MACROECONOMIC & FISCAL HALF- YEAR PERFORMANCE OF THE ECONOMY, FY 2020/21

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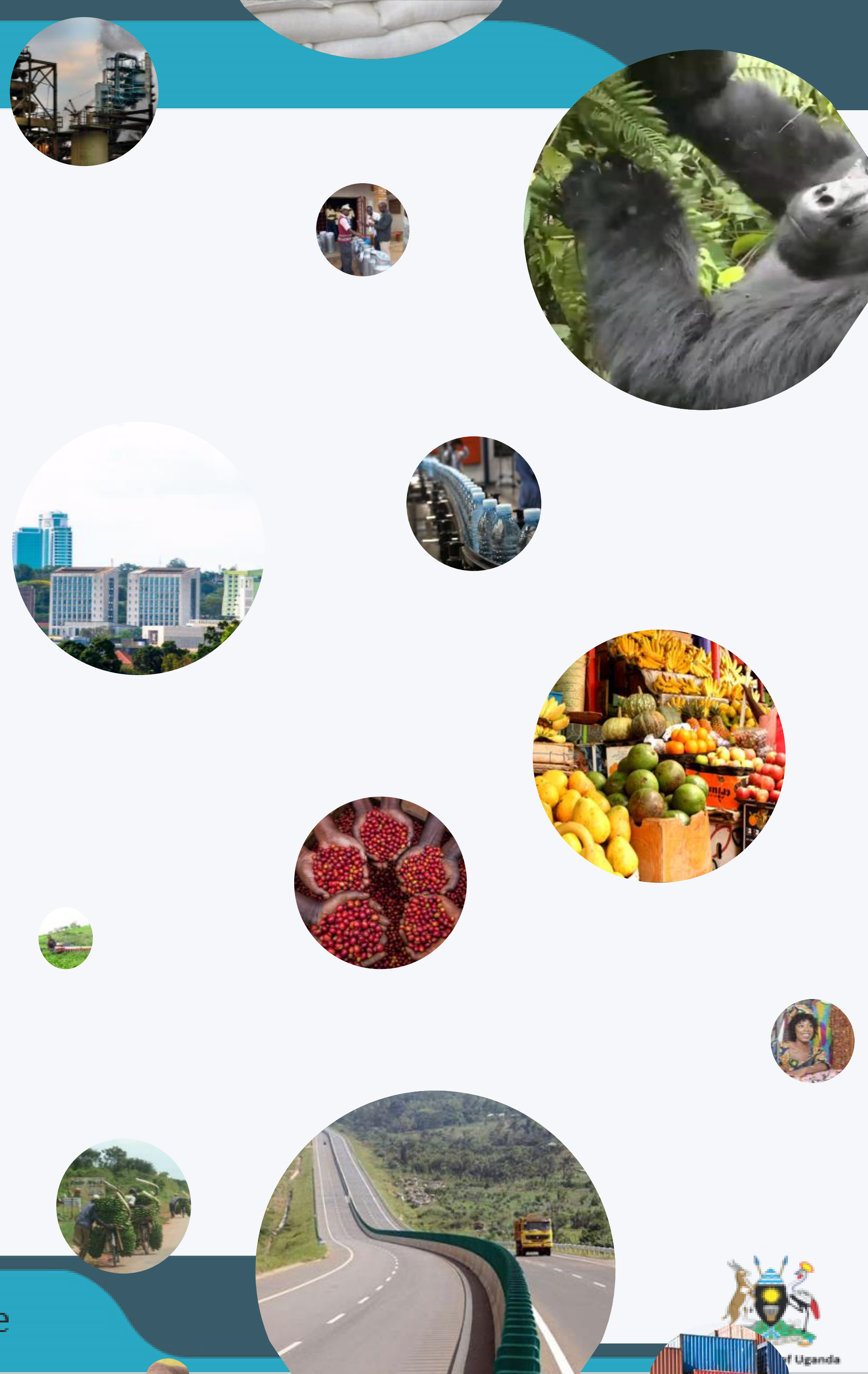
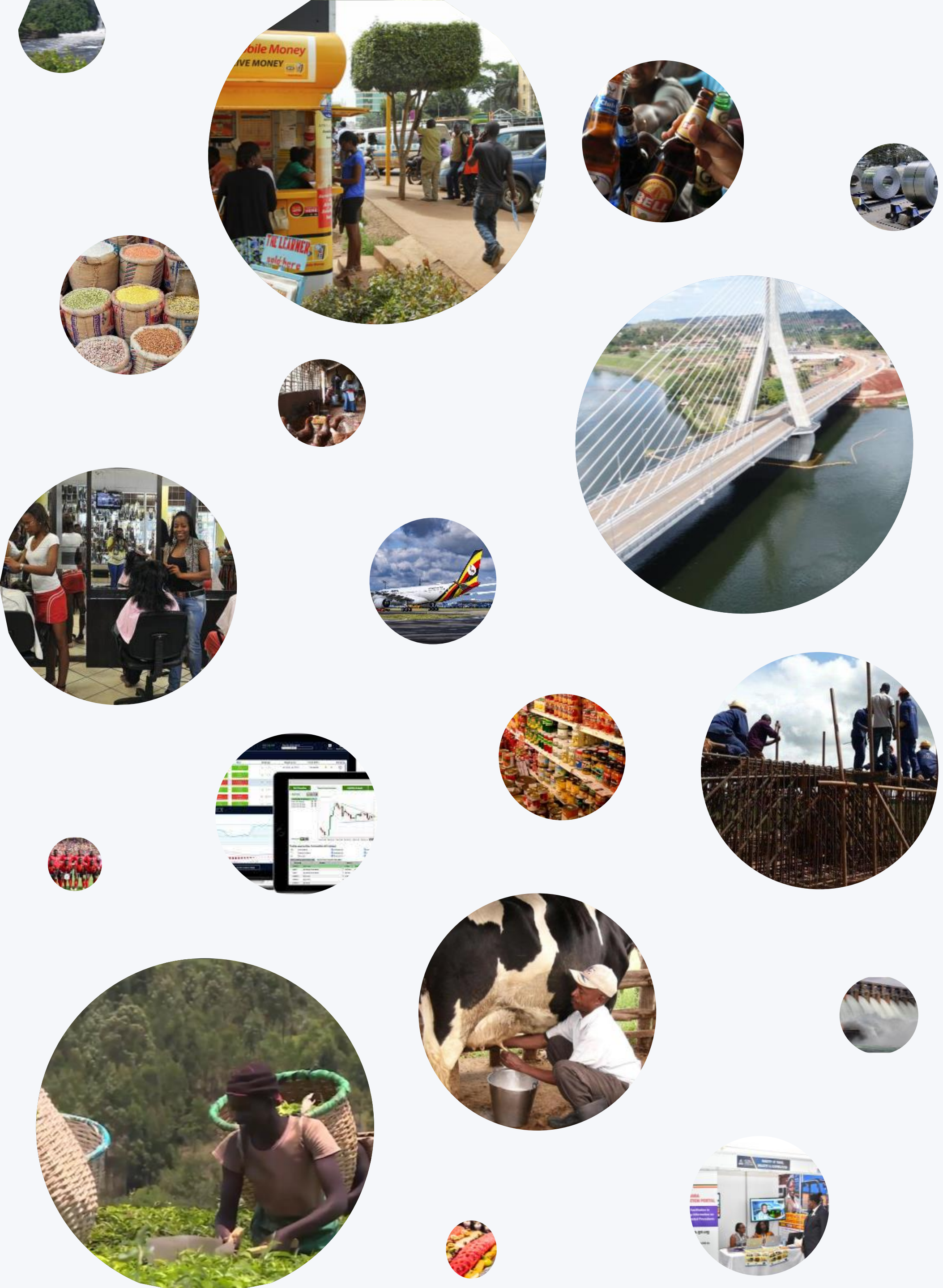
MACROECONOMIC POLICY DEPARTMENT





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

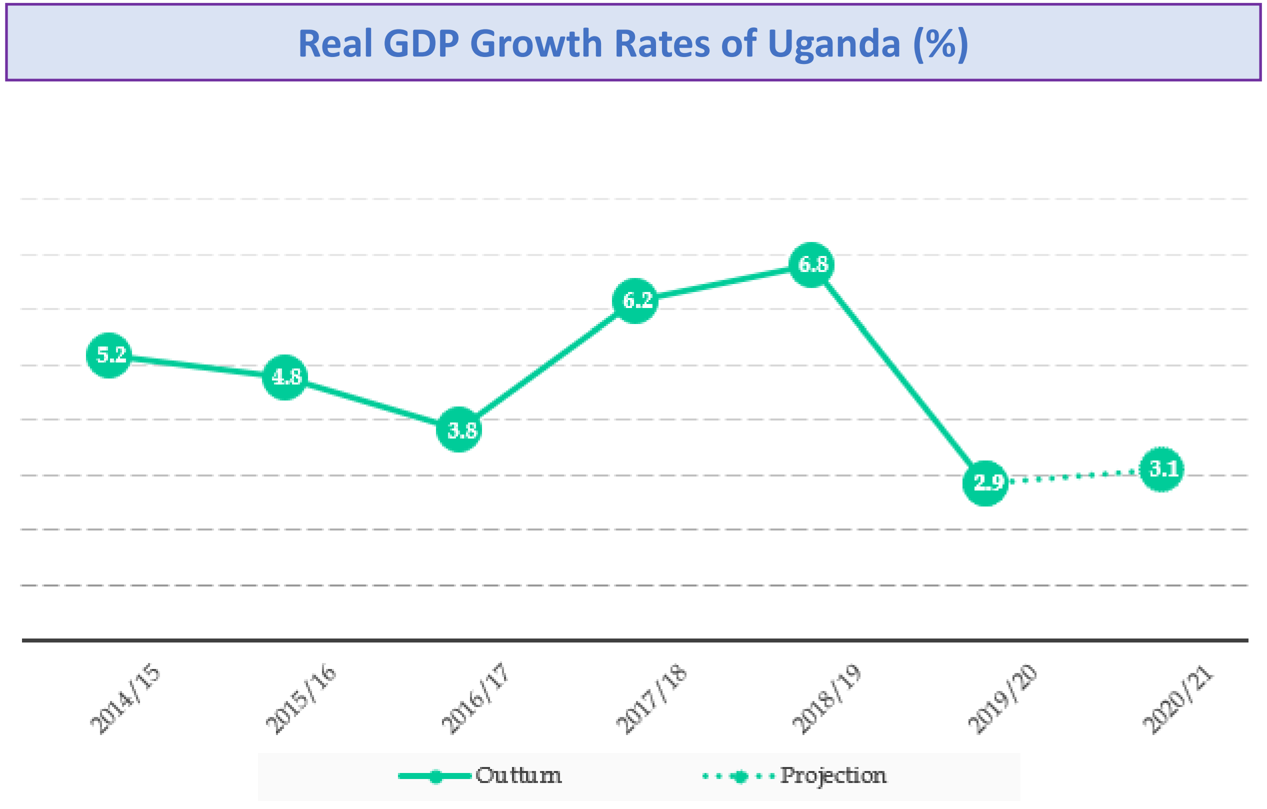
3. EAC Performance

4. Outlook

Economic Growth

- The economy is projected to grow at **3.1 percent** this Financial Year, from **2.9 percent** registered in the Financial Year 2019/20.

