ECONOMIC POLICY RESEARCH CENTRE

The Uganda Economy Today

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Quarter 2: October-December, 2019

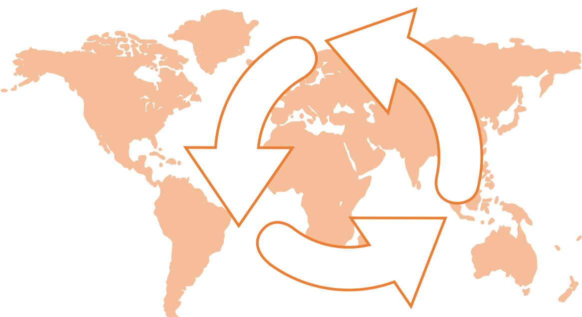
The **"Ugandan Economy Today"** is a quarterly review of the economic performance of Uganda. The publication presents a trend analysis of selected key indicators in the agricultural, industrial, transport and communication sectors of the economy. It also highlights trends in major price indices such as inflation, exchange rates and interest rates. The policy section reviews monetary and fiscal policy stances as well as international trade developments

EXECUTIVE SUMMARY

THE REAL SECTOR

The Agricultural sector

During the quarter under review, rainfall fall was above average leading to disasters in many areas. Nonetheless, the early appearance of rainfall was good for early planting that resulted in early harvest and stable food supply. For livestock farming, the rains made it possible to have sufficient vegetation and water, which led to excess supply of milk during the quarter. Livestock quarantines were reinstated in most livestock keeping districts due to resurgence of Foot and Mouth disease. Prices for some food commodities—notably rice and maize were higher than average during the quarter—due to below average first season harvest and regional demand.



Inflation

Food prices 0.4%

Energy and Utilities 0.2-1.4%

Exchange rates

Depreciation 0.04 %

UGX 3,690 from
UGX 3,689 per USD

Monetary Policy

Treasury Bill 4,609b to 4,746b

Private Sector 16,386 to 16,811

Money Supply 516b to 19,333b

International Trade

Exports USD 314m to USD 329m

Imports USD 651m to USD 623m

Energy

The period under review registered a decline of 3 percent in the average pump prices for Diesel (AGO) and Kerosene (BIK). Similarly, the average prices for Petrol continued to fall posting a 4 percent decline, from an average of UGX 4,300 to UGX 4,000 per litre. In the same period, the energy purchases marginally reduced by 0.2 percent while energy losses increased by 0.5 percent from 332 GWh to 334 GWh. On the other hand, energy exports significantly increased by 14 percent due to a surge in exports to Kenya and Tanzania.

Transport

During the quarter under review, average number of passengers using railway and air transport reduced by 2 percent and 5 percent respectively. Transport of goods by railway in the same period also significantly reduced by 27 percent. However, air cargo in the same period marginally increased by 5 percent owing to increased export of horticulture products.

Communication and infrastructure

During the quarter under review, the communications industry saw a 3 percent growth in telephone subscriptions. In particular, telephone penetration increased from 63.7 lines to 67 lines per 100 persons. Total internet subscriptions also increased to 16.9 million from 15.4 million in October largely due to growth in mobile data subscriptions as a results of increased use of smart phones. In the same period, mobile money accounts increased from 26.4 million in September to 27.1 million equivalent to a 3 percent growth. Consequently, the total active mobile money subscriptions now stand at 16.6 million from 15.6 million active accounts in September 2019

LEADING PRICE INDICATORS

Inflation

On average, food prices remained stable in the quarter under review compared to the previous quarter which registered an average deflation of 0.4 percent. On the other hand, core inflation and energy and utilities prices increased at an average of 0.2 and 1.4 percent respectively, just like in the previous quarter; and all-items index registered an average increase from 0.2 percent to 0.3 percent.

Exchange rates

The average mid-rate in the Inter-bank Foreign Exchange Market recorded an average depreciation of 0.04 percent in the quarter under review pushing the rate to UGX 3,690 from UGX 3,689 per USD recorded in the previous quarter. There was a decrease in both foreign currency sales and purchases; however, percentage decrease in purchases (3 percent) exceeded that of the sales (0.9 percent) which explains the depreciation.

Interest rates

There was a reduction in the Central Bank rate, rediscount rate and the bank rate from 10, 14 and 15 percent to 9, 13 and 14 percent respectively. Average commercial bank lending rates also reduced from 20.5 percent in the previous quarter to 19.0 percent in the quarter under review. Treasury Bill (TB) rates registered a slight decrease during the quarter, except the 364-day TB whose rate increased from an average of 10.4 percent to 10.5 percent.

