MACROECONOMIC & FISCAL PERFORMANCE REPORT FINANCIAL YEAR 2017/18

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

October 2018

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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 Annual 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 June 2018.

During the financial year 2017/18; despite the Ugandan Shilling facing depreciation pressures, and rising fuel pump prices, the economy registered higher levels of economic activity in part due to recovery in the construction and manufacturing sectors, significant improvement in weather conditions that led to a bumper crop harvest; as well as improvements in the monetary and financial sector.

The pace of economic activity strengthened with GDP growing at 6.1 percent in the Financial Year 2017/18 a significant turnaround from the 3.9 percent achieved in the previous financial year.

Over the medium to long term, growth is projected to return to potential growth of 7 percent as a result of the improved efficiency and effectiveness of the implementation of public infrastructure investments, and increased private sector growth.

Matia Kasaija (MP)

MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

EXECUTIVE SUMMARY

The Economy in the Financial Year 2017/18 marked significant economic recovery while maintaining a stable and conducive macroeconomic environment. The economy expanded by 6.1 percent in 2017/18 compared to 3.9 in 2016/17. This impressive turn around was supported by positive global economic growth, increased private sector activity, significant growth in the services sector, recovery in both the industry sector and agriculture sector as favourable weather conditions prevailed.

Despite a rise in fuel pump prices resulting from increased global oil prices, stable and low inflation of an average of 3.4 percent headline during the Financial Year 2017/18 enabled the Central Bank to set the policy rate at the lowest it has ever been at 9 percent in February 2018 and was maintained till the end of the Financial year 2017/18.

As a result of this accommodative monetary policy, coupled with eased borrowing guidelines and a stable financial sector, the stock of outstanding private sector credit at the end of the Financial Year 2017/18 amounted to UShs 13,404.68 billion, up from UShs 12,118.31 billion in the Financial Year 2016/17. Representing a growth of 10.6 percent against a growth of 5.8 percent the previous financial year. Notably, there was a reduction in the ratio of non-performing loans to total gross loans from 6.17 in June 2017 to 4.44 in June 2018.

The economy continued to benefit from a stable macroeconomic environment by attracting growth of over 14 percent in foreign direct investments to the tune of USD 740 million dollars and facilitating a liberalised setting that allowed USD 1 billion remittance by Ugandans from abroad. Exports and imports grew by 9.6 percent and 16.4 percent respectively signifying increased production capacity as well as increased demand in the economy. Additionally, the stock of international reserves stood at USD 3,221.2 million as at the end of June 2018 capable of providing sufficient cover in the event of shocks to the economy of 4.5 months of imports of goods and services.

On the fiscal side, government spent an estimated 20.1 percent of GDP and collected 15.2 percent of GDP in revenues leaving a deficit of 4.9 percent of GDP that was financed through external and domestic sources.

As at 30th June 2018, Uganda's total public debt stock rose to 40.6 percent of GDP in nominal terms, up from 37.0 percent in June 2017. This was a significant and sharp increase and caution should be exercised going forward. Despite this, external public and publicly guaranteed debt was found to be sustainable in the medium and long term.

Economic growth over the medium term will be driven mainly by public infrastructure investment and increased private sector investments. Oil mining activities are expected to support growth in industry and the services sector.

List of Acronyms and Abbreviations

AIA	Appropriations in Aid
BTI	Business Tendency Index
CBR	Central Bank Rate
CET	Customs External Tariff
CFR	Charter for Fiscal Responsibility
CIEA	Composite Index of Economic Activity
CIF	Cost Insurance &Freight
DSA	Debt Sustainability Analysis
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
ICBT	Informal Cross Border Trade
IMF	International Monetary Fund
MDA	Ministries, Departments and Agencies
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/UGX	Ugandan Shilling
TIN	Tax Identification Number
URA	Uganda Revenue Authority
USD	United States Dollars
VAT	Value Added Tax

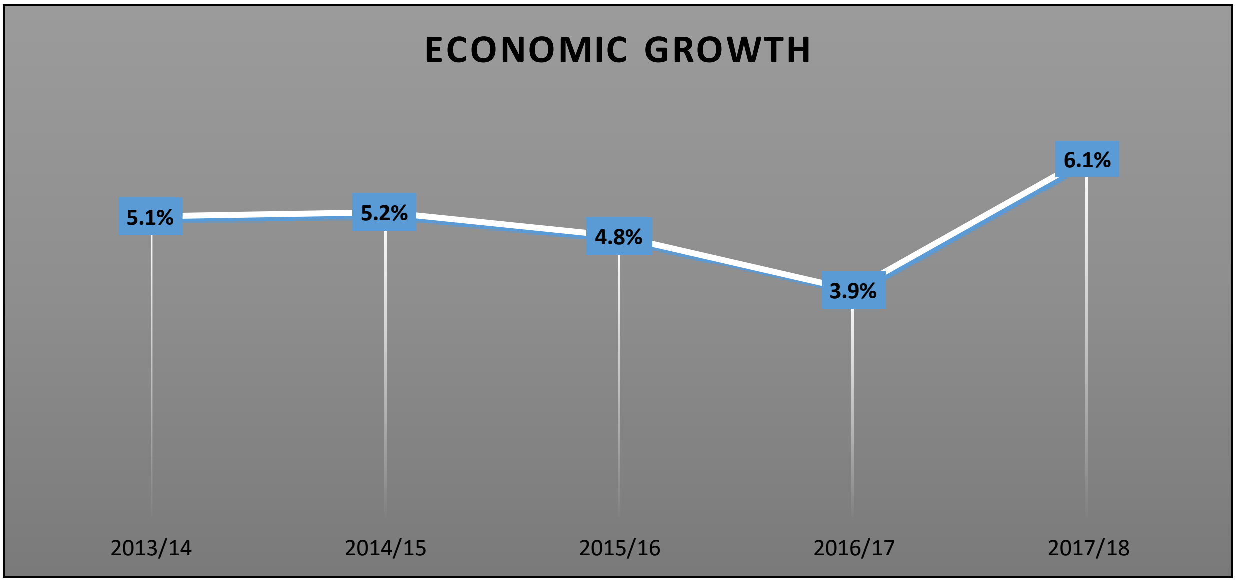
MACRO-ECONOMIC DEVELOPMENTS

Macro-Economic Developments

Economic Growth

Growth in the Financial Year 2017/18 marked significant economic recovery following positive developments in the global economy and on the domestic scene. The growth outturn for the Financial Year 2017/18 is 6.1 percent.

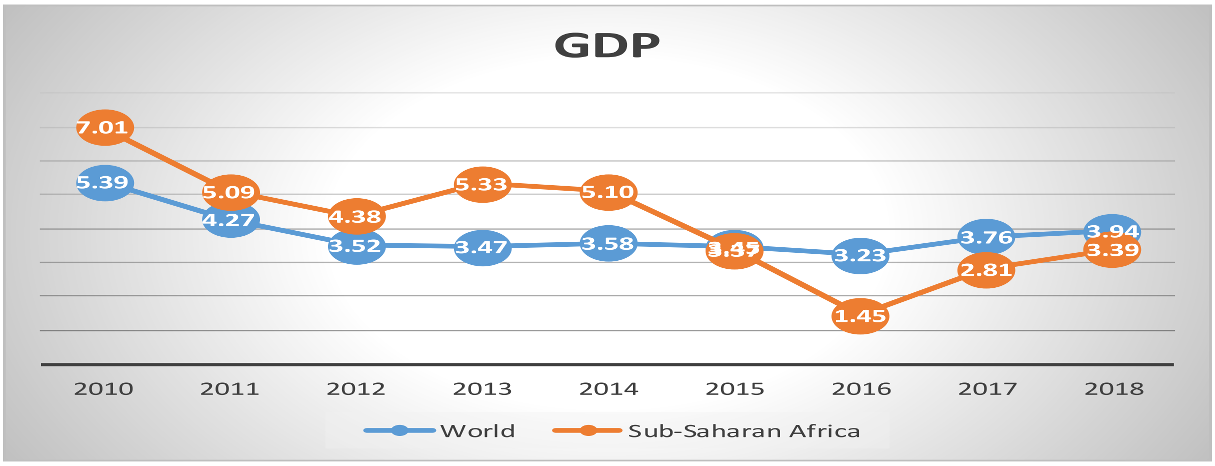
Figure 1: Uganda Economic Growth rates: 2009/10-2017/18



Source: Uganda Bureau of Statistics

World economic growth for the most part of 2017 and the first half of 2018 indicated recovery in advanced, emerging and developing economies. Significant growth was recorded in the United States of America and Emerging economies as a result of fiscal stimuli, prudent monetary policy and economic rebalancing to encourage domestic consumption. Consequently, Sub Saharan Africa growth in 2017 improved to 2.8 percent from 1.4 percent in 2016. Recovery in global growth positively impacts trade, remittances, development assistance and investments into the Ugandan economy.