- Recovery in **production**, **aggregate demand** and **employment** is expected to drive this growth supported by easing of lockdown measures and Government policy interventions aimed at reviving economic activity in the private sector.



Source: Uganda Bureau of Statistics

- Also, projected global recovery this year is expected to support domestic economic activity through recovery in **trade volumes**, **remittances** and **Foreign Direct Investments**.

Reasons for the growth

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

- The global economy is projected to grow at **5.5 percent** in the calendar year 2021 from **-3.5 percent** in 2020.

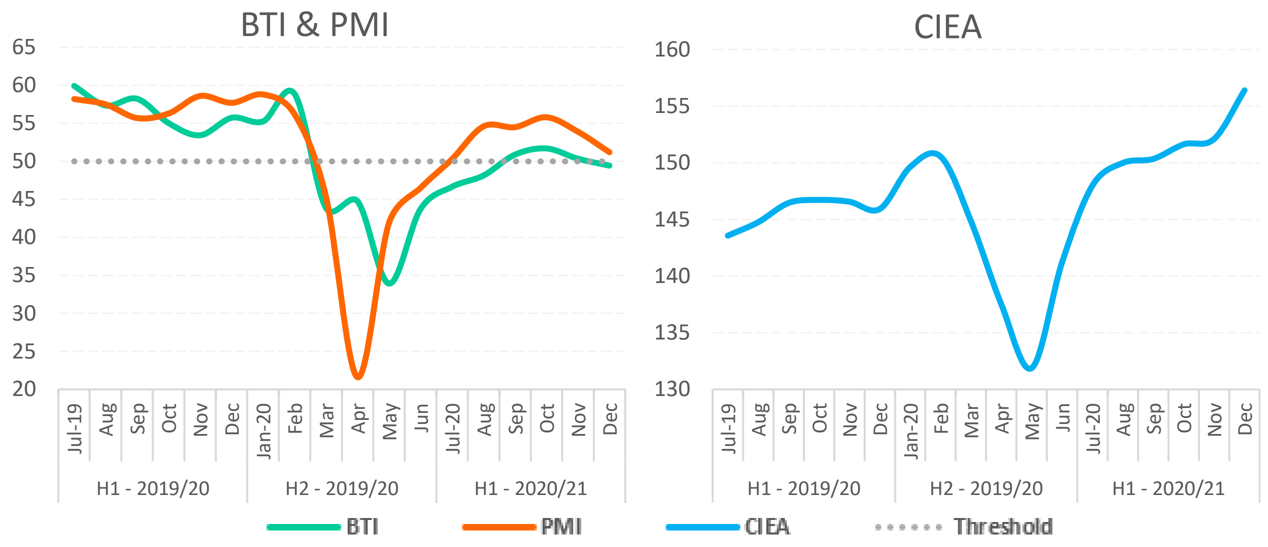
- The Sub-Saharan economy is projected to grow at **3.2 percent** in 2021 from **-2.6 percent** in 2020.

- Reflecting expectations of strengthening in economic activity later in the year as vaccination progresses, even though renewed waves and new variants of the virus pose concerns for the outlook.
- Subsequently, economic activity in economies of our trading partners including Sub-Saharan Africa is projected to pick up, which will further support recovery in Uganda's economic growth.

- On the domestic scene, indicators of economic growth particularly the Composite Index of Economic Activity (CIEA) and the Purchasing Managers Index (PMI) reflect recovery in business activity for the first half of FY 2020/21.
- On the other hand, Quarterly GDP for the first quarter of FY 2019/20 registered good performance in the industry sector, due to growth in manufacturing and mining and quarrying activities.

High Frequency Indicators of Economic Activity

- The Composite Index of Economic Activity (CIEA) and the Purchasing Managers Index (PMI) reflect recovery in business activity for the first half of FY 20/21. The former growing at an average of 3.9 percent compared to the same period last year, and the latter recording an index above the 50-mark threshold for six consecutive months up to December 2020, reporting growth in output and new orders.



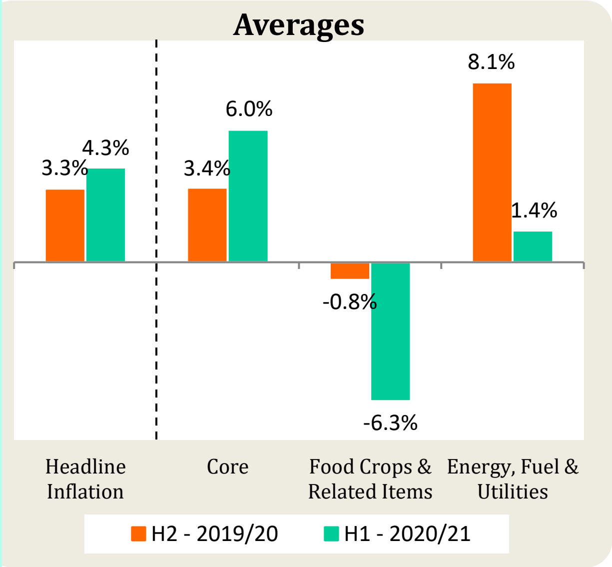
Source: Bank of Uganda; Stanbic Bank Uganda

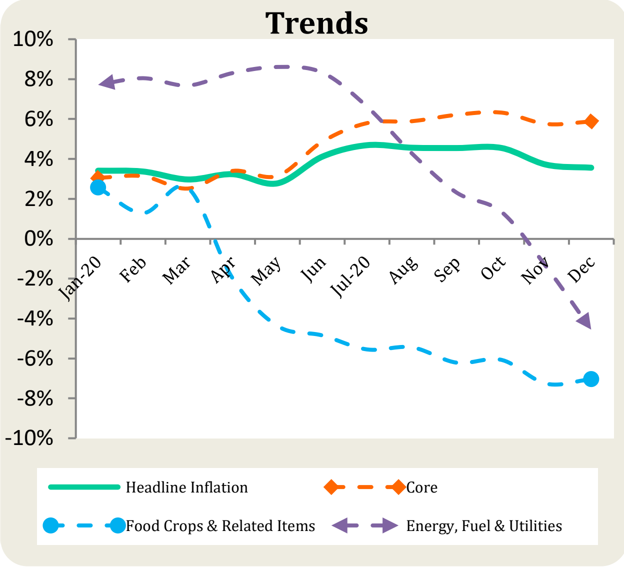
- The Business Tendency Index (BTI) was recorded above the threshold of 50 towards the end of the first quarter reflecting an improvement in sentiments about doing business, which followed easing of lock down measures.
- However, as at December 2020, the BTI slightly deteriorated to 49.43, recording an index below 50 for the first time since the month of September 2020, due to increased uncertainty surrounding the impact of the general elections on economic activity.

Headline & Core inflation increased while Food & EFU inflation declined, in H1 2020/21

- **Annual Headline Inflation** increased during the first half of the Financial Year 2020/21 recording a six months **average of 4.3 percent** from a **3.3 percent average** in the previous half. The increase in annual headline inflation was mainly attributed to an upsurge in core inflation as transport costs increased amidst efforts to abide to the Standard Operating Procedures (SOPs) setup to reduce the spread of COVID-19.

- **Core inflation**. Within the core basket of goods and services, significant price increases were recorded mainly for the different categories of transport costs. The restrictions in travel and vehicle capacity, in line with the COVID-19 Standard Operating Procedures (SOPs) led to higher transport costs accounting for the rise in core inflation.
- With transport costs holding a significant weight in the core basket of goods and services, core inflation rose to a **6 percent average** in the first half of the Financial Year from **3.4 percent** in the previous half. Nonetheless, it remained within the Central Bank's target of 5+/-3.





Source: Bank of Uganda; Stanbic Bank Uganda

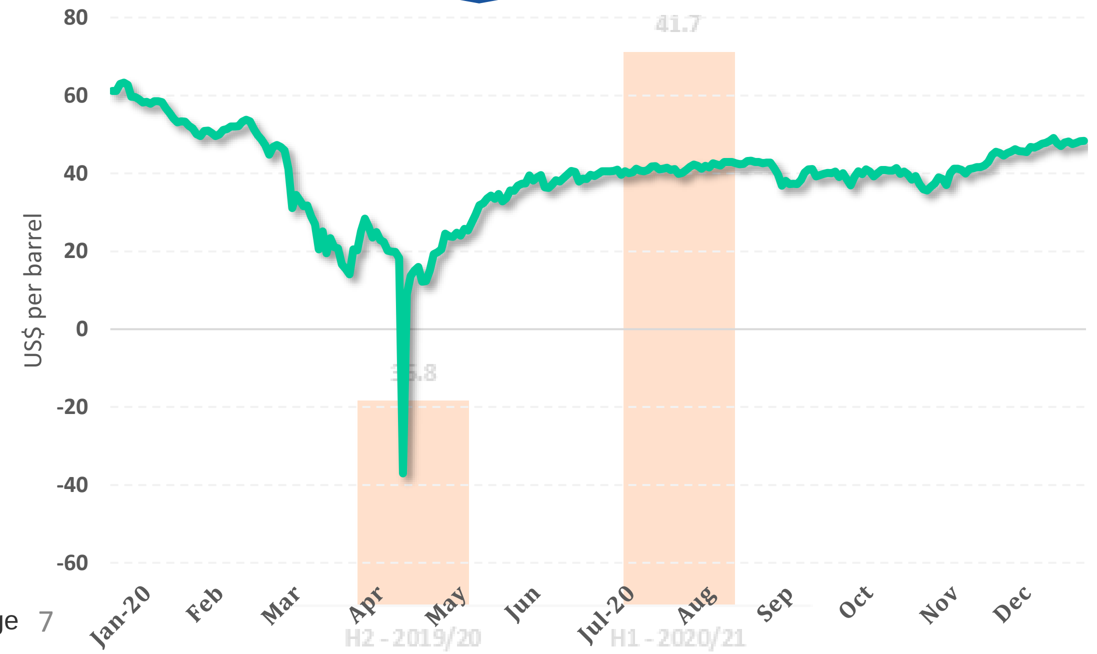
- **Food crop inflation** declined further to a **-6.3 percent average** during the first half of the Financial Year from a **-0.8 percent average** in the previous half reflecting a decline in food crop prices.
- This decline was attributed to a decline in aggregate demand as a result of restrictions on schools, hotels and restaurants in line with the COVID-19 Standard Operating Procedures (SOPs). Surpluses in the market for some of the items under this basket also contributed to the decline as exportation to other markets encountered challenges amidst COVID-19 pandemic restrictions.
- The most significant of price reductions under food crops were recorded for matooke; sweet potatoes; cassava; fruits like bananas, pineapples and papaya as well as vegetables like tomatoes, onions and garlic.

- **EFU inflation** also declined to **1.4 percent** in the first half of the Financial Year from **8.1 percent** in the previous half.
- This decline was largely on account of a reduction in prices of all domestic liquid fuels as international oil prices remained low. As such, petrol, diesel, paraffin, and liquefied gas in most months of the review period remained lower than the prices recorded in the previous year.

Global Commodity Prices

- During the first half of FY 2020/21, the international price of Brent crude oil recovered to an average of US$ 41.7/barrel but remained below pre-COVID 19 levels. This was an increase from US$ 36.8/barrel that was recorded for H2 2019/20.
    - The recovery in oil prices was largely attributed to a rebound in oil demand as several countries across the world lifted their lockdown measures and resumed activity. However, in spite of this increase on the international scene, domestic fuel prices continued to decline albeit at a slower pace as the lagged effects of the previous oil price slump continued to take effect.