Monetary Policy

A 3 percent increase was reported for Treasury Bill holdings, from UGX 4,609 billion in October 2019 to UGX 4,746 at the end of the period under review. Due to increased economic activity, the Private Sector Credit (PSC) grew from UGX 16,386 in October to UGX 16,811 in December, 2019. Money Supply increased by UGX 516 billion at the start of the quarter and finally peaked at a UGX 19,333 billion in December 2019. Net Credit to Government (NCG) rose by 10 percent, from UGX 5,642 billion in September 2019 to UGX 6,213 in October.

International Trade

For the period under review, Uganda's export earnings increased from USD 314 million to USD 329 million at the beginning of the quarter. This growth was due to a rise in earnings from coffee, fish, tea, cocoa beans and cotton. The review period also saw an increase in export receipts for products such as beans, oil and Gold. Furthermore, the quarter also witnessed a reduction in the value of merchandise imports by 3 percent in November 2019, from USD 651 million recorded in October 2019 to USD 623 million, following a decline in both government and private sector imports. Uganda traded at a deficit with all regions except Rest of Europe, Middle East and America.

Fiscal operations

Between the quarter July-September and quarter under review, URA gross revenue collection increased by 25 percent while the net collections increased by about 26 percent, largely driven by direct domestic taxes as companies filed end-of-year income returns. Nonetheless, the realised tax collection were UGX 251 billion below the set target, due to challenges relating to indirect domestic taxes. In the quarter under review, direct domestic taxes emerged as the major source of revenue accounting for 39 percent of the collections—overtaking international trade taxes which were dominant in the preceding quarter. Furthermore, on the domestic front, corporate tax emerged the biggest contributor of direct taxes overtaking PAYE and value added tax (VAT). With respect to international trade taxes, VAT on imports and petroleum duty remain dominant, accounting for more than two-thirds of the revenue collections.

PERFORMANCE OF THE REAL SECTOR

The Agricultural sector

The quarter under review received above normal rains that had started in June 2019 in all regions of Uganda except Western Uganda. This favored early planting resulting in early availability of green harvest of maize and beans in November, hence leading to consistent food supplies throughout the quarter in most bi-modal areas. Nonetheless, the persistent rains delayed first-season harvests while in some areas it hampered drying and storage of cereals and pulses, which resulted into postharvest losses. Some parts of Western Uganda had above-average rains that resulted into flooding, waterlogging, mudslides, damage to road infrastructure and displacement of an estimated 65,000 households with at least 38 deaths. The worst effects of the mud slides and floods were reported in Bundibugyo and Ntoroko districts in the Rwenzori sub-region. In Eastern Uganda, the worst affect areas included the districts of Kumi, Katakwi, and Bukedea.

Furthermore, during the quarter under review, there was enough food supply in major markets due to early good bimodal harvests. This resulted into a decline of major staple food prices in the first month of the quarter and by the December, prices had increased and these were higher in comparison to the same quarter in 2018. The high food prices were attributed to disrupted full replenishment of market supplies following delayed harvests due to heavy rains, which destroyed roads from production areas to market places more especially in flood- and landslide- affected areas.

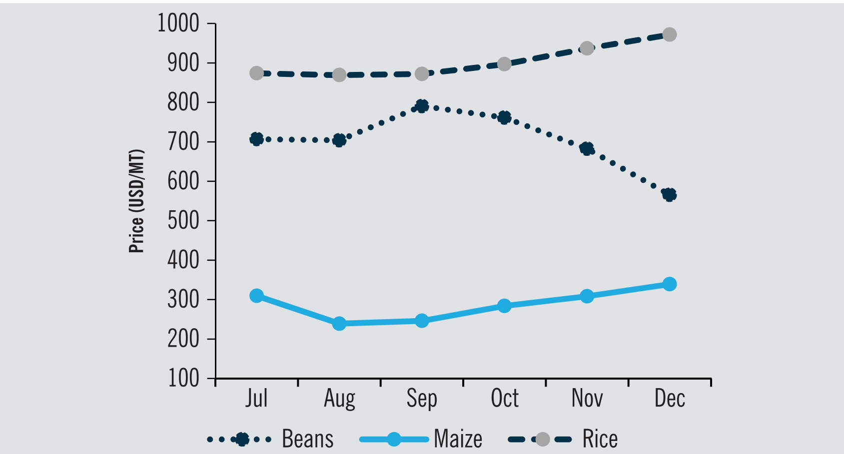
With regard to the livestock subsector, the above normal rains received improved availability of pasture and water for animals. This improved livestock resource conditions and productivity of meat and milk in the cattle corridor. This led to excess supply of milk which negatively affected milk prices and sales. Furthermore, an outbreak of the Foot and mouth disease (FMD) resulted in a quarantine restricting the movement and sale of livestock in the western cattle corridor in the districts of Nakasongola, Rakai and Sembabule.

