MACROECONOMIC & FISCAL PERFORMANCE REPORT

FINANCIAL YEAR 2021/22

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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OCTOBER 2022

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 of 30th June 2022.

In FY2021/22, the COVID-19 pandemic remained a serious risk to global health and economic systems due to the substantial expense of pandemic containment measures and the resulting interruptions in trade. In addition, global restrictive monetary and fiscal policy actions were taken to counteract severe inflationary pressures because of the pandemic's effects on supply chains and the subsequent rise in geopolitical tensions in Eurasia, which has led to more economic constraint and uncertainty despite the lifting of lockdown measures around the world.

Domestic economic activity remained subdued in the first half of FY 2021/22 as the Government continued to implement COVID-19 containment measures such as the lockdown and curfew. There was however an improvement in the second half attributed to a recovery in aggregate demand due to the economy's full re-opening in January 2022. Despite severe price shocks, the economy remained resilient and grew by 4.7 percent, compared to the previous Financial Year’s revised growth rate of 3.5 percent. The economy expanded to UShs. 162,721 billion in nominal terms, up from UShs. 148,310 billion in FY 2020/21.

Government continued with targeted fiscal measures and supportive monetary policy to counter the pandemic's impact on economic activity in FY 2020/21. The government established a 'Small Business Recovery Fund' (SBRF) in partnership with commercial banks, Microfinance Deposit Taking Institutions (MDIs), and Credit Institutions across the country to provide low-interest loans to businesses that suffered financial setbacks because of the COVID-19 pandemic, among other strategic interventions. Through initiatives such as the Parish Development Model and EMYOOGA, among others, the government will continue to prioritize spending targeted at increasing the productive capacity of the economy, assisting vulnerable households, and boosting aggregate demand. Therefore, economic growth is projected to increase to between 5 and 5.5 percent in FY 2022/23 and between 6 and 7 percent on average over the medium 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

Global economic growth is anticipated to sharply slowdown to 3.2 percent in 2022 from 6.1 percent in 2021 largely attributed to more than two years of coping with the COVID-19 pandemic coupled with the ongoing Eurasia geopolitical tensions and the resultant spill-over effects. The advanced economies, especially those in the Euro area, are expected to experience the largest decline in growth because of the effects of higher energy prices on manufacturing and domestic demand due to the high dependence on energy imports from Russia, as well as the disruption of trade.

Uganda's economy registered faster growth in FY 2021/22, credited to a rise in aggregate demand when the country's economy reopened in January 2022 coupled with continued government support for the private sector. The service and manufacturing sectors grew by 4.1 and 5.1 percent, respectively, agriculture, forestry, and fishing expanded by 4.4 percent leading to an expansion in the size of the economy from UShs. 148,310 billion in FY 2020/21 to UShs. 162,721 billion in FY 2021/22. Gross Domestic Product (GDP) grew by 4.7 percent in real terms faster than the 3.5 percent growth rate of the previous financial year.

The beginning of FY 2021/22 coincided with the second lockdown caused by the reappearance of COVID-19 infections from the Delta strain, resulting in a reduction in economic activity and aggregate demand. As a result, inflation remained modest in the first half of the fiscal year but soared in the second half, averaging 3.4 percent for the fiscal year, up from 2.5 percent in FY 2020/21. The Central Bank rate was kept at 6.5 percent in July 2021 and for the majority of FY2021/22 to support economic recovery, but it was later raised to 7.5 percent in June 2022 due to persistent inflationary pressures on the economy. As a result, commercial bank lending rates for shilling denominated credit remained largely steady throughout the year, averaging 18.57 percent compared to 18.95 percent in FY 2020/21, sustaining an 8.9 percent increase in private sector credit.

The Ugandan shilling strengthened by 2.4 percent against the US Dollar to an average midrate of UShs 3,572 per US Dollar in FY2021/22 from UShs 3,661 per US Dollar in FY2020/21, on account of higher portfolio inflows to Government securities, higher proceeds from coffee exports and tourism services, foreign direct investments especially in the oil and gas sector as well as loan disbursements to Government. Uganda’s export receipts for FY 2021/22 dropped by 27.3 percent[1], following a decline in maize and

[1] However, after excluding certain mineral products on a year-on-year basis, an increase of 26.7 percent in export receipts was registered during the financial year.

tobacco exports albeit robust growth in coffee earnings. Coffee exports increased by 55.4 percent (the highest growth rate in more than two decades), to US $ 862.22 million from US$ 554.9 million registered in FY 2020/21. Export receipts excluding certain mineral products however increased by 26.7 percent, in relation to FY 2020/21.

Following the final investment decision in the oil and gas sector, foreign direct investment inflows increased by 32.4 percent to US$ 1,218.39 million from US$ 920.03 million in FY 2020/21. Remittances from Ugandans living abroad totalled US $ 1,133.94 million, down from US$ 1,154.26 million the previous year, due in part to lower employment levels in migrant hosting countries; however, the consistent inflows of these transfers have helped bolster household incomes and economic activity during particularly difficult economic conditions. As a result, the country's external position with the rest of the world improved in fiscal year 2021/22, with the balance of payments situation showing a surplus of US$ 66.05 million.

On the fiscal front, revenue shortages and supplementary expenditures to various MDAs hampered fiscal operations during FY 2021/22, necessitating more borrowing and reallocation within the budget. Consequently, the overall fiscal balance was a deficit of UShs 11,973 billion representing 7.4 percent of GDP, a deficit higher than the 6.4 percent of GDP forecast at the time of the budget. The stock of public debt increased from US $ 19.54 billion (UShs 69.51 trillion) in June 2021 to US $ 20.98 billion (UShs 78.79 trillion) in June 2022. As a share of GDP, public debt increased from 47 percent to 48.4 percent over the same period. The increase in debt was largely driven by revenue shortfalls and sluggish economic recovery following the impact of the COVID-19 pandemic. Nevertheless, debt is projected to remain sustainable over the medium to long term, underpinned by higher revenues following the implementation of the Domestic Revenue Mobilisation Strategy, as well as the onset of oil production.

Increased investments and production in the oil and gas sector, as well as improved agricultural productivity and agro-processing, are expected to enhance both the agriculture and industry sectors, boosting economic growth to between 5.0 and 5.5 percent in fiscal year 2022/23, with non-oil GDP averaging 6 to 7 percent over the medium term due to improvements in public investment management, increased regional trade, and programs such as the Parish Development Model, the Small Business Recovery Fund and Emyooga.

MACRO-ECONOMIC DEVELOPMENTS

Chapter I: Macro-Economic Developments

Economic Growth

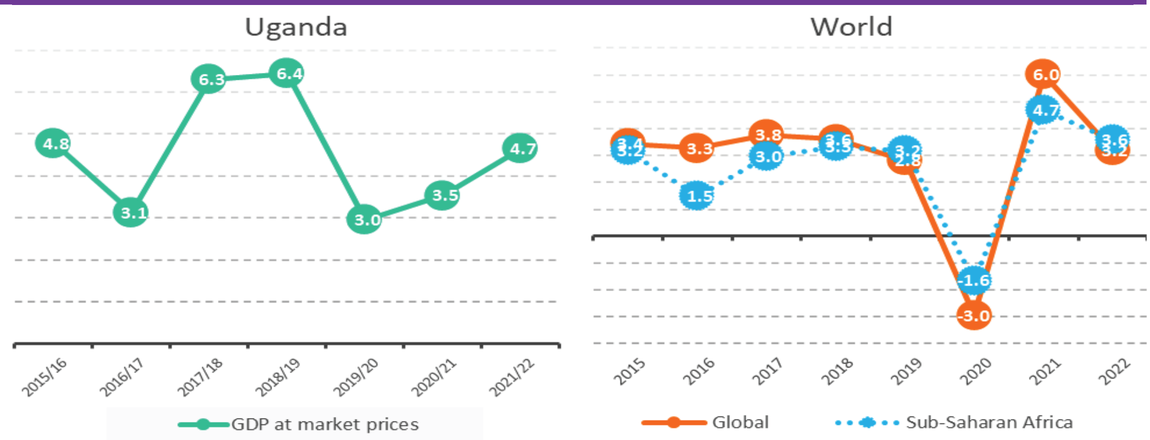
Economy grew by **4.7%**

According to the Uganda Bureau of Statistics, the size of Uganda's economy expanded to UShs 162.7 trillion in FY 2021/22 from UShs 148.3 trillion in FY 2020/21 representing a growth rate of 4.7 percent in real terms, from 3.5 percent the previous financial year as shown in Figure 1. The improvement in economic activity is credited to the sustained recovery in aggregate demand when the economy fully re-opened in January 2022, as well as government policy interventions to encourage private sector activity.

Uganda's performance is commendable given that global economic growth is projected to slow from 6.0 percent in 2021 to 3.2 percent in 2022 from an earlier projection of 3.6 percent, as of April 2022[2]. The ongoing conflict between Russia and Ukraine, supply-chain interruptions, and rising food and energy costs amid tightening financial conditions throughout the world contributed to this downward revision. Advanced economies, particularly in the Eurozone, are projected to see the greatest reduction in growth due to their relatively big manufacturing sectors and high reliance on Russian energy imports. Furthermore, capital outflows caused by tighter global financial conditions and secondary demand spill over effects particularly for oil importers, might further weaken exchange rates and boost inflationary pressures in emerging and developing countries thereby lowering growth prospects. Sub-Saharan growth is expected to slow to 3.6 percent in 2022 from 4.6 percent in 2021.

All three sectors of the economy registered growth in FY 2021/22, with a strong recovery in the industry and services sectors. The services sector was still the largest contributor to GDP (41.5 percent), followed by industry (26.8 percent), and the agriculture, forestry, and fishing sector (24.1 percent).

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



[2] IMF World Economic Outlook, July 2022.

Source: Uganda Bureau of Statistics; International Monetary Fund

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

	2017/18	2018/19	2019/20	2020/21	2021/22
GDP at market prices	**6.3**	**6.4**	**3.0**	**3.5**	**4.7**
Agriculture, forestry, and fishing	**4.4**	**5.3**	**4.8**	**4.3**	**4.4**
Cash crops	5.9	4.7	7.8	12.5	7.3
Food crops	8.6	1.6	4.6	4.1	3.5
Livestock	7.1	7.3	7.9	7.8	8.3
Fishing	-25.2	39.2	0.3	-8.8	0.3
Industry	**4.8**	**9.0**	**3.2**	**3.5**	**5.1**
Mining & quarrying	-4.0	17.5	16.5	6.9	18.0
Manufacturing	4.6	7.7	1.3	2.2	3.8
Electricity	5.4	2.5	10.9	11.6	3.2
Water	4.0	4.7	4.1	4.8	6.2
Construction	7.6	14.2	3.8	3.6	5.2
Services	**8.5**	**5.8**	**2.5**	**2.8**	**4.1**
Trade and Repairs	7.5	4.9	-1.3	-0.6	3.3
Transportation and Storage	11.3	0.8	-1.7	-0.3	-3.9
Accommodation and Food Service Activities	10.7	0.5	-8.6	-0.6	-2.5
Information and Communication	10.4	-6.8	19.6	11.8	7.4
Financial and Insurance Activities	2.3	11.1	9.6	8.0	4.5
Real Estate Activities	11.6	10.1	5.1	3.9	9.4
Public Administration	9.5	4.2	16.2	12.6	3.5
Education	6.9	9.1	-2.0	-4.2	1.5
Human Health and Social Work Activities	16.8	5.3	1.0	7.1	9.6
Arts, Entertainment and Recreation	65.7	22.1	-8.1	-13.7	-2.2
Taxes on products	**4.4**	**4.4**	**-1.6**	**6.2**	**7.5**

Source: Uganda Bureau of Statistics

The services sector grew by 4.1 percent in FY 2021/22 from 2.8 percent registered in the previous financial year. This was on account of strong growth in real estate activities by 9.4 percent from 3.9 percent in FY 2020/21 and growth in health-related services. In addition, wholesale & retail trade activities, and education services recovered following the full reopening of the economy. These offset the slow recovery in hotel & entertainment subsectors, and a decline in transport services growth. Growth in transport services suffered from the effects of high fuel prices in the third and fourth quarter of the Financial Year.

The industry sector expanded by 5.1 percent from 3.5 percent the previous fiscal year, led by robust growth in the manufacturing subsector, which increased by 3.8 percent from 2.2 percent in FY 2020/21. This was mostly due to increasing activity in meat processing and preservation, grain milling, and pharmaceuticals. Construction, mining, and quarrying activity which increased by 5.2 percent and 18.0 percent from 3.6 percent and 6.9 percent, respectively in FY 2020/21, also contributed to industrial sector growth. Growth in the construction subsector was driven by a rise in public and private construction activities.

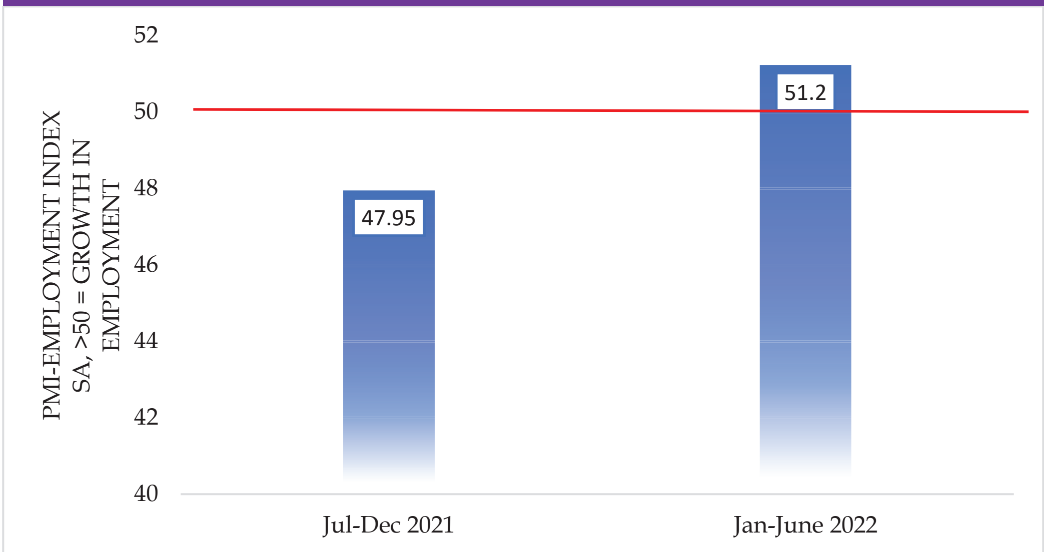
There was modest growth in the agriculture, forestry, and fishing sector to 4.4 percent from 4.3 percent the previous financial year. This was on account of recovery in fishing activities which grew by 0.8 percent from a decline of (8.8) in FY 2020/21; growth in livestock output by 8.3 percent from 7.8 percent in FY 2020/21 and sustained growth in food and cash crop production. Within the food crops subsector, there was an increase in the production of bananas, vegetables, beans, and sweet potatoes while higher yields were registered for Robusta coffee hence contributing to growth in the cash crop subsector.

