PERFORMANCE OF ECONOMY REPORT

December 2017

MACROECONOMIC POLICY DEPARTMENT

MINISTRY OF FINANCE PLANNING AND ECONOMIC DEVELOPMENT

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LIST OF ACRONYMS

Bn	Billion
BoU	Bank of Uganda
BTI	Business Tendency Index
EFU	Electricity Fuels and Utilities
HIPC	Highly Indebted Poor Countries
HPPs	Hydro Power Projects
Ksh	Kenyan Shilling
MoFPED	Ministry of Finance Planning and Economic Development
NGOs	Non Governmental Organisations
PSC	Private Sector Credit
Tsh	Tanzanian Shilling
T-Bills	Treasury Bills
T-Bonds	Treasury Bonds
UGX	Ugandan Shilling
USD	United States Dollar

HIGHLIGHTS

Real Sector:

Inflation: Annual headline inflation for December 2017 dropped to 3.3 percent from 4.0 percent recorded for the year ended November 2017. The slow-down in headline inflation was mainly driven by food crops inflation that dropped to minus 0.7 percent. Similarly, annual Core and EFU inflation reduced during the month to 3.0 percent and 12.5 percent; from 3.3 percent and 13.7 percent recorded in November respectively.

Indices of economic activity: The Composite Index of Economic Activity (CIEA) improved by 0.54 percent to 206.7 in November 2017 from 205.6 in October 2017, indicating improvements in the levels of economic activity in the country. The BTI remained at 58.8 in December 2017 as in the previous month and above 50 indicating that investors' perceptions about doing business in the economy remain positive.

Financial Sector:

Exchange rate: There was a marginal appreciation of the shilling by 0.4 percent to an average monthly rate of UGX 3,623.3 in December from UGX 3,638.9 in November 2017. The appreciation was due to increased inflows from NGOs and coffee exports as compared to demand for foreign exchange from manufacturing & oil sectors and offshore players exiting the Government securities market.

Private sector credit: PSC marginally grew by 0.1 percent amounting to UGX 12,579.0bn in November 2017 from UGX 12,568.2bn in October 2017.

External Sector:

The merchandise trade deficit narrowed by 25.9 percent, from USD 193.2 million in October to USD 143.2 million in November 2017. The narrowing was due to a reduction in the value of imports (both government and private sector).

Fiscal Sector:

Fiscal operations amounted to a surplus of UGX 223.1bn, as overall expenditure and net lending during the month was lower than planned. Overall spending was largely affected by the performance of external development expenditures, which amounted to 37 percent of its monthly projection.

