HALF YEAR MACROECONOMIC & FISCAL PERFORMANCE REPORT FINANCIAL YEAR 2019/20

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

February 2020

Foreword

The Public Finance Management Act (PFMA) 2015 requires that the Minister shall by the end of February and October of each Financial Year make a fiscal performance report to Parliament. In accordance with this requirement, the Ministry of Finance, Planning and Economic Development has prepared the Half Year Macro-Economic and Fiscal Performance Report for the Financial Year 2019/20 that incorporates the fiscal and economic implications of both Government decisions and other economic circumstances as at 31st December 2019.

As recently as 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 2019/20, 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 at 6 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

Table of Contents

List of Figures

List of Tables

List of Acronyms and Abbreviations

AIA	Appropriations in Aid
B.Franc	Burundian Franc
BOP	Balance of Payment
BOU	Bank of Uganda
BTI	Business Tendency Index
CBR	Central Bank Rate
CFR	Charter for Fiscal Responsibility
CIEA	Composite Index of Economic Activity
DSA	Debt Sustainability Analysis
EAC	East African Community
EFU	Energy, Fuel and Utilities
FOB	Free on Board
FY	Financial Year
GDP	Gross Domestic Product
H1	the First Half of the Financial Year
H2	the Second Half of the Financial Year
IMF	International Monetary Fund
KShs	Kenyan Shillings
MDAs	Ministries, Departments and Agencies
MOFPED	Ministry of Finance, Planning and Economic Development
NPLs	Non-performing loans
NTR	Non-Tax Revenue
PAYE	Pay as You Earn
PSC	Private Sector Credit
R.Franc	Rwandan Franc
TzShs	Tanzanian Shillings
UBOS	Uganda Bureau of Statistics
URA	Uganda Revenue Authority
UShs	Ugandan Shilling
US$	United States Dollars
VAT	Value Added Tax

Executive Summary

The 6 percent projected outturn for economic growth in the Financial Year 2019/20 reflects a dynamic and resilient economy, capable of continued recovery amidst both global and domestic challenges. This positive growth is echoed through; the continued recovery in private sector activity, increased and sustained public investment in critical infrastructure, transformation in the industry and manufacturing sector coupled with improved services and an innovative and regulated agriculture sector.

Domestic prices were stable and low for the most part of the first half of the Financial Year 2019/20 averaging at 2.6 percent for the period in question. This was a result of declining core and EFU inflation, supported by low food prices and prudent management by the relevant authorities. This stable outlook on inflation provided a platform for an accommodative monetary policy position and the Central Bank implemented a lower CBR of 9 down from 10 in October 2019. Subsequently, the economy has experienced undisrupted trade and private sector operations, improved overall economic activity with increased access to relatively affordable credit.

Consequently, the stock of outstanding private sector credit grew by 12 percent from December 2018 to December 2019, growing from an initial UShs 14.2 trillion to UShs 15.9 trillion. This significant growth in Private Sector Credit was supported by pragmatic and accommodative monetary and fiscal policies as well as a sound and stable financial sector.

The stable macroeconomic environment which continued to attract inflows in the form of foreign investment and remittances, largely aided in the appreciation of the Uganda Shilling against the United States Dollar by 0.8 percent in the first half of the Financial Year 2019/20, to an average of US$ 3,689. In the same period, exports increased by 6.4 percent to US$ 1.9 billion and imports decreased by 0.3 percent to US$ 3.2 billion. The stock of international reserves held by the Central Bank stood at USD 3,241 million as at the end of December 2019, equivalent to 4.2 months of imports of goods and services.

On the fiscal side, Government spent an estimated UShs 13.5 trillion, collected and received an estimated UShs 9.6 trillion in revenues leaving a deficit of UShs 3.9 trillion that was financed through external and domestic sources.

As at 30th June 2019, Uganda's total public debt stock rose to 36.1 percent of GDP in nominal terms, up from 34.8 percent reported as at June 2018. Uganda continues to be at low risk of debt distress with public debt sustainable both in the medium and long term.

Nonetheless, there remain risks to the economy in the form of geopolitical tensions and their possible implications on trade, unreliable and adverse weather conditions that pose a real threat to agricultural activities as well as human welfare and infrastructure. Additionally, the sizeable debt service remains a key vulnerability given that fiscal space also is significantly limited.

MACRO-ECONOMIC DEVELOPMENTS

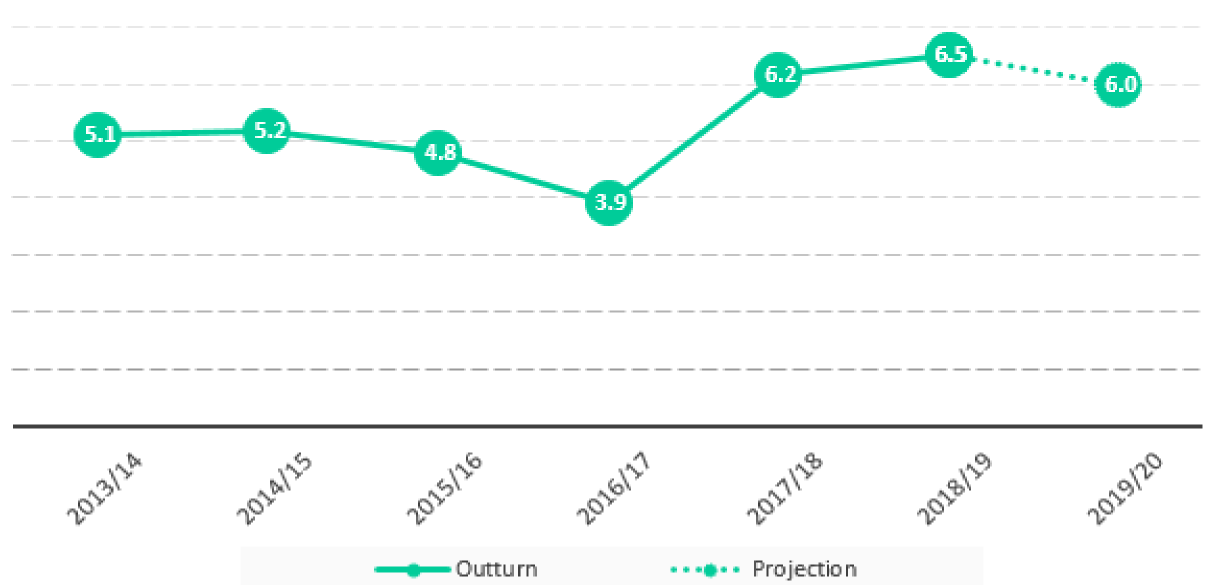
Macro-Economic Developments

Economic Growth

Economy projected to grow by **6.0%**

Real GDP is projected to grow at 6.0 percent during the Financial Year 2019/20, as shown by figure 1. This is supported by improved global economic growth and the positive performance of key economic indicators in the first half of the financial year. Domestically, growth is expected to be attributed to increased private sector activity, significant growth in the industry sector, good performance in the services sector and the agriculture, forestry & fishing sector.

Figure 1: Real GDP Growth Rates of Uganda (%)

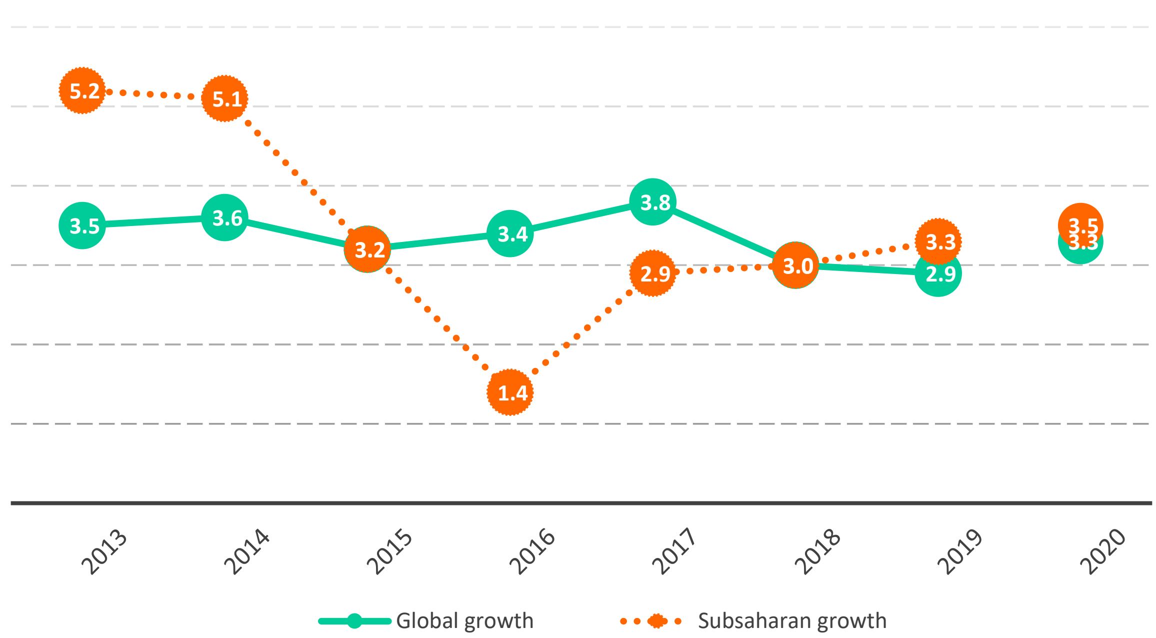


Source: UBOS, MOFPED

amidst **Global** growth of **3.3%**

Global growth is expected to strengthen at 3.3 percent in 2020 and 3.4 percent in 2021 stemming from a broad-based shift towards accommodative monetary policy, intermittent favourable news on US-China trade negotiations, and diminished fears of a no-deal Brexit. Additionally, growth in Sub-Saharan Africa is also expected to strengthen to 3.5 percent in 2020 and 2021, from 3.3 percent in 2019. This is expected to have positive impact on trade, remittances and Foreign Direct Investments in Uganda.

Figure 2: Global and Sub-Saharan Africa Growth Trends (%)



Source: International Monetary Fund

Quarter One Real GDP Performance

The economy is estimated to have registered growth of 2.7 percent in the first quarter of the financial year mainly driven by growth in industry and the services sector. Performance in the **agriculture sector** was hampered by heavy rains especially for the cash crop and food crop sub sector. However, livestock and fishing activities performed well growing by 7.3 percent and 47.5 percent respectively. Fishing activities continue to register high growth due to increase in stock of mature fish as a result of enforcement against illegal fishing.

The **industry sector** grew by 9.5 percent compared to 9.3 percent growth in Q1 2018/19 as a result of significant growth in manufacturing which grew by 8.9 percent due to increase in the manufacture of milk & its products, iron & steel and cement. Construction and mining & quarrying sub sectors also contributed significantly to growth in the industry sector, registering growth of 6.7 percent and 39 percent respectively in Q1 2019/20.

The **services sector** continued to grow at 1.3 percent in Q1 FY 2019/20 mainly due to public administration and education activities which grew by 9.0 percent and 4.8 percent respectively. Table 1 shows the revised real GDP growth estimates by economic activity.

Table 1: Quarterly Real GDP estimates FY 2016/17 – FY 2019/20 (%)

