PERFORMANCE OF THE ECONOMY REPORT

NOVEMBER 2017

MACROECONOMIC POLICY DEPARTMENT

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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SUMMARY

Real Sector

Inflation: Annual Headline Inflation declined to 4.0% in November 2017 from 4.8% the previous month mainly driven by a slower rise in the prices of food stuffs (2.3% from 7.9%). In particular, there was a slowdown in the rate at which prices for fruits and vegetables were rising due to increased supply.

Indices of economic activity: The Composite Index of Economic Activity (CIEA) improved from 203.88 in September to 204.85 in October 2017, reflecting a continued improvement in economic activity. Also, business sentiments for the next three months (December 2017- February 2018) remain positive as reflected by the Business Tendency Index (BTI) which stood at 59.72 in November 2017.

Financial Sector

Exchange rate: During the month, the Shilling appreciated by 0.5% having opened at a midrate of Shs.3,652.57/US$ and closed at Shs.3,634.53/US$. The gradual appreciation of the shilling against the US Dollar was as a result of higher inflows (dollar supply) from offshore investors, the export sector and NGOs that outweighed the demand from manufacturing, telecom and oil sectors.

Private Sector Credit: The stock of outstanding private sector credit (PSC) increased from Shs.12, 350.7 billion in September 2017 to Shs.12, 568.2 billion in October 2017 registering growth of 1.8%.

Government Securities: In the Primary money Market, yields generally continued to fall due to excess liquidity. The average weighted yields to maturity for November were 8.8%, 8.9% and 9.3% for the 91, 182 and 364 day tenors, respectively. This compares with 9.2%, 9.3% and 9.4% in October 2017.

External Sector

Merchandise Trade Balance: Comparison between October 2017 and September 2017 shows that the merchandise trade deficit narrowed by 8.9% to US$ 193.2 million in October 2017 from US$ 212.22 million in September 2017. The narrowing of the deficit is attributed to an increase in the value of merchandise exports by 11.1%.

Fiscal Sector

Fiscal operations during the month resulted into a deficit of Shs 209.4 billion. Revenues and Grants for November 2017 amounted to Shs 1,178.9 billion, registering a shortfall of Shs 66.3 billion driven entirely by a shortfall in grants. On the other hand, Expenditure and Net Lending during the month amounted to Shs 1,388.4 billion against the projection of Shs 1,845.4 billion.

REAL SECTOR DEVELOPMENTS

Inflation

Annual Headline Inflation declined from 4.8% in October to 4.0% in November 2017, the lowest level recorded since April 2015. This slowdown was mainly driven by a decline in Food crop Inflation resulting from better agricultural yields due to the favourable weather conditions. There was also a decline in both Core Inflation and Energy Fuel and Utilities Inflation as illustrated in Table 1 below.

Table 1: Summary Statistics on Annual Inflation

	October 2017	November 2017
Headline	4.8%	4.0%
Core	3.5%	3.3%
EFU	14.1%	13.7%
Food Crops and Related Items	7.9%	2.3%

Source: Uganda Bureau of Statistics (UBOS)

Annual Food Crops and Related Items Inflation fell from 7.9% in October to 2.3% in November 2017, majorly on account of a slower rise in prices of vegetables (3.0% from 6.5%) and fruits (1.8% from 9.7%) due to increased supply on the market. The increased supply of food crops on the market is as a result of favourable weather conditions in the preceding months.

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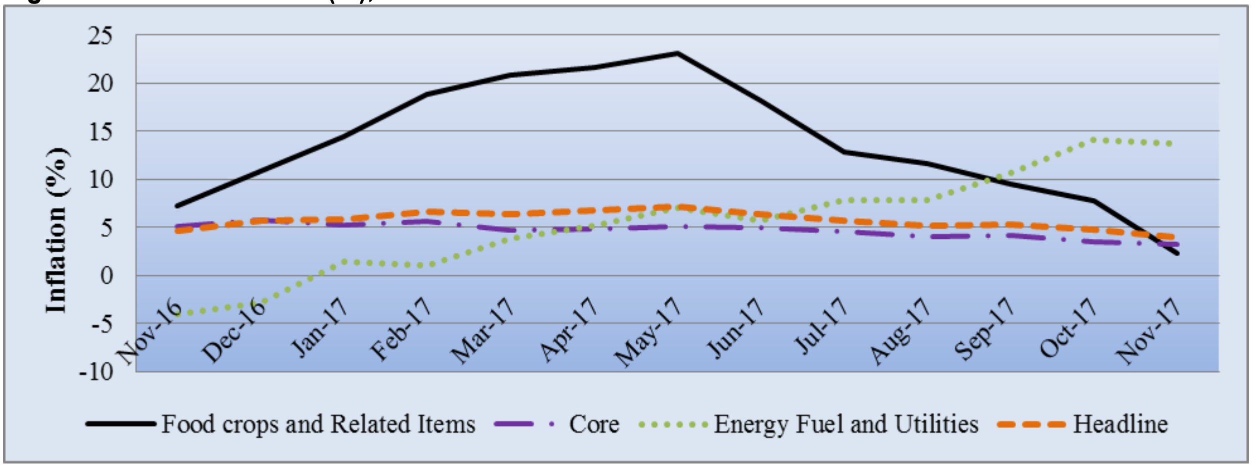
Annual Core Inflation, which constitutes over 80% of the CPI basket, continued to trend below its 5% target falling from 3.5% in October to 3.3% in November 2017. This reduction was mainly driven by a slowdown in the rise of prices for sugar (20.5% from 25.9%) and Bread and Cereal (11.9% from 14.4%). On the contrary, services inflation rose to 2.8% for the year ending November 2017, from 2.3% in October 2017. Particularly, the prices for communication services fell at a lower rate of 2.8% compared to 8.3% the previous month.

