Monthly Report

PERFORMANCE OF THE ECONOMY

May 2017

MACROECONOMIC POLICY DEPARTMENT

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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SUMMARY:

Real Sector Developments:

Inflation: Annual Headline Inflation rose to 7.2% in May 2017 from 6.8% in the previous month mainly on account of rising food prices brought about by low agricultural yields due to the prolonged drought experienced earlier in the year.

Indices of Economic activity: The Composite Index of Economic Activity (CIEA) improved for the sixth consecutive month rising to 197.2 in April 2017 from 196.7 the previous month, indicating a continued improvement in economic activity. Business sentiments for the next three months (June-August 2017) remain positive as the Business Tendency Index (BTI) was recorded at 55.26 in May 2017.

Financial Sector Developments:

Exchange rate: The Shilling remained fairly stable against the US dollar, depreciating marginally by 0.1% from an average interbank mid-rate of Shs.3,618.7/US$ in April 2017 to Shs.3,623.6/US$ in May 2017.

Private Sector Credit: Growth in credit to the private sector remained subdued. The stock of outstanding Private Sector Credit (PSC) grew by 0.6% in April, 2017.

Government securities: Total issuance of government securities during the month amounted to Shs. 501 billion at cost. Average yields edged downwards, with all auctions oversubscribed.

External Sector Developments:

Merchandise Trade Balance: On an annual basis, the merchandise trade deficit widened by 31.5% to US$ 106.5 million in April 2017 from US$ 81.0 million in April 2016. This performance is attributed to a faster increase in the import bill (13.7%) compared to that of export receipts (7.8%).

Fiscal Sector:

Fiscal operations resulted in a wider than projected deficit, as overall expenditures over-runs more than offset the above target performance by revenues and grants. Total revenues and grants were 3% above target, while expenditures exceeded the monthly projections by 35%.

REAL SECTOR DEVELOPMENTS:

Inflation

Annual headline inflation rose by 0.4 percentage points from 6.8% in April to 7.2% in May 2017. The increase was largely driven by higher prices of food crops, energy, fuel and utilities. The annual food crops and related items inflation increased by 1.5 percentage points during the month which was on account of higher prices of vegetables (15.5% from 14.0%) and fruits (37.2% from 35.5%). Food crops and related items inflation, which comprises just over 10% of the CPI basket, continued to be adversely affected by the lagged effects of the drought experienced in most parts of the country during much of FY2016/17.

At the same time, the Energy, Fuels and Utilities (EFU) Inflation increased by 1.7 percentage points in May and was mainly driven by a rise in prices for solid fuels (charcoal & firewood), that went up by 6.7% in May 2017 from 4.1% in April 2017. Other drivers were petrol prices (which rose by 13.7% from 9.7%) and unmetered water prices (which went up by 9.9% from 2.7%). Table 1 below provides summary statistics on annual inflation in April and May 2017.

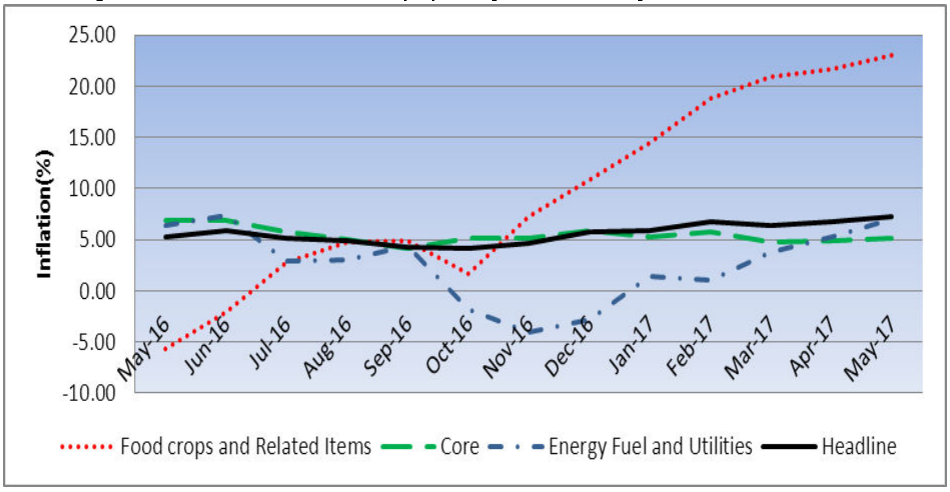
Table 1: Summary Statistics on Annual Inflation

