MACROECONOMIC & FISCAL PERFORMANCE REPORT FINANCIAL YEAR 2019/20

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

October 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 Annual 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 30th June 2020.

At the start of 2020, the world experienced a grave global health emergency (COVID-19). This scourge quickly transformed into a deadly pandemic that left a trail of economic and health disasters in its wake. It is estimated that tens of millions have been infected and that the virus has claimed over one million lives, it is also estimated to have shrunk the global economy by close to (-5) percent for the year 2020.

During the first half of the Financial Year 2019/2020, the economy was on track to achieve economic growth of over 6 percent, however due to the COVID-19 disruptions in global supply chains, dampened economic & trade activity as well as the impact of the counter measures against the virus, the Ugandan economy is expected to grow by 3.1 percent in the Financial Year 2019/2020. Additionally, Ugandans were faced with the challenges brought on by significant flooding and the invasion of the locusts, putting extra pressure on welfare and the economy during the Financial Year.

Together with the private sector, development partners and the international community, government enacted measures to contain the spread of the deadly Corona virus and put forward emergency relief measures and stimuli packages for the safeguard of the economy and to cater to many of the vulnerable Ugandans.

The economy is already showing signs of recovery as lock down measures ease and business activity returns to normality, nonetheless, it is vital to ensure the sustainability of this recovery by ensuring the continued and effective containment of the COVID-19 virus as well as continued support to areas of the economy that were most adversely affected. Government of Uganda is mindful of the increased threats of global health crises, and as such is instituting and implementing long term plans and programs to prepare the economy to face and prevail against these challenges. Over the medium to long term, the economy is expected recover and 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 Payments
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
FDI	Foreign Direct Investments
FOB	Free on Board
FY	Financial Year
GDP	Gross Domestic Product
H1	First Half of the Financial Year
H2	Second Half of the Financial Year
IMF	International Monetary Fund
KShs	Kenyan Shillings
MDA	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
PMI	Purchasing Managers Index
PSC	Private Sector Credit
R.Franc	Rwandan Franc
TzShs	Tanzanian Shillings
UShs	Ugandan Shilling
US$	United States Dollars
VAT	Value Added Tax

Executive Summary

The global economy is expected to contract by -4.9 percent in the year 2020, similarly Sub-Saharan Africa is also expected to contract by -3.2 as the world grapples with the adverse impacts of the Corona virus. Subsequently the Ugandan economy is estimated to have grown by 3.1 percent, a resilient yet significant slowdown compared to the initial projection of 6 percent for the Financial Year 2019/20.

The brunt of the impact of the slowdown was experienced in the industry and services sectors as production and general economic activity was constrained in the second half of the Financial Year 2019/20. Agriculture the back bone of the economy, remained strong and resilient during the initial onset of the virus, this further emphasises the need to bolster the real economy that relies largely on a stable food base to act as a safeguard and a propelling platform for the other areas of the economy that are easily susceptible or vulnerable to external shocks.

The global economy is expected to bounce back and recover to a projected growth of 5.4 percent in the year 2021 as economic activity returns to normal and global lockdown measures are eased. Likewise, high frequency data towards the end of the Financial Year 2019/20 showed signals of recovery in the Ugandan economy, this recovery is expected to continue across all areas of the economy into the next Financial Year 2020/21 and the medium term as continued efforts to contain the virus are intensified to allow for a continued 'return to normal' scenario.

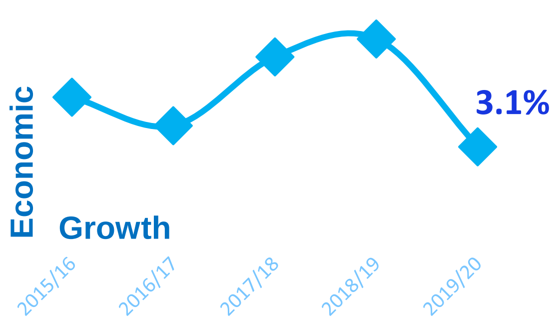
During the Financial Year 2019/20, annual headline inflation was stable and low at an average of 3 percent, largely as a result of low food crop inflation. The stable inflation during the year provided for supportive economic conditions by ensuring some form of sustained trading activity even amidst a Covid-19 subdued environment. Additionally, the stable and low inflation outlook within the Financial Year supported the Central Bank's decision to set and maintain an accommodative monetary policy so as to bolster economic activity.

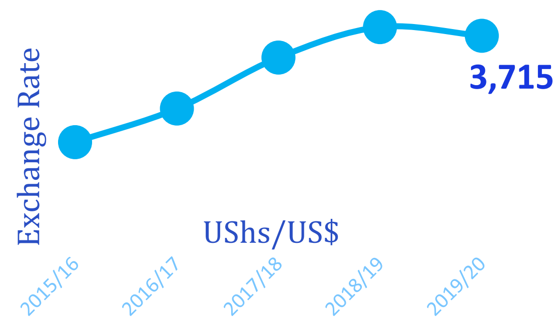
In light of the financial and economic strain brought on by the effects of the Covid-19, the Central Bank's decision to lower the policy rate from 10 in the 1st quarter of the Financial year 2019/20 to 7 by the end of the fourth quarter signalled a strong policy intent by Bank of Uganda in countering the effects of the virus and boosting economic activity. In addition, government through the Central Bank issued banking and financial sector guidelines to protect the financial and private sector. Subsequently, lending rates remained relatively stable throughout the Financial Year and annual growth in lending to the private sector remained resilient growing at 12.5 percent compared to 12.6 percent in the Financial Year 2018/19. Furthermore, Private Sector Credit as a percentage of GDP grew to 12.3 percent from 11.5 percent in the Financial Year 2018/19. Despite an increase in Non-Performing-Loans due to the pandemic, the financial sector remains adequately capitalized and sound.

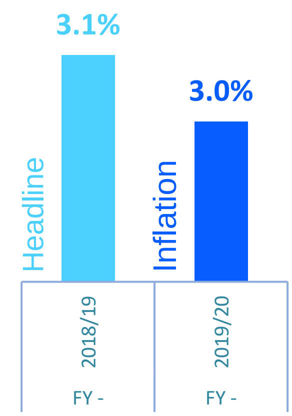
As a result of the pandemic, global trade took a significant hit and likewise overall trade declined for both exports and imports at 3.5 percent and 9.7 percent respectively. On a positive note, coffee exports grew by 19.5 percent in the Financial Year 2019/20 due to increased production resulting from government interventions to provide quality seedlings to increase yields, as well as increased global demand amidst constrained supply. Ugandan's abroad depicted tremendous confidence and support for the economy by exhibiting resilience as regards remittances, Ugandans' remitted US$ 1.3 billion for the second year running even in the face of the global pandemic. Additionally, the stock of international reserves stood at US$ 3.92 billion as at the end of June 2020, capable of providing sufficient cover in the event of further shocks to the economy of 5.2 months of imports of goods and services.

On the fiscal side, Government spent an estimated UShs 28.3 trillion and collected an estimated UShs 18.1 trillion in revenues leaving a deficit of UShs 10.2 trillion that was financed through external and domestic sources. As at 30th June 2020, Uganda's total public debt stock as a percentage of GDP was 40.2 percent, up from 35.4 percent reported in June 2019. Public debt remains sustainable in the medium and long term.

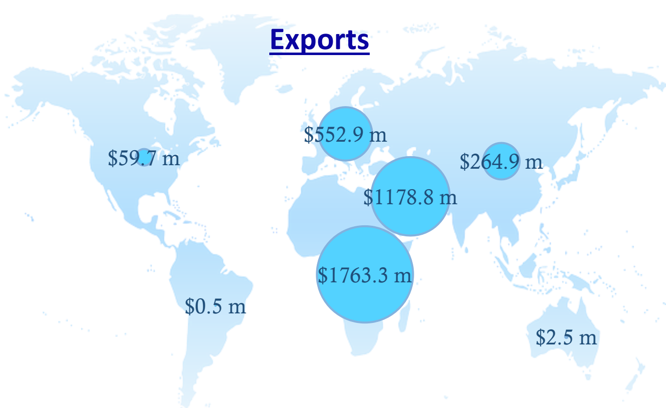
Real GDP growth for the Financial Year 2020/21 is expected between 3 and 4 percent, supported by recovery in private sector activity, recovery and innovation in the industry sector, and the continued positive performance of the agriculture sector.

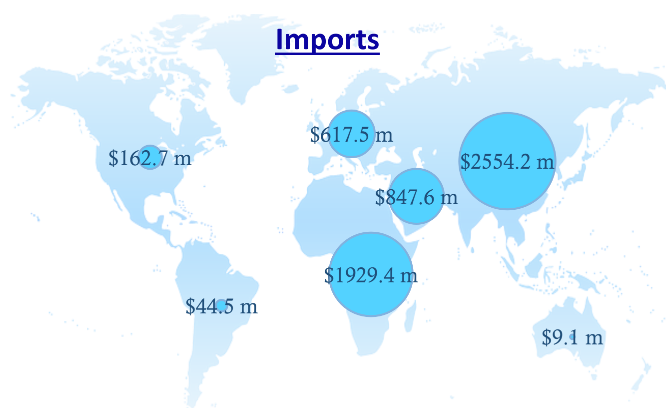




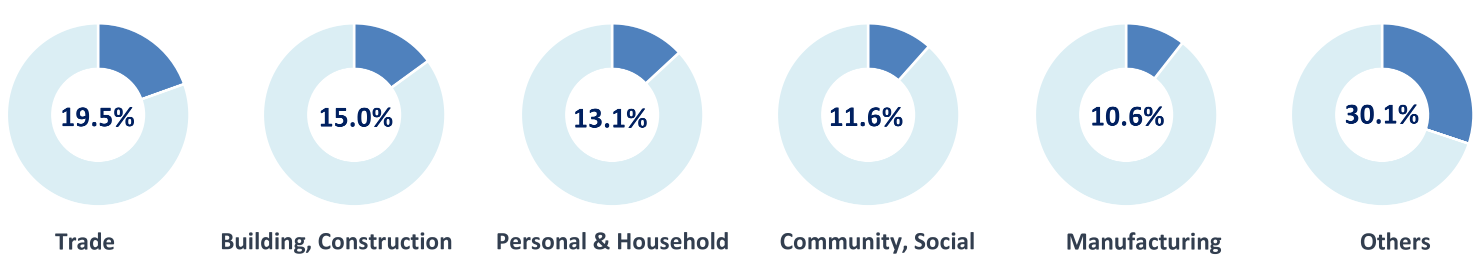


MACRO-ECONOMIC DEVELOPMENTS





Private Sector Credit Extension, 2019/20



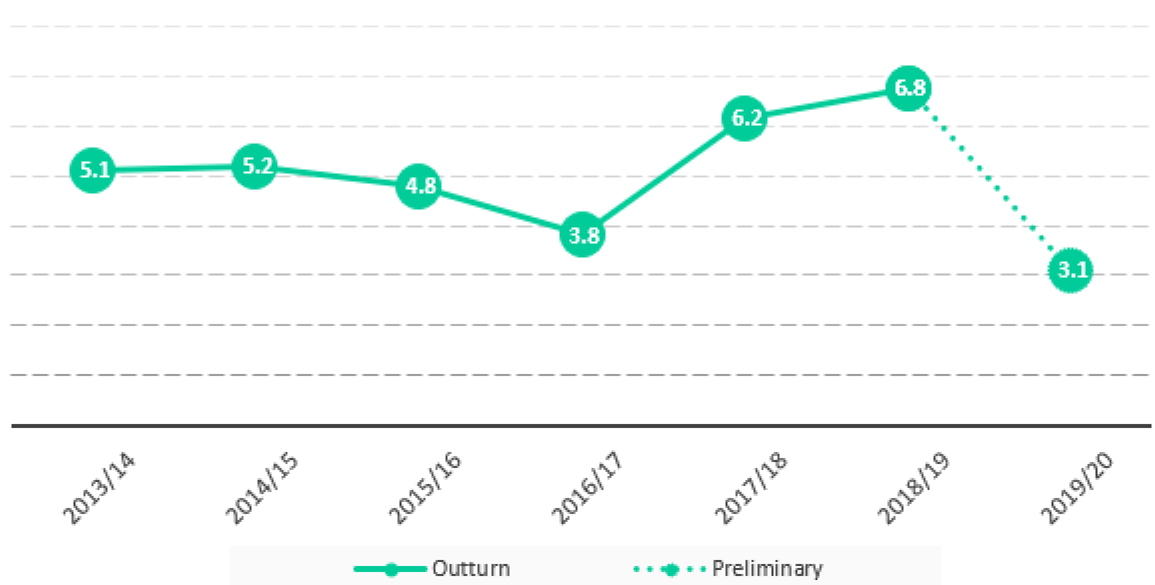
Chapter I: Macro-Economic Developments

Economic Growth

Economy estimated to grow by 3.1%

Economic growth in the Financial Year 2019/20 was estimated at 3.1 percent compared to 6.8 percent in the FY 2018/19, as shown in Figure 1. In the FY 2019/20, economic growth was greatly constrained by the COVID-19 pandemic-as the recent economic recovery dampened by an estimated 3 percent of GDP growth. The first half of the year showed impressive economic performance with an average of 6.3 percent, unfortunately the pandemic adversely affected the second half performance with economic activity declining by an average of -0.8 percent. The most affected sectors were the Industry and Services sectors mainly due to the containment measures that were implemented to deal with the COVID-19 health crisis.

