Country Report

Uganda

March 2011

Economist Intelligence Unit
26 Red Lion Square
London WC1R 4HQ
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Economist Intelligence Unit

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London
Economist Intelligence Unit
26 Red Lion Square
London
WC1R 4HQ
United Kingdom
Tel: (44.20) 7576 8000
Fax: (44.20) 7576 8500
E-mail: london@eiu.com

New York
Economist Intelligence Unit
The Economist Group
750 Third Avenue
5th Floor
New York, NY 10017, US
Tel: (1.212) 554 0600
Fax: (1.212) 586 0248
E-mail: newyork@eiu.com

Hong Kong
Economist Intelligence Unit
60/F, Central Plaza
18 Harbour Road
Wanchai
Hong Kong
Tel: (852) 2585 3888
Fax: (852) 2802 7638
E-mail: hongkong@eiu.com

Geneva
Economist Intelligence Unit
Boulevard des Tranchées 16
1206 Geneva
Switzerland

Tel: (41) 22 566 2470
Fax: (41) 22 346 93 47
E-mail: geneva@eiu.com

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Editors: Joseph Lake (editor); Roger Boulanger (consulting editor)
Editorial closing date: February 22nd 2011
All queries: Tel: (44.20) 7576 8000 E-mail: london@eiu.com
Next report: To request the latest schedule, e-mail schedule@eiu.com


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Main railway
Main road
International boundary
District boundary
Main airport
Capital
Major town
Other town
0 km 50 100 150
0 miles 50 100
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Executive summary

Highlights

March 2011

Outlook for 2011-12

- The president, Yoweri Museveni, and his National Resistance Movement (NRM), have ruled Uganda since 1986 and will continue to dominate the political scene following a resounding victory in the February elections.
- There may be some limited outbreaks of civil unrest in 2011-12, but Mr Museveni has total control of the Ugandan army and has strengthened his grip on the police force, which makes wider political instability unlikely.
- The opposition will now enter a prolonged period of soul-searching as it attempts to rebuild itself for the next polls, in 2016.
- The Economist Intelligence Unit forecasts that real GDP growth will quicken to 6.3% in 2011 and 7% in 2012, owing to a pick-up in investment and external demand, but poor transport and energy infrastructure will limit expansion.
- Inflation is forecast to accelerate in 2011, owing to higher global food and fuel prices, and to remain high in 2012 because of looser fiscal policy.
- The fiscal deficit as a percentage of GDP is forecast to narrow to 2.1% in 2010/11, owing to a one-off capital gains tax haul, before widening to 3.2% in 2011/12 as a result of weak domestic revenue growth.
- External imbalances will widen as import growth picks up, and we forecast a current-account deficit of 4.3% of GDP in 2011 and 6.1% of GDP in 2012.

Monthly review

- Mr Museveni won a comfortable election victory on February 18th, to secure his fifth term as president.
- The president won 68% of the vote, compared with just 26% for his nearest rival, Kizza Besigye, the Forum for Democratic Change candidate.
- Election day passed peacefully, with few reported incidents of violence or intimidation, and the observer groups monitoring the process were in general agreement that it was free and transparent.
- Observer groups criticised the unfairness of the campaign period, judging that the advantages of incumbency created an unfair playing field.
- The IMF did not complete the first review under the policy support instrument because of a USh600bn (US$262m) supplementary budget passed in January, which it said was "inconsistent" with the programme.
- The governor of the Bank of Uganda, Emmanuel Tumusiime-Mutebile, has forecast real GDP growth of 7% in financial year 2010/11 (July-June).
- Inflation has continued to rise; annual headline inflation reached 5% in January, the third successive month that it has increased.

Outlook for 2011-12

Political outlook

Political stability

The president, Yoweri Museveni, and his ruling National Resistance Movement (NRM) party strengthened their grip on power in February, winning an overwhelming victory in the presidential and parliamentary elections, and they are unlikely to face a serious challenge to their authority during the forecast period. In the two years prior to the elections regional pressures had been building, particularly in Buganda, an area with a constitutional monarchy and a local parliament. Mr Museveni successfully placated local sentiment by promising to devolve some powers to the regional level while maintaining control of the most important matters at the central government level. The issue of *federo* (an independent Buganda within a federal Uganda) will continue to arise from time to time but is unlikely to pose a threat to wider stability in the medium term.

In contrast to unrest in North Africa, Uganda is likely to remain politically stable over the forecast period, helped by improved economic circumstances. Inflation fell sharply in 2010, improving the purchasing power of households, and economic growth looks set to remain robust. Reforms in local government will appease some of those looking for the devolution of power. Elections in February passed relatively peacefully, and although there may be some scattered incidents of civil unrest in 2011-12, Mr Museveni has total control of the Ugandan army and has strengthened his grip on the police force, which makes wider political instability unlikely.

Election watch

Mr Museveni and the NRM, who have ruled Uganda since fighting their way to power in 1986, won resounding victories in the presidential and parliamentary elections on February 18th, extending their hegemony for another five years. The emphatic nature of the result owes itself to several factors; large financial and logistical advantages provided by access to state resources, a lacklustre campaign from a divided and squabbling opposition, savvy policy reforms, which alleviated pressure that was building from regional concerns, and low inflation over the past year, which has seen an improvement in living standards. Mr Museveni won 67% of the vote in the presidential election and the NRM was on course for an improved majority in parliament at the time of going to press. The ruling party is likely to score a similar win in municipal elections in early March, extending its domination to every area of the public administration.

The opposition will have been bitterly disappointed with its poor showing, and the most pressing question facing it is whether it can achieve anything by protesting against the results. The electoral observers have called the election process generally free and fair, although they have acknowledged the vast advantages of incumbency afforded to the NRM. There does not appear to be popular support for protests, and any attempt to challenge the results is likely to fizzle out. The opposition will now enter a prolonged period of soul-searching as it attempts to rebuild itself in order to provide a more coherent challenge at the next polls, in 2016. It may need to find a new presidential candidate to coalesce around or try to coax someone from the ruling NRM; the strongest opposition contender, Kizza Besigye of the Forum for Democratic Change, failed to beat Mr Museveni for the third time in a row and his political career looks as though it has peaked.

International relations

The Ugandan government has sought to respond actively to the bomb attacks launched against the capital, Kampala, in July 2010 by al-Shabab, an Islamist insurgent group that opposes the UN-backed transitional government in Somalia. It has offered to supply troops to increase the African Union Mission in Somalia from current levels of around 8,000 to 20,000 personnel, but only if funding can be found. The most likely source is the US, but any increase is likely to bring troop levels only to around 12,000, far short of the numbers that Mr Museveni would like to send. Uganda's porous borders and weak law enforcement are a cause for further concern, meaning that more bomb attacks are possible.

Relations with the Democratic Republic of Congo (DRC) and Sudan could worsen owing to the valuable natural resources in disputed border areas. Relations with the DRC have warmed but could deteriorate quickly, as they are vulnerable to changes in the Congolese political mood and disputes over oil resources in Lake Albert. Links with Sudan could come under strain given the recent volatile political environment, but the overwhelming vote in January in favour of secession in Southern Sudan could lead to a period of greater political stability.