	2016/17				2017/18				2018/19				2019/20
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
GDP AT MARKET PRICES	**1.5**	**1.4**	**7.3**	**5.9**	**7.0**	**7.4**	**4.8**	**5.2**	**6.0**	**7.2**	**5.9**	**6.9**	**2.7**
AGRICULTURE,FORESTRY&FI	**3.4**	**2.1**	**0.1**	**5.2**	**6.8**	**1.4**	**2.9**	**2.9**	**6.5**	**7.1**	**3.2**	**2.6**	**0.0**
Cash crops	-15.2	24.7	11.5	16.6	32.8	-10.5	-3.0	-8.5	6.0	8.1	4.1	15.2	-6.6
Food crops	2.3	-3.2	6.0	5.5	9.8	6.8	9.3	6.9	7.2	5.6	-3.1	-4.1	-2.7
Livestock	5.5	6.9	7.7	7.9	7.4	7.2	7.2	6.7	7.3	7.1	7.3	7.7	7.3
Agriculture Support Services	0.9	4.7	5.6	7.3	4.5	3.1	1.9	3.0	4.6	5.3	0.4	0.7	0.4
Forestry	18.0	4.9	-14.2	10.7	-1.5	6.1	4.4	4.8	7.1	5.3	0.1	-2.7	-5.1
Fishing	6.8	-4.5	-15.2	-17.0	-27.1	-27.9	-25.8	-19.3	-4.7	22.4	39.5	43.2	47.5
INDUSTRY	**1.2**	**2.8**	**15.9**	**7.7**	**7.4**	**9.2**	**5.7**	**9.8**	**9.3**	**12.8**	**12.5**	**8.7**	**9.5**
Mining & quarrying	7.5	33.9	31.5	71.8	60.2	60.5	9.4	7.7	-2.4	27.0	77.9	62.0	39.0
Manufacturing	-5.8	-0.2	19.8	2.5	5.4	4.7	1.5	7.1	7.2	9.2	6.8	5.2	8.9
Electricity	5.7	8.7	13.5	7.7	9.0	6.6	2.1	4.2	5.6	6.3	7.1	9.1	3.3
Water	5.7	6.0	5.2	5.5	4.5	4.0	3.8	3.8	4.7	5.0	5.2	5.2	4.4
Construction	19.3	4.1	7.2	15.1	2.7	13.8	18.8	21.2	21.0	22.6	15.3	8.5	6.7
SERVICES	**-0.5**	**-1.6**	**4.4**	**5.3**	**6.8**	**8.9**	**6.9**	**5.4**	**6.8**	**4.6**	**4.8**	**3.4**	**1.3**
Trade & Repairs	-9.8	-7.8	9.3	6.1	5.5	11.6	7.0	6.1	10.5	5.8	3.8	-3.9	-6.6
Transportation & Storage	0.0	-4.1	5.9	7.8	9.6	10.3	10.8	9.7	5.3	3.6	2.7	0.5	-4.9
Accommodation & Food Servi	19.3	22.6	10.2	27.6	15.6	8.4	5.9	2.9	2.1	3.2	1.8	4.9	-2.1
Information & Communicatio	18.3	21.4	35.2	4.1	-0.9	-8.3	-7.3	-1.8	2.3	2.1	-2.5	-4.4	-4.0
Financial & Insurance	-5.5	-5.3	3.5	7.5	7.1	10.3	-4.3	2.3	4.5	6.7	16.4	8.0	-3.0
Real Estate Activities	-2.5	2.1	2.6	4.5	6.7	12.0	13.7	13.9	15.3	11.5	8.9	5.5	-1.7
Professional, Scientific & Tech	10.3	-4.7	-2.0	4.9	10.6	7.1	9.6	4.7	-11.1	-14.2	7.1	34.8	64.4
Administrative & Support Ser	-10.7	-8.5	7.9	5.0	3.5	1.8	4.2	10.3	16.0	19.7	19.3	15.2	10.6
Public Administration	21.9	18.5	20.2	14.7	16.3	11.8	5.9	-3.3	1.8	-0.8	2.0	1.2	9.0
Education	-4.4	-13.3	-13.3	-10.1	-1.9	5.7	6.3	2.9	6.3	6.6	3.6	1.6	4.8
Human Health & Social Work	0.7	-4.0	-1.5	4.9	15.8	20.2	17.3	7.2	8.8	1.5	-1.7	-0.3	-4.4
Arts, Entertainment & Recreat	-8.0	-9.4	26.6	133.9	80.7	117.5	77.4	23.0	64.7	17.4	13.0	1.4	-5.3
Other Service Activities	3.8	-0.6	-0.3	-1.7	-2.0	-1.3	-2.6	-2.5	-1.9	-1.6	-0.2	3.6	-2.2
Activities of Households	2.7	2.8	2.9	2.9	2.9	2.8	2.8	2.8	2.8	2.7	2.8	2.9	2.9
ADJUSTMENTS													
Taxes on products	**7.6**	**13.9**	**17.6**	**5.7**	**8.0**	**11.7**	**-5.2**	**-5.3**	**-12.5**	**3.0**	**-5.5**	**36.6**	**-3.9**

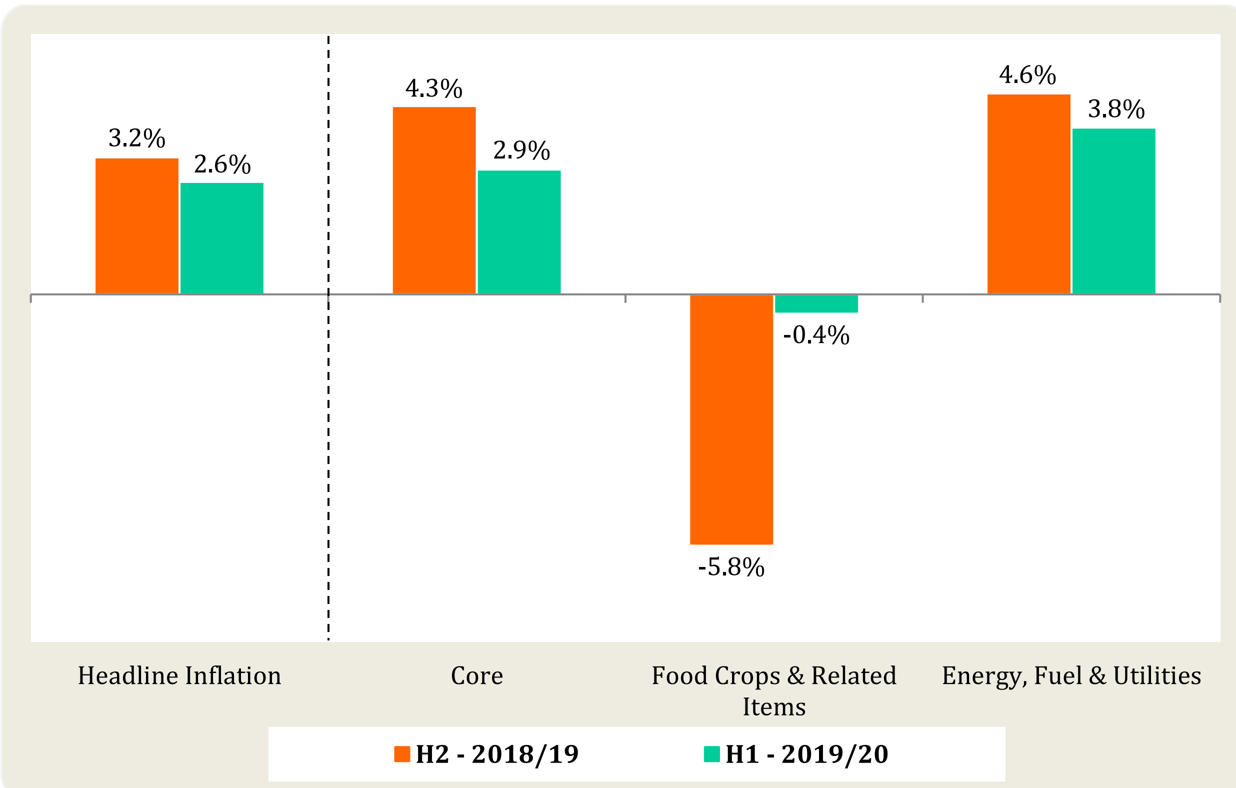
Source: Uganda Bureau of Statistics

Inflation

Headline Inflation declined to 2.6%

There was a reduction in headline inflation during H1 2019/20 compared to H2 2018/19. Headline inflation was recorded at a six months average of 2.6 percent in H1 2019/20, down from 3.2 percent in H2 2018/19 as shown in figure 3. This implies that on average throughout H1 2019/20, there was a further slowdown in the rate at which general prices for goods and services increase over time.

Figure 3: Average Annual Inflation by Sub-Components



Source: Uganda Bureau of Statistics

Both core and Energy, Fuel & Utilities (EFU) inflation registered declines from the previous six months and hence accounted for the slowdown in overall headline inflation.

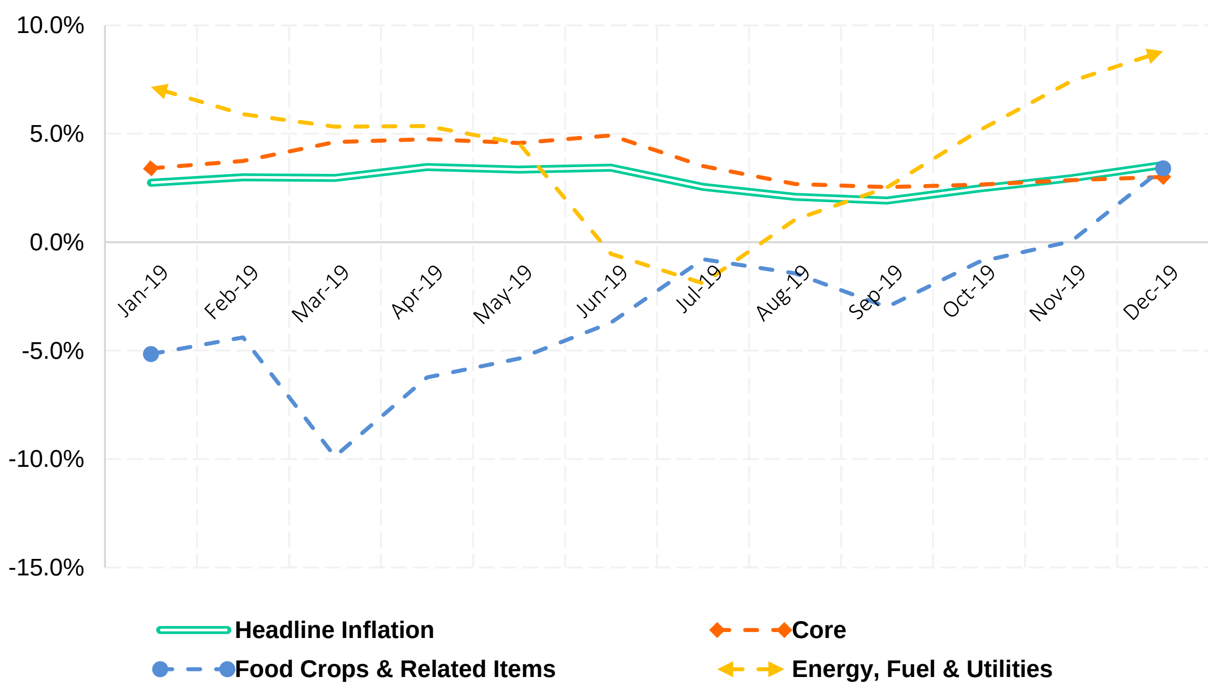
Core inflation declined to a 2.9 percent average in H1 2019/20, from 4.3 percent in the previous 6 months. This decline was largely attributed to the stronger shilling which made it cheaper to import commodities and a decline in prices of key core components, in particular prices of sugar, internet services and cell phone airtime.

EFU inflation also declined to a 3.8 percent average in H1 2019/20, from 4.6 percent in the previous 6 months. This decline was attributed to a decrease in fuel prices, compared to the same period of the previous Financial Year and reduced electricity prices. In October 2019, the Electricity Regulatory Authority (ERA) reduced electricity tariffs for the 5th consecutive quarter. This reduction in power prices was a result of lower international crude oil prices *(Refer to section on commodity prices)*, a key parameter used by ERA to make adjustments to the annual base electricity tariffs.

Food crop inflation remained negative on average over the six months of the first half, implying that prices for food crops and related items on average remained lower than those seen the previous year. Food crop inflation was recorded at a -0.4 percent average in H1 2019/20, from -5.8 percent in H2 2018/19. A month to month analysis shows that lower prices for food crops were most evident in the first 3 months of July, August and September 2019 after which food crop inflation begun to increase, as shown in figure 4.

Food price increases towards the end of H1 2019/20 were largely attributed to the heavy rains, that affected harvesting, drying and storage of cereals as well as water logging in low lying agricultural fields. Prices for cereals such as whole grain maize and sorghum increased by as high as 71.5 percent and 66.3 percent, respectively. Legumes and root tubers such as peas, beans, cassava and Irish potatoes also registered significant price increases.

Figure 4: Annual Inflation Trends in 2019

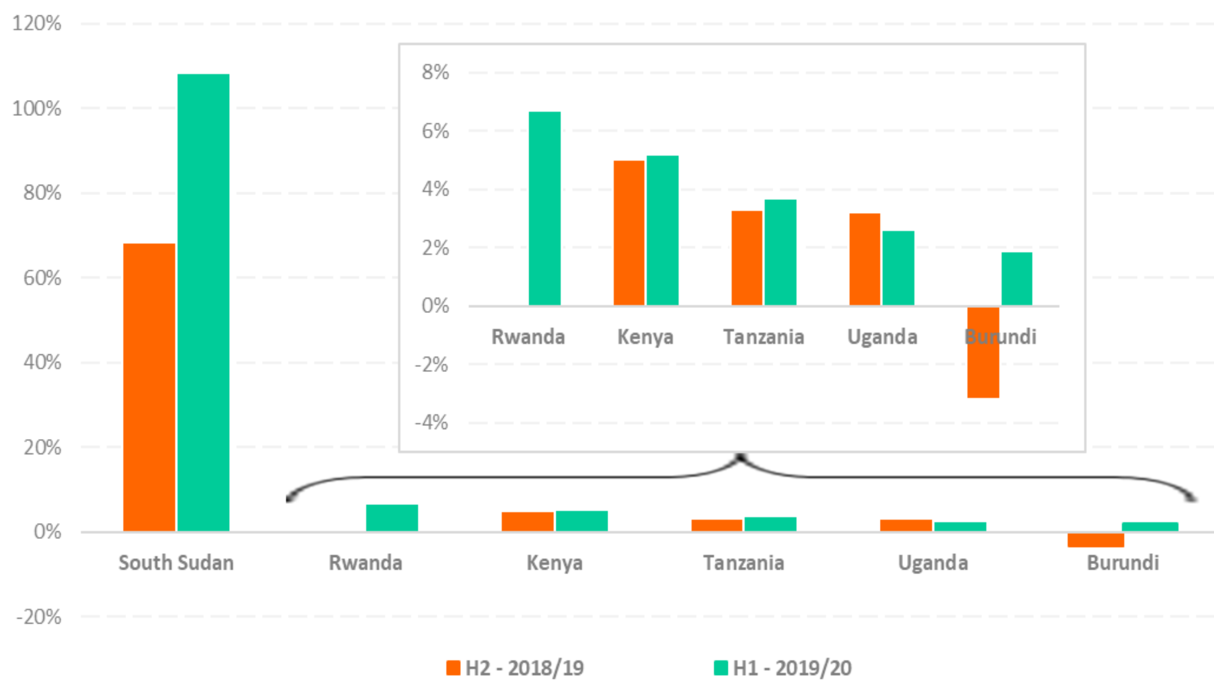


Source: Uganda Bureau of Statistics

Inflation across the East African Community

Inflation increased across all **other EAC partner states**, as currencies depreciated across the board coupled with increased domestic demand. Figure 5 shows the inflation across the EAC region.

