MACROECONOMIC & FISCAL PERFORMANCE OF THE ECONOMY

FY 2020/21


MACROECONOMIC POLICY DEPARTMENT

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

#DoingMore
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
The size of the Ugandan economy expanded from UShs 139,686 billion in FY2019/20 to UShs 147,962 billion in FY2020/21, registering a real GDP growth rate of 3.4 percent.

This performance though modest, represents a better recovery from 3.0 percent growth in the previous Financial Year.

- This recovery was reinforced with the fiscal measures to mitigate the impact of the pandemic on businesses and households.
On the domestic front, all sectors of the economy registered positive rates of growth during FY2020/21, with a modest recovery in the industry and services sectors, while growth in agriculture slowed compared to the previous Financial Year.

Reasons for the growth

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

- The global economy is projected to grow significantly in 2021, recovering to **5.9 percent** from **-3.1 percent** in 2020.

- Sub-Saharan Africa is expected to accelerate to **3.7 percent** in 2021 from **-1.7 percent** in 2020.

- This recovery is largely based on the easing of virus containment measures in advanced, emerging and developing markets boosted by sustained fiscal stimulus programs particularly in advanced economies, increased global vaccinations and improved trade prospects.

- On the domestic front, all sectors of the economy registered positive rates of growth during FY2020/21, with a modest recovery in the industry and services sectors, while growth in agriculture slowed compared to the previous Financial Year.
Annual Inflation remained subdued compared to the previous year

During the FY2020/21, annual headline inflation remained subdued and averaged 2.5 percent compared to 2.3 percent in FY2019/20.

- The slight increase in the general price level was largely attributed to the significant rise in transport fares on other goods and services. Transport costs rose sharply during the year following pandemic-related restrictions on public service vehicle capacities. The increase in transport costs mostly affected goods and services in the core basket, resulting into an increase in the core inflation measure.

- On the other hand, average prices of food crops and solid fuels declined due to the low consumption demand in the economy because of the negative impact of the Covid-19 pandemic on businesses and household incomes. Consequently, both food inflation and the energy, fuels and utilities (EFU) inflation declined by 4.2 and 0.9 percent, respectively.

- The combined decline was however not enough to counter the increase in core inflation, hence leading to a general increase in the overall price level (headline inflation).
Headline and Core inflation remained low throughout the year, EFU declined

- **Core inflation** increased to an average of **3.5 percent** during FY2020/21 up from **2.3 percent** in the year before but remained within the Central Bank’s 5 percent target.
  - The increase in core inflation was largely a result of increased transport fares across the country as transport operators significantly hiked transport charges to minimise anticipated losses arising from the reduction in vehicle capacity as part of the pandemic-related operating guidelines.

- **Food crops and related items prices** contracted throughout the financial year and averaged -4.2 percent down from average increases of 3.9 percent the previous year.
  - This was mainly attributed to production-induced surpluses in the market amidst low demand. There was low demand for foods following the closure of schools and operating restrictions on hotels and restaurants activities, while exportation to the region also encountered trade related challenges. That contributed to an oversupply of food in the market without corresponding demand.
  - The food items most affected included sweet potatoes and beans, fruits like bananas, pineapples and apples as well as vegetables like tomatoes, onions, cabbages, fresh leaf vegetables, carrots and garlic.

- **Energy Fuel and Utilities inflation** also contracted by an average of 0.9 percent in FY2020/21 from an average increase of 1.5 percent in the previous year.
  - was mainly attributed to a reduction in prices of solid fuels i.e., firewood and charcoal due to low demand arising in particular from the closure of schools.

Source: Uganda Bureau of Statistics
The international price of brent crude oil was on an upward trend for most of the financial year 2020/21 and averaged USD 51.8/barrel from USD 46.8/barrel in the previous year.

- Having remained relatively stable in the first half of the Financial Year, the price rose sharply in the second half to USD 65.1/barrel in May before peaking at USD 71.3/barrel in June 2021. The rise in prices reflected improving oil demand prospects due to recovering global economic activity. Rising shipping costs and disruptions to petroleum supply from extreme winter weather also put upward pressure on crude oil prices at the start of 2021.

