Growing steady
Economic Outlook 2013
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Introduction

Setting the stage

The Organisation for Economic Co-operation and Development (OECD) recently characterized the global recovery over the past four years as having ‘been muted and uneven, with increasingly divergent cross-country activity developments among both advanced and emerging economies.’

Global GDP declined by 0.7% to 3.2% in 2012 following adverse effects of a rise in international oil prices, political turmoil in the Euro Zone and slowing growth in emerging markets. A number of developed economies fell into double dip recession with high unemployment, slow growth, fiscal tightening and high growth in Government debt.

This slowed economic trade and reduced growth to 2.8% from 6.0% in 2011.

In 2013, the developed world is expected to grow by 1.9%; Japan (which is undertaking an aggressive quantitative easing programme under Abenomics) is expected to grow 1.6% whilst Europe is expected to contract by 0.5%. China is expected to grow at 7.8% in 2013 and this is considerably slower than the 5 year moving average. Given the last decade phenomenon of China-Africa trade, it remains unclear as to the impact that the new and lower Chinese GDP trajectory will have on the African continent. Given the last decade phenomenon of China-Africa trade, it remains unclear as to the impact that the new and lower Chinese GDP trajectory will have on the African continent. Interestingly, Kenya’s exports are not China facing and therefore any Chinese slowdown is expected to affect Kenya less than other more China facing Sub-Saharan Africa countries.

Africa

The World Bank’s African Pulse Report predicted that Sub Saharan Africa GDP growth is expected to average more than 5% over 2013-2015. GDP is expected to grow by 4.9%, 5.1% and 5.2% in 2013, 2014 and 2015 respectively. These growth numbers have caught the world’s attention especially when seen against the backdrop of the global economy. This popping over the radar moment was evidenced by the 8-times over subscription of the inaugural USD 400 Million Republic of Rwanda Dollar Eurobond. The Business Monitor International (BMI) reports that the majority of foreign investment will continue to flow into Africa’s resource based economies.

Key macroeconomic themes for the coming year are: inflation trending mildly upward, fiscal policy diverging on a country-by-country basis and Governments reconsidering policy with respect to the extractive industries. Private investment will be a key driver for economic growth. The Business Monitor International in 2012 reports that the West African region attracts the largest share of Foreign Direct Investment (FDI) due to its abundance in hydrocarbon resources. It forecasts that in the long run, FDI flowing into non-resource sectors is likely to increase, although infrastructure improvements and greater regional cooperation are vital if this is to happen on a meaningful scale.

Since 2007, investment into North Africa has stagnated (largely due to recent political dynamics); FDI projects into Sub Saharan Africa have grown at a compound rate of 22%. Among the star performers attracting growing numbers of projects have been Ghana, Nigeria, Kenya, Tanzania, Zambia, Angola, Mozambique, Mauritius and South Africa. An interesting phenomenon in FDI trends is the +32.5% compounded growth rate since 2007 in intra-Africa FDI.
East Africa
The discovery of Oil and Gas across the East African region, the peaceful election and transition in Kenya - which pointed to reduced political risk - and the aspiring plan to integrate the East African Community (EAC) block, all point to a solid economic future for the region in the medium to long term. However, the region’s economic growth is pegged on the foundations laid today.

Many countries in Africa still face occasional food challenges despite agriculture being a key contributor to economic growth. However, food security has always been a key issue every other year, more so with the recent trend of erratic weather patterns.

While the EAC intra trade has grown significantly, several reports indicate that there is still untapped potential. Trade between EAC member countries—with a key focus on Kenya, Uganda and Tanzania—could increase ten-fold if avoidable restrictions in the trade of goods, exchange of labour and services were done away with. Non-tariff barriers especially stand out as a key impediment EACs growth.

All in all, Kenya, Tanzania and Uganda are on stage for economic growth. All key economic indicators point to a positive trend. Inflation across the three main East African countries has been relatively stable, as have interest rates and other key fundamentals that determine economic growth. Forecasts on macro-economic fundamentals for the three countries are in favor of economic growth.

These facts notwithstanding, the EAC economic picture is tied to the economic caricature of Africa and the rest of the world. According to Africa Economic Outlook issue ‘Measuring the Pulse’ Africa’s outlook remains favourable despite headwinds from the global economy. Growth has remained relatively broad-based, with oil production, mining, agriculture, services and domestic demand as the main drivers, mitigating the adverse effects from global turbulences. Africa’s economic growth was 4.2% in 2012 and is projected to accelerate to 4.5% in 2013 and further to 5.2% in 2014.

Global prospects are gradually strengthening again, but downside risks remain elevated. This means that a weak recovery will likely resume in the major advanced economies, and activity is expected to remain relatively solid in most emerging and developing economies.

All the above factors—and many more elaborated in this outlook—point to a real opportunity for the EAC. With foreign investors looking to put money where the returns are higher, the levelling off political risk and the discovery of precious minerals, the stage is set for economic growth in the region.

How Kenya, Tanzania and Uganda dance at this stage depends on the music played by all the stakeholders.
Kenya
Economic scorecard

All sectors of the economy recorded positive results in 2012. Key performers included:

- **Agriculture**: This sector recorded a 3.8% growth compared to a contraction of 1.5% in the previous year. Despite a delay in long rains, key crops production comprising of coffee, tea and fresh horticultural products improved by 3.9%. The decline in tea production due to increased costs led to the value of tea marketed rising. Coffee traded increased by 35% as prices declined owing to unfavorable international prices.

- **Manufacturing Industry**: Manufacturing industry growth decelerated from an expansion of 3.4% in 2011 to a more subdued growth rate of 3.1% in 2012. Anecdotal evidence suggests that this sector may have grown defensively ahead of the election and then chose to run down inventory thereafter. Increasingly, Kenya is becoming a hub for the wider EAC region and it is expected that this sector of the economy will accelerate in line with the EAC. Energy costs remain a key constraint.

Kenya’s nascent mining industry encountered a great deal of volatility when the then Minister sought to introduce a 35% local ownership rule in the proposed amendment to the 2013 Mining Act. Base Titanium will start first shipments of Zircon, Rutile and Ilmenite from Q4 2013. We expect mineral exports to surpass coffee as Kenya’s fourth biggest export earner at this point.

**Gross Domestic Product (GDP) Growth**

The economy registered a notable recovery in the third quarter of 2012 to register a 4.6% annual GDP growth. According to the Economic Survey 2012, improved macroeconomic stability, increased domestic demand, modest growth in credit and a robust agricultural sector drove this growth.

Main sectors driving the economy were agriculture and forestry, wholesale and retail, transport and communication, manufacturing, financial intermediation and construction that all recorded positive results in the year. The GDP growth is provided below:

**Chart 1: Kenya real GDP growth rate (%)**

![Chart 1: Kenya real GDP growth rate (%)](image)
Inflation
Month on month inflation declined from 18.3% in January 2012 to 3.2% in December 2012 on account of reduced food and fuel inflation, a prudent monetary policy stance, exchange rate stabilisation and reducing energy costs. January 2013 saw a rise in inflation by 50 basis points to 3.7% for the first time in 12 months owing to increased food and fuel prices. Inflation rose further to 4.14% in April 2013 from 4.11% in March 2013 due to a rise in food inflation. Non-food and non-fuel inflation increased by 10 basis points to 4.3% in April 2013 compared with 4.2% in March 2013.

