Monthly Report

PERFORMANCE OF THE ECONOMY

January, 2017

MACROECONOMIC POLICY DEPARTMENT

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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SUMMARY

Real Sector: Food crop prices increased in January 2017 as a result of the prolonged dry spells experienced in most parts of the country. This led to food supply shortages in the markets which caused high food crop prices. This partly explains why Annual Headline Inflation rose to 5.9 percent in January, 2017 from 5.7 percent in December 2016.

Annual EFU Inflation increased to 1.4 percent in January 2017 due to increased power tariffs as a result of depreciation of the shilling. Charcoal prices in January 2017 also increased to 2.8 percent from 0.3 percent in December 2016.

Core inflation for the year ended January 2017, dropped to 5.3 percent from 5.9 percent in December 2016 partly due to reduced transport fares after the hike during the festive season.

Financial Sector: In December 2016, the ratio non-performing loans to total gross loans increased to 10.5 percent in December, 2016 from 7.7 percent in September, 2016. This was because bad loans previously under watch were finally included in non-performing assets hence leading to a negative growth in private sector credit of 0.9 percent in December, from positive growth of 3.6 percent in November 2016.

The Uganda shilling depreciated marginally against the US dollar by 0.3 percent compared to 1.1 percent the previous month. This was mainly due to increased demand from manufacturing and oil sectors exceeding inflows from off shore players, coffee receipts, NGOs and forex bureaus.

From the domestic securities market, Shs 466.2 billion (at cost) was raised from 3 auctions in January 2017, of which Shs 291.82 billion was from T-Bills and Shs 174.39 billion was from T-Bonds. From the total amount raised, Shs 338.2 billion was used for refinancing of maturing securities within the month while the remaining balance of Shs 128 billion was used for financing the domestic budget.

External Sector: On an annual basis, the merchandise trade deficit improved by 77.4 percent to US$ 69.4 million from US$ 306.5 million owing to an increase in exports and a reduction in the import bill.

The value of exports grew by 16.7 percent from US$ 241.60 million in December 2015 to US$ 281.99 million in December 2016. This performance is attributed to the improved performance of coffee, non-coffee formal exports like cotton, electricity, fish & its products and oil re-exports.

The value of merchandise imports in December 2016 declined by 35.89 percent to US$ 351.38 million from US$ 548.07 million in December 2015 partly due to lower growth than had earlier been projected.

Fiscal Sector: The fiscal deficit during the month of January 2017 was Shs 256.2 billion compared to Shs. 121.8 billion which had been projected. This is explained by a shortfall in revenue and grants of Shs 141.3 billion.

Revenue and grants amounted to Shs 1,088.6 billion during the month, against a target of Shs 1,229.8 billion registering a performance of 88.5 percent.

On the other hand, expenditure and net lending performed at 99.5 percent of the planned expenditure, totalling to Shs 1,344.7 billion against a planned expenditure of Shs 1,351.6 billion.