1.0 REAL SECTOR DEVELOPMENTS

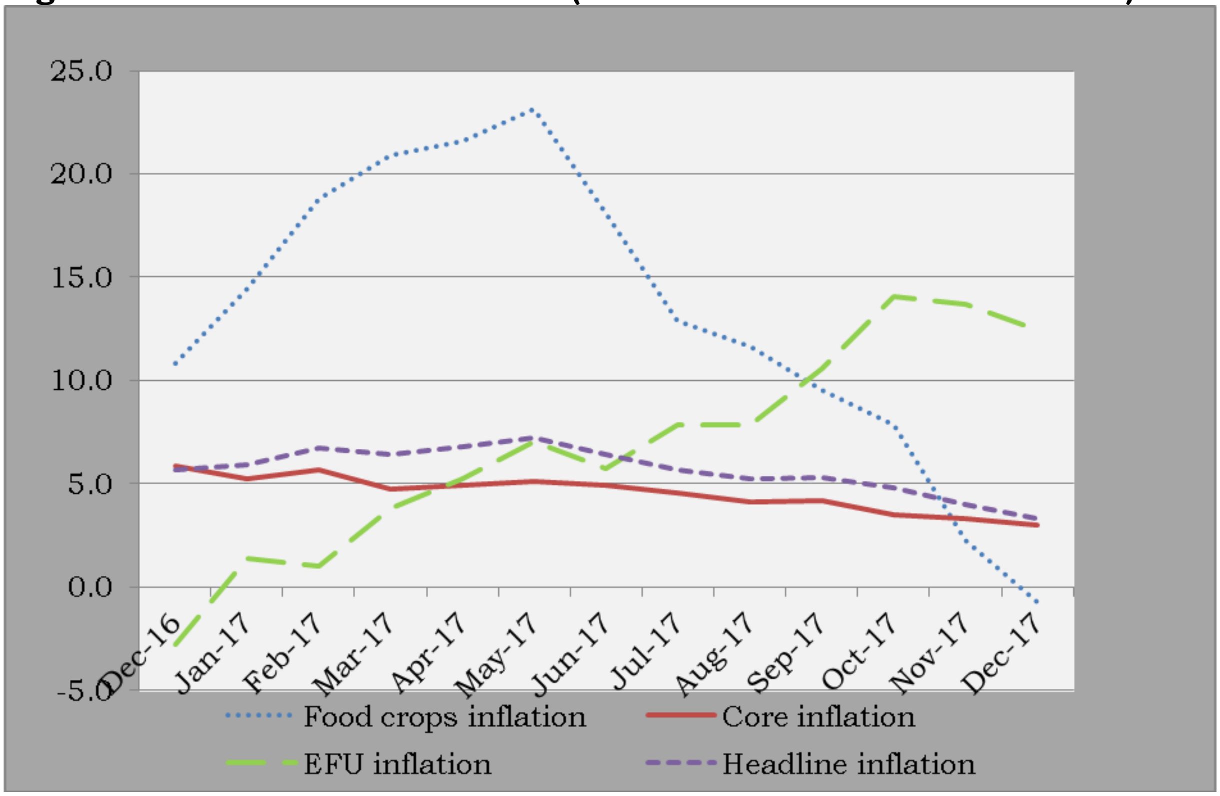
1.1 Inflation Rate

Annual Headline Inflation for December 2017 was recorded at 3.3 percent compared to the 4.0 percent reported for November 2017. The slow-down was majorly explained by the decline in annual food crop inflation to minus 0.7 percent in December 2017, from 2.3 percent recorded for November 2017. The performance in annual food crop inflation was driven by decreases in prices of vegetables and fruits due to their increased supply in the market.

Annual core inflation dropped to 3.0 percent in December 2017 compared to 3.3 percent recorded for November 2017. This drop was mainly as a result of slower increases in prices of sugar and bread & cereals. The rate of price increases for services also decreased during the month to 2.6 percent from 2.8 percent registered in November, which was attributed to the slow-down in prices for education; restaurant & hotel; and recreation & culture services.

EFU inflation decreased to 12.5 percent for the year ended December 2017 compared to 13.7 percent recorded for the year ended November 2017. The drop was due to a reduction in price increases for both solid fuels (charcoal & firewood) and Liquid Energy Fuels (gasoline). Figure 1 shows annual inflation trends for the last 13 months.

Figure 1: Annual Inflation Trends (December 2016- December 2017)



Source: BoU

1.2 Inflation Rates among EAC Partner States.

Annual inflation rates among the EAC Partner States in December were generally on a downward trend majorly due to the lower food crop prices registered resulting from increased supply. The improved supply is attributed to favourable weather conditions in the region. Rwanda posted the lowest inflation rate amongst the EAC partner states as its annual food crops and beverages inflation was recorded at minus 6.2 percent in December 2017 from minus 2.0 percent in November 2017. Table 1 shows the annual inflation rates among the EAC Partner States.

Table 1: Inflation rates for the EAC partner states, calendar year 2017.

Percent units	Jan' 17	Feb' 17	Mar' 17	Apr' 17	May' 17	Jun' 17	Jul' 17	Aug' 17	Sept' 17	Oct' 17	Nov' 17	Dec' 17
Uganda	5.9	6.7	6.4	6.8	7.3	6.4	5.7	5.2	5.3	4.8	4.0	3.3
Kenya	7.0	9.0	10.2	11.5	11.7	9.2	7.5	8.0	7.0	5.7	4.7	4.5
Tanzania	5.2	5.5	6.4	6.4	6.1	5.4	5.2	5.0	5.3	5.1	4.4	4.0
Rwanda	12.0	13.4	13.0	12.9	11.7	9.4	8.1	7.2	7.2	5.3	1.6	-0.2
Burundi	12.9	20.9	21.1	19.4	18.8	15.1	13.5	13.9	15.3	17.6	15.3	N.A
South Sudan	371.8	425.9	304.6	272.6	334.0	361.9	154.5	165.0	101.9	131.9	142.0	N.A

Source: Respective Bureaux of Statistics

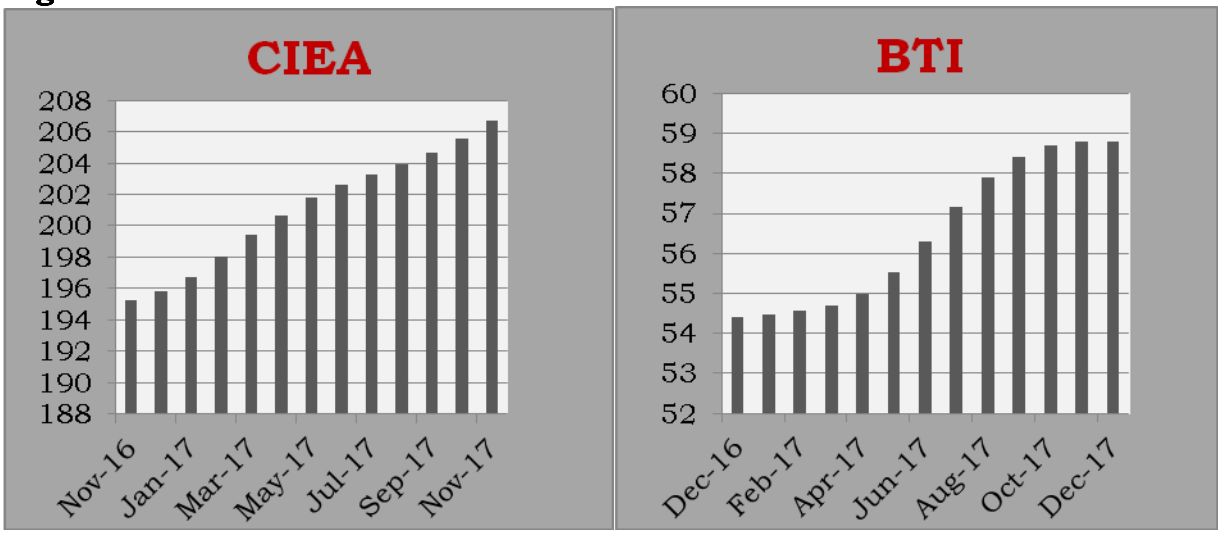
1.3 Business Tendency Index (BTI) and Composite Index of Economic Activity (CIEA)

