THE REPUBLIC OF UGANDA

HALF YEAR MACROECONOMIC & FISCAL PERFORMANCE REPORT FINANCIAL YEAR 2017/18

MINISTRY OF FINANCE PLANNING AND ECONOMIC DEVELOPMENT

February 2018

Contents

FOREWORD

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 Macro-Economic and Fiscal Performance Report for the Financial Year 2017/18 that incorporates the fiscal and economic implications of both government decisions and other economic circumstances as at 30th December 2017.

During the first half of financial year 2017/18, the economy registered higher levels of economic activity partly due to improvements in the weather conditions that have led to a bumper harvest and recovery in construction and manufacturing sectors. Improvements in the monetary and financial sector also stimulated economic activity.

The pace of economic activity is projected to continue to strengthen with GDP expected to grow at between 5 and 5.5 percent in FY 2017/18.

Over the medium to long term, growth 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

AIA	Appropriations in Aid
BTI	Business Tendency Index
CBR	Central Bank Rate
CFR	Charter for Fiscal Responsibility
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
IMF	International Monetary Fund
NPL	Non-performing loans
OSBPs	One Stop Border Posts
PAF	Poverty Alleviation Fund
PSC	Private Sector Credit
PTA	Preferential Trade Area
SCT	Single Customs Territory
Shs	Ugandan Shilling
URA	Uganda Revenue Authority
USD	United States Dollars
VAT	Value Added Tax

RECENT ECONOMIC DEVELOPMENTS

Recent Economic Developments

Economic Growth

The Ugandan economy is on course to achieving the growth projection of 5 percent for fiscal year 2017/18 and this will surpass the 3.2 percent growth for sub-Saharan Africa projected by the World Bank for 2018. This is supported by both improved global economic growth and the performance of key economic indicators in the first half of the year. Global economic growth improved by 3.7 percent in 2017 and this led to increased trade, remittances and FDIs into Uganda. Performance of key economic indicators in the first half of the year which point to good prospects for Uganda include;

Quarter One economic growth

The economy is estimated to have registered growth of 7.5 percent in the first quarter of the fiscal year with the three broad sectors of agriculture, industry and services all performing better than the corresponding period last year.

The **services sector** posted growth of 8.7 percent in quarter one of fiscal year 2017/18 compared to 3.7 percent in quarter one of fiscal year 2016/17.This performance was on account of improved growth of ICT and insurance activities. Growth in the ICT was on account of reduced costs of both internet bundles and talk time that encouraged customers to increase use of the services.

Agriculture output increased 9.0 percent compared to a decline of 2.1 percent in the same period in fiscal year 2016/17. This performance is on account of the favourable weather conditions that led to increased production.

The industrial sector grew by 5.0 percent in quarter one of fiscal year 2017/18 compared to 4.2 percent in the corresponding quarter in fiscal year 2016/17 supported by improved performance of the mining and construction subsectors. Manufacturing sector growth remains stable on account of both increased supplies of agro raw materials and improvement in domestic demand. Meanwhile growth in the construction sector was supported by both private as and public investments.

Other key economic indicators like Bank of Uganda's composite index of economic activity (CIEA) that traces performance of exports, imports, taxes and private sector credit showed improved activity in the first half of the year. The business tendency index (BTI) which records investor confidence about doing business in Uganda point to good prospects.

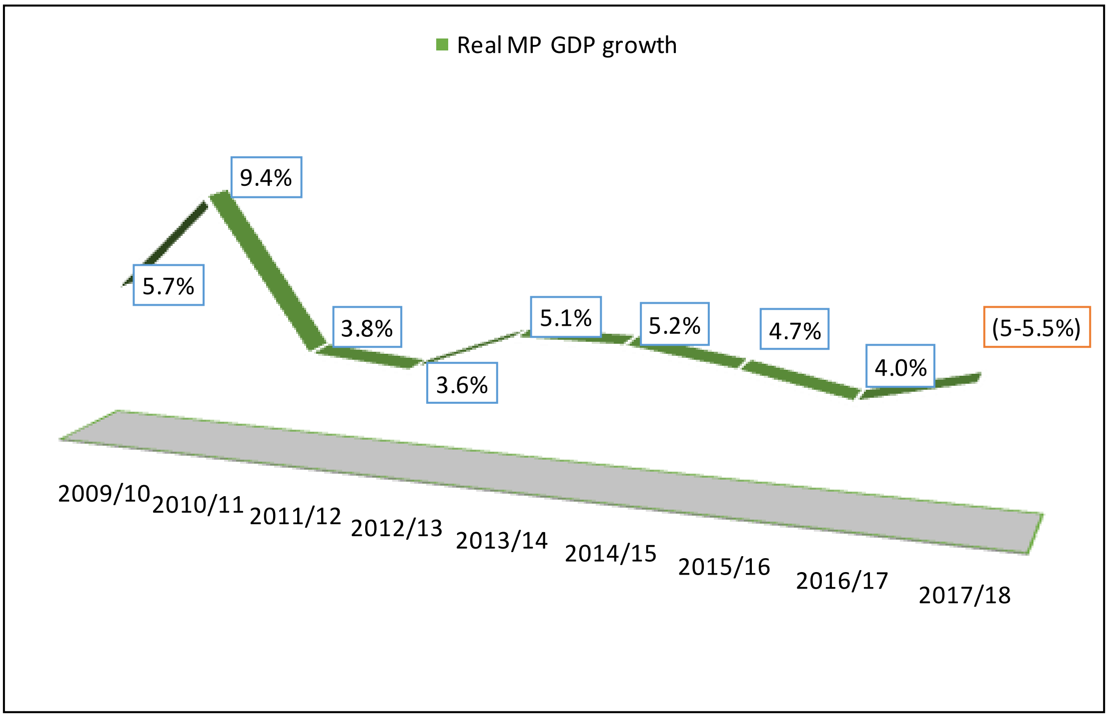
Table 1: Quarterly Gross Domestic Product by Economic Activity 2015/16-2017/18