Growing interdependence with the other four members of the East African Community (EAC)—Kenya, Tanzania, Burundi and Rwanda—will reduce the likelihood of animosity leading to outright diplomatic disputes. A common market came into operation in July 2010, but trade issues could cause occasional flare-ups. Meanwhile, relations with donors and the IMF will be uneasy owing to concerns over corruption and the management of future oil revenue. However, donors will remain key contributors to the national budget, despite reducing by 15% the amount that they had planned to give through budget support in the current financial year.

Economic policy outlook

Policy trends

Uganda has maintained a high level of macroeconomic stability and economic growth during the past 20 years, but it needs to tackle bottlenecks in transport and energy infrastructure to boost employment and poverty reduction significantly. The government recognises this; a National Development Plan, covering the period from 2010 to 2015, projects a large increase in infrastructure spending. It focuses on the energy sector, where plans include the building of an oil refinery, an oil distribution network and hydroelectric power projects that would increase energy production by 3,500 mw.

The advent of oil revenue will transform economic policymaking, posing challenges for the maintenance of macroeconomic stability and improved transparency in government spending while placing greater pressure on poor public financial management systems. The full impact of this will not be felt until large-scale oil production begins (unlikely before 2012), although the government has already started to assert its economic independence with an increasingly independent stance on donor demands—for instance, it passed a USh600bn (US$320m) supplementary budget in January that was not consistent with the IMF policy support instrument. Government rhetoric about boosting agricultural productivity will continue but progress will be slow. In better news, the introduction of an EAC common market in mid-2010 will reduce barriers to trade, labour and investment, and recent land reforms will improve security of tenure, increasing the scope for investment, although a proposed EAC monetary union will prove over-ambitious.

Fiscal policy

Uganda's fiscal situation will receive a large fillip in fiscal year 2010/11 (July-June) from the capital gains tax accrued from the sale of stakes in two oil exploration blocks. This one-off payment will disguise an underlying deterioration in the fiscal balance resulting from otherwise slow domestic revenue growth and falling aid. Sluggish global growth will limit the increase in the value of trade, resulting in small rises in revenue from import tariffs, sales taxes and personal and corporation tax. In addition, donors have announced a 15% reduction in planned budget support in 2010/11 owing to government inaction on high-level corruption and concerns over governance. The deficit will be kept in check, as the government continues to spend less than it budgets owing to capacity constraints and delays on infrastructure projects. The deficit is forecast to fall from an estimated 3% of GDP in 2009/10 to 2.1% of GDP in 2010/11, owing to the one-off capital gains tax haul, before widening to 3.2% of GDP in 2011/12, as revenue growth remains weak. The government will increasingly use less concessional forms of finance to cover the deficit. It will draw further on domestic financing and may switch some of the fiscal burden to public-private partnerships and a domestic infrastructure bond.

Monetary policy

The Economist Intelligence Unit expects monetary policy to be fairly loose in the first half of 2011 as the Bank of Uganda (BoU, the central bank) continues to pursue policies that are conducive to economic growth, before tightening over the remainder of the forecast period as inflation becomes an increasing concern. It will continue to use the exchange rate to support economic growth, intervening to limit appreciation with the aim of maintaining the competitiveness of Ugandan exports. It will also focus on improving regulations to enhance the transmission mechanism of monetary policy. Despite a relatively loose monetary stance in 2010, the BoU was unable to reduce stubbornly high lending rates charged by commercial banks. The long-term goal of reducing the spreads between interest rates will be helped by the planned development of the secondary market, which will bring greater competition.

Economic forecast

International assumptions

International assumptions summary
(% unless otherwise indicated)

	2009	2010	2011	2012
Real GDP growth				
World	-0.8	4.8	4.1	4.1
OECD	-3.5	2.9	2.3	2.1
EU27	-4.2	1.8	1.6	1.7
Exchange rates				
¥:US$	93.7	87.9	82.0	81.0
US$:€	1.393	1.326	1.265	1.200
SDR:US$	0.646	0.652	0.656	0.668
Financial indicators				
¥ 3-month money market rate	0.39	0.18	0.30	0.89
US$ 3-month commercial paper rate	0.26	0.26	0.34	0.70
Commodity prices				
Oil (Brent; US$/b)	61.9	79.6	90.0	82.3
Coffee (robusta; US cents/lb)	74.6	77.0	88.8	76.5
Food, feedstuffs & beverages (% change in US$ terms)	-20.4	11.7	27.0	-9.9
Industrial raw materials (% change in US$ terms)	-25.6	44.9	22.3	-8.8

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

Economic growth

The economy will continue to expand at a reasonable rate, relying on the industrial and services sectors. We forecast a slight pick-up in real GDP growth from an estimated 6.1% in 2010 to 6.3% in 2011, before it accelerates to 7% in 2012 as foreign investment and regional demand rise. The performance of the agricultural sector, which accounts for a declining proportion of GDP but employs more than 70% of the labour force, will largely depend on weather conditions. Construction activity will be strong, driven by donor-funded and privately financed building projects. The energy sector will attract unprecedented amounts of investment, and construction work on an oil refinery and pipeline to the Kenyan coast is likely to begin during the forecast period. However, it will be several years before oil production in the country reaches targeted levels of around 150,000 barrels/day. Electricity shortages will be less frequent as expensive temporary thermal power is used to cover shortfalls, and 50 mw of the 259-mw Bujagali hydroelectric dam is scheduled to come on stream in October 2011, with full production scheduled for April 2012.

Inflation

Uganda had a year of extremely low inflationary pressures in 2010, but the inflation rate is expected to pick up in 2011 and remain high into 2012. After falling for 13 consecutive months, inflation started to rise in November and accelerated to 5% year on year in January. Global food and oil prices are forecast to increase in 2011 and this will have a large impact; food accounts for 27.2% of the consumer price index and any fuel price increase hits landlocked Uganda hard in terms of transport costs. Currency depreciation will also add to import costs. Given the low base rate in 2010 and the poor prospects for a repeat of that year's good weather, we forecast that inflation will rise to 9.5% in 2011. Growing demand from higher economic growth and a potential loosening of fiscal policy will see inflation remain high, at 8.5%, in 2012. There is a risk of higher inflation if food production is adversely affected by unpredictable weather patterns.

Exchange rates

We forecast that the Uganda shilling will continue to depreciate steadily in 2011-12, although it will fluctuate in line with seasonal trends and global financial market volatility. The shilling lost 15% of its value in 2010 and we forecast that it will continue to depreciate during the forecast period despite some pressures to appreciate. Faster economic growth, improved political stability and strong inflows of foreign exchange from remittances and investment (boosted by interest in the oil sector) will support the currency, but they will be negated by large fiscal and current-account deficits. After a particularly steep fall in January, we expect the rate of depreciation to moderate following the peaceful conclusion of the February elections. We forecast an exchange rate of USh2,294:US$1 in 2011, stabilising at around USh2,326:US$1 in 2012 as higher foreign investment and a tighter monetary policy boost confidence in the currency. A significant devaluation could occur if relations with donors were to worsen dramatically or if further bomb attacks were to damage the tourism industry.

