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Quarter 1: July - September, 2019

The Uganda Economy Today

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 Agricultural sector

Heavy and above normal rainfall was experienced throughout the quarter under review for most of the country other than the western region. The rains led to delays in harvesting. However, there was improved food security which in turn led to low prices in most food crops in the markets. With regard to livestock, despite an outbreak of Foot and Mouth Disease, productivity had improved in the cattle corridors of Uganda due to availability of water and pasture. There was an increase in trade volumes of maize and beans to Kenya during the course of the quarter in comparison to the previous quarter.

Inflation

Food prices **0.4** ↓

Energy and fuel **1.4** ↑

Exchange rates

Foreign Exchange **1.5** ↑

UGX **3,689** from UGX **3,744** per USD

Monetary Policy

Private Sector Credit **2.7** ↑

Money Supply **2.8** ↓

Treasury Bonds **54.3** ↑

International Trade

Export earnings **5.9** ↑

from **300.6m** to USD **318.4m**

Energy, Transport, Communication and Infrastructure sector

Energy purchases and domestic sales increased by 3 percent and 4 percent respectively in the period under review. However, energy exports in the same period significantly reduced by 15 percent owing to reduced export sales to Kenya and Tanzania. Average pump prices for Petrol (PMS) remained stable at 4,300Ugx/litre while Diesel (AGO) and Kerosone (BIK) marginally declined by 3 percent during the quarter under review. In the transport sector, the average number of passengers using air and railway increased by 16 percent and 19 percent respectively. Similarly, cargo by Railway increased by a 20 percent however cargo by air transport declined by about 2 percent.

Inflation

There was a general reduction in food prices in the quarter under review as compared to the previous quarter. That is, on average food prices reduced at a rate of 0.4 percent. As in the previous quarter, core inflation remained stable at an average rate of 0.2 percent. Energy and fuel prices increased at a rate of 1.4 percent, while the all items index registered a decline from an average of 0.3 percent in the previous quarter to 0.2 percent

Exchange rates

The average mid-rate in the Inter-bank Foreign Exchange Market (IFEM) recorded an average appreciation of 1.5 percent in the quarter under review pushing the rate to UGX 3,689 from UGX 3,744 per USD recorded in the previous quarter. The decrease in foreign currency sales amidst a huge increase in purchases partly explains the exchange rate appreciation.

Interest rates

Generally, all the interest rates have been stable throughout the quarter under review with no observable changes in the Central Bank Rate, rediscount rate, and bank rate to commercial banks which stood at 10 percent, 14 percent, and 15 percent in both the previous and the current quarters, save for lending rates. Treasury bill rates also registered a slight decline in the quarter under review.

Monetary Policy

Treasury Bill holdings rebounded to steadily rise throughout the quarter under review. Private Sector Credit (PSC) grew by 2.7 percent from the previous quarter. Money Supply declined by 2.8 percent at the commencement of the quarter. However, it registered a growth during the rest of the period. Both the Net Credit to Government and Treasury Bonds registered increases of 54.3 percent and 0.9 percent respectively.

International Trade

For the period under review, Uganda recorded an increase in export earnings by 5.9 percent from USD 300.6 million in June 2019 to USD 318.4 million in July 2019. This growth was as a result of increased earnings from export commodities such as cocoa beans, rice, base metals, fruits & vegetables. However, coffee earnings fell by 25.2 percent due to a decrease in the volume of coffee exports from 489.2 million 60-Kg bags in August, 2019 to 362.2 million 60-Kg bags in September, 2019. In the same period, the value of monthly merchandise imports marginally declined from USD 511 million in August to USD 506 million in September, 2019. The decline was driven by a fall in Government imports by 15.5 percent. With respect to trading partners, Uganda traded at a surplus with the Middle East, European Union, and Rest of Africa, and it recorded merchandise trade deficits with Asia, Rest of Europe and EAC

Fiscal operations

Uganda Revenue Authority's (URA) gross revenue collection grew by 11.6 percent while the net collections declined by 9.9 percent in comparison to the previous quarter. The reduction in net revenues was largely driven by a fall in direct domestic taxes and international trade taxes. International trade taxes remained the biggest source of revenue with an increase in share from 39.2 percent to 42.2 percent between the quarters. The share of indirect domestic taxes also increased from 21.3 percent to 24.1 percent while that for direct domestic taxes significantly declined. Regarding international trade taxes, VAT on imports and petroleum duty accounted for 68.7 percent of the revenue collections.

