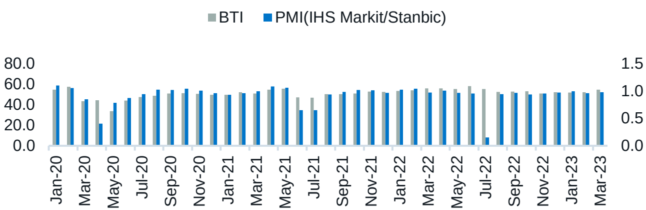
SIEAL’s economics review and outlook

7. GDP growth and country's fiscal performance

GDP growth – on path to recovery

Latest economic figures provided by Uganda Bureau of Statistics indicate a slumpy GDP growth of 4.4% in Q2 FY 2022/23 compared to a growth of 7.5% in Q1 of FY 2022/23 and 4.9% in Q2 FY 2021/22. This growth was majorly boosted by trade, agriculture and manufacturing sectors. Leading economic indicators like Stanbic Uganda's Purchasing Managing Index also confirmed signs of steady recovery closing at 53.2.in March 2023 compared to 52.0 in December 2022. Additional output, increased rainfall together with higher customer demand boosted continued recovery in the economy.

Leading Economic Indicators



Source: Bank of Uganda / UBOS / Stanbic Bank

Expectations by Bank of Uganda and Ministry of Finance, which are in line with ours, are for economic growth to print at 5.3% in FY 2022/23 and 6.0% in FY 2023/24, driven by higher investment in agriculture, industry and oil sectors. However, this growth is subject to downside risks such as tighter global financial conditions and sustained geopolitical tensions that could resurge supply chain constraints leading to slower trade and productivity.

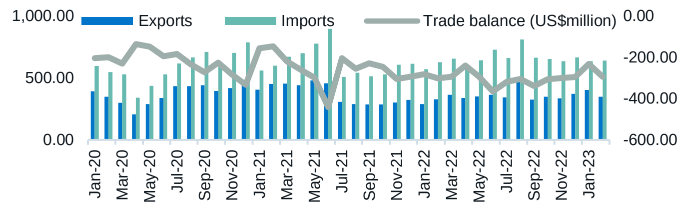
Domestic credit growth

Total private sector credit declined by 0.8% to 20.138 trillion between December to January 2023 due to the increasing market uncertainty. More so, lending to government continues to crowd out private sector lending. This has persevered due to government's preference for syndicated loans that match the risk adjusted returns commercial banks earn. Nonetheless, lending was positive in the sectors of transport, communication, business, commercial mortgages as well as education and personal loans. Non-performing loans have remained in the bounds of 5% and are expected to remain so in 2023 as banks manage their asset liability risk. This, together with the gradual pick up of businesses boosted by stronger demand, investment flows and a softer inflation environment should firm up private sector lending in 2023.

Trade balance – remains negative

Uganda's external position continued to weaken in 2022, wit the current deficit declining to US$1.002 billion from US$ 900.72 million. This was majorly due to persistent spill over effects associated with the Russia-Ukraine conflict which exerted pressure on the trade balance and the income account. The monthly terms of trade index deteriorated year to date by 5.8% to 94.8 in February 2023 as exports declined more than imports. The financial account also continued to take a hit due to continued mismatch of flows of capital. Consequently, gross reserves have remained flat at 3.5 months of import cover since December 2022.

The balance of payments position is expected to remain weak due to the high debt levels, debt servicing obligations and weaker terms of trade index coupled with contraction of short-term capital. This will however be managed by continued flows from FDIs, oil, remittances, tourism and increased exports as a result of continued import substitution. Government also continues to tap into the current 3 Year IMF program to a tune of US$ 1 billion.