- The initial upward movement in the indicator was partly driven by expectations of reduced supply from some regions in addition to disruptions in trade flows. Subsequently as global pandemic-related measures eased in major coffee consuming markets, brighter demand prospects for coffee emerged.

Prices of coffee rose substantially, particularly the Arabica categories during the months of May and June 2021.
The accommodative monetary policy stance experienced throughout FY2020/21 was anchored on subdued inflation expectations and the urgent need to support recovery in economic activity. Consequently, the Central Bank Rate remained unchanged for most of the year, at 7 percent, and was revised downwards to 6.5 percent in June 2021 – its lowest level.

In response to the monetary policy stance, commercial bank lending rates on shilling denominated credit trended downwards during the year. Having opened at a weighted average of 20.9 percent in July 2020, lending rates gradually declined over the course of the Financial Year and closed at 17 percent in June 2021.

Yields on T-bills declined in 2020/21 compared to 2019/20

The average annualised yields during the year were recorded at 7.8 percent and 12.0 percent for the 91-day and 364-day tenors, respectively, as compared to 9.2 percent and 12.2 percent for the same instruments in FY2019/20.

- With excess liquidity and heightened pandemic-related risks, commercial banks preferred to invest in safer government securities rather than lend to the private sector.

Source: Bank of Uganda
In FY2020/21, Government raised **UShs 14,214.8 billion (at cost)** from the issuance of Treasury Bills and Treasury Bonds. Of this, securities worth UShs 7,419.6 billion matured and were refinanced, while UShs 6,795.2 billion went towards financing other items in the government budget.

During the Financial Year, there were several developments in the domestic securities market, geared towards reducing the re-financing risk and extending the yield curve by focusing on longer dated instruments. The initiatives included:

- Implementing a **bond switch**, which involves exchanging a maturing bond for several bonds of different tenors and extending the maturity date. As the first of its kind on Uganda’s market, the transaction involved a maturing 10-year tenor that was switched into five different tenors namely 3-year, 5-year, 10-year, 15-year and 20-year tenors.
- Introduction of a **20-year tenor** to further reduce the re-financing risk.
During the year, the stock of private sector credit rose by **7.1 percent** to UShs 18.2 trillion compared to a growth of **12.5 percent** the previous year. The slowdown in growth of private sector credit was largely driven by a combination of subdued demand for credit and increased risk aversion by the major lenders. There was heightened by uncertainty related to the impact of the Covid-19 pandemic on businesses and households.

- The value of loan requests to lenders, which proxies demand for loans, reduced from UShs 24.2 trillion in FY2019/20 to UShs 17.9 trillion in FY2020/21. In the same way, the value of loan approvals decreased from UShs 14.1 trillion the previous FY to UShs 9.98 trillion during FY2020/21. This performance is mainly explained by the increased credit risks.
During the financial year, the largest share of credit approved was towards personal & households and trade services which were recorded at 23.8 percent and 23.2 percent, respectively and followed by building, construction & real estate (13.6 percent), manufacturing (13.1 percent) and agriculture (11.3 percent).
The Ugandan shilling strengthened by 1.4 percent against the US dollar from an average midrate of UShs 3,714.6 per US$ in FY2019/20 to UShs 3,661 per US$ in FY2020/21.

- This development was mainly driven by higher inflows from portfolio investments in the securities market and export earnings, especially from coffee and mineral products. In addition, the global weakening of the US dollar, subdued private sector foreign exchange demand and increased inflows from development partners tagged to the fight against Covid-19, contributed to the strengthening of the shilling during the Financial Year.

Source: Bank of Uganda
During the year, the **merchandise trade deficit** widened by **26.9 percent** due to a higher import bill (up by US$ 2,125.4 million) that more than offset the rise in export receipts. The merchandise trade deficit was estimated at **US$ 3,068.4 million** in FY2020/21 from US$ 2,417.2 million in FY2019/20.

