THE REPUBLIC OF UGANDA

HALF YEAR MACROECONOMIC & FISCAL PERFORMANCE REPORT FY 2016/17

MINISTRY OF FINANCE PLANNING AND ECONOMIC DEVELOPMENT

February 2017

Contents

INTRODUCTION

The Public Finance Management Act (PFMA) 2015 requires that the Minister shall "by the end of February and October of each financial year make a fiscal performance report to Parliament". In accordance with this requirement, the Ministry of Finance Planning and Economic Development has prepared the Half Year Fiscal Performance Report for the Financial Year 2016/17 that incorporates the fiscal and economic implications of both government decisions and other economic circumstances as at 30th December 2016.

This report is structured into two sections. Section 1 provides a summary of recent economic developments and looks at the macroeconomic performance of the economy during the first half of the Financial Year 2016/17. It also provides an outlook on the economy over the remainder of the current financial year and the medium term. Section 2 presents the fiscal performance of the economy over the same period - detailing revenue and expenditure performance, sources of deficit financing, public debt - and also provides an outlook along with fiscal risks.

In the first half of the Financial Year 2016/17, the economy faced a number of challenges both domestic and external. Nonetheless, the economy remained resilient, sound and grew moderately on the foundation of prudent fiscal and monetary policies. Going forward, boosting economic growth while maintaining macroeconomic stability will be vital. Economic growth over the medium term is projected to return to potential growth (6 to 7 percent) as a result of the improved efficiency and effectiveness of the implementation of public infrastructure investments, and increased private sector growth.

List of Acronyms and Abbreviations

BTI	Business Tendency Index
CBR	Central Bank Rate
CIEA	Composite Index of Economic Activity
CIF	Cost Insurance &Freight
EAC	East African Community
EFU	Energy Fuel and Utilities
EU	European Union
FY	Financial Year
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
HPPs	Hydro Power Projects
PSC	Private Sector Credit
SCT	Single Customs Territory
OSBPs	One Stop Border Posts
URA	Uganda Revenue Authority
USD	United States Dollars
VAT	Value Added Tax
Shs	Ugandan Shilling
NPL	Non-performing loans
IMF	International Monetary Fund

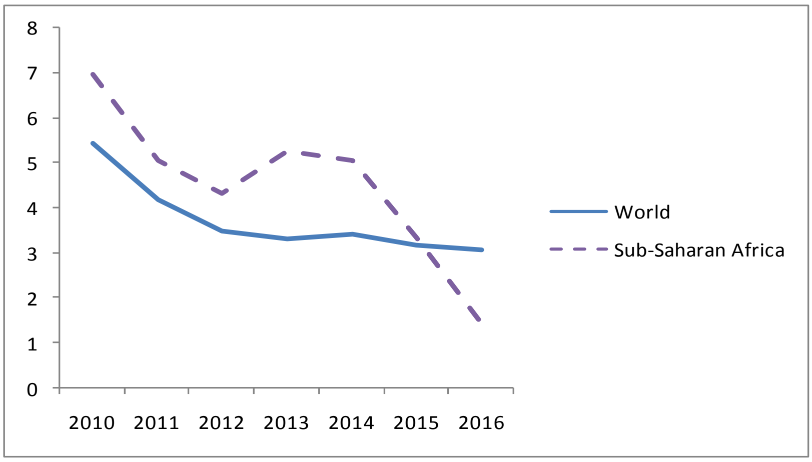
Recent Economic Developments and Outlook

Growth

Revision of growth projections Financial Year 16/17; following developments in the global economy and domestic factors, the growth projection for the Financial Year 2016/17 was revised downwards to 4.5 percent from the 5.5 percent at the time of the approved budget in June 2016. Below are the key reasons for the downward revision to economic growth;

World economic growth for the better part of 2016 performed rather poorly largely due to sluggish growth in advanced economies, low commodity prices, weak global trade, and diminishing capital flows. However, towards the close of 2016 global growth prospects improved as a result of a rebound in economic activity in the advanced economies. Subsequently the global economy grew at an estimated 3.1 percent in 2016 slightly lower than the 3.2 percent registered in 2015. The relatively stable growth however does not reflect the mixed fortunes between different economies during the first half of the Financial Year 2016/17. Advanced economies boasted of a stronger than expected pickup in growth driven by recovery in manufacturing and a reduced drag from inventories. Emerging economies on the other hand experienced an unexpected slowdown. In Sub Saharan Africa growth slowed down from 3.4 percent in 2015 to 1.6 percent in 2016. In low income developing countries, growth slowed down from 4.6 percent in 2015 to 3.7 percent in 2016.

Figure 1: Global Economic Growth rates: 2010-2016



Source: IMF

The domestic factors that negatively impacted growth were largely founded on the significant drought experienced across the country that affected agricultural production during the first half of the Financial Year 16/17. Preliminary estimates on quarterly GDP show a 0.2 percent decline in GDP during quarter one largely on account of agriculture, forestry and fishing, which also declined by 0.2 percent during the quarter. The decline in this sector negatively affected manufacturing leading to a 0.4 percent decline in the sector due to a strong causal link between the two sectors in the form of Agro-Processing which as well performed poorly. Construction on the other hand maintained its strong performance from the previous financial year.

Government's consumption and investment program for the first half of the Financial Year 2016/17 was largely under executed with only a 70 percent performance against the program levels and thus lower by over shs 3 trillion. This was due to poor performance on external development expenditure. Tax Revenues also for the same period registered a shortfall of 170 billion largely from an underperformance in international taxes as a result of declining imports.

The value of total merchandise imports however declined by 14 percent compared to the first half of the Financial Year 2015/16. Declines were registered in Government imports (down 77 percent) and private sector imports (down 3 percent) on account of lower import volumes and a fall in oil prices.

