guard against the expected run-away

heightened risk aversion by com-

that proxies for demand and supply

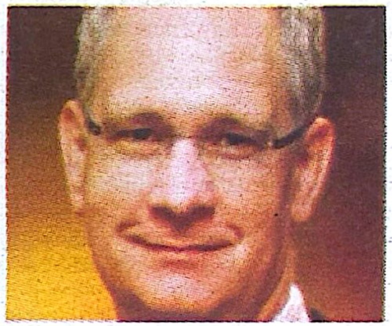
The monetary policy outlook by the

research at Bank of Uganda.

Global incidents that shaped Uganda's businesses this year

BY MARK KEITH MUHUMUZA
mmuhumuza@ug.nationmedia.com

KAMPALA. The International Monetary Fund (IMF) in October 2016 completed a Policy Support Instrument (PSI) review of Uganda. At the conclusion of the review, Mr Axel Schimmelpfennig, IMF Mission Chief for Uganda noted that the country's economy "performed well in a complex environment." That complex environment, he pointed out, was driven by both domestic and international factors.



Mr Axel Schimmelpfennig, the IMF Mission Chief for Uganda.

"The February 2016 elections, muted global growth, and regional developments weighed on sentiment, and growth declined to 4.8 per cent in FY2015/16," Mr Schimmelpfennig said at the time.

While issuing the Monetary Policy Statement for December 2016, the Governor Bank of Uganda, Mr Emmanuel Tumusiime-Mutebile pointed out that the risks to Uganda within the 5 per cent target in 2016/17 and 6 per cent in 2017/18 will come from global factors.

"The economies of some of our trading partners are expected to grow at a slower rate than previously assessed, which will continue to weigh on Uganda's exports," Mr Mutebile said.

Fed tightens, the dollar sneezes

In January 2016, the IMF revealed that one of the risks to the growth was the strong demand for the dollar. The growth projection for 2016 by the IMF was an average of 3.4 per cent from 3 per cent in 2015.

Since 2015, the US dollar had been in a strong position, piling pressure on the Uganda Shilling to depreciate to unprecedented levels. In December 2015, the US Federal Reserve Bank hiked interest rates to 0.25 per cent. That placed the dollar in a much stronger position.

The Shilling gained on the dollar at least until October 2016. Those gains were, however, not strong enough to return to the pre-February 2015 levels when the Shilling was trading within the 2,000 range. The continued anticipation that the Fed would raise rates further in 2016, kept the Shilling on the edge. In December 2016, the Fed signaled that rates would rise within a range of 0.5 per cent to 0.75 per cent.

"The decision to raise the rate by 25 basis points was widely expected by the financial markets and is likely to strengthen the dollar globally which will result in reversal of flows from emerging markets back into the US," says Mr Stephen Kaboyo, the managing partner at Alpha Capital Partners.

Oil price drops

The drop was a continued trend from 2015 where global oil prices remained volatile. By January 2016, world oil prices were trending below the $30 (Shs107,160) mark per barrel. *The Economist* then described it as a "Ten-Month Tumble."

These low oil prices on the global scene were, in part, driven by a surplus of crude oil flooding the market. Uganda partly paid the price for delaying oil production as it could have increased projected earnings. However, Uganda's fuel import bill reduced because of the low global oil prices.

"The persistent low oil prices could depress oil related FDI inflows in Uganda, which have already dwindled. This is bound to adversely affect Uganda's already weak current account position and possibly cause volatility in the foreign exchange market," reads, in part, the BoU August 2016 Monetary Policy Report.

Statistics show that in the first quarter of 2016/17 oil imports declined to $154m (Shs550b) compared to $178m (Shs636b) over the same period in 2015/16. Oil is now trading above $50 (Shs178,000) a barrel.

Brexit yet to bite

In June 2016, the British voted to leave the European Union (EU) in a referendum. The EU is Uganda's second largest trading block after the Comesa region. Exports to the UK average about $2m on a monthly basis. When Brexit happened, several projections were made for its effects on Uganda's exports.

Prior to the Brexit vote, the British Pound was trading at about Shs5,000. Since then, the Pound has been depreciating and reached its lowest in 12 months, trading at Shs4,300 against the Shilling.

South Sudan crisis

The volatile nation was Uganda's single largest trading partner with exports valued at $280m (Shs1 trillion) in 2014 before falling to $265m (Shs947b) in 2015. In July 2016, the South Sudan peace agreement showed signs of fragility when war resumed putting dollar earnings at stake. In the second quarter, trading went up to $76m (Shs271.4b). However, in the 2016 third quarter, exports dropped to $33m (Shs118b).