PERFORMANCE OF ECONOMY REPORT

JANUARY 2018

MACROECONOMIC POLICY DEPARTMENT

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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Contents

LIST OF ACRONYMS

BoU	Bank of Uganda
BTI	Business Tendency Index
CIEA	Composite Index of Economic Activity
EFU	Electricity Fuels and Utilities
HIPC	Highly Indebted Poor Countries
ICBT	Informal Cross Boarder Trade
Ksh	Kenyan Shilling
MoFPED	Ministry of Finance, Planning and Economic Development
NGOs	Non-Governmental Organizations
PAYE	Pay As You Earn
PSC	Private Sector Credit
Tsh	Tanzanian Shilling
T-Bills	Treasury Bills
T-Bonds	Treasury Bonds
UGX	Ugandan Shilling
USD	United States Dollar

HIGHLIGHTS

In the real sector, the downward trend in *annual inflation* continued during the month. Annual headline inflation declined to 3 percent from 3.3 percent recorded in December 2017. The drop was largely attributed to a slow-down in the pace of increase in general prices of energy, fuel, utilities and for goods and services in the core basket.

High frequency indicators of economic activity remained positive. This gives an indication of an increasing level of economic activity and positive sentiments on doing business going forward by the private sector.

In the financial sector, the gradual recovery in *credit extension* to the private sector continued during December 2017, supported by easing monetary policy. Private sector grew by 2 percent during the month to Shs 12,825 billion, as compared to a growth of 0.1 percent the month before.

The *shilling* was faced with mild depreciation pressures resulting in 0.5 percent loss in value against the US dollar during the month. The average inter-bank mid-rate was recorded at Shs 3,640.1/US$ as compared to US$ 3,623.3/$ the previous month.

In-spite of the oversubscriptions, *interest rates* on the government securities slightly edged upwards across all tenors compared to November 2017 levels. The weighted average interest rate on the 91-day and 364-day TBs were recorded at 8.6 percent and 9.1 percent, respectively as compared to 8.4 percent and 9.0 percent the previous month.

In the external sector, the merchandise *trade deficit* increased by 6.6 percent to US$ 254.5 million in December 2017 from US$ 238.8 million in November 2017, on account of a stronger increase in the value of merchandise imports (4.2 percent) which was higher than the increase in export earnings.

In the fiscal sector, *fiscal operations* during January 2018 resulted into a lower than projected overall deficit, on account of an underperformance of the development expenditures. In addition, shortfalls in tax revenues affected collections on overall revenues and grants.

1.0 REAL SECTOR DEVELOPMENTS

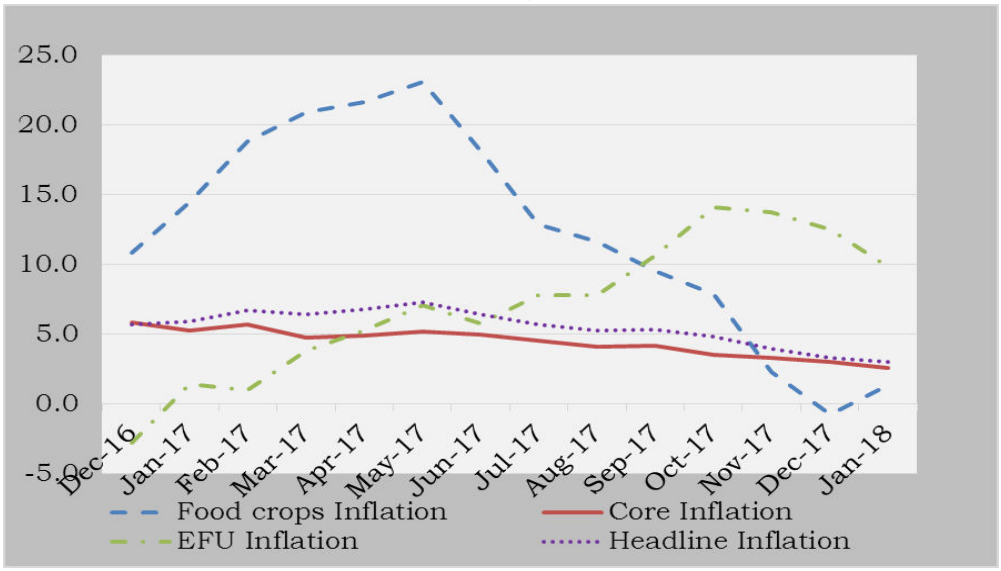
1.1 Inflation Rate

Annual headline inflation was 3.0 percent in January 2018 from 3.3 percent recorded in December 2017, largely driven by a reduction in both core and Electricity Fuel and Utilities (EFU) inflation.

