%. This was attributed to higher than projected collections in non-tax revenue, which offset the slight shortfall in tax revenue collections.

Tax Revenue

The shortfall in tax revenues were mainly registered in VAT on domestic goods and services which performed at 95.9% of the monthly target; and in taxes on international trade and transactions which were Shs 20 billion or 4.1% below the target. Taxes on international trade and transactions were affected by underperformances by VAT on imports, import duty and petroleum duty, as growth in import volumes was lower than projected.

The underperformance by international trade tax collections was partially offset by improved performances by domestic excise duty and income tax collections. Domestic excise duty was above its monthly target by 1.7%, which was largely on account of increased increased production of alcoholic beverges. At the same time, there was an increase in taxes on incomes, profits and capital gains, which registered surplus collections of Shs. 20 billion or 6.1% against the monthly target. There were strong collections on pay-roll taxes (6.46% above target), tax on bank interest (192.6% above target) and withholding taxes (4.8% above target).

Non-Tax Revenue

The total non-tax revenue received during the month amounted to a surplus of Shs 6.6 billion or 24.2% against the target for the month. The surplus was due to more than anticipated receipts from Ministries, Departments and Agencies for the provision of goods and services and from fines, fees and penalties.

Grants

Project support grants performed at 105.2% against the monthly target, buoyed by a weaker than projected exchange rate. All the expected disbursements during the month were received.

Expenditure and Net Lending

Total expenditure for month amounted to Shs 1,103.6 billion, which was Shs 32 billion or 3.0% above the projected levels. This performance was attributed to higher than projected payments on domestic interest. Domestic interest expenses amounted to Shs 132 billion or 105% above projections, which was on account of accelerated issuances of government securities during the first half of the FY. In addition, there were higher than projected expenditures on other *non wage non interest* related expenses, which amounted Shs 16.2 billion or 9.1% above target. These expenditures related to supplementary provisions for food relief in light of the food shortages in some parts of the country as well as a front-loading of spending by the energy sector.

On the other hand, development spending amounted to Shs 333.3 billion, which was Shs 34.7 billion or 9.4% below the projected levels for the month. This performance was largely attributed to the performance of externally financed projects which performed at 67.2%. External development expenditures have been affected by the slow disbursements of loans and project grants due to slow absorption of some projects. Domestic development, on other hand, performed higher than the monthly projection by Shs 32.4 billion.