Monthly Report

PERFORMANCE OF THE ECONOMY

April 2017

MACROECONOMIC POLICY DEPARTMENT

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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Contents

SUMMARY

In the real sector, *annual headline inflation* rose to 6.8% in April 2017 from 6.4% in March 2017. This increase was largely driven by higher prices of food, energy, fuel and utilities. The *Composite Index of Economic Activity (CIEA)* improved for the fifth consecutive month rising to 197.67 in March 2017. The forward-looking *Business Tendency Index (BTI)* was recorded at 55.0 in April 2017, implying positive business sentiments for the months of May, June and July.

In the financial sector, the *Uganda shilling* depreciated in April 2017 by 0.5% against the United States Dollar (USD) to an average inter-bank mid-rate of Shs.3,619/USD from Shs.3,599/USD. The stock of outstanding *Private Sector Credit (PSC)* declined by 1.2% in March, 2017 to Shs. 11,909 billion from Shs. 12,057 billion in February, 2017. Shs. 470 billion at cost was raised from the *domestic securities* primary market, and of this amount, Shs.154 billion went towards financing the Government budget whilst the remainder went towards re-financing of maturing securities.

From the external sector, the *merchandise trade deficit* narrowed by 25% to US$ 85.1 million in March 2017 from US$ 112.8 million in March 2016. This performance is attributed to a faster increase in the export receipts (21%) as compared to increase in the value of imports (6%).

In the fiscal sector, *revenues and grants* amounted to a shortfall of Shs.151.6 billion or 12.4% against the target. *Expenditure and net lending* amounted to Shs. 1,017 billion and was short of the planned expenditure by Shs. 279 billion. The overall fiscal operations for the month resulted in a narrower than projected deficit.

REAL SECTOR

Inflation

Annual headline inflation in April 2017 rose to 6.8 % which was largely driven by the increase in energy, fuel and utility (EFU) prices. The EFU inflation rose from 3.8% in March 2017 to 5.3% in April 2017 following an increase on an annual basis, in prices of petrol (9.7%), electricity (7%), charcoal (4.7%) and water (3.8%). These four items[1] account for about 80% of total EFU inflation. At the same time, there were increases in prices for food crops and other non-food items & services in the core inflation basket. Annual food crop and core inflation for the month were recorded at 21.6% and 4.9%, respectively. Table 1 shows a summary of inflation for the months of March and April 2017.

Table 1: Summary of Inflation Statistics

	Mar-17	Apr-17
Annual Headline Inflation	6.4%	6.8%
Annual Core Inflation	4.7%	4.9%
Annual EFU Inflation	3.8%	5.3%
Annual Food Crop Inflation	20.9%	21.6%

Source: Uganda Bureau of Statistics

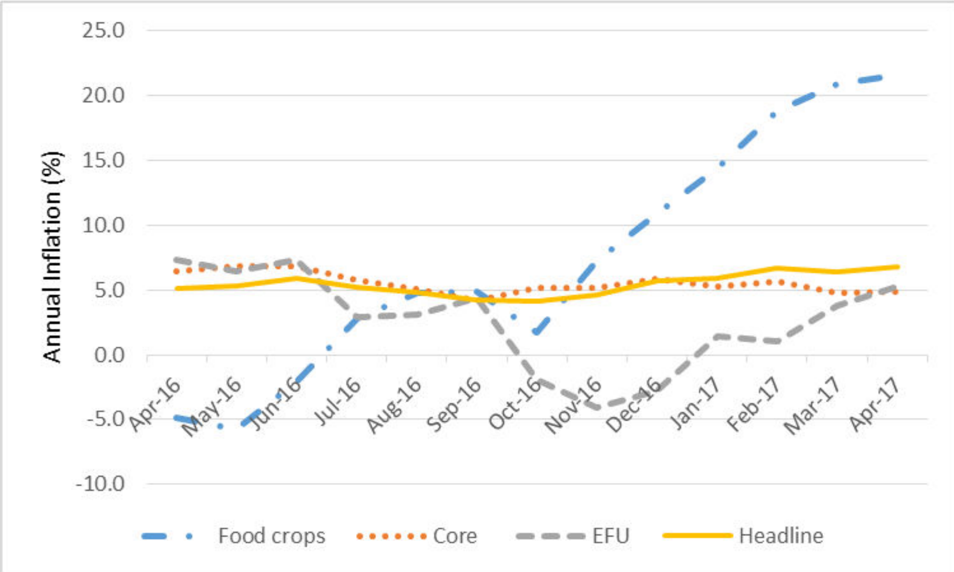
The increase in food crop inflation reflects the continuing shortages in supplies to the market arising from the impact of the prolonged dry conditions in many parts of the country in the first half of the year. During the month, there were notable price increases for food items such as matooke (57.5%), sweet potatoes (62.2%), whole cassava (36.8%), Irish potatoes (31.3%), beans (22.2%), milk (11.4%) and tomatoes (3.8%).