Annual Energy, Fuel and Utilities (EFU) Inflation also fell to 13.7% in November 2017 from 14.1% recorded in October. This was mainly due to a slow-down in the price increase for fuels, particularly charcoal & firewood (to 23.6% from 25.0%) over the same period. However, the prices for Liquid Energy Fuels went up at a higher rate of 6.0% in November 2017 from 5.3% in October 2017. Figure 1 below depicts the inflation trend over the last one year.

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



Source: Uganda Bureau of Statistics

Inflation within the EAC region

Within the EAC region, Inflation generally continued on a downward trend mainly driven by a slowdown in food costs resulting from better yields due to more favourable weather conditions. Whereas the decline in inflation was gradual for the other EAC countries, inflation in Rwanda fell sharply from 5.3% in October to 1.6% in November mainly on account of food and non-alcoholic beverages (-2.0%in November from 6% in October). Table 2 below depicts Inflation in the EAC region for this calendar year.

Table 2: Headline Inflation for EAC Partner States (%)

	Jan'17	Feb'17	Mar'17	Apr'17	May'17	Jun'17	Jul'17	Aug'17	Sep'17	Oct'17	Nov'17
Burundi	12.90	20.70	21.10	19.40	18.80	15.10	13.60	13.9	15.3	17.6	Na[1]
Kenya	7.00	9.04	10.30	11.48	11.70	9.20	7.50	8.04	7.1	5.7	4.7
Rwanda	12.00	13.40	13.00	12.90	11.70	9.40	8.10	7.20	7.1	5.3	1.6
South Sudan	371.8	425.9	304.6	272.6	334	361.90	154.6	165.0	101.9	Na	Na
Tanzania	5.20	5.50	6.40	6.40	6.10	5.40	5.20	5.00	5.3	5.1	4.4
Uganda	5.90	6.70	6.40	6.80	7.20	6.40	5.70	5.20	5.3	4.8	4.0

Source: Respective Bureaux of Statistics.

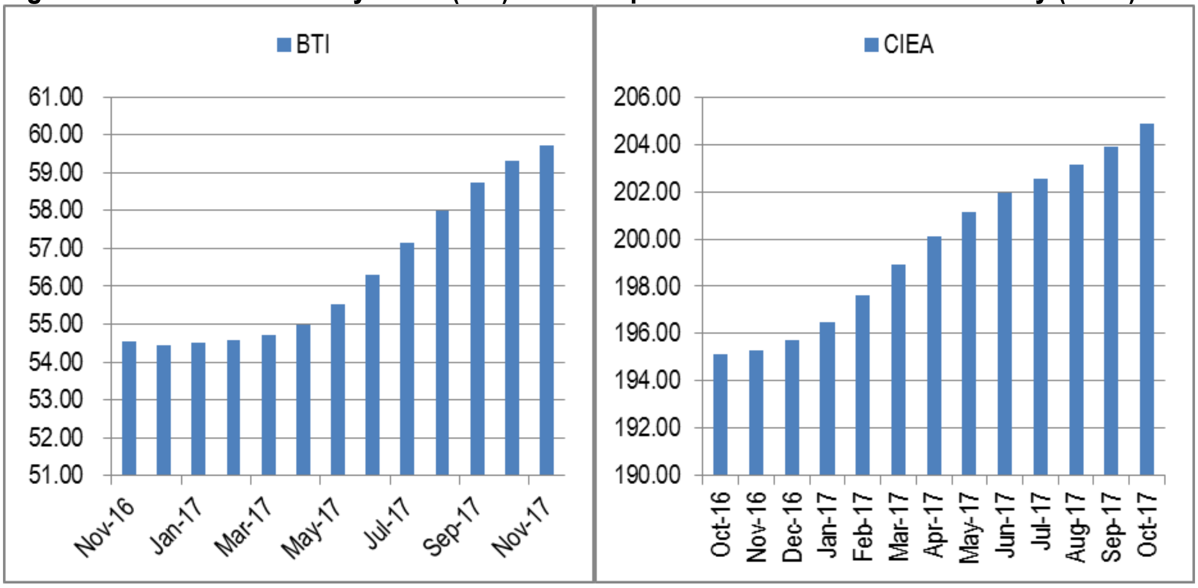
[1] Na- The data was not yet available at the time of compiling this report.

