HALF YEAR MACROECONOMIC & FISCAL PERFORMANCE REPORT FINANCIAL YEAR 2020/21

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

February 2021

Foreword

The Public Finance Management Act (PFMA) 2015 requires that the Minister shall by the end of February and October of each Financial Year make a fiscal performance report to Parliament. In accordance with this requirement, the Ministry of Finance, Planning and Economic Development has prepared the Half Year Macro-Economic and Fiscal Performance Report for the Financial Year 2020/21 that incorporates the fiscal and economic implications of both Government decisions and other economic circumstances as at 31st December 2020.

In the first half of the Financial Year 2020/21, economic management remained challenged by the ongoing health pandemic resulting in, widespread nationwide infections, considerable strain on health systems, regrettable loss of life as well as its impacts on the economy. Nonetheless, the economy is exhibiting indications of recovery as lock down measures continue to ease and business activity returns to normality.

Accommodative and guiding monetary policy experienced in the first half of the Financial Year stimulated economic activity channelled through an increase in credit extended to the private sector, rescheduling of loans to support struggling enterprises, as well as enabling recovery in aggregate demand, and renewed investments in money markets backed by sufficient liquidity.

Government understands that it is vital to ensure the sustainability of the economic recovery by guaranteeing the continued containment of the COVID-19 disease as well as sustaining support to areas of the economy that were most adversely affected. The stimulus package for Government support to economic recovery will continue to be effectively implemented to reach the vulnerable and the business community.

Matia Kasaija (MP)

MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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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
COVID-19	Coronavirus Disease 2019
DSA	Debt Sustainability Analysis
EAC	East African Community
EFU	Energy, Fuel and Utilities
FOB	Free on Board
FY	Financial Year
GDP	Gross Domestic Product
H1	First Half of the Financial Year
H2	Second Half of the Financial Year
IMF	International Monetary Fund
KShs	Kenyan Shillings
MDAs	Ministries, Departments and Agencies
MOFPED	Ministry of Finance, Planning and Economic Development
NPLs	Non-Performing Loans
NTR	Non-Tax Revenue
PAYE	Pay as You Earn
PSC	Private Sector Credit
R.Franc	Rwandan Franc
TzShs	Tanzanian Shillings
UBOS	Uganda Bureau of Statistics
URA	Uganda Revenue Authority
UShs	Ugandan Shilling
US$	United States Dollars
VAT	Value Added Tax

Executive Summary

The emergence of the novel coronavirus crisis (COVID-19) at the onset of the year 2020 has greatly affected economic activity both globally and domestically. As a result, the global economy is estimated to contract by 3.5 percent while that of Sub-Saharan Africa is estimated to contract by 2.6 percent. The Ugandan economy is expected to be resilient compared to the global and Sub-Saharan averages, growing by 3.1 percent in FY 2020/21 compared to 2.9 percent registered in FY 2019/20.

Domestic prices increased during the first half of the Financial Year 2020/21 with inflation averaging at 4.3 percent. The COVID-19 pandemic measures caused inflationary pressures in the first half of the year mainly arising from an increase in transport costs brought about by restrictions in travel and vehicle capacity. Notwithstanding, Bank of Uganda maintained the Central Bank Rate at 7 percent, its lowest level since its inception, throughout the first half of the Financial Year 2020/21.

As a result, there is an indication of recovery in economic activity supported by increased access to relatively affordable credit. The stock of outstanding private sector credit grew by 5 percent from UShs 16.98 trillion at the end June 2020 to UShs 17.83 trillion at the end of December 2020.

The Ugandan Shilling appreciated (strengthened) against the United States Dollar by 1.2 percent in the first half of the Financial Year 2020/21, to an average of US$ 3,696. In the same period, exports increased by 25.3 percent to US$ 2.4 billion and imports increased by 22.5 percent to US$ 3.9 billion.

On the fiscal side, Government collected an estimated UShs 10.6 trillion in revenues and spent an estimated UShs 16.98 trillion, leaving a deficit of UShs 6.4 trillion that was financed through external and domestic borrowing. At the end of this Financial Year, the fiscal deficit is projected to stand at 9.7 percent of GDP.

According to the December 2020 Debt Sustainability Analysis Report, Uganda's total public debt stock rose to 41 percent of GDP in nominal terms, up from 35.3 percent reported as at June 2019. Uganda's risk of debt distress has increased from low to moderate, with the major vulnerabilities to the debt outlook relating to the slow growth of exports and the increasing debt service burden.

Box 1: Update on Progress of Interventions against the Impacts of COVID-19 Pandemic

Global Interventions

Concerted efforts to rollout widespread vaccination programs are expected to generate positive economic gains throughout 2021. Following a rather bleak 2020-riddled with loss of life attributed to the pandemic, trade disruptions, job and income losses, and higher public debt levels, global economic prospects are starting to look up. The global economy is expected to recover to 5.5 percent in 2021 following significant contraction in 2020. Nonetheless, achieving and sustaining this recovery is hinged on effectively subduing the virus, and implementing investment-enhancing reforms that are not heavily dependent on public debt.

Domestic Interventions

Aside from easing of lock down measures, Government put in place policy measures to support recovery in economic activity. 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 Center (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 paid out during the half year to domestic arrears which was more than the UShs 222.45 billion that had been programmed at budget time. This was intended to ease liquidity constraints of local suppliers as a result of COVID 19 lockdown measures and to support recovery in private sector growth.

Bank of Uganda has sustained a supportive monetary policy to support recovery in economic activity, maintaining the Central Bank Rate at only 7 percent from June 2020 up to date. This enabled total credit to private sector to grow registering 5 percent growth as at end December 2020 compared to end June 2020. Likewise, trends in new loan extensions indicate increased credit to sectors of Trade, Personal and Household Loans, manufacturing, Building, Construction and Real Estate and Agriculture, which is expected to boost production, aggregate demand and personal incomes. Lending rates have also reduced to 17.5 percent in December 2020 from 19.6 percent in November 2020.

To ensure stability in the financial sector, Bank of Uganda allowed Supervised Financial Institutions to restructure any loan affected by the COVID-19 pandemic as long as this is done within one-year effective April, 1st 2020. To date, loans worth UShs

7.9 trillion have been restructured which has reduced the potential risks to Non-performing loans.

Key Issues to contemplate

Uganda registered trade losses as a result of the global and domestic lock down measures to curb the spread of the pandemic. Both exports and imports registered declines in the second half of FY 2019/20 by 13.6 percent and 19 percent respectively when compared to the second half of FY 2018/19, with cross boarder informal trade exports significantly declining by 98 percent in April 2020 when compared with April 2019, and have continued to register low numbers to date.

The pandemic exposed the vulnerabilities of many developing countries that were largely trading in primary commodities. Boarder and trade restrictions coupled with the perishable nature of most these commodities, left many developing nations with significant trade deficits. Global scientific research into the health pandemic suggests that the world will most likely have a sustained reoccurrence in the medium to long term. It is therefore imperative that Uganda develops long-term counter policy measures to structurally adjust trading activities to account for these fragilities.

On the positive side, the easing of global lockdown measures that had created major supply chain constraints, starting June 2020 led to recovery in trade volumes during the first half of this financial year, with both exports and imports registering growth of 25.3 percent and 22.4 percent respectively, compared to the first half of FY 2019/20.

MACRO-ECONOMIC DEVELOPMENTS

Chapter I: Macro-Economic Developments

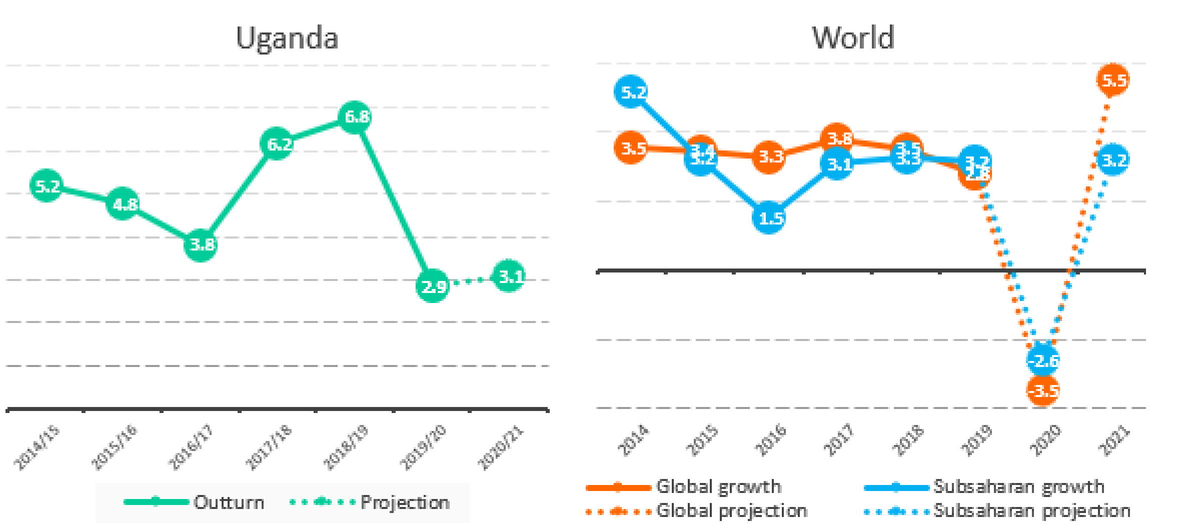
Economic Growth

Economy projected to grow by 3.1%

The economy is projected to grow at 3.1 percent this Financial Year from 2.9 percent registered in the Financial Year 2019/20, as shown by Figure 1. 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. Also, projected global recovery this year is expected to support domestic economic activity through recovery in trade volumes, remittances and Foreign Direct Investments.

The global economy is projected to grow at 5.5 percent in 2021 and 4.2 percent in 2022 from (-3.5) 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. The Sub-Saharan economy is projected to grow at 3.2 percent in 2021 and 3.9 percent in 2022 from (-2.6) percent in 2020.