The increase in core inflation is largely attributed to *'other goods'* inflation, which rose to 5.1% in April 2017 from 4.8% in March 2017. In particular, the prices recorded for sugar and maize flour during the month were 23.3% and 30.6% higher compared to a year ago. Higher charges were also

[1] Water charges by National Water and Sewerage Corporation, electricity, charcoal and petrol.

recorded for rent and education during the month. Figure 1 shows the inflation trends in the year ending April 2017.

Figure 1: Inflation trends for the year ending April 2017



Source: Uganda Bureau of Statistics

Inflation within EAC Partner States

Annual headline inflation for Uganda and Kenya continued to rise compared to other EAC partner states. Kenya's annual headline inflation increased to 11.5% in April 2017 from 10.3% in March 2017, on account of increased prices for food and non-alcoholic beverages. On the other hand, annual headline inflation in Rwanda declined marginally to 12.9% in April 2017 from 13.0% in March 2017. This was attributed to lower prices for transport, communication, recreation and culture for the year ending April 2017 compared to March 2017. Inflation in Tanzania was recorded at 6.4% for April 2017, which was the level recorded in March 2017. Increasing food crop prices were offset by reductions in prices for non-food items.

In South Sudan, in-spite of the hyper-inflation[2] levels, there was a decline recorded from 304.6% in March 2017 to 272.6% in April 2017. Hyper-inflation has been fuelled by high food prices particularly cereals and bread

[2] Hyperinflation is monetary inflation occurring at a very high rate.

that majority of the households depend on. Annual headline inflation rates among the EAC partner states are summarized in the table 2.

Table 2: Annual Headline Inflation among EAC Partner States

	Jan-17	Feb-17	Mar-17	Apr-17
Burundi	12.9%	20.7%	21.1%	NA
Kenya	7.0%	9.0%	10.3%	11.5%
Rwanda	12.0%	13.4%	13.0%	12.9%
South Sudan	371.8%	425.9%	304.6%	272.6%
Tanzania	5.2%	5.5%	6.4%	6.4%
Uganda	5.9%	6.7%	6.4%	6.8%

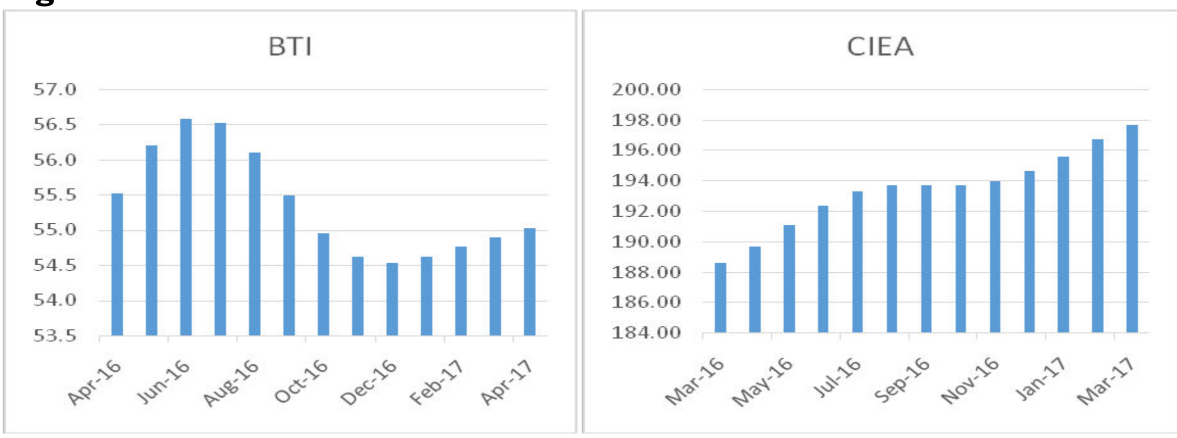
Source: Respective National Statistics Bureaus