Figure 2: Global Economic Growth rates: 2010-2018



Source: International Monetary Fund-WEO April 18

On the domestic front economic recovery was founded on increased private sector activity, significant growth in the services sector, recovery in the industry sector and agriculture sector as government interventions into the sector increased as well as favourable weather conditions prevailing through the financial year.

Table 1: Preliminary Gross Domestic Product by Economic Activity, 2013/14-2017/18 (% change)

	2013/14	2014/15	2015/16	2016/17	2017/18
GDP at market prices	**5.1**	**5.2**	**4.8**	**3.9**	**6.1**
Agriculture, forestry and fishing	**2.7**	**2.3**	**2.8**	**1.6**	**3.8**
Cash crops	-0.3	4.0	7.9	7.7	4.6
Food crops	2.9	2.2	1.3	2.0	5.3
Livestock	2.7	2.9	2.8	1.6	2.0
Agriculture Support Services	0.5	17.6	-4.6	2.6	6.1
Forestry	3.5	1.7	4.7	-2.3	2.5
Fishing	2.1	1.5	4.8	1.7	-2.1
Industry	**6.3**	**7.8**	**4.6**	**3.4**	**6.1**
Mining & quarrying	5.7	18.1	12.4	-5.7	26.1
Manufacturing	2.2	11.6	0.6	2.2	1.7
Electricity	1.9	5.7	4.0	8.3	6.3
Water	6.3	6.1	6.3	6.8	6.0
Construction	12.5	1.9	7.3	5.3	6.9
Services	**5.4**	**4.8**	**6.2**	**5.4**	**7.7**
Trade and Repairs	-1.8	3.2	3.5	1.6	2.2
Transportation and Storage	6.1	6.6	8.2	3.5	5.6
Accommodation and Food Service Activities	8.8	-0.5	5.7	7.5	1.2
Information and Communication	14.5	-1.8	14.1	13.9	15.2
Financial and Insurance Activities	17.8	10.9	9.6	2.3	8.3
Real Estate Activities	6.3	6.5	6.1	5.6	6.5
Professional, Scientific and Technical Activities	0.8	-5.6	-0.3	-3.0	5.3
Administrative and Support Service Activities	8.0	25.5	-13.9	-4.8	11.9
Public Administration	0.6	24.2	8.4	2.1	10.6
Education	4.4	5.2	7.8	9.3	6.7
Human Health and Social Work Activities	5.2	5.4	3.4	4.4	6.2
Arts, Entertainment and Recreation	6.5	5.3	-5.0	-2.4	18.9
Other Service Activities	10.7	7.9	9.2	13.3	19.2
Activities of Households as Employers	2.4	2.8	3.4	4.1	4.9
Adjustments	7.5	9.9	2.2	1.3	1.6
Taxes on products	7.5	9.9	2.2	1.3	1.6

Source: Uganda Bureau of Statistics

The Agriculture, forestry and fishing sector registered improvements during Financial Year 2017/18, growing at 3.8 percent up from 1.6 percent in the previous year. The recovery was largely due to an increase in production of food crops from 2.0 percent in the previous year to 5.3 percent as a result of government interventions into improved control of pests and diseases, seed distribution to farmers, provision of better extension services supported by favourable weather conditions. Forestry also recovered from (-2.3) percent in the previous year to 3.4 percent. Cash crops growth, however, slowed down to 4.6 percent when compared to 7.7 percent growth in 2016/17. This was mainly due to poor performance of Tobacco in response to anti-tobacco laws that came into effect this year, and lower production of cotton as shown by a reduction export volumes of cotton. Fishing showed negative growth as a result of the ban on illegal fishing.

Growth in industrial production improved to 6.1 percent during the Financial Year 2017/18 from 3.4 percent registered the previous financial year. The growth in industry was due to improved performance of the construction sector, which grew at 6.9 percent in the Financial year 2017/18 compared to 5.3 percent the previous Financial Year. This was largely due to an increment in mining and quarrying as a result of increased growth in the mining of the aggregate and increase in oil related activities that subsequently contributed to the increase in construction due to the linkage between the two subsectors. Manufacturing, despite benefitting from an increase in food crop production, declined to 1.7 percent in Financial year 2017/18 compared to 2.2 percent growth in 2016/17. This was mainly due to high production costs (fuel and electricity) which affected profits of some manufacturers. Additionally, manufacturing of sugar also declined as a result of a reduced sugar prices due to increased supply of imported sugar on the market, which discouraged sugarcane farmers from increased production.

The services sector grew by 7.7 percent during Financial Year 2017/18, an increase from 5.4 percent in the previous financial year. This was mainly driven by growth in Trade and repairs, Financial and Insurance services, and robust growth in Information and Communication (due to increase in mobile phone and internet usage). Trade and repairs benefitted from recovery in agriculture, growth in manufacturing and growth in aggregate demand shown by growth in consumptive taxes during the financial year. Consequently, transport and storage sector, which benefits directly from trade, also grew at 5.6 percent from 3.5 percent the previous financial year.

Growth in Financial and Insurance services resulted from the monetary policy easing and increased activity in the sector due to introduction of more financial products particularly 'Bancassurance' across the six major commercial banks, agency banking and Islamic banking.

Inflation

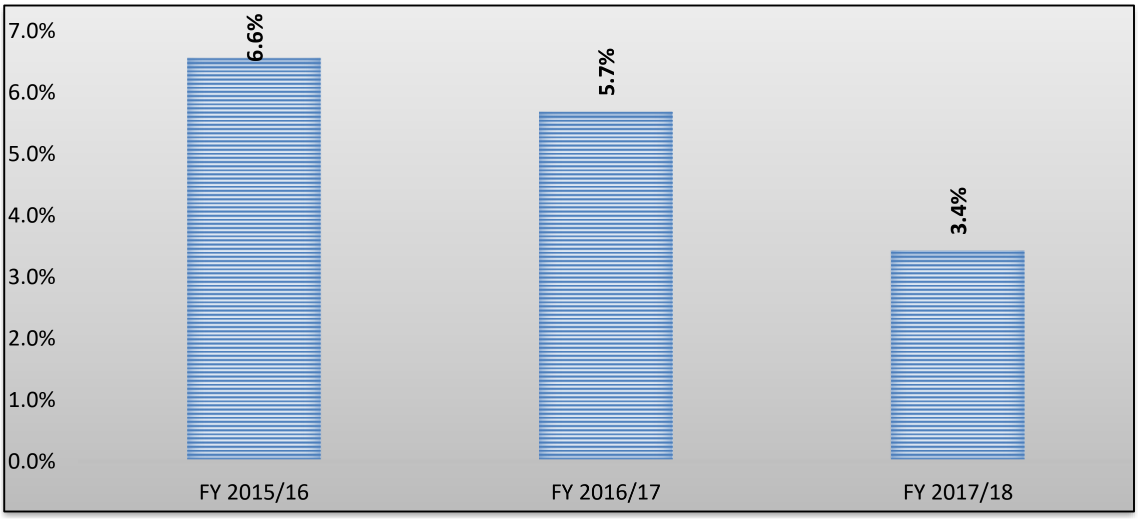
Inflation trends

Headline inflation remained subdued during the Financial Year 2017/18 registering an average of 3.4 percent down from 5.7 percent in the previous financial year. This moderately low inflation was mainly attributed to increased food crop inflation that saw supplies to markets increase as a result of favourable weather conditions.

Government policy also worked hand in hand to ensure controlled and synchronised money supply (expenditures) that could otherwise overheat the economy and cause inflationary pressures. Subsequently, the moderately low and stable inflation witnessed throughout the year played an instrumental role in the recovery of economic growth as it set the environment for accommodative monetary policy and the decline in interest rates which in turn encouraged borrowing by the private sector and a boost in private investments.

As captured in the figure below, annual headline inflation has been on a general downward trend in the past three financial years, partly demonstrating commitment of Government policies to keep inflation within manageable levels.

Figure 3: Annual Headline Inflation Trends



Source: Uganda Bureau of Statistics

Developments in headline inflation during the financial year can be further explained by its 3 subcomponents i.e. Core inflation[1], Food crops inflation and EFU (Energy, Fuel and Utilities) inflation.