The overall inflation rate has remained within the Government’s medium-term target of 5% since October 2012.

Exchange rates
The Central Bank of Kenya reports that the Kenya shilling generally strengthened against major world currencies from January 2012 due to monetary policy actions. During the period between January 2013 and May 2013, the Kenya shilling appreciated by 4.3% against the US Dollar, going into the 83-levels in May 2013. CBK foreign exchange reserves increased during the same period providing a cushion to the foreign exchange market against both external and domestic shocks. Investor confidence following the general election also boosted the local currency.

The Shilling encountered entirely predictable weakness in the run up to the elections. The Central Bank ran down reserves defending the Shilling, however the peacefully held election probably gave them a net exchange gain profit of 3%. The Shilling was last trading at approximately Kshs 85 against the US Dollar (13 June 2013).
The optimism of the Kenyan shilling is reflected by the performance of the Nairobi Securities Exchange. The FTSE index rates the NSE as the best performer in the period January 2013 to March 2013.

**Interest rates**
High interest rates in the first half of 2012 slowed down the economy. A gradual decline in interest rates was experienced to March 2013 in tandem with the decline in the Central Bank lending rate (CBR). The CBK maintained a stringent policy having trimmed the Central Bank rate four times since July 2012 to 8.5% in May 2013. The average commercial bank deposit and lending rates stood at 6.39% and 17.87% respectively as at April 2013. The T bill rate was 10.3% in April 2013. Lenders are the main investors in short term Government paper and the drop in the T-bill returns resulted in lower lending rates.

Commercial lending rates however, have not followed and have lagged the CBR move. It is expected that commercial lending rates will continue to trend lower and support the economy.

*Source: Central Bank of Kenya*
Political review
The Kenyan political calendar was dominated by the March 2013 General Election held under the auspices of the new Constitution. The elections were peaceful and disputes were resolved by the Supreme Court and not on the street. These 2013 elections marked an inflection point in what has historically been outsize risk on the economy.

Key rating agencies including Business Monitor International (BMI) and Economic Intelligence Unit (EIU) predict that Kenya’s political environment will be dominated by the challenge of implementing the new Constitution. The new Constitution devolves resources to 47 counties within the country and aims to enhance equitable development and create new opportunities for growth centres. Checks and balances have also been incorporated for greater accountability.

Kenya’s foreign policy is driven by economic interests; especially the maintenance of close relations with donors and the advancement of regional integration of the East African Community (EAC). According to the EIU, Kenya will continue to maintain close ties with US and important developing countries such as China, India and South Africa.

However, the pending ICC cases continue to create some uncertainty. Civil war in neighbouring Somalia will remain the primary source of security- and terrorism-related risk. Frequent attacks on our soils are still a menace in various cities in the counties with higher prevalence in the Northern part of the country. The Government will have to take extra precaution to contain this situation.

Kenya has improved in the global corruption ranking carried out by Transparency International (TI). Ranked 139 out of 174 countries in 2012 it is evident that changes in the way Government institutions work started taking shape on the back of new laws. In 2011 the country was position 154 out of 183 countries.

Economic review
The IMF projects a GDP growth rate of 5.8% in 2013, spurred by growth in the agricultural sector and a decline in fuel prices.

The EIU forecast structural reforms such as weak infrastructure to be the main policy challenge in the medium term. It suggests that the on-going fiscal stimulus and structural reforms such as deregulation and privatisation will promote economic activity despite being constrained by the global slowdown.

The macro economy has been remarkably steady over the last 12 months. Bond yields have been well behaved and even the IMF in its latest assessment emphasized the absolute degree of macro stability.

Recent discoveries of oil in Kenya have the potential to spur rapid growth. In anticipation of a need in capacity building, the Government is undertaking structural and legislative reforms.

As a member of the integrated East African Community, Kenya’s external performance will also depend on the growth rate of East African countries, especially Uganda and Tanzania with whom Kenya has significant trade ties.

Kenya benefits from its strategic location, its communication with the rest of the world through the port of Mombasa and Jomo Kenyatta International Airport, and its relatively developed financial and services sectors.
Social review
The big mega trends in Kenya reflect the Sub-Saharan narrative, the widely hailed demographic dividend (close to 50% of Sub-Saharan Africans under 24 years old) and this demography needs to be absorbed into the workforce to ensure future civil stability.

The mobile phone is ubiquitous and is the primary tool for Kenyans to access the internet and marks the arrival of the information century in Africa. At the last count, it was estimated that 31% of the value of Kenya’s GDP was transferred through the M-Pesa mobile money system. M-Pesa and now M-Shwari have delivered an “off the charts” financial inclusion ratio at Kenya’s per capita GDP price point.

The UNDP Human Development Index (HDI) ranked Kenya at 145 out of 186. Kenya has an under five mortality of 85 deaths per 1000 births, life expectancy of fifty seven years, adult literacy rate of 87% (over 15 years) and GNI per capita of USD 1,541 as per 2005 rates. Although Kenya is best ranked among countries of the East African Community, with Uganda ranked 162, Tanzania 152, Rwanda at 167 and Burundi at 178, there remains massive room for improvement.

According to the preliminary results from the 2009 census conducted by KNBS, Kenya was estimated to have a population of 40.7 million at the end of 2012. Despite the gains in economic growth made post-2008 political crisis, poverty remains a major challenge.

The total number of educational institutions rose by 2.4% from 76,264 in 2011 to 78,102 in 2012. The increase could be attributed to the increase in demand for education. Enrolment in pre-primary schools increased by 35,455 in 2012, while enrolment in primary schools rose from 9.9 million in 2011 to 10.0 million in 2012. Total number of teachers in public primary schools grew by 1.1% to 176,243 in 2012.

Environmental review
The National Environment Management Authority (NEMA) established under the Environmental Management and Coordination Act (EMCA), is the principal instrument of Government in the implementation of all policies relating to the environment.

NEMA has become proactive in enforcing environmental laws. Companies operating in the Kenyan market are now faced with the realities of costs associated with compliance and environmental audits.

Environmentally friendly packaging is a key trend affecting consumer goods. The enforcement of environmental standards with regards to packaging could have an impact on the many industries whose current packaging material is focused on plastics, polythene pouches and tetra packs.

Legal review
Kenya dropped by 4 positions in the 2013 doing business report to position 121 from 117 the previous year. The process taken to register a business is still cumbersome despite being shortened. This is blamed on bureacracy.

Kenya Investment Authority in March launched a 100-day Rapid Results Initiative that will ensure the investment climate is favourable for both local and foreign investors. Some plans in place are implementing a one-stop-shop by equipping the authority with a digital system to shorten period used in filing manual investment forms.