Figure 1: Real GDP Growth Rate Trends (%)



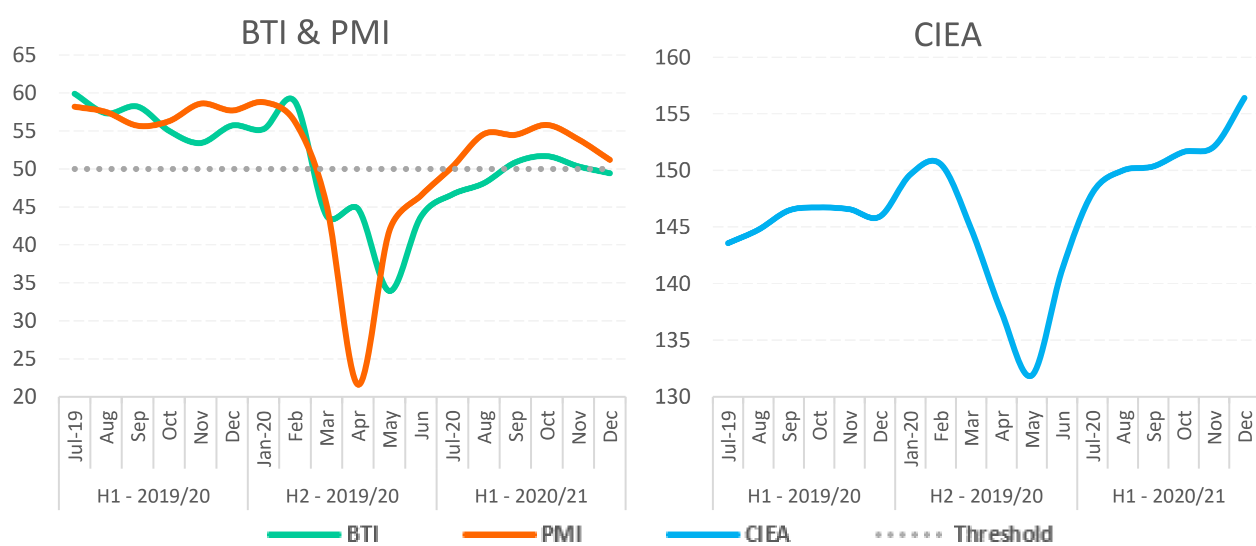
Source: Uganda Bureau of Statistics; Ministry of Finance, Planning and Economic Development; International Monetary Fund

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 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. Figure 2 shows trends in the high frequency indicators of economic activity.

The Business Tendency Index 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.

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. Growth in manufacturing was mainly driven by increased production in pharmaceutical products, starch products and grain milling.

Figure 2: High Frequency Indicators of Economic Activity



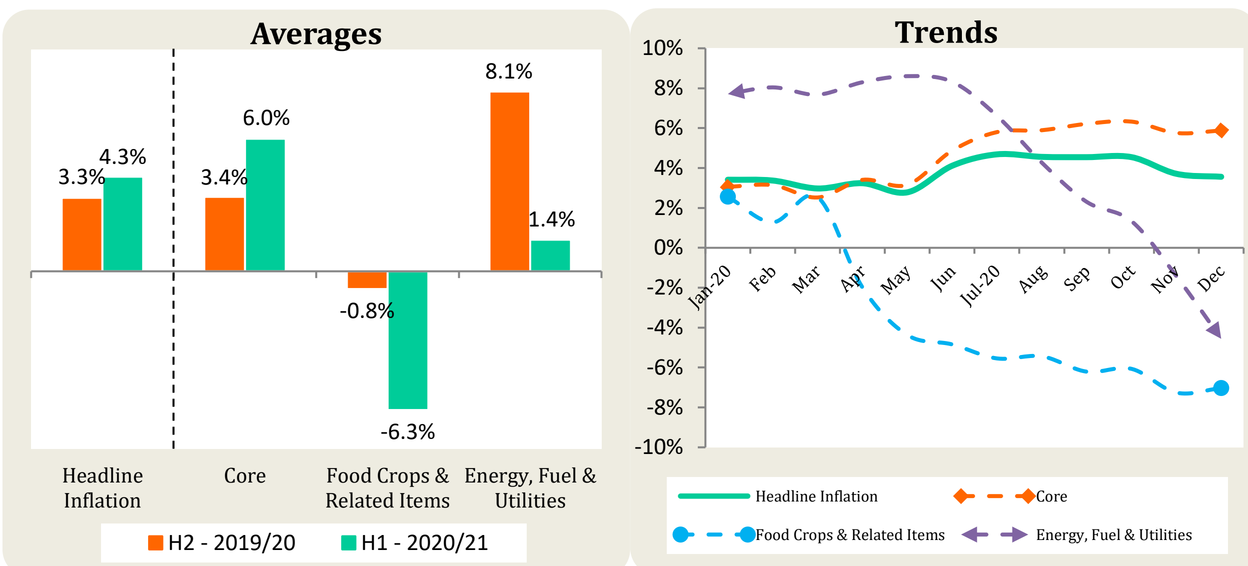
Source: Uganda Bureau of Statistics; Bank of Uganda; Stanbic Bank Uganda

Inflation

Headline Inflation rose to **4.3%**

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, as shown in Figure 3. 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.

Figure 3: Annual Inflation broken down by Sub-Components



Source: Uganda Bureau of Statistics

Sub-components of headline inflation

Core inflation. Within the core basket of goods and services, significant price increases were recorded mainly for the different categories of transport costs as shown in the Table 1. The increase in transport costs caused inflationary pressures in core inflation as transport costs rose amidst restrictions in travel and vehicle capacity, in line with the COVID-19 Standard Operating Procedures (SOPs). 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.

Table 1: Annual Changes in the Average Price Index for Transport Costs

	Weights	H2 2019/20	H1 2020/21
Bus Fare Long distance (over 100 KM)	11.5	2.4%	67.3%
Taxi Fares- Long distance (over 100 KM)	3.1	7.3%	76.7%
Taxi Fares - Medium distance (51-100 KM)	8.5	9.3%	79.7%
Taxi Fares - Short distance (less than 50 KM)	15.6	14.1%	111.5%
Motorcycle fares	10.0	5.2%	13.8%

Source: Uganda Bureau of Statistics

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.

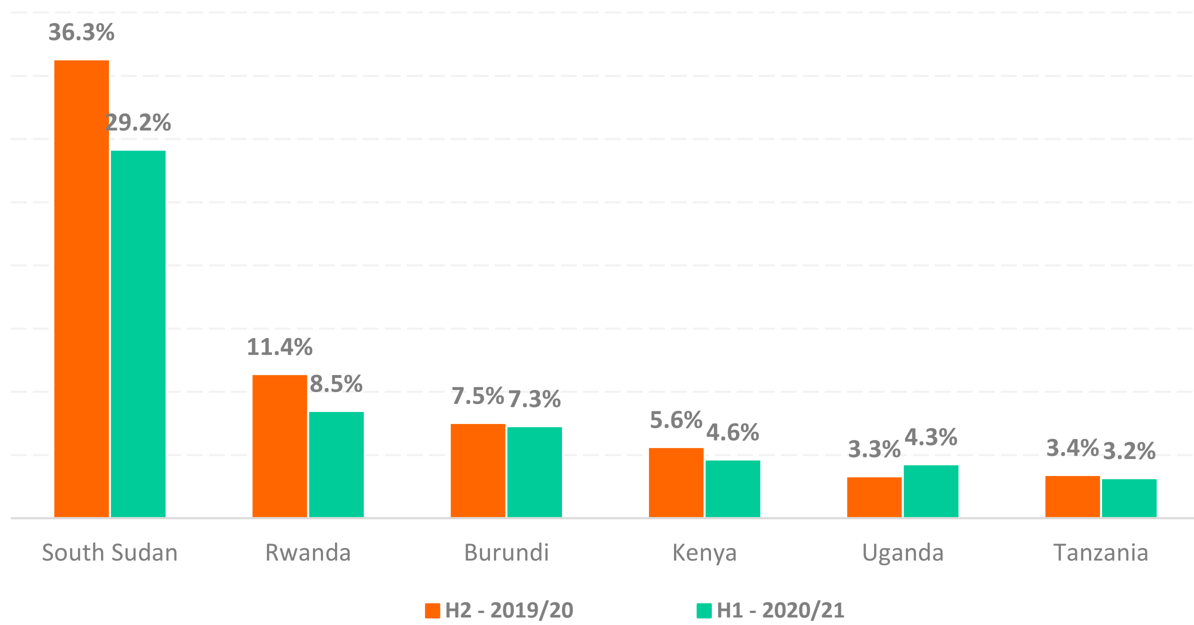
This decline was attributed to a decrease in aggregate demand and surpluses in the market for some of the items under this basket as exportation to other markets encountered challenges amidst COVID-19 pandemic restrictions. The most significant of price reductions under food crops were recorded for matooke; 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.

Inflation across the East African Community

With the exception of Uganda, inflation declined across all other EAC Partner States mainly as a result of a reduction in food and fuel prices. Figure 4 below shows annual headline inflation across EAC Partner States in H1 2020/21 versus H2 2019/20.

Figure 4: Average Annual Headline Inflation among EAC Partner States



Source: Respective National Bureaux of Statistics

Global Commodity Prices

Oil prices

During H1 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 as illustrated in Figure 5.