Annual core inflation declined to 2.6 percent in January 2018 from 3.0 percent in December 2017, following slower increases in the prices of sugar, second hand vehicles and other goods such beef and maize flour. At the same time, EFU inflation declined to 9.8 percent during the month from 12.5 percent in December 2017, as lower prices of solid fuels (charcoal and firewood) more than offset increases in prices of liquid fuels (petrol, diesel and kerosene).

However, there was an increase in annual food crops inflation, which was recorded at 1.4 percent in January 2018 as compared to minus 0.7 percent recorded in December 2017. The increase in food inflation was attributed to increased prices of potatoes, cabbages and carrots during the month. Figure 1 shows the trends of annual inflation from January 2017 to January 2018.

Figure 1: Annual Inflation Rates (January 2017 – January 2018)



Source: Uganda Bureau of Statistics

1.2 Inflation Rates among EAC Partner States.

Annual headline inflation across the region was relatively low. In Tanzania, headline inflation was recorded at 4.0 percent, the same levels as the previous month, while the rate in Kenya and Rwanda increased to 4.8 and 0.1 percent in January 2018 from 4.5 and minus 0.2 percent in December 2017, respectively. Kenya experienced a rise in prices of food & non-alcoholic beverages, housing & utilities as well as transport - on account of an increase in pump prices for both petrol and diesel. Rwanda's headline inflation rose on account of an increase in prices of housing and utilities. Table 1 shows annual headline inflation among the EAC Partner States over the last seven months of FY 2017/18.

Table 1: Headline Inflation among EAC Partner States (in percent**)**

	Jul' 17	**Aug' 17**	**Sep' 17**	**Oct' 17**	**Nov' 17**	**Dec' 17**	**Jan' 18**
Tanzania	5.2	5.0	5.3	5.1	4.4	4.0	4.0
Kenya	7.5	8.0	7.1	5.7	4.7	4.5	4.8
Uganda	5.7	5.2	5.3	4.8	4.0	3.3	3.0
Rwanda	8.1	7.2	7.1	5.3	1.6	-0.2	0.1
Burundi	13.6	13.9	15.3	17.6	15.3	10	N/A
South Sudan	154.6	165.0	101.9	131.9	142	117.7	N/A[1]

Source: Respective Bureaus of Statistics

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

High frequency indicators of economic activity remained positive. The Composite Index of Economic Activity (CIEA)[2] improved by 0.62 percent to 210.34 in December 2017 from 209.04 in November 2017, indicating a rise in the level of economic activity. This rise was partly explained by increased exports earnings, imports and growth in credit extension to the private sector

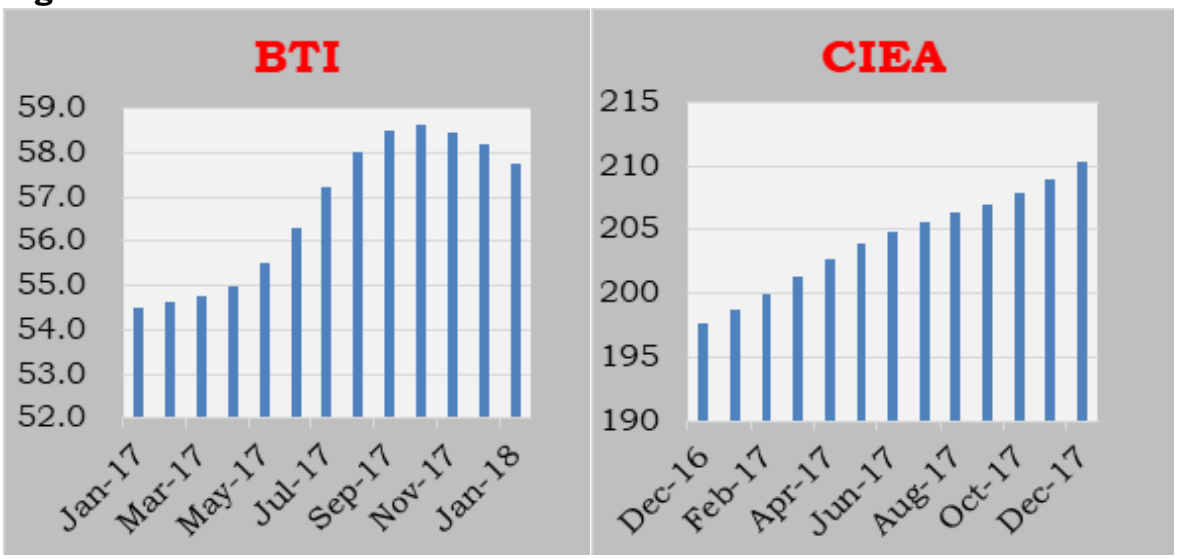
[1] January 2018 inflation data for Burundi and South-Sudan was not available(N/A) at the time of compilation of this report.