There are no legal requirements on the equity ownership level, although foreign firms are encouraged to go into joint ventures with Kenyan companies or entrepreneurs. Whilst there are no blanket restrictions on investments in certain sectors, foreign investments in the national security, telecommunication and insurance sectors are subject to specific requirements on the percentage of ownership.
The Banking Act allows foreign lenders to own up to 100 per cent shares of a Kenyan bank, but listing regulations limit publicly owned institutions from having more than 75% foreign ownership. Kenya’s banking laws also bar individuals and companies that are not commercial banks, Government and State-owned companies from owning more than 25% of a lender licensed by CBK.

Policy and other legislative reforms like the Judiciary and police are underway. These, if maintained will support the implementation of the new Constitution.

**Sectoral analysis**

**Agriculture**

- The sector grew by 3.8% in 2012 compared 1.5% in 2011. Overall, the sector’s contribution to the GDP in 2012 was 25.9%, an increase from 23.8% in 2011.
- Performance in different sub-sectors varied due to the delay in long rains across the country. Crops production comprising of coffee, maize and sugarcane improved in 2012. Tea and horticulture sub-sectors saw a decline in production.
- Maize production increased by 16.3% to 40 million bags in 2012, resulting in a drop in maize imports valued at Kshs. 11.5 billion in 2011 to Kshs. 6.5 billion in 2012.
- The value of horticultural exports increased from Kshs. 88.6 billion in 2011 to Kshs. 89.9 billion in 2012, despite a decline in quantity of exports. This was attributed to better unit prices and direct access to export markets.
- The value of marketed tea rose marginally in spite of a decline in production due to high prices. Production was mainly affected by adverse weather conditions characterized by frost attack in some tea growing regions. The volume of marketed coffee registered an increase of 35% while prices contracted by 47% owing to unfavorable international prices.
- Overall, the value of marketed production in the agricultural sector increased by 3.9% from Kshs. 331.8 billion in 2011 to Kshs. 344.6 billion in 2012, partly attributed to better prices for some agricultural commodities such as sisal, tea, sugarcane, maize, wheat and dairy produce.

**Chart 6: Sector contribution to GDP (%)**

- Agriculture and Forestry
- Wholesale and retail trade
- Transport and communication
- Manufacturing
- Financial Intermediation
- Others
- Education
- Public Administration and Defence
- Real Estate
- Construction
- Hotel and Restaurants
- Electricity and water supply
- Mining and quarrying
- Fishing
- Adjustments
Manufacturing

- The manufacturing sector registered a growth rate of 3.1% in 2012, a slower growth compared to the 3.5% in 2011. This represented a 9.2% contribution to GDP. Slow growth was attributed to high production costs, high cost of credit, competition from imported goods and uncertainties related to the 2013 general elections.
- Total formal employment in the sector increased by 2.3% from 271,500 persons in 2011 to 277,900 persons in 2012.

Construction

- The sector grew by 4.8% in 2012, compared to 4.3% in 2011. The overall contribution to GDP slightly declined from 4.3% in 2010 to 4.1% in 2011.
- Cement consumption, a key input in the sector, increased by 1.7% from 3,870.9 thousand metric tons in 2011 to 3,937.3 thousand metric tons in 2012.

Transport and communication

- The sector grew by 4% in 2012 compared to a 4.7% growth in 2011. The transport and storage subsector recorded a slower growth of 3.1% in 2012, compared to 4.9% in 2011. The communication subsector grew by 5.3% in 2012, compared to 4.3% in 2011.
- Growth in communication subsector is mainly attributed to improved growth in the mobile telephony and internet markets that recorded a growth of 17.4% and 37.1% respectively in 2012.
- The overall contribution of the sector to GDP was 4.1% in 2012, similar to 2011.

Financial Intermediation

- The sector recorded a slower growth of 6.5% in 2012 compared to 7.8% in 2011. The performance was mainly attributed to decline in credit growth, following the tightening of the monetary policy stance in 2011. Credit growth declined from 30.8% in 2011 to 10.8% in 2012.
- The sector contributed 5.2% in to GDP in 2012 down from 6.4% in 2011.

Electricity and Water

- The sector recorded an overall growth of 10.3% compared to a decline of 2.6% in 2011.
- Electricity supply increased by 12.6% in 2012 compared to a contraction of 4.4% in the previous year. Total demand for electricity recorded a growth of 2.2% from 6,273.6 million KWh to 6,414.4 million KWh in 2012.

Tourism

- The sector recorded a slower growth of 2.6% in 2012 compared to 4.9% in 2011. The decelerated growth was attributed to the decline in the number of tourist arrivals and earnings.
- The number of hotel bed nights declined by 2.2% in 2012 to 6,860,000.
- The significant decrease in hotel occupancy by Europeans was attributed to the Euro crisis and perceptions / security concerns associated with the 2013 elections.
- The overall contribution of the sector to GDP slightly declined from 1.7% in 2011 to 1.6% in 2012.
Table 1: Sector contribution to GDP (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Average</th>
</tr>
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<td>4.9</td>
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<td>Construction</td>
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<td>1.7</td>
<td>1.6</td>
<td>1.6</td>
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<tr>
<td>Electricity and water supply</td>
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<td>1.1</td>
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<td>Mining and quarrying</td>
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<td>0.6</td>
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<td>Fishing</td>
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<td>GDP at market prices</td>
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<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>99.7</td>
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</table>

Source: KNBS, Economic Survey 2012

* Adjustments for (taxes, subsidies & financial services)
Forecast for 2013/14
Following peaceful polls in March 2013 and a smooth Government transition, the International Monetary Fund (IMF) forecasts 5.8% GDP growth in 2013 driven by favorable weather conditions. The Kenya National Bureau of Statistics forecasts Kenya’s economic growth in the short to medium to be bolstered by increased investor and business confidence, a stable Kenya shilling and sufficient rains that have been experienced so far.

The new constitution brings with it hopes for greater stability and efficiency. Implementation could, however, result in challenges between the misunderstood roles and responsibilities between various institutions.

The Kenyan economy is expected to accelerate sharply through 2013 and 2014 on reduced political risk premia, and a material acceleration via the extractive side. The EAC (and Kenya is the lynchpin and gateway state) is expected to accelerate and be the second fastest growing region in the world after ASEAN. Kenya however, cannot rest on its laurels, and must optimise operations at the entry port to the region, Mombasa thereby ensuring that its gateway advantage does not erode.

The Treasury will issue a sovereign Dollar Eurobond in the expected amount of USD 1 Billion with a 10 year expected maturity. The devolution process remains an unknown.