Figure 5: Average Annual Headline Inflation among EAC Partner States



Source: Respective National Bureaux of Statistics

Commodity Prices

International and Domestic Oil prices

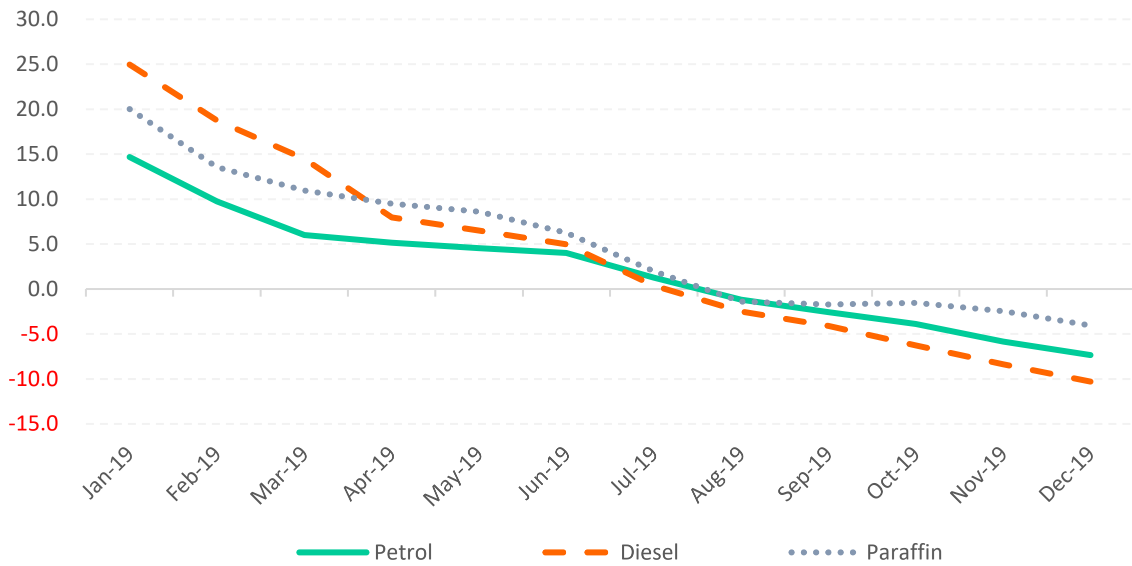
During H1 of FY 2019/20, the international price of Brent crude oil declined to an average of US$ 62.7/barrel down from US$ 66/barrel in H2 FY 2018/19, as illustrated in figure 6.

Figure 6: Graph on International Oil Prices, H2 2018/19 vs H1 2019/20

Source: US Energy Information Administration

The reduction in oil prices was largely attributed to declining oil demand which was triggered largely by geo-political tensions. Additionally, occasional increases in US crude oil output in H1 2019/20 also exerted downward pressure on the international crude oil price. Consequently, declining international oil prices resulted into a drop in fuel pump prices on the domestic scene as imported fuel became cheaper. This is demonstrated in figure 7 which shows declines in prices for petrol, diesel and paraffin from August through to December 2019.

Figure 7: Annual Changes in Price Indices for Petrol, Diesel and Paraffin



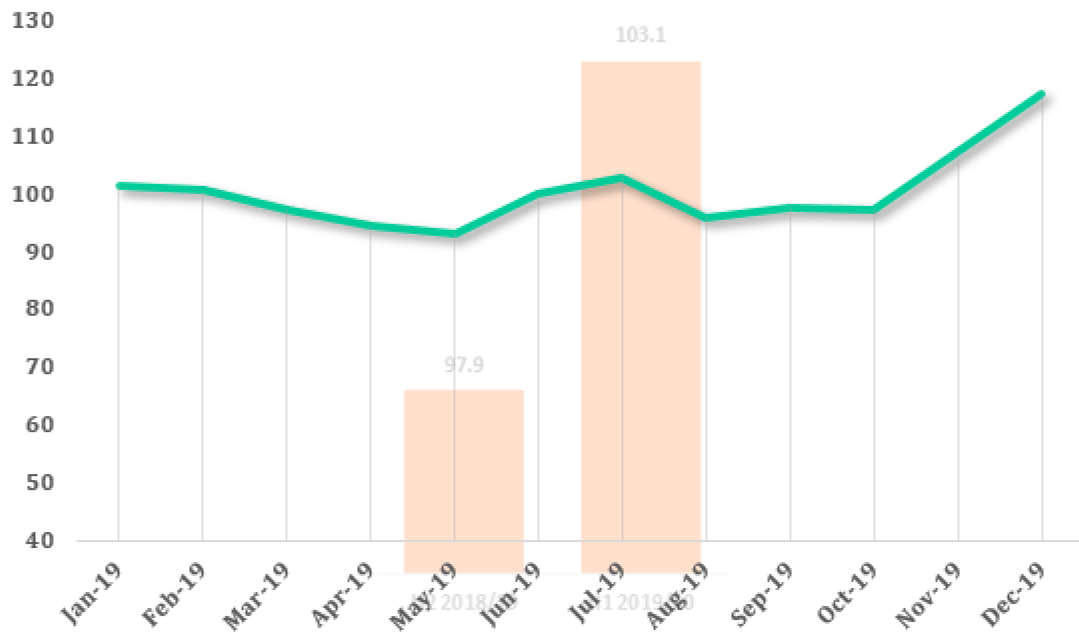
Source: Uganda Bureau of Statistics

Coffee prices

During H1 2019/20, the coffee composite price indicator published by the International Coffee Organisation (ICO) trended upwards to a 103.1 average from a 97.9 average in H2 2018/19.

The rise in the international coffee price was more pronounced in November and December 2019. This was largely due to increased demand for coffee from processing firms coupled with supply constraints in the coffee market as exports from Brazil slowed and harvests from other sources were delayed. Figure 8 shows average monthly and half year movements in the Coffee composite price indicator from H2 2018/19 to H1 2019/20.

Figure 8: Movements in the International Coffee Composite Price Indicator



Source: International Coffee Organisation (ICO)

Financial Sector Trends

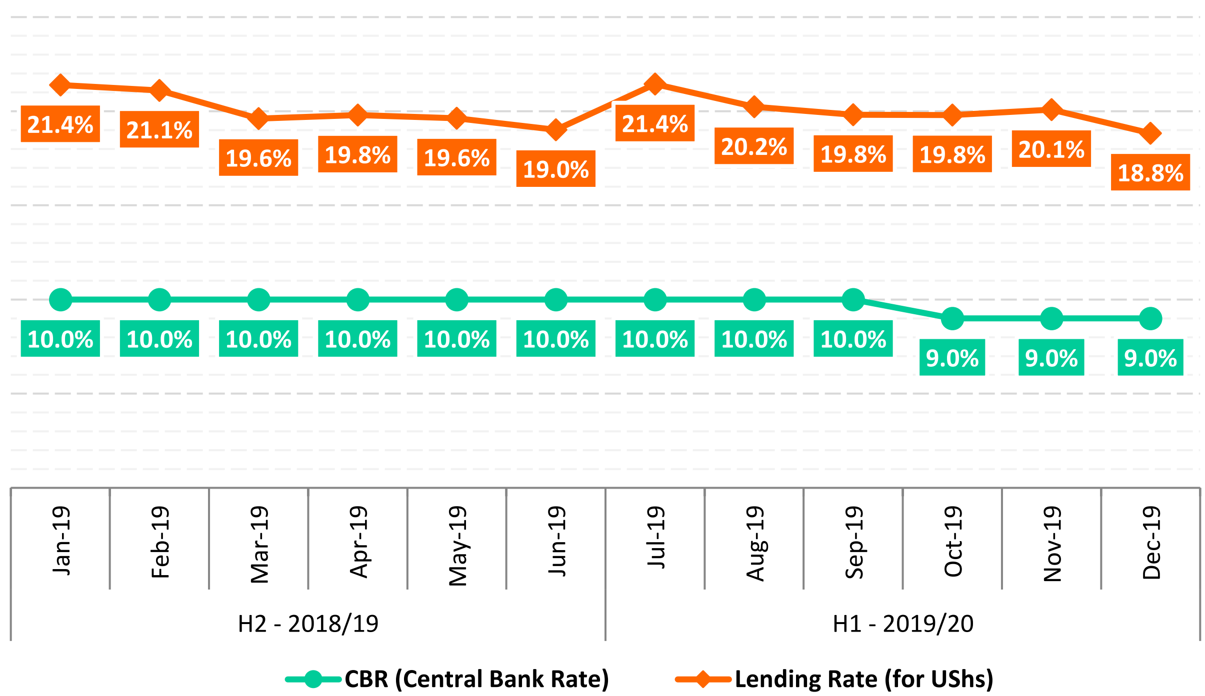
During H1 2019/20, the **Central Bank Rate** (CBR) was maintained at 10 percent for the first three months ending with September. Thereafter, the Bank of Uganda (BOU) eased monetary policy by reducing the CBR to 9 percent in October 2019, in line with the stable inflation outlook. The CBR was maintained at 9 percent for the rest of H1.

Lending Rates

average
lending
rate of
20%

Commercial Bank lending rates marginally declined during H1 2019/20 averaging to 20 percent, compared to the average of 20.1 percent in H2 2018/19. This is consistent with the monetary policy easing in H2 2019/20. 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. Figure 9 shows the trend in CBR and commercial bank lending rates.

Figure 9: Central Bank Rate vs Commercial Bank Lending Rates Movements



Source: Bank of Uganda

Government Securities

During H1 2019/20, Government held auctions for both Treasury Bills and Treasury Bonds, from which UShs 4,389.6 billion (at cost) was raised. Of the amount raised, UShs 2,714.3 billion was used for the refinancing of maturing debt whilst UShs 1,675.3 billion went towards financing other activities in the Government budget; as shown in table 2.

Table 2: Breakdown of Government Securities in Billion UShs

	Total issuances	Domestic borrowing for fiscal purposes	Refinancing
Jul-19	669.34	114.62	554.72
Aug-19	857.68	383.63	474.05
Sep-19	663.81	30.19	633.63
Q1 2019/20	**2,190.83**	**528.44**	**1,662.40**
Oct-19	875.27	481.14	394.13
Nov-19	725.59	392.3	333.29
Dec-19	597.91	273.42	324.49
Q2 2019/20	**2,198.77**	**1,146.86**	**1,051.91**
H1 2019/20	**4,389.60**	**1,675.30**	**2,714.31**

Source: Ministry of Finance, Planning and Economic Development

Yields on Treasury Bills

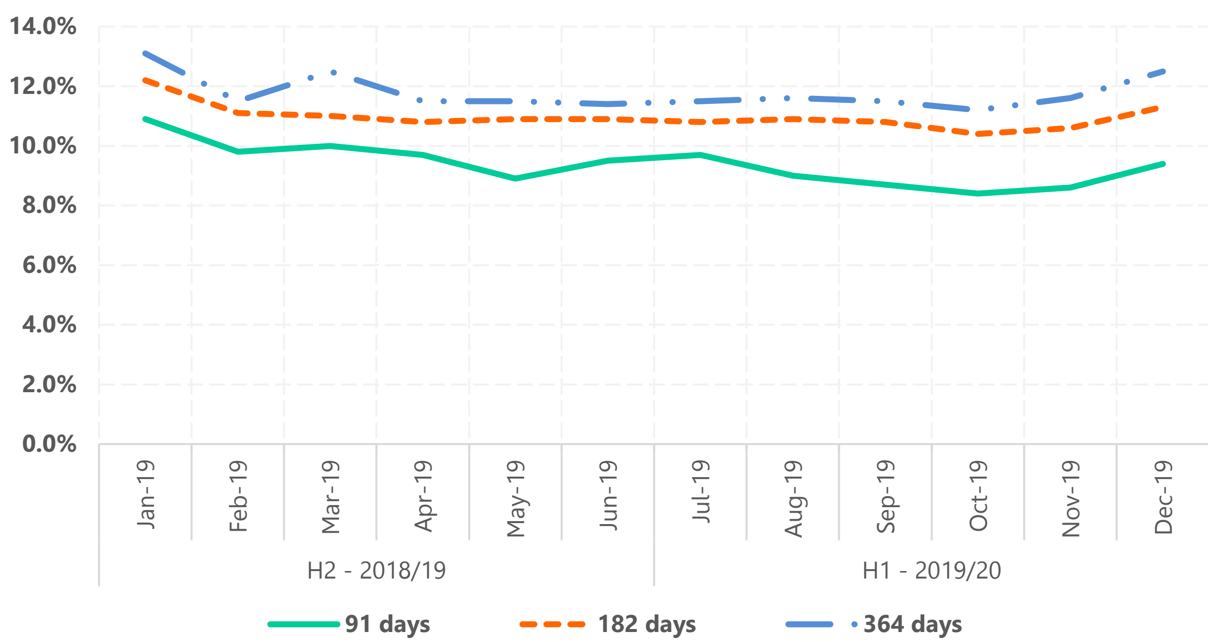
In line with the reduction in the CBR, the average annualised yields for the 91-day, 182-day and 364-day Treasury Bills declined to 9 percent, 10.8 percent and 11.7 percent during H1 2019/20, from 9.8 percent, 11.2 percent and 11.9 percent in H2 2018/19, respectively. Table 3 shows the average annualised yields on Treasury Bills since H1 2017/18 and Figure 10 shows the trend between H2 2018/19 and H1 2019/20.

