MACROECONOMIC & FISCAL PERFORMANCE REPORT FINANCIAL YEAR 2018/19

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

October 2019

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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 2018/19 that incorporates the fiscal and economic implications of both Government decisions and other economic circumstances as at 30th June 2019.

In October 2019, the Uganda Bureau of Statistics released revised Gross Domestic Product (GDP) series as a result of a comprehensive rebasing exercise from base year 2009/10 to 2016/17. The revised GDP estimates show that after rebasing, the economy grew by 6.5 percent in the Financial Year 2018/19 compared to 6.2 percent in the Financial Year 2017/18.

During the Financial Year 2018/19, the economy registered high levels of economic activity partly due to strong performance in the industry sector; significant performance from the agriculture sector, particularly the fishing subsector due to enforcement against illegal fishing; and growth in the services sector. The accommodative monetary and fiscal policy also stimulated economic activity.

The pace of economic activity is projected to continue to strengthen with GDP expected to grow between 6 and 6.5 percent in FY 2019/20.

Over the medium to long term, the economy is expected to continue growing between 6 and 7 percent as a result of the improved efficiency and effectiveness of the implementation of public infrastructure investments, and increased private sector activity.

Matia Kasaija (MP)

MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

Executive Summary

The revised GDP estimates released by the Uganda Bureau of Statistics after rebasing, show that the size of the economy in Financial Year 2018/19 expanded to UShs 128.5 trillion from UShs 120 trillion in Financial Year 2017/18. In real terms, the economy grew by 6.5 percent in Financial Year 2018/19 compared to 6.2 percent in Financial Year 2017/18. This achievement is against the backdrop of economic recovery in FY 2017/18, supported by stable developments in the global economy despite international trade challenges.

During the Financial Year 2018/19, annual headline inflation was stable and low at an average of 3.1 percent, largely as a result of low food crop inflation. This supported economic activity by ensuring sustained trading activity. Additionally, the stable and low inflation outlook within the Financial Year supported the Central Bank's decision to set and maintain an accommodative monetary policy.

As a result of this accommodative monetary policy, coupled with a stable financial sector, the stock of outstanding private sector credit at the end of June 2019 increased to UShs 15.1 trillion, from UShs 13.4 trillion recorded at the end of June 2018. This represented a growth of 12.6 percent against growth of 10.8 percent registered in the previous Financial Year. Notably, there was a reduction in the ratio of non-performing loans to total gross loans, to 3.8 percent in June 2019 from 4.4 percent in June 2018.

The economy continued to benefit from a stable macroeconomic environment by attracting growth of over 80 percent in Foreign Direct Investments to the tune of US$ 1.76 billion and remittances from Ugandans abroad of US$ 1.24 billion in the FY 2018/19. Exports and imports also grew by 12 percent and 21 percent respectively during the Financial Year. Additionally, the stock of international reserves stood at US$ 3.34 billion as at the end of June 2019 capable of providing sufficient cover in the event of shocks to the economy of 4.4 months of imports of goods and services.

On the fiscal side, Government spent an estimated UShs 24.2 trillion and collected an estimated UShs 17.3 trillion in revenues leaving a deficit of UShs 6.9 trillion that was financed through external and domestic sources.

As at 30th June 2019, Uganda's total public debt stock was 35.9 percent of the recently rebased GDP in nominal terms, up from 34.6 percent reported in June 2018. Public debt is sustainable in the medium and long term.

Real GDP growth for the Financial Year 2019/20 is expected between 6.0 and 6.5 percent, supported by the increased private sector activity, significant growth in the industry sector, and continued recovery in the agriculture sector as favourable weather conditions are expected to prevail.

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
FOB	Free on Board
FY	Financial Year
GDP	Gross Domestic Product
HIPC	Heavily Indebted Poor Countries
ICBT	Informal Cross Border Trade
IMF	International Monetary Fund
MDA	Ministries, Departments and Agencies
NPLs	Non-performing loans
OSBPs	One Stop Border Posts
PAYE	Pay as You Earn
PSC	Private Sector Credit
PTA	Preferential Trade Area
SCT	Single Customs Territory
UBOS	Uganda Bureau of Statistics
URA	Uganda Revenue Authority
UShs	Ugandan Shilling
US$	United States Dollars
VAT	Value Added Tax

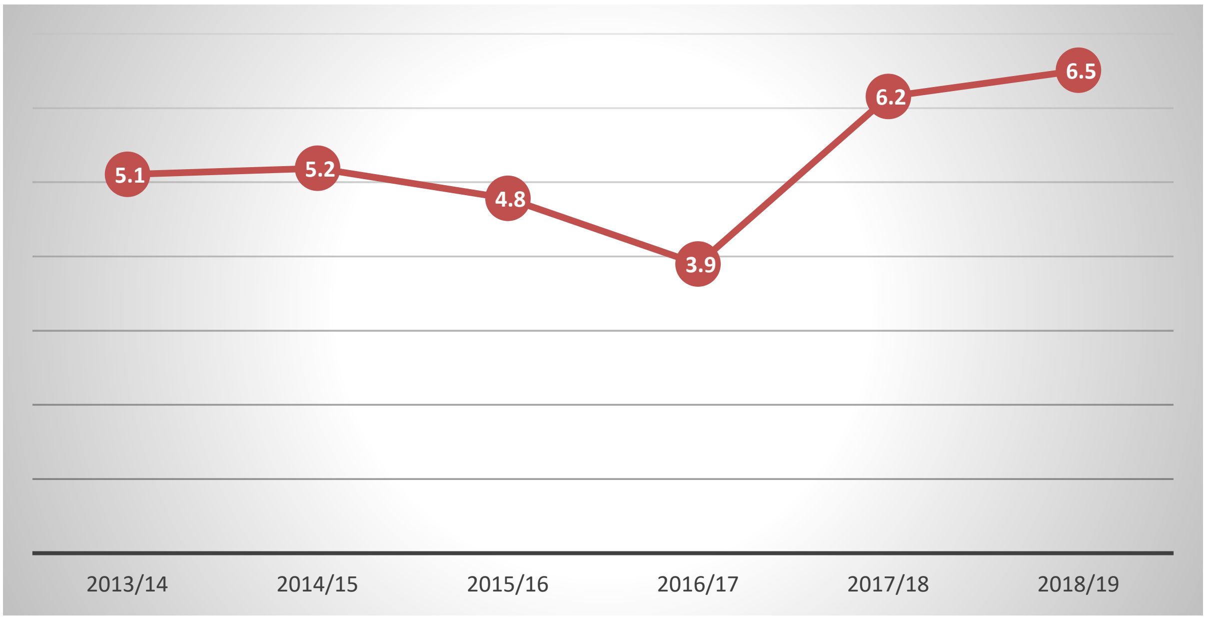
MACRO-ECONOMIC DEVELOPMENTS

Macro-Economic Developments

Economic Growth

In October 2019, the Uganda Bureau of Statistics (UBOS) released revised Gross Domestic Product (GDP) series as a result of a comprehensive rebasing exercise from base year 2009/10 to 2016/17. The revised GDP estimates show that after rebasing, the size of the economy in Financial Year 2018/19 expanded to UShs 128.5 trillion from UShs 120 trillion in Financial Year 2017/18. In real terms, the economy grew by 6.5 percent in Financial Year 2018/19 compared to 6.2 percent registered in the previous Financial Year as shown in figure 1.

Figure 1: Uganda Real GDP Growth Rates: 2013/14-2018/19



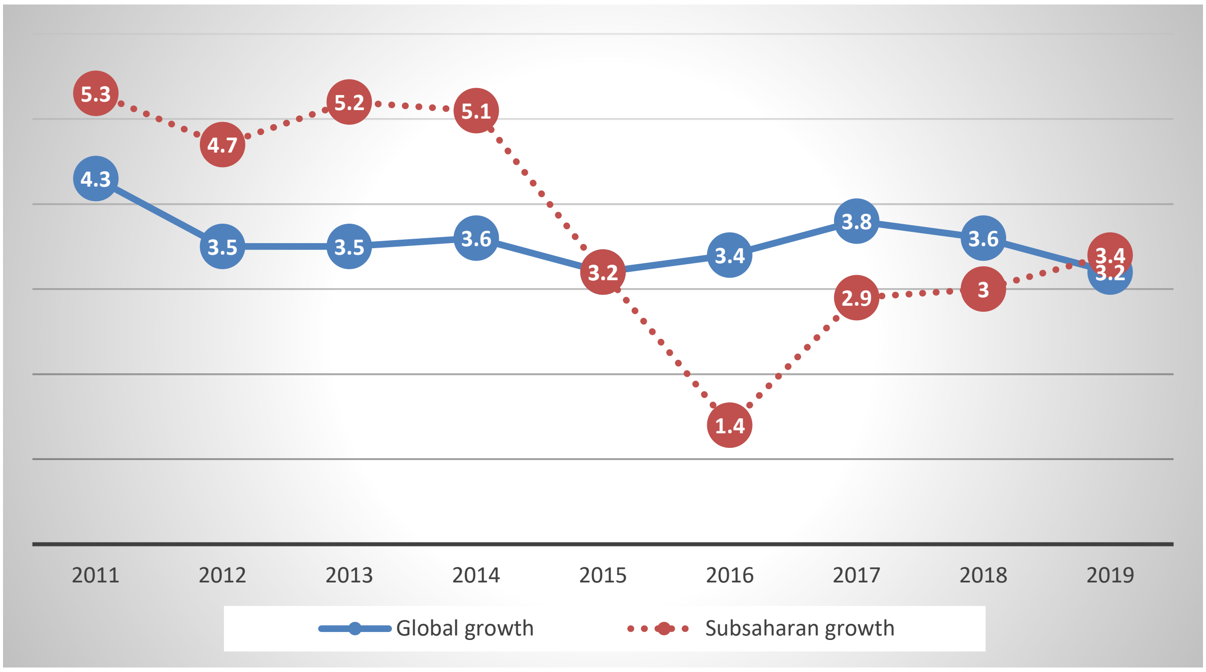
Source: Uganda Bureau of Statistics

Real GDP growth in Financial Year 2018/19 surpassed the projected target of 6 percent forecast at the start of the Financial Year. This was on account of increased private and public sector investments, prevalence of good weather conditions that supported agriculture and a relatively stable global economy which supported trade. Nonetheless, geo-political trade tensions and challenges led to slower global growth (trade war between China and USA and the uncertainty in the Brexit deal).

Global growth is now forecast at 3.2 percent for 2019, from 3.6 percent in 2018. However, it is expected to pick up to 3.5 percent in 2020, assuming stabilization in currently stressed emerging markets and developing economies as well as actionable progress towards resolving trade policy differences.

Despite the recent challenges in the global environment, Sub-Saharan Africa is expected to grow by 3.4 percent and 3.6 percent in 2019 and 2020 respectively. This is higher than estimated growth of 3.0 percent in 2018. Subsequently, sustained recovery in the Sub-Saharan region has positively impacted trade and investments in the Ugandan economy. Figure 2 shows trends in global and Sub-Saharan growth.

Figure 2: Global and Sub-Saharan Growth Rates: 2011-2019



Source: International Monetary Fund

On the domestic front, economic growth is founded on increased public and private investments, growth in the services sector, strong performance in the industry sector and manufacturing sub sector. In addition, a significant recovery in the agriculture sector that was supported by favourable weather conditions and continued Government interventions through provision of quality seedlings, extension services, and pesticides also supported growth.

Table 1 shows the revised real GDP estimates by economic activity.