In the Karamoja sub region, above-average rainfall occurred before the first season harvesting was complete. For most districts in the sub region, harvesting occurred throughout October. The rain disrupted the drying of mature crops and this caused both pre- and post-harvest losses, especially in Kotido and Kaabong districts. However, the increased rainfall supported fishing activities and rudimentary gold and sand mining activities in the region. The rain also improved availability of pasture and water resources to support livestock farming. Due to availability of pasture and water, livestock migrations that usually occur in November/ December never occurred. However, there was a resurgence of FMD in Kotido, as a result a quarantine was reinstated that had been lifted in the last quarter. Nonetheless, this did not disrupt household incomes as livestock sales are the not the source of income for poorest households.

Market prices for some major commodities in the Kampala indicated that prices for maize and rice increased steadily while those of beans declined throughout the quarter under review (Figure 1). In particular, the average market price for maize was USD 311/MT, while rice price was USD 935, both prices much higher than that in the previous quarter. Average bean prices were USD 670/MT lower than the previous quarter, representing an 8.7 percent decline. The price increase for maize was attributed to sustained regional demand, mainly from Kenya, and South Sudan while the decline in bean prices was due to the steady supply in the markets due to equally excess supply received from the previous quarter harvest.

With regard to cross border trade, South Sudan remained the major export destination of most of Uganda's agricultural commodities during the quarter under review followed by Kenya. While value of maize exports to South Sudan increased by 0.2 percent from the previous quarter, that of Kenya reduced by 63.2 percent over the same period (Table 1). Sorghum exports to South Sudan declined by 11.2 percent in the quarter under review while those to Kenya had picked up from zero to USD 0.7 million worth of sorghum and to Rwanda remained stagnant. Rice exports generally increased to USD 24.4 million, from USD17.4 million representing a 40.3 percent increase from the previous quarter. To South Sudan, beans exports increased slightly by 1.6 percent. Trade with Rwanda has remained due to the continued closure of the border. This has also resulted into the observed increased exports to other neighboring countries especially South Sudan.

Figure 1 Wholesale monthly commodity prices in Kampala market (USD/MT): Jul - Dec, 2019



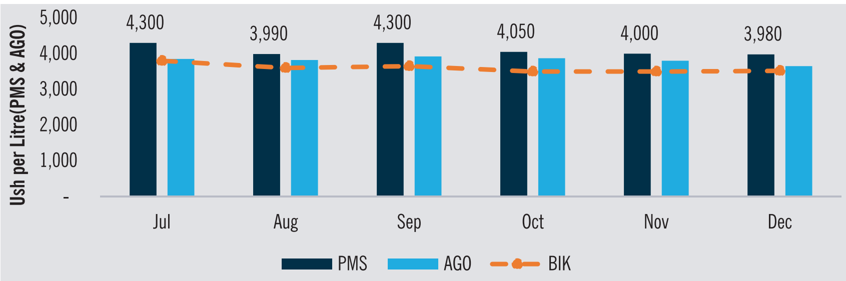
Source: FAO - Global Information and Early Warning System (GIEWS), 2019

Table 1 Cross border trade in selected commodities between Uganda and her neighbours, value (USD)

From	To	Commodity	Value (,000)		
			Apr-Jun'19	Jul-Sep'19	Oct-Dec'19
Uganda	South Sudan	Maize	10,094	8,367	8,808
	Kenya		2,097	18,004	6,634
Uganda	South Sudan	Sorghum	5,531	7,469	6,636
	Kenya		115	0	746
	Rwanda		0.8	0.7	0.8
Uganda	South Sudan	Rice	16,338	17,369	24,368
Tanzania	Uganda		19,481	0	-
Uganda	South Sudan	Beans	3,190	6,161	6,257
	Kenya		16,588	37,592	30,654
	DRC		408	79	518
	Rwanda		1.4	2.2	2
Rwanda	Uganda		2.0	2.2	793

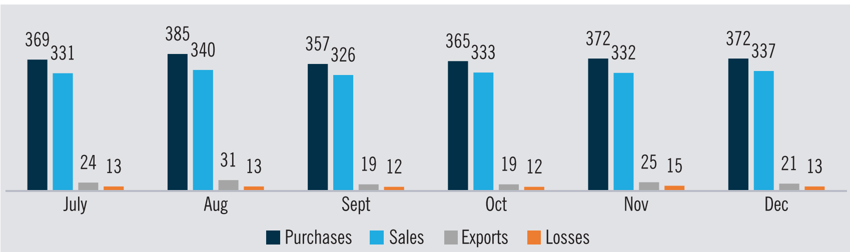
Source: Authors own computation using Trade volume data from FEWS Net and price data from GIEWS (FAO)

Figure 2 Energy purchase, sales and loses in Gigawatt hour (GWh), July-December 2019



Source: Authors own computation using data from UBOS, 2019

Figure 3 Monthly average pump prices for petroleum products: Jul-Dec, 2019 (UGX)



Source: Authors own computation using data from UBOS, 2019

Energy, Transport, Communication and Infrastructure sector

In the *energy subsector,* average energy purchases marginally reduced by 0.2 percent during October-December 2019 compared to the previous quarter (Figure 2). On the contrary, energy sales in the same period increased on average by 0.5 percentage points. Relatedly, the value of energy exports and losses increased by 14 percent and 5 percent respectively over the same period. The growth in energy exports was largely driven by growth in sales to Kenya and Tanzania.

