HALF YEAR MACROECONOMIC & FISCAL PERFORMANCE REPORT

FINANCIAL YEAR 2022/23

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

www.mepd.finance.go.ug

FEBRUARY 2023

HALF YEAR MACROECONOMIC & FISCAL PERFORMANCE REPORT

FINANCIAL YEAR 2022/23

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

FEBRUARY 2023

Table of Contents

LIST OF FIGURES iii

LIST OF TABLES iv

FOREWORD v

EXECUTIVE SUMMARY vi

LIST OF ACRONYMS AND ABBREVIATIONS.. vii

MACRO-ECONOMIC DEVELOPMENTS 1

Economic Growth.. 2

Inflation.. 4

Financial Sector Trends 8

External Sector 14

FISCAL PERFORMANCE 29

Overview 23

Total Revenues and Grants.. 24

Domestic Revenue Collections 25

Grants.. 28

Government Expenditure 29

Financing 39

Debt Sustainability Analysis.. 40

Compliance with the Charter for Fiscal Responsibility 40

Performance of the Petroleum Fund 41

OUTLOOK ON THE ECONOMY 33

Economic Growth.. 34

Inflation.. 34

Financial sector 35

Fiscal Operations 35

List Of Figures

Figure 1: High Frequency Indicators of Economic Activity 3

Figure 2: Real GDP Growth Rates (%) 4

Figure 3: Annual Inflation breakdown by Sub-components. 5

Figure 4: Average annual inflation rates among EAC partner states. 7

Figure 5: Movements in the International Oil Prices and Coffee Composite Price Indicator, H2 2021/22 vs H1 2022/23 8

Figure 6: Movements in Central Bank Rate and Commercial Bank Lending Rate 9

Figure 7: Movement of Treasury Bill Yields (interest rates) 10

Figure 8: Breakdown of Government Securities (Billion Shs) 11

Figure 9: Stock of Outstanding Private Sector Credit 12

Figure 10: Exchange Rate Movement (Shs against USD) 13

Figure 11: percentage Change in Exchange Rates (Period Average) for EAC Partner States between H1 FY2022/23 and H2 FY2021/22 14

Figure 12: Top Commodity exports of Uganda in H1 2022/23 vs H1 2021/22 (USD Million) 15

Figure 13: Destination of Uganda's exports to different Regional Blocs 16

Figure 14: Composition of Formal Private sector Imports by Category 18

Figure 15: Origin of Uganda's Imports from different Regional Blocs 19

Figure 16: Uganda's Trade Balance across regional Blocs in HY FY2022/23 vs H1 FY2021/22 (USD Million) 20

Figure 17: Revenue performance for H1, last four Financial Years (FY 2018/19 – FY 2022/23) 25

List Of Tables

Table 1: Average Annualised Yields on Treasury Bills (%) **10**

Table 2: Performance of Imports in USD millions **17**

Table 3: Fiscal Operations in the first half of FY2022/23 (Billion Shs) **24**

Table 4: Details of Domestic Revenue in Billion Shillings **28**

Table 5: Loans contracted by Government in the First Half of FY2022/23 **31**

FOREWORD

The Public Finance Management Act (PFMA) 2015 as amended, requires the Minister of Finance, Planning and Economic Development to submit to Parliament a fiscal performance report by the end of February and October of each financial year. Therefore, my Ministry has prepared the Half Year Macro-Economic and Fiscal Performance Report for the Financial Year 2022/23 that incorporates the fiscal and economic implications of both government decisions and other economic circumstances for the period ended on 31st December 2022.

During the first half of the financial year, the economy continued on its recovery from the domestic and external shocks such as COVID-19 and geopolitical conflicts. This was against headwinds of a dampened global economy, heightened inflation and monetary tightening in advanced economies.

The occurrences in the global economy spilled into our own economy. Economic activity has been slower than initially anticipated. There has been a rise in inflation due to heightened global commodity prices such as petroleum products that have fed into local prices. In response, the central bank increased the policy rate leading to higher costs of borrowing both for the private sector and Government.

All the above influenced Government fiscal operations during the first half of the financial year. Revenue collections were less than projected, borrowing from the domestic market became costlier prompting Government to substitute a portion of it with external borrowing. Ultimately, Government spending was less than planned for the period.

Going forward, we expect the economy to grow by 5.3 percent in FY2022/23. The inflation outlook is positive with expectation to reduce to single digit and return to the target of 5 percent in the medium term.

Matia Kasaija (MP)

MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

EXECUTIVE SUMMARY

The economy remained resilient in the first half of financial year 2022/23 amidst global turbulences. The Gross Domestic Product (GDP) is estimated to have registered growth of 7.5% during the first quarter of FY2022/23 - a significant improvement from the 2.7% growth registered for quarter 1 of FY2021/22. In addition, the high frequency indicators of economic activity show improvement in the level of economic activity. The Composite Index of Economic Activity (CIEA) grew by 5.0% when compared to the same period of last year while both the Purchasing Managers Index (PMI) and the Business Tendency Index (BTI) remained above the 50-mark threshold signaling optimism and improvements in economic conditions.

Despite the projected slowdown in global economic growth from the 3.4% registered in 2022 to 2.9% in 2023, Uganda's economy is projected to expand by 5.3% in FY2022/23 higher than the 4.7% registered for the previous year.

The first half of financial year 2022/23 was characterized by high inflation, with the annual headline inflation averaging at 9.7% compared to an average of 4.6% in second half of FY2021/22. Food crop inflation averaged 22.3% in first half of FY2022/23 from 6.6% recorded for second half of FY2021/22 largely due to drought across several parts of the country in first quarter of the financial year. Energy, Fuels and Utilities (EFU) inflation also rose to an average of 15.5% in first half of FY2022/23 from an average of 9.9% in second half of FY2021/22 mainly on account of the high international oil prices that kept domestic fuel prices elevated. Similarly, Core inflation averaged at 8% in first half of FY2022/23 from 4.0% recorded in the second half of FY2021/22 mainly driven by input costs in the processing and services sectors.

In the financial markets, the first half of financial year 2022/23 was characterized by a contractionary monetary policy stance adopted by the Bank of Uganda to curb inflation. As a result, various interest rates increased during the period. Lending rates charged by commercial banks to the private sector increased from an average of 15.53% in July 2022 to an average of 18.91% in December 2022. Similarly, yields on Government securities trended upwards.

Despite the rising interest rates, there was a 32.0% growth in the value of loans approved for disbursement in first half of FY2022/23 compared to second half of FY2021/22. The value of credit approved for extension to the private sector in first half of FY2022/23 amounted to Shs 7,380.15 billion. Ultimately, the stock of private sector credit grew by 1.7% from the Shs 19,808.71 billion recorded at the end of June 2022.

Government borrowed Shs 5,479.05 billion (at cost) from the domestic market in the first half of the financial year. Of this amount, Shs 3,110.24 billion was used for the refinancing of maturing debt while Shs 2,368.81 billion was used to finance other activities in the budget.

In the forex market, the Shilling traded at a period average of Shs 3,787.12/US$ in first half of FY2022/23 which was higher than the period average of Shs 3,592.51/US$ recorded in second half of FY2021/22, implying a depreciation of 5.4% between the two periods. This was partly due to tightening of monetary policy in the months leading to first half of FY2022/23 by major advanced economies in response to the rising inflation globally. Although the exchange rate was elevated in first half of FY2022/23 compared to second half of FY2021/22, the Shilling regained ground against the US Dollar on monthly basis from September 2022 up to the end of the period under review mainly on account of seasonal inflows from remittances, receipts from coffee exports, and foreign direct investments (FDI) especially in the oil and gas sector.

In the external sector, export earnings increased by 24.2% compared to the same period of last year mainly on account of increased regional trade due to the easing of non-tariff barriers with Kenya, re-opening of the Rwanda – Uganda border, Democratic Republic of Congo joining the EAC and resumption of the exportation of gold in August 2022.

Other earnings from the rest of the world also continued to improve in the first quarter of the financial year. Earnings from tourism amounted to US$ 209.74 million in quarter 1 FY 2022/23, up from US$ 192.42 million in the same period the previous year. Similarly, remittances increased to US$ 348.73 million in quarter 1 FY 2022/23 from US$ 254.30 million recorded in quarter 1 FY 2021/22. Foreign Direct Investment (FDI) increased by 48.3% to US$ 474.87 million in quarter 1 FY 2022/23 from US$ 320.25 million in quarter 1 FY 2021/2022 following the increase in activities in the oil sector.

Nevertheless, Uganda traded at a deficit with the rest of the world in first half of FY2022/23 having exported goods worth US$ 2,233.9 million and imported goods worth US$ 4,095.0 million. Uganda's trade deficit increased from US$ 1528.3 million in the first half of FY 2021/22 to US$ 1,861.1 million in FY 2022/23.

In the fiscal sector, revenue collections during the first half of FY 2022/23 amounted to Shs 11,694.38 billion against a target of Shs 11,971.75 billion. This resulted in a shortfall of Shs 277.37 billion (2.4 percent) during the period as both tax and non-tax revenue were short of their respective targets. Despite the shortfall, there was improvement in revenue collections shown by a nominal growth of 12.8 percent when compared with the first half of FY2021/22.

List of Acronyms and Abbreviations

ACFTA	African Continental Free Trade Area
AIA	Appropriation in Aid
BOP	Balance of Payment
BOU	Bank of Uganda
BTI	Business Tendency Index
CBR	Central Bank Rate
CFR	Charter for Fiscal Responsibility
CIEA	Composite Index of Economic Activity
CIF	Cost Insurance &Freight
DSA	Debt Sustainability Analysis
EAC	East African Community
EFU	Energy Fuel and Utilities
FDI	Foreign Direct Investment
FY	Financial Year
GDP	Gross Domestic Product
ICO	International Coffee Organisation
IMF	International Monetary Fund
MPC	Monetary Policy Committee
NDP	National Development Plan
MoFPED	Ministry of Finance, Planning and Economic Development
NTR	Non-Tax Revenue
PAYE	Pay As You Earn
PFMA	Public Finance Management Act
PMI	Purchasing Managers' Index
PSC	Private Sector Credit
Shs/UGX	Ugandan Shilling
UBOS	Uganda Bureau of Statistics
URA	Uganda Revenue Authority
USD	United States Dollars
VAT	Value Added Tax

MACRO-ECONOMIC DEVELOPMENTS

Economic Growth

The economy registered a year-on-year quarterly growth of 7.5 percent in the first quarter of FY2022/23. This is a significant improvement compared to the 2.7 percent growth registered for quarter one (Q1) of last financial year despite a slowdown in global growth and climate related shocks. The economic growth in Q1 FY2022/23 was mainly driven by a significant pickup in the level of economic activity in the industry and services sectors. Economic activity in the agriculture, forestry, and fishing sector was modest owing to unfavorable weather conditions.