Employment

According to the Uganda National Household Survey (UNHS) for FY 2019/20, the size of the labour force[3] was estimated at 9.1 million individuals, down from 10 million in FY 2016/17, with majority of the working population being in wage employment (52.1 percent). The government has been undertaking plans to speed Uganda's economic recovery from the COVID-19 outbreak and lockdowns since fiscal year 2019/20, with the objective of stimulating private sector investment, economic output, and, ultimately, employment[4].

Economic growth of between 6-7 percent is projected for the medium term, and due to the positive correlation between the size of the labour force and GDP, employment prospects are expected to improve in the medium term. This is supported by the Purchasers Managers' Index (PMI), which shows that the employment index has averaged over 50 since the economy fully reopened in January 2022, signalling growth in employment.

Figure 2: PMI Employment Index FY 2021/22



Source: Stanbic bank Uganda, Purchasing Managers' Index™ (PMI)

[3] The labour force is the sum of the number of persons employed and the number of persons unemployed (International Labour Organisation).

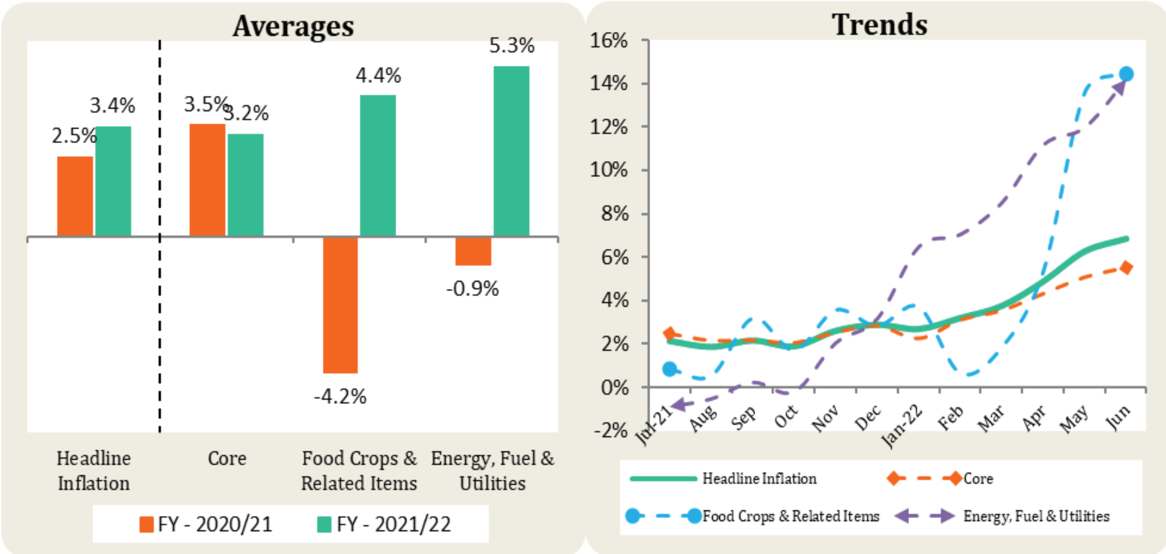
[4] Among the policies aimed at stimulating the economy are the Parish Development Model (PDM), Emyooga, the Small Business Recovery Fund, prompt payment of government arrears.

Inflation

Headline Inflation rose to **3.4%**

Overall price levels were relatively stable during the first half of FY 2021/22 due to slow recovery in aggregate demand, which was reflected in the relatively stronger Ugandan Shilling and low inflation. There was however a sharp increase in general price levels during the second half of the financial year, largely on account of a significant rise in the prices of education and transportation services, household items like cooking oil and bar soap, and liquid fuels. As shown in Figure 3, this caused annual headline inflation to increase from 2.5 percent in FY 2020/21 to 3.4 percent in FY 2021/22.

Figure 3: Annual Inflation broken down by Sub-Components



Source: Uganda Bureau of Statistics

Sub-components of headline inflation.

Core inflation declined to an average of 3.2 percent in FY 2021/22, from 3.5 percent the previous year, remaining within the Central bank's 5 percent target. This performance is largely attributed to low aggregate demand during the first half of the Financial Year as Government continued to implement measures to contain the spread of the COVID-19 pandemic. This offset the large increase in pricing for various services, such as education, transportation, and other products notably household necessities such as cooking oil and bar soap, following the full re-opening of the economy. Cooking oil and bar soap costs rose due to global supply chain disruptions, particularly for palm oil, a vital raw ingredient in the manufacture of these goods due to export limitations in Malaysia and Indonesia. Additionally, the rise in transport costs was on account of higher global oil prices which were aggravated by the Russia-Ukraine war.

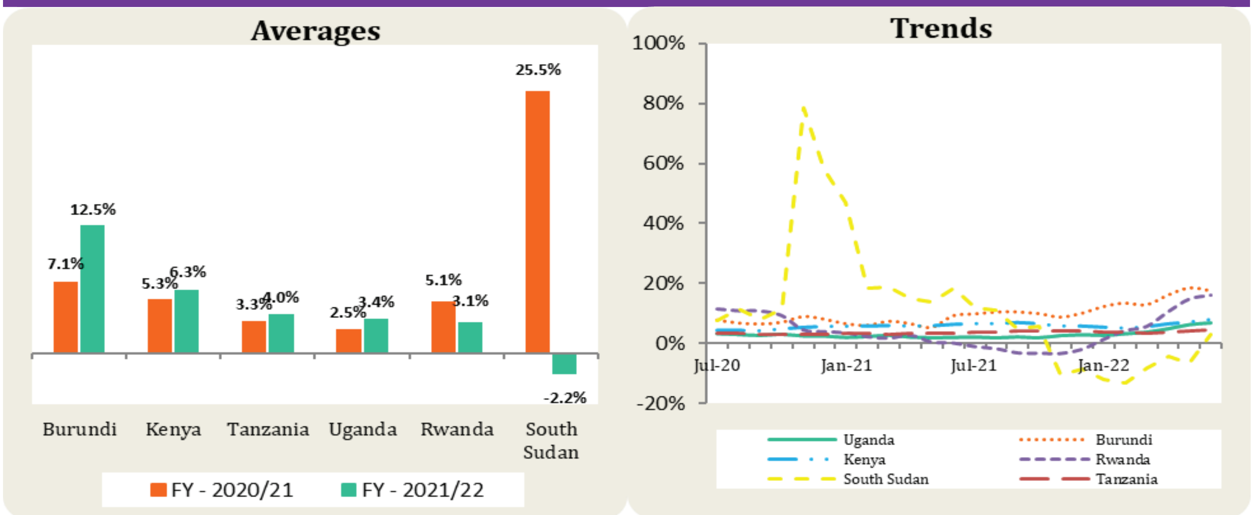
Food crops and related items inflation rose significantly to an average of 4.4 percent, from -4.2 percent registered in FY 2020/21 reflecting a rebound in demand specifically from schools, hotels and restaurants following the full reopening of the economy. Food items that registered price increases during this period include cooking bananas (matoke), irish potatoes, cassava beans as well as vegetables like onions and carrots.

Energy, Fuel and Utilities inflation rose to 5.3 percent from -0.9 percent registered in FY 2020/21 on account of liquid fuels i.e., diesel, petrol, and kerosene due to a rise in global energy prices, which were intensified by the Russia-Ukraine war while prices of solid fuels such i.e., firewood and charcoal remained relatively low during the financial year.

Inflation across the East African Community

While inflation increased in Burundi, Kenya, Tanzania, and Uganda, it slowed in Rwanda and South Sudan during FY2021/22. South Sudan had the region's lowest inflation rate of -2.2 percent, owing mostly to the influence of exchange rate reforms[5], followed by Rwanda and Uganda at 3.1 and 3.4 percent, respectively. Increased food and fuel import prices because of the conflict between Russia and Ukraine have contributed to rising inflationary pressures in Burundi, Kenya, Tanzania, and Uganda. The inflation rate in Burundi in FY 2021/22 was higher than the 8 percent threshold set by the East African Monetary Union (EAMU) convergence criterion. Figure 4 shows inflation rates across EAC Partner States.

Figure 4: Average Annual Headline Inflation among EAC Partner States



Source: Respective National Bureaux of Statistics

[5] The South Sudan authorities have taken steps to reform macroeconomic governance, liberalise the foreign exchange (FX) market and restore price stability. The removal of most FX restrictions and the authorities' tight control of the money supply have made it possible for individual and firms to buy and sell foreign currency at perceptible and competitive rates since the start of the Staff Monitored Program in March 2021. This has led to a dramatic reduction in inflation, at a time when inflation was rising in many other countries (IMF Country Report No. 22/266)

Global Commodity price trends

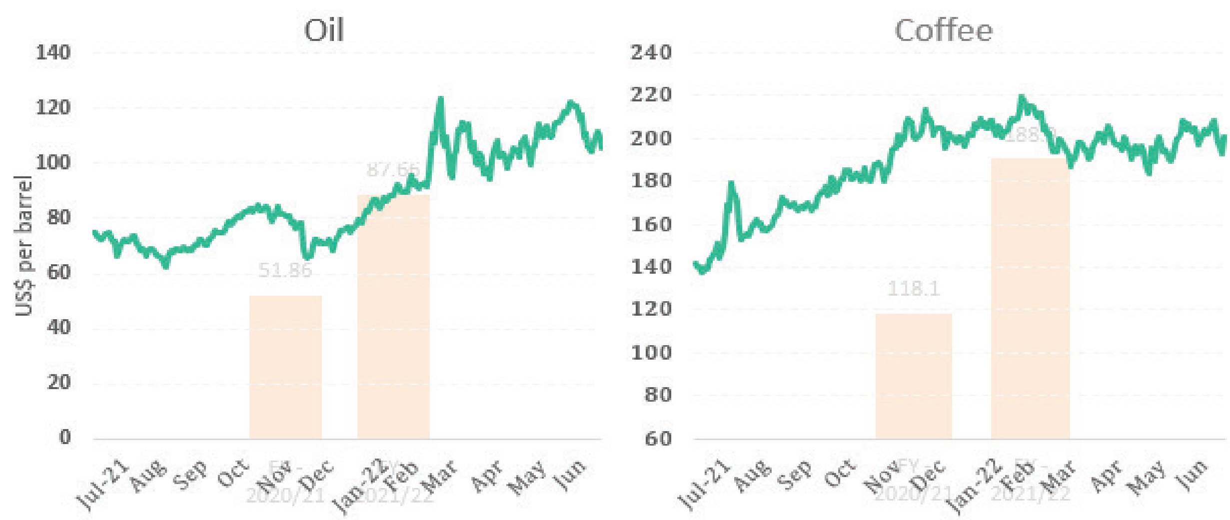
International Oil prices

There was a sharp rise in the price of brent crude oil during the second half of FY 2021/22, owing to a recovery in Global demand coupled with war-related trade and production disruptions caused by the Russia-Ukraine war[6]. Having remained relatively stable at an average price of US $ 73.96/ barrel in the first half, prices peaked at US $ 114.34/ barrel in June 2022, thus averaging at US $ 87.66/ barrel for the financial year from US $ 51.86 in FY 2020/21. Oil prices could remain high, above the five-year average of US $ 60 a barrel depending on the severity of disruptions to commodity flows as the war in Ukraine persists and the decision by the Organization of the Petroleum Exporting Countries (OPEC) and its allies, which include Russia to lower the oil production target by 2 million barrels per day.

International Coffee Prices

The International Coffee Organization's (ICO) composite price indicator trended upwards to an average of 188.90 in FY 2021/22 from an average of 118.14 in FY2020/21, as shown by Figure 5. The average indicator reached a multi-year high of 210.89 in February 2022, marking a remarkable recovery in coffee prices, primarily due to a drop in Brazil's coffee production and rising global coffee demand as economies recover from pandemic related restrictions.

Figure 5: Movements in the International Oil Prices and Coffee Composite Price Indicator in FY 2021/22 Vs FY 2020/21



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

[6] US Energy information administration.

Financial Sector Developments

The primary policy objective of the Bank of Uganda's monetary policy is to hold annual core inflation to a medium-term target of 5 percent. The Central Bank Rate (CBR) is the operating target of monetary policy, and it is intended to guide short-term inter-bank lending rates and thereby influence the marginal cost of funds for commercial banks.

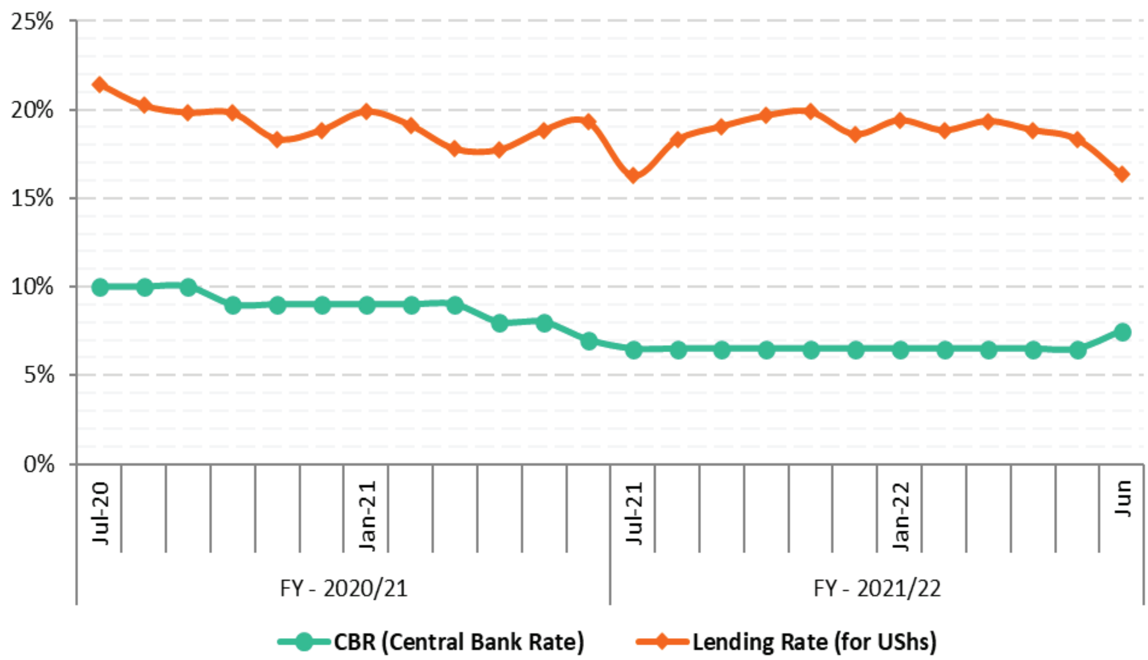
The start of FY 2021/22 coincided with the second lockdown resulting from the resurgence of COVID-19 infections from the Delta variant. The lockdown restrictions consequently led to a slowdown in economic activity. With the intent of supporting recovery of economic activity, the CBR was maintained at 6.5 percent in July 2021 and for the greater part of FY 2021/22 but was later revised upwards to 7.5 percent in June 2022 following sustained inflationary pressures on the economy.