Table 1: Real Gross Domestic Product by Economic Activity (% change)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
GDP at market prices	**5.1**	**5.2**	**4.8**	**3.9**	**6.2**	**6.5**
Agriculture, forestry and fishing	**2.7**	**2.3**	**2.8**	**2.8**	**3.8**	**5.0**
Cash crops	-0.3	4.0	7.9	9.1	0.8	7.7
Food crops	2.9	2.2	1.3	2.3	8.4	2.6
Livestock	2.7	2.9	2.8	7.0	7.1	7.3
Agriculture Support Services	0.5	17.6	-4.6	4.1	3.5	3.1
Forestry	3.5	1.7	4.7	3.5	3.4	2.4
Fishing	2.1	1.5	4.8	-7.8	-25.2	24.3
Industry	**6.3**	**7.8**	**4.6**	**6.7**	**8.0**	**10.8**
Mining & quarrying	5.7	18.1	12.4	32.5	33.1	37.4
Manufacturing	2.2	11.6	0.6	3.6	4.6	7.1
Electricity	1.9	5.7	4.0	8.9	5.4	7.0
Water	6.3	6.1	6.3	5.6	4.0	5.0
Construction	12.5	1.9	7.3	11.3	14.1	16.5
Services	**5.4**	**4.8**	**6.2**	**1.8**	**7.0**	**4.9**
Trade and Repairs	-1.8	3.2	3.5	-1.3	7.5	4.1
Transportation and Storage	6.1	6.6	8.2	2.3	10.1	3.0
Accommodation and Food Service Activities	8.8	-0.5	5.7	19.7	8.1	3.0
Information and Communication	14.5	-1.8	14.1	19.0	-4.7	-0.6
Financial and Insurance Activities	17.8	10.9	9.6	-0.1	3.6	8.8
Real Estate Activities	6.3	6.5	6.1	1.6	11.6	10.2
Professional, Scientific and Technical Activities	0.8	-5.6	-0.3	1.9	8.0	2.9
Administrative and Support Service Activities	8.0	25.5	-13.9	-2.2	4.9	17.5
Public Administration	0.6	24.2	8.4	18.6	7.3	1.0
Education	4.4	5.2	7.8	-10.3	3.2	4.5
Human Health and Social Work Activities	5.2	5.4	3.4	0.0	15.0	2.1
Arts, Entertainment and Recreation	6.5	5.3	-5.0	29.7	65.8	21.1
Other Service Activities	10.7	7.9	9.2	0.3	-2.1	-0.1
Activities of Households as Employers	2.4	2.8	3.4	2.8	2.8	2.8
Adjustments	**7.5**	**9.9**	**2.2**	**10.9**	**2.1**	**5.0**
Taxes on products	7.5	9.9	2.2	10.9	2.1	5.0

Source: Uganda Bureau of Statistics

Agriculture, forestry and fishing sector grew by 5.0 percent from 3.8 percent registered in Financial Year 2017/18, contributing 21.9 percent to total GDP. This is on account of strong performance in cash crop categories as well as livestock and fishing. Increased Government interventions (provision of extension services, pesticides etc.) and favourable weather conditions supported the sector and resulted in increased production of both food crops and cash crops. Also, strong enforcement against illegal fishing supported growth in the fishing activities. Cash crops and food crops activities continued to grow at 7.7 percent and 2.6 percent, compared to 0.8 percent and 8.4 percent in the 2017/18 Fiscal Year respectively.

Industry sector grew by 10.8 percent, higher than 8.0 percent in Financial Year 2017/18, contributing 27.1 percent to total GDP. The Manufacturing sub sector grew faster at 7.1 percent compared to 4.6 percent in Financial Year 2017/18 on account of newly commissioned factories, that have increased industrial activity in food processing (fruits, diary and meat), production of cement, and iron & steel. Construction activities as well as mining and quarrying also had significant growth. Construction grew by 16.5 percent from 14.1 percent registered the previous Financial Year, due to growth in both private and public construction activities. Mining and quarrying activities also grew to 37.4 percent from 33.1 percent the FY 2017/18. This was on account of increase in mining of the lime, the aggregate (sand, stones, gravy), and oil related activities. Significant growth was also registered in the use of water and electricity.

Services sector had slower growth of 4.9 percent from 7.0 percent in Financial Year 2017/18. Despite this, the services sector contributed 43.3 percent to total GDP. This slowdown was on account of sluggish growth in trade and repairs activities, transportation and storage, health services, accommodation and food services. However, finance & insurance and education activities registered higher growth of 8.8 and 3.2 percent from 3.6 and 3.2 percent respectively the previous Financial Year.

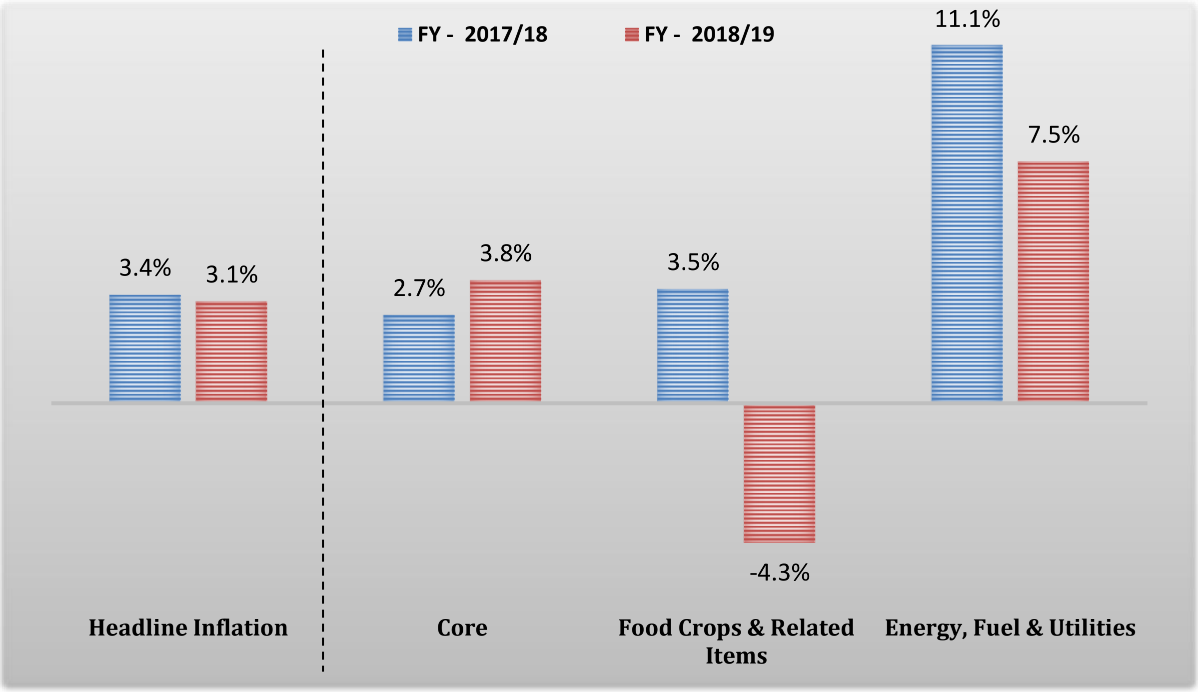
Inflation

Annual Headline Inflation remained low during Financial Year 2018/19, declining to 3.1 percent from 3.4 percent recorded in the previous Financial Year. This was due to declines in food crops and EFU inflation.

While the year started off with inflationary pressures brought about by the new communication tax and fuel excise tax amendments, these pressures were offset by lower prices for food crops and lower EFU inflation throughout the review period.

Figure 3 shows movements in annual inflation rates from July 2018 to June 2019.

Figure 3: Average Annual Inflation Rates of 2018/19 compared to 2017/18



Source: Uganda Bureau of Statistics

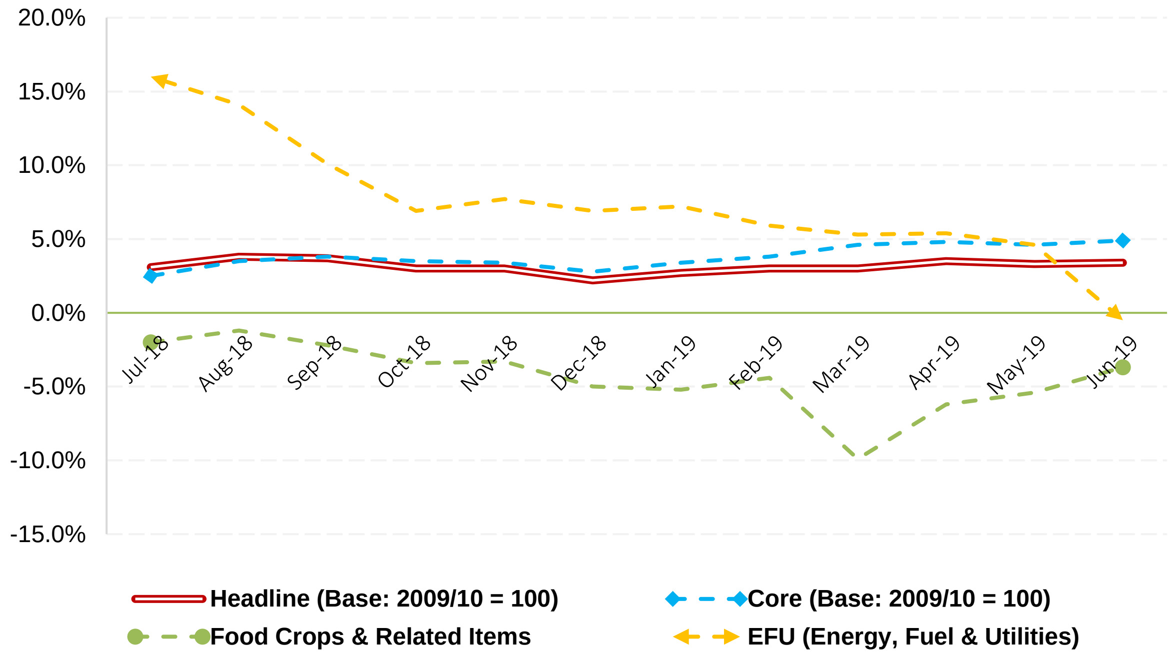
Food crops registered a deflation of 4.3 percent in FY 2018/19 compared to a 3.5 percent increase in prices that was registered in the previous Financial Year. The deflation was largely on account of sufficient food supplies to the market as weather conditions remained favourable throughout the Financial Year. The sufficient food supplies kept food crop prices lower than those registered in the previous Financial Year.

Similar to food crops inflation, **annual EFU inflation** also declined to a 7.5 percent average in FY 2018/19 from 11.1 percent registered in the previous Financial Year. The decline in EFU inflation was attributed to a decline in water charges combined with a decline in charcoal and gas prices which together constitute more than 50 percent of the EFU basket.

Liquid fuels within the EFU basket, particularly petrol, diesel and kerosene on average registered a larger increase in price when compared to the previous Financial Year, especially in the first quarter. The fuel price increases at the start of the Financial Year were due to increased fuel excise tax and increased international oil price. The rest of the year however presented a declining trend in liquid fuel inflation from a 13.9 percent peak in November 2018 to 3.3 percent in June 2019, reflecting the decline in international oil prices in the second half of the Financial Year.

Core inflation on the contrary increased to 3.8 percent from 2.7 percent the previous Financial Year reflecting a pickup in the economy's aggregate demand. It however remained well within the Central Bank's medium-term target of 5+/-3 percentage points and was not significant enough to offset the decline in food crops and EFU inflation.

Figure 4: Annual Inflation Trends in 2018/19

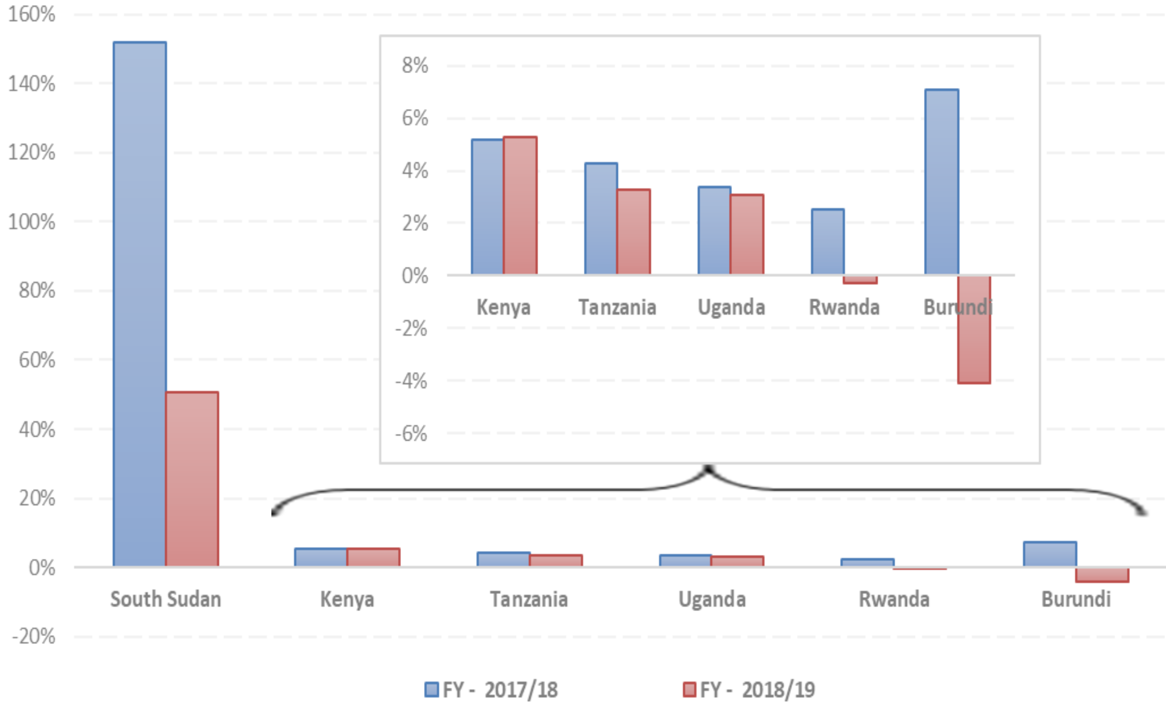


Source: Uganda Bureau of Statistics

Inflation across the East African Community

All the **Partner States registered declines** in annual headline inflation except for Kenya whose inflation remained relatively stable. The decline in inflation was attributed to a reduction in prices of food across the region. South Sudan registered the highest decline in annual headline inflation rate the 10 months of the Financial Year. Burundi registered the lowest rate in the region, averaging -4.1 percent over the 12 months of the Financial Year.

