EXECUTIVE SUMMARY

THE REAL SECTOR

The Agricultural sector

Most areas that receive two rain seasons received irregular rainfall in the second season at the onset of the quarter under review. This enabled farmers to start opening land for the crop. There was an outbreak of desert locusts in some parts of Elgon, Teso, Karamoja, Acholi and Lango sub-regions. The above-average rainfall sustained pasture and water for livestock production along the cattle corridor with reported cases of Foot and Mouth Disease in the Karamoja region.

The country remained food secure during the quarter under review due to good second season harvests despite the COVID-19 pandemic disrupting the supply of food to major urban markets around the country. This increased food prices in most of Kampala markets due to the total lockdown hence affecting household incomes.

Concerning wholesale market prices in the major Kampala markets, the price for beans increased throughout the quarter while that of maize reduced. Cross border trade data indicated that South Sudan remained the leading importer of Uganda’s cereal commodities.
Inflation
On average, the quarter under review registered a deflation of 0.5 percent in food prices compared to the previous quarter where food prices were, on average, stable. In comparison, core inflation remained at an average of 0.2 percent, just like in the last quarter. Energy, fuel and utility prices reduced at an average rate of 0.1 percent, and the all-items index registered an average decrease from a rate of 0.3 percent last quarter to 0.1 percent in the present quarter.

Foreign Exchange rates
The quarter under review registered a sharp increase in the average mid-rate in the Interbank Foreign Exchange Market to UGX 3,710 per USD from UGX 3,690 per USD in the previous quarter hence depreciation of the shilling at a rate of about 0.54 percent. Foreign currency purchases increased from USD 707 million during the last quarter to USD 783 million in this quarter. The average sales increased from USD 643 million in the last quarter to USD753 million in this quarter.

Interest rates
Throughout the quarter, the Central Bank rate, rediscout rate and the bank rate remained unchanged at 9 percent, 13 percent and 14 percent respectively. Both monthly and quarterly average commercial bank lending rates declined. All categories of Treasury Bills (TBs) rates registered a slight increase during the quarter under review as compared to the previous quarter, which could be as a result of low demand for TBs.

Energy Sector
The quarter under review registered a marginal decline in all average fuel prices. Notably, average prices for Petrol, Diesel and Kerosene declined by 1.8 percent, 2.5 percent and 1.3 percent respectively. The decline was primarily attributed to a reduction in the world crude oil prices registered during the quarter (20.6 percent). Relatedly, energy purchases and sales marginally fluctuated during the quarter. Although energy purchases first declined by 0.3 percent and 0.4 in February respectively, these increased by 7 percent in March.

Transport and communications and infrastructure Sector
The quarter under review saw a 29 percent decline in the average number of passengers through Entebbe airport. In the same period, cargo movements also reduced though at a less than 5 percent rate. The decline is explained by the ban of passenger flights from high-risk countries as a measure to contain the spread of COVID-19. In the same period, top telecom companies in the country such as MTN and Airtel Uganda waived transactional fees on the mobile money transfers during the quarter to spur the use of digital transactions but also to reduce customers’ exposure to COVID-19.

International Trade
The quarter under review recorded a reduction in export receipts from USD 386 million in January to USD 315 million in March owing to reduced external demand and trade interruptions following the COVID-19 outbreak. Similarly, the value of merchandise imports decreased throughout the quarter as a result of a reduction in Government and private sector imports. The merchandise trade deficit reduced by approx. 5 percent to USD 194 million in February 2020 from USD 205.6 million in January.

Monetary Policy
At the close of the current quarter, the Treasury Bills holdings were worth UGX 4,987 billion. Additionally, the quarter closed with an increase of UGX 178 million in Private Sector Credit; and a quarterly average of UGX 16,715 billion. Money Supply rose steadily throughout the quarter under review from UGX 19, 357 billion in January to UGX 19,501 in March 2020. The Net Credit to Government (NCG) was characterised by a rise and a fall; of 5.1 percent in February and 9.8 percent in March respectively.

