PERFORMANCE OF THE ECONOMY

August 2016

MACROECONOMIC POLICY DEPARTMENT

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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Contents

1.0 Highlights

Inflation: The annual headline inflation rate for August 2016 declined to 4.8% from 5.1% recorded in July 2016. This was largely due to a decline in annual core inflation, which fell 0.7 percentage points to 4.9% in August 2016, going below the BOU's policy target of 5% for the first time since May 2015.

Business Tendency Index (BTI) and Composite Index of Economic activity (CIEA): The Business Tendency Index (BTI) improved to 57.73 in August 2016 from 57.36 in July 2016, indicating increased optimism amongst investors. Composite Index of Economic Activity (CIEA) increased from 194.65 in June to195.5 in July 2016.

Exchange rate: The Uganda Shilling generally remained stable against the US Dollar between July and August, slightly appreciating by 0.2% to an average rate of Shs 3,373.5/US$ in August from Shs 3,379.3/US$ in July 2016.

Private Sector Credit (PSC): The outstanding stock of private sector credit (PSC) grew by 0.5% in July compared to the 1.3% growth rate in June 2016. This compares unfavourably with the 4.4% and 3.3% growth realised in June and July 2015, respectively.

Government Securities: The primary market was characterized by a decline in yields across all tenors. This decline was largely on account of monetary policy loosening in recent months; and the expectation that the BOU will continue to reduce the CBR.

Trade deficit: The merchandise trade deficit narrowed by 15% from US$ 119.3 million in June 2016 to US$ 101.4 million in July 2016 owing to a higher reduction in the import bill that offset the decrease in the exports.

Overall deficit: The overall fiscal deficit for August 2016 was Shs 474 billion, lower than Shs789.3 billion projected for the month. This was due to a lower expenditure and net lending than programmed, which was partly offset by the shortfalls in domestic revenues

2.0 REAL SECTOR

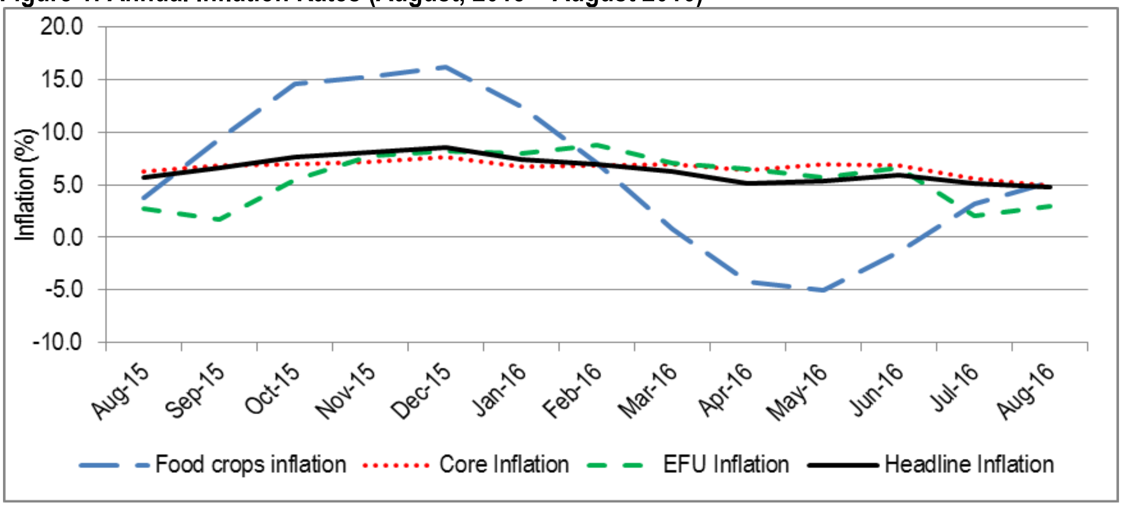
2.1 Inflation

Annual headline inflation for August 2016 declined to 4.8% from 5.1% in July 2016. This was largely due to a decline in annual core inflation, which fell by 0.7 percentage points to 4.9% in August 2016; going below the BOU's policy target of 5% for the first time since May 2015. The decrease in core inflation was as a result of a drop in both other goods inflation[1] from 5.8% in July to 5.2%in August, and annual services inflation[2] from 5.5% to 4.4% over the same period.