External sector

Uganda's external imbalances will widen in 2011-12 as import growth picks up. Export growth will be supported by regional trade; this accounts for more than one-half of total exports, and re-exports to Southern Sudan are increasingly important. Coffee export earnings should improve as the country increases production of the higher-quality arabica bean, which attracts a better price on world markets than robusta. The pace of import growth will quicken owing to growing capital imports for infrastructure projects (particularly in the oil sector). Import costs will outpace the growth in exports, and the nominal trade deficit will therefore widen in both years. Net current transfers will post a large surplus as donors remain engaged despite their many reservations. We forecast a current-account deficit of 4.3% of GDP in 2011 and 6.1% of GDP in 2012. This will be financed comfortably by a surplus on the financial account, particularly as foreign direct investment in the oil sector picks up.

Forecast summary

(% unless otherwise indicated)

	2009[a]	2010[b]	2011[c]	2012[c]
Real GDP growth	5.3	6.1	6.3	7.0
Consumer price inflation (av)	13.4	4.1[a]	9.5	8.5
Consumer price inflation (end-period)	10.9	3.1[a]	8.5	8.0
Lending rate (av)	21.0	20.2[a]	20.5	21.0
Government balance (% of GDP)[d]	-1.7	-3.0	-2.1	-3.2
Exports of goods fob (US$ m)	2,987.7	2,971.9	3,288.8	3,581.0
Imports of goods fob (US$ m)	3,787.3	4,250.9	4,635.3	5,455.8

Forecast summary

(% unless otherwise indicated)

	2009[a]	2010[b]	2011[c]	2012[c]
Current-account balance (US$ m)	-451.1	-734.4	-833.9	-1,332.4
Current-account balance (% of GDP)	-2.7	-4.2	-4.3	-6.1
External debt (end-period; US$ bn)	2.6[b]	2.9	3.2	3.6
Exchange rate USh:US$ (av)	2,030.3	2,177.6[a]	2,293.9	2,326.1
Exchange rate USh:US$ (end-period)	1,903.5	2,308.3[a]	2,222.6	2,314.7
Exchange rate USh:¥100 (av)	2,166.7	2,477.9[a]	2,797.5	2,871.7
Exchange rate USh:€ (end-period)	2,728.1	3,113.9[a]	2,689.4	2,754.5

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts. [d] Fiscal years (July 1st-June 30th). Ratio calculated using government/IMF figures of GDP for the fiscal year.

Monthly review: March 2011

The political scene

Mr Museveni wins re-election with widespread support

The president, Yoweri Museveni, won a comfortable re-election victory on February 18th, to secure his fifth term as president and the second since the multiparty system was introduced in 2006. He won 68% of the national vote, compared with 26% for his nearest rival, Kizza Besigye, candidate of the Forum for Democratic Change. None of the other six candidates made any significant impression, and only Norbert Mao and Olara Otunnu polled more than 1%. As in 2006, the presidential election was a two-horse race, with Mr Museveni improving on his 2006 performance by 10 percentage points and Mr Besigye losing 11 percentage points. Mr Museveni won more than 5m votes, up by more than 1m on 2006, whereas Mr Besigye's support, at just over 2m votes, fell by about half a million. The result was a resounding endorsement of Mr Museveni by the people of Uganda and will give him huge political authority.

Presidential election results, 2011

Candidate	Party	Votes	% of total
Kizza Besigye	Forum for Democratic Change	2,064,963	26.0
Jaberi Bidandi	People's Progressive Party	34,688	0.4
Abed Bwanika	People's Development Party	51,708	0.7
Beti Kamya	Uganda Federal Alliance	52,782	0.7
Norbert Mao	Democratic Party	147,917	1.9
Samuel Mukaaku	Independent	32,726	0.4
Yoweri Museveni	National Resistance Movement	5,428,368	68.4
Olara Otunnu	Uganda People's Congress	125,059	1.6
Total valid votes		**7,938,211**	**100.0**

Source: Uganda Electoral Commission.

Mr Museveni even carries northern Uganda

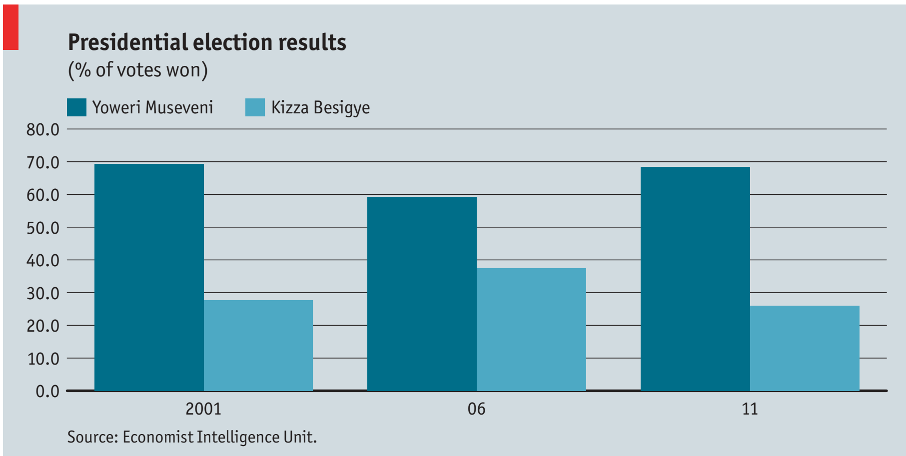
There is some truth to objections over the fairness of the elections made by the losing candidates, but there is no doubt that Mr Museveni commanded the vast majority of support. The most surprising aspect of his win was the range of his support throughout the country, winning a majority in all but six of Uganda's 112 districts. The belt of political opposition across north and east Uganda that was a feature of the 2006 election has all but disappeared. Mr Besigye was the preferred candidate in this opposition area in 2006—most of the 20 districts that he won in 2006 were in that belt—but this time he won in only three districts: Serere and Serote in the east, and, by a whisker, in Kampala. Insofar as the results might continue to reflect any anti-Museveni sentiment in the north, it was in the three districts of Amuru, Gulu and Nwoya, all won by Mr Mao, who is a northerner. Even in these northern districts, though, nowhere did Mr Museveni's vote fall below 26%. It appears that the remarkable growth of his political support in the north and east following the successful conclusion of the civil war against the rebel Lord's Resistance Army (LRA) and the subsequent infusion of public funds in the region is one of the most important reasons for the substantial gains that he made in this election.

The range of support for the president nationwide can be gauged in the voting pattern of the four largest regions, all of which gave him thumping majorities in comparison with Mr Besigye—62% to 31% in the Centre, 68% to 28% in the East, 80% to 18% in the West, and even 56% to 26% in the North. A further cause of satisfaction for the president was the failure of the three candidates that supported a change to a federal system of government to make any impact at all. The best that Beti Kamya could manage (standing as a candidate in favour of *federo*—an independent Buganda within a federal Uganda) was 3% in Mpigi, a district in the Buganda heartland, but where Mr Museveni polled 66%. With most of the parliamentary votes counted, the results indicate that Mr Museveni will be supported by another substantial overall majority for his National Resistance Movement (NRM) party, which is on course to have 279 members of parliament (MPs) in the next parliament, compared with 56 MPs for all the other parties.