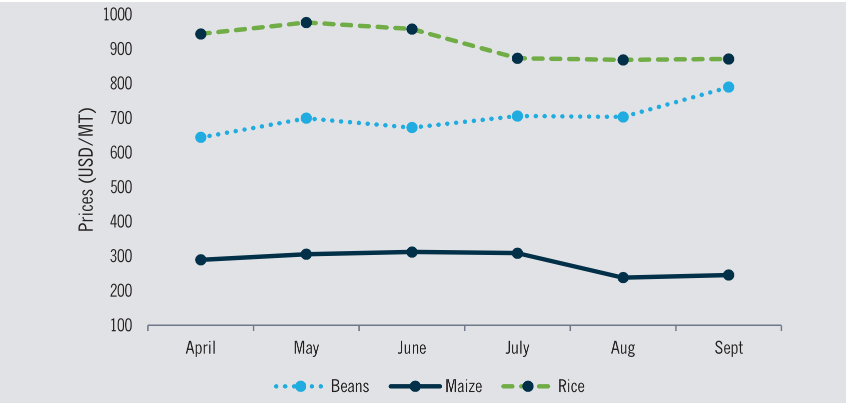
PERFORMANCE OF THE REAL SECTOR

The Agricultural sector

During the quarter under review, most parts of the country received above normal rainfall except western region which received slightly below average rainfall. In most bimodal parts, the dry spells that usually occur from July-August did not occur as a result, first season harvesting was delayed leading to relatively high post-harvest losses during the quarter. Notwithstanding, the delayed harvests from bimodal areas significantly improved food availability and access across the country. In addition, the continuous rains received prompted farmers to plant as early as August while for the western region planting started mid-September. In the Karamoja sub region, districts such as Moroto, Napak and some parts of Kotido started harvesting in late September. In northern Karamoja, for districts such as Kaabong and the rest of Kotido, the harvesting period started later October. The Food security situation was generally good throughout the quarter under review despite delayed on-set of rains and harvests.

With regard to major food market prices around Kampala, average wholesale price for rice and maize was lower in the quarter under review than the previous quarter while for beans, the reverse was true. Price of rice fell from USD 874/MT in July to USD 869/MT in August but started rising by the end of the quarter (Figure 1). Similarly, maize price fell from USD 309/MT in July to USD 239/MT in August but also started rising by end of September. For beans, wholesale price kept on rising from USD 707/MY in July to USD 790/MT by the end of the quarter. The low whole sale prices for maize and rice in the quarter was due to increased supply arising from the bumper harvests made in the previous quarter; while the regional demand coupled with below-average local production of beans pushed the domestic prices up. Much as the prices for maize declined, there is likely to be pressure on prices in the near future being brought about by increased regional demand from countries in deficit such as Kenya and South Sudan.

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

From	To	Commodity	Value (,000)		
			Jan-Mar	Apr-Jun	Jul-Sep
Uganda	South Sudan	Maize	4,419	10,094	8,367
	Kenya		671	2,097	18,004
Uganda	South Sudan	Sorghum	3,371	5,531	7,469
	Kenya		651	115	0
	Rwanda		292	0.8	0.7
Uganda	South Sudan	Rice	13,270	16,338	17,369
Tanzania	Uganda			19,481	0
Uganda	South Sudan	Beans	3,609	3,190	6,161
	Kenya		35,529	16,588	37,592
	DRC		944	408	79
	Rwanda		312	1.4	2.2
Rwanda	Uganda		1.7	2.0	2.2

Source: Eastern Africa Grain council

Regarding cross border trade during the quarter under review, Uganda was an exporter of maize, sorghum, rice and beans within the region (Table 1). Most of the cross border traded commodities were headed to Kenya and South Sudan. During the quarter under review, Uganda exported USD 18 million worth of maize and USD 37.6 million worth of Beans to Kenya. This represents an increase of 758 percent and 127 percent in maize and bean export value, respectively from the previous quarters. The increase in export values for the two commodities was attributable to low domestic production in Kenya. The value of maize and rice exports to Southern Sudan declined between the previous and current quarter, while that sorghum and beans increased. In the maize trade, due to concerns regarding the level of aflatoxins, there was rejection of some maize consignments at the border. This prompted bilateral talks between the two countries to improve trade quality. The values of exports to Rwanda and DRC are continuing to fall, mainly because of the ongoing disputes and tensions between Uganda and Rwanda.