Table 2: Sector growth rate (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>Average</th>
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<tr>
<td>Agriculture and Forestry</td>
<td>(4.1)</td>
<td>(2.6)</td>
<td>6.4</td>
<td>1.5</td>
<td>3.8</td>
<td>1.7</td>
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<tr>
<td>Fishing</td>
<td>(13.2)</td>
<td>3.8</td>
<td>2.7</td>
<td>3.1</td>
<td>3.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Mining and quarrying</td>
<td>2.9</td>
<td>(4.5)</td>
<td>9.7</td>
<td>7.1</td>
<td>4.1</td>
<td>5.2</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>3.5</td>
<td>1.3</td>
<td>4.5</td>
<td>3.4</td>
<td>3.1</td>
<td>4.1</td>
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<tr>
<td>Electricity and water supply</td>
<td>5.3</td>
<td>(3.0)</td>
<td>9.7</td>
<td>(2.6)</td>
<td>10.3</td>
<td>3.9</td>
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<tr>
<td>Construction</td>
<td>8.2</td>
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<td>Wholesale and retail trade</td>
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<tr>
<td>Hotel and Restaurants</td>
<td>(36.1)</td>
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<td>Real Estate</td>
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<td>8.5</td>
<td>12.5</td>
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<td>9.2</td>
</tr>
</tbody>
</table>

Source: Kenya National Bureau of Statistics
Previous large scale devolution projects have widened debt to GDP ratios and Kenya is not expected to be any different. The continued contraction in the Euro area is of importance to Kenya because of the country’s close export linkages with the European markets and with tourism inflows.

The extreme high interest rate policy that the Central Bank of Kenya pursued which broke the back of the inflation rate (last at 4.1%) seriously slowed down credit growth in the economy. The Central Bank has sharply reduced the CBR rate to 8.5% from a cycle high of 18.5.

Kenya’s recurrent expenditure consumes more than 70% of the Budget and continues to crowd out development expenditure. The devolution process will load further recurrent expenditure on to the Budget and it remains crucial for the Kenya Government to resize its recurrent expenditure footprint in order to unleash more capital for infrastructure and other development spending.

Kenya posted a +43.1% Growth in FDI since 2007 and the International Monetary Fund estimates that Kenya received up to Kshs 425 billion (USD5 billion) in FDI last year for both new and existing projects.

It is predicted that inward FDI will remain robust and expand at above historical trend in particular because of the investments around the extractive industries.

Kenya’s current account deficit remains a challenge and will continue as an issue for the foreseeable future.

The price of fuel remains a key challenge for the economy. In the medium to long term geothermal, crude oil and gas discoveries will address this deficit. The Kenya economy remains very vulnerable to spikes in crude oil prices.
Tanzania
Economic Scorecard

Gross Domestic Product (GDP) Growth
The Tanzanian economy continued to perform strongly in the fiscal year 2012/13 and remained resilient to both internal and external shocks. The country’s real gross domestic product (GDP) growth rate increased marginally from 6.4% in 2011 to 6.8% in 2012 on the back of improved performance in manufacturing, mining, trade (wholesale and retail) and transport and communication activities. Despite the improved performance in Tanzania’s economy, the country continued to face major challenges as far as energy is concerned. Its heavy reliance on hydro-electric power (HEP) leaves it vulnerable to fluctuations in rainfall which ultimately affects the level of water in the reservoirs.

According to the Tanzania National Bureau of Statistics (TNBS), the services sector continued to dominate in 2012, accounting for over half of the country’s GDP, followed by agriculture and industry & construction sectors at 25% and 22% respectively.

- Growth in the services sector was driven by improved performance in the trade and repairs sub-sector which recorded a growth rate of 7.0% in the third quarter (Q3) of 2012 (compared to a growth rate of 6.6% in Q3 of 2011). This growth was attributed to increased trading activity of both locally manufactured goods and imported merchandise.

- Growth of the agriculture sector, which employs approximately 75% of Tanzania’s labour force, remained subdued at about 1.4% for Q1 of 2013 reflecting the uncertainty emanating from the heavy dependence on rain-fed production and limited use of modern farming techniques.

- Although the manufacturing sub-sector’s growth dipped from 10.4% in 2011 to 9.9% in 2012, it remained the top performing sub-sector in industry and construction, driven by an increase in production of food products, beverages and cement. Going forward, the manufacturing subsector is projected to perform strongly, mainly driven by the increased production of chemicals, textiles, cement and food processing. The mining subsector was also buoyant in 2012 and its contribution to GDP reached 4.6% due to an increase in the export of gold. However, prospects in this subsector have dimmed due to a decline in gold prices.
In the medium term, growth forecasts for 2013 and 2014 are sound at about 7%. According to Africa Economic Outlook, the services sector in Tanzania is projected to grow at 8.8% in 2013 driven mainly by improved performance of the communications (projected to grow at 19%) as well as trade and financial intermediation (both projected to grow at 10%).

On the other hand, the industry and construction sector is projected to grow at 9.8% in 2013, largely driven by the manufacturing subsector (projected to grow at 11.3%) and the construction subsector (projected to grow at 9.8%).

**Inflation**

Tanzania’s headline inflation continued to fall consistently from a high of 16.1% registered in 2012 to a low of 8.3% in May 2013. The country registered single-digit inflation (for the first time in 21 months) of 9.8% in March 2013. Core inflation, which excludes food and energy, also declined from an annual average of 8.8% in 2012 to 5.9% by end of March 2013. This decline was attributed to improved food supply, continued stability in the global oil prices (oil remains one of its largest imports) and stabilisation of the Tanzanian shilling against the US dollar. Given these improvements, inflation is projected to continue with the downward trend in the near to medium term. However, despite declining inflation rates, food prices remain relatively high in Tanzania, with adverse implications for household welfare and the poorer segments of the population.
Exchange Rates
Tanzania enjoyed currency stability throughout 2012 and the first quarter of 2013 owing to its overall prudent fiscal and monetary policy stance, and increased foreign capital inflows off-setting devaluation pressures.

During the first quarter of 2013, the Tanzanian Shilling remained stable, averaging Tzs 1,593 to the USD, and oscillating between Tzs 1,603 and 1,579 to the USD. Despite higher domestic inflation rate than most neighbouring countries, the Tanzanian Shilling is currently among the most stable currencies in the region.

Going forward, the Tanzania shilling is forecast to depreciate against major currencies on the back of rising demand from the oil and energy sector. If this depreciation continues, the inflation rate could revert back to double-digits, driven by the potential rising costs of fuel imports.

Interest rates
Bank of Tanzania (BoT) increased the overall T-bill rate by 1.4% from 13.0% in February 2012 to 14.4% in May 2012 in a bid to spur demand for these short-term securities. Following Government efforts to lower demand for the Tanzanian shilling and alleviate the problem of declining market liquidity, the T-bill rate remained below 14.0% in the 12 months to January 2013.

The lending rate increased steadily from 14.8% in January 2012 to 15.6% in January 2013 as a result of a slowdown in the growth of private sector credit to 18.2% in 2012, down from 27.2% recorded in the year ending December 2011. In addition, this period was characterized by scarce liquidity in the financial system as a result of:
- Tight monetary policy instituted by the BoT to curb inflation and the shilling’s depreciation;
- Developments in commercial banks’ investment preference in foreign assets; and
- Strict Government expenditure.
Monetary and Financial Sector
Monetary policy remained tight for the first quarter of 2013. The Bank of Tanzania (BoT) has signalled its intentions of sustaining a tight monetary policy stance by maintaining the key policy rate at 12%. Growth of money supply slowed down to 13.5% compared to 15.7% in corresponding quarter in the previous year. Lending rates averaged 15.5%, while deposit rates averaged 3%.

