MACROECONOMIC & FISCAL PERFORMANCE OF THE ECONOMY FY 2019/20

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MACROECONOMIC POLICY DEPARTMENT

Outline

1. Macroeconomic;

- Real Sector (Growth and Inflation)
- Financial Sector (Lending Rates, Private Sector Credit, Government Securities, Exchange rate)
- External Sector (Trade Balance, Exports and Imports)

2. Fiscal Performance;

- Revenues
- Expenditure
- Deficit

3. EAC Performance

4. Outlook

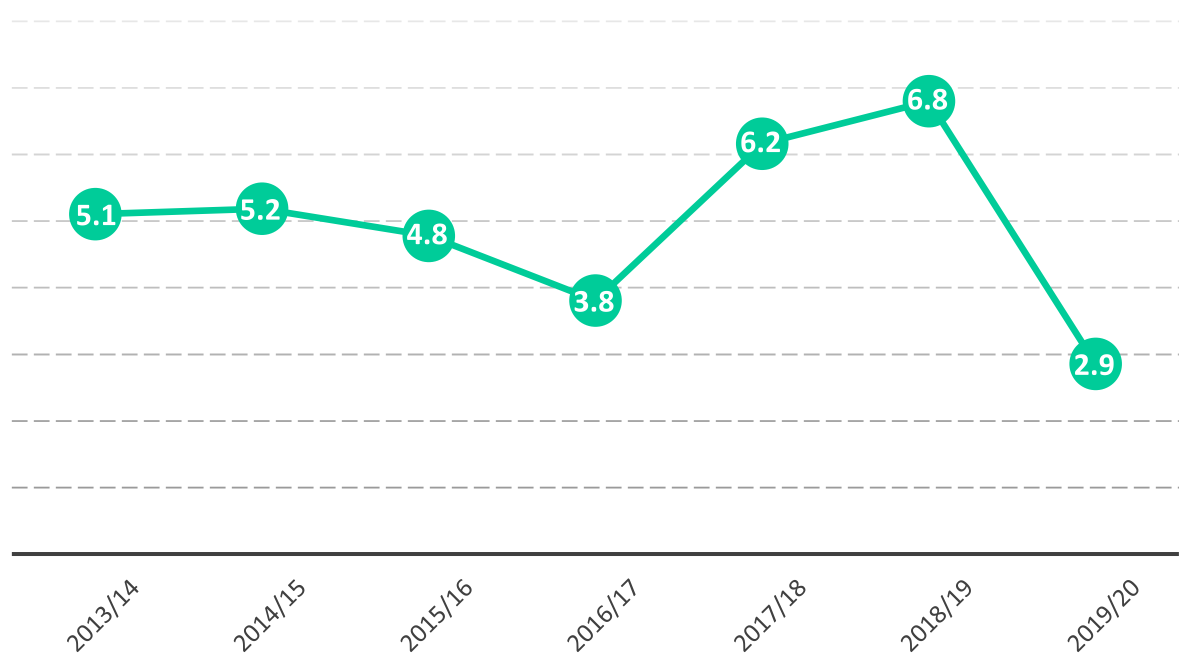
Economic Growth

- Economic growth in the Financial Year 2019/20 was **2.9 percent** compared to **6.8 percent** registered in the FY 2018/19.

- Therefore, the Ugandan economy expanded by **UShs 138.8 trillion** in FY 2019/20, from **UShs 131.4 trillion** in FY 2018/19. Economic growth in FY 2019/20 was greatly hindered by the COVID-19 pandemic.

- Strong economic growth performance was registered in first half of the Financial Year (an average of 8.1 percent), but this was countered by the negative growth registered in the second half of the Financial Year.

Real GDP Growth Rates of Uganda (%)



Source: Uganda Bureau of Statistics

- The most affected sectors were **Industry and Services sectors** due to the containment measures to deal with the COVID-19 health crisis.

Reasons for the growth

Uganda’s economic growth is affected by both global and domestic factors;

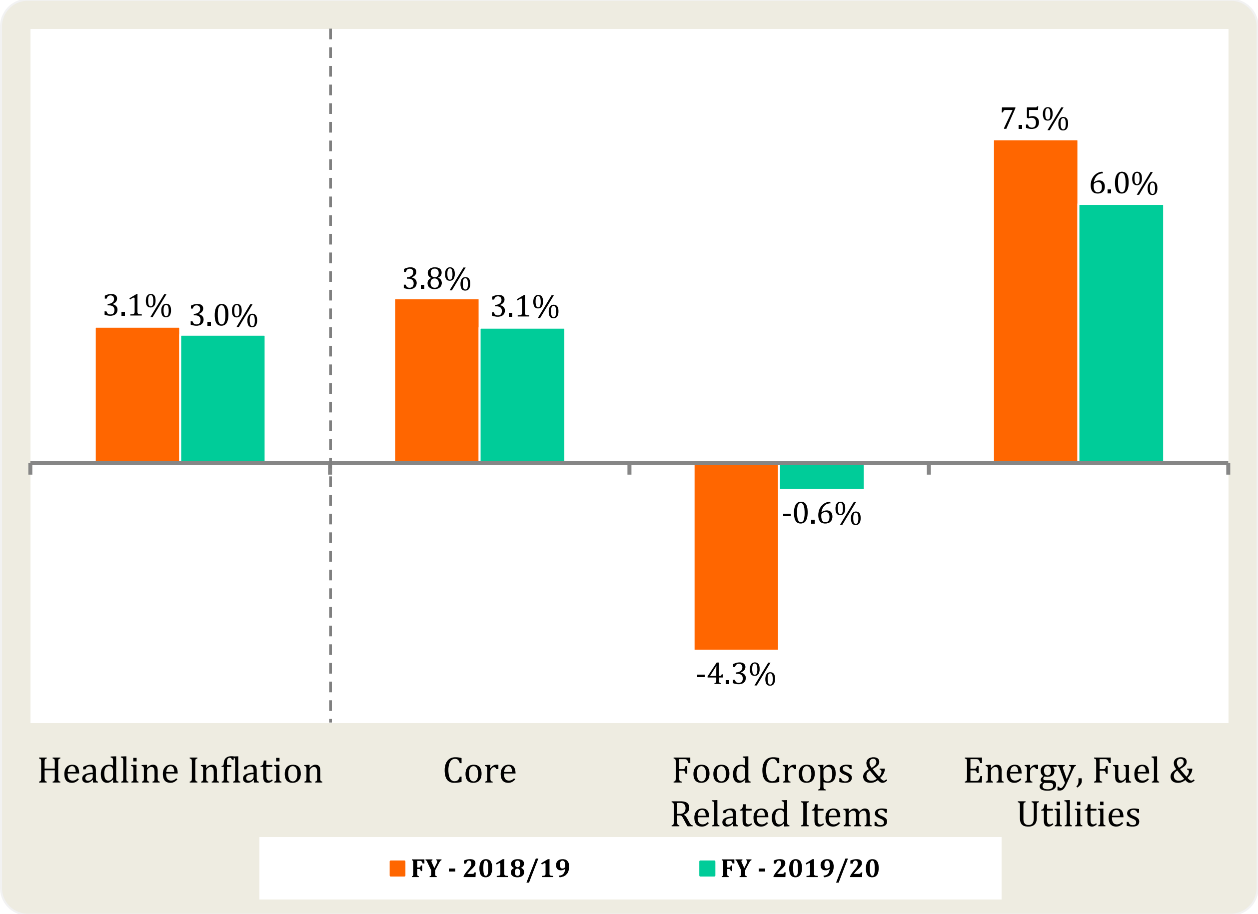
- Global growth is forecast at **-4.4 percent** for 2020, from **2.8 percent** in 2019.

- Sub-Saharan Africa growth is expected at **-3.0 percent** for 2020, from **3.2 percent** in 2019.

- ❑ This is because the pandemic rapidly intensified in a number of emerging and developing economies, necessitating stringent lockdowns hence disruptions in economic activity.
- ❑ Travel restrictions not only caused supply chain disruptions that affected the performance of the manufacturing sub-sector, they also dampened economic activity in key service sectors like tourism.

- On the domestic front, growth in the first half of the year was largely driven by increased public and private investments, growth in the services sector, strong performance in the industry sector, specifically the manufacturing sub sector. However, with the onset of the pandemic, all the sectors were affected with Industry and services getting the most hit.
- Agriculture sector showed resilience and exhibited good performance supported by favourable weather conditions and continued Government interventions through provision of quality seedlings, extension services and pesticides.

Annual Inflation remained low compared to the previous year



Source: Uganda Bureau of Statistics

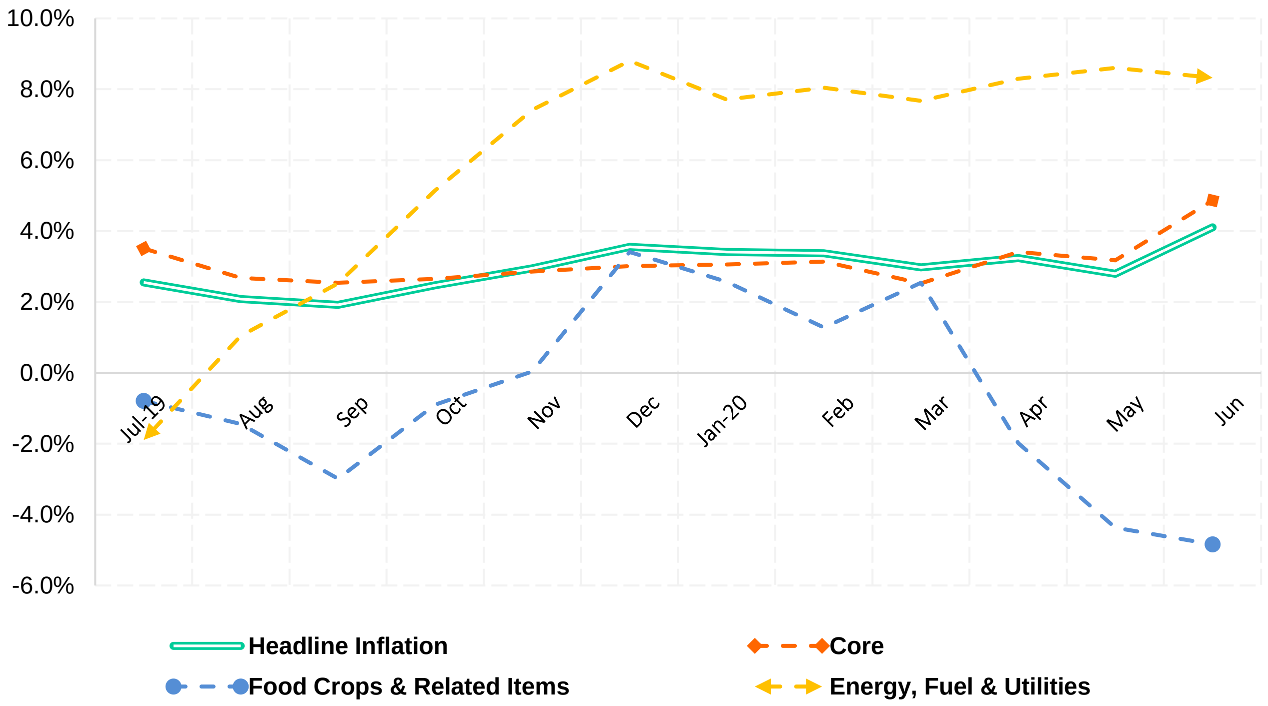
- During the Financial Year 2019/20, headline inflation remained stable and subdued registering a slight decline to a **3.0 percent** average, from **3.1 percent** in the previous Financial Year.
  - The decline in headline inflation was on account of general declines in both core and EFU inflation.