- The coffee composite price indicator published by the International Coffee Organisation (ICO) trended upwards to a 110.8 average from a 105.1 average in H2 2019/20.
    - Following a drop in coffee prices that occurred in H2 FY 2019/20 as global demand for coffee dropped amidst several lockdowns, coffee prices began to pick up during the first half of FY 2020/21 as lockdown measures were eased and demand for coffee recovered.

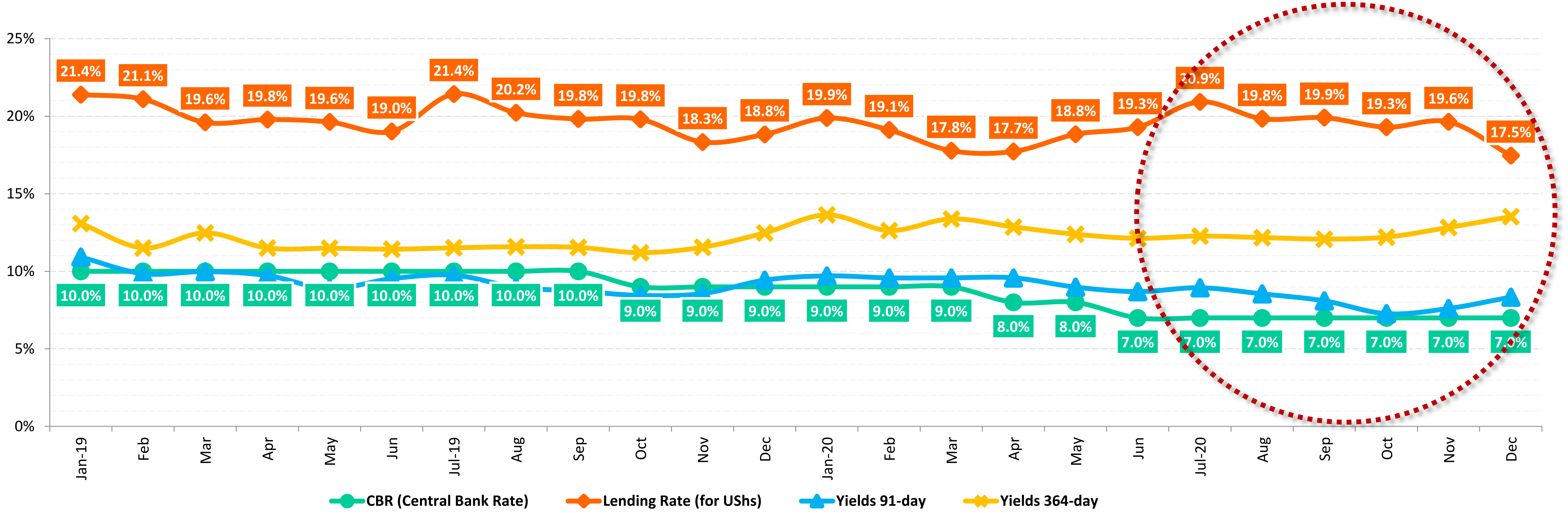


Source: US Energy Information Administration

Source: International Coffee Organisation (ICO)

Interest rates on T-bills declined in H1 2020/21 compared to H2 2019/20

- This partly followed a lower Central Bank Rate with the rate being kept at 7 percent throughout the first half of 2020/21, compared to an average of 8.3 percent in H2 2019/20. In addition, demand was high for Government securities given the excess liquidity in the money markets.
  - The surplus liquidity was largely explained by the risk aversion tendencies of commercial banks who preferred to invest in Government securities than lend to the private sector.

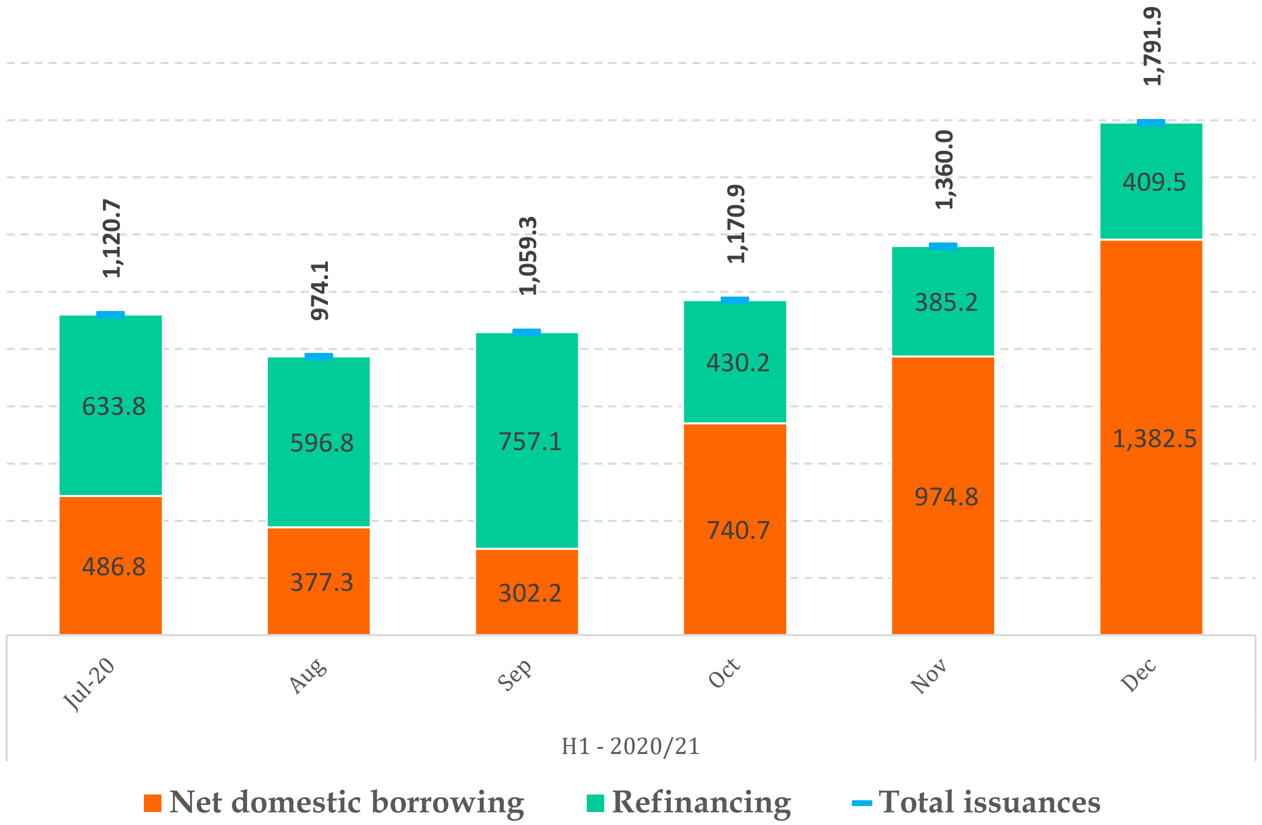


Source: Bank of Uganda

- Throughout H1 2020/21, the Central Bank Rate (CBR) was maintained at 7 percent, its lowest level since its inception. The CBR had been earlier revised from 8 percent in May 2020 to 7 percent in June 2020 to bolster economic recovery following the impact of the COVID-19 outbreak.
- During H1 2020/21, commercial bank lending rates generally decreased from 20.9 percent in July 2020 to 17.5 percent in December 2020. The downward trend observed in H1 2020/21 is in part supported by a reduction in credit risk, as Non-performing loans reduced for the quarter ending September 2020 mainly due to a Bank of Uganda COVID 19 relief policy, allowing Supervised Financial Institutions to restructure any loan affected by the COVID-19 pandemic.

Government Securities

Breakdown of Government Securities Issued in UShs Billion



Source: Ministry of Finance, Planning and Economic Development

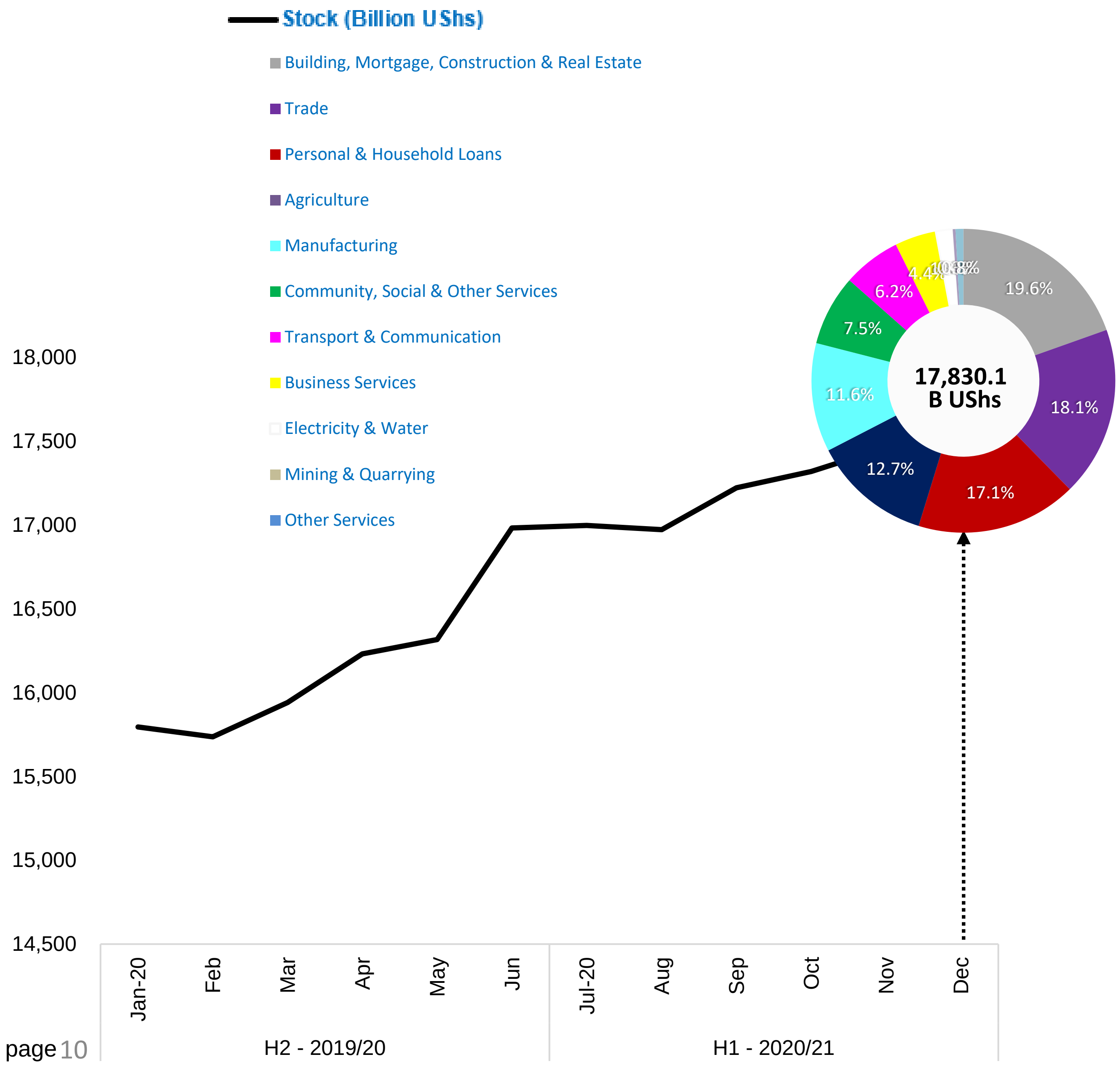
- Government raised **UShs 6,057 billion** (at cost) from auctions of securities during H1 2020/21. An additional **UShs 1,419.9 billion** (at cost) was raised in two private placements[1] held in H1 2020/21. Therefore, combined proceeds from the auctions and private placements resulted in a total issuance of **UShs 7,476.9 billion** (at cost).

