KPMG

Uganda Economic Snapshot H2, 2017

Trade & Investment SWOT

Strengths	Weaknesses
There are no restrictions on capital movements in or out of the country, and no foreign exchange controls.	High interest rates have squeezed credit limits on private sector investment and made borrowing unaffordable.
The Uganda Investment Authority (UIA) helps investors navigate red tape and fast track permit and license procedures.	Members of the East African Community (EAC) have failed to impose the Common External Tariffs (CET).
Uganda permits 100% foreign ownership of companies.	Overall public expenditure is at a low base level, valued at 17.5% of GDP.
The ruling party has not registered a single case of expropriation since coming to power in 1986.	In total, companies have to pay an average of 25.2% of profits in tax, which is uncompetitive compared with the regional average of 18.4%.
Opportunities	**Threats**
Public expenditure on transport and energy infrastructure will rise as the government leverages future oil and gas revenues.	The sum value of imports outweighs national exports, leading to a heavy trade deficit for Uganda which threatens economic growth.
Investment incentives include 10-year tax holidays, VAT deferments, tax deductions and exemptions, depreciation allowances, capital allowances and land allocations.	Ongoing trade disputes between East African nations have resulted in the proliferation of tariff and non-tariff trade barriers.
Uganda's five-year e-Governance Master Plan provides a framework for improved public services and increased transparency.	The reformed Public Procurement Disposal of Public Assets Act gives priority to local tenders over foreign investors.
Regional integration will improve as Uganda and the EAC strengthen ties, streamlining opportunities for regional economic growth such as through free trade, free movement of labour and shared visas.	Transparency International reports high levels of corruption in the Ugandan public sector, particularly among the police and judiciary.

Source: Business Monitor International (BMI), KPMG research

Economic structure - The primary sector comprises both agriculture and fisheries. Farming activity produces the coffee, tea and cereals that are important for export revenues, while plantains, cassava, sweet potato and maize are produced for domestic consumption. Agriculture is the biggest employer of the country's labour force. Aquaculture and fishing in rivers and lakes (open water covers 15% of the country's land area) yield catches for local and export needs. The secondary sector is made up of construction, manufacturing and mining. Manufacturing of light consumer goods and the production of beverages, electricity and cement is integral parts of the secondary sector in Uganda. The tertiary sector, which is the largest sector in Uganda, comprises largely of wholesale and retail trade as well as finance, real estate and business services. 53% of Uganda's GDP is contributed by the services sector. The total contribution (direct and indirect) of travel and tourism to Uganda's GDP was $1.8 billion in 2016, the equivalent of 6.6% of GDP.

Recent economic developments – Headline inflation decreased from 5.3% y-o-y in September to 4.8% y-o-y in October 2017. The Bank of Uganda (BoU) cut its interest rate by 50 basis points to 9.5% in September 2017, which is the lowest since the country adopted an inflation target in 2011. The decision to lower the interest rate is aimed at boosting private sector credit spend and economic growth. Real GDP growth was recorded at 5.5% y-o-y during the second quarter of 2017 and is expected to expand by 4.4% during the calendar year. Business confidence increased for the ninth consecutive month in September, reaching the highest level in more than three years. A fiscal deficit of 3.2% of GDP is estimated for 2017. The International Monetary Fund (IMF) team who visited Uganda in November 2017 emphasised the importance of increasing revenue collection by 0.5% of GDP per annum. Fitch Ratings affirmed Uganda's "B+" sovereign rating with a stable outlook in August 2017.