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



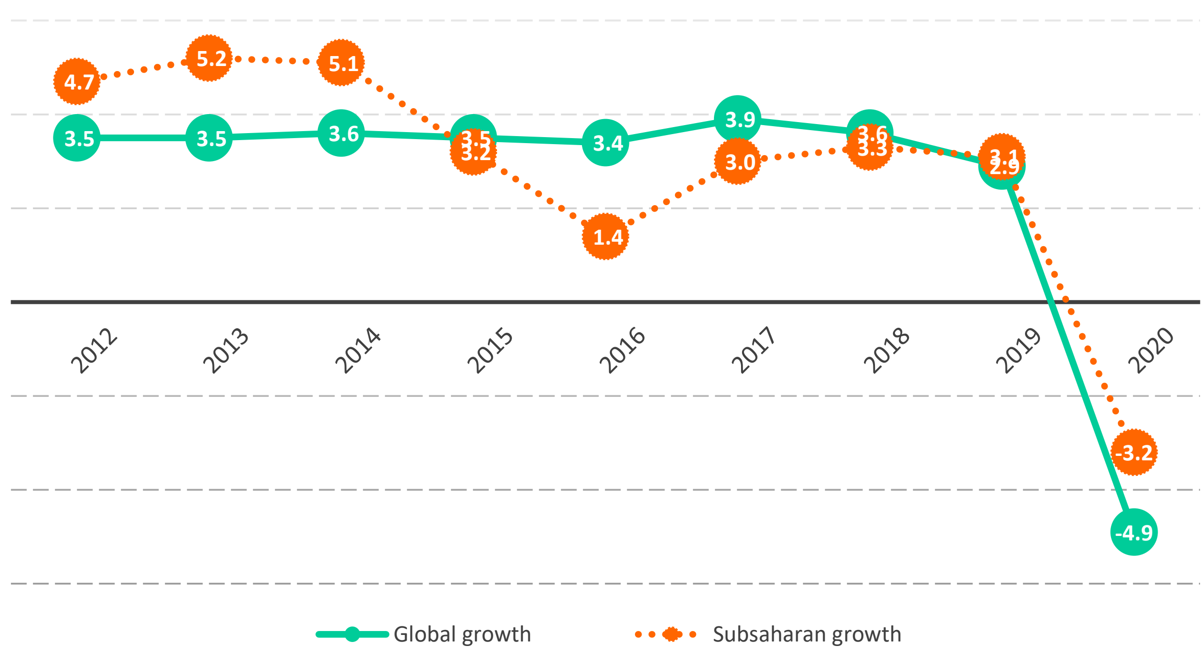
Source: Uganda Bureau of Statistics

amidst Global growth of -4.9%

Furthermore, economic pandemic related developments on the global scene coupled with similar domestic factors also played a contributory impact in the slowdown of the Ugandan economy. This is evidently showcased in the revision of the global growth forecast to -4.9 percent for 2020, from 2.9 percent in 2019. Likewise, Sub-Saharan Africa growth is expected at -3.2 percent for 2020, from 3.1 percent in 2019. The rapid spread of the COVID-19 virus in a number of emerging markets and developing economies, necessitated stringent lockdowns resulting in larger disruptions in economic activity.

Figure 2 shows trends in global and Sub-Saharan growth.

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



Source: International Monetary Fund

On the domestic front, growth in the first half of the quarter 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 adversely affected with Industry and services bearing the brunt of the pandemic.

The Agriculture sector showed relative resilience and experienced good performance supported by favourable weather conditions and continued Government interventions through provision of quality seedlings, extension services and pesticides.

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

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

	Outturns			Preliminary		
	2016/17	2017/18	2018/19	H1 19/20	H2 19/20	2019/20
GDP at market prices	**3.8**	**6.2**	**6.8**	**6.3**	**-0.8**	**3.1**
Agriculture, forestry and fishing	**2.8**	**4.4**	**5.3**	**7.0**	**0.2**	**4.4**
Cash crops	9.4	6.1	4.2	2.9	2.2	2.6
Food crops	2.2	8.5	1.5	7.4	-1.3	4.5
Livestock	7.0	7.1	7.3	7.1	7.2	7.9
Agriculture Support Services	3.8	-0.5	8.8	7.2	4.2	6.3
Forestry	3.5	3.4	3.6	5.7	0.5	3.3
Fishing	-7.8	-25.2	41.4	11.3	-8.5	1.6
Industry	**6.8**	**6.5**	**10.1**	**6.3**	**-1.9**	**2.3**
Mining & quarrying	32.7	30.5	33.4	10.2	-17.9	-2.8
Manufacturing	3.6	4.6	7.8	6.2	-3.9	1.4
Electricity	9.2	5.5	2.5	3.2	3.7	3.6
Water	5.6	4.0	4.7	3.9	3.9	4.0
Construction	11.7	7.6	14.2	6.6	3.7	5.4
Services	**1.6**	**7.6**	**5.7**	**8.0**	**-1.5**	**3.6**
Trade and Repairs	-1.3	7.5	4.9	0.3	-3.7	-1.6
Transportation and Storage	2.3	10.2	1.0	1.8	-5.0	-1.4
Accommodation and Food Service Activities	19.7	8.1	3.0	11.5	-37.4	-7.0
Information and Communication	19.0	-4.7	-0.6	29.2	21.7	33.3
Financial and Insurance Activities	-4.1	2.9	9.4	15.2	-2.6	6.2
Real Estate Activities	1.6	11.6	10.2	5.0	4.8	4.8
Professional, Scientific and Technical Activities	1.9	8.0	2.9	31.5	-51.9	4.4
Administrative and Support Service Activities	-2.2	4.9	17.5	16.8	3.6	11.7
Public Administration	18.6	9.7	3.2	10.4	12.7	13.0
Education	-10.3	6.9	7.3	1.3	3.8	3.4
Human Health and Social Work Activities	0.0	16.4	5.1	-0.2	3.9	1.9
Arts, Entertainment and Recreation	29.7	65.8	21.2	20.5	-79.3	-10.3
Other Service Activities	0.3	-2.1	2.1	5.8	0.4	3.2
Activities of Households as Employers	2.8	2.8	2.8	2.7	2.7	2.8
Taxes on products	***11.0***	***2.1***	***5.8***	***-8.5***	***5.9***	***-1.4***

Source: Uganda Bureau of Statistics

Agriculture, forestry and fishing sector grew by 4.4 percent from 5.3 percent registered in the Financial Year 2018/19. This is on account of strong performance in food crop categories as well as livestock and Agriculture support services. Increased Government interventions (provision of extension services, pesticides, etc.) and favourable weather conditions supported the sector and resulted in increased production of both food crops and livestock. Fishing and cash crops experienced lower performance compared to the previous year because the closing of borders as a counter measure against the virus affected fish and some of the cash crop exports. Coffee was resilient and continued to perform admirably amidst the challenges.

Industry sector grew by 2.3 percent, lower than the 10.1 percent in the Financial Year 2018/19. This sector was the most affected by the pandemic due to the lockdown measures. Some of the companies closed partly due to lack of market for their products, while others were producing at lower capacity. The Manufacturing sub sector grew at 1.4 percent compared to 7.8 percent in the FY 2018/19 on account of poor performance in the second half of the year as a result of COVID-19. Construction grew by 5.4 percent from 14.2 percent registered the previous Financial Year, due to slowdown in both private and public construction activities during the lockdown period. Mining and quarrying activities declined to -2.8 percent from 33.4 percent in the FY 2018/19. This was on account of the implementation of a policy that prohibited exportation of minerals without value addition. On a positive note, significant growth was registered in the use of electricity as Isimba Power project was launched.

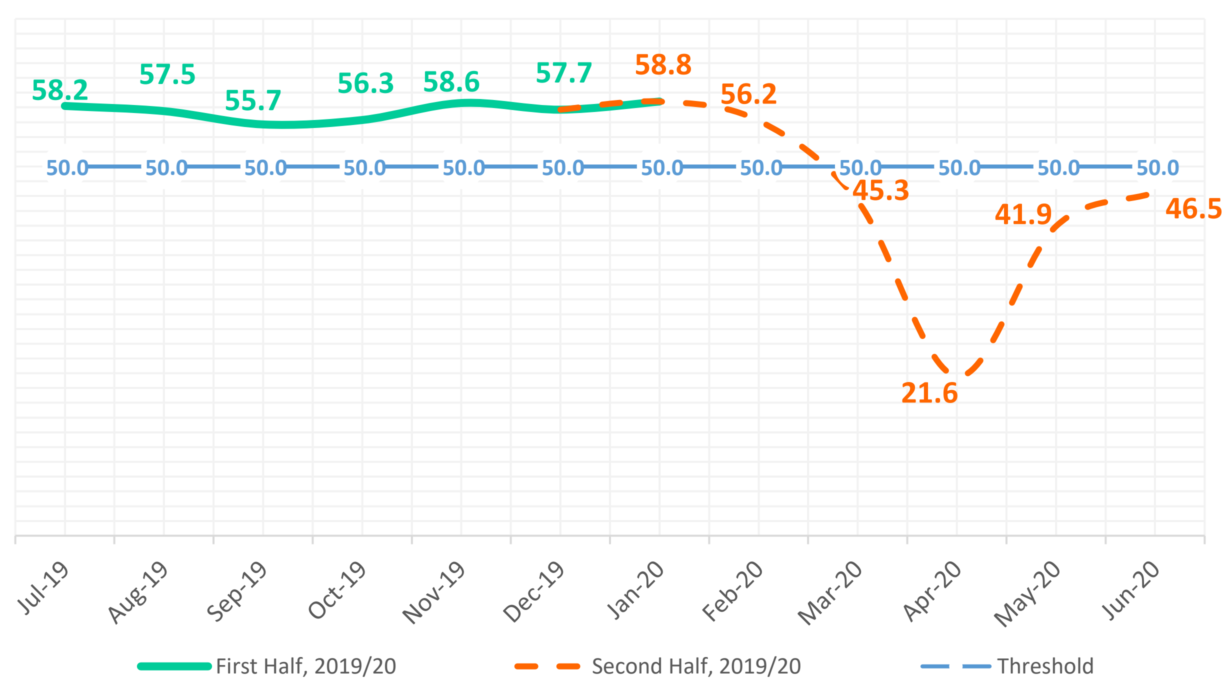
Services sector also had slower growth of 3.6 percent from 5.7 percent in Financial Year 2018/19. This slowdown was on account of a general decline in growth for trade & repairs activities, transportation & storage, accommodation & food services, and Arts, Entertainment & recreation. These sub-sectors were mainly affected by the lock down measures. However, Information & Communication and Public administration activities registered higher growth of 33.3 percent and 13.0 percent in the FY 2019/20, from -0.6 and 3.2 percent the previous Financial Year, respectively. The growth in Information & Communication was from the increased use of data as general activity and interaction was largely limited to internet and technological platforms due to the lock down measures. Similarly, the growth in Public administration was from the increased spending on enforcement of the lockdown measures and support to vulnerable communities.

Indicators of Economic Activity

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

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 regarding new production and output, similarly in 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, as shown in Figure 3.

Figure 3: Uganda's Purchasing Managers Index (PMI)

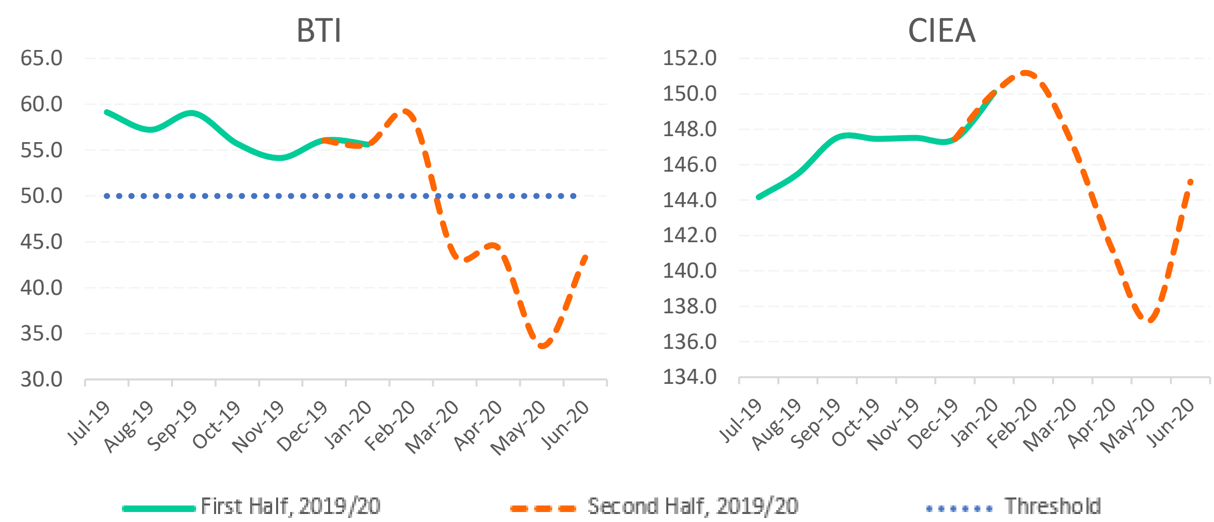


Source: Stanbic Bank Uganda

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, together recorded a significant drop between February 2020 and May 2020. However, there is an indication of recovery as seen in June 2020.

