HALF YEAR MACROECONOMIC & FISCAL PERFORMANCE REPORT FINANCIAL YEAR 2023/24

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

February 2024

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. My Ministry therefore prepared the Half Year Macro-Economic and Fiscal Performance Report for the Financial Year 2023/24. The report presents trends of key macroeconomic and fiscal indicators that highlight the performance of the economy in the first half of FY 2023/24.

Despite global economic challenges, Uganda's economy has once again shown commendable resilience, paving the way for continued economic recovery. The first quarter of FY 2023/24 saw a notable GDP growth of 5.3%, driven predominantly by the industry sector, coupled with positive contributions from agriculture, forestry, fishing, and services sectors. This growth underscores the robustness of our macroeconomic stability, strategic investments in infrastructure, particularly in the oil and gas sector, and enhanced trade prospects. With the private sector activity increasing, we anticipate the economy to expand by 6.0% in FY 2023/24, supported by our concerted efforts in implementing growth-enhancing programs.

This period also saw a welcomed moderation in domestic prices, with annual headline inflation averaging 2.9%, a significant decrease from the previous 8.0%. This decline, propelled by improved food supplies and a strategic monetary policy stance, sets a favourable stage for maintaining inflation within our medium-term target. The reduction in the Central Bank Rate (CBR) following stable inflation, also fostered a conducive environment for the 6.3% growth in Private Sector Credit (PSC). Moreover, the minimal depreciation of the Uganda Shilling in this period, despite external pressures, further exemplifies the resilience and strength of our financial sector, highlighting the crucial interplay between monetary stability and fiscal prudence in achieving economic stability and growth.

On the external front, a remarkable 68.5% surge in export receipts led to a narrowing trade deficit, with the EAC emerging as the principal market for our exports, underscoring the significance of regional trade dynamics. Earnings from commodity exports amounted to US$ 3,769.0 million in the first half of FY 2023/24, up from US$ 2,236.4 million realized in the same period the previous financial year. The East African

Community absorbed 37.7% of the total merchandise exports making it the largest market for Uganda's exports.

Fiscally, this period resulted in a deficit marginally higher than anticipated, primarily due to revenue and grants shortfalls. Nonetheless, domestic revenue collections grew by 12.9% year-on-year, reflecting a positive trajectory. Government expenditure remained prudent, with a focus on supporting key sectors and programs such as: - the Parish Development Model (PDM), and the Agricultural Credit Facility (ACF), among others, which are integral to our socio-economic transformation agenda. As such, public debt remains sustainable, strengthened by a vigilant fiscal consolidation approach, effective revenue mobilization strategies, and the efficient execution of projects and public investments.

This report, covering the period from July to December 2023, is intended to serve as a comprehensive resource for both the government and the private sector. The insights provided herein are crucial for informing decisions that will propel our economy forward, ensuring that Uganda remains on a path of growth and prosperity. I trust that the information and analyses contained in this report will be instrumental in guiding policy formulation and implementation, as we collectively navigate the challenges and opportunities that lie ahead.

Matia Kasaija (MP)

MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

Table of Contents

List of Figures

List of Tables

List of Acronyms and Abbreviations

AIA	Appropriations in Aid
B.Franc	Burundian Franc
BOU	Bank of Uganda
BTI	Business Tendency Index
CBR	Central Bank Rate
CFR	Charter for Fiscal Responsibility
CIEA	Composite Index of Economic Activity
COVID-19	Coronavirus Disease 2019
DSA	Debt Sustainability Analysis
EAC	East African Community
EFU	Energy, Fuel and Utilities
FOB	Free on Board
FY	Financial Year
GDP	Gross Domestic Product
H1	First Half of the Financial Year
H2	Second Half of the Financial Year
KShs	Kenyan Shillings
MDAs	Ministries, Departments and Agencies
MOFPED	Ministry of Finance, Planning and Economic Development
NTR	Non-Tax Revenue
PAYE	Pay as You Earn
PMI	Purchasing Managers' Index
PSC	Private Sector Credit
R.Franc	Rwandan Franc
TzShs	Tanzanian Shillings
UBOS	Uganda Bureau of Statistics
URA	Uganda Revenue Authority
UShs	Ugandan Shilling
US$	United States Dollars
VAT	Value Added Tax

Executive Summary

Real Sector

During the first half (H1) of the FY 2023/24, economic growth continued to pick up with quarter one (Q1) registering growth of 5.3%. Growth in Q1 was mainly driven by higher production in the industry sector, complemented by steady growth in agriculture, forestry, fishing, and services. The continued economic recovery was partly supported by an enabling macroeconomic environment and investments in infrastructure particularly in the oil and gas sector as well as higher export volumes. The economy is expected to expand by 6.0% in FY 2023/24 with increased private sector activity and implementation of growth supporting programs.

The high frequency indicators similarly indicate higher output and business activity in H1 2023/24. The Composite Index of Economic Activity (CIEA) averaged 161.5 in H1 2023/24 up from the 151.5 average in the second half (H2) 2022/23. Similarly, the Purchasing Managers' Index (PMI) was higher in H1 2023/24 at an average of 60.1 up from 52.9 average in H2 2022/23.

Domestic prices declined in H1 2023/24 compared to the second half (H2) of FY 2022/23. Annual headline inflation averaged 2.9% in the first half of FY 2023/24 down from 8.0% in the second half of FY 2022/23 due to improved food supply alongside supportive monetary policy. As global prices and inflationary pressures continue to subside, domestic inflation is expected to remain within the ±5% target in the medium term.

Financial Sector

As inflationary pressures continued to ease, the Central Bank Rate (CBR) was reduced from 10% in July to 9.5% in August 2023 and thereafter remained unchanged for the rest of the period under review. Similarly, yields on the 91-day Treasury bills followed a downward trend from an average of 10.3% in H2 2022/23 to an average of 9.8% in H1 2023/24. However, the average yields on the 182- and 364-day tenors in H1 2023/24 remained unchanged compared to H2 2022/23. Between July and December 2023, the stock of Private Sector Credit (PSC) grew by 6.3% to a total of Shs 21,703.1 billion. The growth was partly due to lower lending rates that averaged 17.95% in the first half of FY 2023/24 compared to 19.22% recorded in the second half of FY 2022/23.

Despite global shifts causing the Uganda Shilling to face depreciation pressures, it remained relatively stable within the East African Community, depreciating the least against the US dollar. The continued drop in offshore investors created depreciation pressures on the Uganda Shilling in H1 2023/24 as investors pursued higher yields in advanced economies following an increase in their policy rates. However, compared to the currencies within the East African Community, the Uganda Shilling depreciated the least against the US dollar by 0.4% on average.