Mega trends

Population	2017	Total: 41.66 million; female: 20.84 million; male: 20.82 million; age 0-14: 47.58% of total; age 15+: 52.42% of total; age 65+: 2.48% of total
Population growth rate	2015	3.29%
Life expectancy at birth	2015	Total: 59.51 years; female: 61.77 years; male: 57.36 years
HIV/AIDS	2016	Total number of people living with HIV: 1.4 million; total adult prevalence: 6.5%; HIV AIDS orphans (age 0-17): 0.66 million
Adult literacy rate	2015	Total population: 31.98%; female: 25.39%; male: 38.65%
Urbanisation	2016	Urban population: 16.44% of total; annual urban population growth: 5.4%; rural population: 83.56% of total
Population below $1.90/day poverty line	2012	10.29%
Unemployment rate	2017	Total: 2.4%; female: 1.9%; male: 2.8%; youth (15 - 24): 4.2%
Employment	2017	Agriculture: 54.8% of total; industry: 9.9% of total; services: 35.3% of total
Labour participation rate	2017	Total (ages 15+): 85.01% of total population
Business languages	n/a	English
Telephone & internet users	2012; 2016	Fixed telephone subscriptions: 0.37 million (2016); wired internet subscriptions: 0.1 million (2012); cell phone subscriptions: 22.84 million (2016)
Quality of infrastructure (1 = underdeveloped, 7 = developed)	2017	3.33

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa

Business Environment									
Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
163rd	out of 188 countries	91st	out of 180 countries	114th	out of 137 countries	122nd	out of 190 countries	151st	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – The Second National Development Plan (NDP II) 2015/16 – 2019/20 is part of a series of six such schemes aimed at achieving the Uganda Vision 2040. The goal of the current iteration is to propel the country towards middle income status by 2020 by strengthening the country's competitiveness in order to achieve sustainable wealth creation, employment and inclusive growth. The NDP ii prioritises investment in areas with the greatest multiplier effect on the economy and employment, including agriculture; tourism, mineral resources, infrastructure development and human capital development. More specifically, the plan emphasizes commercialisation of agriculture to increase production and productivity, aggressive marketing, diversification of products and development of tourism supporting infrastructure and services, as well as adding value to raw minerals through beneficiation,

Sovereign Risk Ratings		
S&P Global Ratings	Fitch Ratings	Moody's Investors Service
B/Stable	B+/Stable	B2/Stable

Source: Trading Economics

S&P Global Ratings affirmed Uganda's long-term foreign sovereign credit ratings at "B" in June 2016. S&P also affirmed that the outlook for Uganda is stable. The country's ratings are supported by robust economic growth prospects on the back of significant public infrastructure expenditure. Ratings negatives include low levels of GDP per capita and large (albeit falling) fiscal budget deficits. The stable outlook factors in Fitch's expectation that the government "will broadly stay on track with its Policy Support Instrument (PSI) with the International Monetary Fund (IMF) and with its broader relations with official creditors." Ratings could improve of economic benefits from infrastructure spending turns out to be higher than the agency's analysts currently expert and if economic growth, fiscal and external metrics improve significantly. Conversely, Uganda's rating could be adversely affected by a deterioration in fiscal and external metrics.

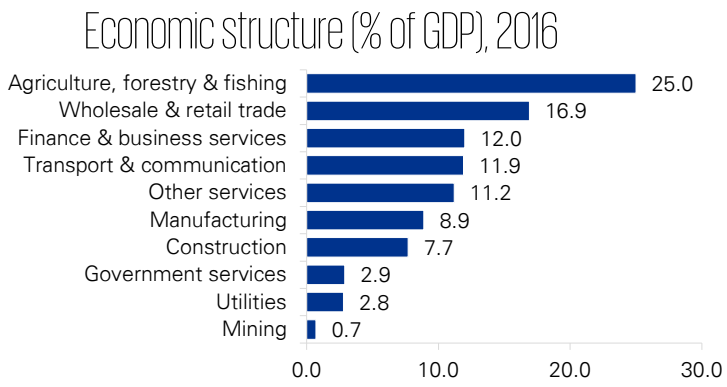
Fitch Ratings affirmed Uganda's long-term foreign currency Issuer Default Ratings (IDR) at "B+" with a stable outlook in August 2017. While the sovereign benefits from strong medium-term growth potential and the authorities' competent macroeconomic policy making, its rating is constrained by twin (fiscal and current account) deficits and the structural constraints to improving the business environment and increasing private sector development. Government execution of development expenditure is pressured by weaknesses within the public investment management framework. On a positive note, this under-execution in the capital budget – also associated with delayed donor disbursements - has supported a slight improvement in fiscal dynamics. General government revenue also increased from 13% of GDP in the 2012/13 fiscal year to 15% of GDP in 2016/17 in reflection of success under the PSI. Nonetheless, deterioration in public finances is the primary threat to the country's rating at present, alongside current account and economic growth risks.