[2] The CIEA index captures the underlying monthly changes in economic activity within the economy. It is constructed using ten variables i.e. *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.* This index is usually updated with a month's lag. The CIEA is a useful tool for short term analysis and forecasting of economic activity.

which stimulated production, consumption and consequently translated to increase economic activities.

The BTI[3] remained above the threshold of 50 despite declining to 57.8 in January 2018 from 58.8 in December 2017, which is an indication of positive sentiments on doing business. The trends in the two indices are shown in figure 2.

Figure 2: Trends in BTI and CIEA



Source: BoU

[3] Business Tendency Index measures investor's perceptions/sentiments about doing business in the economy. An index less than 50 implies negative expectations/pessimism and index greater than 50 implies positive expectations/optimism about doing business.

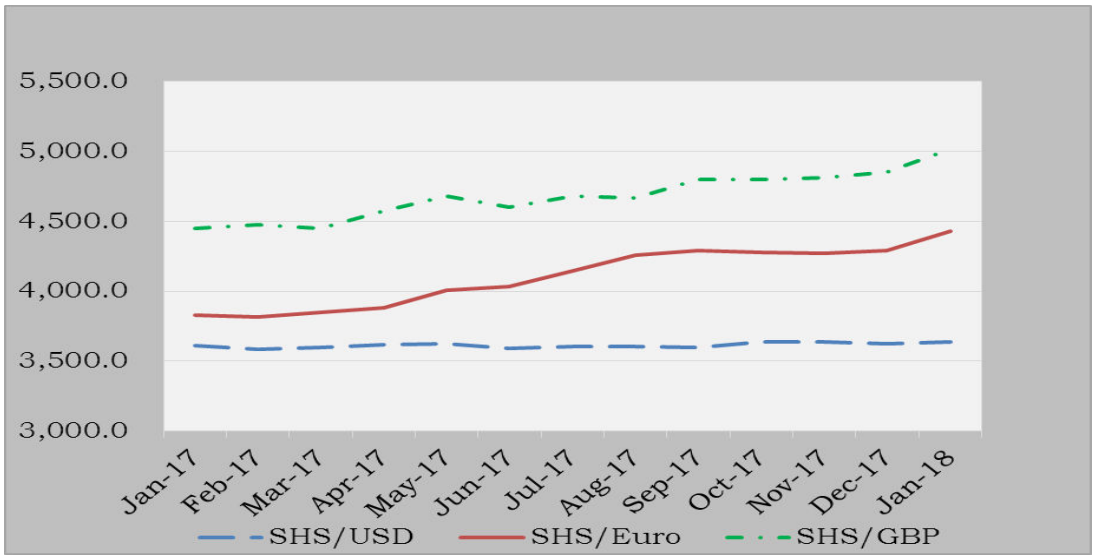
2.0 FINANCIAL SECTOR DEVELOPMENTS

2.1 Exchange Rate

In the foreign exchange market, the Shilling depreciated marginally against the US dollar by 0.5 percent during the month. The depreciation of the shilling was partly explained by an increase in demand for the US dollar from the manufacturing and oil sectors as well as offshore players exiting the securities market. The shilling traded at a monthly average rate of Shs 3,640.1 in January 2018 from Shs 3,623.3 recorded in December 2017.