  Of the amount raised;

  - UShs 3,212.5 billion was used for the refinancing of maturing debt
  - UShs 4,264.4 billion went towards financing other items in the Government budget

1. A private placement is a sale of Government securities to pre-selected investors and institutions rather than on the open market (auction)

Stock of Private Sector Credit



Source: Bank of Uganda

- The stock of outstanding private sector credit amounted to **UShs 17.83 trillion** at end H1 2020/21 recording a growth of **5.0 percent** from the **UShs 16.98 trillion** outstanding at end H2 2019/20.
  - At the end of H1 2020/21, the Building, Mortgage, Construction & Real Estate sector had the highest PSC share (19.6 percent); followed by Trade sector (18.1 percent); Personal & Household Loans sector (17.1 percent); among others.

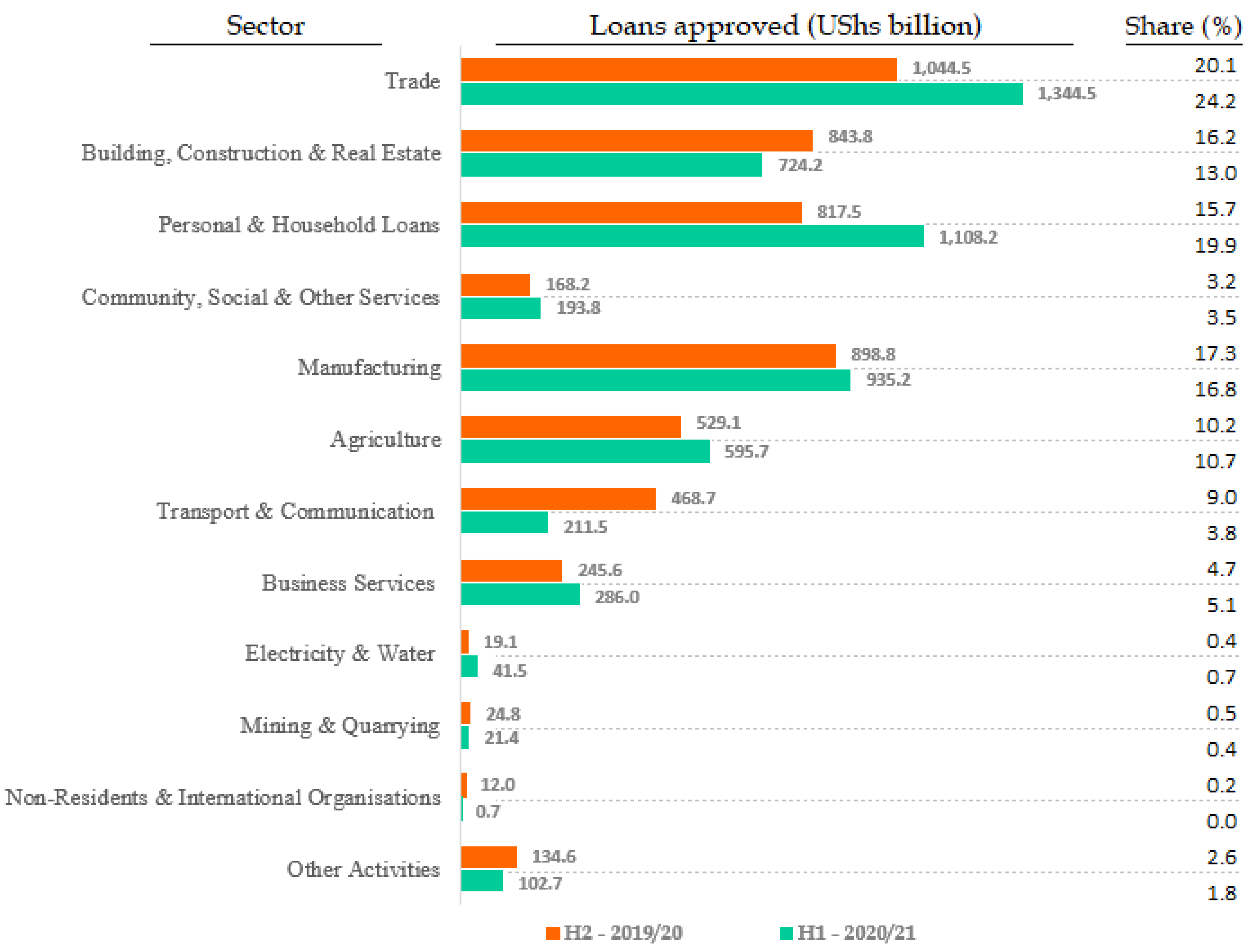
Lending to the Private Sector

- The value of credit approved in the first half of FY 2020/21 amounted to **UShs 5.57 trillion** slightly up from **UShs 5.21 trillion** approved the previous half.

  - There was notable growth of credit approval in the period under review for the Trade, Manufacturing and Agriculture sector. These sectors are key for Uganda's economic growth and therefore indicating recovery in economic activity.

This recovery in private sector lending is supported by a reduction in the risk of default as highlighted by the reduction in the ratio of Non-performing loans to total Gross loans.

Value of New Loans Approved by Sector

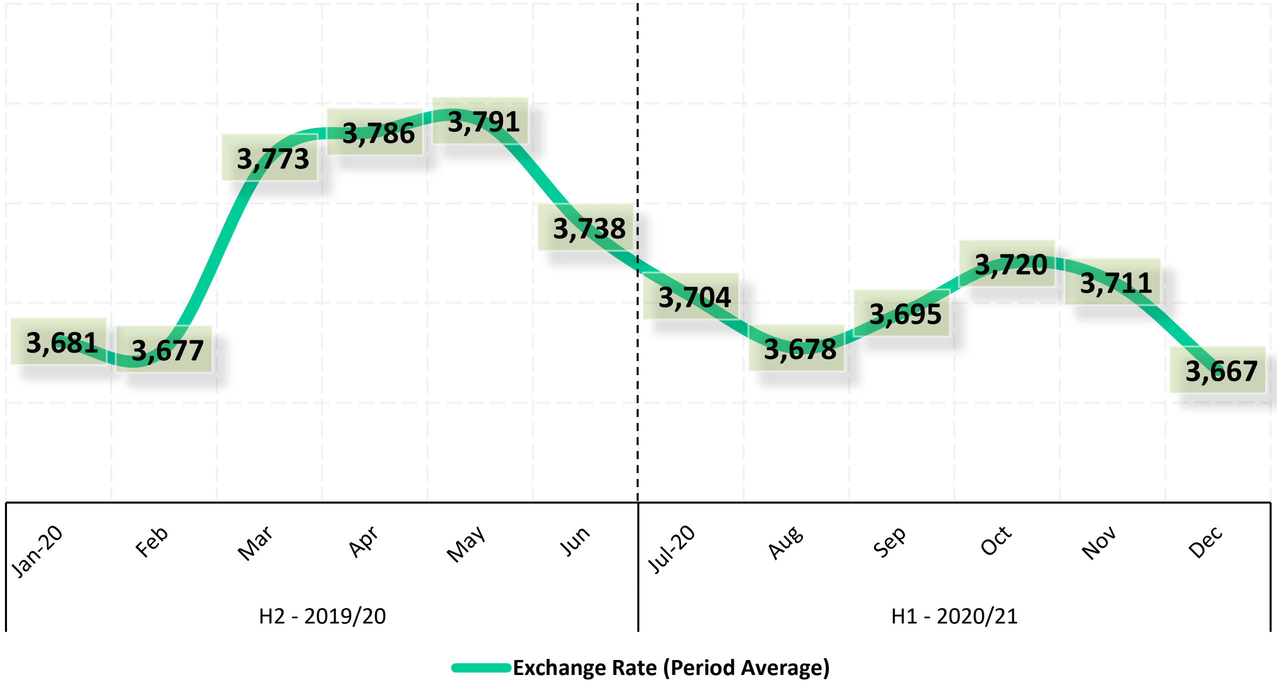


Source: Bank of Uganda

Exchange Rate

- The **Ugandan shilling appreciated** against the US$ by **1.2 percent** to a period average exchange rate of <u>UShs 3,696</u> per US$ in H1 2020/21 from <u>UShs 3,741</u> per US$ the previous six-month period.

  - The strengthening of the shilling during this period was supported by steady dollar inflows from offshore investors in the primary money market, export receipts and transfers to NGOs which outweighed the dollar demand.

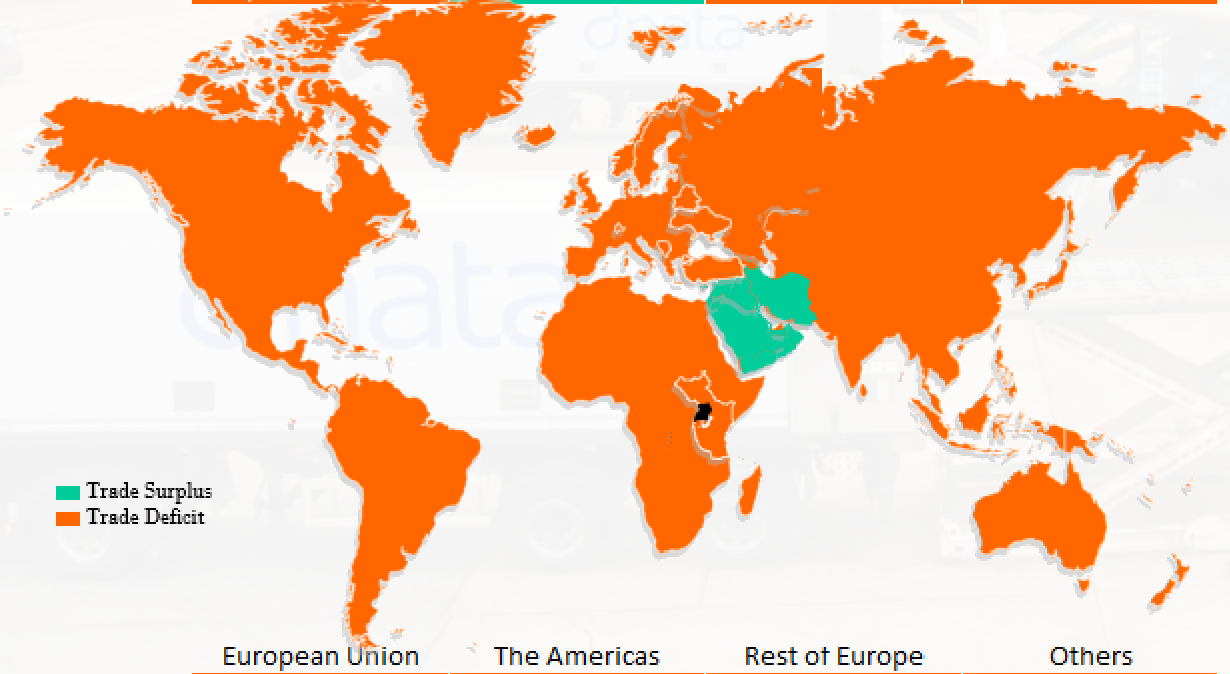


Source: Bank of Uganda

Merchandise Trade Balance

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

	Asia		Middle East		EAC		Rest of Africa	
	H1-19/20	H1-20/21	H1-19/20	H1-20/21	H1-19/20	H1-20/21	H1-19/20	H1-20/21
Total Trade	1,460.4	1,591.1	1,052.7	1,560.5	1,168.6	1,479.0	740.8	900.4
Trade Balance	-1,209.5	-1,343.4	50.8	917.1	-77.0	-453.3	63.6	-394.0



	European Union		The Americas		Rest of Europe		Others	
	H1-19/20	H1-20/21	H1-19/20	H1-20/21	H1-19/20	H1-20/21	H1-19/20	H1-20/21
Total Trade	513.4	635.2	129.4	112.3	80.3	77.2	6.3	9.5
Trade Balance	-3.8	-139.7	-77.0	-64.7	-37.5	-44.3	-3.7	-7.9

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 stood at US$ 1,530.3 million in H1 2020/21, an increase from US$ 1,294 million recorded in H1 2019/20. The increment in the deficit was attributed to a higher import bill that offset the rise in export receipts. The import bill increased by US$ 724.8 million (22.5%), while export earnings grew by US$ 488.5 million (25.3%). This resulted into the widening of the merchandise trade deficit by **US$ 236.3 million (18.3%)**.