On the other hand, there was a general decline in the average petroleum pump prices during the quarter as compared to July-September 2019. For example, the average prices for petrol slightly declined from UGX 4,196 per litre to UGX 4,010 per litre registering a 4 percent decline from the previous quarter (Figure 3). Similarly, the average prices for Diesel and Keresone declined from UGX 3,683 per litre and UGX 3863 per litre to UGX 3,773 per litre and UGX 3,506 per litre respectively (Figure 3).

With regard to the *transport subsector*, there was a general decline in the average number of passengers using both railway and air transport (Table 2). The average number of passengers using Air and Railway reduced to 162,043 and 55,364 from 164,826 and 58,357 representing a decline of 2 percent and 5 percent respectively. Cargo movement by rail significantly reduced by 27 percent while that by air increased by 5 percent owing to increased exports of horticulture products to Europe and United Kingdom.

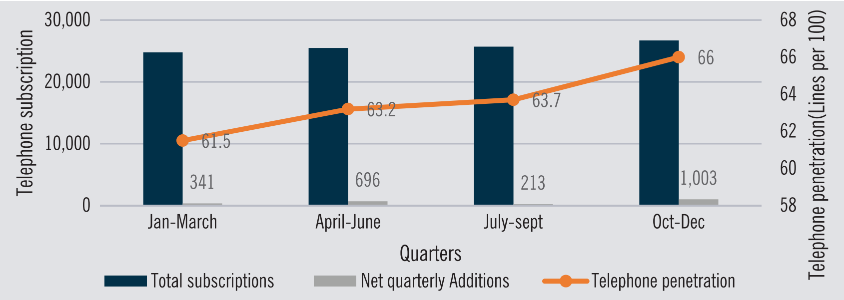
The *communication sector* registered a 3 percent growth in total fixed and mobile phone subscriptions from 25.7 million in September

Table 2 Transport statistics by Air and Railway: Jul- Dec, 2019

Transport		Jul	Aug	Sep	Oct	Nov	Dec
Air	Passengers (No.)	169,849	166,322	158,307	150,499	154,327	181,302
	Cargo (Tonnes)	5,675	5,437	5,031	5,626	5,683	5,589
Railway	Passengers(No)	65,146	53,158	56,768	65,682	55,800	44,611
	Cargo (000 Tonnes)	6,765	4,25	3,809	3,376	4,749	2,595

Source: Civil Aviation Authority

Figure 4 Quarterly telephone subscriptions and penetration: Jan- Dec 2019

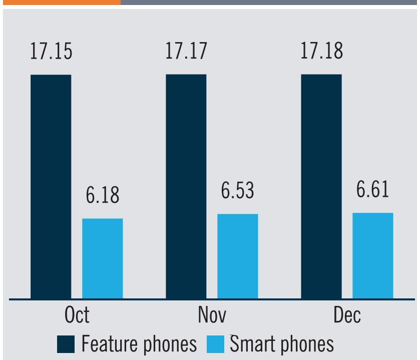


Source: Uganda Communications Commission (2020)

to 26.7 in December 2019 (See Figure 4). This growth in subscriptions translates into National telephone penetration of 66 lines per 100 from 63.7 lines recorded by the end of September 2019. In addition, there was a total of 1.9 million new additions in the last 4 quarters of which 97 percent of total subscriptions remain mobile, while 3 percent are fixed.

During the quarter under review, total internet subscriptions increased from 15.4 million in October 2019 to 16.9 million by the end of December 2019. The growth in internet subscriptions was due to increasing mobile data subscriptions, which are largely driven by growth in feature[1] and smart phone[2] penetration. By the end of December 2019, the number of active smartphones on the various networks were 6.6 million, while feature phones with basic data connection capabilities had risen to 17.2 million in December 2019

Figure 5 Internet subscription in 000s: Oct- Dec 2019 (Million accounts)



Source: UCC (2020)

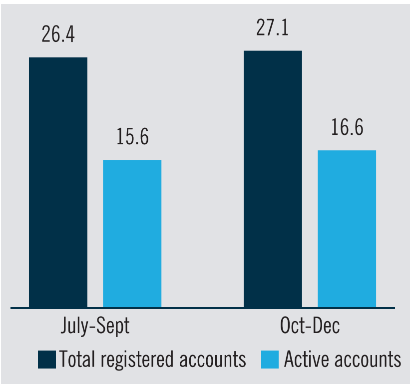
1 Feature phones are mobile phones that can make and receive calls, send text messages and provide some of the advanced features found on a smartphone (UCC, 2020)