The high frequency indicators of economic activity remained positive. The CIEA[1] improved by 0.54 percent to 206.7 in November 2017 from 205.6 in October 2017. This was due to increase in the value of exports, monthly growth in PSC and an increase in production of dutiable goods and services. A positive change in the index gives an indication of improvement in the level of economic activities within the country.

The BTI remained at 58.8 in December 2017 as in the previous month (November 2017) and is still above 50. This implies that investors' perceptions about doing business in the economy are still positive. Figure 2 shows the trends in BTI and CIEA over the last thirteen months.

[1] The CIEA index captures the underlying monthly changes in economic activity in 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.*

Figure 2: Trends in BTI and CIEA



Source: BoU

2.0 FINANCIAL SECTOR DEVELOPMENTS

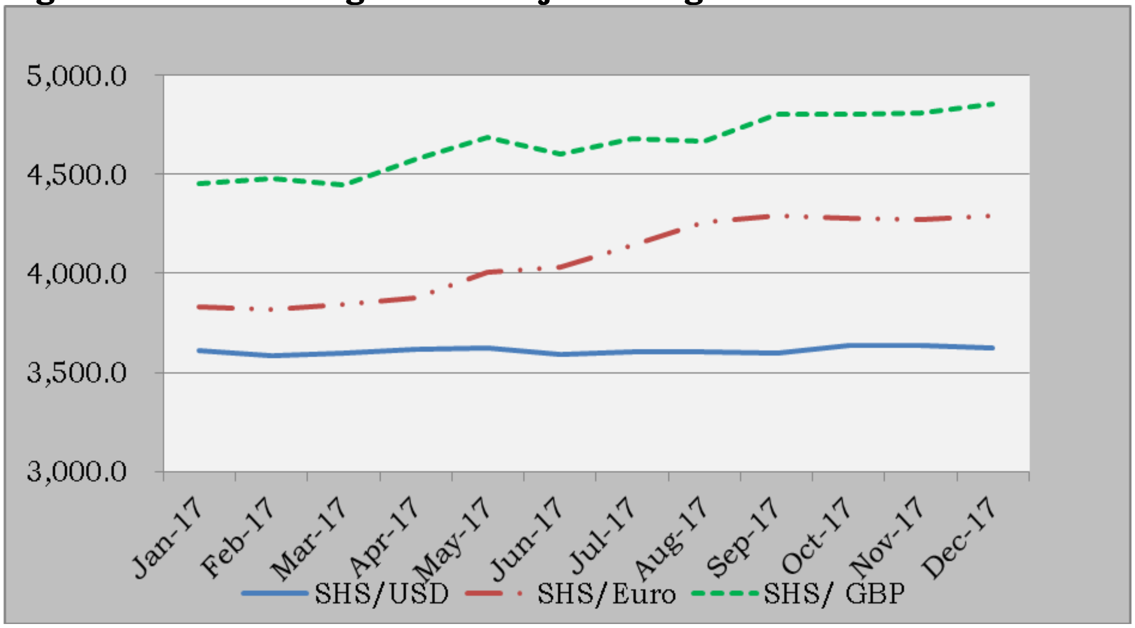
2.1 Exchange Rate

During the month, the shilling was relatively stable against the US dollar. There was a slight depreciation of 0.1percent, having opened at a daily midrate of UGX 3,632.9 and closed at a daily midrate of UGX 3,635.1.

On a monthly comparison, the Ugandan shilling marginally appreciated against the USD by 0.4 percent to an average monthly rate of UGX 3,623.3 in December from an average monthly rate of UGX 3,638.9 recorded in November 2017. The appreciation of the Ugandan shilling was partly explained by the increased inflows from NGOs and coffee exports as compared to the demand from the manufacturing & oil sectors and offshore players who are exiting the Government securities market.

In comparison to the other major currencies, i.e. the pound sterling and the Euro, the shilling depreciated by 0.9 percent and 0.4 percent respectively within this month compared to November 2017. The shilling traded at UGX 4,288.5 for the Euro and UGX 4,855.7 for the pound sterling in December 2017. Figure 3 shows the exchange rate movements of the Uganda Shilling against major currencies for the calendar year 2017.