In comparison to the pound sterling and the Euro, the shilling lost value by 3.3 percent against both currencies in January as compared to a depreciation of 0.4 percent and 0.9 percent, respectively, recorded in December 2017. On average basis, the shilling traded at 4,431.9 for the Euro and 5,016.7 for the pound sterling in January 2018. Figure 3 shows the monthly exchange rate movements of the Uganda Shilling against the three currencies between January 2017 and January 2018.

Figure 3: Monthly Exchange Movements against Major Currencies



Source: BoU

2.2 Exchange Rates among EAC Partner States.

All EAC partner states' currencies (*with exception of South Sudan*[4]) were relatively stable against the US dollar during January 2018.

Apart from the Kenyan shilling which appreciated at 0.1 percent, the rest of the EAC partner states' currencies posted depreciations. The Burundi Franc, Tanzanian shilling and Rwandese Franc depreciated against the US dollar by 0.1 percent, 0.2 percent and 0.3 percent, respectively. Table 2 shows the percentage changes in exchange rates among selected EAC Partner States for the period July 2017 to January 2018.

Table 2: Changes in Exchange Rates for Selected EAC Partner States

	Jul'17	Aug' 17	Sept' 17	Oct' 17	Nov' 17	Dec' 17	Jan' 18
Uganda	0.3%	0.1%	-0.2%	1.1%	0.0%	-0.4%	0.5%
Kenya	0.4%	-0.3%	-0.4%	0.3%	0.1%	-0.5%	-0.1%
Rwanda	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%	0.3%
Tanzania	0.0%	0.1%	0.2%	0.1%	-0.1%	-0.2%	0.2%
Burundi	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%	0.1%

Source: BoU

2.3 Private Sector Credit

The recovery in growth in credit extension to the private sector continued during December 2017[5], albeit at a modest pace. The stock of outstanding credit to the private sector (PSC) grew by 2 percent to Shs 12,825 billion from Shs 12,579 billion in November 2017, supported by monetary policy easing and a reduction in non-performing loans in the recent months.

Growth Rates of PSC by Sector

With the exception of trade and other services, all sectors registered increases in stock of credit in December compared to November 2017. Mining &

[4] South Sudan is one of the EAC Partner States, however it was not considered for the analysis because of data gaps for the time the analysis was made.

[5] Information on Private Sector Credit (PSC) comes with a lag of one month. So the latest data on PSC being reported on in this report is for December 2017.

quarrying and electricity & water sectors registered the highest growth in credit, which was recorded at 18.6 percent and 16.0 percent, respectively. Credit to the mining & quarrying sector benefited from a resumption of activities associated with petroleum sector and other minerals. Table 3 details the monthly growth of PSC across various sectors

Table 3: Monthly Private Sector Credit Growth Rates by Sector

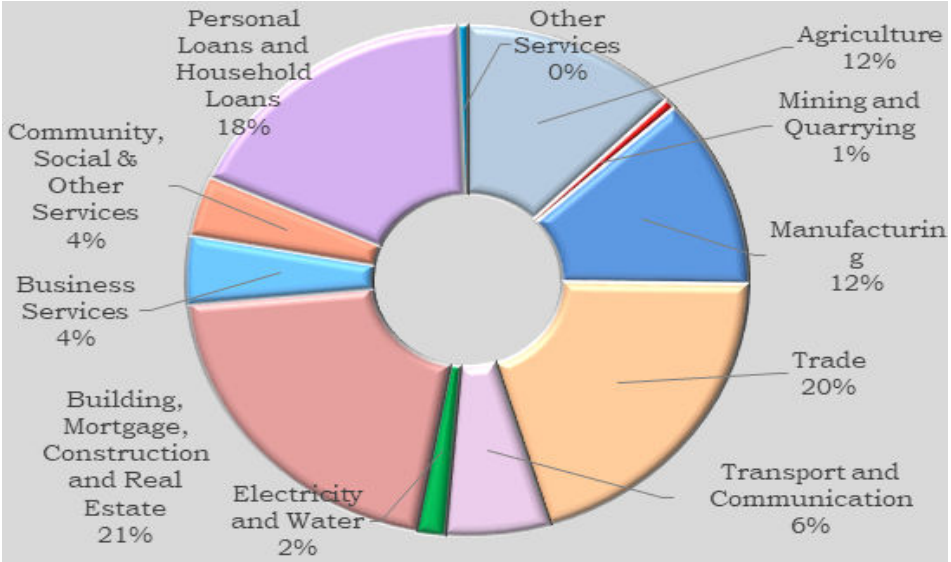
Sectors	Dec'17 Vs Dec'16	Nov'17 Vs Oct'17	Dec'17 Vs Nov'17
Agriculture	28.3	1.3	1.5
Mining and Quarrying	60.1	-6.2	18.6
Manufacturing	-2.0	-0.2	1.1
Trade	9.0	1.6	-0.3
Transport and Communication	-14.3	-2.8	5.4
Electricity and Water	-7.8	-14.8	16.0
Building, Mortgage, Construction and Real Estate	-3.3	1.0	2.4
Business Services	15.8	-4.1	6.1
Community, Social & Other Services	15.4	2.6	4.3
Personal Loans and Household Loans	15.7	-0.1	0.8
Other Services	-29.8	-4.3	-1.5