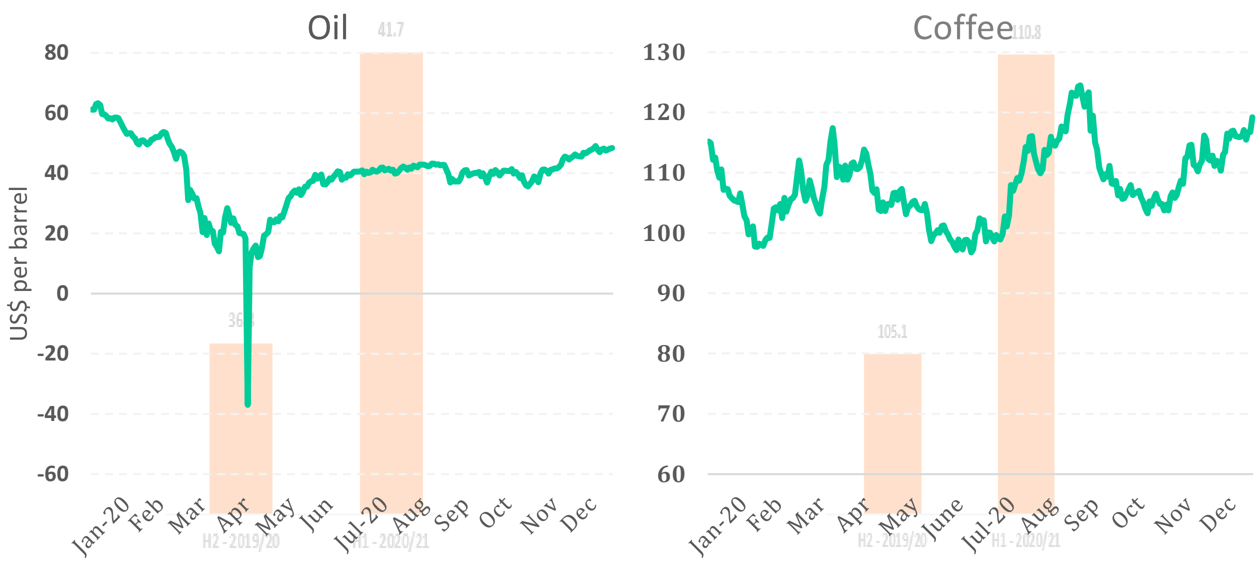
The recovery in oil prices was largely attributed to a rebound in oil demand as several countries across the world lifted their lockdown measures and resumed activity. However, in spite of this increase on the international scene, domestic fuel prices continued to decline albeit at a slower pace as the lagged effects of the previous oil price slump continued to take effect.

Coffee prices

As shown in Figure 5, 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.

Figure 5: Movements in the International Oil Prices and Coffee Composite Price Indicator, H2 2019/20 vs H1 2020/21



Source: US Energy Information Administration; International Coffee Organisation (ICO)

Financial Sector Developments

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. This accommodative monetary policy stance is intended to support continued recovery in private sector activity.

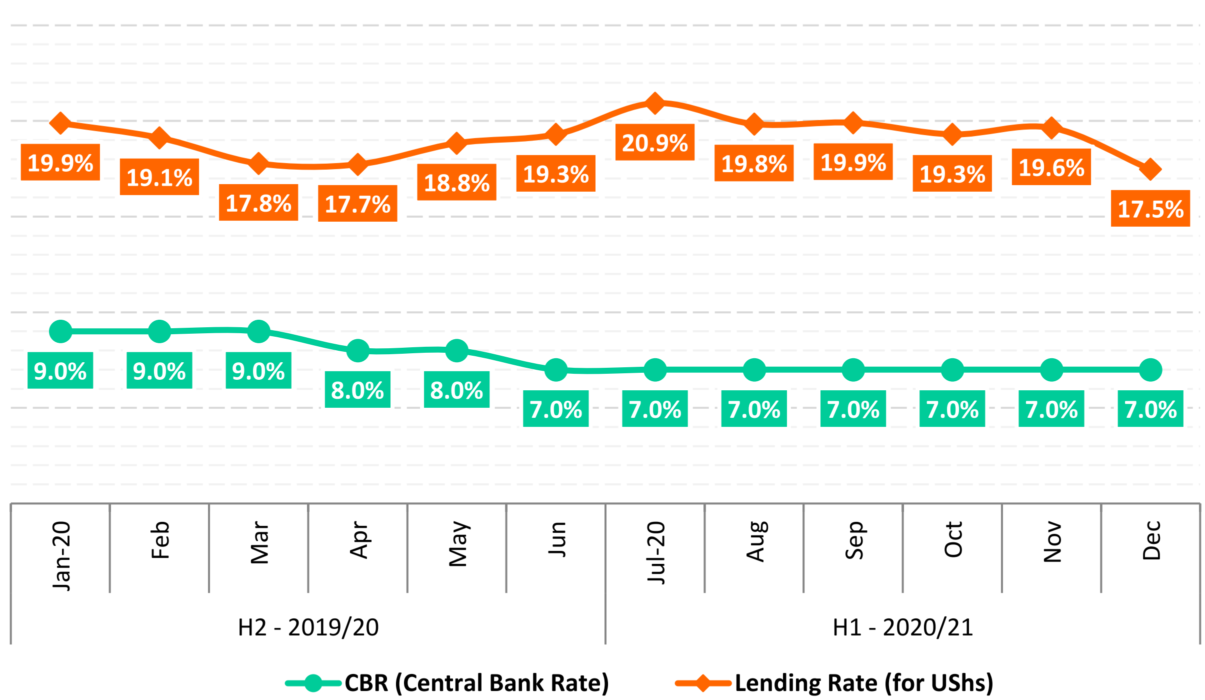
Lending Rates (weighted average)

average Commercial bank lending rate of 19.5%

During H1 2020/21, commercial bank lending rates generally decreased from 20.9 percent in July 2020 to 17.5 percent in December 2020. Lending rates had earlier been on an upward trend, as commercial banks became risk averse following the outbreak of COVID-19 in Uganda in March 2020. This was followed by constriction in economic activity and an increase in non-performing loans.

The downward trend observed in H1 2020/21 is in part supported by a reduction in credit risk and the accommodative monetary policy stance of the Central Bank, as economic activity continues to recover. Nonetheless, lending rates remain high due to other structural rigidities in the financial sector majorly associated with operational costs and the risk aversion tendency of lenders. Figure 6 shows the trend in CBR and commercial bank lending rates.

Figure 6: Central Bank Rate vs Commercial Bank Lending Rates Movements



Source: Bank of Uganda

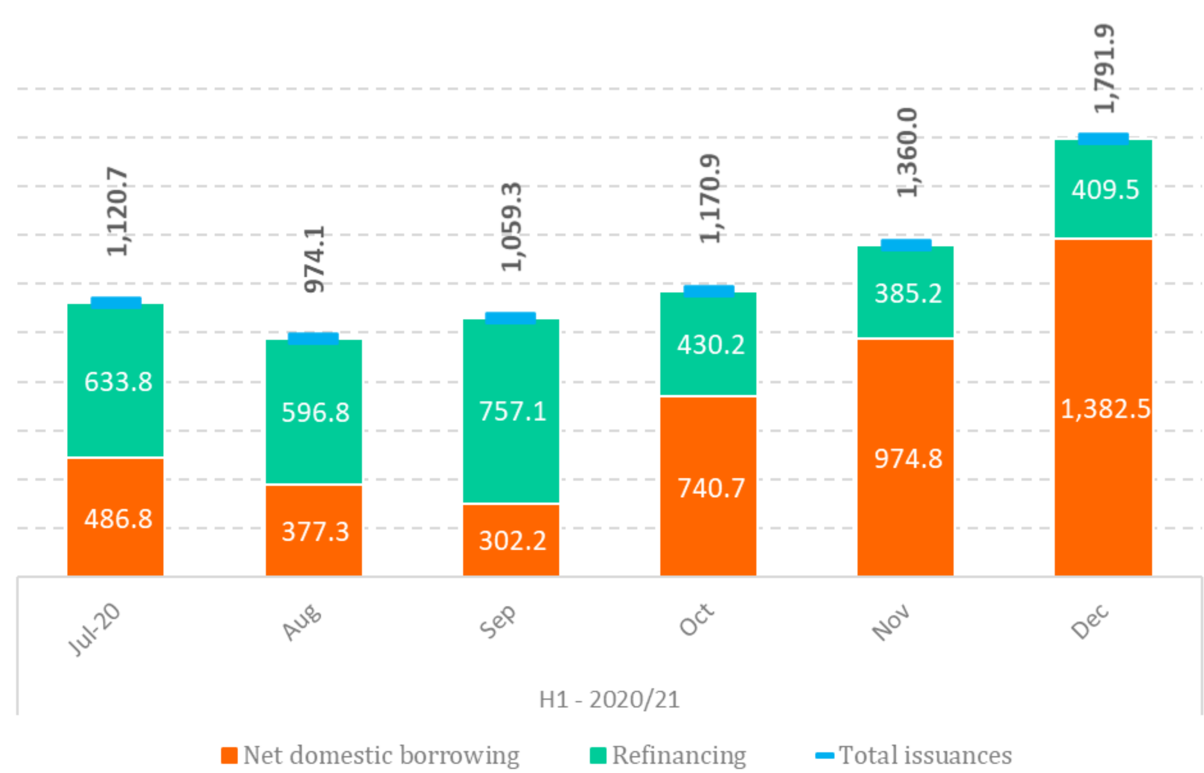
Government Securities

During the period under review, Government held auctions for both Treasury Bills and Treasury Bonds. These auctions resulted in UShs 6,057 billion (at cost) being raised. Government also held two private placements[1] in H1 2020/21, from which UShs 1,419.9 billion (at cost) was raised. 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 whilst UShs

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

4,264.4 billion went towards financing other items in the Government budget; as shown in Figure 7.

Figure 7: Breakdown of Government Securities in Billion UShs



Source: Ministry of Finance, Planning and Economic Development

Yields (Interests) on Treasury Bills

In comparison with the second half of FY 2019/20, yields (interest rates) on all Treasury bills (T-Bills) declined in H1 2020/21. 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 increased liquidity in the money markets. The increased liquidity in the money markets was largely explained by the risk aversion tendencies of commercial banks who preferred to invest in Government securities than lending to the private sector. Table 2 shows the average annualised yields on Treasury Bills since H1 2018/19.