Activity	2015/16 Q1	Q2	Q3	Q4	2016/17 Q1	Q2	Q3	Q4	2017/18 Q1
GDP AT MARKET PRICES	**6.1**	**5.2**	**4.0**	**3.2**	**2.1**	**2.8**	**4.6**	**6.5**	**7.5**
AGRICULTURE,FORESTRY&FISHING	**4.3**	**4.7**	**3.5**	**-1.2**	**-2.0**	**-1.9**	**4.9**	**7.3**	**9.0**
Cash crops	15.5	7.6	9.9	2.2	-10.8	20.6	-3.7	6.8	16.1
Food crops	3.3	3.1	-0.2	-2.8	-2.2	-7.0	11.8	10.7	11.0
Livestock	2.9	3.0	3.2	2.0	1.8	1.2	1.1	2.3	2.4
Agriculture Support Services	-5.0	-9.2	5.7	-3.9	0.3	3.5	8.8	3.6	6.2
Forestry	6.2	11.4	5.4	-2.9	-2.1	-1.7	3.4	4.8	7.2
Fishing	6.4	1.1	8.3	3.7	-0.3	4.0	0.9	2.0	0.2
INDUSTRY	**4.9**	**5.0**	**4.6**	**3.7**	**4.2**	**4.3**	**1.9**	**3.0**	**5.0**
Mining & quarrying	23.3	32.9	-3.5	0.6	-5.9	-23.3	-2.3	-3.7	3.1
Manufacturing	1.3	-4.0	-2.5	7.6	5.7	9.3	-1.7	-3.5	3.7
Electricity	2.6	4.0	3.4	6.0	5.0	7.9	12.8	7.4	9.5
Water	6.4	6.3	6.2	6.3	6.5	7.0	6.7	6.9	7.0
Construction	5.1	9.7	16.8	-1.2	4.1	4.9	4.3	11.3	5.6
SERVICES	**7.0**	**6.2**	**5.5**	**5.0**	**3.7**	**3.9**	**6.3**	**8.7**	**8.7**
Trade & Repairs	5.7	8.1	-0.1	-0.4	-2.3	-2.4	5.0	9.2	7.4
Transportation & Storage	11.3	8.9	6.6	6.0	4.3	3.1	2.6	4.2	1.3
Accommodation & Food Service	2.1	8.1	10.4	2.7	6.9	7.3	1.3	14.8	12.4
Information & Communication	17.4	10.5	14.5	14.0	11.0	16.0	15.9	16.7	15.7
Financial & Insurance	14.8	0.6	3.0	4.8	-4.1	-3.6	4.4	7.8	12.1
Real Estate Activities	6.0	6.3	6.2	5.9	5.6	5.3	5.5	5.8	6.1
Professional, Scientific & Technical	-3.2	2.8	2.4	-2.8	-5.3	-8.2	-2.5	4.7	5.7
Administrative & Support Service	1.6	-16.0	-20.1	-20.1	-14.8	-5.8	-0.6	3.9	3.9
Public Administration	2.8	5.1	7.6	18.3	9.0	1.4	1.5	-2.6	4.6
Education	5.7	7.9	10.2	7.5	12.7	7.8	6.7	9.4	8.6
Human Health & Social Work	2.4	3.6	4.2	3.3	5.7	4.1	4.5	5.2	5.0
Arts, Entertainment & Recreation	0.7	5.0	-8.6	-17.1	-15.9	-3.4	3.0	10.3	14.6
Other Service Activities	6.0	9.0	9.6	12.2	13.5	13.9	13.3	12.7	13.3
Activities of Households	3.2	3.3	3.4	3.5	3.6	3.8	4.2	4.6	5.1
ADJUSTMENTS									
Taxes on products	9.8	1.2	-4.8	3.0	0.4	4.9	0.1	-0.9	1.4

Source: Uganda Bureau of Statistics

Following developments in the global economy and domestic factors, the growth projection for the Financial Year 2017/18 is expected to grow between 5 and 5.5 percent. This growth is significantly higher than the 4 percent growth in the Financial Year 16/17.

Figure 1: Uganda Economic Growth rates: 2010-2018

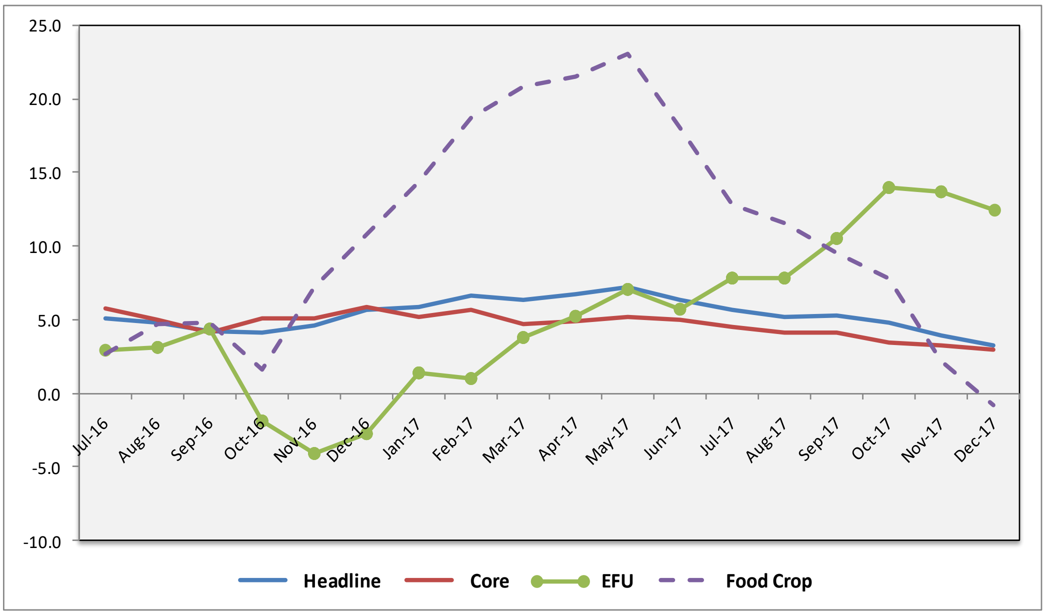


Source: Uganda Bureau of Statistics & MoFPED

Prices

The average annual headline inflation in the first half of the Financial Year 2017/18 declined to 4.7 percent from 4.8 percent average recorded during the first half of FY 2016/17. This 0.1 percentage point decline is mainly attributed to decline in food crop and core inflation.

Figure 2: Annual Inflation Trends



Source: UBOS

Annual food crop inflation declined to an average of 7.2 percent in the first half of the Financial Year 2017/18 from 19.5 percent average in the previous half. This is on account of increased food supplies to markets as food production benefitted from the favorable weather conditions in the second half of FY 2016/17.

Annual Core inflation also declined to an average of 3.8 percent in the first half of the Financial Year 2017/18 from 5.1 percent recorded in the previous half, and remained below the 5 percent monetary policy target. The decline in core inflation is mainly attributed to decline in prices of second hand vehicles. This was also the case for services whose prices decreased and were recorded at an average of 2.6 percent in December 2017 from 2.8 percent registered in November 2017. The decline was registered in education and internet services.