Lending Rates (weighted average)

average Commercial bank lending rate of 18.6%

Commercial bank lending rates for shilling denominated credit were largely stable and averaged at 18.57 percent for the year ending June 2022, compared to an average rate of 18.95 percent in FY 2020/21. This trend was partly supported by the accommodative monetary policy stance for the greater part of the Financial Year. Figure 6 shows the trend in CBR and commercial bank lending rates.

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

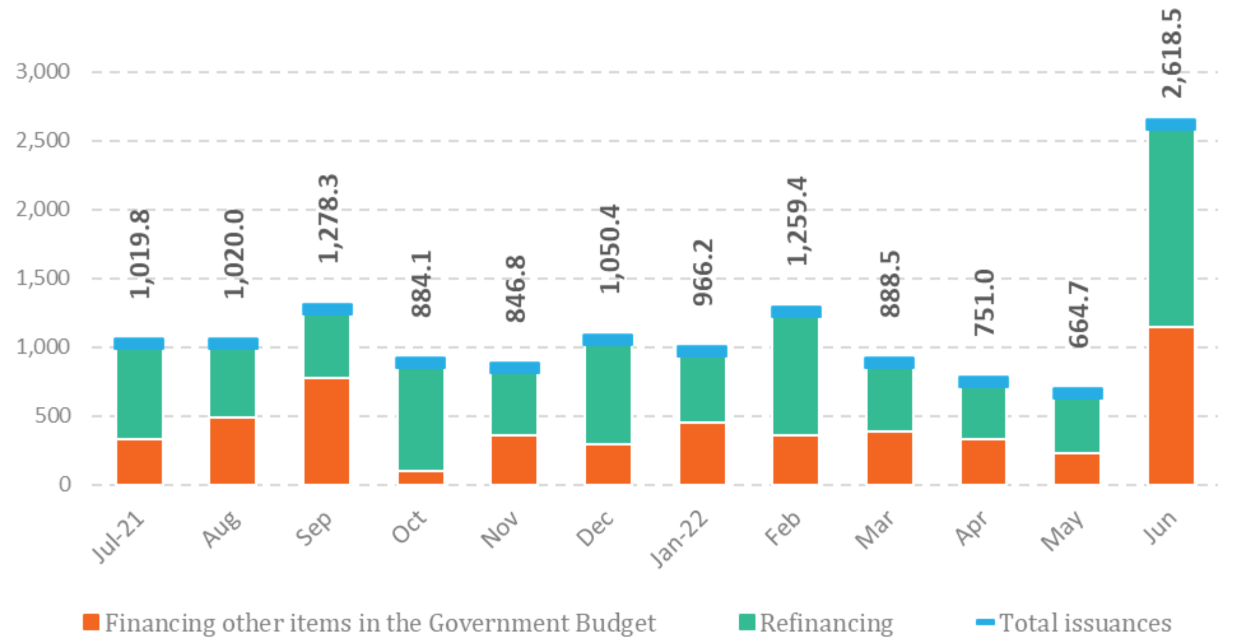


Source: Bank of Uganda

Government Securities

During the Financial Year 2021/22, Government held auctions for both short-term discount instruments (Treasury Bills) and Treasury Bonds (longer-dated tenors). In line with Government's commitment to lengthen the maturity of domestic debt, Government raised UShs 5,357.7 billion (40 percent) from T-Bills and UShs 7,890.1 billion (60 percent) was in form T-Bonds leading to a total issuance of UShs 13,247.7 billion. Of the amount raised, UShs 8,019.7 billion was used for the refinancing of maturing debt whilst the UShs 5,228.1 billion (which was higher than the UShs 2,942.6 billion planned when the budget for FY 2021/22 was approved), went towards financing other activities in the Government budget; as shown by Figure 7.

Figure 7: Breakdown of Government Securities in Billion UShs



Source: Ministry of Finance, Planning and Economic Development

Yields (interest rates) on Treasury Bills

Yields on T-Bills were generally low for the most part of the year, and all the auctions were oversubscribed. A combination of favourable monetary policy, low inflation for the most part of the year, low Government issuances in the first half of the year, and high liquidity given the increased demand for the treasury instruments from both offshore and local investors contributed to low yields during the year. The high demand from local investors was because these investors preferred to invest in Government paper, especially during the times when the economy was fully or partially under a lockdown, whereas the high demand from offshores was on account of low yields in advanced markets as well as other emerging and frontier markets.

Within the last month of the year (June 2022), yields edged upwards on Treasury instruments mainly on account of a surge in Government domestic borrowing, an increase in inflation coupled with a hike in Central Bank Rate in June 2022 which rose by 1 percentage point to 7.5 percent.

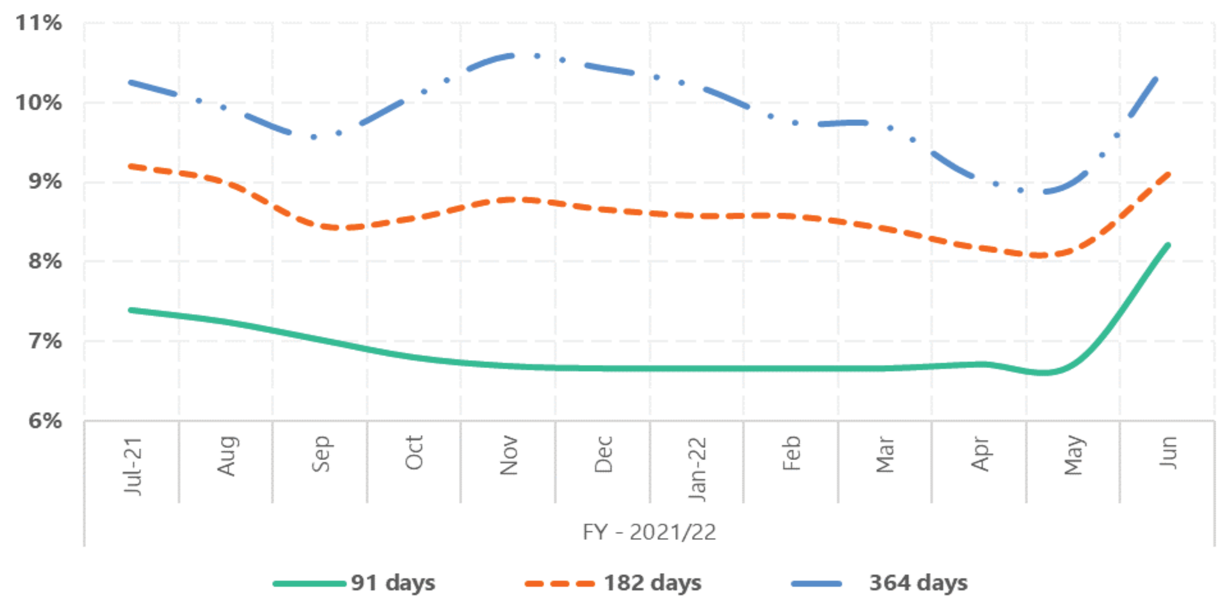
Table 2: Average Annualised Yields on Treasury Bills (%)

	2017/18	2018/19	2019/20	2020/21	2021/22
91-Days	9.1	10.3	9.2	7.8	7.0
182-Days	9.5	11.7	11.0	10.2	8.6
364-Days	10.1	12.7	12.2	12.1	9.9

Source: Bank of Uganda

The average annualised yields in FY 2021/22 were 6.95 percent, 8.64 percent, and 9.92 percent for the 91, 182, and 364-day tenors respectively. This compares with 7.81 percent, 10.16 percent, and 12.15 percent in FY 2020/21. Table 2 shows the average Treasury Bill annualised yields since 2017/18, whereas Figure 8 shows the movement of T-Bill yields in FY 2021/22.

Figure 8: Movement of Treasury Bill Yields (interest rates)



Source: Bank of Uganda

Lending to the Private Sector

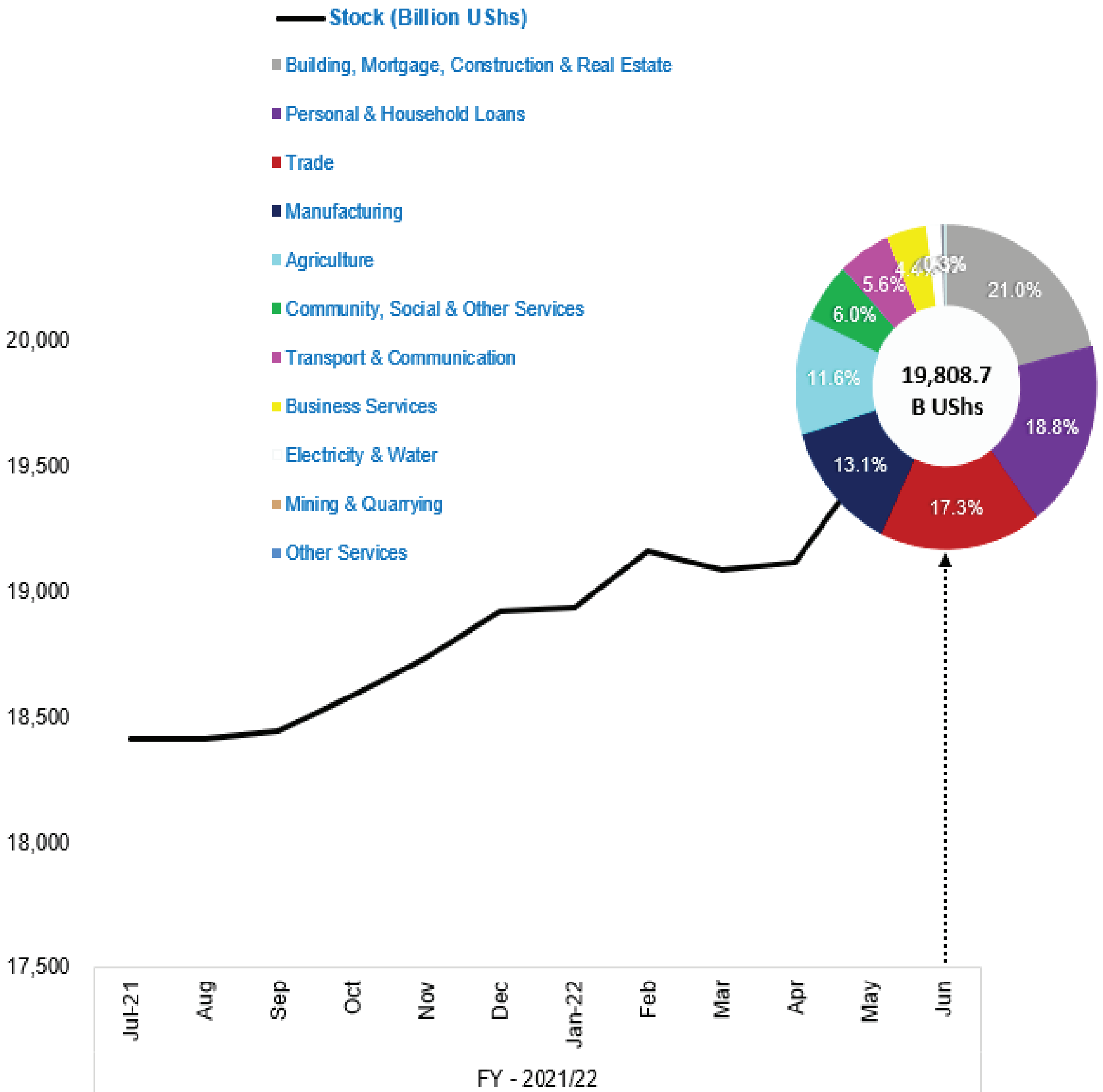
Private Sector Credit

grew by

8.9%

The stock of outstanding private sector credit at the end of the Financial Year amounted to UShs 19,808.7 billion, up from UShs 18,187.9 billion at the end June 2021, registering growth of 8.9 percent. This compares favourably against growth of 7.1 percent the previous year largely supported by the accommodative monetary stance which fostered relatively stable lending rates. Figure 9 shows the trend in the stock of private sector credit.