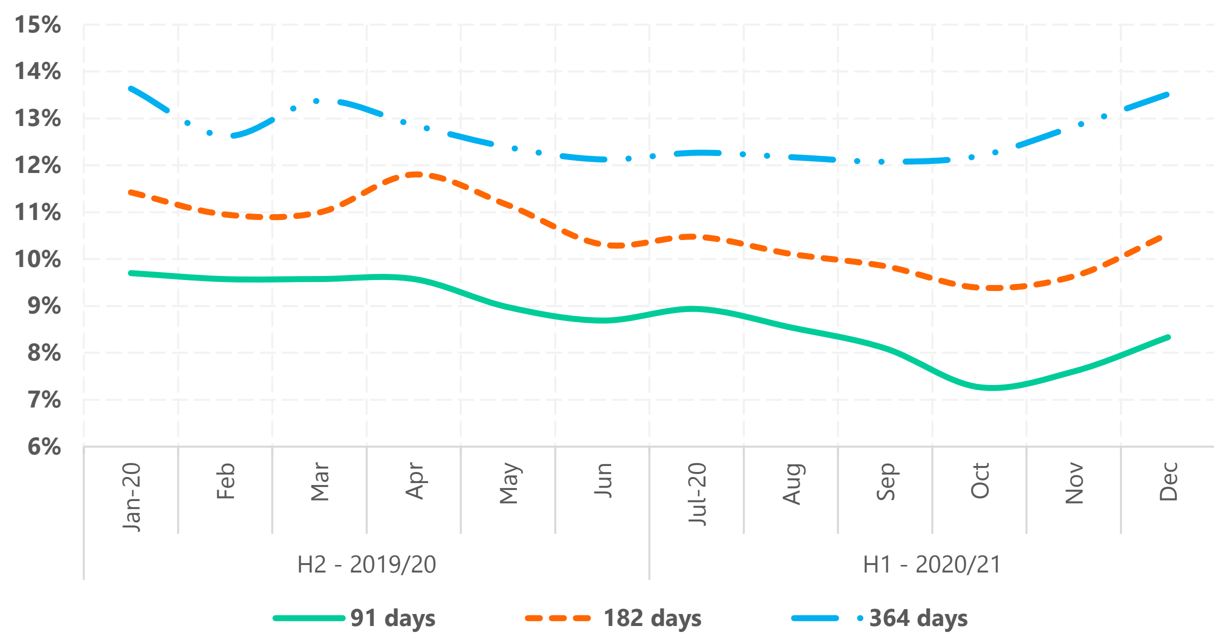
Table 2: Average Annualised Yields on Treasury Bills (%)

	H1 2018/19	H2 2018/19	H1 2019/20	H2 2019/20	H1 2020/21
91 Days	10.7	9.8	9.0	9.3	8.1
182 Days	12.2	11.1	10.8	11.1	10.0
364 Days	13.5	11.9	11.6	12.8	12.5

Source: Bank of Uganda

Figure 8 shows the trend between H2 2019/20 and H1 2020/21 of Yields on T-Bills.

Figure 8: Monthly Movement of Treasury Bill Yields



Source: Bank of Uganda

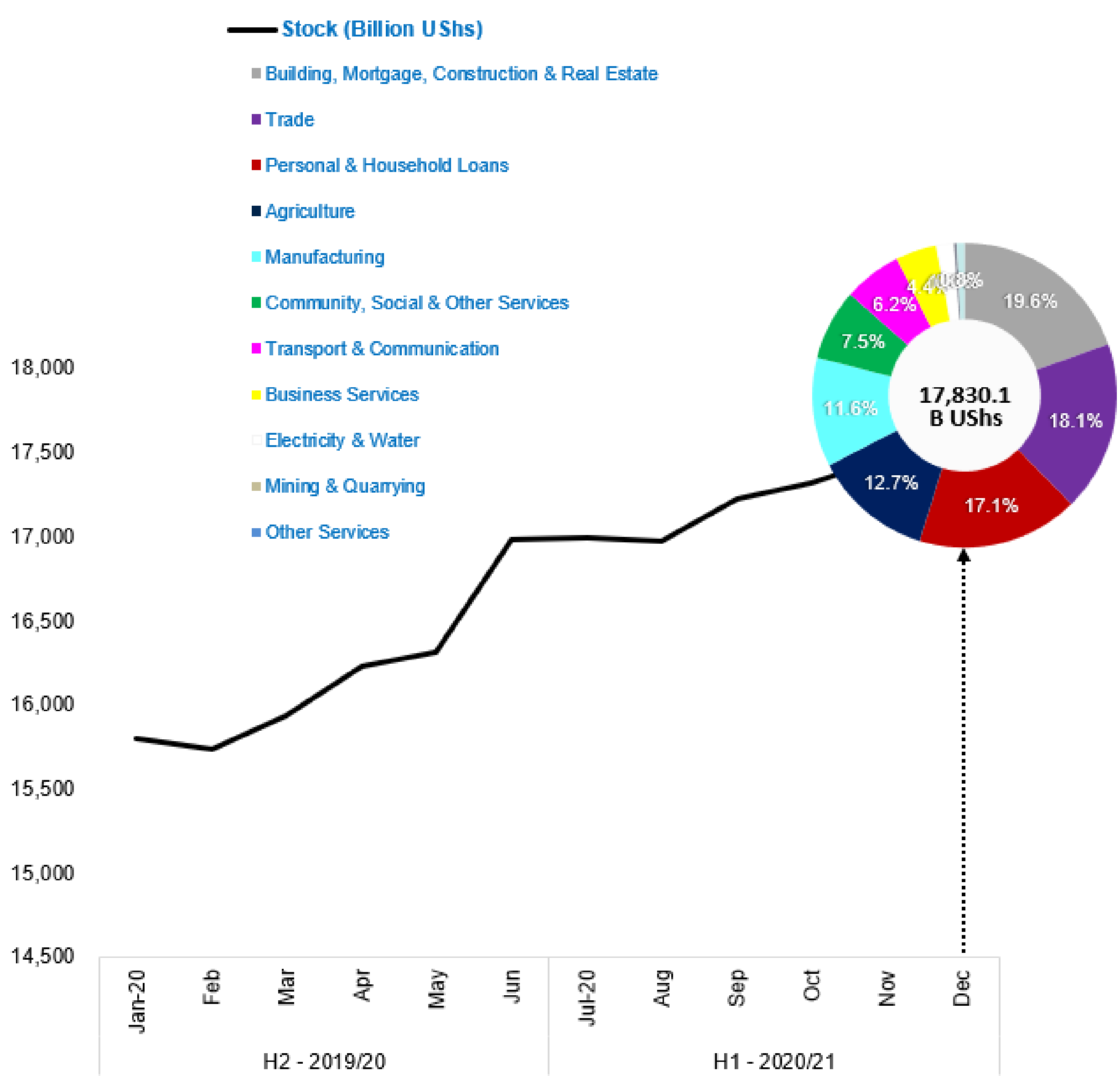
Lending to the Private Sector

Private Sector Credit grew by 5%

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. Figure 9 shows the stock of private sector credit.

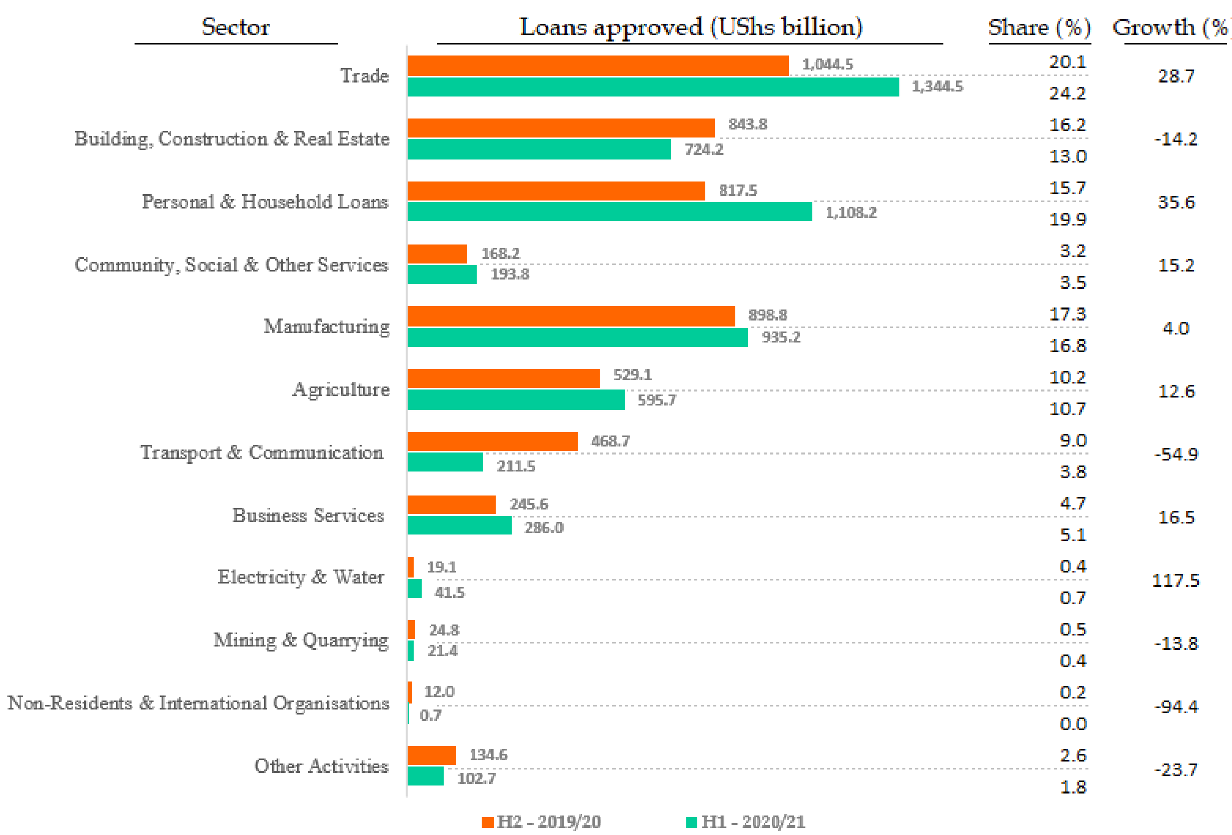
Figure 9: Stock of Private Sector Credit disaggregated by Sector



Source: Bank of Uganda

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. Figure 10, shows credit extended to each sector in H2 2019/20 and H1 2020/21.

Figure 10: Value of New Loans Approved by Sector



Source: Bank of Uganda

By sector, Trade received the largest share of credit extended (loans approved and extended) in the period under review, at 24.2 percent. Other notable recipients of credit were Personal and Household Loans (19.9 percent), Manufacturing (16.8 percent), Building, Construction and Real Estate (13.0 percent) and Agriculture (10.7 percent) as shown in Figure 10.

Non-Performing Loans (NPLs): NPLs to total gross loans rose from 4.85 percent at end December 2019 to 6.01 percent by end June 2020 following the adverse impact of the COVID-19 outbreak and measures enacted to control its spread. Subsequently, weakened economic activity and resulting income losses affected the ability to service loans. This trend was reversed in the quarter ending September 2020, with NPLs reducing by 0.86 percentage points to 5.15 percent, signalling recovery in economic activity. Table 3 shows the movement of NPLs between December 2019 to September 2020.