The **EAC region overtook Asia** to become Uganda’s major trading partner in FY2020/21, with total value of trade amounting to **US$ 3,377.8 million** from US$ 2,405.1 million registered the year before. Below Asia in the rankings was the Middle East, Rest of Africa and European Union. Uganda registered a trade surplus with the Middle East and deficits with the other regional blocs.
Exports increased by 38.8%

- There was an increase in export earnings by US$ 1.5 billion during FY2020/21, which represents a growth of 38.8 percent from a contraction of 4.1 percent the previous year. The bulk of the increase in earnings is attributable to increased exports of mineral products. Overall, the value of exports increased from US$ 3,799.8 million in FY2019/20 to US$ 5,274 million in FY2020/21.

- Mineral products were Uganda’s main export commodity contributing 42.7 percent of total earnings and were followed by coffee at 10.5 percent. Earnings from minerals were boosted by improvement in export volumes, which nearly doubled from 21,746 kilograms in FY2019/20 to 43,009 kilograms in FY2020/21. Other non-mineral export commodities that contributed to the strong earnings include coffee, cement, tea, beans, base metals & products. Export earnings (excluding mineral products) increased from US$ 2,681.4 million in FY2019/20 to US$ 3,024.3 million in FY2020/21.
The Middle East remained the top destination for Uganda’s exports during FY 2020/21, amounting to 43.6 percent of merchandise exports. This was followed by the East African Community, accounting for 24.1 percent and Rest of Africa at 18.4 percent of total exports (see figure 15).

Between FY2019/20 and FY2020/21, exports to the Middle East increased by 94.9 percent from US$ 1,178.8 million to US$ 2,297.9 million following higher exports of mineral products. Over the same period, exports to the EAC increased by 15.3 percent from US$ 1,101.8 million to US$ 1,270.8 million.

By country,

- the United Arab Emirates remained the largest destination of Uganda’s exports and accounted for US$ 2,268.5 million;
- followed by the Kenya with US$ 617.3 million;
The import bill increased to **US$ 8,342.4 million** during FY2020/21 following a contraction by 9.7 percent in FY2019/20. The increase was mainly in the import bill of non-oil formal private sector imports. The increase is attributable to **increased demand** following the **easing of pandemic-related containment measures** as well as **improvements in supply-chains and trade logistics**.

- **Formal private sector imports**, which constituted **93.3 percent** of the total merchandise imports, rose by 35 percent during FY2020/21, as all but petroleum products, wood & wood products, and electricity import categories recorded increases.

### Imports increased by 34.2%

<table>
<thead>
<tr>
<th>(US$ million)</th>
<th>FY 2019/20</th>
<th>FY 2020/21</th>
<th>Difference (value)</th>
<th>Annual Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Imports (f.o.b)</td>
<td>6,217.0</td>
<td>8,342.4</td>
<td>2,125.4</td>
<td>34.2%</td>
</tr>
<tr>
<td>Government Imports</td>
<td>405.1</td>
<td>510.6</td>
<td>105.5</td>
<td>26.1%</td>
</tr>
<tr>
<td>Project</td>
<td>388.3</td>
<td>499.8</td>
<td>111.5</td>
<td>28.7%</td>
</tr>
<tr>
<td>Non-Project</td>
<td>16.8</td>
<td>10.9</td>
<td>-6.0</td>
<td>-35.5%</td>
</tr>
<tr>
<td><strong>Formal Private Sector Imports</strong></td>
<td>5,763.4</td>
<td>7,782.8</td>
<td>2,019.4</td>
<td>35.0%</td>
</tr>
<tr>
<td>Oil imports</td>
<td>850.5</td>
<td>830.3</td>
<td>-20.2</td>
<td>-2.4%</td>
</tr>
<tr>
<td>Non-oil imports</td>
<td>4,912.9</td>
<td>6,952.5</td>
<td>2,039.6</td>
<td>41.5%</td>
</tr>
<tr>
<td>Estimated Private Sector Imports</td>
<td>48.5</td>
<td>49.0</td>
<td>0.4</td>
<td>0.9%</td>
</tr>
<tr>
<td>Total Private Sector Imports</td>
<td>5,812.0</td>
<td>7,831.8</td>
<td>2,019.8</td>
<td>34.8%</td>
</tr>
</tbody>
</table>

Source: Bank of Uganda
Asia remained Uganda’s main source of imports in the Financial Year 2020/21 amounting to US$ 3,038.5 million or 36.4 percent of total imports. While Asia remained the main source, its share in Uganda’s import mix reduced from 40.9 percent in FY2019/20, with the country sourcing more goods from alternative markets following the supply-chain disruptions during the year.