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

The high frequency indicators reflected continuous improvement in sentiments and economic activity for the month under review.

The BTI was at 59.72 in November 2017 compared to 59.33 in October 2017. This indicates that investors have positive sentiments about doing business in Uganda. The CIEA increased to 204.85 in October 2017 from 203.88 in September 2017. The figure below summarizes the trends in BTI and CIEA.

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



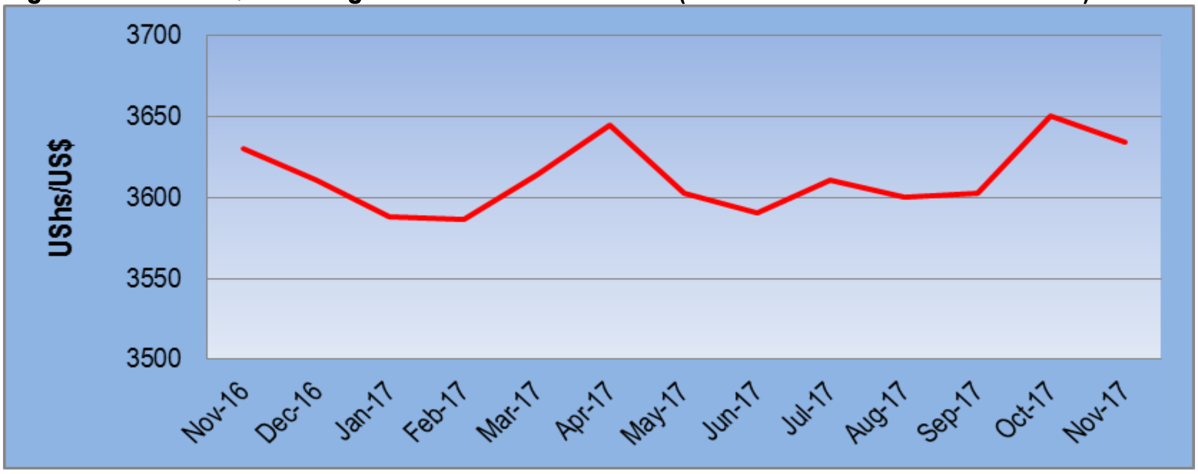
Source: Bank of Uganda

FINANCIAL SECTOR DEVELOPMENTS

Exchange Rate Movements

The Shilling remained relatively stable with a slight appreciation throughout November. Within the month, the shilling appreciated by 0.5% having opened at a midrate of Shs.3,652.57/US$ and closed at Shs.3,634.53/US$. The appreciation tendency of the shilling against the US Dollar was as a result of higher dollar inflows from offshore investors, the export sector as well as NGOs that outweighed the demand from manufacturing, telecom and oil sectors. Figure 3 shows the exchange rate movements from November 2016 to November 2017.

Figure 3: UShs/US$ Exchange Rate Trend-End Period (November 2016-November 2017)