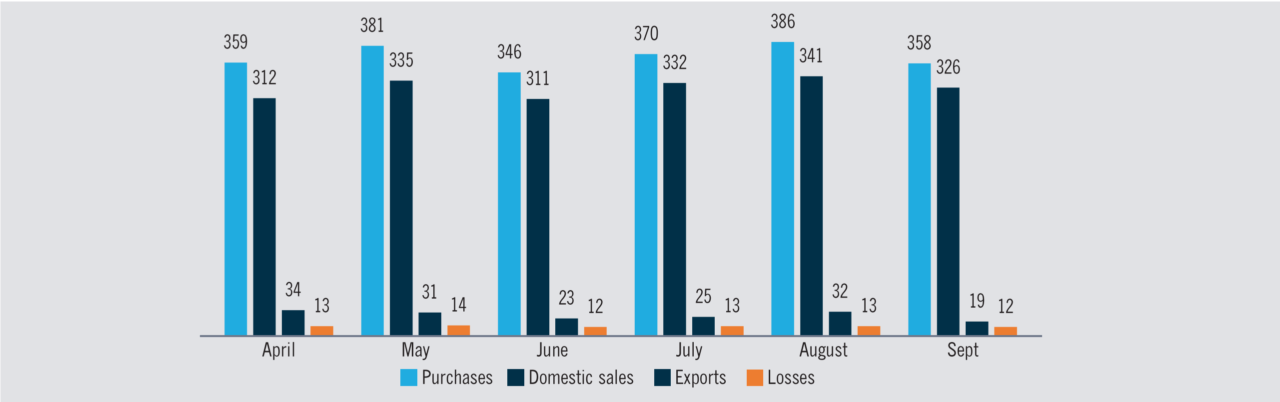
With regard to the livestock sub sector, there was an outbreak of Foot and Mouth Disease (FMD) in the western cattle corridor resulting in a quarantine in the districts of Sembabule, Nakasongola and Rakai. Despite the quarantine in the western cattle corridor, availability of pasture and water for animals to drink led to improved livestock body conditions. Subsequently, livestock and livestock product prices were typically stable. Further some parts in the western region had experienced dry spells resulting into poor vegetation. This affected livestock body conditions and milk productivity, and hence limiting income from milk sales. However, for Karamoja sub-region, the quarantine that was imposed in January, 2019 especially in Moroto district was lifted leading to improved livestock sales in the region. Generally, the sub region received an influx of livestock from Turkana resulting into increased pressure on water and pasture for their animals.

Energy, Transport, Communication and Infrastructure sector

In the quarter under review, average energy purchases and sales increased by 3 percent and 4 percent respectively to 371GWh and 333GWh. However, energy exports in the same period reduced by nearly 14%--from 29 GWh to 25 GWh between the two quarters. This reduction was largely driven by reduction in export sales to Kenya and Tanzania.