Figure 3: The Shilling versus Major Foreign Currencies



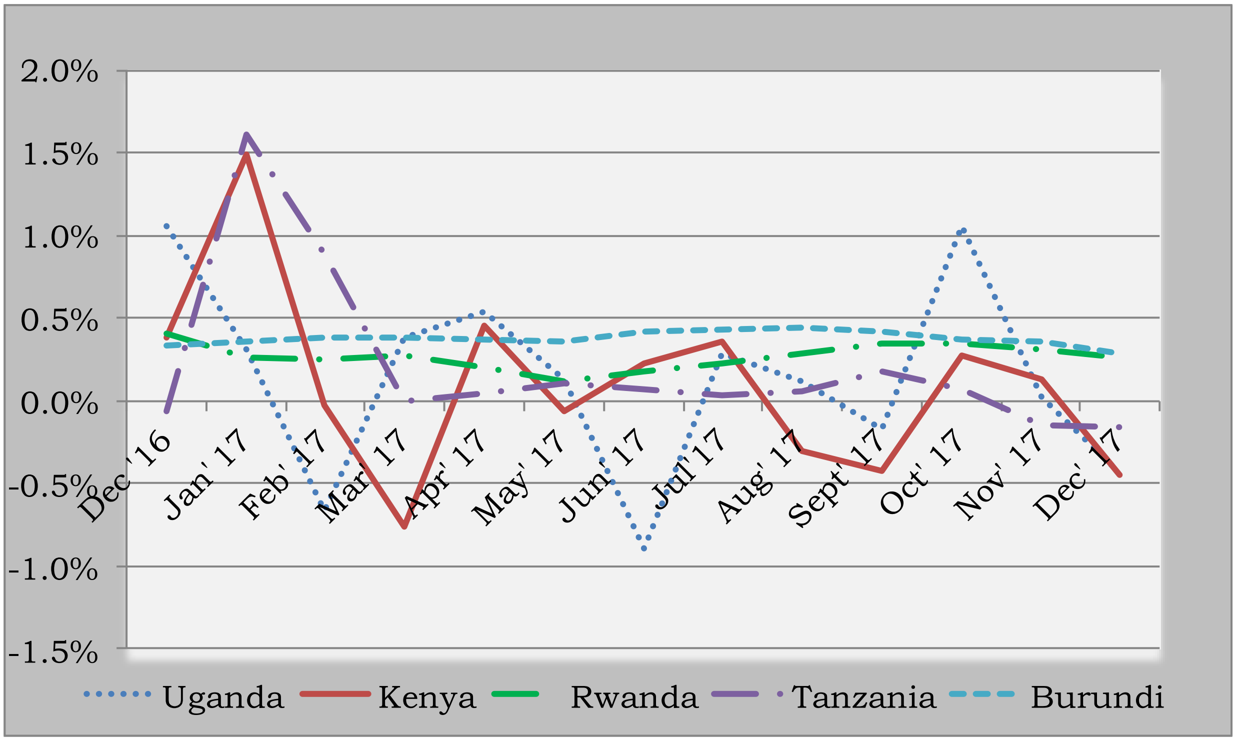
Source: Bank of Uganda

2.2 Exchange Rates among EAC Partner States.

For the month of December 2017, all the EAC Partner States currencies (*with exception of South Sudan*[2]) were relatively stable against the US dollar with slight movements ranging between 0.2 percent to 0.5 percent in absolute terms compared to the rates registered in November 2017. The Kenyan, Tanzanian and Ugandan Shillings posted appreciations of 0.4 percent, 0.5 percent, 0.2 percent respectively, while the Rwandese and Burundi Francs both posted a depreciation of 0.3 percent. Figure 4 shows the percentage changes in exchange rates among selected EAC Partner States for the calendar year 2017.

[2] 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.

Figure 4: Percentage Changes in Exchange Rates for Selected EAC Partner States, (December 2016-December 2017)



Source: Bank of Uganda

2.3 Private Sector Credit

The growth in stock of outstanding private sector credit remained subdued in November 2017. There was only a marginal growth in stock of PSC by 0.1 percent, from UGX 12,568.2bn in October 2017 to UGX 12,579.0bn in November 2017.

This development is in part a reflection of supply-side constraints, among which is the unwillingness of banks to lend due to high risk of default among customers. This is partly reflected by the demand for credit (as proxied by loan applications) exceeding supply (proxied by loan approvals). In November 2017, the value of loan applications was at UGX 1,351.0 bn, while the value of approvals was at UGX 865.0 bn.

The sectors which registered growth in outstanding PSC were: agriculture; trade; building, mortgage, construction & real estate; and community, social and other sectors. Other sectors like mining and quarrying; manufacturing; transport and communication posted declines in growth of PSC in November 2017. Table 2 shows the monthly growth of PSC in the various sectors