Figure 5: Average Annual Headline Inflation among EAC Partner States



Source: Respective National Bureaux of Statistics

Commodity Prices

International and Domestic Oil prices

During the Financial Year 2018/19, the international price of Brent crude oil stood at an annual average of US$ 68.76/barrel. The Financial Year started off with Brent prices rising steadily at US$ 74.25/barrel in July 2018 and increasing further to US$ 81.03/barrel in October 2018. As per the first half of the Financial Year, the average Brent price stood at US$ 71.4/barrel over the six months.

The rise in oil prices was attributed to the decision by the OPEC to cut back on oil output so as to get the oil price to rise into the range of (US$ 50 to US$ 60)/barrel. However, due to improved global economic activity during the same period, the demand for oil increased and caused the price to rise even further beyond the OPEC expected range. This surge in international oil prices resulted in an increase in domestic fuel pump prices in quarter one of the Financial Year as well as those across the region. This is demonstrated in table 2.

Table 2: EAC fuel pump prices Q4 2017/18 VS Q1 2018/19

Country	Q4, 2017/18		Q1, 2018/19	
	Petrol	Diesel	Petrol	Diesel
Uganda	4,100	3,800	4,300	4,100
Kenya	4,116	3,920	4,133	3,988
Tanzania	3,879	3,678	4,141	3,864
Rwanda	4,761	4,716	4,914	4,338

Source: Ministry of Energy & Mineral Development, Q2-FY2018/19 Report

By January 2019, International Brent prices had declined to US$ 59.41/barrel and while the rest of the year experienced momentary escalations and drops in price, there was a general recovery to an average of US$ 66.04/barrel in the second half of the Financial Year. Consequently, prices for domestic liquid fuels particularly petrol and diesel declined during the second half of the Financial Year compared to the first half of the Financial Year.

Figure 6: Graph on International Oil Prices in FY 2018/19

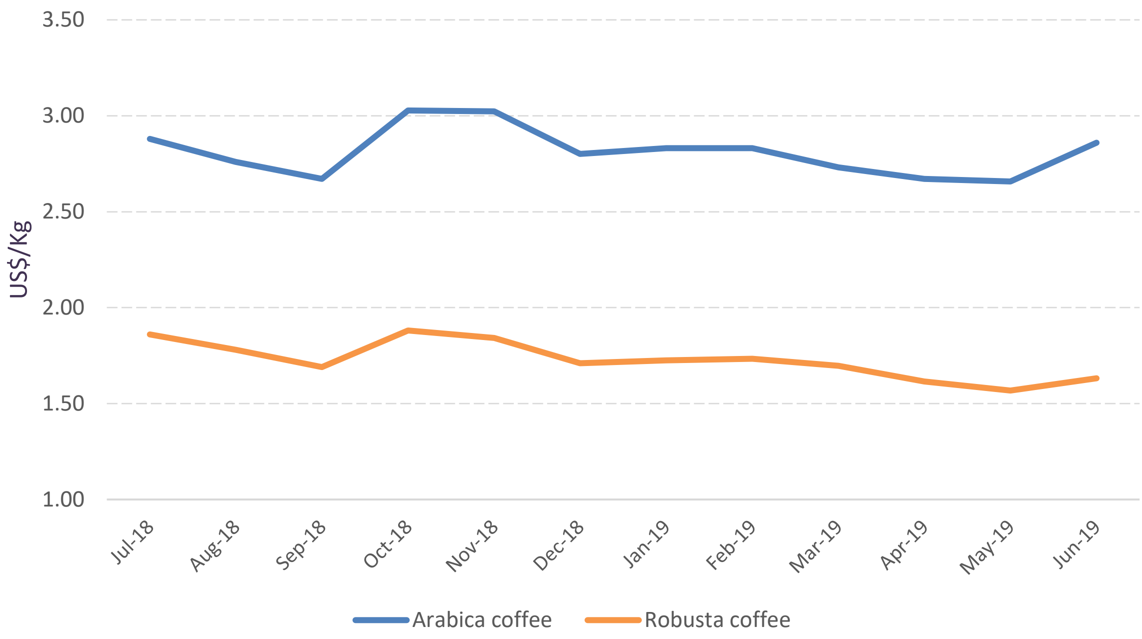
Source: US Energy Information Administration

Coffee Prices

In the FY 2018/19, the International Coffee Organization's (ICO) composite price indicator trended downwards largely due to increased harvests for all coffee groups, driven by significant recovery in production that occurred in Brazil.

The average price of Arabica coffee fell to an average of 2.81 US$/Kg in FY 2018/19, from an average of 3.09 US$/Kg in FY 2017/18. Similarly, the price of Robusta coffee fell to an average of1.73 US$/Kg from an average of 2.05 US$/Kg in FY 2017/18. The decline in global prices consequently affected Uganda's coffee earnings for the period under review as there was a 15 percent decline in the value of coffee receipts.

Figure 7: Average Monthly Movements in Coffee Prices for the FY 2018/19



Source: US Energy Information Administration

Financial Sector Trends

The Central Bank continued with monetary policy easing in line with the stable inflation outlook, maintaining the **Central Bank Rate** at 10 percent for most of the FY 2018/19.

Lending Rates

Commercial bank lending rates for the shilling denomination were on an upward trend during the first half of the Financial Year, increasing from 17.68 percent in June 2018 to a peak of 21.40 percent in January 2019. Thereafter, they began to gradually decline closing the year at 19.02 percent. The average lending rate for FY 2018/19 stood at 19.95 percent slightly down from 20.34 percent registered in the previous year. Figure 8 shows the trend in CBR and commercial bank lending rates.

Figure 8: Central Bank Rate vs Commercial Bank Lending Rates Movements

Source: Bank of Uganda

Government Securities

Government continued to hold auctions for both Treasury Bills and Treasury Bonds, during the FY 2018/19. UShs 7,400.5 billion (at cost) was raised from these auctions. Of the amount raised, UShs 5,237 billion was used for the refinancing of maturing debt whilst UShs 2,163.4 billion went towards financing other activities in the Government budget, as shown in table 3.

Table 3: Breakdown of Government Securities in Billion UShs

	Total issuances	Net domestic financing	Refinancing
Q1	1,533.1	303.5	1,229.5
Q2	1,883.8	655.9	1,227.9
Q3	2,425.2	1,068.1	1,357.1
Q4	1,558.4	135.9	1,422.5
FY 2018/19	7,400.5	2,163.4	5,237.0

Source: Ministry of Finance, Planning and Economic Development

Yields on Treasury Bills

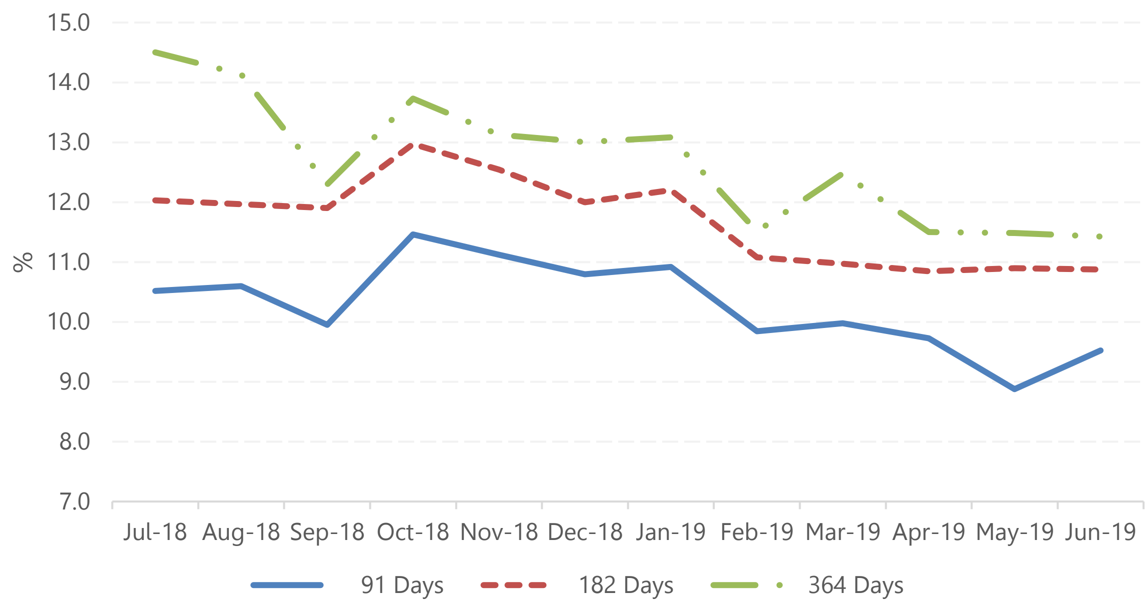
Yields for all the Treasury bills (T-bills) increased in FY 2018/19 compared to FY 2017/18. The first months of FY 2018/19 recorded the highest increase in yields following an increase in Government's borrowing requirements at the end of FY 2017/18. In addition, the rise in yields was driven by an increase in the Central Bank Rate, which was increased to 10 percent in October 2018 having been maintained at 9 percent since February 2018. Despite the annual increment in yields, within the Financial Year 2018/19 yields gradually declined. The average annualised yields for FY 2018/19 were 10.3 percent, 11.7 percent and 12.7 percent for the 91, 182- and 364-day tenors respectively. This compares with 9.1 percent, 9.5 percent and 10.1 percent in FY 2017/18. Table 4 shows the average Treasury bill yields since FY 2014/15, whereas figure 9 shows the movement of T-Bill yields in FY 2018/19.