Fiscal operations
Uganda recorded a 13 percent shortfall in tax revenue and a 66 percent shortfall on grants during the quarter under review. This was primarily attributed to the decline in importation, domestic demand and business activities. Due to overspending on domestic interest payment and domestically financed development expenditures amidst revenue and grants shortfalls, government operations in the quarter resulted in more than the planned fiscal deficit.
PERFORMANCE OF THE REAL SECTOR

The Agricultural sector

Most bimodal areas had received irregular rainfall at the onset of the quarter under review with some areas in the Central and Eastern parts of the country experiencing floods in February 2020. The off-season rainfall encouraged farmers to prepare their land early for the first planting season. The Karamoja sub-region received above-average rainfall in its unimodal season prompting above-average sorghum production with reported crop losses in Kotido district due to heavy rains. During the quarter, there was an outbreak of desert locusts in February in some parts of Elgon, Teso, Karamoja, Acholi and Lango sub-regions. These caused minimal damage to crop production because it was off season in most areas.

In the livestock subsector for the quarter under review, the above-average rainfall from the last quarter and during the quarter under review sustained pasture and water for livestock production along the cattle corridor. This boosted livestock body conditions and milk production. Nonetheless, there were reported cases of Foot and Mouth Disease in the Karamoja region, which led to a ban on livestock movements, especially in Kotido district.

Regarding food security conditions, the country was generally food secure during the quarter under review due to good second season harvests. Households were able to access food from own production as well as income from crop sales, agricultural labour, petty trade, sale of poultry, animal products and crafts. For the Karamoja sub-region, livestock keeping homesteads had sufficient milk production, which enabled them to remain food secure. However, by the end of the quarter, most households in urban areas experienced panic purchases of food items due to the outbreak of the corona virus disease (COVID-19). This increased food prices in most Kampala markets due to the total lockdown of most of the sectors of the economy hence affecting household incomes.

Wholesale market prices for some major commodities in Kampala varied during the quarter under review. For example, maize prices declined in January and February due to second season bumper harvests which increased supply in the market. By March, the average maize price was USD 254/MT, a marginal increase from February prices by USD 4/MT (Figure 1). With regards to beans, the prices continued to increase throughout the quarter despite new harvests. By March 2020, the cost of beans was 53 percent higher than the price for December 2019. Concerning rice, the price per MT in January and February was not significantly different from the price for December 2020. However, there was an observed price decline from USD 975/MT in February to USD 905/MT in March.

Concerning cross border trade, South Sudan remained the major export destination for most of Uganda’s cereal commodities. During the quarter under review, Uganda exported to South Sudan Maize, Sorghum, Rice and Beans worth USD 11.8 million, USD 18 million, USD 28.1 million and 17.3 million respectively (Table 1). All commodities recorded significant increases in value especially for sorghum and beans, these more than doubled in earnings. Kenya was the second major export destination for Uganda’s cereal commodities. Specifically, maize and sorghum exports increased by 60.2 percent and 89 percent respectively, between the previous and the current quarter under review. However, bean exports to Kenya declined due to low domestic production in Uganda, from USD 30.6 million to USD 22.7 million, representing a decline of 25.8 percent. The continued low exports to Rwanda and Democratic Republic of Congo (DRC) are attributed mainly to the border conflict between Uganda and Rwanda.

Figure 1  Wholesale monthly commodity prices in Kampala major markets (USD/MT): Jul ‘19 – Mar ‘20

Source: FAO - Global Information and Early Warning System (GIEWS), 2020

The Ugandan Economy Today

Quarter 3: January- March, 2020
Energy

During the quarter under review, average pump prices for Petrol (PMK), Diesel (AGO) and Kerosene (BIK) continued to decline (Figure 2). Expressly, average pump prices for Petrol and Diesel marginally declined by 1.8 percent and 2.5 percent respectively in the quarter under review (from the previous quarter’s average of UGX 3,935/litre and UGX 3,590/litre to UGX 3,865/litre and UGX 3,502/litre respectively). Relatedly, the average quarterly price for Kerosene marginally declined to UGX 3061/litre from UGX 3,102/litre, registering a 1.3 percent decline during the quarter. This decrease in fuel prices was primarily driven by a 20.6 percent fall in the world crude oil prices during the quarter, from USD 63.4 per barrel to USD 50.3 per barrel in the quarter under review (Statista, 2020)

About energy purchases, these at first increased by 5 percent in January but reduced to 367 MW in February before increasing again to 374 MW in March (Figure 3). Similarly, energy sales rose to 357 MW in January before dropping to 337 MW in February but registered a marginal increase to 344 MW by March. Relatedly, average energy exports were stagnant at 17 MW throughout the quarter while energy losses steadily declined by 20 percent in the same period under review. The loss reduction was reported during transmission as losses are minimised during less humid conditions (which characterised the quarter under review).