REAL SECTOR DEVELOPMENTS

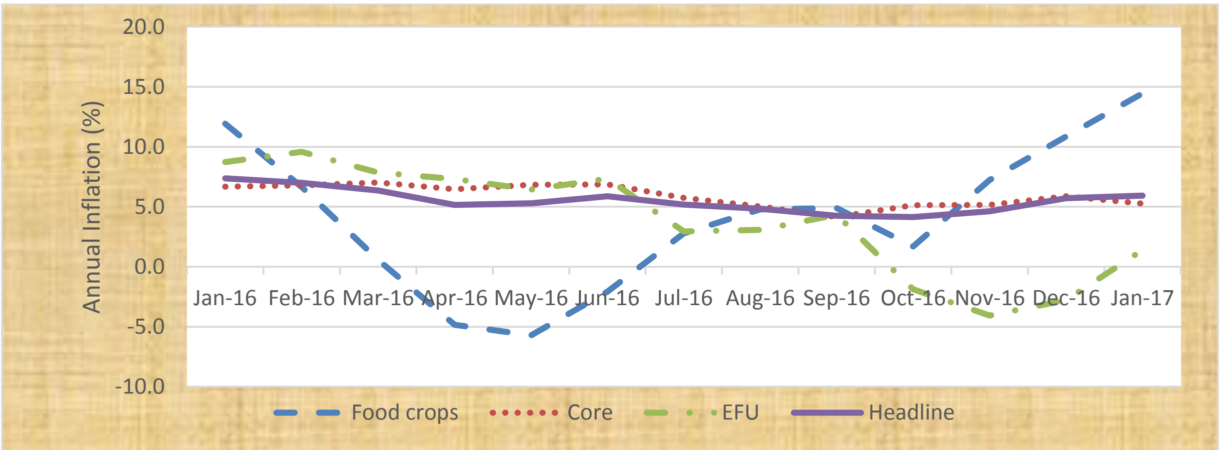
Inflation

The Annual Headline Inflation in January 2017 increased to 5.9 percent from 5.7 percent in December 2016. The drivers for the annual headline inflation were the Annual Food Crops Inflation which increased to 14.5 percent in January 2017 from 10.8 percent in December 2016. This performance is largely attributed to food supply shortages to the market as a result of prolonged dry spells in the country. More specifically, annual fruit and vegetable inflation increased to 30.4 percent and 6.8 percent in January 2017 from 24.8 percent and 2.4 percent in December 2016 respectively.

The other driver was Annual Electricity, Fuel and Utilities (EFU) Inflation which rose from minus 2.8 percent recorded in December 2016 to 1.4 percent in January 2017. This was mainly due to the increase in charcoal prices to 2.8 percent for the year ending January 2017 from 0.3 percent for the year ending December 2016. The increase in the power tariffs (for the quarter January to March 2017) by 11 percent also contributed to the increase in annual EFU inflation. The power tariffs rose as a result of the exchange rate depreciation.

On the other hand, Annual Core Inflation dropped to 5.3 percent in January 2017 from 5.9 percent which was recorded in December 2016. This decline was partly due to reduced transport fares in January after the hike in December following the festive season. On an annual basis, the prices of transport reduced to 2.2 percent in January 2017 from 5.2 percent in December 2016. Figure 1 below shows trends in Annual Inflation Rates.

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



Source: Uganda Bureau of Statistics

Inflation Within the EAC Partner States

The increase in Uganda's annual headline inflation is not unique since all East African Partner States registered increases (See table 1) in January 2017. The major driver was the Annual Food Crop Inflation which increased mainly due to food supply shortages to the markets. The prolonged dry spells mainly contributed to these food supply shortages.

Table 1: Inflation Across the East African Community Partner States

	Oct'16	Nov'16	Dec '16	Jan'17
Burundi	6%	7.1%	9.6%	12.9%
Kenya	6.5%	6.7%	6.4%	7.0%
Rwanda	9.1%	9.1%	11.0%	12.0%
South Sudan	835.7%	457.2%	479.7%	
Tanzania	4.5%	4.8%	5.0%	5.2%
Uganda	4.1%	4.6%	5.7%	5.9%

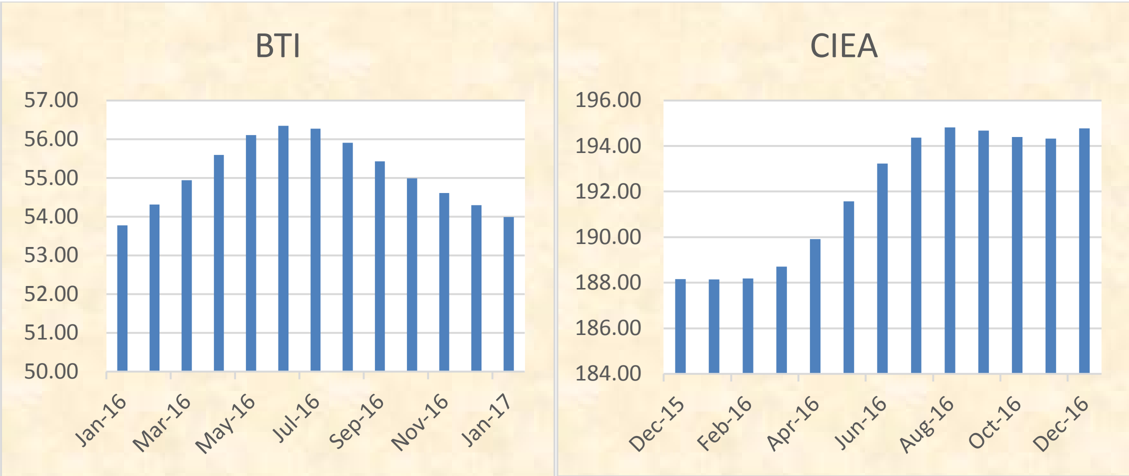
Source: National Bureaus of Statistics for respective countries