External Sector

The trade deficit with the Rest of the World narrowed to US$ 1,646.6 million in H1 2023/24 as exports increased compared to H1 2022/23. Receipts from exports increased by 68.5% in the period under review which more than offset the increase in imports (up 30.9%). The main drivers of the export performance were Coffee and Gold exports that benefited from higher prices and volumes. EAC remained Uganda's biggest export market taking up 37.7% of the total export merchandise. Within EAC, the Democratic Republic of Congo (DRC) took up the largest share of Uganda's merchandise exports while the biggest bulk of imports was sourced from Tanzania. The main exports to DRC comprised of food, live animals, and vegetable oils.

By the end of 2023, Uganda's international reserves had risen to $3,733.9 million, covering 3.6 months of imports, an improvement from $3,563.1 million the previous year. This boost in reserves reflects higher foreign direct investment (FDI), particularly from the oil sector, and an uptick in exports. Tourism also saw an increase, with earnings reaching $289.9 million in the first quarter of FY 2023/24, up from $223.9 million, credited to efforts under the tourism development program aimed at bolstering Uganda's appeal and tourism income. Remittances grew to $360.13 million, compared to $316.70 million in the same period last year, fuelled by a growing number of Ugandans working abroad and the recovery from the COVID-19 pandemic. FDI also rose by 21.3% to $895.1 million, from $738.2 million, largely due to increased oil sector activities, signalling strong economic prospects and investor confidence in Uganda.

Fiscal Sector

In the first half of Fiscal Year 2023/24, overall fiscal operations resulted in a fiscal deficit of Shs 4,333.11 billion, surpassing the anticipated deficit of Shs 3,901.92 billion, primarily due to revenue and grants falling short of expectations. Despite overall expenditure remaining under the targeted amount for this period, recurrent and domestically financed development expenditures exceeded their respective budgets. A significant factor contributing to the revenue shortfall was the underperformance of Value Added Tax (VAT) on imports and excise duties on items like beer, spirits, sugar, and cement. Nevertheless, domestic revenue collections saw a positive growth of 12.9% compared to the same period in the previous year, totalling to Shs 13,301.55 billion, albeit Shs 867.91

billion below target. The total government expenditure reached Shs 18,218.79 billion, which was Shs 1,647.24 billion less than planned, largely due to reduced spending on externally financed development projects.

Furthermore, December 2023's Debt Sustainability Analysis (DSA) affirmed that public debt remains sustainable, with its GDP share decreasing to 46.9% in FY 2022/23 from 48.4% in FY 2021/22. This reduction reflects the ongoing economic recovery and the government's commitment to fiscal consolidation, evidenced by the primary deficit dropping from 4.3% to 2.3% over the same period. Public debt is expected to stay within sustainable levels as the government further strengthens its fiscal consolidation efforts. Key strategies include implementing the Domestic Revenue Mobilization strategy to boost revenue collections and enhancing the efficiency of project and public investment executions.

MACRO-ECONOMIC DEVELOPMENTS

Chapter I: Macro-Economic Developments

Economic Growth

Economy projected to grow by **6%**

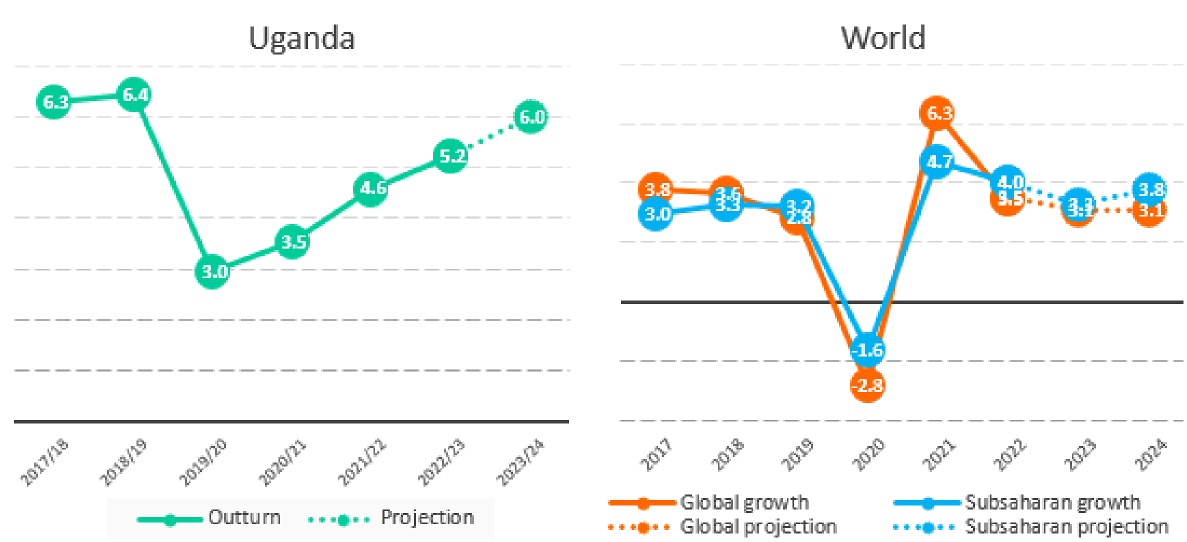
Economic activity remained on a recovery path in the first half of the FY 2023/24, partly supported by continued implementation of growth supportive government programs and an increase in private sector activity. Some of the Government programs include the Parish Development Model, Emyooga, provision of affordable financing through Uganda Development Bank, among others. Subsequently, the economy registered GDP growth of 5.3% in the first quarter of FY 2023/24. The key growth drivers were higher production in the industry sector, growth in agriculture, forestry and fishing sector, modest growth in services as well as increase in household consumption, investments, and exports.

The industry sector grew by 11.9% compared to 11.7% in quarter one of the previous Financial Year mainly due to increased production from manufacturing, mining and quarrying and electricity subsectors. The agriculture, forestry and fishing sector grew by 3.6% on account of higher output from fishing and forestry activities along with growth in food crop and livestock production. The services sector grew by 1.0% due to recovery in tourism & hotel activities and transport services.

In addition to GDP growth, high frequency indicators of economic activity like the Composite Index of Economic Activity (CIEA), Purchasing Managers' Index (PMI), and the Business Tendency Index (BTI) also show an increase in economic activity and better business sentiments within the first half of the Financial Year 2023/24. The CIEA grew by 6.6% from an average of 151.5 in H1 2022/23 to 161.5 in H1 2023/24; while the PMI remained above the 50-mark threshold and averaged 53.1 in H1 2023/24 compared to 50.3 average in H1 2022/23, registering increase in output, new orders and employment; Likewise, the BTI also remained well above the 50-mark threshold and averaged 60.1 in H1 2023/24 compared to 52.9 the same period last Financial Year. This indicates better prospects and optimism about doing business in Uganda from the business community and investors. Figure 2 shows movements in the PMI, CIEA and BTI from July 2022 to December 2023.