2 Smart phones are a class of mobile phones and of multi-purpose mobile computing devices distinguished from feature phones by their stronger hardware capabilities and extensive mobile operating systems, which facilitate wider software, internet (including web browsing over mobile broadband), and multimedia functionality. (UCC, 2020)

from 17.1 million in October 2019. In addition, fixed internet subscriptions increased by 5.3 percent—from 81,366 at the end of September 2019 to 85,710 by the end of December 2019.

Regarding mobile money transactions, the quarter registered an increase in mobile money accounts by 3 percent from 26.4 million in September to 27.1 million by December 2019. Consequently, the total active mobile money subscriptions are now 16.6 million accounts from 15.6 million active accounts in September 2019, representing a 6 percent growth during the quarter. Active

Figure 6 Mobile Money subscriptions: July-Dec 2019 (Million accounts)



Source: UCC (2020)

mobile money subscriptions are accounts that have conducted at least one billable mobile financial service in the three months of October to December 2019.

LEADING PRICE INDICATORS

Inflation

On average, food prices remained stable in the quarter under review compared to the previous quarter which registered an average decline of 0.4 percent. Implying that in the current quarter, food prices did not fluctuate as much as they did in the previous quarter (Table 3). On the other hand, core inflation remained at an average of 0.2 percent just like in the previous quarter; energy fuel and utilities prices increased at an average rate of 1.4 percent as in the previous quarter while all-items index registered an average increase from 0.2 percent to 0.3 percent (Table 3).

Foreign Exchange Rates

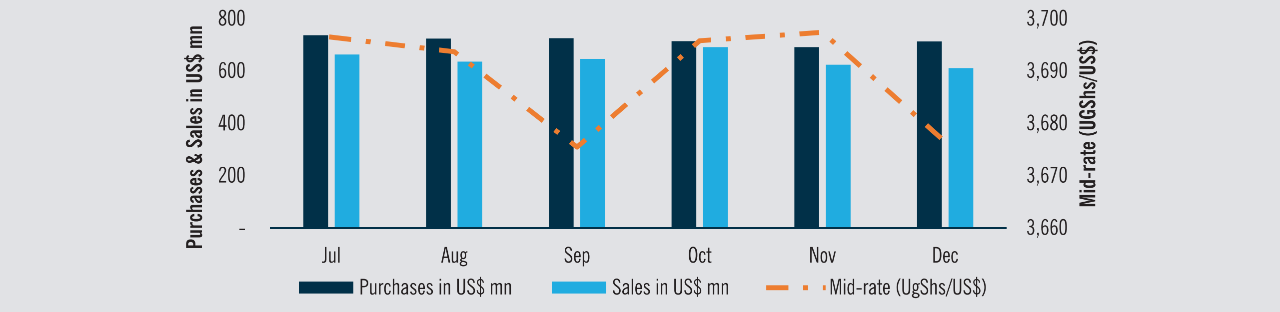
In the quarter under review, there was an increase in the average mid-rate in the Interbank Foreign Exchange Market (IFEM) to UGX 3690 per USD from UGX 3689 per USD in the previous quarter. This implies that there was an average depreciation of about 0.04 percent in the quarter under review. On average, foreign currency purchases decreased from USD729 million in the previous quarter to USD 707 million in this quarter (Figure 7). The average sales too declined from USD 649 million in the last quarter to USD 643 million in this quarter. Despite the decrease in both foreign currency purchases and sales, the percentage decrease in purchases was much higher than that of the sales (3 percent vs 0.9 percent respectively). This partly explains the depreciation of the shilling in the quarter under review.

Table 3 Monthly inflation rates, Jul-Dec 2019

Category	Jul	Aug	Sep	Oct	Nov	Dec
Food crops and related Items	-4.2	1.1	2	1	-0.5	-0.5
Core inflation	0	0.1	0.4	0	0.2	0.5
Energy fuel and utilities	0.5	1.9	1.6	1.3	2.1	0.8
All Items Index (Headline)	-0.4	0.4	0.7	0.2	0.3	0.4

Source: Bank of Uganda

Figure 7	Selected Foreign Exchange Market indicators, Jul-Dec 2019



Source: Bank of Uganda

Interest rates

As Table 4 highlights, there was a reduction in the Central Bank Rate (CBR), rediscount rate and the bank rate from 10 percent, 14 percent and 15 percent to 9 percent, 13 percent and 14 percent respectively. Average commercial bank lending rates also reduced from 20.5 percent in the previous quarter to 19.0 percent in the quarter under review. The reduction is partly explained by the reduction in the CBR from 10 percent in the last quarter to 9 percent in the current quarter.

