Euler Hermes Economic Research

Country Report

# Uganda

## Being landlocked is not a deterrent to high growth

## General Information

| | |
|---|---|
| **GDP** | USD19.881bn (World ranking 104, World Bank 2012) |
| **Population** | 36.35 million (World ranking 36, World Bank 2012) |
| **Form of state** | Republic |
| **Head of government** | Yoweri Kaguta MUSEVENI |
| **Next elections** | 2016, presidential and legislative |

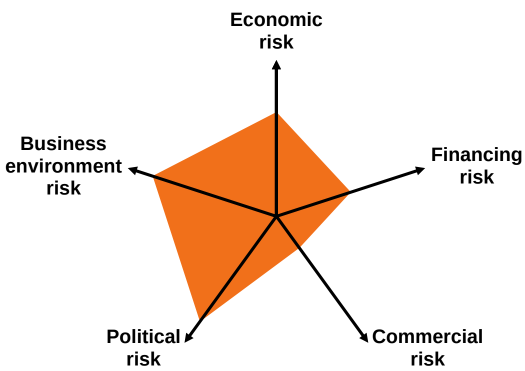
## Strengths

- The political system is relatively stable, compared with a chequered history, and transition to a multi-party democracy is being instituted.
- Good record of GDP growth in recent years, albeit from a low base.
- First country to reach its completion point under the Heavily Indebted Poor Countries initiative (HIPC) and awarded significant debt reduction.
- Reasonable relations with the IFIs and donor community, despite periodic concerns relating to achievement of some economic targets and perceptions of corruption.
- Oil and gas potential.

## Weaknesses

- Trade and communication links are vital because the country is landlocked. Disruption to these can have detrimental effects on business and the overall economy.
- There are perceptions that President Musevenei is becoming increasingly autocratic.
- Failure to achieve a negotiated settlement with the Lord's Resistance Army in the north.
- Dependence on the primary sector exposes economic development to the vagaries of climatic changes, including periodic drought, and to internationally-determined commodity prices.
- Periodic energy shortages.
- Fiscal and current account deficits.

## Country Rating C3




Source: Euler Hermes

## Trade structure

By destination/origin (% of total)

| Exports | | Rank | | Imports |
|---|---|---|---|---|
| Rwanda | 11% | 1 | 16% | Kenya |
| Kenya | 10% | 2 | 14% | India |
| Dem. Rep. of the Congo | 10% | 3 | 12% | United Arab Emirates |
| United Arab Emirates | 10% | 4 | 12% | China |
| Sudan | 7% | 5 | 4% | Japan |

By product (% of total)

| Exports | | Rank | | Imports |
|---|---|---|---|---|
| Coffee, tea, cocoa, spices, etc | 24% | 1 | 19% | Petroleum and related materials |
| Telecommunication and sound recording apparatus | 8% | 2 | 8% | Road vehicles |
| Fish, molluscs and preparations | 5% | 3 | 5% | Specialised machinery |
| Textiles fibres and their wastes | 5% | 4 | 5% | Medicinal and pharmaceutical products |
| Non metallic mineral manufactures, n.e.s. | 5% | 5 | 5% | Telecommunication and sound recording apparatus |

*Source: UNCTAD (2012)*

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## Recent rebasing of nominal GDP data suggests larger economy...

Several African countries (notably Nigeria and Kenya) have recently recalculated the size of their economies and all GDP revisions indicate that economic magnitude was under-estimated. In November 2014, Uganda released its new national account statistics using FY2009/10 as the base year, rather than calendar 2002 as in the previous assessments, and these indicate that GDP in FY2013/14 was UGX68,400 billion (USD25 billion), approximately +13.1% larger than previously estimated.

## ...while real GDP growth remains generally above the regional average

Annual average GDP growth in the period 2000-08 was +7.5%, with Uganda one of the African economies consistently expanding at the fastest rate. However, following two years of annual expansion of +6%, growth in 2012 slowed to its weakest rate since the late 1980s, at +2.9% y/y, reflecting a sharp contraction in private consumption. In turn, consumption in 2012 was adversely affected by high inflation in 2011 (30.4% y/y in October of that year) and the resulting tight monetary policy (the central bank lifted its key policy interest rate by 10pps in H2 2011). Inflationary pressures have eased since then, with a resulting improvement in consumption, which is further abetted by the current surge in credit extension to the private sector as part of an expansionary monetary policy phase.