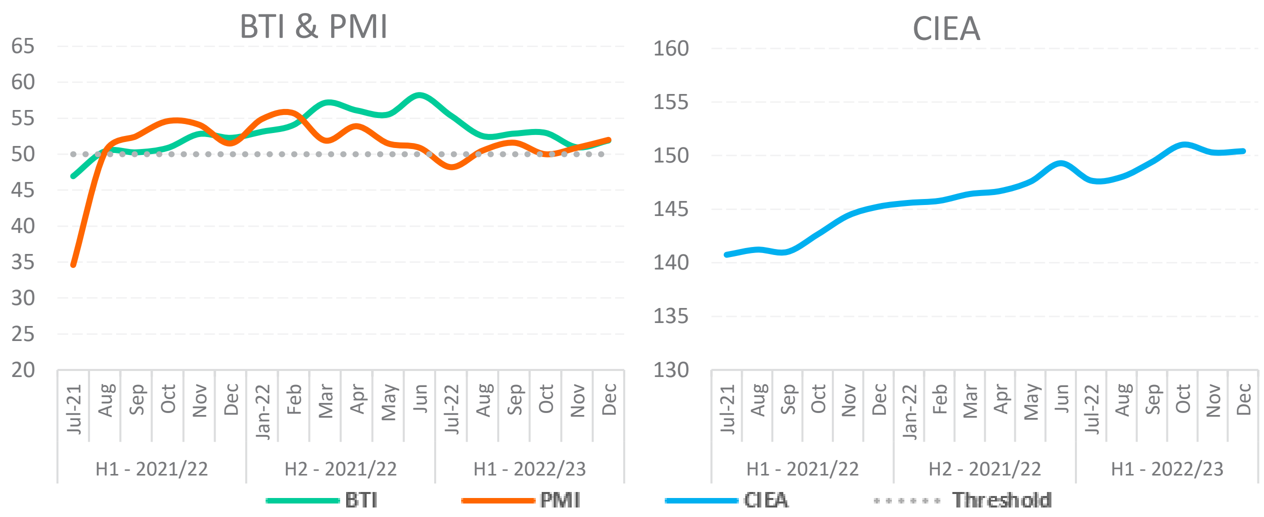
The industry sector grew by 12.7 percent compared to only 0.2 percent growth in quarter one of the previous Financial Year while the services sector grew by 9.0 percent compared to 2.8 percent the same period last financial year. This was due to increased output from manufacturing, wholesale and retail trade, telecommunication, and human health activities. The agriculture, forestry and fishing sector grew by only 0.2 percent compared to 5.3 percent the same period last year due to the prolonged dry spell observed from April to early August 2022, that negatively affected food crop activities.

In addition to the quarterly GDP growth, the resilience in economic activity is further shown by the high frequency indicators of economic activity like the Composite Index of Economic Activity (CIEA), Purchasing Manager's index (PMI) and the Business Tendency Index (BTI) all of which show improvements in the first half of FY 2022/23.

The CIEA grew by 5 percent on average, when compared to the same period last financial year while the PMI remained above the 50-mark threshold, indicating increased economic activity. The BTI was also recorded above the 50-mark threshold during the first half of the FY 2022/23 which showed better prospects and optimism about doing business in Uganda from the business community and investors. Figure 1 shows movements in the various indicators of economic activity.

Figure 1: High Frequency Indicators of Economic Activity

BTI and PMI remain above the 50-mark threshold signaling optimism and continued economic activity.	Improvement and resilience in economic activity despite challenges.

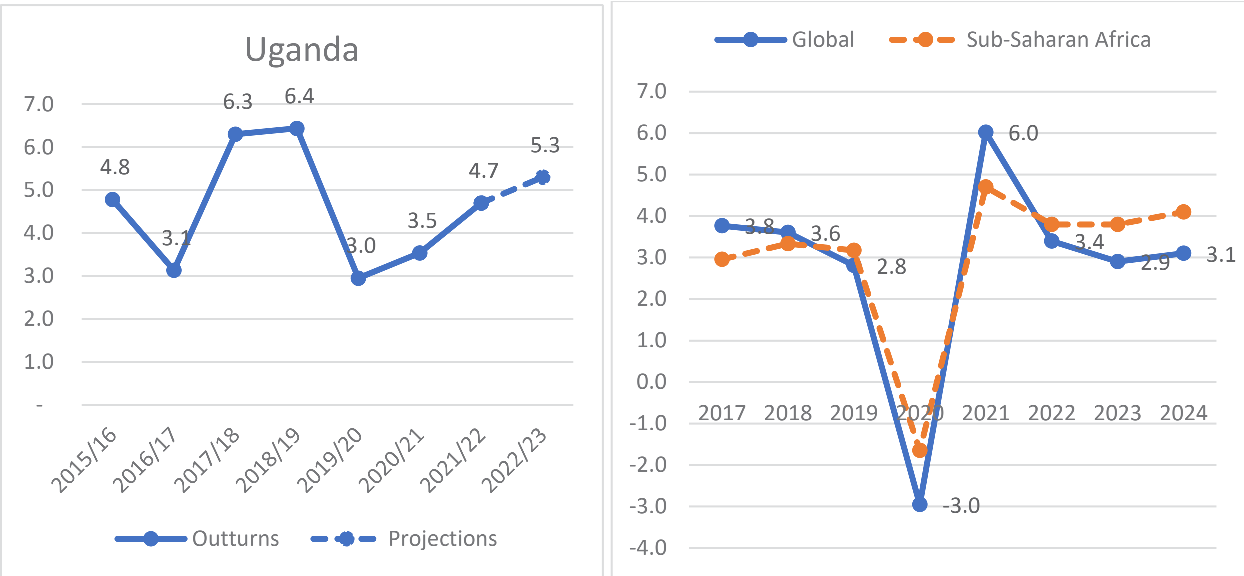


Source: Bank of Uganda; Stanbic Bank Uganda

Going forward, the economy is projected to grow at 5.3 percent this financial year, higher than the outturn of 4.7 percent registered the previous financial year. The projected growth for this Financial Year is however a downward revision from 6.0 percent projected at budget time on account of commodity price shocks, slowdown in the global economy, and climate related shocks.

Global growth is projected to further decline to 2.9 percent in 2023 from an estimated 3.4 percent and 6.0 percent in 2022 and 2021 respectively. This is mainly due to high inflation, tightening financial conditions and the Russian-Ukraine war which continues to obstruct economic activity. Likewise, GDP growth in Sub-Saharan Africa is expected to stagnate at 3.8 percent in 2022 and 2023 from 4.7 percent in 2021. Nevertheless, global and sub-Saharan growth is expected to pick up to 3.1 percent and 4.1 percent respectively in 2024 which will support increased economic activity and international trade in Uganda.

Figure 2: Real GDP Growth Rates (%)



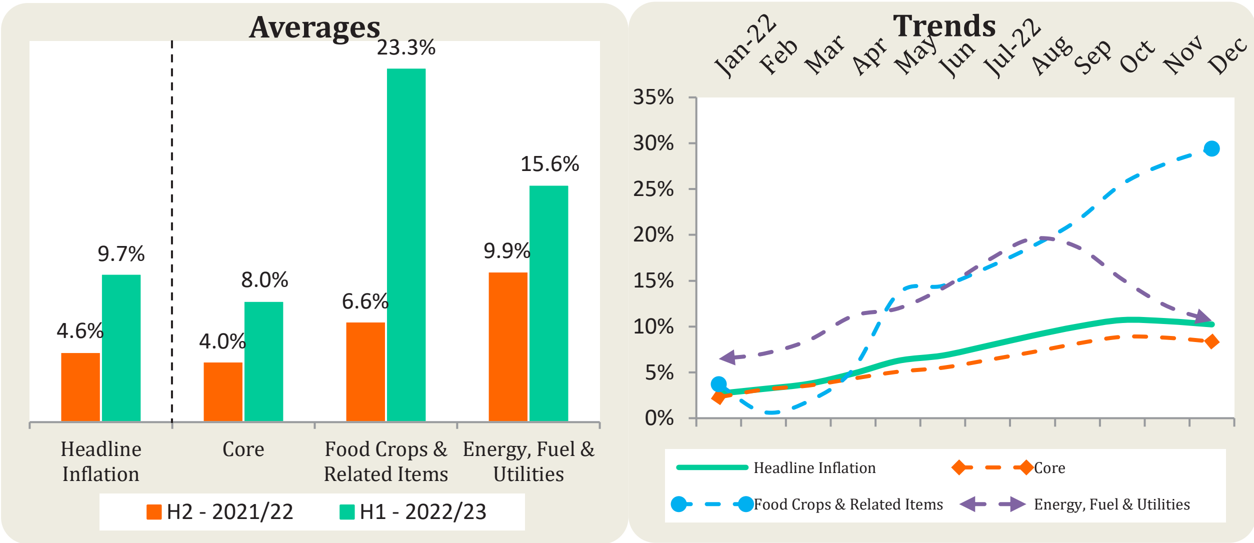
Source: Uganda Bureau of Statistics, MoFPED, IMF World Economic Outlook update-January 2023

Inflation

Annual headline inflation significantly increased to 9.7 percent during the first half of FY 2022/23 from an average of 4.6 percent during the previous half.

The increase in annual headline inflation was mainly driven by higher prices of food crops, liquid fuels, manufactured foods as well as education and transport services. Consequently, all three subcomponents of headline inflation increased during the period under review as shown in figure 3.

Figure 3: Annual Inflation breakdown by Sub-components.



Source: Uganda Bureau of Statistics

While there was a general increase in inflation from the second half of financial year 2021/22 to the first half of financial year 2022/23, monthly trends in annual headline inflation indicate a marginal decline from October to December 2022 as shown in figure 3. Similarly, both core and EFU inflation declined over the same period. As at end December 2022, annual headline inflation stood at 10.2 percent from a peak of 10.7 percent recorded in October 2022.

Food crops inflation.

Annual Food crop inflation rose by the largest margin, to a six months' average of 22.3 percent in the first half of FY2022/23 from 6.6 percent recorded in the previous half. This was largely due to the prolonged dry spell from April to August 2022 across several parts of the country which undermined crop harvests and the planting season. Furthermore, increased demand for Uganda's food from the East African Community exerted additional pressure on food crop prices. Significant price increases were recorded for food crops such as bananas, beans, peas, tomatoes, matooke, Irish potatoes, among others.

Core inflation.

Annual core inflation was recorded well above the Central Banks target of 5.0 percent to a six months' average of 8 percent in the first half of FY2022/23 from the 4 percent average recorded in the previous half. This increase was mainly driven by the rising input costs within food processing and services sectors. Prices of several manufactured foods such as simsim, sorghum, maize flour, cassava flour, baked goods, and sugar all increased in line with the rising food crop prices while education and transport costs increased in line with the rising fuel and food prices.