Table 1: Uganda's Economic Growth rates: 2014-2017

Real MP GDP	2014/15	2015/16	Proj2016/17
Agriculture, forestry and fishing	2.3%	3.2%	1.2%
Industry	7.8%	4.0%	3.9%
Services	4.8%	6.5%	6.4%
Total GDP at market prices	5.1%	4.8%	4.5%

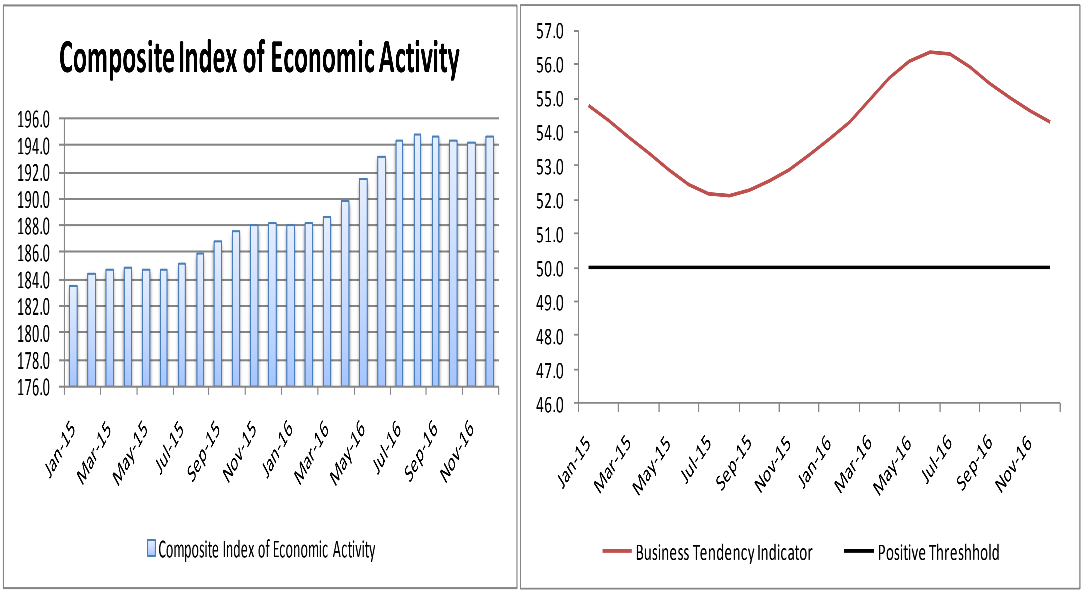
Source: UBOS, MOFPED

Outlook on economic Growth;

Improved efficiency and effectiveness in implementation of public investments and a recovery in economic activity within the **private sector** is expected to drive growth and this is expected to be sustained in the coming months as the lending rates are expected to continue declining with the reduction in the CBR. Private sector credit continues to grow moderately. However, there was notable growth in credit of a 6.5 percent increment in December of 2016 compared to the stock of credit in the same period last year.

High frequency indicators for economic activity suggest that there have been recent improvements in business sentiments and continued recovery in the level of economic activity. The **Business Tendencies Index** during the first half of the financial year shows that expectations about doing business were positive. The average BTI was 55.2 implying generally positive business expectations. Even though the BTI declined throughout the quarter, it is worth noting that the first half's average remains above the 50 threshold and above the average of either half of last financial year. Similarly, despite a slow start to the financial year, the level of economic activity during the second quarter improved as demonstrated by the **Composite Index of Economic Activity**.

Figure 2: High frequency indicators of economic activity.



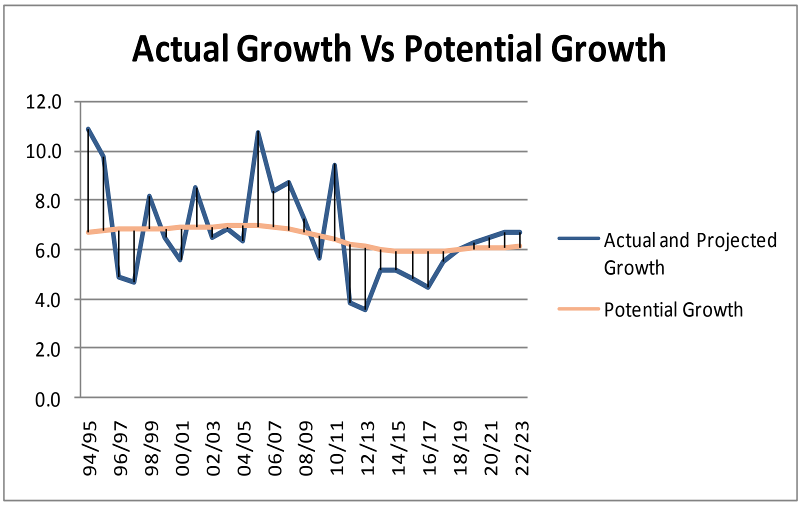
Source: BOU

The level of private consumer spending as estimated by domestic VAT collections improved in the first half of 2016/17 to Shs 976.2 Billion compared to Shs 838.8 Billion n in the same period last financial year an increment of 16 percent.

During the first half of the Financial Year 2016/17, Uganda's export earnings increased by 18.6 percent compared to same period last financial year, driven mainly by minerals, pulses, industrial products, cotton, fish and its products. Coffee continued to be a major export contributing about 13.5 percent of total exports, followed by minerals (11.24 percent). The good performance of exports was attributed to the increase in the price of coffee and growth in export volumes of exports like minerals, sugar and other pulses (which includes soya). The good performance of mineral exports follows the lifting of the ban on mineral exports in July 2015.

