

QUARTERLY ECONOMIC REPORT ON THE STATE OF THE UGANDAN ECONOMY - FEBRUARY, 2010

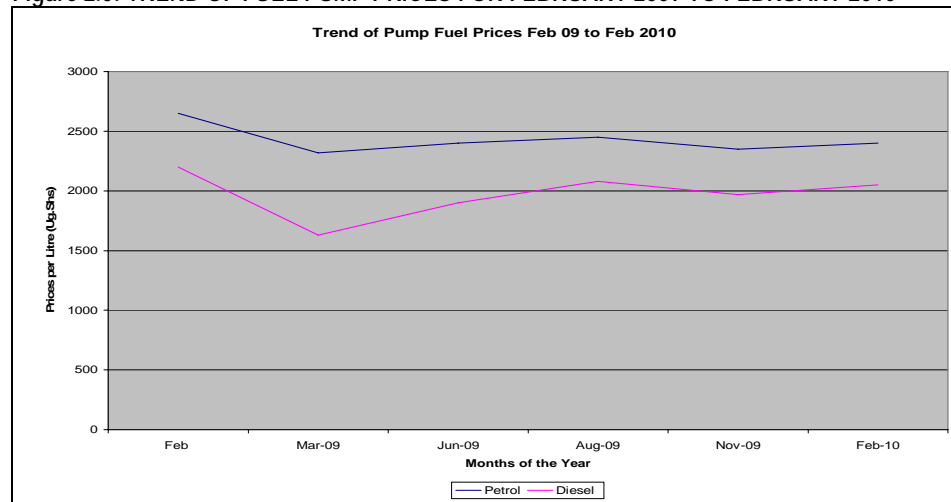
1. Introduction

A quick look at key economic indicators for the first quarter of 2010 reveals that; the cost of doing business in Uganda though still high has improved following a deliberate move by the Government and its partners to minimize business costs to make Uganda more competitive both in the region and globally. A clear indication of this improvement is revealed in Uganda's Global Competitiveness positioning which has reduced from 128 in 2009 to 108 in 2010. On the economy, Uganda's Shilling appreciated against the US dollar (major trading currency) in the third quarter of 2009 leading to Uganda Revenue Authority's tremendous progress in harmonizing all customs and excise duties and this is evident in the reduction of real *taxes on imports*. However, the increasing demand for food crops from the region; soaring fuel prices that translate into high transportation costs are trickling down into Uganda's domestic Inflation. Commercial bank Interest rates remain high in the region averaging 20 to 28%¹. Nonetheless, Bank of Uganda continues to attempt to ensure price and macro economic stability for a sound financial system using its stringent monetary policy to manage liquidity in the market. Inflation is also expected to decline further by June 2010 owing to further reductions in staple food crop prices.² Import and Export performance in the period analysed indicates that, there has been a decline in export performance and particularly for coffee and beans as compared to export performance in 2008.

2. Price and Market Developments:-

2.1 Cost of Fuel:

Figure 2.0: TREND OF FUEL PUMP PRICES FOR FEBRUARY 2009 TO FEBRUARY 2010



Source: PSFU Policy Advocacy Unit, 2010

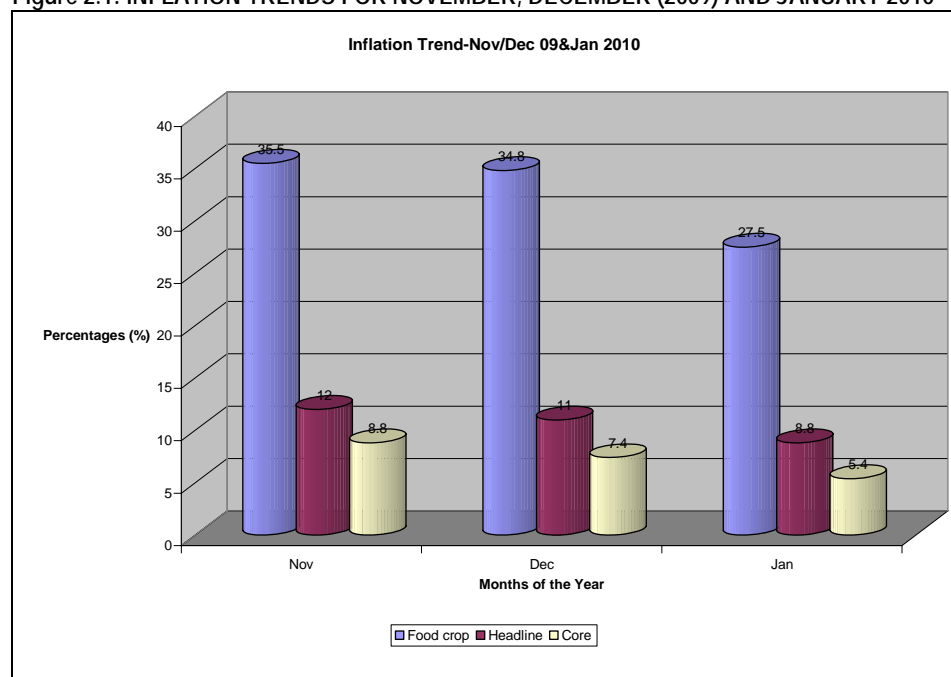
¹ A quick survey done around key commercial banks in Kampala: Barclays, Stanbic, Housing Finance, Post Bank