The Business Tendency Index (BTI) as well slipped to 43.7 in March 2020, and remained below the threshold of 50 for the period till June 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.

Figure 4: High Frequency Indicators of Economic Activity



Source: Bank of Uganda

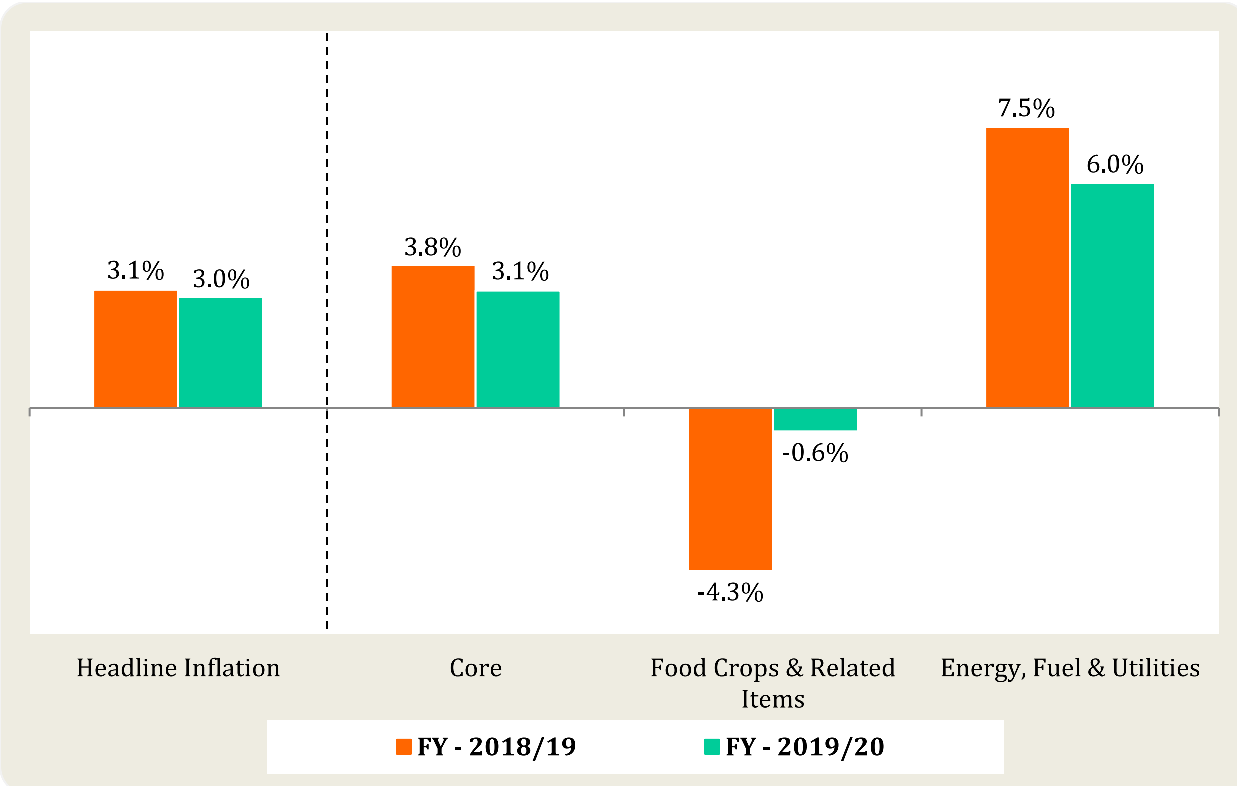
Inflation

Headline Inflation declined to 3.0%

During the Financial Year 2019/20, headline inflation remained stable and subdued registering a slight decline to a 3.0 percent annual average, from 3.1 percent in the previous Financial Year, as shown in Figure 5. The decline in headline inflation was on account of general declines in both core and EFU inflation.

A month on month analysis however shows that 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. This was attributed to a pickup in both Core and EFU inflation in the second half of the Financial Year.

Figure 5: Average Annual Inflation by Sub-Components



Source: Uganda Bureau of Statistics

Core inflation declined to 3.1 percent in the Financial Year 2019/20 down from 3.8 percent in the previous Financial Year. The decline in core inflation was attributed to a reduction in prices for the following categories; milk, airtime and internet charges as well as slowdowns in price increments for transport fares and car repair services, all of which hold significant weights in the core basket of goods and services.

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 however was not enough to offset the declines recorded in the first half of the Financial Year.

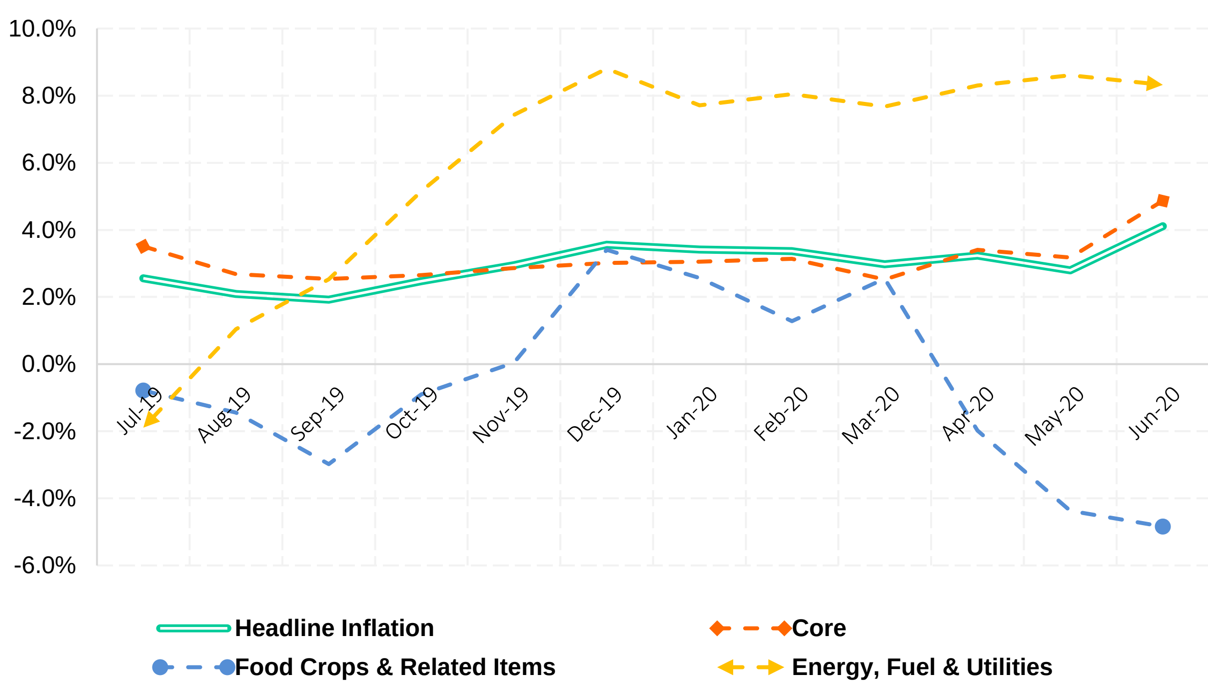
EFU inflation also declined to 6.0 percent in the FY 2019/20, from 7.5 percent the previous Financial Year. The decline was attributed to reduced charges on the use of electricity, and lower fuel pump prices compared to the previous Financial Year. Fuel pump prices declined in line with a drop in international oil prices *(Refer to section on* *commodity prices)*. A month on month analysis shows that EFU inflation picked up in the second half of the Financial Year driven by a significant increase in the price of charcoal and firewood.

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.

Figure 6 shows monthly inflation rates for annual headline inflation and its three subcomponents.

Figure 6: Annual Inflation Trends in 2019/20



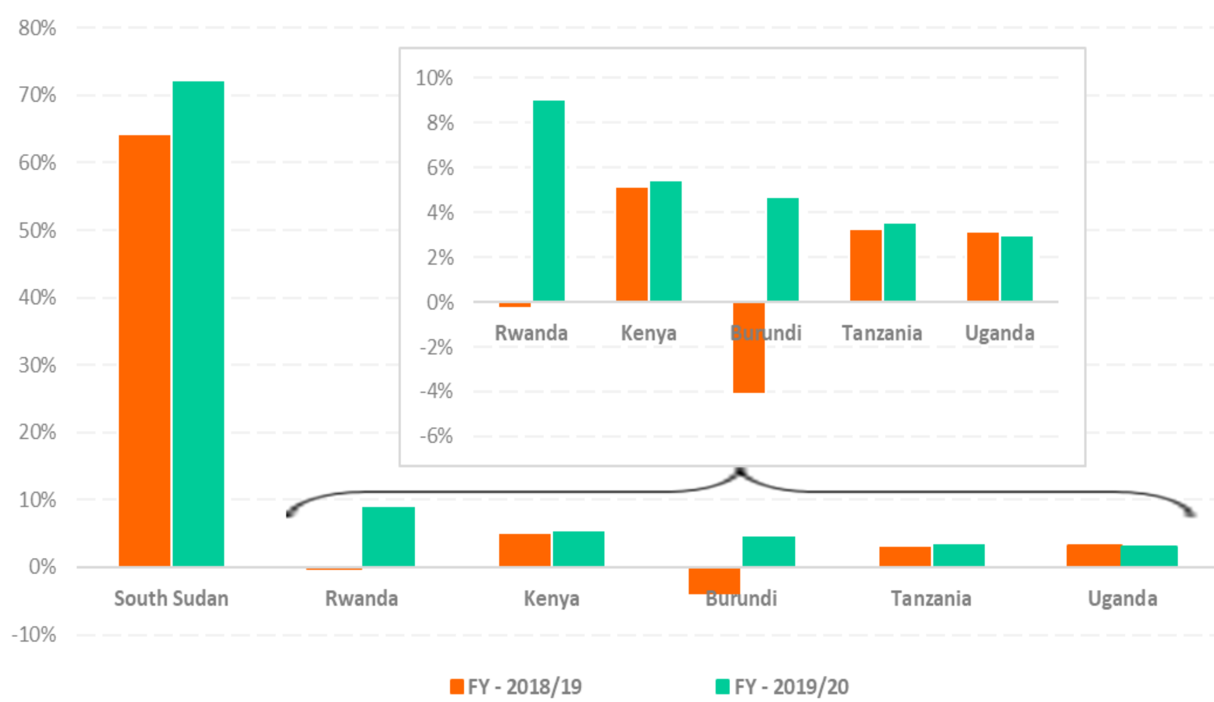
Source: Uganda Bureau of Statistics

Inflation across the East African Community

During the Financial Year 2019/20, there was a general increase in inflation across the EAC region with the exception of 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.

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. Figure 7 shows inflation rates in EAC Partner States for the FY 2018/19 and FY 2019/20.

Figure 7: Average Annual Headline Inflation among EAC Partner States



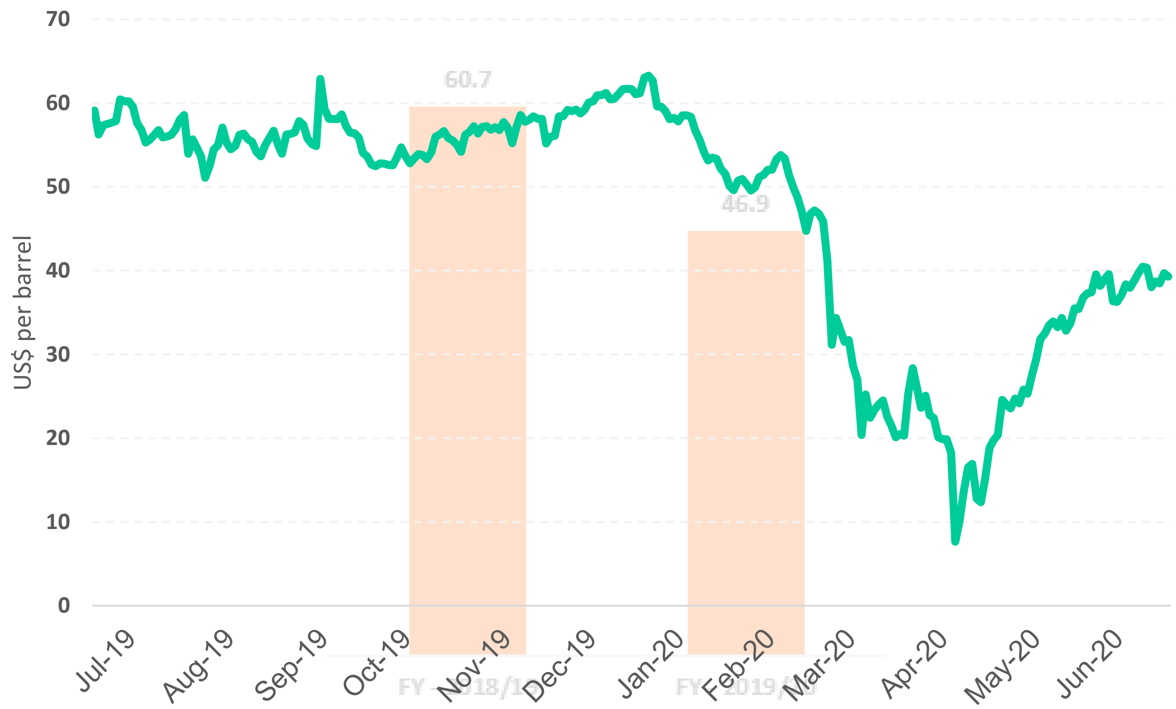
Source: Respective National Bureaux of Statistics

Commodity Prices

International Oil 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, as illustrated in Figure 8.