On the other hand, annual food crops inflation increased from 3.2% in July to 5.2% in August on account of higher prices of fruits. The increase in fruit prices resulted from relatively low supply of fruits on the market, brought about by a dry spell in August and the months immediately preceding it.

Annual Energy, Fuel and Utilities (EFU) inflation also increased, from 2.1% in July to 3% in August resulting from a rise in annual electricity inflation, which more than doubled from 5.1% in July to 11.6% in August. Although tariffs for electricity remained unchanged from July to August, annual electricity inflation increased because the average end-user tariff in August 2015 was lower than that in August 2016[3]. Figure1 below shows the annual inflation trend over the last 12 months.

Figure 1: Annual Inflation Rates (August, 2015 – August 2016)



Source: Uganda Bureau of Statistics (UBOS)

Inflation with in the East African Community (EAC) Partner States

South Sudan continues to experience hyperinflation. Annual headline inflation increased from 661.3% in July to 729.7% in August, mainly due to the lagging effects of the currency devaluation and severe food shortages amidst civil conflict.

[1] Other goods inflation accounts for manufactured foods, Beverages & tobacco, clothing & footwear, charcoal, paraffin, etc.
[2] Services inflation accounts for rent, house maintenance & repair, transport & Communication, health, education, etc.
3 Shs 443.9 in August 2015 compared to Shs 535.8 in August 2016.

Burundi's annual inflation accelerated to 6.6% in August 2016 from 3.9% in the previous month, as the cost of food increased at a faster pace (7.7% from 4.6% in July). Additional upward pressure came from housing and utilities; hotels; cafés and restaurants; transport and miscellaneous goods and services which all went up during the month.

Headline inflation in other EAC countries remained relatively stable, as shown in Table 1 below.

Table1: Headline Inflation for the EAC Partner States

	April'16	May'16	June'16	July'16	August'16
Burundi	2.6%	2.7%	3.9%	3.9%	6.6%
Kenya	5.3%	5.0%	5.8%	6.4%	6.3%
Rwanda	4.4%	4.4%	6.3%	7.8%	7.5%
South Sudan	266.4%	295.0%	309.6%	661.3%	729.7%
Tanzania	5.1%	5.2%	5.5%	5.1%	4.9%
Uganda	5.1%	5.4%	5.9%	5.1%	4.8%

Source: Respective Bureaus of Statistics

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

The high frequency indicators for economic activity reflected an improvement in business sentiment and give an indication of increasing levels of economic activity. The Business Tendency Index (BTI) improved to 57.73 in August 2016 from 57.36 in July 2016, indicating increased optimism amongst investors, especially in construction, other services, wholesale trade and manufacturing. This is consistent with the Composite Index of Economic Activity (CIEA), which increased from 194.65 in June to195.5 in July 2016, indicating higher levels of economic activity.