² In accordance with the Central Bank

Figure 2.0 above shows that fuel prices are to remain stable but high. Despite the substantial decline in global oil prices, Uganda's cost of fuel has been persistently high in 2008. ³ For example, average pump fuel prices in Kampala for Petrol and Diesel though declining, remain high at Shs. 2,400 and Shs. 2,050 respectively, as compared to Shs. 2,320 and Shs.1,630 at about the same time in 2009⁴. This represents a percentage increase of 20.5% in Diesel and 3.3% in Petrol. The implication therefore is that the costs of production and transport are kept high hence escalating the over all costs of doing business in Uganda. This further translates into increased commodity and food crop prices for the final consumer.

2.2 Inflation:

Figure 2.1: INFLATION TRENDS FOR NOVEMBER, DECEMBER (2009) AND JANUARY 2010



Source: UBOS, 2010

Figure 2.1 above presents the trend of inflation in the months of Nov/Dec 09 and January 2010. Three selected inflation indicators are illustrated for a clearer understanding of the analysis. The Annual Headline Inflation rate for the month of January 2010 was 8.8 percent down from 11.0 percent in December 2009. The single digit rate is mainly on account of decreased prices of food crops. For instance, food crops inflation slowed down to 27.5 % in the month of January 2010 from 34.8 % in December 2009⁵. This is mainly attributed to increased supplies to the major markets.

³ In accordance with the International Energy Agency

⁴ From local survey of Kampala pump stations; Shell, Delta, Total, Petro among others

⁵ Food Crops include Fresh food crop items and related products such as milk and flour

The Annual Core inflation rate⁶ also dropped to 5.4 % in January 2010 from 7.4 % in December 2009. During the month, food prices dropped by 1.7 % due to significant reductions in the prices of staple foods as non food crop inflation decreased by 0.2 %. It is predicted further that Inflation rate in Uganda is to fall to about 7% in June 2010. Although a decline, Annual headline inflation still remains high in the period under review. This therefore continues to eat into consumers' disposable income, translating into reduction of their purchasing power; which implies a significant loss of the market by the business community.

2.3 Foreign Exchange:

The depreciation of the Shilling has multiple effects on the cost of doing business such as increased import costs of raw materials, merchandise and capital equipment. The cost of services charged in US dollars such as transport also increases in real terms. A review of the foreign exchange developments in the period under review indicates that, the shilling had appreciated against the US dollar that is, from UGX 2,092.98 per US dollar in July 2009, to UGX 1,873.52 per US dollar in November 2009. However, the trend reversed in December, 2009 where the Ugandan Shilling depreciated from 1,903.52 per US dollar in December 2009, to 2,014.92 per US dollar in February 2010. (a decline of 7.0 % compared to the third quarter of 2009). This is mainly attributed to increased demand for foreign currency from both corporate and offshore Investors, energy and manufacturing sectors, declining export earnings and reduced remittances. Notably, Bank of Uganda has maintained its stabilization of monetary policy.