Figure 9: Stock of Private Sector Credit

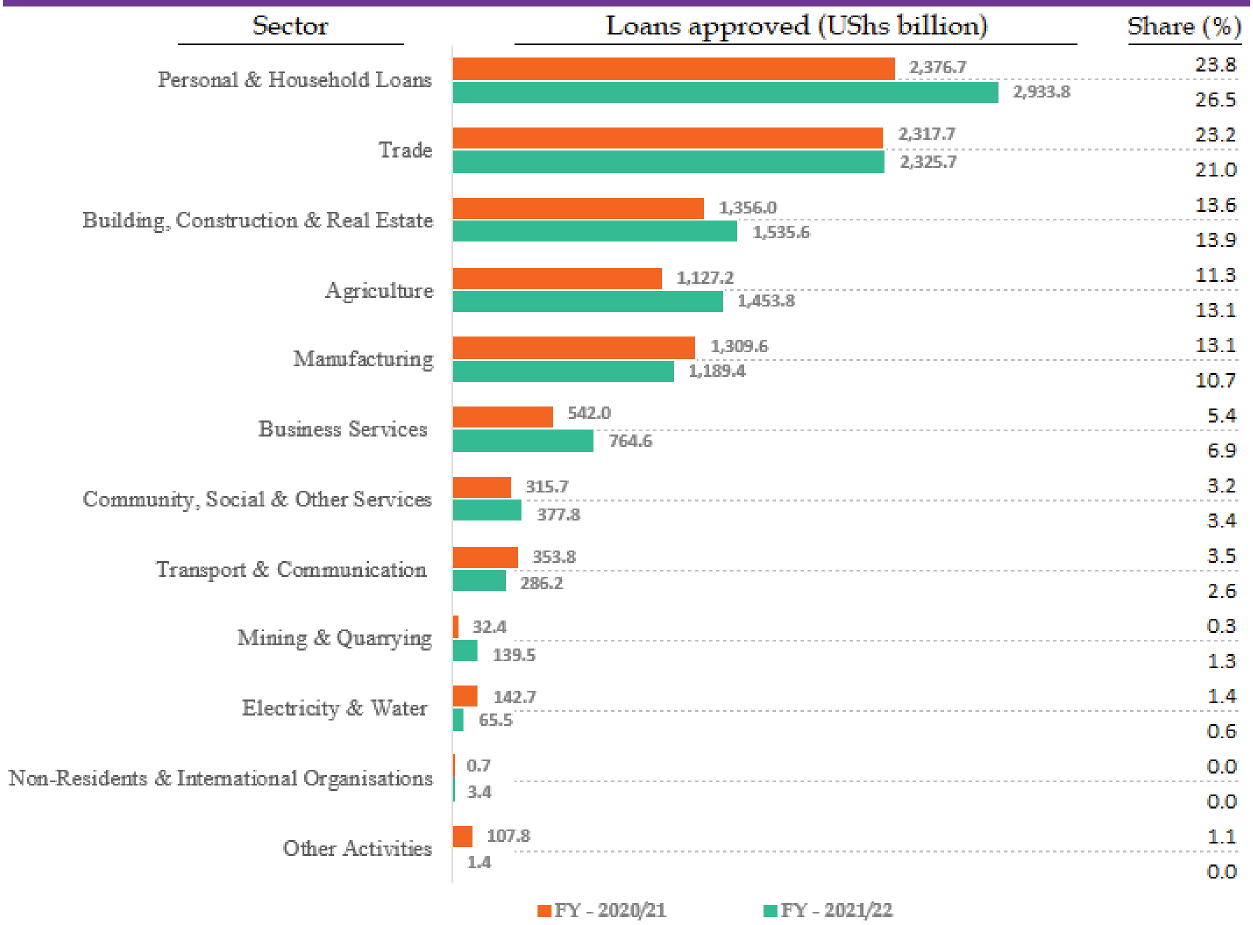


Source: Bank of Uganda

The total value of loans approved increased by 11 percent from UShs 9,982.3 billion in FY 2020/21 to UShs 11,076.7 billion in FY2021/22.

The largest share of credit approved went towards personal and household loans (26.5 percent); followed by Trade (21.0 percent); Building, construction & Real Estate (13.9 percent); Agriculture (13.1 percent); and Manufacturing (10.7 percent). These five sectors together accounted for 85.2 percent of all credit approved during the Financial Year, as shown by Figure 10.

Figure 10: Value of New Loans Approved by Sector

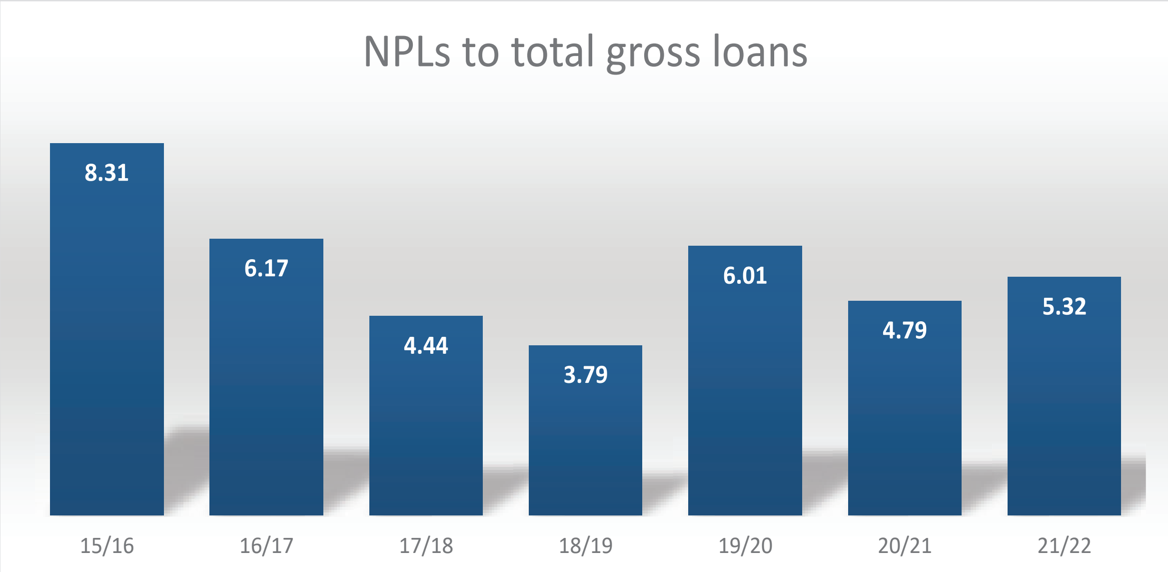


Source: Bank of Uganda

Non-Performing Loans (NPLs)

The banking sector remains sound, adequately capitalized and resilient to shocks owing to several measures implemented by the central bank to support the sector. Bank of Uganda's targeted credit relief measures for sectors that remained under lockdown for an extended period particularly education and hospitality, in part kept non-performing loans as a percentage of total gross loans relatively low at 5.32 percent in FY 2021/22, compared to 4.79 percent registered the previous financial year as shown in Figure 11. Furthermore, during the fiscal year, Bank of Uganda managed possible liquidity concerns to the banking sector due to the pandemic by keeping the COVID-19 Liquidity Assistance program (CLAP) active.

Figure 11: Shows the Movement of NPLs between FY 2015/16 to FY 2021/22



Source: Bank of Uganda

Exchange Rate

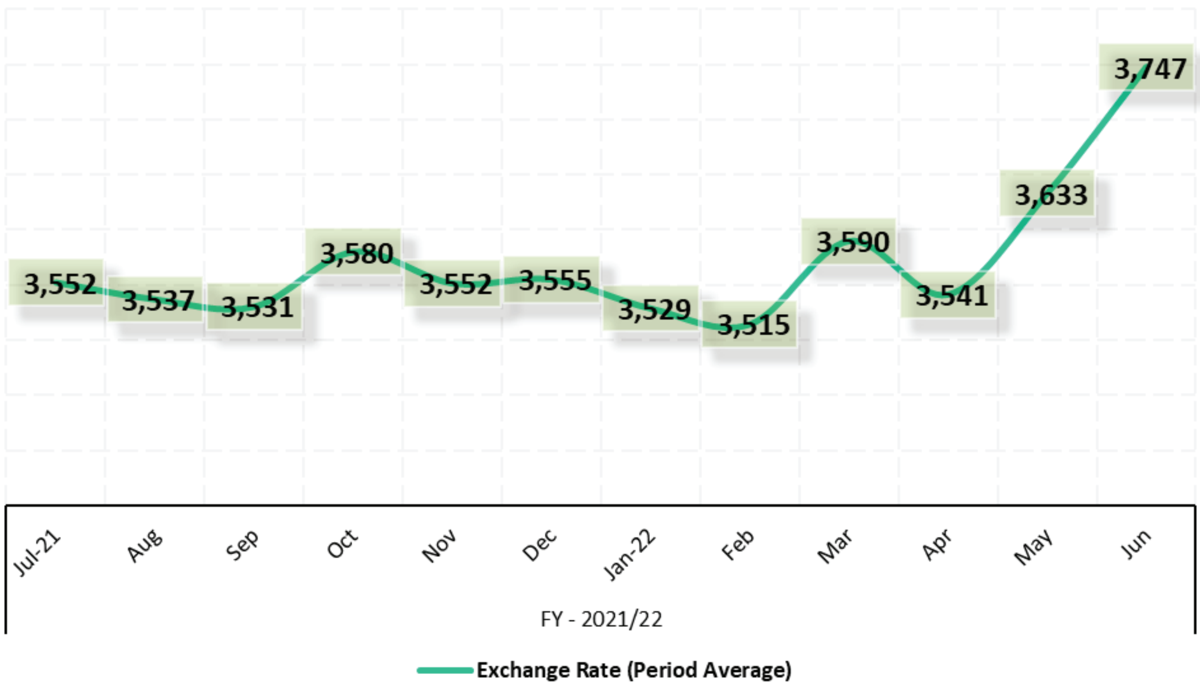
Shilling appreciated

by 2.4% per US$ to 3,572

The Ugandan shilling continued to gain against the United States Dollar in FY 2021/22 by 2.4 percent registering an average mid-rate of UShs 3,572 per US$ compared to UShs 3,661 per US$ recorded the previous year, as shown in Figure 12.

The sustained participation of offshore investors in the domestic securities market for the greater part of the financial year increased demand for the local currency thus contributing to the appreciation of the shilling. Demand for the dollar on the other hand remained subdued compared to pre-COVID levels. Likewise, on average, the shilling gained against the Euro and Pound Sterling by 7.8 percent and 3.5 percent respectively.

Figure 12: Official Exchange Rate Movement of UShs against US$



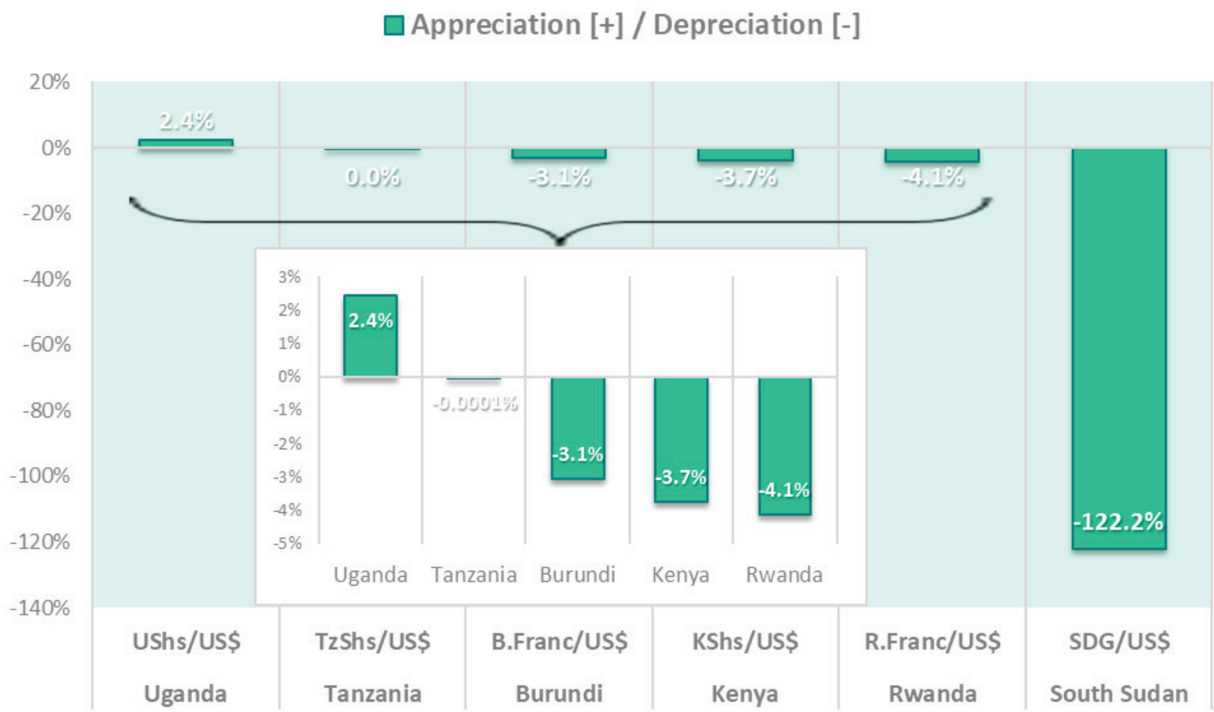
Source: Bank of Uganda

Exchange Rates within the EAC

During the Financial Year under review, EAC partner states' currencies faced depreciation pressures against the US Dollar. Burundi, Kenya, and Rwanda's currencies recorded losses of 3.1 percent, 3.7 percent, and 4.1 percent respectively. South Sudan registered the highest loss of 122.2 percent[7] between FY 2020/21 and FY 2021/22. The Tanzanian Shilling remained relatively stable against the US dollar. The losses in ground to the US/Dollar are related to increased demand for the dollar as private sector imports picked up during the financial year amidst forex outflows into more lucrative markets, brought about by higher interest rates in advanced economies as they tightened monetary policy to curb high inflationary pressures.

[7] The sharp depreciation of the South Sudan Pound is on account of both domestic and external factors. Some of which include the ongoing payment of civil servants' salary arrears, too many public holidays that affected the Central bank's schedule for forex auctions to set-off the parallel market through the commercial banks and forex bureaus, speculations by market dealers, suspension of IMF and World Bank loans, coupled with the effects of the Russia-Ukraine war and the global strengthening of the US dollar.

Figure 13: Change in Exchange Rates (Period Average) in EAC for 2020/21 Vs 2021/22



Source: Respective Central Banks

External Sector

Merchandise Trade Balance

The merchandise trade deficit widened further during the period under review as the exports fell faster than imports. Export receipts declined by 27.3 percent whereas the import bill fell by 14.3 percent. The merchandise trade deficit was recorded at US$ 3,300 million in FY 2021/22, higher than the deficit of US$ 3,045.4 million recorded a year ago.

Asia surpassed the EAC as Uganda's major trading partner in FY 2021/22, with total trade of US$ 3,489.3 million, up from US$ 3,299.4 million in FY 2020/21. The European Union, the Middle East, and the Rest of Africa followed in that order, as shown by Figure 14. Uganda registered trade surplus with the EAC, European Union and Rest of Africa while trade deficits were registered with the other regional blocs.