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

The Composite Index of Economic Activity (CIEA) improved for the fifth consecutive month rising to 197.67 in March 2017. The improvement in the CIEA is due to better performance in exports, imports, and tax revenue that offset a decline in private sector credit.

The forward-looking Business Tendency Index (BTI) was recorded at 55.0 in April 2017 as compared to 54.9 in March 2017, which reflects positive business sentiments for the three months ahead - May, June and July. Though marginal in improvement, the BTI shows confidence investors have about doing business in Uganda. Figure 2 below summarizes the trends in the high frequency indicators.

Figure 2: Trends in BTI and CIEA



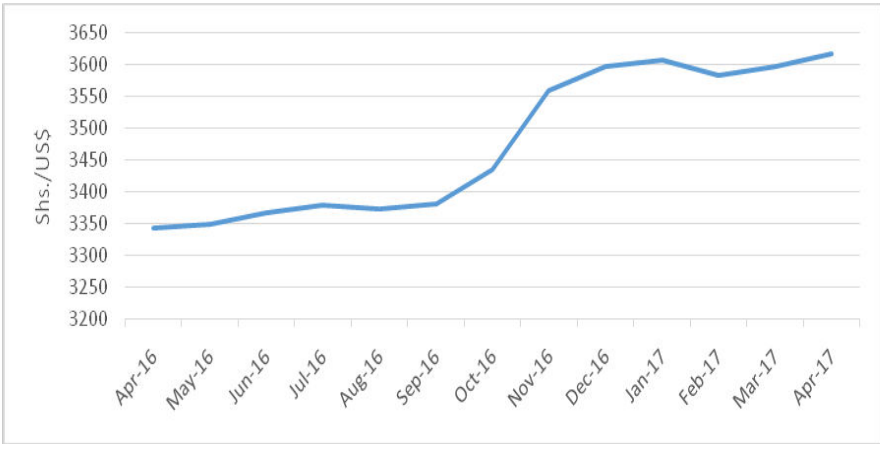
Source: Bank of Uganda

FINANCIAL SECTOR

Exchange Rate

In April 2017, the Uganda shilling depreciated by 0.5% against the United States Dollar (USD) to an average inter-bank mid-rate of Shs.3,618.7/USD from Shs.3,599.0/USD recorded in March 2017. Within the month, the shilling depreciated by 0.9% against US dollar, having opened at Shs.3,613.8/USD and closed at Shs.3,644.6/USD. The depreciation is on account of a recovery in corporate sector demand, especially from manufacturing, oil and telecom sectors. Figure 3 below shows trends in exchange rates from April 2016-April 2017.