Figure 8: Graph on International Oil Prices

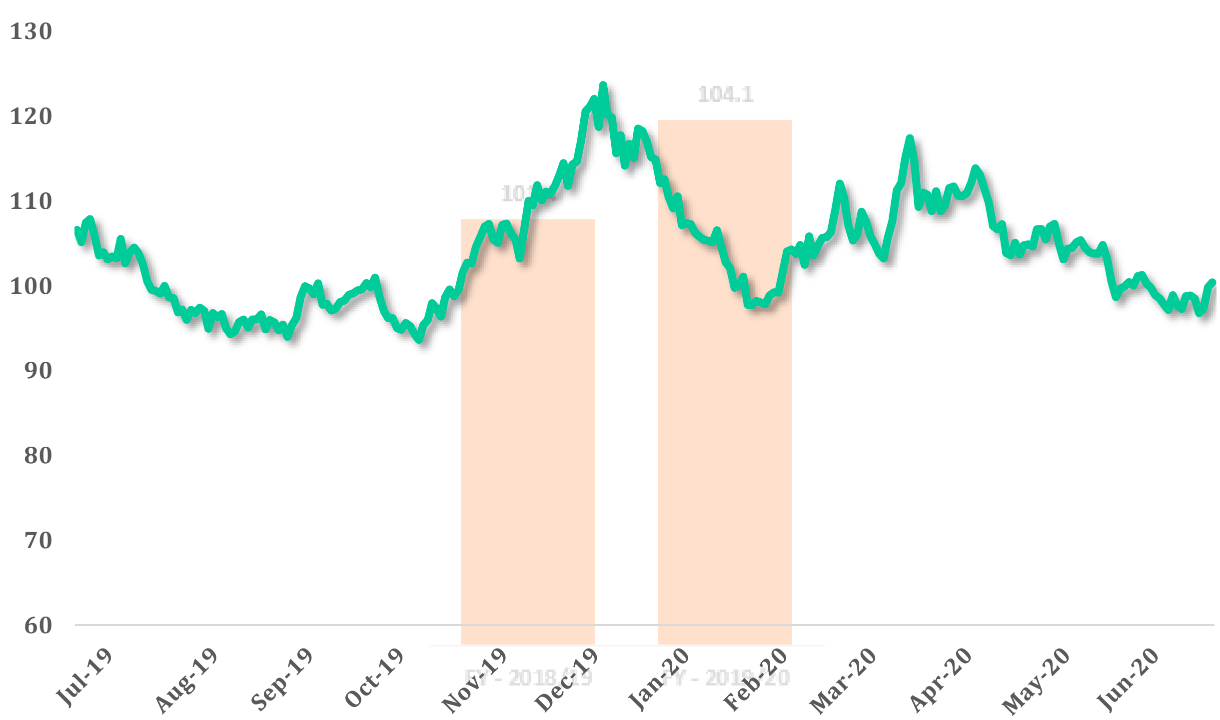


Source: US Energy Information Administration

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 experienced dampened economic activity due to nationwide 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.

Coffee prices

Figure 9: Movements in the International Coffee Composite Price Indicator



Source: International Coffee Organisation (ICO)

As shown in Figure 9, 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 amidst increased demand.

Financial Sector Trends

Throughout the Financial Year under review, the central bank eased monetary policy. The Central Bank Rate (CBR) was maintained at 10 percent for the first quarter of the Financial Year and then reduced to 9 percent for the second and third quarters on the back drop of a stable inflation outlook.

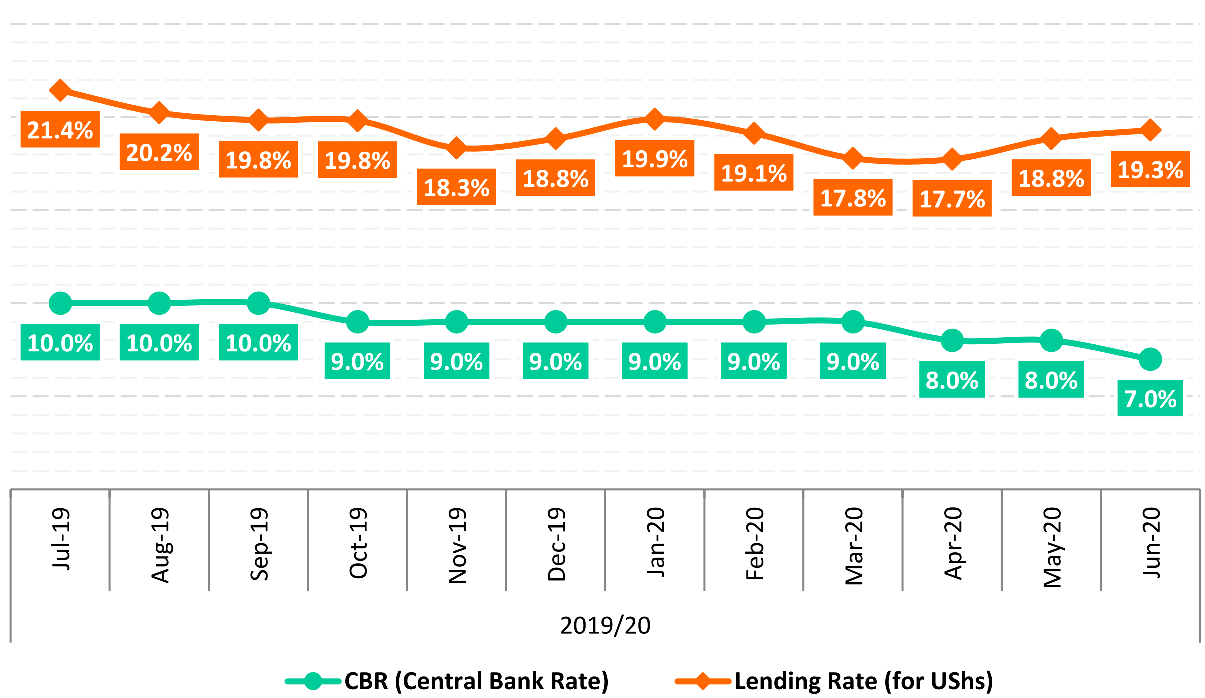
The outbreak of COVID-19 in Uganda towards the end of March 2020 and the measures put in place to curb the disease spread (lockdown), resulted into subdued economic activity. In order to bolster economic recovery, the CBR was reduced to 8 percent in April 2020, and further down to 7 percent in June 2020.

Lending Rates (weighted average)

average lending rate of 19.3%

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. Lending rates remained sticky downwards as lending institutions increased caution in the extension of loans due to the uncertainty brought about by the global pandemic. Figure 10 shows the trend in CBR and commercial bank lending rates in the FY 2019/20.

Figure 10: Central Bank Rate and Commercial Bank Lending Rates Movements



Source: Bank of Uganda

Non-Performing Loans: NPLs to total gross loans gradually rose over the year from 3.79 percent at end June 2019 to 6.01 percent at end June 2020 reflecting a deterioration in commercial banks' asset quality. This trend was exacerbated by the slackened economic activity in the last quarter of the Financial Year resulting from the COVID-19 outbreak and measures enacted to control its spread. This led to income losses which affected the ability to service debt. Table 2 shows the movement of NPLs between June 2019 to June 2020.

Table 2: Non-Performing Loans (%)

	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
NPLs to total gross loans	3.79	4.35	4.85	5.41	6.01

Source: Bank of Uganda

Lending to the Private Sector

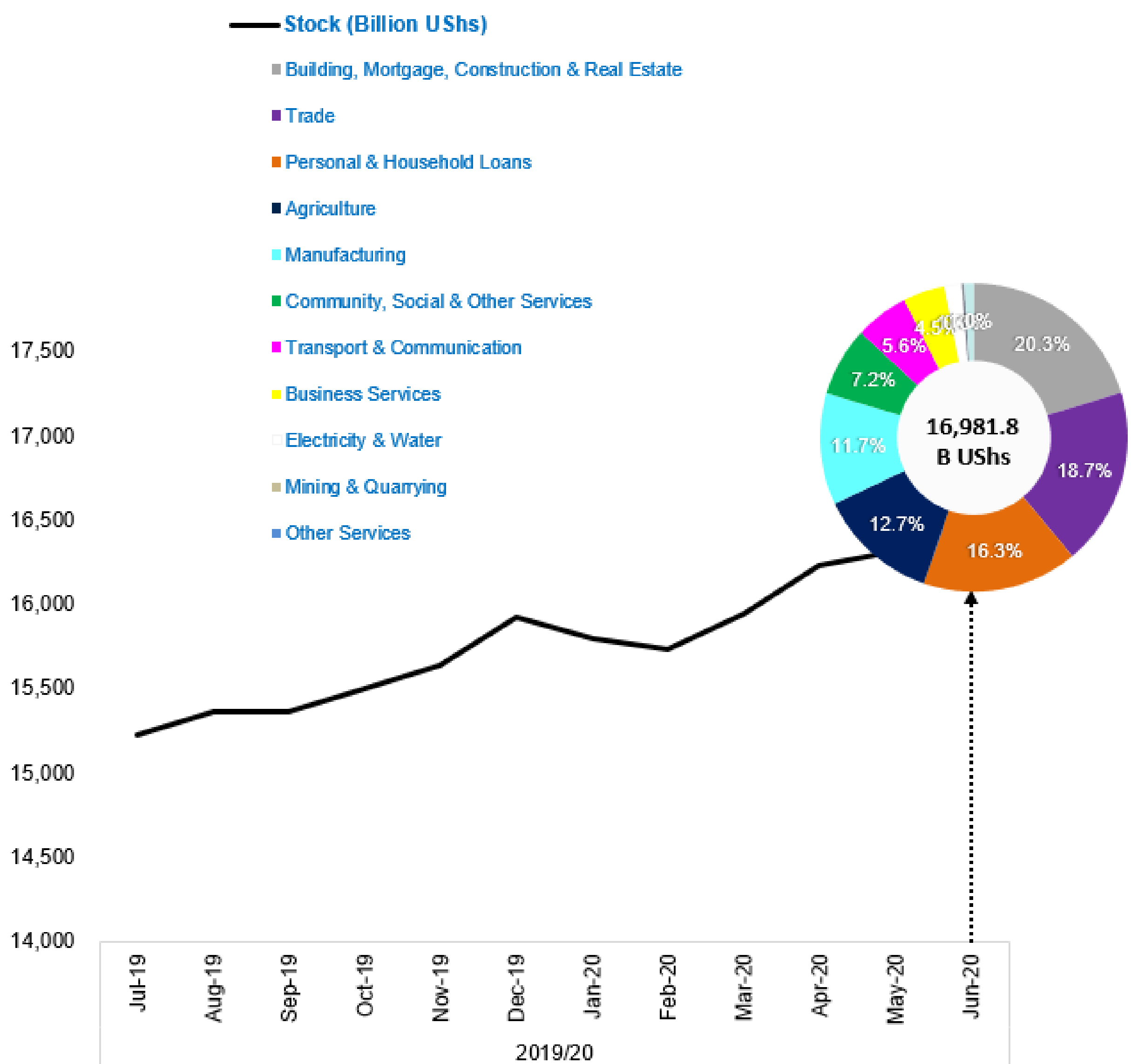
Private Sector Credit

increased by

12.5%

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. Figure 11 shows the stock of private sector credit.