Moody's Investors Services retained its "B2" rating for Uganda in an annual credit analysis published in August 2017. The agency also retained a stable outlook which is reflective of "expectations that, despite likely deterioration in the government's fiscal metrics until 2020, the country's credit fundamentals" will remain on a par with other "B2" countries. Other supportive factors include a doubling in per capita income over the past decade, a strong monetary policy framework and an expansionary and fiscal robust framework directed towards capital investment. Constraints on the rating include still low per capita income, the small scale of the Ugandan economy, deteriorating debt affordability (in part due to growth in non-concessional borrowing), weaker competitiveness versus its "B2" peers, institutional weaknesses and rising domestic political risk.

Finance & Banking				
Central bank	Number of commercial banks	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 1 000 adults
Bank of Uganda (BoU)	22	2.98	4.37	206.3
Stock market	**Listed companies**	**Market capitalisation**	**Largest sectors**	**Weekly trading value**
Uganda Securities Exchange	17	$1.1 billion	Financial services	$0.1 million
Capital market	**Level of development**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
Yes	Limited	91 days to 10 years	No	Yes

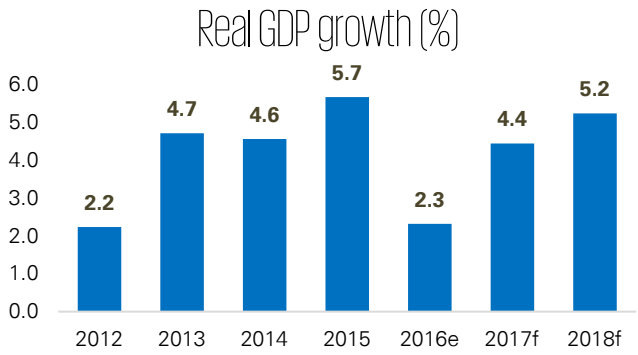
Sources: World Bank, African Alliance, Analyse Africa, KPMG research

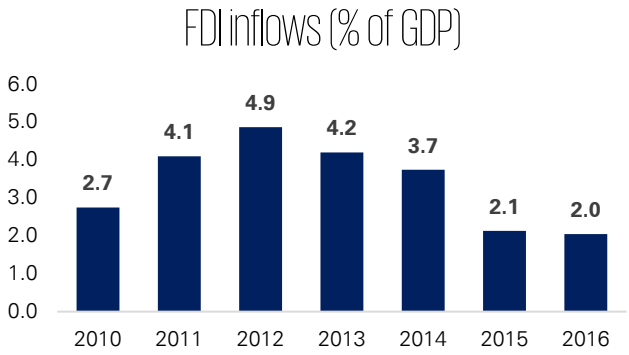
Macroeconomic overview



Source: African Economic Outlook (AEO)

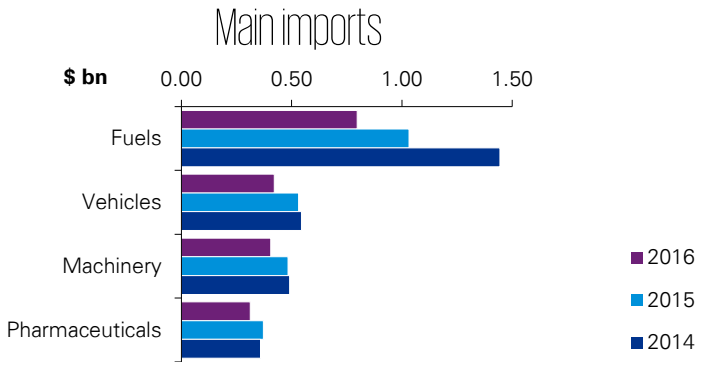
Economic growth – Economic growth slowed down severely in 2016 to just 2.3% due to severe drought and limited government spending. However, real GDP growth recovered during 2017: the economy grew by 5.5% y-o-y during the second quarter and is expected to expand by 4.4% y-o-y during the calendar year. Most recently, business confidence increased for the ninth consecutive month in September, reaching the highest level in more than three years. The IMF expects and expansion of 5.2% in 2018. Uganda's economic growth is seen on an accelerating path, driven by diversification, improving weather conditions and the increase in private and public sector investment. An expected increase in coffee and gold production – the country's largest two exports by value - in 2018 will support external revenues while gains in private consumption will be supported by more stable inflation.