International growth projections (according to the IMF and the World Bank) indicate that the global economy is projected to recover in 2017 and 2018 despite the fact that global commodity prices remain low and that there is uncertainty surrounding American and European trade policies, the restructuring of the Chinese economy and its global impacts. Going forward, boosting economic growth while maintaining macroeconomic stability will be vital. Economic growth over the medium term is projected to return to potential growth (6 to 7 percent) as a result of the improved efficiency and effectiveness of the implementation of public infrastructure investments, and increased private sector growth.

Figure 3: Outlook on Economic Growth rates:

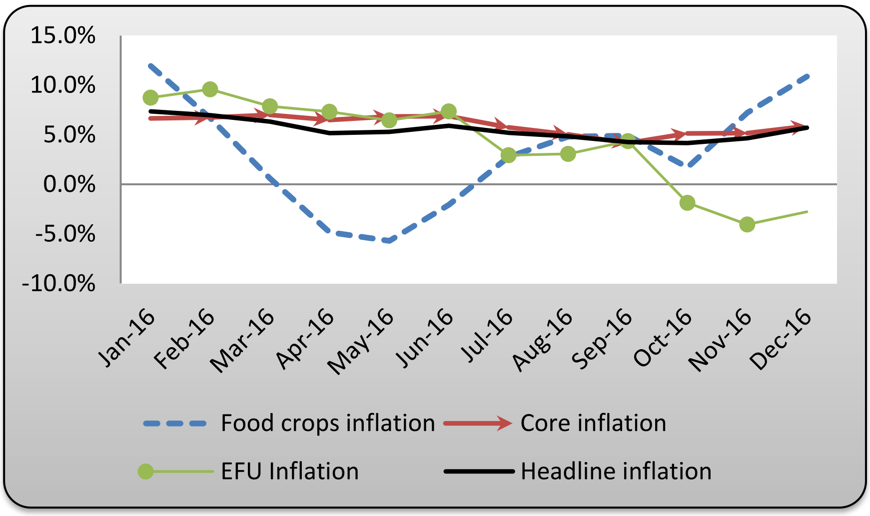


Source: UBOS, MOFPED

Inflation Trends

The average annual headline inflation in the first half of the Financial Year 2016/17, declined to 4.8 percent down from the 6.2 percent average recorded during the first half of the previous financial year. Despite this relative decline, headline inflation increased in the last two months of the period under review from 4.2 percent in October 2016 to 4.6 percent and 5.7 percent in November and December 2016 respectively. This increase in inflation was driven by two main factors, reduced food supplies as a result of drought across the country and increased demand for various services during the festive season.

Figure 4: Inflation trends-2016



Source: UBOS

Food crop inflation increased to a six-month average of 5.4 percent in the first half Financial Year 2016/17 from 1.1 percent in the previous half. Monthly movements in the same period also showed increases in annual food crop inflation rising from 2.8 percent in July 2016 to 10.8 percent in December 2016. The rise in food crop inflation is a result of food supply shortages in the northern, eastern, and western parts of Uganda. The drought significantly disrupted the food supply chain across the country and consequently increased food crop prices. Consequently, inflationary pressures were evident for manufactured foods such as bread, maize flour, millet flour, cassava flour, rice, and sugar which require food crops as intermediate inputs to their production.

Core inflation remained close to the 5 percent monetary policy target, recording 5.2 percent average during the first half of the financial year. This was an improvement from the 6.8 percent average of the previous half signifying the effectiveness of monetary and fiscal policy efforts towards controlling inflation and maintaining macroeconomic stability.

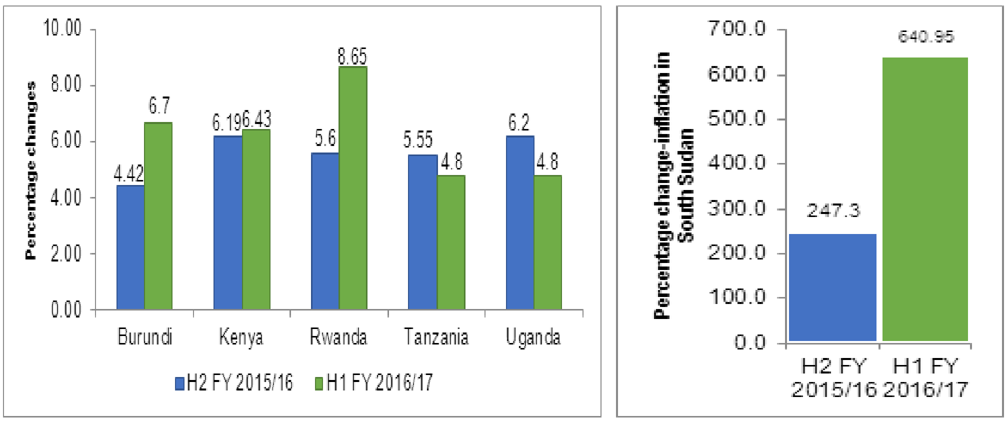
Monthly trends in core inflation during the first half of the Financial Year 2016/17 also demonstrated stability, with a slight increase in core inflation during December 2016. Core inflation in December 2016 increased to 5.9 percent largely on account of increased demand for various services during the festive season. In particular, increased demand for transport services raised the transport price index to 5.2 percent on a year on year basis in December 2016 from 2.9 percent in November 2016. Increased demand for restaurant and hotel services during the festive season also raised its corresponding price index by 6.8 percent on a year on year basis in December 2016 from 6.6 percent in November 2016.

Annual EFU inflation declined considerably to an average of 0.3 percent in the first half of the Financial Year 2016/17 from 7.9 percent in the previous half. It also remained relatively low in all six months of July to December 2016. The decline in the Annual EFU inflation is attributed to lower electricity charges and lower prices of fuels such as liquefied gas, kerosene, firewood, petrol and diesel.

