



UGANDA BUSINESS NEWS MONTHLY BRIEFING SERIES

07/06

July 2016

Overview

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Politics & Policy

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These huge debts are indicative of the rise in non-performing loans in the banking sector in the last calendar year. The ratio of non-performing loans to total gross loans rose to 5.3% in 2015 from 4.1% the previous year, [according to data from Bank of Uganda](#). This translates to Shs573.4 billion in total non-performing loans in 2015, compared to Shs389.6 billion in 2014.

President Museveni said government would provide support to companies with large debt obligations while delivering the State of the Nation Address. He blamed the debts on high commercial lending rates, which stood at an average of 24.6% at the end of last year compared to 20.7% in 2014. Interestingly, he singled out distressed companies in the oil sector; oil and gas firms owe Shs70 billion to banks, according to the leaked list.

Not everyone in government is on board with the idea of bailing out the firms. Apparently the central bank and technocrats from the finance ministry think a bailout ignores the more

urgent economic issues that should be addressed. The idea was also met with severe backlash by the public.

The number of Members of Parliament ejected from the house by the high court increased to 20 in July, from 12 at the end of June. The reasons for their expulsion range from inadequate academic qualifications to electoral fraud and malpractice. Most of the expelled MPs were from the ruling National Resistance Movement party, which still retained a super majority in the house. Most of the rulings called for new elections; the Electoral Commission said it would [find money](#) for the by-elections.

Ugandan traders are [losing about one million dollars a day](#) (Shs3.3 billion) because of the fighting in South Sudan, according to the Kampala City Traders Association. Government had to send in soldiers to rescue Ugandan traders trapped by the fighting. There has also been an inflow of refugees from South Sudan. In 2014 Uganda's exports to South Sudan were worth \$399.77 million, making it Uganda's largest single export destination ([UBOS](#)). But in the 12 months leading to May 2016, Uganda's exports to South Sudan fell 31% to \$290.8 million from \$423.6 million (BoU).

The Police instituted [disciplinary proceedings](#) against its officers accused of clobbering opposition supporters. The officers in question beat people who had come out to greet former presidential candidate, Kizza Besigye, after he was released on bail. The beatings were captured by television cameras, and were strongly condemned. Despite justifying their actions and arguing that they were defending themselves against attacks, the police chief gave in to pressure and allowed internal disciplinary proceedings.

Kizza Besigye [secured bail](#) after two months in prison. However, his movements are still tightly monitored by the police, which has led to inevitable conflict.

Former Vice President Specioza Wandira Kazibwe [failed in her bid](#) to become African Union Commission chairperson after trailing in a vote held at the African Union Summit in Kigali. Kazibwe was standing against two other candidates. The elections were postponed to January after all of the candidates failed to reach the two-thirds majority threshold, with 28 nations abstained from voting. Abstaining states thought neither candidate was qualified enough for the position. In Kazibwe's case, the concern of some was President Museveni's outsized influence on the continent, which would only be strengthened if she were elected. Kazibwe's campaign [cost Shs1 billion](#), paid for by the government.

Four new districts became operational at the start of the new financial year on 1 July. In addition to technical staff recruited by the government, the districts [will vote](#) for political leaders, including district women MPs (on 29 August). The four districts are part of the 23 new districts approved by Parliament last year.

A new electronic visa application system [went live on 1 July](#), and will run alongside manual issuance of visas at ports of entry. The immigration control directorate had to refute reports that it was no longer issuing visas at entry ports; it intends to stop, but only after the e-visa system has been fully tested and implemented. However, there are no more paper applications at Uganda embassies abroad. A year after government increased the single

entry visa fee to \$100 from \$50, it reversed the decision. The new rate, \$50, became effective on 22 July. The tourism sector never warmed up to the higher fee, arguing that high fees make Uganda – relative to her neighbours- less competitive as a tourist destination. The [evidence](#), however, does not agree with that argument.

The Obama administration threatened to kick Uganda out of the Africa Growth Opportunity Act (AGOA) program if it does not stop inhibiting opposition politicians and their supporters, as well as journalists. The US says Uganda's actions violate the criteria for being included into the trade program, according to a Daily Monitor [report](#). Uganda's participation is up for review in 2017. The warning was issued in a June letter from the U.S. Trade Representative to Uganda's trade minister.

In any case, Uganda's participation in the program [has been poor at best](#), with manufacturers and producers failing to take advantage of the subsidies provided. Uganda's export under AGOA were worth \$1.15 million in 2014 compared to \$3.31 million in 2010.

Israeli Prime Minister Benjamin Netanyahu was in Uganda for a one-day state visit, attending the commemoration of the day his brother was killed during Israel's raid on Entebbe airport in 1976. He also visited Kenya, Rwanda, and Ethiopia. One of Netanyahu's main objectives was to forge and strengthen economic ties with his hosts. He [travelled with 80 business leaders](#) to that end. A week before his visit, Israel's parliament approved a proposal to open offices of Israel's Agency for International Development in the four countries. Netanyahu was also seeking to win over the countries as [allies](#) for his increasingly isolated country.