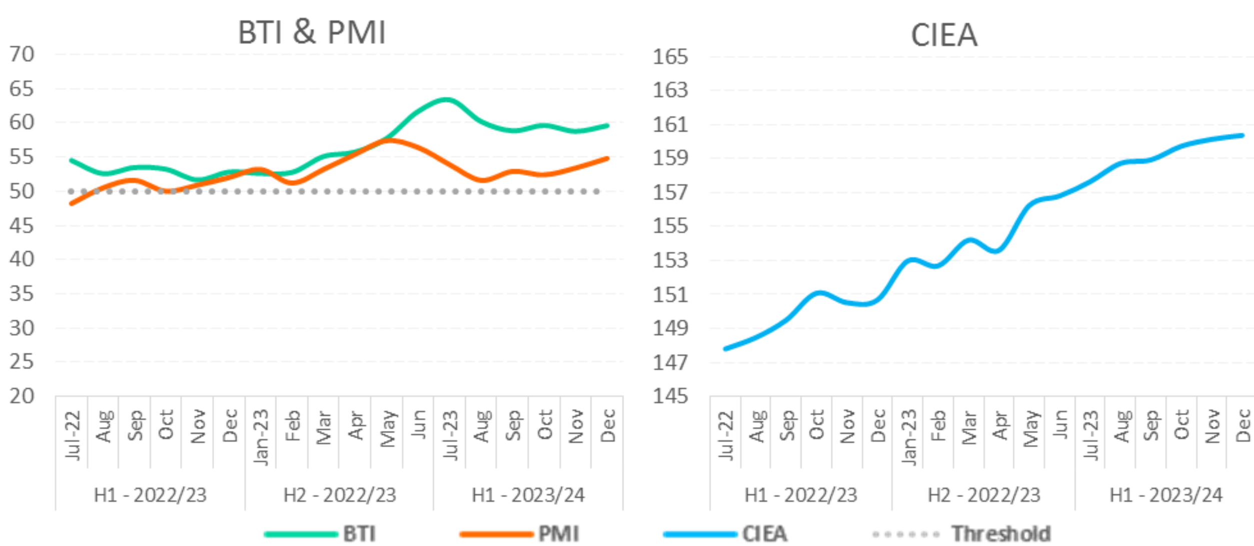
Going forward, economic activity is projected to continue an upward trend within the second half of the Financial Year and register overall GDP growth of 6.0% for the FY 2023/24. This is on account of efficient implementation of the growth supportive government programs and infrastructure; increase in investments especially within the oil and gas sector; higher export volumes mainly supported by continued increase regional trade; surge in household consumption and investments as prices are expected to remain stable and within the central Bank target; as well as production in the services, industry, and agriculture sectors of the economy.

Figure 1: Real GDP Growth Rate Trends (%)



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

Figure 2: High Frequency Indicators of Economic Activity



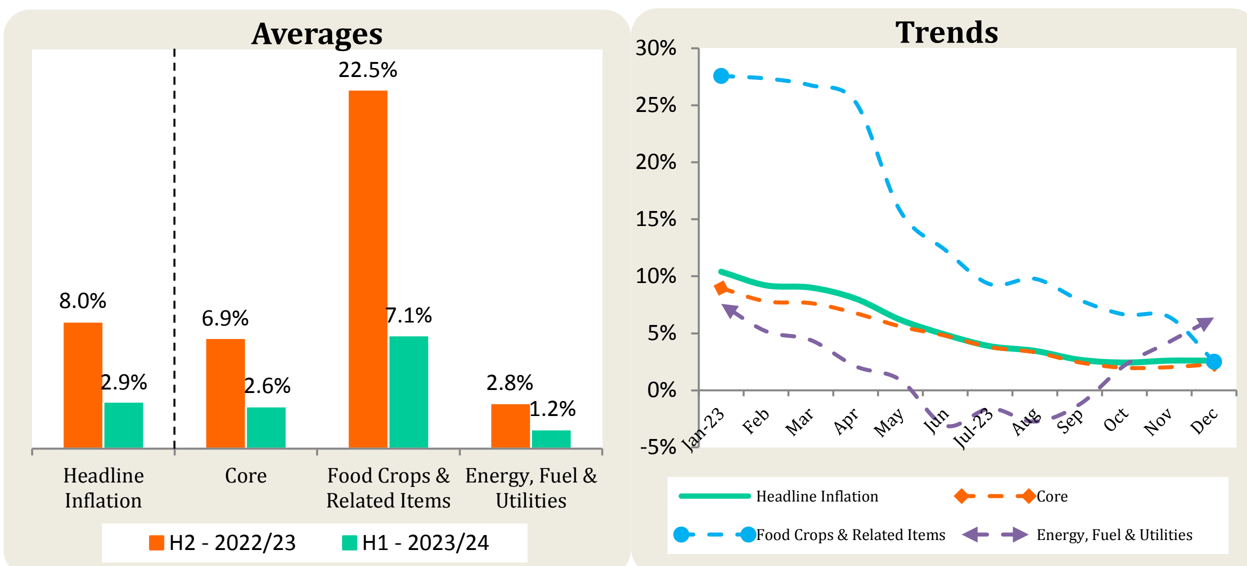
Source: Uganda Bureau of Statistics; Bank of Uganda; Stanbic Bank Uganda

Inflation

Annual headline inflation was generally on a downward trend during the first half of FY2023/24, reducing from 3.9% in July 2023 to 2.6% in December 2023. This resulted in a six-month average of 2.9% compared to 8.0% registered in the second half of FY2022/23.

The moderation of inflation pressures was supported by the appropriate monetary policy stance in response to the earlier upsurge in prices, good crop harvests due to the improved weather conditions, relative exchange rate stability and the declining global inflation as global cost pressures continued to ease.

Figure 3: Annual Inflation broken down by Sub-Components



Source: Uganda Bureau of Statistics

Sub-components of headline inflation

Core inflation. Annual core inflation followed a declining trend, reducing from 4.8% in June 2023 to 3.8% in July 2023 and down to 2.0% in November 2023. It however made an upturn in December 2023 increasing slightly to 2.3% mainly driven by the increased transport fares resulting from the festive season induced travel. The overall slowdown of core inflation was mainly on account of lower imported inflation following a general slowdown in global inflation as oil prices trended downwards and agricultural supplies continued to pick up.