Table 3: Non-Performing Loans (%)

	Dec-19	Mar-20	Jun-20	Sep-20
NPLs to total gross loans (%)	4.85	5.41	6.01	5.15

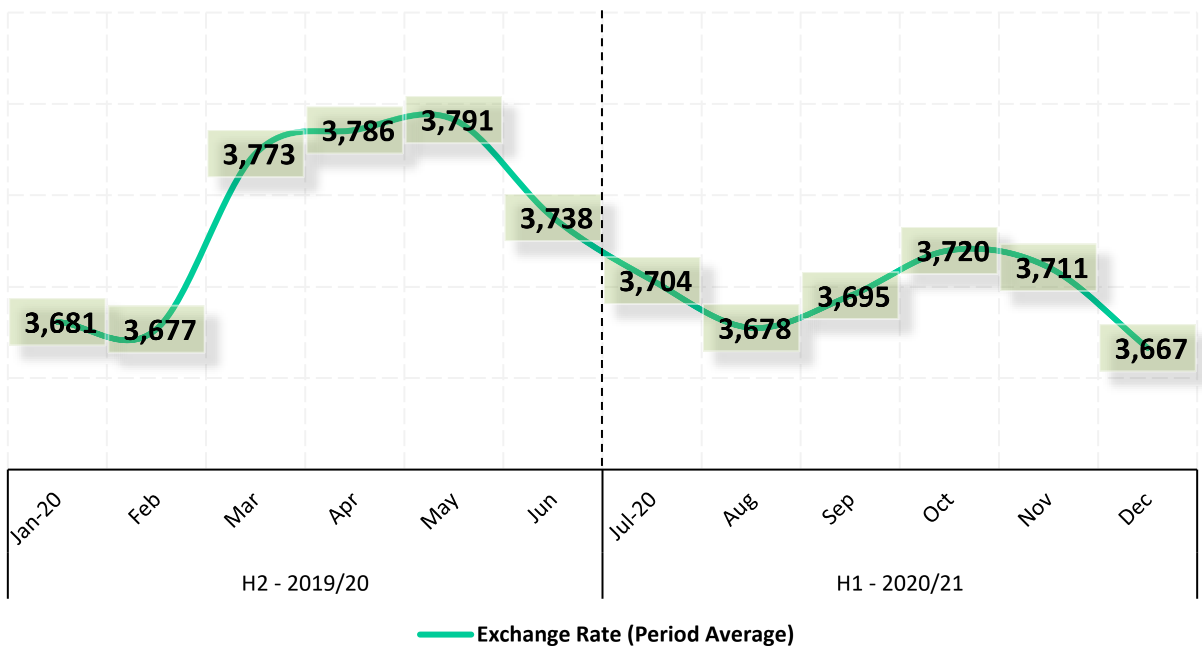
Source: Bank of Uganda

Exchange Rate

Shilling appreciated by 1.2% per US$ to 3,696

The Ugandan shilling appreciated against the US$ by 1.2 percent to a period average exchange rate of UShs 3,696 per US$ in H1 2020/21 from UShs 3,741 per US$ the previous six-month period, as illustrated by Figure 11. 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.

Figure 11: Official Exchange Rate Movement of UShs/US$

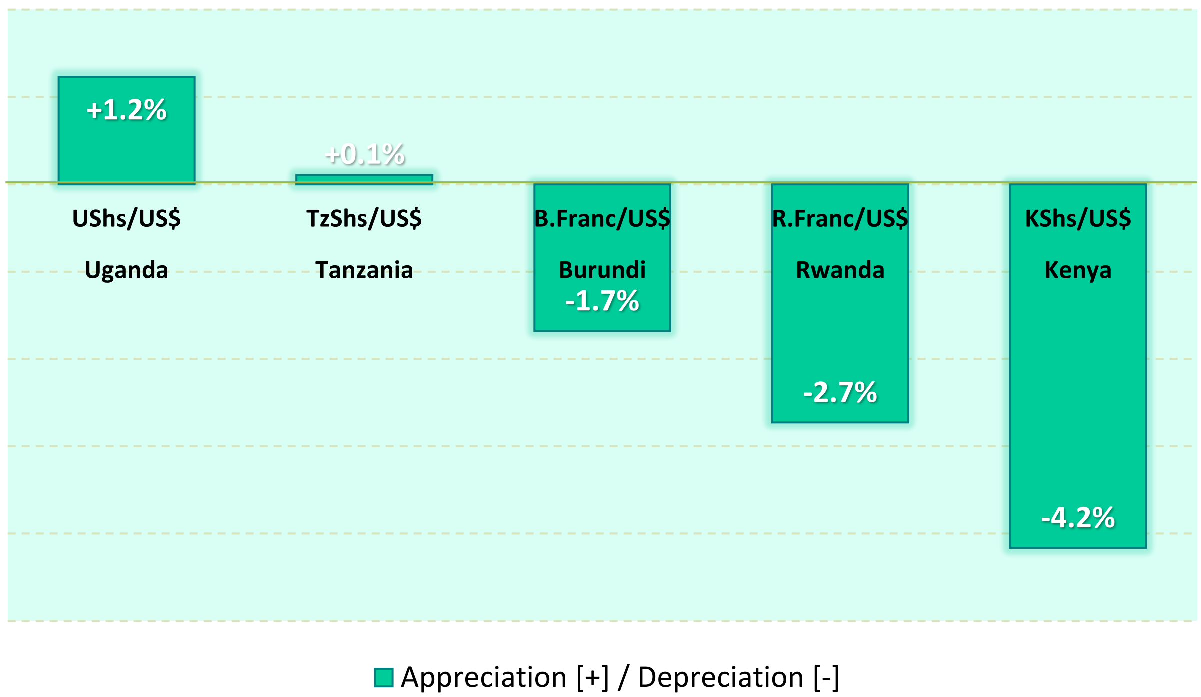


Source: Bank of Uganda

Exchange Rates within the EAC

With the exception of Ugandan shilling, and Tanzanian Shilling which remained relatively stable appreciating mildly by 0.1 percent between H2 2019/20 and H1 2020/21, Other EAC currencies weakened against the US$, as demonstrated by Figure 12. The Kenyan shilling, Rwandan and Burundian francs depreciated by 4.2 percent, 2.7 percent and 1.7 percent respectively during the period under review. The weakening of these currencies against the dollar is partly due to the higher trade deficits and increasing demand for safe-haven assets as the spread of COVID-19 pandemic weighed heavily on market sentiments.

Figure 12: Change in Exchange Rates (Period Average) in EAC for H1 2020/21



Source: Respective Central Banks

Note: Exchange Rate data for South Sudan was not available

External Sector

Merchandise Trade Balance

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 in the widening of the merchandise trade deficit by US$ 236.3 million (18.3%).

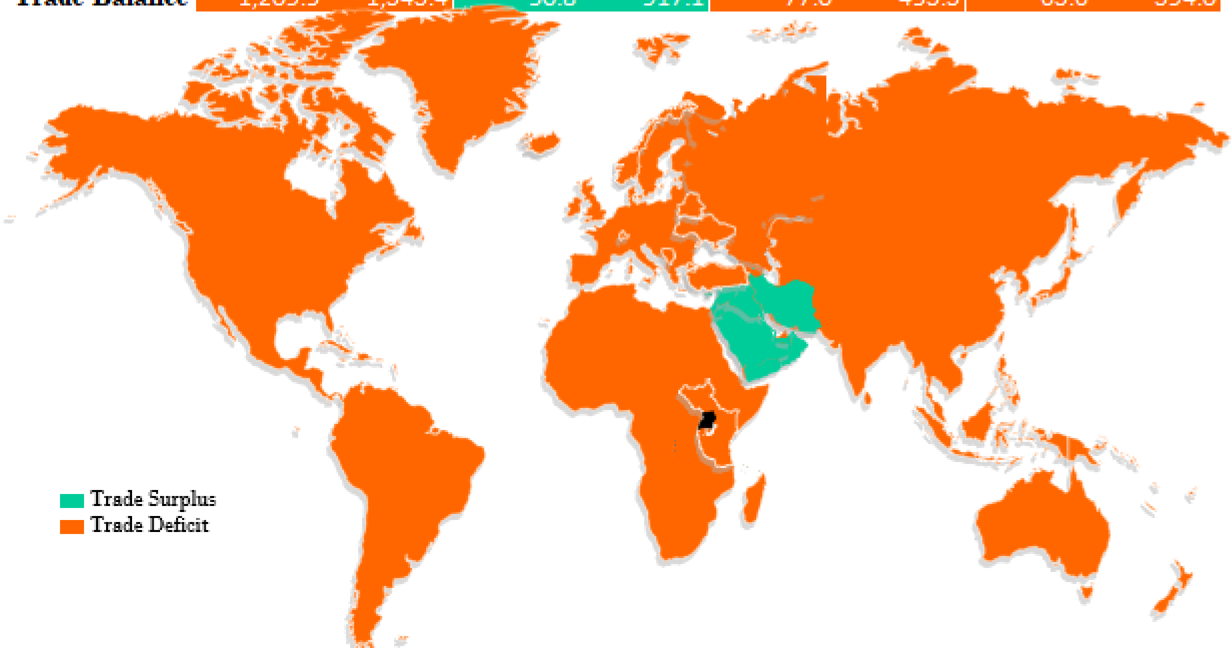
Main Trade Partners

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, as shown by Figure 13. Uganda had a trade surplus with the Middle East while trade deficits were registered with the other regional blocs.