Annual Core inflation which has the highest weight in the overall CPI basket declined but remained well within the Central Bank's target of 5±3%, averaging 2.7 percent in the Financial Year 2017/18 from 5.1 percent the previous financial year. This partly drove the

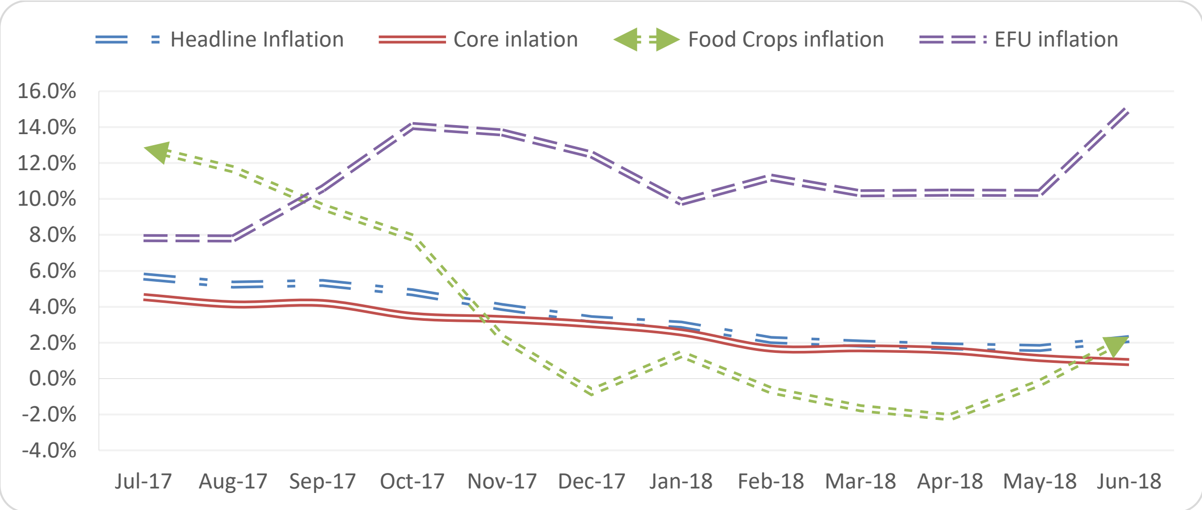
[1]The Core basket of goods and services includes majority of imported commodities, services, manufactured foods and other domestically manufactured commodities. It excludes electricity, fuel products, metered water, and food crops.

decline in headline inflation and was attributed to a relative stability in the exchange rate throughout most months of the year.

Annual Food crop inflation was another key driver of the outturn in headline inflation dropping to an average of 3.5 percent in the Financial Year 2017/18 from 12.5 percent the previous financial year. This decline was attributed to increased food supplies to markets due to a return to favourable weather conditions after a severe drought in the preceding financial year.

Annual Energy Fuel and Utilities inflation (EFU) was the only subcomponent that experienced inflationary pressures but was not enough to offset the decline in core and food crop inflation. EFU inflation rose to a financial year average of 11.1 percent from 2.2 percent the previous financial year mainly on account of the increase in international oil prices which fed through to domestic fuel prices.

Figure 4: Annual inflation during FY 2017/18



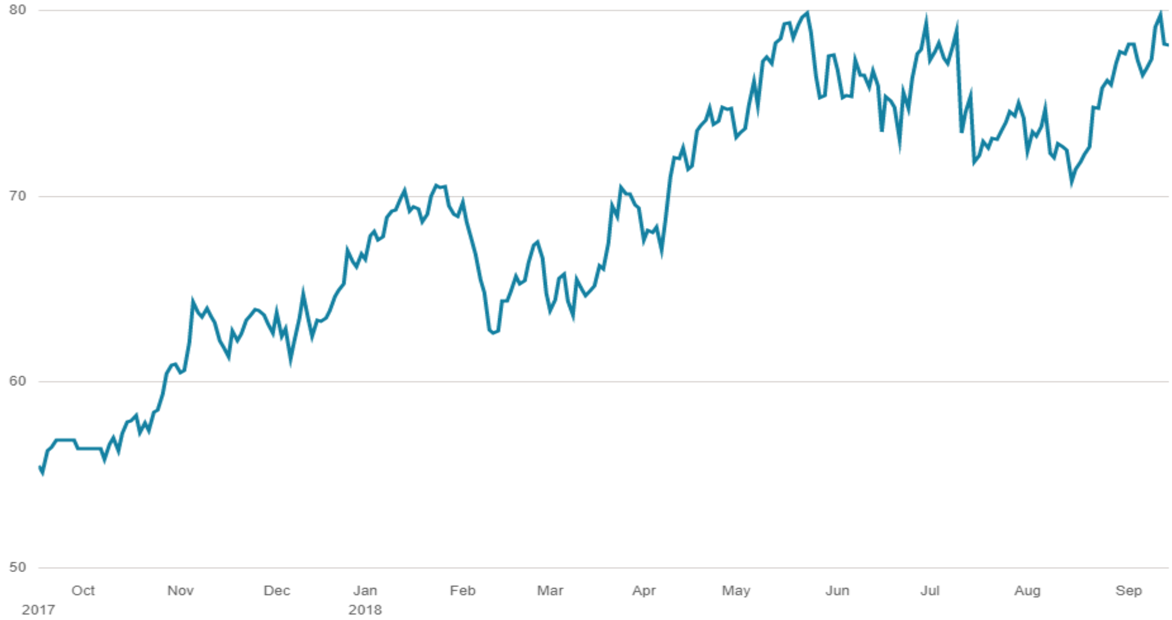
Source: Uganda Bureau of Statistics

International and Domestic Oil prices

The price of crude oil has been going up significantly in recent months, more so towards the end of 2017. The price of Brent crude oil increased from levels close to $55/barrel in October 2017 to as high as $80/barrel in May 2018.

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)/barrel 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, and the more recent oil sanctions on Iran by the USA has created significant speculation and contributed to the oil price spike. The price is expected to keep increasing through 2018 despite OPEC and Russia increasing oil output by an estimated 1 million (barrels per day) bpd; it is expected that this intervention in the short term is not enough to offset the price gains.

Figure 5: Graph on International Oil Price-Oil Prices hit $80



Source: British Broadcasting Corporation

Subsequently, the pump prices of petrol and diesel have been increasing within the country due to the global oil price surge and regional supply constraints. Kenya faced supply constraints due to repairs on its storage and distribution depot in Eldoret, Kenya. This affected storage ability and also caused delays in the petroleum supply schedule both inland and outwards.

Inflation across the East African Community

It is vital to assess the impacts of price changes on competitiveness within the EAC community due to the fact that there are significant trade and economic links within the East African region as a result of improved trade facilitation.

All partner states recorded a decline in Annual Headline inflation when compared to the previous financial year. This was largely attributed to increased food supplies to markets as the favourable weather conditions cut across the whole region. The table that follows shows the average Annual Headline inflation among EAC Partner States in the Financial Years 2017/18 and 2016/17.

Table 2: Average annual headline inflation in EAC Partner States

	FY 2016/17	FY 2017/18
Uganda	5.7%	3.4%
Kenya	8.1%	5.2%
Tanzania	5.3%	4.3%
Rwanda	10.4%	2.5%
Burundi	12.4%	7.1%
South Sudan	462.4%	152.0%

Source: Respective bureaux of statistics.

Financial Sector Trends

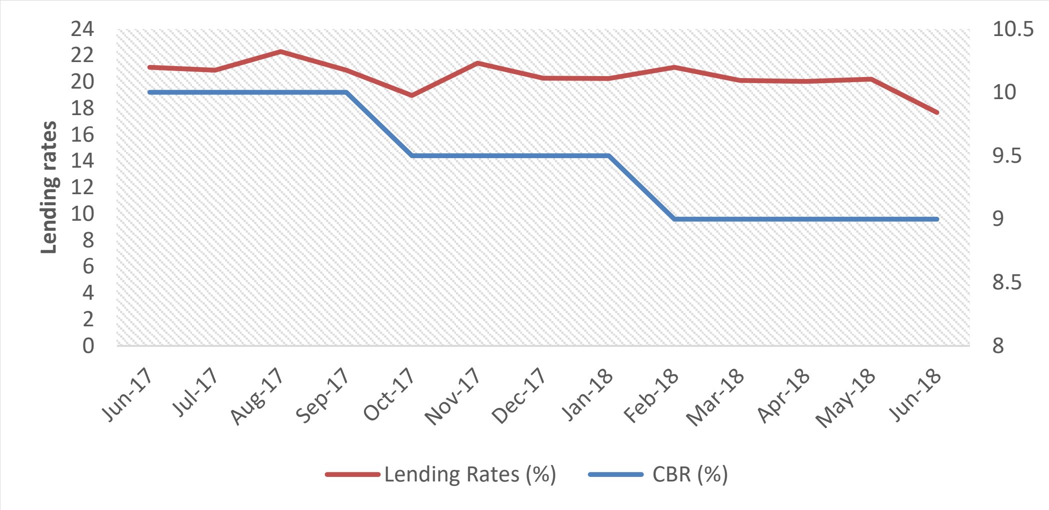
The Central Bank continued with monetary policy easing, lowering its policy rate (Central Bank Rate-CBR) from an average of 12.33 percent in the Financial Year 2016/17 to an average of 9.4 percent in the Financial Year 2017/18. Notably the Central Bank Rate was set at the lowest it has ever been at 9 percent since February 2018 and maintained till the end of the Financial year 2017/18. The continued accommodative monetary policy was on the backdrop of the Central Bank's expectation that inflation will remain within the 5 percent target in the medium to long run. Additionally, the policy decision was also intended to boost private sector lending and strengthen economic activity by stimulating demand.