Development of oil fields in the west (the Lake Albert region) should offer scope for significant economic development and for continuation of high growth rates. While commercial output is now scheduled to start in 2016-17, the benefits in terms of inward investment and infrastructure development are already apparent. EH expects GDP growth of +5% in 2014, with a strong rebound to +8% in 2015 subject to an improvement in global trading conditions.

## Inflationary pressures are currently moderate but will pick up in 2015

Monetary policy shifted to inflation-targeting (announced in June 2011), partly in response to an IMF recommendation but also to alleviate potential adverse effects from the large capital inflows expected from the development of the oil sector. Volatility in the rate of inflation (see table) reflects changing weather conditions across the region, with consequent uncertainties in terms of agricultural production and food prices. Inflation in November 2014 was 2.1% y/y, partly reflecting continued deflationary pressures from food prices because of good harvests. EH expects inflation to be close to (or at) the bottom of its current cycle and will pick up in H1 2015 and end that year at around 9%, thereby exceeding the Central Bank's medium-term target of 5%.

## Public finances

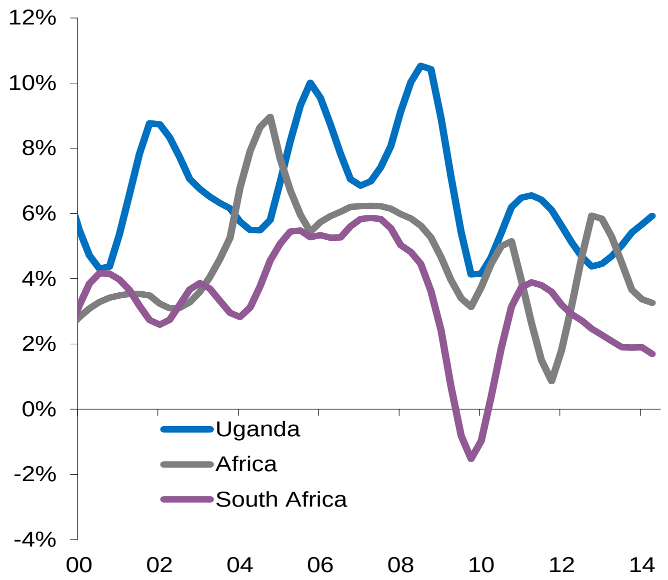
International perceptions of corruption and limitations on personal freedoms have led to some withdrawal of budgetary support by the global donor community. The FY 2014/15 (July–June) budget proposal is an attempt to address such aid suspension. EH expects the fiscal deficit will be -5.9% of GDP in 2014 and -5.3% in 2015 but with downside risks to the fore.

**Key economic forecasts**

| | 2012 | 2013 | 2014f | 2015f |
|---|---|---|---|---|
| GDP growth (% change) | 4.4 | 4.5 | 5.0 | 8.0 |
| Inflation (%, end-year) | 5.3 | 6.7 | 3.9 | 9.0 |
| Fiscal balance (% of GDP) | -4.4 | -5.7 | -5.9 | -5.3 |
| Public debt (% of GDP) | 19.9 | 21.1 | 23.5 | 26.3 |
| Current account (% of GDP) | -7.7 | -8.6 | -9.0 | -10.0 |
| External debt (% of GDP) | 17.3 | 18.8 | 21.5 | 24.5 |

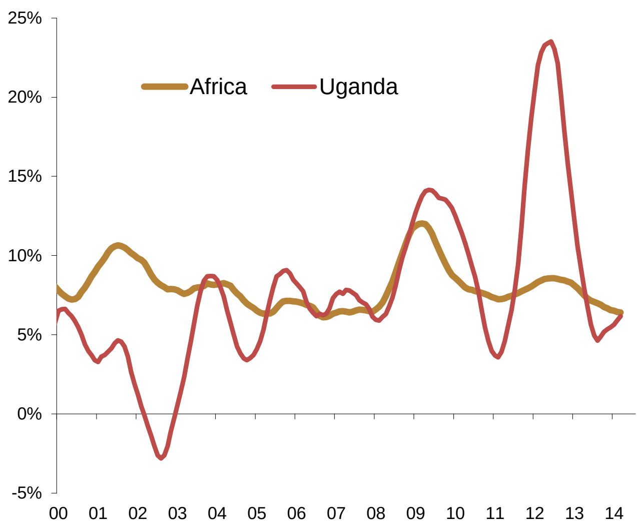
Sources: IHS, national sources, Euler Hermes

**GDP growth profile (y/y, 4 quarters cumulated, %)**




Sources: IHS, Euler Hermes

**Inflation (%)**




Sources: IHS, Euler Hermes

## External deficits will remain large...

The current account records large deficits (averaging -4.6% of GDP in 2000-08), which have increased significantly in recent years (over -11% of GDP in 2011). Moreover, the deficits will remain large, mainly reflecting large capital imports for investment in the oil and hydro-electricity sectors. Commercially-exploitable oil reserves will improve the external accounts in the future (crude oil and petroleum products currently account for 17% of the total import bill) but in 2013 and 2014 EH expects current account deficits of over -15% of GDP.