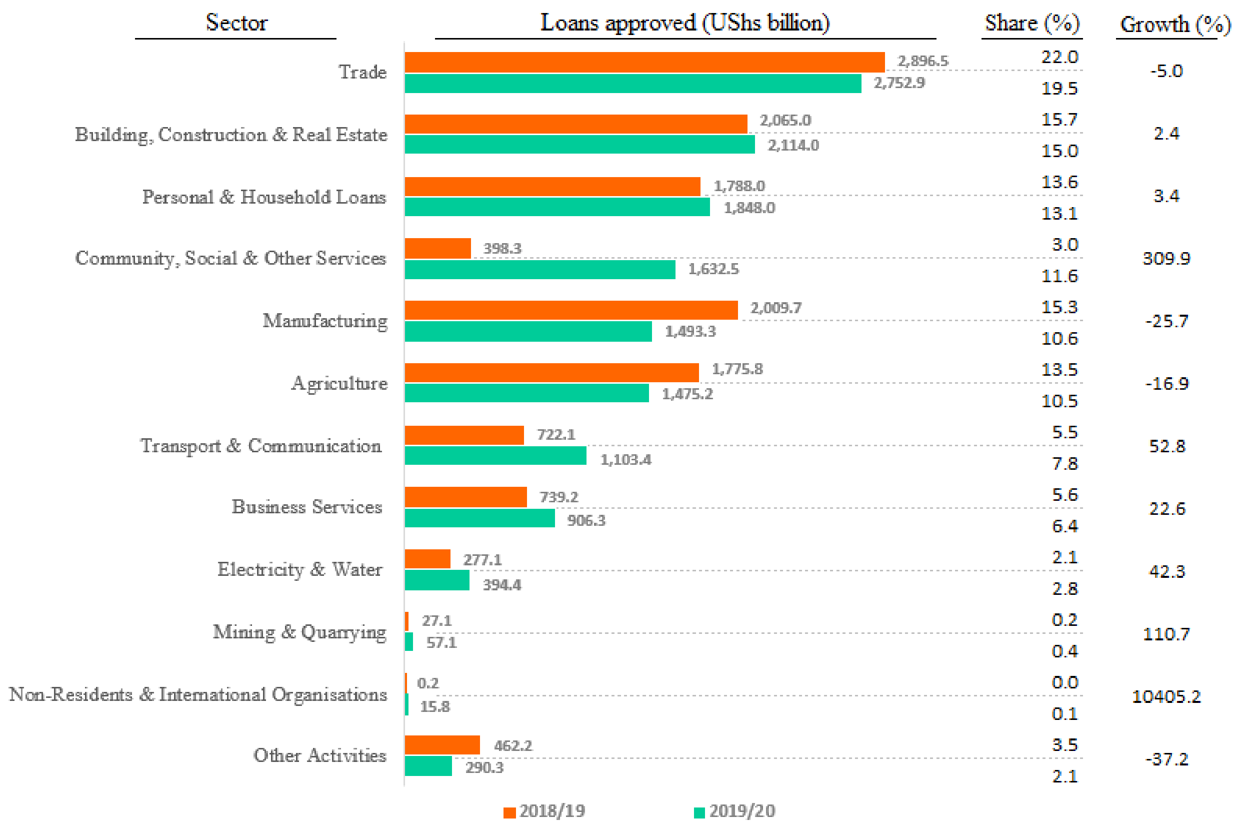
Figure 11: Stock of Private Sector Credit



Source: Bank of Uganda

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. Figure 12, shows credit extended to each sector in the FY 2018/19 and FY 2019/20.

Figure 12: Value of New Loans Approved by Sector



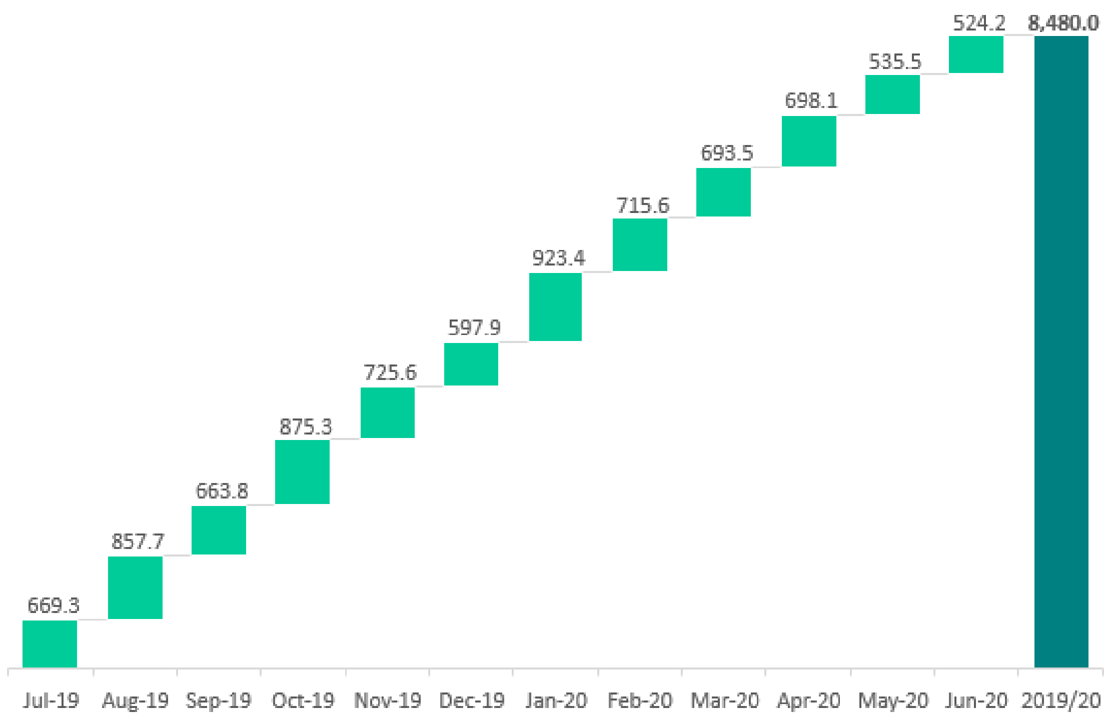
Source: Bank of Uganda

By sector, the biggest share of credit approved was towards the Trade sector at 19.5 percent, followed by Building Construction and real estate (15 percent), Personal and Household Loans (13.1 percent), Community Social & other services (11.6 percent), Manufacturing (10.6 percent) and Agriculture (10.5 percent), during the Financial Year.

Government Securities

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 planned fiscal activity under in the FY 2019/20 Government budget; as shown in Figure 13.

Figure 13: Breakdown of Government Securities Issued in UShs Billion



	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	2019/20
Net domestic financing	114.6	383.6	30.2	481.1	392.3	273.4	22.7	352.1	-82.5	226.6	181.1	194.4	**2,569.8**
Refinancing	554.7	474.1	633.6	394.1	333.3	324.5	900.7	363.4	776.0	471.5	354.4	329.8	**5,910.2**

Source: Ministry of Finance, Planning and Economic Development

Yields on Treasury Bills

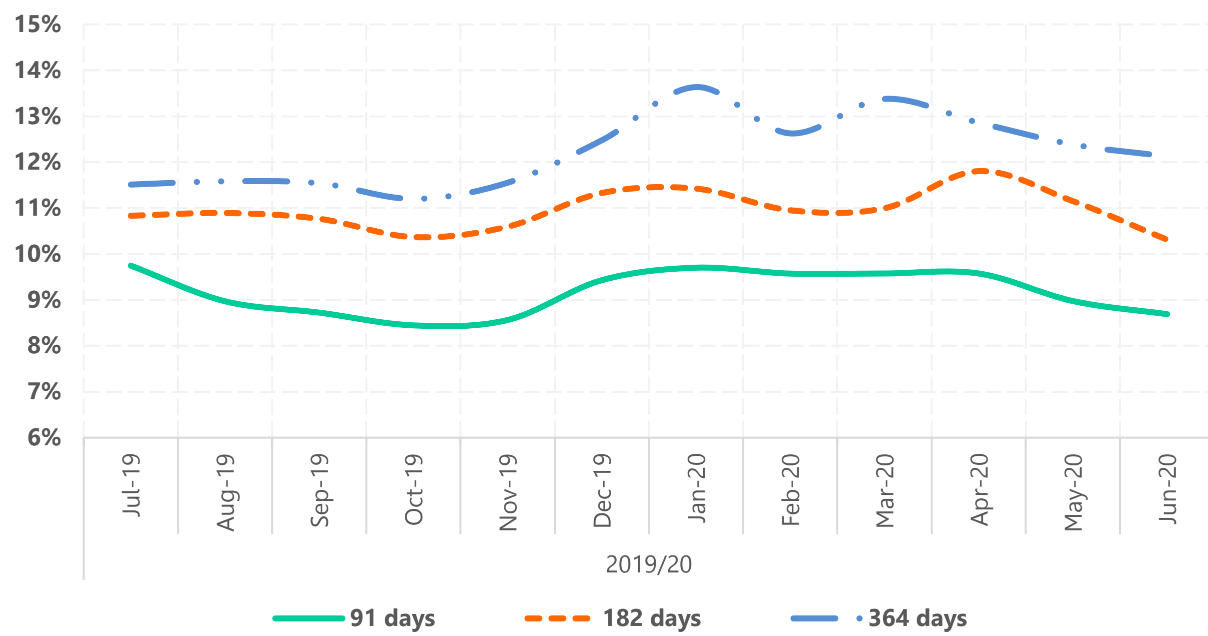
Yields for all the Treasury bills declined in the Financial Year 2019/20, compared to 2018/19. The yields on the 91-day, 182-day and 364-day T-Bills declined by 111 basis points, 74 basis points and 45 basis points respectively. The decline in these yields was partly attributed to a reduction in the 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 year. The average annualised yields for the FY 2019/20 were 9.2 percent, 11 percent, 12.2 percent for the 91-day, 182-day and 364-day tenors respectively. This compares with 10.3 percent, 11.7 percent and 12.7 percent in the FY 2018/19. Table 3 shows the average annualised yields on Treasury Bills since 2015/16 and Figure 14 shows the trend in the FY 2019/20.

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

	2015/16	2016/17	2017/18	2018/19	2019/20
91 Days	17.8	13.2	9.1	10.3	9.2
182 Days	19.6	14.1	9.5	11.7	11.0
364 Days	20.1	15.1	10.1	12.7	12.2

Source: Bank of Uganda

Figure 14: Movement of Treasury Bill Yields



Source: Bank of Uganda

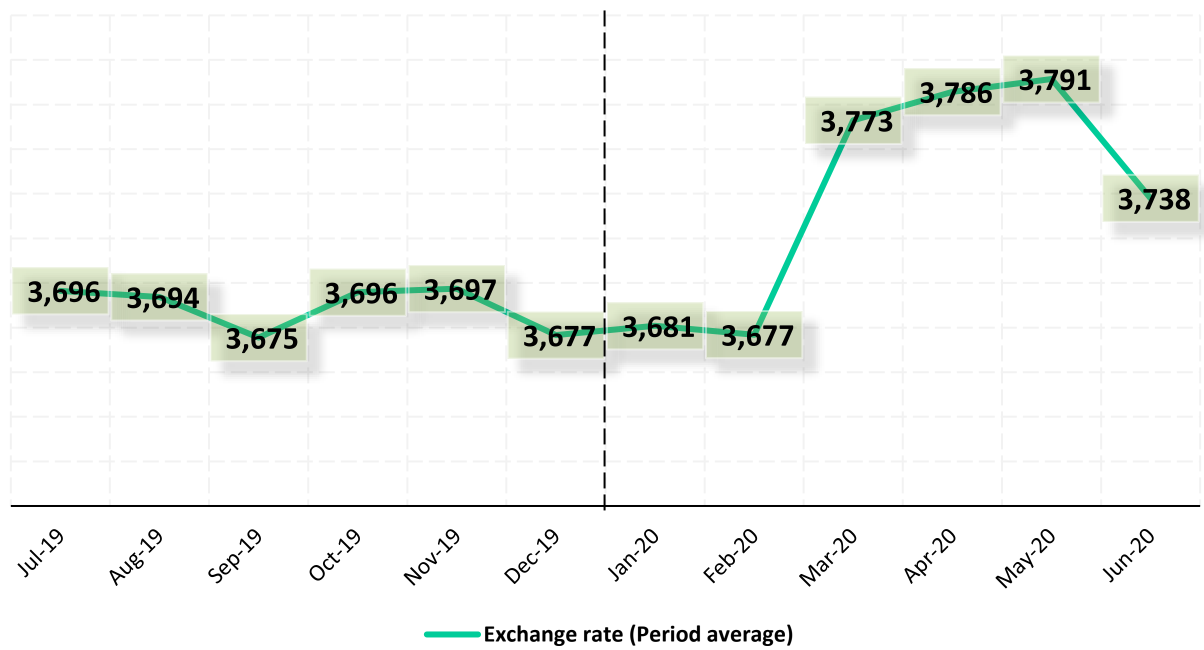
Exchange Rate

Shilling appreciated by 0.6% per US$ to 3,715

The Ugandan shilling strengthened against the dollar by 0.6 percent from an average midrate of UShs 3,737 per US$ in the FY 2018/19 to UGX 3,715 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 in which it fell 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 obtainment of the BOP Support loan under the IMF's Rapid Credit Facility.

Figure 15: Official Exchange Rate Movement of UShs against US$



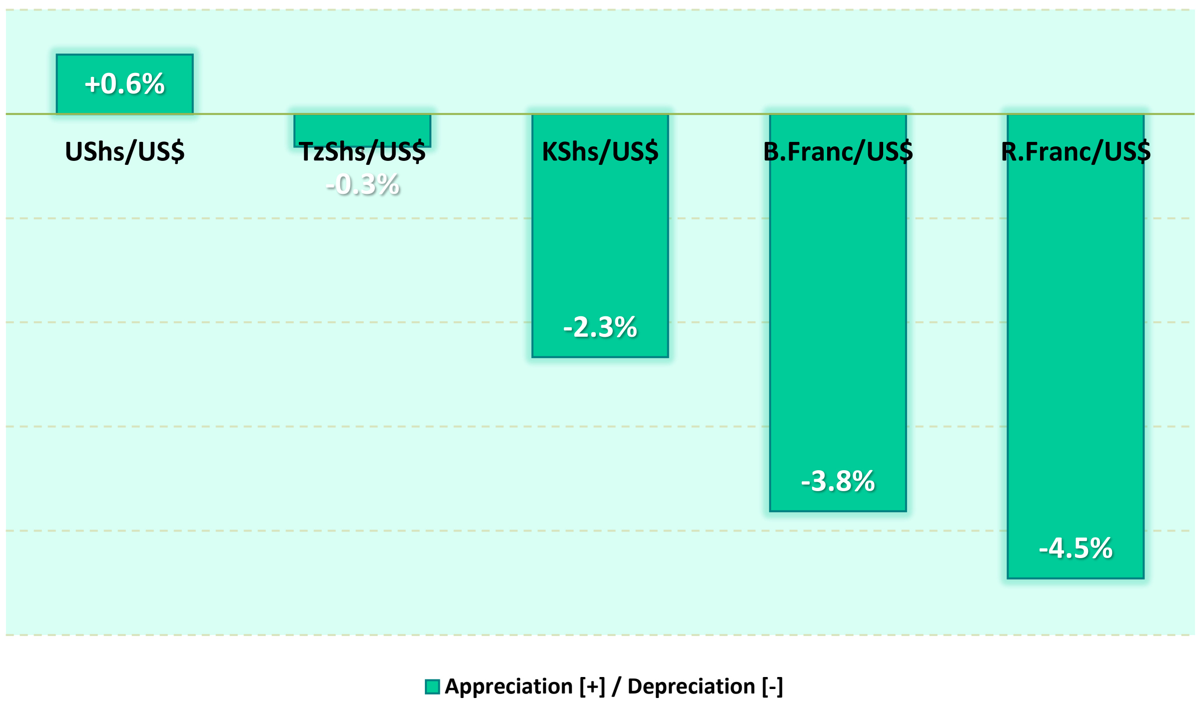
Source: Bank of Uganda

The Uganda shilling registered an appreciation of 3.3 percent against the Pound in the FY 2019/20, to a period average of UShs 4,681. This was partly because the Pound Sterling weakened globally amidst continuing uncertainties over Brexit and fears of additional COVID-19 restrictions.