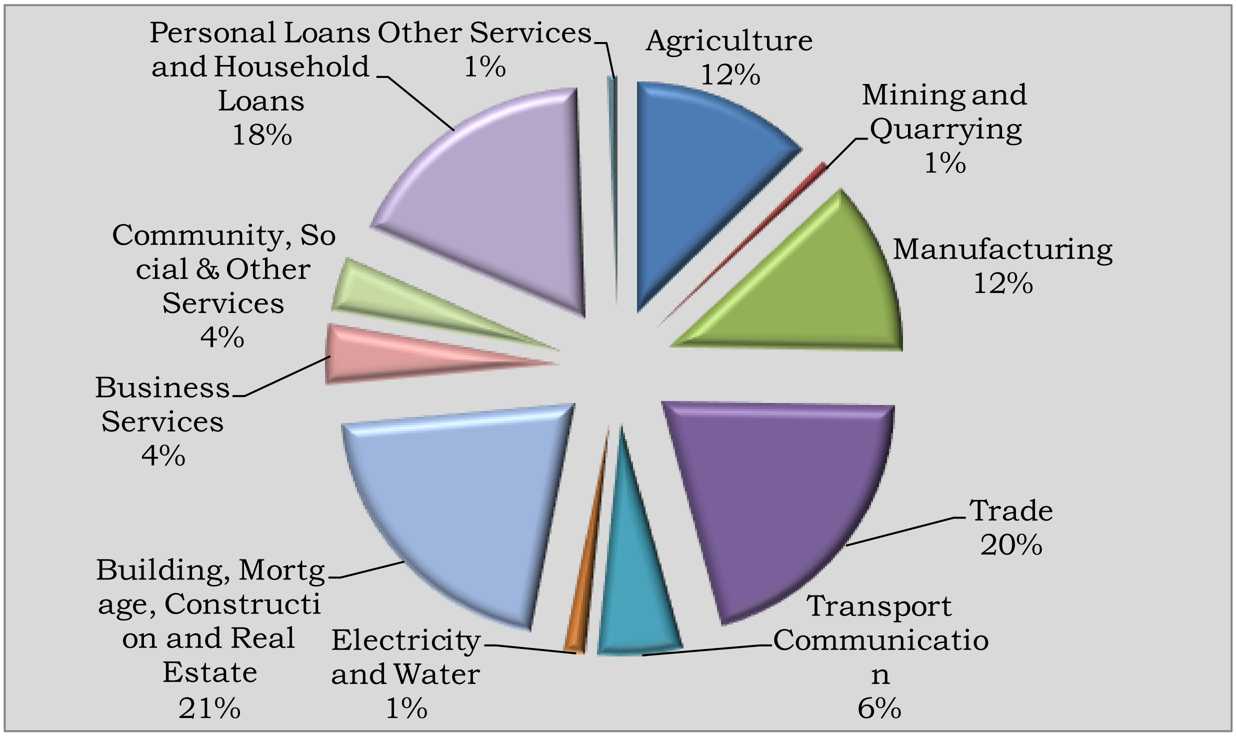
Table 2: Monthly Private Sector Credit Growth Rates by Sector

	Annual	**Monthly**	
	Nov'17	**Oct'17**	**Nov'17**
Agriculture	26.3%	7.3%	1.3%
Mining and Quarrying	29.3%	2.9%	-6.2%
Manufacturing	-2.0%	-1.3%	-0.2%
Trade	8.1%	-0.7%	1.6%
Transport and Communication	-21.4%	1.6%	-2.8%
Electricity and Water	-30.4%	-2.4%	-14.8%
Building, Mortgage, Construction & Real Estate	-5.7%	1.2%	1.0%
Business Services	9.2%	3.3%	-4.1%
Community, Social & Other Services	16.3%	12.3%	2.6%
Personal Loans and Household Loans	13.3%	1.3%	-0.1%
Other Services	-42.8%	22.1%	-4.3%
Total PSC Growth Rate	**3.2%**	**1.8%**	**0.1%**

Source: BoU

In terms of the shares, the building, mortgage, construction & real estate sector accounted for the highest amount of outstanding credit (21%) followed by trade (20.5%); personal & household loans (18%); agriculture and manufacturing sectors each taking 12%. Other sectors with notable outstanding levels of credit are summarized in figure 5 which shows the distribution of the shares of the stock of outstanding PSC by sector.

Figure 5: Shares of PSC by Sector, November 2017



Source: BoU

2.4 Government Securities

During December 2017, there were 2 T-Bill auctions and 1 T-Bond auction in the primary market. A total of UGX 406.3 bn (at cost) was raised from the market of which UGX 259.4bn was from T-Bills and UGX 146.9bn was from T-bonds. Of the total raised, re-financing of maturing debt amounted to UGX 379bn, while UGX 27.2bn was used for the financing the Government budget. By the end of H1 FY 2017/18, total issuances amounted to UGX 3,155.7bn of which UGX 585bn was used for financing Government expenditures while UGX 2,570.6bn was for refinancing of maturing debt, as shown in table 3.