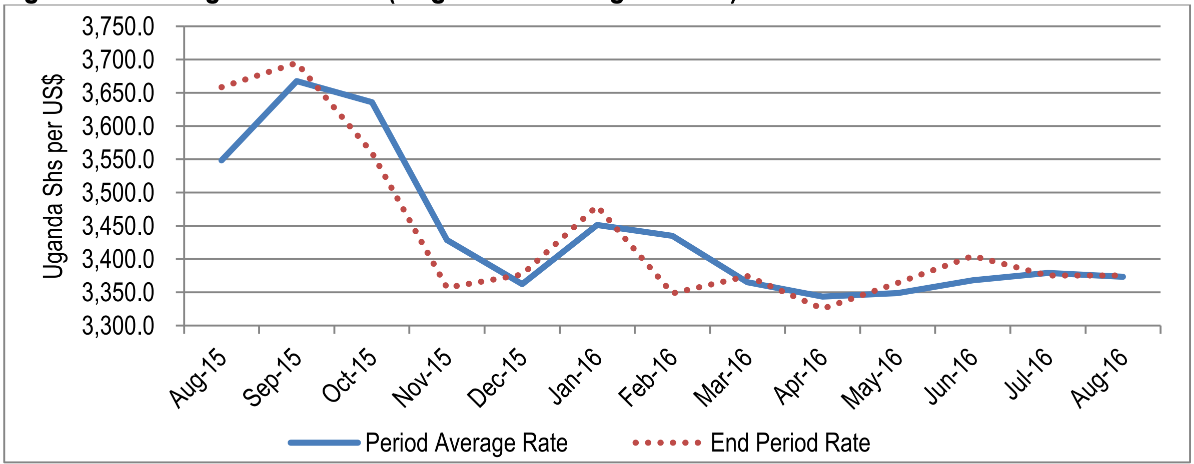
3.0 FINANCIAL SECTOR

3.1 Exchange Rate

The Uganda Shilling generally remained stable against the US Dollar between July and August, slightly appreciating by 0.2% to an average rate of Shs 3,373.5/US$ in August from Shs 3,379.3/US$ in July 2016. Similarly, within the month under review, the shilling marginally appreciated by 0.05% closing at a midrate of Shs. 3,375.6/US$ having opened at Shs.3,377.36/US$.

This exchange rate stability was mainly driven by matched demand and supply conditions in the Foreign Exchange Market highlighted by a pick-up in dollar supply from offshore players in the government securities market. Figure 2 shows the movements in the monthly exchange rates between August 2015 and August 2016.

Figure2: Exchange Rate Trend (August 2015 –August 2016)



Source: Bank of Uganda.

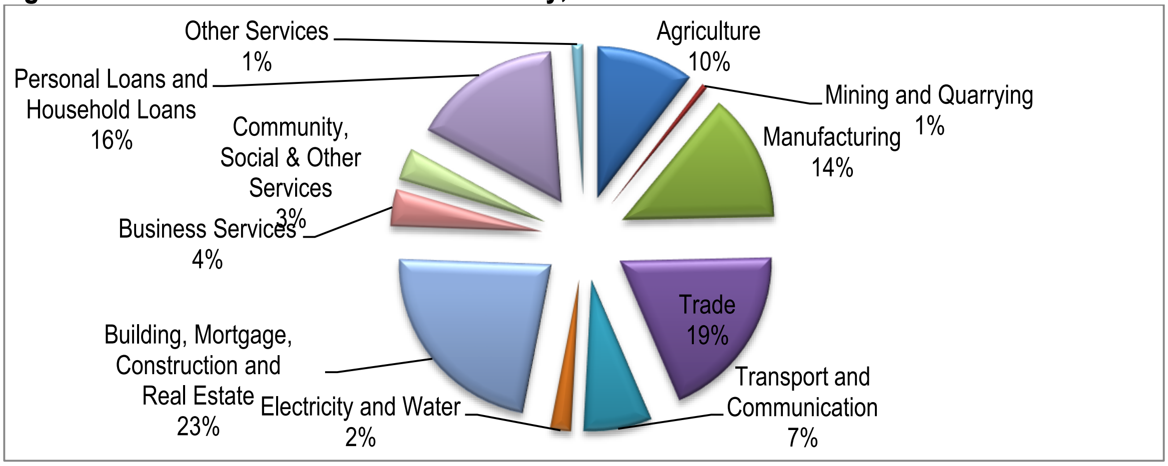
3.2 Private sector Credit

The outstanding stock of private sector credit (PSC) grew by 0.5% in July compared to the 1.3% growth rate in June 2016. This compares unfavourably with the 4.4% and 3.3% growth realised in June and July 2015, respectively. The continued weak performance of PSC is, in part, a lagged effect of the tight monetary policy stance in the last three quarters of FY2015/16.

Furthermore, the lower than expected performance of the economy in FY2015/16[4] contributed to an increase in the ratio of non-performing loans to gross loans from 3.97% in June 2015 to 8.31% in June 2016.

[4]The FY2015/16 preliminary outturn for real GDP indicates growth of 4.6% compared to projections of 5.0%.

Figure 3: Sectoral shares of total PSC in July, 2016



Source: Bank of Uganda

Figure 3 depicts the distribution of outstanding PSC by sector, and shows that the building, mortgage, construction and real estate sector accounted for nearly one quarter of outstanding PSC at the end of July. Other notable recipients of PSC include trade; personal and household**;** manufacturing and agriculture. Table 2 provides the growth rates in PSC to different sectors.