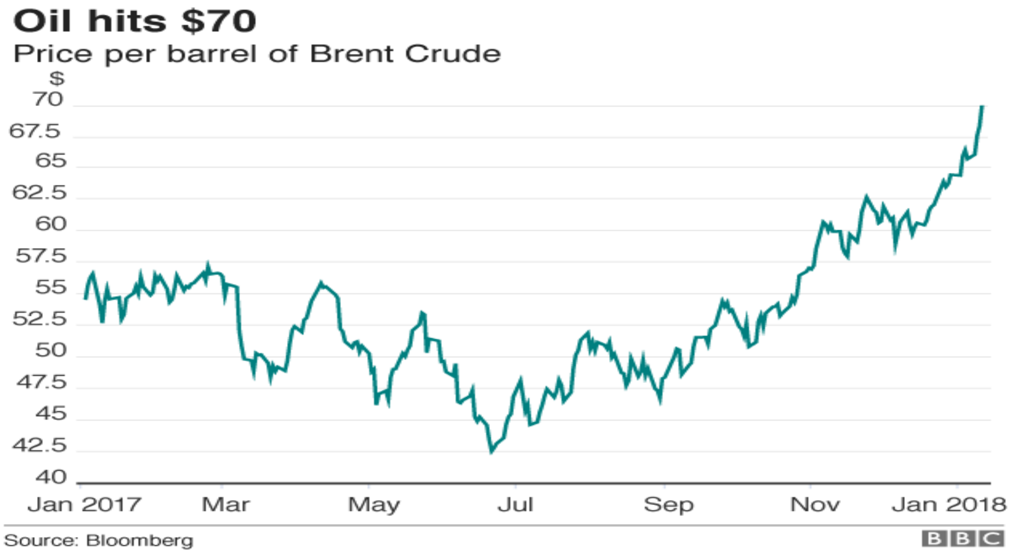
Annual EFU inflation increased to 11.1 percent in the first half of the Financial Year 2017/18 from a 4.1 percent average in the previous half. Monthly movements within the six months of July- Dec 2017 also show an increase in EFU inflation especially for the months of July, August, September and October where EFU inflation increased to 7.8, 7.8, 10.6, and 14.1 percent respectively from 5.7 percent recorded in June 2017. In November and December 2017, there were slower increments in EFU inflation to 13.7 and 12.5 percent respectively. Increase in EFU inflation in the earlier months was as a result of increments in prices of solid fuels (charcoal & firewood). Subsequently, the recent slowdown in EFU inflation was in turn as a result of slow down in price increments for solid fuels in November and December 2017.

International and Domestic Oil prices

The price of crude oil has been going up in recent months more so towards the end of 2017. The price of Brent crude oil has been increasing to levels of over $65 towards the close of 2017. To put this in perspective it was at $45 in July 2017 coming from a dip of $30 two years ago but considerably smaller than $115 in 2014.

The rise in oil prices is attributed to the decision by the OPEC to cut back on oil output so as to get the oil price into the range of ($50 to $60) in 2016. However, due to improved global economic activity the demand for oil increased and has caused the price to rise even further beyond the OPEC expected range. Additionally, the inclusion of Russia (non-OPEC) in the agreement to cut back output has had significant effect on price increments. The price is expected to keep increasing through 2018 on the back of output cuts and global recovery; however, it is expected that the gains will be kept in check by increasing supplies especially from the United States.

Figure 3: Graph on International Oil price

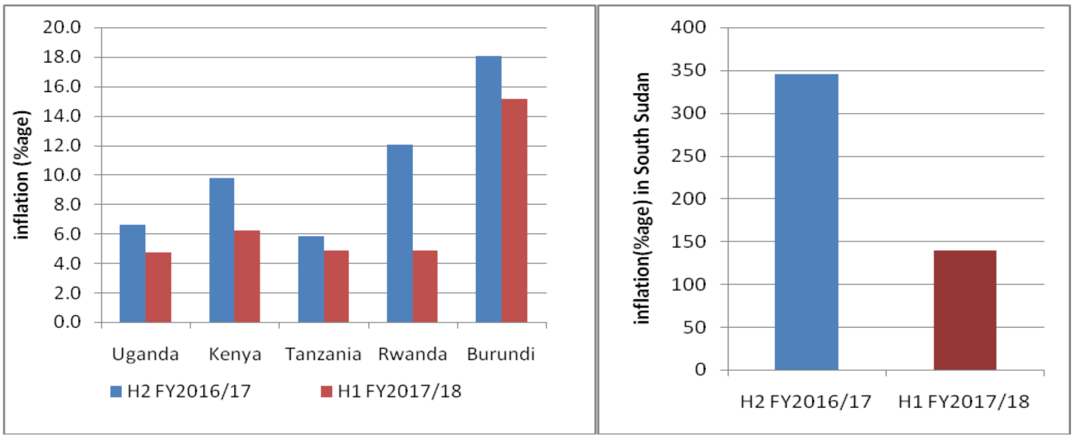


It is vital to assess the impacts of price changes **within the EAC community** due to the fact that there are significant trade and economic links within the East African region due to improved trade facilitation. Additionally, large portion of Ugandan exports are utilized in the region and similarly Uganda receives a significant portion of her out of region imports through her neighbors.

Subsequently, the pump prices of petrol and diesel have been increasing within the East African region. Additionally, Kenya is facing supply constraints as it works on repairs on its storage and distribution depot in Eldoret, Kenya. This has affected storage ability and also caused delays in the petroleum supply schedule both inland and outwards. It is expected that fuel prices will come down and stabilize as the constraints in Kenya are rectified as well as supplies of oil continue to grow internationally.

All the East African partner states registered declines in Annual average headline inflation over the six months of July to December 2017 compared to the average of the previous six months of January to June 2017. The decline in price growth within the region is largely attributed to favorable weather conditions experienced at the end of 2017. In December 2017, Rwanda posted the lowest inflation rate amongst the EAC partner states due to increase in food supplies. However, the civil conflict in South Sudan has led to continued shortages in food and other supplies across the country leading to high inflation rates in the Country.

Figure 4: Inflation trends within the East African Community



Source: Respective Bureaux of Statistics

Financial Sector Trends

Monetary policy has been supportive throughout the first half of this financial year with the Central Bank Rate (CBR) reducing from 10 percent in June 2017 to 9.5 percent in December 2017. This monetary easing stance was largely as a result of the Central Bank expecting medium to long run inflation to be within the 5 percent target, and it was also done with the aim of stimulating domestic demand and boosting economic activity.

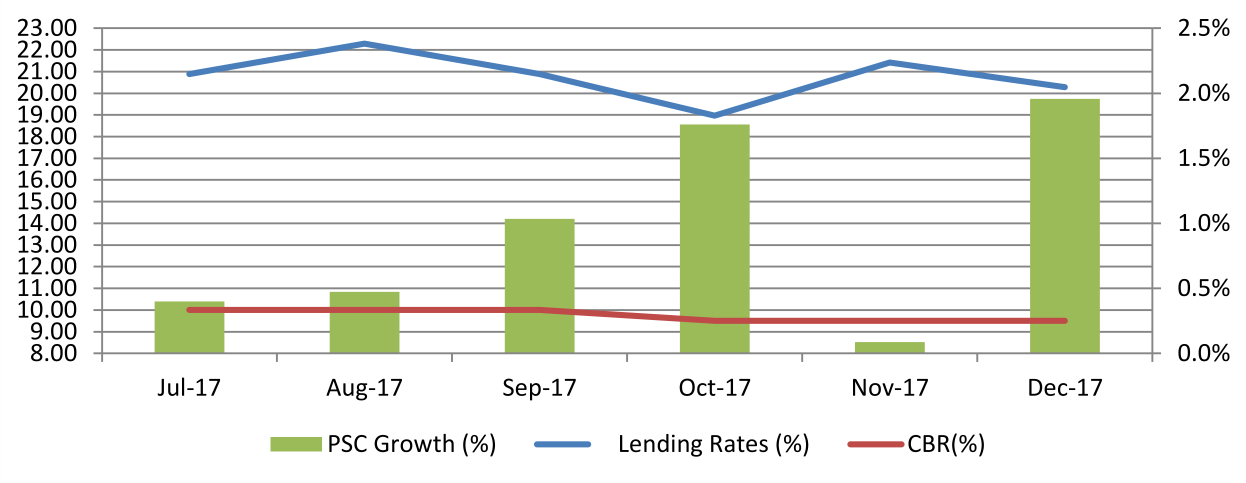
Interest rates.