In the oil and gas sector, Government launched a physical development master plan for the development of the Albertine graben during the quarter under review. Under this master plan, all the structures in the oil region will require the Government’s approval before they are established. The five-year plan estimated to cost UGX 150 billion will cover 33 districts located in both the Albertine graben and the host regions stretching from Kigezi to West Nile sub-regions. To protect the environment (wetlands, lakes and rivers, national parks) and cultural sites, the plan draws a clear roadmap for the development of all infrastructure of oil projects in the Albertine region such as designated residential areas, business centres, bus terminals, and schools, agricultural and industrial zones, among others.

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Transport

There was a general decline in the average number of passengers using air transport during the quarter under review (Figure 4). Passengers reduced substantially from 201,789 in the previous quarter to 198,887 in the quarter under review, representing a 29 percent decline. Similarly, cargo movements reduced by 5.4 percentage points to 16,898 from 16,353 in the same period. Noteworthy, a record lowest number of passengers and cargo movement in the two quarters was registered in March owing to the COVID-19 pandemic that induced travel restrictions on both passenger and cargo flights. Specifically, the number of passengers and cargo movements at Entebbe airport reduced by 20 percent and 12 percent, respectively due to the impact of the pandemic.

Relatedly, following a presidential directive to contain the spread of COVID-19 in the country, passenger flights from high risks countries such as Italy, the United States of America, Belgium, Germany, Spain, Malaysia, Switzerland among others were suspended indefinitely. Also, the National carrier (Uganda Airlines) suspended its flights to several regional destinations. The suspended routes during the quarter include; Kilimanjaro, Mombasa and Zanzibar (effective 20th March), Kilimanjaro, Mombasa, Mogadishu and Bujumbura (effective 22nd March).

Telecommunications

Concerning the telecommunications subsector, top telecom companies in the country such as MTN and Airtel Uganda waived fees on the mobile money transfer transactions during the quarter. This was aimed at promoting the use of digital transactions but also discourage the use of cash to contain the spread of the COVID-19 pandemic. For instance, MTN mobile money transactions below UGX 30,000 which initially incurred transfer charges between UGX 850 and 1,100, were now exempt from any charges. At the same time, Airtel Uganda scrapped all transactional charges on mobile money transactions regardless of the amount transacted.

Inflation

On average, the quarter under review registered a deflation of 0.5 percent in food prices compared to the previous quarter where food prices were, on average, stable. Notably, in March 2020, the deflation rate was at 2 percent from an inflation rate of 0.8 percent in February 2020 (Table 2). While core inflation remained at an average of 0.2 percent just like in the previous quarter, energy fuel and utility prices reduced at an average rate of 0.1 percent as compared to the 1.4 percent average inflation rate recorded in the previous quarter. The All-items index registered an average decrease from a rate of 0.3 percent last quarter to 0.1 percent in the present quarter (Table 2).

Foreign Exchange Rates

For the quarter under review, there was a sharp increase in the average mid-rate in the Interbank Foreign Exchange Market (IFEM) to UGX 3,710 per USD from UGX 3,690 per USD in the previous quarter. This implies that the shilling depreciated at a rate of about 0.54 percent in the quarter under review compared to the 0.04 percent depreciation rate in the previous quarter. This decrease in the value of the shilling against the dollar could be due to the reduction in exports from 386 million USD in January to 299 million USD in March and Zanzibar (effective 23rd March.) Furthermore, South African Airways (SAA) announced the suspension of all its flights to Entebbe International Airport. Besides the impact of the COVID 19 pandemic on the airline industry, this move by SAA will partly affect the air traffic of passengers at the Entebbe International Airport.
which reduced the supply of the dollar in the economy.

Figure 5 shows the gross foreign exchange sales and purchases in the quarter under review relative to the previous quarter. On average, foreign currency purchases increased from USD 707 million in the last quarter to USD 783 million in this quarter. The average sales increased sharply from USD 643 million in the previous quarter to USD 753 million in this quarter. This sharp increase in average foreign currency sales was exacerbated by the sudden rise in the March 2020 sales to USD 970 million from USD 613 million sales in February 2020. Despite the increase in both foreign currency purchases and sales, the percentage increase in sales (17 percent) was much higher than that of the purchases (11 percent), probably due to the anticipation of a reduction in the supply of foreign currency due to the COVID-19.

**Interest rates**

As Table 3 highlights, throughout the quarter, the Central Bank rate, rediscount rate and the bank rate all remained at 9 percent, 13 percent and 14 percent respectively as they were in the previous quarter. Average commercial bank lending rates decreased from 19 percent during the last quarter to 18.93 percent in the quarter under review. During the current quarter, lending rates were declining every month.