Table 2:Monthly growth rates of PSC

	July 2015	June 2016	July 2016	Share of PSC July 2016
Agriculture	0.3%	1.0%	0.9%	10.4%
Mining and Quarrying	-2.8%	-1.2%	2.0%	0.6%
Manufacturing	4.2%	0.4%	-1.8%	13.7%
Trade	4.8%	3.1%	0.2%	18.9%
Transport and Communication	13.3%	2.0%	3.8%	7.3%
Electricity and Water	-3.7%	23.1%	11.9%	2.2%
Building, Mortgage, Construction and Real Estate	2.5%	-0.5%	-0.7%	22.5%
Business Services	0.4%	3.8%	3.0%	3.9%
Community, Social & Other Services	1.0%	-0.5%	2.1%	3.4%
Personal Loans and Household Loans	1.8%	2.5%	1.6%	15.9%
Other Services	9.6%	-21.7%	-16.1%	1.1%
Total Stock of Private Sector Credit	3.3%	1.3%	0.5%	100%

Source: Bank of Uganda

3.3 Government securities

There were three auctions of government securities in August 2016, from which Shs 453.2 billion (at cost) was raised. Of this, Shs291.5 billion was in Treasury Bills while Shs 161.7 billion was in Treasury Bonds. During the month, securities worth Shs. 211.5 billion were issued for the refinancing of maturing debt whilst Shs241.7 billion went towards financing the Government budget as shown in Table 3.

Table 3: Details for Domestic Financing for FY 2016/17, Shs.bn

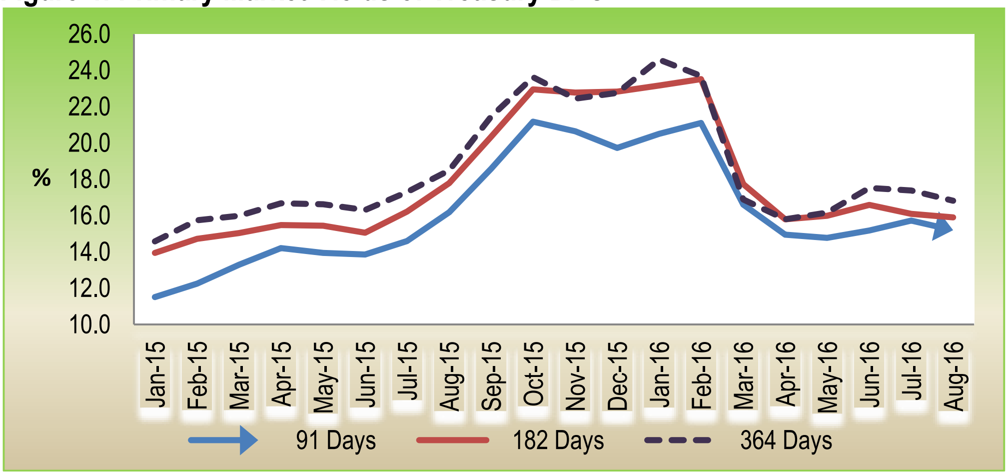
	Total issuance	Net domestic financing	Refinancing
July 2016	485.9	0	541
August 2016	453.2	241.7	211.5
Total	939.1	241.7	752.5

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 August were 15.2%, 15.9% and 16.8% for the 91, 182 and 364 day tenors, respectively. This compares with 15.7%, 16.1% and 17.4% in July 2016. The decline in yields was largely on account of monetary policy loosening in recent months; and the expectation that the BOU will continue to reduce the CBR. Most of the auctions were oversubscribed as indicated by an overall bid to cover ratio of 1.95. Figure 4 below illustrates the movement of Treasury bill yields on the primary market since January 2015.

Figure 4: Primary Market Yields of Treasury Bills



Source: Bank of Uganda

4.0 EXTERNAL SECTOR

4.1 Trade deficit

The merchandise trade deficit narrowed by 15% on a monthly basis, from a deficit US$ 119.3 million in June 2016 to a deficit of US$ 101.4 million in July 2016 owing to a higher reduction in the import bill that offset the decrease in the exports. Comparing July 2015 and July 2016, the trade deficit decreased by 35% due to a reduction in the import bill.