Table 3: Issuance of Government Securities, FY 2017/18

(Shillings bn)	**Total Issuances**	**Government Domestic Borrowing**	**Refinancing**
Q1 2017/18	**1,661.9**	**390.5**	**1,271.5**
October 2017	439.5	52.3	387.1
November 2017	648	115	533
December 2017	406.3	27.2	379
Q2 2017/18	**1,493.8**	**194.5**	**1,299.1**
H1 FY 2017/18	**3,155.7**	**585**	**2,570.6**

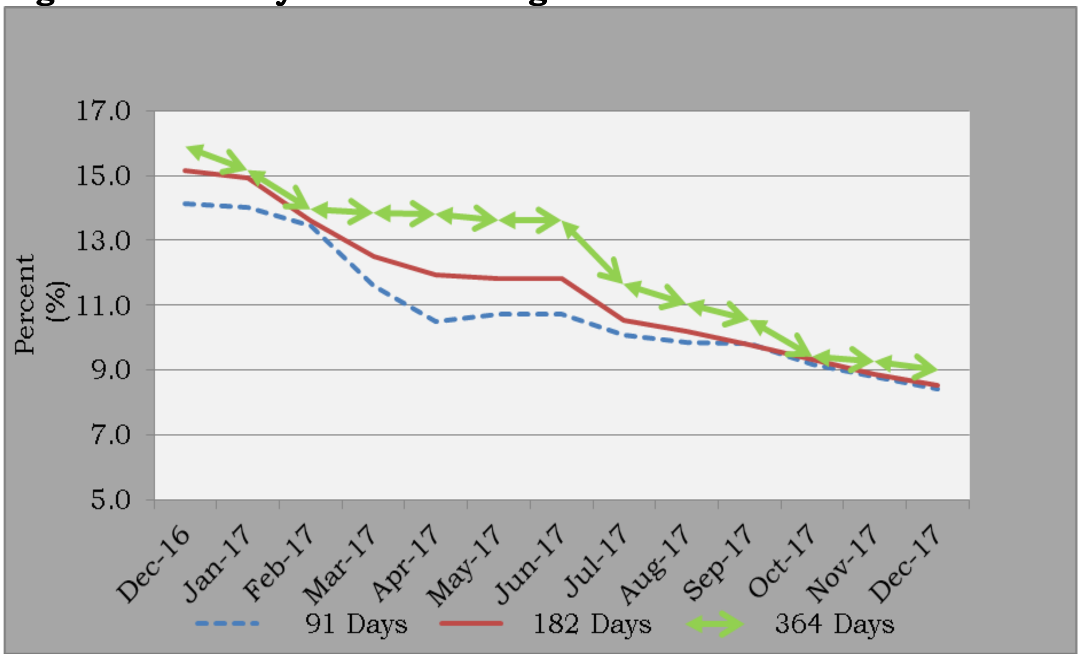
Source: Auction Results, MoFPED

2.5 Yields on Treasury Bills

In the money markets, yields edged downwards across the all tenors. The average weighted yields to maturity for December were 8.4%, 8.5% and 9.0% for the 91, 182 and 364 day tenors respectively. This compares with 8.8%, 8.9% and 9.3% in November 2017. The reduction in yields was due to excess liquidity in the money market which resulted to the high demand for government paper, which offer a safe investment alternative for many investors. All tenors were over-subscribed with an average bid to cover ratio[3] of 2.97. Figure 6 illustrates the movement of Treasury bill yields on the primary market since December 2016.

[3] 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.

Figure 6: Primary Market Average Yields



Source: BoU

3.0 EXTERNAL SECTOR DEVELOPMENTS

3.1 Merchandise Trade Balance

On a monthly basis, the merchandise trade deficit narrowed by 25.9%, from USD 193.2 million in October 2017 to USD 143.2 million in November 2017. This was due to a combination of a reduction in the import bill coupled with an increase in the export receipts. The increase in export receipts was on account of higher volumes of coffee, cotton, beans, tea, hides & skins while a reduction in the import bill was due to fall in import volumes by both government and the private sector.

However, as compared to the same period last year, the trade deficit widened by 43.3%, as lower prices of coffee and a reduction in volume of non-coffee exports such as; gold, tobacco, fish & its products, negatively affected the value of exports. In addition, there was an increase in the import bill, which rose 9.9 percent between November 2016 and November 2017. The increase was largely driven by higher private sector imports and the impact of an increase in oil prices.

3.2 Merchandise Exports

The total value of exports increased by 3.8%, from USD 280.83 million in October 2017 to USD 291.57 million in November 2017 on account of improvements in the export volumes of coffee, cotton, beans, tea, hides & skins. During the month, a 2.8 percent decline in the international prices for coffee was offset by a 16 percent increase in export volumes resulting in an overall increase in value of coffee exports from USD 43.7 million in October 2017 to USD 49.4 million in November 2017.

In comparison with the same period the previous year, Uganda's export earnings dropped by 1.5% in November 2017 following a fall in value of the exports of coffee, gold, tobacco, fish & its products. The fall in value of coffee exports was due to a reduction in the international price of coffee, while, the fall in value of the other exports (gold, tobacco, fish & its products) was due to the reduction in their respective volumes. The table 4 shows performance of exports in November 2017.