Interest rates.

Commercial bank lending rates declined over the course of the Financial Year to 20.34 percent down from 22.59 percent the previous financial year. Despite the downward trend; lending rates remain sticky downwards due to other structural rigidities in the financial sector majorly associated with operational costs and the heightened risk aversion of lenders. As a result there was increased provisioning for possible bad debts during the year following the adoption of the International Financial Reporting Standard (IFRS)[2] 9.

[2] The International Financial Reporting Standards 9 (IFRS 9) requires that all commercial banks put aside money to cater for expected losses from the loans that they give out. This would mean that commercial banks require more money at hand if they are to give out loans or expected credit loss (ECL) provisioning.

Figure 6: Central Bank Rate Movements vs Commercial Lending Rates.



Source: Bank of Uganda.

Yields on Treasury Instruments[3]were generally low and almost all the auctions were oversubscribed for most part of the financial year. However, the last months of the financial year saw an increase in yields; mainly explained by an increase in Government's borrowing requirements.

A combination of favourable monetary policy, low inflation and high liquidity in the money market contributed to low yields on treasury instruments during the Financial Year 2017/18. The average weighted yields to maturity for the Financial Year 2017/18 were 9.1 percent, 9.5 percent and 10.1 percent for the 91, 182 and 364 day tenors respectively, compared to 13.2 percent, 14.1 percent and 15.1 percent respectively in the Financial Year 2016/17. The table below shows the average Treasury Bill yields since 2012/13.

Table 3: Treasury Bill Interest Rates (Yields) (%)

Year	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
91 Days	11.0	9.9	12.0	17.8	13.2	9.1
182 Days	13.6	12.1	13.7	19.6	14.1	9.5
364 Days	13.7	12.8	14.5	20.1	15.1	10.1

Source: Bank of Uganda

Lending to the Private Sector

The stock of outstanding private sector credit at the end of the Financial Year 2017/18 amounted to UShs 13,404.68 billion, up from UShs 12,118.31 billion in the Financial Year 2016/17 registering a growth of 10.6 percent. This compares favourably to a growth of 5.8 percent the previous financial year. The pick-up in lending is majorly attributed to the supportive monetary policy stance resulting into lower lending rates, as well as eased

[3]Oversubscription implies high demand for government instruments, under subscription implies low demand for Government securities

credit standards[4] brought about by lower risk of default. Consequently, there was a reduction in the ratio of non-performing loans to total gross loans from 6.17 in June 2017 to 4.44 in June 2018.

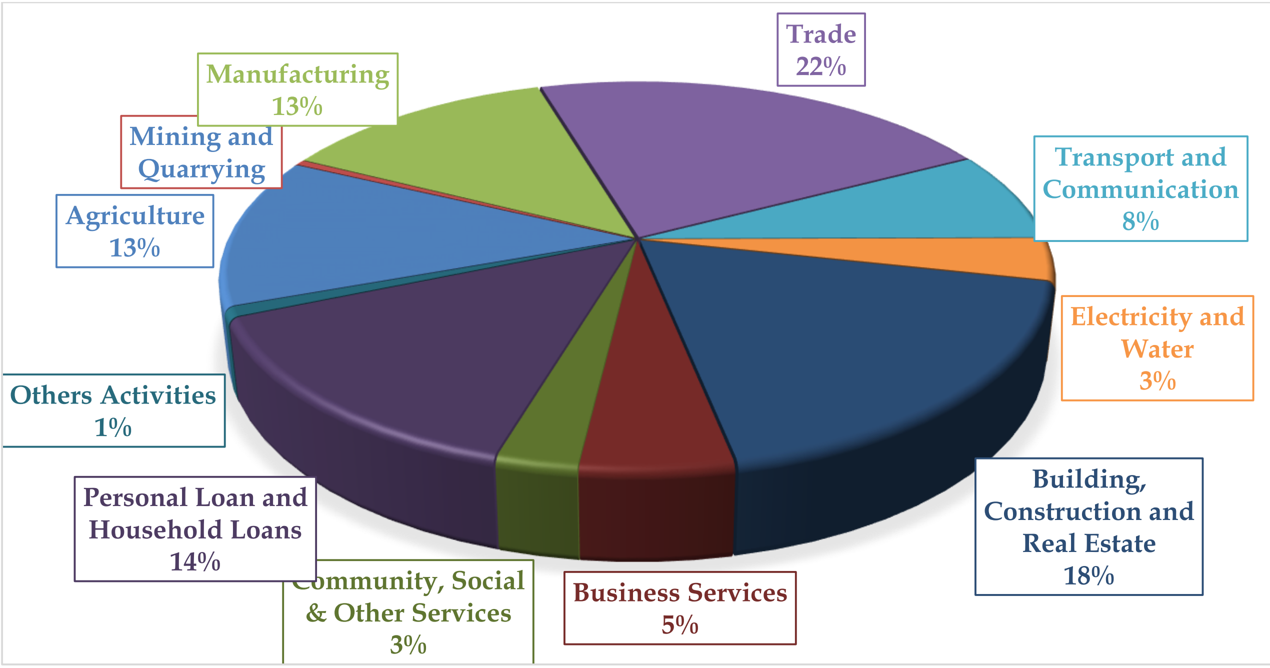
Table 4: Non-Performing Loans (NPLs)

	Dec 16	Jun 17	Dec 17	Jun 18
NPLs	10.47%	6.17%	5.63%	4.44%

Source: Bank of Uganda.

By sector, Trade received the largest share of credit extended in the year, at 21.9 percent. Other notable recipients of credit were; Building, Construction and Real Estate (18.4 percent), Personal and Household Loans (14.0 percent), Manufacturing (12.9 percent) and Agriculture (12.6 percent). The figure below, maps the share of credit extended to each sector in the Financial Year 2017/18.

Figure 7: Share of Credit Extension by Sector.



Source: Bank of Uganda

[4] The guidelines issued by a bank that are used to determine if a potential borrower is creditworthy

Table 5: Credit flow (Billion UShs) to all sectors in FY2016/17 and FY 2017/18, as well as the growth for the year under review.

Sector	FY2016/17	FY2017/18	Growth
Agriculture	993.01	1369.16	37.9%
Mining and Quarrying	62.38	45.72	-26.7%
Manufacturing	1181.09	1396.19	18.2%
Trade	2316.02	2367.59	2.2%
Transport and Communication	463.01	823.63	77.9%
Electricity and Water	92.36	383.59	315.3%
Building, Construction and Real Estate	1450.58	1991.85	37.3%
Business Services	529.78	547.71	3.4%
Community, Social & Other Services	238.61	293.58	23.0%
Personal Loan and Household Loans	1264.79	1519.67	20.2%
Others Activities	538.46	86.44	-83.9%
TOTAL	**9131.53**	**10825.44**	**18.6%**

Source: Bank of Uganda

External Sector

Uganda`s merchandise trade deficit widened during the Financial Year 2017/18 compared to the previous financial year. The trade deficit widened by USD 449 million to USD 2,003.6 million from USD 1,554.7. This was mainly due to an increase of the import bill by 16.4 percent (USD 774.46 million) more than doubling the export receipts which grew by 9.6 percent (USD 306.80 million).