- **Asia remained the major trading partner** of Uganda over the period, with total trade of US$ 1,591.1 million in H1 2020/21. It was closely followed by the Middle East and the EAC. Uganda had a trade surplus with the Middle East while trade deficits were registered with the other regional blocs.

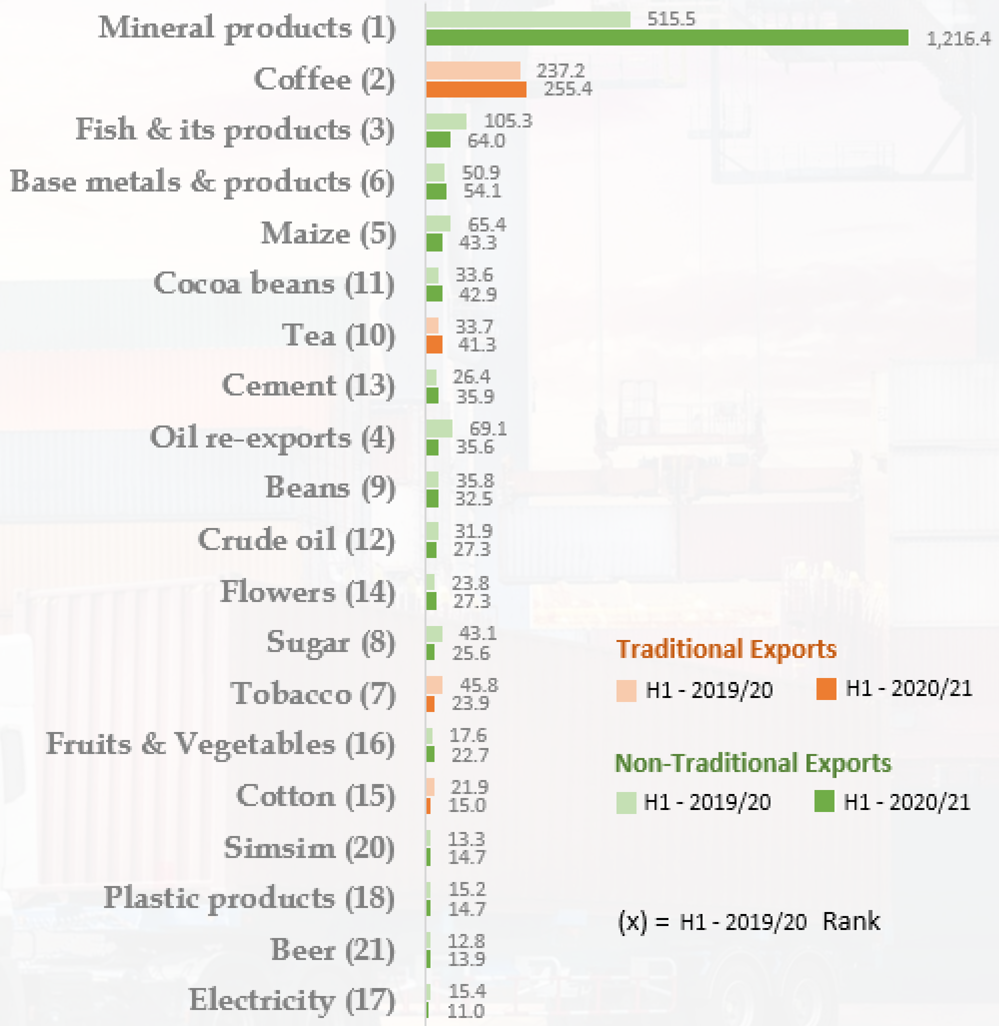
Exports increased by 25.3%

- Uganda's export earnings increased during the first half of FY 2020/21 compared to the same period a year ago. Export earnings increased from **US$ 1,928.9 million** in H1 2019/20 to **US$ 2,417.4 million** in H1 2020/21; largely due to an increase in the earnings from mineral exports. Comparison between H1 2020/21 and H1 2019/20 shows an increase of about US$ 700.9 million in the earnings of mineral exports.

    - Other export items with notable increases in their earnings include coffee, cement, tea and cocoa beans. The increase in the earnings of these export items was largely attributed to higher export volumes.

- Exclusion of mineral exports from total exports, points to a 15 percent decline in exports earnings to US$ 1,201.1 million in H1 2020/21 from US$ 1,413.4 million in H1 2019/20.

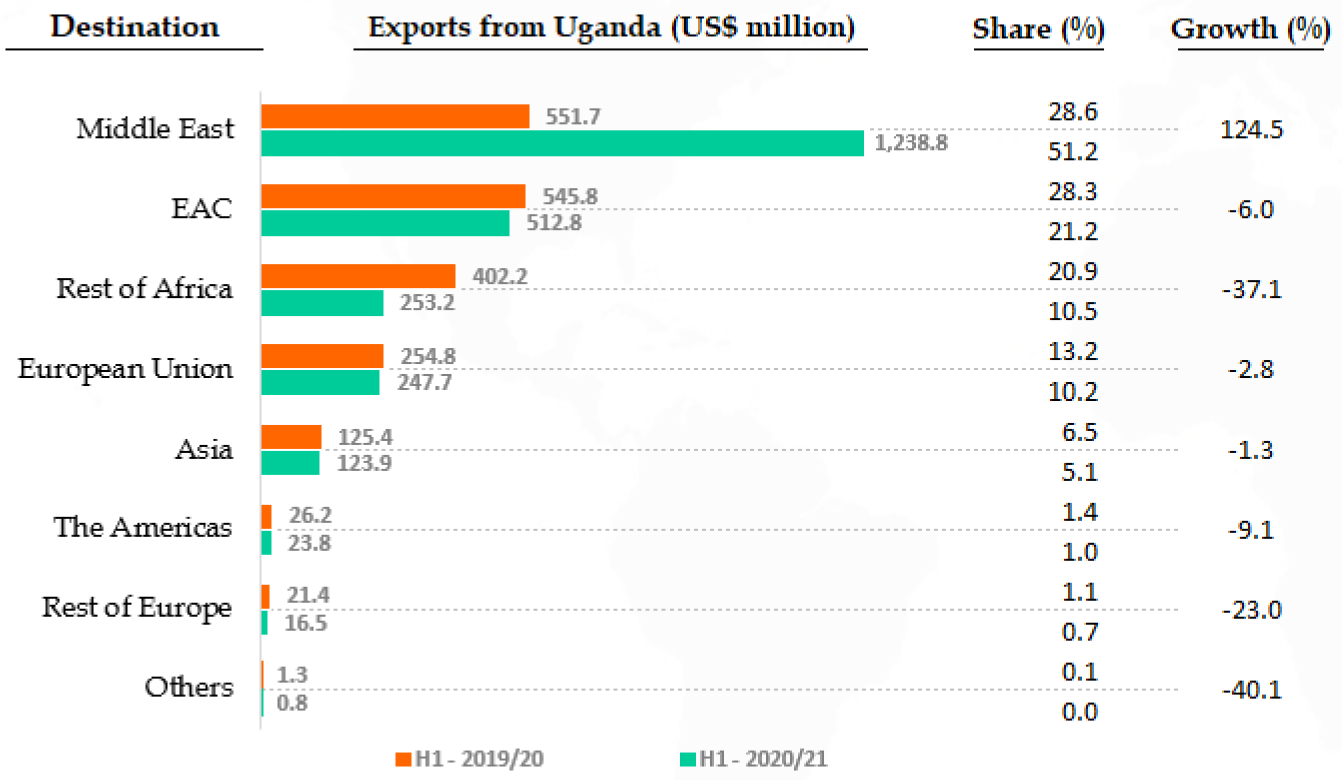
Top 20 Commodity Exports of Uganda in H1 2020/21 (US$ Million)



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 leading destination for Uganda's exports, absorbing about 51.2 percent of the total exports. Exports to the Middle East increased from US$ 551.7 million in H1 2019/20 to US$ 1,238.8 million in H1 2020/21, following increased exportation of mineral products to that region.

- ❑ The East African Community came second taking up about 21.2 percent of the total export earnings, followed by the Rest of Africa at 10.5 percent. Exports to the EAC decline is largely explained by a drop in informal cross border trade which has been disrupted by trade and travel restrictions.

- ❑ At country specific level,
  - the **United Arab Emirates** remained with the largest share of Uganda's exports amounting to **US$ 1,225.4 million**;
  - followed by the **Kenya** with **US$ 275.4 million**;
  - and **South Sudan** with **US$ 161 million**, in the H1 2020/21.