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

The high frequency indicators of economic activity show economic growth prospects within an economy. Once the prospects are positive, they reflect the likely achievement of the projected growth rates for the financial year. Since both indices remained positive, investors are confident about prospects of doing business in the country as shown by the Business Tendency Index (BTI). The BTI was recorded at 53.9 for January 2017 which is above the threshold of 50. Economic activity in December as measured by the Composite Index of Economic Activity (CIEA) revealed an increase to 194.7 in December 2016 from 194.3 in November as reflected in figure 2 below.

Nevertheless, the declining trend of the BTI among other factors contributed to the downward revision of economic growth for FY2016/17 to 4.5 percent from 5.0 percent projected in October, 2016.

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



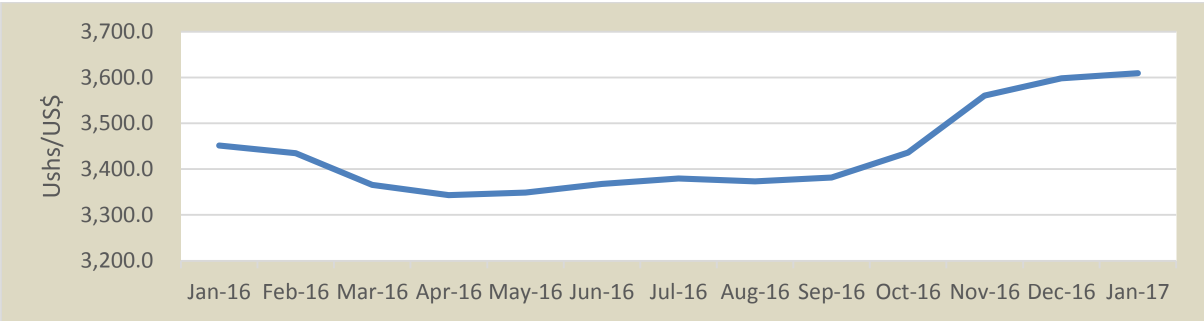
Source: Bank of Uganda

FINANCIAL SECTOR DEVELOPMENTS

Exchange Rates

The Uganda shilling depreciated marginally by 0.3 percent against the US dollar from a period average midrate[1] of Shs 3,598.2/US$ in December 2016 to a period average midrate of Shs 3,609.5/US$ in January 2017. This performance is mainly attributed to increased demand from manufacturing and oil companies exceeding inflows from off shore players, coffee receipts, NGOs and forex bureaus.

Figure 3: UGX/USD Exchange Rate Trend (January 2016 –January 2017)



Source: Bank of Uganda

Private Sector Credit:

The stock of outstanding Private Sector Credit (PSC) reduced from Shs 12,184.6 billion in the month of November to Shs 12,072.7 billion in December 2016, registering a negative growth rate of 0.9 percent. The increase in Non-Performing Loans (NPLs) in December to 10.5 percent of total gross loans made commercial banks and private sector players to become more risk averse-something that may have contributed to this performance in PSC. Performance at the sector level shows that sectors with a high share of PSC that registered negative growth rates include: building, mortgage, construction and real estate (-0.1 percent); trade (-1.2 percent); personal loans and household loans (-1.3 percent). However some sectors registered positive growth in PSC and these include; manufacturing (1.0percent); business services (0.1percent); and community, social & other services (5.1percent).