The regions with whom the share of imports increased include EAC, Rest of Africa and the EU, with Uganda increasing imports of mineral products from the first two.

At country specific level,

- Of the imports from Asia, 69.1 percent were sourced from China (US$ 1,250.1 million) and India (US$ 850.8 million),
- while within the EAC, 57.6 percent were from Tanzania.
- In the Middle East, 60.5 percent of imports were sourced from the United Arab Emirates, in the FY 2020/21.
Overview

The Government’s overall fiscal strategy for Financial Year 2020/21 was to maintain macroeconomic stability and fiscal sustainability while supporting economic recovery. Fiscal operations during the year were constrained by revenue shortfalls and weaker execution of externally funded development activities. As a result, the overall fiscal balance was a deficit of UShs 14,563.6 billion, equivalent to 9.8% of GDP.

- Domestic revenue collections amounted to UShs 19,838.8 billion, representing a shortfall of UShs 1,972 billion or 9 percent against the target for the year. Of the total collections, UShs 18,336.8 billion or 92.4 percent was tax revenue, while UShs 1,361.0 billion was non-tax revenue. Tax revenue collections were short of the UShs 20,219.7 billion target by UShs 1,882.9 billion or 9.3 percent, as all major tax categories posted shortfalls due to the impact of pandemic-related restrictions on domestic economic activity and international trade activities.

<table>
<thead>
<tr>
<th>Fiscal Sector</th>
<th>FY 2020/21 Budget</th>
<th>FY 2020/21 Outturn</th>
<th>FY 2020/21 Performance</th>
<th>Deviation from Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue and Grants</td>
<td>23,529.6</td>
<td>21,238.8</td>
<td>90.3%</td>
<td>-2,290.8</td>
</tr>
<tr>
<td>Revenue</td>
<td>21,809.7</td>
<td>19,838.8</td>
<td>91.0%</td>
<td>-1,970.9</td>
</tr>
<tr>
<td>Tax</td>
<td>20,218.7</td>
<td>18,336.8</td>
<td>90.7%</td>
<td>-1,881.9</td>
</tr>
<tr>
<td>Non-Tax</td>
<td>1,591.0</td>
<td>1,361.0</td>
<td>85.5%</td>
<td>-230.0</td>
</tr>
<tr>
<td>Oil revenues</td>
<td>-</td>
<td>141.0</td>
<td>-</td>
<td>141.0</td>
</tr>
<tr>
<td>Grants</td>
<td>1,719.9</td>
<td>1,400.0</td>
<td>81.4%</td>
<td>-319.9</td>
</tr>
<tr>
<td>Budget support</td>
<td>133.6</td>
<td>74.8</td>
<td>56.0%</td>
<td>-58.8</td>
</tr>
<tr>
<td>Project support</td>
<td>1,586.3</td>
<td>1,325.2</td>
<td>83.5%</td>
<td>-261.2</td>
</tr>
<tr>
<td>Expenditure and Lending</td>
<td>36,563.1</td>
<td>35,802.4</td>
<td>97.9%</td>
<td>-760.7</td>
</tr>
<tr>
<td>Recurrent expenditures</td>
<td>17,627.1</td>
<td>19,156.6</td>
<td>108.7%</td>
<td>1,529.5</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>5,082.2</td>
<td>5,180.5</td>
<td>101.9%</td>
<td>98.3</td>
</tr>
<tr>
<td>Non-wage</td>
<td>8,495.4</td>
<td>9,986.4</td>
<td>117.6%</td>
<td>1,491.1</td>
</tr>
<tr>
<td>Interest payments</td>
<td>4,049.5</td>
<td>3,989.7</td>
<td>98.5%</td>
<td>-59.9</td>
</tr>
<tr>
<td>o/w domestic</td>
<td>3,061.3</td>
<td>3,020.0</td>
<td>98.6%</td>
<td>-41.4</td>
</tr>
<tr>
<td>o/w foreign</td>
<td>988.2</td>
<td>969.7</td>
<td>98.1%</td>
<td>-18.5</td>
</tr>
<tr>
<td>Development expenditure</td>
<td>17,184.5</td>
<td>15,160.5</td>
<td>88.2%</td>
<td>-2,024.0</td>
</tr>
<tr>
<td>External</td>
<td>8,695.6</td>
<td>5,478.6</td>
<td>63.0%</td>
<td>-3,217.0</td>
</tr>
<tr>
<td>Domestic</td>
<td>8,488.9</td>
<td>9,681.9</td>
<td>114.1%</td>
<td>1,193.0</td>
</tr>
<tr>
<td>Net lending &amp; investment</td>
<td>1,302.4</td>
<td>640.9</td>
<td>49.2%</td>
<td>-660.5</td>
</tr>
<tr>
<td>o/w HPP</td>
<td>819.7</td>
<td>159.2</td>
<td>19.4%</td>
<td>-660.5</td>
</tr>
<tr>
<td>o/w BOU Recapitalization</td>
<td>481.7</td>
<td>481.7</td>
<td>100.0%</td>
<td>0.0</td>
</tr>
<tr>
<td>Arrears</td>
<td>450.0</td>
<td>844.4</td>
<td>187.6%</td>
<td>394.4</td>
</tr>
<tr>
<td>Overall Fiscal Bal. (incl. Grants)</td>
<td>-13,033.5</td>
<td>-14,563.6</td>
<td>111.7%</td>
<td>-1,530.1</td>
</tr>
<tr>
<td>Overall balance (excl. Grants)</td>
<td>-14,753.4</td>
<td>-15,963.6</td>
<td>108.2%</td>
<td>-1,210.2</td>
</tr>
</tbody>
</table>