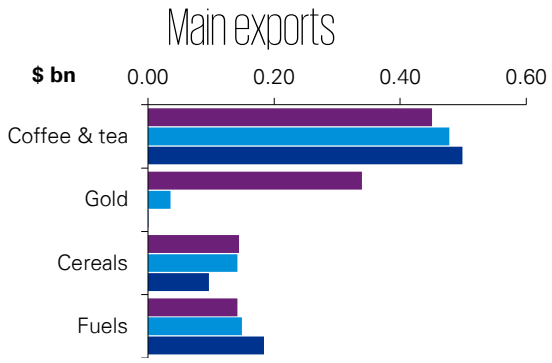




Sources: International Monetary Fund (IMF), United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – Foreign direct investment (FDI) is seen as a fundamental pillar of the country's economy and policies, laws and regulations, and Uganda is generally favourable towards FDI. The country has a highly liberalised economy, where all sectors are open for investment. The government is committed to invest in improving the infrastructure of the country and the trading links throughout the region. Some factors that hamper trade and investment development in Uganda are poorly enforced legislation and high levels of corruption. However, the country's geographical location gives it a strategic base to be a regional hub for trade and development, especially with regards to its pivotal trade partnerships that creates a viable market for business. Uganda aims to start exporting crude oil in 2020 with the completion of a pipeline through Tanzania. Crude oil production and exploration licenses could specifically accelerate FDI inflows.

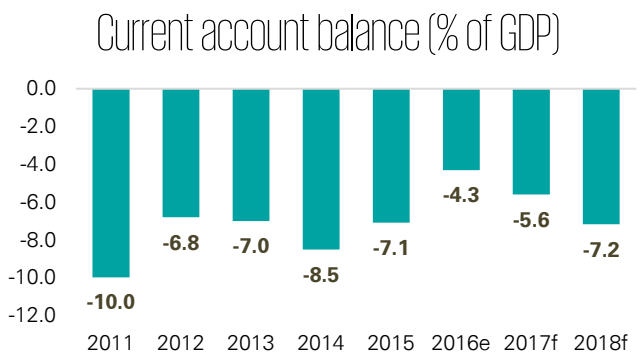


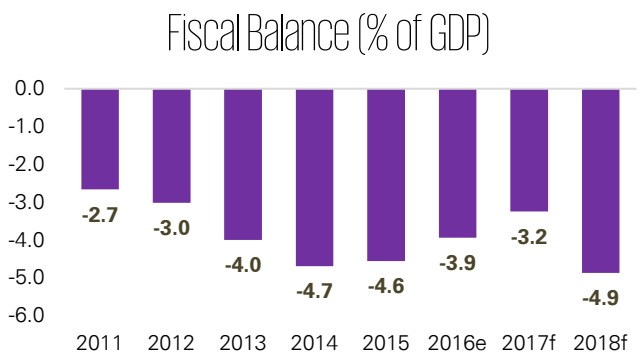


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Fuels	23.8%	18.7%	16.5%	Coffee & tea	22.0%	21.1%	18.2%
Vehicles	9.0%	9.6%	8.7%	Gold	0.0%	1.6%	13.7%
Machinery	8.1%	8.7%	8.4%	Cereals	4.3%	6.3%	5.8%
Pharmaceuticals	5.9%	6.7%	6.5%	Fuels	8.1%	6.6%	5.7%