[1] Midrate is the weighted average of purchases and sales of forex during the month.

From the annual perspective, there was growth of 6.3 percent in PSC because of positive growth registered among all sectors except for manufacturing (-2.2 percent), business services (-12.3 percent) and other services (-45.6 percent) as shown in table 2 below.

Table 2: Monthly Growth Rates of PSC

	Dec-15	Nov-16	Dec-16	Dec-16 Vs Dec-15 (percentage change)	Sectoral share of PSC (Dec-2016)
Agriculture	1.4%	2.1%	-0.04%	9.3%	10.3%
Mining and Quarrying	2.1%	-17.7%	-4.3%	2.0%	0.5%
Manufacturing	-2.6%	1.2%	1.0%	-2.2%	13.1%
Trade	-1.8%	3.3%	-1.2%	5.3%	19.5%
Transport and Communication	-1.1%	9.7%	-3.4%	38.0%	7.4%
Electricity and Water	17.6%	14.3%	-12.4%	13.5%	1.9%
Building, Mortgage, Construction and Real Estate	1.4%	3.2%	-0.1%	3.1%	22.7%
Business Services	4.0%	7.7%	0.1%	-12.3%	3.9%
Community, Social & Other Services	4.9%	2.8%	5.1%	14.1%	3.5%
Personal Loans and Household Loans	-0.9%	2.8%	-1.3%	15.4%	16.3%
Other Services	4.4%	11.9%	-19.7%	-45.6%	0.8%
Total	**0.2%**	**3.6%**	**-0.9%**	**6.3%**	

Source: Bank of Uganda

The distribution of the stock of outstanding PSC by sector shows that the building, mortgage, construction and real estate sector accounted for 22.7 percent as at the end of December (see table 2 above). Other sectors with substantial shares of PSC include: trade (19.5 percent); personal and household loans (16.3 percent); manufacturing (13.1percent) and agriculture (10.3percent).

The ratio of Non-Performing Loans (NPLs) during the month of December 2016 increased to 10.5 percent of total gross loans from 7.7 percent recorded in the month of September, 2016. This is because bad debts previously under watch were finally included in non-performing assets hence leading to a rise in NPL levels during December 2016.

Government Securities

During the month, there were 2 T-Bill auctions and 1 T-Bond auction. From the domestic securities market, Shs 466.2 billion (at cost) was raised, of which, Shs 291.82 billion was from T-Bills and Shs 174.39 billion was from T-Bonds. Of the total amount raised, Shs 338.2 billion was used for refinancing of maturing securities within the month, while the remaining balance (Shs 128 billion) was utilized for financing the domestic budget as shown in Table 3 below.

Table 3: Issuance of Government Securities for FY 2016/17, (Shs billion)