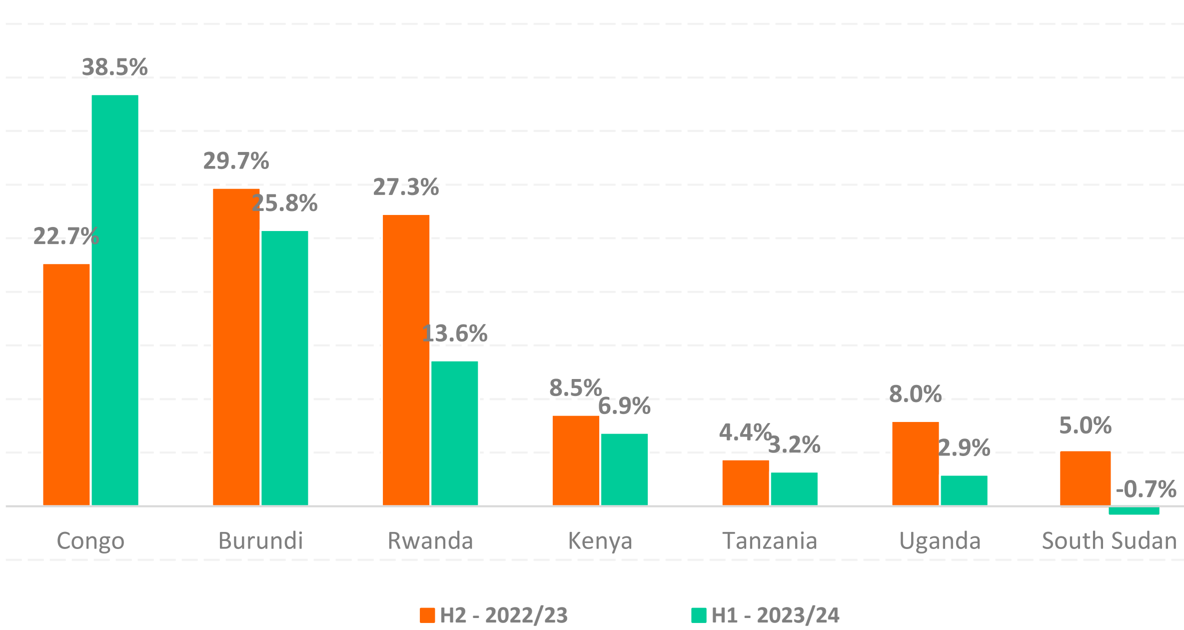
Food crop inflation Over H1 2023/24 annual inflation for food crops and related items significantly reduced to an average of 7.1% from a double-digit average of 22.5% in H2 2022/23. This was largely driven by better agricultural harvests in the Half year under review following improved weather conditions. Annual Food crop inflation which was recorded at 12.3% in June 2023, fell to 2.5% by December 2023 largely driven by a reduction in the prices for fruits and vegetables over that period.

Annual EFU inflation also slowed to a six months' average of 1.2% in the first half of FY2023/24 from the 2.8% average recorded in the previous half, mainly attributed to the general reduction in international oil prices compared to calendar year 2022. However, compared to same period last financial year, the general price index for the EFU component declined for the months of June to September and then began to steadily increase closing off the calendar year at 6.4%. The later movement followed a persistent upward trend in the international oil prices between July and September that resulted into higher fuel import prices for the proceeding months and consequently an increase in the domestic pump prices.

Inflation across the East African Community

During H1 2023/24, headline inflation for most of the EAC partner states generally trended downwards as shown in figure 4. This followed the continued easing in global inflationary pressures and a slowdown in food prices across the region. Rwanda's inflation reduced from double digit to a low of 6.2% in December 2023, while Kenya's moderated at an average of 6.78% down from 9.75% in H2 2022/23. However, Burundi's inflation remained heightened at an average of 24.54% for the six months under review, largely on account of persistent increases in the prices for food and non-alcoholic beverages, housing and utilities as well as transportation services.

Figure 4: Average Annual Headline Inflation among EAC Partner States



Source: Respective National Bureaux of Statistics

Global Commodity Prices

Oil prices

Although international oil prices were generally lower in 2023 compared to calendar year 2022, oil prices picked up in the latter half of 2023 recording an average price of US$ 80.29 per barrel up from US$ 74.96 for the first half of 2023. The rise in prices followed the steep oil production cuts by the Organization of the Petroleum Producing Countries (OPEC) and the recent geopolitical conflicts in the Middle East. Fuel prices within the domestic economy likewise rose in the months of September and October 2023.

Coffee prices

Between July – mid October 2023, the International Coffee Organisation Composite Indicator Price (I-CIP) trended downwards reflecting a decline in the international prices for coffee. The fall in coffee prices was partly on account of both an increase in coffee production resulting from favorable weather conditions as well as a reduction in coffee consumption particularly in Europe, North America, and Africa. However, coffee prices began to pick up from mid-October to December 2023 which positively impacted Uganda's coffee export earnings in H1 2023/24.

Figure 5: Movements in the International Oil Prices and Coffee Composite Price Indicator, H2 2022/23 vs H1 2023/24

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

Financial Sector Developments

As inflationary pressures continued to ease, the Central Bank Rate (CBR) was reduced from 10% in July 2023 to 9.5% in August 2023 and thereafter remained unchanged for the rest of the period under review. The reduction was also occasioned by the need to stimulate aggregate demand and support economic growth prospects, especially as inflation had declined much faster than earlier expected (annual headline inflation declined to 3.9% in July 2023 from 10.4% in January 2023). The rate of 9.5% was deemed sufficient to contain inflation within the Central Bank target of $\pm$5%.

The marginal costs of funding in the inter-bank domain were in line with the CBR movement, with the overall inter-bank rate reducing to an average of 10.37% for the six-month period to December 2023, compared to an average of 11.26% in the preceding six months. This rate is a key transmission channel for the monetary policy stance since it is the rate at which banks borrow from/lend to each other to manage liquidity and satisfy regulations such as reserve requirements (i.e it represents the cost of credit for the lending institutions which forms the basis for lending rates).

