MACROECONOMIC & FISCAL PERFORMANCE REPORT

FINANCIAL YEAR 2020/21

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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OCTOBER 2021

Foreword

Section 18 of the Public Finance Management Act (PFMA) 2015 requires the Minister of Finance, Planning & Economic Development to present to Parliament a bi-annual Macroeconomic and Fiscal Performance Report by the end of February and October. In this regard, the ministry has prepared an annual report which incorporates the current and projected state of the economy as at 30th June 2021.

In spite the challenges of dealing with the COVID-19 pandemic and the related restriction measures, the Ugandan economy remained resilient, expanding by 3.4 percent in real terms during FY2020/21 compared to 3.0 percent in FY2019/20. This performance was a result of the fiscal and monetary policy interventions to support the recovery in economic activities, which were complemented by the easing of some of the pandemic-related measures. In nominal terms, the economy expanded to an estimated UShs 148 trillion in FY2020/21 from UShs 139.7 trillion in FY2019/20.

During FY2020/21, Government instituted fiscal measures and monetary policy guidelines to mitigate the adverse impacts of the pandemic on economic activities. These interventions include, making funding available to boost lending to small and medium enterprises at affordable rates, rescheduling loan obligations of financially strained debtors and settlement of verified domestic arrears owed to the private sector. In addition, fiscal stimulus measures were put in place for social safety net programs to cater for the vulnerable groups within the population that were most affected by the impacts of the coronavirus. The measures included immediate relief to vulnerable groups, increased funding to micro credit institutions as well as for initiatives on wealth and job creation (EMYOOGA).

Sustaining this recovery will require effective containment of the spread of the COVID-19 virus, and vaccinating a significant percentage of the population, as we work towards the goal of fully re-opening the economy. Improving the efficiency and effectiveness of implementation of public investments, rationalisation of Ministries, Departments and Agencies combined with a recovery in external and domestic demand is expected to further boost economic activities, with growth projected to gradually increase and average between 6 to 7 percent in the medium to long term.

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
FDI	Foreign Direct Investments
FOB	Free on Board
FY	Financial Year
GDP	Gross Domestic Product
H1	First Half of the Financial Year
H2	Second Half of the Financial Year
IMF	International Monetary Fund
KShs	Kenyan Shillings
MDA	Ministries, Departments and Agencies
MOFPED	Ministry of Finance, Planning and Economic Development
NPLs	Non-Performing Loans
NTR	Non-Tax Revenue
PAYE	Pay as You Earn
PMI	Purchasing Managers Index
R.Franc	Rwandan Franc
TzShs	Tanzanian Shillings
UShs	Ugandan Shilling
US$	United States Dollars
VAT	Value Added Tax

Executive Summary

The global economy is expected to grow significantly, recovering to 5.9 percent during 2021 following a contraction of 3.1 percent in 2020. Economic activities in advanced economies rebounded as increased fiscal stimulus measures and scaled-up vaccination efforts resulted into the easing of trade and travel restrictions. In emerging market and developing economies, the re-bound was largely due to benefits from a surge in commodity prices, particularly for crude oil and coffee as global trade improved.

In Uganda, key strategic government interventions to mitigate the economic and health impacts of the pandemic, coupled with the easing of containment measures resulted in a modest acceleration in the pace of economic activities. All the major sectors of the economy recorded positive rates of growth. The services sector and industrial output – the most pandemic-affected sectors gradually recovered and achieved growth rates of 2.7 and 3.4 percent, while performance by the agricultural sector was recorded at 3.8 percent during FY2020/21. In-spite of a slow-down in the pace of growth in agricultural output, the sector remained robust and accounted for 23 percent of the total national output. The importance of the sector is reflected in the recent national household survey results, which indicates that an estimated 10 percent of the working population that lost employment on account of the COVID-19 pandemic moved into agriculture-related activities. Overall, the size of the Ugandan economy expanded to UShs 147,962 billion in FY 2020/21 from UShs 139,689 billion in FY 2019/20, which represents a growth of 3.4 percent in real terms.

During FY 2020/21, annual headline inflation remained low and stable, and averaged 2.5 percent, largely due to low food crop inflation, resulting from bumper harvests amidst subdued domestic and regional demand. The low and stable inflationary developments during the year contributed to the Central Bank's decision to maintain an accommodative monetary policy stance to bolster economic activities. Bank of Uganda's policy rate – the Central Bank Rate (CBR) was reduced from 10 percent in the FY2019/20 to a record low of 7 percent in July 2020 and 6.5 percent in June 2021. Subsequently, commercial bank lending rates declined from an average of 20.9 percent in July 2020 to 17 percent in June 2021, which contributed to a growth of 7.1 percent in private sector lending. During the year, Uganda's exchange rate experienced appreciation pressures but remained relatively stable. The Shilling appreciated by 1.4 percent from an average of UShs 3,714.6 per US$ in FY 2019/20 to UShs 3,661 per US$ during FY 2020/21, as stronger inflows from offshore investors, budget support and export earnings countered low demand. Uganda's exports grew by 38.8

percent in FY 2020/21 following a dismal performance by -4.1 percent in FY 2019/20, buoyed by a strong coffee exports performance. Coffee exports amounted to 6.08 million 60-kg bags as government interventions in the sector yielded expected outcomes.

Remittances from Ugandans living abroad amounted to over US$ 1 billion for the second year running, while Foreign Direct Investments totaled to US$ 848 million. This contributed to a stronger external position with the rest of the world, with the overall balance of payments position recording a surplus of US$ 182.21 million in FY 2020/21. Consequently, there was a build-up in the stock of international reserves, which rose to US$ 4.1 billion as at the end of June 2021, equivalent to a cover of 4.4 months of imports of goods and services in event of an external shock.

On the fiscal front, a slower pace of economic recovery coupled with pandemic-related uncertainties hampered revenue mobilization efforts and resulted into revenue shortfalls during the year. At the same time, Government was also faced with the critical need to use fiscal policy to promote economic recovery. To protect health systems and promote private sector activity, a fiscal response stimulus package comprising of over UShs 2.4 trillion was disbursed to; the Ministry of Health, the Uganda Development Bank, the Microfinance Support Center and funds under the Presidential Initiatives on wealth and job Creation (EMYOOGA). A further UShs 844 billion was disbursed during the Financial Year towards clearing domestic arrears. Lower domestic revenues and the spending requirements to support the health sector and economic recovery contributed to a dent in public finances. As a result, the fiscal deficit increased to 9.5 percent of GDP during FY 2020/21 from 7.1 percent in FY2019/20 and was financed through external and domestic sources. The stock of public debt increased to 46.9 percent of GDP at the end of June 2021, up from 40.8 percent reported in June 2020. In-spite of the increase, Uganda's debt remains sustainable in the medium to long run. Nonetheless, the risk of debt distress has increased from low to moderate, with the major vulnerabilities to the debt outlook emerging from the sluggish progress in growing in export earnings and the increasing debt service burden.

Over the medium term, economic growth is expected to gradually rise to an average of between 6 to 7 percent, driven by increased production and productivity in agriculture and manufacturing. This growth will be supported by government interventions in improving quality of agricultural inputs, provision of extension services, efforts in irrigation and continued investments in industrial parks and economic processing zones. Long-term sources of growth are anchored on, increased private sector participation and investment, continued public infrastructure investment, as well as the take-off of the oil and gas sector. Nonetheless, the pace of vaccinations and the evolution of the virus coupled with the sluggish response of supply chains, pose significant risks to the economic outlook.

MACRO-ECONOMIC DEVELOPMENTS

Chapter I: Macro-Economic Developments

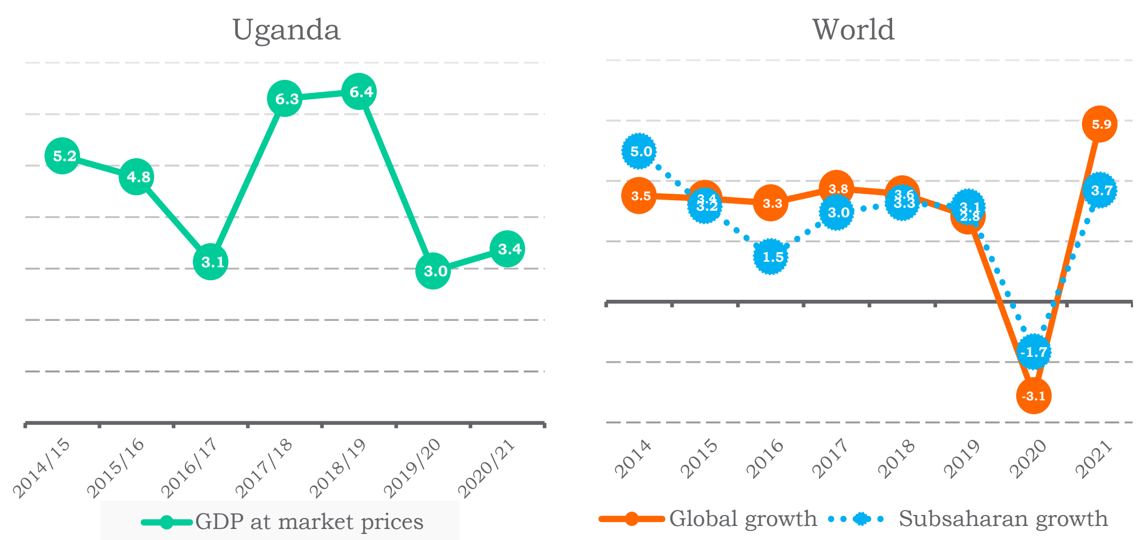
Economic Growth

Economy grew by **3.4%**

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 as shown in Figure 1. This recovery was reinforced with the fiscal measures to mitigate the impact of the pandemic on businesses and households.

The global economy is projected to grow significantly in 2021, recovering to 5.9 percent from -3.1 percent in 2020, while the pace in Sub-Saharan Africa is expected to accelerate to 3.7 percent from -1.7 percent. 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. The improvement in global trade activity positively impacted Uganda's trading activity, with exports increasing by 38.8 percent in during FY2020/21 following a contraction of -4.1 percent in FY 2019/20. At the same time, imports expanded by 34.2 percent following a contraction of -9.7 percent in the FY2019/20.

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



Source: Uganda Bureau of Statistics &International Monetary Fund

Key GDP growth drivers in FY2020/21

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 (see table 1).