The election process was free, if not entirely fair

Election day passed peacefully almost everywhere, with few reported incidents of violence or intimidation, and the various observer groups monitoring the process were in general agreement that it was free and transparent. The head of the EU's observer mission reported that "the campaign was conducted in a fairly open and free environment and the freedoms of expression, assembly and association were respected". However, he also said that the elections had been marred by some avoidable administrative and logistical failures that sometimes led to names missing from the register of voters. The Uganda Human Rights Commission commended the elections for having "met international standards", and the observer groups from the Intergovernmental Authority on Development (IGAD), the East Africa Community (EAC) and the Common Market for Eastern and Southern Africa (Comesa) also judged that the elections had been free. At the formal announcement of the results, the chairman of the Electoral Commission, Badru Kiggundu, conceded that his organisation might have made some mistakes, although he thought that they would not have been serious enough to have affected the outcome. Given the size of Mr Museveni's margin of victory, and the relative uniformity of the voting pattern throughout the country, this is probably fair comment.

The observer groups saved their criticism for the unfairness of the campaign period, which, they concluded, did not provide a level playing field for all candidates. The EU and Commonwealth groups, for example, highlighted the "commercialisation of politics" and the advantages of incumbency for the NRM—through its domination of local radio, for example. Its patronage efforts were also helped by the creation of several new districts since the previous election; Elliot Greene, a lecturer at the London School of Economics, has pointed out that the number of districts in Uganda has more than tripled, from 33 when the NRM came to power in 1986 to 111 in 2011, an expansion that has brought a wealth of construction and government jobs, as well as votes. The head of the Commonwealth group, Dame Billie Miller, conceded that Uganda was still in the process of consolidating its multiparty system. It is clear though, that the opposition did itself no favours by running dull campaigns and being unable to form a united front or inspire a larger voter turnout. Unsurprisingly, opposition candidates took no responsibility for their poor showing, rejecting the election results as well as the broadly positive comments of the observer groups; Mr Besigye described them as "election tourists" who were unqualified to pass judgement.



The result leaves the opposition in disarray

However, with a decisive result and an election process generally judged as fair, the most important question remaining is whether Mr Besigye will call for direct action against the government, as he threatened during the campaign. The scale of Mr Museveni's victory indicates that any protest against the result would not have the backing of most Ugandans. It is also doubtful that any of the opposition groups would have the stomach for it. The focal point of the opposition over the past two years was the semi-autonomous region of Buganda, where support had appeared to swing away from the NRM. However the voting results appear to indicate that most of the anti-Museveni rhetoric was coming from the Buganda leadership rather than the grass-roots. Buganda did not inflame voter passions; even in Kampala, usually a hotbed of opposition to Mr Museveni, Mr Besigye outpolled his rival by less than 4,000 votes in one of the lowest turnouts of the day at only 42%. This demonstrates a distinct lack of revolutionary zeal, considering Mr Besigye won Kampala in 2006 by over 70,000 in a turnout of 57%. On balance, it seems likely that Mr Besigye will be forced to accept the election result, however grudgingly, and that any protests, if they happen at all, will be on a small scale. His best political years now look to be firmly in the past and his challenge to Mr Museveni's rule has taken a beating from which it is unlikely to recover.

Economic policy

Monetary policy focuses on inflation

A report prepared by the Bank of Uganda (BoU, the central bank) has shed some light on a potential change in monetary policy, as the dangers of inflation appear to pose more of a challenge than the risks of slower economic growth. In a special report of monthly economic and monetary developments, prepared for a meeting with local bankers in December, the BoU outlined the need to support the economic recovery without compromising its inflation objectives. Inflation has started to rise again and the bank made it clear that the key factor driving monetary policy would be the short-term inflation forecasts. The report shows evidence of a strengthening economy that would allow a degree of monetary tightening. The bank is therefore likely to mop up excess liquidity in the market in its efforts to limit the rise of inflation, and monetary policy looks as though it will be tighter in 2011 than it was in 2010.

The BoU will also continue with a policy of intervention in the currency market to limit the depreciation of the shilling, although it continues to insist that there is no fixed rate target. The BoU spent US$60m in November supporting the currency, which depreciated by 15% during 2010. The shilling fell further, to an all-time low of USh2,400:US$1, in mid-January as political uncertainty in the lead-up to the elections, low export earnings and strong demand for US dollars in the energy sector affected confidence in the currency (February 2011, Economic performance). The BoU report highlighted the limited ability of the central bank to influence the value of the currency. The Economist Intelligence Unit expects that volatility of the currency will dissipate in the wake of the peaceful elections. Reduced political uncertainty will also lead to increased foreign-exchange inflows from donors and investors, which will support the currency. Moreover, if monetary policy is tightened in 2011 as we expect, the higher interest rates will attract capital inflows, further bolstering the currency.

The government falls foul of the IMF

Meanwhile, a press release from the IMF in February announced that the Fund had not been able to complete its first review of performance because the government's macroeconomic policies were judged to be "inconsistent" with the objectives under the policy support instrument (PSI) programme that was agreed in May 2010 (June 2010, Economic policy). The press release did not specify which of the government's policies the Fund was unhappy with, but revealed that discussions would continue under the framework of the second review, with further meetings planned for March. It is believed that the IMF was unhappy with a USh600bn (US$262m) supplementary budget that the government passed in January, which increased expenditure in the lead-up to the elections. A PSI agreement does not involve any financial support from the IMF, and its main purpose is to provide a stamp of approval from the Fund to reassure foreign donors and investors. It has been apparent, though, ever since the potential of Uganda's oil resources was confirmed, that the government has been taking a more independent line with the IMF and donors.

Economic performance

The central bank is optimistic on economic growth

The governor of the Bank of Uganda, Emmanuel Tumusiime-Mutebile, was confidently upbeat about the prospects for the economy in a speech to local bankers in February, forecasting real GDP growth of 7% in the 2010/11 financial year (July-June). The governor's remarks followed the publication of a range of encouraging data from the bank at the end of 2010. Domestic revenue collections during the first four months (July-October) of the financial year were all significantly up compared with the same period the previous year—indirect taxes, value-added tax and excise duties all increased by around 13%, and direct taxes by nearly 42%. Figures for October 2010 show an encouraging increase in private-sector credit, with year-on-year growth of 32%, indicating rising consumption and investment. Most applications for credit were in the trade and commerce sector (22%), followed by building, construction and real estate (19%), personal loans (15%) and manufacturing (14%). In addition, the recently released index of manufacturing output (for October 2010) shows a strong upward trend since July 2010. Construction showed a vibrant performance, with annual growth of 27%, followed by metal products at 20%. The stability afforded by the re-election of the president, Yoweri Museveni, will add to growing business confidence and should ensure economic stability in the medium term.

The threat of rising inflation looms

The concerns expressed by the Bank of Uganda about the threat of rising inflation were reinforced by an increase in prices recorded in January, when annual headline inflation reached 5%. This figure followed two successive rises in the annual headline rate from a level of only 0.2% last October. The rising trend was evident in all price groups, but was particularly marked in food-crop prices, which increased by 24% in six months. Annual inflation for food prices overall, which constitute 27.2% of the consumer price index, was 3.6% in January. The increases in food-crop prices were attributed by the authorities to domestic supply shortages, but overall inflation was exacerbated by imported inflation because of global price increases as well as the depreciation of the shilling.