In particular, electricity charges declined following the decision by the Electricity Regulatory Authority to reduce electricity tariffs for two consecutive quarters. This was on the grounds that the Nalubaale and Kiira hydropower complexes had increased their power generation capacities, international fuel prices had declined and the exchange rate at the time was fairly stable.

As is the case in analysis of regional economic growth, it is vital to access the impacts of price changes within the community due to the fact that there are significant trade and economic links within the East African community due to improved trade facilitation. A large portion of Ugandan exports are utilized in the region and similarly Uganda receives a significant portion of her imports through her neigbours. The drought in Uganda and the region coupled with geopolitical tension has affected the supply and demand for food in the region, of which Uganda contributes a significant share and inevitably this will have impacts on Uganda's trade and growth prospects.

Figure 5: Inflation trends with in the East African Community

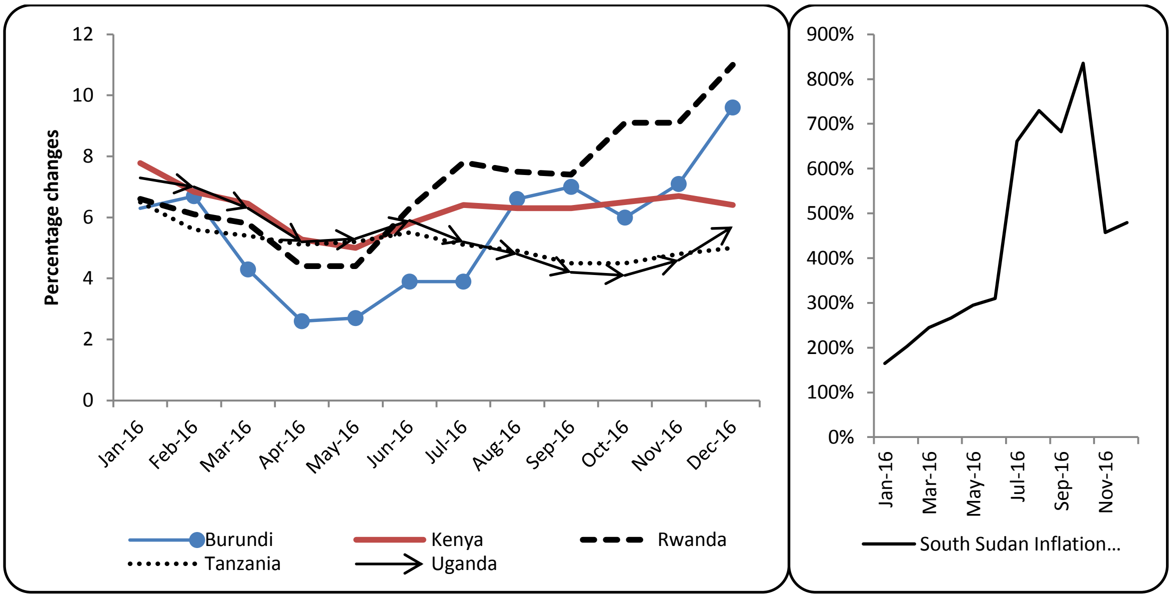


Source: Respective Bureaus of Statistics

Within the East African region, Uganda and Tanzania registered declines in average headline inflation over the six months of July to December 2016 (first half FY 2016/17) compared to the average of the previous six months of January to June 2016 (second half FY 2015/16). On the contrary, Burundi, Kenya, Rwanda and South Sudan registered increments in headline inflation between the two periods. This is demonstrated in figure 5 above which compares average headline inflation over the last two halves.

Analysis of inflation trends within the six months of July to December 2016 however, showed a pickup in headline inflation in most partner states. Headline inflation in Uganda, Tanzania, Burundi, and Rwanda increased especially during October, November and December 2016. This was largely attributed to rising food crop prices as a result of the wide spread drought that suppressed food supply across the region.

Figure 6: Inflation trends with in the East African Community



Source: Respective Bureaus of Statistics

Kenya as well faced inflationary pressures caused by shortages in food supply amidst the prevalent dry spell. This raised its headline inflation to 6.5 percent and 6.7 percent in October and November 2016 respectively. In December 2016, Kenya's headline inflation declined to 6.4 percent reflecting in part the declining effect of the excise tax that was implemented in December 2015. In spite of this decline in headline inflation, food inflation in Kenya remained high.

Civil conflict in South-Sudan brought about significant shortages in food and other supplies across the country. As of December 2016, inflation in South Sudan stood at 479 percent largely explained by the lagged effect of the currency devaluation and severe food shortage amidst civil conflict.

Outlook on domestic inflation;

The risks to the inflation outlook during the first half of the Financial Year 2016/17 are minimal, stemming from a lagged effect of the drought on food crop prices and the possibility of the Electricity Regulatory Authority increasing electricity tariffs following the recent depreciation of the Uganda shilling.