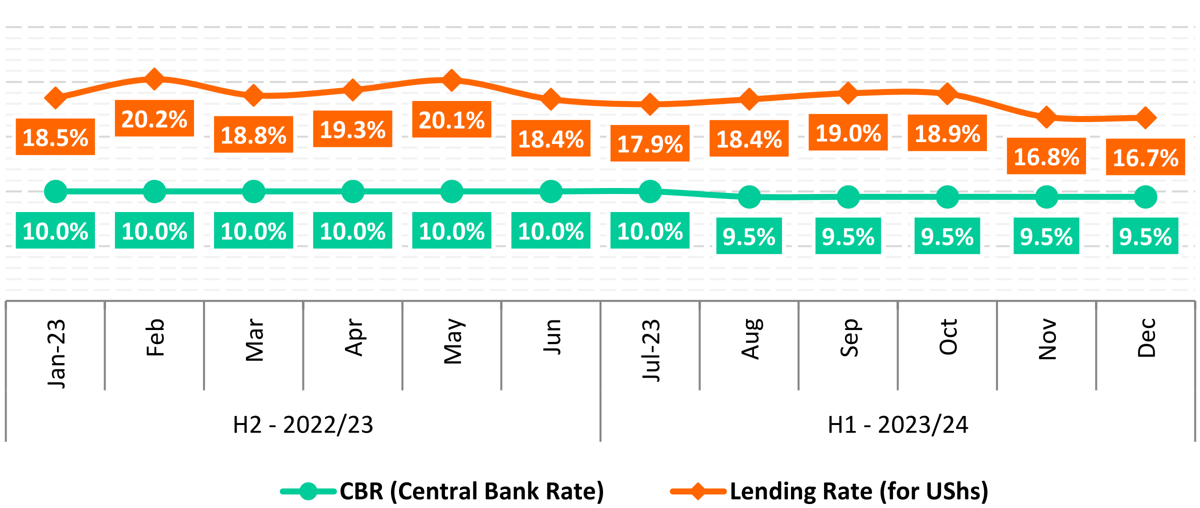
Lending Rates (weighted average)

average
Commercial
bank
lending
rate of
17.95

In line with the easing monetary policy stance and the general decline in inflation, commercial banks' shilling denominated lending rates reduced over H1 2023/24 to a weighted average of 17.95% down from 19.22% recorded in H2 2022/23.

Notwithstanding, the weighted average lending rate for foreign denominated credit slightly increased from 8.10% in H2 2022/23 to 8.87% over the period under view.

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



Source: Bank of Uganda

Government Securities

In the first half of Fiscal Year 2023/24, the government successfully secured Shs. 7,954.3 billion through Treasury Bills and Bonds auctions. Out of this, Shs. 4,713.7 billion was allocated to refinance maturing debt, while the remaining Shs. 3,240.6 billion supported other budgetary needs, as detailed in Table 1. Notably, the allocation for these budgetary needs exceeded the initially approved amount of Shs. 3,163.0 billion for the fiscal year by Shs. 77.6 billion. This increase was attributed to unforeseen spending pressures that arose over the year, culminating in parliamentary consent for additional borrowing by the government in December 2023.

Table 1: Breakdown of Government Securities in Billion Shs

	Total Issuances	Government Domestic Borrowing	Refinancing
Q1	4,272.83	1,682.4	2,590.48
Q2	3,681.49	1,558.2	2,123.24
H1 2023/24	7,954.32	3,240.60	4,713.73

Source: Ministry of Finance, Planning and Economic Development

Yields on Treasury Bills

In H1 2023/24, yields (interest rates) on the 182- and 364-day Treasury Bills exhibited an upward trend as shown in Figure 7. However, the yields on the shortest tenor security (91-day) were lower in H1 2023/24 compared to H2 2022/23. The lower yields for the 91-day treasury bills followed the decline in the CBR to 9.5% in the latter half of 2023 from 10% in the first half of 2023. However, yields on longer dated securities continued to edge upwards due to the lingering uncertainties on inflation and monetary policy tightening in advanced economies. Table 2 shows the average annualised yields on Treasury Bills since H1 2021/22.

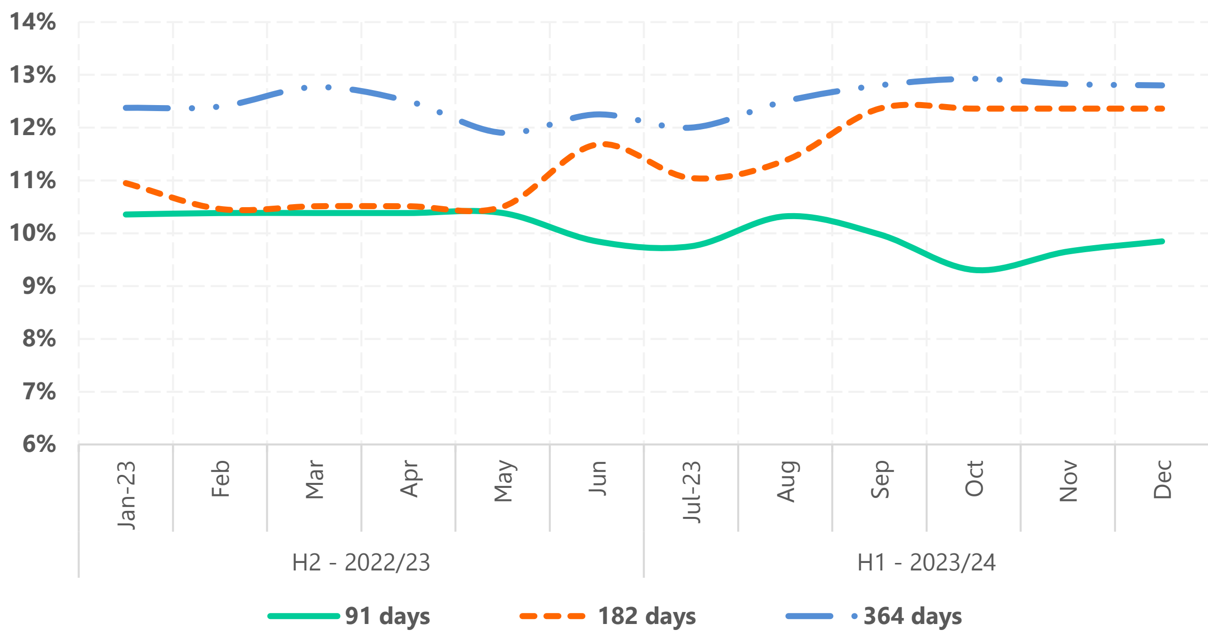
Table 2: Average Annualised Yields on Treasury Bills (%)

	H1 2021/22	H2 2021/22	H1 2022/23	H2 2022/23	H1 2023/24
91 Days	7.0	6.9	10.4	10.3	9.8
182 Days	8.8	8.5	12.0	10.8	10.8
364 Days	10.1	9.7	14.1	12.4	12.4

Source: Bank of Uganda

Figure 7 shows the trend between H2 2022/23 and H1 2023/24 of Yields on T-Bills.