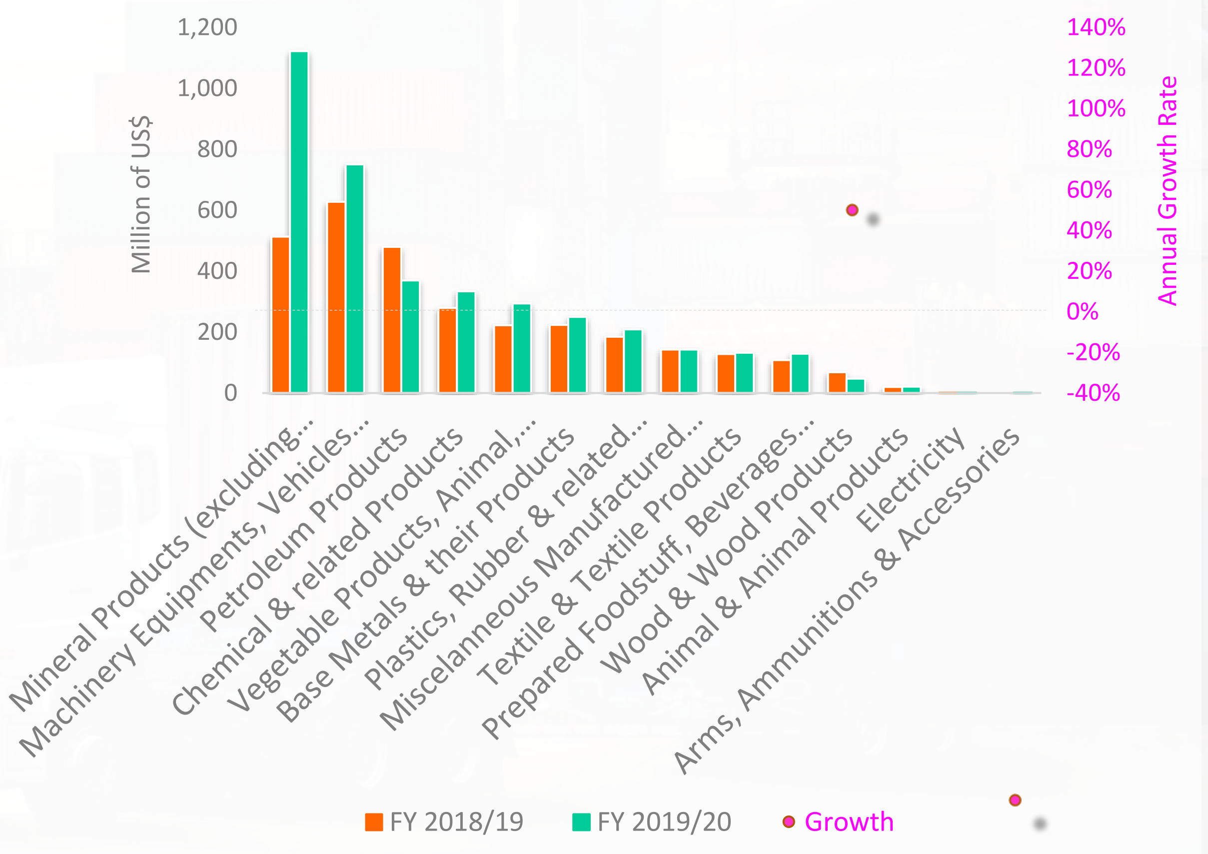
Imports increased by 22.5%

- During the first half of FY 2020/21, the value of imports (f.o.b) rose by 22.5 percent to US$ 3,947.7 million from US$ 3,222.9 million recorded over the same period the previous year, following an increase in non-oil private sector imports.

  - **Formal private sector imports** constituted **96.3 percent** of the total merchandise imports in the country in H1 2020/21. The major formal private sector imports were: Mineral Products (US$ 1,122.3 million); Machinery equipment, Vehicles & Accessories (US$ 750.3 million); and Petroleum Products (US$ 369.6 million).

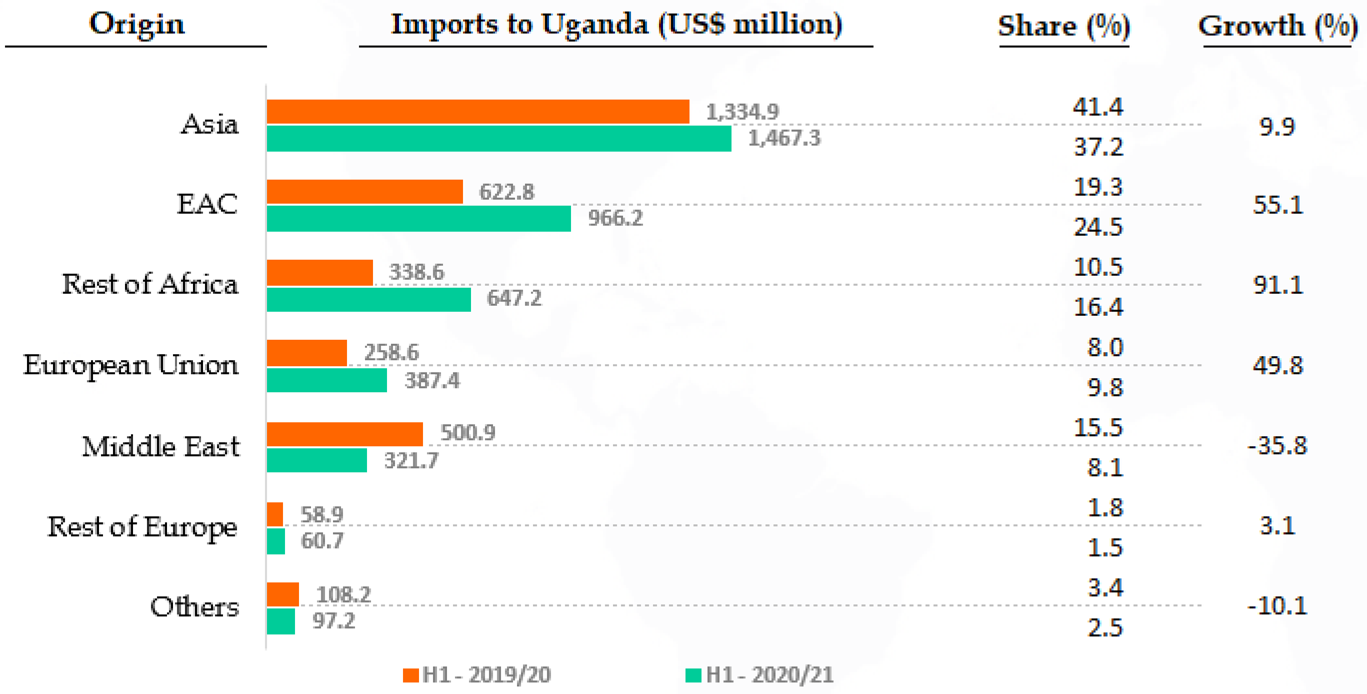
(US$ million)	H1 2019/20	H1 2020/21	Difference (value)	Growth Rate
Total Imports (f.o.b)	3,222.9	3,947.7	724.8	22.5%
Government Imports	194.7	144.8	-49.9	-25.6%
Project	192.6	144.8	-47.8	-24.8%
Non-Project	2.1	0.0	-2.1	-100.0%
Formal Private Sector Imports	2,997.6	3,802.1	804.6	26.8%
Oil imports	479.3	369.6	-109.7	-22.9%
Non-oil imports	2,518.3	3,432.5	914.3	36.3%
Estimated Private Sector Imports	30.7	0.8	-29.9	-97.4%
Total Private Sector Imports	3,028.2	3,802.9	774.7	25.6%

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 was the largest source of imports during the period under review, making a contribution of 37.2 percent of the total imports. EAC and Rest of Africa contributed 24.5 percent and 16.4 percent respectively, making them the second and third largest sources.

- At country specific level,
  - Imports from Asia were mainly from **China (41.4 percent)**, **India (27.7 percent)** and **Japan (10.4 percent)**.
  - **Tanzania** and **Kenya** made contributions of **52.9 percent** and **43.4 percent** of the total imports from EAC respectively.

Overview

- The budget for this Financial Year is focused on **stimulating the economy to safeguard livelihoods, jobs, businesses and industrial recovery**. However, this particular year has been peculiar given the Covid-19 pandemic, its impact on the economy and the population's wellbeing.

- During H1 2020/21, a combination of revenue shortfalls and increase in expenditure requirements proved challenging for fiscal finances due to lower than planned execution of Government development expenditure.

  - Total Government spending in H1 2020/21 was UShs 16,976.4 billion. This was against a planned expenditure of UShs 20,506.9 billion, implying a performance of 82.8 percent.
  - On the other hand, revenues and grants received during the half amounted to UShs 10,572.6 billion against a target of UShs 11,797.1 billion.

	H1 2020/21 Program	H1 2020/21 Outturn	Performance	Deviation
Total Revenues and Grants	**11,797.1**	**10,572.6**	**89.6%**	**(1,224.5)**
Revenues	**10,869.1**	**9,746.9**	**89.7%**	**(1,122.3)**
Tax Revenue	10,019.5	9,054.9	90.4%	(964.6)
Non-Tax Revenue	849.6	691.9	81.4%	(157.7)
Grants	**927.9**	**825.7**	**89.0%**	**(102.2)**
Budget Support	55.7	74.8	134.4%	19.1
Project Support	872.3	750.9	86.1%	(121.3)
Expenditure and Lending	**20,506.9**	**16,976.4**	**82.8%**	**(3,530.5)**
Current Expenditures	**9,689.3**	**9,203.5**	**95.0%**	**(485.9)**
Wages and Salaries	2,525.9	2,569.1	101.7%	43.3
Interest Payments	2,045.3	1,805.6	88.3%	(239.8)
Domestic	1,460.9	1,366.6	93.5%	(94.3)
External	584.4	439.0	75.1%	(145.4)
Other Recurrent Expenditures	5,118.1	4,828.8	94.3%	(289.4)
Development Expenditures	**9,662.0**	**6,604.5**	**68.4%**	**(3,057.5)**
Domestic Development	4,880.6	4,400.1	90.2%	(480.5)
External Development	4,781.4	2,204.4	46.1%	(2,577.0)
Net Lending/Repayments	**933.1**	**568.5**	**60.9%**	**(364.6)**
Others (Arrears Repayments)	**222.4**	**599.9**	**269.7%**	**377.5**
Overall Fiscal Balance	**(8,709.8)**	**(6,403.8)**	**73.5%**	**2,306.0**
Excluding Grants	(9,637.8)	(7,229.5)	75.0%	2,408.2

Source: Ministry of Finance, Planning and Economic Development

Fiscal Operations … (1/3)

Category | **Key highlights**

Revenues

- All the **major tax heads** registered shortfalls against their respective targets for the half year as collections were affected by the negative effects of the Coronavirus pandemic on economic activity and international trade.
  - **Direct domestic tax** collections amounted to UShs 3,314.7 billion, **performing below the target for the period by 10.5 percent** which is equivalent to a shortfall of UShs 388.8 billion. Shortfalls were registered for collections of Pay as You Earn - PAYE, corporate tax and rental income tax, among others.
  - Government had projected to collect **indirect domestic taxes** amounting to UShs 2,432.7 billion in H1 2020/21. However, only UShs 2,159.3 billion was realized during the period, resulting into a shortfall of UShs 273.5 billion. This shortfall was both in excise duty (UShs 127.7 billion) and Value Added Tax – VAT (UShs 145.7).
  - **Taxes on international trade** amounted to UShs 3,686.4 billion, lower than the set target of UShs 4,026.5 billion for the half year. The major items that contributed to this underperformance were; petroleum duty, import duty, infrastructure levy and VAT on imports. This was due to lower than anticipated growth in the volume of imports on which these taxes are applied.
- Government collected UShs 691.9 billion in form of **non-tax revenue** in the first half of the Financial Year. This was against a target of UShs 849.6 billion. Most of the items under this category were below their respective targets as some MDAs that collect this revenue had not yet returned to the pre-pandemic operational capacities.
- Government received a total of UShs 825.7 billion in form of development assistance from development partners. This was against a target of UShs 927.9 billion, **performing at 89 percent**. Major development partners that disbursed in H1 2020/21 included the European Union and the Netherlands as well as Global Fund and The Global Alliance for Vaccines and Immunizations (GAVI).