The Economics

Inflation

Inflation fell to 5.1% year-on-year in July from 5.9% in June according to data from the Uganda Bureau of Statistics, setting the stage for a third consecutive rate cut when Bank of Uganda's Monetary Policy Committee meets in mid-August.

The fall was attributed to a year-on-year decline in Core Inflation to 5.7% in July compared to 6.8% in June. It's the second consecutive fall in core inflation, which is targeted by the central bank, giving room to the committee to further cut the policy rate, presently at 15%.

The current economic situation sets a challenging backdrop for the committee, rendering a stimulus – however slight – likely. The economy expanded at a slower pace in the first three months of this year compared to the last three months of 2015, according to recent data from the Uganda Bureau of Statistics. Revenue collections for the 2015/2016 financial year were also below target.

Struggling businesses have dominated the news cycle in the past one month, weighed down by loans they cannot pay off, in part because of high lending rates. And despite cutting the rate in June with the hope that banks would follow suit and reduce their rates, this has not been the case. Only Stanbic Bank and NC Bank have cut their lending rates since June.

Bank of Uganda eased the Central Bank Rate in April this year to 16% from 17% set in October 2015 and maintained through to this February. At the time, it was concerned about

slow economic growth, a concern that is unlikely to have gone away. In June, it said the aim was to stimulate economic activity as easing monetary policy would lead to a reduction in commercial lending rates.

The shilling has also held steady against the dollar, gaining 0.9% in July, which could nudge the monetary policy committee. It depreciated 0.30% between June and July.

The other contributing factor to the fall in annual headline inflation was Annual Energy, Fuel and Utilities (EFU) Inflation, which decreased to 2.1% in the year ending July 2016, compared to 6.6% a month earlier. However, food prices rose to 3.5% year-on-year compared to -1.3% in June.

Monthly headline inflation rose 0.2% compared to the previous month. Monthly core inflation and monthly food crops and related items also rose 0.1% and 1.6% respectively, while monthly energy, fuel, and utilities declined by -0.8%.

The Numbers

	June 2016	July 2016
Headline	5.9	5.1
Core (excludes food and energy prices)	6.9	5.7
EFU (Energy, fuel and utilities)	6.6	2.1
Food crops and related items	-1.3	-3.5
Central Bank Rate	15	15

Currency Markets

Exchange Rates	June 01		June 30	
	Buying	Selling	Buying	Selling
US Dollar	3399.93	3409.93	3370.63	3380.63
Pound Sterling	4565.77	4579.19	4422.27	4435.39
Euro	3779.36	3790.48	3735.67	3746.75

Quarter 3 (2015/2016) Economic Growth

Real Gross Domestic Product [fell](#) 1.3% year-on-year in the third quarter of financial year 2015/2016, compared to a 2.1% growth in the second quarter, according to data from the Uganda Bureau of Statistics.

The slowing growth is mainly attributed to lower earnings from processed agricultural products, which fell 6% compared to a 2.2% growth in the second quarter. Value added in the services sector also declined 0.2%, compared to an increase of 3.1% in the previous quarter.

Export earnings from top agricultural products fell 14.8%, from \$153.7 million in the previous quarter to \$132 million. Even though coffee exports in the quarter increased compared to the second quarter – to 60,616 tonnes from 52,546 tonnes – they were bought at lower prices, earning \$80.3 million from \$81.5 million in the last three months of 2015. Tea and tobacco exports however declined in volume in Q3 compared to Q2.

Real GDP expanded 1.7% in the third quarter of 2014/15 and 4.9% in the second quarter of the same year.

Uganda's economy is projected to grow 5.5% in the 2016/17 financial year according to the budget estimates released last month. It expanded 4.6% in 2015/16, lower than the 5.0% target.

Revenue Collections

Uganda Revenue Authority [missed its tax collection revenue target](#) by Shs404.54 billion in the 2015/2016 financial year that ended in June, putting a number to the extent of the slowing economy.

URA Commissioner General Doris Akol said tax collections were Shs11.23 trillion against a target of Shs11.63 trillion on the back of "hard economic times characterised by reduced import volumes, depreciation of the shilling and relatively subdued investor confidence due to the election period early this year".

The conflict in South Sudan also hit Uganda's tax revenues, with revenues from exports, most of which go to the northern neighbour, dropping from Shs43.5 billion before the clashes to Shs9.2 billion in the 2015/2016 financial year.

Corporate tax revenue collections were down by Shs12 billion in what URA officials say reflected the hard times faced by many private sector companies in the country.

Commodities

Coffee

266, 337 60-kilo bags of coffee worth \$26.53 million were [exported in June 2016](#). Exports in June 2015 were 333,943 bags worth \$35.09 million. Cumulative exports for the financial year 2015/2016 (July 2015-June 2016) totalled 3.56 million bags worth \$352 million, an increase of 9.88% in volume and a decline of 12.44% in value compared to the previous financial year.