Table 1: Breakdown of Economic Performance by Sector (% change)

	2016/17	2017/18	2018/19	2019/20	2020/21
GDP at market prices	**3.1**	**6.3**	**6.4**	**3.0**	**3.4**
Agriculture, forestry & fishing	**2.8**	**4.4**	**5.3**	**4.8**	**3.8**
Cash crops	9.4	5.9	4.7	7.8	7.7
Food crops	2.2	8.6	1.6	4.6	4.1
Livestock	7.0	7.1	7.3	7.9	7.8
Fishing	-7.8	-25.2	39.2	0.3	-8.8
Industry	**6.8**	**4.8**	**9.0**	**3.2**	**3.4**
Mining & quarrying	32.7	-4.0	17.5	16.5	6.0
Manufacturing	3.6	4.6	7.7	1.3	2.2
Electricity	9.8	5.4	2.5	10.9	11.3
Construction	11.7	7.6	14.2	3.8	3.3
Services	**0.1**	**8.5**	**5.8**	**2.5**	**2.7**
Trade and Repairs	-1.3	7.5	4.9	-1.3	-0.7
Transportation and Storage	2.3	11.3	0.8	-1.7	-0.3
Accommodation and Food Service	19.7	10.7	0.5	-8.6	-0.6
Information and Communication	19.0	10.4	-6.8	19.6	11.8
Financial and Insurance Activities	-4.1	2.3	11.1	9.6	8.0
Real Estate Activities	1.6	11.6	10.1	5.1	3.9
Public Administration	18.6	9.5	4.2	16.2	12.6
Education	-10.3	6.9	9.1	-2.0	-4.2
Human Health and Social Work	0.0	16.8	5.3	1.0	7.1
Arts, Entertainment, Recreation	29.7	65.7	22.1	-8.1	-13.7
Taxes on products	**10.9**	**4.4**	**4.4**	**-1.6**	**6.2**

Source: Uganda Bureau of Statistics

The services sector – the largest contributor to GDP expanded by 2.7 percent as compared to 2.5 percent the previous year, following increased health and related activities. The health sub-sector grew by 7.1 percent during the year as compared to 1.0 percent the previous year. In addition, there were strong performances registered in financial services, information and communication, public administration, and real estate activities. These offset the weakened pace of activities in education, hotel and accommodation, transport, trade and entertainment subsectors that continued to be affected by the pandemic-related restriction measures.

There was a modest increase in the pace of activities in the industry sector to 3.4 percent during FY2020/21 following an increase of 3.2 percent the previous financial year. This performance was supported by a recovery in manufacturing output which rose by 2.2 percent during the year as compared to 1.3 percent the previous year and was largely on account of increased production of processed and preserved meat, manufactured tea, sugar, paint and plastic products. In addition, there was strong growth in the electricity sub-sector following increased power supply to meet demand under the rural electrification program and the on-going industrial drive.

The performance in agriculture, forestry and fishing sector slowed by a percentage point to 3.8 percent during the year, following a significant decline in the fishing sub-sector. Fishing and related activities declined by 8.8 percent during the year from a growth of 0.3 percent the previous year and was attributed to the impact of curfew and related lock-down measures. On the other hand, government interventions through the provision of quality inputs such as seedlings, pesticides, fertilizers, irrigation systems and extension services, among others coupled with favourable weather conditions contributed to strong yields in food and cash crops, and livestock, whose output rose by 4.1 percent, 7.7 percent and 7.8 percent, respectively. Within the food crop sub-sector, there was an increase in production of bananas (matooke), beans, sorghum, and cassava, while stronger outputs of robusta coffee, cocoa, tea and flowers contributed to the cash crop sub-sector performance.

Employment

According to the National Household Survey FY2019/20, the unemployment rate reduced from 10 percent in FY2016/17 to 9 percent in FY2019/20. In the survey, the size of the labour force was estimated at 9.1 million, out of which 58 percent were male. Majority of the working population (52 percent) were in wage employment followed by employment in subsistence agriculture at 47 percent.

The results revealed a pandemic-related shift in employment dynamics, with the proportion of the working age population that were employed having reduced from 60 percent in FY2016/17 to 52 percent FY2019/20. The survey also notes an increase in the proportion of households that were engaged in subsistence agriculture between the two periods. An update to the labour survey concluded that the percentage of working persons in formal employment declined from 57 percent prior to March 2020 to 47 percent post-March 2021. At the same time, the percentage of persons working in subsistence agriculture increased from 41 percent prior to March 2020 to 52 percent after March 2021. The adverse impact of the pandemic on employment is further demonstrated in results from a business survey carried out by the Economic Policy Research Centre (EPRC) in March 2021, which indicate a sharp contraction in employment across all sectors following the first lockdown in March 2020, with the services sector as the most affected. Based on the sample of firms surveyed, total employment reduced by 44 percent from 3,094 in the quarter October-December 2019 to 1,746 in the quarter April-June 2020. At the start of the FY2020/21, there was a recovery in employment due to easing of restriction measures in some sectors, but the pace remained slow due to the pandemic-related uncertainties. Between June 2020 and February 2021, the number of people finding jobs increased by an average of 2.4 percent per month and reached 2,078 at the end of the period.

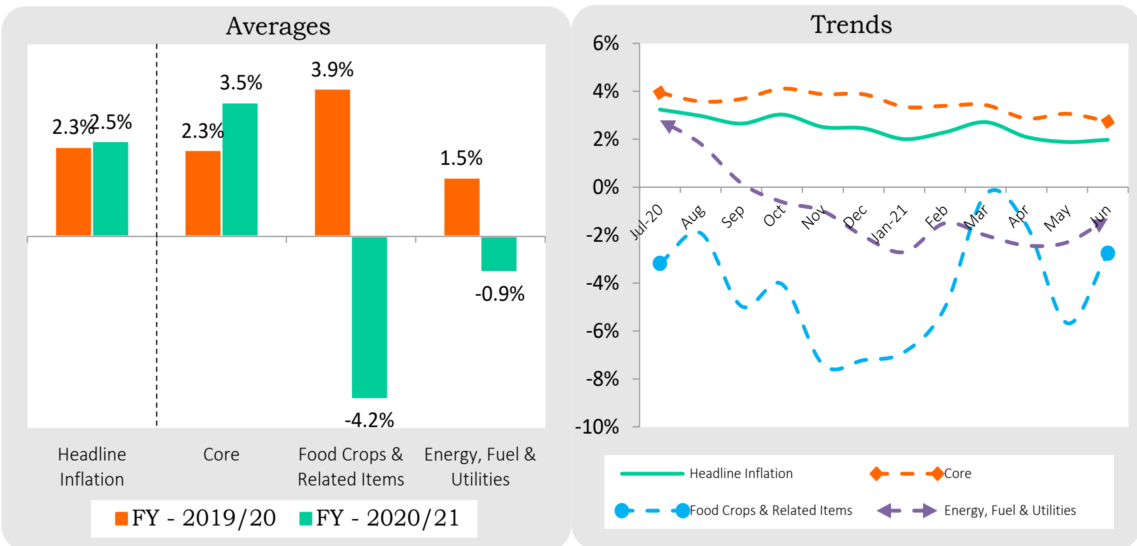
Inflation

Headline Inflation rose to **2.5%**

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 impact of 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 inflation 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 (see figure 2). 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).

Figure 2: Annual Inflation broken down by Sub-Components



Source: Uganda Bureau of Statistics

Sub-components of headline inflation.

Core inflation increased to an average of 3.5 percent during FY2020/21 up from 2.3 percent in the year 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. As shown in Table 2, all categories of transport fares rose significantly when compared to the previous financial year.

Table 2: Average Inflation in Categories of Transport Fares

	FY 2019/20	FY 2020/21
Bus Fare Long distance (over 100 KM)	-0.5%	66.1%
City Bus Transportation	9.1%	128.3%
Taxi Fares- Long distance (over 100 KM)	2.0%	69.1%
Taxi Fares - Medium Distance (51-100 KM)	4.9%	65.9%
Taxi Fares - Short distance (less than 50 KM)	7.2%	92.7%
Taxi Fares - Special Hire	2.4%	36.1%
School transport Fares	0.2%	8.4%
Motorcycle Fares	5.4%	10.1%

Source: Uganda Bureau of Statistics

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. The decline in food crop prices 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. This 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.

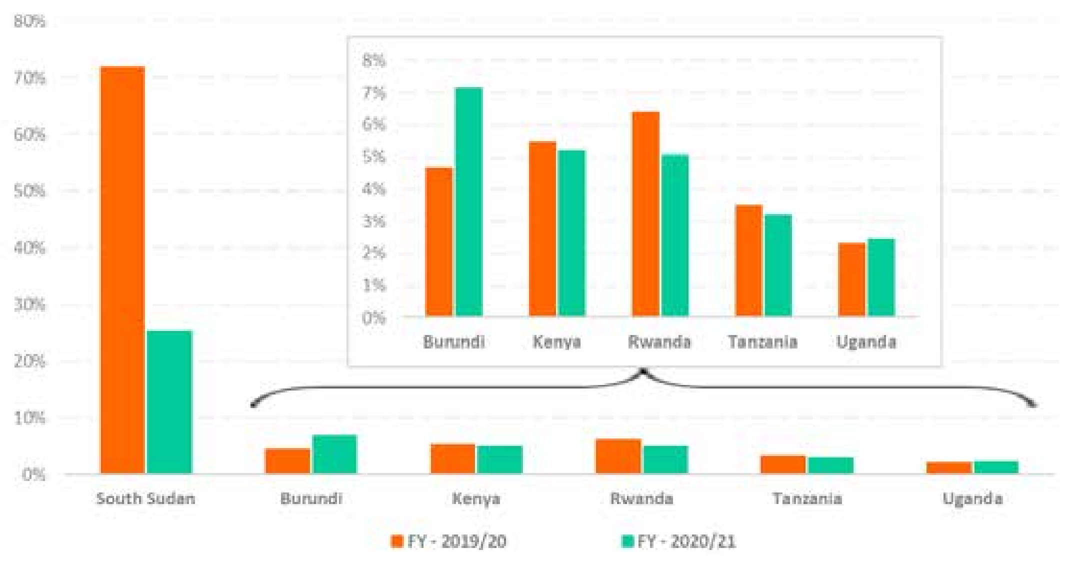
Energy Fuel and Utilities inflation also contracted by an average of 0.9 percent in FY2020/21 from an average increase of 1.5 percent in the previous year and was mainly attributed to a reduction in prices of solid fuels i.e., firewood and charcoal due to low demand arising in particular from the closure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

Inflation across the East African Community

Except for Burundi and Uganda, there was a slow-down in inflation across the EAC region during the FY2020/21. 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, as indicated by Figure 3.