	April 2017	May 2017
Headline	6.8%	7.2%
Core	4.9%	5.1%
EFU	5.3%	7.0%
Food Crops and Related Items	21.6%	23.1%

Source: Bank of Uganda

Annual core inflation, which excludes the food component and comprises over 80% of the CPI basket, rose to 5.1% in May from 4.9% in April. This increase was on account of an increase in prices of manufactured foods, beverages, tobacco & narcotics, and clothing & footwear. Figure 1 illustrates annual inflation trends over the past 12 months.

Figure 1: Annual Inflation (%), May 2016 – May 2017



Source: Uganda Bureau of Statistics

In the EAC region, inflation continued to rise for Uganda and Kenya, majorly driven by rising food prices following the prolonged dry spell experienced previously. Consumer prices in Kenya increased by 11.7% year-on-year in May 2017 compared to an 11.5% increase the previous month.

On the other hand, Tanzania and Rwanda registered a drop in annual Inflation, from 6.4% and 12.90% in April 2017 to 6.1% and 11.70% in May 2017, respectively. In Tanzania, annual headline inflation declined mainly due to a slowdown in cost of food, transport and housing and utilities, whereas the drop in Rwanda's headline inflation was fostered by a decline in inflation for food and non-alcoholic beverages (20.7% in May 2017 from 3.4% the prior month), alcoholic beverages and tobacco (5.8% from 7.5%), transport (3.6% from 4.3%), restaurants & hotels (4.3% from 4.9%) and miscellaneous goods & services (3.4% from 3.6%).

South Sudan continued to experience hyperinflation[1] tendencies, with annual inflation rising to 334% in May 2017 from 272.6% the previous month. This condition was fuelled by high food prices and in particular cereals and bread that majority of the households depend on. Table 2 shows a summary of headline inflation within the EAC partner states.

[1] Hyperinflation is extremely high persistent increase in prices.

Table 2: Headline Inflation in EAC Partner States.

	January 2017	February 2017	March 2017	April 2017	May 2017
Burundi	12.9%	20.7%	21.1%	19.40%	N/A
Kenya	7.0%	9.04%	10.3%	11.48%	11.70%
Rwanda	12.0%	13.4%	13.0%	12.90%	11.7%
South Sudan	371.8%	425.9%	304.6%	272.6%	334%
Tanzania	5.2%	5.5%	6.4%	6.4%	6.1%
Uganda	5.9%	6.7%	6.4%	6.8%	7.2%

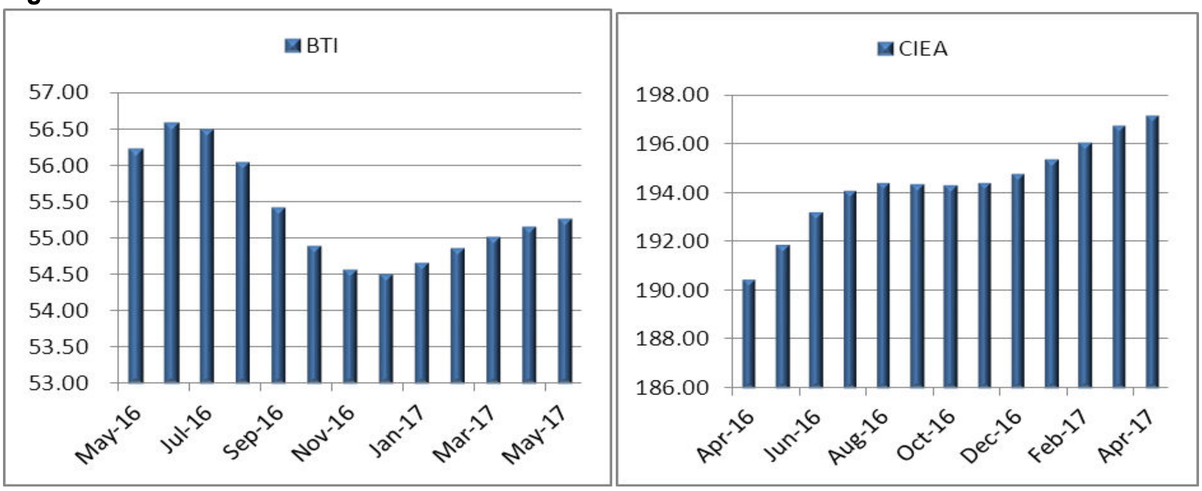
Source: Respective Bureaux of Statistics.