The gradual decline of the CBR has seen lending rates gradually follow a reduction path, falling from 21.11 percent by the end of FY2016/17 to 20.28 percent in December 2017. Lending rates averaged 20.79 percent in the first half of FY 2017/18 compared to 23.42 percent average recorded in first half FY 2016/17. The lower lending rates have helped rebound growth in Private Sector Credit (PSC) and consequently increased production in sectors like Agriculture, Manufacturing, mining & quarrying among others. However, PSC growth still remains low in comparison to earlier periods.

Lending to the Private Sector

The stock of outstanding Private Sector Credit (PSC) increased from Shs 12,118.1 billion at the end of FY 2016/17 to Shs 12,825.04 billion by end December 2017, registering growth of 5.83 percent in the first half of the Financial Year 2017/18. This compares with growth of 5.35 percent in the first half of the Financial Year 2016/17. Among other factors, the pickup in bank lending is partly attributable to continuous monetary easing by the Central Bank. Though lending rates remain sticky downwards, they none the less gradually responded to the monetary easing stance, falling from 20.88percent in July 2017 to 20.28 percent in December 2017 as illustrated in figure 5 below. This reduction in the cost of credit makes it more viable for borrowers to access credit.

Figure 5: Central Bank Rate Movements vs Commercial Lending Rates.



Source: Bank of Uganda.

In addition, the ratio of Non-performing loans to gross loans reduced from 10.47 percent in December 2016 to 5.59 percent in December 2017 as observed in table 2 below. This improvement in loan performance coupled with an increase in economic activity signal lower risk of default thus improving creditors' willingness to lend.

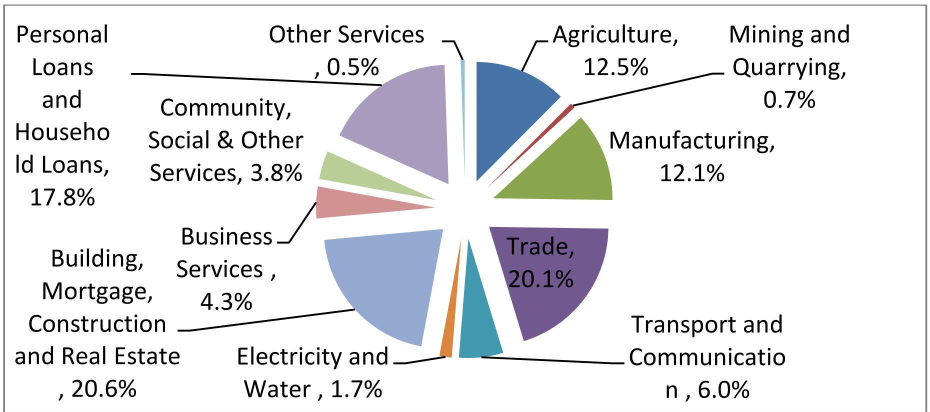
Table 2: Non-Performing Loans (NPLs)

	Sep 16	Dec 16	Mar 2017	Jun 2017	Sep 2017	Dec 2017
NPLs	7.69%	10.47%	6.29%	6.17%	7.24%	5.59%

Source: Bank of Uganda.

Figure 6 illustrates the distribution of the stock of outstanding PSC as of December 2017. The largest share was held by the building, mortgage, construction & real estate (20.6 percent), followed by the trade sector (20.1 percent) and personal and household loans (17.8 percent), agriculture (12.5 percent) and manufacturing (12.1 percent).

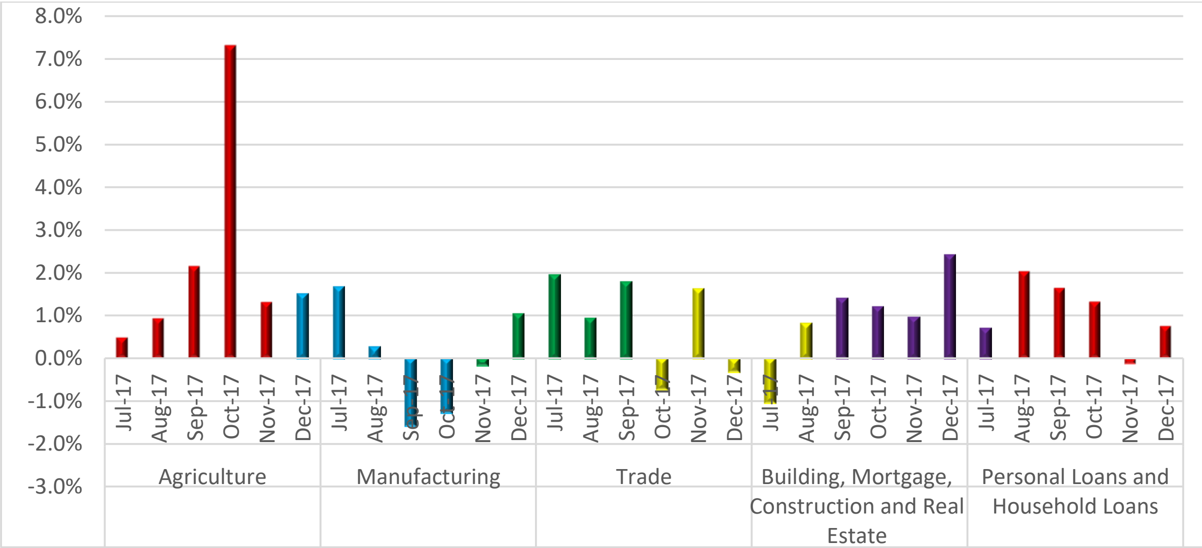
Figure 6 : Shares of Private Sector Credit by sector.



Source: Bank of Uganda

Growth in PSC continues to be driven by increased extensions to agriculture, trade, personal and household loans sectors. While growth in credit to the Manufacturing sector slowed during the First Half of the financial year, it subsequently picked up in December 2017 as illustrated in figure 7.