Table 3: Average Annualised Yields on Treasury Bills (%)

	H1 2017/18	H2 2017/18	H1 2018/19	H2 2018/19	H1 2019/20
91 Days	9.36	8.88	10.74	9.81	8.98
182 Days	9.54	9.36	12.23	11.15	10.80
364 Days	10.16	10.08	13.47	11.91	11.64

Source: Bank of Uganda

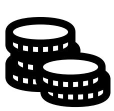
Figure 10: Movement of Treasury Bill Yields



Source: Bank of Uganda

Lending to the Private Sector

Private Sector Credit



increased by

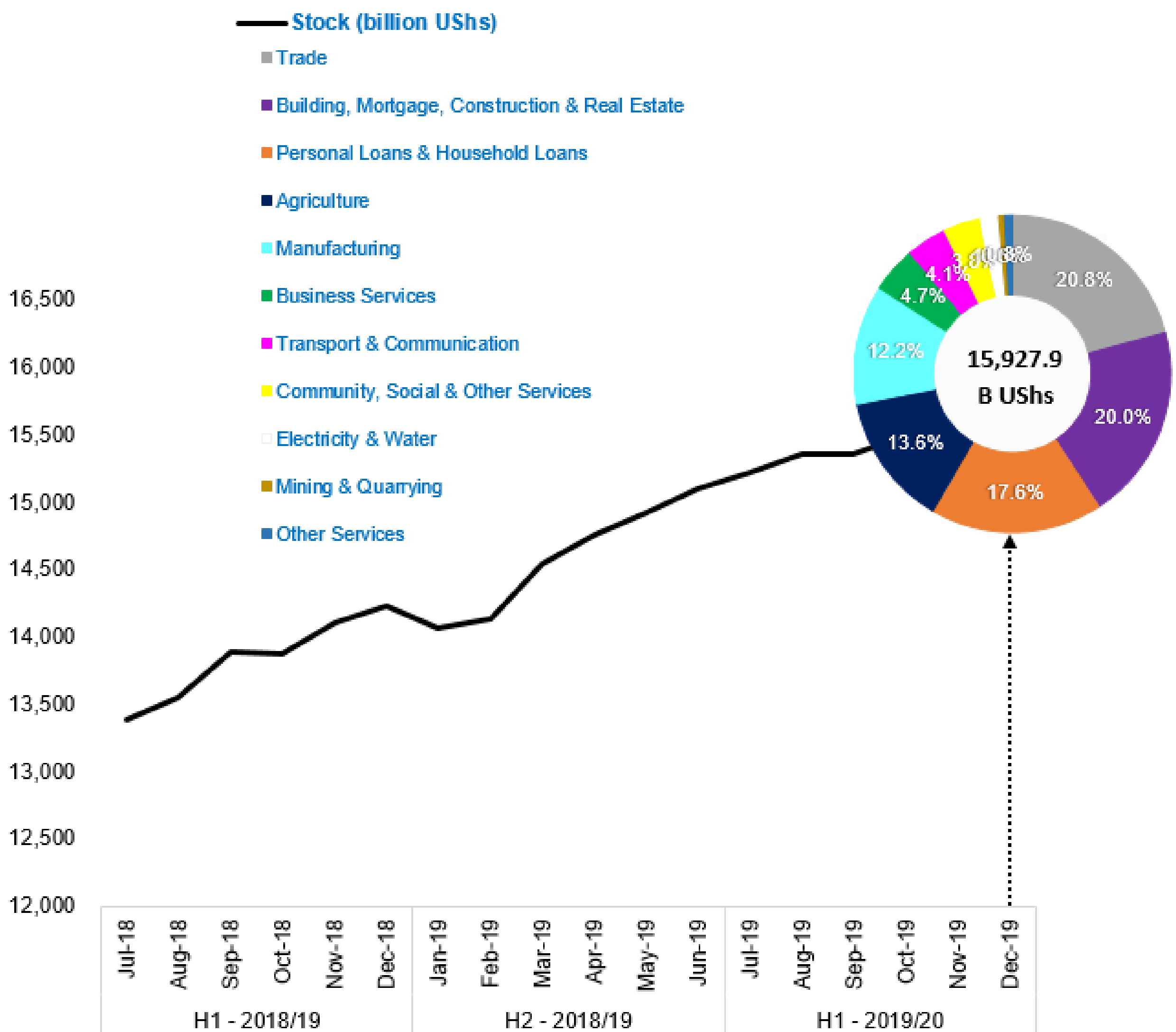
12%

On an annual basis, the **stock of outstanding Private Sector Credit** (PSC) grew by 12 percent to UShs 15.9 trillion at the end of H1 2019/20, from UShs 14.2 trillion registered at the end of H1 2018/19, in line with increased economic activity.

On a bi-annual basis, the stock of outstanding PSC increased by 5.5 percent, from UShs 14.2 trillion registered at the end of H2 2018/19.

At the end of H1 2019/20, the Trade sector had the highest PSC share (20.8 percent); followed by Building, Mortgage, Construction & Real Estate sector (20 percent); Personal & Household Loans sector (17.6 percent); among others. Figure 11 shows the stock of private sector credit.

Figure 11: Stock of Private Sector Credit (UShs Billion)



Source: Bank of Uganda

The value of new loans approved increased by 35.8 percent to UShs 8.8 trillion in the H1 2019/20 from UShs 6.5 trillion in H2 2018/19. The growth in credit is majorly attributed to the continued supportive monetary policy stance and increased economic activity. Table 4, shows credit extended to each sector in H1 2019/20, H2 2018/19 and H1 2018/19.

Table 4: Value of New Loans Approved by Sector (UShs billion)

Sector	H1 - 2018/19	H2 - 2018/19	H1 - 2019/20	Growth H1-19/20	Share H1-19/20
Trade	1,447.2	1,449.3	1,708.4	17.9%	19.4%
Community, Social & Other Services	167.3	230.9	1,464.3	534.0%	16.6%
Building, Construction & Real Estate	892.9	1,172.1	1,271.8	8.5%	14.4%
Personal & Household Loans	911.9	876.1	961.6	9.8%	10.9%
Agriculture	797.1	978.7	946.0	-3.3%	10.7%
Business Services	364.2	375.0	661.7	76.5%	7.5%
Transport & Communication	580.4	141.7	634.7	347.9%	7.2%
Manufacturing	1,107.4	902.4	594.5	-34.1%	6.7%
Electricity & Water	59.4	217.8	375.3	72.3%	4.3%
Mining & Quarrying	7.8	19.3	32.3	66.9%	0.4%
Non-Residents, International Organisations	0.2	-	3.8		0.0%
Others Activities	337.5	124.7	155.7	24.9%	1.8%
TOTAL	**6,673.1**	**6,488.1**	**8,810.1**	**35.8%**	

Source: Bank of Uganda

By sector, **Trade received the largest share of credit extended** (loans approved and extended) in H1 under review, at 19.4 percent. Other notable recipients of credit were; Community, Social & Other Services (16.6 percent), Building, Construction and Real Estate (14.4 percent), Personal and Household Loans (10.9 percent), and Agriculture (10.7 percent) as shown in table 4.

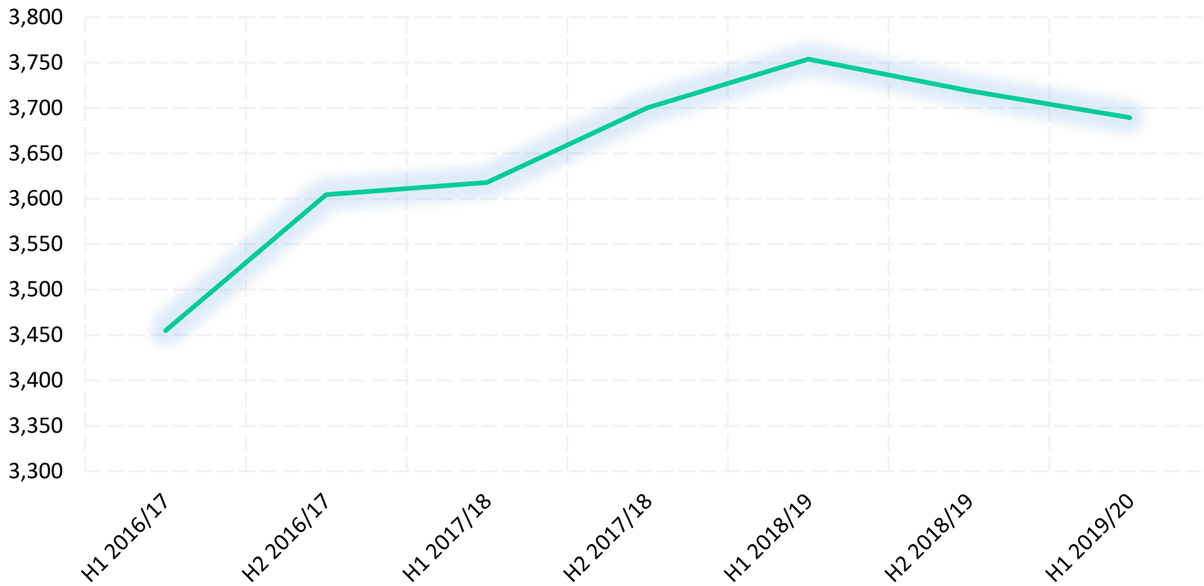
Exchange Rate

In H1 2019/20, the Ugandan shilling appreciated against the United States Dollar by 0.8 percent, compared to H2 2018/19, to an average of UShs 3,689 per US$ from an average of UShs 3,719 per US$. The appreciation was partly supported by inflows from foreign investors and receipts from tourism. Figure 12 shows the period average exchange rate of the Ugandan shilling against the United States Dollar since H1 2016/17.

Shilling appreciated

by 0.8% per US$ to 3,689

Figure 12: Exchange Rate – Period Average (UShs/US$)

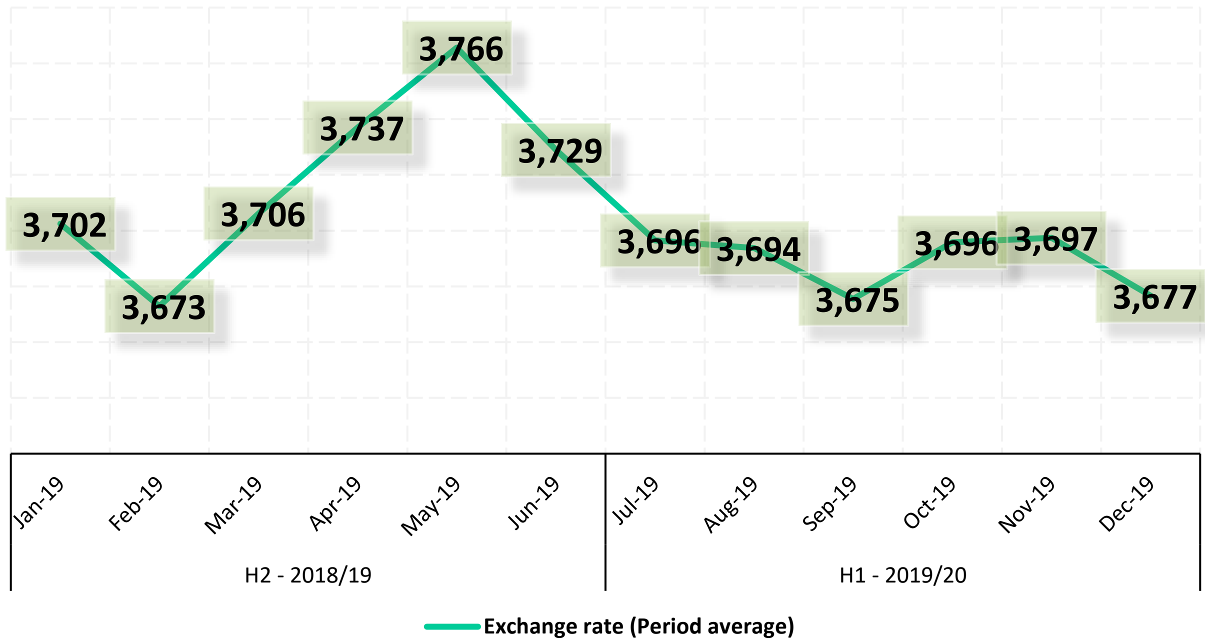


Source: Bank of Uganda

However, within the half year the Ugandan shilling remained relatively stable opening with a period average of UShs 3,696 per US$ in July 2019 and closing with a period average of UShs 3,677 per US$ in December 2019, as illustrated by figure 13. It registered an average monthly appreciation of 0.2 percent in H1 2019/20.