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 as demonstrated by Figure 16.

Figure 16: Change in Exchange Rates (Period Average) in EAC for 2019/20



Source: Respective Central Banks

Note: Exchange Rate data for South Sudan was not available

External Sector

Merchandise Trade Balance

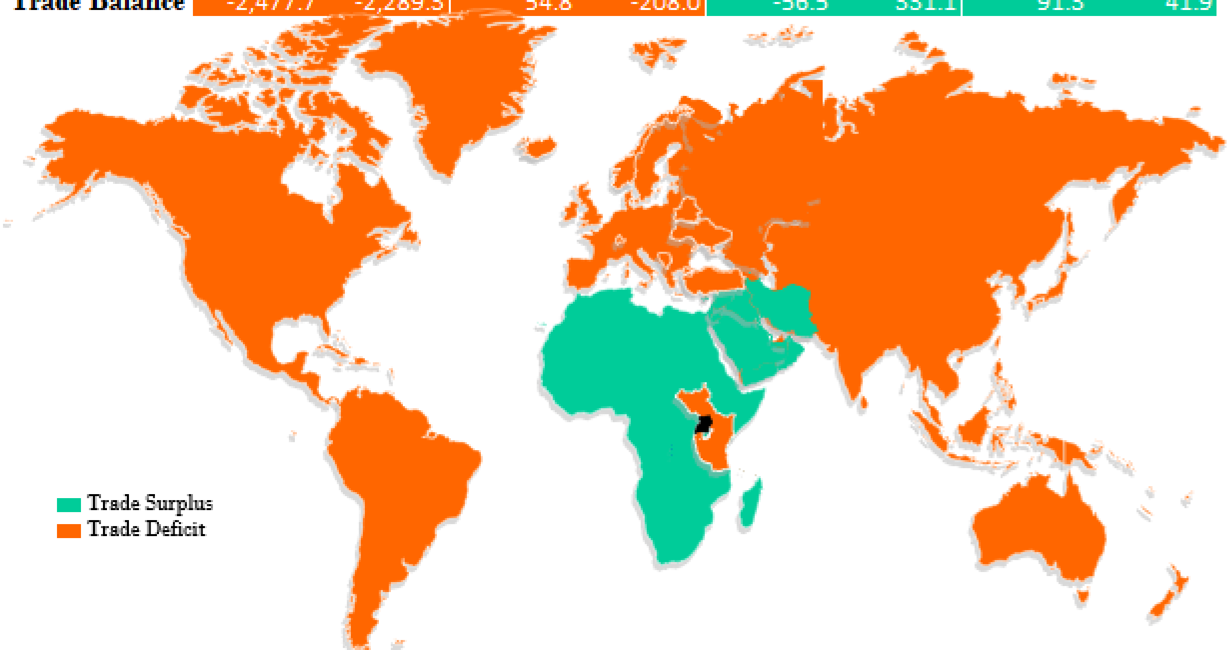
Uganda's merchandise trade deficit amounted to US$ 2,342.1 million in the Financial Year 2019/20, 18.3 percent lower than US$ 2,865.8 million in the FY 2018/19. The narrowing of the deficit follows a substantial decline in the import bill (down by US$ 663.2 million), that more than offset the fall in the export earnings (down by US$ 139.5 million).

Main Trade Partners

Asia remained the major trading partner of Uganda, with total trade of US$ 2,819.2 million in the FY 2019/20. It was followed by the EAC; the Middle East; and Rest of Africa, as shown by Figure 17. 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.

Figure 17: 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	2,819.2	2,348.9	2,327.1	2,157.2	2,026.5	1,288.5	1,365.8
Trade Balance	-2,477.7	-2,289.3	54.8	-208.0	-56.5	331.1	91.3	41.9



	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	1,039.0	239.7	267.6	282.9	131.4	233.3	11.7
Trade Balance	-174.6	-14.0	-141.7	-147.0	68.1	-50.6	-229.4	-6.6

Source: MOFPED calculations based on data from BOU

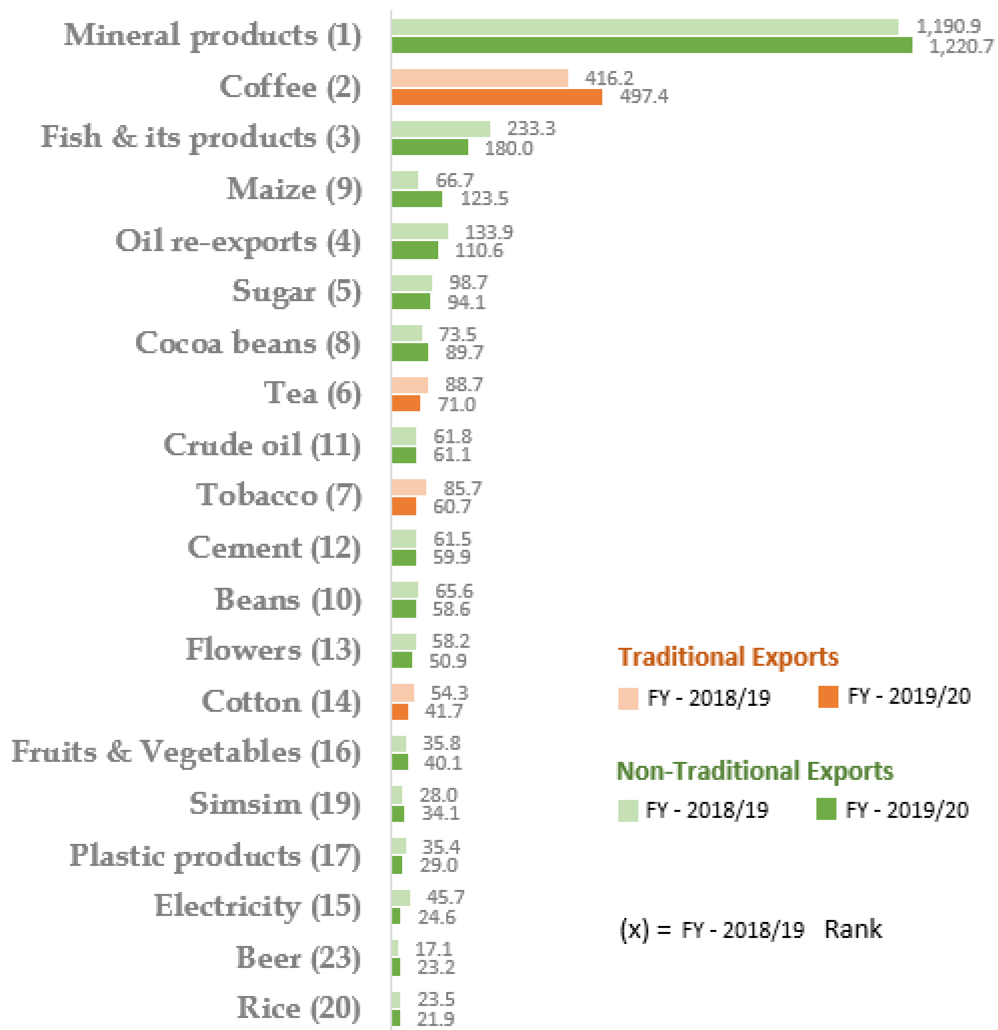
Note: Total Trade is equal to merchandise exports plus merchandise imports, and Trade Balance is equal to merchandise exports minus merchandise imports

Merchandise Exports

Exports decreased by 3.5%

The Financial Year 2019/20 saw a decline in exports; with export earnings falling by 3.5 percent from US$ 3,962.5 million in FY 2018/19 to US$ 3,823 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. Figure 18 shows notable export products during the period under review.

Figure 18: Top 20 Commodity Exports of Uganda in 2019/20 (US$ Million)



Source: MOFPED calculations based on data from BOU

Note: X – denotes the rank of the commodity in the previous Financial Year

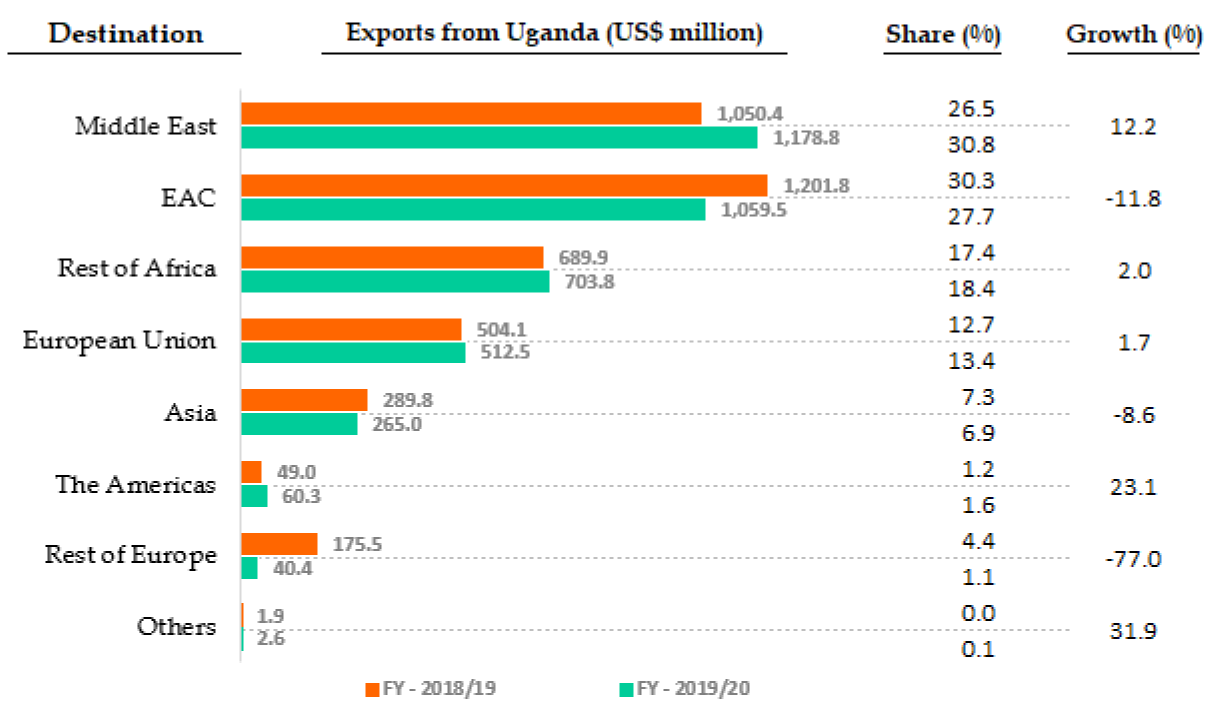
Traditional Exports are listed according to the Uganda Trade Policy

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.

Destination of Exports

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, amounted to 30.8 percent of the total exports. EAC followed closely, accounting for 27.7 percent, while in third place was the Rest of Africa which took 18.4 percent of total exports, as shown in Figure 19. Between 2018/19 and 2019/20, exports to the Middle East increased by 12.2 percent whereas exports to the EAC declined by 11.8 percent.

Figure 19: Destination of Uganda's Exports to different Regional Blocs



Source: MOFPED calculations based on data from BOU

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 Democratic Republic of Congo with US$ 503.9 million and Kenya with US$ 498.7 million, in the FY 2019/20.

Merchandise Imports

Imports decreased by 9.7%

Just like export earnings, imports (f.o.b) dropped during the Financial Year 2019/20, with the decline being more pronounced in the second half of the Financial Year. The value of merchandise imports fell by 9.7 percent from US$ 6,828.3 million in the FY 2018/19 to US$ 6,165.1 million in the FY 2019/20. The decline in imports was reflected across both Government and private sector imports, with Government imports falling faster, as shown by Table 4. Government imports declined by 50.6 percent 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.