In line with these money supply and interest rate developments, growth of private sector credit slowed to about 18%, compared to 24.3% recorded in the corresponding period in the previous year. Most of the private sector credit was channelled to manufacturing, building and construction, trade and personal activities.

Fiscal Stance and Public Debt
The current fiscal deficit in the financial year (FY) 2012/13 is projected to be slightly higher than in the previous year when it was estimated at 9.6% of GDP. Based on the available information, cumulative Government expenditures for the first half of the fiscal year 2012/13 amounted to about Tzs 6,023.2 billion (USD 3.8 billion) which was about 88% of the budget estimate for the period.

Recurrent expenditure amounted to Tzs 4,018.5 billion (USD 2.5 billion), equivalent to about 87.2% of the budget estimate, while development expenditure reached Tzs 2,004.7 billion (USD 1.3 billion), equivalent to 88.6% of the budget estimates for the period. Also, cumulative domestic revenue amounted to Tzs 4,228.0 billion (USD 2.7 billion) for the first half of the fiscal year 2012/13 Tzs 5,037.6 billion (USD 3.2 billion), equivalent to about 95.4% of the budget estimates.

The country’s dependence on grants seems to be going in the wrong direction. Grants amounted to Tzs 1,138.6 billion (USD 715 million), compared to the projected amount of Tzs 1,076.8 billion (USD 676 million).

On the other hand, tax revenues accounted for about 92% of domestic revenues, and tax revenue performance continues to be driven by trade taxes. Moreover, tax revenues were boosted, following the on-going improvements in tax administration and intensified tax audits targeting large taxpayers. Revenue collections have been boosted by the continued increase in taxable transactions in some sectors, notably, telecommunication and oil and gas.

Nonetheless, Tanzania performs poorly in domestic revenue mobilisation. Estimates from national data (reported in the 2012 African Economic Outlook by the African Development Bank) indicate that Tanzania’s tax revenue as a percentage of GDP in 2012 stood at 14.4%, the same level as Burundi. While it is better than Uganda (12.8%) and Rwanda (12.7%), it is well behind Kenya (22.4%). This can perhaps be attributed to the informal sector whose incorporation into the tax-bracket has proven to be a challenge to the tax administrators.

Chart 11: Fiscal Operations (% of GDP)
Fiscal space is declining. While strong economic performance has created fiscal space for increased non-concessional financing of priority infrastructure spending, the fast accumulation of debt due to external non-concessional borrowing calls to attention debt management measures. The Government is in the process of addressing financial problems facing Tanzania Electricity Supply Company (TANESCO), which had accumulated arrears in excess of an estimated USD 300 million by the end of first quarter 2013. There are also other accumulated arrears by the central Government, largely due to unpaid construction works and concerns over the potential unsustainability of the public pension system.

An outstanding feature of Tanzania’s fiscal performance relates to its heavy dependence on foreign aid such that it has been regarded as the “darling” of the donor community. In recent years, however, the Government has demonstrated a commitment to wean itself off aid dependence through various measures such as broadening the tax base, reducing tax exemptions, sustaining macroeconomic stability and improving the business environment to spur private-sector growth. Thus, the percentage of foreign aid to the overall national budget has been decreasing consistently from 42% in 2007/08 to about 28% in 2011/12. This could be attributed to reductions in funds from donors occasioned by the adverse effect of the global economic crisis in their own countries.

**External Sector and Balance**

Tanzania’s trade deficit decreased, largely due to higher exports of minerals and agricultural cash-crops. Tanzania’s export of goods and services reached USD 8.7 billion during the year ending March 2013, compared to USD 7.5 billion recorded during corresponding period in the previous year. The key drivers of this performance were gold exports, coffee, tobacco, and tourist travel receipts.

Total imports reached USD 12.66 billion, representing a marginal increase over the USD 12.64 billion recorded during the same period in the previous year. Consequently, the current account narrowed significantly to a deficit of USD 3.7 billion, compared to a deficit of USD 4.6 billion in the corresponding period in 2012.

External risks are associated with Tanzania’s capital account, which so far remains under control. At the end of first quarter, gross official reserves amounted to USD 3.8 billion, sufficient to cover about 3.8 months of projected import of goods and services. However, despite this conformance level of external reserves, during the first quarter of 2013, the country experienced pressures on the balance of payments, with an observed decline in net foreign assets. The external account remains vulnerable to shocks, notably international oil price developments. The situation is worsened by the continued financing problems in the energy sector, which relies heavily on the imported fuel, and whose debt may have exceeded 1.5% of GDP by end of the quarter under review.

**Chart 12: External debt (% of GDP)**

![Chart 12: External debt (% of GDP)](chart.png)

*Source: Bank of Tanzania*
Tanzania’s external balance remains under control, largely due to increased non-concessional borrowing. The external debt stock stood at USD 11.2 billion at the end of first quarter in 2013, compared to USD 9.9 billion recorded at the end of corresponding period in 2012. The increase was mainly on the account of new external debt disbursements. In terms of external debt to GDP, the ratio fell from 41.6% in 2010/11 to about 37.3% in 2011/12. The last debt sustainability analysis in 2012 indicates that the country’s risk of debt distress remains low because of the high GDP growth forecast and an external debt stock that is predominantly concessional. However, the level of external non-concessional borrowing has grown significantly since 2010 to among other things, finance investments in natural gas and the energy sector. By the end of first quarter, the contracted non-concessional loans stood at around 7% of GDP and, by end of June 2013, could reach almost 8.9% of GDP.

**Political review**
Politically, Tanzania has remained relatively stable in 2012 and is expected to continue to enjoy this political stability in 2013. However, security risks associated with religious extremism have increased (albeit from a very low base), as highlighted by the bombing of a church in Arusha on 5 May 2013 that claimed the lives of 3 people and injured over 50 worshipers.

According to the Economic Intelligence Unit, another potential source of unrest in Tanzania is the people’s dissatisfaction with the distribution of revenue from the gas sector, as highlighted by the violent protests that erupted in the gas-rich region of Mtwara in 2013. Such cases of violent unrest are virtually unprecedented in Tanzania and their emergence points to a shift in the political landscape. The Government has published a draft of the National Gas Policy (NGP), which is to serve as a guideline for subsequent laws governing the sector.

**Economic review**
The GoT’s policy objectives in 2012/13 focused on sustaining macroeconomic stability through the implementation of the Five-Year Development Plan. Based on the estimates of the country’s performance in 2012/13, the country has achieved some of its goals. For example, the GoT set out to attain a GDP of 6.9% for fiscal year 2012/13–based on the projected GDP growth of 6.8% for 2012. Forecasts show that GDP for 2013 is 7% signalling that the country may have achieved this goal. In addition, GoT intended to attain a single digit inflation rate by June 2013 and recorded monthly single digit inflation in March-May 2013.