Depreciation pressures resulting from strong dollar demand in the oil sector in H2 2018/19, were offset by the Ugandan shilling appreciating due to increased dollar supply from NGOs; remittances and offshore players in the Government securities market.

Figure 13: Official Exchange Rate Movement of UShs/US$



Source: Bank of Uganda

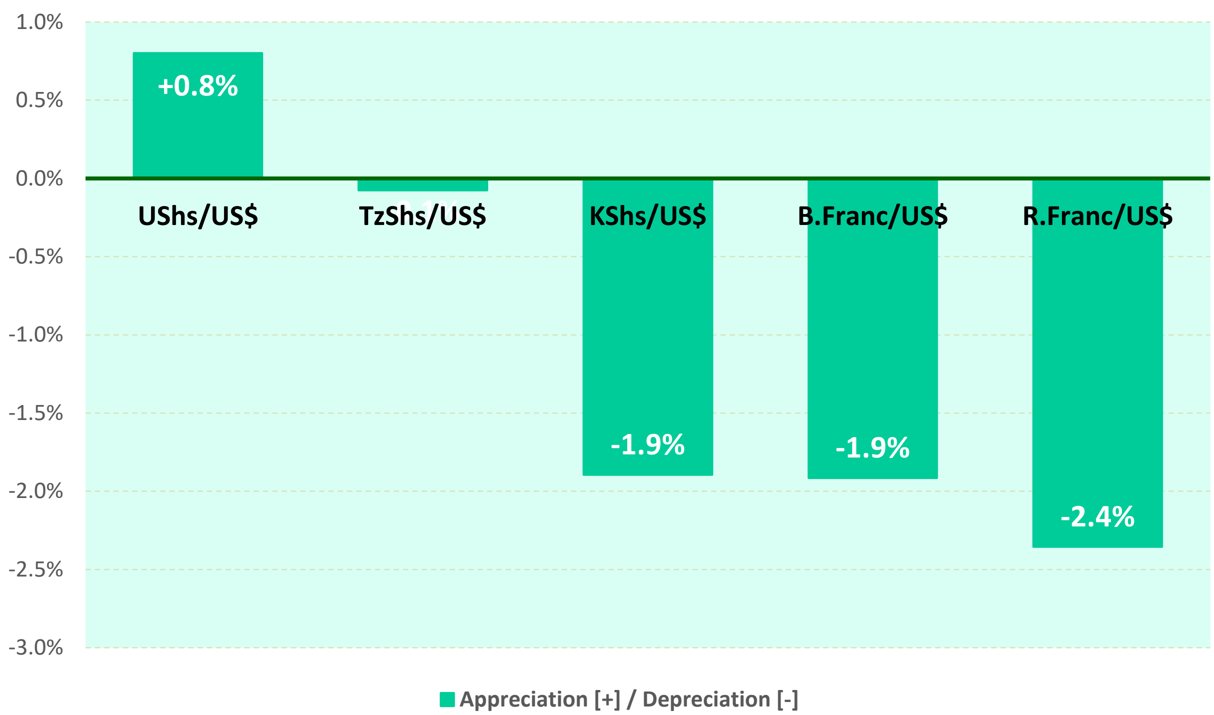
The Pound Sterling weakened globally amidst challenges and uncertainties surrounding Brexit. As a result, the Uganda shilling registered an appreciation of 3.5 percent against the Pound compared to H2 2018/19, to an average of UShs 4,650 from UShs 4,811 in H2 2018/19.

Exchange Rates within the EAC

All other currencies of the EAC[1] Partner States **registered a depreciation** against the United States Dollar (US$), in H1 2019/20 compared to H2 2018/19. The Tanzanian Shilling (TzShs) demonstrated the least depreciation rate; followed by the Kenyan Shilling (KShs) and Burundian Franc (B.Franc); then the Rwandan Franc (R.Franc), in the same periods as shown by figure 14. The weakening of currencies against the dollar for most of the Partner States is partly due to the global strengthening of the dollar, coupled with significant domestic dollar demand pressures.

[1] Exchange Rate data for South Sudan was not available.

Figure 14: Change in Exchange Rates (Period Average) – H1 2019/20 vs H2 2018/19



Source: Respective Central Banks

External Sector

Merchandise Trade Balance

On annual basis, Uganda's merchandise trade deficit narrowed in H1 2019/20 following an increase in export earnings and a decline in the import bill. The import bill decreased by US$ 9.5 million (0.3 percent), whereas, export earnings grew by US$ 114.1 million (6.4 percent). This resulted into the narrowing of the merchandise trade deficit by US$ 123.6 million (8.8 percent) to US$ 1,280.3 million in H1 2019/20, from US$ 1,403.9 million registered a year ago.

Main Trade Partners

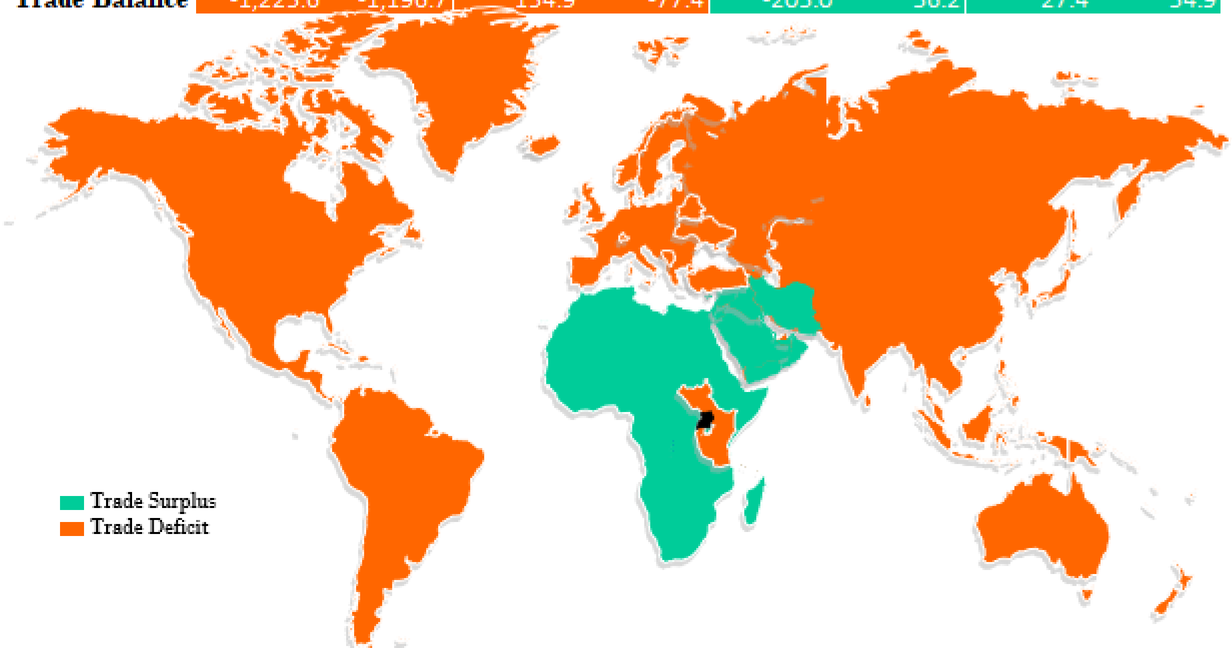
Asia remained the major trading partner[2] of Uganda over the period, with total trade of US$ 1,447.6 in H1 2019/20. It was followed by the Middle East; the EAC and Rest of Africa, as shown by figure 15. On the other side, Uganda had trade surpluses with the

[2] Total Trade is equal to exports plus imports, and Trade Balance is equal to exports minus imports

Middle East and the Rest of Africa regional blocs while trade deficits were registered with the other regional blocs.

Figure 15: Uganda's Trade Balance across Regional Blocs in H1 2019/20 (US$ Million)

	Asia		EAC		Middle East		Rest of Africa	
	H1-18/19	H1-19/20	H1-18/19	H1-19/20	H1-18/19	H1-19/20	H1-18/19	H1-19/20
Total Trade	1,490.7	1,447.6	1,146.9	1,155.8	950.9	1,047.3	620.5	724.7
Trade Balance	-1,225.6	-1,196.7	154.9	-77.4	-205.0	56.2	27.4	54.9



	European Union		The Americas		Rest of Europe		Others	
	H1-18/19	H1-19/20	H1-18/19	H1-19/20	H1-18/19	H1-19/20	H1-18/19	H1-19/20
Total Trade	603.4	510.6	96.4	128.3	81.0	79.6	5.9	6.5
Trade Balance	-79.4	-1.0	-47.3	-75.9	-25.3	-36.8	-4.0	-3.9

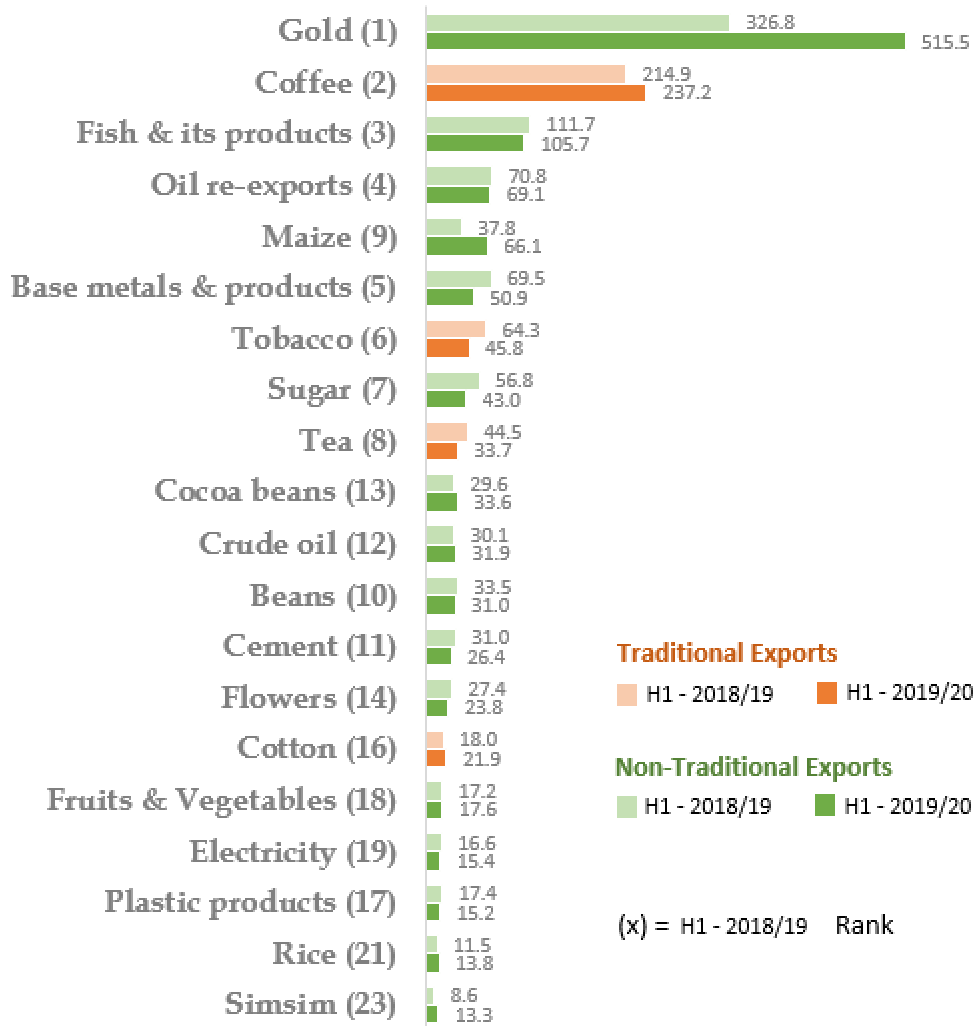
Source: Bank of Uganda

Merchandise Exports

Exports increased by 6.4%

Earnings from merchandise exports increased by 6.4 percent to US$ 1,909.8 million, from US$ 1,795.7 million registered in H1 2018/19. The increased export receipts from gold, coffee and fish largely explain the rise in export earnings of the country. Gold was the major export, contributing 27 percent of the total export earnings. Figure 16 shows notable export products during the period under review.