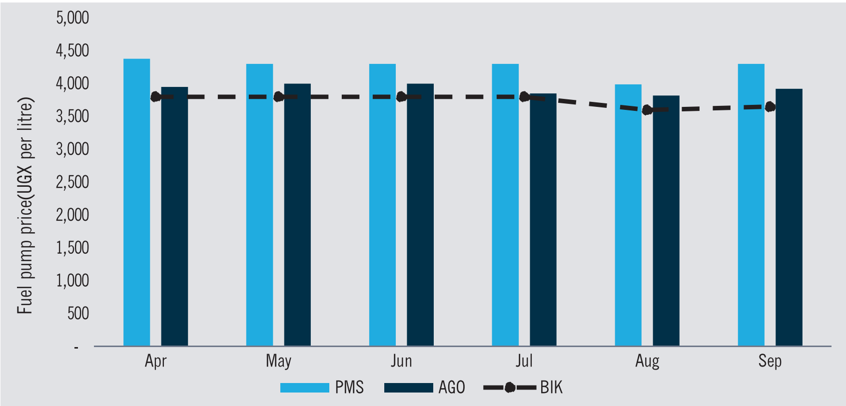
In the Quarter under review, the average pump prices for Diesel (AGO) and Kerosene (BIK) marginally declined by 3 percent, from UGX 3,983 /Litre and UGX 3,800/Litre to UGX 3,863 /litre and UGX 3,683/Litre, respectively (Figure, 2). Relatedly, average prices for Petrol were at UGX 4,300/litre in July before falling to UGX 3,990/Litre in August but again picked up in

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



Source: UBOS, 2019

Figure 3 Monthly average pump prices for petroleum products April to Sept, 2019



Source UBOS, 2019

Table 2 Transport statistics by Air and Railway from April –September 2019

Transport	Category	April	May	June	July	Aug	Sept
Air	Cargo **(Tonnes)**	5,520	5,391	5,508	5,675	5,437	5,031
	Passengers (People)	137,723	141,812	148,427	169,849	166,322	158,307
Railway	Cargo(**'000'Tonnes)**	2,275	1,104	3,735	6,765	4,250	3,809
	Passengers (people)	48,350	52,080	45,476	65,146	53,158	56,768

Source: Civil Aviation Authority and UBOS

Table 3 Monthly inflation rates, Apr-Sept 2019

Category	Apr	May	Jun	Jul	Aug	Sep
Monthly Percentage						
Food crops and Related Items	6.6	2.6	-3.5	-4.2	1.1	2.0
Core inflation	0.1	0.1	0.5	0.0	0.1	0.4
Energy Fuel and Utilities	-0.2	0.2	-0.7	0.5	1.9	1.6
All Items Index (Headline)	0.8	0.4	-0.1	-0.4	0.4	0.7

Source: Bank of Uganda

September at UGX 4,300/Litre. This decrease in fuel prices was largely driven by a 10% fall in the world crude oil prices during the quarter, from USD 69 per barrel to USD 62 per barrel in the quarter under review During the quarter under review, the average number of passengers using air and Railway increased to 165,826 and 58,357 from 142,654 and 48,635 in the previous quarter respectively (Table 2). The Cargo transported by Railway in the same period averaged at 4 million tonnes registering a 20 percent increase from the previous quarter. However, the Cargo transported by Air declined by about 2 percent to 5,381.

LEADING PRICE INDICATORS

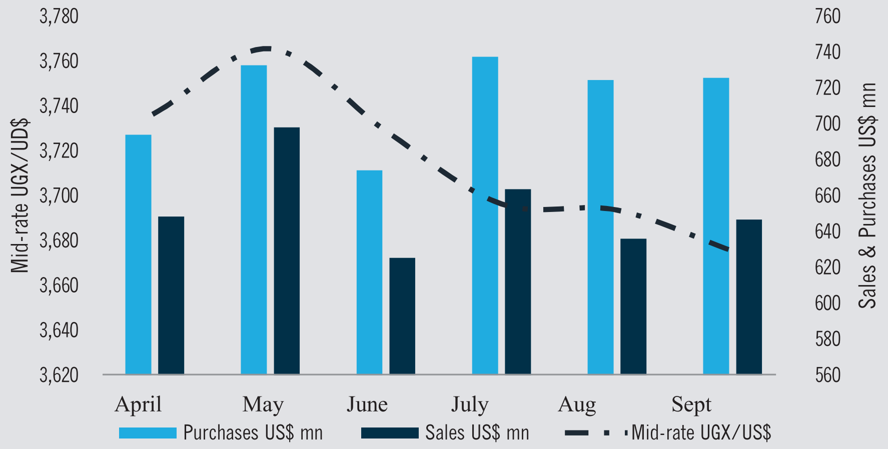
Inflation

There was a reduction in food prices in the quarter under review as compared to the previous quarter. That is, on average, food prices reduced at a rate of 0.4 percent (Table 3). The reduction in prices could be attributed increased food supply in major markets in the country. Relatedly, core inflation rate remained stable at an average rate of 0.2 percent while energy and fuel prices increased at a rate of 1.4 percent. The All items index registered a decline from an average of 0.3 percent in the previous quarter to 0.2 percent in the quarter under review (Table 3).