Table 4: Average Treasury Bill Yields (%)

Tenor	2014/15	2015/16	2016/17	2017/18	2018/19
91 Days	12.0	17.8	13.2	9.1	10.3
182 Days	13.7	19.6	14.1	9.5	11.7
364 Days	14.5	20.1	15.1	10.1	12.7

Source: Bank of Uganda

Figure 9: Movement of Treasury Bill Yields

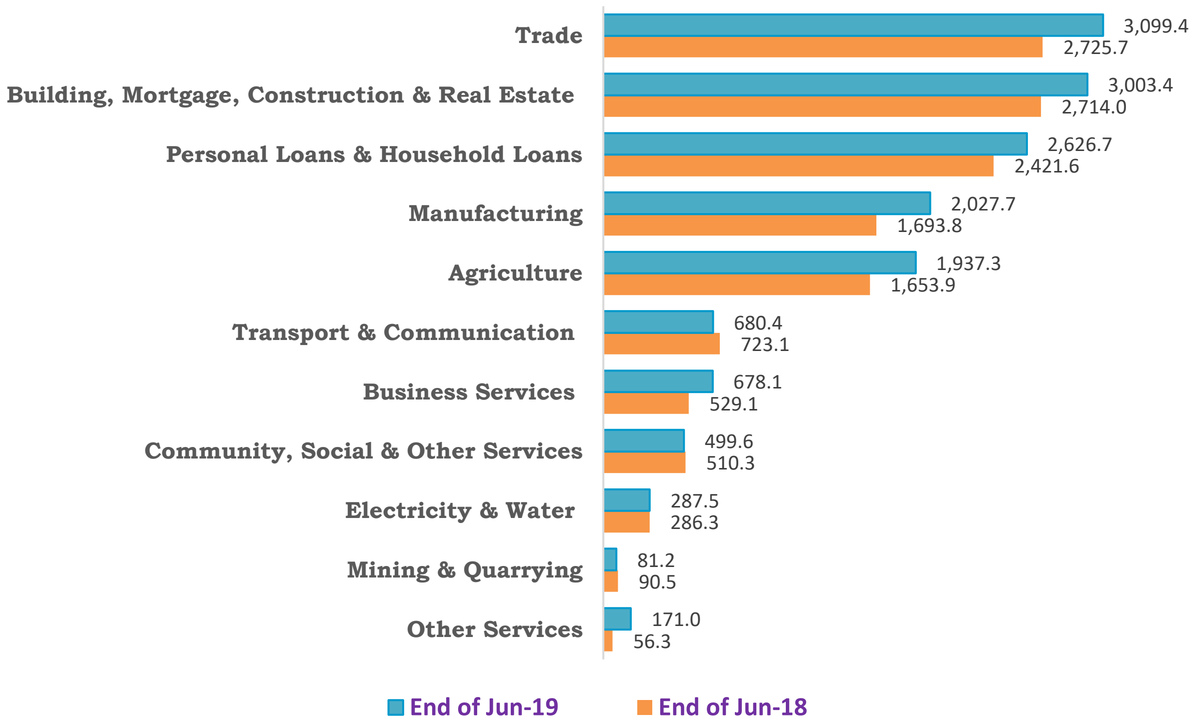


Source: Bank of Uganda

Lending to the Private Sector

The **stock of private sector credit increased** by 12.6 percent to UShs 15.1 trillion as at end June 2019 from 13.4 trillion recorded as at end June 2018. This compares favourably to the growth of 10.2 percent recorded for the corresponding period in the previous Financial Year. Figure 10 shows the stock of private sector credit.

Figure 10: Stock of Private Sector Credit (UShs Billion)



Source: Bank of Uganda

The total value of new loans approved in the FY 2018/19 increased by 21.6 percent to UShs 13,161.2 billion in FY 2018/19 from UShs 10,825.4 billion the previous Financial Year. **Trade received the largest share of credit extended** in the year at 22 percent. Other notable recipients of credit were; Building, Construction and Real Estate (15.7 percent), Manufacturing (15.3 percent), Personal and Household Loans (13.6 percent), and Agriculture (13.5 percent). Table 5 shows the nominal amount of credit flow to all sectors.

Table 5: Value of New Loans Approved per Sector (UShs billion)

	FY 2017/18	FY 2018/19	Growth Rate
Trade	2,367.6	2,896.5	22%
Building, Mortgage, Construction & Real Estate	1,991.9	2,065.0	4%
Manufacturing	1,396.2	2,009.7	44%
Personal Loans & Household Loans	1,519.7	1,788.0	18%
Agriculture	1,369.2	1,775.8	30%
Business Services	547.7	739.2	35%
Transport & Communication	823.6	722.1	-12%
Business Services	86.4	462.2	435%
Community, Social & Other Services	293.6	398.3	36%
Electricity & Water	383.6	277.1	-28%
Mining & Quarrying	45.7	27.1	-41%
TOTAL	10,825.4	13,161.2	22%

Source: Bank of Uganda

The continuous growth in credit is partly attributed to the continued increase in economic activity, sustained supportive monetary policy stance and low risk of default reflected by the **decline in non-performing loans to total gross loans**, which reduced to 3.8 percent in June 2019 from 4.4 percent in June 2018.

Table 6: Quarterly Non-Performing Loans (NPLs) Ratios

	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
NPLs	7.2%	5.6%	5.3%	4.4%	4.7%	3.4%	3.8%	3.8%

Source: Bank of Uganda

External Sector

Overall Balance of Payments

The overall Balance of Payments (BoP) strengthened in the FY 2018/19, recording a surplus of US$ 68.7 million from a deficit of US$ 160.7 million in the FY 2017/18. The improvement in the BoP of 2018/19 was on account of increased inflows through the financial account, particularly from Foreign Direct Investments.

Consequently, the stock of **international reserves** stood at US$ 3,338.1 million at the end of June 2019. This was equivalent to 4.4 months of imports of goods and services. This is in line with the targeted reserve cover of 4.5 months of imports of goods and services stipulated in the East African Monetary Union (EAMU) protocol.

Current Account

The current account registered a higher deficit in the FY 2018/19, mainly as a result of a deterioration in the deficits of both the trade and primary income accounts. The deficit on the current account worsened to US$ 3,370.1 million, compared to a deficit of US$ 1,783.3 million recorded in the FY 2017/18.

Notably, **Uganda's merchandise trade deficit widened** in the Financial Year 2018/19, mainly on account of higher growth in the import bill that offset the growth in export earnings. The merchandise trade deficit widened by 35.5 percent to US$ 2,821.7 million in the Financial Year 2018/19 from US$ 2,082.5 million in the Financial Year 2017/18. Countries with which Uganda had high merchandise trade deficits in FY 2018/19 included; China (US$ 1,024 million), India (US$ 794 million) and Saudi Arabia (US$ 439 million).

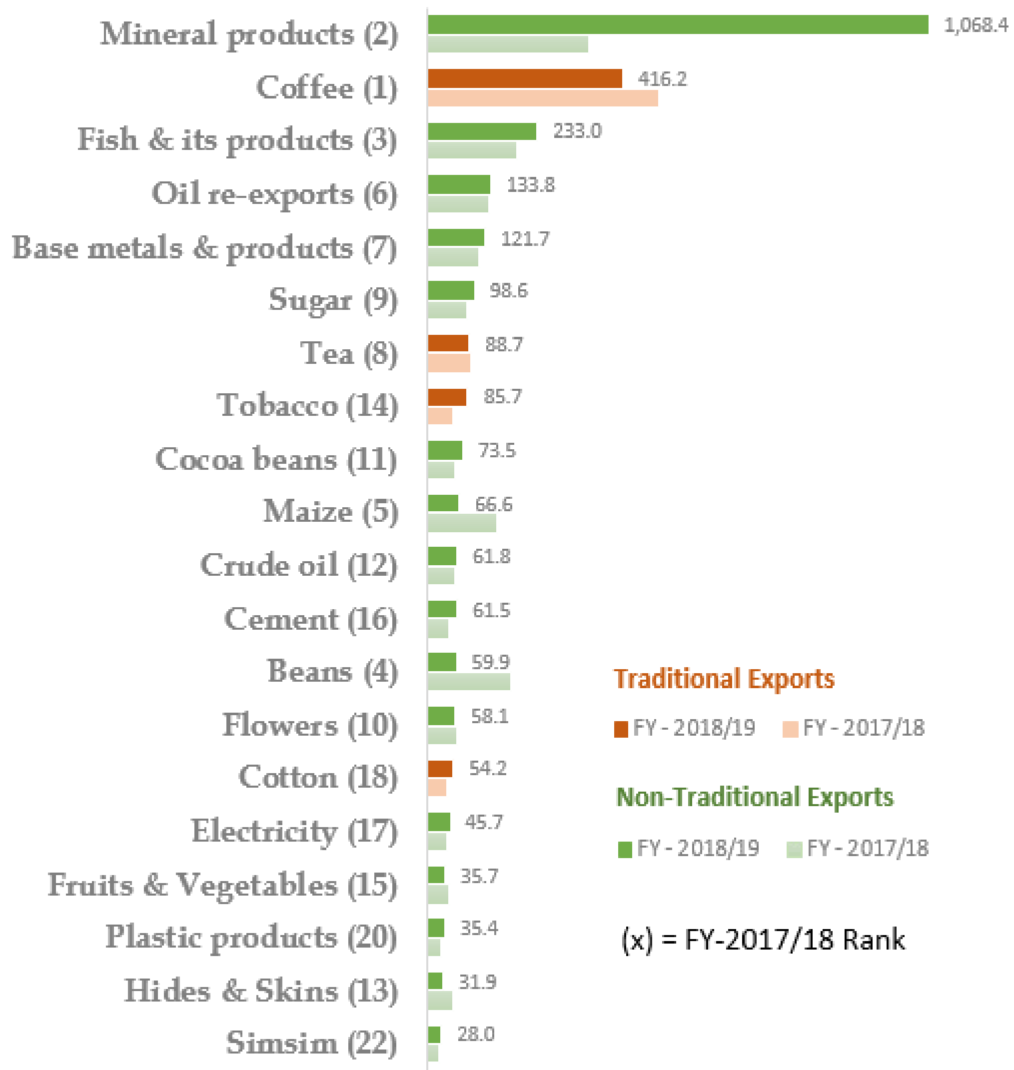
Merchandise Exports

Uganda's export earnings increased during the Financial Year 2018/19, compared to the same period a year ago. Export earnings grew by 12 percent to US$ 3,961.7 million from US$ 3,536.7 million in FY 2017/18, mainly on account of a rise in exports of mineral products and fish & fish products.

Coffee, which was the main export in FY 2017/18 registered a drop of 15 percent to US$ 416.2 million (representing 11 percent share) during the period under review, largely attributed to low global prices, following higher supplies from Brazil and Germany. Coffee volumes fell by 6 percent to 250,442 tonnes whereas the average unit price declined by 10 percent to 1,662 US$/tonne (1.66 US$/Kg).

Beans exports registered the highest drop in earnings of 67 percent to US$ 59.9 million in 2018/19 largely due to reduced intake by Kenya which had sufficient stock (Kenya was the main destination of the commodity in the previous period).

Figure 11: Top 20 Commodity Exports of Uganda in FY 2018/19 (US$ Million)[1]



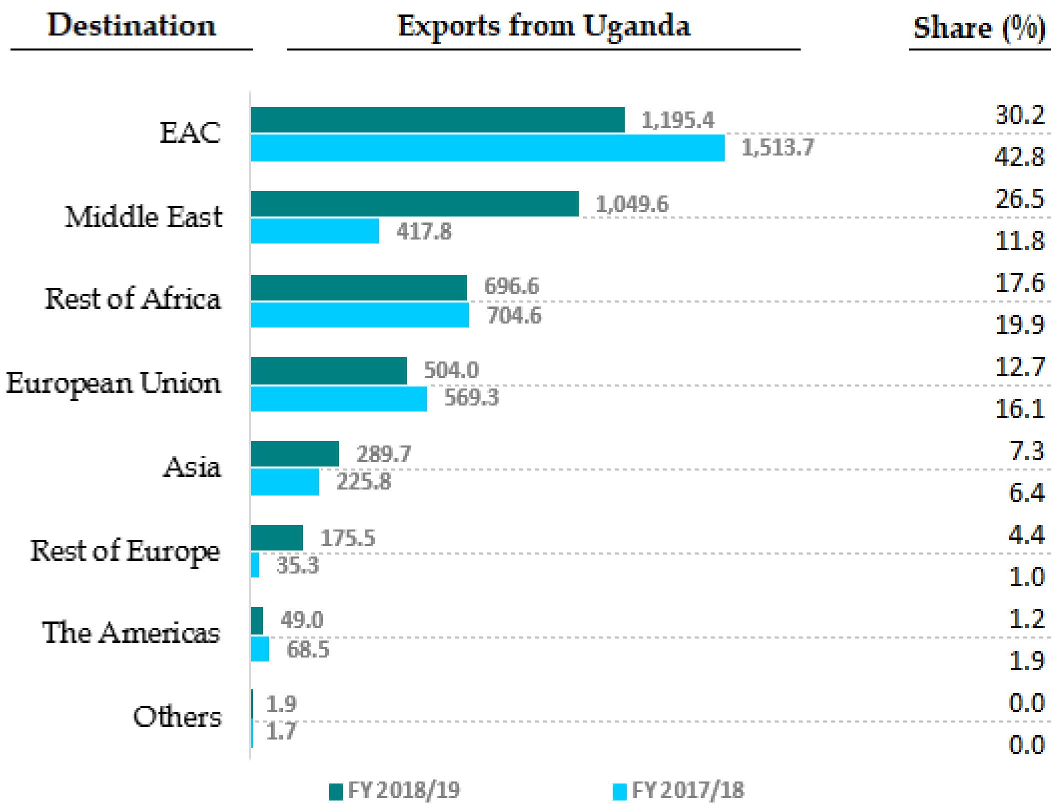
Source: Bank of Uganda

Destination of Exports

The **East African Community (EAC) remained the top destination** of Uganda's exports in the FY 2018/19, with earnings of US$ 1,195.4 million, despite the decline of 21 percent from the previous Financial Year. The Middle East trading bloc had the highest increase in the value of exports in 2018/19 of US$ 632 million, leading to an increase in its market share to 27 percent of Uganda's total exports. The figure 12 shows a breakdown of Uganda's exports by destination.