Figure 3: Shs/US$ Exchange Rate Trend

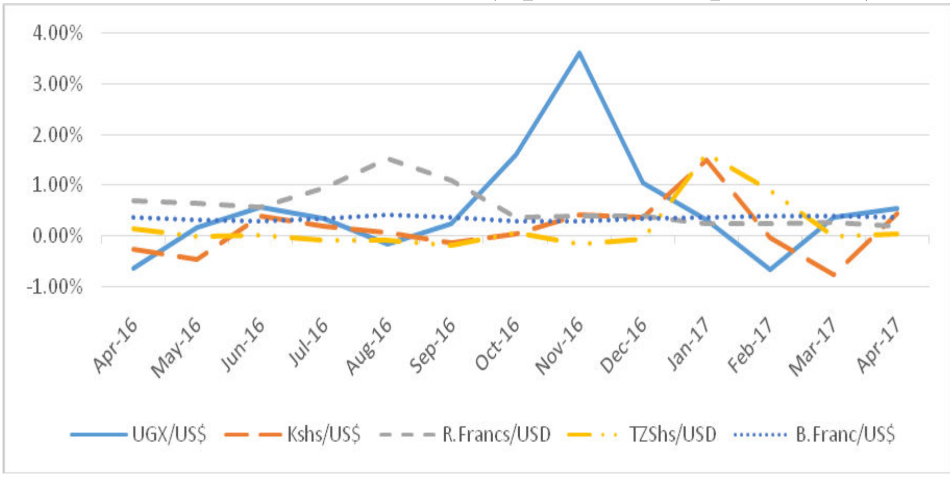


Source: Bank of Uganda

Exchange Rate within Selected EAC Partner States

During the month, all the EAC partner states currencies depreciated against the USD. The Kenya shilling depreciated by 0.46% mainly on account of deterioration in investor confidence caused by the speculation in the run up to the up-coming general elections in August 2017. The Tanzania shilling remained relatively stable depreciating by 0.05%, while the Rwanda Franc depreciated by 0.2% on account of increased demand for foreign exchange by both the public and private sector. The Burundi Franc depreciated by 0.37% in April. Figure 4 shows depreciation rates among selected EAC partner states between April 2016 and April 2017.

Figure 4: Percentage Changes in Exchange Rates among Selected EAC Partner States (April 2016-April 2017)



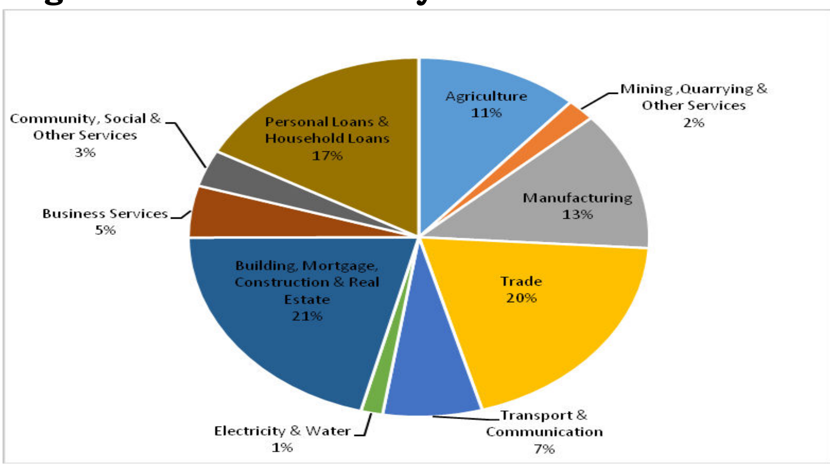
Source: Bank of Uganda

Private Sector Credit

The stock of outstanding Private Sector Credit (PSC) declined by 1.2% in March 2017 to Shs. 11,909 billion from Shs. 12,057 billion in February 2017. The decline highlights the heightened risk aversion within banks to lend to the private sector amidst high non-performing loans, which amounted to 6.3% of total gross loans at the end of March 2017.

By sector; building, mortgage, construction and real estate recorded the highest share of outstanding PSC at 21%. Other sectors with notably high shares include; trade (20%); personal and household loans (17%); manufacturing (13%) and agriculture (11%). Figure 5 illustrates the distribution of the stock of outstanding PSC by sector.

Figure 5: Stock of PSC by Sector - March 2017



Source: Bank of Uganda

In terms of flows, the mining and quarrying sector recorded the highest growth in credit which was recorded at 10.7%, followed by agriculture, trade and other services at 4.7%, 2.8%, and 0.4%, respectively. On the other hand, there was a significant reduction in the stock of credit to business services, which amounted to 22.0% as compared to a growth of 45.9% in February 2017. Table 3 shows the detailed sectoral growth of PSC.