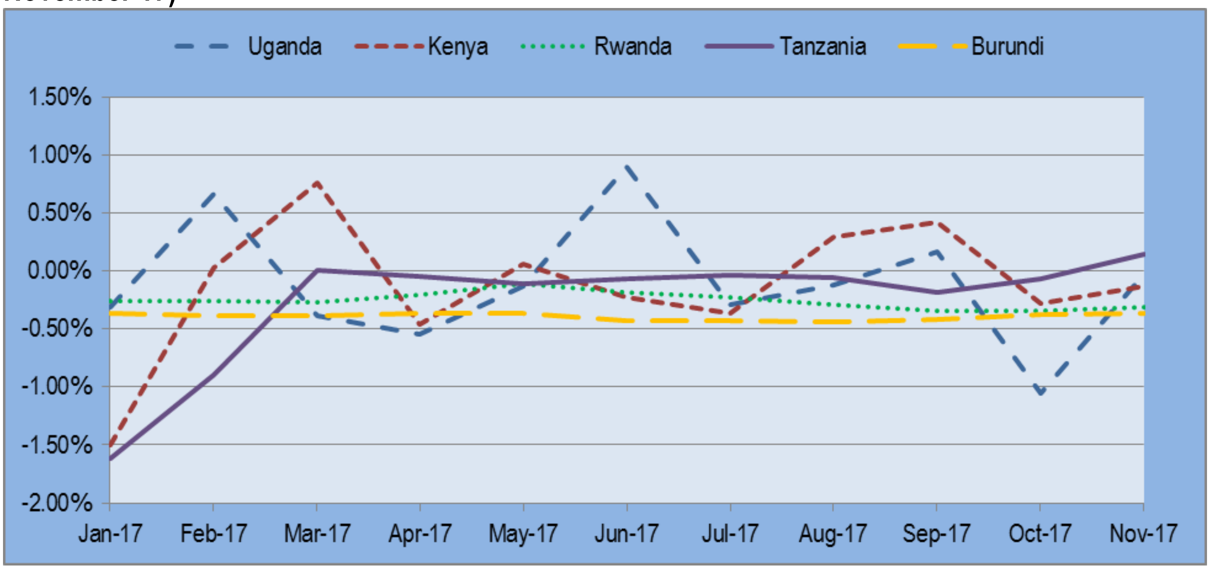
Source: Bank of Uganda

However, the monthly average exchange rate recorded a marginal depreciation of 0.03% from a midrate of Shs.3,637.9/US$ in October 2017 to Shs.3,638.9/US$ in November 2017.

Exchange Rates within the EAC Region

During the month, all the EAC Partner States' currencies remained fairly stable against the US$. On an average basis, the Kenya Shilling , Rwanda Franc and Burundi Franc depreciated by 0.13% , 0.31% and 0.37% respectively, while the Tanzania Shilling appreciated marginally by 0.15%. Figure 4 shows percentage change in exchange rates among selected EAC Partner States since the start of this calendar year. A positive change indicates an appreciation and vice-versa.

Figure 4: Percentage Change in Exchange Rates for Selected EAC Partner States, (January'17-November'17)