In its December reports, the central bank said that it expected inflation to remain within its 5% core target, but it listed three external factors that could have a negative impact on domestic prices. The first factor was inflation in two of Uganda's major trading partners, China and India, which recorded annual rates of 5.1% and 9.7% respectively, in October 2010, which will feed through into imported inflation. The second factor was the fear of a global food crisis following extreme weather conditions in several major food-producing regions, which could push up global prices. The final factor was rising international oil prices, fuelled by growing demand, particularly in developing countries. This worry, moreover, was identified before the current wave of social unrest that has swept across North Africa, further disrupting oil supply and increasing prices (depending on the price, oil constitutes 10-15% of Uganda's import costs). We expect that these factors will push inflation up to an average of 9.5% in 2011.

Coffee exports are increasing

The authorities attribute the recent weak performance of exports mainly to poor coffee output caused by unfavourable weather conditions. However, the data show that the sluggishness is more evident in non-coffee exports, and the latest outlook for coffee is not especially bad. Cumulative exports of coffee for the first four months of the 2010/11 season (October-January) show a 6% fall in volume exports but a 24% increase in revenue due to good global prices. The International Coffee Organisation recorded the highest coffee prices since 1994, which moved above 200 cents/lb in February, and it believes that a combination of global production, rising global consumption and low stocks will be enough to hold prices firm in the short term. Uganda's higher quality and more expensive arabica exports continue to perform better than robusta. The Uganda Coffee Development Authority (UCDA) says that arabica has benefited from improved farming practices encouraged by attractive prices, whereas robusta-producing regions have suffered from prolonged periods of drought. The UCDA expects coffee exports to fall in February, although it believes that some traders are hoarding stocks, hoping to sell when prices have risen even higher.

Data and charts

Annual data and forecast

	2006[a]	2007[a]	2008[a]	2009[a]	2010[b]	2011[c]	2012[c]
GDP							
Nominal GDP (US$ m)	11,011	13,549	16,377	16,828	17,339	19,187	21,825
Nominal GDP (USh bn)	20,166	23,351	28,176	34,166	37,758	44,013	50,767
Real GDP growth (%)	7.1	8.1	10.4	5.3	6.1	6.3	7.0
Expenditure on GDP (% real change)							
Private consumption	12.3	2.9	8.2	11.5	7.1	7.0	7.0
Government consumption	3.7	-1.5	1.7	-1.9	3.0	3.2	3.5
Gross fixed investment	11.0	15.1	5.9	6.0	6.0	7.0	7.0
Exports of goods & services	-6.3	53.9	45.0	-12.0	10.0	13.0	16.0
Imports of goods & services	17.2	15.7	17.5	4.6	10.0	12.2	15.0
Origin of GDP (% real change)							
Agriculture	-1.8	1.7	2.3	2.4	2.5	3.5	4.0
Industry	6.4	7.9	15.4	0.7	6.0	6.0	6.0
Services	10.3	7.7	10.5	6.4	9.2	9.8	10.0
Population and income							
Population (m)	29.7	30.6	31.7	32.7	33.8	34.9	36.1
GDP per head (US$ at PPP)	1,106[b]	1,183[b]	1,274[b]	1,391[b]	1,431	1,478	1,544
Fiscal indicators (% of GDP)							
Central government budget revenue	17.7	18.8	16.3	15.5	15.4	17.7	17.2
Central government budget expenditure	19.9	20.7	18.1	17.2	18.4	19.8	20.4
Central government budget balance	-2.2	-1.8	-1.9	-1.7	-3.0	-2.1	-3.2
Public debt	18.2	20.3	18.8	20.2[b]	20.6	22.3	21.5
Prices and financial indicators							
Exchange rate USh:US$ (av)	1,831	1,723	1,720	2,030	2,178[a]	2,294	2,326
Exchange rate USh:€ (av)	2,300	2,359	2,529	2,828	2,887[a]	2,902	2,791
Consumer prices (av; %)	7.3	6.1	11.6	13.4	4.1[a]	9.5	8.5
Stock of money M1 (% change)	17.7	5.3	45.2	12.6	35.1[a]	11.3	24.6
Stock of money M2 (% change)	16.9	13.8	40.2	16.6	39.5[a]	7.7	23.4
Lending interest rate (av; %)	18.7	19.1	20.5	21.0	20.2[a]	20.5	21.0
Current account (US$ m)							
Trade balance	-1,028	-959	-1,335	-800	-1,279	-1,346	-1,875
Goods: exports fob	1,188	1,999	2,704	2,988	2,972	3,289	3,581
Goods: imports fob	-2,216	-2,958	-4,039	-3,787	-4,251	-4,635	-5,456
Services balance	-245	-382	-454	-456	-515	-624	-672
Income balance	-239	-243	-245	-329	-287	-341	-413
Current transfers balance	1,115	1,108	1,240	1,133	1,347	1,478	1,628
Current-account balance	-396	-477	-794	-451	-734	-834	-1,332
External debt (US$ m)							
Debt stock	1,260	1,611	2,249	2,557[b]	2,892	3,207	3,644
Debt service paid	113	65	74	86[b]	89	99	103
Principal repayments	84	50	52	60[b]	65	72	77
Interest	29	16	22	27[b]	25	27	27
International reserves (US$ m)							
Total international reserves	1,811	2,560	2,301	2,995	2,960[a]	3,404	3,983

[a] Actual. [b] Economist Intelligence Unit estimates. [c] Economist Intelligence Unit forecasts.

Source: IMF, *International Financial Statistics*.

Quarterly data

	2009				2010			
	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr
Prices								
Consumer prices (2000=100)	137.8	142.2	147.0	150.0	149.1	149.0	149.6	152.4
Consumer prices (% change, year on year)	16.4	12.7	12.9	12.1	8.2	4.8	1.7	1.6
Financial indicators								
Exchange rate USh:US$ (av)	1,997	2,187	2,048	1,890	2,006	2,172	2,247	2,286
Exchange rate USh:US$ (end-period)	2,118	2,064	1,924	1,900	2,084	2,283	2,244	2,308
Bank rate (end-period; %)	12.7	10.6	11.9	9.7	7.8	8.4	9.1	12.0
Deposit rate (av; %)	10.3	9.7	9.8	9.2	8.5	7.5	6.4	8.3
Lending rate (av; %)	20.2	21.8	21.1	20.7	20.3	20.9	19.6	20.0
Treasury-bill rate (av; %)	9.3	6.0	6.9	6.0	4.2	4.1	4.6	6.4
M1 (end-period; USh bn)	2,870	2,978	3,025	3,255	3,361	3,789	3,849	4,396
M1 (% change, year on year)	19.6	19.1	17.1	12.6	17.1	27.2	27.2	35.1
M2 (end-period; USh bn)	5,981	6,298	6,301	6,745	7,269	8,293	8,641	9,407
M2 (% change, year on year)	24.9	25.0	26.1	16.6	21.5	31.7	37.1	39.5
Sectoral trends (US$ m)								
Coffee exports	87.0	63.0	65.0	67.0	74.0	n/a	n/a	n/a
Fish exports	36.0	39.0	38.0	37.0	35.0	n/a	n/a	n/a
Foreign trade (US$ m)								
Exports fob	818	726	662	782	630	635	n/a	n/a
Imports fob	-968	-908	-932	-980	-1,010	-1,109	n/a	n/a
Trade balance	-149	-183	-269	-198	-380	-474	n/a	n/a
Foreign payments (US$ m)								
Merchandise trade balance	-149.3	-182.9	-269.3	-198.1	-380.1	-473.9	n/a	n/a
Services balance	-118.1	-96.0	-102.0	-140.0	-229.5	-244.6	n/a	n/a
Income balance	-66.5	-83.7	-99.1	-79.2	-89.2	-82.3	n/a	n/a
Net transfer payments	331.8	266.5	253.8	281.1	286.6	209.9	n/a	n/a
Current-account balance	-2.1	-96.1	-216.6	-136.2	-412.2	-590.9	n/a	n/a
Reserves excl gold (end-period)	2,422	2,442	3,012	2,995	2,891	2,711	2,893	2,960