Data from the Uganda Coffee Development Authority indicate that the volume of exports of coffee was down -2.3% y/y in October 2013- September 2014 (-9% in value).

## ...but external debt ratios, though deteriorating, are low and import cover is comfortable

External debt ratios have been deteriorating in the last few years, partly as foreign obligations are taken on to exploit the country's natural resource boom. The external debt/GDP ratio is likely to be around 21.5% this year (17% in 2010) and debt/export earnings will be around 90%, compared with 67.5% in 2010. Even so, external debt is much improved following debt relief initiatives. Annual external debt servicing (repayments/foreign exchange earnings) is currently below 2%. Foreign exchange reserves of over USD3 billion cover over four months of imports.

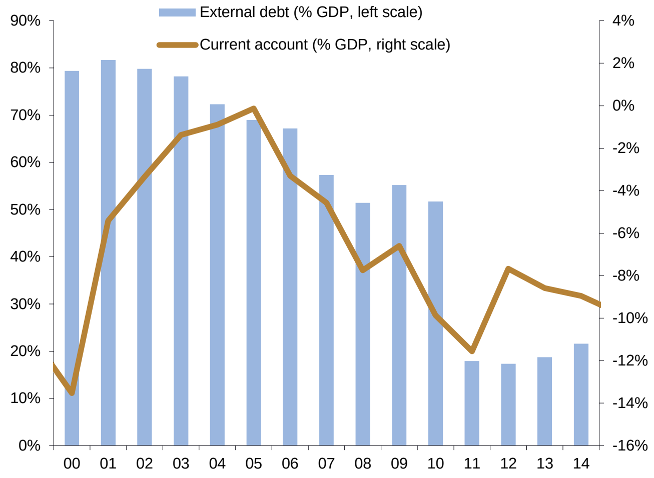
## Planning for the future

Data from UNCTAD indicate how Uganda has increased in attractiveness for the global investor community. In 2013, FDI inflows totalled around USD1.1 billion, compared with USD540 million in 2010. A large proportion of this relates to external interest in the country's nascent oil sector.

Development of the country's energy sector has increased popular expectations and the government needs to manage potential oil windfalls effectively, including an equitable revenue distribution. The challenge for the government also includes appeasing its development partners (IFIs, donor agencies and bilateral supporters) who want oil revenues to boost growth-enhancing infrastructure investment.

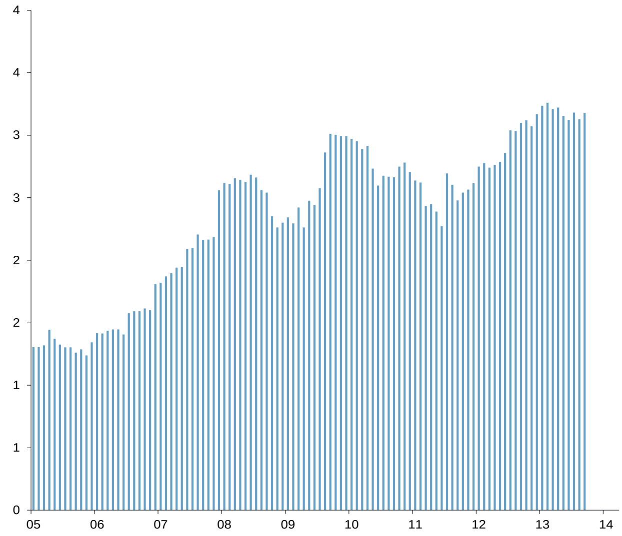
The Ebola virus has been restricted to West Africa to date but Uganda recently reported a case of another deadly pathogen, the Marberg virus. A full outbreak has not occurred but could have severe commercial implications if not contained. This underlines the need for an increasing health spend in the national budget.

**External debt and current account balance (% of GDP)**




Sources: IHS, Euler Hermes

**Foreign exchange reserves (USD bn)**




Sources: IHS, Euler Hermes