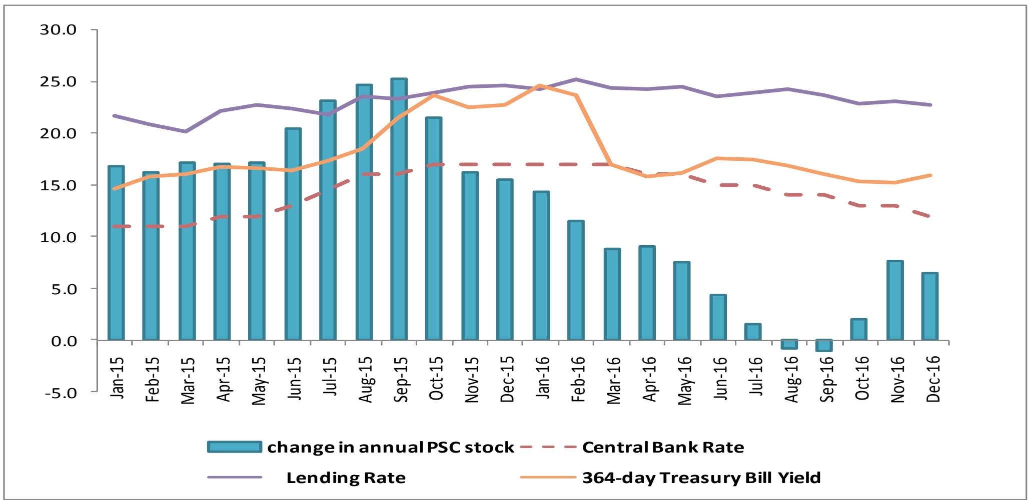
On the upside, the drought is likely to recede in the near term with prospects of rainfall across the country. This should ease inflationary pressures on food crop as food harvests and supplies to markets gradually increase. Furthermore, in an effort to eliminate the shortages in maize supplies arising from drought, the government in 2016 introduced new maize varieties that are drought tolerant, high yielding and disease resistant. This should in the near term increase food production, improve food security and mitigate the impact of droughts going forward.

Financial Market Trends

The Bank of Uganda eased monetary policy through the first half of the Financial Year 2016/17, with gradual downward revisions of the Central Bank Rate (CBR) from 15 in July 2016 to 12 in December 2016. The rediscount rate and the inter-bank rate were also decreased simultaneously from 19 to 16 and 20 to 17 respectively from July 2016 to December 2016. This was largely as a result of the Central Bank expecting long run inflation to be within the 5 percent target despite facing the prospects of higher short run inflation from increased food and fuel prices. Additionally monetary policy easing was also done with the aim of stimulating domestic demand and boosting economic activity.

The yields on treasury instruments edged downwards in the first half of the Financial Year 2016/17 compared to the second half of the Financial Year 2015/16. The reduction in the yields was on account of increased liquidity in the money market, decline in inflation and lowering of the CBR. The average weighted yields to maturity for the first half of the financial year were 14.6 percent, 15.4 percent and 16.1 percent for the 91, 182 and 364 day tenors, respectively. This compares with 17.2 percent, 18.8 percent and 19.1 percent in the second half of the Financial Year 2015/16.

Figure 7: Financial market trends: 2012-2016

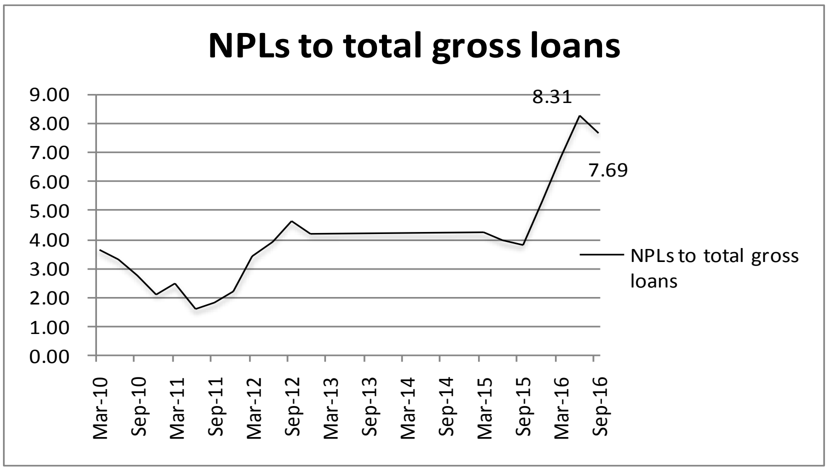


Source: BOU

Figure 7 above shows recovery in lending to Private Sector towards the end of the first half of the Financial Year 16/17 as a result of supportive monetary policy easing. This has seen annual growth in the stock of private sector credit move to over 6 percent growth compared to the slow and negative growth rates seen at the start of the current financial year. This growth though significant is still not comparable to the double digit growth at the start of the calendar year 2016; however it is an indication of recovery. The total stock of PSC as of December 2016 stood at 12 trillion Ugandan Shillings out of which the largest share was in Building, mortgage, construction and real estate, followed by Trade and personal & household loans (the three comprising 60 percent of total PSC). Commercial Bank lending in Shillings formed the largest share of PSC (53 percent), followed by Commercial Bank lending in foreign currency (42 percent). Microfinance Deposit taking institutions formed a small share with around 3 percent of the total and Credit institutions made up the remaining 2 percent.

Additionally, the percentage of non-performing loans over gross loans moved from 8.31 percent in March of 2016 to 7.69 percent in September of 2016 as shown below. Furthermore, according to the financial stability report December 2016(BOU) "the banking system remained strongly capitalized, with a core capital adequacy ratio of 19.83 percent as of September 2016; far higher than the statutory minimum of 8 percent. The robust capital levels offer a high degree of resilience against systemic distress."

Figure 8: Non Performing Loans: 2010-2016



Source: BOU

Outlook on financial markets;

Private Sector Credit is expected to continue on a recovery path as lending rates continue to decline as a result of monetary policy easing. With risks to inflation minimal in the short and long run, monetary policy should continue to be supportive of economic activity and growth. The banking sector is also expected to remain stable and resilient throughout the Financial Year 2016/17. This stable environment should in the long run attract external investments especially in government debt which will ease the crowding out of the private sector, provide much needed government financing and support the stability of the exchange rate. However, the ratio of non-performing loans to gross loans is significantly high and might pose a risk to the recovery in lending to the private sector.