Figure 3: Annual Headline Inflation among EAC Partner States



Source: Respective National Bureaux of Statistics

Global Commodity Price Trends

International Oil Prices

The international price of brent crude oil was on an upward trend for most of the financial year 2020/21 and averaged US$ 51.8/barrel from US$ 46.8/barrel in the previous year (see Figure 4). Having remained relatively stable in the first half of the Financial Year, the price rose sharply in the second half to US$ 65.1/barrel in May before peaking at US$ 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.

International Coffee Prices

At the same time, the International Coffee Organization's (ICO) composite price indicator trended upwards to an average of 118.1 from an average of 104.0 in FY2019/20, as shown by Figure 4. Prices of coffee rose substantially, particularly the Arabica categories during the months of May and June 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.

Figure 4: Movements in the International Oil Prices and Coffee Composite Price Indicator, FY 2019/20 vs FY 2020/21

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

Financial Sector Developments

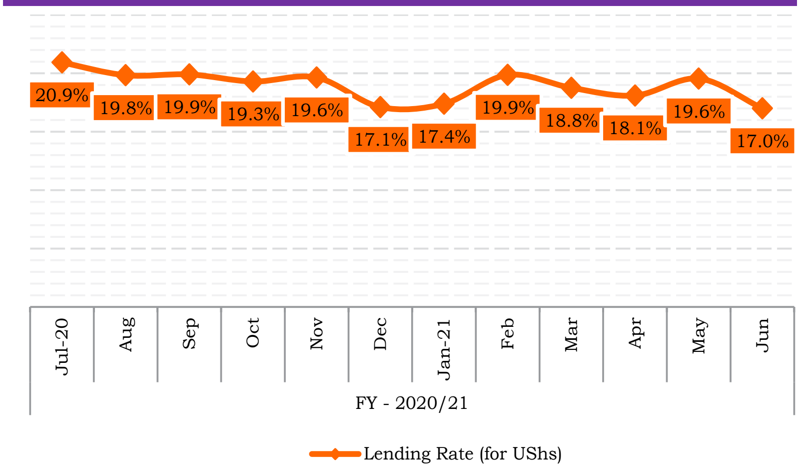
The accommodative monetary policy stance experienced throughout FY2020/21 was anchored on subdued inflation expectations and the urgent need to support recovery in economic activity. Consequently, the Central Bank Rate remained unchanged for most of the year, at 7 percent, and was revised downwards to 6.5 percent in June 2021 – its lowest level. This policy stance ensured availability of liquidity in the markets and supported economic activity.

Lending Rates

average Commercial bank lending rate of 18.9%

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. On a FY basis, lending rates averaged 18.9 percent in FY2020/21 down from 19.3 percent the previous financial year. Figure 5 shows the trend in commercial bank lending rates in FY2020/21.

Figure 5: Commercial Bank Lending Rates

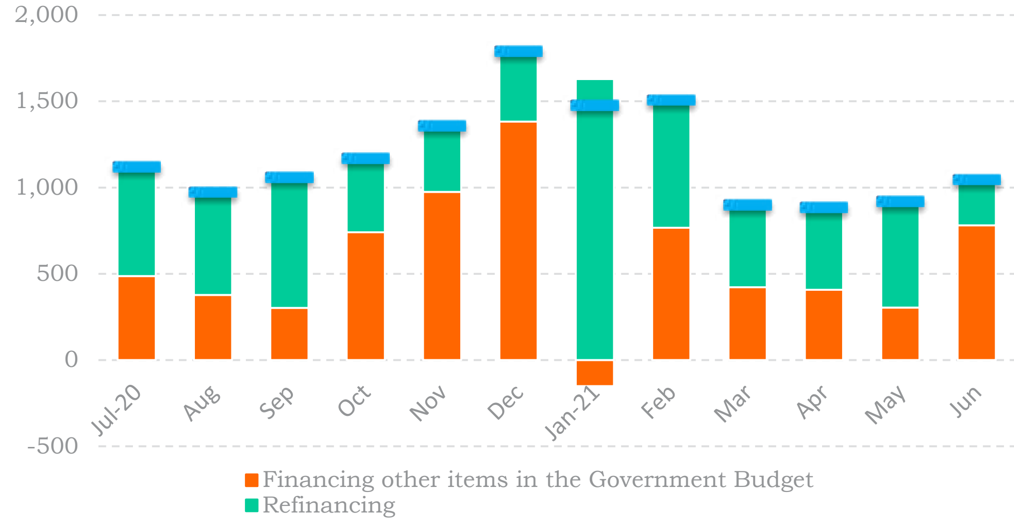


Source: Bank of Uganda

Government Securities

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, as shown by Figure 6.

Figure 6: Breakdown of Government Securities in Billion UShs



Source: Ministry of Finance, Planning and Economic Development

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.

a) 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.

b) Introduction of a 20-year tenor to further reduce the re-financing risk.

Yields (interest rates) on Treasury Bills

In line with market developments, yields across all the Treasury bills (T-bills) tenors decreased during FY2020/21. The average annualised yields during the year were recorded at 7.8 percent, 10.1 percent and 12.0 percent for the 91-day, 182-day and 364-day tenors, respectively, as compared to 9.2 percent, 10.9 percent, and 12.2 percent for the same instruments in FY2019/20.

Demand for government securities was particularly high given the excess liquidity in the money markets and this contributed to a decrease in yields. With excess liquidity and heightened pandemic-related risks, commercial banks preferred to invest in safer government securities rather than lend to the private sector. In addition, the relatively higher rates attracted offshore investors into the domestic securities market which increased the downward pressure on in yields. The attraction towards the domestic securities by off-shore players arose from the investment down-grading of peer emerging and developing countries by rating agencies, with many considered at high risk of debt default due to the impact of global pandemic. During the year, holdings by offshore investors increased from 5.98 percent of the domestic debt stock to 11.34 percent. Table 3 shows the average annualised yields on Treasury Bills since FY 2016/17.

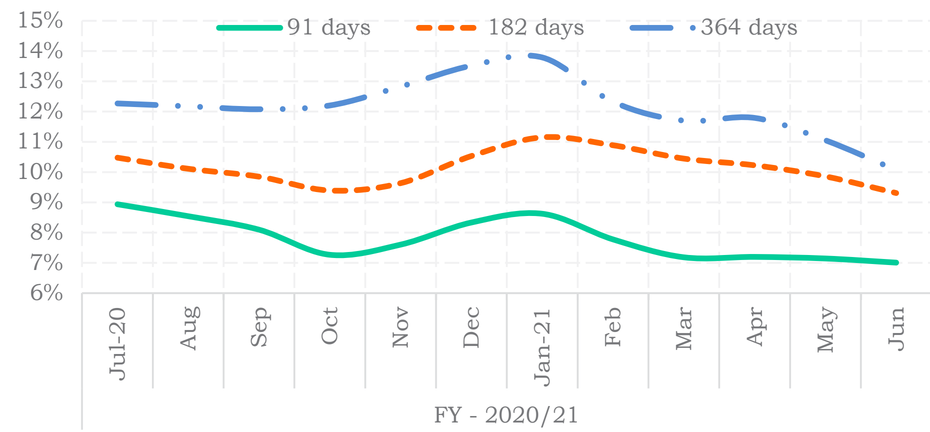
Table 3: Average Annualised Yields on Treasury Bills (%)

	2016/17	2017/18	2018/19	2019/20	2020/21
91 Days	13.1	9.3	10.2	9.2	7.8
182 Days	14.0	9.8	11.6	10.9	10.1
364 Days	15.0	10.7	12.6	12.2	12.0

Source: Bank of Uganda

Figure 7 shows the trend in FY 2020/21.

Figure 7: Movement of Treasury Bill Yields (interest rates)



Source: Bank of Uganda

Lending to the Private Sector

Private Sector Credit

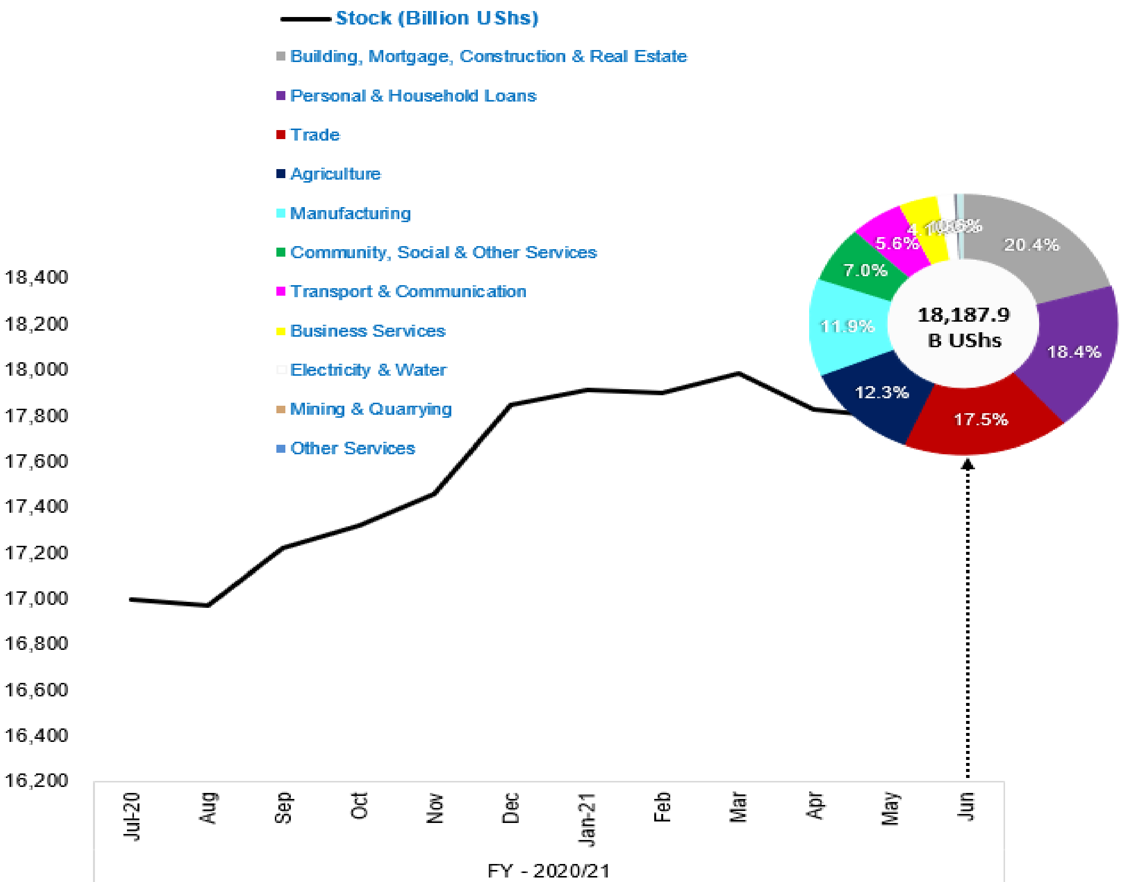
grew by

7.1%

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 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 FY 2020/21. 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. Figure 8 shows the trend in the stock of private sector credit.