[1] X – denotes the rank of the commodity in the previous financial year
Traditional Exports are listed according to the Uganda National Trade Policy

Figure 12: Destination of Uganda's Exports



Source: Bank of Uganda

At country specific level, **United Arab Emirates had the largest share of Uganda's exports** amounting to US$ 1,010.3 million (representing 96 percent share of Uganda-Middle East exports), followed by the Democratic Republic of Congo at US$ 533.7 million and Kenya at US$ 528.8 million.

Merchandise Imports

Merchandise imports registered a 21 percent value increase in the Financial Year 2018/19 to US$ 6,783.4 million from US$ 5619.2 million in the previous Financial Year, as shown in table 7. The increase in value of imports during 2018/19 was largely driven by a 29 percent increase in formal private sector imports. The formal private sector import bill increased on account of higher volumes of non-oil imports and a recovery in oil prices.

Table 7: Performance of Imports in US$ millions

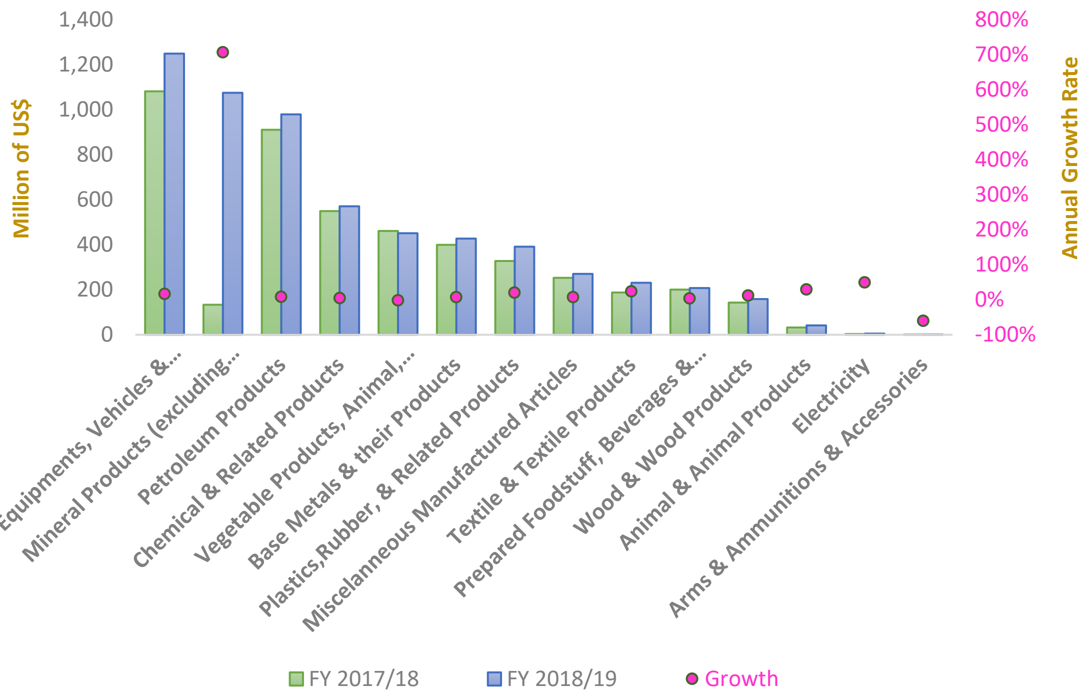
	FY 2017/18	FY 2018/19	Difference (value)	Annual Growth
Total Imports (f.o.b)	**5,619.2**	**6,783.4**	**1,164.3**	**20.7%**
Government Imports	594.8	672.7	77.9	13.1%
Project	587.9	600.7	12.8	2.2%
Non-Project	6.9	72.0	65.1	937.2%
Formal Private Sector Imports	4,683.1	6,057.4	1,374.3	29.3%
Oil imports	910.7	979.1	68.4	7.5%
Non-oil imports	3,772.4	5,078.3	1,306.0	34.6%
Estimated Private Sector Imports	341.3	53.3	-288.0	-84.4%
Total Private Sector Imports	5,024.4	6,110.7	1,086.4	21.6%

Source: Bank of Uganda

Private sector imports constituted 90 percent of the total merchandise imports in the country in FY 2018/19. The major formal private sector imports were: Machinery equipment, Vehicles & Accessories (US$ 1,249 million); Mineral Products (US$ 1,075 million); and Petroleum Products (US$ 979 million).

The increase in private sector imports was highly triggered by the rise in import bills of Mineral Products as shown in the figure 13.

Figure 13: Composition of Formal Private Sector Imports by Category[2]



Source: Bank of Uganda

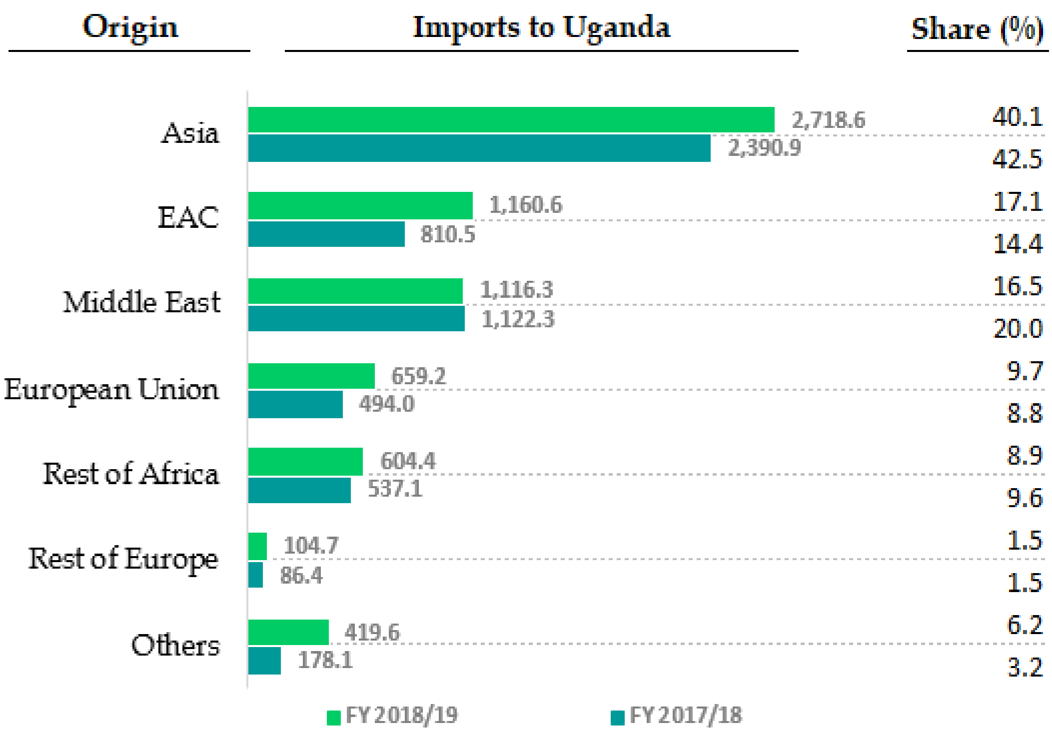
[2] According to the Harmonised Coding System (Bank of Uganda)

Origin of Imports

Asia remained the main source of imports to the country during the Financial Year, amounting to US$ 2,718.6 million, which was a 14 percent increase from that recorded in FY 2017/18. Despite the increase, Asia's share in Uganda's imports dropped to 40 percent in 2018/19 from 43 percent registered in 2017/18, due to an increase in Uganda's imports from other regions.

In the Financial Year 2018/19, EAC came in second by importing merchandise worth US$ 1,160.6 million, followed by the Middle East at US$ 1,116.3 million as shown in figure 14.

Figure 14: Origin of Uganda's Imports



Source: Bank of Uganda

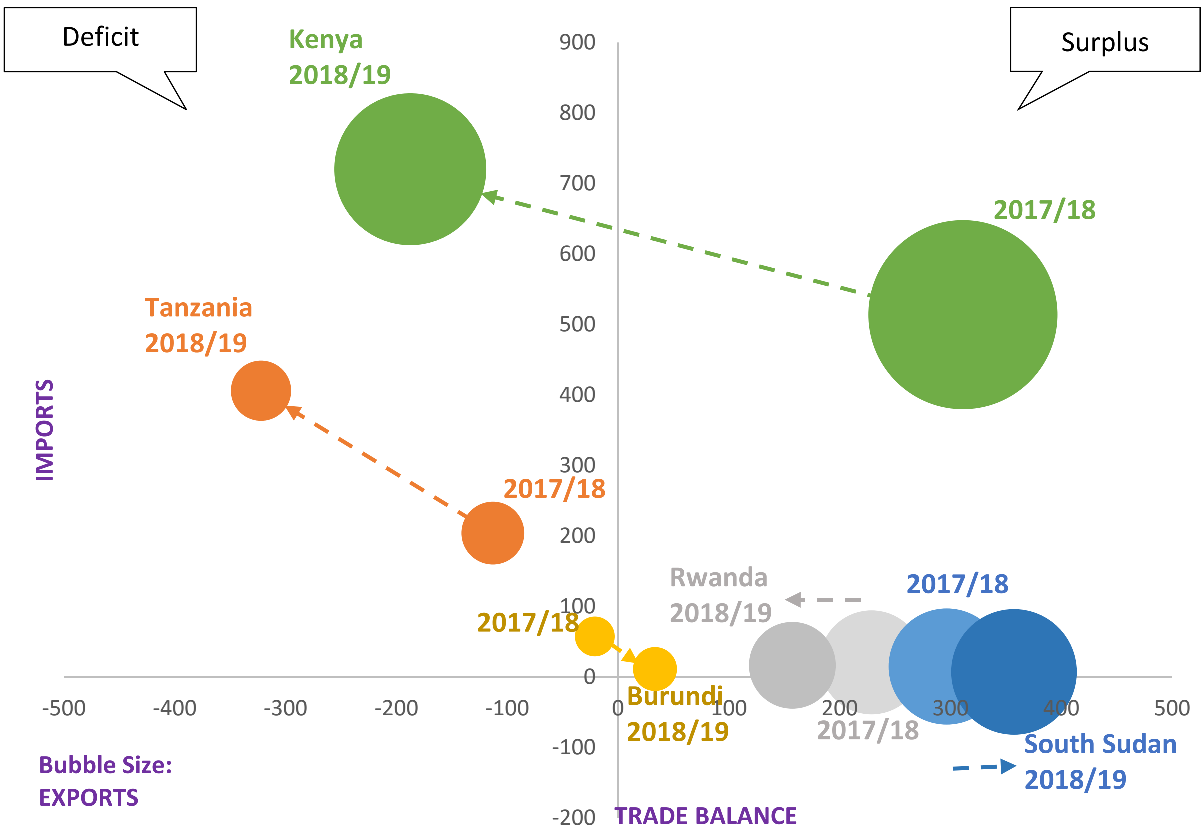
Of the imports from Asia, 80 percent were sourced from China (US$ 1,056 million); India (US$ 846 million) and Japan (US$ 278 million), in FY 2018/19. Also, Kenya and Tanzania constituted 97 percent of the imports from EAC, while United Arab Emirates and Saudi Arabia accounted for 95 percent of the imports from the Middle East, in same period.

Trade with the EAC

In the Financial Year 2018/19, exports to the EAC decreased by 21 percent to US$ 1,195.4 million and imports from the EAC increased by 43 percent to US$ 1,160.6 million, compared to the FY 2017/18. This resulted into the narrowing of Uganda's merchandise trade surplus with EAC by 95 percent to US$ 39 million in the same period.

Figure 15 shows Uganda's trade with its EAC Partner States. The left side of the figure shows a trade deficit whereas the right side of the figure shows a trade surplus. Movement of the arrow from right to left indicates movement of Uganda's trade with that particular country from a surplus to a deficit and vice-versa.

