Monthly Report

PERFORMANCE OF THE ECONOMY
SEPTEMBER 2017

MACROECONOMIC POLICY DEPARTMENT

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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SUMMARY

Real sector: Annual headline inflation for the year ending September 2017 was recorded at 5.3 percent compared to the 5.2 percent recorded for the previous month. This slight increase was driven by Annual Energy, Fuel and Utilities (EFU) Inflation which increased by 2.8 percentage points to 10.6 percent in September 2017 and Annual Core Inflation which rose from 4.1 percent in August to 4.2 percent in September 2017. On the other hand, annual Food Crops Inflation declined to 9.6 percent for the year ending September 2017 compared to the 11.7 percent recorded for the year ended August 2017.

Financial sector: The Uganda Shilling remained relatively stable against the US dollar, appreciating by only 0.2 percent to an average midrate of Shs 3,599.9/US$ in September 2017 compared to the previous month recording of Shs 3,606/US$ as demand was matched by supply in the foreign exchange market.

The stock of outstanding Private Sector Credit registered a growth of 0.5 percent in August 2017 to Shs 12,224.3 billion from Shs 12,166.7 billion recorded the previous month.

In the securities market, Shs 500.8 billion was raised during the month and out of this, Shs 442.4 billion was used for refinancing maturing domestic debt and Shs 58.4 billion was for financing the Government budget

External sector: On a monthly basis, merchandise trade deficit widened by 44.4 percent to US$ 137.2 million in August 2017 from US$ 95 million in July 2017 as the value of merchandise exports declined during the month while the value of imports increased over the same period. However, on a year-on year basis, the trade deficit decreased by 21.1 percent in August 2017 and this was due to a combination of increased value of exports and reduction in the import bill.

Fiscal sector: Domestic revenues (tax and non-tax revenues) registered a surplus of Shs 44.2 billion during the month. However, grants were short of expected amounts by Shs 199.6 billion. Total expenditure and net lending amounted to Shs 1,485.6 billion against the month's program of Shs 1,753.4 billion. This culminated into a fiscal deficit of Shs 276.6 billion for the month against the programmed Shs 389.1.

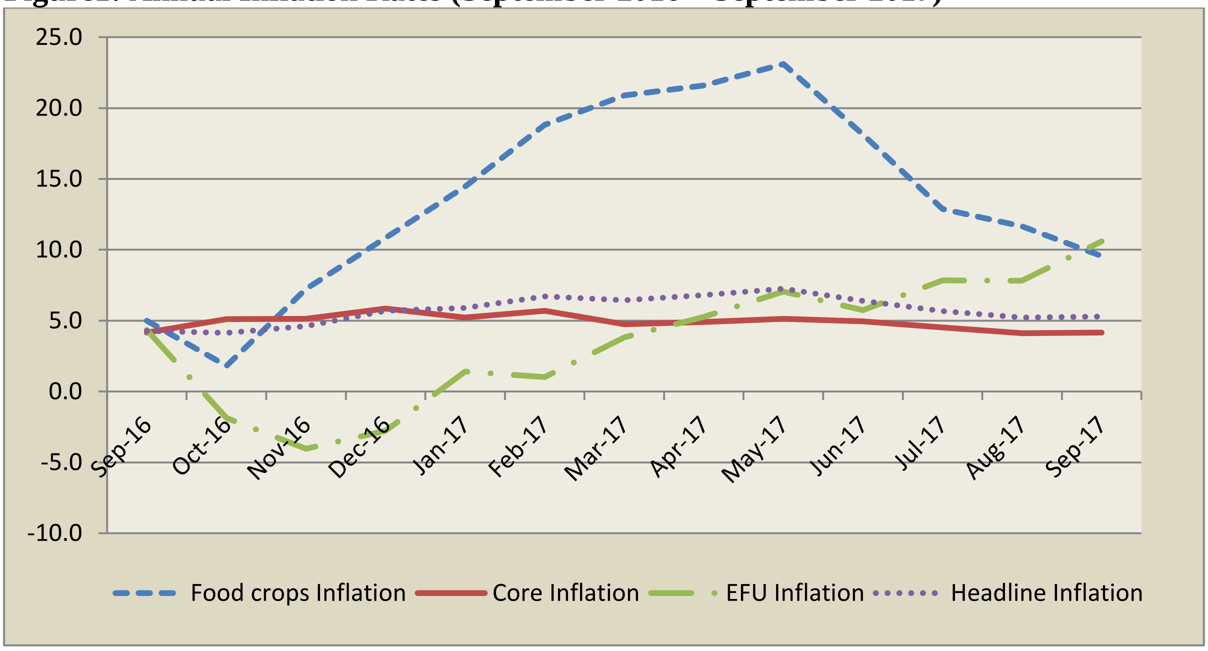
REAL SECTOR

Inflation

Annual headline inflation for the year ending September 2017 was recorded at 5.3 percent compared to the 5.2 percent recorded for the previous period. This slight increase was driven by Annual Energy, Fuel and Utilities (EFU) Inflation which increased by 2.8 percentage points to 10.6 percent in September 2017 and Annual Core Inflation which rose from 4.1 percent in August to 4.2 percent in September 2017. The rise in annual EFU inflation was precipitated by increasing prices of solid fuels (charcoal and firewood) while the rise in core inflation was mainly due to services inflation (e.g restaurants and hotels, and recreation and culture) which increased to 4.1 percent in September from 3.3 percent recorded in the previous period.