Figure 7: Monthly Private Sector Credit growth rate for selected sectors H1 17/18



Source: Bank of Uganda

External Sector

Merchandise exports

During first half of the Financial Year 2017/18, Uganda`s export earnings increased by US$ 150.88 million (10 percent) when compared to the same period the previous financial year. Coffee, industrial products, electricity, maize, beans were the main drivers of the increase in export receipts.

Over the same period, coffee continued to be the major export, contributing 16.3 percent of total export earnings, up from 13.6 percent in the same period last financial year. Coffee receipts increased by US$ 64.92 million following improvements in both the price and volumes of coffee. Coffee volumes increased by 32.5 percent recording 2,398,336 (60 kg) bags in the period July – December 2017. The rise in coffee volumes is on account of the biennial cycle[1] of Arabica coffee production and newly planted Robusta coffee that started yielding.

[1] Arabica coffee production has an on-year followed by an off year. If you get a higher crop this year, the subsequent year would definitely be lower unlike Robusta production. That is what is called the biennial nature.

Other exports that recorded major improvements include maize (48.3 percent), beans (146.8 percent), industrial products (22.2 percent) and tea (33.2 percent). Table 3 shows the performance of exports.

Table 3: Performance of Exports (US$ million)

	Jul- Dec 2016	Jul-Dec-2017	Percentage change
Total Exports	**1,514.92**	**1,665.80**	**10%**
1. Coffee (Value)	**206.06**	**270.99**	**31.5%**
Volume (60 kg bags)	1,810,447	2,398,336	32.5%
Av. unit value	1.87	1.88	0.6%
2. Non-Coffee formal exports	**1,090.31**	**1,135.39**	**4.1%**
o/w Gold	170.93	148.93	-12.9%
Tea	35.35	47.10	33.2%
Maize	33.66	49.93	48.3%
Beans	19.60	48.37	146.8%
3. ICBT Exports	**218.55**	**259.42**	**18.7%**
o/w industrial products	149.12	182.23	22.2%

Source: BOU

Other exports that recorded major declines include base metals (8.8 percent), cement (28.5 percent), and sugar (52.8 percent).

The **East African Community** [2]remained the **major destination** for Uganda's exports, followed by the Rest of Africa, and the European Union during the period July – December 2017**.** 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 26.5 percent from US$275.05 million in the period Jul-Dec 2016 to US$347.83 million in the period Jul-Dec 2017.

Table 4 : Destination of Exports (By percentage share)

	Jul-Dec 2016	Jul-Dec 2017
European Union	16.32%	18.56%
Rest of Europe	1.26%	0.91%
The Americas	1.43%	2.63%
Middle East	17.29%	11.94%
Asia	5.02%	6.74%
Rest of Africa	18.16%	22.33%
EAC	40.51%	40.59%
Others	0.01%	0.05%

Source: BOU

Merchandise Imports

The value of total **merchandise imports** amounted to US$ 2,596.54 million the first half of the Financial Year 2017/18, a growth of 10.7 percent when compared to the same

[2] East African Community countries include Kenya, Tanzania, Rwanda, Burundi, South Sudan

period in last year. The import growth is mainly driven by private sector imports (up 16.6 percent). This could be an indication of a recovery in economic activity as both production and capital import goods registered growth. It is also worth noting that the growth in the value of private sector imports was induced by higher import prices and volumes[3].

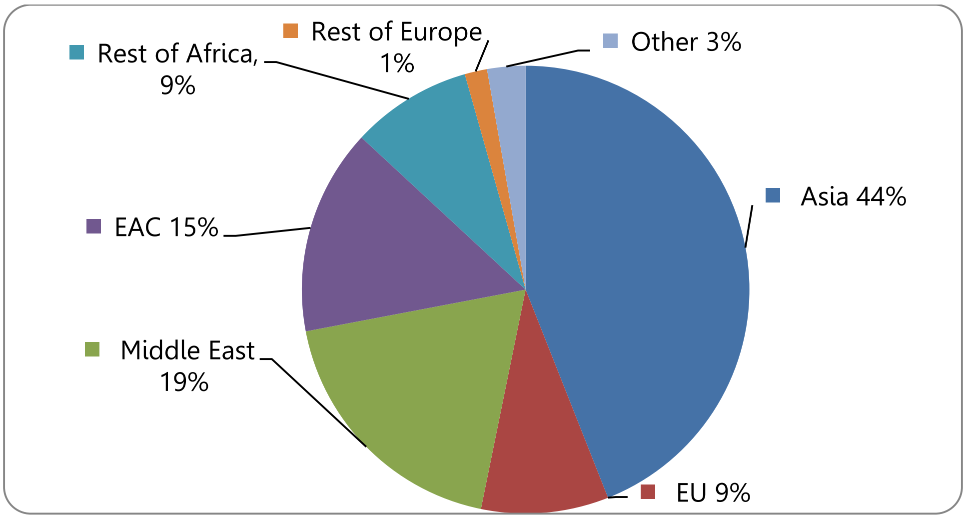
Table 5: Performance of Imports (US$ million)

	July to Dec 2016	July to Dec 2017	
Total Imports (fob)	2,346.20	2,596.54	**10.7%**
Government Imports	286.65	194.46	**-32.2%**
Project	268.96	190.13	**-29.3%**
Non-Project	17.69	4.33	**-75.5%**
Formal Private Sector Imports	1,894.71	2,245.47	**18.5%**
Oil imports	306.04	405.23	**32.4%**
Non-oil imports	1,588.67	1,840.24	**15.8%**
Estimated Private Sector Imports (Informal)	164.84	156.61	**-5.0%**
Total Private Sector Imports	2,059.55	2,402.08	**16.6%**

Source: BOU

Asia was the largest source of imports, contributing 44 percent of the total merchandise imports in the first half of the Financial Year 2017/18 (Jul-Dec 17). The Middle East and the EAC supplied 18.7 percent and 14.8 percent of the total merchandise imports respectively.

Figure 8 : Origin of Imports by Percentage Share



Source: BOU

[3]Change over same period last year: - Non-oil Import Prices surged by 3.1%
- Oil Import Prices rose by 20.7%
- Non-oil Import Volumes grew by 10.4%
- Oil Import Volumes grew by 10%

Trade balance

Following transactions within the exports and the imports, Uganda`s trade deficit widened by 12% in H1 2017/18 when compared with H1 2016/17. The trade deficit was US$ 930.7 million in H1 2017/18.

Other Balance of Payments transactions

Remittances grew by 1.5 percent in Q1 2017/18 when compared with the same period the previous year. In Q1 2017/18, remittances amounted to US$ 276.41 million.

Foreign Direct Investments into Uganda recorded increased inflows following increased investments in equities by non-residents. FDI inflows increased by 2.6 percent from US$ 118.86 million in Q4 2016/17 to US$ 121.97 million in Q1 2017/18.