Source: Ministry of Finance, Planning and Economic Development
Revenues and grants increased by UShs 2,797 billion or 15.2 percent to **UShs 23,529.6 billion** in FY2020/21 compared to the previous year. However, this represents a shortfall of UShs 2,291 billion or 9.7 percent against the target for the year, as pandemic-related containment measures affected revenue mobilisation efforts.

- Direct domestic taxes totalled UShs 6,619.4 billion, representing a shortfall of UShs 874.7 billion or 11.7 percent against the target for the year. This followed major shortfalls registered under PAYE (UShs 315.5 billion), corporate income tax (UShs 239.9 billion) and rental income tax (UShs 168.3 billion), as the pandemic caused job losses, lower profitability and dampened real estate activities.
- Indirect domestic taxes registered a shortfall of UShs 555.7 billion against a target of UShs 5,028.6 billion, as both VAT and excise duty underperformed.
- Taxes on international trade also registered a shortfall of UShs 495.5 billion or 6.2 percent against the target, as demand for imports on which taxes are levied was lower than what had been anticipated.
- Government collected UShs 1,361.0 billion in form of non-tax revenues, which was only 85.5 percent of the projected collections for the year. During the fiscal year, a total of UShs 141.0 billion was collected as capital gains tax on the transfer from Tullow oil company to Total E&P.

Other factors that contributed to the shortfalls in domestic revenues included the delay in implementation of some tax revenue measures such as the increase in excise duty on fuel and withholding tax on insurance and advertising agents; as well as the delays in the implementation of some tax administration reforms.

Government received grants worth **UShs 1,400 billion**, which represents **81.4 percent of the projected inflows**. Of the amount received, UShs 74.8 billion was in the form of general budget support and UShs 1,325.2 billion received was towards project support.

Government expenditure (excluding domestic debt refinancing and external debt amortization) amounted to **UShs 35,802.4 billion**, which was **3.9 percent lower than** the planned spending levels. This was largely attributed to the lower spending on externally financed development activities, which performed at 63 percent and is linked to project disbursements.

On the other hand, domestically financed expenditure **exceeded the budget** for the period, as spending on non-wage recurrent items, clearance of arrears (UShs 844 billion) and domestically financed development activities was higher than planned.