2.4 Real Taxes on Imports:

Uganda Revenue Authority's exchange rate in December 2009 was Shs. 1,879.69 per US\$ and Shs.1,896.95 per US\$ in January 2010⁷. This has further increased to Shs.1,928.75 per US dollar in February 2010, implying that there has been a 2.5% increase in real taxes on imports between December 2009 and February 2010. However, URA is working to harmonize/reduce all customs and excise duties in order to mitigate the high business costs related to tax.

2.5 Interest rates:

Commercial banks raised their lending rates by between 1 and 3 percentage points during the first quarter of 2009 but some attempted to re-adjusting their base lending rates downwards in the second quarter of 2009. However, Bank of Uganda continues to regulate commercial banks and interest rates, much as lending rates still remain high (between 20 and 28%) with the introduction of yet new products for their clients; such as school fees, housing among others at even much higher rates. There is need for a leveled field to ease access to credit by commercial banks in terms of interest rates charged to the business community for enhanced competitiveness in the region. This implies that the finance costs for firms remain high which makes it rather difficult for the business community to plan following the uncertainty in interest rates. Interest rates are predicted to come down though, in the near future following the Central Bank's regulations and operation of the Credit Reference Bureau.

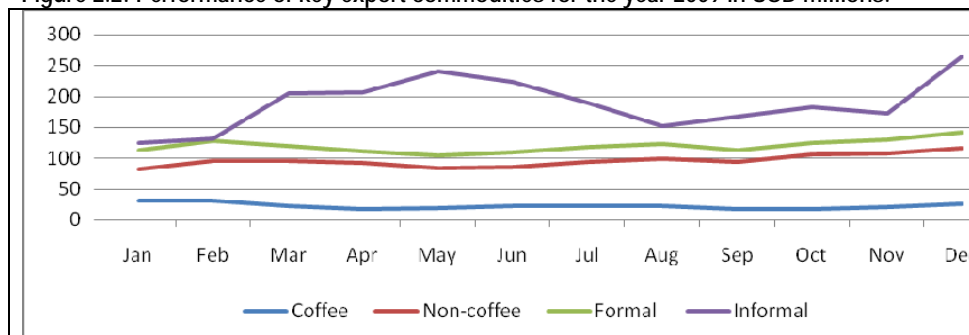
⁶ This excludes food crop items, fuel, electricity and metered water

⁷ Uganda Revenue Authority Monthly Reports February 2010

3. Trade Balance for Imports and Exports

Comment [U1]: Do an analysis of last year's export and from that, project into the future

Figure 2.2: Performance of key export commodities for the year 2009 in USD millions.



Source: BOU, 2009

- Coffee Export Volumes – Totalled 272,779 (60Kg) worth USD 25.8 million for the month of December 2009, which indicates a decrease in export revenue by 8.6% and 15% in terms of volumes and values relative to the corresponding month in 2008. This decline was attributed to a drought experienced earlier on in the Coffee season. Nevertheless, coffee exports were higher in December 2009 than in the previous month as the rains subsided, allowing more. It is however projected that coffee exports will continue being low in the short term, before bouncing back as the sector recovers from the drought.
- Non-Traditional Exports – The value of formal non-coffee exports for December 2009 was estimated at US\$ 116.26 million compared to values of US\$ 157.5 in December 2008. The export earnings from informal cross border trade (ICBT) amounted to US\$ 263.67 million compared to the value of US\$ 99.55 million in December 2008. It is projected that the value of non-coffee exports will continue to rise steadily on account of continued robust regional demand for Ugandan products especially in Sudan. The major exports analyzed for the period include; cotton, Beans, Fish and Fish Products, Hides and Skins, flowers, among others.
- The total Import bill⁸ for the month of November 2009 amounted to US\$ 298.1 million mainly comprised of private sector imports which accounted for 95.1 percent. The major imports for the period analysed were; machinery; vehicles and accessories; vegetable products, oils and animal fats; base metals and their related products; chemicals and other related products.

Sources:

1. Bank of Uganda (BOU) Monthly Economic and Financial Indicators
2. Uganda Bureau of Statistics (UBOS) -- Statistical Abstracts, Consumer Prices
3. Uganda Revenue Authority (URA)-Website
4. MoFPED -Back Ground to the Budget 2009/2010
5. Surveys on major fuel Stations 2009/10 in Kampala
6. FIT Uganda Limited- Bi-Weekly Agricultural Market Reports (info Trade)

⁸ Imports values are calculated F.O.B i.e. Free on Board