4.2 Exports

The total value of exports fell by 5.3%, from US$ 241.62 million in June 2016 to US$ 228.76 million in July 2016 following a decline in non-coffee formal exports and Informal Cross Border Trade (ICBT) exports. The decrease in non-coffee formal exports is due to a drop in the exports of gold, cement and food crops like maize, rice, beans, fruits and vegetables.

Food crop exports have continued to be affected by the civil conflict in South Sudan, which intensified during the month of July.

The value of coffee exports, on the other hand, grew by 2% from US$ 26.53 million in June to US$ 27.06 million in July 2016 due a rise in both volumes and international coffee prices.

Comparison between July 2015 and July 2016 shows a 3.9% growth in export receipts from US$ 220.19 million to US$ 228.76 million. The improved performance of exports is attributed to the good performance of non-coffee formal exports like gold and ICBT exports especially fish. Coffee export receipts fell significantly following a reduction in both volumes (by 33.4%) and prices (by 5.6%). Due to the perennial nature of the coffee crop, export volumes in June were affected by drought in areas of central and western Uganda during January and February. The table 4 shows the performance of exports.

Table 4: Performance of Exports (US$ million)

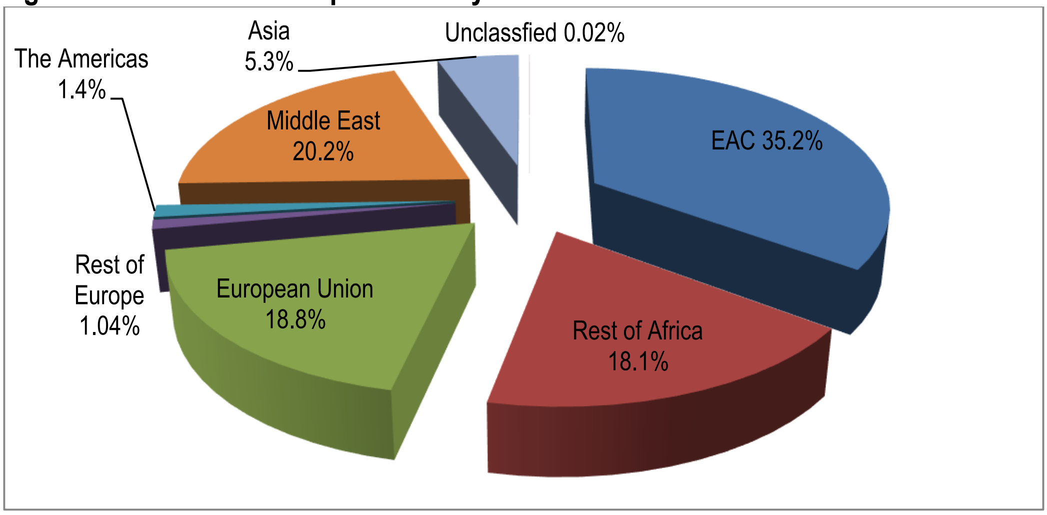
	July 15	June 16	July 16	June 16 VsJuly 16 Percentage change	July 15 Vs July 16 Percentage change
Total Exports	**220.19**	**241.62**	**228.76**	**-5.3%**	**3.9%**
1. Coffee (Value)	**43.07**	**26.53**	**27.06**	**2%**	**-37.2%**
Volume (60-Kg bags)	403,381	266,337	268,490	0.8%	-33.4%
Av. unit value	1.78	1.66	1.68	1.2%	-5.6%
2.Non-Coffee formal exports	**146.77**	**179.61**	**170.63**	**-5%**	**16.3%**
3. ICBT Exports	30.36	35.48	31.07	-12.4%	2.4%

Source: Bank of Uganda

Destination of Exports

During July 2016, the East African Community remained the major destination for Uganda's exports, followed by the Middle East and the European Union**.** Uganda`s trade with the EAC is facilitated by the tariff-free movement of goods and services, as well as improved regional transport infrastructure. Exports to South Sudan, one of Uganda`s largest export destinations, reduced by 72% between June (US$ 25.18 million) and July 2016 (US$ 7.05 million) due to an escalation in civil strife in the world's youngest nation. Figure 5 shows a breakdown of Uganda's major export destinations.