In 2013/14, the Tanzanian economy is expected to remain buoyant supported by:
- Improvements in electricity supply;
- Prospects of increase in foreign direct investments particularly in oil and gas explorations; and
- Continued implementation of major infrastructural projects.

**Social review**
Although the unemployment rate in Tanzania in early 2013 remained below the global unemployment rate of 12.7%, it increased marginally to 11.7% in 2012 up from 10.7% in 2011. Data released by the GoT also reveals that over 65% of the Tanzania population is living below the poverty line in early 2013. This was a result of the poor education system in the country that has resulted in the youth falling short in terms of technical skills and knowledge and consequently losing jobs to foreigners. In addition, according to a report published by the World Bank, employed youth in Tanzania usually hold precarious jobs in the agricultural sector (without any formal contracts or benefits).
In order to tackle these socio-economic issues, the GoT has laid down several strategies to spur entrepreneurship among the youth including increased investments, value addition and creating conducive environment for self-employment. Despite these efforts, majority of the youth are still waiting for the Government to create jobs for them.

**Technological review**
According to the Minister for Communications, Science and Technology the Government of Japan, through the United Nations Educational, Scientific and Cultural Organisation (UNESCO), is set to fund the capacity building workshop on Science, Technology and Innovation (STI) Policy in Tanzania. In addition, the EAC plans to sign a Memoranda of Understanding with various local universities in Tanzania, Kenya, Uganda, Rwanda and Burundi, a move calculated at enabling the community secretariat to bridge the academic institutions with the region’s industry sector.

**Environmental review**
The Government, in collaboration with various stakeholders, has emphasised the importance of promoting, strengthening and sensitising community participation as a strategy to invigorate environmental conservation and management. The environment is important to the Tanzanian economy not only because it provides the basic resources for socio-economic activity which drives the growth of the economy, but also because it holds natural habitats for both plants and animals that contribute significantly to attracting tourists. The total contribution of travel and tourism to GDP in Tanzania was Tzs 6,511.8bn (13.2% of GDP) in 2012 and is forecast to rise by 3.6% in 2013, and to rise by 6.4% pa to Tzs 12,496.7bn in 2023.

**Legal review**
Overall, Tanzania slipped down one position to 134 (out of 185 economies) in the ‘Doing Business Report 2013’. It was, however, noted that the cost of starting a business in Tanzania (as a percentage of income per capita) was 28.2% in 2013, much lower than that of Sub-Saharan Africa which stood at 67.3% in the same period.

**Forecast 2013/14**
Tanzania’s overall growth prospects in the medium term depend heavily on improving its energy situation. Hydropower accounts for about 55% of energy sources and TANESCO continues to deliver power at high cost – not only because it needs to purchase expensive electricity generated by independent power producers in order to remedy the shortage, but also because it is plagued by inefficiencies in distribution and revenue collection.

While energy generation stabilised somewhat in 2012, it worsened in early 2013. With financial arrears in the order of about 1.3% of GDP, TANESCO would need significant investment amounts to overhaul its antiquated production, transmission and distribution infrastructure. In Dar es Salaam (the major industrial and commercial capital) alone, TANESCO needs to replace most of the transformers (over 35 years old) serving the city centre. Authorities view the successful completion of the Mtwara-Dar es Salaam gas pipeline project and the construction of combined cycle power plant at Kinyerezi as a solution to the current problems thanks to the expansion of much-needed gas-to-electricity generation.
The business outlook however remains positive premised on significant discoveries of natural gas, with proven recoverable gas resources of about 33 trillion cubic feet. These discoveries, which could lead to establishment of a liquefied natural gas (LNG) plant continue to broaden foreign direct investment (FDI) prospects, further boosted by the country’s proximity to fast-growing Asian economies (particularly India), which could be an attractive destination for LNG exports. However the recent skirmishes in Mtwara might adversely impact this and indeed other potential investments in the Oil & Gas sector.
Uganda
Economic Scorecard

Gross Domestic Product (GDP) Growth
Uganda’s economy has shown signs of modest recovery from the slowdown experienced during the 2011/12 fiscal year. While the economy’s performance before the global economic meltdown associated with the 2007/08 financial crisis was largely robust, the period subsequent to the crisis has been characterised by a steady decline in real GDP growth that culminated in low 3.4% output expansion in 2011.

Uganda’s GDP growth increased gradually in 2012 to 4.9% bolstered by improved performance in the transport, communication, financial services and construction sectors. The country however continued to experience frequent electricity shortages which affected industrial activities in the nation. Although the 250 megawatt (MW) Bujagali hydroelectric dam has bumped national supply up to around 600MW, demand, which currently stands at 450MW, is increasing by 10-15% annually.

A GDP of 1.8% was recorded in the first quarter (Q1) of 2012 (compared to 0.6% in the previous quarter) owing to improved performances in both the agricultural and services sector that grew by 3.1% and 3.4% respectively. However, in the first half of 2013, economic growth stagnated following decreasing public spending coupled with declining exports.

While the estimated real growth for 2012/13 is better than the earlier projection of 4.5%, the growth rate is still below the 7% target set by the government and its development partners as necessary to reduce poverty levels, especially cognisant that the population is expected to growth at an annual rate of 3.4%.

Going forward, Economic Intelligence Unit (EIU) projects that economic growth will increase to 6.0% in 2014 on the back of increased investments in the oil sector. Oil production is expected to exceed 100,000 barrels/day in 2017, providing a large economic boost and lifting the real GDP growth rate into double figures.

Chart 13: Uganda real GDP growth rate (%)
In line with the Tanzanian economy, the services sector dominated contribution to GDP in Uganda, followed by industry and agriculture respectively. Reports published by the Uganda Bureau of Statistics (UBS) reveal that the services industry grew by 3.4% and 1.5% in the first and second quarter of 2012 respectively. This growth was buoyed by improved performances in the following subsectors:

- Transport and communication – growth was driven by an increase in both cargo and passenger activities; and
- Financial services – this period was characterised by declining interest rates that resulted in increases in domestic credit.

Despite the growth of the construction sub-sector in Uganda, marginal growth was recorded in industry mainly as a result of a decline in the mining and quarrying activities. In particular, reductions in quantities of mined minerals (pozzolana, gold, cobalt, vermiculite and kaolin) were registered in Q2 of 2012 resulting in a decline of 6.1% in this subsector. Going forward, construction activity is expected to remain robust, driven by both donor-funded and privately financed building projects.

The agricultural sector, which employs over 70% of Uganda’s labour force, continued to experience dampened growth in 2013 as a result of inadequate rainfall. This sector, which includes forestry and fishing, contributed approximately 23.9% of the country’s GDP in 2013.
Inflation

The annual inflation rate declined from 18.7% in 2011 to 16.0% in 2012 owing to the declining costs of food and energy costs. During 2012, month-on-month inflation decreased significantly from 11.9% in August 2012 to 5.4% in September 2012, and thereafter remained in the single-digits for the first 5 months of 2013. According to the UBS, this was mainly driven by the declining food prices as a result of increased food supply. The Bank of Uganda (BoU) forecasts that core inflation will stabilise around the bank’s 5.0% medium-term inflation target in the year to May 2013. The change in forecast was driven by the following factors:

- Weaker-than-expected household consumption in the first half of 2013. This is likely to dampen demand side pressures on consumer prices; and
- Higher-than-expected appreciation of the exchange rate in 2013. This will dampen the prices of imported consumer goods.