Figure 14: Uganda's Trade Balance across Regional Blocs in 2021/22 (US$ Million)

	Asia		EAC		European Union		Middle East	
	FY-20/21	FY-21/22	FY-20/21	FY-21/22	FY-20/21	FY-21/22	FY-20/21	FY-21/22
Total Trade	3,299.4	3,489.3	3,367.6	2,677.0	1,336.1	1,422.4	3,122.0	1,396.2
Trade Balance	-2,766.6	-2,919.7	-838.9	412.2	-209.2	123.1	1,473.9	-1,219.6

	Rest of Africa		The Americas		Rest of Europe		Others	
	FY-20/21	FY-21/22	FY-20/21	FY-21/22	FY-20/21	FY-21/22	FY-20/21	FY-21/22
Total Trade	2,013.6	1,304.6	255.2	441.9	170.2	202.6	38.7	39.2
Trade Balance	-468.5	670.0	-135.7	-258.7	-64.7	-75.4	-35.7	-32.1

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

decreased

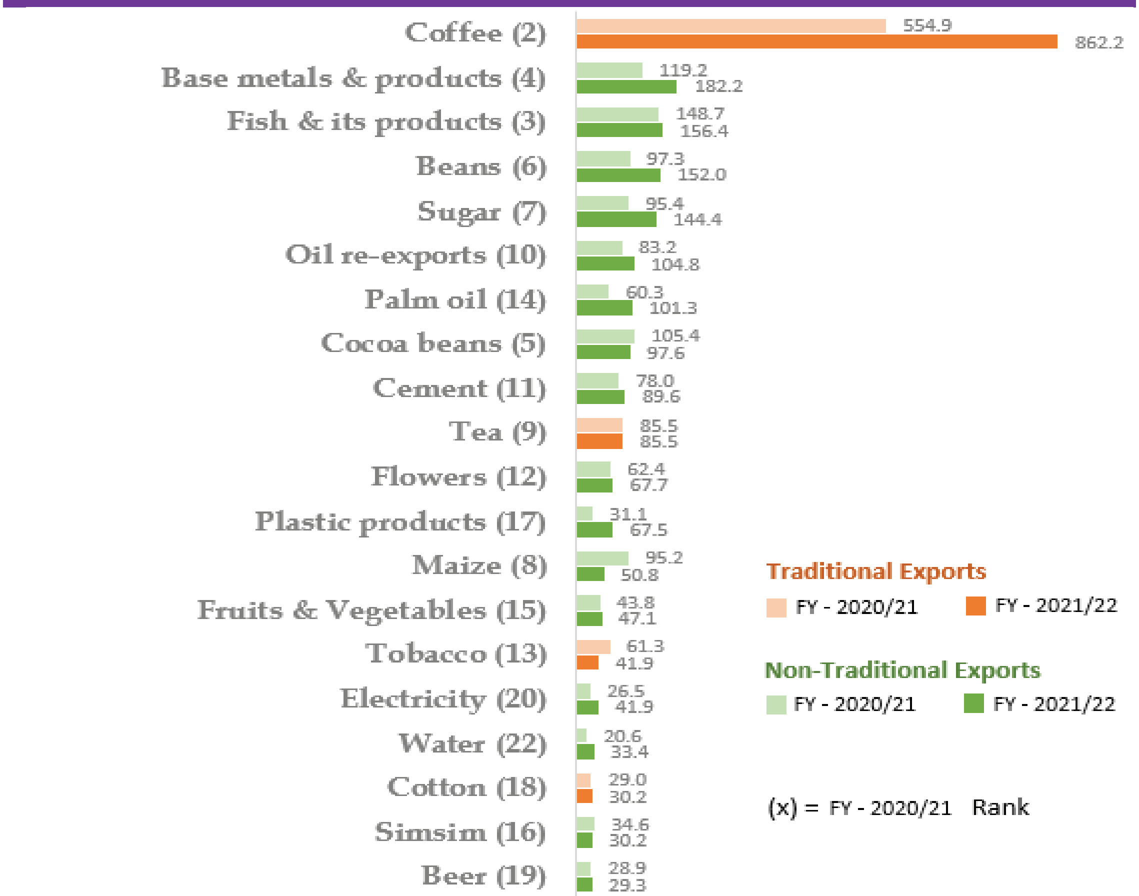
by

27.3%

Uganda's export receipts fell by 27.3 percent to US $ 3,836.6 million in FY 2021/22, from US $ 5,278.7 million in FY 2020/21[8]. There was a significant decline in maize and tobacco receipts, owing to a reduction in export quantities. Tobacco prices and volumes have been declining consistently since FY 2018/19.

The reduction in maize export quantities is on account of restrictions imposed by the Kenyan government, citing high levels of aflatoxins in Ugandan maize. As a result, maize export volumes declined by more than 50 percent to 117,493 tonnes in FY 2021/22, from 295,782 tonnes in FY 2020/21. Government of Uganda, through Uganda National Bureau of Standards (UNBS) is however focusing on certifying quality standards of products and ensuring that all export consignments have a certificate of compliance on aflatoxin levels. Figure 15 shows notable export products during the period under review.

Figure 15: Top 20 Commodity Exports of Uganda in 2020/21 (US$ Million)



Source: MOFPED calculations based on data from BOU

Note: X – denotes the rank of the commodity in the previous Financial Year
Traditional Exports are listed according to the Uganda Trade Policy

[8] However, after excluding certain mineral products on a year-on-year basis, an increase of 26.7 percent in export receipts was registered during the financial year.

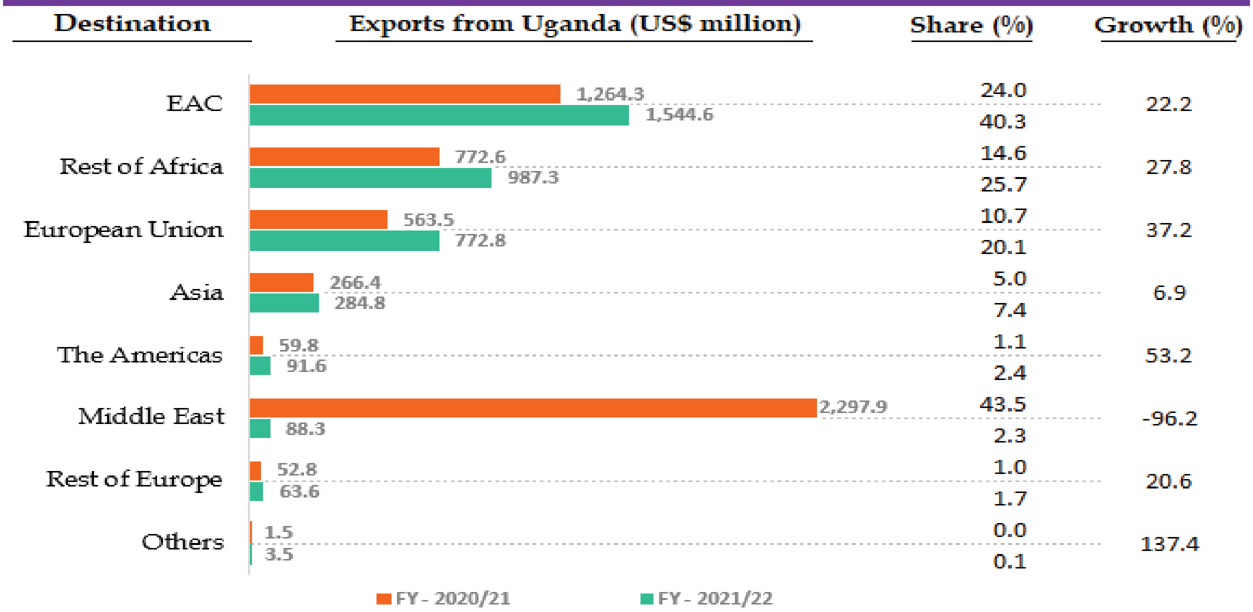
On the other hand, several export items registered higher earnings in FY 2021/22. These among others, included coffee, palm oil, beans, plastic products, base metals & products. Coffee recorded the largest increase in its earnings and was also the main export during the year, contributing 22.5 percent of total export earnings. Coffee earnings rose for the third consecutive time, increasing by 55.4 percent (the highest growth rate in more than two decades), to US$ 862.2 million in FY 2021/22 from US$ 554.9 million registered in FY 2020/21. This was on account of better international coffee prices and high export volumes. Higher export volumes were partly on account of Government interventions (such as the provision of seedlings) in the coffee sub-sector that has started yielding results. In addition, the biennial cycle[9] of Arabica coffee production, saw an increase in the volumes of Arabica coffee. Cumulatively, coffee export volumes for FY 2021/22 totalled 6,257,411 (60 kg) bags compared to 6,082,803 (60 kg) bags in FY 2020/21.

There was an increase in the international coffee prices following rising Global demand, shortage of shipping containers in Asia and poor weather in Brazil. International coffee prices averaged US$ 2.36 per kilogram in the Financial Year 2021/22, higher than the average price of US$ 1.52 per kilogram recorded the previous year.

Destination of Exports

During the Financial Year 2021/22, the East African Community (EAC) was the main destination of Uganda's merchandise exports, followed by the Rest of Africa and European Union, as shown in Figure 16. Exports to the Middle East amounted to US$ 88.3 million in FY 2021/22 much lower than US$ 2,297.9 million registered the previous financial year.

Figure 16: Destination of Uganda's Exports to different Regional Blocs



[9] Arabica coffee production has an on-year followed by an off-year. If you get a higher crop this year, the subsequent year would be lower, unlike Robusta production. That is what is called the biennial nature.

Source: MOFPED calculations based on data from BOU

During FY 2021/22, Uganda's exports to EAC Partner Countries accounted for 40.3 percent of overall exports, an increase from the previous year's contribution of 24 percent. The Rest of Africa bloc came in second with 25.7 percent, while European Union came in third with 20.1 percent of overall exports.

Merchandise Imports

Imports decreased by 14.3%

Merchandise worth US$ 7,136.7 million was imported into Uganda during FY 2021/22, representing a decline of 14.3 percent, from US$ 8,324.4 million imported the previous year[10]. During the financial year, imports declined for, government project imports, textiles & textile products as well as machinery equipment and vehicles & accessories.

Nonetheless, oil imports increased because of the rise in the international price of oil. The value of oil imports rose from US $830,4 million in FY 2020/21 to US $1,237.3 million in FY 2021/22. Important to note is that when worldwide oil prices rose, oil import quantities decreased (the oil import volume index by BOU was 349.3 in FY 2021/22, compared to 383.5 in FY 2020/21). The decline in oil import volumes was attributable in part to a higher international price, less activity because of measures and the consequences of the COVID-19 epidemic[11], and sanctions imposed on Russia following its invasion of Ukraine.

Table 3: Performance of Imports in US$ million

	FY 2020/21	FY 2021/22	Difference (value)	Growth Rate
Total Imports (fob)	8,324.2	7,136.7	-1,187.5	-14.3%
Government Imports	490.7	367.9	-122.8	-25.0%
Project	479.5	349.9	-129.6	-27.0%
Non-Project	11.2	18.0	6.8	61.2%
Formal Private Sector Imports	7,786.0	6,676.5	-1,109.5	-14.2%
Oil imports	830.4	1,237.3	406.9	49.0%
Non-oil imports	6,955.6	5,439.2	-1,516.4	-21.8%
Estimated Private Sector Imports	47.5	92.3	44.8	94.2%
Total Private Sector Imports	7,833.5	6,768.8	-1,064.7	-13.6%

Source: Bank of Uganda

[10] However, after excluding certain mineral products on a year-on-year basis, merchandise imports grew by 14.1 percent.

[11] Some of these measures include mandatory Covid-19 testing for truckers at Malaba border post in January 2022, regardless of whether they possess a valid Covid-19 certificate issued by the Kenyan Government.

Formal private sector imports constituted 93.6 percent of the total merchandise imports in FY 2021/22. The major formal private sector imports were machinery equipment, Vehicles & Accessories (US$ 1,424.8 million); Petroleum Products (US$ 1,237.3 million); and Chemical & related Products (US$ 776.9 million), as shown in the Figure 17. Import receipts of wood and its products increased by 63.6 percent, followed by petroleum products and electricity at 49 percent and 37.5 percent, respectively.

Figure 17: Composition of Formal Private Sector Imports by Category

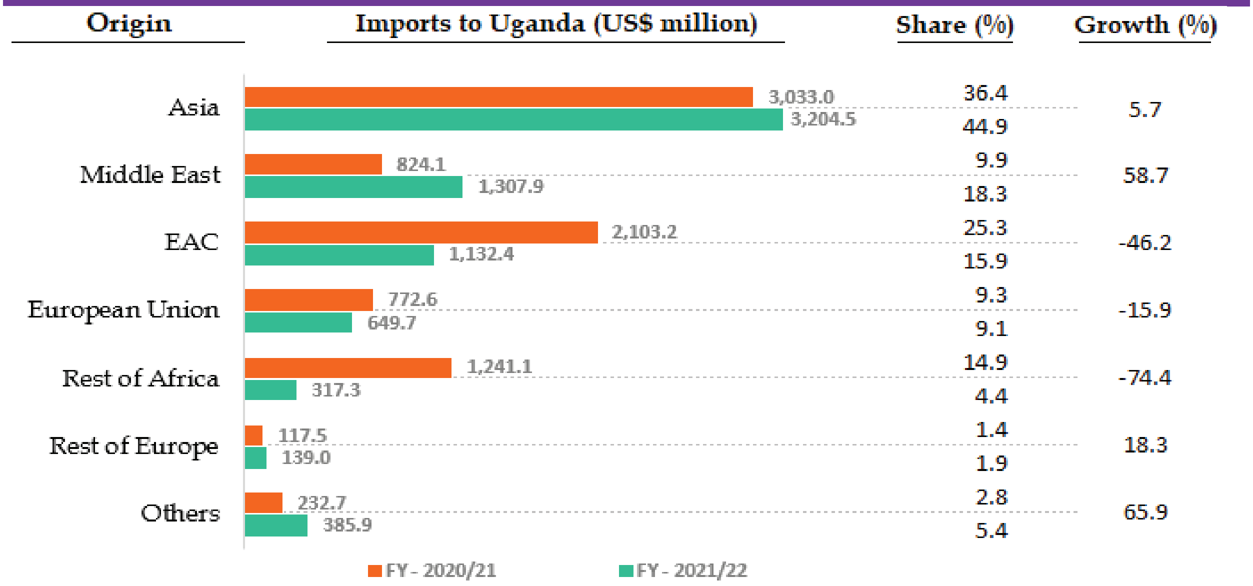
Source: Bank of Uganda

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

Origin of Imports

Asia continued to be the major source of Uganda's merchandise imports during the Financial Year 2021/22 contributing about 44.9 percent of the total imports, followed by the Middle East (18.3 percent), the East African Community (15.9 percent), and the European Union (9.1 percent). Imports from the Asia increased from US$ 3,033 million in FY 2020/21 to US$ 3,204.5 million in FY 2021/22, as shown in Figure 18.

Figure 18: Origin of Uganda's Imports from different Regional Blocs



Source: MOFPED calculations based on data from BOU

About 86.6 percent of the imports from Asia, were sourced from China, India, Japan, and Malaysia, in FY 2021/22. Some of the imports from Asia include machinery, plastics, electronics, vehicles & accessories, and medical & pharmaceutical products. Kenya accounted for 69.2 percent of the total imports from EAC, while United Arab Emirates accounted for 64.5 percent of the imports from the Middle East, in the same period.