Sources: IMF, *International Financial Statistics*; Uganda Bureau of Statistics.

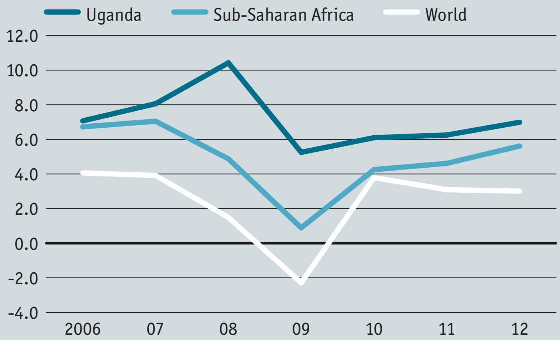
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate USh:US$ (av)												
2008	1,711	1,708	1,684	1,687	1,648	1,601	1,634	1,624	1,645	1,839	1,910	1,956
2009	1,976	1,965	2,052	2,176	2,248	2,137	2,111	2,072	1,962	1,898	1,874	1,897
2010	1,936	1,997	2,086	2,083	2,175	2,257	2,257	2,231	2,251	2,265	2,289	2,304
Exchange rate USh:US$ (end-period)												
2008	1,726	1,692	1,694	1,682	1,628	1,619	1,641	1,645	1,670	1,881	1,974	1,949
2009	1,962	1,980	2,118	2,227	2,234	2,064	2,104	2,056	1,924	1,884	1,871	1,900
2010	1,949	2,045	2,084	2,123	2,209	2,283	2,232	2,270	2,244	2,285	2,314	2,308
Exchange rate USh:€ (av)												
2008	2,519	2,521	2,614	2,657	2,563	2,491	2,575	2,428	2,359	2,439	2,434	2,643
2009	2,617	2,514	2,677	2,872	3,067	2,995	2,974	2,955	2,859	2,813	2,793	2,765
2010	2,761	2,731	2,831	2,795	2,732	2,759	2,892	2,879	2,950	3,148	3,125	3,046
M1 (% change, year on year)												
2008	23.5	27.5	21.8	26.9	20.1	25.6	25.0	24.8	20.5	21.4	24.1	45.2
2009	21.5	19.5	19.6	17.8	22.5	19.1	15.3	16.2	17.1	13.5	11.5	12.6
2010	11.4	14.2	17.1	14.4	19.5	27.2	23.0	28.0	27.2	32.1	38.8	35.1
M2 (% change, year on year)												
2008	27.0	30.1	23.6	26.4	28.6	31.1	28.9	24.6	19.4	26.3	23.8	40.2
2009	25.8	19.1	24.9	24.5	23.9	25.0	23.6	25.7	26.1	17.1	15.7	16.6
2010	15.2	22.9	21.5	24.4	27.0	31.7	29.9	34.5	37.1	39.0	45.3	39.5
Deposit rate (av; %)												
2008	11.0	11.1	10.0	11.0	11.5	10.9	10.9	10.9	9.1	8.7	11.5	11.6
2009	11.2	10.7	9.0	9.8	8.7	10.7	10.8	10.1	8.5	9.5	8.8	9.2
2010	9.3	8.4	7.7	7.8	7.5	7.3	7.1	6.8	5.4	7.6	7.6	9.8
Lending rate (av; %)												
2008	19.4	19.5	20.1	21.2	19.9	20.2	22.0	23.3	21.2	20.2	19.4	19.0
2009	18.9	20.7	21.0	21.4	22.2	21.8	21.0	21.8	20.7	20.4	21.6	20.0
2010	19.6	20.2	21.1	22.0	20.6	20.1	19.6	20.3	18.8	20.0	20.1	19.7
Uganda Securities Exchange all share index												
2008	846.0	853.6	987.6	1,051.3	1,067.6	1,095.9	1,032.1	981.9	923.6	815.1	785.2	779.3
2009	725.2	597.3	652.7	712.8	714.1	790.8	817.5	754.1	724.3	703.7	703.6	732.5
2010	806.9	813.5	886.0	982.1	1,005.4	1,023.8	1,022.0	1,059.2	1,117.9	1,194.9	n/a	n/a
Consumer prices (av; % change, year on year)												
2008	1.4	7.8	8.6	9.4	11.2	12.6	14.0	15.9	15.2	14.2	14.7	14.2
2009	20.4	14.9	14.1	13.4	12.4	12.3	11.7	12.5	14.5	13.4	11.9	10.9
2010	8.9	8.1	7.5	6.0	4.3	4.2	3.2	1.7	0.3	0.2	1.4	3.1
Foreign-exchange reserves excl gold (US$ m)												
2008	2,618	2,613	2,657	2,645	2,626	2,685	2,663	2,561	2,542	2,351	2,264	2,301
2009	2,343	2,294	2,422	2,262	2,478	2,442	2,577	2,862	3,012	3,005	2,993	2,995
2010	2,971	2,953	2,891	2,916	2,733	2,711	2,789	2,911	2,893	2,990	3,027	2,960

Sources: IMF, *International Financial Statistics*; Haver Analytics; Uganda Securities Exchange.

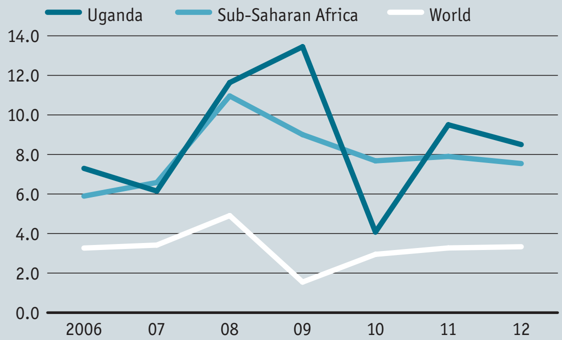
Annual trends charts

Real GDP growth
(% change)



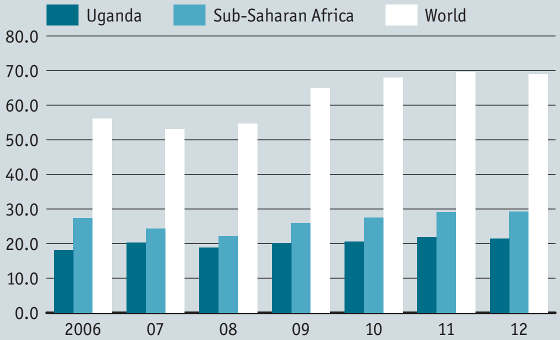
Source: Economist Intelligence Unit.