- Inflation picked up slightly in the second half of the Financial Year with most months between January and June 2020 registering higher inflation levels compared to the first half of 2019/20.
  - This was attributed to a pickup in both Core and EFU inflation in the second half of the Financial Year.

Headline and Core inflation remained low throughout the year, EFU increased

- A **month on month analysis** however showed a slight pickup in core inflation in the second half of the Financial Year driven by an increase in prices for most manufactured foods, meats, alcoholic beverages and transport fares.
  - The pickup in core inflation in the second half of the Financial Year was not enough to offset the declines recorded in the first half of the Financial Year.

- Food crop inflation averaged at -0.6 percent in the FY 2019/20, compared to -4.3 percent recorded in the FY 2018/19.
  - This implies that the decline in food crop prices in the FY 2019/20 slowed down significantly when compared to the previous Financial Year.
- The general decline in prices of food crops was attributed to a combination of increased supply of agricultural produce in the market and a decrease in demand for food as major players in the food market such as schools, hotels and restaurants closed operations during the nationwide lockdown.



Source: Uganda Bureau of Statistics

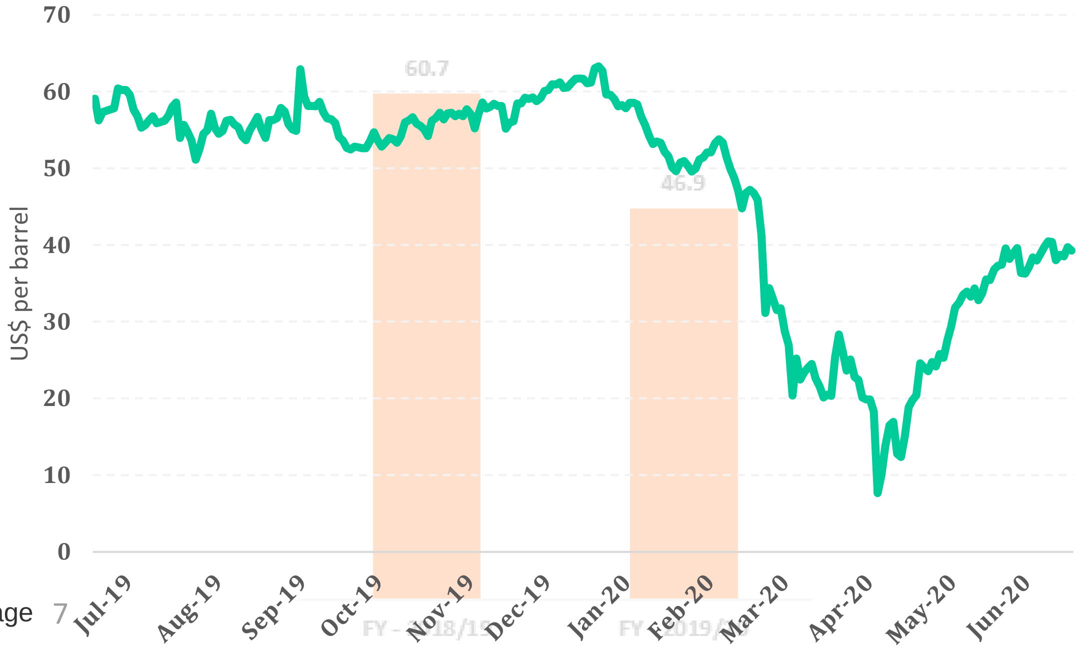
- EFU inflation also declined to 6.0 percent in the FY 2019/20, from 7.5 percent the previous Financial Year.
- The decline was attributed to reduced charges on the use of electricity, and lower fuel pump prices, compared to the previous Financial Year.
  - Fuel pump prices declined in line with a drop in international oil prices *(Refer to section on global commodity prices)*.
  - The reduction in electricity charges was on account of subdued inflation, an appreciation in the exchange rate and lower international oil prices all of which reduced operating costs in the electricity supply industry and consequently reduced end user tariffs.
- EFU inflation picked up in the second half of the Financial Year driven by a significant increase in the price of charcoal and firewood.

Global Commodity Prices

❑ The international price of Brent crude oil declined to an average of US$ 46.9/barrel in the Financial Year 2019/20, down from US$ 60.7/barrel in the FY 2018/19.

- The reduction in oil prices was largely attributed to a combination of increased supply and low demand in the second half of the Financial Year, as several countries across the world imposed national lockdowns and restricted movement of nationals so as to curb the spread of the COVID-19 pandemic.

This combined with geo-political tensions in the first half of the Financial Year altogether translated into low demand for oil throughout the Financial Year leading to a drop in oil prices.



Source: US Energy Information Administration

❑ The international coffee composite price indicator during the FY 2019/20, trended upwards to a 104.1 average from a 101.4 average in the FY 2018/19.

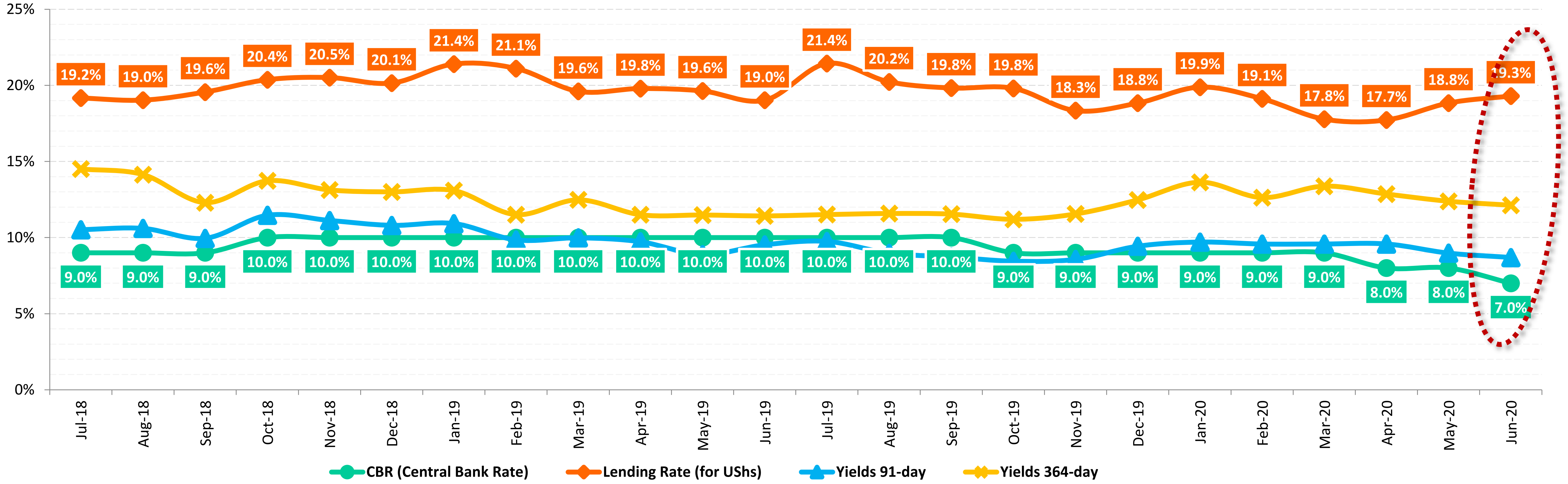
- The rise in the international coffee price was more pronounced in November and December 2019. This was largely due to increased demand for coffee from processing firms coupled with supply constraints in the coffee market as exports from Brazil slowed and harvests from other sources were delayed.

Upward pressures in the coffee price were also evident in March and April 2020 owing to supressed production as a result of the COVID-19 outbreak which was outmatched by demand.

Source: International Coffee Organisation (ICO)