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

The Composite Index of Economic Activity (CIEA)[2] improved for the sixth consecutive month rising by 0.2%, to 197.2 in April 2017 from 196.7 in March 2017. The CIEA has been on an increase since November 2016 and reflects an improvement in economic activity.

Business sentiments remained positive; the Business Tendency Index (BTI) was recorded at 55.26 in May 2017 compared to 55.16 in April 2017. While marginal, the improvement in the BTI shows investor confidence in doing business in Uganda for the next three months, especially in agriculture, construction, manufacturing and trade sectors. Figure 2 summarizes the trends in BTI and CIEA for the previous 13 months.

Figure 2: Trends in BTI and CIEA



Source: Bank of Uganda

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[2]The CIEA is computed using monthly data of eight key variables, exports, imports, credit, VAT, PAYE, excise duty, cement production and sales for selected products.

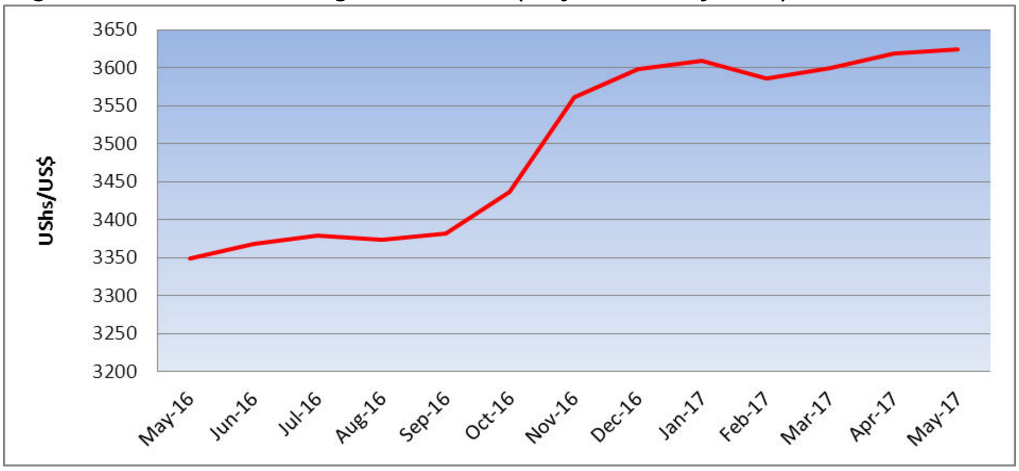
FINANCIAL SECTOR DEVELOPMENTS:

Exchange Rate

The foreign exchange market remained fairly stable throughout May and tended towards an appreciation. After opening the month at Shs 3,647/$, the exchange rate experienced gradually appreciated during the first half of the month the supply of foreign exchange more than matched demand. By mid month, the exchange rate had appreciated to Shs 3,636/$. The gradual appreciation continued in the second half of the month, with the exchange rate closing at Shs 3,603/$, as corporate demand was limited amidst stronger inflows from the NGO and export sectors.

On an average basis, the exchange rate depreciated marginally by 0.1% from Shs. 3,619/US$ in April 2017 to Shs. 3,624/US$ in May 2017. Overall, Bank of Uganda actions in the market during the month resulted in a net purchase of US$ 45 million for reserves build-up. Figure 3 shows the exchange rate movements from May 2016 to-date.

