Euler Hermes Economic Research

Country Risk Analysis

Uganda

Strong growth from low base

General Information

GDP	USD19.881bn (World ranking 104, World Bank 2012)
Population	36.35 million (World ranking 36, World Bank 2012)
Form of state	Republic
Head of government	Yoweri Kaguta MUSEVENI
Next elections	2016, presidential and legislative

Strengths

- The political system is relatively stable, compared with a chequered history, and transition to a multi-party democracy is being instituted.
- Good record of GDP growth in recent years, albeit from a low base.
- First country to reach its completion point under the Heavily Indebted Poor Countries initiative (HIPC) and awarded significant debt reduction.
- Reasonable relations with the IFIs and donor community, despite periodic concerns relating to achievement of some economic targets and perceptions of corruption.
- Potential oil exporter.

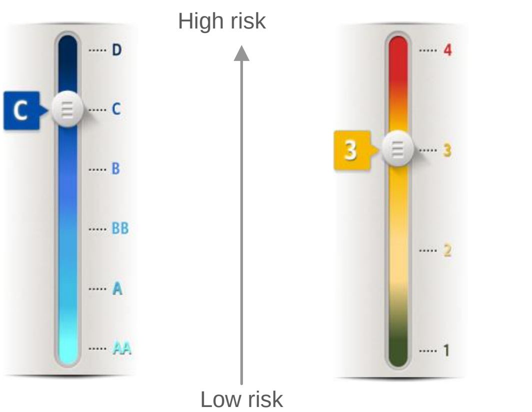
Weaknesses

- Trade and communication links are vital because the country is landlocked. Disruption to these can have detrimental effects on business and the overall economy.
- There are perceptions that President Musevenei is becoming increasingly autocratic.
- Failure to achieve a negotiated settlement with the Lord's Resistance Army in the north.
- Dependence on the primary sector exposes economic development to the vagaries of climatic changes, including periodic drought, and to internationally-determined commodity prices.
- Periodic energy shortages.
- Fiscal and current account deficits.

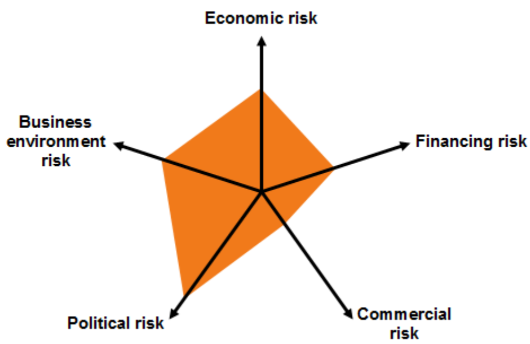
Country Rating

C3

Country Grade **Country Risk Level**



Risk Dimensions



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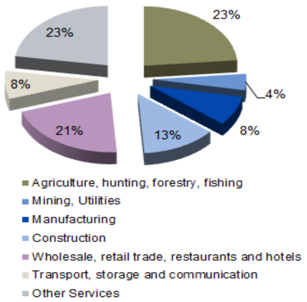
Economic Structure

GDP breakdown (% of total, 2011)



Sources: Chelem, UnctadStat, IHS Global Insight, Euler Hermes

Trade structure (% of total, 2011)

By destination/origin

Exports		Rank		Imports
Kenya	11%	1	15%	Kenya
Rw anda	10%	2	13%	United Arab Emirates
Dem. Rep. of the Congo	10%	3	10%	India
United Arab Emirates	8%	4	9%	China
Netherlands	7%	5	8%	Russia

By product

Exports		Rank		Imports
Coffee, tea, cocoa, spices, and manufactures thereof	27%	1	17%	Petroleum, petroleum products and related
Fish, crustaceans, molluscs and preparations thereof	8%	2	8%	Road vehicles
Tobacco and tobacco manufactures	5%	3	6%	Iron and steel
Iron and steel	5%	4	5%	Medicinal and pharmaceutical products