Trade with the EAC

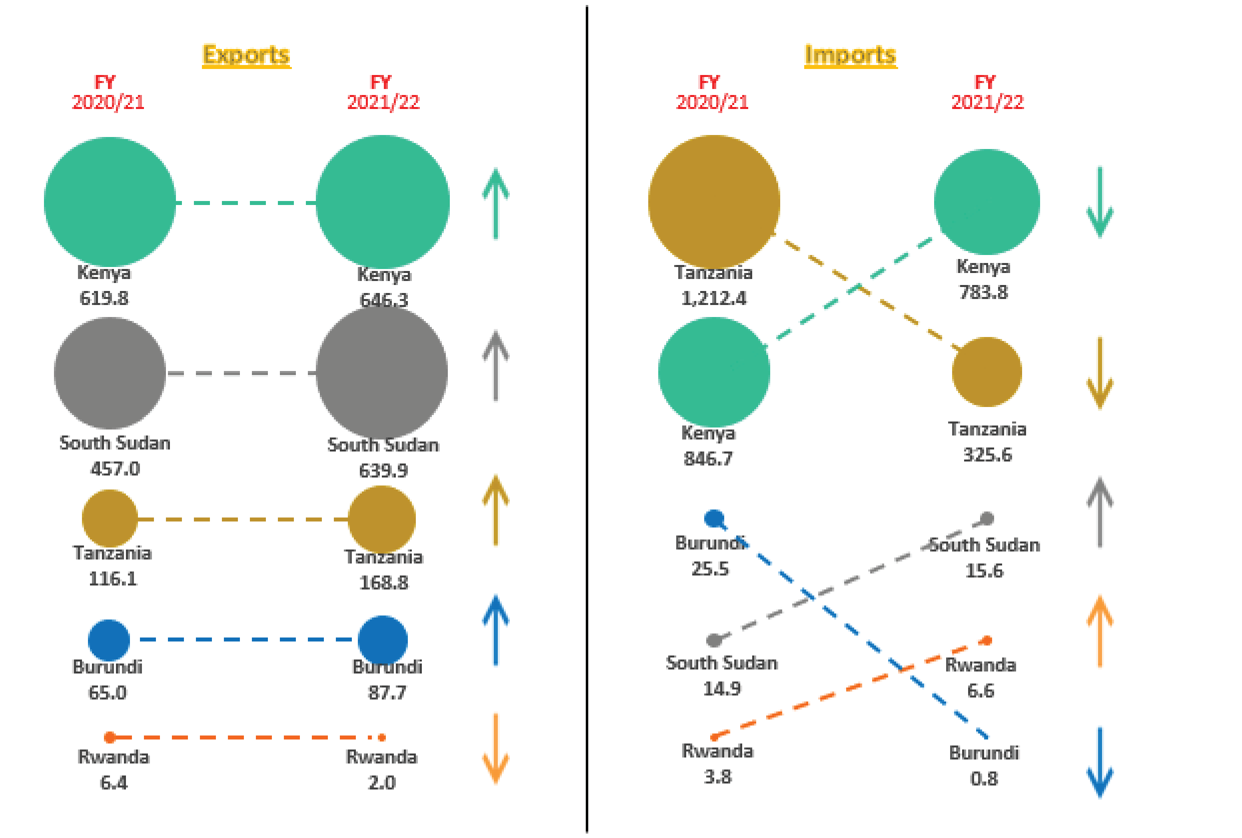
During FY 2021/22, the Uganda-Rwanda border was reopened after nearly three years of closure; and the Democratic Republic of Congo (DRC) was admitted into the East African Community. These developments present good prospects for the Ugandan economy as both countries are significant trading partners.

Uganda's merchandise trade balance with the EAC resulted in a surplus of US$ 412.2 million in FY 2021/22, a turnaround from a deficit of US$ 838.9 million registered the previous year. This followed a decline in the import bill from the region, which dropped from US$ 2,103.2 million in FY 2020/21 to US$ 1,132.4 million in FY 2021/22 mainly on account of exclusion of mineral imports from trade numbers. During the year, imports from Tanzania, Kenya, and Burundi declined; with Tanzania recording the largest drop, as shown in Figure 19. 98 percent of Uganda's imports from the EAC region originated from Kenya and Tanzania.

In addition, during the Financial Year 2021/22, merchandise export receipts to the East African Community (EAC) increased to US$ 1,544.6 million from US$ 1,264.3 million in

2020/21. Save for Rwanda, all EAC Partner States recorded increased exports from Uganda with Tanzania registering the highest growth. Kenya was the leading destination of Uganda's exports to the EAC, taking about 41.8 percent, followed by South Sudan (41.4 percent) then Tanzania (10.9 percent). Exports to Rwanda continued to decline significantly by 69.4 percent, as shown in Figure 19.

Figure 19: Uganda's Trade with EAC Partner States (US$ Million)



Source: Bank of Uganda

Other Balance of Payments (BOP) transactions

Balance of payments overview: External sector changes resulted in a reduced overall balance of payments surplus of US$ 66.1 million in FY 2021/22, compared to a surplus of US$ 241.4 million the previous Financial Year. The reduced surplus resulted from fewer net inflows through the financial account, which fell from US$ 3,428.9 million in 2020/21 to US $ 2,999.1 million in 2021/22. The dip in net inflows on the financial account was principally explained by a decrease in disbursements of general government external loans and higher portfolio outflows. Furthermore, greater placement of short-term deposits overseas in response to strong yields in advanced countries explains the decrease in net inflows.

Current Account: There was a decline in the current account deficit from US$ 3,837 million registered in FY 2020/21 to US$ 3,590.8 million in FY 2021/22. This development was largely on account of an increase in budget support grants and a pickup in tourism activity following the disruptions occasioned by the COVID-19 pandemic.

Tourism/ travel: Tourism activity improved during the financial year following the easing of travel restrictions given the fully reopening of the economy; and positive developments in vaccine rollout, globally. Tourism receipts amounted to US $ 978.35 million in FY 2021/22, higher than US $ 764.34 million recorded the previous year.

Remittances: Remittances fell marginally to US$ 1,133.9 million in FY 2021/22 from US$ 1,154.3 million in FY 2020/21, as economies of migrant-hosting nations continue to recover from the effects of the COVID-19 pandemic. Remittances to Uganda are largely sent from the Middle East, Western Europe, and North America.

Foreign Direct Investment (FDI): Uganda's foreign direct investment inflows were higher over the period in FY 2021/22 compared to the previous year largely due to increased investments in the oil sector given the Final Investment Decision. FDI inflows increased by 32.4 percent from US$ 920 million in FY 2020/21 to US$ 1,218.4 million in FY 2021/22.

Portfolio investments: Net Portfolio investments recorded a turnaround from an inflow of US$ 145 million in 2020/21 to an outflow of US$ 273.7 million in 2021/22. This was partly on account of Ugandan entities who increased their investments in debt securities of other countries, to diversify their investments.

International reserves: At the end of June 2022, the stock of international reserves stood at US$ 4,117.2 million. This was equivalent to 4.5 months of imports of goods and services. This reserve cover was lower than the 4.9 months of import cover recorded at the same time, the previous year.

FISCAL PERFORMANCE

Chapter II: Fiscal Performance

Overview

The Budget Strategy for FY 2021/22 was anchored on the third National Development Plan (NDP III), and focused on the following key objectives:

1. Interventions required to sustain recovery from the socioeconomic setbacks caused by COVID-19 and other internal and external shocks;
2. Investment in public infrastructure; and
3. Supporting private investments to increase production, productivity, and jobs.

Fiscal deficit

7.4% of GDP

Fiscal operations during the year were constrained by revenue shortfalls and supplementary expenditures that resulted into additional borrowing and reallocation within the budget. As a result, the overall fiscal balance was a deficit of UShs 11,973 billion, equivalent to 7.4 percent of GDP higher than the 6.4 percent of GDP projected at budget time. Table 4 shows a summary of fiscal operations.

Table 4: Fiscal Operations of the FY 2021/22 (UShs Billion)

Ushs Billion	Outturn FY2020/21	Budget FY2021/22	Outturn FY2021/22	Performance	Deviation
Revenues and Grants	**21,239**	**23,850**	**22,993**	**96.4%**	**(857.2)**
Revenues	**19,839**	**22,425**	**21,831**	**97.4%**	**(594.2)**
Tax Revenue	18,337	20,877	20,426	97.8%	(451.3)
Non-Tax Revenue	1,361	1,548	1,406	90.8%	(142.9)
Oil Revenue	141	-	-	0.0%	-
Grants	**1,400**	**1,425**	**1,162**	**81.5%**	**(263.0)**
Budget Support	75	76	108	142.5%	32.3
Project Support	1,325	1,349	1,054	78.1%	(295.3)
Expenditure and Lending	**35,141**	**34,233**	**34,967**	**102.1%**	**733.5**
Current Expenditures	**18,495**	**18,967**	**21,324**	**112.4%**	**2,357.0**
Wages and Salaries	5,180	5,529	5,628	101.8%	98.8
Interest Payments	3,990	4,698	4,966	105.7%	268.4
Domestic	3,020	3,468	4,163	120.0%	695.1
External	970	1,230	803	65.3%	(426.6)
Other Recurr. Expenditures	9,325	8,741	10,730	122.8%	1,989.7
Development Expenditures	**15,161**	**14,755**	**12,785**	**86.6%**	**(1,969.8)**
Domestic Development	9,682	7,997	8,141	101.8%	143.9
External Development	5,479	6,758	4,644	68.7%	(2,113.7)
Net Lending/Repayments	641	111	252	226.6%	140.5
Domestic Arrears Repaym.	844	400	606	151.5%	205.8
Overall Fiscal Bal. (incl. Grants)	**(13,902)**	**(10,383)**	**(11,973)**		
Financing:	**13,902**	**10,383**	**11,973**	**115.3%**	**1,590.8**
External Financing (Net)	**6,487.93**	**7,240**	**4,823**	**66.6%**	**(2,416.5)**
Disbursements	7,442	9,027	6,539	72.4%	(2,487.6)
Budget Support Loans	3,322	3,508	2,475	70.5%	(1,033.1)
Project Support Loans	4,119	5,519	4,064	73.6%	(1,454.5)
Armotization	(953.73)	(1,787.00)	(1,715.83)	96.0%	71.2
Domestic Financing (Net)	**6,796**	**3,142**	**5,586**	**177.8%**	**2,443.3**
Bank Financing (Net)	1,761	1,668	2,735	163.9%	1,066.8
Non-bank Financing (Net)	5,034	1,474	2,851	193.4%	1,376.5
Errors and Omissions	**619**	**0**	**1,564**		
Memorandum items:					
Revenue % GDP	13.4%	13.8%	13.5%		
Expenditure % GDP	23.7%	21.1%	21.6%		
Fiscal Deficit % GDP	-9.0%	-6.4%	-7.4%		

Source: Ministry of Finance, Planning and Economic Development

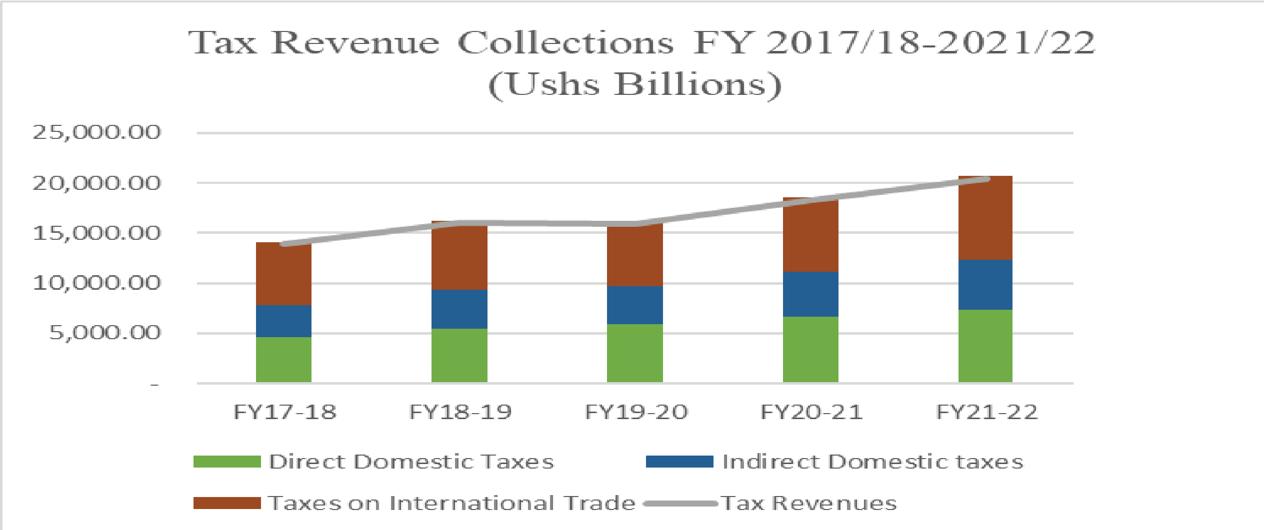
Revenues and Grants

Revenues and grants increased by UShs 1,201 billion to UShs 22,993 billion (14.2 percent of GDP) in FY2021/22 from UShs 21,793 billion, the previous year. This represents a shortfall of UShs 857 billion against the target for the financial year.

Domestic Revenues

Domestic revenue collections amounted to UShs 21,831.18 billion, up by 11.4 percent from the previous year. Tax revenue accounted for UShs 20,425.63 billion (97.8 percent) of total revenues, while non-tax revenue accounted for UShs 1,405.55 billion. In nominal terms, domestic revenue has grown at an average rate of 13 percent of GDP in the five years, excluding FY 2019/20 whose performance was affected by COVID-19. Tax revenue collections in FY 2021/22 were short of the UShs 20,876.95 billion target by UShs 451.31 billion as all major tax categories excluding tax on international trade, posted shortfalls.

Figure 20: Tax Revenue Collections (UShs Billions)



Source: Ministry of Finance, Planning and Economic Development

Direct domestic taxes amounted to UShs 7,375.64 billion, representing a shortfall of UShs 38.22 billion. This followed major shortfalls registered under corporate income, withholding and rental income tax. The shortfall in rental income tax was partly on account of delayed implementation of the rental income tax collection solution (which was provided by RippleNami). Furthermore, certain losses have occurred because of ambiguity in the rental income tax legislation which complicates tax administration and lower rent collections due to a decline in occupancy levels as some enterprises are now operating remotely and online. However, PAYE recorded a surplus (UShs 440.81 billion) because of employee recruitment and advancement in the public sector, coupled with payment of bonuses and higher salaries in the private sector.