Annual Food Crops Inflation declined to 9.6 percent for the year ending September 2017 compared to the 11.7 percent recorded for the year ended August 2017. This decline was mainly due an increase in the supply of fruits in the market. Figure 1 shows the trends in inflation for the year ended September 2017.

Figure1: Annual Inflation Rates (September 2016 – September 2017)



Source: Uganda Bureau of Statistics

Inflation within the EAC Region

Within the East African Community, Kenya and Rwanda registered declines in annual inflation while Tanzania registered a slight increase as shown in table1 below.

Table 1: Headline Inflation in EAC Partner States

	Mar'17	Apr'17	May'17	Jun'17	Jul'17	Aug'17	Sep'17
Burundi	21.1%	19.4%	18.8%	15.1%	13.6%	13.9%	15.3%
Kenya	10.3%	11.4%	11.70%	9.2%	7.5%	8.0%	7.1%
Rwanda	13.0%	12.9%	11.70%	9.4%	8.1%	7.2%	7.1%
South Sudan	304.6%	272.6%	334%	361.9%	154.6%	165.0%	NA
Tanzania	6.4%	6.4%	6.10%	5.4%	5.2%	5.0%	5.3%
Uganda	6.4%	6.8%	7.20%	6.4%	5.7%	5.2%	5.3%

Source: Respective Bureaux of Statistics.

Kenya registered a reduction in annual headline inflation from 8.0 percent in August to 7.1 percent in September 2017 and this was on account of a reduction in prices of food and non-alcoholic beverages as well as a reduction in inflation for housing, water, electricity, gas and other fuels. Similar to Kenya, Rwanda registered a marginal reduction in headline inflation mainly due to a slowdown in price increases of food and non-alcoholic drinks especially in rural areas.

Tanzania registered marginal increase in headline inflation from 5 percent to 5.3 percent as food and non-alcoholic beverages inflation rose. On the other hand, Burundi's annual headline inflation increased from 13.9 percent in August to 15.3 percent in September 2017 with the main driver being food crop inflation.

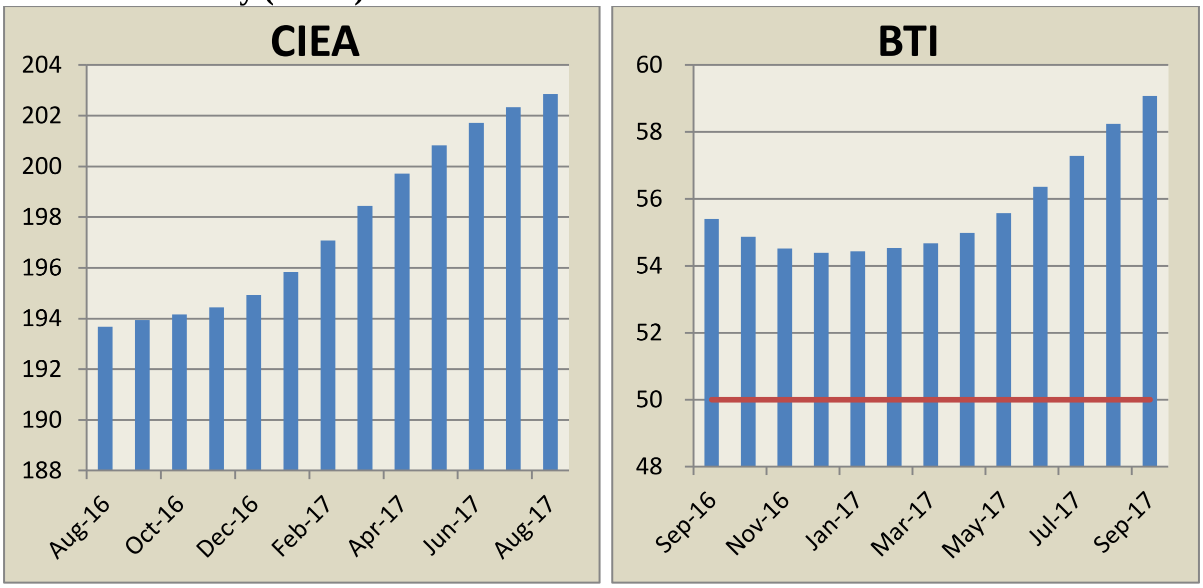
Business Tendency Index (BTI) and Composite Index of Economic Activity (CIEA)

The high frequency indicators of economic activity remained positive. The Composite Index of Economic Activity (CIEA)[1] improved by 0.25 percent to 202.8 in August 2017 from 202.3 in July. This improvement was due to strong performance in the following indicators; Pay as You Earn (PAYE) which registered a monthly growth of 46.8 percent, VAT on domestic goods and services which grew at 5 percent and total imports that registered a monthly growth of 7.7 percent in August 2017. Other indicators that performed well included private sector credit and money in circulation. The performance of CIEA in August indicates improvements in the levels of economic activity in the country.