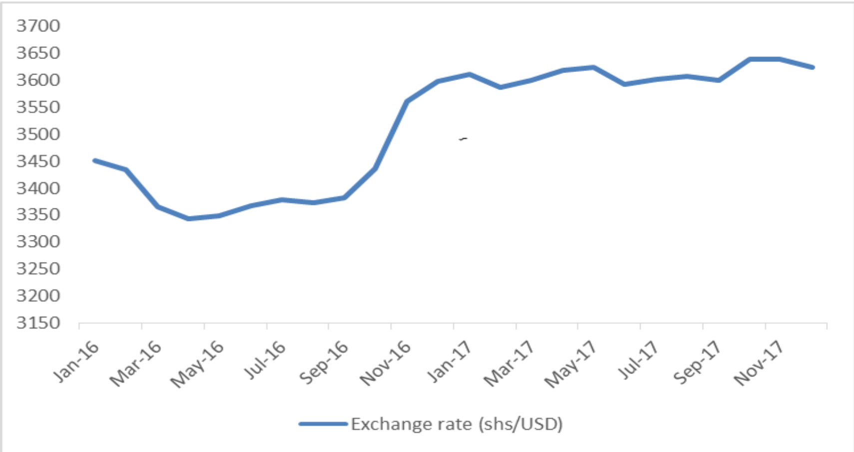
International Reserves

The stock of international reserves stood at US$ 3,654.4 million in December 2017. This is equivalent to 5.3 months of imports of goods and services. This performance is largely in line with the targeted reserve cover of 4.5 months of imports of goods and services as stipulated in the EAMU protocol to be achieved by 2021.

Exchange Rate

In the first half of the Financial Year 2017/18, **the exchange rate remained largely stable** even though it weakened against the United States Dollar compared to the same period last financial year (by 4.7 percent). On average, the mid-rate was Shs 3,617.9 during the first half of 2017/18 while the same period last year registered a mid-rate of Shs 3,454.8 per USD on average. The depreciation is on account of increased demand mainly from manufacturing, oil, energy, NSSF and telecommunication sectors. Figure 9 shows the trend of the Shs/USD rate.

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



Source: BOU

FISCAL PERFORMANCE

Fiscal Performance

Overview

Fiscal operations during the first half of FY2017/18 resulted in an overall fiscal balance (including grants) of Shs 2,998.1 billion against the programmed Shs 4,582.0 billion. This was mainly due to lower Government spending than had been programmed for the half. A total of Shs 9,923.3 billion was spent during the first half against the programmed Shs 11,813.6 billion. Revenue collections amounted to Shs 6,925.2 billion against their target of Shs 7,231.6 billion for the first half. The deficit was financed by borrowing from both domestic and external sources.

Table 6: Fiscal Operations, Jul-Dec 2017 (Shs, billion)

	Outturn H1 2016/17	Prog H1 2017/18	Prel. Outturn H1 2017/18	Deviation
Revenues and Grants	**6,701.6**	**8,482.5**	**7,346.7**	**(1,135.8)**
Revenues	6,119.6	7,231.6	6,925.2	(306.5)
URA	5,967.9	7,059.3	6,701.2	(358.1)
Non-URA	151.7	172.3	223.9	51.7
Grants	**582.0**	**1,250.9**	**421.6**	**(829.3)**
Budget Support Inc. HIPC	143.3	155.4	85.2	(70.2)
Project Support	438.7	1,095.5	336.4	(759.1)
Expenditure and net Lending	**8,885.0**	**11,813.6**	**9,923.3**	**(1,890.3)**
Current Expenditures	**4,940.8**	**5,533.4**	**5,341.2**	**(192.2)**
Wages and Salaries	1,672.8	1,781.3	1,773.6	(7.7)
Interest Payments	1,190.5	1,365.5	1,179.2	(186.3)
Domestic	919.6	1,007.7	1,014.4	6.7
External	270.9	357.8	164.8	(193.0)
Other Recurr. Expenditures	2,077.5	2,386.5	2,388.4	1.9
Development Expenditures	**3,297.4**	**5,507.0**	**3,418.5**	**(2,088.6)**
Domestic Development	2,033.7	1,998.1	1,850.4	(147.8)
External Development	1,263.7	3,508.9	1,568.1	(1,940.8)
Net Lending/Repayments	541.0	472.3	938.8	466.5
Domestic Arrears and others	105.8	300.9	224.8	(76.1)
Domestic Balance	**(1,230.8)**	**(715.2)**	**(1,265.2)**	**(549.9)**
Primary Balance	**(992.9)**	**(1,965.5)**	**(1,397.3)**	**568.2**
Overall Fiscal Bal. (excl. Grants)	**(2,765.4)**	**(4,582.0)**	**(2,998.1)**	**1,583.9**
Overall Fiscal Bal. (incl. Grants)	**(2,183.4)**	**(3,331.1)**	**(2,576.5)**	**754.5**
Financing:	**2,183.4**	**3,331.1**	**2,576.5**	**(754.5)**
External Financing (Net)	**1,513.2**	**2,383.8**	**2,006.8**	**(377.1)**
Loans	1,708.3	2,885.7	2,350.9	(534.8)
Armotization	(191.5)	(504.4)	(347.1)	157.3
Exceptional Financing	(3.6)	2.5	3.0	0.5
Domestic Financing (Net)	**335.6**	**947.2**	**303.6**	**(643.6)**
Bank Financing (Net)	(490.7)	487.7	324.8	(162.9)
Non-bank Financing (Net)	826.4	459.5	(21.2)	(480.7)
Errors and Omissions	334.6	-	266.2	266.2

[45]*Source: Ministry of Finance, Planning and Economic Development*

[4] Primary Balance is the Overall Balance excluding interest payments
[5] Domestic Balance is the difference between Domestic Revenue and Domestic Expenditure

Revenues

Tax revenue collections during the first half of FY2017/18 totaled to Shs 6,701.2 billion compared to the target of Shs 7,059.3. This translated into a shortfall of Shs 358.1 billion. Both domestic taxes and taxes on international trade transactions did not meet their target for the period. Dominance of data transactions at the expense of phone talk time, investments in the soft drinks and cement sub sectors as well as low sugar production due to unmatched demand for cane, are some of the factors that led to the shortfalls in domestic tax collections.

Direct domestic taxes during the first half of the year amounted to Shs 2189.54 billion which was Shs. 95.2 billion below the target. This shortfall was mainly due to Corporate tax and Tax on bank interest which recorded shortfalls of Shs 42.58 billion and Shs 116.18 billion against their respective targets. The new reporting requirement by commercial banks which requires more provisioning for bad loans reduced the banks' profits while major investments by some of the major tax payers also reduced their profits leading to low corporate tax collections. Tax on bank interest was also affected by low deposits in commercial banks which led to low interest paid to customers and hence the lower tax.

Indirect taxes registered shortfalls of Shs. 188.7 billion against the target of Shs.1,728.7 billion as both excise duty and VAT collections fell below their respective targets. Excise duty accounted for Shs 49.67 billion of this shortfall while VAT accounted for Shs 139.04 billion. The bulk of the shortfall under excise duty came from phone talk time which registered a Shs 39.63 billion shortfall. Tax on international calls also posted a shortfall of Shs 4.17 billion. The preference for the use of data as opposed to voice calls (data is relatively cheaper than phone talk time) explains these shortages. Excise duty on beer also contributed Shs 10.27 billion to the shortfall in excise duty. Increased importation of malt beer affected sales of locally produced beer hence the shortfall.