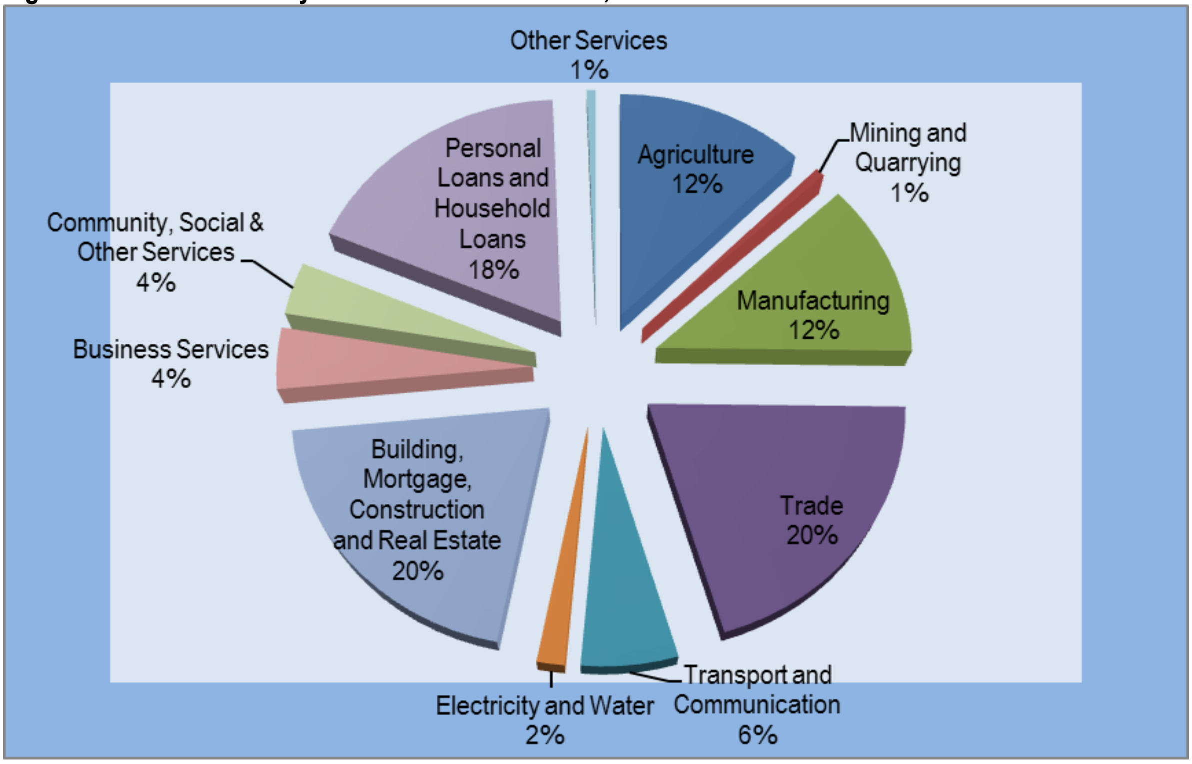
Source: Bank of Uganda

Private Sector Credit

The stock of outstanding private sector credit (PSC) increased from Shs.12, 350.7 billion in September to Shs.12, 568.2 billion in October 2017 registering growth of 1.8%. Among other factors, the growth in PSC is partly attributed to continuous monetary easing by the central bank. The CBR was gradually reduced to 9.5% in October 2017 from 13% in October 2016.

By sector, trade and building, mortgage, construction & real estate recorded the highest share of outstanding PSC at 20% each. Other notable holders of credit by end October 2017 included personal and household loans (18%); manufacturing (12%) and agriculture (12%). Figure 5 illustrates the distribution of the stock of outstanding PSC by sector.

Figure 5: Shares of PSC by Sector as at end October, 2017



Source: Bank of Uganda

During the month, there was growth of credit in all sectors of the economy except electricity and water (-2.4), manufacturing (-1.3%) and trade (-0.7%). These altogether accounted for 34.1% of the total stock of PSC and therefore played a role in dampening overall growth in PSC. Credit to the building, mortgage, construction and real estate sector grew by 1.2% while that to the agriculture sector grew by 7.3% as seen in the table 3, which shows monthly PSC growth by sector.

Table 3: Monthly PSC growth by sector

	Oct'16	Sep'17	Oct'17
Agriculture	2.8%	2.2%	7.3%
Mining and Quarrying	27.2%	5.0%	2.9%
Manufacturing	0.6%	-1.6%	-1.3%
Trade	1.7%	1.8%	-0.7%
Transport and Communication	0.4%	-4.7%	1.6%
Electricity and Water	2.5%	3.1%	-2.4%
Building, Mortgage, Construction and Real Estate	1.2%	1.4%	1.2%
Business Services	-0.5%	7.3%	3.3%
Community, Social & Other Services	-1.2%	1.1%	12.3%
Personal Loans and Household Loans	2.1%	1.7%	1.3%
Other Services	1.6%	-14.8%	22.1%
Total	**1.5%**	**1.0%**	**1.8%**

Source: Bank of Uganda

Government Securities

During the month of November 2017, there were two T-Bill auctions and two T-Bond auctions in the primary market. Shs 648 billion (at cost) was raised, of which Shs 254.3 billion was from T-Bills and Shs 393.8 billion was from T-bonds. Shs 533 billion was used for refinancing of maturing debt and Shs 115 billion was for financing the Government budget, as shown in table 4 below.

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

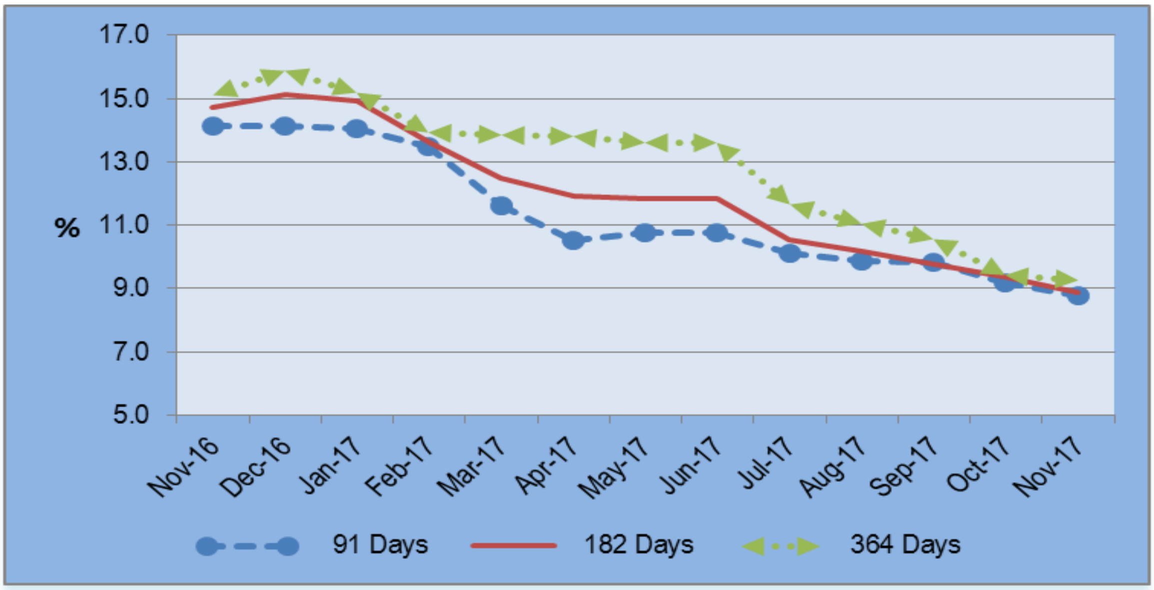
	Total Issuances	Government Domestic Borrowing	Refinancing
Q1 2017/18	1661.9	390.5	1271.5
October 2017	439.5	52.3	387.1
November 2017	648	115	533
July to date	**2749.4**	**557.8**	**2191.6**