Figure 16: Top 20 Commodity[3] Exports of Uganda in H1 - 2019/20 (US$ Million)



Source: Bank of Uganda

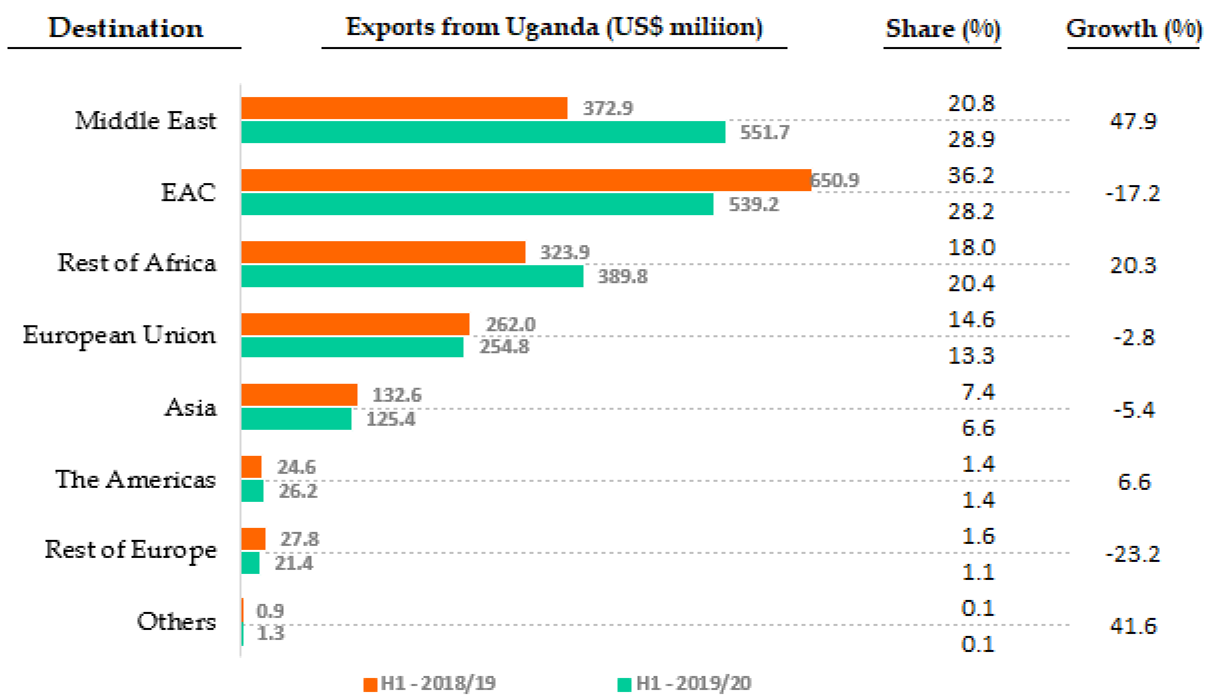
Destination of Exports

The **Middle East was Uganda's top destination** for merchandise exports during the period July – December 2019, followed by the EAC, the Rest of Africa and the European Union. The share of exports to the Middle East increased to 28.9 percent in H1 2019/20, from 20.8 percent in H1 2018/19, as shown in figure 17. Over the same period, East

[3] X – denotes the rank of the commodity in the same half, the previous financial year
Traditional Exports are listed according to the Uganda Trade Policy

Africa's share reduced to 28.2 percent from 36.2 percent, largely explained by the decline in exports to Rwanda following the temporary closure of the Rwanda – Uganda border.

Figure 17: Destination of Uganda's Exports to different Regional Blocs



Source: Bank of Uganda

At country specific level, the **United Arab Emirates remained with the largest share** of Uganda's exports amounting to US$ 535.4 million; followed by the Democratic Republic of Congo at US$ 285.3 million and Kenya at US$ 279.7 million, in H1 2019/20.

Merchandise Imports

Imports decreased by 0.3%

During H1 2019/20, the value of merchandise imports (fob) decreased marginally by 0.3 percent to US$ 3,190.2 million from US$ 3,199.6 million recorded over the same period the previous Financial Year. This drop in imports is explained by the fall in Government project imports, as shown by table 5.

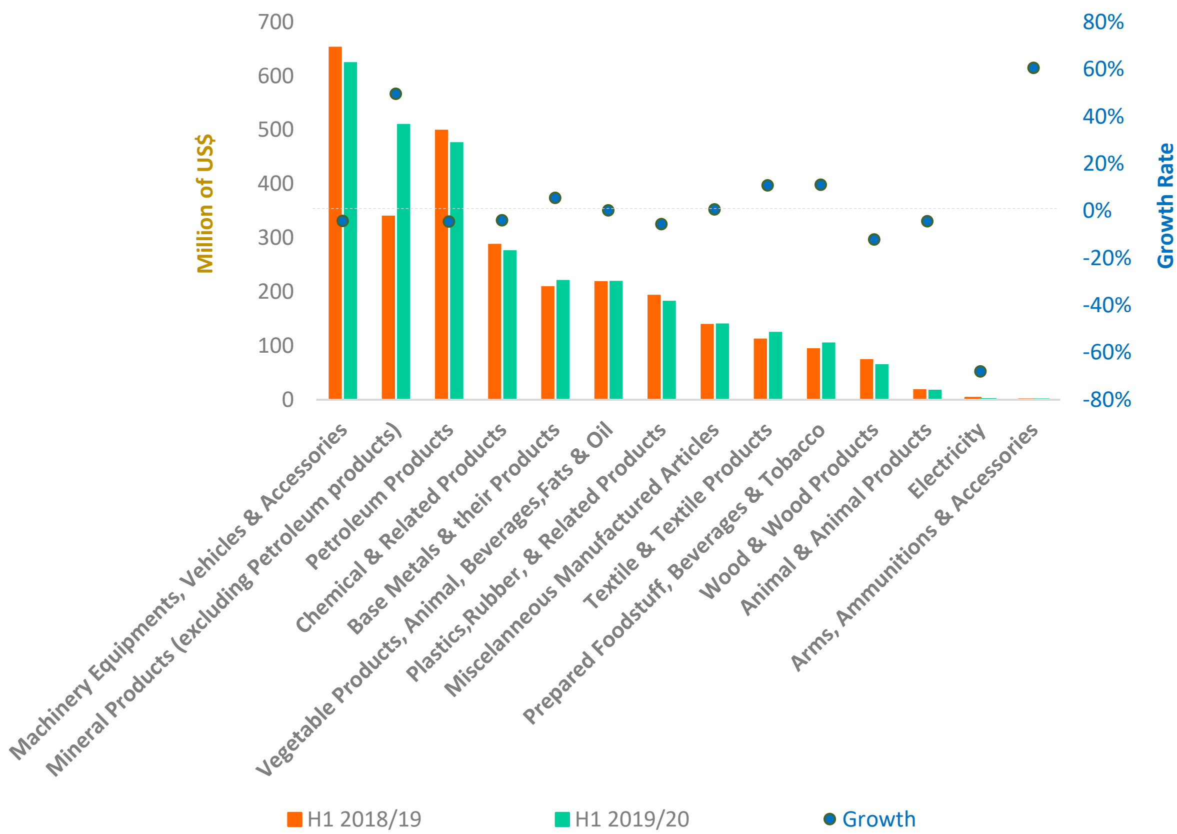
Table 5: Performance of Imports in US$ million

	H1 2018/19	H1 2019/20	Difference (value)	Growth Rate
Total Imports (fob)	3,199.6	3,190.2	-9.5	-0.3%
Government Imports	292.1	163.8	-128.3	-43.9%
Project	291.2	161.7	-129.5	-44.5%
Non-Project	0.9	2.1	1.2	132.1%
Formal Private Sector Imports	2,880.2	2,999.1	118.9	4.1%
Oil imports	502.4	479.3	-23.1	-4.6%
Non-oil imports	2,377.8	2,519.8	142.0	6.0%
Estimated Private Sector Imports	27.3	27.4	0.0	0.0%
Total Private Sector Imports	2,907.5	3,026.4	118.9	4.1%

Source: Bank of Uganda

Formal private sector imports constituted 94 percent of the total merchandise imports in the country in H1 2019/20. The major formal private sector imports were: Machinery equipment, Vehicles & Accessories (US$ 627.7 million); Mineral Products (US$ 513.2 million); and Petroleum Products (US$ 479.3 million), as shown in the figure 18. The increase in private sector imports was on account of the rise in non-oil imports.

Figure 18: Composition of Formal Private Sector Imports by Category[4]



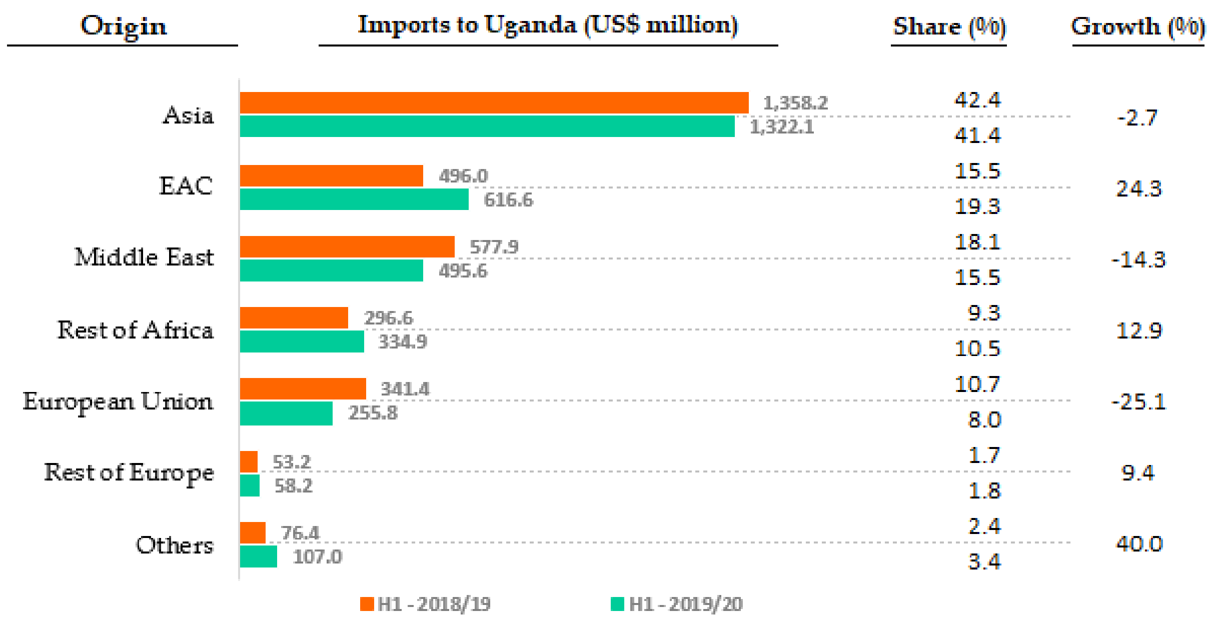
Source: Bank of Uganda

Origin of Imports

In H1 2019/20, **Asia continued to be Uganda's main source of merchandise imports** making a contribution of 41.4 percent of the total imports. EAC and Middle East made contributions of 19.3 percent and 15.5 percent respectively, making them the second and third largest sources, as shown in figure 19.

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

Figure 19: Origin of Uganda's Imports from different Regional Blocs



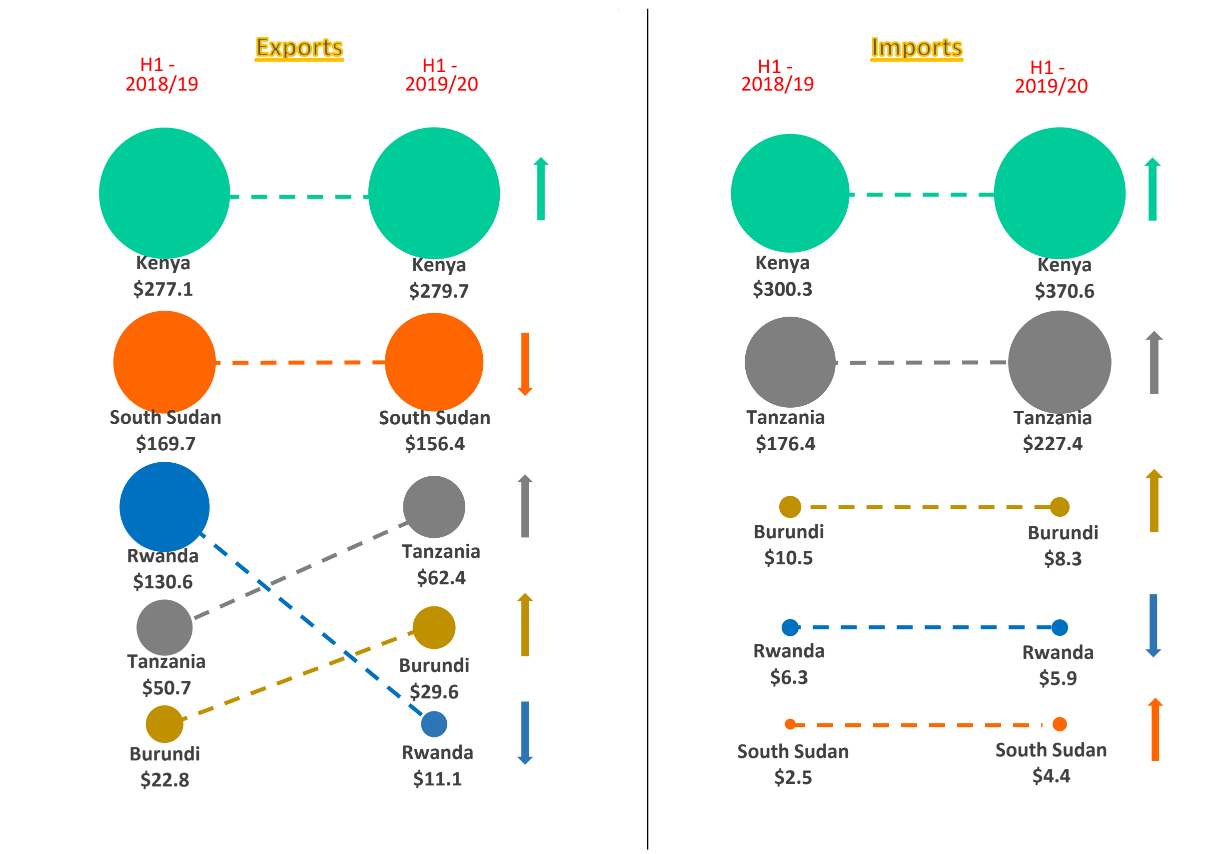
Source: Bank of Uganda

Of the imports from Asia, 69 percent were sourced from China (US$ 539.3 million) and India (US$ 373.3 million), in H1 2019/20. Within the EAC, Kenya constituted 60 percent of the imports, while United Arab Emirates accounted for 64 percent of the imports from the Middle East, in the same period.