[1] The CIEA captures the underlying changes in economic activity in the economy. It is constructed using ten variables which are: currency in circulation; VAT on domestic goods and services; exports; imports; government expenditure on goods and services; sales; cement production; excise taxes; PAYE; and private sector credit.

The Business Tendency Index (BTI) which shows forward-looking expectations on the business environment was 59 in September 2017 which is an improvement on the 58 recorded in August and is above the threshold of 50. This implies that investors' perceptions about doing business in the economy are positive and improving. Figure 2 shows the trends in BTI and CIEA over the past year.

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



Source: Bank of Uganda

FINANCIAL SECTOR

Exchange Rate

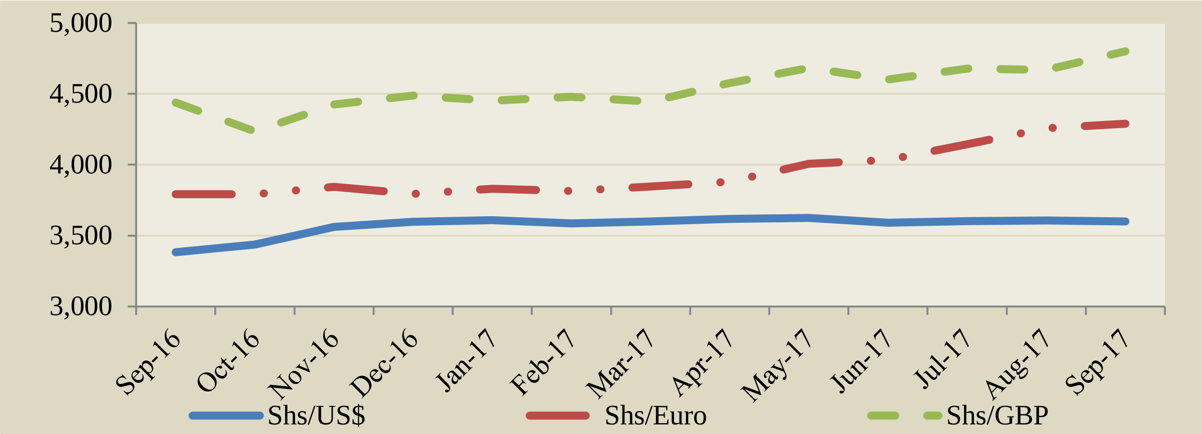
The Uganda shilling was relatively stable against the United States Dollar, registering a slight appreciation of 0.2 percent to an average midrate of Shs 3,599.9/US$ in September 2017 compared to the previous month recording of Shs 3,606/US$.

At the beginning of the month, the Shilling traded at a midrate of Shs 3,600/US$ which compares well with the midrate of Shs 3,603/US$ recorded at the end of the month. This was due to the demand for the US Dollar from manufacturing, telecom and oil sectors being matched by inflows from offshore investors, the export sector as well as NGOs for most part of the month.

The Shilling, however, depreciated against the Euro and the Pound Sterling by 0.7 percent and 2.8 percent, respectively.

The shilling traded at an average midrate of Shs 4,801.8/GBP in September 2017 compared to the previous month recording of Shs 4,669.9/GBP. Against the Euro, the shilling traded at an average midrate of Shs 4,288.8/Euro in September 2017 as opposed to a midrate of Shs 4,257.3/Euro recorded in August 2017. Figure 3 shows the exchange rate movements of the Ugandan shillings against major currencies over the last twelve months.

Figure 3: Exchange Rate Trend (September 2016 – September 2017)