Indirect domestic taxes registered a shortfall of UShs 746.90 billion against a target of UShs 5,689.50 billion, as both VAT and Excise duty underperformed. This was mainly attributed to declines in sales and production volumes of goods and services because of suppressed aggregate demand. In addition to declines in sales and production volumes, there were delays in the enforcement of Electronic Fiscal Receipting and Invoicing System (EFRIS) and the Digital Tax Stamps (DTS).

Taxes on international trade registered a surplus of UShs 293.69 billion, on account of:

1. An increase in excise duty by UShs. 100 per litre of petrol and diesel leading to extra collections of UShs. 232.9 billion; and
2. An increase in imported cars; volumes of iron and steel which also registered a surplus of UShs 440.93 billion under VAT on imports.

There was however a shortfall under export levy mainly due to the decision by Cabinet to halt the collection of levies on exported gold leading to a deficit of UShs 32.76 billion.

In the FY 2021/22, the new tax policy and administrative measures were expected to contribute a revenue gain of Shs 1,259.63 billion. However, these measures resulted in a cumulative net revenue gain of Shs 1,894.37 billion representing an achievement of 150.4 percent realization.

Table 5: Details of Domestic Revenue in UShs Billion

	Measure Category	Expected Revenue gain/loss	Actual Revenue gain/loss	Performance rate
1.	Income Tax	48.2	-	0.0%
2.	Excise Duty	293.2	280.7	95.7%
3.	Value Added Tax	10.0	116.4	1163.9%
4.	Fish Act, 2021	6.0	6.7	112.3%
5.	Tobacco Control Bill, 2021	10.0	0.1	0.5%
6.	Mining Act, 2021	30.0	2.3	7.7%
7.	Customs Amendments	62.0	104.8	169.0%
8.	NTR	1.2	-	0.0%
10	Administrative measures	799.0	1,383.5	173.1%
	Total	**1,259.6**	**1,894.4**	**150.4%**

Source: Uganda Revenue Authority

Administrative measures contributed 73 percent of overall revenue collections, while tax policy initiatives contributed 27 percent. The strong performance of administrative measures has been linked to arrears management efforts and improved non-intrusive inspection technologies such as scanners, which contributed considerably to tax revenue collections during the Financial Year 2021/22. The revenue gains from tax policy changes were mostly attributed to excise duty, which contributed UShs 280.7 billion of the total income generated from the initiatives. Table 6 shows the breakdown of domestic revenues in the Financial Year 2021/22.

Table 6: Details of Domestic Revenue in UShs Billion

Billion Shs	Program	Outturn	Performance	Deviation
Overall Net Revenue	**22,425.37**	**21,831.18**	**97.4%**	**(594.19)**
Net URA Tax Revenue	**20,876.95**	**20,425.63**	**97.8%**	**(451.31)**
Direct Domestic Taxes	**7,413.85**	**7,375.64**	**99.5%**	**(38.22)**
O/w PAYE	3,193.45	3,634.26	113.8%	440.81
Corporate Tax	1,747.42	1,635.86	93.6%	(111.56)
Presumptive Tax	37.96	7.46	19.6%	(30.50)
Withholding Tax	1,298.52	1,177.41	90.7%	(121.10)
Rental Income Tax	341.07	156.10	45.8%	(184.96)
Indirect Domestic Taxes	**5,689.50**	**4,942.60**	**86.9%**	**(746.90)**
Excise Duty	**1,873.37**	**1,646.70**	**87.9%**	**(226.67)**
O/w Beer	371.47	322.74	86.9%	(48.72)
Spirits/Waragi	187.05	122.92	65.7%	(64.13)
Soft Drinks	186.18	176.02	94.5%	(10.17)
Internet Data	125.04	85.76	68.6%	(39.28)
Mobile Money Transfers	125.07	133.98	107.1%	8.92
Bank Charges	124.19	101.75	81.9%	(22.43)
Value Added Tax	**3,816.13**	**3,295.90**	**86.4%**	**(520.23)**
O/w Manufacturing	2,231.69	1,900.48	85.2%	(331.21)
Services	628.33	649.86	103.4%	21.54
Construction	194.92	108.25	55.5%	(86.67)
Taxes on International Trade	**8,140.49**	**8,434.17**	**103.6%**	**293.69**
O/w Petroluem Duty	2,617.25	2,686.27	102.6%	69.02
Import Duty	1,676.49	1,557.06	92.9%	(119.43)
Excise Duty	261.05	268.69	102.9%	7.64
VAT on Imports	2,850.70	3,291.64	115.5%	440.93
Withholding Tax	201.23	167.78	83.4%	(33.45)
Tax Refunds	**(439.11)**	**(440.05)**	**100.2%**	**(0.95)**
Stamp & Embosing Fees	**72.22**	**113.28**	**156.9%**	**41.07**
Total NTR	**1,548.42**	**1,405.55**	**90.8%**	**(142.87)**

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

Government collected UShs 1,405 billion in non-tax revenues (NTR) registering a shortfall of UShs 142.9 billion. The underperformance of NTR in FY 2021/22 is partly because MDAs such as Uganda National Examinations Board, Uganda Wildlife Authority and National Medical Stores were allowed to retain their non- tax revenue collections (which altogether amounted to UShs 239.1 billion of the NTR target for FY 2021/22), instead of remitting them to Uganda Revenue Authority.

Grants

The government received grants of UShs 1,162 billion, accounting for 81.5 percent of the budgeted inflows. General budget support amounted to UShs 108 billion while project support was UShs 1,054 billion. Better performance was registered for budget support as the European Union (EU) and Austria provided more resources.

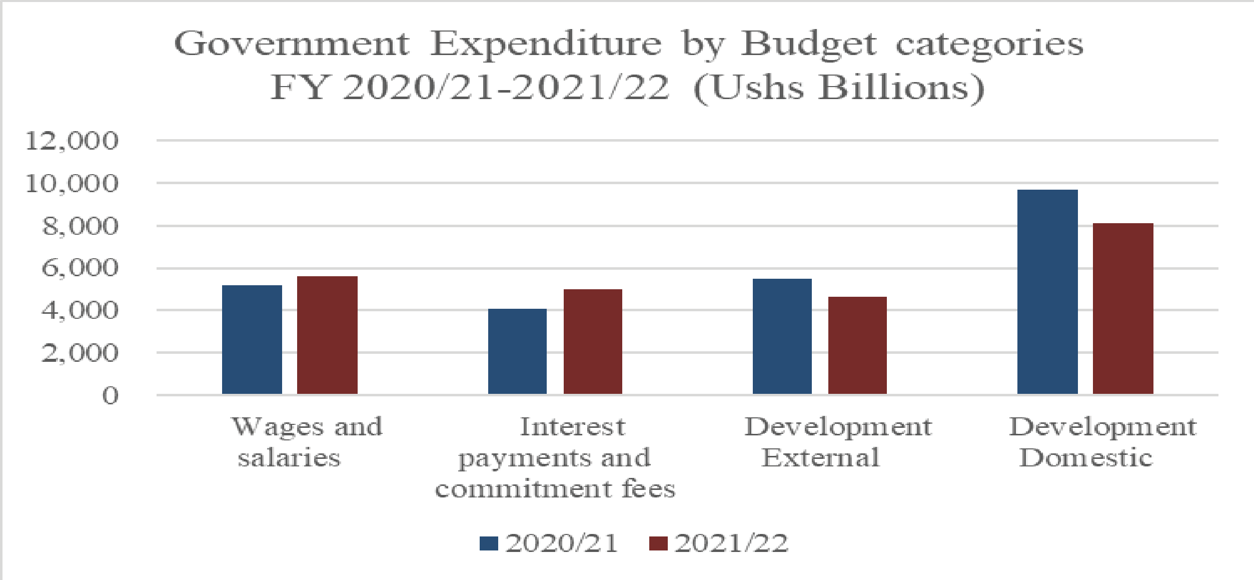
Of the expected project support grants of UShs 1,349 billion in the FY2021/22, only UShs 840 billion or 78 percent materialized. This was largely on account of limited GOU counterpart funding and capacity constraints which delayed project execution. For any subsequent fund disbursements, some projects require that there is satisfactory utilization of already disbursed funds.

Expenditure

Overall government expenditure (excluding domestic debt refinancing and external debt amortization, as well as expenditure related to local revenue and AIA) amounted to UShs 34,967 billion, exceeding the budgeted amount by UShs 733.55 billion due to additional supplementary expenditures to various MDAs, amounting to UShs 6.95 trillion. Total externally financed expenditures of UShs 2,113 billion were not released, nullifying the expected increase in expenditures from the supplementary.

Out of the total supplementary expenditures, UShs 5.044 trillion was allocated to recurrent spending for allowances to Parliament, maintenance costs under the Uganda Road Fund, social protection under the Ministry of Gender, and vaccines under National Medical Stores, while UShs 1.904 trillion was allocated to development spending. Current expenditure (wages and salaries, interest, and other current expenditure) thereby surpassed the planned amount by 112.4 percent and totalled UShs 2,359.97 billion. In addition, interest payments were greater than anticipated because of the reinstatement of funding that had been dropped during budget completion.

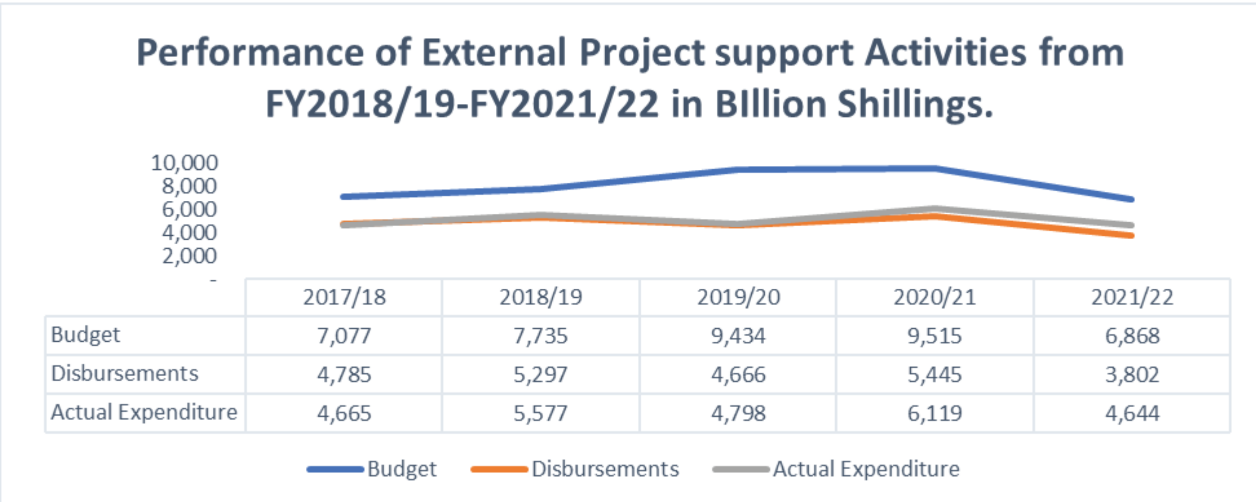
Figure 21: Government Expenditure by Budget Categories (UShs Billions)



Source: Ministry of Finance, Planning and Economic Development

On the other hand, development expenditure underperformed mainly due to the lower spending on externally financed development activities, which performed at 68.7 percent on account of lower project disbursements. This performance was however better than the FY 2020/21 performance of 63 percent indicating an improvement in execution of projects as government implements the Public Investment Management Strategy (PIMS). Figure 22 shows performance of externally financed projects.

Figure 22: Performance of External Project Support Activities (UShs Billions)



	2017/18	2018/19	2019/20	2020/21	2021/22
Budget	7,077	7,735	9,434	9,515	6,868
Disbursements	4,785	5,297	4,666	5,445	3,802
Actual Expenditure	4,665	5,577	4,798	6,119	4,644

Source: Ministry of Finance, Planning and Economic Development

Figure 22 above shows that, over the past five financial years, disbursements of externally funded project support funds have consistently been less than planned at budget time. This is mainly attributed to; inadequate counterpart (GOU) funding, capacity challenges, consideration of unready projects, the outbreak of the COVID-19 pandemic which slowed down project implementation and over commitment of the budget for some projects. In the FY2021/22, only 70.5 percent of the projected disbursements materialized, and many projects performed below their respective programmed targets except for World Bank's Municipal Infrastructure Project. Compared to the previous financial years, there was a reduction in the budget for FY2021/22 for externally funded projects resulting from Government's commitment to fiscal consolidation aimed at reducing the fiscal deficit and managing public debt over the medium term.

There was however an improvement in the absorption of funds in FY2020/21 and FY2021/22 from previously accumulated project deposits as reflected by higher actual expenditures[12] compared to the disbursed amounts. This is partly attributed to the implementation and enforcement of the PIMS.

Financing

The overall deficit for FY 2021/22 amounted to UShs 11,973 billion and was financed by borrowing from domestic and external sources. A total of UShs 6,539 billion was disbursed from external sources, out of which UShs 2,475 billion was for general budget support and UShs 4,064 billion earmarked for specific projects. Due to shortfalls in revenue and additional expenditure needs, Government borrowed UShs 5,228 billion from the domestic market and drew down from the petroleum fund as appropriated, to bridge the financing gap.

Debt Sustainability Analysis

The stock of public debt increased from US$ 19.54 billion (UShs 69,512 billion) in June 2021 to US$ 20.98 billion (UShs 78,799 billion) in June 2022. As a share of GDP, public debt increased from 47percent to 48.4 percent over the same period. The increase in debt was largely driven by revenue shortfalls and sluggish economic recovery following the easing of COVID-19 related restrictions.

Public debt is projected to further increase in FY 2022/23, and peak at 53.1 percent in June 2023, before declining to below 50 percent over the medium term. The increase in debt

[12] Actual expenditures are estimated as disbursements adjusted by changes in project deposits with the Central Bank.

over the past few years, exacerbated by the COVID-19 pandemic, has resulted in the deterioration of the risk of debt distress from low to moderate. Nevertheless, debt is projected to remain sustainable over the medium to long term, underpinned by higher revenues following the implementation of the Domestic Revenue Mobilisation Strategy (DRMS), as well as the onset of oil production.

Compliance with the Charter for Fiscal Responsibility

In FY 2021/22, nominal debt remained on track to fall below 50 percent of GDP in nominal terms by Financial Year 2025/26. The debt-to-GDP ratio was predicted to be 52.7 percent of GDP during the financial year, in accordance with the intended path in the charter. However, due to government efforts to reduce the country's debt, the actual percentage was 48.4 percent.