Figure 3: Shs/US$ Exchange Rate Trend (May 2016 - May 2017)

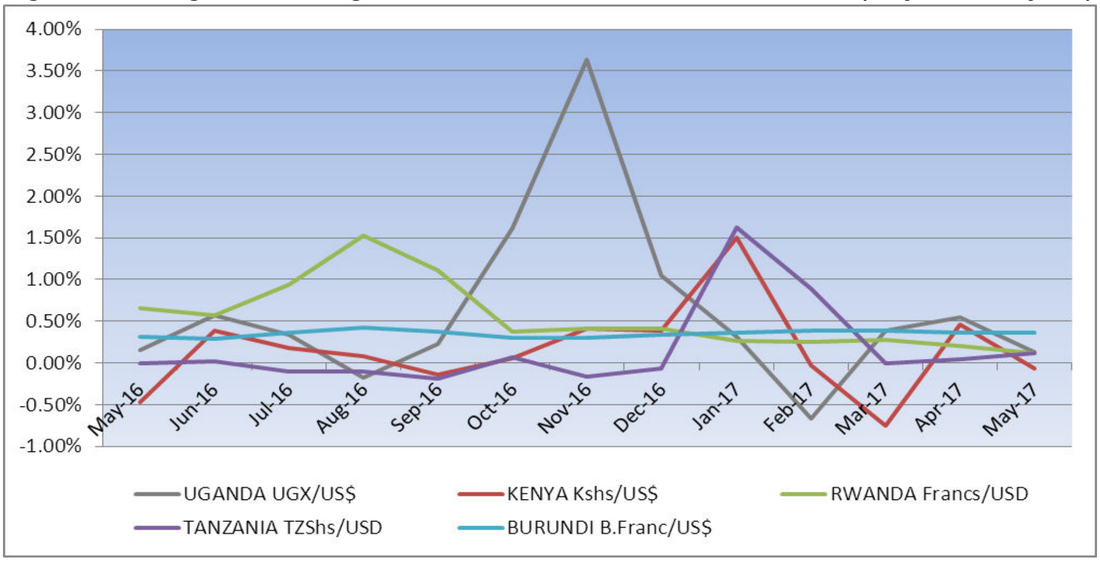


Source: Bank of Uganda.

Exchange Rates within the EAC Region

During the month, all the EAC partner states' currencies remained fairly stable against the USD. The Tanzania shilling and Rwanda franc depreciated marginally by 0.11% and 0.12% respectively, while the Kenya shilling appreciated by just 0.06%. The Burundi Franc depreciated by 0.37% in May 2017. Figure 4 shows depreciation rates among selected EAC partner states between April 2016 and April 2017.

Figure 4: Change in Exchange Rates in Selected EAC Partner States (May '16 – May '17)

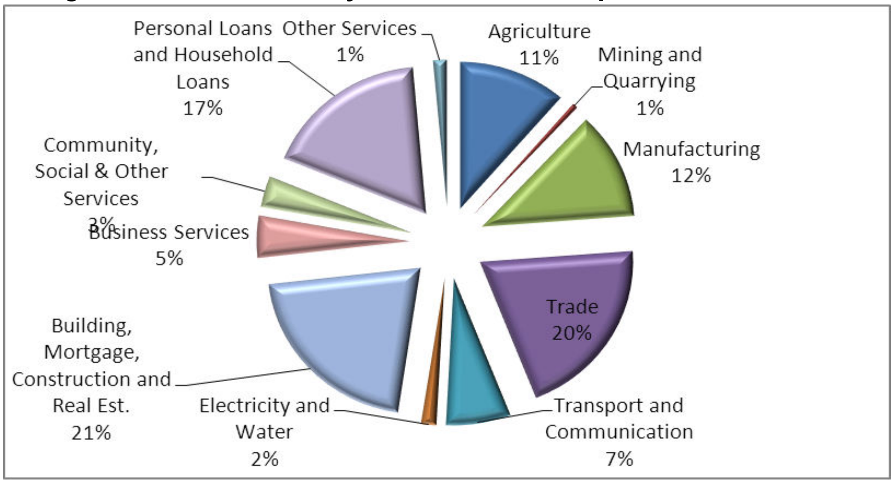


Source: Bank of Uganda.

Private Sector Credit.

The stock of outstanding Private Sector Credit (PSC) marginally increased by 0.6% in April, 2017 to Shs.11,972 billion from Shs.11,897 billion the previous month. Though marginal, this increase in credit could partly be explained by the lagged effects of the monetary easing stance by the central bank. Figure 5 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% of outstanding PSC at the end of April 2017. Other notable holders of credit by sector include trade (20%); personal and household loans (17%); manufacturing (12%) and agriculture (11%).