Consumer price inflation
(av; %)



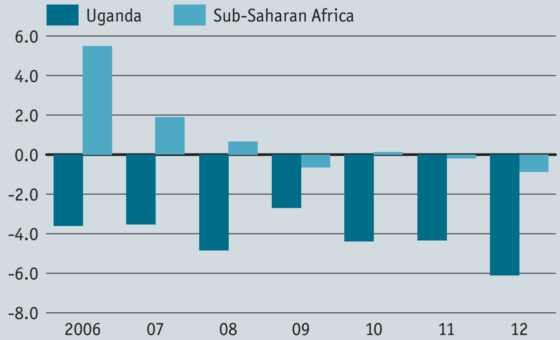
Source: Economist Intelligence Unit.

Public debt
(% of GDP)



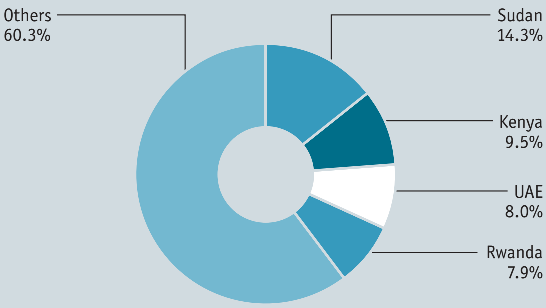
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



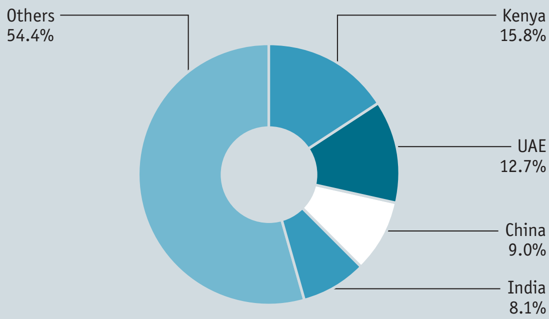
Source: Economist Intelligence Unit.

Main destinations of exports, 2009
(share of total)



Source: Economist Intelligence Unit.

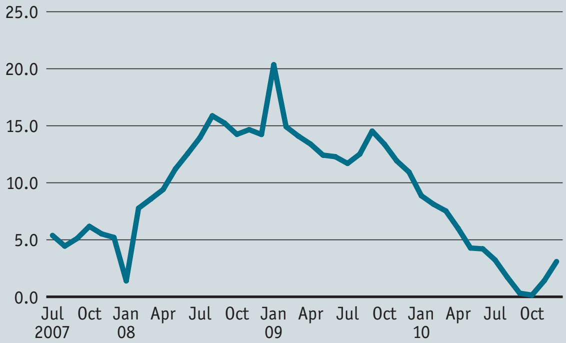
Main origins of imports, 2009
(share of total)



Source: Economist Intelligence Unit.

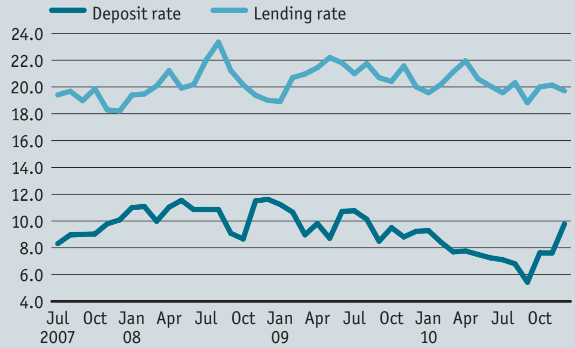
Monthly trends charts

Consumer price inflation
(% change, year on year)



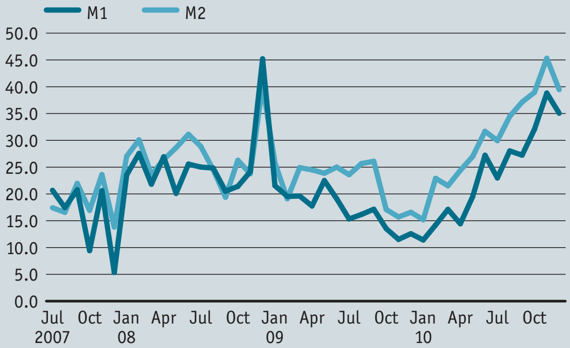
Source: Economist Intelligence Unit.

Interest rates
(av; %)



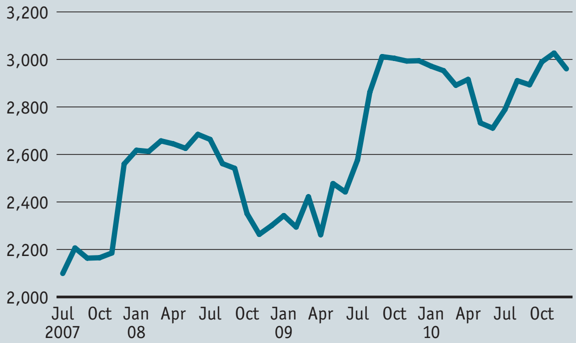
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



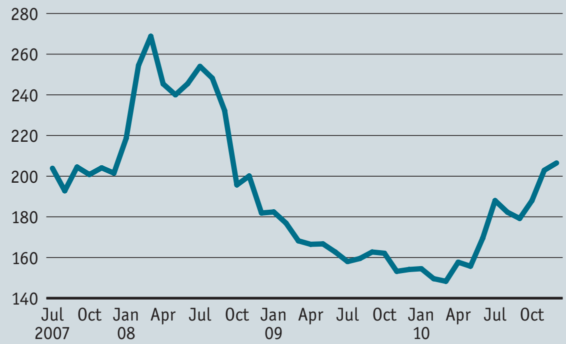
Source: Economist Intelligence Unit.

Foreign-exchange reserves
(US$ m)



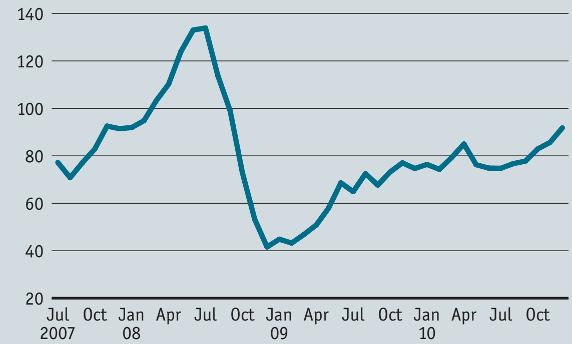
Source: Economist Intelligence Unit.

Coffee: Robusta, ICO price
(US cents/kg)



Source: Economist Intelligence Unit.