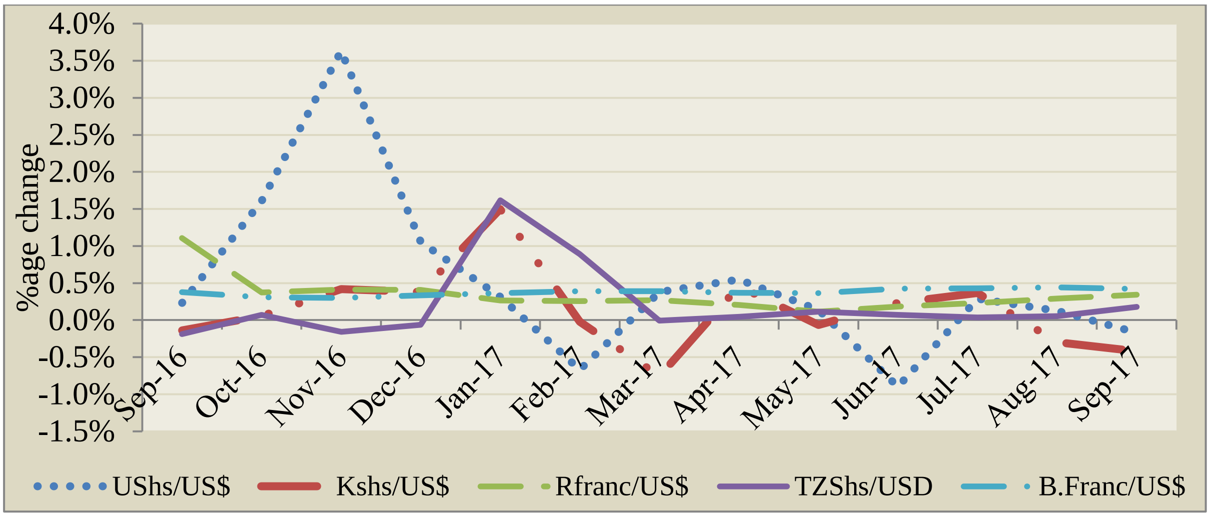


Source: Bank of Uganda

Exchange Rates within the EAC Region

All the regional currencies were fairly stable against the US Dollar in September 2017. On average, the Tanzanian Shilling, Rwandan Franc and Burundian Franc depreciated by 0.2 percent, 0.3 percent and 0.4 percent respectively while the Kenyan shilling and the Ugandan Shilling appreciated by 0.4 percent and 0.2 percent respectively. Figure 4 shows the percentage changes in the exchange rates of the EAC regional currencies.

Figure 4: Change in Exchange Rates in Selected EAC Partner States (FY2016/17)



Source: Bank of Uganda

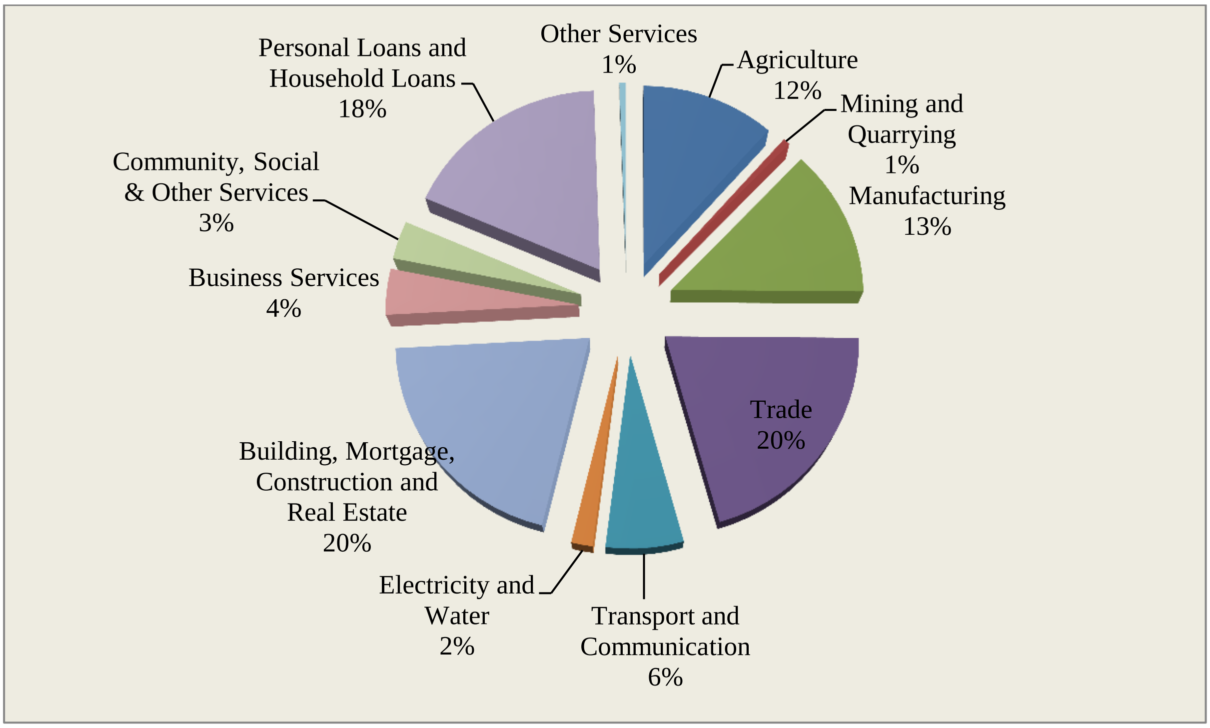
Private Sector Credit (PSC)

The stock of outstanding Private Sector Credit increased by 0.5 percent in August 2017 to Shs 12,224.3 billion from Shs 12,166.7 billion the previous month. This followed a recovery in the growth of foreign currency denominated credit. The stock of foreign currency denominated credit had shrunk by 0.2 percent in July 2017 but recovered in August, growing at 0.8 percent. This accounted for most of the growth in the stock of total PSC for the month. The stock of Shillings denominated credit registered a growth of just 0.3 percent in the same period as opposed to a growth of 0.8 percent in the previous month.