Table 3: Monthly PSC growth by sector

Sector	Mar-16	Feb-17	Mar-17
Agriculture	2.7%	4.8%	4.7%
Mining & Quarrying	9.1%	4.0%	10.7%
Manufacturing	-1.2%	-3.8%	-1.4%
Trade	-1.6%	-3.0%	2.8%
Transport & Communication	-0.2%	-0.3%	-4.7%
Electricity and Water	-0.6%	-7.4%	-11.0%
Building, Mortgage, Construction & Real Estate	0.5%	-5.4%	-0.9%
Business Services	-2.3%	45.9%	-22.0%
Community, Social & Other Services	1.2%	-1.0%	-3.0%
Personal Loans & Household Loans	-0.02%	-0.2%	-0.1%
Other Services	5.7%	0.6%	0.4%
Total	-0.002%	-0.1%	-1.2%

Source: Bank of Uganda

Government Securities

During the month, Shs.470 billion at cost was raised from the domestic securities primary market, of which Shs.295 Billion was from T-Bills and Shs.175 Billion was from T-bonds. Shs.317 billion of the amount raised was used for the refinancing of maturing securities whilst Shs.154 billion went towards financing the Government budget as shown in table 4 below.

Table 4: Domestic Financing for FY 2016/17, Shs.bn

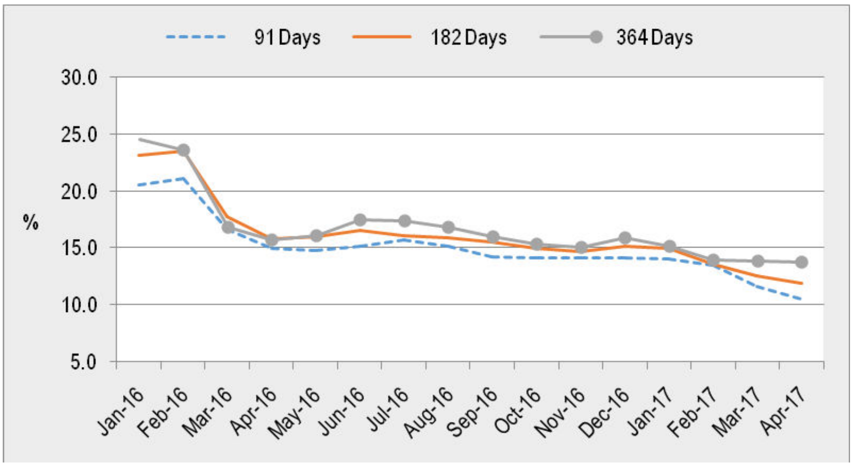
UGX	Total issuance	Domestic borrowing	Refinancing
Q1	2,009	679	1,330
Q2	1,463	60	1,403
Q3	1,544	134	1,410
April 2017	470	154	317
2016/17 year to date	**5,485**	**1,027**	**4,459**

Source: Auction results, MoFPED

Yields on Treasury Bills

The primary market was characterized by a decline in yields across all tenors. The average weighted yields to maturity were 10.5%, 11.9% and 13.8% for the 91, 182 and 364 day tenors respectively. This compares with 11.6%, 12.5% and 13.9% for the 91, 182 and 364 day tenors in March 2017. The fall in yields was partly attributed to the lowering of the Central Bank Rate in April 2017 to 11% from 11.5% in February 2017. All tenors were over-subscribed with an average bid to cover ratio of 1.7[3]. The trend in average yields for Treasury bills in the primary market is illustrated in figure 6.

Figure 6: Primary Market Average Yields of T-Bills



Source: Bank of Uganda

EXTERNAL SECTOR

Merchandise Trade Balance

On an annual basis, the merchandise trade deficit narrowed by 25% to US$ 85.1 million in March 2017. This performance is attributed to a faster increase in the export receipts, which rose by 21%, as compared to the increase in the import bill. The increase in exports is explained by improvements in both price and volume of key exports like coffee. Similarly, a month-on-month analysis indicates a narrower trade deficit between February and March 2017.

[3]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. 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 value of exports improved by 21% to US$ 288.2 million during March 2017, as compared to the same period last year. This performance is largely attributed to coffee exports, which rose by 65% and 32%, in both volumes and prices, respectively. During the month, there was a notable improvement in other formal exports, including electricity, cotton, tea, fish, maize, beans, flowers, beer and sugar. There was increased demand from the region for export items such as electricity, sugar, beans and maize, which is attributed to the adverse effects of the prolonged drought conditions. The performance of merchandise exports is summarized in table 5.