Yields on T-bills declined in 2019/20 compared to 2018/19

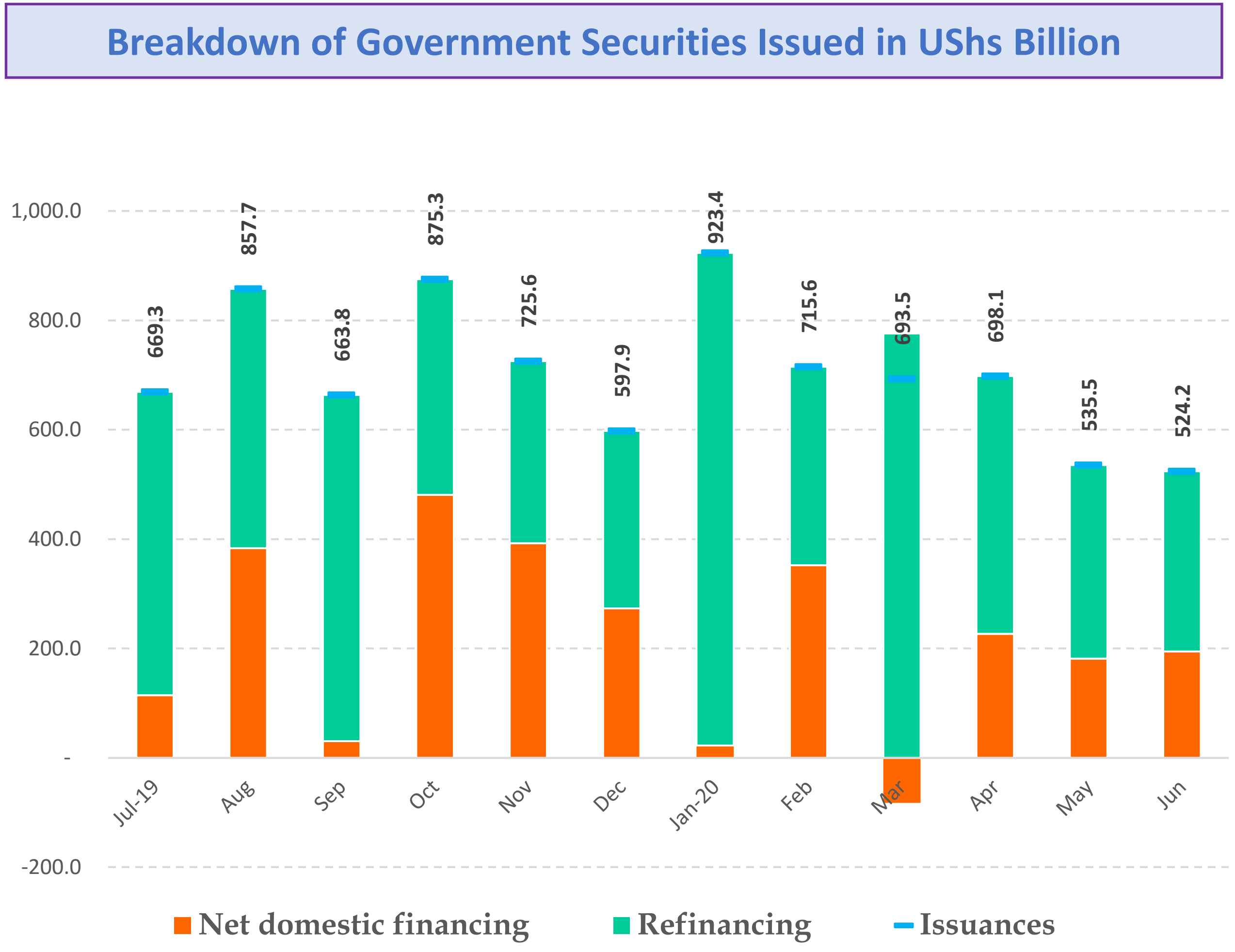
- The yields on the 91-day and 364-day T-Bills declined by 111 basis points and 45 basis points respectively. The decline in these yields was partly attributed to a reduction in the Central Bank Rate (CBR).
  - In addition, Government's commitment to sticking to the net domestic financing that was pronounced at the time of the Budget partly cushioned against the rise in yields, especially in the last quarter of the FY.



Source: Bank of Uganda

- The outbreak of Covid-19 in Uganda towards the end of March 2020 and the measures put in place to curb the disease spread (lockdown), resulted into subdued economic activity. In order to bolster economic recovery, the CBR was reduced to 8 percent in April 2020, and further down to 7 percent in June 2020. This was additional support to monetary policy and macro prudential measures earlier taken to mitigate the adverse impact of the pandemic on the economy.
- Despite the Monetary easing stance, commercial bank lending rates for the shilling denomination slightly reduced from an average of 19.9 percent in the Financial Year 2018/19 to an average of 19.3 percent in the FY 2019/20.

Government Securities



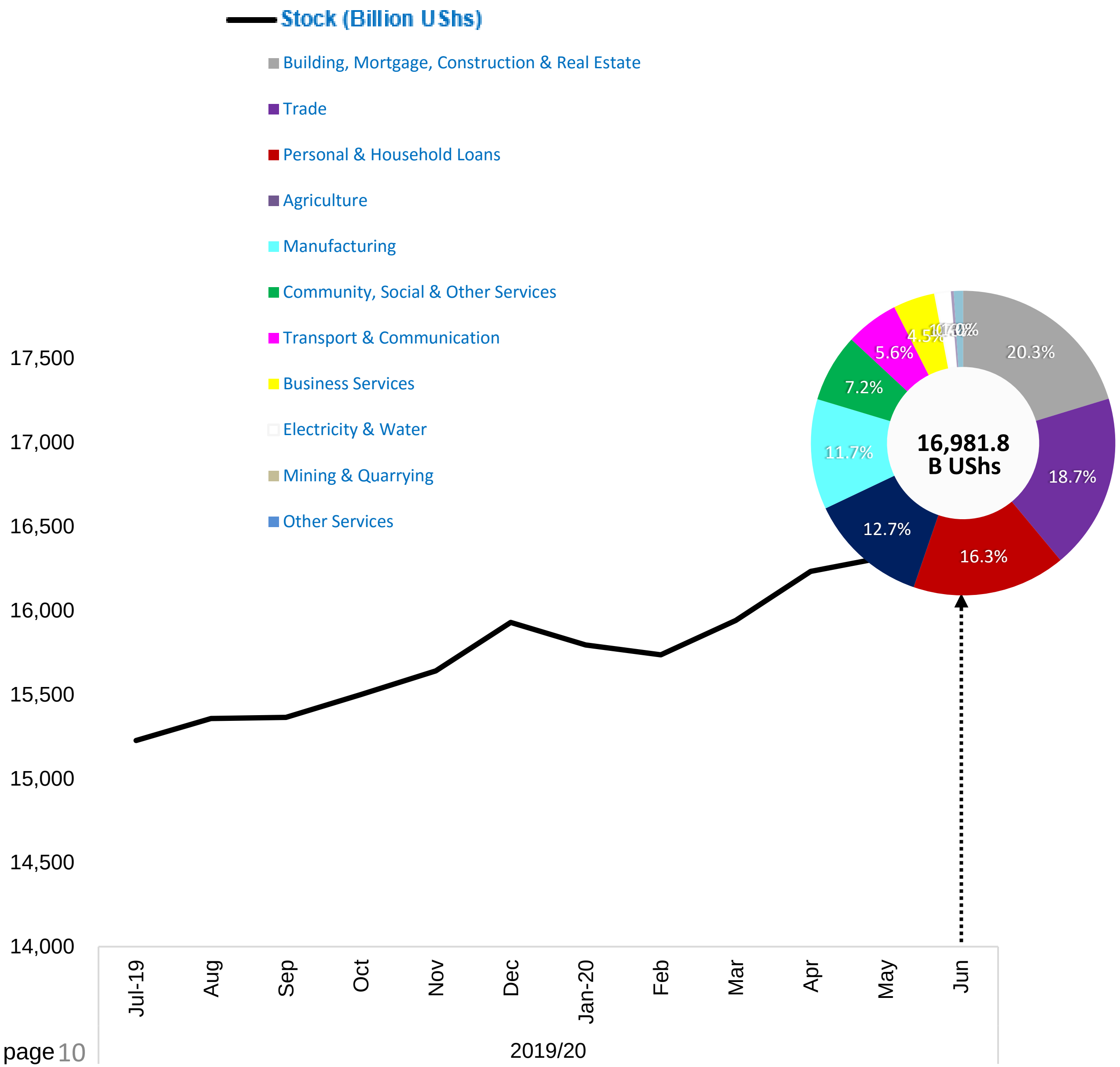
Source: Ministry of Finance, Planning and Economic Development

- During the Financial Year 2019/20, Government held various auctions for both Treasury Bills and Treasury Bonds. **UShs 8,480 billion (at cost)** was raised from the primary domestic securities market.

  Of the amount raised;

  - UShs 5,910.2 billion was issued for the refinancing of maturing debt whereas
  - UShs 2,569.8 billion was utilized for financing other activities in the FY 2019/20 Government budget, just like it was planned at the time of the budget.

Stock of Private Sector Credit



Source: Bank of Uganda

- The stock of outstanding private sector credit grew by **12.5 percent** to UShs 16.98 trillion as at end June 2020. This compares with a similar growth of **12.6 percent** over the same period the previous Financial Year depicting some level of resilience amidst the impact of the COVID-19 outbreak.
  - This is in part supported by the credit relief measures put in place by the Central Bank to ensure financial sector stability and that Supervised Financial Institutions (SFIs) have adequate capital buffers, while supporting the real economy following the impact of COVID_19.