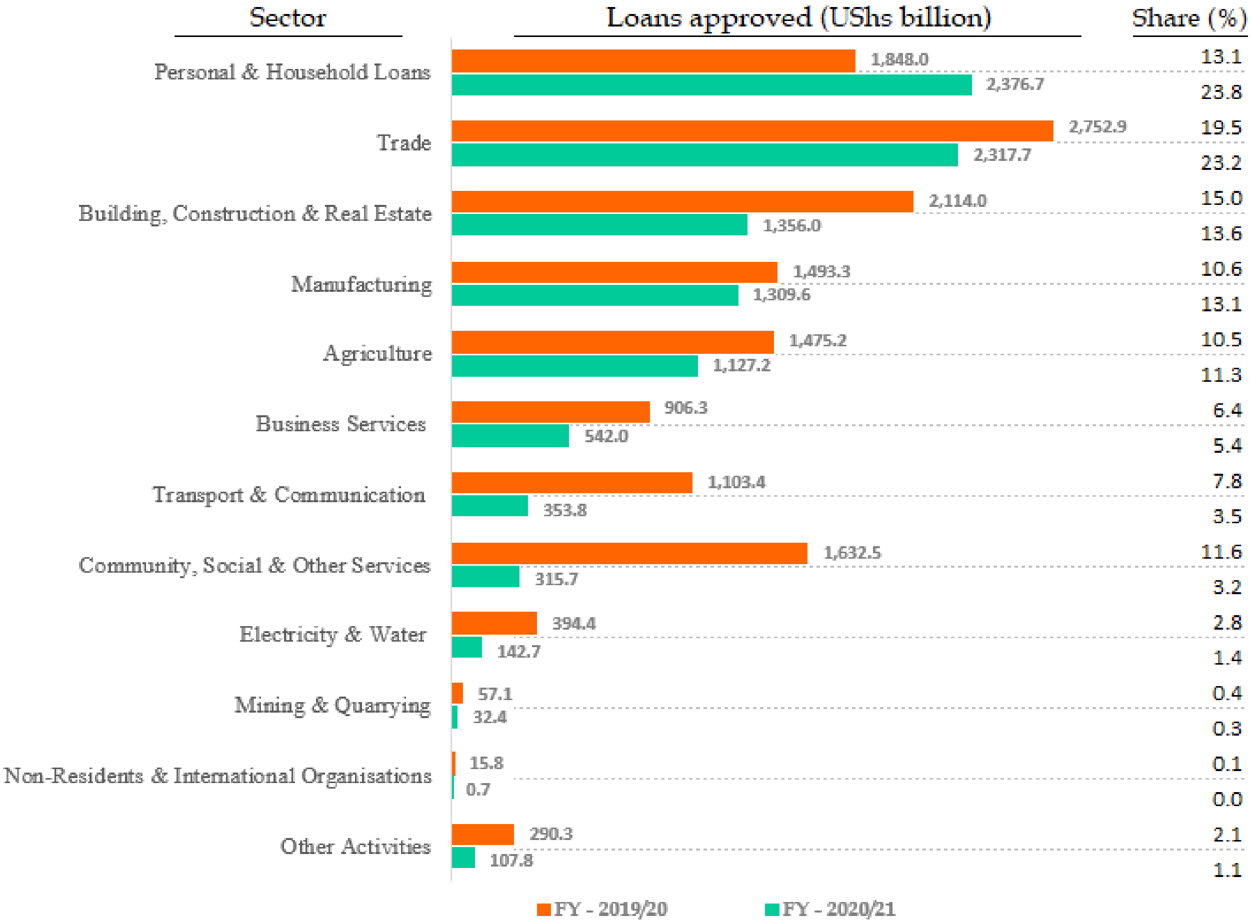
Figure 8: Stock of Private Sector Credit



Source: Bank of Uganda

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), as shown by Figure 9.

Figure 9: Value of New Loans Approved by Sector

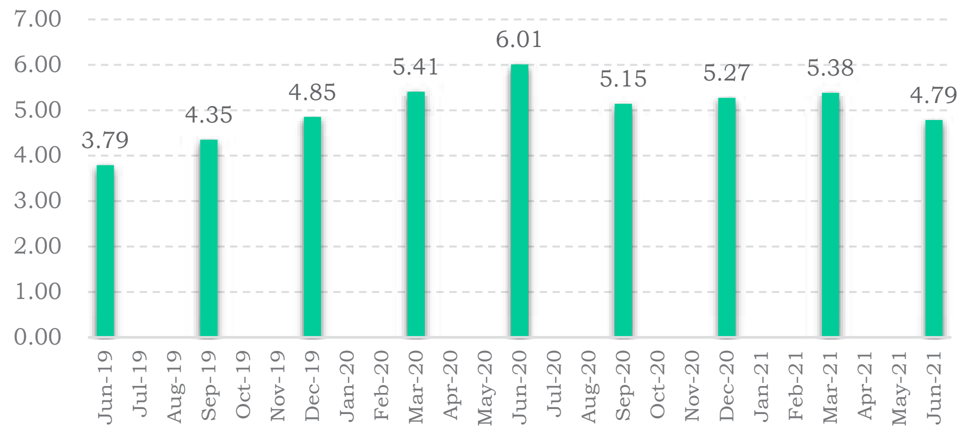


Source: Bank of Uganda

Non-Performing Loans (NPLs)

NPLs to total gross loans gradually declined from 6.01 percent at end June 2020 to 4.79 percent by end June 2021. The decline in NPLs, amidst pandemic-related uncertainties, was largely explained by the strategic monetary interventions in the form of debt rescheduling to support struggling debtors. Nonetheless, significant risks and uncertainties related to the pace and timing of the economic recovery prevailed within the credit markets throughout the financial year 2020/21. The virus containment measures undermined economic activity and affected the ability of borrowers to service loans.

Figure 10: Movement of NPLs between June 2019 to June 2021



Source: Bank of Uganda

Exchange Rate

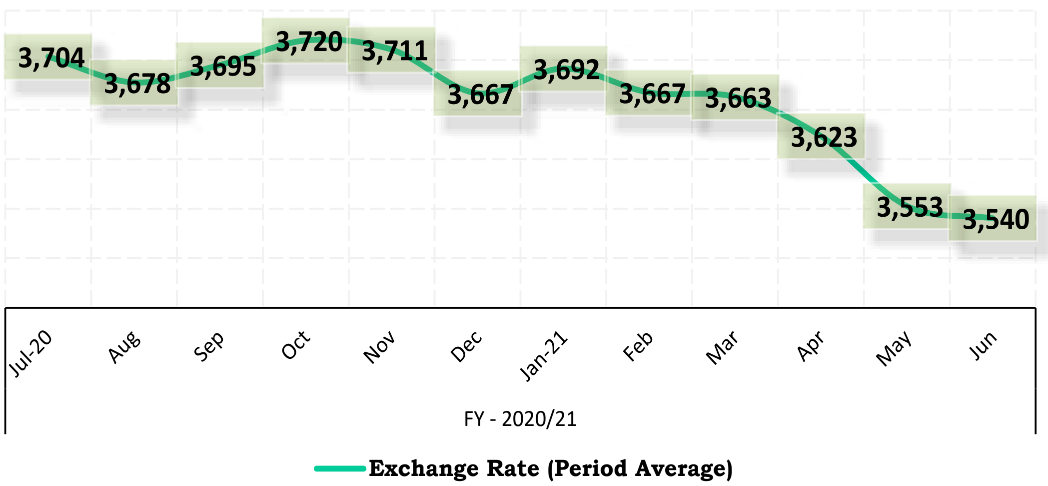
Shilling appreciated

by **1.4%** **per US$** to **3,661**

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. Figure 11 shows the trend in the monthly rates of the Shilling against the US dollar between July 2020 and June 2021.

Figure 11: Exchange Rate Movement of UShs against US$

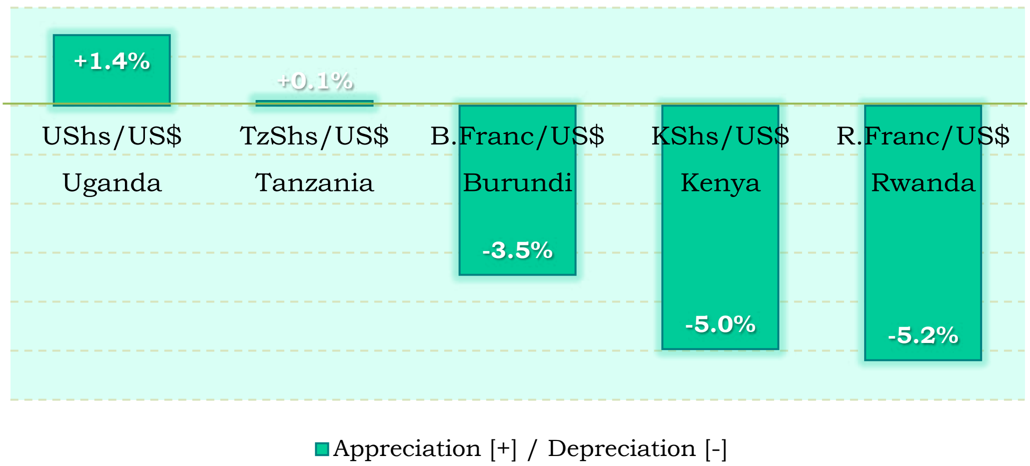


Source: Bank of Uganda

Exchange Rates within the EAC

The currencies in Kenya, Burundi and Rwanda currencies 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 (see Figure 12).

Figure 12: Change in Exchange Rates (Period Average) in EAC for 2020/21 Vs 2019/20



Source: Respective Central Banks
Note: Exchange Rate data for South Sudan was not available

External Sector

The financial year 2020/21 showed improved trade activity, as global trade conditions improved following easing of pandemic-related lock-down measures in many countries. The rebound in global demand contributed to a recovery in Uganda's exports, which rose by 38.8 percent in comparison to last financial year. Coffee performed particularly strongly, recording 6.08 million 60-kg bags exported. This represents the highest level achieved of exports and is the result of the various government strategic interventions in the sector. During the financial year, Uganda's imports grew by 34.2 percent as compared to the previous year, as private sector demand for imports rebounded and supply-chains improved. The value of imports exceeded earnings from the export sector and contributed to a widening of the trade deficit.