The monthly growth of 0.5 percent in the stock of PSC recorded for August 2017 compares favourably well with a -0.1 percent growth that was recorded in the same month last year. This implies that private sector credit is recovering and if this trend continues, we shall have a better performance this financial year than the 5.8 percent annual growth registered for last financial year.

Trade and building, mortgage, construction and real estate sectors continue to be the leading holders of PSC. Figure 5 illustrates the distribution of the stock of PSC by sector where the building, mortgage, construction and real estate sector and the trade sector each accounted for 20 percent of outstanding PSC at the end of September 2017. Other sectors holding notable shares of credit stock include; personal and household loans (18 percent); manufacturing (13 percent) and agriculture (12 percent).

Figure 5: Distribution of the stock of outstanding PSC by sector



Source: Bank of Uganda

During the month, sectors that accounted for the biggest share of outstanding stock of PSC registered growth in their total stock. These included Personal Loans and Household; Agriculture; and Building, Mortgage, Construction and Real Estate which grew by 2.0 percent, 1.0 percent and 0.8 percent respectively. However, some other sectors, amongst them Electricity and Water; Mining and Quarrying; and Transport and Communication registered negative growth in their stock of credit. The table below shows monthly growth of the stock of Private Sector Credit to the different sectors.

Table 3: Monthly PSC growth by sector

	Jun-17	**Jul-17**	**Aug-17**
Agriculture	3.7%	0.5%	1.0%
Mining and Quarrying	19.8%	3.4%	-3.6%
Manufacturing	5.1%	1.6%	0.3%
Trade	2.0%	2.0%	1.0%
Transport and Communication	0.0%	-2.7%	-2.4%
Electricity and Water	-1.4%	3.3%	-7.9%
Building, Mortgage, Construction and Real Estate	3.4%	-1.0%	0.8%
Business Services	-8.1%	-3.2%	1.5%
Community, Social & Other Services	-0.6%	3.0%	-0.7%
Personal Loans and Household Loans	1.1%	0.7%	2.0%
Other Services	-49.0%	-6.8%	-15.4%
Total	**1.3%**	**0.4%**	**0.5%**

Source: Bank of Uganda

Government Securities

There were 2 T-Bill auctions and 1 T-Bond auction in the primary market during the month of September 2017 raising Shs 279.1 billion and Shs 221.7 billion respectively. Of the amount raised, Shs 442.4 billion was used for the refinancing of maturing debt and Shs 58.4 billion was for financing the Government budget, as shown in table 4 below.

Table 4: Issuance of Government Securities in Billion Shillings (Q1 FY 2017/18)

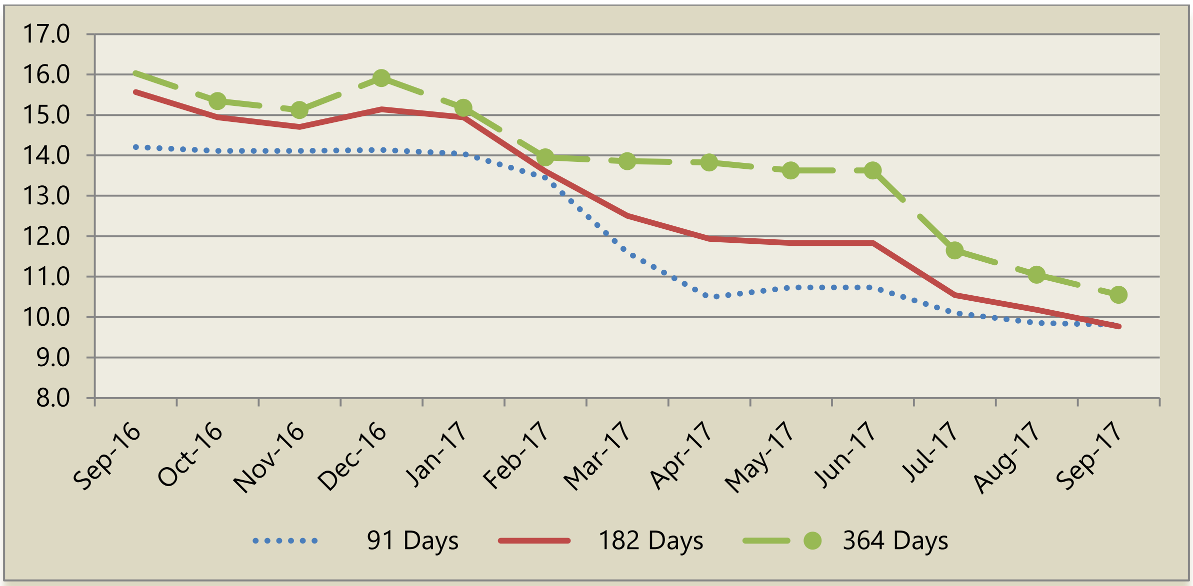
	Total Issuances	**Government Domestic Borrowing**	**Refinancing**
July 2017	494.4	198.2	296.3
August 2017	666.7	133.9	532.8
September 2017	500.8	58.4	442.4
Total	**1,661.9**	**390.5**	**1,271.5**