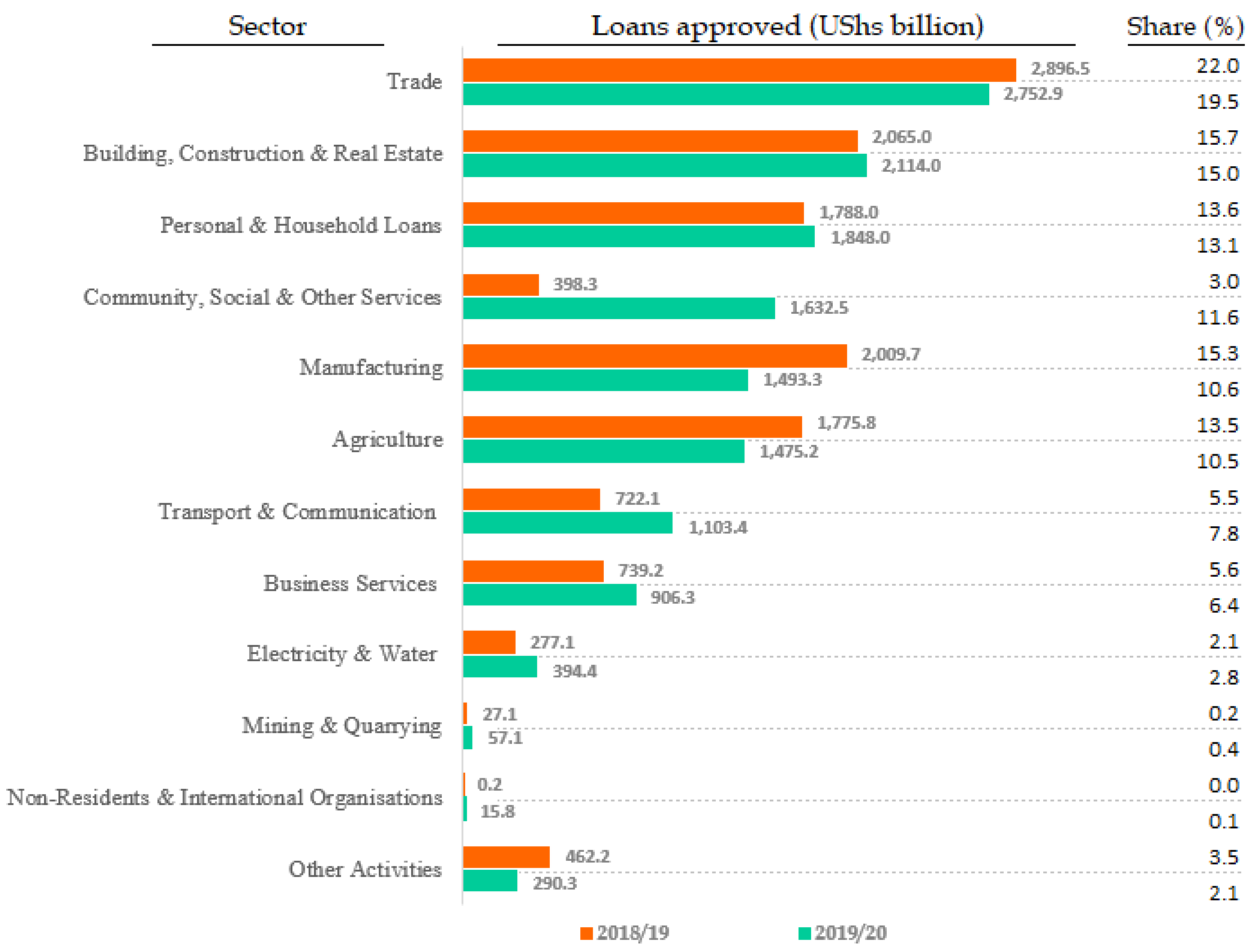
Lending to the Private Sector

- The value of loans approved increased by **7 percent** from UShs 13.16 trillion in the FY 2018/19 to UShs 14.08 trillion in the FY 2019/20.

  - However, this compares unfavourably against the growth of 21.6 percent for the previous Financial Year.

Following the impact of Covid-19 on the economy, banks became risk averse and responded by reducing lending, driven by concerns about asset quality (increased NPLs) as well as significant uncertainty about economic recovery.

Value of New Loans Approved by Sector

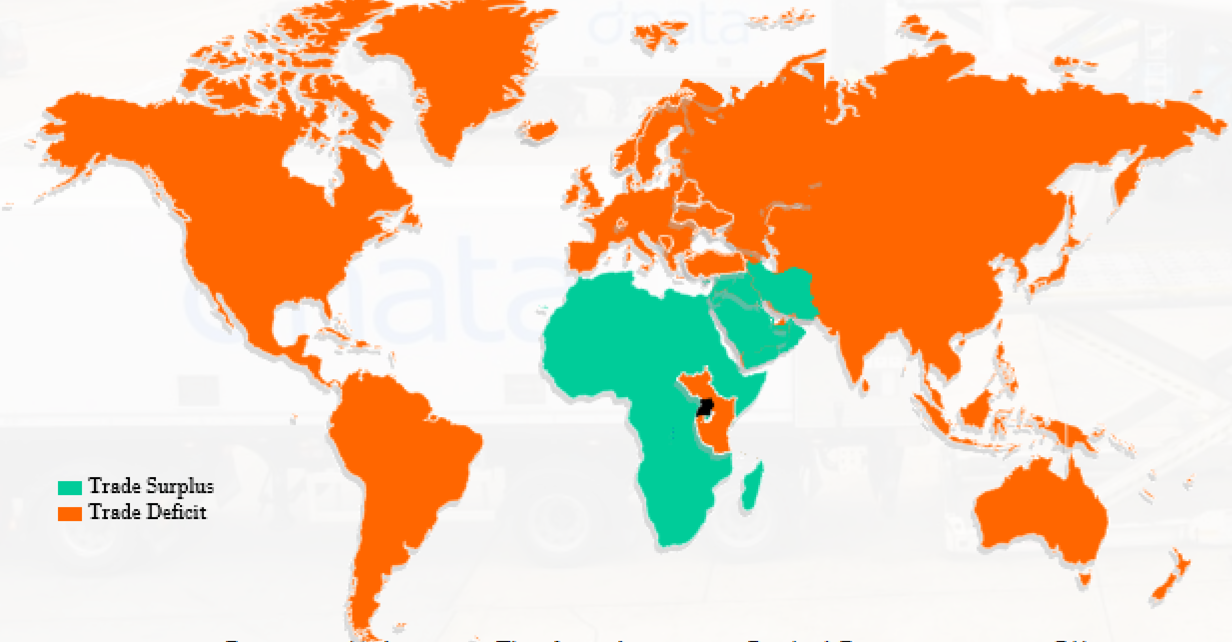


Source: Bank of Uganda

Merchandise Trade Balance

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

	Asia		EAC		Middle East		Rest of Africa	
	FY-18/19	FY-19/20	FY-18/19	FY-19/20	FY-18/19	FY-19/20	FY-18/19	FY-19/20
Total Trade	3,057.3	2,818.5	2,348.9	2,317.6	2,157.2	2,026.4	1,288.5	1,352.2
Trade Balance	-2,477.7	-2,288.6	54.8	-217.0	-56.5	331.3	91.3	28.6



	European Union		The Americas		Rest of Europe		Others	
	FY-18/19	FY-19/20	FY-18/19	FY-19/20	FY-18/19	FY-19/20	FY-18/19	FY-19/20
Total Trade	1,182.8	1,038.9	239.7	267.5	282.9	131.4	233.3	11.7
Trade Balance	-174.6	-13.9	-141.7	-146.9	68.1	-50.5	-229.4	-6.6

Source: MOFPED calculations based on data from BOU

Note: Total Trade is equal to merchandise exports plus merchandise imports, and Trade Balance is equal to merchandise exports minus merchandise imports

- Uganda's merchandise trade deficit amounted to US$ 2,363.4 million in the Financial Year 2019/20, **17.5 percent lower** than US$ 2,865.8 million in the FY 2018/19. The narrowing of the deficit follows a substantial decline in the import bill (down by US$ 664.6 million), that more than offset the fall in the export earnings (down by US$ 162.2 million).

- **Asia remained the major trading partner** of Uganda, with total trade of US$ 2,818.5 million in the FY 2019/20. It was followed by the EAC; the Middle East; and Rest of Africa. Uganda had trade surpluses with the Middle East and the Rest of Africa regional blocs, while trade deficits were registered with the other regional blocs.

Exports decreased by 4.1%

- The Financial Year 2019/20 saw a decline in exports **from US$ 3,962.5 million** in FY 2018/19 **to US$ 3,800.3 million**. The fall in these receipts was evident in the second half of the Financial Year with the largest drop being recorded in April 2020. Export receipts declined by US$ 272.7 million in the second half of the FY 2019/20 in comparison with the same period the previous year. This decline significantly offset the gains that had been earlier made in the first half of the Financial Year.

    - The fall in export earnings during the year was on account of the COVID-19 pandemic that did not only disrupt supply chains, but also led to a decline in global demand. Export commodities that recorded the largest declines include fish & its products; electricity; oil re-exports; cotton, tobacco, tea, hides & skins.

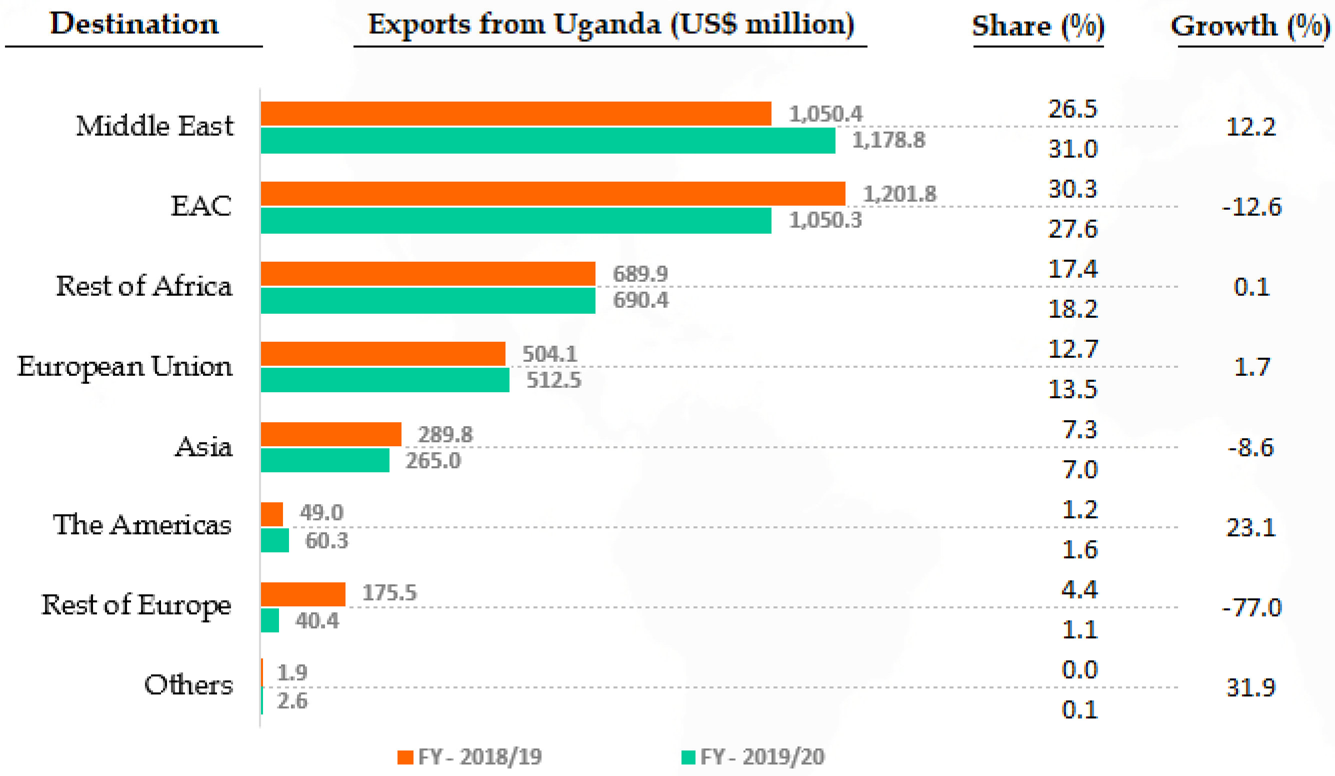
- On the other hand, coffee receipts increased by 19.5 percent over the same period from US$ 416.2 million to US$ 497.4 million. The growth in coffee receipts is explained by the increased export volumes on account of fruition of the new coffee trees, and favourable weather conditions.