Figure 15: Uganda's Trade with EAC Partner States (US$ Million)



Source: Bank of Uganda

Within the EAC bloc, Kenya remains Uganda's main trading partner. Uganda exported US$ 528.8 million (representing 44 percent share of Uganda's exports to

EAC) to Kenya and imported US$ 720 million (representing 62 percent share of Uganda's imports from EAC) from Kenya, in the FY 2018/19.

Uganda had trade surpluses with South Sudan of US$ 357.4 million; Rwanda of US$ 157.5 million; and Burundi of US$ 33.4 million, while trade deficits were registered with Tanzania of US$ 322.3 million and Kenya of US$ 191.3 million, in the same period as shown in table 8.

Table 8: Trade Surplus/Deficit with EAC Partner States (US$ Millions)

	FY 2017/18	FY 2018/19
Kenya	311.3	-191.3
Tanzania	-112.9	-322.3
Rwanda	228.8	157.5
Burundi	-20.8	33.4
South Sudan	296.7	357.4

Source: Bank of Uganda

Other Balance of Payments Transactions

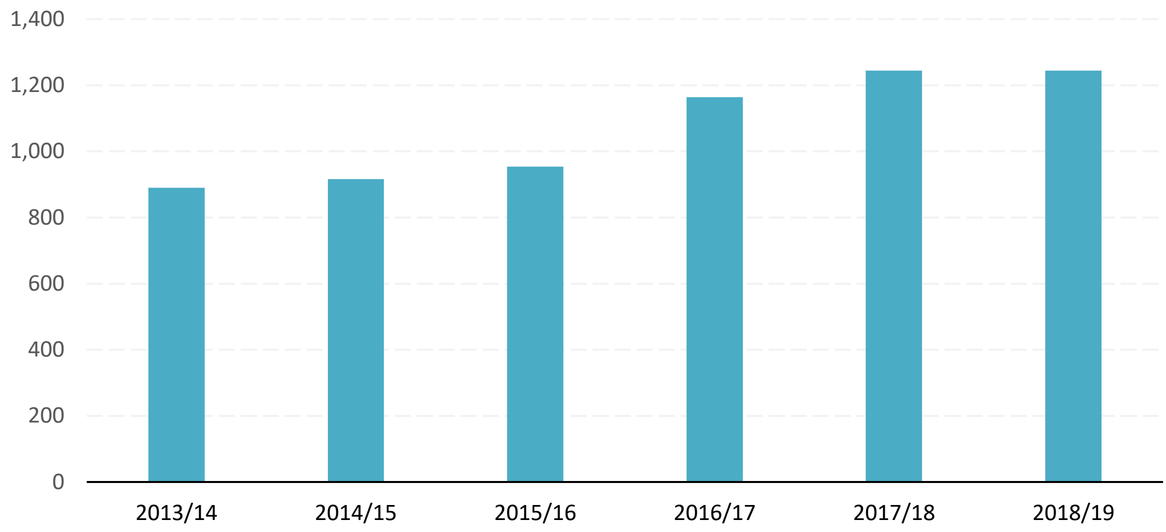
Primary Income account

The outflows on the primary income increased by 50.5 percent in 2018/19 compared to 2017/18, largely due to increased payments to Foreign Direct Investors. The primary income account recorded a net outflow of US$ 1,308 million in 2018/19 compared to an outflow of US$ 869.3 billion in the previous year.

Remittances

Remittances (personal transfers) continued to perform well with inflows of US$ 1,244 million in 2018/19 from US$ 1,244.7 million recorded a year ago.

Figure 16: Trend of Remittances (US$ million)

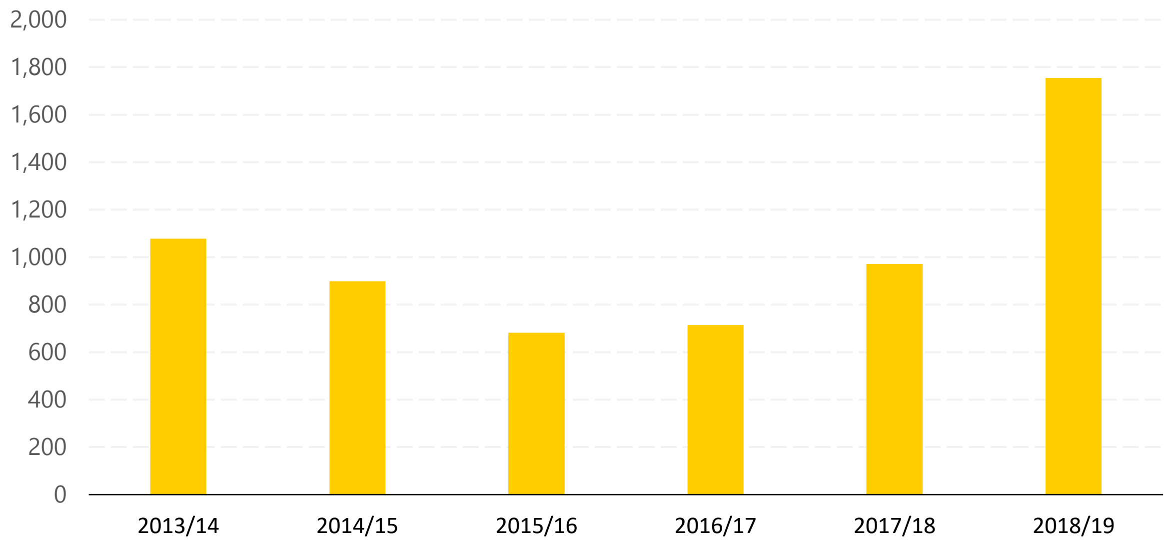


Source: Bank of Uganda

Foreign Direct Investment (FDI)

Foreign Direct Investments inflows rose by 80.6 percent driven mainly by increased investments in equity and investment fund shares by non-residents. FDI inflows increased to US$ 1,754.5 million in 2018/19 from US$ 971.8 million registered the previous year.

Figure 17: Performance of FDI (US$ million)



Source: Bank of Uganda

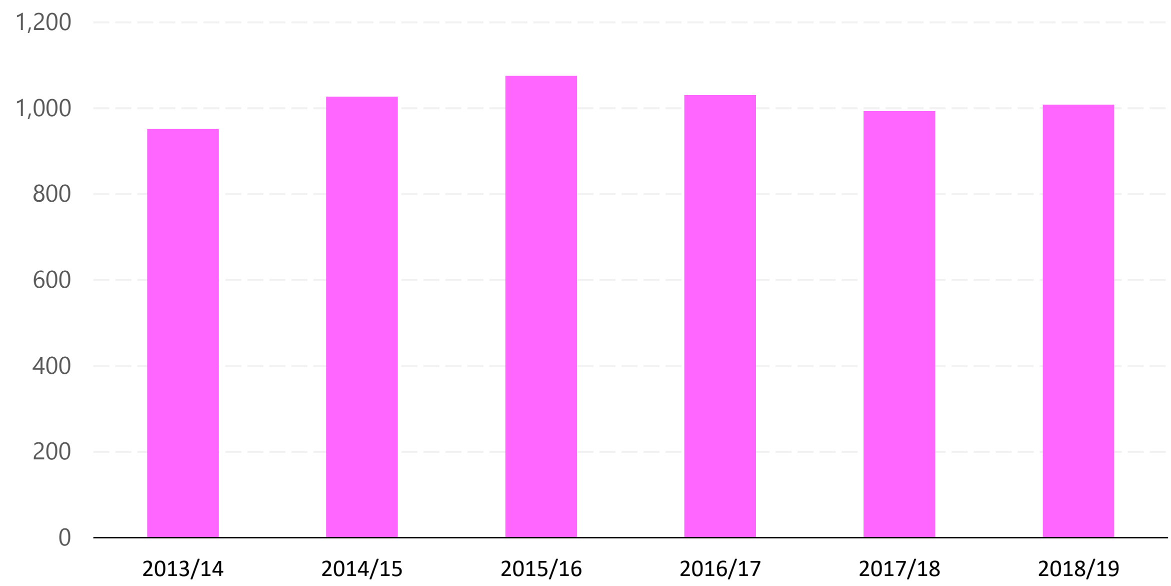
Portfolio Investments

Portfolio investments continued on a declining trend, although the decline was less than what was recorded in 2017/18. They recorded a net decline of US$ 12 million in 2018/19 compared to US$ 85 million registered in 2017/18. Portfolio investments into Uganda declined largely due to reduced participation and exit of offshore investors in Uganda's debt securities market.

Tourism (Travel)

Tourism earnings increased by 1.5 percent to US$ 1,008 million in FY2018/19 from US$ 993 million in FY2017/18. This performance is partly attributed to increased government efforts in harnessing the country's tourism potential through significant marketing, for instance 'Destination Uganda' was marketed to the world at 9 expos and 14 events in international, regional and domestic markets.

Figure 18: Tourism inflows (US$ Million)

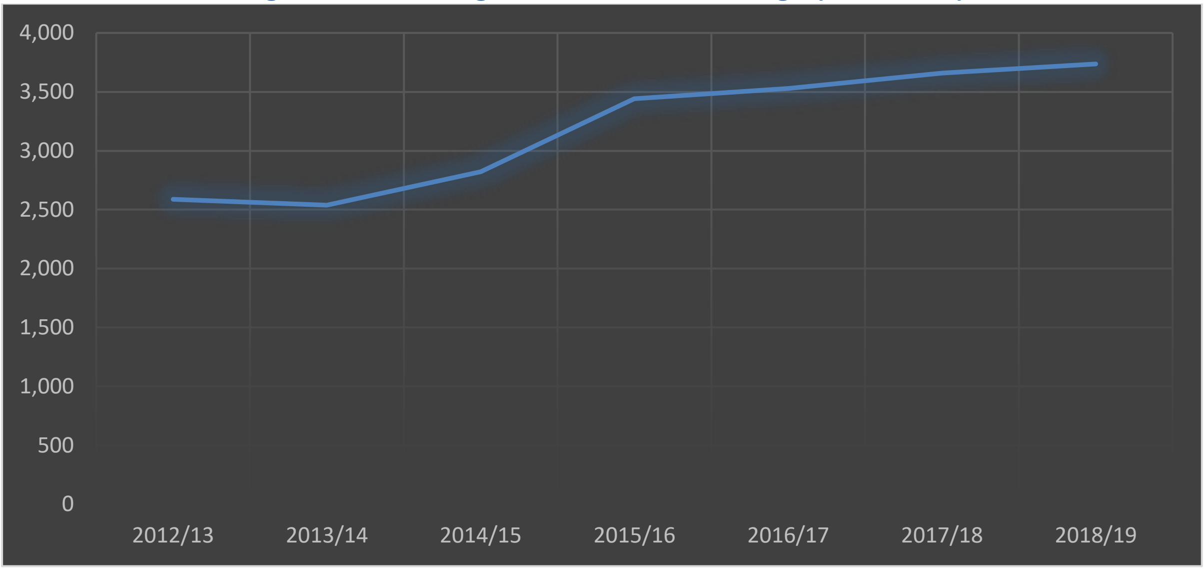


Source: Bank of Uganda

Exchange Rate

In the Financial Year 2018/19, the **Ugandan shilling depreciated** against the United States Dollar by 2.1 percent compared to the FY 2017/18, to an average of UShs 3,736 per US$ from UShs 3,659 per US$. The highest depreciation was in the first half of the Financial Year mainly attributed to higher demand for the dollar from manufacturing, oil and telecommunications sectors, coupled with global strengthening of the dollar.