According to the EIU, inflation is forecast to average 6.7% in 2013-15 owing to stable commodity prices and fiscal tightening and thereafter increase significantly to 15.4% in 2016 on the back of pre-election spending, before easing in 2017.

Interest rate movements

The T-bill rate declined significantly from 17.3% in March 2012 to 9.8% in November 2012 due to Government efforts to reduce the money supply in the market in order to keep inflationary pressures low. Similarly, the lending rate halved in the year to March 2013 from 20.0% in March 2012 to 10.1% in March 2013 as a result of easing inflationary pressures and weaker-than-expected household consumption. The fall in lending rates, if it persists, is likely to recover credit demand, thereby boosting investment and consequently economic activity.
However, despite this fall in the cost of borrowing in local currency throughout 2012 and the first half of 2013, Uganda’s interest rates remain high compared to both the global economy and the East African Community. The savings rate remained stable oscillating between 3.1% and 3.3% in the year to March 2013.

**Exchange rates**
The exchange rate of the Ugandan Shilling (UGS) has averaged 2,541 shillings to the dollar from January 2012 to May 2013. This has mainly been as a result of stabilising economic conditions both locally and globally. High fuel prices and commodity prices in 2011 had resulted in high inflation rates and unstable exchange rates, but the gradual tightening of monetary policy and decreasing global fuel prices resulted in a stable exchange rate.

In February 2012, the shilling appreciated by 3.7% as a result of significant dollar inflows from offshore investors and export proceeds, amidst tight liquidity conditions. From March 2012 to October 2012, the shilling remained relatively stable before depreciating by 1.7% in November 2012, compared to October 2012, due to increased dollar demand particularly from the energy, power and manufacturing sectors. The shilling continued depreciating in December and January following news of the suspension of donor aid (which accounts for 25% of government budget) after corruption allegations. The shilling has since then stabilised appreciating by 3.6% from January 2013 to May 2013. This has mainly been attributed to subdued dollar demand and banks unwinding their long dollar positions in anticipation of further strengthening of the Uganda Shilling.

According to EIU, the impact of positive factors such as steady economic growth and robust inflows of foreign exchange on the currency will be partly offset by large fiscal and current-account deficits and strong corporate demand for US dollars.

The average exchange rate to the dollar is projected to weaken by an annual average of 5.2% from UGS 2,506 in 2012 to UGS 3,102 in 2016 before appreciating slightly in 2017 as large-scale oil production starts.

**Macroeconomic Stability – The Policy Thrust**
The government of Uganda’s continuous structural and policy reforms is aimed at enabling the private sector to become the engine of growth. The underlying macroeconomic policy environment – fiscal and monetary policies – continues to be guided by three key objectives, namely maintenance of stable inflation, interest and exchange rates; increased credit to the private sector; and enhancement of the economy’s international competitiveness. The government has in good measure been successful in the accomplishment of these objectives, albeit with challenges arising from time to time.
**Monetary Policy**

The BoU is the Central Bank of the Republic of Uganda charged with the responsibility of fostering price stability and a sound financial system. Its main objective is to control core inflation over a medium term horizon by regularly setting the interest rate, known as the Central Bank Rate (CBR), as the operating target of monetary policy. The CBR is set once a month and is publicly announced, so that it clearly signals the stance of monetary policy during the month. The CBR is set at a level which is consistent with moving core inflation towards the BOU’s policy target of 5% over the medium term.

Monetary policy was tight (high CBR rate) in 2011 following high inflation rates and unstable exchange rates in the year. This was mainly attributed to high international fuel prices and commodity prices. Inflation reached a high of 30.5% in October 2011 before gradually reducing to 11.9% in 2012. Further stabilising fuel prices in 2012 and 2013 saw the inflation rate reach 3.4% in April 2013. As a result of this, and a need to stimulate domestic demand to support the economy, BoU, eased monetary policy during this period, with the CBR being reduced from 23% in November 2011 to 11% as at June 2013.

According to BoU, there are reduced risks that inflation will be higher than the medium target of 5% in 2013, due to reduced household consumption demand and appreciation of the exchange rate. BoU has managed to maintain a degree of stability in foreign exchange markets, with the US dollar exchange rate fluctuating around the 2,500 Ugandan shillings (UGS) to the dollar mark for most of the year. According to the EIU, BoU paused its programme of US dollar purchases in April 2012, following a two-year period of recovery in foreign-exchange reserves. BoU is expected to restart systematic foreign-exchange purchases later in 2013 as, although reserves have increased since 2011, reaching 4.5 months of import cover, they remain below the levels maintained before the international financial crisis.

All in all, current conditions indicate that the economy is expected to remain stable making it unlikely for BoU to tighten monetary policy in 2013.

**Fiscal Policy**

According to the African Economic Outlook, fiscal policy was tight in 2012 following high inflationary pressures experienced from 2011. With the approval of the 2011/12 budget, the government sought to reverse the expansionary fiscal policy pursued in the run up to the February 2011 Presidential election, in order to rein in spending, reduce the budget deficit and help stabilise the economy. Government spending for 2011/12, which was initially projected in the budget at 21.5% of GDP, down from 23.2% in 2010/11, only reached 18.6% of GDP, according to the Ministry of Finance.

The EIU reports that, Uganda’s fiscal outlook has weakened considerably after donors froze USD 260 million of aid following corruption allegations. It is estimated that aid accounts for between 25% and 35% of government revenue. To exacerbate the problem, revenue for the first six months of fiscal year 2012/13 was around 5% below budget. This has resulted in the government introducing a range of new revenue measures including an increase in fuel duty, new levies on the telecommunications sector and improvements in administrative procedures.

The Government has indicated that infrastructure spending will be a key priority, with various projects already kicked off such as the 250-MW Bujagali hydroelectric dam.

The EIU expects that the Government will increasingly use less concessional forms of finance to cover the current budget deficit, but this is not expected to undermine debt servicing capability, since public debt will remain relatively modest.
External Sector
The economy’s current account position for the year 2012 was generally negative and the current account position continuously widening into the first quarter of 2013. Notably, there was a gradual increase in export inflows corresponding to a relatively must faster increase in import levels, implying an declining net trade balance position that less than offset the positive movements in the income and current transfers’ accounts.

As the economy embarks on the 2013/14 fiscal year, exports are expected to mildly increase. The slow pace is attributed to recent upward trend in international coffee prices slowing and fish production moderating, increasing fish farming notwithstanding. Over the same period, imports – driven mainly by capital imports related to infrastructure development, particularly energy, roads and oil-related investments – are expected to increase. This will result in the trade deficit widening at a time when both the service account and the income account will remain in deficit position, even though the latter is expected to narrow slightly to reflect reduced interest payments on external debts.