Source: BoU

Distribution of PSC by Sector

In terms of shares, the building, mortgage, construction & real estate sector recorded the largest share of outstanding credit at 21percent, followed by trade at 20 percent and personal & household loans 18 percent. The share of credit outstanding to the agricultural sector increased by one percentage point to 13 percent from last month, while the share of credit to the manufacturing sector was 12 percent, as the previous month. The distribution of the stock of outstanding PSC by sector is shown in Figure 4.

Figure 4: Shares of Stock of PSC by Sector, December 2017



Source: BoU

Commercial Bank Lending Rates

Weighted average commercial bank lending rates in December 2017[6] were 20.8 percent, having dropped from 21.42 percent in November. The drop was supported by a combination of monetary policy easing and reduction in the non-performing loans during the first half. The CBR was maintained at 9.5 percent for the month of January 2018.

2.4 Government Securities

During the month, there were 2 T-Bill auctions and 1 T-Bond auction in the primary market from which Shs 455.9 billion (at cost) was raised. In line with market developments, interest rates on Government securities edged upwards slightly across all tenors. The average weighted yields to maturity for January were 8.6 percent, 8.5 percent and 9.1 percent for the 91, 182 and 364 day tenors as compared to 8.4 percent, 8.5 percent and 9.0 percent recorded in December 2017, respectively.

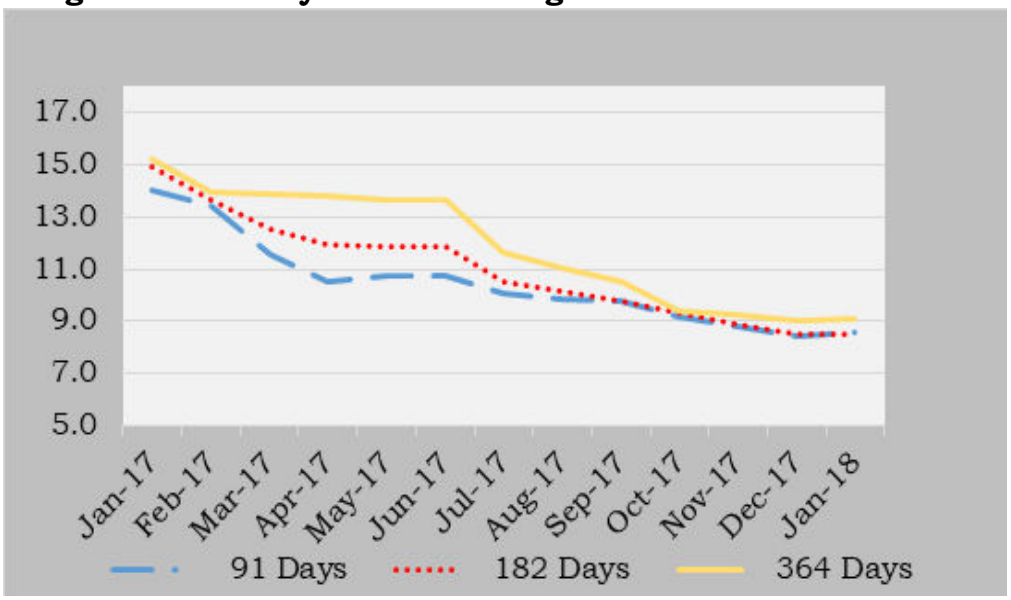
Generally, there were over-subscriptions for Government securities in the month, except the 91-day tenor which was under-subscribed in one of the

[6] Data is available with a six weeks lag

auctions as the yields were very low and unattractive. The average bid to cover ratio[7] for the month was 1.7 reflecting more demand for government paper in the auctions than the amount offered by Government. However, the oversubscription in January 2018 was lower compared to December 2017, which is reflected by the average bid to cover ratio reducing from 2.98 to 1.7.