On average, all the categories of Treasury Bill (TB) rates registered a slight decrease during the quarter under review as compared to the previous quarter, apart from the 364-day TB rate. With respect to the moving average of the 91-day TBs, there was a slight decline from an average of 8.7 percent in the previous quarter to 8.4 percent in the quarter under review. The 182-day TBs registered an average of 9.9 percent this quarter as compared to the 10 percent of the previous quarter, and an increase from an average of 10.4 percent to 10.5 percent for the 364-day TB rates.

Monetary Policy

Overall treasury bill holdings continued to rise steadily during this quarter. There was a 3 percent increase in the stock of holdings from UGX 4,609 billion in October 2019 to UGX 4,746 in December 2019 (Table 5), with a quarterly average of UGX 4,682 billion. The increase in demand for TBs during the course of the quarter can account for this trend. After a 4.8 percent growth rate in the previous quarter, the Private Sector Credit (PSC) continued to grow steadily during the quarter under review. Due to increased economic activity, the PSC grew from UGX 16,386 in October to UGX 16,811 in December, 2019 representing a 2.6 percent increase.

Money Supply increased by UGX 516 billion at the start of the quarter under review, and exhibited a growth of 4.4 percent the rest of the quarter (Table 5). This growth is attributed to the continued increase in private demand deposits and private time and savings deposits. Net Credit to Government (NCG) rose by 10 percent at the start, but declined by 14.5 percent by end of quarter. This was as a result of a rise in domestic borrowing by the government at the start of the quarter, and an eventual decline at the end. The stock of Treasury Bonds rose steadily throughout the quarter under review representing a 4.4 percent increase with a quarterly average of UGX 12,945 billion.

Table 5 Selected fiscal and monetary indicators: Jul-Dec, 2019 (UGX)

Indicator	Jul	Aug	Sept	Oct	Nov	Dec
Money Supply M2	16,792	17,868	18,006	18,519	18,998	19,333
BoU Claims on: Government	3,653	5,181	5,642	6,213	6,336	5,419
Private Sector Credit	16,057	16,185	16,195	16,386	16,521	16,811
Treasury Bill Holdings	4,337	4,445	4,553	4,609	4,691	4,746
Stock of Bonds	11,818	12,088	11,874	12,650	12,977	13,210

Source: Bank of Uganda

Table 4 Selected key policy rates, July - December 2019 (Percent)

Indicator	Jul	Aug	Sep	Oct	Nov	Dec
Central Bank Rate	10	10	10	9	9	9
Rediscount rate	14	14	14	13	13	13
Bank rate	15	15	15	14	14	14
Lending rates	21.4	20.2	19.8	19.8	18.3	18.8
Treasury Bill rates						
91-day TB rate	9.2	8.5	8.3	8	8.1	8.9
182-day TB rate	10	10.1	10	9.6	9.8	10.5
364-day TB rate	10.3	10.4	10.4	10.1	10.4	11.1

Source: Bank of Uganda

International Trade

For the period under review, Uganda's monthly export earnings increased from USD 314 million in October to USD 329 million in December 2019. This growth was due to a rise in earnings from coffee, fish, tea, cocoa beans and cotton (Figure 8). Other exports such as tobacco recorded a decline in the earnings following a drop in their export volumes owing to the tax on tobacco in Uganda and to an extent the closure of British American tobacco (BAT) in Nakawa. In the same period, the value of merchandise imports increased by 2.7 percent to USD 536 million for products such as; vegetable products, animal, beverages, fats and oil; textile & textile products; base metals and their products; and; plastics, rubber, and related products. Uganda's main import partners were Kenya, UAE, China and India. Imports from China made up 16 percent of all goods imports while shipments from India comprised 8 percent. Within the EAC region, exports declined except for Kenya. Uganda's trade with Rwanda registered a vast drop, with a decline in exports from USD 21 million in October 2018 to USD 1 million in October 2019. This decline in performance is partly as a result of trade disruption along the Rwanda – Uganda border.

Fiscal operations

Unlike the quarter previous quarter, in the quarter under review, a positive growth was recorded on Uganda Revenue Authority (URA)'s gross and net revenue collections. That is, URA's gross collections increased from UGX 4,096 billion to UGX 5,115 billion (a 25 percent increment) while net revenue collection increased from UGX 4,005 billion to UGX 5,037 billion (26 percent increment) between the two quarters. The change was largely driven by an increase in direct domestic taxes (Figure 9). Notwithstanding the significant increase in revenue collections, the quarterly targets were not met with collections less by UGX 251 billion from the expected target. Similar to the previous quarter, a major deficit was recorded on indirect domestic taxes, partly attributed to under-declaring of taxes due to delays in administration of the proposed tax measures such as the digital stamp and electronic fiscal devices.