Table 4: Merchandise Exports (USD million)

	Nov-2016	Oct-2017	Nov-2017	Oct-17 Vs Nov- 17	Nov-16 Vs Nov- 17
Total Exports	**295.89**	**280.83**	**291.57**	**3.8%**	**-1.5%**
1. Coffee (Value)	**50.41**	**43.74**	**49.39**	**12.9%**	**-2.0%**
Volume (60 kg bags)	408,027	381,636	443,100	16.1%	8.6%
Av. unit value	2.06	1.91	1.86	-2.8%	-9.8%
2. Non-Coffee formal exports	**204.32**	**195.25**	**200.96**	**2.9%**	**-1.6%**
o/w Gold	27.99	41.64	13.45	-67.7%	-51.9%
Tea	6.91	9.38	9.82	4.7%	42.1%
Cotton	1.58	0.88	3.92	345.7%	148.3%
Tobacco	14.24	9.64	7.48	-22.4%	-47.4%
Beans	5.56	4.22	10.33	144.9%	86.0%
Fish& its products	12.61	11.64	11.39	-2.1%	-9.7%
3. ICBT Exports	**41.16**	**41.84**	**41.23**	**-1.5%**	**0.2%**

Source: BoU

3.3 Destination of Exports

During November 2017, the East African Community[4] remained the main export destination for Uganda's exports, followed by the *Rest of Africa*, and the European Union. A comparison between November 2016 and November 2017 shows that all export destinations registered increases save for the Middle East and the Rest of Europe. Table five shows the destination of exports.

[4] East African Community Countries include Kenya, Tanzania, Rwanda, Burundi, South Sudan

Table 5: Destination of Exports

	Nov-16	Oct-17	Nov-17
European Union	15.2%	16.6%	17.2%
Rest of Europe	1.0%	0.8%	1.0%
America	1.4%	3.1%	2.3%
Middle East	14.1%	16.9%	6.7%
Asia	5.6%	5.0%	5.8%
Rest of Africa	18.6%	20.2%	21.0%
EAC	44.2%	37.4%	46.1%
Others[5]	0.01%	0.04%	0.04%

Source: BoU

3.4 Merchandise Imports

The value of merchandise imports declined by 8.3 percent in November 2017 compared to the previous month, with the decline largely driven by a reduction by 53.6 percent in the value of government imports.

However, a comparison with the same period last year, merchandise imports increased by 9.9 percent in November 2017. The increase can be explained by a 29.2 percent increase in private sector imports on account of higher volumes of imports and an increase in oil prices. The international oil prices rose following the impact of the OPEC instituted supply cuts to the world market. Table 6 shows the performance of imports in November 2017.

[5] Others include Australia, Iceland

Table 6: Merchandise Imports in million USD

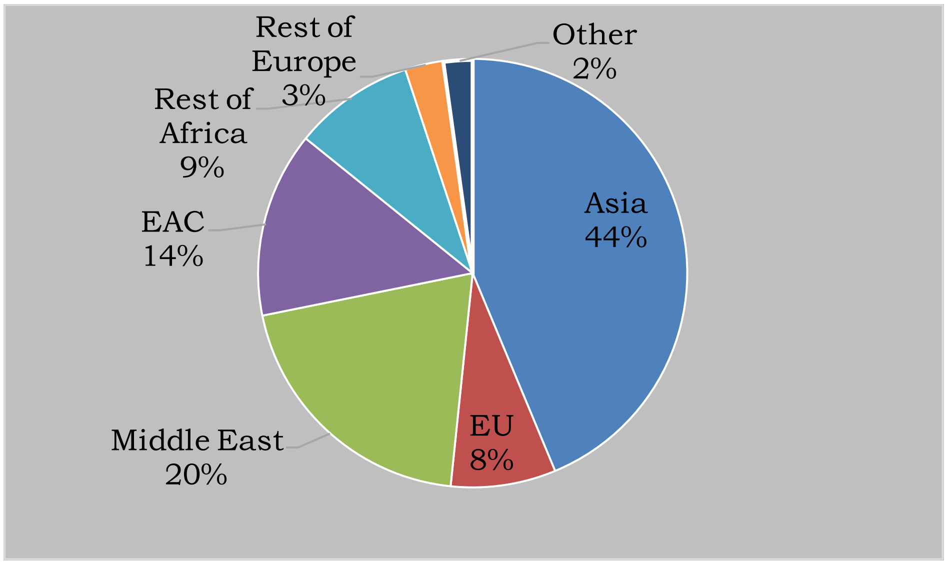
	Nov-16	Oct-17	Nov-17	Nov-16 Vs Nov-17	Nov-17 Vs Oct-17
Total Imports (fob)	395.81	474.07	434.80	9.9%	-8.3%
Government Imports	55.12	27.77	12.89	-76.6%	-53.6%
Project	52.99	27.73	11.04	-79.2%	-60.2%
Non-Project	2.13	0.04	1.86	-12.9%	-
Formal Private Sector Imports	313.10	406.50	404.50	29.2%	-0.5%
Oil imports	50.64	69.58	77.80	53.6%	11.8%
Non-oil imports	262.46	336.92	326.70	24.5%	-3.0%
Estimated Private Sector Imports	27.58	39.80	17.41	-36.9%	-56.3%
Total Private Sector Imports	340.69	446.30	421.91	23.8%	-5.5%

Source: BoU

3.5 Origin of Imports

Asia, Middle East and EAC were the largest sources of Uganda's imports, altogether accounting for 78 percent of the total imports during November 2017. Of the total imports from Asia, India and China contributed 66% while from the EAC region, Kenya and Tanzania contributed 93% of the imports. Figure 7 shows the Origin of imports in November 2017.