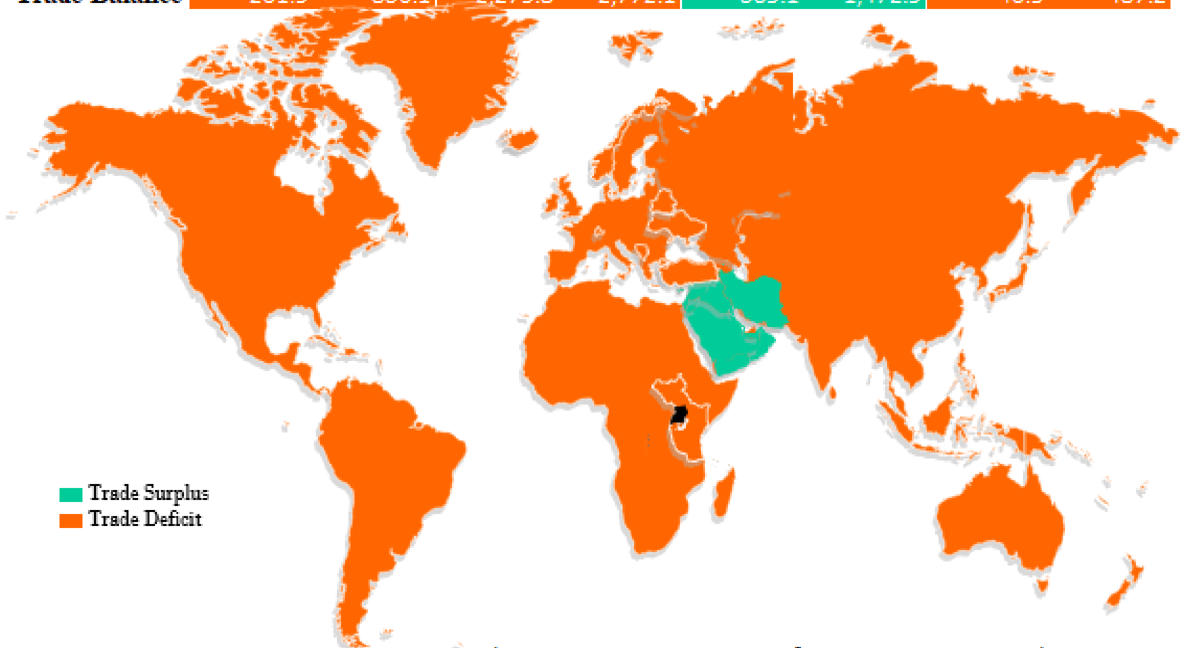
Merchandise Trade Balance

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 FY 2019/20.

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

Figure 13: Uganda's Trade Balance across Regional Blocs in 2020/21 (US$ Million)

	EAC		Asia		Middle East		Rest of Africa	
	FY-19/20	FY-20/21	FY-19/20	FY-20/21	FY-19/20	FY-20/21	FY-19/20	FY-20/21
Total Trade	2,405.1	3,377.8	2,805.7	3,305.0	2,048.6	3,123.0	1,317.3	2,009.8
Trade Balance	-201.5	-836.1	-2,275.8	-2,772.1	309.1	1,472.9	-40.5	-487.2



	European Union		The Americas		Rest of Europe		Others	
	FY-19/20	FY-20/21	FY-19/20	FY-20/21	FY-19/20	FY-20/21	FY-19/20	FY-20/21
Total Trade	1,018.2	1,336.3	276.2	255.1	133.6	170.4	12.2	39.1
Trade Balance	6.8	-209.4	-155.6	-135.6	-52.7	-64.8	-7.1	-36.1

Source: MOFPED calculations based on data from BOU

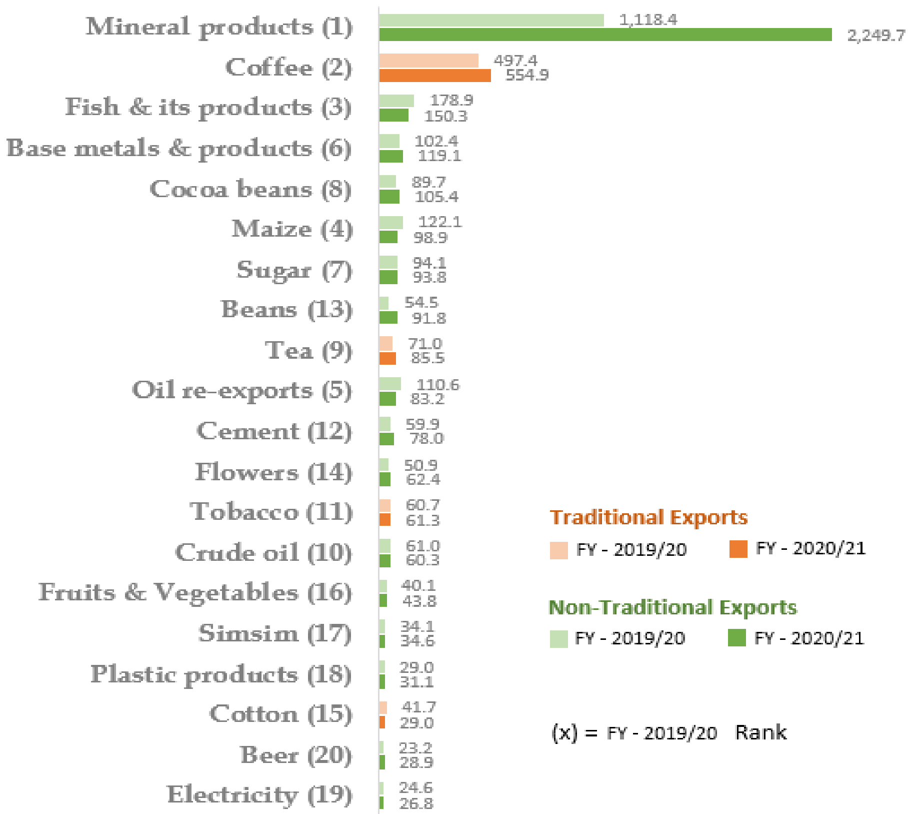
Note: Total Trade is equal to merchandise exports plus merchandise imports, and Trade Balance is equal to merchandise exports minus merchandise imports

Merchandise Exports

Exports 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 FY 2019/20 to US$ 5,274 million in FY 2020/21. 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 FY 2019/20 to US$ 3,024.3 million in FY 2020/21. Figure 14 shows notable export products during the period under review.

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



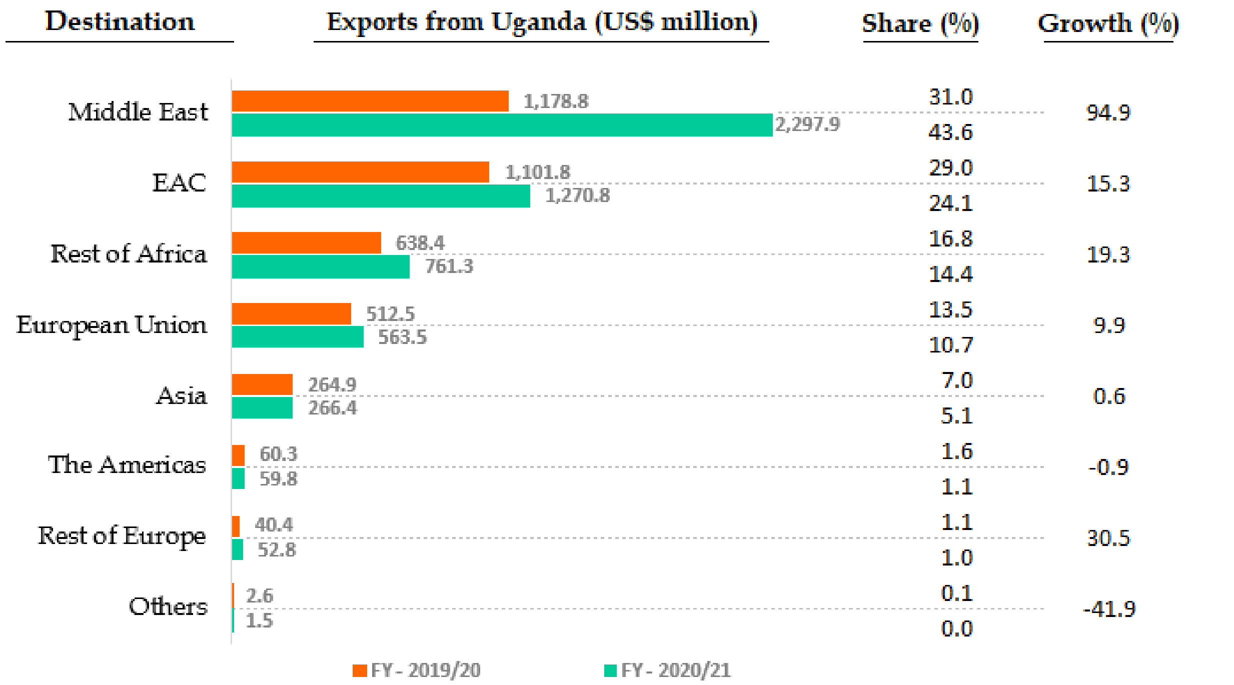
Source: MOFPED calculations based on data from BOU
Note: ( ) – denotes the rank of the commodity in the previous year
Traditional Exports are listed according to the Uganda Trade Policy

Destination of Exports

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.

Figure 15: Destination of Uganda's Exports to different Regional Blocs



Source: MOFPED calculations based on data from BOU

By country, the United Arab Emirates remained the largest destination of Uganda's exports and accounted for US$ 2,268.5 million; followed by Kenya with US$ 617.3 million and Democratic Republic of Congo with US$ 559.2 million.

Merchandise Imports

Imports increased by **34.2%**

The import bill increased by 34.2 percent to US$ 8,342.4 million during FY2020/21 following a contraction by 9.7 percent in FY2019/20. The increase in the import bill is attributed to higher non-oil formal private sector imports (see Table 4).