Figure 5: Destination of exports in July 2016



Source: Bank of Uganda

4.3 Imports

Total merchandise imports (f.o.b)[5] to Uganda decreased from US$ 360.9 million in June 2016 to US$ 330.18 million in July 2016, a decline of 9%. Government and private sector imports registered a decline of 2% and 9% respectively. A fall in the average crude oil prices[6] alongside a decline in oil imports volumes[7]in the month of July explains a significant part of the decrease in the value of oil imports from US$ 67.84 million in June 2016 to US$ 44.22 million in July. The decline in oil import volumes for July was due to overstocking in June due to the expectation of an increase in petroleum duty by 100shs/litre effective 1st July 2016.

Comparing July 2015 with July 2016, total imports of merchandise to Uganda decreased by 12%, as a fall in private sector imports more than offset the increase in government imports. The downward trend of private sector imports, which has prevailed since July 2015, is largely due to the Shilling depreciation. Table 5 shows the performance of Imports to Uganda during July 2016.

Table 5: Performance of Imports (Merchandise) in US$ million

[5] *f.o.b stands for Free on Board*

[6] *According to Global Economic Monitor Commodities (World Bank Databank), average crude oil prices fell from 47.7$/bbl in June 2016 to 44.7$/bbl in July 2016.*

[7] *The oil import volume index declined from 432.54 in June 2016 to 300.09 in July 2016 (Bank of Uganda)*

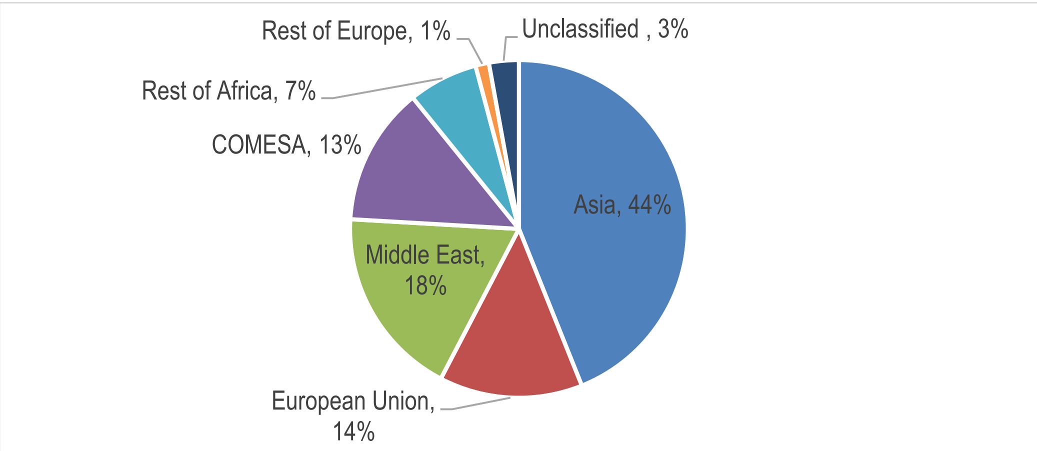
	Jul-15	Jun-16	Jul-16	Jul 15 Vs Jul 16 % change	Jun 16 Vs Jul 16 % change
Total Imports (fob)	**376.58**	**360.9**	**330.18**	**-12%**	**-9%**
Government Imports	**13.03**	**19.94**	**19.59**	**50%**	**-2%**
Project	12.31	19.85	10.50	-15%	-47%
Non-Project	0.72	0.09	9.09	1169%	9805%
Formal Private Sector Imports	**358.89**	**336.29**	**304.76**	**-15%**	**-9%**
Oil imports	59.94	67.84	44.22	-26%	-35%
Non-oil imports	298.95	268.45	260.54	-13%	-3%
Estimated Private Sector Imports	**4.66**	**4.68**	**5.83**	**25%**	**25%**
Total Private Sector Imports	363.55	340.97	310.59	-15%	-9%

Source: Bank of Uganda

Origin of Imports

Imports from Asia, the Middle East, COMESA, the Rest of Africa and the Rest of Europe registered a decrease during the month of July 2016. Imports from European Union, on the other hand, increased by 6%. Although most of Uganda's imports came from Asia, there was a decline in imports from this part of the world from US$ 158.37 million in June to US$ 145.05 million in July 2016. China and India contributed nearly two thirds of Uganda's imports from Asia. Figure 6 shows the origin of imports to Uganda by percentage share.