Figure 13: Uganda's Trade Balance across Regional Blocs in H1 2020/21 (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

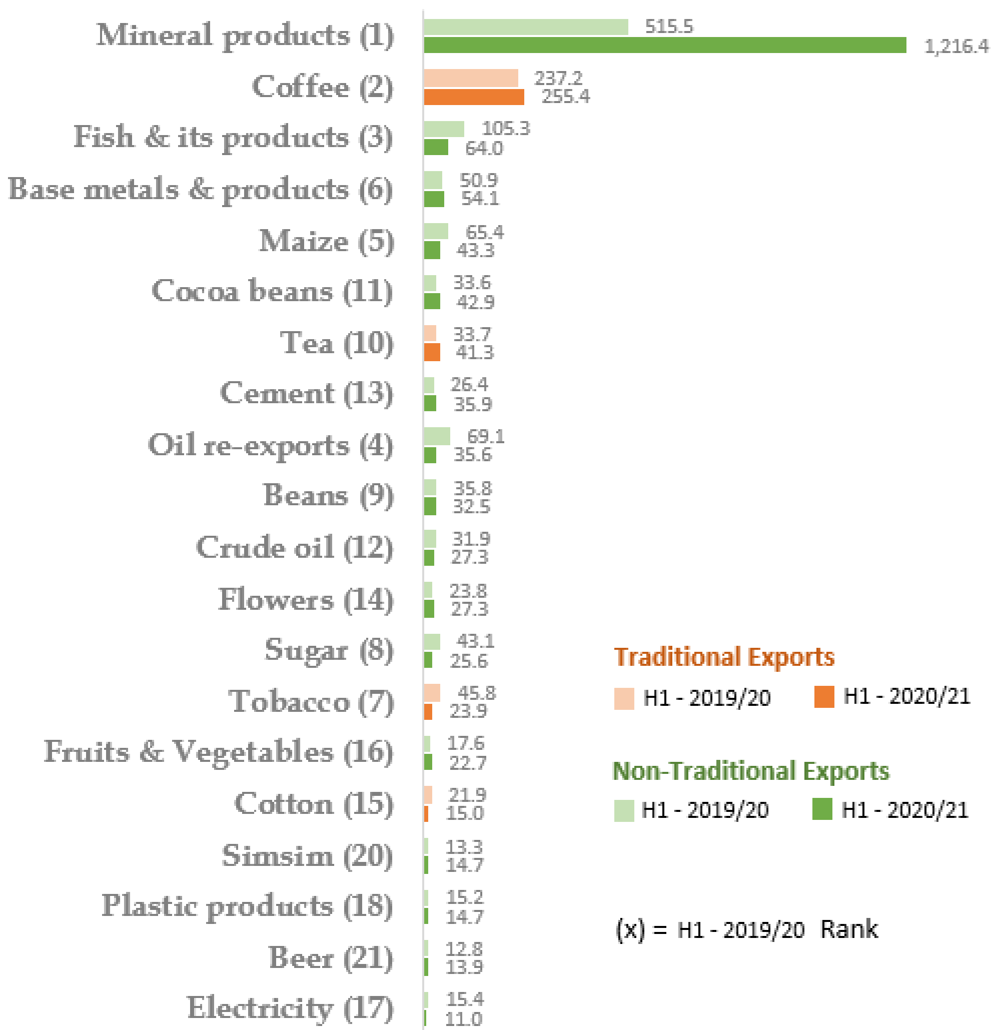
Note: Total Trade is equal to merchandise exports plus merchandise imports, and Trade Balance is equal to merchandise exports minus merchandise importsw

Merchandise Exports

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 by 25.3 percent 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 2019/20 and H1 2020/21 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. Mineral products were the major export in H1 2020/21, contributing 50.3 percent of total export earnings, up from 26.7 percent in H1 2019/20. Coffee came second at 10.6 percent. Figure 14 shows notable export products during the period under review.

Figure 14: Top 20 Commodity Exports of Uganda in H1 - 2020/21 (US$ Million)



Source: MOFPED calculations based on data from BOU

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

Traditional Exports are listed according to the Uganda Trade Policy

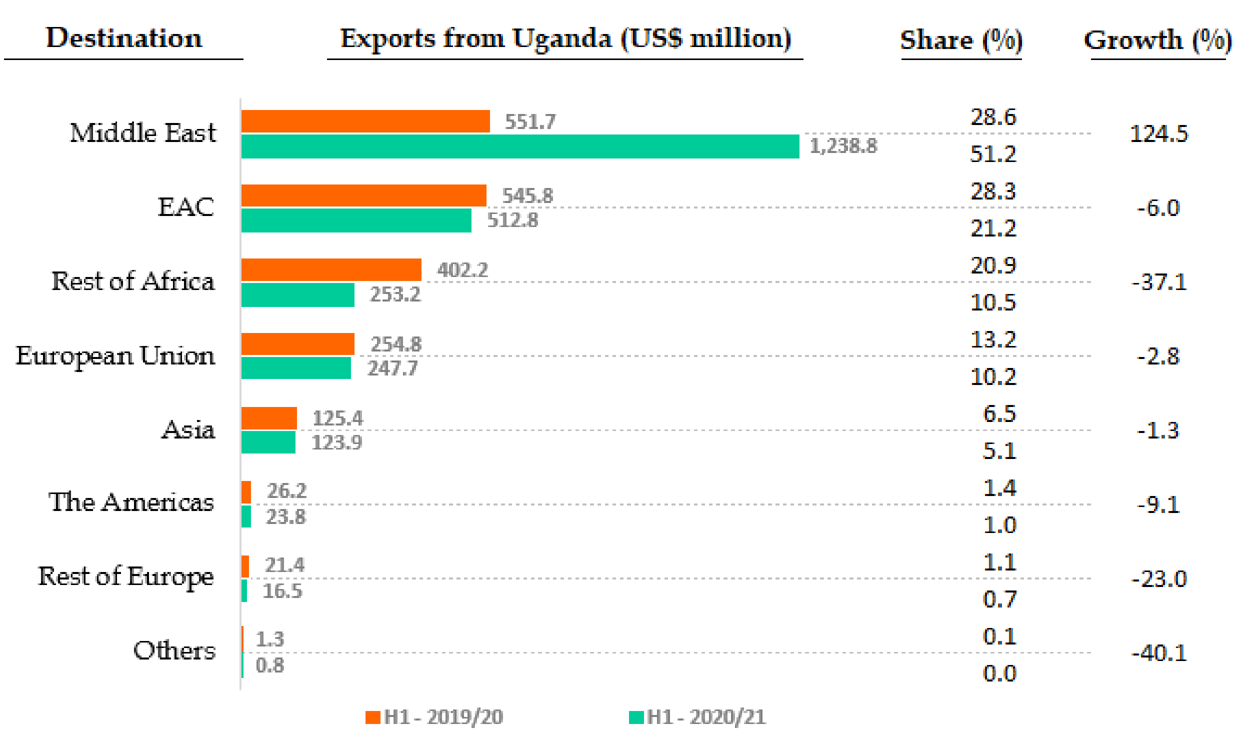
Exclusion of mineral exports from total exports, points to a 15 percent decline in exports earnings to US$ 1,201.1 million in H1 2020/21 from US$ 1,413.4 million in H1 2019/20.

Destination of Exports

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, as shown in Figure 15. Exports to the EAC declined in H1 2020/21 to US$ 512.8 million from US$ 545.8 million in H1 2019/20, largely explained by a drop in informal cross border trade which has been disrupted by trade and travel restrictions.

Figure 15: 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$ 1,225.4 million; followed by the Kenya at US$ 275.4 million and South Sudan at US$ 161 million, in H1 2020/21.

Merchandise Imports

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, as shown by Table 4.

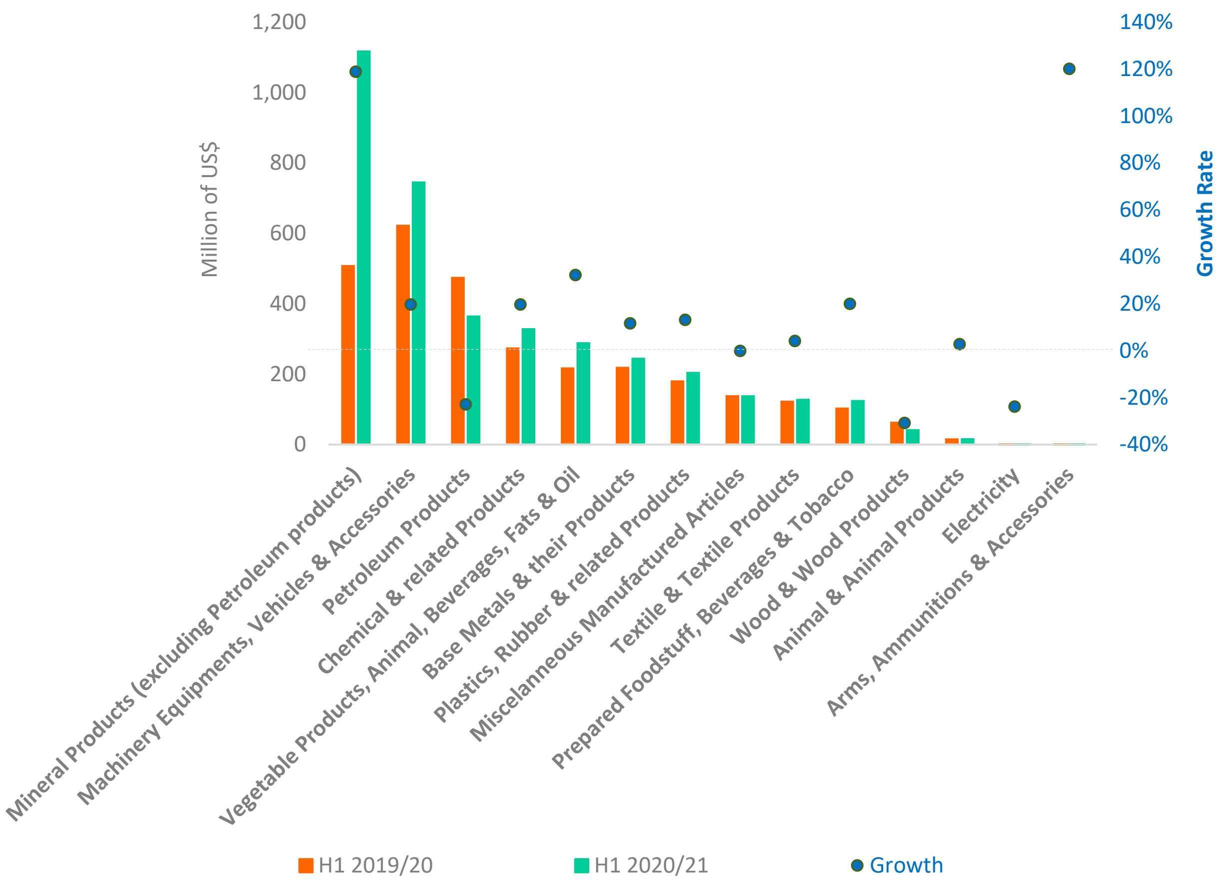
Table 4: Performance of Imports in US$ million

	H1 2019/20	H1 2020/21	Difference (value)	Growth Rate
Total Imports (fob)	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

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), as shown in the Figure 16.