Source: Auction results, MoFPED

Yields on Treasury Instruments

The yields across all tenors followed a declining trend from the previous month as shown in figure 6. The average weighted yields to maturity for November 2017 were 8.8%, 8.9% and 9.3% for the 91, 182 and 364 day tenors, respectively. This compares with 9.2%, 9.3% and 9.4% in October 2017. The yields edged downwards due to excess liquidity in the money market and high demand for government paper. All tenors were over-subscribed with an average bid to cover ratio[2] of 2.44. Figure 6 below illustrates the movement of Treasury bill yields on the primary market since November 2016.

Figure 6: Primary Market Average Yields



Source: Bank of Uganda

EXTERNAL SECTOR DEVELOPMENTS

Merchandise trade balance

Comparison between October 2017 and September 2017 shows that the merchandise trade deficit narrowed by 8.9% to US$ 193.2 million in October 2017 from US$ 212.22 million in September 2017. The narrowing of the deficit is attributed to an increase in the value of merchandise exports by 11.1%.

In comparison with the same period last year, the trade deficit widened by 93.6% due to a higher increase in imports that offset an increase in exports.

Merchandise exports

Export earnings increased by 11.1% to US$ 280.83 million in October 2017, compared to US$ 252.81 million in September 2017. This improvement is mainly attributed to the rise in the value of exports of coffee (13.4%), gold (84.3%), maize (54.7%), tea (22.7%), fish & its products (20.5%), and oil re-

[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.

exports (23.2%). The increase in the export earnings of coffee, gold, tea and fish & its products is mainly attributed to the increase in their volumes.

Comparison between October 2016 and October 2017 shows an increase in the export earnings by 12.8%. This increase is mainly attributed to the improvements in the export earnings of coffee (80.5%), gold (50.3%), tea (46.2%), fish & its products (20.1%) and oil re-exports (26.1%) following increases in their respective volumes. Table 5 shows the performance of exports.

Table 5: Performance of Exports (US$ million)

	Oct-16	Sep-17	Oct-17	Sep-17 Vs Oct-17 %Change	Oct-16 Vs Oct-17 %Change
Total Exports	**248.95**	**252.81**	**280.83**	**11.1%**	**12.8%**
1. Coffee (Value)	**24.23**	**38.58**	**43.74**	**13.4%**	**80.5%**
Volume ('000,000 60-Kg bags)	0.21	0.34	0.38	11.6%	82.2%
Av. unit value	1.93	1.88	1.91	1.5%	-0.9%
2. Non-Coffee formal exports	**186.23**	**174.22**	**195.25**	**12.1%**	**4.8%**
o/w Gold	27.71	22.59	41.64	84.3%	50.3%
Tea	6.42	7.64	9.38	22.7%	46.2%
Fish & its prod. (excl. regional)	9.69	9.66	11.64	20.5%	20.1%
Maize	7.19	4.97	7.68	54.7%	6.8%
Oil re-exports	9.83	10.06	12.39	23.2%	26.1%
3. ICBT Exports	**38.49**	**40.00**	**41.84**	**4.6%**	**8.7%**

Source: Bank of Uganda

Destination of exports

During the month of October 2017, the East African Community remained the major destination for Uganda's exports, followed by the Rest of Africa, and the Middle East. Comparison between October 2016 and October 2017 shows that exports to the East African Community declined by 2.8% from US$ 101.72 million in October 2016 to US$ 101.75 million in October 2017.

The European Union was the main destination for Uganda's coffee in October 2017 at 64.26%, followed by Sudan (10.78%) and Algeria (5.18%). Table 6 shows the destination of exports.