During the fiscal year, several Ministries, Departments and Agencies (MDAs) were provided more resources to undertake additional spending to support various responses to the **health** and **economic** crises created by the pandemic amounting to **UShs 2.4 trillion**. This included emergency recruitment of health workers, purchase of Personal Protective Equipment (PPE) and vaccines, while additional resources were directed towards Uganda Development Bank (UDB), Microfinance Support Centre (MSC) and Uganda Development Corporation (UDC) to support business recovery.
Key highlights

### Financing
- The overall deficit for FY2020/21 amounted to UShs 14,563.6 billion and was financed through borrowing from domestic and external sources. A total of UShs 7,441.7 billion was disbursed from external sources, out of which **UShs 3,322.2 billion was borrowing towards general budget support** and **UShs 4,119.5 billion was tied to specific projects.**

- In addition, government more than doubled its borrowing from the **domestic financial markets to UShs 6,818.5 billion** to bridge the financing gap created by the shortfalls in revenue and additional spending requirements.

### Debt Sustainability Analysis
- Total nominal public debt as a share of GDP is estimated to have increased from **40.8 percent in June 2020** to **46.9 percent in June 2021.** The most recent Debt Sustainability Analysis revealed increased risks and vulnerabilities for public debt in the near term and led to a re-classification of Uganda`s risk of debt distress from low to moderate.

- The major vulnerabilities included the **low growth of exports** and **increased debt service burden** driven by increased issuances of domestic and commercial external debt. The significant increase in borrowing between June 2020 and June 2021 was driven by the large revenue shortfalls and additional spending requirements to support the emergency health and economic response to the pandemic. Despite the movement from low to moderate risk of debt distress, public debt was assessed to be sustainable in the medium to long term.
## Fiscal Operations ... (3/3)

### Key highlights

- **Petroleum Fund**
  - The value of the Fund increased by UShs 150 billion to **UShs 238.68 billion** at the end of June 2021.
  - The increase in the fund position is attributed to revenues from **capital gains** and **stamp duty** from Tullow Uganda Limited’s sale of its shares to Total EP Uganda.
  - There were no withdrawals made from the Fund during the period.

- **Contingency Fund**
  - A total of **UShs 62.070 billion** was allocated for the Contingency fund in FY2020/21, and funds were transferred as follows:
    - a) UShs 5 billion to Office of the Prime Minister for food and non-food relief items.
    - b) UShs 20 billion to Office of the Prime Minister as Government’s intervention to floods.
    - c) UShs 30 billion to Ministry of Health for procurement of COVID vaccines.

- **Donations**
  - In the Financial Year 2020/21, the approved budget for donations amounted to UShs 149.98 billion. UShs 155.87 billion was released of which UShs 155.86 billion was spent.
EAST AFRICAN COMMUNITY

PERFORMANCE
There was a **slow-down** in inflation across the EAC region during the FY2020/21, except for Burundi and Uganda.

- This development was largely attributed to the **low consumption demand** across countries, crippled by the impact of the pandemic outbreak. As a result, price declines were recorded for several items across the region, the most significant being for food and non-alcoholic beverages.
- Despite the marginal increase, **Uganda recorded the lowest inflation rate in the region**, followed by Tanzania.
The currencies in Kenya, Burundi and Rwanda weakened against the US dollar during the Financial Year. The Kenyan Shilling depreciated on average by 5.0 percent, while the Franc in Rwanda and Burundi depreciated by 5.2 percent and 3.5 percent, respectively.

- The losses are related to increased demand for the dollar as private sector imports picked up during the year coupled with fears of continued pandemic-related restrictions that have subdued economic activity and investor confidence.

Within the region, only the Tanzanian shilling remained relatively stable against the US dollar and gained by 0.1 percent on average, as non-traditional exports particularly mineral products increased.

Source: Respective Central Banks
Note: Exchange Rate data for South Sudan was not available
Uganda’s trade with the EAC resulted in a larger deficit in FY2020/21 compared to the previous year. The deficit increased four-fold from US$ 201.5 million during financial year 2019/20 to US$ 836.1 million in FY2020/21 and attributed to geographical factors. With the pandemic-related supply-chain and trade logistical challenges persisting during the year, Uganda sourced more imports from the region.