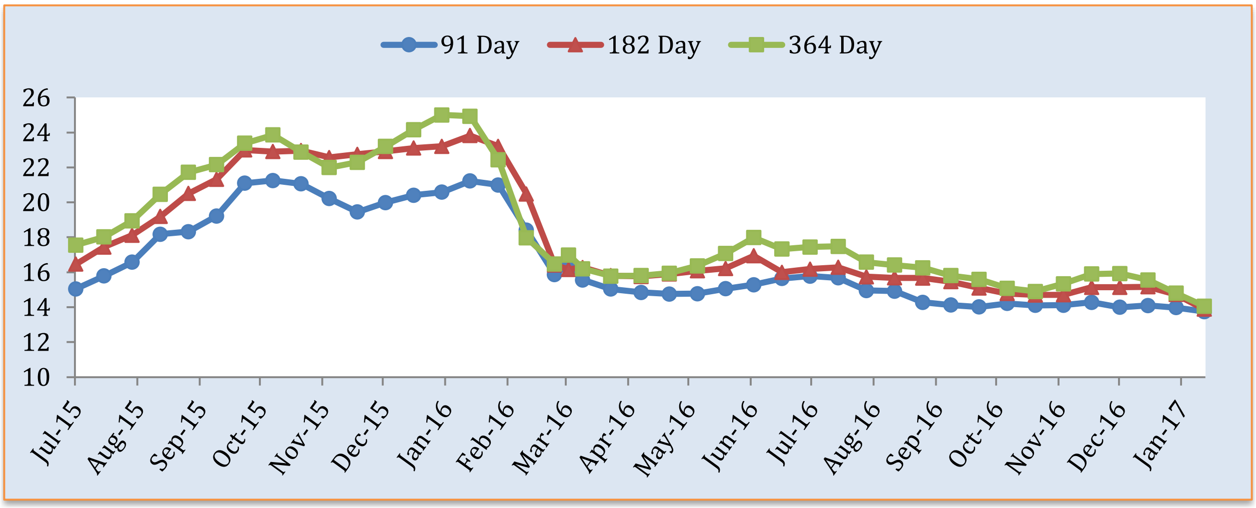
	Total issuances	Net domestic financing	Refinancing
Q1 2016/17	**2,009**	**679**	**1,330**
Q2 2016/17	**1,463**	**60**	**1,403**
January 2017	466.2	128	338.2
FY2016/17 year to date	**3,938**	**867**	**3070**

Source: Auction Results, MoFPED

Yields on Treasury Bills

All tenors were over-subscribed with an average bid to cover ratio of 2.7[2]. On average, yields declined marginally across all tenors during the month compared to December 2016. The average weighted yields to maturity were 14.0 percent, 14.9 percent and 15.2 percent for the 91, 182 and 364 day tenors, respectively. This compares with 14.1 percent, 15.1 percent and 15.9 percent in December 2016 (see figure 4). 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 expectations of a drop in interest rates given the downward trend of the CBR.

Figure 4: Primary Market Average Yields of Treasury Bills



Source: Bank of Uganda

[2] The bid to cover ratio is an indicator of the demand for government securities in a given auction day. 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 in December 2016 amounted to US$ 69.4 million compared to US$ 63.7 million in November 2016 explained by lower export receipts during the month. In effect, the trade deficit widened by 8.9 percent between December and November 2016.

However, comparing performance in December 2016 to that of December 2015, the trade deficit improved by 77.4 percent from US$ 306.5 million to US$ 69.4 million owing to an increase in exports and a reduction in the import bill.

Merchandise Exports

Export receipts during the month of December amounted to US$ 281.99 million compared to US$ 288.97 million in November 2016. The lower export receipts are mainly on account of reduced export volumes of tea, tobacco, beans, maize, sorghum, fruits & vegetables, hides & skins, vanilla and plastic products. However during the month, the values of coffee, cotton, fish & its products, oil re-exports and electricity increased.

On an annual basis, the value of exports grew by 16.7 percent from US$ 241.60 million in December 2015 to US$ 281.99 million in December 2016. The good performance of exports is attributed to the improved performance of coffee, non-coffee formal exports like cotton, electricity, fish & its products and oil re-exports. The performance of ICBT exports declined during the year specifically beans, bananas, industrial products, and other agricultural commodities. Table 4 below shows the performance of exports.

Table 4: Performance of Exports (US$ million)

	Dec-15	Nov-16	Dec-16	Dec-16 Vs Nov-16 Percentage change	Dec-16 Vs Dec-15 Percentage change
Total Exports	**241.60**	**288.97**	**281.99**	**-2.42%**	**16.71%**
1.Coffee (Value)	**33.58**	**50.41**	**51.42**	**2.00%**	**53.09%**
Volume (60Kg bags)	0.34	0.41	0.42	4.03%	23.95%
Av. unit value	1.63	2.06	2.02	-1.94%	23.51%
2.Non-coffee formal exports	**169.21**	**205.24**	**196.48**	**-4.27%**	**16.12%**
o/w cotton	0.34	1.58	4.12	160.84%	1100.11%
o/w electricity	1.58	2.45	3.10	26.45%	95.99%
o/w fish (excl. regional)	10.53	12.60	12.90	2.4%	22.49%
o/w oil re-exports	11.20	9.75	11.47	17.68%	2.36%
3. ICBT Exports	**38.81**	**33.33**	**34.09**	**2.28%**	**-12.16%**