Top 20 Commodity Exports of Uganda in 2019/20 (US$ Million)

Source: MOFPED calculations based on data from BOU

Destination of Exports

Destination of Uganda's Exports to different Regional Blocs



Source: MOFPED calculations based on data from BOU

- The **Middle East was the main destination** for Uganda's exports in the Financial Year 2019/20, overtaking the East African Community. Uganda's exports to the Middle East, accounted for 31 percent of the total exports. EAC followed closely, accounting for 27.6 percent, while in third place was the Rest of Africa which took 18.2 percent of total exports. Between 2018/19 and 2019/20, exports to the Middle East increased by 12.2 percent whereas exports to the EAC declined by 12.6 percent.

- At country specific level,
  - the **United Arab Emirates** remained with the largest share of Uganda's exports amounting to **US$ 1,150.2 million**;
  - followed by the **Kenya** with **US$ 497.5 million**;
  - and **Democratic Republic of Congo** with **US$ 492.4 million**, in the FY 2019/20.

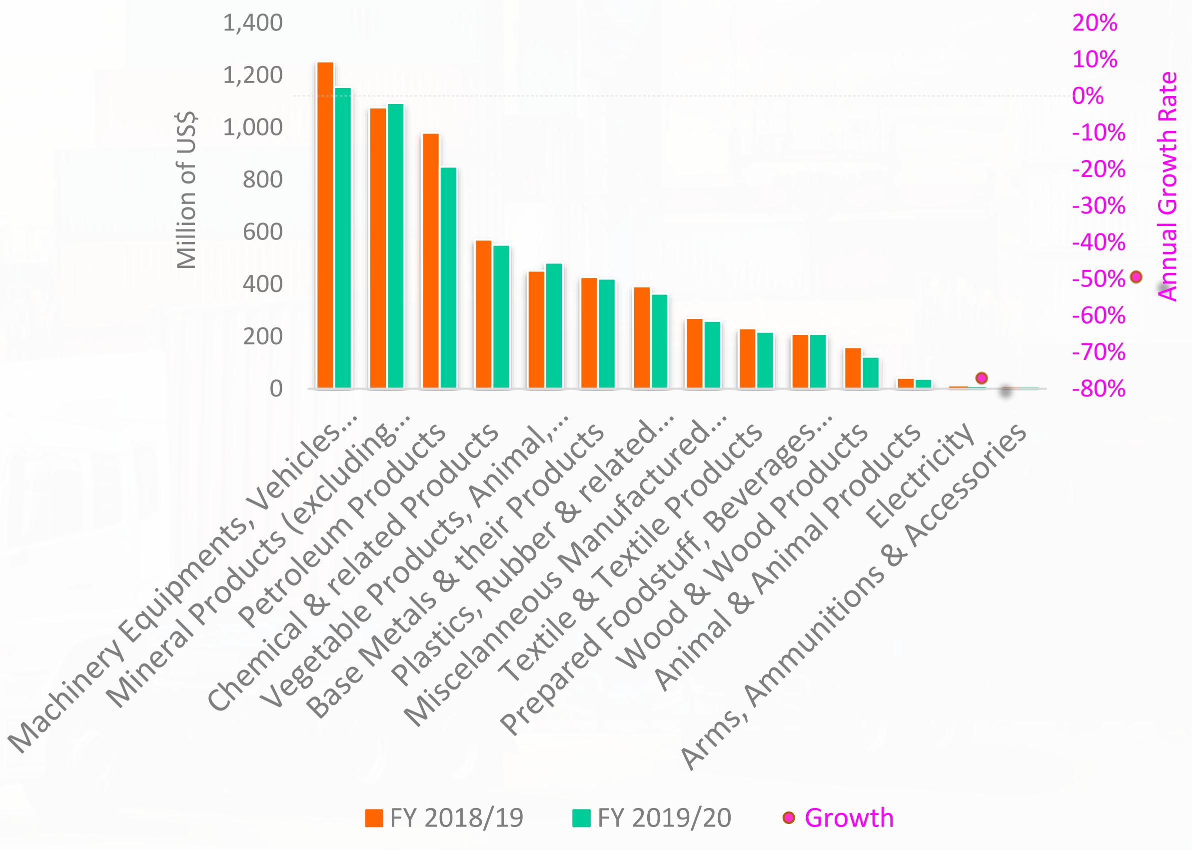
Imports decreased by 9.7%

- Just like export earnings, imports (f.o.b) dropped during the Financial Year 2019/20, with the decline being pronounced in the second half of the Financial Year. The decline in imports was reflected across both Government and private sector imports, with Government imports falling faster. Government imports declined owing to a decline in project imports, as project works were disrupted by the containment measures put in place to control the spread of the coronavirus.

  - **Formal private sector imports** constituted **93.5 percent** of the total merchandise imports in the FY 2019/20. Most of the import categories registered decreases save for mineral products (excluding petroleum products); vegetable products, animal, beverages, fats & oil; prepared foodstuff, beverages & tobacco.

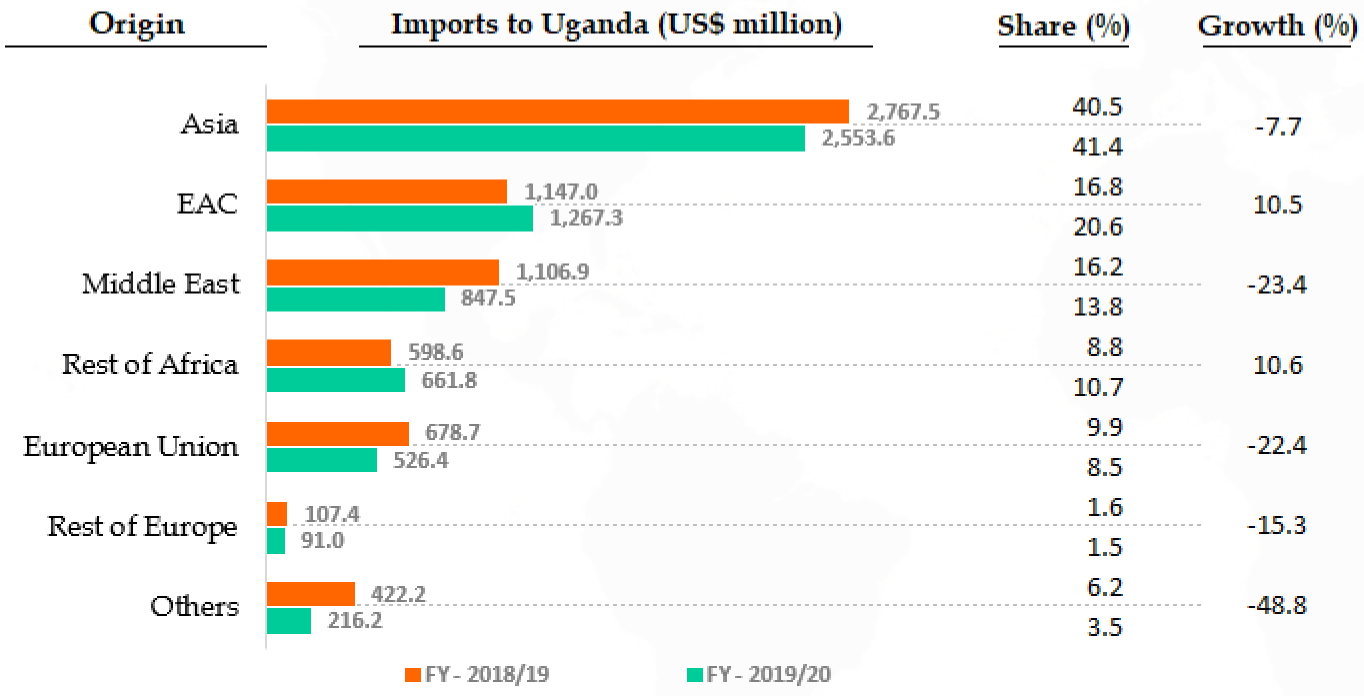
(US$ million)	FY 2017/18	FY 2018/19	Difference (value)	Annual Growth
Total Imports (f.o.b)	6,828.3	6,163.7	-664.6	-9.7%
Government Imports	706.6	349.3	-357.3	-50.6%
Project	634.6	334.5	-300.2	-47.3%
Non-Project	72.0	14.9	-57.1	-79.3%
Formal Private Sector Imports	6,067.3	5,765.8	-301.4	-5.0%
Oil imports	979.8	850.5	-129.2	-13.2%
Non-oil imports	5,087.5	4,915.3	-172.2	-3.4%
Estimated Private Sector Imports	54.4	48.5	-5.9	-10.8%
Total Private Sector Imports	6,121.7	5,814.4	-305.9	-5.0%

Source: Bank of Uganda



Origin of Imports

Origin of Uganda’s Imports from different Regional Blocs



Source: MOFPED calculations based on data from BOU

- ❑ **Asia remained Uganda’s main source of imports** in the Financial Year 2019/20 contributing 41.4 percent of the total imports, followed by the EAC (20.6 percent), then the Middle East (13.8 percent).

- ❑ At country specific level,
  - Of the imports from Asia, **68.6 percent** were sourced from **China (US$ 1,040.8 million)** and **India (US$ 712.2 million)**, in the FY 2019/20.
  - **Kenya** accounted for **56.2 percent** of the total imports from EAC;
  - while **United Arab Emirates** accounted for **62.5 percent** of the imports from the Middle East, in the same period.