Figure 7: Monthly Movement of Treasury Bill Yields



Source: Bank of Uganda

Lending to the Private Sector

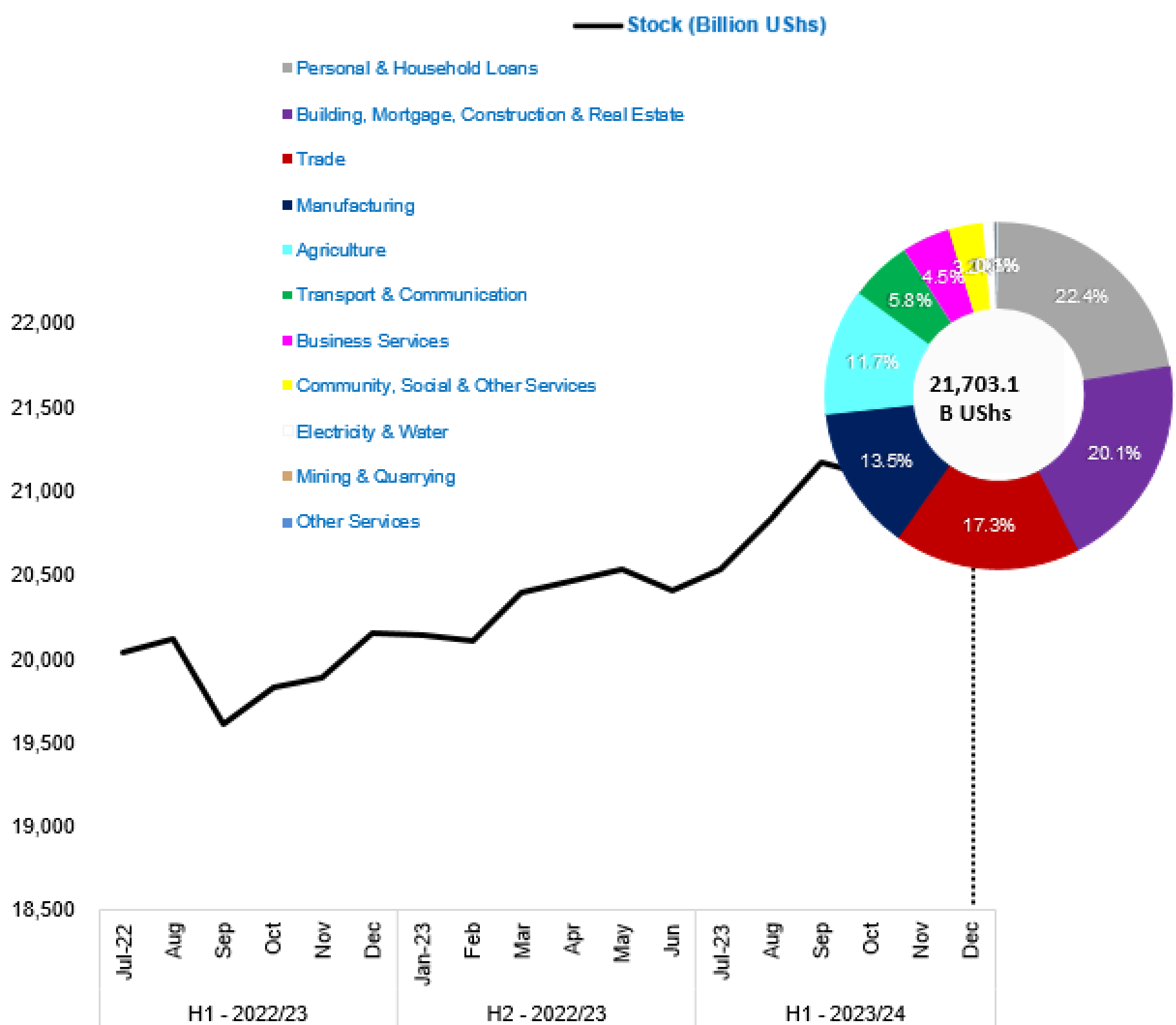
Private Sector Credit

grew by

6.3%

The stock of private sector credit increased by 6.3% to Shs 21,703.1 billion in December 2023 from Shs. 20,407.3 billion at end June 2023. This compares favourably against a growth of 1.2% recorded over the six months to June 2023. This was partly supported by the slowdown in the lending rates as the inflation outlook pointed to low and stable.