The increase in imports was reflected across both government and private sector, with exception of non-project Government imports and formal private sector imports, that registered minimal declines. 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. lockdown

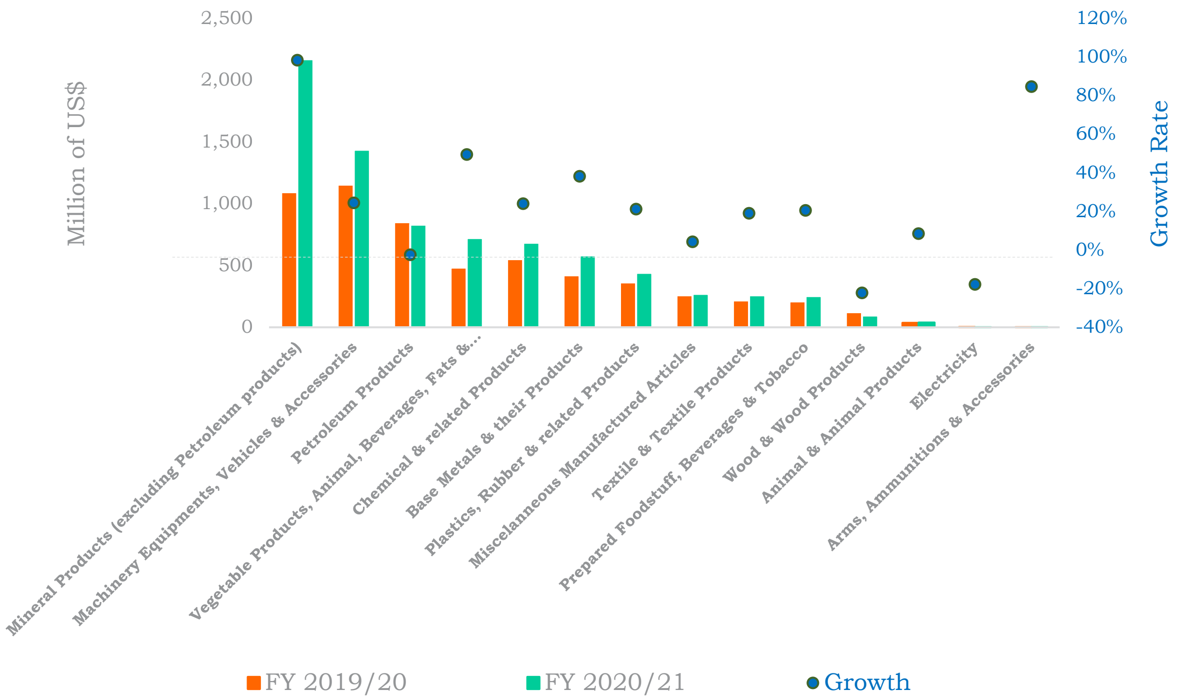
Table 4: Performance of Imports in US$ million

	FY 2019/20	FY 2020/21	Difference (value)	Growth Rate
Total Imports (fob)	6,217.0	8,342.4	2,125.4	34.2%
Government Imports	405.1	510.6	105.5	26.1%
Project	388.3	499.8	111.5	28.7%
Non-Project	16.8	10.9	-6.0	-35.5%
Formal Private Sector Imports	5,763.4	7,782.8	2,019.4	35.0%
o/w Oil imports	850.5	830.3	-20.2	-2.4%
o/w Non-oil imports	4,912.9	6,952.5	2,039.6	41.5%
Estimated Private Sector Imports	48.5	49.0	0.4	0.9%
Total Private Sector Imports	5,812.0	7,831.8	2,019.8	34.8%

Source: Bank of Uganda

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. The major formal private sector imports included mineral products (US$ 2,169.2 million); machinery equipment, vehicles & accessories (US$ 1,436.6 million); and petroleum products (US$ 830.3 million), as shown in the Figure 16.

Figure 16: Composition of Formal Private Sector Imports by Category

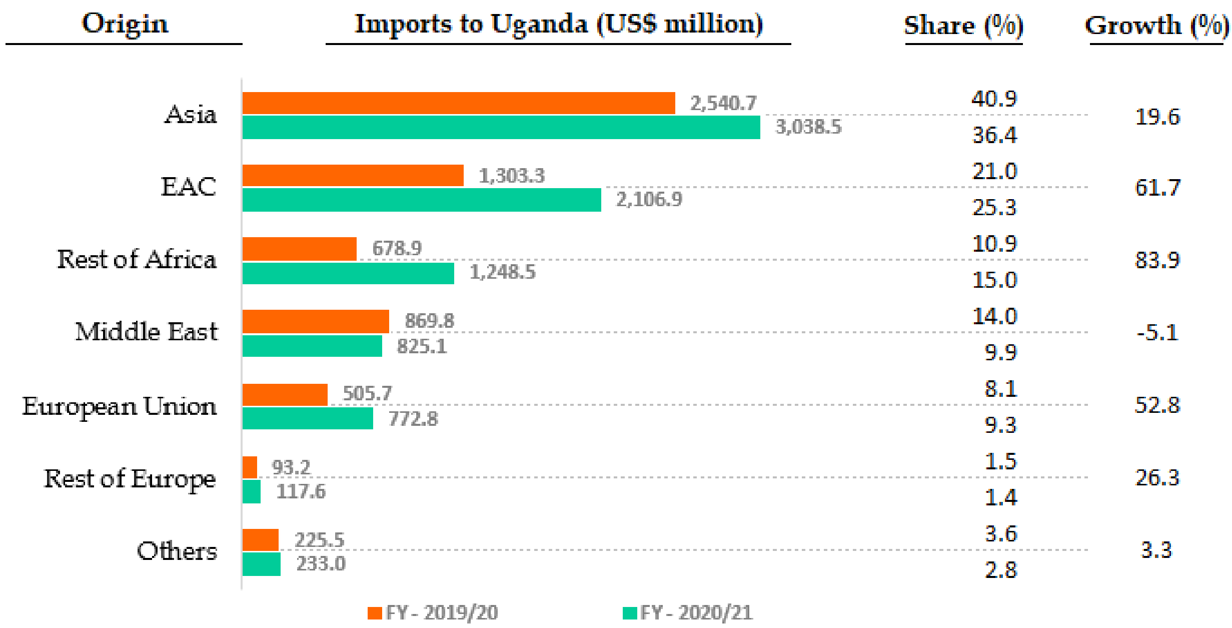


Source: Bank of Uganda
Note: Commodity category is according to the Harmonised Coding System, (BOU)

Origin of Imports

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 (see Figure 17). 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 *Rest of Africa, EAC and the EU,* with Uganda increasing imports of mineral products from the first two.

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



Source: MOFPED calculations based on data from BOU

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.

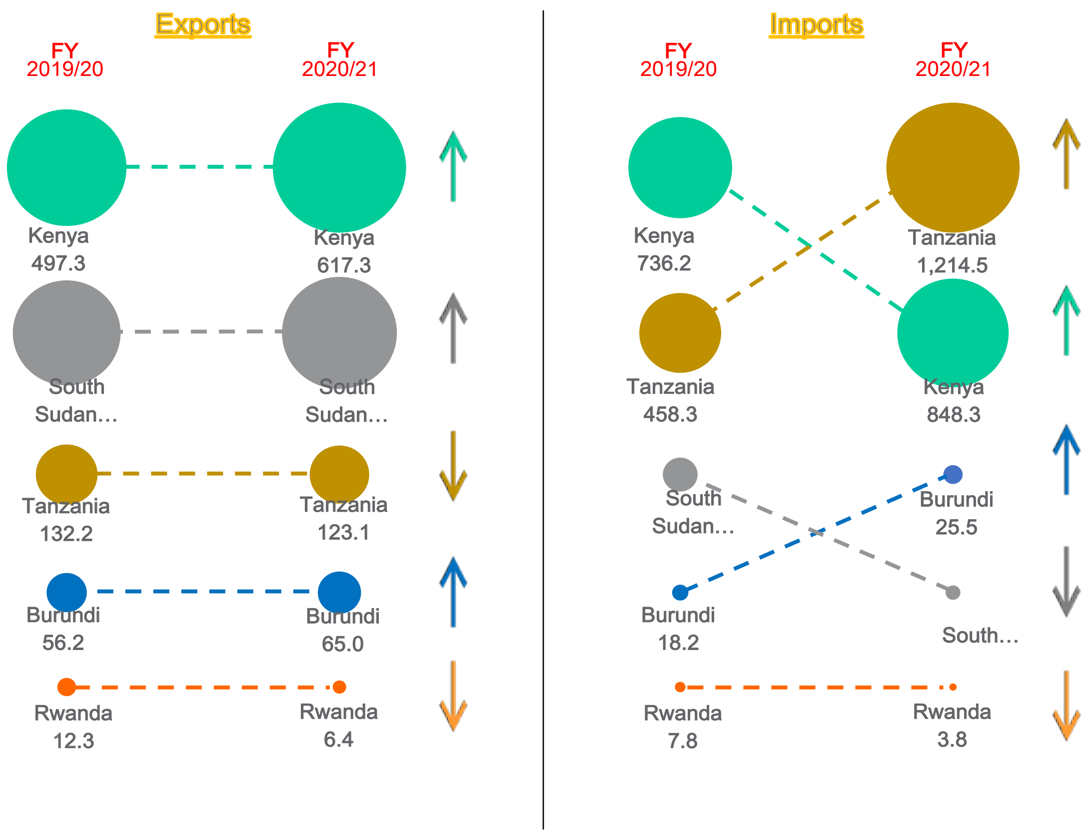
Trade with the EAC

Uganda's trade with the EAC resulted in a larger deficit compared 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 FY 2019/20 to US$ 2,106.9 million in FY 2020/21, 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. Figure 18 shows Uganda's exports and imports to the region in the last two financial years.

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



Source: Bank of Uganda

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 (see Figure 18). In terms of imports, Tanzania and Kenya accounted for 98 percent of the total.

Other key Balance of Payments (BOP) transactions

Overall Balance of Payments: In FY2020/21, the external sector strengthened resulting in an overall balance of payments surplus of US$ 182.21 million. A strong surplus on financial account more than offset the deficits on trade and service activities, and weaker foreign direct investment flows. The surplus on the financial account increased by 53 percent to US$ 3,244 million during FY2020/21 and is attributed to increased capital inflows in form of budget support loan disbursements coupled with a portfolio investment in the government securities market. At the end of June 2021, the stock of reserves stood at US$ 4,139.69 million, equivalent to 4.7 months of future imports of goods and services.

International Tourism/Travel: Tourism earnings during the FY2020/21 were recorded at US$ 639.32 million, representing a 32.7 percent decline relative to FY2019/20 levels. The sector which was hit-hard in the second half of FY2019/20 at the on-set of the pandemic-related travel restrictions, began to recover in FY2020/21. Sector earnings increased to US$ 101.88 million in the fourth quarter of last financial year from no earnings in the corresponding quarter in FY2019/20, as Uganda relaxed some travel restrictions.

Remittances: Despite the impact of the pandemic, remittances remained buoyant and slightly declined from US$ 1,291.65 million in FY2019/20 to US$ 1,102.03 million in FY2020/21. Remittances were affected by a fall in incomes of migrant workers due to loss of employment and weak economic growth in migrant-hosting countries.