Merchandise exports

Uganda's merchandise export earnings grew in the Financial Year 2017/18, primarily due to increased export volumes. Export receipts increased by 9.6 percent from USD 3,179.57 million in the Financial Year 2016/17 to USD 3486.37 million in the Financial Year 2017/18. This performance is explained by increased export volumes of coffee (6.5 percent), export value of; tea (35 percent), maize (29.9 percent), beans (89.9percent), simsim (38.9 percent), other pulses[5] (7 percent), fruits & vegetables (31.4 percent). Coffee continued to be the major export earner, contributing 14. percent of total export earnings followed by gold (9.7 percent). Table 6 shows the composition of exports.

Table 6: Composition of merchandise value of exports (USD million)

	FY 2016/17	FY 2017/18	% change
Total exports	**3,179.57**	**3,486.37**	9.6%
1. Coffee(value)	**490.51**	**492.47**	0.4%
Volume(60-Kg bags)	4,188,170	4,458,558	6.5%
Av. Unit value	1.93	1.84	-5.0%
2. Non-Coffee formal exports	**2,205.38**	**2,398.39**	8.8%
o/w Gold	339.15	337.29	-0.5%
Tea	67.86	91.71	35.1%
Cotton	48.31	41.12	-14.9%
Tobacco	46.95	54.14	15.3%
Fish & its prod. (excl. regional)	131.60	145.53	10.6%
Maize	78.49	101.97	29.9%
simsim	16.16	22.45	38.9%
Beans	55.45	105.27	89.9%
flowers	53.58	61.88	15.5%
Fruits and Vegetables	34.55	45.40	31.4%
3. ICBT Exports[6]	**483.68**	**595.51**	23.1%

Source: Bank of Uganda

[5] Other pulses include soya beans and groundnuts
[6] ICBT(Informal Cross Border Trade)

Destination of exports

In the Financial Year 2017/18, East African Community continued to be the largest destination for Ugandan exports, followed by the Rest of Africa and the European Union. Table 7 shows a breakdown of Uganda's exports by destination.

Table 7: Destination of exports

	2016/17	2017/18
EAC	39.99%	42.18%
Rest of Africa	19.05%	20.19%
European Union	15.94%	16.32%
Middle East	15.87%	11.88%
Asia	6.12%	6.45%
The Americas	1.67%	1.93%
Rest of Europe	1.29%	1.01%
Others[7]	0.04%	0.05%

Source: Bank of Uganda

Overall by country, Kenya took the largest share of exports (22.3 percent), followed by the Democratic Republic of Congo (14 percent), United Arab Emirates (11 percent) and South Sudan (8.9 percent).

Merchandise Imports

Merchandise Imports registered a 16.4 percent value increase in the Financial Year 2017/18 compared to the previous financial year. Merchandise imports worth US$ 5,489.97 million were imported during financial year 2017/18 from US$ 4,715.51 million recorded the previous financial year. The increase in value of imports during the year was largely driven by a 19.1 percent increase in formal private sector imports and a 3.8 percent increase in government imports. Additionally, an annual increase in oil prices (up 27 percent) and import volumes (up 12.8 percent) also contributed to the increase in the value of merchandise imports (Bank of Uganda). The following table shows the performance of imports.

[7] Others include Australia and Iceland

Table 8: Performance of Imports in US$ millions

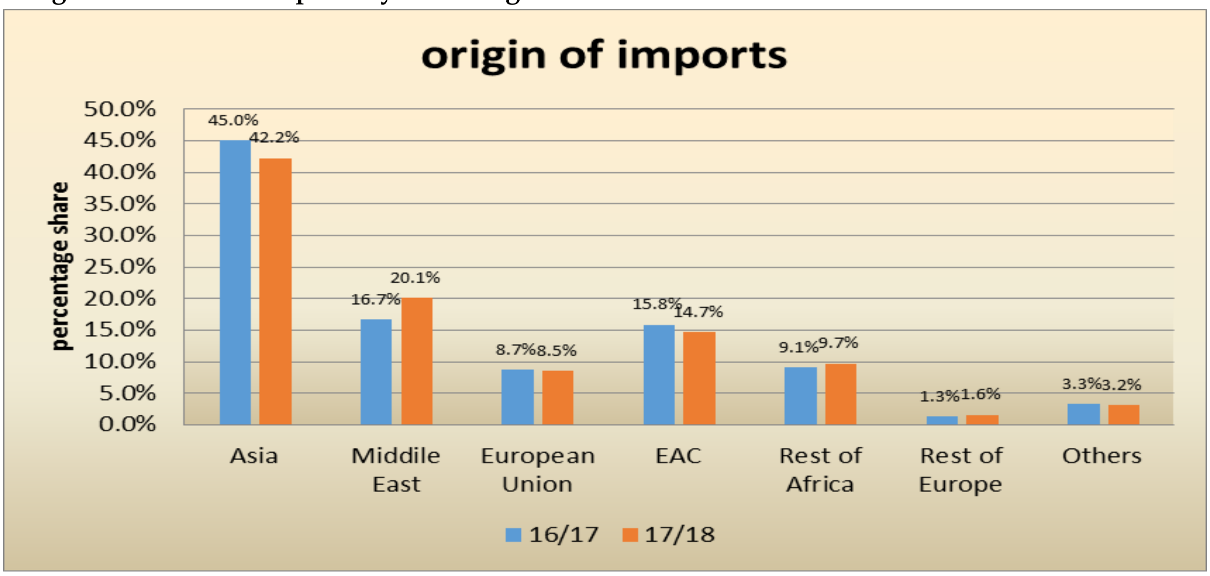
	FY 2016/17	FY 2017/18	Annual percentage Change
Total Imports (fob)	4,715.51	5,489.97	16.4%
Government Imports	438.18	455.01	3.8%
Project	411.96	448.07	8.8%
Non-Project	26.22	6.94	-73.5%
Formal Private Sector Imports	3,944.73	4,697.63	19.1%
Oil imports	693.80	911.04	31.3%
Non-oil imports	3,250.93	3,786.59	16.5%
Estimated Private Sector Imports	332.59	337.33	1.4%
Total Private Sector Imports	4,277.32	5,034.96	17.7%

Source: Bank of Uganda

Origin of Imports

Asia remained the largest source of merchandise imports during the financial year, contributing 42 percent of the total imports. Middle East and EAC contributed 20 percent and 15 percent of the total merchandise imported respectively. China, India and Japan contributed 77.4 percent of the imports from Asia, while Kenya and Tanzania contributed 89 percent of the imports from EAC. Figure 8 shows the origin of imports by percentage share.

Figure 8: Source of Imports by Percentage Share



Source: Bank of Uganda

Other Balance of Payments transactions

Remittances (personal transfers) registered a fall of USD 203.17 million (16 percent) compared to the same period last year. Remittances fell to USD 1,083.77 million in the Financial Year 2017/18 from USD 1,286.95 million recorded in the Financial Year 2016/17. This decline could be partly explained by a slowdown in economic growth of major economies where these contributions originate.

Foreign Direct Investments inflows rose by 14 percent driven mainly by increased investments in equities by non-residents. FDI inflows increased to USD 738.39 million in Financial Year 2017/18 from USD 649.21 million registered in the previous year 2016/17.

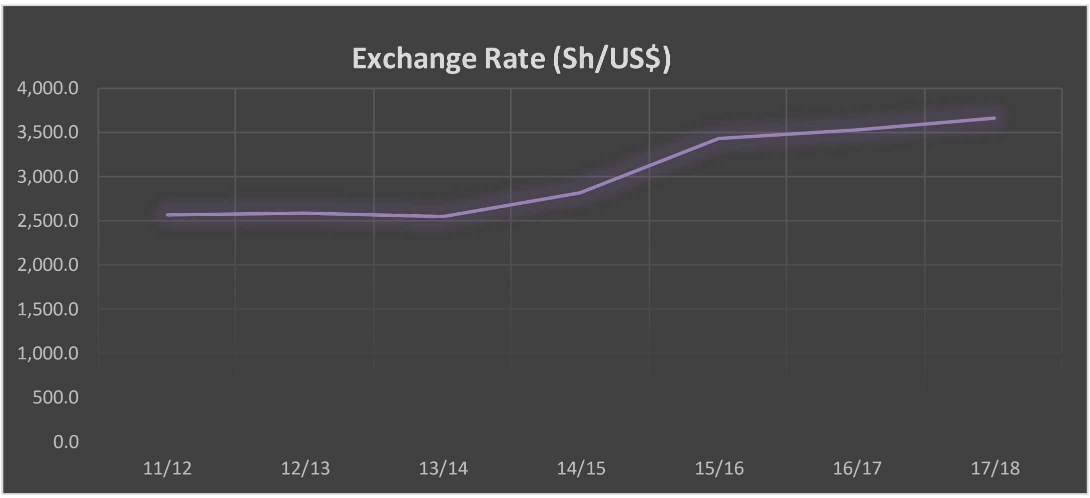
Portfolio investments registered higher net outflows of USD 347.23 million recorded during the Financial Year 2017/18 compared to an outflow USD 184.99 million registered over the Financial Year 2016/17. This is attributed to acquisition of foreign assets in form of equity and debt instruments by resident entities especially in the EAC regional markets, as well as, reduced participation and in some cases exit of offshore investors in the Uganda's debt securities market.