Source: Bank of Uganda / UBOS / MoFPED

Government debt and Fiscal performance – downturn

The first quarter of 2023 saw slower government releases in the financial markets due to deep cuts in government expenditure, lower than projected collections by Uganda Revenue Authority and a reduction in total income earned by government. This was evidenced by latest data showing lower revenue amounting to UGX 1.894 trillion, 10.1% lower than projected in February 2023. Grants and lower tax revenue contributed the most to this shortfall. The non-disbursement of grants was mainly due to absorption challenges faced by Ministries, Departments, and Agencies (MDAs) implementing the projects. From a borrowing perspective, there has been a slowdown in domestic refinancing. This could exacerbate future borrowing needs likely to show in Q2 FY 2023/24.

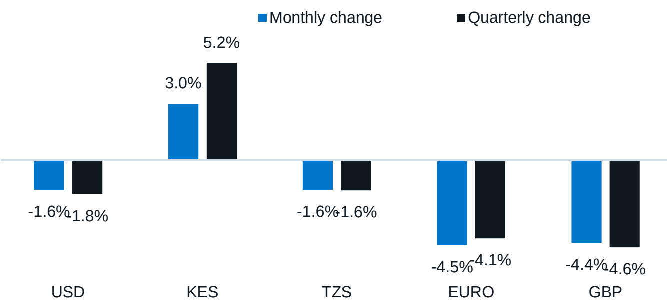
8. currency, inflation & interest rates

Local Currency: US Dollar and global tensions driving depreciation

During the quarter, the Uganda shilling lost value against the US Dollar, the Tanzania Shilling, Euro and the Pound by 1.8%, 1.6%, 4.1% and 4.6% while gaining momentum against the Kenya Shilling by 5.2% due to the current dollar liquidity and scarcity challenges in the neighboring country. The shilling's weakness was fueled by the persistence of the US Dollar's strength, bearish sentiment in global markets due several bank collapses, high corporate dollar demand due to dividend repatriation and some dollar outflows from importers. This was mitigated by dollar inflows from exports and foreign direct investments.

We expect Uganda shilling to shed off 5% in 2023 due to volatility against overall US Dollar performance, mismatch in trade accounts and sufficient demand from corporates, importers and local investors. Mitigating factors remain flows from oil investments, remittances and export receipts.

Uganda shilling performance against major currencies

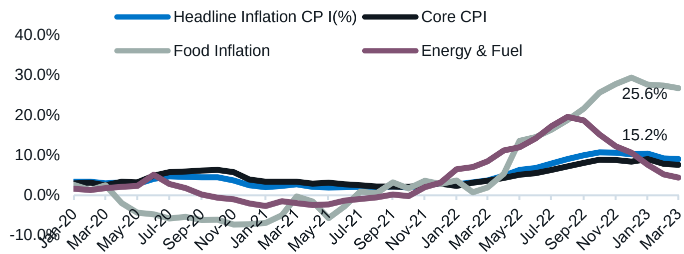


Source: Bank of Uganda

Inflation & Monetary policy – gradual slowdown

Headline inflation and core inflation decreased by 1.2% and 0.8% to 9.0% and 7.6% respectively during the quarter, signaling disinflation of prices especially energy, food and transport due to improved global supply chains and favorable weather leading to plentiful food harvests. Nonetheless, silent risks such as continued tightening of monetary policy by central banks and sustained geopolitical tensions like Russia-Ukraine and China-US led to CBR being maintained at 10.0%. The band around the CBR was also maintained at +/- 2%.

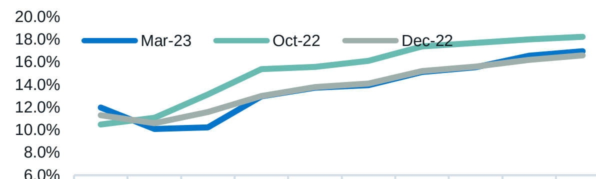
Inflation indices



Source: Bank of Uganda / UBOS / Bloomberg

Interest rates on government securities

Interest rates slightly decreased in the first quarter of 2023 mainly fueled by ease in inflation and government's slow down in domestic borrowing. However, liquidity conditions in the money markets grew tighter due to slow government releases and lower than projected tax collections The reduction in yields was more pronounced on the short-dated tenors compared to the long-term tenors due to the temporary liquidity gap pushing the left end of the curve higher than the long end despite the Central Bank's persistent rejection of short-term bids.