Foreign Exchange Rates

Figure 4 shows the gross foreign exchange sales and purchases. During quarter under review, there was a decrease in the average

Figure 4 Selected foreign exchange market indicators, Apr-Sept 2019



Source: Bank of Uganda

mid-rate in the Interbank Foreign Exchange Market (IFEM) to UGX 3,689 per USD from UGX 3,744 per USD in the previous quarter (Figure 4). This implies that there was an average appreciation of about 1.5 percent of the Uganda shilling. On average, foreign currency purchases increased from USD 700 million in the previous quarter to USD 729 million in this quarter. The sales on the other hand, on average decreased from USD 657 million in the last quarter to USD 649 million in the quarter under review. The reduction could partly be attributed to the reduction in demand for imports by from USD 1,787 million to USD 1,560 million. Furthermore, foreign currency sales were much higher than the purchases and this partly explains the appreciation of the shillings during the course of the quarter.

Interest rates

The interest rates were stable throughout the quarter under review, except lending rates (Table 5). For instance, the Central Bank Rate, rediscount rate and Bank rate to commercial banks were stabilised at 10 percent, 14 percent and 15 percent respectively. The Commercial Bank lending rates increased, averaging at 20.5 percent in the quarter under review in comparison to 19.5 percent in the previous quarter. All the categories of Treasury Bill (TB) rates, on average, registered slight declines during the quarter other than the 364-day TB rate.

Monetary Policy

Treasury Bills (TBs) holdings steadily rose by about 10 percent from UGX 4,145 billion in June 2019 to UGX 4,553 billion in September 2019 (Table 6). Private Sector Credit (PSC) grew by 2.7 percent from the previous quarter largely attributed to an economic boom, notwithstanding, the PSC growth rate in this quarter was lower than the previous quarter's 4.8 percent, due to an increase in the lending rates.

Table 6 Selected fiscal and monetary indicators (Billion): April-September, 2019

Indicator	April	May	June	July	August	September
Money Supply M2	16,486	16,880	17,278	16,792	17,868	18,006
BoU Claims on Government	3,204	3,719	3,973	3,653	5,181	5,636
Private Sector Credit	15,573	15,723	15,929	16,057	16,185	16,195
Treasury Bill Holdings	4,364	4,294	4,145	4,337	4,445	4,553
Stock of Bonds	11,711	11,883	11,888	11,818	12,088	11,874

Source: Bank of Uganda

Table 5 Selected key policy rates, April - September 2019

Indicator	Apr	May	Jun	Jul	Aug	Sep
Central Bank Rate	10.0	10.0	10.0	10.0	10.0	10.0
Rediscount rate	14.0	14.0	14.0	14.0	14.0	14.0
Bank rate	15.0	15.0	15.0	15.0	15.0	15.0
Lending rates	19.8	19.6	19.0	21.4	20.2	19.8
Treasury Bill rates						
91-day TB rate	9.2	8.4	9.00	9.2	8.5	8.3
182-day TB rate	10.0	10.1	10.1	10.0	10.1	10.0
364-day TB rate	10.3	10.3	10.3	10.3	10.4	10.4