Table 6: Destination of exports in October 2017

	Oct-16	Sep-17	Oct-17
European Union	14.7%	16.6%	16.6%
Rest of Europe	1.8%	1.0%	0.8%
The Americas	1.7%	1.6%	3.1%
Middle East	16.4%	11.2%	16.9%
Asia	3.6%	5.2%	5.0%
Rest of Africa	19.7%	24.4%	21.3%
EAC[3]	42.1%	40.0%	36.2%
Others[4]	0.01%	0.01%	0.04%

Source: Bank of Uganda

Merchandise Imports

Merchandise worth 474.04 US $ million was imported in October, 2017. The value of imports was slightly higher (up 1.9%) in comparison to the previous month mainly due to an increment in private sector imports (up 7.8%). Whereas Government imports significantly declined (down 57.3%), the increment in private sector imports amidst higher import volumes[5] more than offset the decline.

Merchandise imports increased by 35.9% in comparison to the same period last year. The increase is driven by a rise in both Government and private sector imports amidst higher import prices[6] and volumes[7] during the month. Table 7 shows the performance of imports.

Table 7: Merchandise Imports in US$ Millions, October 2017

	Oct-16	Sep-17	Oct-17	Oct-17 Vs Sep-17	Oct-17 Vs Oct-16
Total Imports (fob[8]**)**	**348.77**	**465.03**	**474.07**	1.9%	35.9%
Government Imports	**10.56**	**64.97**	**27.77**	-57.3%	163.0%
Project	8.41	64.93	27.73	-57.3%	229.9%
Non-Project	2.16	0.03	0.04	20.1%	-98.1%
Total Private Sector Imports	**338.21**	**400.06**	**446.30**	11.6%	32.0%
Formal Private Sector Imports	311.02	376.98	406.50	7.8%	30.7%
Oil imports	50.24	67.70	69.58	2.8%	38.5%
Non-oil imports	260.77	309.28	336.92	8.9%	29.2%
Estimated Private Sector Imports	27.19	23.08	39.80	72.5%	46.4%

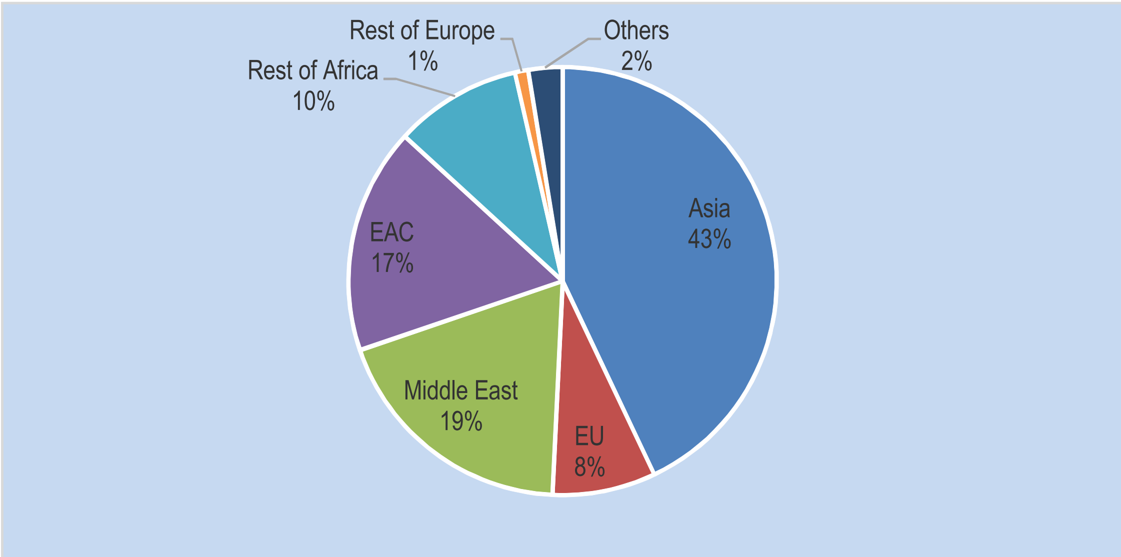
Source: Bank of Uganda

[3] East African Community countries include Kenya, Tanzania, Rwanda, Burundi, South Sudan
[4] Others include Australia, Iceland etc
[5] *Change over previous month: Oil and Non-Oil import volumes increased by 1.4% and 13.3% respectively (Bank of Uganda).*
[6] *Change over same period of previous year: Import prices increased by 4.6% (Bank of Uganda)*
[7] *Change over same period of previous year: Import volumes increased by 26.1% (Bank of Uganda)*
[8] FOB stands for Free on Board

Origin of Imports

Asia was the largest source of imports, contributing 43% of the total imports during the month. Middle East and EAC contributed 19% and 17% respectively, making them the second and third largest contributors to the total imports. China and India contributed two-thirds of the imports from Asia whereas Kenya and Tanzania contributed more than three-quarters of the imports from EAC. Figure 7 shows the origin of imports during the month.