The stock of international reserves stood at USD 3,221.2 million as at the end of June 2018. This is equivalent to 4.5 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 East African Monetary Union protocol.

Exchange Rate

In the Financial Year 2017/18, the Shilling weakened against the United States Dollar, depreciating by 3.7 percent to an average midrate of UGX 3,659.15 per USD from UGX 3,529.68 per USD in the Financial Year 2016/17. The largest depreciation was seen in the fourth quarter of the financial Year 2017/18 where the shilling depreciated by 4.2 percent. This was mainly driven by the global strengthening of the US Dollar as the United States economy continues to recover coupled with a widened Ugandan trade deficit.

Figure 9: Currency trends-average period (Ush/US$).



Source: BOU

FISCAL PERFORMANCE

Fiscal Performance

Overview

Fiscal policy in the Financial Year 2017/18 was designed to support inclusive and sustainable economic growth as well as socio-economic transformation while maintaining macroeconomic stability. Therefore, the budget for the financial year was formulated under the theme "Industrialization for Job Creation and Shared Prosperity" and was particularly geared towards Increasing production and productivity in the key primary growth sectors of agriculture, tourism and minerals including oil & gas; increasing industrialization through value addition; enhanced Private Sector Development; and increased public sector efficiency.

The budget for the Financial Year 2017/18 estimated a fiscal deficit of Shs 5,606 billion or 5.4 percent of GDP. However, the deficit for the financial year (excluding HIPC) turned out lower at Shs 4,902 billion (4.9 percent of GDP) as overall actual government spending was lower than expected due to inadequate absorption capacity. The table that follows shows a summary of fiscal operations in the Financial Year 2017/18.

Table 9: Fiscal operations for FY2017/18

Billions UGX	2016/17 Outturn	2017/18 Programme	2017/18 Outturn	2017/18 Performance	2017/18 Deviation
Total revenue and grants	13,899	16,698	15,281.1	92%	-1,417
Revenue	12,949	15,062	14,506.9	96%	-555.5
URA	12,463	14,682	14,076	96%	-606
Non-URA	354	380	430.9	113%	51
Oil Revenues	132	0	0	n.a	0
Grants	721	1,636	774	47%	-862
Budget support (Excl. HIPC)	31	35	155	441%	120
Project grants	690	1,601	620	39%	-981
Expenditures and net lending	17,432	22,304	20,183.4	90%	-2,120.7
Recurrent expenditures	9,957	10,652	10,916.0	102%	264
Wages and salaries	3,278	3,578	3,463.2	97%	-114
Non-wage	4,319	4,439	5,192.3	117%	753
Interest payments	2,360	2,635.3	2,260.5	86%	-375
o/w: domestic	1,954	1,985	1,936.4	98%	-49
o/w: foreign	406	650	324.1	50%	-326
Development expenditures	6,662	10,075	7,566.1	75%	-2,509
External	2,480	5,801	3,268.2	56.3%	-2,532
Domestic	4,182	4,275	4,297.9	101%	23
Net lending and investment	594	1,276	1,396.5	109.4%	120
Others(Arrears)	218	301	304.9	101%	4
Overall balance	-3,532	-5,606	-4,902.3	87%	704
Excluding grants	-4,254	-7,242	-5,676.5	78%	1,565
Financing	3,532	5,606	4,902	87%	-704
External financing (net)	2,609	4,526.2	3,496.2	77%	-1,030
Disbursement	2,980	5,482.0	4,306.3	79%	-1,176
Budget support	0	0	0	n.a	0
Concessional project loans	1,675	2,013	2,420	120%	407
Non-concessional loans HPP	425	1,276	1,346	105%	70
Non-concessional loans Other	310	2,186.7	399.5	18%	-1,787
Exceptional financing	-4	6	3	51%	-3
Revolving credit	573	0	141	n.a	141
Amortisation (-)	-371	-956	-813	85%	143
Domestic financing (net)	602	1,079	1,358	126%	279
Bank Financing	-299	601	260	43%	-342
Central Bank	-623	125	-110	-88%	-235
Commercial banks	325	476	370	78%	-106
Non Bank	901	478	1,098	230%	620
Errors and ammissions	322	0	48.02	n.a	48
Memo items					
Fiscal balance incl. grants (% of GDP)	-3.9%	-5.4%	-4.9%	n.a	n.a
Revenue(% of GDP)	14.1%	14.6%	14.4%	n.a	n.a
Expenditure (% of GDP)	19.0%	21.6%	20.1%	n.a	n.a

Source: Ministry of Finance, Planning and Economic Development

Revenues and Grants

For the Financial Year 2017/18, government collected a total of Shs 15,281.1 billion in revenues and received grants (15.2 percent of GDP) against a target of Shs 16,698.2 billion. Of the total receipts, Shs 14,506.9 billion was from domestic revenues while Shs 774 billion accounted for grants from development partners.

Domestic revenue (tax and non-tax revenue) collected in the financial year was Shs 14,506.9 billion against a target of Shs 15,062.4 billion. Although this translates into a shortfall of Shs 555.5 billion, there was a positive growth of 13.0 percent in revenue collections when compared to the previous financial year.

Tax revenue

Tax revenue collections amounted to Shs 14,076.1 billion, a performance of about 96 percent against the target of Shs 14,682 billion for the financial year. This translated into a growth in tax revenue of 12.9 percent compared to the previous financial year, raising the tax revenue to GDP ratio from 13.6 percent in the Financial Year 2016/17 to 14.0 percent.

A shortfall of Shs 155.14 billion in **direct domestic taxes** resulted in Shs 4,670.68 billion against a target of Shs 4,825.82 billion. This shortfall was partly due to lower than expected profitability of some key companies - ensuing into lower dividends on which withholding tax was charged, and a decline in fixed deposits resulting into low tax on bank interest.

Similarly, **indirect domestic tax** collections were lower at Shs 3,188.73 billion against a target of Shs 3,663.8 billion, translating into a performance of 87 percent. The shortfall was largely from Value Added Tax (VAT) especially in Manufacturing that was affected by;

- low production and sales of sugar,
- the domestic beer sub-sector which was affected by the increase in imported substitute beers,
- the cement sub-sector which was affected by the expansion operations undertaken by major sector players such as Tororo and Hima Cement resulting in low production and non-remission.
- Additionally, the services subsector also registered VAT shortfalls partly explained by a decline in phone talk time as a result of data (internet) transactions growing faster than talk time thus affecting payments from the telecommunication sub-sector.
- Other sub sectors that underperformed in VAT included the real estate, hotels & restaurants, and public administration-affected by a decline in remittance from regulation of activities of providing health care, education, cultural services and other social services.

On the other hand**, international trade taxes** were above the Shs 6,183.8 billion target by Shs 27 billion. This was on account of growth in the volume of taxable imports such as wheat, personal motor vehicles, foot wear, electrical apparatus, and imported cement among others.

Performance of tax policy measures

Government adopted a number of tax policy measures which were aimed at increasing tax collections in the Financial Year 2017/18. The policy measures performed higher than expected, bringing in Shs 212.98 billion against a target of Shs 172.7 billion as shown in the table below .

Table 10: Summary performance of tax policy measures in FY 2017/18-Billions UGX

Tax Head	Annual Target	Annual Outturn	Achievement Rate
VAT	81.5	126.71	155.47%
Excise duty	24.5	27.09	110.57%
Income tax	18.0	11.69	146%
CET adjustments	58.7	54.65	93%
TOTAL	172.7	220..06	127%

Source: Uganda Revenue Authority

The highly performing tax measures were;

- VAT on wheat grain that was reinstated at 18 percent and yielded Shs 125.16 billion
- The 15 percent withholding tax on winnings from gambling yielded Shs 11.69 billion
- Revisions in the excise duty regime for beer yielded Shs 14.58 billion.