External Transactions and Exchange Rate Trends

During the first half Financial Year 2016/17, Uganda`s merchandise **trade deficit** narrowed to US$ 625.2 million from US$ 1214.7 million in the same period last financial year. This was due to a combination of a reduction in the import bill by 14.1 percent and an increase in the export receipts by 18.6 percent.

During the first half Financial Year 2016/17, Uganda's **export earnings** increased by 18.6 percent compared to same period 2015, driven mainly by gold, pulses, industrial products, cotton, fish and its products. The value of total exports increased from US$ 1,281.5 million in the first half of 2015/16 to US$ 1,519.87 million in the first half 2016/17. Coffee continued to be a major export, contributing about 13.5 percent of total exports, followed by minerals (11.24 percent). The good performance of exports was attributed to the increase in the price of coffee and growth in export volumes of exports like minerals, sugar and other pulses (which includes soya). The good performance of mineral exports follows the lifting of the ban on mineral exports in July 2015.

Comparison between the two periods shows a fall in the earnings of food crop exports. Export volumes of maize, beans and sim-sim fell by 25.9 percent, 35.5 percent, and 82.3 percent respectively. The fall in food crop exports was due to the civil conflict in South Sudan, which intensified during the month of July 2016 as well as reduced food supplies as a result of drought during the same period. Table 2 below shows the performance of exports.

Table 2: Performance of Exports (US$ million)

	FIRST HALF 2015/16	FIRST HALF 2016/17	% Change
Total Exports	**1,281.50**	**1,519.87**	18.6%
1. Coffee (Value)	**186.45**	**206.06**	10.52%
Volume (million60-Kg bags)	**1.83**	**1.81**	-1.1%
Av. unit value	**10.20**	**11.23**	10.2%
2.Non-Coffee formal exports	**906.04**	**1,114.75**	23%
o/w Fish (excl. regional)	**54.63**	**61.61**	12.8%
Sugar	**27.22**	**66.26**	143.4%
Other Pulses	**9.97**	**23.47**	135.4%
3. ICBT exports[1]	**189.01**	**199.06**	5.3%
o/w industrial products	**119.58**	**134.74**	12.7%

Source: BOU

[1] ICBT stands for informal Cross Border exports

The East African Community remained the major destination for Uganda's exports, followed by the Rest of Africa, and the Middle East during the first half 2016. Uganda`s trade with the EAC is facilitated by the tariff-free movement of goods and services, as well as improved regional transport infrastructure. Exports to the EAC region grew by 7.3 percent from US$ 585.6 million in first half 2015/16 to US$ 628.2 million in the period first half 2016/17. Kenya took the largest share in EAC exports (48.3 percent), followed by Rwanda (19.9 percent) then South Sudan (17.9 percent) in the first half 2016/17.

The value of total **merchandise imports** amounted to US$ 2145.04 million in the first half of the Financial Year 2016/17, a decline of 14 percent compared to the value of US$ 2,496.25 million registered in the first half FY 2015/16. Declines were registered in Government imports (down 77 percent) and private sector imports (down 3 percent) on account of lower import volumes[2] and a fall in oil prices[3]. Table 3 shows the performance of imports in the first half FY 2016/17.

Table 3: Performance of Imports (US$ million)

	15/16 FIRST HALF	16/17 FIRST HALF	% Change
Total Imports (fob)	2496.25	2145.04	-14%
Government Imports	377.88	87.32	-77%
Project	342.84	69.63	-80%
Non-Project	35.04	17.69	-50%
Formal Private Sector Imports	2062.21	1894.45	-8%
Oil imports	353.63	306.04	-13%
Non-oil imports	1708.58	1588.41	-7%
Estimated Private Sector Imports	56.16	163.27	191%
Total Private Sector Imports	2118.37	2057.72	-3%

Source: BOU

During the first half of 2016/17 the highest imports were in the category of Machinery equipment, vehicles and accessories (23.7 percent, valued at USD 449.03 million), followed by petroleum products (16.1 percent, valued at USD 306.04 million), chemical and related products (11.4 percent, valued at USD 216.09 million)

Asia was the largest source of imports, contributing 44 percent of the total merchandise imports in the first half of the Financial Year 2016/17. Middle East and EAC supplied 17 percent and 16 percent of the total merchandise imports respectively. China, India and Japan contributed 37 percent, 28 percent and 11

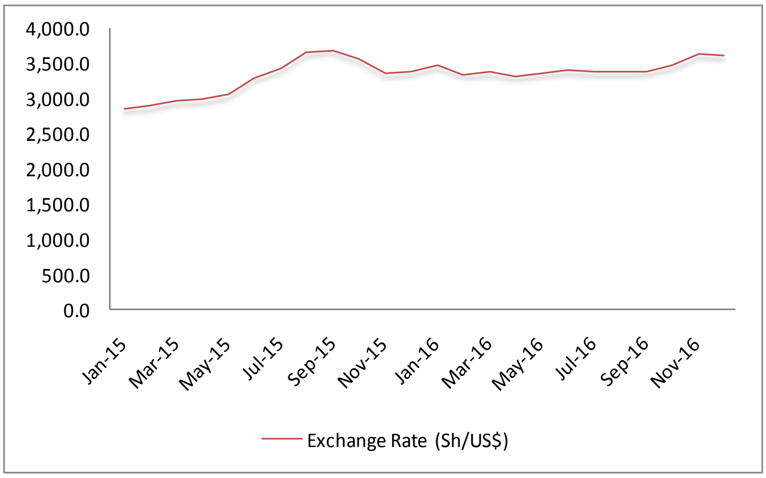
2 Both oil and non-oil import volumes declined in FIRST HALF FY 16/17. The average import volume index stood at 204.90 from an average of 215.63 in FIRST HALF FY 15/16, a decline of 5%.
3 The average oil price index was 85.92 during FIRST HALF FY 16/17, down 3% from an average of 88.86 in FIRST HALF 15/16.

percent of the total imports from Asia while Kenya and Tanzania contributed 72 percent and 19 percent of the total imports from East Africa, respectively.