Foreign Direct Investment: During the year, foreign direct investment inflows into Uganda fell by 12.4percent to US$ 847.77 million in 2020/21 compared to FY 2019/20, as pandemic-related uncertainties continued to subdue investor sentiments.

FISCAL PERFORMANCE

Chapter II: Fiscal Performance

Overview

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 9.5[1] percent of GDP. Table 5 shows a summary of fiscal operations for the FY2020/21.

Fiscal
deficit

9.5% of
GDP

[1] The figure includes HPIC. Otherwise excluding HPIC it's 9.8%.

Table 5: Fiscal Operations of the FY 2020/21 (UShs Billion)

	FY 2020/21 Budget	FY 2020/21 Outturn	FY 2020/21 Performance	Deviation from Budget
Total Revenue and Grants	**23,529.6**	**21,238.8**	**90.3%**	**-2,290.8**
Revenue	21,810.7	19,838.8	91.0%	-1,971.9
Tax	20,218.7	18,336.8	90.7%	-1,881.9
Non-Tax	1,591.0	1,361.0	85.5%	-230.0
Oil revenues	-	141.0	-	141.0
Grants	1,719.9	1,400.0	81.4%	-319.9
Budget support	133.6	74.8	56.0%	-58.8
Project support	1,586.3	1,325.2	83.5%	-261.2
Expenditure and Lending	**36,563.1**	**35,802.4**	**97.9%**	**-760.7**
Recurrent expenditures	17,627.1	19,156.6	108.7%	1,529.5
Wages and salaries	5,082.2	5,180.5	101.9%	98.3
Non-wage	8,495.4	9,986.4	117.6%	1,491.1
Interest payments	4,049.5	3,989.7	98.5%	-59.9
o/w domestic	3,061.3	3,020.0	98.6%	-41.4
o/w foreign	988.2	969.7	98.1%	-18.5
Development expenditure	17,184.5	15,160.5	88.2%	-2,024.0
External	8,695.6	5,478.6	63.0%	-3,217.0
Domestic	8,488.9	9,681.9	114.1%	1,193.0
Net lending & investment	1,302.4	640.9	49.2%	-660.5
o/w HPP	819.7	159.2	19.4%	-660.5
o/w BOU Recapitalization	481.7	481.7	100.0%	0.0
Arrears	450.0	844.4	187.6%	394.4
Overall Fiscal Bal. (incl. Grants)	-13,033.5	-14,563.6	111.7%	-1,530.1
Overall balance (Excl. Grants)	-14,753.4	-15,963.6	108.2%	-1,210.2
Financing:	**13,033.5**	**14,563.6**	**111.7%**	**1,530.1**
External financing (net)	9,473.1	6,487.9	68.5%	-2,985.2
Disbursements	10,702.1	7,441.7	69.5%	-3,260.4
Budget support	2,773.1	3,322.2	119.8%	549.1
Project support	7,929.0	4,119.5	52.0%	-3,809.5
Amortization	-1,228.9	-953.7	77.6%	275.2
Domestic financing (net)	3,560.3	7,457.0	209.4%	3,896.7
Bank financing	2,033.2	2,422.6	119.2%	389.4
Non-bank	1,527.1	5,034.5	329.7%	3,507.4
Errors and omissions	0	618.7		618.6

Source: Ministry of Finance, Planning and Economic Development

Revenues and Grants

Revenues and grants increased by a projected 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.

Domestic Revenues

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 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.

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 containment measures resulted to job and wage losses, lower profitability and dampened real estate sector activities. At the same time, the fall in aggregate demand during the year negatively affected consumption-related domestic taxes. 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.

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, including the Electronic Fiscal Receipting and Invoicing System (EFRIS), and rental income tax solution. Table 6 shows the breakdown of domestic revenues in the Financial Year 2020/21.

Table 6: Details of Domestic Revenue in UShs Billion

	Budget 2020/21	Collections 2020/21	Variance	Outturn vs Target
Overall Net Revenues	**21,810.7**	**19,838.8**	**(1,971.9)**	**91.0%**
Tax Revenue	**20,219.7**	**18,336.8**	**(1,882.9)**	**90.7%**
Direct Domestic Taxes	7,494.1	6,619.4	(874.7)	88.3%
o/w-PAYE	3,424.7	3,109.1	(315.5)	90.8%
-Corporate Tax	1,807.6	1,567.6	(239.9)	86.7%
-Withholding Tax	1,250.4	1,119.0	(131.4)	89.5%
-Rental Income Tax	285.6	117.2	(168.3)	41.1%
-Treasury bills & bonds	507.2	482.6	(24.6)	95.1%
Indirect Domestic Taxes	5,028.6	4,472.9	(555.7)	88.9%
Excise duty:	1,735.0	1,480.0	(255.0)	85.3%
Value Added Tax (VAT):	3,293.6	2,992.9	(300.7)	90.9%
Taxes on International Trade	8,001.3	7,505.9	(495.5)	93.8%
o/w -Petroleum duty	2,435.0	2,453.4	18.4	100.8%
-Import duty	1,574.9	1,403.1	(171.7)	89.1%
-Excise duty	225.1	185.3	(39.7)	82.3%
-VAT on Imports	2,940.2	2,832.5	(107.8)	96.3%
Tax Refunds	(400.9)	(386.9)	14.0	96.5%
Stamp and Embossing Fees	96.5	125.5	29.0	130.0%
Non-Tax Revenues	**1,591.0**	**1,361.0**	**(230.0)**	**85.5%**
Oil Revenue	-	141.0	141.0	-

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

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.

Grants

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.

Expenditure

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[2] 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

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

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.

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.

Public Debt

Total nominal public debt as a share of GDP is estimated to have increased from 40.8 percent in June 2020 to 46.9[3] 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.

Compliance with the Charter for Fiscal Responsibility

FY2020/21 was the last year of implementing the first Charter for Fiscal Responsibility whose objective was to anchor fiscal policy on maintaining fiscal

3 This figure is an outturn and is a reduction from the previous projection of 49.9 percent from the DSA conducted in December 2020. The lower outturn is on account of lower-than-expected external debt disbursements as well as a significant appreciation of the exchange rate, which reduced the shilling value of the country's external debt.

and debt sustainability over the period FY2016/17 – FY2020/21. The Charter set out the following measurable fiscal targets.

(i) Overall fiscal balance (including grants) is reduced to a deficit of no greater than 3 percent of GDP by FY2020/21, consistent with the Performance Convergence Criteria under the EAC Monetary Union Protocol.
(ii) Public debt in net present value terms is maintained below 50 percent of GDP; of which the net present value of external debt is maintained below 30 percent of GDP and the net present value of domestic debt maintained below 20 percent of GDP.

The onset of the Covid-19 pandemic proved very challenging and severely disrupted efforts to meet the objective on the fiscal balance. The global and domestic response measures have adversely affected the pace of economic activities and dented public finances resulting in higher fiscal deficits.

Despite the significant widening of the fiscal deficit, the target on public debt was met as the debt to GDP ratio in net present value is estimated at 39.3 percent of GDP for FY2020/21, which is below the ceiling of 50 percent required in the Charter. The present value of domestic debt was estimated at 17.2 percent while that of external debt was at 22.1 percent.

The second Charter for Fiscal Responsibility for the period FY2021/22 – FY2025/26 has been prepared and submitted to Parliament for approval. The new Charter anchors fiscal policy on achieving and maintaining fiscal and debt sustainability and draws lessons from the performance of the previous Charter.

Performance of the 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.

Spending on Contingency Fund

Section 18 (1) (d) of the Public Finance Management (PFM) Act 2015 requires a report on spending on the Contingencies 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.

The withdrawal from the Contingencies Fund complied with the PFMA 2015 requirements of accessing resources from the Contingencies Fund.

Virement report

The complete report on virement is provided in the budget performance report. However, an extract presenting available information when compiling this report is attached in the annex section.

Donations by Vote

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 as shown in the Table 7.

Table 7: Donations by Vote (UShs billion)

Vote Code	Vote Name	Budget	Release	Spent
002	State House	143.019	149.641	149.641
003	Office of the Prime Minister	4.725	4.043	4.042
101	Judiciary	0.004	0.004	0.001
103	Inspectorate of Government	0.005	0.001	0.000
111	Busitema University	0.036	0.036	0.036
119	Uganda Registration Services Bureau	0.050	0.050	0.050
122	Kampala Capital City Authority	0.108	0.108	0.108
136	Makerere University	0.052	0.052	0.052
137	Mbarara University	0.006	0.006	0.006
138	Makerere University Business School	0.600	0.600	0.600
140	Uganda Management Institute	0.035	0.000	0.000
144	Uganda police	0.020	0.020	0.018
145	Uganda Prisons	0.001	0.001	0.001
149	Gulu University	0.050	0.050	0.050
151	Uganda Blood Transfusion Service	0.011	0.008	0.008
157	National Forestry Authority	0.008	0.007	0.007
160	Uganda Coffee Development Authority	0.029	0.007	0.007
219	Uganda Embassy in Belgium (Brussels)	1.226	1.241	1.236
	Total	**149.984**	**155.874**	**155.863**

Source: Ministry of Finance, Planning and Economic Development

OUTLOOK ON THE ECONOMY

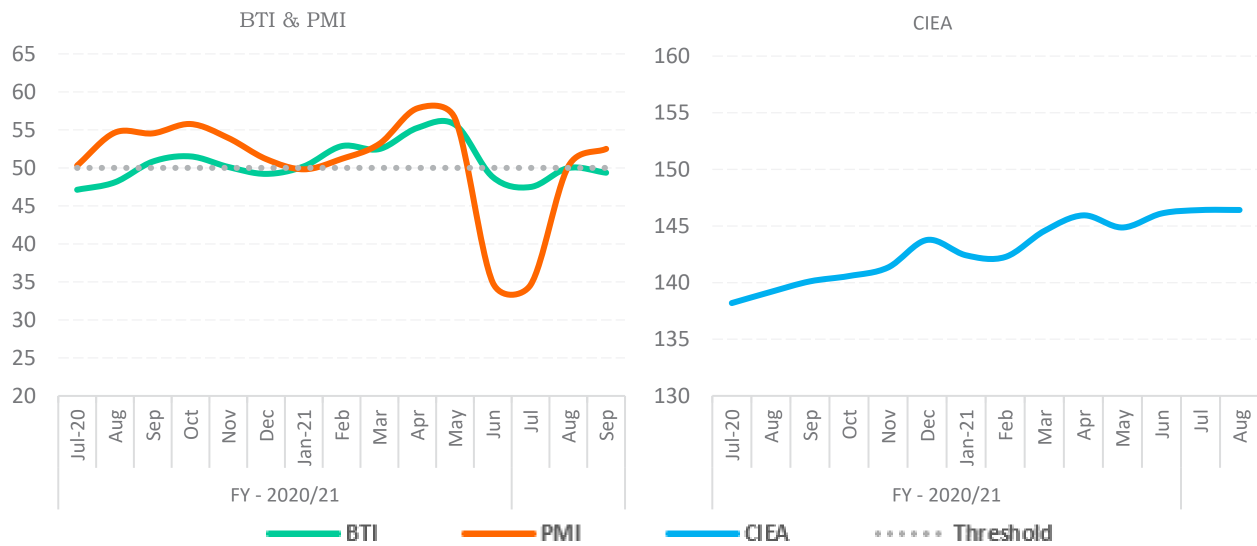
Chapter III: Outlook on the Economy

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. Leading indicators of economic activity for the first quarter reflect weaker business investment and household consumption spending (see figure 19). While the outbreak 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. 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.