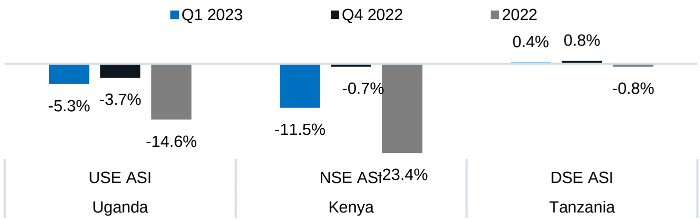
	O/N	91 Day	182 Day	364 Day	2 yr	3 yr	5 yr	10 yr	15 yr	20 yr
Mar-23	12.0%	10.1%	10.2%	13.0%	13.7%	14.0%	15.1%	15.5%	16.6%	17.0%
Oct-22	10.5%	11.1%	13.2%	15.4%	15.6%	16.1%	17.4%	17.7%	18.0%	18.2%
Dec-22	11.3%	10.6%	11.6%	13.0%	13.8%	14.1%	15.2%	15.6%	16.2%	16.6%

Source: Bank of Uganda

9. equity markets in East Africa

Equity markets – performance

Regional equity markets have been remarkably turbulent in Q1 2023 due to a myriad of factors both external and domestic. Persistent global tightening by central banks continues to bite thus sending shock waves to the market. Regionally the high interest rate environment, foreign exchange illiquidity and the recent civil unrest in Kenya exacerbated the situation further. The USE ASI and NSE ASI indices declined in Q1 2023 by 6.3% and 11.8% respectively. The DSE ASI gained 0.8% in the quarter on account of positive large cap stock price movements.



Source: USE, NSE, USE, Sanlam Investments East Africa.

Banking and finance

Despite the price weakness in the markets, Banks continue to release steady growth in earnings across the region.

	Kenya						Uganda		Tanzania
Banks	KCB	Absa	Stanbic Kenya	Coop	Stanchart	DTB Kenya	Stanbic Ug	DFCU	CRDB
Profit Growth	+20%	+34%	+26%	+33 %	+33%	+54%	+33%	+216%	+31%

Profits on average increased by 33% supported by an increase in non funded income, improved operational efficiencies and a pickup in lending. We were pleased that owing to the good performance these banks declared dividends to shareholders at an average yield of 9.8%.

Telecom Sector

MTN Uganda earnings remained robust with an 11% increase in revenue mainly attributed to consistent growth in fintech and Data. Profits increased by 19.3% with a dividend yield of 9.3%. Management continues to concentrate its efforts on investing into the network and diversifying its revenue streams. Airtel Uganda is expected to list 20% of its shares to the public by end of 2023 as mandated by the Communications Act. We expect the listing to increase activity and trading on the exchange.

From 1 January 2023, Safaricom benefitted from the return to mobile-to-bank/bank-to-wallet transactions charges. The volumes of transactions had tripled when the charges were waived, and the restoration should boost M-PESA revenues. Safaricom Ethiopia's rollout is on track with over two million new subscribers. During the quarter, Safaricom announced an interim dividend for the third consecutive year. The DPS was Ksh. 0.58 per ordinary share

Consumer and Manufacturing Sector:

Diageo, EABL's majority shareholder successfully completed its tender offer to acquire 14.97% additional stake in EABL. The offer was oversubscribed by 21. EABL remains the top beer and spirits business in Kenya, the number two player in Tanzania and top two in different sectors of the Ugandan market. We remain confident in the continued growth investments and innovations across all its markets.

Tanzania Breweries reported another strong set of results in Q4 2022 with a 76% growth in profits. This was supported by a combination of sales growth and an improvement in operational efficiencies. We expect consistent growth in the medium-term on account of continued investments thus increasing shareholder value.