Balance of Payment (USD Millions)

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<th>2011</th>
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<td></td>
<td>Q1</td>
<td>Q2</td>
<td>Q3</td>
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<td>Current Account Balance</td>
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<td>(46.27)</td>
<td>(28.39)</td>
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<td>Capital &amp; Financial Account Balance</td>
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<td>69.92</td>
<td>188.86</td>
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<tr>
<td>Overall balance</td>
<td>(46.61)</td>
<td>(98.81)</td>
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Political review
The next elections are slated for 2016 and the current President has indicated his intention to run. The current political scene is dominated by the National Resistance Movement (NRM) party which took up a majority of the seats in the last elections held in 2011.

The political environment has been relatively stable, with occasional regional tension and conflicts with both the Democratic Republic of Congo and Southern Sudan. Key risks to political stability relate to the recent discovery of oil in the country. Political haggling and wrangles have already been witnessed over awarding contracts, with the opposition claiming that these contracts have been awarded under questionable circumstances.

The Ugandan economy has in the recent past, remained largely resilient to the political swings and these are not expected to have a significant effect in the near term future.
Economic review
Economic growth in 2013 is expected to reach 5.7%, mainly supported by increased activity in construction, transport, telecommunications, financial services and the expansion of the oil industry. The government of Uganda’s continuous structural and policy reforms is aimed at enabling the private sector to become the engine of growth. The underlying macroeconomic policy environment – fiscal and monetary policies – continues to be guided by three key objectives, namely maintenance of stable inflation, interest and exchange rates; increased credit to the private sector; and enhancement of the economy’s international competitiveness. The government has in good measure been successful in the accomplishment of these objectives, albeit with challenges arising from time to time.

Downside risks to growth include power shortages and unpredictable weather patterns which impact on the agriculture sector (employs over 70% of the country’s labour force). Also, disputes over product sharing arrangements and political bickering may slow down expansion of the oil industry.

Social review
According to the World Bank, the population of people living in poverty declined to 24.5% in 2009/10 from the 56% poverty rate recorded in 1992/93. This resulted in Uganda surpassing the 2015 Millennium Development Goal of halving the poverty rate recorded in 1992/93. Despite the poverty reduction, per capita GDP growth averaged only around 4% over the past two decades due to rapid population growth. According to the 2011 UN Human Development Report, Uganda’s human development index increased from 0.422 in 2010 to 0.446 in 2011, reflecting improvements across all three key development dimensions: health, education and living standards. Although Uganda is set to meet the first MDG to eradicate extreme poverty and hunger, key areas where it lags behind include health related reforms, universal primary education and unemployment.

Environmental review
According to the African Economic Outlook, biodiversity conservation and environmental management continues to be a source of concern in Uganda. In 2011/12, Uganda’s annual forest cover loss was at 92,000 hectares, with a particularly high rate in protected areas. Following this, the government declared a national ban on logging in March 2012, although its effectiveness remains to be assessed.

The 2012 Water and Environment Sector Performance Report, released by the Ministry of Water and Environment in October 2012, highlights population growth, poverty, urbanisation, agricultural expansion, informal settlement development, industrialisation, and the impact of climate variability among the key problems.
**Technological review**

Science and technology was placed among the four priorities of the National Development Plan for 2010/11 to 2014/15. The Uganda National Council for Science and Technology (UNCST) is a Government of Uganda Agency mandated to facilitate and coordinate the development and implementation of policies and strategies for integrating Science and Technology (S&T) into the national development process. UNCST has worked to improve science and technology in Uganda through the Millennium Science Initiative (MSI) Project whose objective is to build capacity in and mobilise the population to embrace science and technology so as to enhance economic transformation, prosperity, and human development by 2015.

Other technological developments in Uganda in the recent past have included the boom in the telecommunications sector which has seen the proliferation of mobile phone usage and demand for data services increase. The country has witnessed increased fibre connectivity improve internet connectivity. Mobile money business has also been instrumental in increased mobile phone usage. As of December 2011, mobile phone subscribers had increased by 30.5% from 12.8m in 2010 to 16.7m in 2011.

**Legal review**

In the Doing Business 2013 report, Uganda ranked 120 out of 185 economies on ease of doing business. Its worst ranking was in trading across borders where it ranked 159 as a result of complex documents required for export, the time to export as well as the costs involved in the process. It also ranked poorly in ease of starting a business where it takes an average of 33 days and 15 procedures to start a business.

According to Transparency International’s Corruption Perception Index, Uganda ranked 130 out of 174 countries in terms of corruption. This was determined with regards to strength of regulations to control the vice and ease with which these regulations can be bypassed. The Ibrahim Index of African Governance gave Uganda a score of 55.1, slightly above the Africa average of 51.2, placing the country 19th out of 52 countries in the index. Uganda performed strongly or above average in national security and, to a lesser extent, rule of law and participation.
Forecast for 2013/14

The economy continues to manifest an overall satisfactory performance with regard to maintenance of macroeconomic stability. Assuming that the country does not suffer drought that will affect food crop and cash crop production, the agricultural sector is expected to register improved performance. Similarly, the performance of the industrial sector is expected to improve as additional power generation capacity comes on board.

It is important to note that Uganda, being a small-open-economy is to a significant extent influenced by what is happening in the global arena. At the moment, the global picture is anything but rosy. The IMF, in its April 2013 World Economic Outlook (WEO) aptly titled ‘Hopes, Realities and Risks’, illustrates how hazy the global environment is proving to be. Even though there is recognition that the global economic prospects have improved, recovery in the advanced economies is anticipated to remain constrained. This explains the revision on the growth forecast for 2013 for the global economy to 3.3% from the anticipated 3.6% in the October 2012 WEO forecast; the real global output growth forecast therefore represents a marginal rise from the 2012 level of 3.2%.

The clear message from the IMF is as follows: One, even with a slow start in 2013, the major advanced economies are expected to gradually pick the growth momentum with the US providing an important impetus. Two, even though advanced economies’ policymakers so far have been successful in defusing two of the biggest threats to the global recovery – a breakup of the Euro zone and a sharp fiscal contraction in the United States caused by a plunge off the “fiscal cliff” – old dangers remain and new ones are evident; of immediate concern are risks mainly related to developments in the Euro zone, including uncertainty about the fallout from events in Cyprus. Three, there is a greater upbeat stance than was the case in October 2012 on the growth prospects of developing Asia and Sub-Saharan Africa.

Consequently, the economy’s growth outlook is expected to be slow even though the projected outturn for 2012/13 of 5.1% is higher than earlier projections of 4.5%. The worst case scenario as presented by the IMF, where there is no full restoration of the suspended donor support, is such that the economy will be entering the 2013/14 from a real growth of 4.3%, which is marginally above the 2011/12 level. The Government’s more ambitious outlook is such that the economy will hit a rate of growth 6.0% in 2013/14, before rising to 6.9% by 2014/15 and subsequently 7.0% growth that is in line with the longer term aspirations.