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



Source: BoU

4.0 FISCAL SECTOR DEVELOPMENTS

4.1 Overall Fiscal Balance

In December 2017, the overall fiscal balance amounted to a surplus of UGX 223.1 bn as compared to a planned deficit of UGX 505.9 bn. This performance was due to lower than planned expenditure and net lending for the month. Table 7 details the fiscal operations recorded in December 2017.

Table 7: Fiscal Operations, December 2017

	Outturn Dec'16	Program Dec'17	Preliminary Dec'17	Deviation	Performance Vs Program
Revenue and Grants	**1,514.5**	**1,901.2**	**1,668.4**	**(232.8)**	**88%**
Revenue	**1,385.8**	**1,633.6**	**1,515.9**	**(117.8)**	**93%**
Tax	1,363.2	1,602.3	1,487.8	(114.5)	93%
Non Tax	22.6	31.4	28.1	(3.3)	90%
Grants(incl HIPC)	**128.6**	**267.6**	**152.5**	**(115.0)**	**57%**
Budget support(incl HIPC)	39.5	18.2	31.8	13.6	174%
Project support	89.1	249.4	120.8	(128.6)	48%
Expenditure and Net Lendin	**1,384.5**	**2,407.1**	**1,445.3**	**(961.8)**	**60%**
Recurrent expenditure	**697.2**	**811.2**	**734.3**	**(76.9)**	**91%**
Wages and salaries	274.6	289.7	288.2	(1.5)	99%
Interest payments	267.2	224.6	181.0	(43.6)	81%
Other reccurrent expediture	155.4	296.9	265.0	(31.9)	89%
Development expenditure	**486.1**	**1,225.9**	**525.6**	**(700.4)**	**43%**
Domestic	276.0	315.0	191.8	(123.2)	61%
External	210.1	910.9	333.7	(577.2)	37%
Net Lending	**200.2**	**319.1**	**154.5**	**(164.6)**	**48%**
o/w HPPs	100.2	319.1	144.7	(174.4)	45%
o/w GoU	0.0	-	9.8	9.8	n.a
BoU recapitaliastion	100.0	-	-	-	n.a
Clearance of Arrears	**1.0**	**50.9**	**31.0**	**(19.9)**	**61%**
Overall balance	**130.00**	**(505.9)**	**223.1**	**729.02**	**-44%**

Source: MoFPED

4.2 Revenue and Grants

Total revenue and grants received in December 2017 amounted to UGX 1,668.4bn, registering a shortfall of UGX 232.8bn or 12 percent of the monthly target. This performance was mainly explained by the lower project grants disbursements which performed at only 48 percent of the month's target. At the same time, domestic revenues (tax and non tax) were 7 percent below their monthly target. On a cumulative basis revenues and grants for the first half of

FY 2017/18, stood at 87 percent of the period's target and 43 percent of the annual target.

Tax revenues amounted to UGX 1,487.8bn, which was UGX 114.5bn or 7 percent lower than the monthly target. The shortfalls mainly arose from direct domestic taxes, in particular corporate tax, tax on bank interest and presumptive tax. Corporate tax was affected by low sales and profits by key tax payers in sectors such as energy and construction sectors. Tax on bank interest was on the other hand affected by reduction in fixed deposits with the commercial bank on which it is imposed.

The other major tax heads i.e. taxes on goods and services; and taxes on international trade also performed below their monthly targets at 89 percent and 94 percent respectively. Taxes on goods and services were affected by VAT on beer, sugar and cement due to the lower than anticipated production while the performance of international taxes was affected by lower than anticipated dutiable imports. This mainly affected petroleum duty, excise duty, VAT on imports and surcharge on imports.

However, compared to December 2016, tax revenue collections this month grew by 9.1 percent.

Non tax revenue was UGX 3.3bn (10 percent) below their monthly target. This shortfall was due to low performance registered for items like passport fees, land transfer fees, high court fees, mining fees & royalties and drivers permits. In comparison to December 2016, non tax revenue has grown by 25 percent due to improved administration and enforcement measures.

Grants receipts amounted to UGX 153bn or 57% of the projected receipts for the month. This was majorly due to low project disbursements which performed at only 48 percent of the monthly projection. However, the shortfall was partially offset by a budget support disbursement received during the month totalling to UGX 23.1 bn from Austria which had not been programmed for the financial year. Debt relief (HIPC) amounted to UGX 8.6bn.

4.3 Expenditure and Net Lending

Overall expenditure and net lending amounted to UGX 1,316.7bn, which was equivalent to just 60% of projected spending for the month. This development was attributed to the lower than anticipated externally financed development expenditures received in the month.

Recurrent and domestic development expenditures performed below their monthly projections at 91 percent and 61 percent respectively. This performance was largely due to the fact that there some expenditure which had been programmed for December 2017 was executed in earlier months to take into account the timings for the particular outputs.

Wages and salaries were nearly on target performing at 99 percent of their monthly projection while interest payments and other recurrent expenditures were below their monthly programs by UGX 43.6bn and UGX 31.9 bn respectively.

Net lending performed below the projection for the month following lower than expected disbursements for the HPPs. Whereas Government had projected to receive UGX 319.1bn from creditors, only UGX 144.7bn was disbursed.