Taxes on international trade transactions during the period July to December 2017 amounted to Shs 2,979.63 billion compared to the target of Shs. 3032.7 billion. This resulted in a shortfall of Shs 53.07 billion. This performance was largely due to; policy reversals, decline in imported ethanol due to increased local production and lower than anticipated petroleum import volumes.

Total grant inflows amounted to Shs.421.6 billion compared to the projected Shs. 1,250.9 billion. This performance was on account of lower project support disbursements which amounted to Shs 336.4 billion compared to the projected amount of Shs. 1,095.5 billion. However, there were two budget support grant disbursements in December 2017 from Austria towards the Water and Justice Sectors equivalent to Shs 23.1 billion that were not expected at budget time.

Government Expenditure

During the first half of FY2017/18, a total of Shs 9,923.3 billion was spent compared to the programmed Shs11,813.6 billion. This resulted into an overall balance (including grants) of Shs. 2,998.1 billion, which was lower than the programmed deficit of Shs 4,582.0 billion. Both Recurrent and Development spending were below their respective programs. However, by the end of the first half, 54.3% of the annual budget (excluding Debt and Appropriation in Aid) had been released to Ministries, Departments and Agencies (MDA) for spending.

Recurrent expenditure was Shs 5,341.2 billion compared to the programmed Shs. 5,533.4 billion. This performance was largely on account of lower external interest payments that were affected by the change in the mode of disbursement of the PTA loan. The PTA loan was expected to be a single disbursement whose interest payment would also be within the same year. However the disbursement of the loan was spread over a period of two years hence spreading its interest payments over a longer period.

Development expenditure was Shs. 3,418.5 billion compared to the projected Shs. 5,507.0 billion. This was a deviation of Shs 2,088.6 billion. This was largely due to externally financed development spending which accounted for Shs 1,940.8 billion of the total deviation. Externally financed development spending was mainly affected by oil roads whose procurement took longer than anticipated and the feasibility studies had not been complete. The focus this year has been to have the feasibility studies and procurement completed. The physical implementation of these projects will therefore begin soon.

Spending on Hydro power Projects (Karuma and Isimba) however is on course with Shs 938.8 billion spent during the first half compared to the expected Shs 472.3 billion. There has been a general improvement in the physical works at karuma since the beginning of the financial year.

A total Shs 364 billion was released by the end of the first half of the financial year for payment of arrears. This was more than the budgeted Shs 300.9 billion. This was done in an effort to support the private sector who attributed their failure to meet their financial obligations to commercial banks to Government's failure to pay bills owed to them.

Financing

Domestic financing; during the first half of the Financial Year 2017/18, Shs. 3,155.7 billion (at cost) was raised. Of this, Shs 1,802.1 billion was from Treasury Bills while Shs 1,353.6 billion was from Treasury Bonds. Securities worth Shs 2,570.6 billion of the amounts raised were used for refinancing maturing securities whilst Shs 585 billion went towards financing the Government budget.

Table 7: Issuance of Government Securities in 2017/18, Shs.bn

	Total Issuances	Government Domestic Borrowing	Refinancing
July 2017	494.4	198.2	296.3
August 2017	666.7	133.9	532.8
September 2017	500.8	58.4	442.4
Q1 2017/18	**1661.9**	**390.5**	**1271.5**
October 2017	439.5	52.3	387.1
November 2017	648	115	533
December 2017	406.3	27.2	379
Q2 2017/18	**1493.8**	**194.5**	**1299.1**
July to date	**3155.7**	**585**	**2570.6**

Source: Auction Results, Ministry of Finance, Planning and Economic Development

External Financing; External project support disbursements in the same period amounted to Shs 2, 209.8 billion against the target of Shs 2,885.7 billion while external budget support loan disbursements amounted to Shs. 141 billion from the PTA bank.

Debt Sustainability Analysis

Under the NDP I and II, Uganda has embarked on a number of large infrastructure projects, particularly in the energy and transport sectors. It is expected that these projects will unlock the country's growth potential, and drive higher growth in the medium to long term. These projects have been largely financed using external debt.

The projects have led to a buildup in public debt. Nominal public debt has grown significantly over recent years, increasing from 34.6% of GDP in June 2016 to 37.0% of GDP in June 2017. Debt is projected to increase further and reach 40.2% in June 2018. In Present Value (PV) terms, debt is projected to grow from 27.1% of GDP in June 2017 to 29.5% of GDP in June 2018, significantly below the 50% threshold in the Charter for Fiscal Responsibility and the EAMU Protocol.

The annual Debt Sustainability Analysis (DSA) exercise conducted in November 2017 revealed that Uganda's rating moved from low to moderate risk of debt distress[6] for the first time since 2006. The reason for this downgrade was the rise in debt accumulation coupled with slow growth in exports, which represent an important source of foreign exchange with which Government meets its external debt service obligations.

This notwithstanding, Uganda's debt remains sustainable, underpinned by robust GDP growth and a reduction in debt over the medium term. The reduction in debt will be

[6] The DSA has four risk ratings: Low Risk of Debt Distress, Moderate Risk of Debt Distress, High Risk of Debt Distress and In Debt Distress.

driven by the completion of the large infrastructure projects currently being undertaken, particularly the Karuma and Isimba dams.

Compliance with the Charter for Fiscal Responsibility

The Charter for Fiscal Responsibility (CFR) presents Government's strategy for operating a fiscal policy which is consistent with sustainable fiscal balances and the maintenance of prudent and sustainable levels of public debt over the medium term.

In line with the EAC convergence criteria, the Charter aims to achieve an overall fiscal deficit of no more than 3 percent of GDP and net present value of government debt below 50 percent (of which 30 percent is for external debt and 20 percent is for domestic debt) by the Financial Year 2020/21.

Financial Year 2017/18 is the second year of implementation of the five year Charter for Fiscal Responsibility (CFR). The realized fiscal balance (including grants) this financial year (4.8 percent of GDP) is within the five year path (attached: Table 8) for achieving not more than 3 percent of GDP by the Financial Year 2020/21.