Energy Fuel & Utilities (EFU) Inflation

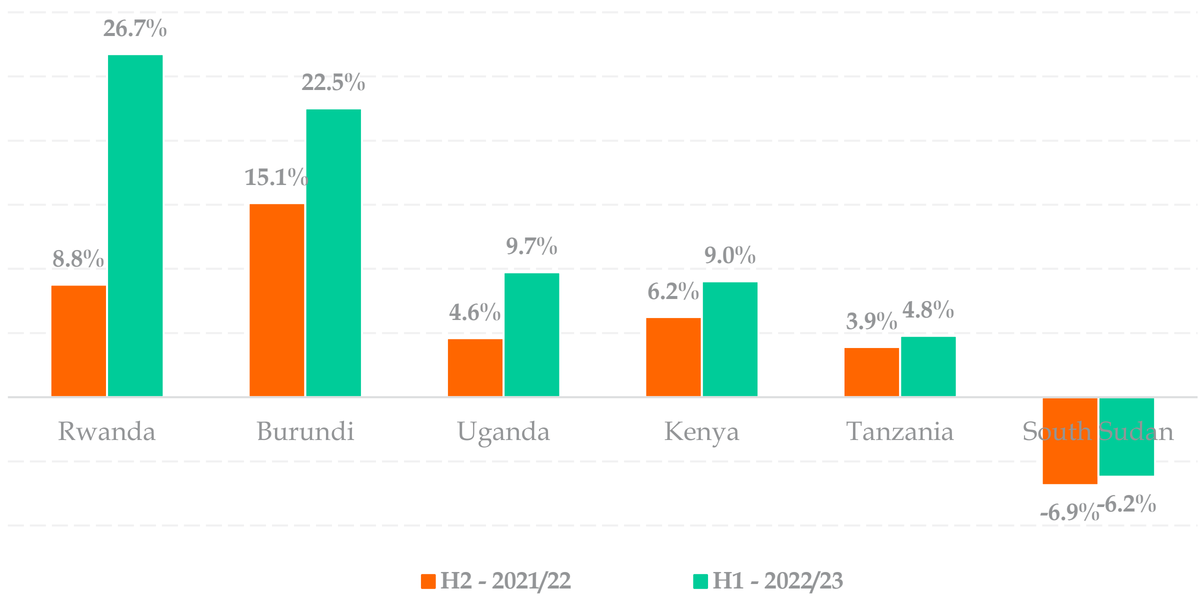
EFU inflation also increased to a six months' average of 15.5 percent in the first half of FY2022/23 from the 9.9 percent average recorded in the previous half. This was mainly attributed to the high international oil prices that have kept domestic fuel prices elevated.

Nonetheless, month to month trends of the period under review show that EFU inflation, while still registering double digits, reduced considerably from 19.6 percent in August 2022 to 10.6 percent in December 2022. This decline in EFU inflation was in line with a decline in international crude oil prices from 122 dollars per barrel in June 2022 down to 80.92 dollars per barrel in December 2022.

Inflation across the East African Community

There was a general increase in inflation across all EAC partner states with the highest six months' averages recorded in Rwanda and Burundi at 26.7 percent and 22.5 percent respectively. Additionally, Uganda, Kenya, Rwanda and Burundi all registered inflation high above the EAC convergence target of 8 percent. In the previous half year however (H2 FY2021/22), only Rwanda and Burundi inflation rates were above this target. There are two common drivers of the high inflation in the region; the rising food prices brought about by severe drought conditions spread across the region and high fuel prices linked to the high international oil prices.

Figure 4: Average annual inflation rates among EAC partner states.



Source: Respective National Bureaux of Statistics.

Global Commodity Prices and The Impact on The Domestic Economy

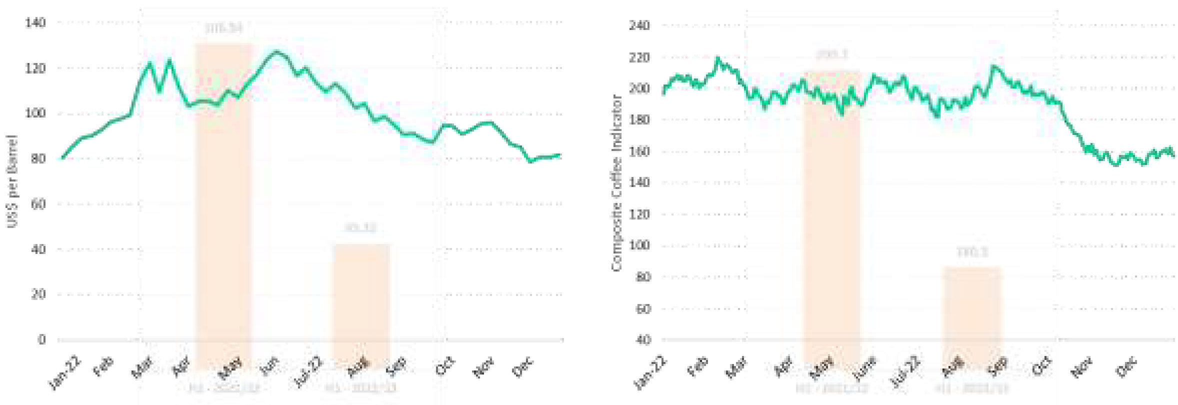
Oil Prices

International prices for Brent crude oil decreased to an average of USD 95.32 a barrel in the first half of FY2022/23 from USD 106.94 a barrel in the last part of FY2021/22 as illustrated in figure 5. This led to a reduction in local pump prices over the same period. The decline in prices for crude was in part driven by a move by Russia to offer her crude at a discount; the lockdown put in place by the Chinese government to contain the resurging cases of corona virus in the later months of 2022 and overall decline in economic activity across the globe which led to the decline in demand hence the reduced prices.

Coffee prices

For the period July – December 2022, the coffee composite price indicator published by the International Coffee Organisation trended downwards to an average of 180.5, reflecting a general decline in the international prices for coffee compared to the second half of FY2021/22 (200.7). This was on account of improved weather conditions in key coffee growing countries like Brazil and Indonesia in the later part of 2022, resulting in increased supply and the drop in coffee prices. Brazil suffered severe drought and unusual frost conditions in most of 2021, hence the elevated coffee prices that only started to drop in the first half of FY 2022/23 as shown in figure 5.

Figure 5: Movements in the International Oil Prices and Coffee Composite Price Indicator, H2 2021/22 vs H1 2022/23



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

Financial Sector Trends

Interest Rates

In the first half of FY2022/23, the Central Bank Rate (CBR) was maintained at 10 percent, a rate deemed appropriate at the time to deliver inflation back to the 5.0 percent target given that factors responsible for high inflationary pressures were diminishing and was also sufficient to offer the necessary support to the economic growth prospects of the country.

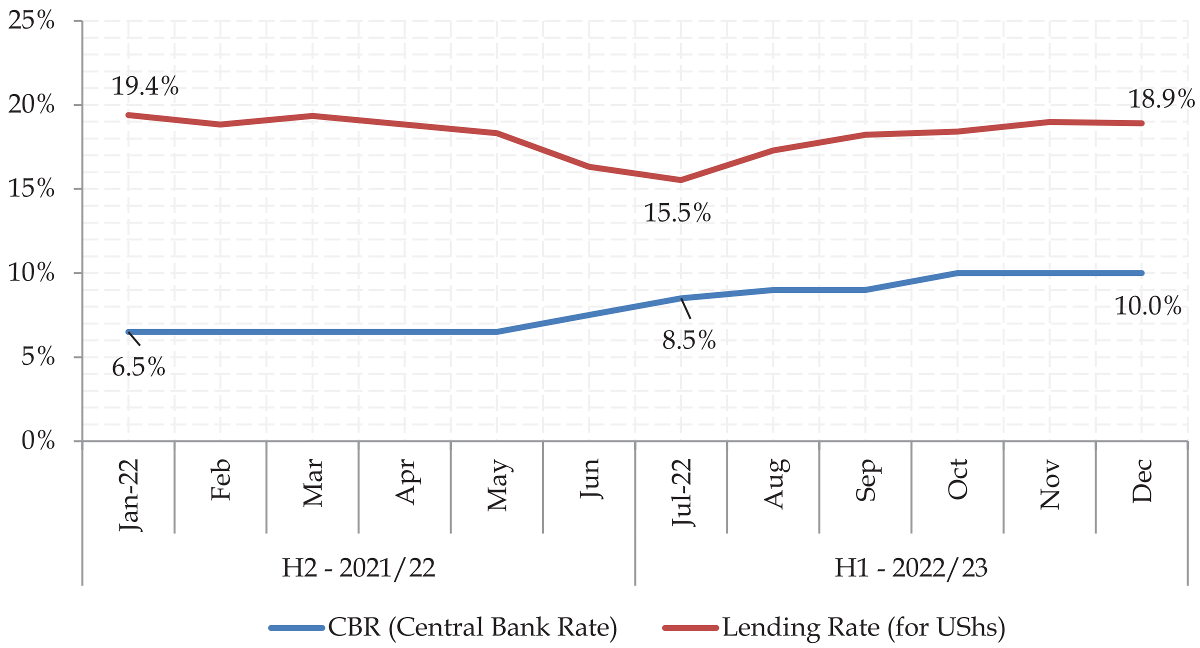
The first half of Financial Year 2022/23 was characterised by a contractionary monetary policy stance adopted by the Bank of Uganda to curb inflation. The Central Bank Rate (CBR) was raised three times during the six months, from 7.5 percent in June 2022 to 8.0 percent in July 2022 and then to 9.0 percent and 10.0 percent in August and October 2022, respectively. The increment in the CBR, which represents a total of 3.5 percentage points from the 6.5 percent that prevailed in the first half of FY2021/22 led to a general rise in interest rates.

Interest rates in the interbank market were on an upward trend throughout the first half of the financial year. The seven-day and overnight interbank rates (rates at which commercial banks lend to each other) increased from an average of 6.78 percent and 7.05 percent in H2 of FY2021/22 to an average of 10.19 percent and 11.07 percent respectively in in the first half of FY2022/23, implying tightening liquidity conditions in the financial sector.

Lending Rates (weighted average)

Lending rates charged by commercial banks and other institutional lenders were on an upward trajectory throughout the first half of the financial year 2022/23 as illustrated in figure 6. On average, lenders charged 18.91 percent in December 2022 up from the average of 15.53 percent charged in July 2022 for the Shilling denominated credit extended to the private sector. Similarly, lending rates charged on foreign currency-denominated credit rose to an average of 8.01 percent in December 2022 from an average of 6.34 percent in July 2022. The increase in lending rates was mainly due to the tightening of the monetary policy by the Central Bank.

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



Source: Bank of Uganda

Yields (interest rates) on Treasury Bills

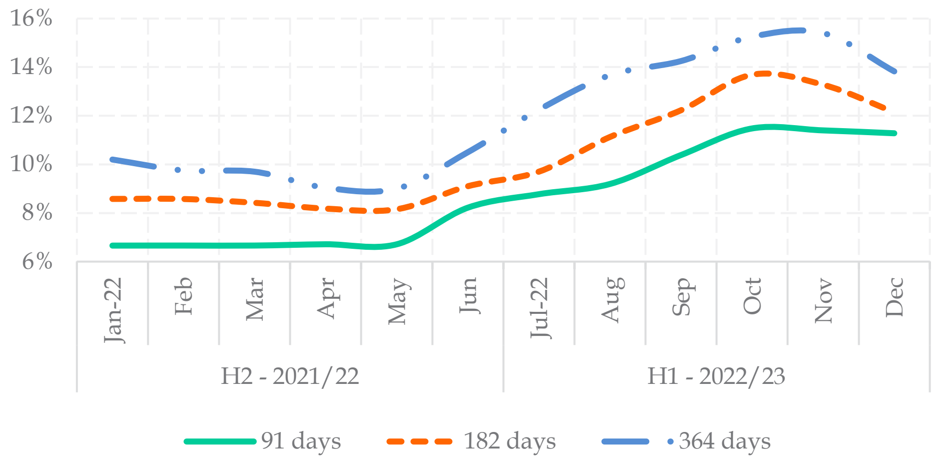
During the period under review, yields on Treasury bills edged upwards across all tenors. This followed a combination of several factors, namely, high borrowing requirements at the end FY 2021/22, rising inflation and an increase in the Central Bank Rate from an average of 6.67 percent in H2 2021/22 to an average of 9.42 percent in in the first half FY 2022/23. The average annualised yields for the 91-day, 182-day and 364-day T-Bills rose to 10.42 percent, 12.03 percent, and 14.11 percent during in the first half of FY 2022/23, from 6.94 percent, 8.50 percent, and 9.70 percent in in the second half of FY 2021/22, respectively. Table 1 shows the average annualised yields on Treasury Bills since in the first half of FY 2019/20 while the figure 7 shows the trend of Yields on Treasury- Bills for H2 FY 2021/22 and H1 FY 2022/23.