Trade with the EAC

In H1 2019/20, Uganda's exports to the EAC dropped by 17.2 percent to US$ 539.2 million, from US$ 650.9 million registered in the same half the previous financial year. On the other hand, Uganda's imports from the EAC rose by 24.3 percent to US$ 616.6 million, from US$ 496 million registered in H1 2018/19. As a result, Uganda's merchandise trade surplus with EAC of US$ 154.9 million recorded in H1 2018/19 shifted into a merchandise trade deficit of US$ 77.4 million in H1 2019/20.

Figure 20: Uganda's Trade with EAC Partner States (US$ Million)



Source: Bank of Uganda

Within the EAC bloc, Kenya remains Uganda's main trading partner over the period under review, followed by Tanzania, South Sudan, Burundi and Rwanda, as shown in figure 20.

Uganda had trade surpluses with South Sudan; Burundi and Rwanda while trade deficits were registered with Tanzania and Kenya, in H1 2019/20 compared to H1 2018/19.

Other Balance of Payments transactions

Remittances (personal transfers) increased on annual basis to USD 294 million in Q1 2019/20, an increase of 10.5% from USD 266 million registered a year ago in the same period. Foreign Direct Investments into Uganda increased on an annual basis by 0.5% from USD 361 million in Q1 2018/19 to USD 363 million in Q1 2019/20.

The stock of international reserves held by the Central Bank stood at USD 3,241 million as at the end of December 2019. This is equivalent to 4.2 months of imports of goods and services. This performance is largely in line with the targeted reserve cover of 4.5 months of imports of goods and services as stipulated in the EAMU protocol to be achieved by 2021.

FISCAL PERFORMANCE

Fiscal Performance

Overview

The fiscal strategy for the Financial Year 2019/20 and the medium term is to continue ensuring the maintenance of macroeconomic stability to support inclusive growth, employment and sustainable wealth creation. This is to be done through improving domestic revenue mobilization as well as improving the rate of execution of public investments so as to harness the returns thereof.

The planned overall fiscal deficit for the first half of FY 2019/20 was UShs 7,051 billion. However, the overall deficit turned out to be UShs 3,879.1 billion as total government expenditure performed at 74 percent of the projection thereby offsetting the shortfalls registered in total revenues and grants.

Fiscal deficit of UShs 3,879.1 billion

Table 6 portrays the details of fiscal operations in the first half of FY 2019/20.

Table 6: Fiscal Operations of the First Half 2019/20 (UShs Billion)

	HY1 - 19/20		Performance	Deviation
	Program	Outturn		
Total Revenues and Grants	**11,102.2**	**9,606.6**	**87%**	**(1,495.6)**
Revenues	**10,105.6**	**9,102.0**	**90%**	**(1,003.6)**
Tax Revenue	9,146.8	8,583.4	94%	(563.4)
Oil Revenue	197.7	-	0%	(197.7)
Non-Tax Revenue	761.1	518.6	68%	(242.5)
Grants	**996.6**	**504.6**	**51%**	**(492.0)**
Budget Support	55.9	62.2	111%	6.3
Project Support	940.7	442.3	47%	(498.4)
Expenditure and Lending	**18,153.2**	**13,485.7**	**74%**	**(4,667.6)**
Current Expenditures	**7,766.0**	**7,255.2**	**93%**	**(510.8)**
Wages and Salaries	2,332.7	2,278.7	98%	(54.1)
Interest Payments	1,749.1	1,421.6	81%	(327.5)
Domestic	1,499.3	1,164.1	78%	(335.2)
External	249.9	257.5	103%	7.6
Other Recurrent Expenditures	3,684.1	3,555.0	96%	(129.1)
Development Expenditures	**9,307.8**	**5,926.9**	**64%**	**(3,380.9)**
Domestic Development	4,670.4	3,958.2	85%	(712.3)
External Development	4,637.4	1,968.8	42%	(2,668.6)
Net Lending/Repayments	**629.9**	**45.9**	**7%**	**(584.1)**
Others (Arrears Repayments)	**449.5**	**257.7**	**57%**	**(191.9)**
Primary Balance	(5,301.9)	(2,457.5)	**46%**	2,844.4
Overall Fiscal Balance	**(7,051.0)**	**(3,879.1)**	**55%**	**3,172.0**
Excluding Grants	(8,047.6)	(4,383.6)	54%	3,664.0
Financing:	**7,051.0**	**3,879.1**	**55%**	**(3,172.0)**
External Financing (Net)	**3,824.7**	**1,146.4**	**30%**	**(2,678.2)**
Disbursements	4,175.4	1,492.9	36%	(2,682.5)
Budget support	48.8	-	0%	(48.8)
Concesional loans	2,322.5	1,479.1	64%	(843.4)
HPPs	429.9	-	0%	(429.9)
Other non-concessional loans	1,374.2	13.8	1%	(1,360.4)
Armotization	(350.8)	(346.5)	99%	4.3
Domestic Financing (Net)	**3,226.4**	**2,422.1**	**75%**	**(804.3)**
Bank Financing (Net)	2,373.0	1,446.7	61%	(926.4)
Non-bank Financing (Net)	853.4	975.5	114%	122.1
Errors and Omissions	-	310.5		

Source: Ministry of Finance, Planning and Economic Development

Revenues

Government had projected to collect UShs 10,105.6 billion in form of domestic revenues in the first half of the financial year. However, only **UShs 9,102 billion was realized** during the period of which UShs 8,583.4 billion was tax revenue while UShs 518.6 billion was non tax revenue (NTR).

The performance of domestic revenue during the half year led to a shortfall of UShs 1,003.6 billion. Of which tax revenues registered a shortfall of UShs 563.4 billion while NTR (collected by both URA and other MDAs) registered a shortfall of UShs 242.5 billion. The remainder of the shortfall originated from a deficit in oil receipts, Government anticipated to receive UShs 197.7 billion in form of capital gains tax from oil companies but the half year ended before this money had materialized.

Tax Revenue

During H1 2019/20, taxes on international trade as well as indirect domestic taxes registered shortfalls. However, there was a positive performance in direct domestic taxes.

Direct Domestic Taxes

Direct domestic taxes totalled UShs 3,122.7 billion, performing above their target for the period by 0.4 percent which is equivalent to a surplus of UShs 11.4 billion. This was mainly due to the performances of corporation tax and withholding tax both of which were above their respective targets for the period by 28.8 percent and 3 percent respectively. A capital gains tax worth UShs 241.6 billion was received from CIPEF ETW (UK) in December 2019, accounting for the good performance of corporation tax in the first half of FY 2019/20. The surplus recorded in withholding tax was partly attributed to reintroduction of the 6 percent withholding tax on beer from Uganda Breweries Ltd and Nile Breweries over the period.

Indirect domestic taxes

Indirect domestic taxes, unlike their direct counterpart, registered a shortfall of UShs 398.6 billion against a target of UShs 2,355.4 billion for H1 2019/20. Of this shortfall, UShs 147.7 billion was in Local Excise duty while UShs 250.9 billion was in Value Added Tax (VAT). VAT collections for H1 2019/20 were UShs 1,318.1 billion against a target of UShs 1,569 billion implying a performance of 84 percent against the target (Shortfall of UShs 250.9 billion). This performance resulted mainly from the services sector where phone talk time registered a shortfall of UShs 92 billion as many people prefer using data for communication purposes. In addition, insurance services; wholesale & retail trade; and public administration also brought in lower VAT than had been projected for the period.

The manufacturing sector also registered shortfalls in VAT of UShs 87.2 billion. Major deficits were incurred in manufacturing of sugar, beer, cement and cigarettes. Beer sales in the period July to December 2019 declined by 36.2 million litres (33.5 percent drop) compared to the same period in FY 2018/19.

Excise Duty collections in the first half of FY2019/20 were UShs 638.7 billion against a target of UShs 786.4 billion implying a shortfall of UShs 147.7 billion. The shortfall is attributed to the decline in performance of beer, spirits, phone talk time and the levy on mobile money withdrawals. In addition, general decline in performance of excise duty can be explained by the delays in the implementation of the digital tax stamps.

Taxes on International Trade

Government had projected to collect UShs 3,798 billion from international trade transactions in the first half of the financial year. However, only UShs 3,537.3 was collected in that period, culminating into a deficit of UShs 260.7 billion. Shortfalls were incurred on; VAT on imports of UShs 135.8 billion, import duties of UShs 83 billion, petroleum duty of UShs 8.6 billion, excise duty of UShs 27.2 billion, withholding taxes of UShs 0.1 billion, temporary road user of UShs 5.3 billion, infrastructure levy of UShs 4.5 billion and export levy of UShs 4.2 billion.

VAT on imports and import duty, the two categories that most underperformed under this tax head, were also partly affected by the exemptions on certain imports on which these taxes apply. That is to say more imports are falling in the exemption category, imports such as machinery, raw materials, imports for use in aid funded projects, among others.

Non-Tax Revenue (NTR)

Government **collected UShs 518.6 billion** in form of NTR during the first six months of the Financial Year 2019/20. This is against the target of UShs 761.1 billion, implying a shortfall UShs 242.5 billion (31.9 percent of the target).

Table 7 shows the breakdown of domestic revenues in H1 2019/20.

Table 7: Details of Domestic Revenue[5] (UShs Billion)

	HY1 2019/20		Performance	Deviation
	Collection	Target		
Net Domestic Revenue	**9,102.0**	**9,788.0**	**93%**	**(686.0)**
Tax Revenue	**8,502.6**	**9,146.8**	**93%**	**(644.3)**
Direct Domestic Taxes	**3,122.7**	**3,111.3**	**100%**	**11.4**
O/w -PAYE	1,436.5	1,503.6	96%	(67.0)
-Corporate Tax	870.1	675.7	128.8%	194.4
-Presumptive Tax	3.1	5.8	53%	(2.8)
-Other	30.6	57.7	53%	(27.1)
-Withholding Tax	460.1	446.7	103.0%	13.4
-Rental Income Tax	56.8	149.7	38%	(92.9)
Indirect Domestic Taxes	**1,956.8**	**2,355.4**	**83%**	**(398.6)**
Excise duty:	**638.7**	**786.4**	**81%**	**(147.7)**
O/w -Cigarettes	9.8	8.7	112%	1.1
-Beer	132.4	170.4	78%	(37.9)
-Spirits/Waragi	64.5	103.1	63%	(38.6)
-Soft Drinks	59.9	79.7	75%	(19.8)
-Phone Talk time	111.5	121.5	92%	(10.1)
-Levy on Mobile money	49.7	80.2	62%	(30.5)
-Over The Top	28.5	25.3	113%	3.2
Value Added Tax:	**1,318.1**	**1,569.0**	**84%**	**(250.9)**
O/w Manufacturing	699.8	787.0	89%	(87.2)
Services	256.8	349.0	74%	(92.2)
Wholesale and retail trade, repairs	134.4	175.7	76%	(41.3)
Public Administration and Defence	13.4	35.3	38%	(21.9)
Taxes on International Trade	**3,537.3**	**3,798.0**	**93%**	**(260.7)**
O/w -Petroleum duty	1,081.4	1,090.1	99%	(8.6)
-Import duty	697.1	780.0	89%	(83.0)
-Excise duty	100.6	127.8	79%	(27.2)
-VAT on Imports	1,341.2	1,477.0	91%	(135.8)
Tax Refunds:	**(168.8)**	**(168.3)**	**100%**	**(0.5)**
Stamp duty & Embossing Fees	**54.5**	**50.4**	**108%**	**4.1**
NTR	**599.5**	**641.2**	**93%**	**(41.8)**

Source: URA, MOFPED

Grants

Total development assistance received by Government inform of grants amounted to **UShs 504.6 billion** against the projected UShs 996.6 billion. Of the amount received, UShs 62.2 billion was to support budgetary activities while UShs 442.3 billion was tied to support of particular projects. The performance of project support grants remained low, at 47 percent, mainly because of challenges in project executions causing delays in disbursements.

[5] The categorization of tax revenue and non-tax revenue in this table is different from the Government Finance Statistics (GFS) categorization. However, the overall domestic revenue number is consistent.

Government Expenditure

Total Government spending in the first half of FY 2019/20 amounted to UShs 13,485.7 billion which is equivalent to 74 percent of the programmed UShs 18,153.2 billion.