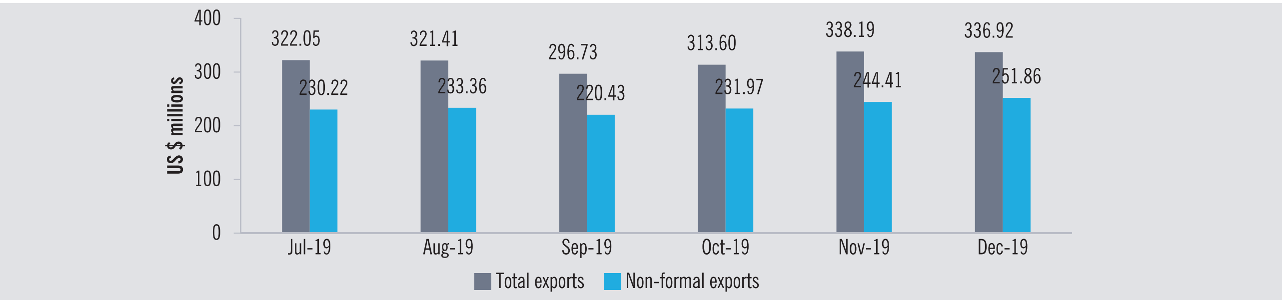
Specific to tax heads, direct domestic taxes were the major source of revenue, overtaking international trade taxes which were dominant in the preceding quarter. From Table 6, the share of direct domestic taxes increased from 29 percent in the first quarter to 39 percent in the quarter under review, while that for

Table 6 Selected fiscal and monetary indicators: Jul-Dec, 2019 (UGX)

Revenue sources	Jul-Sept' 19	Share (percent)	Oct-Dec' 19	Share (percent)
Taxes on International Trade	1,690	42.2	1,847	36.7
Indirect Domestic Taxes	965	24.1	991	19.7
Direct Domestic Taxes	1,163	29	1,960	38.9
Non-Tax Revenue	128	3.2	126	2.5
Less Tax refund	(90)	(2.2)	(79)	(1.6)
Stamp duty & Embossing Fees	29	0.7	26	0.5
Aid in Appropriation (AIA)	121	3	165	3.3
Net Collections/Budget	*4,005*	*100*	*5,037*	*100*

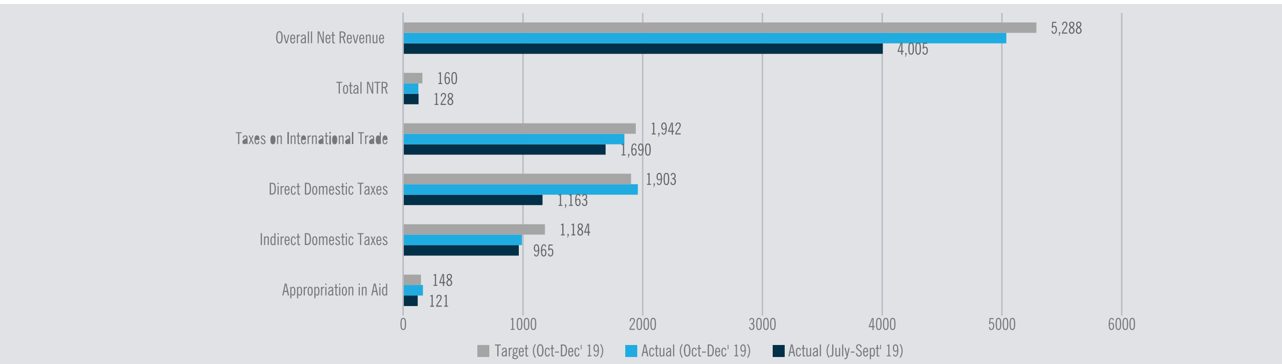
Source: Authors computation using data from URA

Figure 8 Composition of Uganda's exports (US$ Millions)



Source: Bank of Uganda

Figure 9 Figure 9: Actual revenue collections versus targets from key revenue sources: Apr-Sept, 2019 (UGX Billions)