Source: Bank of Uganda

Destination of Exports

The East African Community remained the major destination for Uganda's exports in December 2016, followed by COMESA, and the Middle East**.** Uganda`s trade with the EAC is facilitated by tariff-free movement of goods and services as well as improved regional transport infrastructure. Exports to the EAC region grew by 19.9 percent from US$ 94.49 million in November 2015 to US$ 113.29 million in November 2016. Kenya took the largest of EAC exports (44.8 percent), followed by South Sudan (25.1 percent) and Rwanda (19.0 percent). Table 5 below shows the destination of exports.

Table 5: Destination of Exports (Percentage Shares)

	Dec 2015	Dec 2016
EAC	39.1%	40.2%
COMESA[3]	19.9%	15.0%
Middle East	17.1%	14.2%
European Union	13.5%	19.3%
Asia	5.6%	6.9%
The Americas	1.6%	1.9%
Rest of Europe	1.6%	1.4%
Rest of Africa[4]	1.5%	1.1%
Others[5]	0.1%	0.0%

Source: Bank of Uganda

[3] COMESA excludes Kenya, Rwanda, Burundi and South Sudan
[4] Rest of Africa excludes Tanzania
[5] Others include Australia, Iceland, e.t.c.

Merchandise Imports

The value of merchandise imports decreased by 0.37 percent in December 2016, from US$ 352.69 million in November 2016 to US$ 351.38 million in December 2016. This performance was due to a decline in government non-project imports and formal private sector non-oil imports.

The value of merchandise imports in December 2016 declined by 35.89 percent compared to the value in December 2015 reflecting subdued domestic demand. Table 6 below shows performance of merchandise imports.

Table 6: Performance of Merchandise Imports (US $ million)

	Dec-15	Nov-16	Dec-16	Dec-16 Vs Nov-16 (percentage change)	Dec-16 Vs Dec-15 (percentage change)
Total Imports (fob)	**548.07**	**352.69**	**351.38**	**-0.37%**	**-35.89%**
1. Government Imports	191.43	12.77	26.39	106.56%	-86.21%
Project	173.13	10.64	26.39	147.91%	-84.76%
Non-Project	18.30	2.13	0.00	-100.00%	-100.00%
2. Formal Private Sector Imports	331.46	313.01	301.58	-3.65%	-9.01%
Oil imports	63.04	50.64	50.65	0.02%	-19.65%
Non-oil imports	268.43	262.37	250.93	-4.36%	-6.52%
3. Estimated Private Sector Imports	25.18	26.91	23.41	-13.02%	-7.05%

Source: Bank of Uganda

Origin of Imports

The largest sources of Uganda's imports are Asia, EAC and Middle East each contributing 50.6 percent, 15.6 percent and 12.5 percent respectively in December 2016. Imports from Asia and Rest of Africa increased while those from European Union, Middle East, EAC, COMESA, and Rest of Europe declined. Kenya and Tanzania contributed 92 percent of the imports from EAC while China and India contributed 68 percent to imports from Asia. Table 7 below shows the origin of imports by percentage share.

Table 7: Origin of Imports (Percentage Shares)

	Dec 2015	Dec 2016
EAC	12.6%	15.6%
COMESA[6]	2.6%	4.1%
Middle East	9.4%	12.5%
European Union	9.2%	8.0%
Asia	53.7%	50.6%
Rest of Europe	1.0%	0.8%
Rest of Africa[7]	4.7%	5.0%
Others[8]	6.8%	3.4%

Source: Bank of Uganda

[6] COMESA excludes Kenya, Rwanda, Burundi and South Sudan
[7] Rest of Africa excludes Tanzania
[8] Others include Australia, Iceland, e.t.c.