Table 1: Average Annualised Yields on Treasury Bills (%)

	H1 FY 2019/20	H2 FY 2019/20	H1 FY 2020/21	H2 FY 2020/21	H1 FY 2021/22	H2 FY 202/22	H1 FY 2022/23
91 Days	9.0%	9.3%	8.1%	7.5%	7.0%	6.9%	10.4%
182 Days	10.8%	11.1%	10.0%	10.3%	8.8%	8.5%	12.0%
364 Days	11.6%	12.8%	12.5%	11.8%	10.1%	9.7%	14.1%

Source: Bank of Uganda

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

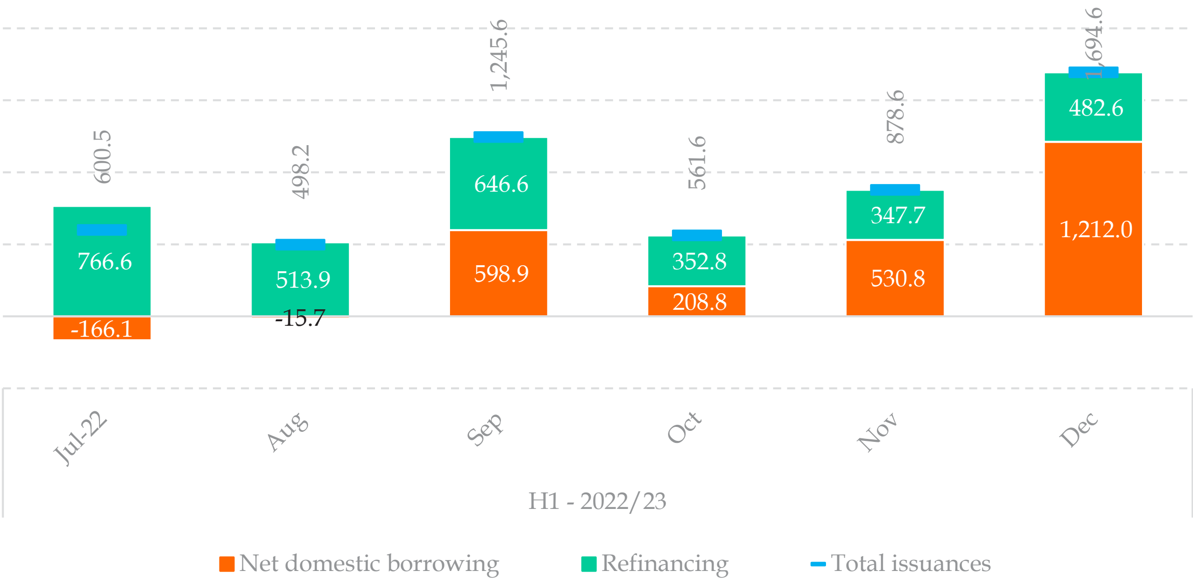


Source: Bank of Uganda

Government Securities (Government Borrowing from Domestic Market)

During the first half of FY2022/23, Government held auctions for both short-term discount instruments (Treasury Bills) and Treasury Bonds. These auctions resulted in a total issuance of Shs 5,479.05 billion (at cost). Of the amount raised, Shs 3,110.24 billion was used for the refinancing of maturing debt while Shs 2,368.81 billion went towards financing other activities in the Government budget as shown in figure 8. Of the total planned domestic borrowing (Shs 4,965.28 billion) to support budget activity in FY2022/23, only 47.7 percent had been realised by the end of the first six months of the financial year. This followed the sharp rise in the interest rates on Government securities prompting Government to reduce domestic borrowing and substitute it with borrowing from external sources.

Figure 8: Breakdown of Government Securities (Billion Shs)



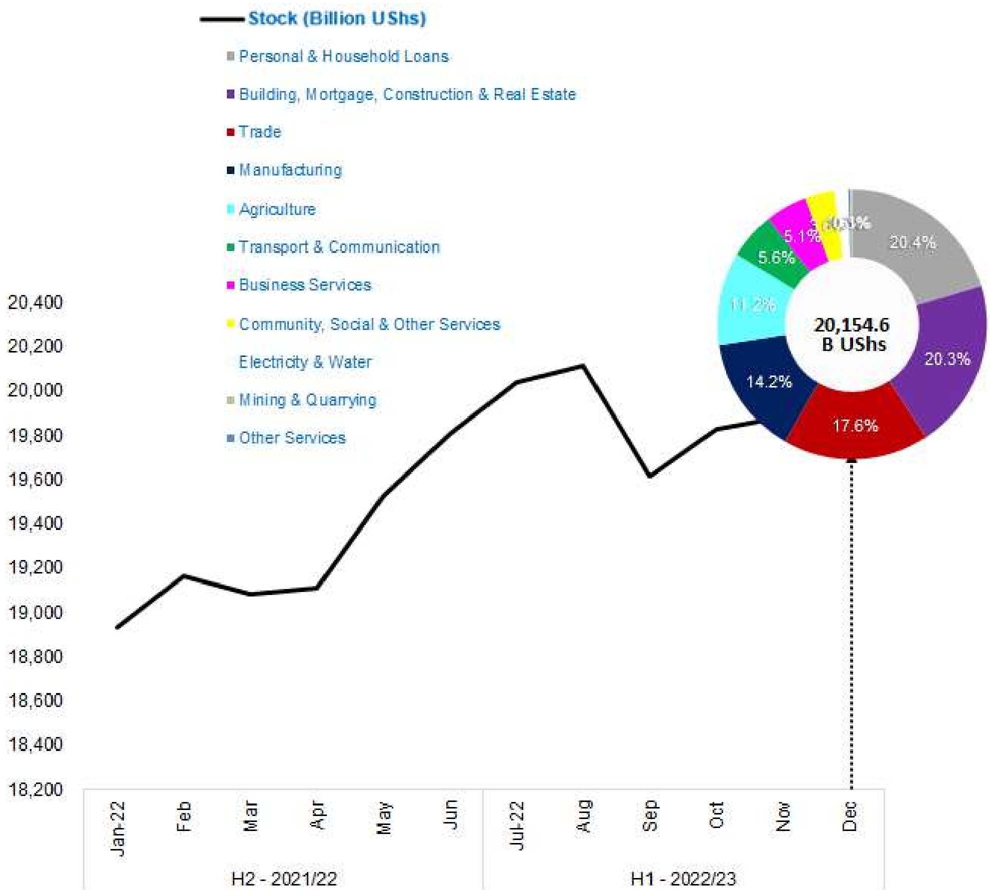
Source: Ministry of Finance, Planning and Economic Development

Lending to the Private Sector

Despite the contractionary monetary policy stance of the Central Bank, the stock of private sector credit still registered growth during the first half of the financial year. The stock of private sector credit was recorded at Shs 20,154.64 billion in December 2022 which is a 1.7 percent growth from the Shs 19,808.71 billion recorded at the end of June 2022. However, this growth is less than the growth rate of 4.7 percent recorded for the six-month period ending June 2022, partly due to central bank tightening.

The value of credit approved for extension to the private sector in the first half of FY2022/23 amounted to Shs 7,380.15 billion, which is a 32.0 percent growth compared to the total of Shs 5,591.56 billion approved in H2 FY2021/22. This followed an increase in the value of loans applied for accompanied with improvement in approval rates for most of the sectors including Agriculture, Manufacturing, Trade, Mining & Quarrying, Personal & Household Loans, and Building, Construction & Real Estate. The increased demand for credit by the private sector, and the willingness of lenders to offer (approve the loan applications) is an indicator of a better-than-expected performance of the economy in the first half of the financial year.

Figure 9: Stock of Outstanding Private Sector Credit



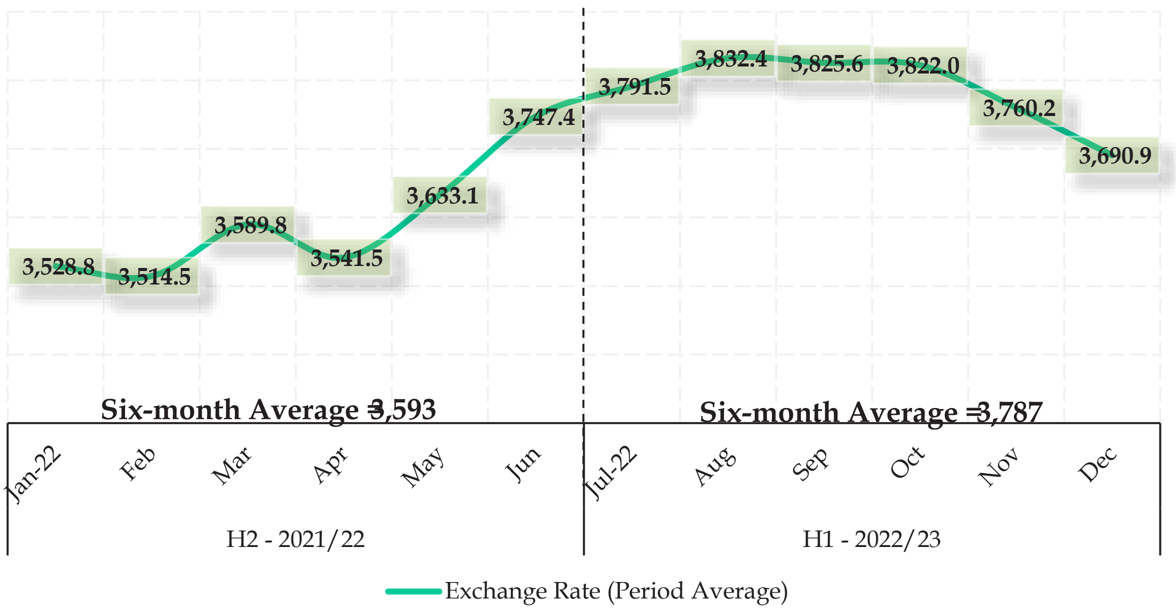
Source: Bank of Uganda

Exchange Rates

The Shilling strengthened against the dollar by 2.7 percent in the first half of FY 2022/23 having opened at an average midrate of Shs 3,791.59/USD in July 2022 and closing at an average midrate of Shs 3,690.86/USD in December 2022. This was mainly on account of seasonal inflows from remittances, receipts from coffee exports, foreign direct investments (FDI) especially in the oil and gas sector.