Table 11: Details of domestic revenue for FY2017/18-Billions UGX

	Collections 16/17	Budget 2017/18	Collections 2017/18	Surplus/	Performance	Growth
Total Domestic Revenue	**12797.26**	**15062.43**	**14506.93**	**-555.50**	**96%**	**13%**
Non-Tax Revenues	**334.07**	**380.26**	**430.85**	**50.59**	**113%**	**29%**
Tax Revenue	**12463.19**	**14682.17**	**14076.08**	**-606.09**	**96%**	**13%**
Direct Domestic Taxes	**4180.05**	**4825.82**	**4670.68**	**-155.14**	**97%**	**12%**
O/w -PAYE	2114.99	2360.91	2396.11	**35.20**	**101%**	**13%**
-Corporate Tax	764.27	846.41	884.80	**38.39**	**105%**	**16%**
-Presumptive Tax	4.46	28.42	5.32	**-23.10**	**19%**	**19%**
-Other	46.31	61.45	55.16	**-6.29**	**90%**	**19%**
-Withholding Tax	677.93	860.21	754.29	**-105.92**	**88%**	**11%**
-Rental Income Tax	71.74	115.12	88.75	**-26.38**	**77%**	**24%**
-Tax on Bank Interest	473.76	520.61	457.03	**-63.58**	**88%**	**-4%**
Indirect Domestic Taxes	**2841.98**	**3663.81**	**3188.73**	**-475.08**	**87%**	**12%**
Excise duty:	819.78	1052.22	953.91	**-98.31**	**91%**	**16%**
-Beer	216.72	288.58	263.07	**-25.51**	**91%**	**21%**
-Spirits/Waragi	98.89	122.00	157.51	**35.52**	**129%**	**59%**
-Phone Talk time	194.30	256.93	178.97	**-77.97**	**70%**	**-8%**
- Sugar	37.97	41.67	30.28	**-11.39**	**73%**	**-20%**
- Cement	23.73	32.27	26.74	**-5.53**	**83%**	**13%**
Value Added Tax	2022.19	2611.58	2234.81	**-376.77**	**86%**	**11%**
O/w Manufacturing	1011.77	1330.09	1043.51	**-286.58**	**78%**	**3%**
Services	501.57	643.60	578.99	**-64.61**	**90%**	**15%**
Other Sub-Sectors	508.86	637.89	612.31	**-25.58**	**96%**	**20%**
Taxes on International	**5414.56**	**6183.82**	**6210.84**	**27.02**	**100%**	**15%**
-Petroleum duty	1609.60	1893.78	1811.82	**-81.96**	**96%**	**13%**
-Import duty	1043.65	1269.60	1223.75	**-45.85**	**96%**	**17%**
-Excise duty	239.39	280.08	196.86	**-83.23**	**70%**	**-18%**
-VAT on Imports	2057.11	2229.12	2416.57	**187.45**	**108%**	**17%**
-Withholding Taxes	154.95	152.53	179.64	**27.11**	**118%**	**16%**
-Surcharge on imports	164.61	185.80	209.78	**23.98**	**113%**	**27%**
-Infrastructure levy	69.11	77.17	87.67	**10.50**	**114%**	**27%**
-Export levy	13.97	20.43	12.44	**-7.98**	**61%**	**-11%**
Tax Refunds:	**-175.32**	**-206.67**	**-203.64**	**3.03**	**99%**	**16%**
Fees and Licenses	**201.92**	**215.39**	**209.47**	**-5.92**	**97%**	**4%**

Source: URA, MoFPED

Non tax revenue

Non-tax revenue (NTR) performed above its target for the year, amounting to Shs 430.9 billion against a target of Shs 380.3 billion and registering growth of 21.9 percent from the previous year. As a percentage of GDP, non-tax revenue remained at 0.4 percent as was the case in the previous financial year. The higher performance of Non-Tax Revenue was due to both the administrative and policy measures that were implemented during the year, amongst which included the centralization of NTR collection under the Uganda Revenue Authority thus improving efficiency in collections.

Government Expenditure

Total Government spending was Shs 20,183.4 billion (excluding AIA and refinancing) for the Financial Year 2017/18 representing 20.1 percent of GDP, up from the 19.0 percent in the previous financial year. Overall, the expenditure and net lending during the financial year was lower than the approved budget by Shs 2,120.7 billion. This lower performance was a result of externally financed development expenditure performing at only 56.3 percent of its budget due to low absorption in non-concessional loans (apart from HPPs).

The absorption constraints in the non-concessional development expenditure were mainly due to inadequate implementation capacities in MDA's.

However, as a percentage of GDP, externally financed development was 3.2 percent, up from an average of 2.7 percent in the last three financial years, implying some improvements in execution of projects when compared to the previous years though further improvements are still needed.

The construction of Karuma and Isimba Hydro Power Projects registered good progress in terms of physical works and financing during the Financial Year 2017/18. Certificates amounting to Shs. 1,346.0 billion were paid during the financial year putting the performance of HPPs in terms of absorption at 109.4 percent. Consequently, total net lending/borrowing (including the Government of Uganda contribution) was Shs 1,396.5 billion during the year, against a budget of 1,276.4 billion.

Domestic expenditure (expenditure excluding AIA, hydro power projects, externally financed projects and interest payments) was Shs 13,258.3 billion against a budget of Shs 12,591.9 billion. This implies a 5.0 percent (Shs 594.5 billion) expenditure above the domestic expenditure budget due to the supplementary expenditure requests that were received and granted throughout the financial year.

Interest payments during the financial year amounted to Shs 2,260.5 billion against the budget of Shs 2,635.3 billion. External interest payments were lower as the loan disbursements in the previous year were less than what had been anticipated.

Financing

The fiscal deficit was financed by loan disbursements from **external development partners** amounting to Shs 4,306.3 billion; lower than the planned Shs 5,482.0 billion for the financial year. The deviation was largely due to the low disbursement of non-concessional loans at only 18 percent of the expected amount for the financial year - partly affected by the oil roads project whose procurement processes were not completed on time. All other forms of external loans disbursed higher than what had been anticipated for the year.

For the financial year, Government borrowed Shs 1,795 billion from the **domestic market**, Shs 841 billion above what had been planned, so as to cater for the critical additional financing requirements.

Table 12: Government Securities for 2017/18 UShs. billion

	Total issuance	Net domestic borrowing	Refinancing
Q1	1661.9	390.5	1271.5
Q2	1,493.8	194.6	1,299.1
Q3	1,570.4	177.4	1,393
Q4	1657.95	1032.66	625.29
2017/18	6384.05	1795.16	4588.89

Source: Ministry of Finance, Planning and Economic Development

Debt Sustainability Analysis

As at 30th June 2018, Uganda's total public debt stock rose to US$ 10.65 billion from US$ 9.4 billion a year ago. This is equivalent to 40.6% of GDP, up from 37.0% in June 2017. This was a significant and sharp increase and caution should be exercised going forward. Despite this, external public and publicly guaranteed debt was found to be sustainable in the medium and long term.

Stress tests on total public debt indicate significant risks related to non-debt variables, particularly interest rates and the exchange rate. This underscores the need to borrow on concessional terms as much as possible. A key concern is the need to accelerate growth in exports, which represent an important source of foreign exchange with which Government meets its external debt service obligations.

Government will continue with efforts towards improving project implementation across the entire project cycle, including the production of high quality feasibility studies and proper, timely management of the land acquisition process. Untimely project implementation tends to lead to cost overruns and delays as well as reducing the benefits of infrastructure projects, which undermines economic growth and affects the country's ability to repay its debts.

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.

The Financial Year 2017/18 was the second year in which the Government's fiscal policy was underpinned by the Charter. The realized Fiscal Balance including grants was 4.9 percent against the projected 5.4 percent. The Government's fiscal deficit path seeks to harmonise with the Charter that requires Government fiscal balance (including grants) to be reduced to a deficit of no greater than 3 percent of GDP by the Financial Year

2020/21. However, given the urgent need to address and bridge the infrastructure gap, it will prove challenging to attain the target on the fiscal deficit.

In addition, the present value of gross public debt was 27.1 percent in the Financial Year 2016/17 and has risen to 30 percent in the Financial Year 2017/18. This was well within the threshold of 50 percent which is consistent with the Charter.

Government remains committed to the Charter of Fiscal Responsibility while being mindful of the need to support critical public investments to accelerate growth and to ensure that debt is maintained at sustainable levels.

Table 13: Medium term Fiscal Framework.