Figure 5 illustrates the movement of Treasury bill yields in the primary market since January 2017.

Figure 5: Primary Market Average Yields



Source: BoU

[7] 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.

3.0 EXTERNAL SECTOR DEVELOPMENTS

3.1 Merchandise Trade Balance

Merchandise trade deficit increased by 6.6 percent to US$ 254.5 million during December 2017 from US$ 238.8 million the previous month. The rise was attributed to a 4.2 percent increase in the value of imports of goods, which more than offset the 2.2 percent increase in value of exports.

3.2 Merchandise Exports

Export earnings increased by 2.2 percent to US$ 298 million in December 2017, as compared to US$ 291.6 million in November 2017, attributed to the rise in volumes of non-coffee exports like tea, gold, cotton, maize and oil re-exports as coffee exports declined. Compared to a year ago, export earnings during the month rose by 1.7 percent mainly explained by increased volumes of non-coffee exports.

The value of coffee exports reduced in December 2017 in comparison to both November 2017 and December 2016, explained by both reductions in prices and volumes. In December 2017, the international unit price for the 60-kg bag of coffee reduced to US$ 1.84 from US$ 1.86 in November 2017. Coffee prices were US$ 2.02 in December 2016. Table 4 gives details on the composition and performance of exports in December 2017.

Table 4: Performance of Merchandise Exports

Total Exports (US$ millions)	**Dec'16**	**Nov'17**	**Dec'17**	**Nov'17 Vs Dec'17**	**Dec'16 Vs Dec'17**
Total Exports	**292.97**	**291.57**	**298.02**	**2.2%**	**1.7%**
1. Coffee (Value)	**51.42**	**49.39**	**42.72**	**-13.5%**	**-16.9%**
Vol (million 60-Kg bags)	0.42	0.44	0.39	-12.8%	-9.0%
Av. unit value	2.02	1.86	1.84	-0.8%	-8.7%
2. Non-Coffee formal exports	**195.80**	**200.96**	**211.26**	**5.1%**	**7.9%**
o/w Gold	23.28	13.45	19.95	48.3%	-14.3%
Cotton	4.12	3.92	7.24	84.7%	75.9%
Tea	5.92	9.82	9.76	-0.6%	64.8%
Maize	4.62	7.63	8.57	12.4%	85.5%
Oil re-exports	11.47	10.72	12.97	21.0%	13.1%
3. ICBT Exports	**45.75**	**41.23**	**44.04**	**6.8%**	**-3.7%**

Source: BoU

3.3 Destination of Exports

The *East African Community (EAC)* remained the major destination for Uganda's exports in December 2017, followed by *Rest of Africa* and the *Middle East*. Exports to the *EAC* increased by 13.2 percent from US$ 116.7 million in December 2016 to US$ 132.1 million in December 2017, majorly due to benefits of the economic integration within the region.

Coffee remains the largest export crop, with the bulk of the export during the month ending up in the European Union, Sudan and India. Table 5 shows the shares of destination of Uganda's exports

Table 5: Destination of exports

	Dec 2016	Nov 2017	Dec 2017
EAC	45.3	46.1	44.3
Rest of Africa	16.4	21.0	19.4
European Union	14.7	17.2	16.0
Middle East	16.4	6.7	8.9
Asia	3.6	5.8	8.2
The Americas	1.7	2.3	2.3
Rest of Europe	1.8	1.0	0.9
Others	0.0	0.0	0.1

Source: BoU

3.4 Merchandise Imports

The value of merchandise imports amounted to US$ 452.5 million in December 2017, registering a growth of 4.1 percent from the previous month. The increase was mainly driven by the growth in government project imports which more than offset the decline in private imports during the month. Compared to a year ago, the value of imports during December 2017 grew by 13.4 percent, which was attributed to an increase in value of private sector imports due to higher oil import prices and increased volumes of non-oil imports like machinery, chemicals, plastics & rubber products, wood & its products among others. Table 6 shows the performance of imports.