Source: Bank of Uganda

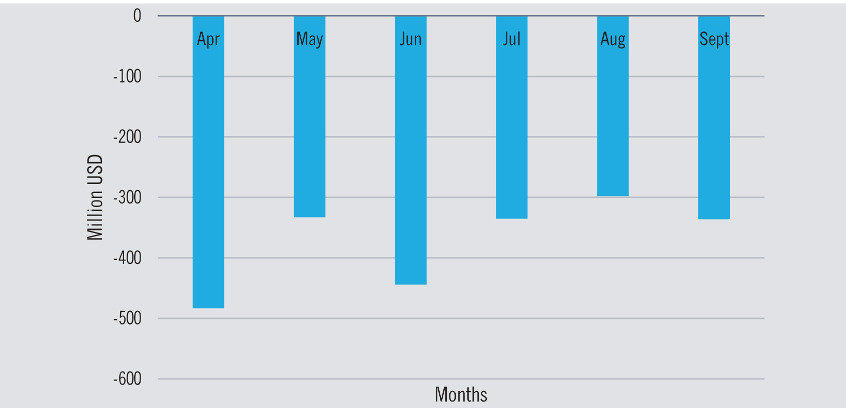
Money Supply declined from UGX 17,278 billion in June to UGX 16,792 billion in July 2019 (representing a 2.8 percent decline)- Table 6. However, it registered a growth during the rest of the quarter. This was due to growth in private demand deposits and private time and savings deposits during the same period. A decline was observed in Net Credit to Government (NCG) of UGX 320 billion in July from June, 2019. However, at the close of this quarter, NCG increased by 54.3 percent from July due to increased domestic borrowing by the government.

International Trade

The period under review recorded an increase in export earnings by 5.9% from US$ 300.63 million in June 2019 to US$ 318.43 million in July 2019. This growth was as a result of increased pays from export commodities such as coffee, cocoa beans, rice, base metals, fruits & vegetables. Coffee earnings increased owing to increases in both its volume and the international price. However, the value of merchandise imports reduced by 5.12% from US$ 579.54 million in June 2019 to US$ 549.85 million in July 2019. This decline was attributed to a reduction in Government imports by 70.2% whereas private sector imports increased by 5.8%. Oil imports from the private sector also declined by 11.8% in August 2019, even though non-oil private sector imports reduced by 6.6%. In addition, Uganda's export receipts reduced by 7.6% from US$ 320.5 million in August 2019 to US$ 296.3 million in September, 2019 owing to low earnings from coffee and gold.

In the same period, the value of merchandise imports marginally declined by at least 1 % from US$ 510.69 million in August to US$ 505.48 million in September, 2019. The decline was as a due to a fall in Government imports by 15.5%. Uganda recorded a trade surplus with the Middle East, European Union, and Rest of Africa, whereas the country recorded merchandise trade deficits with Asia, Rest of Europe and EAC (Kenya and Tanzania remained the biggest source of merchandise imports at 74.2 % and 23.8%, respectively). **Figure 5** shows that the trade deficit averaged to -323 USD Million between July 2019 and September 2019 in comparison to the previous quarter which registered an average of -398 USD Million due to a record low of -483 USD Million in April of 2019. This systemic trade deficit is attributed to the country's dependence on fuel imports.