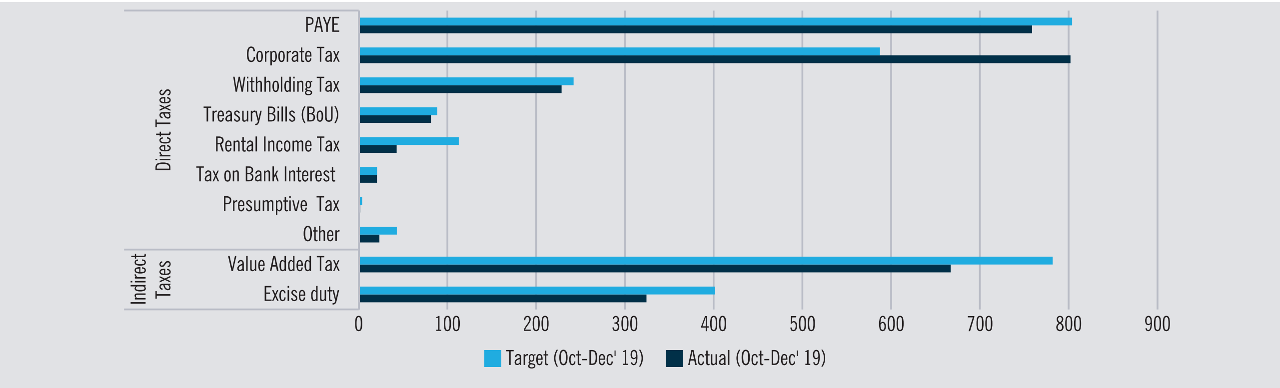


Source: Source: Author's computation using data from URA international trade taxes decreased from 42.2 percent to 37 percent while the share of indirect domestic taxes also dropped from 24 percent to 20 percent over the same period. The large increase in direct tax revenue was largely driven by an increase in corporate tax as many corporations filed end of year returns.

With respect to domestic taxes, corporate income tax was the largest contributor to direct taxes (UGX 802 billion) followed by Pas as You earn (PAYE) at UGX 759 billion (Figure 10). Indeed, only corporate tax recorded surplus (UGX 215 billion) while all the other direct tax heads recorded deficits compared to expected targets. Despite VAT being the largest contributor to indirect taxes, it recorded much a bigger deficit (UGX 115 billion) compared to excise duty (UGX 78 billion) during the quarter under review. Almost all domestic taxes fell short of their quarterly targets other than corporate tax (Figure 10).

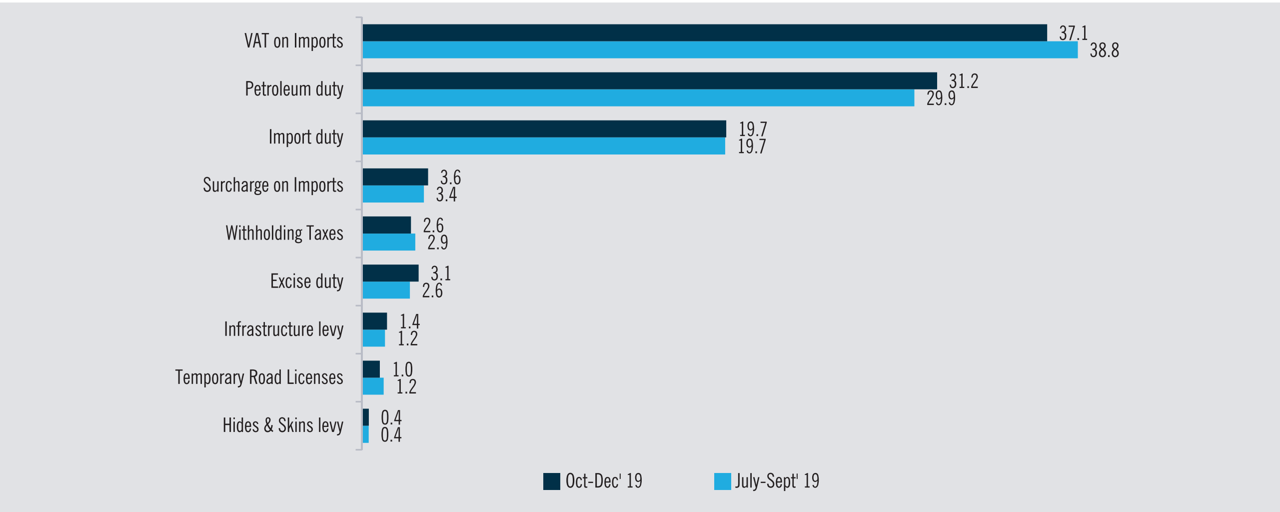
Regarding international trade taxes, VAT on imports remains the biggest contributor, accounting for 37.1 percent of the revenue collections for the period under review (Figure 11). However the share VAT in the revenues declined from 38.8 percent in the quarter July-September to 37.1 percent in the quarter under review, while that for petroleum duty and excise duty increased from 29.9 percent to 31.2 percent, and 2.6 percent to 3.1 percent respectively. The increase in the share of petroleum duty is largely attributed to increase in imports of petroleum products, which grew by 6.8 percent between the quarters.

Figure 10 Revenue collections from domestic tax heads: Oct-Dec 2019 (UGX Billions)



Source: Authors computation using data from URA

Figure 11 Major tax heads from international trade: July-December 2019 (Percent)



Source: Authors computation using data from URA