Table 6: Performance of Imports

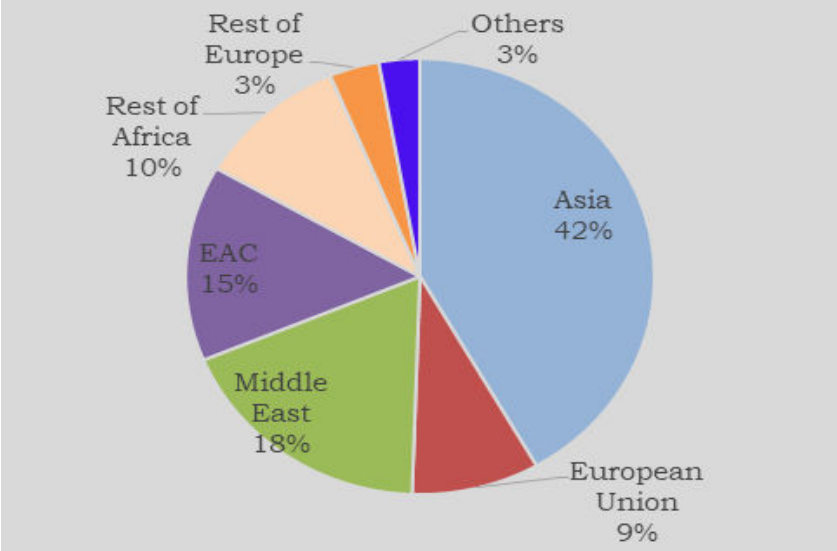
US$ millions	Dec'16	Nov'17	Dec'17	Dec'17 Vs Nov'17	Dec'17 Vs Dec'16
Total Imports (fob)	399.0	434.8	452.5	4.1%	13.4%
Government Imports	72.9	12.8	49.2	281.4%	-32.6%
Project	72.9	11.0	49.1	344.6%	-32.8%
Non-Project	0	1.8	0.1	-94.5%	-
Formal Private Sector Imports	301.8	404.5	382.1	-5.5%	26.6%
Oil imports	50.6	77.8	62.0	-20.3%	22.5%
Non-oil imports	251.1	326.7	320.0	-2.0%	27.4%
Estimated Private Sector Imports	24.2	17.4	21.3	22.4%	-12.3%
Total Private Sector Imports	326.1	421.9	403.4	-4.4%	23.7%

Source: BoU

3.5 Origin of Imports

Asia remained the largest source of imports in December 2017 contributing 42 percent of the total merchandise imports, followed by *Middle East* (18 percent) and *EAC* (15 percent). China, India and Japan contributed 82 percent of the total imports from *Asia* while Kenya and Tanzania accounted for 91 percent of the total imports from the *EAC* region. Figure 6 shows the origin of imports during the month.

Figure 6: Origin of Imports - December 2017



Source: BoU

4.0 FISCAL SECTOR DEVELOPMENTS

4.1 Overall Fiscal Balance

Fiscal operations during the month resulted to a lower than projected deficit as overall expenditures were lower than expected. Overall expenditures performed at 72 percent, which masked the performance of revenue & grants. The performance of overall expenditure is largely attributed to the underperformance of the development budget. Details on fiscal operations for the month of January 2018 are shown in table 7.

Table 7: Fiscal Operations, Jan 2018 (Shs billions)