Figure 5: Stock of PSC by Sector as at end April, 2017



Source: Bank of Uganda

In April, there was growth in net credit extension to all sectors in the economy with the exception of manufacturing (-4.3), transport & communication (-1.0%) and business services (-0.8), which together accounted for nearly a quarter (24%) of total outstanding PSC. Credit to the building, mortgage, construction and real estate sector (with a share of 21% in outstanding stock), grew by 1.3%, while that to the trade sector (20% share in outstanding PSC) grew by 2.7%. Table 3 below further shows the detailed growth of PSC by sector.

Table 3: Monthly PSC growth by sector

	Apr-16	Mar-17	Apr-17
Agriculture	-0.9%	4.7%	0.4%
Mining and Quarrying	-1.5%	10.7%	3.1%
Manufacturing	-0.02%	-0.9%	-4.3%
Trade	-0.3%	4.7%	2.7%
Transport and Communication	7.4%	-4.7%	-1.0%
Electricity and Water	0.3%	-11.1%	3.2%
Building, Mortgage, Construction and Real Estate	0.2%	-0.9%	1.3%
Business Services	-5.2%	-22.1%	-0.8%
Community, Social & Other Services	2.6%	-3.0%	2.8%
Personal Loans and Household Loans	0.8%	-0.1%	1.4%
Other Services	7.0%	-0.6%	2.0%
Total	**0.5%**	**-0.8%**	**0.6%**

Source: Bank of Uganda

Government Securities

During the month, total issuance of government securities amounted to Shs. 501 billion at cost. The amounts raised from the auctions were used for refinancing of maturing securities which totaled to Shs. 503 billion and about Shs. 2 billion higher than the total issuance. The remaining balance on maturities of Shs. 2 billion was financed by funds raised from prior issuances. Table 4 shows a summary of domestic financing since the start of the financial year to date.

Table 4: Details for Domestic Financing (Shs Billions)

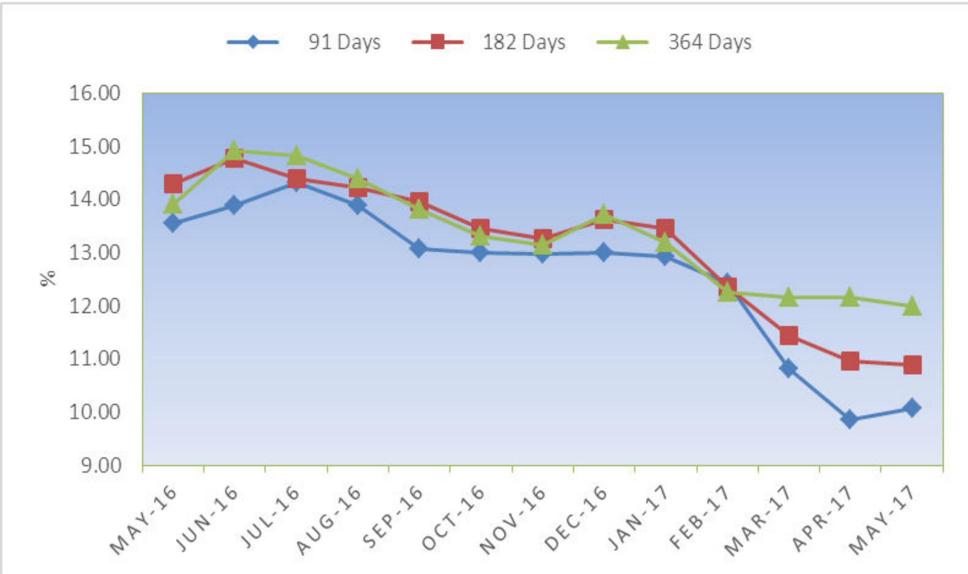
	Total Issuance	Domestic Borrowing	Refinancing
Q1	2,009	679	1,330
Q2	1,463	60	1,403
Q3	1,544	134	1,410
April	470	154	317
May	**501**	**-2**	**503**
2016/17 year to date	**5,986**	**1,025**	**4,962**

Source: Auction results, MoFPED

Yields on Treasury Bills

The primary market was characterized by a decline in yields across the 364-day and 182-day tenors and a marginal increase in the 91-day tenor bill. The average weighted yields to maturity were 10.7%, 11.8% and 13.7% for the 91, 182 and 364 day tenors, respectively. This compares with 10.5%, 11.9% and 13.8% for the 91, 182 and 364 day tenors respectively in April 2017. The slight drop in yields was on account of market expectation that the easing of the monetary policy stance by the Bank of Uganda will continue, given core inflation remains within the target band. Figure 6 shows the monthly average yields of treasury bills from May 2016 - May 2017.