Figure 16: Composition of Formal Private Sector Imports by Category



Source: Bank of Uganda

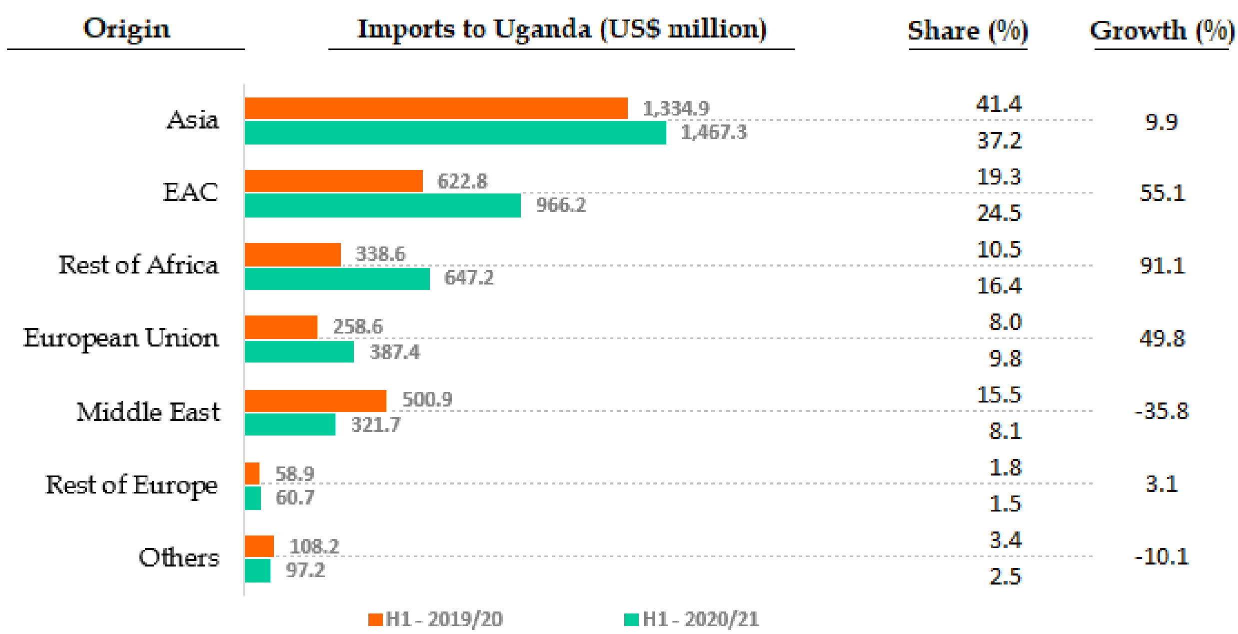
Note: Commodity category is according to the Harmonised Coding System, (BOU)

Imports of mineral products (excluding petroleum products); 'machinery equipment, vehicles & accessories'; 'vegetable products, animal, beverages, fats & oil'; 'chemical & related products' largely explain the increase within the non-oil private sector imports category. Whereas non-oil private sector imports increased, Government and oil imports declined. The fall in government imports was evident in both project and non-project imports, while, the decline in oil imports was attributed to lower import prices in H1 2020/21 compared to the same period last year.

Origin of Imports

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, as shown in Figure 17.

Figure 17: Origin of Uganda's Imports from different Regional Blocs



Source: MOFPED calculations based on data from BOU

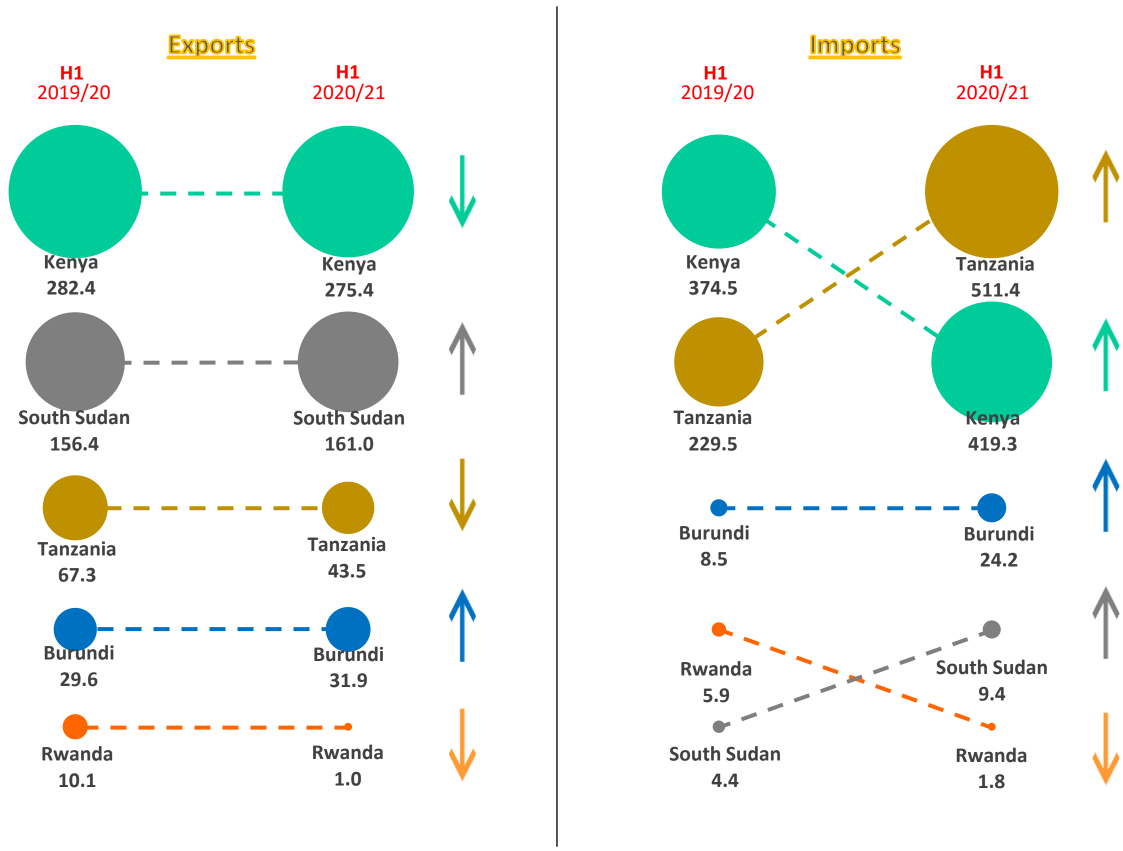
Imports from Asia were mainly from China (41.4 percent), India (27.7 percent) and Japan (10.4 percent). Tanzania and Kenya made contributions of 52.9 percent and 43.4 percent of the total imports from EAC respectively.

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 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 mineral products.

Figure 18: Uganda's Trade with EAC Partner States (US$ Million)



Source: Bank of Uganda

Within the EAC bloc, Kenya remains Uganda's main trading partner over the period under review, followed by Tanzania, South Sudan, Burundi and Rwanda, as shown in Figure 18.

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

Other Balance of Payments transactions

International Reserves; The stock of reserves at the end of December 2020 was estimated at UShs 3,848.07million equivalent to 4.98 months of future imports of goods and services.

Tourism earnings (inflows) decreased by 86.1 percent from UShs 382 million in Q1 2019/20 to UShs 53 million in Q1 2019/20. The decline in tourism earnings is largely on the account of the COVID-19, that has led to a decline in international travel.

Remittances (personal transfers) amounted to UShs 278 million in Q1 2020/21, registering a decline of 20.6 percent from UShs 350 million registered a year ago. This decline is partly attributed to the economic crisis induced by the COVID-19 pandemic.

Foreign Direct Investment (FDI); Foreign Direct Investments into Uganda recorded a decline of 26.5 percent from UShs 285 million in Q1 2019/20 to UShs 210 million in Q1 2020/21. The reduction in FDI inflows is partly on account of a weak global economy following the COVID-19 pandemic.

FISCAL PERFORMANCE

Chapter II: Fiscal Performance

Overview

The budget for the FY 2020/21 was 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 that is having far reaching effects on the economy and the population's wellbeing.

Therefore, the planned overall deficit for H1 2020/21 was UShs 8,709.8 billion. However, fiscal operations throughout the half year resulted in a deficit of UShs 6,403.8 billion as expenditure, especially externally financed development spending, turned out lower than planned.

Fiscal
deficit

of UShs
6,403.8
billion

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. Table 5 gives a summary of fiscal operations in H1 2020/21.

Table 5: Fiscal Operations of H1 2020/21 (UShs 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
Financing:	**8,709.8**	**6,403.8**	**73.5%**	**(2,306.0)**
External Financing (Net)	**4,056.4**	**2,964.8**	**73.1%**	**(1,091.6)**
Disbursements	4,713.6	3,616.9	76.7%	(1,096.8)
Budget support	353.1	1,344.1	380.6%	991.0
Concesional loans	2,511.7	2,153.9	85.8%	(357.8)
HPPs	451.4	62.0	13.7%	(389.5)
Other non-concessional loans	1,397.3	56.9	4.1%	(1,340.4)
Armotization	(657.2)	(652.1)	99.2%	5.2
Domestic Financing (Net)	**4,653.4**	**3,675.6**	**79.0%**	**(977.8)**
Bank Financing (Net)	3,455.5	1,736.0	50.2%	(1,719.5)
Non-bank Financing (Net)	1,197.9	1,939.6	161.9%	741.7
Errors and Omissions	-	(236.6)		

Source: Ministry of Finance, Planning and Economic Development

Revenues

Revenue collections amounted to UShs 9,746.9 billion in the first half of FY 2020/21. This was against a target of UShs 10,869.1 billion, resulting into a shortfall of UShs 1,122.3 billion (10.3 percent below target). Of the total revenue collected during the half, UShs 9,054.9 billion was tax revenue while UShs 691.9 billion was non tax revenue. Both tax revenue and non-tax revenue collections were lower than their respective targets by UShs 964.6 billion (9.6 percent) and UShs 157.7 billion (18.6 percent).

