

Balancing act between growth and balances

General Information



GDP	USD26.4bn (World Ranking 102, World Bank 2015)
Population	39 Million (World Ranking 35, World Bank 2015)
Form of state	Republic
Head of government	Yoweri Kaguta MUSEVENI
Next elections	2021, presidential elections



Strengths

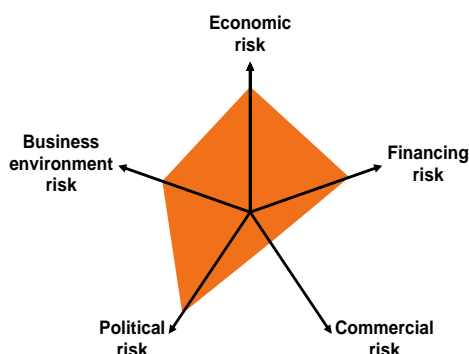
- The political system is relatively stable, compared to a chequered history, and transition to a multi-party democracy is being instituted
- Good record of GDP growth in recent years, albeit from a low base
- Reasonable relations with the IFIs and donor community, despite periodic concerns relating to achievement of some economic targets and perceptions of corruption
- Government has strong record of MDGs implementation
- 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 Museveni is becoming increasingly autocratic
- Instability in South Sudan and eastern Congo can spill over to Uganda
- Dependence on the primary sector exposes economic development to the vagaries of climatic changes, including periodic drought, and to internationally-determined commodity prices
- 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%	India
Kenya	10% 2 16%	Kenya
Dem. Rep. of the Congo	10% 3 11%	United Arab Emirates
United Arab Emirates	9% 4 11%	China
Sudan	6% 5 5%	South Africa

By product (% of total)

Exports	Rank	Imports
Coffee, tea, cocoa, spices, and manufactures thereof	26% 1 18%	Petroleum, petroleum products and related materials
Fish, crustaceans, molluscs and preparations thereof	7% 2 9%	Road vehicles
Telecommunication and sound recording apparatus	6% 3 6%	Medicinal and pharmaceutical products
Tobacco and tobacco manufactures	6% 4 5%	Telecommunication and sound recording apparatus

Source: UNCTAD (2014)

Economic Overview

Improved growth outlook

In 2016, growth is subdued at 5%. Tight lending conditions and lower investment are to blame. These are due to uncertainty associated with the presidential election, which was held in February.

Thanks to a rise in infrastructure investment - both public and private - the construction sector is set to be a fundamental growth driver in 2017 and 2018. This also applies to the power sector. Eight power generation projects, two of which are Chinese-funded, are slated to be commissioned in 2017-18. EH expects growth to jump to 5.5% in 2017 and 6.0% in 2018, finally bringing Uganda closer to faster growing regional peers (see chart 1).

Meanwhile, the low oil price has been a blessing and a curse. In the short-term, it eased Uganda's external deficit. Yet the long-term returns of the Lake Albert oil discovery, which has already attracted substantial foreign investment flows, will fall short of expectations.

External debt on the rise

Uganda's current account deficit is set to remain substantial at about -9% of GDP through 2018. This is driven by both large capital imports for investment by the Ugandan public and private sector, and a decline in export earnings. Meanwhile, external debt has climbed a yearly average of 30% from 2012 to 2016. It could reach 50% of GDP in 2018 (see chart 2). A 10% real exchange rate devaluation of the Ugandan shilling in 2015 explains some of the rise in real external debt.

Despite government commitments to broaden its financing base, Uganda's capital expenditures are still too reliant on external finance. Uganda spends over 13% of government revenue on interest expenditure, one of the highest burdens in sub-Saharan Africa.

Business Environment and Regional Integration

Improved infrastructure will help remove constraints on long-term growth. To make most of it the country needs a better business environment. Kampala City Authority implemented steps that make it easier to start a business and register a property. The rest of the country would be wise to follow suit.

Even more important for landlocked Uganda is the progress of regional integration in the East African Community (EAC) which accounts for 25% of Uganda's exports. Removing non-tariff barriers and improving regional infrastructure has been a policy priority. The fast-growing EAC (+5.5%) can be a resilient regional buffer against sluggish global trade and growth.

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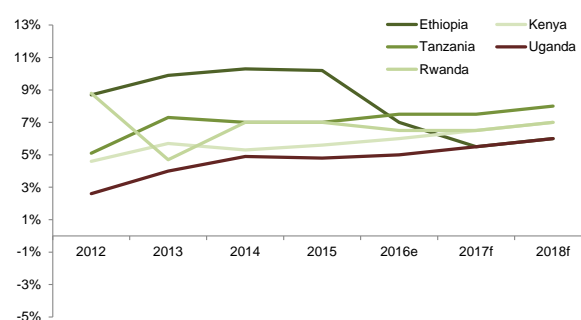
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Key economic forecasts

	2015	2016e	2017f	2018f
GDP growth (% change)	4.8	5.0	5.5	6.0
Inflation (% end-year)	5.5	6.0	6.5	7.0
Fiscal balance (% of GDP)	-3.0	-5.0	-3.0	-4.0
Public debt (% of GDP)	34.4	36.5	38.5	40.5
Current account (% of GDP)	-9.4	-8.7	-8.7	-8.9
External debt (% of GDP)	41.3	45.0	48.0	50.0

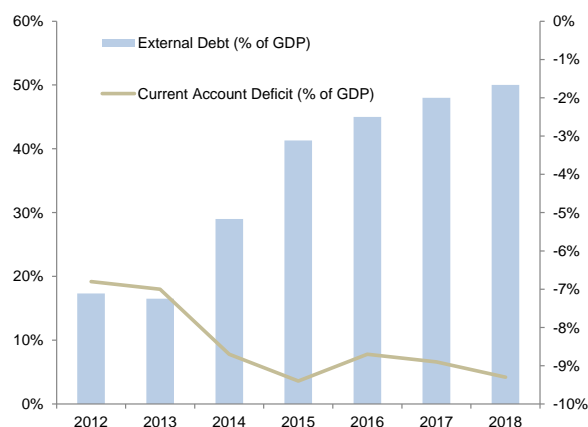
Sources: National statistics, IHS, Euler Hermes

GDP Growth among selected members of the East African Community



Sources: Euler Hermes

Current Account and External debt (% of GDP)



Sources: National statistics, IHS, Euler Hermes