However, on average, compared to the second half of Financial Year 2021/22, the Uganda Shilling was weaker against the US Dollar in the first half of Financial Year 2022/23. The Shilling traded at a period average of Shs 3,787.12/USD in the first half of FY2022/23 which was higher than the period average of Shs 3,592.51/USD recorded in H2FY2021/22, implying a depreciation of 5.4 percent between the two periods. This is mainly due to tightening of monetary policy in the months leading to the first half of FY2022/23 by major advanced economies in response to the high levels of inflation globally caused by geopolitical tensions in Europe and the associated sanctions.

Figure 10: Exchange Rate Movement (Shs against USD)



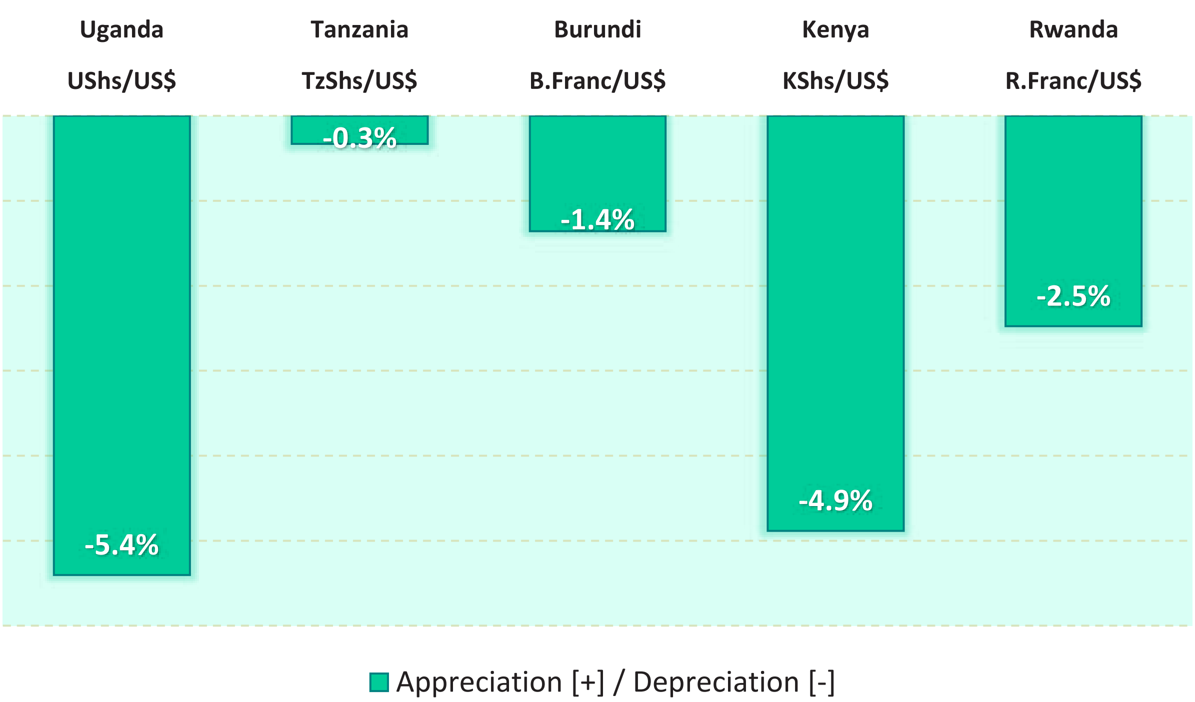
Source: Bank of Uganda

Exchange Rates within the East African Community

The currencies of all EAC Partner States depreciated against the US Dollar in the first half of FY2022/23 when compared with H2 FY2021/22 as illustrated in figure 11. The Ugandan Shilling and Kenyan Shillings registered the biggest depreciation rates of 5.4 percent and 4.9 percent respectively followed by the Rwandan and Burundi francs which depreciated by 2.5 percent and 1.4 percent respectively. The Tanzanian Shilling registered the least depreciation of 0.3 percent between the two periods.

The major reason for the depreciation amongst all the EAC Partner States' currencies was the global strengthening of the Dollar on the backdrop of the tightening monetary policy in Advanced Economies to curb inflationary pressures. This caused portfolio investors to massively pull out of the EAC market to take advantage of the high returns in the Advanced countries.

Figure 11: percentage Change in Exchange Rates (Period Average) for EAC Partner States between H1 FY2022/23 and H2 FY2021/22



Source: Bank of Uganda

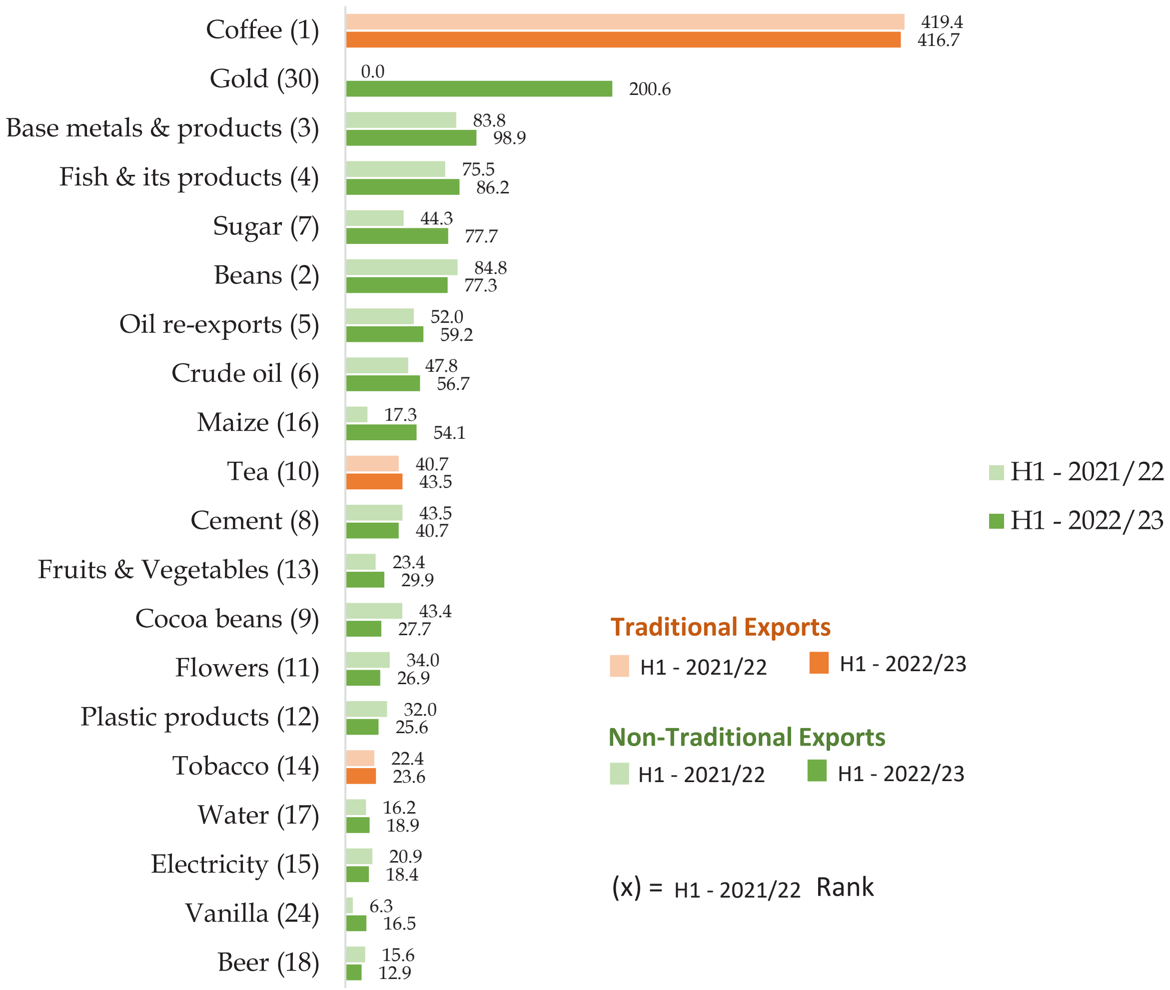
External Sector

Uganda's trade with the rest of the world resulted in a deficit amounting to USD 1,861.1 million in the first half of FY 2022/23. The trade deficit widened compared to the same period in FY 2021/2022 with a deficit of USD 1,528.3 million. While export earnings improved in the period under review, the increase in the import bill more than offset the increase in exports thus widening the trade deficit.

Merchandise Exports

During the first half of FY2022/23, Uganda exported merchandise worth USD 2,233.9 million which was an improvement compared to the same period in FY 2021/22 that registered export receipts worth USD 1,798.2 million. The 24.2 percent increment in export receipts is mainly on account of the resumption of exportation of gold exports in August 2022 which were on a halt throughout the previous financial year. Furthermore, there was notable increase in the export earnings of Maize and Sugar as shown in figure 12 following the easing of non-tariff barriers with Kenya, the reopening of the Rwanda-Uganda boarder and the admission of the Democratic Republic of Congo to the East African Community.

Figure 12: Top Commodity exports of Uganda in H1 2022/23 vs H1 2021/22 (USD Million)



Source: MoFPED calculations based on data from BOU

Note: (x) – denotes the rank of the commodity in the previous financial year

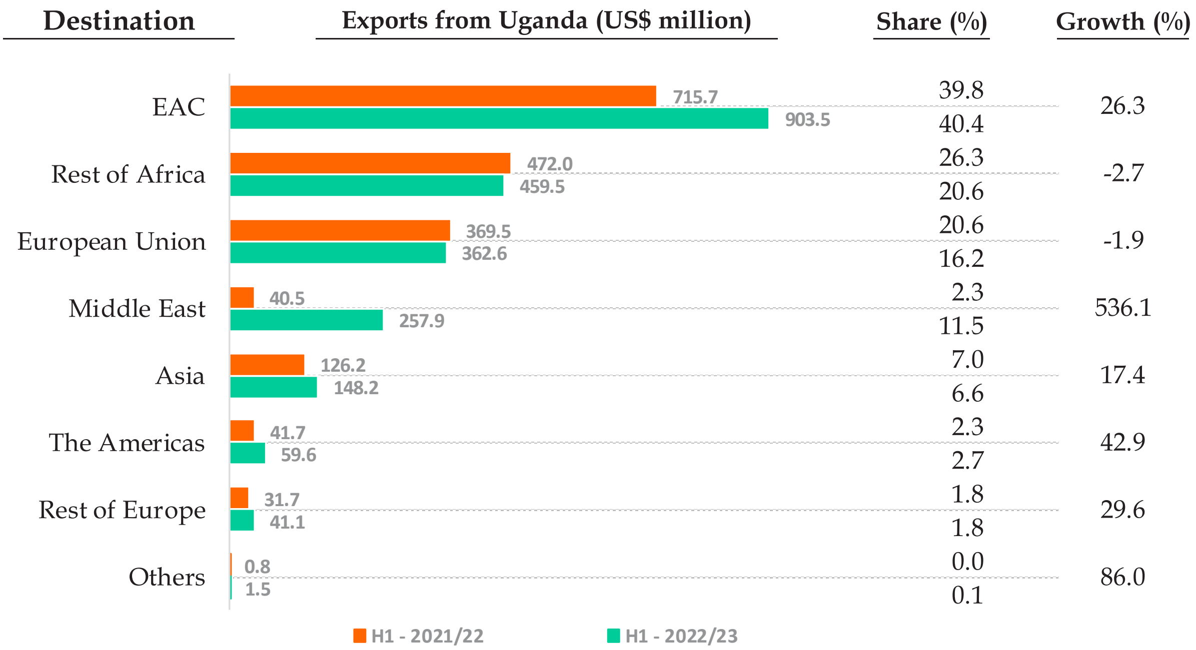
Traditional exports are listed according to the Uganda Trade Policy

Coffee remained the biggest export of Uganda contributing 18.7 percent to the total export earnings. However, earnings from coffee slightly declined to USD 416.67 million in the first half of FY 2022/23 from USD 419.42 million recorded the same period in FY 2021/22. The lower earnings from coffee exports is explained by the lower volumes exported in the period under review as the period was characterized by lower yields following unfavourable weather conditions.