Exchange Rate

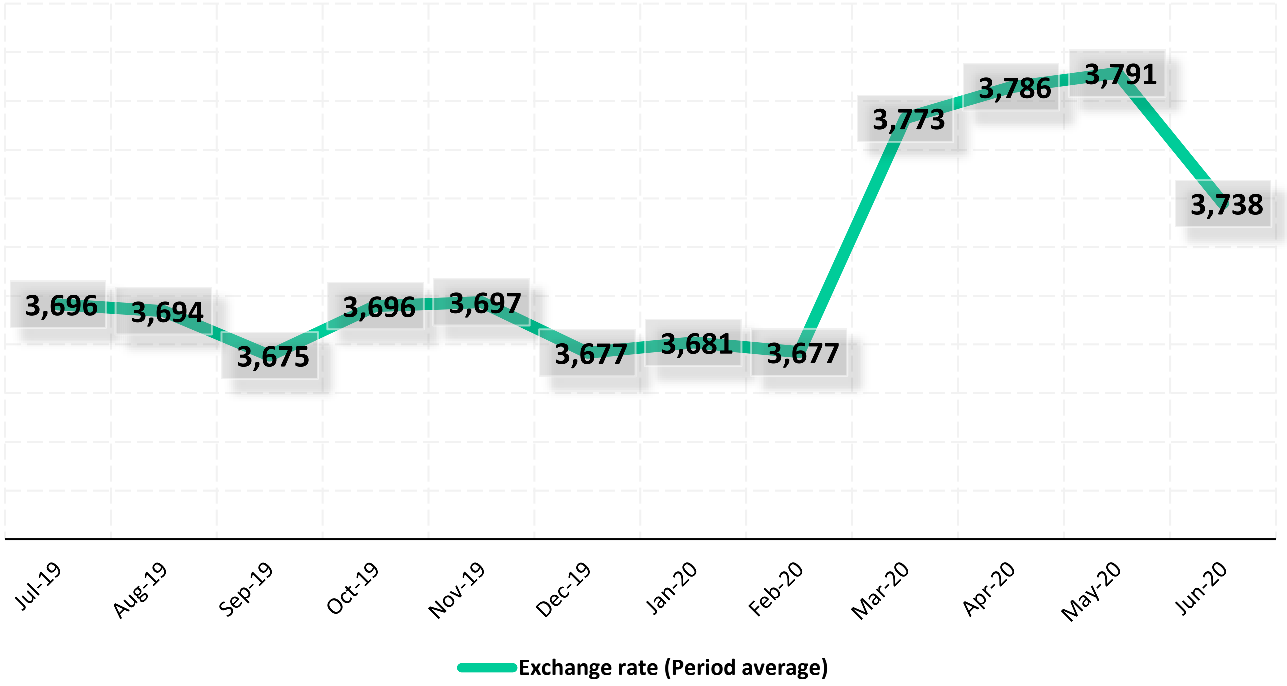
- The **Ugandan shilling strengthened** against the dollar by **0.6 percent** from an average midrate of <u>UShs 3,737</u> per US$ in the FY 2018/19 to <u>UGX 3,715</u> per US$ in the FY 2019/20.

  - The Ugandan shilling was relatively stable in the first half of the Financial Year appreciating by 0.2 percent between July and December 2019.

  - However, the shilling faced depreciation pressures in the second half, particularly in the months of February to May 2020 during which it lost value by 0.7 percent against the US Dollar.

    This was largely on account of a reduction in US$ inflows into the country in the form of exports, FDI and tourism receipts which were affected by domestic and global measures to contain the spread of COVID-19.

    This was reversed in June 2020, following the acquisition of a BOP Support loan from the IMF.



Source: Bank of Uganda

- The Ugandan shilling registered **an appreciation of 3.3 percent** against **the Pound Sterling** from a period average of <u>UShs 4,836</u> in the FY 2018/19, to a period average of <u>UShs 4,681</u> in the FY 2019/20. This was partly because the Pound weakened globally amidst continuing uncertainties over Brexit.

Fiscal Sector

FY 2019/20 Budget Summary

- Government's fiscal strategy for the Financial Year 2019/20 and the medium term was anchored on;
  - maintaining macroeconomic stability to support inclusive growth
  - creating employment and sustainable wealth by improving domestic revenue mobilization
  - effective execution of public investments.
- Subsequently, the budget for the Financial Year 2019/20 was set at UShs 40,487.9 billion.

  Expenditure, excluding debt refinancing and expenditures related to local government revenue, amounted to UShs 33,110.8 billion (as indicated in Table 5) while total revenue and grants were estimated to be UShs 22,546.4 billion, leaving an overall financing gap of UShs 10,564.4 billion (7.5 percent of GDP).

FY 2019/20 Fiscal Outturn

- Fiscal operations during the Financial Year 2019/20 resulted in a fiscal deficit of UShs 10,273.1 billion, equivalent to 7.4 percent of GDP, an increase from a fiscal deficit of 4.9 percent of GDP that was recorded in the Financial Year 2018/19.
  - The slightly lower than planned fiscal deficit for this Financial Year was due to lower than anticipated expenditure for externally financed projects, which more than offset both shortfalls in revenue & grants and the increase in domestically financed expenditures[1].

	FY 2019/20 Budget	FY 2019/20 Outturn	FY 2019/20 Performance	Deviation from Budget
Total Revenue and Grants	**22,546.4**	**18,074.0**	**80.2%**	**(4,472.4)**
Revenue	20,646.5	17,285.9	83.7%	(3,360.6)
Tax	18,877.3	15,912.2	84.3%	(2,965.1)
Non-Tax	1,571.4	1,373.7	87.4%	(197.8)
Oil revenues	197.7	-	0.0%	(197.7)
Grants	1,899.9	788.2	41.5%	(1,111.8)
Budget support	100.6	87.0	86.5%	(13.58)
Project support	1,799.4	701.2	39.0%	(1,098.2)
Expenditure and Lending	**33,110.8**	**28,347.1**	**85.6%**	**(4,763.7)**
Recurrent expenditures	15,127.4	15,047.7	99.5%	(79.7)
Wages and salaries	4,674.9	4,859.3	103.9%	184.4
Non-wage	7,307.4	7,301.5	99.9%	(5.9)
Interest payments	3,145.1	2,886.9	91.8%	(258.2)
o/w Domestic	2,624.0	2,369.1	90.3%	(254.9)
o/w Foreign	521.1	517.9	99.4%	(3.2)
Development expenditures	16,740.8	12,063.8	72.1%	(4,677.1)
External	8,870.6	3,966.9	44.7%	(4,903.6)
Domestic	7,870.3	8,096.8	102.9%	226.6
Net lending and investment	793.0	831.0	104.8%	38.0
o/w HPP	563.0	631.0	112.1%	68.0
o/w BOU Recapitalization	230.0	200.0	87.0%	(30.0)
Arrears	449.5	404.7	90.0%	(44.9)
Overall Fiscal Bal. (incl. Grants)	**(10,564.4)**	**(10,273.1)**	**97.2%**	**291.3**
Overall Fiscal Bal. (excl. Grants)	**(12,464.3)**	**(11,061.3)**	**88.7%**	**1,403.1**

Source: Ministry of Finance, Planning and Economic Development

1. Domestically financed expenditure captures; wage, non-wage recurrent, domestic arrears payments and domestically financed development spending

Fiscal Operations … (1/3)

Category | **Key highlights**

Revenues

- Both domestic revenues and grants **turned out lower than what was initially projected at budget time** largely due to the adverse impact of the COVID-19 pandemic on global economic activity.
    - About 70.4 percent of the shortfall in tax revenue was in the last four months of the Financial Year (March – June 2020). The restrictions put in place by Government to control the spread of the virus caused disruptions in business operations and economic activity, negatively affecting all the major tax categories.
    - Lower than planned domestic indirect taxes were collected as demand was subdued affecting both VAT and excise duty. Similarly, domestic direct taxes were lower as disruptions in businesses operations and economic activity resulted into laying off of workers by a number of employers due to cash flow challenges. This affected PAYE, and withholding tax especially in sectors of Education, Manufacturing, Wholesale & retail trade and Accommodation among others.
    - Taxes on international trade similarly performed below target mainly due to a lower value of dutiable imports as the pandemic led to global trade disruptions.
- Apart from the negative impact of the COVID-19 pandemic, there are other factors that affected the performance of tax revenue in the Financial Year 2019/20. These include; delayed and/or non-implementation of measures such as widening the scope of withholding tax agents, non-implementation of the rental solution and late implementation of digital tax stamps.
- Grants to support development project activities **were significantly lower than budgeted (by 61 percent)** mainly due to absorption constraints as works on some of the projects got disrupted due to limitations in movement of workers, as well as the disruptions in supply of imported inputs due to the COVID-19 pandemic.

Expenditure

- Government spending (excluding debt repayments and expenditure related to local government revenue) **registered a performance of 85.6 percent**. The below budget performance is mainly explained by externally financed development expenditure, which performed at 44.7 percent of its budget. This was partly attributed to a slowdown in execution of projects as movements and works were curtailed by the lockdown measures put in place to contain the spread of Coronavirus.
- However, domestically financed expenditures **were higher than budgeted by 1.8 percent** mainly because of the additional expenditure requirements in response to the COVID-19 pandemic. These expenditures were in the health, security, Public Sector Management and Information, Communication & Technology sectors.
- Government spending on recurrent items **was close to the target at 99.5 percent**. Of this, payment of wages and salaries was above budget by 3.9 percent as some MDAs especially tertiary institutions, local governments, Ministry of Defence and the Judiciary got supplementary budgets for this item. This was offset by lower than planned budget performance in non-wage recurrent expenditure and interest payments which were less than budgeted by 0.1 percent and 8.2 percent respectively.

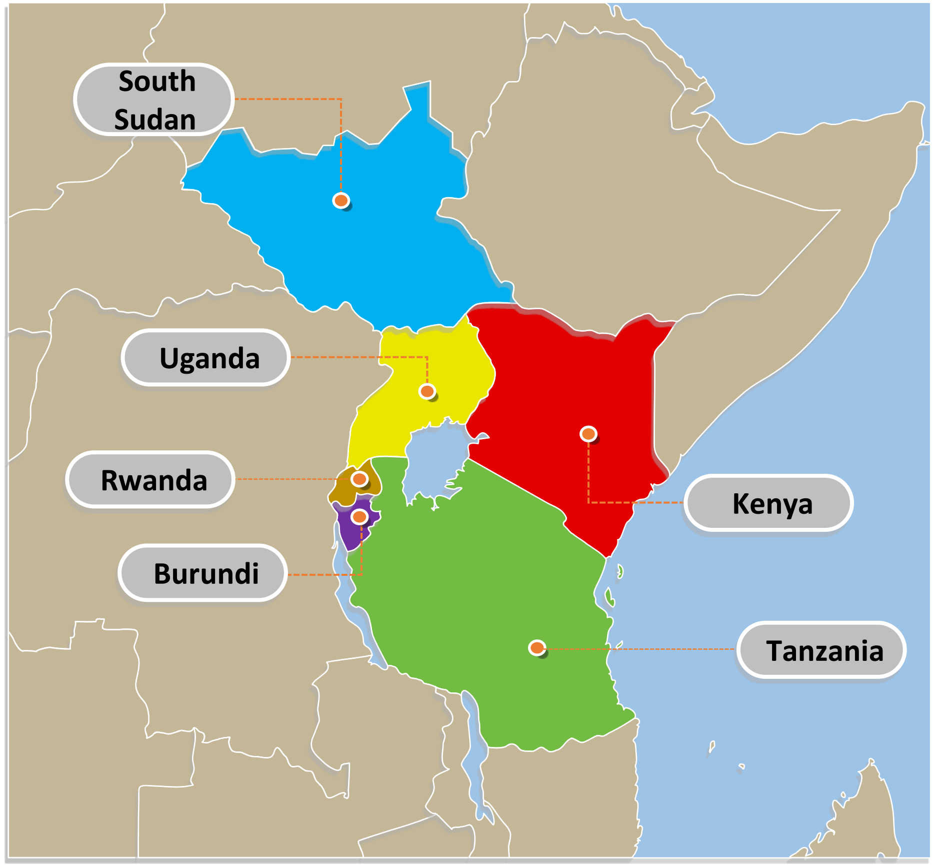
Fiscal Operations … (2/3)

