

# Uganda Business Forecast Report Q1 2015

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## Abstracts

### Core Views

While economic conditions in Uganda are steadily improving following several years of lacklustre growth, the pace of the recovery is proving slower than expected. The ongoing conflict in South Sudan (a key trade partner) is acting as a major drag on Ugandan exports, while the economy is also still feeling the lingering effects of the 2011-2012 downturn in the banking sector.

The sacking of Prime Minister Amama Mbabazi puts President Yoweri Museveni firmly on course to secure a fifth term in office in Uganda's 2016 general elections. Nevertheless, the move will fuel tensions and harden divisions within the ruling party that will need to be managed carefully by the president if repercussions are to be minimised.

Uganda will sustain a sizeable fiscal shortfall in the range of 4.0%- 6.0% of GDP over our 2015-2019 forecast period as efforts to boost a narrow tax base are more than offset by heavy public investment in infrastructure and persistent recurrent spending pressures. Inflation in Uganda will rise modestly in 2015 but stay largely contained, averaging 7.0% year-on-year (y-o-y) growth compared to an expected 6.4% in 2014. Headline price growth will continue to be anchored by the relatively favourable outlook for food prices and a subdued external price environment. That said, currency concerns will dictate a wait-and-see approach to monetary policy over the coming months.

### Major Forecast Changes

We have made some downward revisions to our economic growth forecasts. We now expect real GDP growth to come in at 5.2% in 2014, compared to 6.3% previously, and by 5.7% in 2015, compared to 6.4%.

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The sacking of Prime Minister Amama Mbabazi puts President Yoweri Museveni firmly on course to secure a fifth-term in office in Uganda's 2016 general elections. Nevertheless, the move will fuel tensions and harden divisions within the ruling party that will need to be managed carefully by the president if repercussions are to be minimised.

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Uganda will face several challenges over the coming decade, including a presidential succession as well as the need to overcome the legacy of civil war in the north and create jobs for its youthful population. That said, we maintain a positive outlook on Uganda and foresee a relatively successful resolution of these challenges.

### CHAPTER 2: ECONOMIC OUTLOOK

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### Rising Imports To Drive C/A Deficit Wider In 2015

A structural dependence on consumer and capital goods imports will keep Uganda's current account balance deep in the red over the next few years. We predict that the current account deficit will widen in 2015 owing to a recovery in imports and the continued impact of the South Sudan crisis on exports.

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#### Currency Concerns Dictate Wait-And-See Monetary Policy

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#### Spending Ambition, Low Tax-Take To Keep Deficit Wide

Uganda will sustain a fiscal deficit in the region of 4.0%-6.0% of GDP over our 2015-19 forecast period as efforts to boost a narrow tax base are more than offset by expansionary spending commitments.

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