Euler Hermes Economic Research

Country Report

Uganda

Solid growth despite a loss of momentum

General Information

GDP	USD25.53bn (World Ranking 99, World Bank 2016)
Population	41.5 Million (World Ranking 33, World Bank 2016)
Form of state	Republic
Head of government	Yoweri Kaguta MUSEVENI
Next elections	2021, presidential elections

Strengths

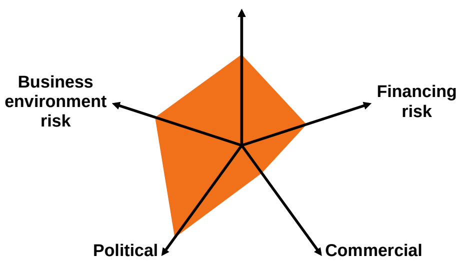
- The political system is relatively stable, compared to a chequered history, and transition to a multi-party democracy is being instituted
- Good record of GDP growth in recent years, albeit from a low base
- Reasonable relations with the IFIs and donor community, despite periodic concerns relating 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 are translating into (reasonably) increasing debt

Country Rating

C3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports
Kenya	20%	1	18%	China
United Arab Emirates	14%	2	17%	India
Rwanda	9%	3	9%	Kenya
Dem. Rep. of the Congo	8%	4	9%	United Arab Emirates
Italy	5%	5	5%	Saudi Arabia

By product (% of total)

Exports		Rank		Imports
Coffee, tea, cocoa, spices, and manufactures thereof	26%	1	15%	Petroleum, petroleum products and related materials
Cereals and cereal preparations	7%	2	9%	Road vehicles
Fish, crustaceans, molluscs and preparations thereof	6%	3	7%	Medicinal and pharmaceutical products
Non metallic mineral manufactures, n.e.s.	5%	4	4%	Specialised machinery
Tobacco and tobacco manufactures	5%	5	4%	Iron and steel

Source: UNCTAD (2016)

Economic Overview

Loss of momentum

The country saw a +7.6% average growth rate over the 2000-2010 period. Yet it experienced a loss of momentum seeing this average drop to +4.2% between 2011 and 2016. This moderation (especially in 2016) is attributable to unfavourable climatic developments (drought) but also to a credit contraction, as a consequence of rising non-performing loans on domestic banks' balance sheets. Following the +2.3% growth in 2016, EH expects Uganda's economic activity to expand at a faster pace of +4% and +4.5% respectively in 2017 and 2018, supported by investments in infrastructure and the oil sector.

Inflation was quite stable in 2016 at around 5.5%, despite the rise in food prices, caused by the drought. The latter triggered massive migratory movements from South Sudan to Uganda which is now home to more than a million refugees. The inflation targeting framework put in place since 2011 by the national central bank should allow for a better control of inflationary pressures in case of a currency depreciation or more hikes in food prices.

Imbalances: unavoidable?

From a public finance standing point, the global picture tends to improve, as Uganda implemented a relatively efficient tax system allowing for revenue increase.

As a result, the country's fiscal deficit narrowed from -4.5 to -3.9 % of GDP. It is estimated to further decrease in 2017 to -3.5%. However, rising public debt service could further increase the deficit to -5% of GDP in 2018.

Uganda's current account deficit is set to widen to -6.5% of GDP in 2017 and -7% in 2018 due to large capital imports for investment and increasing oil prices.

External debt is following an increasing trend. It increased from 41.3% of GDP in 2015 to 45% of GDP in 2016 and it is expected to reach 50% of GDP in 2018. Part of this pattern is explained by the depreciation of the Ugandan shilling. One of the challenges ahead will be to ensure exchange rate stability. Above all, the country's capital expenditures rely on external financing. As long as the financed projects are efficient and lead to growth gains, debt should remain sustainable.

Business environment to be improved

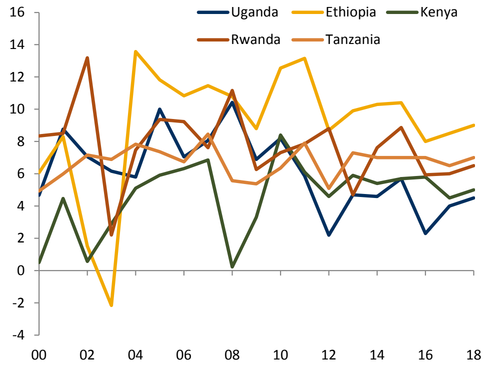
Despite some reforms, Uganda suffers from a poor business environment. In the World Bank's Doing Business 2018 survey Uganda ranks 122 out of 190 countries, down seven spots compared to 2017. Reforms are thus necessary to increase the country's attractiveness over the long-run.

Key economic forecasts

	2015	2016	2017f	2018f
GDP Growth (% change)	5.7	2.3	4	4.5
Inflation (%, yearly average)	5.5	5.5	6	5.5
Fiscal Balance (% of GDP)	-4.5	-3.9	-3.5	-5
Public Debt (% of GDP)	33.3	37.3	40.5	42
Current Account (% of GDP)	-7.1	-4.3	-6.5	-7
External Debt (% of GDP)	41.3	45	48	50

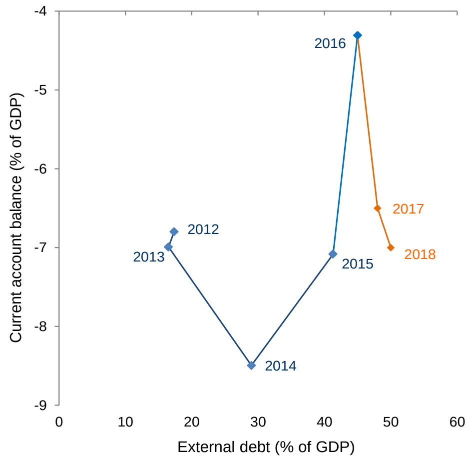
Sources: National statistics, IHS, Euler Hermes

GDP Growth among selected members of the East African Community



Sources: National statistics, IHS, Euler Hermes

Current Account and External debt (% of GDP)



Sources: National statistics, IHS, Euler Hermes

Contact Euler Hermes Economic Research Team

research@eulerhermes.com

Last review: 2017-12-13
Country Risk Analyst:
Stéphane Colliac, Nada Benslimane
stephane.colliac@eulerhermes.com