Category	Key highlights
Financing	❑ Whereas Government had planned **to borrow UShs 574.6 billion** for budget support for the Financial Year, **the situation during the year necessitated more borrowing**. Consequently, UShs 2,286.4 billion was borrowed from the Trade & Development Bank and Stanbic Bank to cushion the budget against the revenue shortfalls, while UShs 557.4 billion was borrowed from the IMF to support Government's efforts in the fight against the COVID-19 pandemic. ❑ There was also a disbursement worth UShs 3,036.6 billion in form of concessional loans towards development projects. This was **lower than what was budgeted by 31.6 percent**, mainly due to low absorption of funds caused by the slow execution of projects. This also explains why only UShs 359.3 billion out of the expected UShs 2,628.7 billion was disbursed in form of non-concessional loans for development projects.
Debt Sustainability Analysis	❑ The stock of public sector debt increased **from US$ 12.55 billion** in the FY 2018/19 **to US$ 14.92 billion** in the FY 2019/20. External debt increased from US$ 8.35 billion in the FY 2018/19 to US$ 10.03 billion in the FY 2019/20, while domestic debt increased from US$ 4.2 billion to US$ 4.89 billion over the same period. ❑ Public sector debt rose **from 35.4 percent of GDP** in FY 2018/19 to **40.2 percent of GDP** in FY 2019/20.

Fiscal Operations … (3/3)

Category	Key highlights
Petroleum Fund	❑ By the end of June 2020, the petroleum fund stood at **UShs 88.34 billion** compared to **UShs 311.13 billion** as at June 2019. This is attributed to a transfer of UShs 255 billion to the Consolidated Fund to finance the National Budget for the FY 2019/20 as appropriated. There was also a foreign exchange loss worth UShs 3.27 billion. ❑ Petroleum related tax collections amounted to UShs 35.48 billion which is lower than UShs 56.74 billion collected in the FY 2018/19. This is mainly attributed to slow down in petroleum related activities in the second half of the FY 2019/20. ❑ Non-tax revenues received into the fund amounted to UShs 5.77 billion, a 2 percent increase from last Financial Year. The increase in Non-tax revenue was due to new companies like Petro Afrik and KFD that placed bids within the Financial Year.
Contingency Fund	❑ A total of **Ushs 62.068 billion** was allocated for the Contingency fund in FY 2019/20, and funds were transferred as follows: ▪ UShs 24 billion to Ministry of Agriculture, Animal Industry & Fisheries to fight Desert Locusts Invasion. ▪ UShs 25 billion to Ministry of Health to fight CoVID-19. ▪ UShs 12 billion to OPM provision of emergency relief food. ▪ UShs 233 million to the Beijing Embassy to facilitate Ugandan Students.
Donations	❑ In Financial Year 2019/20, the approved budget for donations amounted to UShs 204.7 billion. UShs 206.7 billion was released of which UShs 206.6 billion was spent.

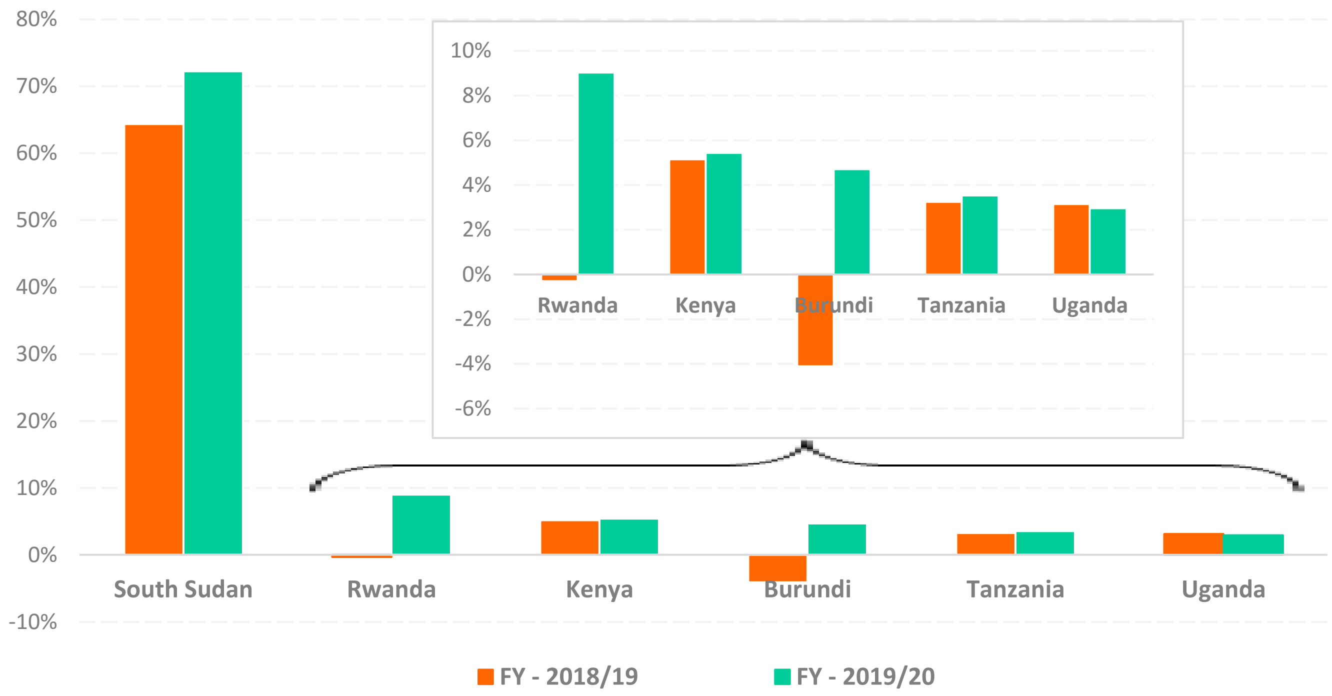
EAST AFRICAN COMMUNITY



PERFORMANCE

Inflation across the EAC region (Partner States) increased, except for Uganda

- ❑ This was largely driven by an increase in **prices for food and non-alcoholic beverages** as well as a spike in **transport costs** during the last quarter of the Financial Year.



Source: Respective National Bureaux of Statistics

- Uganda, Kenya and Tanzania's inflation rates remained mostly stable over the twelve months of the Financial Year while Rwanda, Burundi and South Sudan's inflation rates experienced volatility.
- Rwanda's inflation was higher than the EAC target (8 percent) driven by food prices since September 2019. Prices of food items such as vegetables (especially beans), flour and cereal products, which are important staple food in Rwanda were increasing.

Trade with the EAC

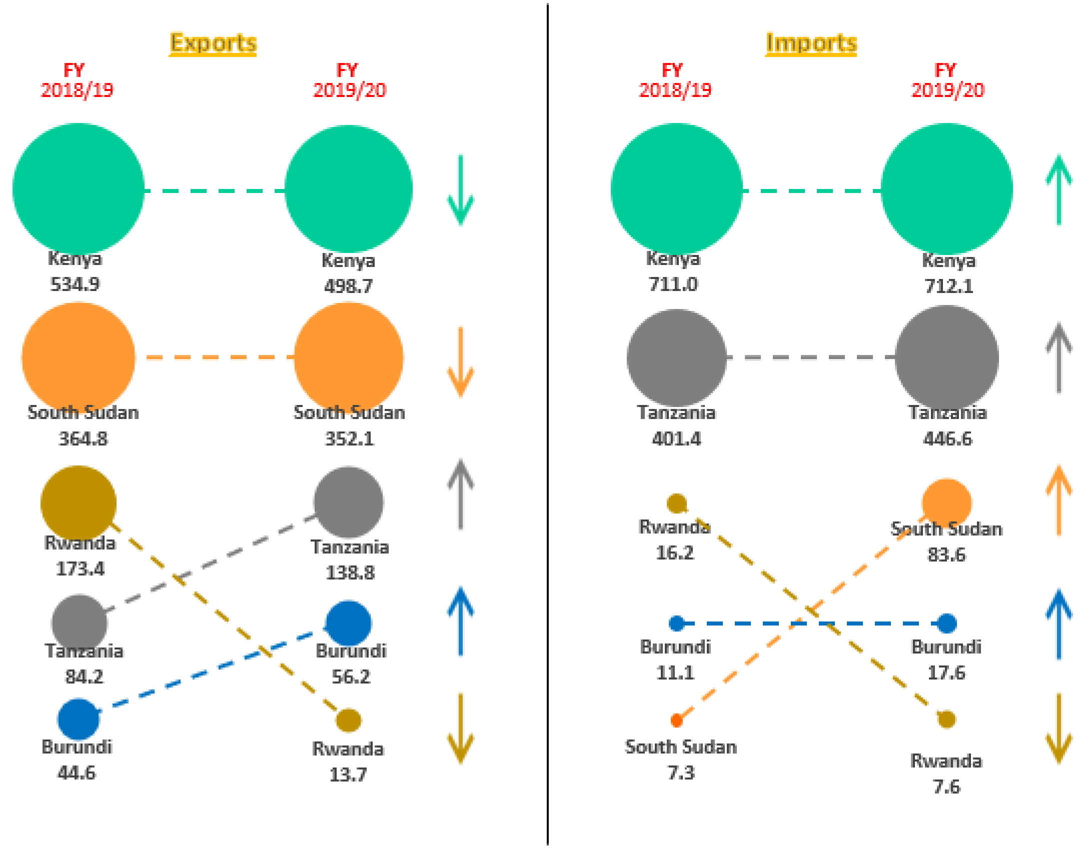
- In the Financial Year 2019/20, Uganda's exports to the EAC decreased by 11.8 percent while imports increased by 10.5 percent. This resulted into a merchandise trade deficit of US$ 208 million in the FY 2019/20, compared to a merchandise trade surplus of US$ 54.8 million recorded in the FY 2018/19, with the region.