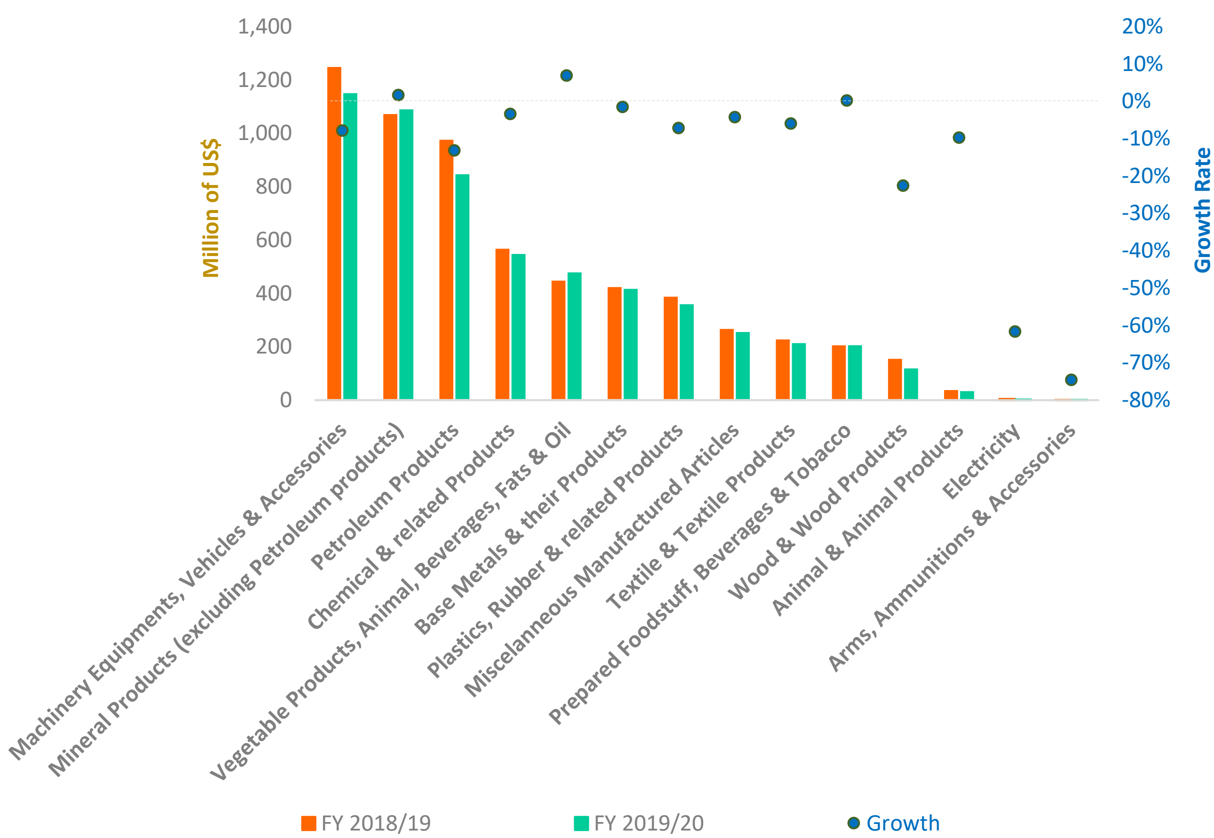
Table 4: Performance of Imports in US$ million

	FY 2018/19	FY 2019/20	Difference (value)	Growth Rate
Total Imports (fob)	6,828.3	6,165.1	-663.2	-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	49.9	-4.5	-8.2%
Total Private Sector Imports	6,121.7	5,815.8	-305.9	-5.0%

Source: Bank of Uganda

Formal private sector imports constituted 93.5 percent of the total merchandise imports in the FY 2019/20. The major formal private sector imports were: Machinery equipment, Vehicles & Accessories (US$ 1,154.4 million); Mineral Products (US$ 1,093.6 million); and Petroleum Products (US$ 850.5 million), as shown in the Figure 20.

Figure 20: Composition of Formal Private Sector Imports by Category



Source: Bank of Uganda

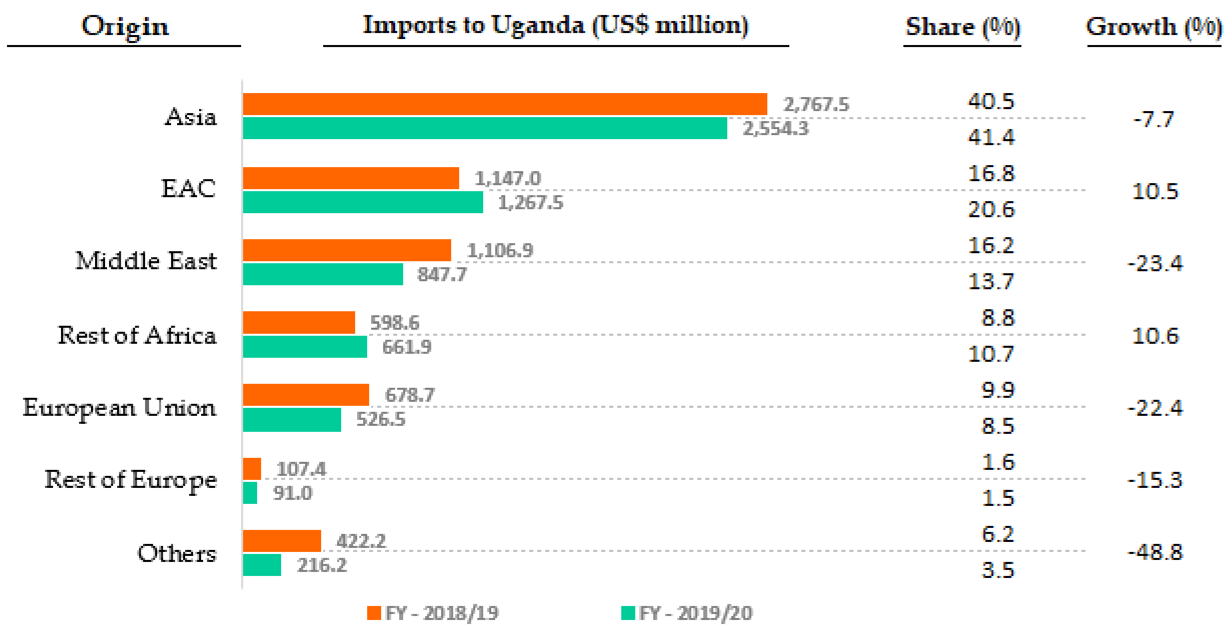
Note: Commodity category is according to the Harmonised Coding System, (BOU)

Formal private sector imports declined by 5 percent, as most of the import categories registered decreases save for mineral products (excluding petroleum products); vegetable products, animal, beverages, fats & oil; prepared foodstuff, beverages & tobacco.

Origin of Imports

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 (13.7 percent), as shown in Figure 21.

Figure 21: Origin of Uganda's Imports from different Regional Blocs



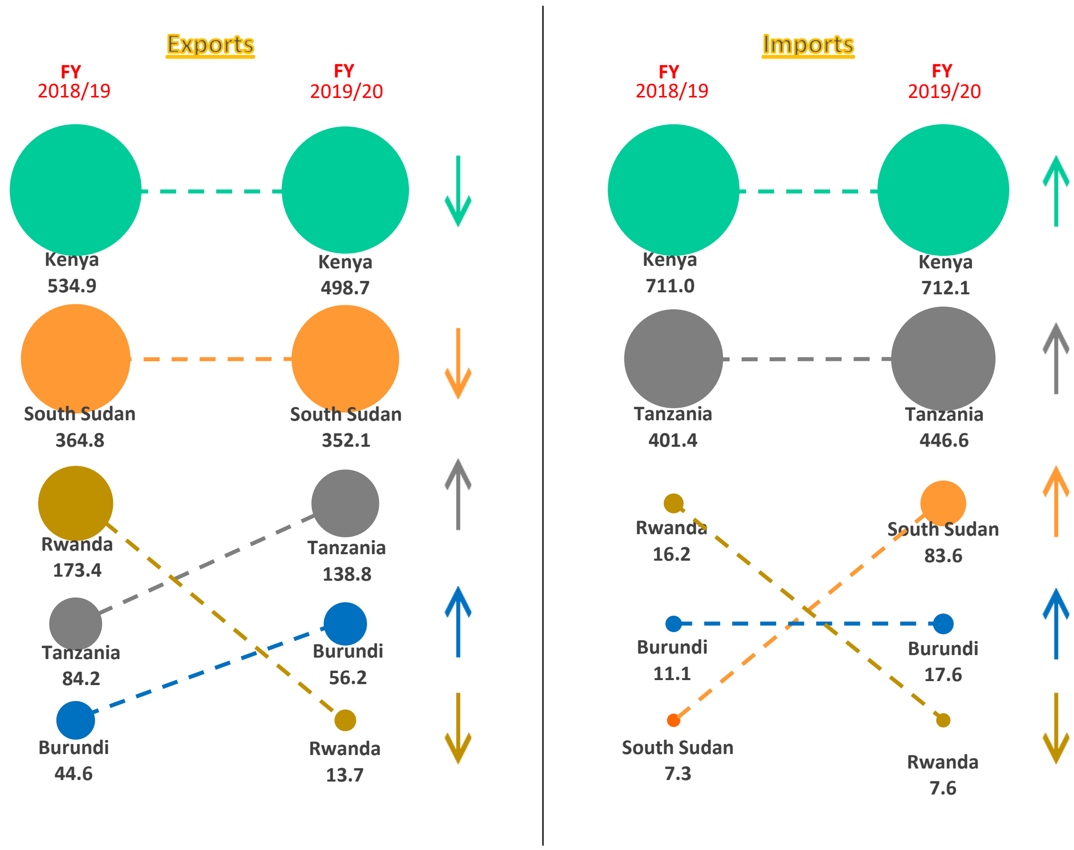
Source: MOFPED calculations based on data from BOU

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.

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.

Figure 22: Uganda's Trade with EAC Partner States (US$ Million)



Source: Bank of Uganda

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, as shown in Figure 22.

Exports to Kenya, Rwanda and South Sudan declined in the Financial Year 2019/20, 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[1] between Uganda and these countries.

[1] Rwanda – Uganda border was closed in March 2019. Kenya has imposed restrictions on some Ugandan exports like milk, maize and sugar.

Other Balance of Payments (BOP) transactions

Overall BOP: A stronger external position was recorded in the Financial Year 2019/20, on account of the balance of payments support loan from the IMF, coupled with other budget support loans from the World Bank and Stanbic Bank. The developments in the external sector resulted in an overall balance of payments surplus of US$ 625.5 million in the FY 2019/20 compared to US$ 68.7 million in the FY 2018/19. At the end of June 2020, the stock of reserves stood at US$ 3,919.8 million, equivalent to 5.2 months of future imports of goods and services. This performance is largely in line with the targeted reserve cover of 4.5 months of imports of goods and services as stipulated in the East African Monetary Union (EAMU).

Remittances (personal transfers): During the FY 2019/20, remittances declined by 4.6 percent to US$ 1,306.3 million from US$ 1,369.1 million in the 2018/19. This decline was seen in the last quarter of the Financial Year, where a decline of US$ 149.5 million was registered compared the same period the previous year. This decline more than offset the gains that were made in the earlier quarters of the Financial Year. The drop in remittances during the last quarter of the year was on account of the COVID-19 pandemic, which could have reduced incomes of Ugandans working abroad.

Foreign Direct Investments (FDI): FDI inflows into Uganda declined in the Financial Year 2019/20, compared to 2018/19. Current data shows that the fall in FDI was registered in the second half of the Financial Year, as the economy suffered from the effects of the COVID-19 pandemic. FDI inflows fell by 20.6 percent to US$ 966.3 million in the FY 2019/20, from US$ 1,217.4 million in the FY 2018/19.

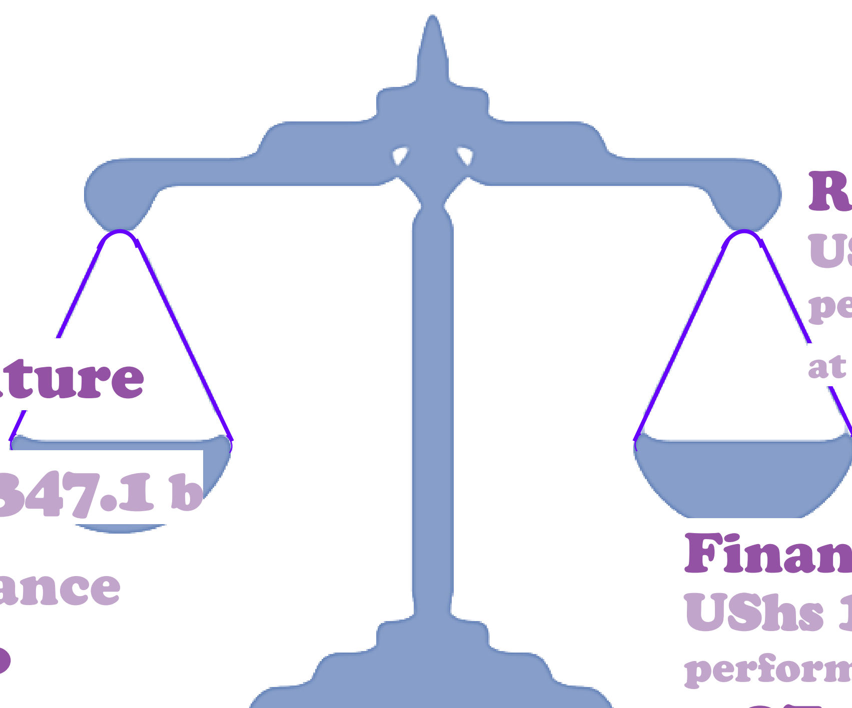
Net Portfolio investments: Uganda's portfolio investment registered a higher net outflow in the Financial Year 2019/20 of US$ 321.5 million in the FY 2019/20 compared to an outflow of US$ 167.9 million recorded last Financial Year.