Medium-Term Fiscal Framework (Shs bn)	proj.	proj.	proj.	proj.	proj.
	2017/18	2018/19	2019/20	2020/21	2021/22
Total revenue and grants	15.2%	16.1%	16.1%	16.3%	16.5%
Revenue	14.4%	14.6%	15.0%	15.4%	15.9%
Grants	0.8%	1.5%	1.1%	0.8%	0.6%
Expenditures and net lending	20.1%	22.7%	22.2%	19.9%	19.7%
Recurrent expenditures	10.9%	10.8%	10.4%	10.6%	10.8%
Development expenditures	7.5%	10.7%	10.7%	8.5%	8.3%
Net lending and investment	1.4%	0.9%	0.6%	0.4%	0.2%
Contingency fund	0.0%	0.0%	0.0%	0.0%	0.0%
Others	0.3%	0.3%	0.5%	0.4%	0.4%
Overall balance	-4.9%	-6.6%	-6.1%	-3.7%	-3.2%
Excluding grants	-5.6%	-8.1%	-7.2%	-4.5%	-3.8%
Financing	4.9%	6.6%	6.1%	3.7%	3.2%
External financing (net)	3.5%	4.9%	5.3%	2.9%	2.5%
Domestic financing (net)	1.4%	1.8%	0.9%	0.8%	0.7%
Errors and omissions/gap	0.0%	0.0%	0.0%	0.0%	0.0%
Memo items:					
Fiscal deficit (% of GDP)					
Including grants and HIPC debt relief	-4.9%	-6.6%	-6.1%	-3.7%	-3.2%

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. In the Financial Year 2017/18, the petroleum fund had an opening balance of Shs 421.33 billion and closed with a balance of Shs 457.54 billion. During the financial year, Shs 125.8 billion was transferred to the consolidated fund as appropriated in the budget. Within the financial year, the petroleum fund received Shs. 36.53 billion from income taxes and withholding taxes levied on petroleum companies. There was also a transfer of 85.3 billion (accruing from levies on Petroleum Companies in the Financial Year 2016/17) from the Uganda Consolidated Fund to the petroleum fund reported.

OUTLOOK ON THE ECONOMY

Outlook on the Economy

Economic Growth;

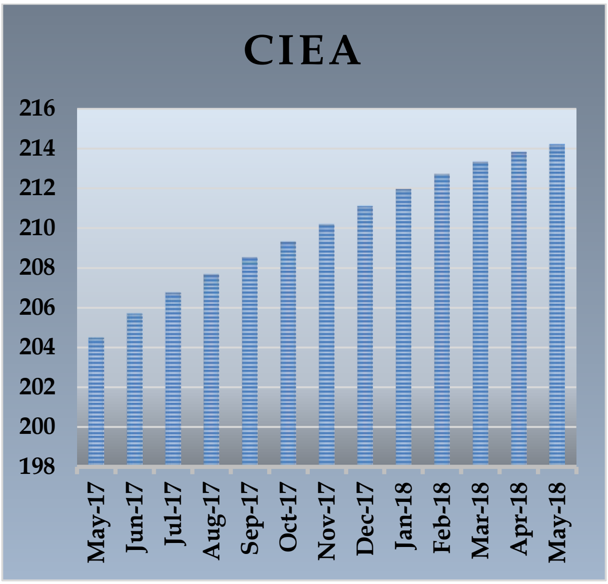
During the Financial Year 2018/19, GDP is expected to grow to atleast 6.0 percent based on increased private sector activity, significant growth in the services sector, recovery in the industry sector and better weather conditions that are expected to facilitate recovery in agriculture, forestry and fishing. Additionally, Agricultural and industrial productivity is also expected to improve due to increased government intervention in improving quality of agricultural inputs, providing extension services, efforts in irrigation to reduce reliance on rainfall and investments in industrial parks and economic free zones.

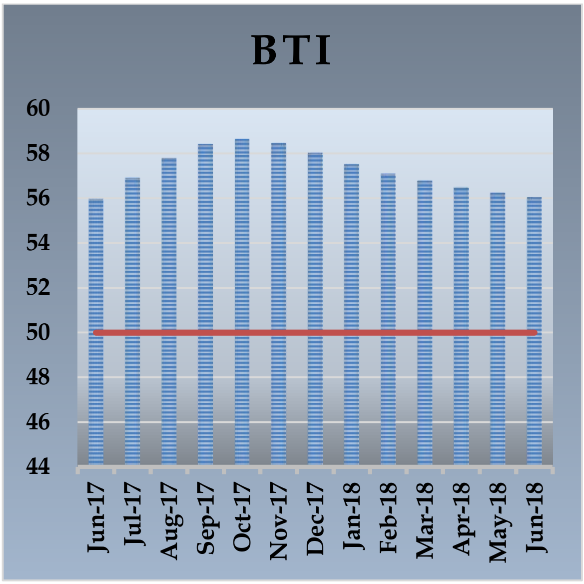
The current demand supporting monetary policy stance and the reduction in non-Performing loans should also encourage commercial banks to lend more to the private sector and subsequently rejuvenate economic activity. The relative stability of the exchange rate is also expected to boost trade and manufacturing.

Economic growth over the medium term is projected at 7 percent and this will be driven mainly by public infrastructure investment and increased private sector investments. Oil mining activities are expected to support growth in industry and the services sector.

High frequency indicators on economic activity show that there was improvement in business sentiments and continued recovery in the level of economic activity. The average Business Tendencies Index was 57.3 and remained above the 50 threshold for the whole financial year implying generally positive business expectations. Similarly, the Composite Index of Economic Activity (CIEA), designed to reflect economic activity, increased steadily in recent months indicating a pickup in economic activity.

Figure 11: High frequency indicators of economic activity.





Source: Bank of Uganda

Globally, economic growth is projected to reach 3.9 percent in 2018 and 2019 compared to 3.8 percent in 2017, attributed to strong momentum and favourable market sentiments, accommodative financial conditions, expansionary fiscal policy in the United States and partial recovery in commodity prices. The improvements in the global economic outlook and higher commodity prices will favourably affect regional economies with Sub Saharan Africa growth now projected to pick up from 2.7 percent in 2017 to 3.5 percent in 2018. Additionally; Uganda's trading partners in the EAC block are all projecting improvements in growth over the medium term, further enhancing the positive prospects due to increased trade facilitation within the region.

Inflation;

Over the course of the Financial Year 2018/19, inflationary pressures are expected to increase prices but overall inflation is projected to remain close to the medium term target band of 5 ± 3 percent. This is expected to be driven by a pickup in domestic demand as private sector activity continues to recover and an increase in global inflation which will feed through to import prices.

Financial sector;

Private Sector Credit is expected to continue recovering as lending rates continue to decline as a result of a stable, sound and improving financial sector as well as increased economic activity. 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 2017/18 and continued decline in the Non-Performing Loans (NPLs) is expected to have a positive effect on future lending. Activities in finance and banking continue to recover as new activities such as" Bancassurance" come on board.

External Sector;

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, increments in international crude oil prices and expected recovery in private sector imports. Albeit, the current account position is expected to continue improving this financial year due to improvement in the services account. The relative stability of the exchange rate is also expected to boost trade and manufacturing and pose a minimal risk to domestic inflation.

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.

Over the medium term, the fiscal balance (including grants) is expected to converge towards the medium term target as stipulated in the East African Monetary Union Protocol. This will necessitate continued 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 primary external risks to Uganda's fiscal plans stem from the global economic and trade environment, regional conflict and commodity price volatility.

In recent years, the global economy has been marked by **rising geopolitical tensions** – including trade conflicts – alongside higher debt levels in both developed and developing economies. Growing trade tensions, which affect a range of Uganda's major trading partners, could put pressure on foreign investment and remittance inflows, with negative consequences for the exchange value of the shilling.

At the regional level, civil strife in the South Sudan, Congo and Burundi have severely disrupted trade and welfare. These conflicts have led to both economic and fiscal costs, including loss of earnings, property, employment, and remittances. Before the recent conflict, South Sudan accounted for about 20 percent of Uganda's exports, and was one of the leading remitters of income into the country.

As a member of the East African Community, Uganda is a signatory to the East African Monetary Union protocol, which plans to establish a single regional currency by 2024. The convergence criteria for the monetary union include benchmarks for debt, inflation, fiscal balances and external reserves. At present there are significant imbalances within the region, and the pace of achieving and maintaining these benchmarks could lead to future fiscal risks.

Volatility in global commodity prices has a major impact on economic growth, with knock-on effects for the public finances. Rising oil prices would impose large costs on Uganda given our level of oil imports. Subdued global prices for export commodities such as coffee and cotton – and increased competition from other commodity producers – creates greater uncertainty and risks to foreign earnings and the value of the currency.

The government recognises these risks and works to ensure that prudent management of the public finances provides a buffer to changes in the global economic environment.