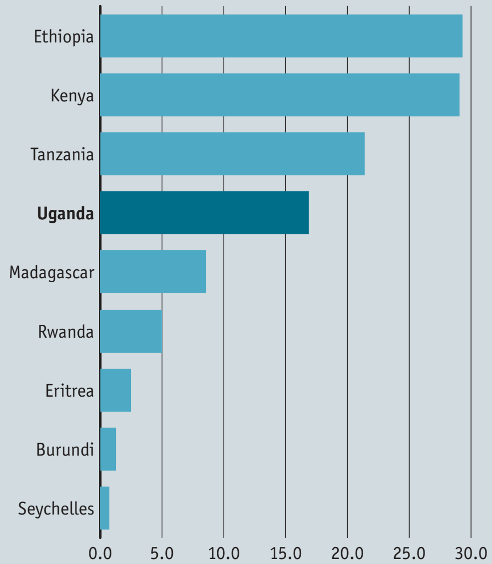
Oil: Brent crude price
(US$/b; av)



Source: Economist Intelligence Unit.

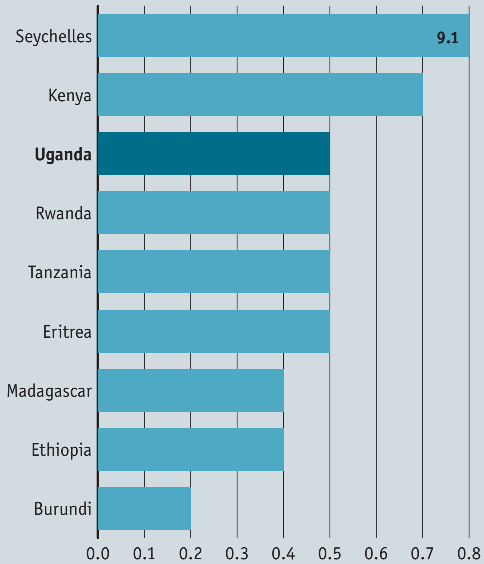
Comparative economic indicators, 2009

Gross domestic product
(US$ bn; market exchange rates)



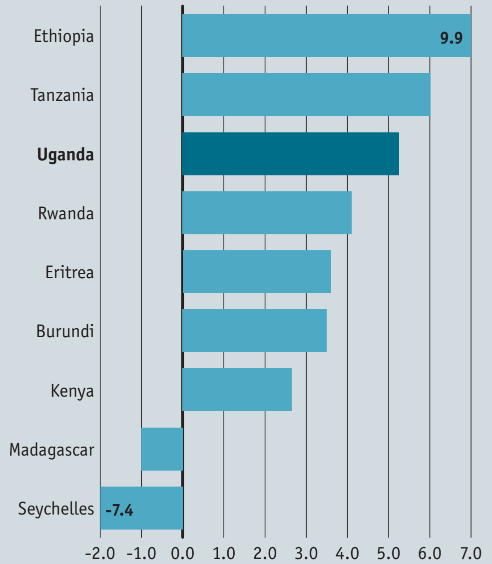
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product per head
(US$ '000; market exchange rates)



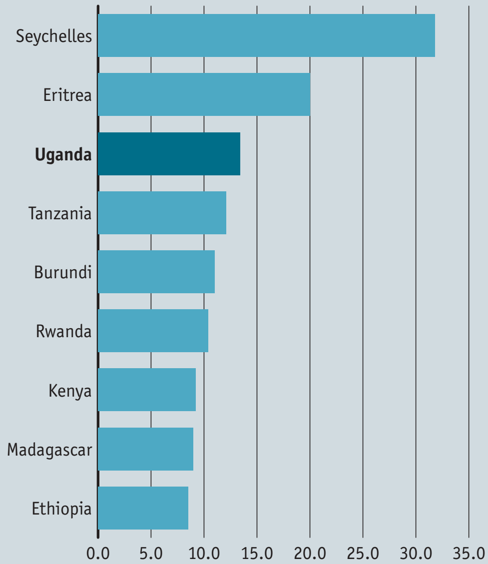
Sources: Economist Intelligence Unit estimates; national sources.

Gross domestic product
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Consumer prices
(% change, year on year)



Sources: Economist Intelligence Unit estimates; national sources.

Country snapshot

Basic data

Land area 197,000 sq km

Population 33.8m (2010, IMF mid-year estimate)

Main towns Population in '000 (2010 estimates, *World Gazetteer*)

Kampala (capital)	1,514	Kasese	93
Gulu	216	Mbarara	92
Lira	182	Kitgum	87
Jinja	97	Mbale	81

Climate Tropical

Weather in Kampala (altitude 1,312 metres) Hottest month, January, 18-28°C (average daily minimum and maximum); coldest month, July, 17-25°C; driest month, July, 46 mm average rainfall; wettest month, April, 175 mm average rainfall

Languages English, Swahili, Luganda and other local languages

Measures Metric system

Currency Uganda shilling (USh)

Time 3 hours ahead of GMT

Fiscal year July 1st-June 30th

Public holidays January 1st; January 26th (National Resistance Movement Victory Day); March 8th (Women's Day); Good Friday; Easter Monday; Id al-Fitr; May 1st (Labour Day); June 3rd (Martyrs' Day); June 9th (Heroes' Day); Id Adhuda; October 9th (Independence Day); December 25th; December 26th

Political structure

Official name	Republic of Uganda
Form of state	Unitary republic
Legal system	Based on English common law and the 1995 constitution
National legislature	Parliament of Uganda; 319 members: 215 are elected by universal suffrage; the remainder represent special interest groups, including the army, women, workers, youth and the disabled; all serve five years
National elections	February 2011 (presidential and legislative); next elections are scheduled to take place in February 2016
Head of state	President, elected by universal suffrage for a five-year term
National government	The president and his appointed cabinet; a new government was announced in May 2006, following the February elections; last reshuffle February 2009
Main political parties	The National Resistance Movement (NRM) dominates the political scene and has a large parliamentary majority; the Forum for Democratic Change (FDC) emerged from within the NRM and is now the largest opposition party; the other main opposition parties, the Democratic Party (DP) and the Uganda People's Congress (UPC), have declined in popularity

	President & commander-in-chief	Yoweri Museveni
	Vice-president	Gilbert Bukenya
	Prime minister	Apollo Nsibambi
	First deputy prime minister & minister for East African affairs	Eriya Kategaya
	Second deputy prime minister & minister of public service	Henry Kajura
	Third deputy prime minister & minister of internal affairs	Kirunda Kivejinja
Key ministers	**Agriculture, animal industries & fisheries**	Hope Mwesigye
	Defence	Crispus Kiyonga
	Education & sports	Geraldine Bitamazire
	Energy & minerals development	Hilary Onek
	Finance, planning & economic development	Syda Bbumba
	Foreign affairs	Sam Kutesa
	Gender, labour & social development	Gabriel Opio
	Health	Stephen Mallinga
	Information & national guidance	Matsiko Kabakumba
	Justice & attorney-general	Khiddu Makubya
	Local government	Adolf Mwesigye
	Security	Amama Mbabazi
	Trade, tourism & industry	Kahinda Otafiire
	Water & environment	Maria Mutagamba
	Without portfolio	Dorothy Hyuha
	Works & transport	John Nasasira
Central bank governor	Emmanuel Tumusiime-Mutebile	