- Within the EAC bloc, Kenya remained Uganda's main trading partner over the period under review, followed by Tanzania, South Sudan, Burundi and Rwanda.

- Uganda had trade surpluses with South Sudan; Burundi and Rwanda while trade deficits were registered with Tanzania and Kenya, in the FY 2019/20.

- Kenya, Rwanda and South Sudan recorded declines in exports, with Rwanda registering the highest decline (US$ 159.7 million). Exports to Rwanda and Kenya have fallen for the second consecutive year, following trade tensions[2] between Uganda and these countries.

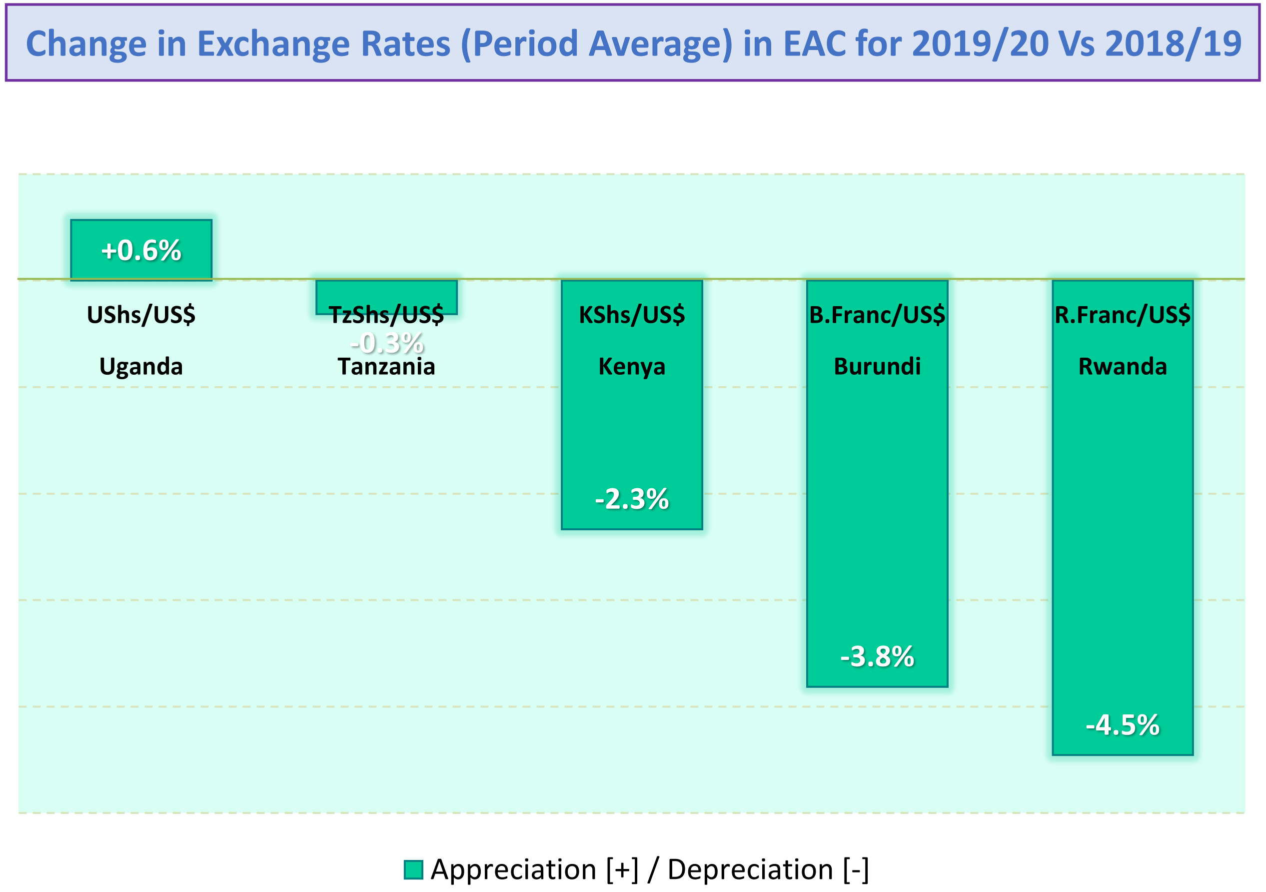
Uganda's Trade with EAC Partner States (US$ Million)



Source: Bank of Uganda

2. Rwanda – Uganda border was closed in March 2019. Kenya has imposed restrictions on some Ugandan exports like milk, maize and sugar, (non-tariff barriers)

Exchange Rates within the EAC



- All the other currencies in the East African Community registered depreciation against the United States dollar, with the Rwandan Franc having the highest depreciation of 4.5 percent, between the periods of 2019/20 and 2018/19, on average.

Source: Respective Central Banks

Note: Exchange Rate data for South Sudan was not available


OUTLOOK
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Economic Growth

- Global growth is projected at **5.2 percent** in **2021** as consumption strengthens gradually and investment firms up. Subsequently, growth in the Sub-Saharan region is projected at **3.1 percent**.

- As a result, during **FY 2020/21**, GDP is expected to grow **above 3 percent**. This is based on recovery in demand as Government puts efforts in reviving the private sector activity especially in the manufacturing sub sector. The services sector is expected to recover gradually as the economy opens up.

Inflation

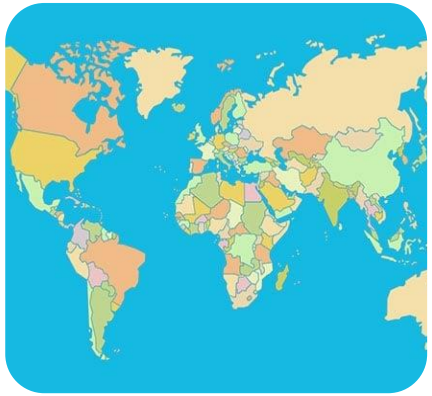
- The outlook to inflation in **FY 2020/21** is stable. Core inflation is expected to remain close to the BOU’s medium-term target of **5+/-3 percentage points**, supported by prudent fiscal and monetary policy measures.

- 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

- The increase in non-performing loans notwithstanding, the current accommodative monetary policy coupled with a stable financial sector should also encourage commercial banks to lend more to the private sector and subsequently support economic activity.

- Additionally, the relative stability of the exchange rate is also expected to boost trade and manufacturing.



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.

- A Strong rebound in performance from tourism, remittances, and Foreign Direct Investments is expected to continue supporting the positive performance of the overall balance of payment position.

Fiscal Operations

- FY 2020/21 is the second year of implementation of the Domestic Revenue Mobilisation Strategy (DRMS). The COVID-19 pandemic has negatively impacted revenue performance, mainly through the macroeconomic assumptions like GDP growth. Accordingly, domestic revenue is projected to decline and average at 13.8 percent of GDP over the medium term.

- The fiscal balance (including grants) is therefore projected to average at 5.4 percent over the medium term.

Fiscal Risks

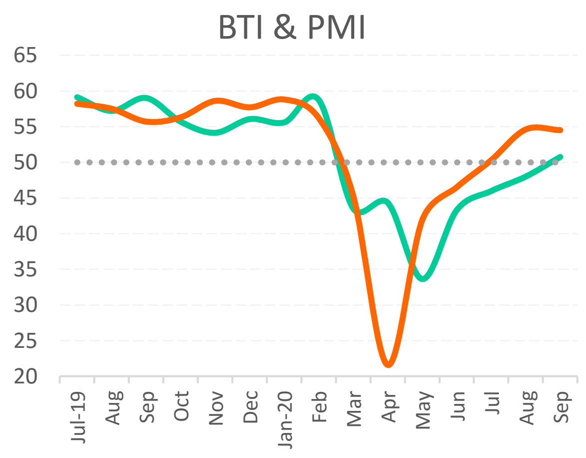
- Currently the global economy faces threats from the impact of the COVID-19 pandemic. Risks related to the path of the pandemic, the needed public health response, and the associated domestic activity disruptions. Subsequently, the global spill overs from soft demand, weaker tourism, and lower remittances are likely to pose a risk to economic activity and the national budgets.

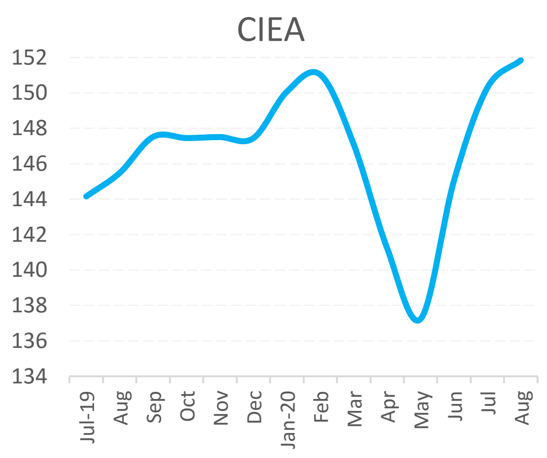
- The proportion of domestic debt maturing in one year was 36.5 percent by June 2020 which is considerably high. Additionally, the current practice of rolling over maturing debt, implies that Government faces a risk of being unable to refinance its maturing domestic debt.

Indicators of Economic Activity

- High Frequency Indicators recorded high levels of economic activity for the first half of the year and lower levels for the second half of the year, following lock down measures. Nonetheless, there was a recovery towards the end of the Financial Year.

- The Business Tendency Index (BTI) slipped below the threshold of 50 from March 2020. An average of 41.27 was recorded for second half of the Financial Year signalling pessimism about the outlook of business conditions.
- The index however started picking up in June 2020, owing to an optimistic outlook in the present business situation and the other related indicators of the index.





- Similarly, the Composite Index of Economic Activity (CIEA) showed declines in all its key indicators.
- Performance of consumption and private investment expenditure, credit extended to the private sector as well as exports and imports, recorded a significant drop between February 2020 and May 2020. However, there is an indication of recovery as seen in June 2020.

Source: Bank of Uganda; Stanbic Bank Uganda

- The Purchasing Managers Index (PMI) averaged at 57.4 and 46.9 for the first half and second half respectively. The second half showed deteriorating conditions in business activity following the outbreak, especially new production and output, creation of employment as well as supply and purchases.
- Nonetheless the worsening business conditions eased in the last two months of the Financial Year, as government implemented measures to protect businesses, spur economic activity, and prudently eased the lockdown measures.