Figure 19: Exchange Rate – Period Average (UShs/US$)

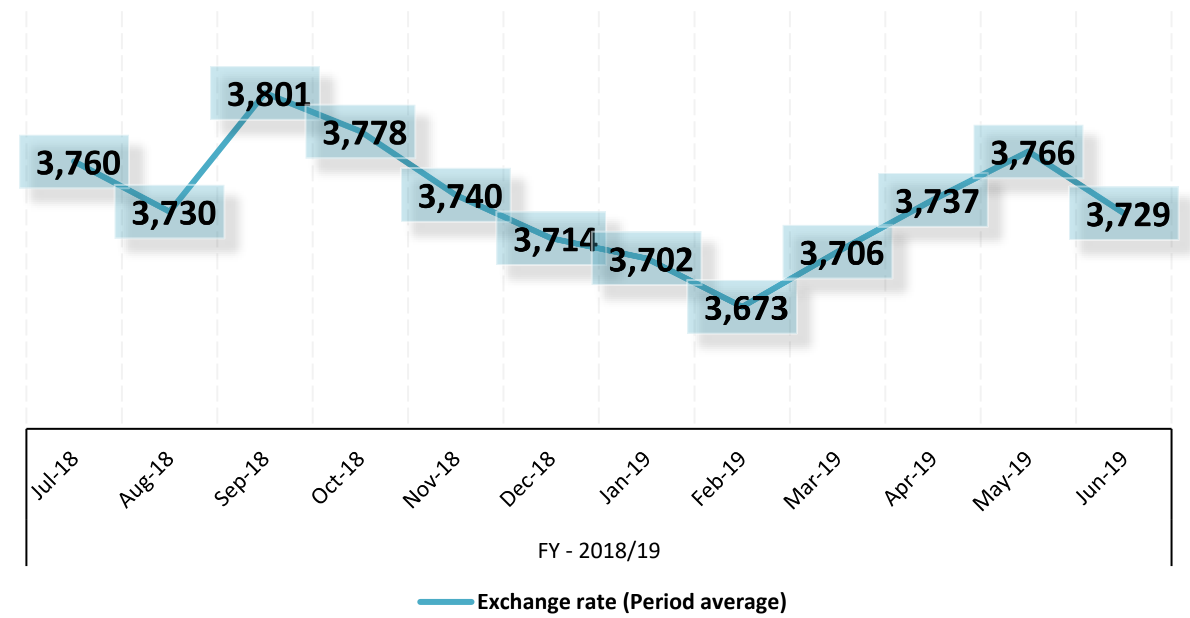


Source: Bank of Uganda

However, within the year the Ugandan shilling remained relatively stable opening with an average of UShs 3,760 per US$ in July 2018 and closing with an average of UShs 3,729 per US$ in June 2019, representing an appreciation of 0.8 percent.

Depreciation pressures resulting from strong dollar demand in the oil sector as global oil prices increased in the first quarter of the Financial Year were offset by the Ugandan shilling appreciating due to increased dollar supply from NGOs, remittances and offshore players in the Government securities market.

Figure 20: Official Exchange Rate Movement of UShs/US$



Source: Bank of Uganda

On the other hand, the Pound Sterling weakened globally amidst challenges surrounding Brexit. As a result, the Uganda shilling registered an appreciation of 1.9 percent against the Pound compared to the previous Financial Year, to an average of UShs 4,835 from UShs 4,929 in FY 2017/18.

FISCAL PERFORMANCE

Fiscal Performance

Overview

The Financial Year 2018/19 was the third Financial Year of Government's fiscal policy being underpinned by the Charter for Fiscal Responsibility (CFR). The fiscal objectives over the medium term as stipulated in the charter include a fiscal deficit including grants of no greater than 3 percent of GDP by the FY 2020/21, and to maintain a gross public debt in net present value terms below 50 percent of GDP.

In order to meet the medium-term fiscal objectives, Government's fiscal strategy in the FY 2018/19 was to continue investment in public infrastructure to accelerate inclusive growth while keeping debt at sustainable levels through increasing domestic revenue mobilisation.

The budget for the FY 2018/19 estimated total revenues and grants of UShs 18,046.2 billion, and expenditure of UShs 25,473.7 billion. This translated into a planned overall fiscal deficit of UShs 7,427.6 billion, equivalent to 5.8 percent of GDP (using rebased GDP).

However, the **overall fiscal deficit** turned out to be **UShs 6,872.8 billion**, equivalent to **5.3 percent of GDP**. This underperformance was due to the lower than budgeted expenditure by 5 percent, which more than offset the shortfall of 4 percent in revenue and grants. Table 9 shows a summary of fiscal operations during the Financial Year 2018/19.

Table 9: Fiscal Operations

Billion Shs	FY2018/19 Program	FY2018/19 Outturn	FY2018/19 Performance	FY2018/19 Deviation
Total Revenues and Grants	**18,046.16**	**17,332.96**	**96.0%**	**-713.20**
Revenues	**16,358.81**	**16,637.79**	**101.7%**	**278.98**
Tax Revenue	15,938.82	16,163.01	101.4%	224.18
Non-Tax Revenue	419.98	474.79	113.0%	54.80
Grants	**1,687.35**	**695.17**	**41.2%**	**-992.18**
Budget Support (Excl. HIPC)	101.73	88.47	87.0%	-13.25
Project Support	1,585.62	606.69	38.3%	-978.93
Expenditure and Lending	**25,473.73**	**24,205.75**	**95.0%**	**-1267.98**
Current Expenditures	**12,249.63**	**12,311.76**	**100.5%**	**62.12**
Wages and Salaries	4,245.72	4,213.28	99.2%	-32.44
Interest Payments	2,696.18	2,463.46	91.4%	-232.71
Domestic	2,274.47	2,005.74	88.2%	-268.73
External	421.71	457.73	108.5%	36.02
Other Recurrent Expenditures	5,307.74	5,635.01	106.2%	327.27
Development Expenditures	**11,912.74**	**10,047.11**	**84.3%**	**-1865.63**
Domestic Development	5,181.92	5,898.60	113.8%	716.68
External Development	6,730.82	4,148.51	61.6%	-2582.31
Net Lending/Repayments	**1,050.80**	**1,428.06**	**135.9%**	**377.27**
Others (Arrears Repayments)	**260.56**	**418.82**	**160.7%**	**158.26**
Primary Balance	(4,731.40)	(4,409.33)	**93.2%**	322.07
Overall Fiscal Balance	**(7,427.57)**	**(6,872.79)**	**92.5%**	**554.78**
Excluding Grants	(9,114.93)	(7,567.96)	83.0%	1546.97
Financing:	**7,427.57**	**6,872.79**	**92.5%**	**-554.78**
External Financing (Net)	**5,442.14**	**4,124.90**	**75.8%**	**-1317.24**
Disbursements	6,336.19	4,878.41	77.0%	-1457.78
Budget support	187.27	188.29	100.5%	1.01
Concesional loans	3,459.36	3,135.70	90.6%	-323.66
HPPs	1,003.72	1,340.18	133.5%	336.46
Other non-concessional loans	1,685.84	214.25	12.7%	-1471.59
Armotization	(894.05)	(753.51)	84.3%	140.54
Domestic Financing (Net)	**1,985.43**	**2,464.52**	**124.1%**	**479.09**
Bank Financing (Net)	1,091.93	1,256.30	115.1%	164.37
Non-bank Financing (Net)	893.50	1,208.22	135.2%	314.72
Errors and Omissions	0.00	283.36		

Source: Ministry of Finance, Planning and Economic Development

Revenues and Grants

Government collected **revenues worth UShs 16,637.8 billion** and received **grants amounting to UShs 695.2 billion** bringing the total of revenues and grants to UShs 17,333 billion in the FY 2018/19. This was against a target of UShs 18,046.2 billion, resulting into a shortfall of UShs 713.2 billion. This shortfall was due to under performance in the disbursement of grants during the Financial Year, as revenues recorded a surplus.

Domestic revenues

Revenues amounting to UShs 16,637.8 billion (12.9 percent of GDP) were collected in the FY 2018/19. This was against a target of UShs 16,358.8 billion resulting into a surplus of UShs 279 billion. Of the total collection, **UShs 16,163 billion was tax revenue** while **UShs 474.8 billion was non-tax revenue**. Both tax and non-tax revenue were above their targets for the Financial Year.

Tax revenue

Tax revenue collections registered a growth of 15 percent in the FY 2018/19 compared to the previous year. This performance was 1.4 percent above target for the Financial Year leading to an increase in the tax to GDP ratio, to 12.6 percent in the FY 2018/19 from 11.7 percent registered in the FY 2017/18.

Tax revenue performance in the FY 2018/19 was mainly due to higher than projected collections of direct domestic taxes. **Direct domestic taxes** were above their target for the FY 2018/19 by 6 percent largely driven by good performance in corporate tax (surplus of UShs 331.4 billion) and PAYE (surplus of UShs 148.6 billion). Corporate tax was boosted by improved profitability of firms due to increase in the level of economic activity in the FY 2018/19, as well as recovery of tax arrears from Hima cement, Umeme, Tororo cement, Nile Breweries Limited, among others. On the other hand, PAYE benefitted from additional recruitment in some audit firms, increase in salaries of some public servants and additional staffing in the public sector as well as jobs created by new firms.

Taxes on international trade also contributed to the overall surplus in tax revenues for the FY 2018/19. This was majorly due to increase in the import bill coupled with increase in excise duty on diesel and petrol by UShs 100 per litre.

Indirect domestic taxes were lower than their target in the FY 2018/19 by 1.9 percent mainly because of a short-fall in excise duty. Excise duty collections were lower than projected partly due to a shortfall registered by Over the Top (OTT) tax. OTT had the least tax performance of 17 percent among all tax category breakdowns, as a result of non-compliance through the use of Virtual Private Networks (VPNs). The ban on spirits packaged in plastic sachets that was implemented in April 2019 also affected sales leading to a shortfall in excise duty collections. On the positive side, VAT exceeded its target for the period by UShs 77.3 billion and levy on mobile money exceeded its target by UShs 42.2 billion.

Performance of Tax Policy Measures

Government adopted a number of tax policy measures which were aimed at increasing tax collections in the FY 2018/19. Overall, the policy measures yielded a total of UShs 1,106.71 billion against a target of UShs 783.5 billion, performing at 141 percent as shown by table 10.

Table 10: Impact of tax policy measures by tax head in FY 2018/19 (UShs billion)

Tax head	Annual Target	Annual Outturn	Achievement Rate
Income tax	65.8	70.7	107.5%
Excise duty	669.7	775.9	115.9%
Value Added Tax	85.0	135.0	158.9%
Non-Tax revenue	-107.0	-1.5	1.4%
Customs	70.0	126.6	180.8%
Total	**783.5**	**1,106.7**	**141.3%**

Source: Ministry of Finance, Planning and Economic Development

Non-Tax Revenue

Non-tax revenue also performed above its UShs 420 billion target for the Financial Year by 13 percent, of which URA collected UShs 454.6 billion against the target of UShs 388.2 billion while MDAs collected UShs 20.1 billion against the target of UShs 31.8 billion. Migration fees still contributed the largest share of Non-tax revenue while Uganda Registration Services Bureau (URSB) almost doubled their target for Non-tax revenue in the Financial Year.

This performance is mainly due to revision of some NTR rates to ensure that they are commensurate to the services provided, as well as continued improvement in collection as more MDAs transfer the responsibility of NTR collection to URA which has more capacity to collect this revenue. Table 11 shows details of domestic revenue performance.

Table 11: Details of Domestic Revenue (UShs Billion)

	Collection 2017/18	Budget 2018/19	Collections 2018/19	Performance	Growth
Overall Net Revenues (Including AIA)	**14,843.1**	**17,271.3**	**17,069.7**	**99%**	**15%**
Direct Domestic Taxes	**4,670.7**	**5,175.6**	**5,511.7**	**106%**	**18%**
Indirect Domestic Taxes	**3,188.7**	**3,944.4**	**3,871.5**	**98%**	**21%**
Excise duty:	953.9	1,467.3	1,317.0	90%	38%
Value Added Tax (VAT):	2,234.8	2,477.1	2,554.5	103%	14%
o/w -Manufacturing	1,043.5	1,170.4	1,349.6	115%	29%
-Services	579.0	640.6	584.1	91%	1%
-Other Sub-Sectors	612.3	666.1	620.7	93%	1%
Taxes on International Trade	**6,210.8**	**6,875.1**	**6,884.0**	**100%**	**11%**
Tax Refunds	**(203.6)**	**(264.1)**	**(340.5)**	**129%**	**67%**
Stamp Duty &Embossing Fee	**73.9**	**59.7**	**100.3**	**168%**	**36%**
Non-Tax Revenues	**566.4**	**568.1**	**610.8**	**113%**	**8%**
AIA	**336.3**	**912.5**	**432.0**	**47%**	**28%**

Source: Ministry of Finance, Planning and Economic Development

Grants (excluding HIPC)

Government had programmed to receive grants from development partners amounting to UShs 1,687.4 billion in FY2018/19, of which UShs 101.7 billion was to support general activities of Government while UShs 1,585.6 billion was to fund specific project activities.

However, only 41 percent was received during the course of the year, with UShs 88.5 billion being budget support grant while project support grants amounted to only UShs 606.7 billion.