UShs Billion

- Revenues & Grants: 18,074.0
  - Revenues: 17,285.9
    - Tax Revenue: 15,912.2
      - Direct Tax: 5,878.6
      - Indirect Tax: 3,874.7
      - Tax on International Trade: 6,446.6
    - Non-Tax Revenue: 1,373.7
  - Grants: 788.2
    - Budget Support: 87.0
    - Project Support: 701.2
- Expenditure & Lending: 28,347.1
  - Current: 15,047.7
  - Development: 12,063.8
  - Net Lending: 831.0
  - Arrears: 404.7
- Fiscal Balance: (10,273.1)

FISCAL PERFORMANCE

Fiscal operations resulted into a Fiscal deficit of **7.4% of GDP**



Expenditure amounted to UShs 28,347.1 b registering a performance of **85.6%**

Revenues of UShs 18,074 b performing at **80.2%**

Financing UShs 10,273.1 b performance of **97.2%**

Chapter II: Fiscal Performance

Financial Year 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 as well as the 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).

Fiscal
deficit

7.4% of
GDP

Financial Year 2019/20 Fiscal Outturn

Fiscal operations during the Financial Year 2019/20 resulted into a financing gap of UShs 10,273.1 billion, equivalent to 7.4 percent of GDP, an increase from the gap of 4.9 percent of GDP that was recorded in the Financial Year 2018/19.

The slightly lower than planned financing gap 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[2].

[2] Domestically financed expenditure captures; wage, non-wage recurrent, domestic arrears payments and domestically financed development spending

Table 5: Fiscal Operations of the FY 2019/20 (UShs Billion)

	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**
Financing:	**10,564.4**	**10,273.1**	**97.2%**	**(291.3)**
External financing (net)	7,485.5	6,517.7	87.1%	(967.8)
Disbursements	8,208.8	7,011.4	85.4%	(1,197.4)
Budget support	574.6	3,046.9	530.3%	2,472.3
Concessional project loans	4,442.5	3,036.6	68.4%	(1,405.9)
Non-concessional loans	2,628.7	359.3	13.7%	(2,269.4)
Amortization	(723.3)	(493.7)	68.3%	229.6
Domestic financing (net)	3,078.9	3,878.1	126.0%	799.2
Bank financing	1,794.0	2,019.0	112.5%	224.9
Non-bank	1,284.9	1,859.2	144.7%	574.3
Errors and omissions	(0.0)	(122.7)		(122.7)

Source: Ministry of Finance, Planning and Economic Development

Revenues and Grants

Revenues and grants amounted to UShs 18,074 billion during the Financial Year 2019/20, against a target of UShs 22,546.4 billion. Both grants and domestic revenues 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.

Domestic Revenues

Government planned to collect revenues worth UShs 20,646.5 billion in the Financial Year 2019/20. However, UShs 17,285.9 billion was collected during the Financial Year, resulting into a shortfall of UShs 3,360.6 billion. Of the total collection, UShs 15,912.2 billion was tax revenue while UShs 1,373.7 billion was non-tax revenue. Both the tax revenue and non-tax revenue were below their respective targets by 15.7 percent and 12.6 percent.

Tax revenue collections registered a shortfall of UShs 2,965.1 billion against a target of UShs 18,877.3 billion for the Financial Year. About 70.4 percent of the shortfall in tax revenue was in the last four months of the Financial Year (March – June 2020), a period in which the effects of the COVID-19 pandemic on the economy were most pronounced. The restrictions put in place by Government to control the spread of the virus caused disruptions in business operations and economic activity thereby 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 also 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[3] and late implementation of digital tax stamps.

[3] The solution (system) will integrate data from various Ministries, Departments and Agencies (MDA's) to enable proper identification of individuals and Corporations to determine rental income prior to standard deductions.

Table 6 shows the breakdown of domestic revenues in the Financial Year 2019/20.

Table 6: Details of Domestic Revenue in UShs Billion

	Budget 2019/20	Collections 2019/20	Variance	Outturn vs Target
Overall Net Revenues	**20,448.7**	**17,285.9**	**(3,162.9)**	**84.5%**
Tax Revenue	**18,877.3**	**15,912.2**	**(2,965.1)**	**84.3%**
Direct Domestic Taxes	6,514.7	5,878.6	(636.1)	90.2%
o/w-PAYE	3,234.7	3,039.8	(194.9)	94.0%
-Corporate Tax	1,287.6	1,302.3	14.7	101.1%
-Withholding Tax	960.5	873.0	(87.5)	90.9%
-Presumptive Tax	25.2	5.2	(20.0)	20.7%
-Tax on Rental Income	321.0	103.7	(217.3)	32.3%
Indirect Domestic Taxes	4,979.1	3,874.7	(1,104.5)	77.8%
Excise duty:	1,662.3	1,266.1	(396.2)	76.2%
Value Added Tax (VAT):	3,316.8	2,608.6	(708.2)	78.6%
Taxes on International Trade	7,666.8	6,446.6	(1,220.2)	84.1%
o/w -Petroleum duty	2,233.5	2,012.5	(221.0)	90.1%
-Import duty	1,550.2	1,208.8	(341.5)	78.0%
-Excise duty	262.7	183.8	(78.9)	70.0%
-VAT on Imports	2,979.9	2,498.4	(481.5)	83.8%
Tax Refunds	(371.3)	(374.8)	(3.4)	100.9%
Stamp and Embossing Fees	88.0	87.1	(0.9)	99.0%
Non-Tax Revenues	**1,571.4**	**1,373.7**	**(197.8)**	**87.4%**

Source: Uganda Revenue Authority; Ministry of Finance, Planning and Economic Development

Note: 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

Grants

Government received UShs 701.2 billion worth of project support grants and UShs 87 billion to support activities in the budget. This was against respective targets of UShs 1,799.4 billion and UShs 100.6 billion. 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) amounted to UShs 28,347.1 billion against a budget of UShs 33,110.8 billion, registering 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.

Financing

The fiscal deficit in the Financial Year 2019/20 was financed through borrowing from the domestic market and external development partners. 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.

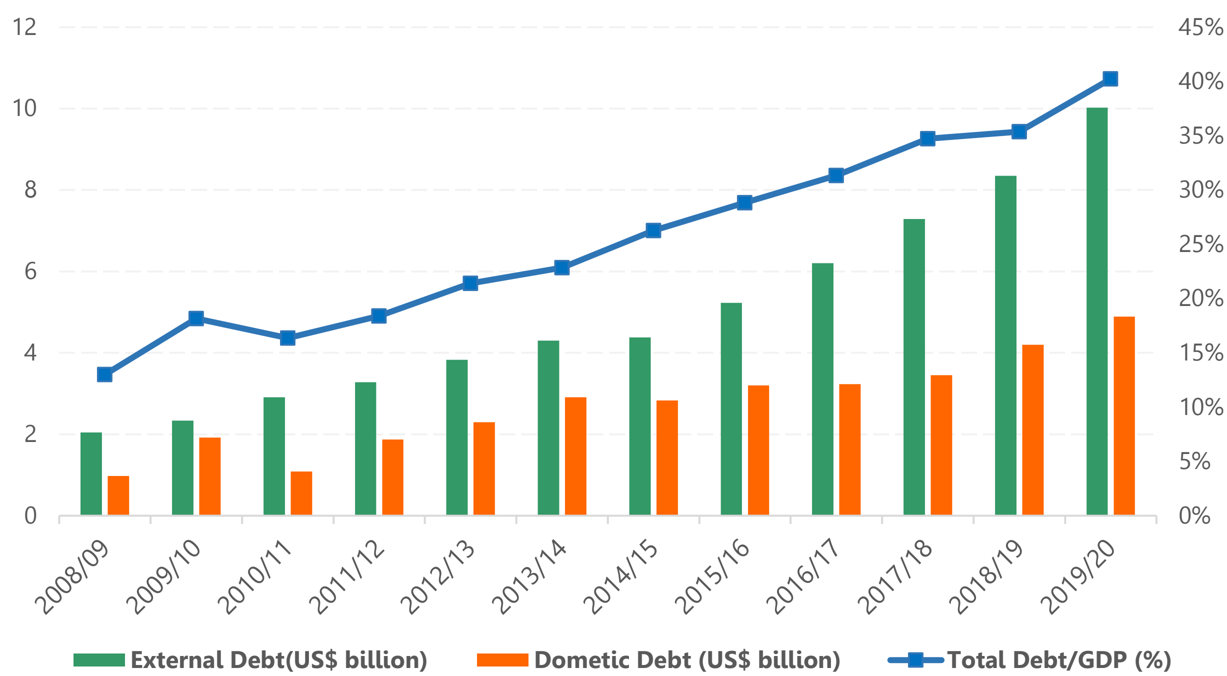
Debt Sustainability Analysis

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 in FY 2019/20. Figure 23 shows the evolution of public debt.

Figure 23: Evolution of Public Debt



Source: Ministry of Finance, Planning and Economic Development

Compliance with the Charter for Fiscal Responsibility

The Financial Year 2019/20 was the fourth year of implementation of Uganda's first Charter of Fiscal Responsibility (CFR) which seeks to ensure fiscal and debt sustainability over the medium term.

The fiscal objectives in the charter for the period 2016/17 – 2020/21 are; **the Government fiscal balance (including grants) is reduced to a deficit of no greater than 3 percent of GDP by the FY 2020/21**, and **Public debt in net present value terms is maintained below 50 percent of GDP**.

The onset of the COVID-19 pandemic had a significant impact on both revenue collections and expenditure which, alongside the need to fast track critical infrastructure development in key sectors, made it challenging to meet the objective on the fiscal balance.

However, although there was increased borrowing during the FY 2019/20 to deal with the effects of COVID-19 on the economy, the level of debt remained below 50 percent of GDP as required by the charter.

Government is developing the second charter for the period (2021/22 - 2025/26) which will take into account the performance and considerations of the first charter.

Performance of the 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.

The fund received both Tax and Non-tax revenue from oil related activities within the Financial Year. 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. Table 7 details actual flows of the petroleum fund.

Table 7: Statement of Financial Performance for the Petroleum Fund

Items	Actual 30-Jun-19 UShs million	Actual 30-Jun-20 UShs million
Tax Revenue	51,062.1	29,708.5
Non-Tax Revenue	5,677.4	5,771.3
Total revenue	**56,739.5**	**35,479.8**
Transfers to the Consolidated Fund	200,000.0	255,000.0
Bank Charges	0.8	1.4
Foreign exchange losses (gains)	120.8	3,268.0
Total Expenses/Outflows	**200,121.7**	**258,269.4**

Source: Ministry of Finance, Planning and Economic Development

OUTLOOK ON THE ECONOMY

Chapter III: Outlook on the Economy

Economic Growth

Global growth is projected at 5.4 percent in 2021 as consumption strengthens gradually and investment firms up. Subsequently, growth in the Sub-Saharan region is projected at 3.4 percent for 2021 which is expected to positively impact trade and investments in the Ugandan economy.

As a result, during the Financial Year 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. In addition to government support to the agricultural sector, the good weather conditions are expected to support the recovery of the sector. The services sector is expected to recover gradually as the economy opens up.

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. Growth over the medium term is expected to return to 6 percent as benefits from public infrastructure set in and oil activities increase.

High frequency indicators of economic activity show that there is recovery in business sentiments and robust economic activity for the first two months of the FY 2020/21 as shown in Table 8.

Table 8: Performance of High Frequency Indicators, June-August 2020

Indicators of Economic Activity	Jun-20	Jul-20	Aug-20	Source
PMI (Purchasing Managers Index)	46.5	50.3	54.6	Stanbic Bank
BTI (Business Tendency Indicator)	43.29	45.98	48.00	BOU
CIEA (Composite Index of Economic Activity)	145.04	149.52		BOU

The growth outlook assumes that the length of the pandemic will not exceed this Financial Year. It also assumes that workers who lost their jobs during earlier times of COVID-19 will be able to be assimilated back into the workforce. Companies and firms will continue to strengthen workplace safety in dealing with the pandemic and the global supply chain that affect productivity will be adjusted to enhance resilience to supply disruptions.

Inflation

The outlook to inflation in the Financial Year 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

Private Sector Credit is expected to continue performing well as; the monetary policy rate continues to be accommodating. A stable, sound and improving financial sector coupled with increased economic activity are expected to support favourable lending conditions. 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 2020/21.

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. 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 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. In addition, the recent outbreak of corona virus could negatively impact global growth. This in turn could put pressure on foreign investment and remittance inflows.

Regionally, risks include climate shocks, invasion of locusts, 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 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 (EAMU) protocol, which plans to establish a single regional currency by 2024. The convergence criteria for the monetary union includes benchmarks for debt, inflation, fiscal balances and external reserves. At present, a number of Partner States may not be able to achieve the convergency criteria under the EAMU protocol therefore trying to maintain 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.

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.