Expenditure

- The lower than planned spending was mainly observed in **externally financed development expenditure** which **performed at 46.1 percent**. In addition, **domestically financed development spending** was also lower than the target for the period, **performing at 68.4 percent** against the target for overall development expenditure.
- To **support post COVID-19 economic recovery**, Government implemented the measures announced as part of the stimulus package in the June 2020 budget. During H1 2020/21, UShs 480.96 billion was released to Uganda Development Bank (UDB) to provide affordable credit to private sector players, UShs 216.5 billion was released for the Presidential Initiative on Wealth and Job Creation (EMYOOGA), UShs 50 billion was released to the Microfinance Support Centre (MSC) to cater for other small-scale enterprises while UShs 108.9 billion was released to Uganda Development Corporation (UDC).
- Similarly, UShs 599.9 billion **was released to cover domestic arrears**. This was more than UShs 222.45 billion programmed at budget time. The higher than initially planned payment of domestic arrears was done in a bid to ease liquidity constraints of local suppliers during the period in which they are being affected by the COVID-19 pandemic.

Fiscal Operations … (2/3)

Category	Key highlights
Financing	❑ The fiscal deficit for the first half of the Financial Year was financed through borrowing from the domestic market as well as from external sources. Government received loan disbursements from **external development partners** amounting to UShs 3,616.9 billion, representing a **performance of 76.7 percent**. However only Ushs 56.9 billion (4.1 percent) was received owing to the aforementioned challenges in project execution which resulted in slow absorption of funds. ❑ During the same period, UShs 4,264.4 billion was raised from the **domestic market** to fund activities in the budget.
Debt Sustainability Analysis	❑ The December 2020 Debt Sustainability Analysis (DSA) notes an accelerated pace in government borrowing which has translated into **higher debt matrix** and **increased vulnerabilities to the debt outlook**, emerging from slow growth of exports and the increasing debt service burden. Nonetheless, the report found that Uganda's debt remains sustainable in the medium to long term. ❑ The stock of total public debt grew from US$ 12.55 billion at end June 2019 to US$ 15.27 billion (UShs 56.94 trillion) by end June 2020, representing an **increase of 21.7 percent.** Of this, external debt was US$ 10.45 billion (UShs 38.97 trillion), while domestic debt was US$ 4.82 billion (UShs 17.98 trillion). ❑ This represents an increase in nominal debt to GDP from **35.3 percent** in June 2019 to **41.0 percent** in June 2020. As a result of increasing vulnerability, the risk of debt distress has increased from low to moderate. ❑ To enhance debt sustainability, Government will continue to work towards accelerating economic growth and also slow down the pace of contracting commercial external financing and domestic debt which are associated with high interest costs and relatively short maturity periods.

Fiscal Operations … (3/3)

Category	Key highlights

Petroleum Fund

- At the start of FY 2020/21, the **value of the petroleum fund was equivalent to UShs 88.3 billion**. During the first half of the Financial Year, there was a **deposit on the fund equivalent to UShs 134.9 billion** part of which was the capital gains tax and the corresponding stamp duty on the sale of the Tullow Uganda Ltd shares to Total EP Uganda.

- During H1 2020/21, there were no withdrawals from the fund which is consistent with the appropriation for this year (No amount was appropriated from the fund to either the Consolidated Fund or to the Petroleum Revenue Investment Reserve Account this Financial Year).

- Taking into consideration the **revaluation/ foreign exchange losses (UShs 1.85 billion)** given that one of the accounts is in US$, the value in the petroleum fund **as at December 2020 was equivalent to UShs 221.4 billion**.

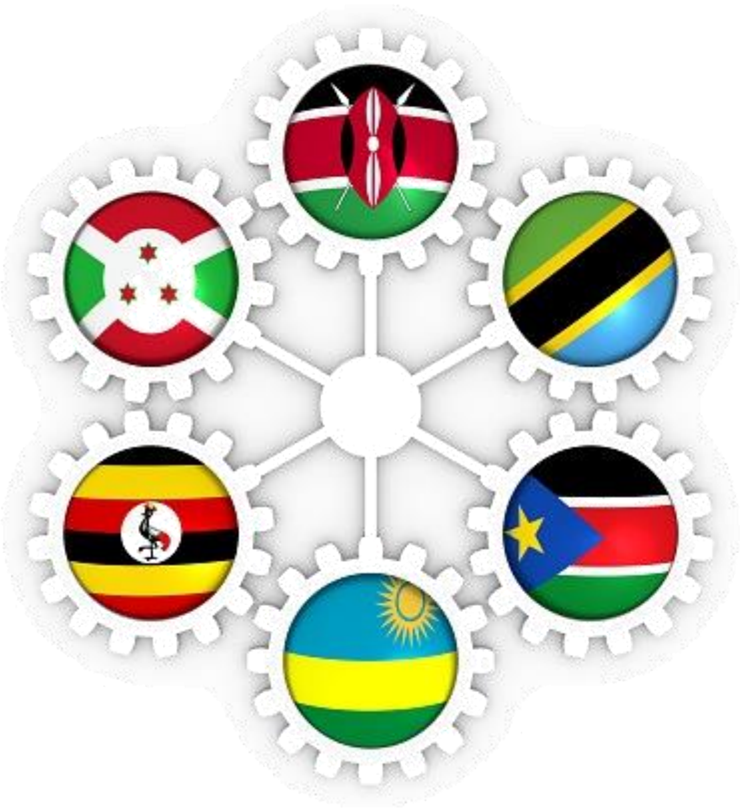
Charter for Fiscal Responsibility

- The first charter for fiscal responsibility, which was for a period of five years, concludes in this Financial Year. This charter has measurable fiscal objectives that are aimed at ensuring macroeconomic stability and fiscal sustainability;

  1. Given the fiscal performance in the first half of FY 2020/21, the fiscal deficit for the year is projected at 10.1 percent of GDP which is **higher than the 3.0 percent** requirement in the charter for this Financial Year. This is largely attributed to unforeseen events such as; COVID-19, the locusts' invasion and floods.

  2. However, the objective on public debt is poised to be met for this Financial Year. According to the latest Debt Sustainability Analysis, the present value of public debt is projected to be 49.9 percent of GDP by end June 2021 which is **lower than the threshold of 50 percent** as set out in the charter.

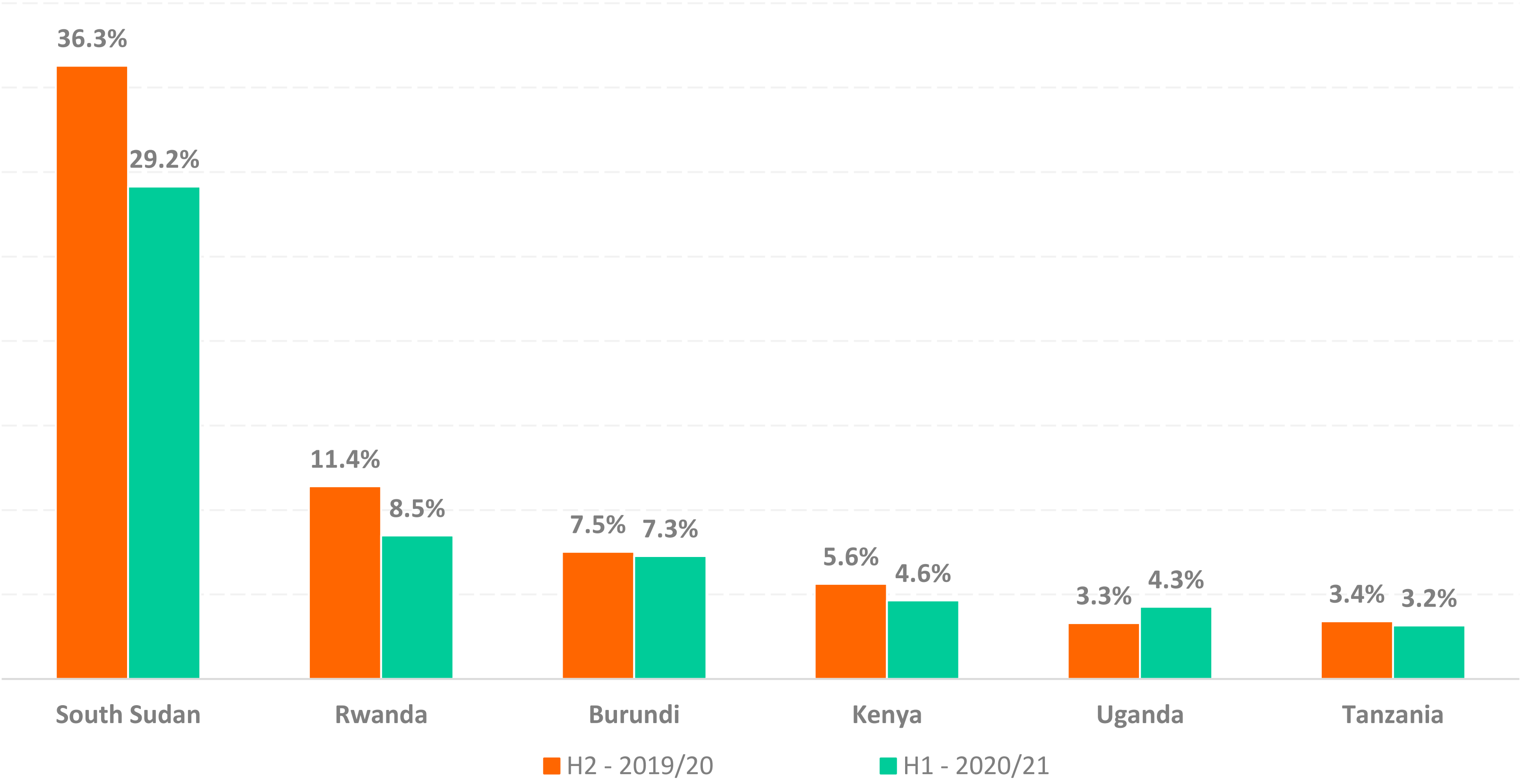
EAST AFRICAN COMMUNITY



PERFORMANCE

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

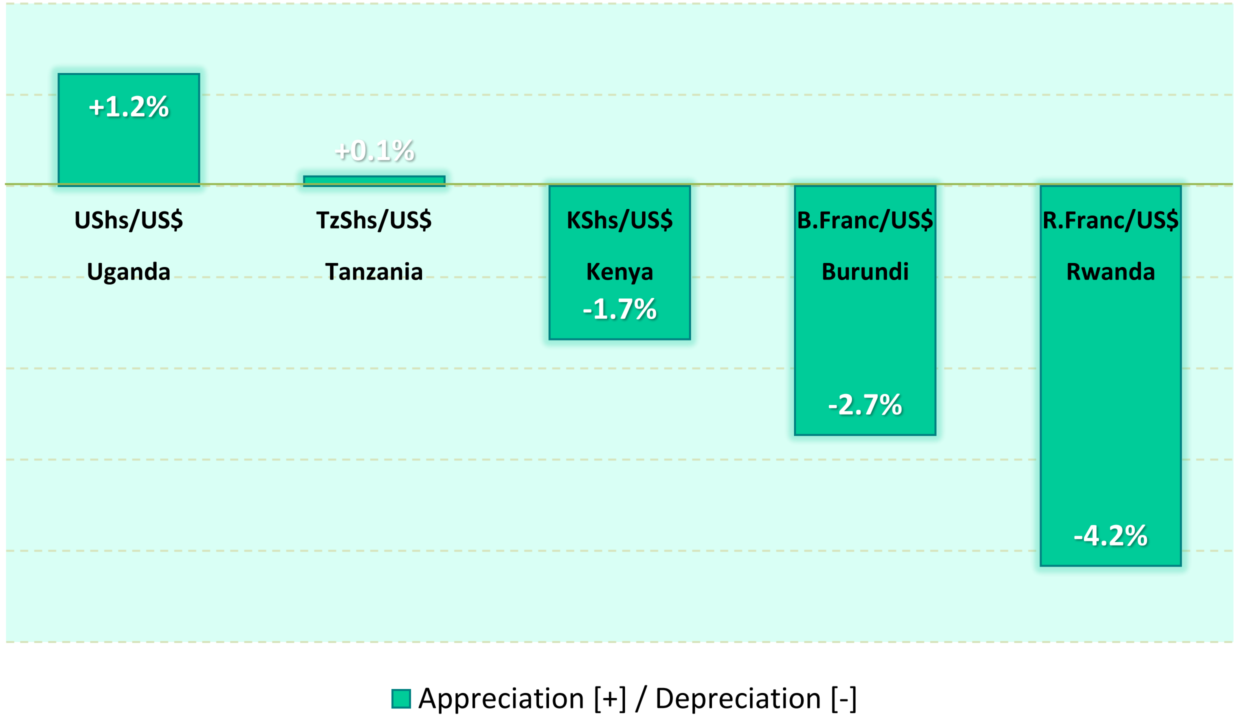
- With the exception of Uganda, Average Annual Headline inflation declined across all other EAC Partner States mainly as a result of a reduction in food and fuel prices.