An inflow of US$ 336.35 million was recorded for income remittances during the period of July to September 2016 compared to an inflow of US$ 301.51 million recorded during the same period the previous year.

In the first half of the Financial Year 2016/17, the Shilling remained relatively stable, appreciating by 1.1 percent compared to the same period last financial year to an average mid-rate of Shs 3,474.3 per USD from Shs 3,512.3 per USD. Relative Shilling stability has largely been on account of subdued demand for imports and large portfolio inflows, particularly for investment in treasury securities at the start of the financial year. Depreciation pressures however ensued on a month on month analysis during the first half of the Financial Year largely due to global strengthening of the dollar and increased corporate demand and portfolio outflows towards the end of the first half of the Financial Year 16/17.

Figure 9: Exchange rate trends (sh/US$).



Source: BOU

Outlook on External Transactions;

Going forward the exchange rate is largely expected to remain stable nonetheless under a bit of pressure in the short to medium term; due to increased dollar demand, volatility in global financial markets, the strengthening of the dollar globally, increments in international crude oil prices and expected recovery in private sector imports. Nonetheless, the current account position is expected to improve this financial year due to improvement in the services account. The exchange rate outlook poses a minimal risk to domestic inflation. However, it is unlikely that significant pressures will be felt in the Financial Year 2016/17.

On a positive note, the stock of reserves as at the end of December 2016 was US$ 3,027.7 million, equivalent to 4.7 months of future imports of goods and services. Over the first half of the financial year, the average monthly stock of reserves was sufficient to cover at least 4.8 months of future imports of goods and services. The target recommended in the East African Community monetary convergence path is 4.5 months of future imports of goods and services by the year 2021. Additionally, in the same period analysis shows that remittances also improved compared to the same period in the previous financial year.

Fiscal Performance

Overview

The fiscal strategy for the Financial Year 2016/17 was focused on maintaining infrastructure investment, while being mindful of a sustainable level of public debt over the medium term and promoting excellence in public service delivery. Subsequently, government pursued an expansionary fiscal stance with the deficit increasing to 6.6 percent of GDP in the Financial Year 16/17 compared to 4.8 percent of GDP in the Financial Year 15/16. This was meant to enable Government accommodate growing expenditure needs especially the scaling-up of public infrastructure investment. The overall fiscal deficit (including grants) for the first half of Financial Year 2016/17 stood at Shs1,820.4 billion. This was lower than the programmed Shs4,502.8 billion as total expenditure and net lending were below the program by Shs3,455.8 billion. Revenue and grants also registered a short fall of Shs. 773.3 billion from the program as less than programmed project grants were received for the period.

Table 4: Performance of Fiscal Operations billion shillings

	Outturn H1 FY 2015/16	Program H1 FY 2016/17	Preliminary H1 FY 2016/17	Program Performance H1	Deviation H1
Revenues and Grants	**6,283.4**	**7,312.3**	**6,538.9**	**89.4%**	**(773.3)**
Revenues	**5,585.7**	**6,297.9**	**6,116.2**	**97.1%**	**(181.7)**
Tax	5,425.1	6,138.0	5,967.9	97.2%	(170.1)
Non-Tax	160.7	159.9	148.4	92.8%	(11.6)
Oil revenues				n.a	-
Grants (excl. Debt relief)	**697.6**	**1,014.4**	**422.7**	**41.7%**	**(591.7)**
Budget Support (excl Debt Relief)	126.5	18.9	14.4	76.2%	(4.5)
Project Support	571.1	995.5	408.3	41.0%	(587.2)
Expenditure and Lending	**8,815.5**	**11,815.1**	**8,359.3**	**70.8%**	**(3,455.8)**
Current Expenditures	**4,440.9**	**4,859.2**	**4,866.9**	**100.2%**	**7.7**
Wages and Salaries	1,457.3	1,679.5	1,665.0	99.1%	(14.5)
Interest Payments	743.4	1,084.6	1,134.9	104.6%	50.3
Other Recurr. Expenditures	2,240.2	2,095.1	2,066.9	98.7%	(28.1)
Development Expenditures	**2,904.2**	**5,765.5**	**2,976.3**	**51.6%**	**(2,789.2)**
Domestic	1,430.0	2,369.5	2,033.3	85.8%	(336.2)
External Development	1,474.3	3,396.0	942.9	27.8%	(2,453.1)
Net Lending/Repayments	**1,426.3**	**1,079.4**	**410.6**	**38.0%**	**(668.8)**
Domestic Arrears Repaym.	44.0	111.0	105.5	95.0%	(5.5)
Overall Fiscal Bal. (excl. Grants)	**(3,229.7)**	**(5,517.2)**	**(2,243.1)**	**40.7%**	**3,274.1**
Overall Fiscal Bal. (incl. Grants)	**(2,532.1)**	**(4,502.8)**	**(1,820.4)**	**40.4%**	**2,682.5**
Financing:	**2,532.1**	**4,502.8**	**1,820.4**	**40.4%**	**(2,682.5)**
External Financing (Net)	**1,876.2**	**3,969.0**	**1,080.3**	**27.2%**	**(2,888.7)**
Loans	2,044.2	4,058.8	1,275.4	31.4%	(2,783.4)
Amortization (-)	(164.9)	(89.8)	(188.5)	209.9%	(98.7)
Exceptional financing	(3.1)		(6.6)	n.a	(6.6)
Domestic Financing (Net)	**610.6**	**533.8**	**335.6**	**62.9%**	**(198.2)**
Bank Financing (Net)	64.7	452.5	(490.7)	-108.5%	(943.2)
Non-bank Financing (Net)	546.0	81.4	826.4	1015.4%	745.0
Errors and Omissions	45.3	(0.0)	404.5	n.a	404.5

Source: Ministry of Finance, Planning and Economic Development.