Services Sector

Umeme recorded a 6% growth in profits in spite of a slow down in investments. Growth was supported be an increase in verified capital by the regulator into the tariff coupled with lower costs. We expect dividends to increase further as the company winds down its debt levels. The current price remains relatively attractive in relation to the buyout price by 2025 and thus could provide an entry opportunity for investors.

10. Africa equities, offshore and P.E

Africa Macroeconomic Update

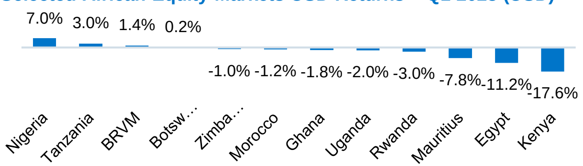
Inflation has remained elevated across Africa. Annual inflation in Nigeria and Egypt rose to 21.9% and 31.9% respectively in February 2023. Ghana's inflation stood at 52.8% in February. The country continues to face challenges on debt sustainability.

The challenging macroeconomic conditions have led to investor risk aversion to African frontier markets. This has resulted in the relative weakness of African equity markets and currencies compared to other Emerging and Frontier Markets.

Africa Equities Market Performance

African frontier equity markets were weaker in Q1 2023, with the MSCI EFM Africa ex ZA Index down 3.1%. Markets that posted positive performances in Q1 2023 include Nigeria +7.0%, Tanzania +3.0% and BRVM (French West Africa Exchange) +1.4%. Kenya -17.6%, Egypt -11.2% and Mauritius -7.8% were markets that declined.

Selected African Equity Markets USD Returns – Q1 2023 (USD)



Source: Bloomberg

Outlook

The stronger US Dollar and higher US Treasury yields has led to continued risk aversion to African Markets. Global and African Central banks continue to hike interest rates to contain inflation. As inflation recedes and the pace of aggressive interest rate increases subsides, investor confidence in African frontier markets should improve.

Offshore Economic Review

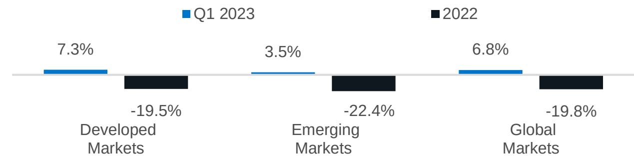
According to the Organisation of Economic Cooperation and Development (OECD), global growth is expected to remain below its 2022 level of 3.2% in 2023 and 2024 at 2.6% and 2.9% respectively. A gradual pick up in growth is expected in the medium term as the effects of high inflation recede.

The impact of higher interest rates has been felt in banking sector in the US and Europe. Central Banks have moved to allay investor fears of systemic risk by re-assuring depositors of the safety of their deposits and forcing the take-over of troubled banks.

Commodities

Oil prices declined by 7.1% in Q1 2023 on the back of lower consumption reflecting weaker global growth output. Gold gained 8.0% during the quarter as investors remained cautious of the global economic outlook and persistently high inflation.

Equity Markets Performance



Source: Bloomberg: Developed Markets – MSCI Developed Markets Index , Emerging Markets – MSCI Emerging Markets Index & Global Markets – MSCI All Country World Index

Global equities made a recovery in Q1 2023 following renewed investor confidence as inflation began easing in the developed economies. Optimism about China's economic recovery and monetary support by its Central Bank also supported equity gains.

Outlook

Global Central Banks remain focused on reducing inflation despite the risks of economic recession and negative impact of higher interest rates on the banking sector. Cheaper valuations and portfolio diversification continue to support the case for US Dollar investments.

Private Equity (PE)

Globally, the PE environment is slower in 2023 due to risks of high inflation, rising interest rates and economic recession. However, in East Africa deal making activity was robust in Q1 2023 - according to the I&M Burbidge EA financial review February 2023 report. This is attributable to the higher economic growth, reduced election activity and favorable population demographics.

Increasing risks for PE include access to hard currency, the impact of increasing debt burdens, inflation, and higher borrowing costs as central banks increase interest rates to work to tame inflation, and global macro-economic shocks.

disclosure

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