Economic Forecast

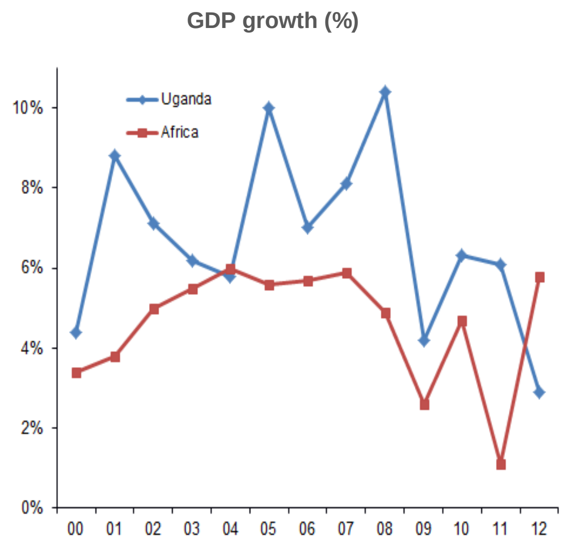
	2009	2010	2011	2012	2013f	2014f
GDP grow th (% change)	4.2	6.3	6.1	2.9	4.5	6.5
Inflation (%, end-year)	11.0	3.1	27.0	5.3	5.0	7.6
Fiscal balance (% of GDP)	-2.4	-6.7	-3.2	-2.8	-2.4	-3.0
Public debt (% of GDP)	22.2	27.0	32.2	20.7	21.5	23.7
Current account (% of GDP)	-7.6	-10.5	-11.8	-14.2	-15.3	-15.5
External debt (% of GDP)	16.5	18.4	20.0	18.4	19.4	21.9

Sources: IHS Global Insight, National sources, Euler Hermes

Economic Overview

Annual average GDP growth in the period 2000-08 was +7.5%, with Uganda one of the African economies consistently expanding at the fastest rate. However, following two years of annual expansion of +6%, growth in 2012 slowed to its weakest rate since the late 1980s, at +2.9% y/y, reflecting a sharp contraction in private consumption. In turn, consumption in 2012 was adversely affected by high inflation in 2011 (30.4% y/y in October of that year) and the resulting tight monetary policy (the central bank lifted its key policy interest rate by 10pps in H2 2011). Inflationary pressures have eased since then, with a resulting improvement in consumption.

Development of oil fields in the west (the Lake Albert region) should offer scope for significant economic development and for continuation of high growth rates. While commercial output is now scheduled to start in 2016-17, the benefits in terms of inward investment and infrastructure development are already apparent. EH expects GDP growth of +4.5% in 2013, with a rebound to +6.5% in 2014 subject to an improvement in global trading conditions.



Sources: IHS Global Insight, Euler Hermes

Economic Overview (continued)

Monetary policy has shifted to inflation-targeting (announced in June 2011), partly in response to an IMF recommendation but also to alleviate potential adverse effects from the large capital inflows expected from the development of the oil sector. Volatility in the rate of inflation (see table above) reflects changing weather conditions across the region, with consequent uncertainties in terms of agricultural production and food prices.

The current account records large deficits (averaging -4.6% of GDP in 2000-08), which have increased significantly in recent years (over -14% of GDP in 2012). Moreover, the deficits will remain large, mainly reflecting large capital imports for investment in the oil and hydro-electricity sectors. Commercially-exploitable oil reserves will improve the external accounts in the future (crude oil and petroleum products currently account for 17% of the total import bill) but in 2013 and 2014 EH expects current account deficits of over -15% of GDP.

External debt levels (debt/GDP of over 19% and debt/export earnings over 77% in 2013) are much improved following debt relief initiatives. Annual external debt servicing (repayments/foreign exchange earnings) is currently a comfortable 2%. Foreign exchange reserves of over USD3 billion cover over four months of imports.

Development of the country's energy sector has increased popular expectations and the government needs to manage potential oil windfalls effectively, including an equitable revenue distribution. The challenge for the government also includes appeasing its development partners (IFIs, donor agencies and bilateral supporters) who want oil revenues to boost growth-enhancing infrastructure investment.

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