Figure 5 Uganda Balance of Trade

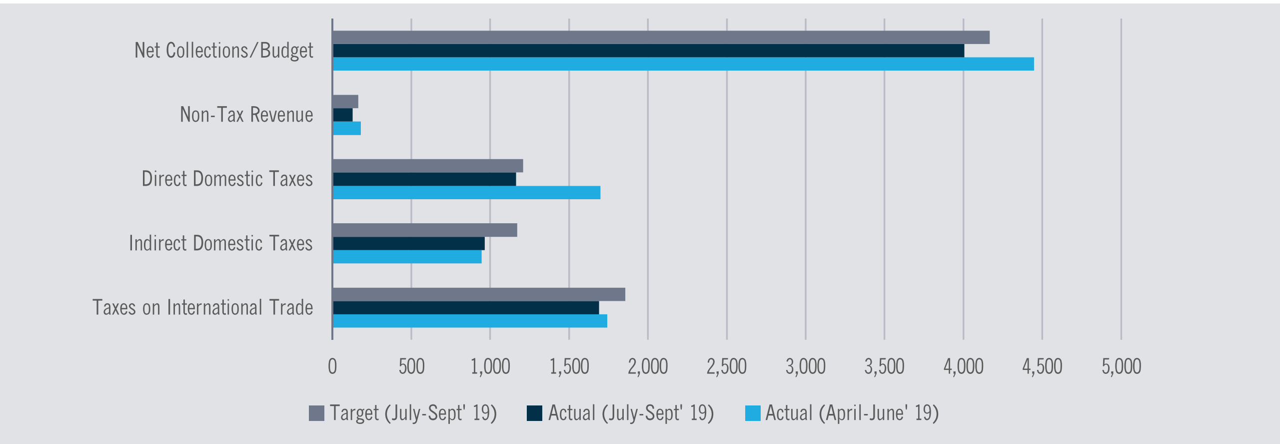


Source: Bank of Uganda

Fiscal operations

From Figure 6, URA gross collections decreased from UGX 4,575 billion to UGX 4,096 billion (a 10.5 percent decline) between the quarters (April-June and July-Sep) while net revenue collection declined from UGX 4,448 billion to UGX 4,005 billion (9.9 percent decline) over the same period. This reduction was largely driven by a decrease in direct domestic taxes which decreased by UGX 536 billion, followed by international trade tax which reduced by UGX 16 billion. Besides the decline, net revenue collections fell short of the quarterly target, recording a deficit of UGX 442 billion (Figure 6). The deficit was recorded on all major revenue sources, with indirect domestic taxes experiencing the largest deficit (UGX 206 billion) followed by international trade taxes (with UGX 166 billion). The deficit in revenue collections is partly attributed to delays in administration of the proposed tax measures such as the digital stamp, among others. Under declaration of rental tax, especially from corporate entities was reported as one of the factors behind the decline. We however note that net revenue collections for the period July-September 2019 exceeded the collections for the same period in 2018 by UGX 298 billion, equivalent to 8.0 percent annual growth rate.

Figure 6 Actual revenue collections versus targets from key revenue sources: April-September, 2019



Source: Author's computation using data from URA

International trade taxes remain the biggest source of revenue accounting for 42.2 percent of revenue collections in the current quarter, up from 39.2 percent in the previous quarter (Table 7). The contribution of indirect domestic taxes also increased from 21.3 percent in the quarter previous quarter (April-June) to 24.1 percent in the quarter under review. The share of direct domestic taxes significantly reduced from 38.2 percent in the previous quarter to 29.0 percent in the current quarter. This implies direct domestic taxes reduced more than the decrease in international trade taxes and indirect domestic taxes. According URA, the huge decline in direct domestic taxes is largely explained by under declaration of rental tax by corporate entities and legislative changes in tax incentives which reduced corporation income tax base.

Domestically, PAYE remains the biggest contributor to direct taxes (amounting to UGX 678 billion), followed by withholding tax with UGX 231 billion (Figure 7). Whereas PAYE, corporate tax, and rental income tax recorded deficits, surplus was obtained on withholding taxes, and treasury bills. Regarding indirect taxes, value added tax (VAT) dominates excise duty. However note that value added tax recorded much bigger deficit (UGX 136 billion) compared to excise duty (UGX 71 billion), which the tax body attributed to lower than expected outturns on phone talk time, sugar, beer, and wholesale and retail trade.

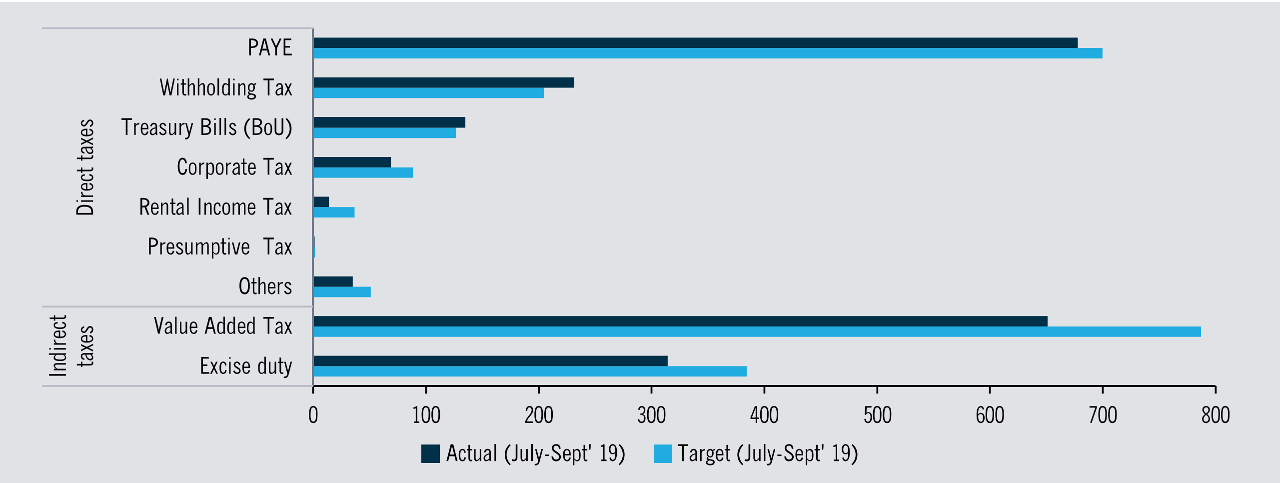
Regarding international trade taxes, VAT on imports remains the biggest contributor accounting for 38.8 percent of the revenue collections from international trade for the period under review (Figure 8). Petroleum duty and import duty are the other tax heads that significantly contribute to international trade tax revenue estimated at 29.9 percent and 19.7 percent respectively.