Uganda Stock Exchange
AllShare Movers (One-month change)

USE All Share Index (USE ALSI)	-1.37%
*USE Local Company Index (USE LCI)	-0.52%

*Stanbic Bank Uganda (SBU)	3.85%
*UCHUMI (UCHM)	3.19%
Jubilee Holdings Limited (JHL)	2.22%
Equity Bank Limited (EBL)	1.56%
*UMEME LIMITED (UMEM)	0.80%
Centum Investment Company Ltd (CENT)	0.14%

Nation Media Group (NMG)	-20.85%
Kenya Airways (KA)	-12.41%
KCB Group (KCB)	-5.37%
*Bank of Baroda Uganda (BOBU)	-2.82%
East African Breweries Limited (EABL)	-2.07%
*New Vision Printing and Publishing Company Ltd (NVL)	-0.90%

*British American Tobacco Uganda	0.00%
*Development Finance Company of Uganda Ltd	0.00%
*National Insurance Corporation	0.00%
*Uganda Clays Limited	0.00%

BAT Uganda profits fall following major restructuring

British American Tobacco Uganda Limited reported a 52% decline in half year profits, reflecting the change in its business model that saw the company discontinue its leaf business.

Unaudited net profit for the first six months of this year was Shs7.32 billion, compared to Shs15.24 billion in the same period last year. There were no leaf revenues this year,

according to the results statement, leading to a 70.9% decline in net revenue to Shs34.16 compared to the same period last year.

Leaf revenues in the first six months of 2015 contributed Shs82.14 billion to net revenue, which was Shs117.4 billion.

Earnings per share declined to Shs149, compared to Shs311 in the first half of 2015. Shares of BAT Uganda have gained 30.55% since the start of 2016, and risen by 251.91% in the past year.

It also issued a profit warning for 2016, saying net profit is expected to be 20% lower than in 2015 because of its restructuring.

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Energy, Oil & Gas

The Ministry of Energy and Mineral Development invited three Nigerian companies and one from Australia to negotiate in its oil exploration licensing rounds. The four companies will negotiate for five production sharing agreements. Total, Tullow, and China's China National Offshore Oil Corporation are currently developing oil fields in Uganda; none of them participated in the ongoing bidding round.

The Electricity Regulatory Authority [lowered power tariffs](#) by an average of 2% for the third quarter of 2016, basing its decision on the increased dispatch of power from the two hydropower dams at Jinja. Domestic consumers will pay Shs626.0 per unit down from Shs640.2, while commercial consumers will pay Shs566.9 from Shs578, medium industrial consumers will pay Shs524.7 from Shs536.2, large industrial consumers will pay Shs349.5 from Shs361.1 and street lights will be charged Shs608.0 from Shs619.5.

RT Global Resources, the Russian consortium which walked away from refinery negotiations with government said [it did so because](#) of the latter's failure to fulfil its obligations during the warranty period, which came to an end on 30 June. The obligations included tax benefits and credits, awarding production licences to oil exploration companies so there's crude oil when the installation is complete. The government however says the consortium made additional demands and wanted to renegotiate the closed agreement.

Meanwhile, media reports say Tanzania [has agreed to buy an 8% stake in the refinery](#) at an estimated cost of \$150.4 million. Uganda offered each East African Community member country an 8% stake in the plant. Uganda and Tanzania are also jointly building an oil pipeline from Uganda's oil fields to the Tanzanian coast.

Tullow Oil announced an after tax profit of \$30 million for the first half of 2016, defying analysts' expectations that low oil prices would hurt its bottom line. The profit is Tullow's first in three years, and a reflection of the success of its cost-cutting measures which helped the company withstand a shutdown at its Jubilee oil field (Ghana) and lower oil prices. The company's results report affirms that oil production in Kenya could start as early as 2017 should its early oil pilot scheme be approved by the government. That time frame does not

extend to Uganda, however, where feasibility studies on oil production and the pipeline's construction are expected to start in the first half of 2017. [Read more](#).

Regional

Fighting broke out in the South Sudan capital of Juba again, close to a year after the signing of a peace treaty that technically ended the civil war that started in December 2013, and weeks after a transitional government bringing together warring factions became operational. Riek Machar, the main antagonist in the civil war, who became first Vice President under the treaty, was thrown out of the government by a presidential decree after factions of his supposed rebel forces disowned him. He however [maintains](#) that he is still first VP. Clashes [have been reported](#) in the capital in recent weeks and in different parts of the country.

Tanzania declined to sign a new trade deal between the East African Community and the European Union that would see countries from the former exporting goods to the EU at reduced tariffs. Tanzania's reservation is that it [does not really benefit](#) from the Economic Partnership Agreement since it already exports goods to the EU duty-free and quota-free under the Everything But Arms scheme without providing the same terms to the bloc. However, the EPA necessitates the EAC nations opening up their markets to the EU under similar terms. This will benefit the EU at the expense of the EAC, according to Tanzanian officials. Other nations can however sign the agreement without Tanzania. Kenya, particularly, is keen on doing so to avoid tariffs on its flower exports.

What to watch for

Bank of Uganda will announce the Central Bank Rate in mid-August.

It's earnings season, and listed companies on the Uganda Securities Exchange continue to release their half-year financial results. BAT Uganda was the first company to release results, and more will follow in August.

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