Figure 6: Origin of Imports by percentage share in July 2016



Source: Bank of Uganda

5.0 FISCAL SECTOR

5.1 Overall deficit

The overall fiscal deficit for August 2016 was Shs 474 billion which was lower than Shs789.3 billion projected for the month. This was due to a lower expenditure and net lending than programmed, which was partly offset by the shortfalls in domestic revenues as shown in Table 6.

Table 6: Fiscal Performance, August 2016 (Billion shillings)

Billions Shillings	Outturn Aug'15	Prog Aug'16	Prel. Aug'16	Performance Aug'16	Deviation Aug'16
Revenues and Grants	972.0	1,062.0	986.8	92.9%	(75.2)
Revenues	830.0	971.7	951.5	97.9%	(20.2)
Tax Revenue	807.3	944.3	928.6	98.3%	(15.7)
Non-Tax	22.7	27.4	22.9	83.6%	(4.5)
Grants	142.1	90.3	35.3	39.1%	(55.0)
Budget Support (Incl Debt Relief)	7.8	3.7	-	0.0%	(3.7)
Project Support	134.2	86.6	35.3	40.8%	(51.3)
Expenditure and Lending	1,389.6	1,851.4	1,460.9	78.9%	(390.5)
Current Expenditures	948.8	815.3	886.2	108.7%	70.9
Wages and Salaries	248.2	287.0	293.6	102.3%	6.6
Interest Payments	91.4	158.2	224.7	142.0%	66.4
Domestic	83.1	103.7	135.7	130.8%	32.0
External	8.3	54.5	89.0	163.2%	34.5
Other Recurr. Expenditures	361.5	370.1	358.89	97.0%	(11.2)
Development Expenditures	322.2	617.9	545.5	88.3%	(72.4)
Domestic	222.3	302.6	466.9	154.3%	164.3
External Development	100.0	315.3	78.6	24.9%	(236.7)
Net Lending/Repayments	362.7	355.9	1.1	0.3%	(354.8)
o/w HPP GoU	362.7	-	1.1	-	1.1
o/w HPP Exim		355.9	-	-	(355.9)
o/w BoU	-	-	-	-	-
Others (Arrears, etc)	3.7	62.3	28.1	45.1%	(34.2)
Overall Fiscal Bal. (incl. Grants)	(387.2)	(789.3)	(474.0)		

Source: Ministry of Finance, Planning and Economic Development

5.2 Revenue and Grants

Revenue

Revenues and grants amounted to Shs. 986.8 billion, which was below the monthly program of Shs. 1062.0 billionbyShs75.2 billion. This arose from lower than projected domestic revenue collections during the month. Tax revenue amounted to Shs. 928.6 billion, Shs 15.7 billion below the program of Shs. 944.3billion. This performance was attributed to lower collections in direct domestic taxes especially withholding tax, tax on bank interest and corporate tax as well as taxes on international trade. Non tax revenues amounted to Shs. 22.9 billion representing a deficit of Shs. 4.5 billion from the monthly program. This deficit was explained by less than expected fees collected by MDA's.

Grants

Project grants performed at only 40.8% of the programmed Shs. 86.6billion, following low disbursements by a number of development partners. Similarly, there was no budget support received in the month despite the projection of Shs3.7 billion expected from Sweden towards the water and health sectors.

5.3 Expenditure

Total spending during August 2016 amounted to Shs 1,460.9 billion, which was Shs390.5billion lower than the monthly program of Shs 1,851.4 billion. This was mainly due to lower net lending than the monthly program. Whereas Shs 355.9 billion was projected for the month, the outturn was only Shs 1.1 billion as the expected disbursement for the HPPs was not made during the month.

On the other hand, domestic expenditure (wages and salaries, domestic development, arrears repayment and other recurrent) was Shs 125.5 billion higher than the monthly program. This was partly due to the late Q1 release in mid-July causing some expenditure for July to be made in August 2016.