Figure 19: High Frequency Indicators of Economic Activity



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

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 and productivity in agriculture and manufacturing, and strong external demand leading to a boost in exports. These will be supported by the on-going investments in industrial parks and economic zones and a pick-up in activities in the oil and gas sector. The global and domestic increase in vaccination rates is expected to support the full re-opening of the economy and boost Uganda's domestic trade, tourism and exports.

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.

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, however, credit growth is expected to be stronger largely due to improved health metrics on account of increased vaccination rates, which should pave way for a full reopening of the economy. Also, as economic activity continues to recover, credit risks are expected to abate resulting to a fall in non-performing loans and increased lending.

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. The relative stability of the exchange rate is also expected to boost trade and manufacturing and pose a minimal risk to domestic inflation.

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. Government will continue to deliver goods and services to the people, help businesses and the economy to recover and foster socio-economic transformation. This will entail reprioritization to maximize expenditure in the areas of the economy that generate growth.

Over the medium term, the fiscal deficit is gradually projected to decline as government accelerates implementation of the domestic revenue mobilisation efforts and further rationalisation of expenditures. Revenue mobilisation will be boosted by increased activities in the oil and gas sector, and projected oil revenue inflows towards the end of the Charter period. Nonetheless, a resurgence in Covid-19 infections and the related containment restrictions, and additional expenditure pressures to mitigate its impacts would curtail the extent of fiscal consolidation. Table 8 shows the medium-term fiscal projections.

Table 8: Medium Term Fiscal Framework (Percentage of GDP)

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Total revenue and grants	**14.7%**	**14.7%**	**15.1%**	**15.5%**	**16.0%**	**17.7%**	**18.7%**
Revenue	13.4%	13.8%	14.6%	15.1%	15.7%	17.5%	18.5%
Tax revenue	12.4%	13.3%	13.8%	14.3%	14.8%	15.3%	15.8%
Non-tax revenue (including AIA)	0.9%	0.6%	0.8%	0.8%	0.8%	0.8%	0.9%
Oil revenues (including capital gains tax)	0.1%	0.0%	0.0%	0.0%	0.0%	1.4%	1.8%
Grants	1.3%	0.9%	0.5%	0.3%	0.3%	0.2%	0.2%
Budget support	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Project grants	0.9%	0.8%	0.4%	0.3%	0.3%	0.2%	0.2%
Expenditures and net lending	**24.2%**	**20.7%**	**19.3%**	**19.6%**	**20.0%**	**20.7%**	**21.2%**
Current expenditures	13.0%	11.8%	11.5%	11.5%	11.5%	11.7%	12.3%
Wages and salaries	3.5%	3.7%	3.5%	3.4%	3.5%	3.6%	3.8%
Interest payments and commitment fees	2.7%	3.3%	3.0%	2.8%	2.8%	2.7%	2.8%
o/w: domestic	2.0%	2.5%	2.4%	2.3%	2.2%	2.2%	2.3%
o/w: foreign and commitment fees	0.7%	0.8%	0.6%	0.6%	0.6%	0.6%	0.5%
Other current spending	6.7%	4.9%	5.0%	5.2%	5.3%	5.4%	5.7%
Development expenditures	10.2%	8.4%	7.5%	8.0%	8.5%	9.0%	8.6%
External	3.7%	4.1%	3.1%	3.5%	4.0%	4.2%	2.2%
Domestic	6.5%	4.3%	4.4%	4.5%	4.5%	4.7%	6.4%
Net lending and investment	0.4%	0.1%	0.0%	0.0%	0.0%	0.0%	0.3%
Of which: HPP projects	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.3%
Of which: BoU recapitalisation and other Recapi	0.3%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Contingency fund	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other spending (clearance of arrears, etc.)	0.6%	0.4%	0.2%	0.1%	0.0%	0.0%	0.0%
Overall balance	**-9.5%**	**-6.0%**	**-4.2%**	**-4.2%**	**-4.1%**	**-3.0%**	**-2.5%**
Primary balance	-6.8%	-2.8%	-1.2%	-1.3%	-1.3%	-0.2%	0.3%
Financing	9.5%	6.0%	4.2%	4.2%	4.1%	3.0%	2.5%
External financing (net)	4.1%	5.4%	2.0%	2.5%	2.2%	2.0%	2.6%
Domestic financing (net)	5.0%	0.6%	2.2%	1.7%	1.9%	0.9%	-0.1%
Bank financing	2.1%	-0.3%	1.1%	0.8%	0.9%	0.2%	-0.6%
Bank of Uganda	-5.0%	-6.9%	-4.6%	-3.9%	-4.0%	-3.0%	-3.2%
Commercial banks	7.1%	6.6%	5.7%	4.8%	4.9%	3.1%	2.5%
o/w: securities for fiscal purposes	2.0%	1.0%	1.1%	0.8%	0.9%	0.8%	0.5%
o/w: securities for domestic amoritisation	5.1%	5.6%	4.6%	3.9%	4.0%	2.3%	2.1%
Non-Bank financing	3.4%	1.0%	1.1%	0.8%	0.9%	0.8%	0.5%
Errors and omissions/gap	0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Ministry of Finance, Planning and Economic Development

Annexes

Real GDP Growth Rate in Financial Years

	2016/17	2017/18	2018/19	2019/20	2020/21
GDP at market prices	**3.1**	**6.3**	**6.4**	**3.0**	**3.4**
Agriculture, forestry and fishing	**2.8**	**4.4**	**5.3**	**4.8**	**3.8**
Cash crops	9.4	5.9	4.7	7.8	7.7
Food crops	2.2	8.6	1.6	4.6	4.1
Livestock	7.0	7.1	7.3	7.9	7.8
Agriculture Support Services	3.8	-0.4	8.8	6.4	2.1
Forestry	3.5	3.4	3.6	3.3	2.9
Fishing	-7.8	-25.2	39.2	0.3	-8.8
Industry	**6.8**	**4.8**	**9.0**	**3.2**	**3.4**
Mining & quarrying	32.7	-4.0	17.5	16.5	6.0
Manufacturing	3.6	4.6	7.7	1.3	2.2
Electricity	9.8	5.4	2.5	10.9	11.3
Water	5.6	4.0	4.7	4.1	4.8
Construction	11.7	7.6	14.2	3.8	3.3
Services	**0.1**	**8.5**	**5.8**	**2.5**	**2.7**
Trade and Repairs	-1.3	7.5	4.9	-1.3	-0.7
Transportation and Storage	2.3	11.3	0.8	-1.7	-0.3
Accommodation and Food Service Activities	19.7	10.7	0.5	-8.6	-0.6
Information and Communication	19.0	10.4	-6.8	19.6	11.8
Financial and Insurance Activities	-4.1	2.3	11.1	9.6	8.0
Real Estate Activities	1.6	11.6	10.1	5.1	3.9
Professional, Scientific and Technical Activities	-18.5	7.5	6.4	2.8	2.1
Administrative and Support Service Activities	-2.2	5.2	17.2	7.5	2.3
Public Administration	18.6	9.5	4.2	16.2	12.6
Education	-10.3	6.9	9.1	-2.0	-4.2
Human Health and Social Work Activities	0.0	16.8	5.3	1.0	7.1
Arts, Entertainment and Recreation	29.7	65.7	22.1	-8.1	-13.7
Other Service Activities	-3.5	-1.3	4.7	1.4	2.9
Activities of Households as Employers	2.8	2.8	2.8	2.8	2.7
Taxes on products	**10.9**	**4.4**	**4.4**	**-1.6**	**6.2**

Virement Report FY 2020/21 in UShs Million

Vote	Vote Name	Subprogram /Project	MTEF Segment	Item	Description	Existing Budget	Reduce	Increase	Revised total	Details
104	Parliamentary Commission	03	155105	228002	Maintenance of Vehicles	2,266	350	-	1,916	Virement was done to raise funds for purchase of a replacement vehicle for the Deputy Speaker of Parliament and for additional fuel.
		03	155105	221009	Welfare and entertainment	3,590	200	-	3,390	
		03	155105	227004	Fuels. Oils and Lubricants	6,180	-	550	6,730	
		0355	155172	312101	Non-Residential Buildings	624,410	6,200	-	618,210	
		0355	155175	312201	Transport Equipment	-	-	6,200	6,200	
		Sub-Total				636,446	6,750	6,750	636,446	
007	Ministry of Justice and Constitutional Affairs	01	124903	221003	Staff Training	1,017	102	-	915	To cover the shortfall on the Purchase of vehicles and payment of costs resulting from the Presidential Elections Petition.
		01	124903	227002	Travel Abroad	1,659	166	-	1,493	
		02	120803	211103	Consolidated Allowances	120	-	1,524	1,644	
		02	120803	221011	Printing and Stationery	483	-	318	801	
		02	120803	227002	Travel Abroad	606	61	-	545	
		02	120803	227004	Fuels, Oils and Lubricants	475	-	160	635	
		16	120303	227002	Travel Abroad	2,301	230	-	2,071	
		20	124903	227002	Travel Abroad	14,642	1,464	-	13,178	
		0890	120501	221003	Staff Training	3,503	350	-	3,152	
		0890	120506	221003	Staff Training	3,360	215	-	3,145	
		0890	120501	222003	Staff Training	2,500	250	-	2,250	
		0890	120501	227002	Travel Abroad	3,000	300	-	2,700	
		0890	120506	227002	Travel Abroad	2,240	224	-	2,016	
		0890	120575	312201	Transport Equipment	5,100	-	1,360	6,460	
		Sub-Total				41,006	3,362	3,362	41,006	
	Grand Total					677,452	10,112	10,112	677,452	

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