Figure 6: Monthly Average Yields of Treasury Bills



Source: Bank of Uganda

EXTERNAL SECTOR DEVELOPMENTS:

Merchandise Trade Balance.

On an annual basis, the merchandise trade deficit widened by 31.5% to US$ 106.5 million in April 2017 from US$ 81.0 million in April 2016. This performance is attributed to a faster increase in the import bill (13.7%) compared to that of export receipts (7.8%). The increase in imports is due to an increase in formal private sector imports (mainly the non-oil imports). A month-on-month analysis indicates a widened trade deficit at US$ 106.5 million in April 2017 from US$ 88.97million in March 2017 because of the faster decline in exports (9.7%) compared to the decline in the import bill (2.8%).

Merchandise Exports.

Compared to April 2016, export receipts improved by 7.8% to US$ 260.2 million in April 2017 from US$ 241.4 million. This performance is largely explained by an increase in coffee earnings - coffee prices increased by 26.4% between April 2016 and April 2017. Although coffee earnings increased, the export volumes for coffee declined due to the dry spell which affected agricultural production in most parts of the country.

Other formal exports particularly electricity, cotton, gold, fish, tea, maize, flowers, beer and edible fats & oils also registered improved performance during the period under review. The increased demand from the region due to adverse effects of the drought (there were food shortages in most parts of the EAC), partly contributed to increased exports of electricity, sugar, and maize. Table 5 below summarizes the performance of merchandise exports.

Table 5: Performance of Merchandise Exports

	Apr-16	Mar-17	Apr-17	Apr-16 vs Apr-17 Percentage change
Total Exports (US$ Million)	241.41	288.19	260.15	7.8%
1. Coffee (Value)	31.12	50.44	39.26	26.2%
Volume ('000,000 60-Kg bags)	0.26	0.41	0.33	-0.2%
Av. unit value	1.59	2.05	2.01	26.4%
2. Non-Coffee formal exports	178.77	190.65	173.35	-3.0%
Electricity	1.26	5.49	4.22	235.4%
Gold	25.90	24.36	34.10	31.7%
Cotton	3.11	6.56	5.90	89.7%
Tea	5.37	4.21	5.94	10.4%
Fish & its prod. (excl. regional)	10.12	12.13	11.42	12.9%
Hides & skins	4.01	3.36	5.07	26.5%
Maize	3.18	6.87	4.23	33.0%
Beans	1.74	2.90	1.52	-12.9%
Flowers	3.38	4.44	4.03	19.2%
3. ICBT Exports	31.52	47.09	47.54	50.8%

Source: Bank of Uganda

Destination of Exports

The East African Community remained the major destination for Uganda's exports in April 2017, followed by COMESA, and the Middle East. The share of exports to regional blocs like EAC and

COMESA in April 2017 increased compared to the same period last year. Exports to the EAC region grew by 35.5% from US$ 80.20 million in April 2016 to US$ 92.25 million in April 2017. Kenya accounted for the largest share of EAC exports (27.1%), followed by Rwanda (26.7%), Burundi (20.7%), South Sudan (18.6%) and Tanzania (6.9%). Uganda`s trade with the EAC is facilitated by tariff-free movement of goods and services as well as improved regional transport infrastructure. Table 6 below shows the destination of exports.

Table 6: Destination of Exports

	Apr-16	Mar-17	Apr-17
European Union	16.0%	16.3%	14.7%
Rest of Europe	1.9%	1.6%	0.7%
The Americas	1.4%	1.6%	1.6%
Middle East	15.5%	13.4%	18.8%
Asia	8.4%	5.1%	7.4%
EAC	33.2%	40.7%	35.5%
COMESA[3]	17.9%	18.9%	19.5%
Rest of Africa[4]	5.7%	2.4%	1.8%
Others[5]	0.0%	0.0%	0.2%

Source: Bank of Uganda

Merchandise Imports.