Revenues and Grants

Tax collections during the first half of the financial year posted a shortfall of Shs.170.1 billion. This was largely manifested in taxes on international trade and transactions which performed at 92.7 percent; and in direct domestic taxes which performed at 98.5 percent from their respective programs. The shortfalls in direct taxes were realized in corporate taxes and withholding taxes as major corporate companies registered low profits during the period. The performance of international trade taxes is attributed to a drop in imports which negatively impacted on import duty, excise duty and VAT on imports.

The shortfalls in direct taxes were realized in corporate taxes and withholding taxes as major corporate companies registered low profits during the period. On the upside, PAYE performed higher than the target and the outturn of the first half of the Financial Year 2015/16 by 12 percent and 6 percent respectively largely due to increased compliance especially in the Public sector.

Indirect taxes were above their target in the first half with a surplus in VAT on locally produced goods. Local excise duty, taxes on other subsectors, and services sector were below their targets.

Never the less, the tax performance for the first half of 2016/17 was higher compared to the performance in the first half of 2015/16 by 10 percent. This was partly due to the introduction of new tax and administrative measures which have raised Shs 162.5 billion against the target of Shs 250 billion by end of the first half of 2016/17. Of this, the tax measure on excise duty on petrol and diesel, sprits and sugar has raised Shs 132.7 billion in the half year.

Grant disbursements during the first half of the financial year amounted to Shs 422.7 billion against the programmed Shs 1,014.4 billion. This is a 21 percent decline from the grant disbursements received during the first half of the Financial Year 2015/16. Project grants performed at only 41 percent of the program while Budget support grants performed at 76.2 percent.

Expenditure Performance

Total expenditure in the first half 2016/17 amounted to Shs 8359.3 billion which was lower than the target by Shs 3,455.8 billion. This performance was attributed to lower than anticipated external development expenditure which performed at only 27.8 percent and domestic development which performed at 85.8 percent respectively, this will definitely have implications on economic growth.

Recurrent expenditure exceeded the planned program level of Shs 4,859.2 billion by Shs 7.7 billion. This was due to higher wages and interest payments. The higher interest payments were largely as a result of the exchange rate depreciation which impacted on the external interest payments.

Financing

During the first half of the financial year, the fiscal deficit was financed by domestic borrowing of Shs 775 billion from the issuance of Government securities. External disbursements amounted to Shs 1,275.4 billion against the program of Shs 4,058.8 billion in the period. A total of USD 72.3 million was received from the PTA loan in the period.

Public Debt

The results of the latest Debt Sustainability Analysis November 2016 show that Public Debt is sustainable in the medium term and the long term. The significant growth in debt accumulation has been as a result of deliberate effort to frontload infrastructure investment in a bid to achieve the goals of the National Development Plan.

The stock of total public debt grew from US$ 7.2 billion at the end of June 2015 to US$ 8.4 billion in June 2016 and expected to grow to US$ 9.8 billion by the end of June 2017. This represents an increase in share from 30.6 percent of GDP to 33.8 percent between June 2016 and 2015 and is further expected to increase to 37 percent in June 2017. The increase between June 2016 and 2015 was largely on account of external debt, which grew from US$ 4.4 billion to US$ 5.2 billion over the period. Domestic debt increased from US$ 2.8 billion to US$ 3.2 billion

Outlook on Fiscal Operations;

Government has put in place measures to improve the performance of domestic revenue by augmenting compliance especially in the informal sector through tax enforcement and the establishment of campaigns such as the TIN (Tax Identification Number) and "Mpa Receipt Yange" campaigns. Government has also taken up regional initiatives such as; the Single Customs Territory (SCT), One Stop Border Posts (OSBPs) and the Uganda National Single Window Project to reduce administrative costs and regulatory requirements.

To address the issue of absorption of externally funded projects, government has created a Project Appraisal Department in the Ministry of Finance, Planning and Economic Development to improve the quality and design of projects.

Over the medium term, the fiscal balance (including grants) is expected to converge towards the medium term target of 3 percent of GDP by the Financial Year 2020/21 as stipulated in the East African Monetary Union Protocol. This will necessitate improvements in efforts made towards revenue enhancement to ensure 0.5 percent tax to GDP increase every financial year while improving the efficiency and effectiveness in executing government programs.

Fiscal Risks

The main economic risks to the budget stem from **continued global economic uncertainty and shocks**. Given that global commodity prices remain low and there is uncertainty surrounding American foreign policy, the European Union trade issues and Asian restructuring of economies.

Natural calamities; dependence on the primary sector could expose economic development to the vagaries of climatic changes; including periodic droughts, floods and landslides.

Geopolitical tension in the region could lead to negative perceptions for the region and this might have spillover effects on the Ugandan economy. Additionally, conflicts in the region will dampen overall trade prospects within and abroad.

Performance of the Petroleum Fund

In line with the Public Finance Management Act, a Petroleum Fund was established to which all oil revenues are required to be deposited. At the beginning of the Financial Year 2015/16, the Petroleum Fund had $36 million, which was part of the proceeds from the capital gains tax from Tullow Oil. The second installment, of $36 million was received and deposited in the Petroleum Fund at the end of the Financial Year 2015/16. The fund received additional funds largely in the form of royalties during the first half of the Financial Year 16/17. The total amount in the fund is currently $72.5 million and 10 billion Uganda shillings (Non-Tax revenue from the ministry of Energy).