Figure 8: Stock of Private Sector Credit disaggregated by Sector

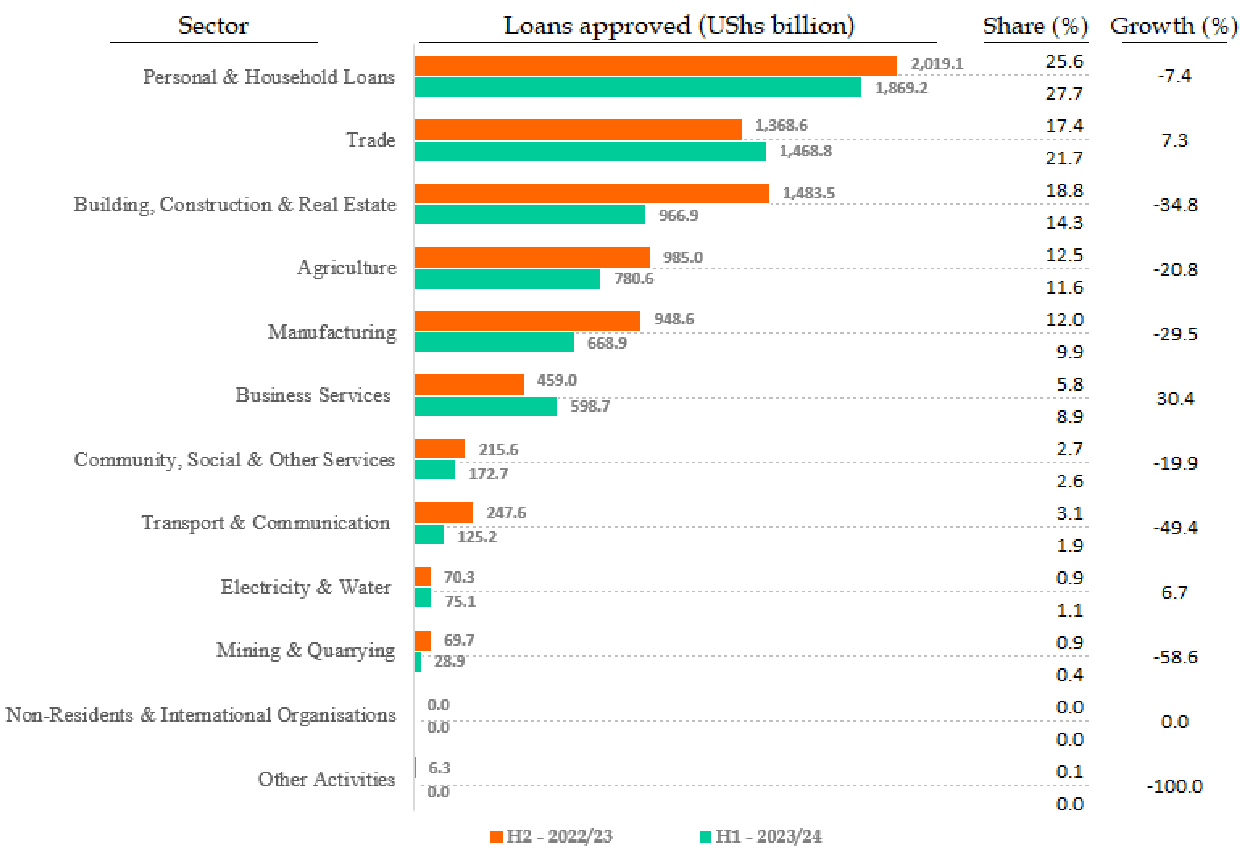


Source: Bank of Uganda

The value of loans approved to the private sector in H1 2023/24 amounted to Shs. 6,755.1 billion, a slight reduction compared to a sum of Shs. 7,872.6 billion approved over the previous six-month period to June 2023. This followed a 9.3% decline in the value of loan requests between the two periods. As was the case in H2 2022/23, personal and household loans continued to constitute the largest share of credit approved in H1

2023/24, accounting for 27.7%. This was closely followed by the trade sector at 21.7%; Building, construction and real estate sector at 14.3%, and Agriculture at 11.6% of total credit approved.

Figure 9: Value of New Loans Approved by Sector

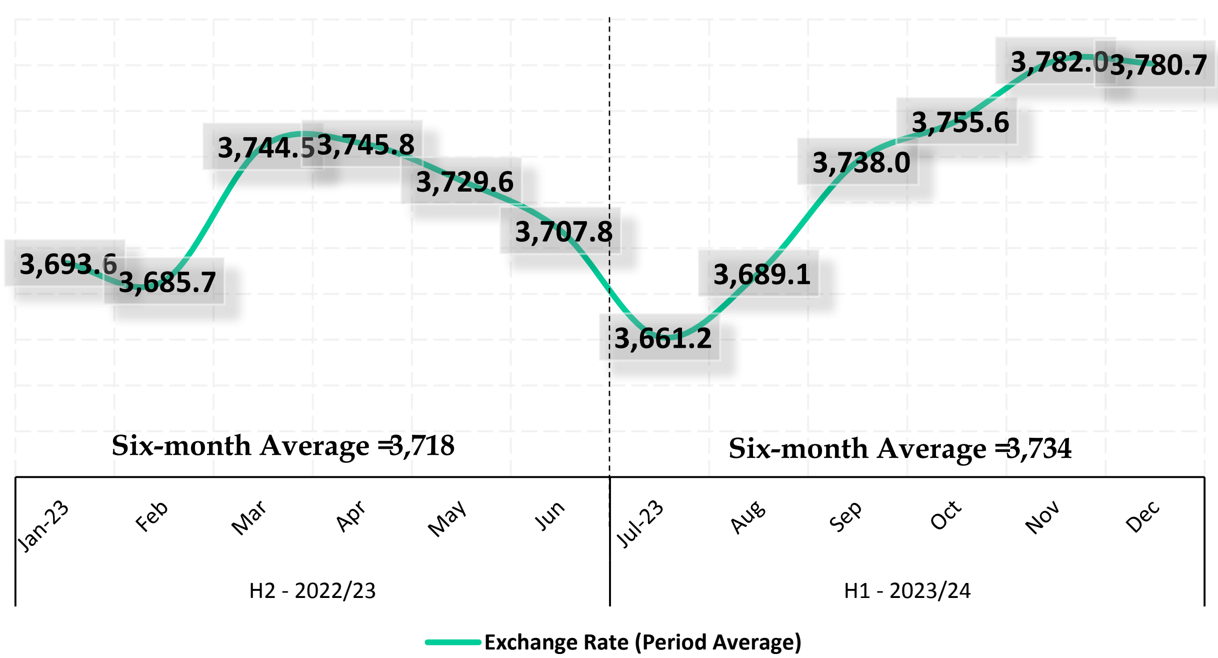


Source: Bank of Uganda

Exchange Rate

During the first half of Fiscal Year 2023/24, the Uganda Shilling experienced a depreciation against the US dollar, moving from a mid-rate of Shs. 3,661.2 per US$ in July 2023 to Shs. 3,780.7 per US$ by December 2023, marking a 3.3% depreciation as illustrated in Figure 10. Compared to other East African Community (EAC) countries, the Shilling's exchange rate movements were relatively stable, averaging a modest depreciation of 0.4% from Shs. 3,718 per US$ in the second half of FY 2022/23 to Shs. 3,734 per US$ in the first half of FY 2023/24. This depreciation was primarily driven by increased demand for the US dollar within the oil sector, manufacturing, and telecommunications industries. Additionally, a decline in offshore investment, with participation dropping from 11.2% in 2022 to 7.4% in 2023 as investors sought higher yields in advanced economies, also contributed to the Shilling's weakening during this period.