Source: Respective National Bureaux of Statistics

Exchange Rates within the EAC

Change in Exchange Rates (Period Average) in EAC for H1 2020/21 Vs H2 2019/20



- With the exception of Ugandan shilling, and Tanzanian Shilling which remained relatively stable appreciating mildly by 0.1 percent between H1 2020/21 and H2 2019/20, Other EAC currencies weakened against the US$.
  - The weakening of these currencies against the dollar is partly due to the higher trade deficits

Source: Respective Central Banks

Note: Exchange Rate data for South Sudan was not available

Trade with the EAC

- In H1 2020/21, Uganda's exports to the EAC dropped by 6 percent to US$ 512.8 million, from US$ 545.8 million registered in the same half the previous Financial Year. On the other hand, Uganda's imports from the EAC rose by 55.1 percent to US$ 966.2 million, from US$ 622.8 million registered in H1 2019/20.

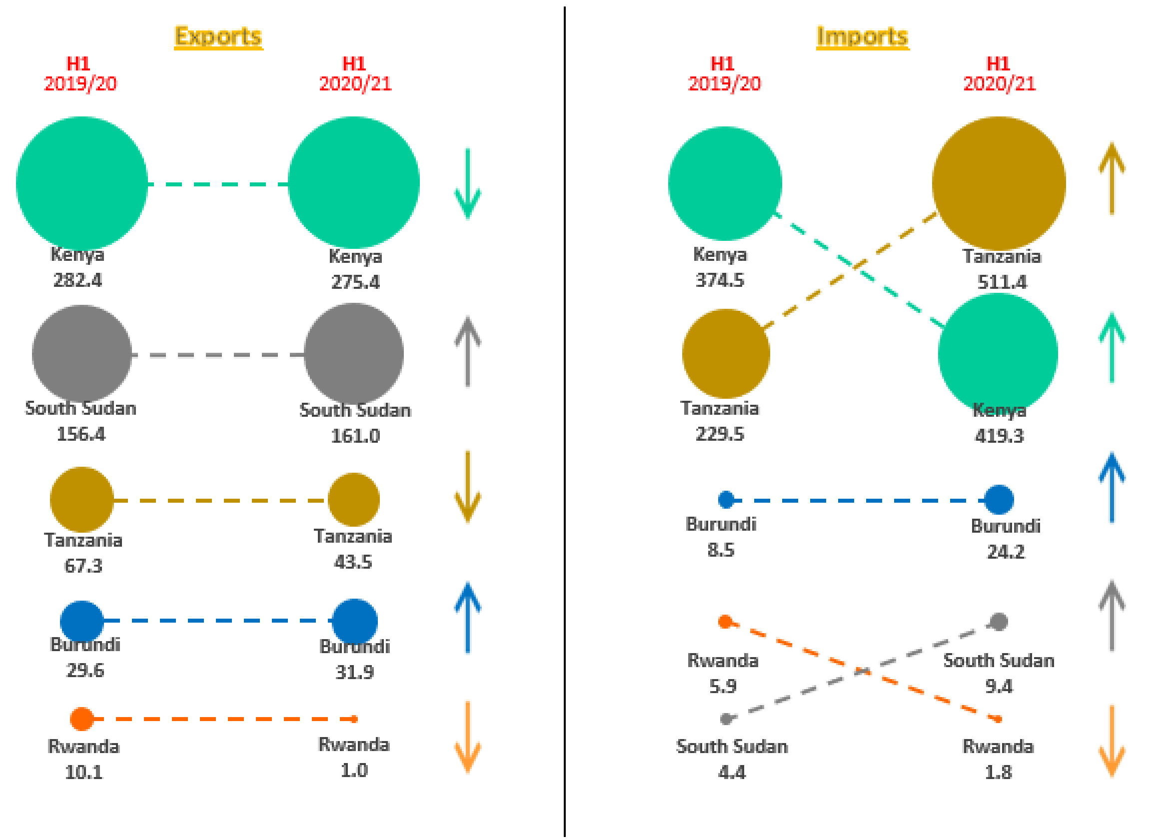
- As a result, Uganda's merchandise trade deficit with the region worsened [2] from US$ 77 million recorded in H1 2019/20, to US$ 453.3 million in H1 2020/21.

- However, a large portion of trade deficit from EAC is attributed to imports of mineral products.

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

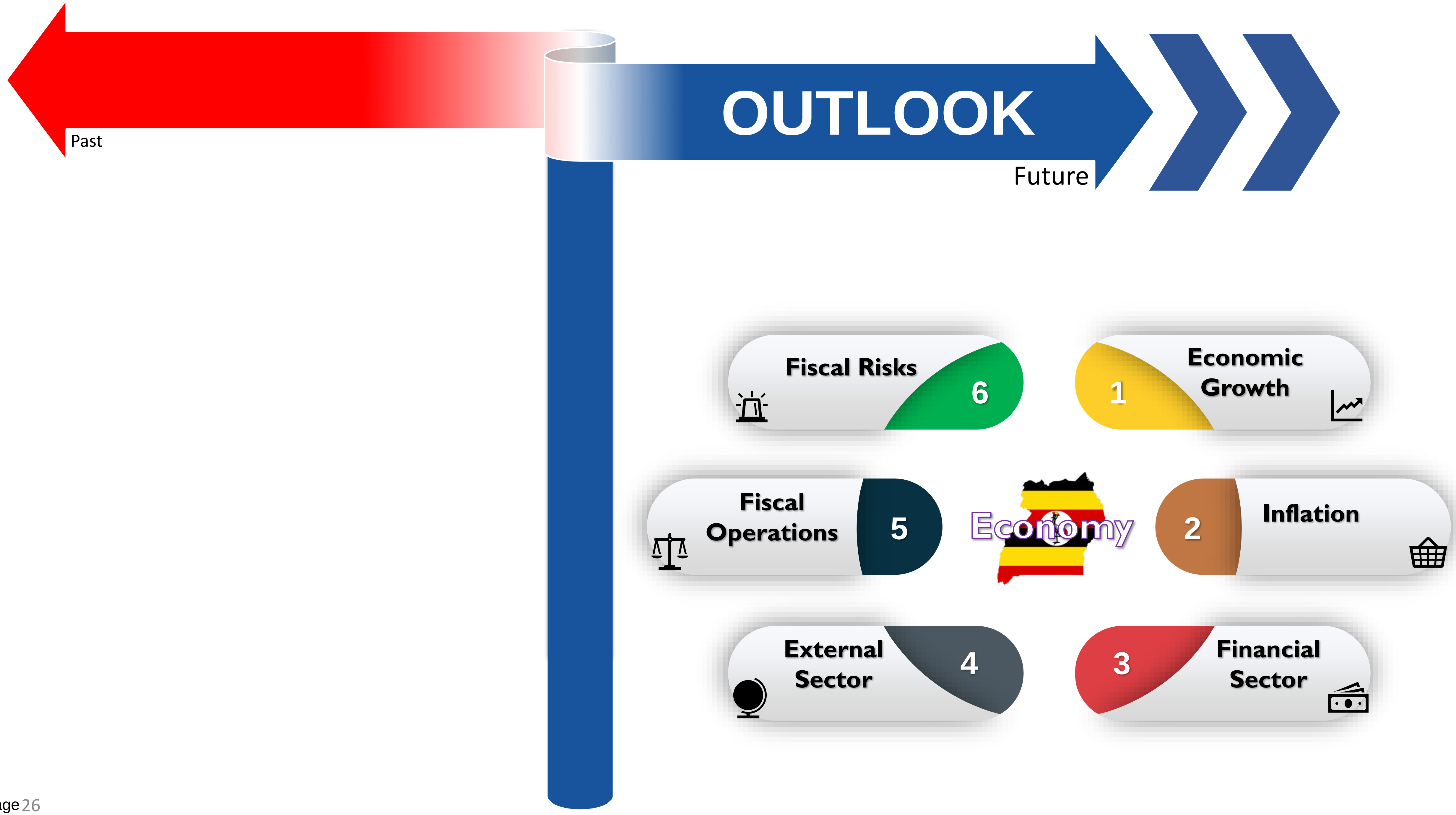
- Uganda had trade surpluses with South Sudan and Burundi while trade deficits were registered with Tanzania; Kenya and Rwanda, in H1 2020/21.

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)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Economic Growth

- Global growth is projected at **5.5 percent** in **2021** as consumption strengthens gradually and investment firms up. Subsequently, growth in the Sub-Saharan region is projected at **3.2 percent**.

- The **Ugandan economy** is expected to grow by **3.1 percent** in the Financial Year **2020/21** and peak at 7.0 percent in the medium term. This growth will be mainly driven by expected increase in production and productivity in agriculture and manufacturing.

Inflation

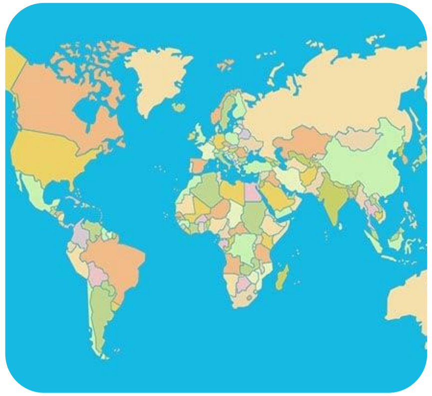
- The outlook to inflation in the Financial Year 2020/21 is stable, with **core inflation** expected to remain close to BOU's medium-term target of **5+/-3 percentage points**.

- 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 as private sector imports continue to recover.

- The relative stability of the exchange rate is expected to boost trade and manufacturing. 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

- The pandemic has necessitated **additional expenditure** in health; security; support to vulnerable groups of people; payment of domestic arrears; as well as capitalising Uganda Development Bank and Uganda Development Corporation, among other initiatives to support the private sector.

- This has created additional expenditure pressure on the budget deficit and public debt 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.