Table 5: Performance of Exports (US$ million)

	Mar-16	Feb-17	Mar-17	Mar-16 Vs Mar-17
Total Exports	**238.6**	**256.2**	**288.2**	21%
1. Coffee (Value)	**23.1**	**48.5**	**50.4**	**118%**
Volume ('000,000 60-Kg bags)	0.2	0.4	0.4	65%
Av. unit value	1.6	2.0	2.1	32%
2. Non-Coffee formal exports	**182.6**	**162.1**	**190.7**	4%
Electricity	1.5	7.8	5.5	272%
Cotton	3.8	6.5	6.6	71%
Tea	3.9	3.6	4.2	9%
Fish & its prod. (excl. regional)	9.4	9.8	12.1	28%
Maize	4.6	7.3	6.9	51%
Beans	1.4	4.4	2.9	109%
Flowers	3.9	5.0	4.4	13%
3. ICBT Exports	**32.9**	**45.6**	**47.1**	**43%**

Source: Bank of Uganda

Destination of Exports

The share of exports to regional blocs like EAC and COMESA in March 2017 increased compared to the same period last year. More than half of Uganda's exports went to EAC and COMESA (51%). Within the EAC, South Sudan took the largest share of exports (43%), followed by Kenya (23%) and Rwanda (16%). Table 6 below shows the destination of exports.

Table 6: Destination of Exports

	Mar-16	Mar-17
European Union	15%	16%
Rest of Europe	1%	2%
The Americas	2%	2%
Middle East	20%	13%
Asia	12%	5%
EAC	34%	41%
Comesa	6%	10%
Rest of Africa	1%	2%
Others	8%	9%

Source: Bank of Uganda

Merchandise Imports

Merchandise imports increased by 6% in March 2017 to US$ 373 million from US$ 351 million in March 2016. This performance is attributed to private sector imports[4], which rose by 13% and more than offset a 76% decline in government imports. On a monthly basis, merchandise imports rose by 6% between February and March 2017. The details are summarized in table 7.

Table 7: Performance of Imports (US$ million)

	Mar-16	Feb-17	Mar-17	Mar-16 Vs Mar-17
Total Imports (fob)	**351**	**352**	**373**	**6%**
Government Imports	**16**	**3**	**4**	**-76%**
Project	15	3	4	-75%
Non-Project	1	0	0	-99%
Formal Private Sector Imports	**305**	**326**	**344**	**13%**
Oil imports	44	61	74	70%
Non-oil imports	261	265	270	4%
Estimated Private Sector Imports	**30**	**23**	**25**	**-18%**

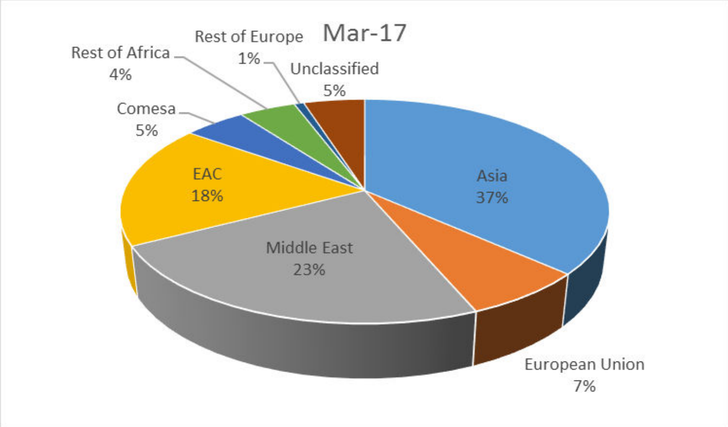
Source: Bank of Uganda

Origin of Imports

Asia, Middle East and EAC were the largest sources of imports, contributing 36.8%, 23.5% and 17.8%, respectively. Imports from India accounted for 37% of total imports from Asia, while Kuwait contributed 43.8% of total imports from Middle East. Within EAC region, Kenya and Tanzania account for 91% of total imports. The percentage share of origin of imports is summarised in figure 7.

[4] Private sector imports contributed 92% to total imports in March 2017

Figure 7: Origin of Imports by Percentage Share



Source: Bank of Uganda

FISCAL SECTOR

Overview

Fiscal operations amounted to a narrower deficit than planned for the month, as overall expenditures were lower than projections. Spending on both re-current and development items was below expectations. At the same time, revenues and grants amounted to a shortfall of Shs 152 billion or 12.4% against the target. A summary of the fiscal operations for the month is shown in table 8.