	Outturn Jan'17	Program Jan'18	Preliminary Jan'18	Deviation	Year on Year growth	Performance Vs Program
Revenue and Grants	**1,098.1**	**1,295.9**	**1,272.8**	**(23.1)**	**16%**	**98%**
Revenue	**1,085.9**	**1,230.9**	**1,195.8**	**(35.2)**	**10%**	**97%**
Tax	1,062.8	1,198.4	1,141.0	(57.4)	7%	95%
Non Tax	23.0	32.5	54.8	22.3	138%	169%
Grants(incl HIPC)	**12.3**	**65.0**	**77.0**	**12.0**	**528%**	**119%**
Budget support(incl HIPC)	9.6	4.1	1.9	(2.2)	-80%	47%
Project support	2.6	60.9	75.1	14.2	n.a	123%
Expenditure and Net Lending	**1,664.1**	**2,431.3**	**1,745.8**	**(685.5)**	**5%**	**72%**
Recurrent expenditure	**1,047.5**	**1,021.6**	**1,074.4**	**52.8**	**3%**	**105%**
Wages and salaries	287.8	294.8	310.9	16.0	8%	105%
Interest payments	165.0	214.7	200.5	(14.2)	22%	93%
Other reccurrent expediture	594.8	512.0	563.0	51.0	-5%	110%
Development expenditure	**613.4**	**1,026.8**	**660.2**	**(366.6)**	**8%**	**64%**
Domestic	433.7	485.8	264.1	(221.7)	-39%	54%
External	179.8	541.0	396.1	(145.0)	120%	73%
Net Lending	**-**	**382.9**	**0.3**	**(382.6)**	**n.a**	**0%**
o/w HPPs	-	382.9	-	(382.9)	n.a	0%
o/w GoU	-	-	0.3	0.3	n.a	n.a
BoU recapitaliastion	-	-	-	-	n.a	n.a
Clearance of Arrears	**3.2**	**-**	**10.9**	**10.9**	**242%**	
Overall Balance	**(566.0)**	**(1,135.4)**	**(473.0)**	**662.39**	**-16%**	**42%**

Source: MoFPED

4.2 Revenue and Grants

Domestic revenue collections amounted to Shs 1,195.8 billion posting a shortfall of Shs 35.2 billion against the month's target. This performance was attributed to tax revenue collections which registered a shortfall amounting to Shs 57.4 billion or 5 percent and offset the 69 percent surplus collections on non-tax revenue.

Indirect domestic taxes recorded a shortfall of Shs 57.3 billion arising from lower collections of VAT and excise duty. The shortfall in VAT was mainly explained by lower collections on beer, phone talk time and sugar. Beer was affected by the increased importation of malt beer which impacted on production of local beer, while the stiff competition in the telecom sector has seen the lowering of the cost of phone talk time thus lower collections than was expected. On the other hand, VAT on sugar was affected by a decline in manufacturing of sugar as a result of lower supply of sugar cane.

On the upside, direct domestic taxes and international trade tax collections were largely on target performing at 99.9 percent and 101.0 percent respectively. Despite international trade taxes exceeding their target for the month, there was a shortfall on petroleum duty amounting to Shs 36 billion, which was due to lower volumes of imported fuel arising from the hike in international oil prices.

Non-Tax Revenue

Non Tax Revenue collections amounted to a surplus of Shs 22.3 billion or 68.6 percent against the target for the month. There has been improved efficiency in collections following the transfer of the collection responsibility of all NTR to URA.

Grants

Grant disbursement amounted to Shs 77 billion against the projection of Shs 65 billion, which was explained by higher project support disbursements. During the month, there was a disbursement from the World Bank amounting Shs 43 billion towards supporting Teacher and School effectiveness.

4.3 Expenditure and Net Lending

Expenditure and net lending amounted to Shs 1,746 billion which was Shs 685.5 billion or 28 percent below the projected spending for the month. This performance was due to under performance of development spending, which

continues to be affected by low execution of projects due slow procurement processes, delayed counterpart funding, slow land acquisition process among others.

On the other hand, re-current expenditures were Shs 53 billion or 5 percent above the projected levels for the month. This performance is explained by expenditure overruns on both wage and non-wage recurrent items.

4.4 Financing

During the month, Government raised Shs 456 billion from the primary securities market. Of this amount, Shs 288 billion was used for re-financing of maturing debt while the balance of Shs 168 billion was for financing the Government budget. Cumulatively to January 2018, a total of Shs 753 billion has been raised towards financing of the Government budget. This is summarized in Table 8.

Table 8: Issuance of Government Securities (Shs billion)

	Total Issuances	Government Domestic Borrowing	Re-financing
Q1 2017/18	1,661.9	390.5	1,271.5
Q2 2017/18	1,493.8	194.6	1,299.1
January 2018	455.9	167.7	288.2
July to date	3,611.6	752.8	2,858.8

Source: Auction Results, MoFPED