Imports from the region grew by 61.7 percent from US$ 1,303.3 million in FY2019/20 to US$ 2,106.9 million in FY2020/21, with Tanzania recording the largest increment.

Over the same period, Uganda’s exports to the region increased by 15.3 percent to US$ 1,270.8 million from US$ 1,101.8 million the year before.

By country, Kenya was the main destination of Uganda’s exports within the region absorbing about 48.6 percent, followed by South Sudan at 36.1 percent. Exports to Rwanda and Tanzania declined during the Financial Year 2020/21. In terms of imports, Tanzania and Kenya accounted for 98 percent of the total.
OUTLOOK ON THE ECONOMY

Looking ahead >>>

Economic Growth 1
Inflation 2
External Sector 4
Financial Sector 3
Fiscal Operations 5
Economic Growth

- The economy is expected to grow **between 3.5 - 4.0 percent** in FY2021/22, a downward revision from the 4.3 percent estimated at start of the year. The revision factors in the expected impact of the **second wave of the Covid-19** outbreak and related containment measures in June/July on sectors like education, transport, trade, manufacturing, and construction.

- Over the medium term, economic growth is **expected to increase to an average of 7 percent** per annum and mainly driven by recovery in private consumption demand, on-going interventions to increase production & productivity in agriculture & manufacturing, strong external demand leading to a boost in exports, on-going investments in industrial parks & economic zones, and a pick-up in activities in the oil & gas sector.

Inflation

- For the remainder of FY2021/22, inflation is **expected to remain relatively subdued**. Core inflation is expected to remain close to the BOU’s medium-term target, supported by prudent fiscal and monetary policy measures.

- The upside risks to inflation projections emanate from **adverse weather-related shocks** which could cause an upsurge in food crop prices, a possibility of **increasing global commodity prices especially oil** which would have a pass-through effect on the domestic prices, and the **direction of the exchange rate** which is on occasion affected by external factors.
Financial Sector

- **Private Sector Credit** (PSC) is expected to continue to grow albeit at a moderate pace in the near-term largely due to heightened uncertainty related to the Covid-19 pandemic and the slow pace of economic recovery.

- In the medium to long-term, as economic activity continues to recover, credit risks are expected to abate resulting to a fall in non-performing loans and increased lending due to improved health metrics on account of increased vaccination rates, paving a way for full reopening of the economy.

External Sector

- The exchange rate is expected to remain relatively stable but face depreciation pressures in the short to medium term; due to increased domestic dollar demand, volatility in global financial markets, volatility in international crude oil prices and continued recovery in private sector imports.

- Stronger external demand will boost exports; while improved remittances, FDI flows and a gradual recovery in tourism, are expected to continue supporting the external sector accounts.

Fiscal Operations

- FY2021/22 is the first year of implementation of the second Charter for Fiscal Responsibility, which will focus on fiscal consolidation. The overall fiscal deficit is projected to decline to 6 percent of GDP during FY2021/22 driven by efficiencies in public spending.

- Revenue mobilisation will be boosted by increased activities in the oil & gas sector, and projected oil revenue inflows. Government will continue accelerating the implementation of the domestic revenue mobilisation efforts and further rationalisation of expenditures.
Leading indicators of economic activity for the first quarter of 2020/21 reflect weaker business investment and household consumption spending. While the outbreak of Covid-19 affected most parts of the economy, the impact is uneven, with some sectors facing very difficult conditions while others are continuing to grow strongly.

For the remainder of the year, economic activity is expected to pick up particularly in trade, manufacturing and construction supported by further easing of containment measures as vaccination rates increase and continued government interventions to ensure recovery in small and medium enterprises.

Nonetheless, uncertainties continue to surround the economic outlook. The outlook continues to be highly conditional on the pace of vaccinations and the emergence of vaccine-resistant variants.

Any renewed surge in coronavirus cases amidst slow vaccination rollout will prompt the re-introduction of restrictions on gatherings and mobility, which will derail the economic recovery.

The PMI shows a pickup in economic activity improving significantly to 50.2 in August 2021 and 52.2 in September 2021 from 34.6 in July, largely on account of increases in new orders and output following the easing of pandemic-related restriction measures.