Destination of exports

The EAC remained the biggest market for Uganda's exports in the first half of FY 2022/23 taking up 40.4 percent of Uganda's total merchandise. The EAC was followed by the Rest of Africa and the European Union accounting for 20.6 percent and 16.2 percent of the market share respectively.

Figure 13: Destination of Uganda's exports to different Regional Blocs



Source: MoFPED calculations based on data from BOU

Merchandise Imports

Merchandise worth USD 4,095.0 million was imported during the first half of FY 2022/23. The value of imports was higher by 23.1 percent compared to the first half of FY 2021/2022 that registered a value of USD 3,326.6 million. This was mainly driven by an increase in private sector imports that more than offset the decline in Government imports.

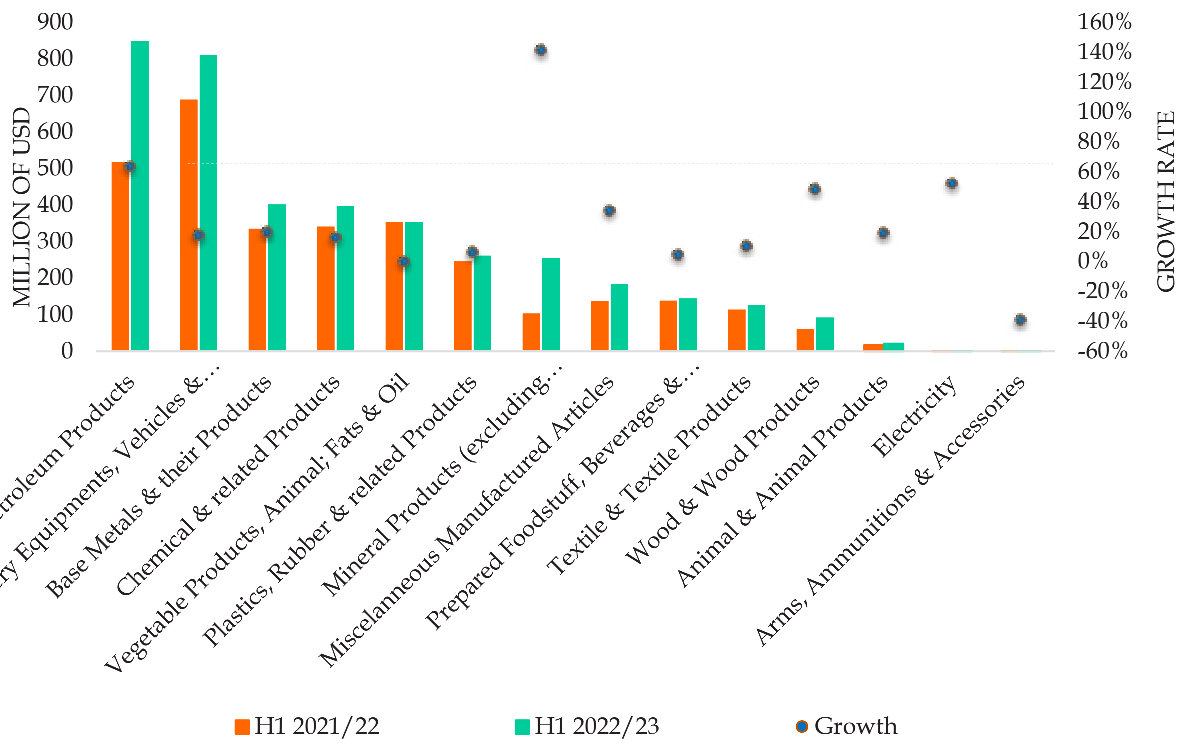
Table 2: Performance of Imports in USD millions

	H1 2021/22	H1 2022/23	Difference (value)	Growth Rate
Total Imports (f.o.b)	3,326.6	4,095.0	768.4	23.1%
Government Imports	194.8	106.7	-88.2	-45.3%
Project	178.0	102.1	-76.0	-42.7%
Non-Project	16.8	4.6	-12.2	-72.7%
Formal Private Sector Imports	3,092.1	3,935.1	843.0	27.3%
Oil imports	520.7	852.6	331.9	63.7%
Non-oil imports	2,571.4	3,082.5	511.1	19.9%
ICBT Imports	39.6	53.2	13.6	34.3%
Total Private Sector Imports	3,131.7	3,988.4	856.6	27.4%

Source: Bank of Uganda

However, during the period under review, the value of merchandise imported by the private sector increased by 27.3 percent on account of higher oil imports that increased by 63.7 percent as oil prices were higher compared to the first half of FY 2021/2022. In the category of non-oil Imports, Mineral products significantly increased as shown in figure 14 following the resumption of gold exports in August 2022. In addition, import volumes were higher as economic activity and demand continued to pick up in the first half of FY 2022/23.

Figure 14: Composition of Formal Private sector Imports by Category



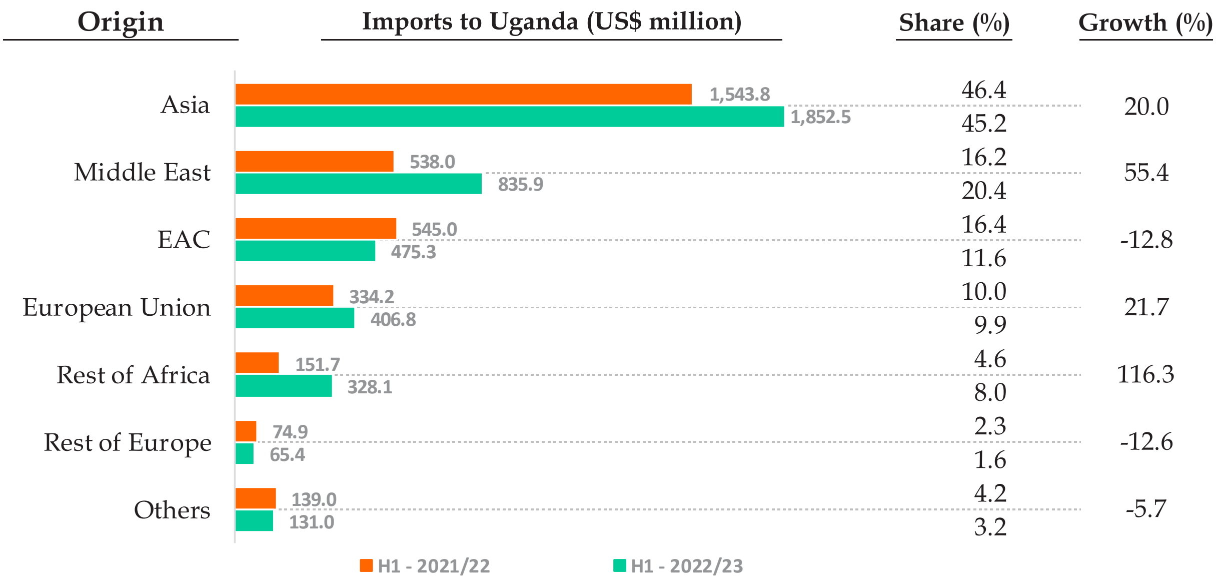
Source: Bank of Uganda

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

Origin of Imports

Asia remained Uganda's biggest source of merchandise imports in the first half of FY 2022/23 accounting for 45.2 percent of the total imports. The share of imports from the Middle East increased to 20.4 percent from 16.2 percent recorded in first half of FY 2021/22, thereby, replacing EAC as the second biggest source of imports. EAC emerged as the third largest source of imports accounting for 11.6 percent of the total merchandise imported in the period under review.

Figure 15: Origin of Uganda's Imports from different Regional Blocs



Source: MoFPED calculations based on data from BOU

Main Trade Partners

Uganda's trade with its main trade partner (Asia) resulted in a deficit of USD 1,704.3 million in the first half of FY 22/23 as shown in figure 16. Likewise, Uganda registered a trade deficit with the Middle East while it continued to trade at a surplus with the EAC and the Rest of Africa in the first half of FY2022/23.

Figure 16: Uganda's Trade Balance across regional Blocs in HY FY2022/23 vs H1 FY2021/22 (USD Million)

	Asia		EAC		Middle East		Rest of Africa	
	H1-21/22	H1-22/23	H1-21/22	H1-22/23	H1-21/22	H1-22/23	H1-21/22	H1-22/23
Total Trade	1,670.0	2,000.7	1,260.7	1,378.8	578.5	1,093.8	623.8	787.6
Trade Balance	-1,417.6	-1,704.3	170.7	428.3	-497.4	-578.0	320.3	131.4

	European Union		The Americas		Rest of Europe		Others	
	H1-21/22	H1-22/23	H1-21/22	H1-22/23	H1-21/22	H1-22/23	H1-21/22	H1-22/23
Total Trade	703.7	769.4	162.6	164.3	106.6	106.5	18.9	27.9
Trade Balance	35.4	-44.1	-79.2	-45.1	-43.2	-24.4	-17.3	-24.8

Source: MoFPED calculations based on data from BOU

Trade with the EAC

Uganda's trade position with the EAC continued to improve recording a higher surplus of USD 428.3 million in the first half of FY 2022/23 from USD 170.7 million registered in the same period the previous year. The improvement is on account of higher exports to the region that amounted to USD 903.3 million, an increment of 26.3 percent compared to in the first half of FY 2021/22. Notably, the value of exports to Rwanda significantly increased to USD 75.6 million in the first half FY 2022/23 from USD 0.9 million in the same period the previous year following the full reopening of the Uganda-Rwanda border. A reduction in the import bill to USD 475.3 million from USD 545.0 million in the first half FY 2021/22 also contributed to the higher trade surplus with the region.

In the first half of FY 2022/23, export receipts from South Sudan increased to USD 352.5 million from USD 290.0 million in the first half FY 2021/22 making it the top destination for

Uganda's merchandise exports. Kenya remained the biggest source of merchandise imports in the period under review.

Other Balance of Payments (BOP) transactions

Earnings from tourism amounted to USD 209.74 million in Q1 FY 2022/23, up from USD 192.42 million in the same period the previous year, attributed to a rebound in tourism activity following the ease travel restrictions.

Remittances (personal transfers) continued to improve with Q1 FY 2022/23 registering remittances worth USD 348.73 million. This compares with remittances worth USD 254.30 million recorded in Q1 FY 2021/222. The continued improvement in remittances can partly be explained by the continued global economic recovery leading to higher employment levels.