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



Source: Bank of Uganda.

FISCAL SECTOR OPERATIONS

Overview

Revenues and Grants for November 2017 amounted to Shs 1,178.9 billion, registering a shortfall of Shs 66.3 billion. The shortfall was entirely driven by underperformance in grants as domestic revenues were on target. Expenditure and net lending during the month amounted to Shs 1,388.4 billion against the projection of Shs 1,845.4 billion. Fiscal operations during the month resulted into a deficit of Shs 209.4 billion as shown in Table 8.

Table 8: Fiscal Operations for November 2017

	Outturn Nov'16	Plan Nov'17	Prel. Outturn Nov'17	Performance Nov'17	Deviation Nov'17
Revenues and Grants	1,230.2	1,245.3	1,178.9	94.7%	(66.3)
Revenues	987.9	1,141.5	1,142.5	100.1%	1.0
Tax	963.3	1,115.9	1,099.3	98.5%	(16.6)
Non-Tax	24.6	25.6	43.2	168.7%	17.6
Grants	242.3	103.8	36.5	35.2%	(67.3)
Budget Support	15.1	-	-	-	-
Project Support	227.2	103.8	36.5	35.2%	(67.3)
Expenditure and Net Lending	1,634.7	1,845.4	1,388.4	75.2%	(457.0)
Current Expenditures	739.4	991.0	875.4	88.3%	(115.5)
Wages and Salaries	260.5	293.4	299.2	102.0%	5.8
Interest Payments	164.6	354.8	252.1	71.1%	(102.7)
Domestic	159.3	235.2	236.7	100.6%	1.5
External	5.3	119.6	15.5	12.9%	(104.2)
Other Recurr. Expenditures	314.3	342.7	324.1	94.6%	(18.6)
Development Expenditures	698.8	804.5	477.9	59.4%	(326.5)
Domestic	357.4	361.8	275.6	76.2%	(86.1)
External	341.4	442.7	202.3	45.7%	(240.4)
Net Lending/Repayments	159.6	-	-	-	-
Domestic Arrears Repayment	36.8	50.0	35.0	70.0%	(15.0)
Overall Fiscal Bal. (incl. Grants)	(404.5)	(600.2)	(209.4)		

Source: Ministry of Finance Planning and Economic Development.

Revenues and Grants

Total revenues and grants registered a shortfall of Shs 66.3 billion or 5.3% against the projection for the month. This shortfall was registered in grants, which performed at only 35.2% of their projected inflows.

Domestic revenues

Domestic revenues were on target for the month as a shortfall registered in tax revenue was offset by an overage registered in non-tax revenue. Total domestic revenues amounted to Shs 1,142.5 billion of which Shs 1,099.3 billion was tax revenue and Shs 43.2 billion was non-tax revenue.

Non tax revenue during the month recorded a surplus of Shs 17.6 billion or 68.7%, largely driven by surpluses in migration, passport and mining fees.

Tax revenue collections, on the other hand, were below the target for the month by 1.5% which is equivalent to Shs 16.6 billion. This shortfall was driven by a 16.1% underperformance of Indirect Domestic Taxes which offset the surpluses registered in Direct Domestic Taxes and Taxes on

International Trade. Value Added Tax on domestic products recorded a shortfall of Shs 39.7 billion while Excise Duty recorded a shortfall of Shs 8.6 billion.

Direct Domestic Taxes and Taxes on International Trade recorded surpluses of Shs 14 billion and Shs 21.48 billion respectively. Direct Domestic Taxes were buoyed by strong performances in Pay as You Earn (PAYE), Corporate Tax and tax on bank interest. Under the category of Taxes on International Trade, Petroleum Duty and VAT on imports registered surpluses of Shs 17.4 billion and Shs 21.7 billion respectively.

Expenditure and Net Lending

Total expenditures and Net Lending during November 2017 amounted to Shs 1,388.4 billion shillings or an equivalent of 75.2% of the projected expenditure level. Both recurrent and development expenditures were below their respective projections by 11.7% and 40.6% respectively.

Recurrent expenditures on wages and salaries and domestic interest were largely as planned while other non-wage and non-interest recurrent payments underperformed by 5.4%.

Both domestically and externally financed development expenditures were below their respective projections for the month, with a combined performance of 59.4%.