Government spending on recurrent items performed at 93 percent of its programme. This was mainly because of non-wage recurrent expenditure that was lower than the projection by 3.5 percent, and wages which were lower than their projection by 2.3 percent. This is partly because some of these payments were still under verification by the time the half year ended and thus could not be captured, and also partly because some MDAs had to spend less than earlier programmed after failing to realise the non-tax revenue that is spent at source (Appropriation in Aid).

In the first half of the Financial Year, **Government planned to clear domestic arrears** to the tune of UShs 449.5 billion. However, by end of December 2019, UShs 257.7 billion had been paid out in clearance of arrears, with the remaining amount now scheduled to be paid in the second half of the Financial Year.

Development expenditure in H1 2019/20 amounted to UShs 5,926.9 billion against the programme of UShs 9,307.8 billion. This translated into an underperformance of 36 percent. This underperformance is mainly on account of externally financed development spending which was less than projected by 58 percent, owing to execution challenges facing development projects and thereby causing delays in disbursements from development partners. Domestically financed development spending was also less than projected by 15.3 percent.

Government also programmed to spend UShs 629.9 billion on the Hydro Power Projects (HPPs) in the first half of the Financial Year but only UShs 45.9 billion had been recorded to have been spent by end of December 2019. However, physical work is ongoing and on schedule and certificates of payments have already been issued to the financiers for clearance.

Financing

Given the resources available and expenditures made in H1 FY2019/20, there was a financing gap of UShs 3,879.1 billion. This deficit was financed using borrowings from our external development partners as well borrowing from the domestic private sector and offshore investors. In this period, Government received loan disbursements worth UShs 1,146.4 billion most of which was concessional in nature to fund various development projects.

Debt Sustainability Analysis

The December 2019 Debt Sustainability Analysis (DSA) finds that Uganda continues to be at low risk of debt distress, with public debt found to be sustainable over the medium to long term. The **stock of total public debt grew** from US$ 10.7 billion at end June 2018 to US$ 12.6 billion (UShs 46.36 trillion) by end June 2019. Of this, external debt was US$ 8.4 billion (UShs 30.85 trillion), while domestic debt was US$ 4.2 billion (UShs 15.51 trillion). This represents an increase in nominal debt to GDP from 34.8 percent in June 2018 to 36.1 percent in June 2019. Measured in present value terms, the total stock of debt amounted to 27.3 percent of GDP up from 25.8 percent the previous financial year.

Notwithstanding, the analysis identified a number of risks to the debt portfolio, including the slow growth of exports and the increasing debt service burden. Debt service as a percentage of revenue has increased over recent years, as a result of the increase in domestic debt (which is typically costlier) as well as less concessional external debt.

To maintain debt sustainability, Government will ensure that the recent improvement in economic growth is sustained. This will be achieved, in part, by ensuring that borrowed resources are used for projects with a growth dividend, and that projects are implemented in the most efficient manner. To this end, Government has put in place a number of measures aimed at improving the project cycle, including the development of a user manual for project development and appraisal; the maintenance of an integrated bank of projects; strengthening the Development Committee, which is responsible for reviewing the feasibility of projects and approving them for inclusion in the Public Investment Plan; and building capacity in MDAs to equip officers with project management skills in order to enhance efficiency in project implementation.

Performance of the Petroleum Fund

The value of the Petroleum Fund as at the end of December 2019 **stood at UShs 76.1 billion** compared to UShs 311.1 Billion as at the end of June 2019. This decline is attributed to a transfer of UShs 255 Billion into the Uganda Consolidated Fund in September 2019 to finance the budget. There was however, a deposit of 23.6 Billion from revenue, of which UShs 21.1 billion was directly attributed to tax from oil related activities with the difference of UShs 2.6 billion resulting from Non-tax revenue. Other changes in the fund are linked to bank charges and foreign exchange losses.

OUTLOOK OF THE ECONOMY

Outlook of the Economy

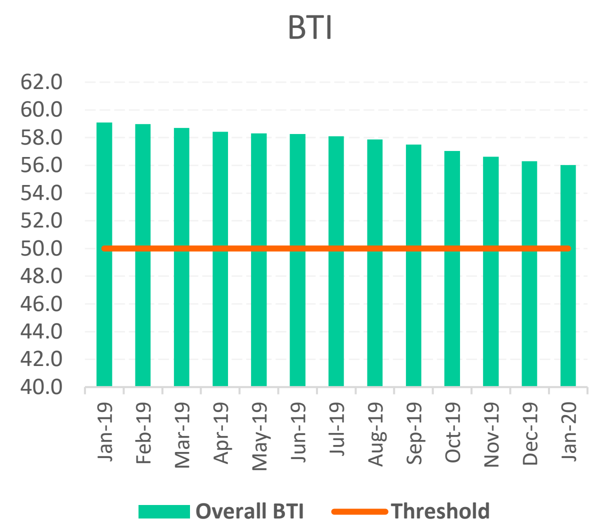
Economic Growth

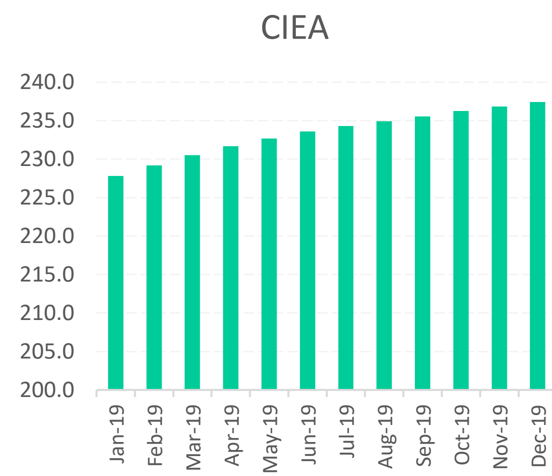
GDP projections indicate that the economy is expected to grow by 6.0 percent in the financial year 2020/21 and is expected to peak at 7.0 percent in the medium term. This growth will be mainly driven by increased private sector activity, continued public infrastructure investment, and Oil and Gas sector activities. In addition, productivity improvements are expected in agriculture and manufacturing, largely supported by government interventions in improving quality of agricultural inputs, providing extension services, efforts in irrigation and continued investments in industrial parks and economic free zones. Similarly, the positive growth prospects in other EAC Partner States are expected to boost Uganda's exports, particularly of agricultural products and manufactures.

The further easing of monetary policy in the first half of the financial year has provided a conducive stance that should support more lending to the private sector and ultimately supporting economic activity.

The high frequency indicators of economic activity have demonstrated the positive prospects of doing business and continued economic activity through the Business Tendency Index (BTI) and the Composite Index of Economic Activity (CIEA) respectively. The BTI was above the threshold of 50 throughout the first half of the Financial Year 2019/20, as shown by figure 21 while the CIEA made moderate improvements. This was also supported by the Purchasing Managers Index (PMI), which remained above the threshold of 50 signalling good business conditions throughout the first half of the FY 2019/20. Growth in output, new business and increased staffing levels was reported. The headline PMI posted 57.7 in December 2019.

Figure 21: High Frequency Indicators of Economic Activity

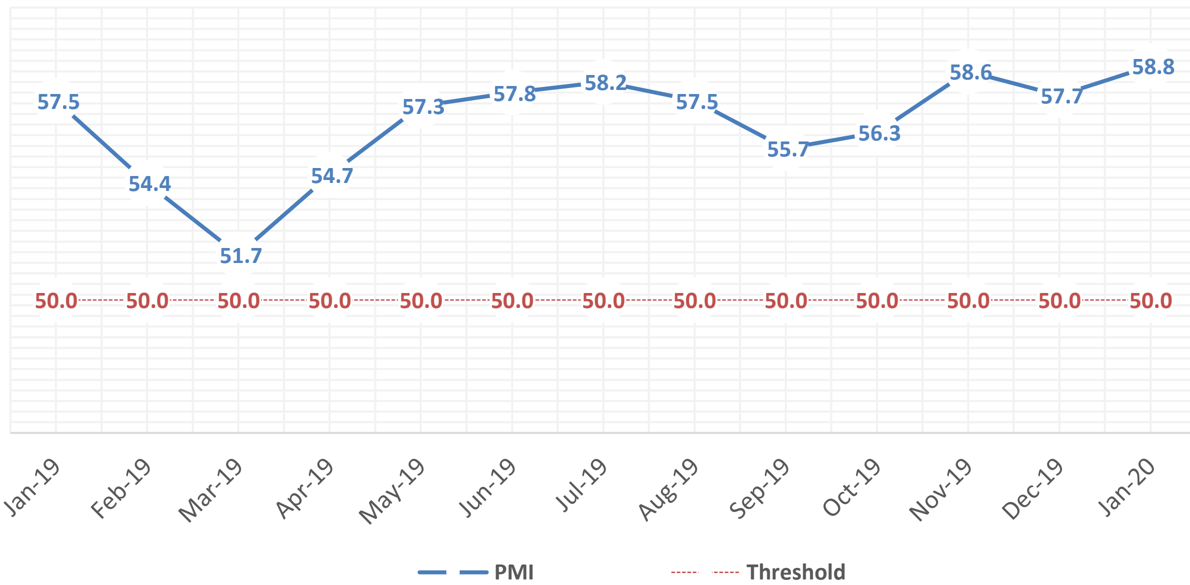




Source: Bank of Uganda

The start of 2020 saw a further improvement in business conditions in the Ugandan private sector. The headline Purchasing Managers Index (PMI) recorded 58.8 which is above the 50.0-mark threshold, the highest since last year signalling improvements in the health of the Ugandan private sector. This is amid increases in output; new orders and employment, with input costs also continuing to rise, as companies often opt to pass higher cost burdens on to clients through increased selling prices.

Figure 22: Purchasing Managers Index (PMI)



Source: Stanbic Bank Uganda

Downside risks to growth

- Heavy rains which may hamper drying, harvesting and storage of cereals and pulses, resulting in above average post-harvest losses. This will also affect heavily saturated soils in lowlands resulted in localized damage to root crops, including cassava, sweet potatoes, Irish potatoes and groundnuts.

- The new outbreak of foot and mouth disease which started in Nakaseke district is expected to slow down livestock activities within the region.

- The locust invasion which started in Karamoja district could also negatively affect agriculture activity and output.

- The slowdown in global growth to an estimated 2.9 percent in 2019 from 3.0 percent in 2018 due to persistent geo-political and trade tensions. In addition to this, the new outbreak of the Coronavirus in China and its neighboring countries might have a negative impact on global trade.

Inflation

The outlook to inflation in the 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 performing well 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.

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 Risks

The major risks to Uganda's fiscal plans stem from the macroeconomic environment, the level of public debt and natural disasters.

a. Macroeconomic Risks

Changes in macroeconomic assumptions create risks to both revenue and expenditure projections as they play a key role in the formulation of the budget. This section assesses three important sources of macroeconomic risks:

- Global and regional economic and trade environment;
- Estimation of macroeconomic indicators; and
- Commodity price volatility.

i. Global and regional economic and trade environment

Currently the global economy faces threats of rising protectionism, a sharp increase in risk premiums or reversal in capital inflows owing to tightening global financial conditions, and a faster-than-anticipated slowdown in China and in the euro area. This in turn could put pressure on foreign investment and remittance inflows with negative consequences for the exchange value of the shilling.

Regionally, risks include climate shocks, intensification of security challenges, and the potential spread of the Ebola outbreak beyond the Democratic Republic of the Congo. In addition, risks of tension ahead of general elections in some key regional trading partners could negatively impact on trade and ultimately government revenue if they materialize.

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 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.

ii. Estimation of Macroeconomic Indicators

Volatility and optimism bias in growth projections can have negative effects on tax revenues and public debt. Despite growth projections being close to the outturns in recent years, risks arising from continued delays in the Final Investment Decision (FID) ahead of oil production, or changes in weather patterns could negatively affect economic growth outturns. This would in turn affect tax revenues and public debt.

iii. Commodity price volatility

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. Downside risks stem from higher-than-expected shale oil production in the United States, while upside risks are related to potential further supply disruptions in major oil-producing countries such as Iran and Venezuela

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.

b. Risks related to Public Debt

i. Domestic Debt

Refinancing Risk: The proportion of domestic debt maturing in one year reduced to 36.5 percent of total domestic debt by June 2019 from 36.8 percent in June 2018 on account of the issuance of longer dated securities. Despite this improvement, the ratio remains considerably high. Additionally, the current practice of rolling over maturing debt, implies that Government faces a risk of being unable to refinance its maturing domestic debt. To mitigate against this risk Government will continue implementing the strategy of taking on longer dated securities. Government will also ensure that domestic borrowing remains under one percent of GDP.

ii. Contingent Liabilities

Contingent liabilities are payment obligations that only arise if a particular event occurs. The government's main contingent liabilities stem from loan guarantees and the debts of public corporations.

c. Natural Disasters

Due to climate change, deforestation and wetlands degradation, the country is increasingly susceptible to highly devastating hydrological, geological, climatic and human-induced disasters such as drought, flooding, landslides, hailstones, windstorms, lightening, waterborne epidemics, crop and livestock epidemics and earthquakes. These disasters pose a challenge for economic growth and social welfare, and can have significant consequences on the National Budget in case unplanned or emergency funding is required. Despite the PFM Act 2015 providing for a contingencies fund to cater for such unforeseen occurrences, these could be of greater magnitude than the provision, hence posing a fiscal risk.

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