The continuous decrease in the lending rates could be partly explained by the need to increase access to credit to boost investment.

All the categories of Treasury Bills (TBs) rates registered a slight increase during the quarter under review as compared to the previous quarter. For the moving average of the 91-day TBs, there was an increase from an average of 8.4 percent during the last quarter to 9.1 percent in the quarter under review. The 182-day TBs registered an average of 10.3 percent this quarter as compared to the 10 percent of the previous quarter, and an increase from an average of 10.5 percent to 11.7 percent for the 364-day TBs. This general increase in the TB rates could be attributed to the low demand for the TBs.

**Monetary Policy**

The TBs holdings continued to rise from the previous quarter, registering UGX 4,833 billion in January 2020, which was a 1.8 percent increase from UGX 4,746 billion in December 2019 (Table 4). By March, the TB holdings were worth UGX 4,987 billion. This trend can be attributed to the continuous rise in demand for TBs. At the start of this quarter, Private Sector Credit (PSC) fell by 0.78 percent from UGX 16,828 in December 2019 to UGX 16,696 billion in January 2020. PSC fell further in February 2020 to UGX 16,636 billion. Nonetheless, by March, there was an increase of UGX 178 million in PSC and a quarterly average of UGX 16,715 billion.

Money Supply grew through the quarter under review from UGX 19,357 billion in January to UGX 19,501 in March 2020 (Table 4). This represented a 0.74 percent increase. The rise in private demand deposits and private time and savings deposits during the quarter contributed to this trend. During the quarter under review, the Net Credit to Government (NCG) at first increased by 5.1 percent in February but declined by 9.8 percent in March 2020. This is attributed to a decline in Government borrowing at the end of the quarter. The stock of Treasury Bonds registered a slight decrease in January of UGX 50 million but peaked at UGX 13,330 billion by March (Table 4).
International Trade

The quarter under review recorded a reduction in Uganda’s export receipts from USD 386 million in January to USD 315 million in March for products such as; coffee, fish and fish products, tea, maize and beans due to a fall in external demand and trade interruptions following the outbreak of COVID-19 (Figure 6). Nonetheless, the value of coffee exports was 43.4 percent higher than the value from the same month the previous year. The increase in coffee exports was attributed to increased production for the primary season in central and eastern regions.

The review period also registered a decrease in the value of merchandise imports between January - February 2020 (by USD 22 million) and February -March 2020 (by USD 67 million) as a result of a reduction in Government and private sector imports for products such as; foodstuffs, beverages and tobacco, mineral products (excluding petroleum), petroleum products, plastics, textile and textile products due to disruptions in the supply chains as a result of the lockdown due to the COVID-19 pandemic.

Concerning the merchandise trade deficit, this further reduced by approximately 5 percent to USD 194 million in February 2020 from USD 205.6 million in January 2020, as a result of a more significant drop in the value of imports (by USD 40 million) compared to exports (by USD 31 million). The merchandise trade deficit narrowed further in March 2020 to USD 177 million with a higher reduction in imports than exports. The decrease in imports and exports followed trade disruptions both domestically and globally owing to the pandemic and measures related to curbing its spread. However, comparing March 2020 to March 2019, the trade deficit widened by 23 percent, from USD 144 million to USD 177 million attributable to a more significant fall in export receipts which counterbalanced the fall in the import bill.

Relatedly, during the quarter, Ugandan milk and milk products under the Lato brand were seized by the Kenyan Government. Kenya government seized 54,310 kilos of powder milk valued at USD 203,630 and 262,632 litres of UHT milk valued at USD 157,106 attributed to illegal imports into the country without paying taxes.

Fiscal operations

During the quarter under review, there was a shortfall in revenue and grants collection of 614 billion on revenues and UGX 259 billion on grants against the set targets.

<table>
<thead>
<tr>
<th>Table 4</th>
<th>Selected fiscal and monetary indicators: October 2019-March 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator (UGX billions)</td>
<td>Oct ’19</td>
</tr>
<tr>
<td>Money Supply M2</td>
<td>18,519</td>
</tr>
<tr>
<td>BoU Claims on Government</td>
<td>6,213</td>
</tr>
<tr>
<td>Private Sector Credit</td>
<td>16,386</td>
</tr>
<tr>
<td>Treasury Bill Holdings</td>
<td>4,609</td>
</tr>
<tr>
<td>Stock of Bonds</td>
<td>12,650</td>
</tr>
</tbody>
</table>

Source: Bank of Uganda, 2020
The revenue deficit was due to the underperformance of both tax and non-tax revenue. Succinctly, tax revenue collection in the quarter amounted to 90 percent while non-tax revenue amounted to 56 percent of the set targets. Notably, 50 percent of the shortfall in tax revenue was recorded in March. This is primarily attributed to the decline in international trade taxes due to a decrease in importation owing to the closure of factories abroad and the closure of international borders to curtail the spread of COVID-19 in various countries.