In spite of the shortfalls, total domestic revenue collections during H1 2020/21 represented a growth of 7 percent from the same period of last Financial Year. This growth is below the average half year growth of 11.4 percent for the last five (5) Financial Years, further demonstrating the effects the Covid-19 pandemic has had on revenue collections this Financial Year.

Tax Revenue

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 Taxes

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 (short of target by UShs 168.5 billion, UShs 108.5 billion and UShs 87 billion respectively), among others.

PAYE registered shortfalls as collections from formal employment remained subdued due to permanent and temporary layoffs associated with COVID-19 for example in the education sector. Corporate and presumptive taxes were also lower than their target as profitability of most firms was affected by the pandemic.

Indirect Domestic Taxes

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).

VAT collections for the period were UShs 1,443.5 billion against a target of UShs 1,589.2 billion, implying a performance of 90.8 percent. Most of the underperformance under VAT was recorded in the services sector, including wholesale and retail trade, hotels and restaurants, as well as transport and communication that were mostly hit by the COVID-19 pandemic. On the upside, VAT collections performed above target in the manufacturing sector, buoyed by cement and milk among other products.

Excise duty collections during the half year were UShs 715.78 billion against a target of UShs 843.51 billion. The lower performance of excise duty was partly due to lower than anticipated sales of major products on which this duty is charged. These included beer, spirits and soft drinks among others as bars remained closed during that period. The only items that registered a surplus are phone talk time, mobile money transactions, OTT, cement and cosmetics. Notwithstanding, the surpluses were not significant to counter the shortfalls registered under the other items.

Taxes on International Trade

Taxes on international trade amounted to UShs 3,686.4 billion which is 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 (lower by UShs 93.1 billion), import duty (lower by UShs 95.7 billion), infrastructure levy (lower by UShs 76.5 billion) and VAT on imports (lower by UShs 44.5 billion) among others. The main reason for this performance is a lower than anticipated growth in the volume of imports on which these taxes are applied.

Non-Tax Revenue (NTR)

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. However, Government received a one-off payment of UShs 237.4 billion from Airtel Uganda for a National Telecom Operator Licence which helped to offset part of the shortfall under NTR. Table 6 shows the details of domestic revenue collection in H1 2020/21.

Table 6: Details of Domestic Revenue (UShs Billion)

	H1 2020/21 Target	H1 2020/21 Collections	Deviation	Performance
Total Net Domestic Revenues	**10,869.1**	**9,746.9**	**(1,122.3)**	**89.7%**
Tax Revenues	**10,019.5**	**9,054.9**	**(964.6)**	**90.4%**
Direct Domestic Taxes	**3,703.5**	**3,314.7**	**(388.8)**	**89.5%**
O/w -PAYE	1,590.4	1,421.9	(168.5)	**89.4%**
-Corporate Tax	988.7	880.2	(108.5)	**89.0%**
-Presumptive Tax	11.1	2.5	(8.6)	**22.6%**
-Withholding Tax	586.4	633.9	47.6	**108.1%**
-Rental Income Tax	150.2	63.1	(87.0)	**42.1%**
Indirect Domestic Taxes	**2,432.7**	**2,159.3**	**(273.5)**	**88.8%**
Excise duty:	**843.5**	**715.8**	**(127.7)**	**84.9%**
O/w -Beer	191.5	142.3	(49.2)	**74.3%**
-Spirits/Waragi	117.6	59.3	(58.3)	**50.4%**
-Soft Drinks	91.4	61.6	(29.8)	**67.4%**
-Phone Talk time	116.7	130.4	13.8	**111.8%**
-Mobile Money Transfers	36.7	59.3	22.7	**161.8%**
-Levy on Mobile money	60.5	67.1	6.6	**110.9%**
-Over The Top	32.0	36.6	4.6	**114.4%**
Value Added Tax:	**1,589.2**	**1,443.5**	**(145.7)**	**90.8%**
O/w Manufacturing	815.2	875.6	60.4	**107.4%**
Services	307.0	246.4	(60.6)	**80.2%**
Construction	93.4	65.9	(27.5)	**70.5%**
Wholesale & retail trade; repairs	175.9	136.6	(39.3)	**77.7%**
Hotels & restaurants	65.5	16.8	(48.7)	**25.6%**
Transport & communications	33.7	21.4	(12.3)	**63.6%**
Taxes on International Trade	**4,026.5**	**3,686.4**	**(340.1)**	**91.6%**
O/w -Petroleum duty	1,206.7	1,113.6	(93.1)	**92.3%**
-Import duty	817.3	721.6	(95.7)	**88.3%**
-Excise duty	113.9	98.8	(15.2)	**86.7%**
-VAT on Imports	1,458.2	1,413.7	(44.5)	**96.9%**
-Withholding Taxes	109.0	105.0	(4.0)	**96.3%**
Tax Refunds:	**(197.4)**	**(186.4)**	**11.0**	**94.4%**
Stamp duty & Embossing Fees	**54.3**	**81.1**	**26.8**	**149.4%**
Total NTR	**849.6**	**691.9**	**(157.7)**	**81.4%**

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

Grants

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. Of the amount received, UShs 74.8 billion was for supporting general activities in the budget while UShs 750.9 billion was tied to supporting specific development projects during the period. 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).

Government Expenditure

Total Government expenditure for the first half of FY 2020/21 amounted to UShs 16,976.4 billion against a program of UShs 20,506.9 billion. The lower than planned spending was mainly observed in externally financed development expenditure which performed at 46.1 percent, attributed to a slowdown in execution of projects partly due to restrictions associated with COVID-19. In addition, domestically financed development spending was also slightly lower than the target for the period.

Expenditure on recurrent items was closer to the planned levels, performing at 95 percent. Payment of wages and salaries exceed projections by 1.7 percent as additional funds were provided to health and defence sectors. On the other hand, expenditure on non-wage recurrent items was lower than planned by 5.7 percent. This was partly because some MDAs experienced challenges in executing expenditures due to COVID-19 restrictions, while in other cases MDAs did not raise their projected non-tax revenue for spending at source (Appropriation in Aid) and therefore had to spend less by that shortfall.

Additionally, lower than projected yields on Government securities contributed to lower domestic interest spending during the period. Furthermore, the appreciation of the shilling against the US Dollar for most of the period also resulted in savings on external interest payments.

To support post COVID-19 economic recovery, Government implemented the measures announced as part of the stimulus package in 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 the UShs 222.45 billion in the 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.

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. Of this amount, UShs 1,344.1 billion was in form of budget support loans while UShs 2,153.9 billion was concessional borrowing tied to particular development projects.

During the period, UShs 4,264.4 billion was raised from the domestic market to fund activities in the budget.

Compliance with the 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 the following measurable fiscal objectives that are aimed at ensuring macroeconomic stability and fiscal sustainability;

(a) A reduction of the Government fiscal balance (including grants) to a deficit of no greater than 3 percent of GDP by FY 2020/21.
(b) A gross public debt in net present value terms maintained below 50 percent of GDP for all fiscal years covered by the Charter.

Given the fiscal performance in the first half of FY 2020/21, the fiscal deficit for the year is projected at 9.7 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 in the Country.

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 49.1 percent of GDP by end June 2021 which is lower than the threshold of 50 percent as set out in the charter.

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. Nonetheless, the report found that Uganda's debt remains sustainable in the medium to long term. As result of increasing vulnerability, the risk of debt distress has increased from low to moderate, with the major vulnerabilities to the debt outlook relating to the slow growth of exports and the increasing debt service burden. 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. Measured in present value terms, the stock of public debt amounted to 31.8 percent of GDP up from 26.7 percent the previous financial year.

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. In order to reduce the reliance on borrowing, Government is committed to increasing domestic resources by fast tracking the implementation of the Domestic Revenue Mobilization Strategy, which addresses major bottlenecks/inefficiencies in tax administration. This will result in more revenue collections and consequently reduce reliance on borrowing. Moreover, Government intends to reduce its expenditure as a ratio of GDP, particularly in the post-COVID-19 period.

Performance of the Petroleum Fund

The Petroleum Fund is a depository for all revenues accruing to Government from petroleum and related activities. Disbursements from the Fund are through appropriation to either the Consolidated Fund or to the Petroleum Revenue Investment Reserve Account.

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 the same period, 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.

OUTLOOK ON THE ECONOMY

Chapter III: Outlook on the Economy

The 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 largely supported by government interventions in improving quality agricultural inputs, providing extension services, efforts in irrigation and continued investments in industrial parks and economic free zones. A rebound in private sector activity, continued public infrastructure investment, and Oil and Gas sector activities. Similarly, as vaccination against COVID 19 progresses across the world and countries continue to ease lock down measures, this is expected to boost Uganda's exports, particularly of agricultural products and manufactures.

The Purchasing Managers Index dipped below the 50.0-mark threshold in January 2021 for the first time since the start of the Financial Year mainly due to reduction in new orders around the election period, however business activity is expected to pick up following the election period as shown by the Business Tendency Index which recorded an index above the 50- mark threshold in January 2021, reflecting optimism in the business environment going forward.

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.

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 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. Anticipated rebound in performance from 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. Additionally, absorption capacity constraints, supply chain disruptions and delays in disbursement of funds have prompted the revision of project profiles of infrastructure projects over the medium term. 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

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

i. Global and regional economic and trade environment

Currently the global economy faces threats from the impact of the COVID-19 pandemic. The first source of risk relates to the path of the pandemic, the needed public health response, and the associated domestic activity disruptions, most notably for contact-intensive sectors. Subsequently, the extent of global spill overs from soft demand, weaker tourism, and lower remittances are likely to pose a risk to economic activity thereby posing a risk to national budgets.

Lastly, financial market sentiment is likely to have implications for global capital flows.

ii. Estimation of Macroeconomic Indicators

Volatility and optimism bias in growth projections can have negative effects on tax revenues and public debt. This has been exacerbated by the uncertainty brought about by the COVID-19 pandemic.

These challenges could negatively affect economic growth outturns going forward and in turn affect tax revenues and public debt.

b. Risks related to Public Debt

i. Domestic Debt

Refinancing Risk: The proportion of domestic debt maturing in one year was 36.5 percent by June 2020 which is considerably high. 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.