Total imports of merchandise (f.o.b)[6] amounted to US$ 366.7 million in April 2017 down from US$ 377.2 million in March 2017. Whereas the value of Government imports significantly increased by 71%, the decline in private sector imports (down by 7%) more than offset the increase. The decline in private sector imports is on account of lower oil import volumes and a drop in non-oil import prices[7].

The value of merchandise imports increased by 14% in April 2017 compared to the same period last year. The increase is driven by higher values of both Government (up by 17%) and private sector imports (up by 12%). The increase in the value of imports was as a result of higher oil import volumes and a rise in import prices in comparison to April, 2016[8]. Table 7 shows the performance of imports in April 2017.

[3] COMESA excludes East Africa Community (EAC) partner states
[4] Rest of Africa excludes Tanzania
[5] Others include Australia, Iceland and others
[6] *f.o.b - Free on Board*
[7] *Change over previous month: Oil Import volumes declined by 13% alongside a 3% drop of the Non-Oil Import price index (Bank of Uganda).*
[8] *Change over same period of previous year: the Oil Import Price Index surged 30%, Non-Oil Import Price index rose by 6% and Oil Import Volumes increased by 17% (Bank of Uganda).*

Table 7: Performance of Imports in April, 2017 (US$ millions)

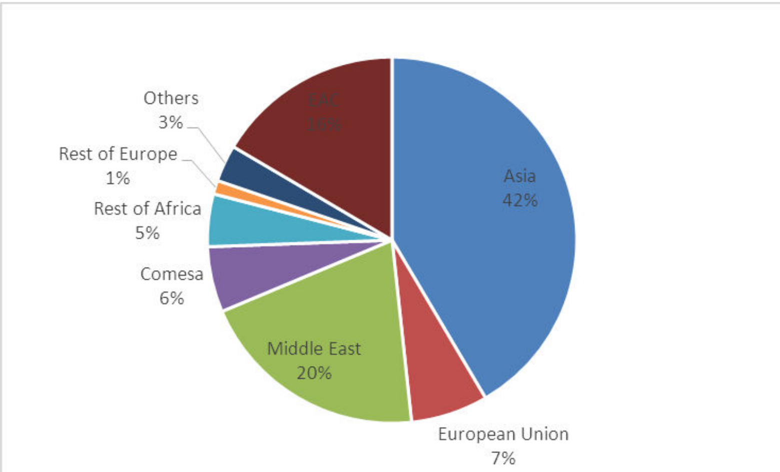
	Apr-16	Mar-17	Apr-17	Mar-16 Vs Apr-17 -% change	Apr-16 Vs Apr-17 - % change
Total Imports (fob)	**322.43**	**377.16**	**366.65**	-3%	14%
1.Government Imports	11.25	7.73	13.22	71%	17%
Project	11.24	7.73	11.27	46%	0.3%
Non-Project	0.01	0.00	1.94	-	-
2.Formal Private Sector Imports	285.69	344.41	320.96	-7%	12%
Oil imports	42.88	73.97	65.41	-12%	53%
Non-oil imports	242.81	270.44	255.55	-6%	5%
3.Estimated Private Sector Imports	25.50	25.01	32.47	30%	27%
Total Private Sector Imports	311.18	369.42	353.43	-4%	14%

Source: Bank of Uganda.

Origin of Imports

Asia was the largest source of imports during the month (see figure 7), making a contribution of 42% of the total imports. Middle East and EAC made contributions of 20% and 16% respectively, making them the second and third largest sources. Of the total imports from Asia, 72% were from China, India and Japan. Kenya and Tanzania made contributions of 63% and 26% of the total imports from EAC respectively.

Figure 7: Origin of Imports by Percentage Share, April, 2017



[9]

Source: Bank of Uganda.

[9] COMESA excludes the EAC member states.

FISCAL SECTOR:

Overview

The fiscal operations during the month resulted in a higher than projected deficit, as expenditures on both recurrent and development activities turned out higher than anticipated. The overall deficit amounted to Shs 516 billion, which was higher than the projected level of Shs. 105 billion. A summary of fiscal operations are shown in table 7.