Source: Auction results, MoFPED

Yields on Treasury Instruments

The primary market was characterized by a decline in yields across all tenors. The average weighted yields to maturity for September were 9.8%, 9.8% and 10.6% for the 91, 182 and 364 day tenors, respectively. This compares with 9.9%, 10.2% and 11.1% in August 2017. The yields edged downwards due to excess liquidity in the money market and high demand for government paper as shown by the overall bid to cover ratio[2] of 2.9. Figure6 below illustrates the movement of Treasury bill yields on the primary market since September 2016.

Figure 6: Primary Market Yields of Treasury Bills



Source: Bank of Uganda

[2] 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.

EXTERNAL SECTOR

Merchandise trade balance

Merchandise trade deficit widened by 44.4 percent to US$ 137.2 million in August 2017 from US$ 95 million in July 2017. This was due to a drop in the value of merchandise exports and growth in the value of import by 7.7 percent.

In comparison with August 2016, the trade deficit decreased by 21.1 percent in August 2017 and this was due to a combination of increased value of exports and reduction in the import bill.

Merchandise exports

Export earnings amounted to US$ 260.48 million in August 2017, recording a drop of 5 percent when compared with July 2017. This decline is mainly attributed to the fall in the exports of coffee (4.9 percent), beans (20 percent) and electricity (39.3 percent). The fall in the value of coffee follows a decline in both prices and volume by 2.9 percent and 2.1 percent respectively.

Comparison between August 2016 and August 2017 shows an increase in the export earnings by 14.9 percent. This increase is mainly attributed to increase in value of coffee (56.4 percent), beans (193 percent) and maize (62.4 percent) exports. The increase in value of coffee exports was due to increase in both the volume and the price which increased from US$ 1.72 per kilo to US$ 1.87 per kilo. However there was a decline in the value of gold exports emanating from a decline in the volumes being exported. Table 5 shows the performance of exports.

Table 5: Performance of Exports (US$ million)

	Aug-16	Jul-17	Aug-17	Jul 17 Vs Aug 17 %age change	Aug 16 Vs Aug 17 %age change
1. Coffee (Value)	**30.08**	**49.50**	**47.06**	**-4.9%**	**56.4%**
Volume (60-Kg bags)	291,045	427,204	418,340	-2.1%	43.7%
Av. unit value	1.72	1.93	1.87	-2.9%	8.8%
2.Non-Coffee formal exports (Value)	**165.49**	**183.13**	**171.15**	**-6.5%**	**3.4%**
o/w Gold	37.61	24.50	26.80	9.4%	-28.8%
Electricity	1.83	5.72	3.47	-39.3%	89.4%
Beans	2.53	9.26	7.41	-20.0%	193.0%
Maize	6.24	10.96	10.13	-7.6%	62.4%
Tobacco	1.87	0.49	4.19	753.6%	123.8%
3. ICBT Exports	**31.05**	**41.69**	**42.27**	**1.4%**	**36.1%**

Source: Bank of Uganda

Destination of exports

During the month of August 2017, the East African Community remained the major destination for Uganda's exports, followed by the Rest of Africa, and the European Union. Comparison between August 2016 and August 2017 shows that exports to the East African Community increased by 21.9 percent from US$ 68.62 million in August 2016 to US$ 83.66 million in August 2017. Table 6 below shows the destination of exports.

Table 6: Destination of exports in August 2017

	Aug-16	Jul-17	Aug-17
European Union	18.5%	18.6%	19.7%
Rest of Europe	1.0%	0.7%	0.7%
The Americas	1.1%	2.2%	3.3%
Middle East	22.2%	11.1%	13.1%
Asia	4.3%	8.2%	5.4%
EAC	30.3%	31.3%	32.1%
Rest of Africa	22.7%	27.8%	25.6%
Others[3]	0.003%	0.06%	0.07%

Source: Bank of Uganda

Merchandise Imports

The value of merchandise imports registered an increment of 7.7 percent in August 2017, from US$ 369.29 million in July 2017 to US$ 397.64 million. Both Government and private sector imports (value) increased by 14.3 percent and 7.3 percent respectively during the month. The increase in the value of merchandise imports is attributable to higher non-oil import volumes[4].