Table 8: Medium Term Fiscal Framework

	outturn 2016/17	Proj Outturn 2017/18	Proj 2018/19	Proj 2019/20
Total revenue and grants	13,668	15,523	17,064	18,991
Revenue	12,947	14,403	15,737	17,782
Tax revenue	12,463	14,023	15,317	17,317
Non-tax revenue	354	380	420	465
Oil revenues	130	0	0	0
Grants	721	1,120	1,327	1,209
Budget support	31	41	102	102
Project grants	690	1,079	1,225	1,107
Expenditures and net lending	17,393	20,437	23,010	25,901
Recurrent expenditures	9,950	11,200	11,137	12,484
Wages and salaries	3,382	3,576	3,678.7	4,047
o/w: Statutory	146	206	206	226
Non-wage	4,252	4,988	4,854.3	5,922
o/w: Statutory	1,237	615	595	726
Interest payments	2,315	2,635	2,604	2,515
o/w: domestic	1,954	1,985	2,182	2,147
o/w: foreign	361	650	422	368
Development expenditures	6,718	7,590	10,714	12,399
External	2,477	3,413	6,398	7,242
Domestic	4,241	4,177	4,316	5,156
Net lending and investment	541	1,283	577	426
Contingency fund	0	0	282	482
Others	184	364	301	110
Overall balance	-3,725	-4,914	-5,947	-6,910
Excluding grants	-4,446	-6,034	-7,273	-8,119
Financing	3,725	4,914	5,947	6,910
External financing (net)	2,801	2,767	5,007	6,205
Disbursement	2,983	3,717	5,901	6,716
Budget support	573	0	151	155
Concessional project loans	1,675	1,421	3,080	2,861
Non-concessional loans	736	2,149	2,670	3,700
Revolving credit	573	147	0	0
Amortisation (-)	-182	-950	-894	-511
Domestic financing (net)	603	2,147	940	705
Memo items:				
Fiscal deficit (% of GDP)				
Including grants and HIPC debt relief	-3.9%	-4.8%	-5.4%	-5.7%
Excluding grants	-4.9%	-6.0%	-6.6%	-6.7%
Expenditure (% of GDP)	19.0%	20.4%	20.9%	21.3%
Donor grants and loans (% of GDP)	3.3%	2.5%	4.1%	3.5%

Source: Ministry of Finance, Planning and Economic Development.

Performance of the Petroleum Fund

In line with the Public Finance Management Act section 56, 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, a first installment of capital gains tax earned from the transfer of oil production licenses between two oil producing companies (Heritage and 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.

In June 2017, a third installment of USD 36 million was paid into the petroleum fund. As at 30th June 2017, the balance in the petroleum fund stood at USD 108.8 million.

The fund had an opening balance of USD 108.8 million at the start of the Financial Year 2017/18. However, the account balances as at December 2017 were USD 86.3 million as a result of funds transferred to the Consolidated Fund for energy related expenditures.

OUTLOOK ON THE ECONOMY

Outlook on the Economy

Economic Growth;

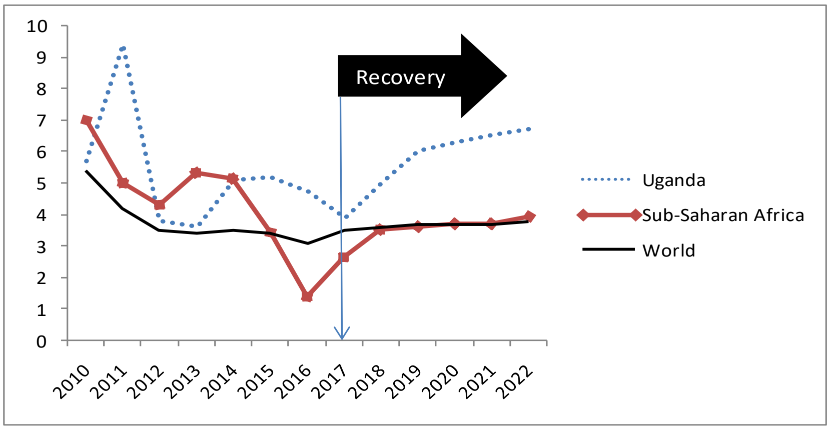
During the second half of financial year 2017/18 and over the medium term, we expect higher levels of economic activity partly due to improvements in the weather conditions that have led to a bumper harvest and recovery in construction and manufacturing sectors. Improvements in the monetary and financial sector are also likely to stimulate economic activity.

Estimates of the level of economic activity in the domestic economy produced by the Uganda Bureau of Statistics (UBOS) indicate that there was increased economic and business activity by 7.5 percent in the first quarter compared to 2.1 percent recorded in the same quarter of last financial year (This is Quarterly GDP).

The pace of economic activity is projected to continue to strengthen with GDP expected to grow at between 5 and 5.5 percent in FY 2017/18.

Global growth projections indicate that the global economy is projected to recover in 2017 and 2018. 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 10: Outlook on Economic Growth rates:



Source: UBOS, MOFPED, IMF

Prices;

Government notes that prices of liquid fuels like petrol, diesel have risen during the first half of FY2017/18. This is explained by a reduction in oil production by international companies and a temporary repairs on the storage and distribution depot at Eldoret-Kenya. Though the price is expected to keep increase through 2018 on the back of output cuts and global recovery; the gains will be kept in check by increasing supplies especially from the United States.

Financial sector;

Private Sector Credit is expected to continue on a recovery path as lending rates continue to decline as a result of monetary policy easing which continues to support economic activity and growth. The banking sector is also expected to remain stable and resilient throughout the Financial Year 2017/18. Activities in finance and banking continue to recover as new activities such as 'Bancassurance' come on board.

Continued decline in the Non-Performing Loans (NPLs) is expected to have a positive effect on future lending.

External Sector;

Foreign Direct Investment and Remittances are expected to continue recovering throughout the Financial Year 2017/18.

During the first half of the Financial Year 2017/18, Uganda's export earnings recovered especially those of coffee and cotton. It is expected that this trend will continue through the medium term as production and prices continue to rise.

The continued stability of the exchange rate is also expected to boost trade and manufacturing and pose a minimal risk to domestic inflation.

Fiscal Operations;

Revenue collections during the first half of the Financial Year 2017/18 were below the projected revenues on account of a higher revenue base used to estimate revenue for FY 2017/18, revenue foregone due to exemptions in VAT and import duty on husked rice and lower than projected import volumes and consumption.

In order to absorb expenditure pressures that have emerged and the shortfalls in revenue, additional borrowing will be needed to finance the budget over and above the FY 2017/18.

Fiscal Risks

Inspite of the Government efforts to ensure fiscal sustainability, there exist several risks to the FY 2017/18 Budget execution:

Global trends in interest rates: Signals point to a tightening of monetary policy especially by the Federal Reserve and the Bank of England in 2018. This could lead to an increase in interest rates at the global level which could in turn feed through government expenditure on interest payments both on domestic and external debt.

Political tensions in neighboring countries: Political tensions continue to cause disruptions in some neighboring countries especially the Democratic Republic of Congo and South Sudan which are key trading partners with Uganda. This is likely to affect

Uganda's trade within the region which could in turn negatively impact on revenue collection in the remainder of the financial year.

Natural disasters: Natural disasters like floods and landslides have a significant impact on poverty, social-welfare and require in most cases emergency related spending. The PFM Act 2015 provides for a contingencies fund to cater for such unforeseen events. This could pose a fiscal risk to the Government if the natural disasters are of greater magnitude than the provision. However, projections point to normal rain in 2018 but the risk could originate from occurrence of floods in some parts of the country.