Foreign Direct Investment (FDI) increased significantly by 48.3 percent to USD 474.87 million in Q1 FY 2022/23 up from USD 320.25 million in Q1 FY 2021/2022. The increment in FDI during the period under review follows the increase in activities in the oil sector after the announcement of the Final Investment Decision in February 2022 for Uganda's oil and gas projects in February 2022.

As at the end of December 2022, the stock of **international reserves** stood at USD 3,562.95 million, equivalent to 3.51 months if imports of goods and services. However, this was a decline both in gross reserves and import cover compared to the same period last year. The decline in reserves was partly on account of financing the Balance of Payments deficit.

FISCAL PERFOMANCE

Overview

The FY 2022/23 budget is the third year of implementation of the National Development Plan III (NDP III) which aims at increasing household incomes and improving the quality of life of Ugandans through sustainable industrialization for inclusive growth, employment, and wealth creation. In line with the objectives of the NDP III, the budget for this financial year was premised on the theme "Full Monetisation of Uganda's Economy through Commercial Agriculture, Industrialisation, Expanding and Broadening Services, Digital Transformation and Market Access".

The fiscal strategy this financial year aims at implementing growth friendly fiscal consolidation (reducing the fiscal deficit) by; boosting efficiency in public investment, ensuring effective implementation of the Domestic Revenue Mobilisation Strategy so as to increase domestic revenue collections, and maintaining macroeconomic stability.

The planned overall deficit for the first half of the financial year 2022/23 was projected at Shs 5,069.48 billion with Government expenditure planned to amount to Shs 18,445.57 billion while domestic revenues and grants were projected to be Shs 12,365.98 billion.

However, due to slower than anticipated execution of development projects, the overall expenditure during the first half of the financial year was lower than planned by 9.2 percent. Revenue and grants also fell short of the target by 7.6 percent.

The fiscal operations during the period ultimately resulted in a deficit of Shs 4,373.97 billion which was lower than planned for in the first half of FY2022/23. Table 3 shows a summary of Government's financial operations in the first half FY2022/23.

Table 3: Fiscal Operations in the first half of FY2022/23 (Billion Shs)

	July-December FY2022/23			
Billion Shs	**Program**	**Prel. Outturn**	**Performance**	**Deviation**
Total revenue and grants	**13,376.09**	**12,366.14**	**92.4 %**	**-1,009.95**
Revenue	11,971.75	11,694.38	97.7 %	-277.37
Tax Revenue	11,218.34	10,948.04	97.6 %	-270.29
Non-Tax Revenue	753.41	746.34	99.1 %	-7.07
Grants	1,404.35	671.76	47.8 %	-732.59
Budget support	56.25	7.87	14.0 %	-48.38
Project grants	1,348.10	663.89	49.2 %	-684.21
Expenditures and net lending	**18,445.57**	**16,740.11**	**90.8 %**	**-1,705.46**
Recurrent expenditures	10,641.97	11,326.15	106.4 %	684.19
Wages and salaries	3,147.86	3,228.36	102.6 %	80.50
Non-wage	5,257.80	5,186.12	98.6 %	-71.68
Interest payments	2,236.31	2,911.67	130.2 %	675.36
o/w: domestic	1,660.07	2,335.43	140.7 %	675.36
o/w: foreign	576.24	576.24	100.0 %	0.00
Development expenditures	7,209.95	4,711.97	65.4 %	-2,497.98
External	3,603.07	2,087.61	57.9 %	-1,515.45
Domestic	3,606.88	2,624.36	72.8 %	-982.53
Net lending and investment	150.77	36.71	24.3 %	-114.06
Clearance of Arrears	442.88	665.28	150.2 %	222.40
Overall balance	**-5,069.48**	**-4,373.97**	**86.3 %**	**695.51**
Excluding grants	-6,473.82	-5,045.73	77.9 %	1,428.09
Financing	**5,069.48**	**4,373.97**	**86.3 %**	**-695.51**
External financing (net)	**1,776.41**	**-21.58**	**-1.2 %**	**-1,797.99**
Disbursement	2,928.83	1,148.93	39.2 %	-1,779.90
Budget support	523.09	0.00	0.0 %	-523.09
Concessional project loans	1,777.60	772.93	43.5 %	-1,004.67
Non-concessional loans HPP	150.77	36.71	24.3 %	-114.06
Non-concessional loans Other	477.37	339.29	71.1 %	-138.08
Amortization (-)	-1,152.41	-1,170.51	101.6 %	-18.10
Domestic financing (net)	**3,293.07**	**3,626.53**	**110.1 %**	**333.46**
Bank Financing	1,940.69	2,716.43	140.0 %	775.74
Central Bank	1,732.75	1,976.06	114.0 %	243.32
Commercial banks	207.94	740.36	356.0 %	532.42
Non-Bank	1,352.37	910.10	67.3 %	-442.27
Errors and omissions	**0.00**	**769.02**	**-**	**769.02**

Source: Ministry of Finance, Planning and Economic Development

Total Revenues and Grants

Revenue collections and grant disbursements during the first half of the Financial Year 2022/23 amounted to Shs 12,366.14 billion. This was short of the target by Shs 1,009.95 billion.

This was mainly due to the non-disbursement of over 50 percent of the grants that had been expected in the first half of FY2022/23 and a shortfall in Domestic revenue collections were short of Shs 277.37 billion.

Domestic Revenue Collections

Revenue collections during the first half FY 2022/23 amounted to Shs 11,694.38 billion against a target of Shs 11,971.75 billion. This implied a shortfall of Shs 277.37 billion (2.4 percent) during the period as both tax and non-tax revenue were short of their respective targets. Despite the shortfall, there was registered improvement in revenue collections shown by a growth of 12.8 percent when compared with the first half FY2021/22. This is higher than the average growth of 10.8 percent registered for the last four Financial Years as shown in figure 17.

Figure 17: Revenue performance for H1, last four Financial Years (FY 2018/19 – FY 2022/23)

	2018/19	2019/20	2020/21	2021/22	2022/23
Total Revenue	8,148.91	9,111.96	9,773.44	10,370.06	11,694.38
Growth rate	18.0%	11.8%	7.3%	6.1%	12.8%

Source: Tax Policy Department (Ministry of Finance, Planning and Economic Development

TAX REVENUE

Tax revenue collections totalled Shs 10,948.04 billion in the first half of FY2022/23. This was a performance rate of 97.6 percent against the target of Shs 11,218.34 billion for the period as shortfalls registered under Indirect taxes and Taxes on International Trade Transactions more than offset the surplus registered under Direct Taxes.

Direct Domestic Taxes amounted to Shs. 3,989.33 billion against the target of Shs 3,904.59 billion registering a surplus of Shs 84.74 billion during the first half of the financial year. This performance was mainly due to surpluses in Pay as you earn (PAYE), Rental Income Tax and Casino Tax. The Shs 225.85 billion surplus registered under PAYE was on account of the recruitment of staff in the private sector especially in the oil and gas sector following a pick-up in activity as the country prepared to start the drilling process, and the increase in remuneration of various categories of professionals in the public sector. Further surpluses were registered under Rental Income Tax (Shs 17.06 billion) mainly due to improvements in their administration, and Casino tax (Shs 29.33 billion) during the period.

The performance of the subcategories was dampened by underperformance of Corporation tax and withholding tax which registered shortfalls of Shs 59.08 billion and Shs 63.78 billion respectively, during the period.

Indirect Domestic Tax collections amounted to Shs 2,510.15 billion against a target of Shs 2,722.07 billion implying a shortfall of Shs 211.92 billion. This was on account of lower than projected collections under both Value Added Tax (VAT) and the Excise duty.

Value-added Tax performed at 91.5 percent of the targeted Shs 1,737.70 billion with shortfalls registered for the sectors of Manufacturing, Services, Construction, Real Estate, Transport & Communication, and Public Administration. This was due to constrained aggregate demand as on account of high inflation coupled with lower levels of economic activity during the period. Additionally, there was a payment of tower rent to ATC Uganda Limited by telecommunication companies such as MTN Uganda Limited and Airtel Uganda Limited which led to high input costs compared to their output costs thereby leading to high VAT refunds and hence a shortfall of Shs 33.36 billion under VAT on phone talk time.

Excise duty also performed at 93.4 percent against its target of Shs 984.38 billion, posting a shortfall of Shs 64.77 billion during the first half of FY2022/23. This was still due to lower aggregate demand that resulted in declines in sales and production volumes of items such as cement, sugar, cooking oil, cosmetics, bottled water, cigarettes, and wines.

Taxes on International Trade Transactions were targeted to be Shs 4,563.95 billion for HI FY2022/23. However, by the end of December 2022, cumulative collections from taxes on international trade transactions amounted to Shs 4,453.85 billion. This implies a shortfall of Shs 110.10 billion (performance of 97.6 percent). The shortfall was mainly under petroleum duty (Shs 69.80 billion) following lower than anticipated import volumes of petroleum products. For instance, the volume of diesel imported declined by 41,539,558 litres during the first half. Similarly, lower than projected import volumes resulted in shortfall of Shs 42.89 billion for VAT on imports.

NON-TAX REVENUE (NTR)

Non-Tax Revenue (NTR) is revenue collected from charges, fees, and dividends. Such charges and fees include passport fees, license fees, driving permit fees, mining and royalty fees, migration fees and company registration fees among others.

Government targeted to collect NTR worth Shs 753.41 billion in the first six months of financial year 2022/23. However, Shs 746.34 billion was collected during that period, thus a shortfall of Shs 7.07 billion. The shortfall was due to the failure of some Agencies that collect NTR to meet their targets. These included Uganda Wildlife Authority and National Medical Stores which altogether constituted a target of Shs 129.29 billion of the total NTR target.

However, the NTR collected by the Uganda Revenue Authority performed at 29.5 percent (Shs 161.16 billion) above its target. Table 4 shows more details on domestic revenue collections in the first half FY2022/23.