FISCAL SECTOR

Overview

Revenue and grants amounted to Shs 1,088.6 billion (88.5% against the program) during the month, registering a shortfall of Shs 141.3 billion. On the other hand, expenditure and net lending performed at 99.5% of the program, totalling to Shs 1,344.7 billion. This resulted into a fiscal deficit of Shs 256.2 billion which was higher than the projected Shs 121.8 billion. Table 8 below shows the fiscal operations for January 2017.

Table 8: Fiscal Performance, January 2017 (Billion shillings)

	Outturn Jan'16	Prog Jan'17	Prel. Jan'17	Program Performance Jan'17	Deviation Jan'17
Revenues and Grants	900.7	1,229.8	1,088.6	88.5%	(141.3)
Revenues	886.6	1,123.6	1,085.9	96.6%	(37.7)
Tax	863.9	1,094.1	1,062.8	97.1%	(31.2)
Non-Tax	22.7	29.6	23.1	78.1%	(6.5)
Grants	14.2	106.2	2.6	2.5%	(103.6)
Budget Support	-	26.5	-	0.0%	(26.5)
Project Support	14.2	79.7	2.6	3.3%	(77.1)
Expenditure and Lending	1,581.4	1,351.6	1,344.7	99.5%	(6.9)
Current Expenditures	1,021.9	716.7	933.5	130.3%	216.8
Wages and Salaries	248.9	216.0	313.2	145.0%	97.2
Interest Payments	185.3	136.9	163.8	119.6%	26.9
Domestic	148.3	117.0	154.1	131.7%	37.1
External	37.0	19.9	9.7	48.6%	(10.2)
Other Recurr. Expenditures	587.7	363.8	456.6	125.5%	92.8
Development Expenditures	437.9	503.8	395.5	78.5%	(108.3)
Domestic	342.9	315.1	360.0	114.3%	45.0
External	95.0	188.7	35.5	18.8%	(153.3)
Net Lending/Repayments	106.2	131.1	5.9	4.5%	(125.2)
o/w HPP GoU	-	-	5.9	-	5.9
o/w HPP Exim	106.2	131.1	-	-	(131.1)
Domestic Arrears Repayment	15.4	-	9.8	-	9.8
Overall Fiscal Bal. (incl. Grants)	(680.6)	(121.8)	(256.2)	-	-

Source*: Ministry of Finance, Planning and Economic Development*

Revenue and Grants

Revenues and grants amounted to Shs 1,088.6 billion against the target of Shs. 1,229.8 billion resulting into a Shs 141.3 billion shortfall. Grants performed at 2.5 percent of the planned disbursements during the month and was therefore the main reason for the shortfall in revenue and grants.

Domestic Revenues

The net revenue collections during the month of January 2017 amounted to Shs 1,085.9 billion against a target of Shs 1,123.6 billion resulting in achievement rate of 96.6 percent. The shortfall (3.4 percent) was recorded on account of lower collections on direct domestic taxes, international trade taxes and non-tax revenues.

The shortfall in direct domestic taxes was on account of lower collections of corporate taxes, PAYE, presumptive tax and rental income tax which reflect lower earnings during the month. Taxes on international trade recorded shortfall amounting to Shs 15.3 billion specifically on excise duty, VAT on imports, surcharge on imports as well as withholding taxes. The shortfall in non-tax revenues is explained by the low receipts from Ministries, Departments and Agencies.

Meanwhile the indirect domestic tax collections exceeded the target and recorded an achievement rate of 106.8 percent.

Grants

Grants recorded dismal performance as no budget support grant was disbursed in January inspite of the Shs 26.5 billion projected for the month. Project support grants amounted to Shs 2.7 billion compared to the program of Shs 79.7 billion for the month.

Expenditure

Expenditure and net lending in January 2017 amounted to Shs 1,344.7 billion, slightly lower than the monthly program of Shs 1,351.6 billion. This performance was mainly due to lower than anticipated external development expenditure.

On the other hand, current and domestic development expenditures were above the monthly planned expenditure by Shs 216.8 billion and Shs 45.0 billion respectively. Higher wages and interest payments than had earlier been planned for led to the increase in current expenditure during the month.