On an annual basis, the value of merchandise imports declined by 0.7 percent in August 2017. This marginal decline was majorly driven by a decline in Government imports (value down by 46.2 percent). Whereas private sector imports (value) posted an increment of 6.8 percent, this was more than offset by the decline in Government imports. Table 7 shows the performance of Merchandise Imports for the month.

[3] Others include Australia, Iceland

[4] Change over previous month: Non-Oil Import volumes increased by 10.8% in August, 2017 (Bank of Uganda).

Table 7: Merchandise imports (US $ million), August 2017.

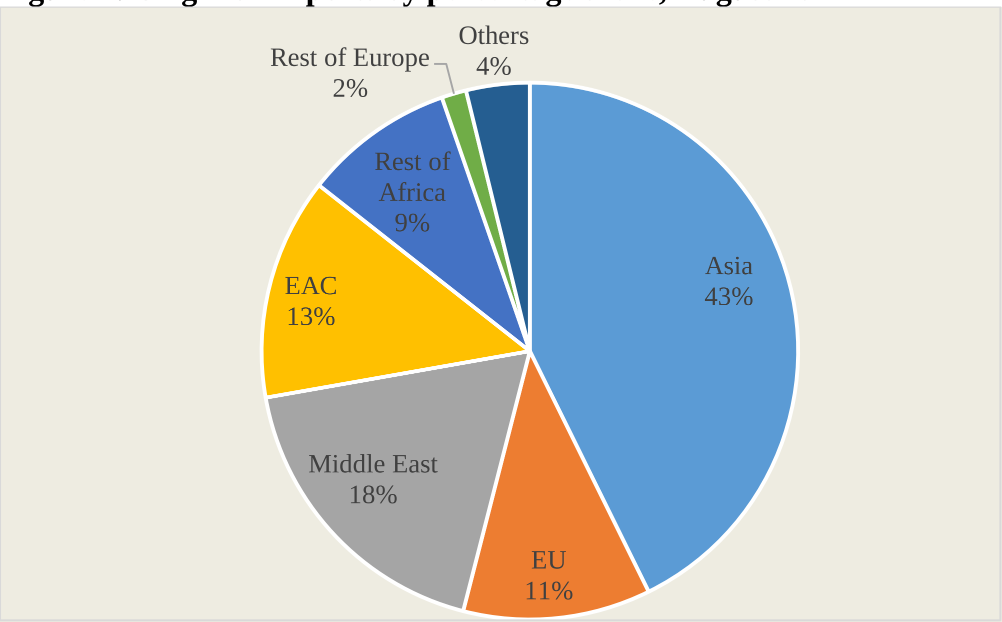
	Aug-16	Jul-17	Aug-17	July-17 vs Aug-17	Aug-17 Vs Aug-16
Total Imports (fob)	**400.48**	**369.29**	**397.64**	**7.7%**	**-0.7%**
Government Imports	39.31	18.50	21.15	14.3%	-46.2%
Project	35.90	16.28	21.08	29.5%	-41.3%
Non-Project	3.41	2.22	0.07	-96.8%	-97.9%
Formal Private Sector Imports	**327.23**	**325.79**	**349.62**	**7.3%**	**6.8%**
Oil imports	51.14	66.54	61.59	-7.4%	20.4%
Non-oil imports	276.09	259.25	288.04	11.1%	4.3%
Estimated Private Sector Imports	33.95	25.00	26.87	7.5%	-20.8%
Total Private Sector Imports	**361.17**	**350.78**	**376.49**	**7.3%**	**4.2%**

Source: Bank of Uganda

Origin of Imports;

Asia, Middle East and EAC were the main sources of merchandise imports, contributing 43%, 18% and 13% respectively in August 2017. Kenya and Tanzania contributed 89% of the imports from EAC while China, India and Japan contributed more than three-quarters of the imports from Asia. Figure 7 shows the origin of imports by percentage share.

Figure 7: Origin of Imports by percentage share, August 2017



Source: Bank of Uganda

FISCAL SECTOR

Overview

The overall fiscal deficit for the month of September 2017 amounted to Shs 276.6 billion which is lower than the monthly program of Shs 389.1billion. This was attributed to the lower than programmed expenditure and net lending by Shs 267.9 billion which offset the Shs 155.4 billion shortfall in revenue and grants.