Table 7 Revenue collections by major tax heads: April to September, 2019 (UGX billions)

Revenue sources	April-June'19	Share (percent)	Jul-Sept' 19	Share (percent)
Taxes on International Trade	1,741	39.2	1,690	42.2
Indirect Domestic Taxes	945	21.3	965	24.1
Direct Domestic Taxes	1,699	38.2	1,163	29.0
Petroleum revenue	8.8	0.2	-	-
Non-Tax Revenue	180	4.1	128	3.2
Less Tax refund	-127	-2.9	-90	-2.2
Stamp duty & Embossing Fees	-	-	29	0.7
Aid in Appropriation (AIA)	-	-	121	3.0
Net Collections/Budget	4,448	100	4,005	100

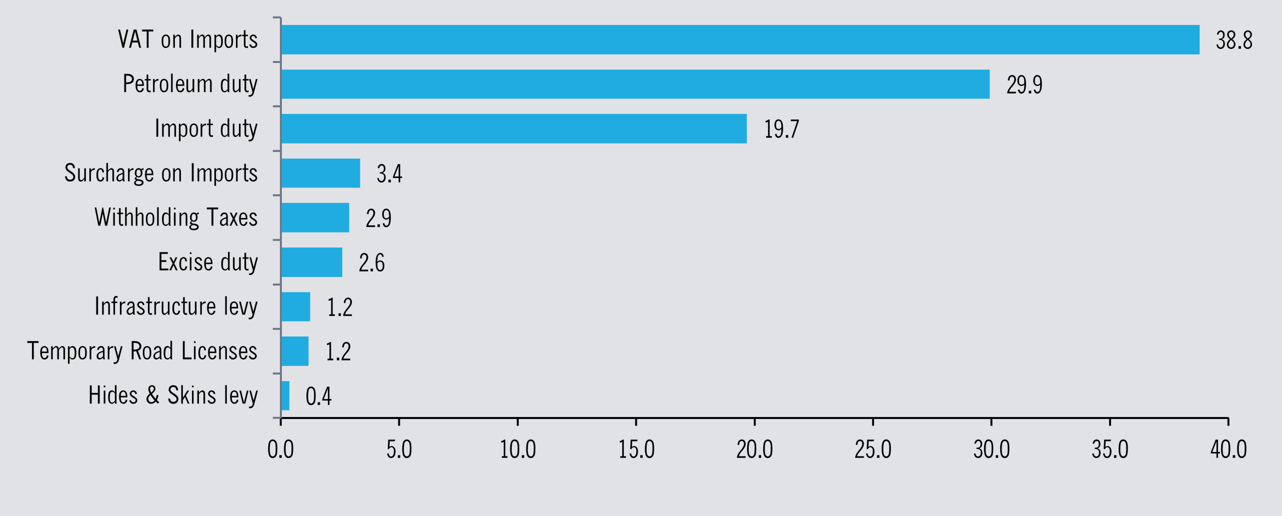
Source: Authors computation using data from URA

Figure 7 Revenue collections from domestic tax heads



Source: Authors computation using data from URA, 2019

Figure 8 Major tax heads from international trade (July-September, 2019)



Authors computation using data from URA, 2019