Similarly, restrictions imposed by the Government of Uganda in March 2020 to curb the spread of COVID-19 hurt direct domestic taxes from businesses. Furthermore, indirect domestic taxes also reduced due to a decline in demand and sales during the month. The underperformance of non-tax revenue can be primarily explained by the decrease in passport and immigration fees. As Figure 7 highlights, revenue and grants combined for the quarter under review fell short of the previous quarter’s (Oct-Dec 2019) realisation with a gap of UGX 210 billion. Nonetheless, tax revenue grew by 3.6 percent between the quarters while grants and non-tax revenue contracted by 62.9 percent and 36.4 percent respectively.

During the quarter under review, government spending and lending amounted to UGX 6,882 billion compared to the planned expenditure of UGX 6,952 billion (indicating a 99 percent budget performance). Nonetheless, government operations during the quarter resulted in an overall fiscal deficit of UGX 2,435 billion, which was 49 percent higher than the planned deficit of UGX 1,632 billion (Table 5). The sizeable budgetary deficit is attributed to overspending on domestic interest payment and domestically financed development expenditures amidst revenue and grants shortfalls during the quarter. Succinctly, domestic interest payment and domestically financed development expenditures exceeded planned spending by 39 percent and 35 percent respectively. Notably, significant underperformance was recorded on externally funded development expenditure, realising only 45 percent of the scheduled cost. This underperformance is mostly attributed to lower than anticipated disbursement due to slow execution of externally financed projects. Global and domestic restrictions on movements, especially in March significantly undermined implementation of externally funded projects.

### Figure 7
**Actual revenue collections and grants versus targets (UGX billions): Oct 2019-March 2020**

<table>
<thead>
<tr>
<th>Revenues and grants</th>
<th>Actual (Oct-Dec’ 19)</th>
<th>Actual (Jan-March’ 20)</th>
<th>Target (Jan-March’ 20)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-tax</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Authors’ construction using data from MoFPED, 2020

### Table 5
**Uganda’s expenditure performance (UGX Billions): January-March 2020**

<table>
<thead>
<tr>
<th>Expenditures and Lending</th>
<th>Target (Jan-March’ 20)</th>
<th>Actual (Jan-March’ 20)</th>
<th>Performance (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Expenditures</td>
<td>6,952</td>
<td>6,882</td>
<td>99.0</td>
</tr>
<tr>
<td>Current expenditures</td>
<td>3,412</td>
<td>3,744</td>
<td>109.7</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>1,166</td>
<td>1,167</td>
<td>100.1</td>
</tr>
<tr>
<td>Interest payments</td>
<td>701</td>
<td>905</td>
<td>129.1</td>
</tr>
<tr>
<td>o/w domestic</td>
<td>520</td>
<td>720</td>
<td>138.5</td>
</tr>
<tr>
<td>o/w external</td>
<td>181</td>
<td>185</td>
<td>102.2</td>
</tr>
<tr>
<td>Other recurrent expenditure</td>
<td>1,545</td>
<td>1,672</td>
<td>108.2</td>
</tr>
<tr>
<td>Development expenditures</td>
<td>3,408</td>
<td>3,068</td>
<td>90.0</td>
</tr>
<tr>
<td>Domestic</td>
<td>1,704</td>
<td>2,303</td>
<td>135.2</td>
</tr>
<tr>
<td>External</td>
<td>1,704</td>
<td>765</td>
<td>44.9</td>
</tr>
<tr>
<td>Net lending/repayments</td>
<td>90</td>
<td>8</td>
<td>8.9</td>
</tr>
<tr>
<td>Domestic arrears repayment</td>
<td>0</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td><strong>Overall fiscal balance (incl. grants)</strong></td>
<td><strong>-1,632</strong></td>
<td><strong>-2,435</strong></td>
<td><strong>149.2</strong></td>
</tr>
</tbody>
</table>

Source: Authors’ construction using data from MoFPED, 2020