Although the charter laid out a 6.4 percent deficit for FY2021/22, the actual outturn was 7.4 percent. Subsequently, government fell short of the objective outlined in the plan to gradually reduce the overall fiscal balance to a deficit of no more than 3.0 percent of non-oil GDP by the end of the Financial Year 2025/26. This was mostly the result of increased expenditure demands and supplementary spending during the year, as well as slower-than-anticipated economic development, which had an impact on domestic revenue mobilization. In the Charter, the goal for non-oil revenue as a percentage of GDP was 13.8 percent. However, the performance for the fiscal year was 13.5 percent.

Government is committed to ensuring compliance with all the objectives set in the Charter for Fiscal Responsibility. Overall fiscal deficit is planned to be 5.2 percent in FY2022/23 as required by the Charter. This will be achieved through the ongoing two-pronged approach to fiscal consolidation;

i. Expenditure rationalization
ii. Increased revenue mobilization through strict implementation of the Domestic Revenue Mobilization Strategy.

Performance of the Petroleum Fund

The Financial Year opened with UShs 119.1 billion in the shilling denominated account and US$ 30.9 million in the dollar denominated account of the petroleum fund. Inflows into the account amounted to UShs 82.2 billion in the shilling account while there were no deposits in the dollar account. The sources of the revenue were income and withholding taxes, surface rentals and educational/instructional related levies. A combined total of UShs 200 billion was drawdown from the US$ account and the shilling account to finance activities as appropriated in the budget for the FY 2021/22. The closing balance as of 30th June 2022, was UShs 90 billion on the shilling account and US$ 5.4 million on the dollar account.

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. In FY 2021/22, a total appropriation of UShs 290.3 billion was made towards the Contingencies Fund.

Releases amounting to UShs 71 billion was made to the following Ministries:

1. Ministry of Health (UShs 36.5 billion for COVID-19 related procurements and routine operations);
2. Office of the Prime Minister (UShs 15 billion for provision of relief to flood and drought-affected vulnerable communities);
3. Ministry of Works and Transport (UShs 16.5 billion for Mandatory testing at Entebbe International Airport); and
4. Ministry of Defence and Veteran Affairs (UShs 3 billion for Research on the use of Ivermectin Prophylaxis in treatment of Covid-19 infection).

Virement report

From the preliminary data provided UShs 728 billion was vired throughout the year. The complete report on virement is provided in the budget performance report.

Donations by Vote

In the Financial Year 2021/22, the approved budget for donations amounted to UShs 162.89 billion of which UShs 185.9 billion was spent as shown in the Table 7.

Table 7: Donation by Vote for Financial Year 2021/22

Donations FY21/22- Ushs Billions	Budget	Outturn
Busitema University	0.0060	0.0059
Capital Markets Authority	0.0100	0.0090
Gulu University	0.0005	0.0003
Inspector General of Government's Office	0.0108	0.0081
Judiciary (Office of Judicature)	0.1080	0.1080
Kampala Capital City Authority	1.2255	1.2283
Makerere University	0.0050	-
Makerere University Business School	0.0500	0.0080
Mbarara University	0.0030	0.0005
National Council of Sports	0.1300	0.1299
National forestry authority	0.0140	0.0139
National Population Council	0.1596	0.0394
Office of the Prime Minister	4.2068	13.7067
State House	155.9925	169.6824
Uganda blood transfuzion service	0.6000	0.6000
Uganda Business and Technical Examination Board	0.0150	0.0150
Uganda Coffee Development Authority	0.1171	0.1171
Uganda Embassy in Belgium (Brussels)	0.0150	-
Uganda Management Institute	0.0280	0.0260
Uganda police	0.0357	0.0357
Uganda Prisons	0.0520	0.0520
Uganda Registration Services Bureau	0.0105	0.0105
Uganda Retirement Benefits Regulatory Authority	0.0987	0.0887
Total	**162.8936**	**185.8852**

Source: Ministry of Finance, Planning and Economic Development

OUTLOOK ON THE ECONOMY

Chapter III: Outlook on the Economy

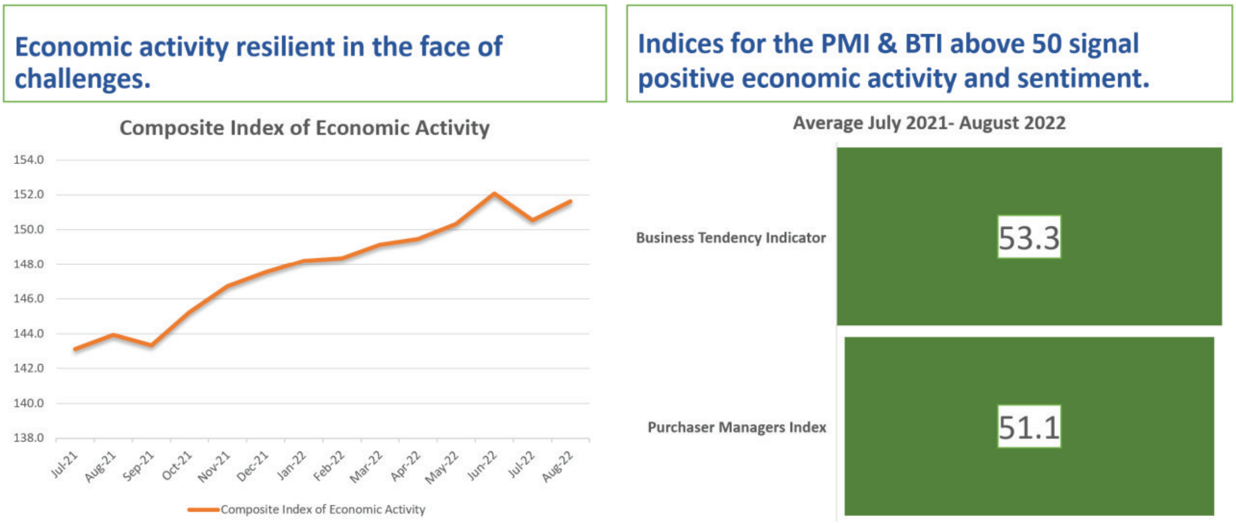
Economic Growth

The economy is projected to grow between 5.0 and 5.5 percent in FY 2022/23, a downward revision from the earlier estimation of 6.0 percent at the start of the Financial Year. The revision is on account of lower than estimated global growth, unpredictable weather patterns that have caused floods and drought in several parts of the country, high inflationary pressures coupled with the prevailing monetary and fiscal policy meant to curb rising prices. Additionally, the outbreak of the Ebola Virus Disease (EVD), Sudan strain poses a risk to economic activity. However, the country has overtime built and strengthened institutional capacity to contain the spread of the virus.

Nevertheless, the estimated GDP growth for the FY 2022/23 is still higher than the growth outturn of FY 2021/22, and will be driven by:

1. Government initiatives including the Parish Development Model, Small Business Recovery Fund, and Emyooga, among others, are anticipated to boost private investments and aggregate demand.
2. Following the final investment decision, significant investments in the oil and gas industry are anticipated, which will boost the economy's manufacturing, construction, and services sectors.
3. It is expected that the services sector will continue to expand because of the ongoing recovery in some of the key areas that were negatively affected by the pandemic, such as education, the arts & entertainment, and tourism.
4. According to the Uganda Metrological Authority's predictions for the rest of the year, favourable weather is expected to support crop planting. Additionally, ongoing government initiatives to raise the quality of agricultural inputs, offer extension services, and improve on irrigation systems are expected to boost agriculture production.
5. Continued deepening of regional integration is expected to boost growth in exports following the admission of Democratic Republic of Congo (DRC) into the East African Community, and the removal of Non-Trade Barriers with Kenya- specifically on milk exports. Additionally, in October 2022, commercial banks under the Uganda Bankers' Association (UBA) launched a UShs1 trillion Regional Export Facility, with an interest rate of 12 percent and 6 percent for shilling and foreign currency-denominated loans, respectively to support exporters within Uganda and the East African Region.

Figure 23: High Frequency Indicators of Economic Activity



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

Over the medium-term, economic growth is anticipated to average between 6 and 7 percent, driven primarily by an anticipated increase in production and productivity in agriculture and manufacturing, and largely supported by government interventions aimed at enhancing the quality of agricultural inputs, providing extension services, improving irrigation systems, and continuing to invest in industrial parks and economic free zones. In addition, recovery in private sector activity and investment, ongoing governmental infrastructure investment, and operations in the Oil and Gas industry are expected to support and boost economic growth even further.

Inflation

Although headline inflation is projected to continue rising and average at 7.3 percent in 2022, and between 8 and 10 percent in 2023 due to both external and domestic shocks. Annual core inflation is expected to converge to the Central Bank's medium-term target of 5 percent by FY 2024/25.

This will be on account of anticipated reduction in global oil prices and the relaxation of sanctions that had been imposed following the unrest between Russia and Ukraine. Continued Government interventions in the agriculture sector will also bolster food production and thus contribute to the reduction in food crop inflation. In addition, the reduction in inflation will be supported by implementation of prudent monetary and fiscal policies.

Financial Sector

Bank of Uganda pursued accommodative monetary policy to support economic activity following the onset of the COVID-19 pandemic and maintained the Central Bank Rate (CBR) at an all-time low of 6.5 percent throughout FY 2021/22. However, given that the outlook for inflation is highly uncertain, BoU has embarked on monetary policy tightening in FY 2022/23. With the persistent increase in the Central bank rate (10 percent as of October 2022), financial conditions are expected to tighten as commercial banks adjust their prime lending rates upwards. Nonetheless, 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 impacts of the geo-political tension in Eurasia and the slower pace of global economic recovery. PSC growth is forecast to pick up steam in the medium to long term because of a combination of factors including but not limited to a strengthening economy, falling commodity prices, and a secure investment climate.

External Sector

The exchange rate is largely expected to remain stable nonetheless under a bit of pressure in the short to medium term, due to increased domestic dollar demand, volatility in global financial markets and international crude oil prices as well as continued recovery in private sector imports. However, a Strong rebound in performance from tourism, remittances, coffee exports and Foreign Direct Investments particularly in the oil and gas sector are expected to continue supporting the positive performance of the overall balance of payment position. With effective and cautious monetary and fiscal policies, the relatively stable exchange rate is also likely to enhance trade and manufacturing, while posing minimal risk to domestic inflation.

Fiscal Operations

Boosting domestic revenue mobilization and fiscal consolidation are central to the government's fiscal operations in FY 2022/23 and the medium term, which must balance the needs of supporting economic recovery with the need to ensure fiscal and debt sustainability. Domestic revenue collection is projected to increase to 14.1 percent in FY 2022/23 from 13.5 percent in the previous Financial Year supported by the continued implementation of the Domestic Revenue Mobilization Strategy (DRMS). In addition, revenue growth will be supported by increased efficiency in tax administration by Uganda Revenue Authority (URA) and enhanced tax compliance through higher citizen engagement/education on taxation.

Budgetary policy will prioritize growth-friendly fiscal consolidation to guarantee macroeconomic stability and debt sustainability. This will be accomplished by prioritizing investment in sectors that have a greater multiplier impact on other sectors and boosting the efficiency of public sector investments to enhance the returns on public investments.

Table 7: Fiscal Framework which will guide Fiscal Operations in FY 2022/23 and the medium term

Projected fiscal operations (% of GDP)	Outturn	Budget	Proj.	Proj.	Proj.	Proj.
	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
Total revenue and grants	**14.2%**	**15.3%**	**15.5%**	**15.9%**	**17.6%**	**18.5%**
Revenue	13.5%	14.1%	14.4%	14.9%	16.9%	17.9%
Tax revenue	12.6%	13.1%	13.4%	13.9%	14.4%	14.9%
Non-tax revenue (including AIA)	0.9%	1.0%	1.0%	1.0%	1.0%	1.0%
Oil revenues (including capital gains tax)	0.0%	0.0%	0.0%	0.0%	1.4%	2.0%
Grants	0.7%	1.2%	1.1%	1.0%	0.7%	0.6%
Budget support	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
Project grants	0.6%	1.2%	1.1%	0.9%	0.7%	0.6%
Expenditures and net lending	**21.6%**	**20.7%**	**19.0%**	**19.4%**	**20.5%**	**21.2%**
Current expenditures	13.2%	12.3%	11.9%	11.8%	12.1%	12.3%
Wages and salaries	3.5%	3.5%	3.5%	3.6%	3.8%	4.0%
Interest payments and commitment fees	3.1%	2.6%	3.0%	2.7%	2.5%	2.4%
o/w: domestic	2.6%	2.0%	2.6%	2.4%	2.2%	2.1%
o/w: foreign and commitment fees	0.5%	0.6%	0.4%	0.3%	0.3%	0.3%
Other current spending	6.6%	6.2%	5.5%	5.5%	5.8%	5.9%
Development expenditures	7.9%	7.9%	7.0%	7.5%	8.3%	8.1%
External	2.9%	3.5%	3.3%	4.0%	4.4%	4.0%
Domestic	5.0%	4.3%	3.7%	3.5%	3.9%	4.1%
Net lending and investment	0.2%	0.2%	0.0%	0.0%	0.0%	0.3%
Of which: HPP projects	0.2%	0.2%	0.0%	0.0%	0.0%	0.3%
Of which: BoU recapitalisation and other Recapitasation (Housing Finance Bank)	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%
Other spending (clearance of arrears, etc.)	0.4%	0.4%	0.1%	0.1%	0.1%	0.5%
Overall balance	**-7.4%**	**-5.4%**	**-3.5%**	**-3.5%**	**-2.9%**	**-2.7%**
Primary balance	-4.3%	-2.8%	-0.5%	-0.8%	-0.4%	-0.3%
Financing	7.4%	5.4%	3.5%	3.5%	2.9%	2.7%
External financing (net)	3.0%	2.6%	1.7%	1.7%	2.2%	3.4%
Domestic financing (net)	3.4%	2.8%	1.8%	1.8%	0.7%	-0.6%
Bank financing	1.7%	1.4%	0.6%	0.9%	0.0%	-0.9%
Bank of Uganda	-5.0%	-4.4%	-4.8%	-3.6%	-2.8%	-3.1%
Commercial banks	6.7%	5.8%	5.4%	4.5%	2.8%	2.2%
o/w: securities for fiscal purposes	1.5%	1.4%	1.2%	0.9%	0.7%	0.3%
o/w: securities for domestic amoritisation	5.3%	4.4%	4.2%	3.6%	2.1%	1.9%
Non-Bank financing	1.8%	1.4%	1.2%	0.9%	0.7%	0.3%
Errors and omissions/gap	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%

Source: Ministry of Finance, Planning and Economic Development

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