Table 8: Fiscal Operations, September 2017

	Outturn Sept' 16	Program Sept' 17	Preliminary Sept'17	Deviation	Performance Vs Program
Revenue and grants	**1,055.4**	**1,364.3**	**1,208.9**	**(155.4)**	**89%**
Revenue	**1,006.5**	**1,108.8**	**1,153.1**	**44.2**	**104%**
Tax	980.9	1,082.3	1,114.1	**31.7**	**103%**
Non tax	25.6	26.5	39.0	**12.5**	**147%**
Grants	**48.9**	**255.4**	**55.9**	**(199.6)**	**22%**
Budget support (incl HIPC)	28.3	60.7	28.3	**(32.3)**	**47%**
Project support	20.6	194.8	27.5	**(167.3)**	**14%**
Expenditure and Net Lending	**1,218.5**	**1,753.4**	**1,485.6**	**(267.9)**	**85%**
Recurrent	**705.4**	**912.7**	**827.2**	**(85.5)**	**91%**
Wages and salaries	266.0	282.3	292.9	**10.6**	**104%**
Interest payments	265.4	325.6	269.3	**(56.2)**	**83%**
o/w Domestic	204.7	260.5	204.7	**(55.8)**	**79%**
o/w Foreign	60.7	65.0	64.6	**(0.4)**	**99%**
Other current spending	174.0	304.8	264.9	**(39.8)**	**87%**
Development	**364.7**	**765.2**	**346.0**	**(419.2)**	**45%**
o/w Domestic	121.9	173.4	136.8	**(36.6)**	**79%**
o/w External	242.8	591.8	209.2	**(382.6)**	**35%**
Net Lending	**126.8**	**25.5**	**286.1**	**260.6**	**1121%**
HPPs	126.8	25.5	286.1	**260.6**	**1121%**
o/w GOU	1.0	-	0.0	**0.0**	-
o/w Exim bank	125.8	25.5	286.1	**260.5**	**1121%**
Clearance of Arrears	21.6	50.0	26.3	**(23.7)**	**53%**
Overall Fiscal Balance	**(163.1)**	**(389.1)**	**(276.6)**	-	-

Source: Ministry of Finance, Planning and Economic Development

Revenue and Grants

During the month, total revenues and grants amounted to Shs 1,208.9 billion against the target of Shs 1,364.3 billion implying a shortfall of Shs 155.4 billion. Domestic revenues (tax and non-tax) amounted to Shs 1,153.1 billion while grants were Shs. 55.9 billion. Comparing September 2017 with the same month last year, there was a 15 percent growth in revenues and grants.

Tax revenue

Tax revenue during the month amounted to Shs 1,114.1 billion posting a surplus of Shs 31.7 billion. This followed higher than anticipated performance of direct taxes and taxes on international trade during the month.

Direct taxes were higher than the Shs 300.25 billion target by Shs. 30.45 billion. This was due to increased recruitment of workers in the oil and gas sector following commencement of production activities resulting in higher performance of PAYE.

Taxes on international trade and transactions registered a surplus of Shs 7.4 billion during the month. This surplus was majorly in petroleum duty following an increase in the import volumes of petrol and diesel. Other tax categories that performed well were VAT on imports, surcharge on imports and infrastructure levy. The performance of petroleum duty benefited from the increase in the export volumes of petrol and diesel.

However, taxes on goods and services (indirect taxes) fell short of the Shs 227.69 monthly target of by Shs 13.6 billion. Excise duty contributed more to this shortfall (Shs. 11.1 billion) compared to VAT (Shs 2.5 billion).

Non Tax Revenue

The total Non Tax Revenue (NTR) received during the month amounted to Shs 39.0 billion against the program of Shs 26.5 billion, posting a surplus of Shs 12.5 billion. This performance is attributed to improved efficiency in NTR collections stemming from the transfer of the collection responsibility of most NTR to Uganda Revenue Authority (URA).

Grants

Government received project support grants amounting to Shs 27.5 billion (14 percent of the program for the month). There were no budget support grant disbursements during the month.

Expenditure and Net Lending

Total Government spending in September 2017 was Shs 1,485.6 billion which is less than the program for the month by Shs 267.9 billion. The underperformance was mainly registered in externally financed development expenditures which fell short of projections by 65 percent. Domestic development expenditure also registered a shortfall of about Shs 36.6 billion. However, this was due to the fact that most of these expenses were frontloaded in the month of August 2017.

On the other hand, net lending performed higher than programmed, amounting to Shs 286.1 billion compared to the monthly program of Shs 25.5 billion. There was a disbursement from the EXIM Bank of china towards the hydro power projects (karuma and Isimba) made during the month following issuance of payment certificates in the previous months.

Total spending on re-current activities during the month amounted to about 91% of the projected levels. Payment of wages and salaries to government workers was slightly above the projected amount for the month by only Shs 10.6 billion while non-wage recurrent expenditure (excluding interest) was below its projections by Shs 39.8 billion partly due to frontloading of these expenditures in the month of August 2017.

A total of Shs 26.3 billion was spent in clearance of arrears against the program of Shs 50 billion. This brought the amount spent in clearance of arrears to Shs 119.5 billion since the beginning of the financial year following Government's commitment to clear arrears of Shs 300.9 billion in FY2017/18.