Government Expenditure

Total expenditure (excluding AIA and refinancing) amounted to UShs 24,205.8 billion in the FY 2018/19, up by 21 percent from that registered in the previous Financial Year. However, the overall expenditure and net lending during the Financial Year was lower than the approved budget by UShs 970 billion. The lower expenditure was largely due to the underperformance of externally financed development expenditure. The performance resulted into a ratio of Government expenditure to GDP of 18.8 percent, up from 16.8 percent recorded in the Financial Year before.

Government **recurrent expenditure** was UShs 12,311.8 billion, higher than the budget of UShs 12,249.6 billion. This was mainly due to expenditure on non-wage and non-interest recurrent items which surpassed their budget by 8 percent. Expenditure on wages and salaries for public servants was largely on target, performing at 99.2 percent.

Interest payments during the FY 2018/19 turned out lower than projected at the start of the Financial Year. This was mainly because interest rates (yields) on treasury instruments during the Financial Year were lower than projected at budget time.

In line with Government's commitment to support the private sector by clearing domestic arrears, arrears amounting to UShs 418.8 billion were cleared. This was above the UShs 260.6 billion that was budgeted at the start of the Financial Year.

Generally, **domestic expenditure** (expenditure excluding AIA, hydro power projects, externally financed projects and interest payments) was UShs 16,165.7 billion against the budget of UShs 14,995.9 billion. This implies that discretionary expenditures for which Government issues cash limits were above budget by 7.8 percent, mainly because of the supplementary budget requests made by various MDAs, which were approved during the Financial Year.

Domestic development expenditure amounted to UShs 10,047.1 billion against a budget of UShs 11,912.7 billion for FY2018/19. The underperformance in this category was wholly due to externally financed development spending which was 38.7 percent lower than envisaged at budget time. On the other hand, domestically financed development spending was higher than budgeted by 13.8 percent as some implementing MDAs sought extra funds during the Financial Year to fund project activities.

Financing

The fiscal deficit was mainly financed by loan disbursements from **external development partners** amounting to UShs 4,878.4 billion, lower than the planned UShs 5,442 billion in the FY 2018/19.

At budget time, Government's domestic financing was estimated at UShs 1,985 billion of which UShs 1,783 billion was to be borrowed from the domestic market through trading of Government securities. However, financing by the close of the FY was UShs 2,464.5 billion of which UShs 2,163 billion was domestic borrowing, UShs 200 billion from the petroleum fund and other liabilities accrued by other General Government Units as reported in the Depository Corporations Survey (BoU).

Debt Sustainability Analysis

As at 30th June 2019; preliminary data indicates that Uganda's total public debt stock rose to US$ 12.5 billion from US$ 10.7 billion a year ago, of which external debt amounted to US$ 8.3 billion, while domestic debt stood at US$ 4.2 billion. This translates into an increase to 35.9 percent of GDP, up from 34.6 percent of GDP recorded at the end of June 2018. In the FY 2018/19 the ratio for the total debt service as a percentage of domestic revenue stood at 19.7 percent. Public debt is sustainable in the medium and long term.

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 2018/19 was the third Financial Year in which Government's fiscal policy strategy will be underpinned by the Charter for Fiscal Responsibility. The Charter's objective on the fiscal balance requires that Government run a fiscal deficit - including grants of not more than 3 percent of GDP by the Financial Year 2020/21. However, achieving this objective will present a challenge for the budgeting process because of the need for key infrastructure required for extracting Uganda's first oil within the medium term and partly due to slow implementation of some planned public investments.

The fiscal strategy, however, stays focused to ensuring medium and long-term debt sustainability. Debt levels are expected to remain below the threshold of 50 percent consistent with the Charter for Fiscal Responsibility.

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 12 shows the Medium-term fiscal framework.

Table 12: Medium-Term Fiscal Framework (% of GDP)

	outturn 2018/19	proj. 2019/20	proj. 2020/21	proj. 2021/22	proj. 2022/23	proj. 2023/24
Total revenue and grants	**13.9%**	**15.8%**	**15.7%**	**15.8%**	**15.9%**	**16.3%**
Revenue	12.9%	14.5%	14.7%	15.0%	15.4%	15.9%
Grants (Incl. HIPC)	0.9%	1.3%	1.0%	0.7%	0.6%	0.4%
Expenditures & net lending	**18.9%**	**23.2%**	**21.0%**	**19.9%**	**19.0%**	**19.0%**
Current expenditures	9.6%	10.8%	10.0%	9.8%	9.8%	10.0%
Development expenditures	7.8%	11.6%	9.8%	9.7%	8.7%	8.6%
External	3.2%	6.2%	4.9%	4.8%	3.8%	3.5%
Domestic	4.6%	5.4%	4.9%	4.8%	4.9%	5.0%
Net lending and investment	1.1%	0.6%	0.8%	0.2%	0.2%	0.1%
Other spending	0.3%	0.3%	0.3%	0.2%	0.3%	0.3%
Overall balance	**-5.0%**	**-7.4%**	**-5.3%**	**-4.1%**	**-3.0%**	**-2.7%**
Financing	5.0%	7.4%	5.3%	4.1%	3.0%	2.7%
External financing (net)	2.9%	5.3%	4.2%	3.5%	2.5%	2.5%
Domestic financing (net)	1.1%	2.2%	1.1%	0.6%	0.5%	0.2%
Errors and omissions/gap	0.2%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Ministry of Finance, Planning and Economic Development

Performance of the Petroleum Fund

The value of the petroleum fund stood at UGX 311.1 billion as at June 2019 compared to UGX 470 billion as at June 2018. The decrease in the fund position is attributed to the transfer of UShs 200 billion to the Uganda Consolidated Fund (UCF) in accordance with the Public Financial Management Act (PFMA) 2015 to complement financing of infrastructure and development projects of Government as appropriated. There was also a reduction in the balances to cater for bank charge revaluations and foreign exchange losses of UShs 16.2 billion. However, the fund received UShs 56.7 billion according to the Income Tax Act on income derived from petroleum operations.

OUTLOOK ON THE ECONOMY

Outlook on the Economy

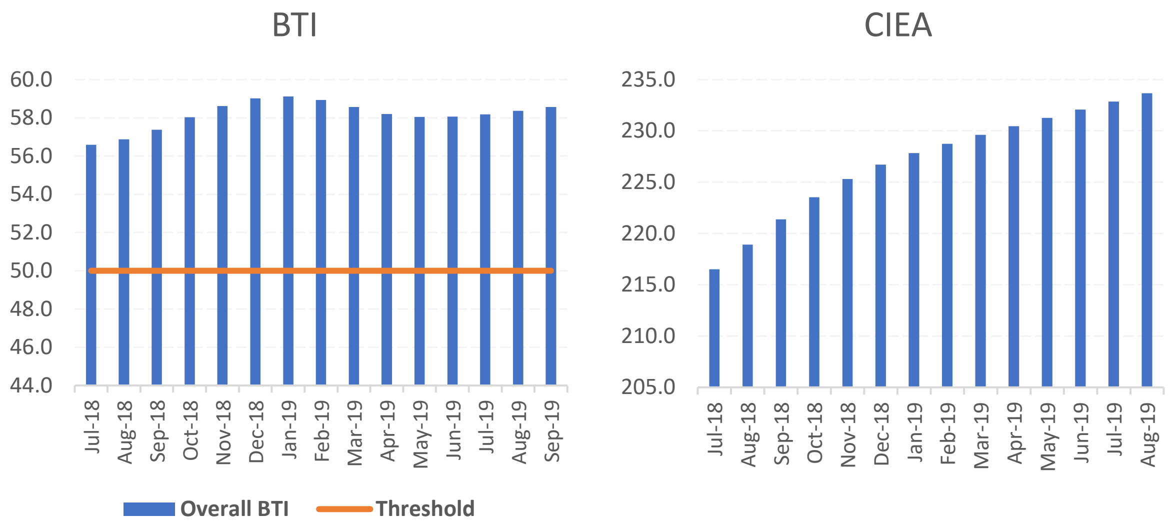
Economic Growth

During the **Financial Year 2019/20, GDP is expected to grow between 6.0 and 6.5** percent based on increased private sector activity, continued recovery in the industry sector and manufacturing sub sector, and better weather conditions that are expected to support growth 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 accommodative monetary policy stance coupled with a stable financial sector and the reduction in non-performing loans should also encourage commercial banks to lend more to the private sector and subsequently support economic activity. The relative stability of the exchange rate is also expected to boost trade and manufacturing. Growth over the medium term is expected to reach 7 percent as benefits from public infrastructure set in and oil activities increase.

High frequency indicators of economic activity show that there was improvement in business sentiments and robust economic activity. The average Business Tendencies Index was 58.1 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.

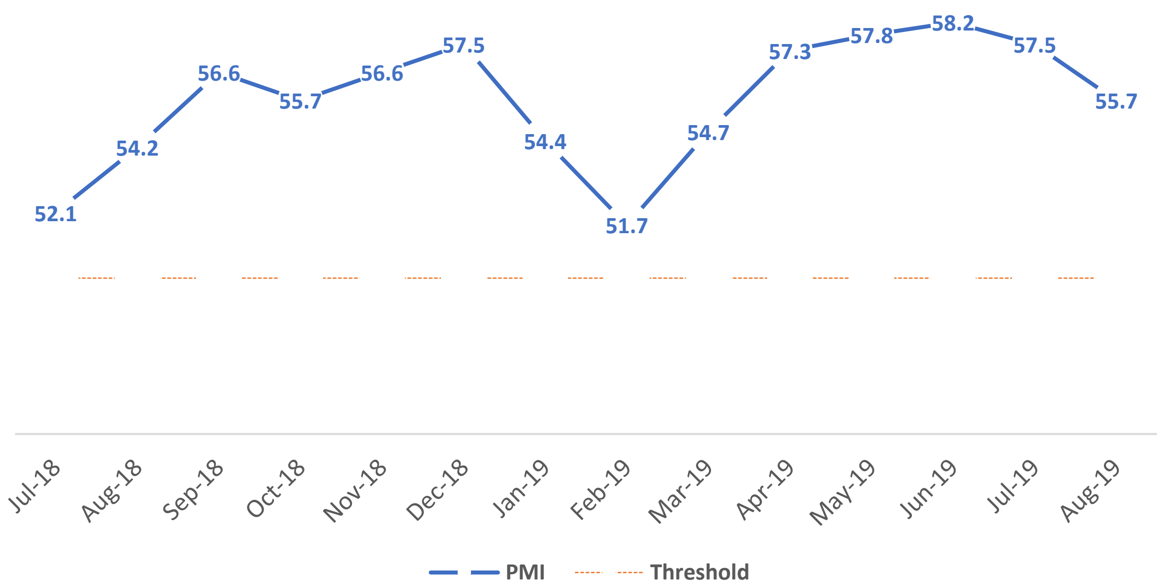
Figure 21: High Frequency Indicators of Economic activity



Source: Bank of Uganda

The Purchasing Managers Index which provides an early indication of operating conditions, in the agriculture, industry, construction, whole sale & retail and services sector also remained above the 50.0-mark threshold, averaging 55.15 for the FY 2018/19. This signalled improvement in business conditions for the Ugandan private sector, registering a rise in mostly output and new orders (components of the composite PMI) during the Financial Year.

Figure 22: Purchasing Managers Index (PMI) 2018/19



Source: Stanbic Bank Uganda

Inflation

The outlook to inflation in the next Financial Year is stable. Core inflation is expected to remain close to the BOU's medium-term target of 5+/-3 percentage points, supported by prudent fiscal and monetary policy measures.

The main downside risks to inflation include adverse weather shocks that could cause an upsurge in food crop prices and the direction of the exchange rate which is sometimes affected by externally uncontrollable factors.

Financial Sector

Private Sector Credit is expected to continue recovering as lending rates continue to be accommodating, due to a stable, sound and improving financial sector as well as increased economic activity. With risks to inflation minimal in the medium term, 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 2019/20 and continued decline in the Non-Performing Loans (NPLs) is expected to have a positive effect on future lending.

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 domestic dollar demand, volatility in global financial markets, volatility in international crude oil prices and continued recovery in private sector imports. The relative stability of the exchange rate is also expected to boost trade and manufacturing and pose a minimal risk to domestic inflation. Strong performance from tourism, remittances, and Foreign Direct Investments is expected to continue supporting the good performance of the overall balance of payment position.

Fiscal Operations

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 (EAMU) 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 geo-political 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, geo-political tension in the region could severely disrupt trade and welfare. These conflicts in the past have led to both economic and fiscal costs, including loss of earnings, property, employment, and remittances.

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 tea – 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.