Table 8: Fiscal Operations for April 2017

	Outturn Apr'16	Plan Apr'17	Prel. Outturn Apr'17	Performance Apr'17	Deviation Apr'17
Revenues and Grants	946.2	1,132.6	981.0	86.6%	(151.6)
Revenues	915.7	1,074.2	967.2	90.0%	(107.0)
Tax	893.0	1,045.4	941.2	90.0%	(104.1)
Non-Tax	22.7	28.8	25.9	89.9%	(2.9)
Grants	30.5	58.4	13.9	23.7%	(44.6)
Budget Support	17.6	-	-	-	-
Project Support	12.9	58.4	13.9	23.7%	(44.6)
Expenditure and Lending	1,250.1	1,295.8	1,016.7	78.5%	(279.0)
Current Expenditures	919.2	739.4	691.1	93.5%	(48.3)
Wages and Salaries	259.8	275.4	250.9	91.1%	(24.5)
Interest Payments	116.1	132.2	101.4	76.7%	(30.8)
Domestic	92.8	115.0	88.5	77.0%	(26.4)
External	23.3	17.2	12.9	74.6%	(4.4)
Other Recurr. Expenditures	543.4	331.8	338.8	102.1%	7.0
Development Expenditures	326.8	503.8	317.2	63.0%	(186.6)
Domestic	273.1	256.2	221.1	86.3%	(35.0)
External	53.7	247.6	96.1	38.8%	(151.6)
Net Lending/Repayments	-	51.0	7.6	15.0%	(43.4)
o/w HPP GoU	-	-	7.6	-	7.6
o/w HPP Exim	-	51.0	-	-	(51.0)
Domestic Arrears Repayment	4.1	1.5	0.8	-	(0.7)
Overall Fiscal Bal. (incl. Grants)	(303.9)	(163.1)	(35.7)	-	-

Source: Ministry of Finance, Planning and Economic Development

Domestic Revenues and Grants

The net revenue collections during the month amounted to Shs. 967.2 billion, which represents an achievement rate of 90% against the target. There was an underperformance by both tax and non-tax revenues.

Tax Revenue

Taxes on incomes, profits and capital gains registered a shortfall of Shs.43.9 billion. The shortfall was attributed to lower than projected collections on PAYE, withholding taxes and taxes on bank interest.

Taxes on international trade and transactions performed at 90% with major shortfalls registered in VAT on imports, import duty and petroleum duty – three of the largest items in this tax head. This performance was on account of reduced importation of dutiable goods and services.

Tax collections on goods and services registered a shortfall amounting to Shs.11.4 billion against the target, which is attributed to the under-performance of VAT on domestic goods and services. However, the underperformance by VAT was partially offset by above target performance by excise duty collections.

Non-Tax Revenue

Total non-tax revenue received during the month amounted to Shs. 25.9 billion which was Shs. 2.9 billion or 89.9% against the target. This was explained by lower than projected collections from Ministries, Departments and Agencies from provision of certain goods and services; fines, fees and penalties.

Grants

Project support disbursements amounted to Shs.13.9 billion which was only 23.7% of what had been projected for the month. Project support disbursements are tied to project implementation. Slow execution of projects and delays in meeting pre-disbursement conditions are some of the factors that account to the underperformance.

Expenditure and Net Lending

Total expenditure and net lending during April 2017 amounted to Shs. 1,016.7 billion or an equivalent of 78.5% of the projected expenditure levels, as both development and recurrent expenditures performed below projections. The under-performance largely affected the external development activities (performed at 39%) which continue to be hampered by capacity constraints in project execution thereby leading to lower than anticipated project loans and grants disbursements. Domestic development expenditures were also below projections by 13.6%.

Expenditures on recurrent government activities during the month amounted to Shs.691.1 billion which is 93.5% of the projected levels. Payment of wages and salaries were less than the projection by 8.9% as Government continues to strengthen payroll management. The other major expenditure sub-categories, that is, non-wage recurrent and interest payments performed at 102.1% and 76.7%, respectively.