Source: Trade Map

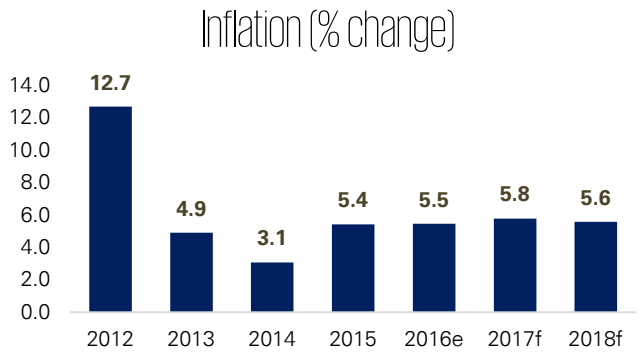
External trade – The current account deficit will widen in 2017 to 5.6% of GDP and to 7.2% of GDP in 2018 as the demand for capital imports weights on the trade balance. Capital imports are set to rise as government-led infrastructure investment gains momentum – this is set to continue until 2020. Furthermore, expected higher global oil prices also increase the fuel import bill. Exports will continue on an upward trend but at a slower pace; export growth will not be enough to outpace import growth. The production levels of coffee, tea and other agricultural products should recover after the severe drought of 2016, but it is very sensitive to poor weather conditions. Import cover - the number of months of imports covered by a country's foreign reserves - is projected by BMI to equal 6.6 months in 2018, compared to a global benchmark of at least three months.

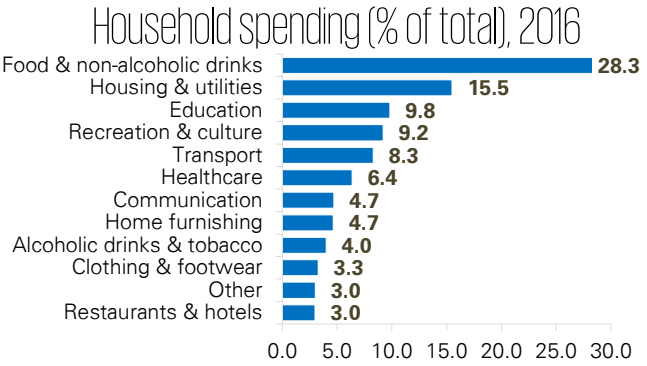




Source: IMF

Fiscal policy – The budget deficit is expected to widen in 2018 due to the government's increased expenditure on infrastructure projects. Development of oil, rail and hydropower projects, in addition to associated labour and administration costs, will cause fiscal spending to rise. Government revenues should grow at a steady pace as tax collection and administration improves, but this will nonetheless be insufficient to cover the rising expenditures. The IMF team who visited Uganda in November 2017 emphasised the importance of increasing revenue collection by 0.5% of GDP per annum. A fiscal deficit of 3.2% of GDP is estimated for 2017, and is expected to increase to 4% of GDP in 2018. The shortfalls will be funded by an increase in domestic borrowing, which will add to the growing public debt stockpile. The country's debt dynamics are sustainable over the medium term, but a growing reliance on domestic borrowing is having a crowding out effect on the private sector.





Source: IMF, BMI, country statistics agencies

Monetary policy - Headline inflation decreased from 5.3% y-o-y in September to 4.8% y-o-y in October 2017. Although average inflation increased in the 2017 calendar year to 5.8%, headline inflation will remain within reach of the Bank of Uganda's (BoU) target of 5% y-o-y over the medium term. The inflation rate is expected to moderate to an average of 5.6% in 2018. The BoU cut its interest rate by 50 basis points to 9.5% in September 2017, which is the lowest since the country adopted an inflation target in 2011. The decision to lower the interest rate is aimed at boosting private sector credit spend and economic growth. After this monetary easing, the BoU would likely wait for previous policy changes to take effect before considering further rate cuts.

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