Table 4: Details of Domestic Revenue in Billion Shillings

	H1 FY2022/23			
	Target	Outturn	Deviation	Performance
Overall net revenue	**11,971.75**	**11,694.38**	**(277.37)**	**97.7%**
Net Tax Revenue	**11,218.34**	**10,948.04**	**(270.29)**	**97.6%**
Direct Domestic Taxes	**3,904.59**	**3,989.33**	**84.74**	**102.2%**
O/w PAYE	1,746.21	1,972.06	225.85	112.9%
Corporate Tax	919.83	860.75	(59.08)	93.6%
Withholding Tax	692.71	628.93	(63.78)	90.8%
Rental Income Tax	80.11	97.17	17.06	121.3%
Casino Tax	16.26	45.58	29.33	280.4%
Indirect Dmestic Taxes	**2,722.07**	**2,510.15**	**(211.92)**	**92.2%**
Excise duty:	984.38	919.61	(64.77)	93.4%
O/w Cigarettes	18.44	9.92	(8.53)	53.8%
Wines	0.88	0.15	(0.73)	16.9%
Phone Talk time	180.29	139.55	(40.74)	77.4%
Sugar	40.56	25.11	(15.45)	61.9%
Bottled Water	17.53	14.40	(3.13)	82.1%
Cement	30.48	20.92	(9.56)	68.6%
Cosmetics	12.13	6.57	(5.56)	54.1%
Mobile Money Transfers	60.39	82.01	21.62	135.8%
Net Value Added Tax	1,737.70	1,590.55	(147.15)	91.5%
O/w Manufacturing	1,102.18	1,028.40	(73.79)	93.3%
Services	377.49	322.60	(54.89)	85.5%
Construction	93.26	60.93	(32.33)	65.3%
Wholesale & retail trade; repairs	180.08	197.05	16.97	109.4%
Hotels & restaurants	41.86	52.29	10.43	124.9%
Transport & communications	38.14	23.63	(14.51)	62.0%
Real estate activities	86.08	80.45	(5.63)	93.5%
Public administration & defence	24.06	6.92	(17.14)	28.7%
Mining & quarrying	10.48	11.76	1.28	112.2%
Taxes on International Trade	**4,563.95**	**4,453.85**	**(110.10)**	**97.6%**
O/w Petroleum duty	1,414.95	1,345.15	(69.80)	95.1%
Import duty	816.04	839.80	23.75	102.9%
Excise duty	153.32	131.37	(21.95)	85.7%
VAT on Imports	1,804.40	1,761.51	(42.89)	97.6%
Withholding Taxes	111.81	103.01	(8.80)	92.1%
Infrastructure Levy	65.97	60.29	(5.68)	91.4%
Others refunds	**(31.22)**	**(59.82)**	**(28.60)**	**191.6%**
Stamp duty & Embossing Fees	**58.95**	**54.53**	**(4.41)**	**92.5%**
Total NTR	**753.41**	**746.34**	**(7.07)**	**99.1%**
URA NTR	546.50	707.66	161.16	129.5%
NON URA NTR (straight to UCF)	206.92	38.68	(168.24)	18.7%

Source: Ministry of Finance, Planning and Economic Development

Grants

Government had programmed to receive grants from development partners amounting to Shs 1,404.35 billion in the first half of Financial Year 2022/23. However, only 47.8 percent (Shs 671.76 billion) had been disbursed by the close of that period. Of the total amount received, Shs 663.89 billion was towards supporting specific projects while 7.87 billion was for general budget support. Slow implementation of projects continues to be the main obstacle to disbursement of project support grants.

Government Expenditure

Total Government expenditure (excluding domestic debt refinancing and Appropriation in Aid - AIA) for the first half of Financial Year 2022/23 amounted to Shs 16,740.11 billion. This was against a plan for the period of Shs 18,445.57 billion implying a performance of 90.8 percent. The lower than planned expenditure (by 9.2 percent) was mainly on account of spending on development projects which was short of the planned Shs 7,209.95 billion by 34.6 percent (Shs 2,497.98 billion). Expenditure on recurrent items was above the planned Shs 10,641.97 billion by 2.6 percent (or Shs 684.19 billion).

Expenditure on recurrent items was higher than planned following supplementary budgets issued to Local Governments, the Health sector, the Security Sector and the Education Sector among others to cater for salary enhancements for Scientists as well as some security personnel. This resulted in expenditure on wages and salaries being higher than initially planned for the first half FY2022/23 by Shs 80.50 billion.

Similarly, interest payments also significantly contributed to the recurrent expenditure being higher than programmed for the half year. This followed the reinstatement of a portion of domestic interest payment that had been revised downwards by Parliament at budget time, and the increase in interest rates (yields on treasury bills) during the period. Ultimately, interest payments were Shs 2,911.67 billion which was higher than programmed by Shs 675.36 billion.

However, expenditure on non-wage non-interest recurrent items was slightly lower than the plan (by 1.4 percent or Shs 71.68 billion) as spending was subdued in the first quarter of the financial year as Government took a deliberate decision to reduce expenditure as a way of harmonizing fiscal policy with monetary policy efforts to contain the flaring inflationary pressures at the time.

Development expenditure during the first half FY2022/23 amounted to Shs 4,711.97 billion which was equivalent to 65.4 percent of the plan for the period as both domestically financed and externally financed development spending underperformed. The domestically financed development expenditure, which performed at 72.8 percent of the plan for the half year, was affected by the decision by Government to hold back expenditure in order to support the monetary policy in slowing down inflation especially in the first quarter of the financial year. Additionally, the prevailing conditions in the economy and the financial markets negatively affected Government's efforts to raise the planned resources leading to the need to cut back on some expenditures.

The underperformance of externally financed development expenditures, on the other hand, was mainly due to failure of some of the key projects in the budget to meet conditions required for disbursement by the development partners. These projects include among others Kampala Metropolitan Transmission Improvement project, Kampala Flyover Construction and Road Upgrading Project, National Oil Palm Project, Development of Kampala Industrial and Business Park – Namanve, Development of Solar Powered Irrigation and Water Supply Systems, and Integrated Program to Improve the Living Conditions projects.

During the first half FY2022/23, the Government continued with its commitment to support the private sector by clearing arrears of some of its suppliers. A total of Shs 665.28 billion was paid out during the period. This is higher than the Shs 442.88 billion initially planned.

Financing

The fiscal operations of Government during the first half of Financial Year 2022/23 resulted in a deficit of Shs 4,373.97 billion. This deficit was financed through borrowing from the domestic financial market as well as from external development partners. The portion of the deficit financed from the domestic financial system was Shs 3,626.53 billion. From our external development partners, a total of Shs 1,148.93 billion was disbursed all of which was tied to various projects. However, Government amortized external debt to the tune of Shs 1,170.51 billion which resulted in a negative net external financing, implying that we paid back more than we received during the period.

Debt Sustainability Analysis

During the first half of the financial year 2022/23, Government contracted three loans as detailed in the table below.

Table 5: Loans contracted by Government in the First Half of FY2022/23

Creditor	Project Name	MDA	Project Amount
IDB – Instalment sale	Development of Irrigation Schemes in Mbale, Budaka, Butaleja, Unyama, Namalu and Sipi region project	MAAIF/MoWE	USD 80.0 million
IDB	Development of Irrigation Schemes in Mbale, Budaka, Butaleja, Unyama, Namalu and Sipi region project	MAAIF/MoWE	USD 10.0 million
Standard Chartered Bank (Syndicated Loan)	Budget Support	MoFPED	EUR 182 million

Source: Ministry of Finance, Planning and Economic Development

Compliance with the Charter for Fiscal Responsibility

The charter for fiscal responsibility was launched on 24th November 2022. The launch aimed at publicizing and disseminating the charter to key stake holders. This was expected to raise awareness of government's fiscal commitments as a foundation for accountability and transparency.

The Charter for Fiscal Responsibility (CFR) presents Government's strategy for operating a fiscal policy which is consistent with sustainable fiscal balances and the maintenance of prudent and sustainable levels of public debt over the medium term.

Financial Year 2022/23 is the second financial year in which Government's fiscal policy is underpinned by the Charter for Fiscal Responsibility FY2021/22 – FY2025/26. The measurable fiscal objectives in the Charter require the following in FY2022/23:

i. Total Public debt in Nominal terms be not more than 53.1 percent.
ii. Total domestic debt interest payments to total revenues (excluding grants) be not more than 14.6 percent.
iii. The Overall Fiscal Balance including grants is not more than 5.2 percent.
iv. The ratio of non-oil revenue to GDP be higher than 14.4 percent

Government is committed to meeting the targets as set in the Charter for Fiscal Responsibility. Given that the targets are for financial years, an assessment of compliance for FY2022/23 will made in the Annual Macroeconomic and Fiscal Performance Report to be presented to Parliament by the Minister of Finance in October 2023.

Performance of the Petroleum Fund

The opening balance on the petroleum fund at the start of Financial Year 2022/23 was Shs 110.24 billion. During the first half of the financial year, no withdrawals were made, and no withdrawal will be made in FY2022/23 since there was no appropriation to that effect as required by the Public Finance Management Act (as amended) 2015. The closing balance as at December 31st 2022 was Shs 165.41 billion.

Contingency Fund

Detailed report in the Semi-annual Budget Performance Report FY2022/23

Virement Report

Detailed report in the Semi-annual Budget Performance Report FY2022/23

Donations By Vote

Detailed report in the Semi-annual Budget Performance Report FY2022/23

OUTLOOK ON THE ECONOMY

Economic Growth

Economic activity is expected to continue the recovery path for the rest of the financial year and result into overall GDP growth of 5.3 percent. This will be driven by continued growth in the industry and services sectors coupled with recovery in the agriculture, forestry, and fishing sectors. GDP growth will further be supported by expected favorable weather patterns as projected by the Uganda Metrological Authority; ongoing Government initiatives like the Parish Development Model, Small Business recovery fund, Emyooga, among others; increase in oil sector activities; continued growth in regional trade and expected gradual decline in inflation for the second half of the Financial Year.

In addition, Foreign Direct Investment and remittances increased significantly by 48.3 percent and 37 percent respectively in Q1 FY 2022/23 compared to Q1 FY 2021/2022. This is expected to support private investment for the rest of the financial year.

Furthermore, indicators of economic activity like the BTI and PMI remained above the threshold of 50 in January 2023, recorded at 51.6 and 53.2, respectively, further signaling better growth prospects in the second half of the year.

Going forward economic growth next FY 2023/24 is projected at 6 percent and expected to increase to at least 7 percent over the medium term mainly driven by continued implementation of the parish development model, Oil sector activities and production, growth in regional trade, increased returns from public investments and higher productivity in industry, services and agriculture sectors of the economy.

Inflation

The outlook on inflation is positive with a likelihood that harvests from the recent planting season will ease inflationary pressures on food crops. It is also anticipated that prices of fuel and other imported commodities will reduce over the months to come as global inflationary pressure arising from geopolitical tensions in Russia and Ukraine subsides.

Inflation is therefore forecast to reduce gradually through 2023 and converge to the BOU medium-term target of 5 percent.

Financial sector

The outlook for the financial sector is positive, with the Central Bank expected to relax on its tight monetary policy stance. This is expected to feed into various interest rates in the financial sector, improve liquidity and encourage private-sector credit. As the economy continues to improve, it is also expected that the quality of assets will continue to improve in the form of declining Non-Performing Loans.

However, there are some risks that still face the financial sector. These are mostly external, especially the tight monetary policy stance in advanced countries that could lead to the depreciation of the Shilling. Additionally, if there is increased need for Government to borrow from the domestic market in the later part of the financial year, this will lead to increments in interest rates across board and a likelihood of crowding out the private sector.

Fiscal Operations

Due to the revision in economic growth from 6 percent to 5.3 percent, domestic revenues are projected to fall short of the target for the financial year 2022/23. Additionally, the tight monetary conditions both domestically and globally have made it challenging to raise resources from financial markets. Therefore, Government expenditure will be constrained to the extent of the shortfall in resources. As a result, the fiscal deficit for this financial year is projected to be 5.1 percent of GDP.

In the medium term, Government will continue with its fiscal consolidation drive to ensure sustainability. This will be achieved through the implementation of the Domestic Revenue Mobilisation Strategy to enhance revenue collection and reprioritising expenditure to sectors that have a higher impact on economic growth and contribute to the growth of revenue.

#DoingMore

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT
Apollo Kaggwa Road,
P.O. Box 8147, Kampala
www.mepd.finance.go.ug

Designed and Printed by:
MINTOAK GROUP LTD