Table 8: Fiscal Operations, May 2017 (Shs billions)

	Outturn May '16	Projection May '17	Outturn May '17	Year on Year Growth	Deviation from projection	Perfomance against the projection
Revenues and grants	954	1,180	1,218	28%	38	103%
Revenues	894	1,095	1,069	20%	(25)	98%
Tax	866	1,068	1,041	20%	(27)	97%
Non-Tax	28	27	28	2%	2	106%
Oil revenues	-	-	-	0%	-	
Grants	60	86	149	147%	63	174%
Budget support	14	19	15	8%	(4)	80%
Project support	46	67	134	189%	67	201%
Expenditures and net lending	1,307	1,285	1,734	33%	449	135%
Current expenditures	704	682	873	24%	191	128%
Wages and salaries	243	219	259	7%	40	118%
Interest payments	149	123	178	19%	54	144%
o/w: domestic	137	115	172	25%	57	150%
o/w: foreign	11	8	5	-52%	(3)	63%
Other current spending	312	339	436	40%	97	129%
Development expenditures	585	390	833	42%	443	213%
External	198	179	412	109%	233	230%
Domestic	387	211	421	9%	210	199%
Net lending and investment	-	205	5	0%	(200)	2%
Of which: HPP projects	-	205	5	0%	(200)	2%
o/w: GoU	-	-	5	0%	5	
o/w: Eximbank	-	205	-	0%	(205)	0%
Of which: BoU recapitalisation	-	-	-	0%	-	
Clearance of arrears	18	8	23	27%	15	288%
Overall balance	(353)	(105)	(516)	46%	(411)	493%

Source: Ministry of Finance, Planning and Economic Development

Total Revenue and Grants

Revenue and grants amounted to Shs 1,218 billion, which represents surplus collections of Shs 38 billion or 3% against the projection for the month. This performance is attributed to budget support grant inflows, which more than offset the underperformance by domestic revenue collections. Grants were boosted by a disbursement from the African Union towards peace keeping operations in Somalia, which had not been projected for the month.

Domestic Revenue

Domestic revenue collections registered a shortfall of Shs. 26 billion or 2.4% against projections, as underperformances by indirect domestic and international trade taxes more than offset the above-target performance by direct taxes.

Direct domestic tax collections amounted to Shs Shs 328 billion, representing a surplus of Shs 13.6 billion or 4.3% against the target for the month. Strong performances by PAYE – the largest item in the tax head, together with tax on bank interest and casinos, more than offset the underperformances by corporation and withholding taxes.

On the other hand, indirect domestic taxes and international trade taxes were below projections by 1.3% and 7.4%, respectively. Taxes on international trade during the month were affected by subdued demand, as VAT on imports, petroleum duty and import duty – the three largest items in the tax head recorded shortfalls. At the same time, indirect domestic tax collections performed at 98.7% as a shortfall on duty on excisable goods and services more than offset the on-target performance by VAT on domestic activities.

Grants

Total grant inflows amounted to Shs.149 billion, which was Shs 67 billion or 74% against the target for the month. This performance was on account of project support disbursements which amounted to Shs 134 billion or double the expected levels. Projects support inflows were boosted by an AU disbursement amounting to US$ 30.75 million (Shs111 billion) during the month, which was not in the projections. This helped to more than offset a shortfall equivalent to 20% in budget support disbursements.

Expenditure

Total expenditure amounted to Shs 1,734 billion, which was Shs. 449 billion or 35% higher than the projection for the month. Both current and development expenditures performed above their respective targets. The performance of recurrent expenditure was driven by higher expenditure in wages and salaries, higher domestic interest expense and higher non-wage recurrent spending by MDAs, which were 18%, 44% and 29%, respectively above projections for the month.

At the same time, development spending performed at 213% with higher than projected spending on both domestic and externally financed project activities. The performance by expenditures on externally financed project activities was attributed to the higher than projected grant disbursements and use of previously unspent balances on the development project accounts by MDAs. In addition, there was a disbursement of a loan of US$ 42 million towards the purchase of earth moving equipment for the roads and works sector which had not been projected for the month. It should be noted that disbursement to externally financed projects largely depends on the rate of project execution and as such, project disbursements are used to proxy the level of implementation of externally financed projects.

Overall Balance

The overall balance resulting from the fiscal operations during the month resulted into a deficit amounting to Shs 516 billion against Shs 105 billion projected for the month. The deficit was financed from both domestic and external sources, which included a loan disbursement amounting to US$ 25.9 million during the month from the PTA bank.