Figure 10: Official Exchange Rate Movement of UShs/US$

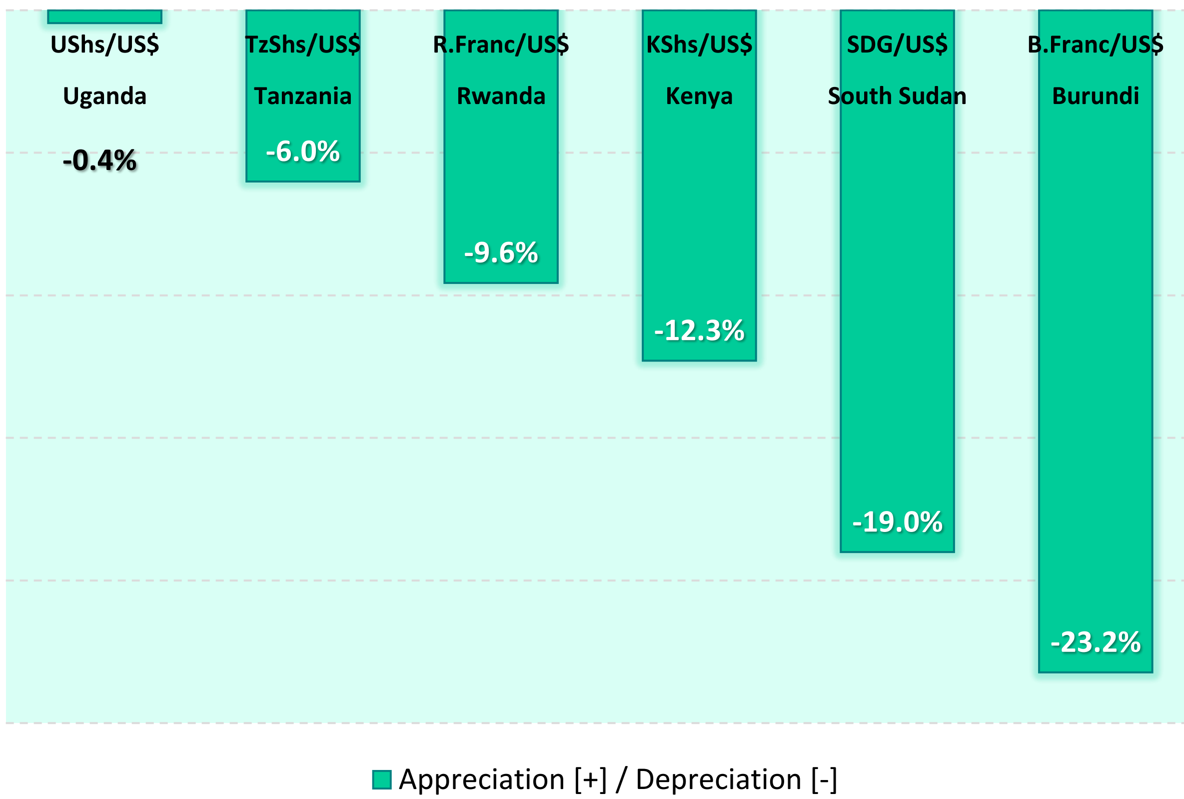


Source: Bank of Uganda

Exchange Rates within the EAC

The currencies within the EAC depreciated against the US$ in H1 2023/24 compared to H2 2022/23 as demonstrated in Figure 11. In comparison to other EAC currencies, the Uganda Shilling depreciated the least against the US$ while the Burundi Franc registered the biggest loss of 23.2% attributable to Burundi’s shortages in international reserves. Furthermore, the losses registered in the region were partly due to capital outflows as offshore investors sought after the high yields in advanced economies following the increase in their policy rates. Figure 11 shows the percentage change of exchange rates against the US$ within the EAC for the periods January-June 2023 versus July-December 2023.

Figure 11: Change in Exchange Rates (Period Average) in EAC for H2 2022/23 Vs H1 2023/24



Source: Respective Central Banks

External Sector

Merchandise Trade Balance

Uganda's trade with the rest of the world resulted in a deficit of US$ 1,646.6 million in H1 2023/24. The deficit narrowed compared to the deficit of US$ 1,900.7 million recorded in H1 the previous financial year as the increase in exports more than offset the increase in the import bill.

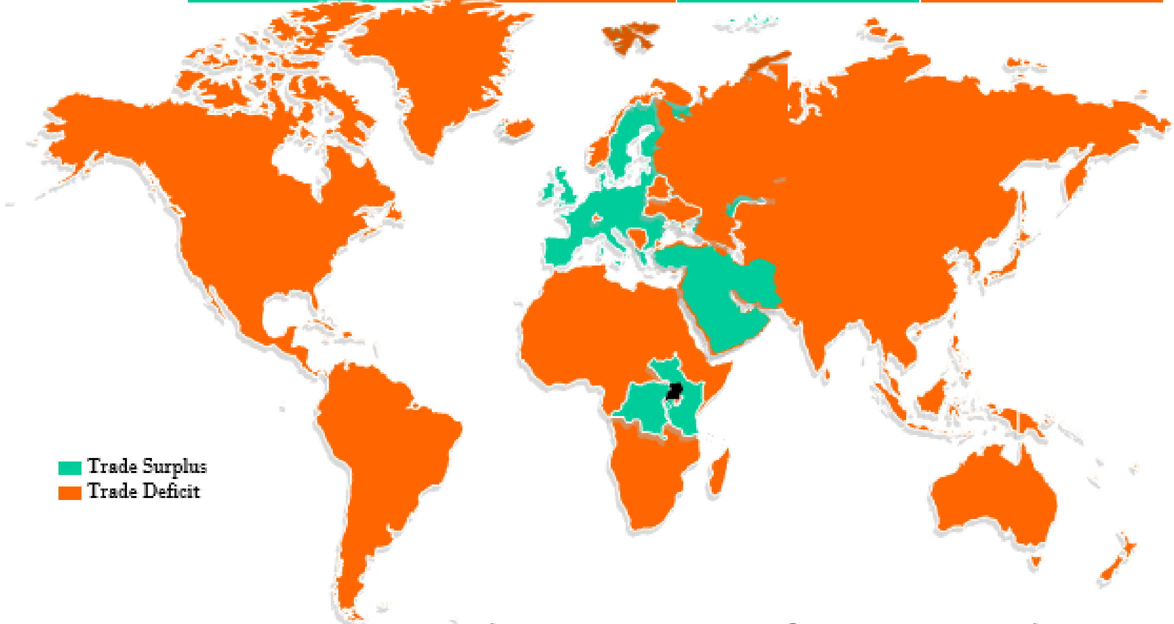
Main Trade Partners

In the first half of Fiscal Year 2023/24, the East African Community (EAC) stood as Uganda's primary trading partner, with total trade reaching US$ 2,806.1 million, marking a significant 59.2% increase from the US$ 1,762.5 million recorded in the first half of FY 2022/23, as detailed in Table 4. This surge in trade with the EAC was predominantly fueled by a substantial rise in imports from the region. Consequently, Uganda's trade surplus with the EAC narrowed to US$ 34.44 million in H1 2023/24, a decrease from the US$ 724.07 million surplus observed in the corresponding period of the previous year, as depicted in Figure 12. Additionally, Uganda achieved a trade surplus with both the Middle East and the European Union during the first half of FY 2023/24, reversing the deficit experienced in the same period last financial year.

Uganda continued to trade at a deficit with Asia, the Rest of Africa, Rest of Europe, and the America's. Our trade deficit with Asia and Rest of Europe shrunk, while it widened with the America's and more than doubled with the Rest of Africa.

Figure 12: Uganda's Trade Balance across Regional Blocs in H1 2023/24 (US$ Million)

	EAC		Asia		Middle East		Rest of Africa	
	H1-22/23	H1-23/24	H1-22/23	H1-23/24	H1-22/23	H1-23/24	H1-22/23	H1-23/24
Total Trade	1,762.5	2,806.1	2,017.7	2,751.6	1,103.1	1,730.0	417.2	836.4
Trade Balance	724.1	34.4	-1,724.3	-1,287.6	-586.7	44.4	-168.8	-461.7



	European Union		The Americas		Rest of Europe		Others	
	H1-22/23	H1-23/24	H1-22/23	H1-23/24	H1-22/23	H1-23/24	H1-22/23	H1-23/24
Total Trade	773.1	794.4	165.3	170.8	107.1	88.6	28.3	6.8
Trade Balance	-47.9	131.2	-46.2	-84.5	-25.0	-19.4	-25.2	-3.5

Source: MOFPED calculations based on data from BOU

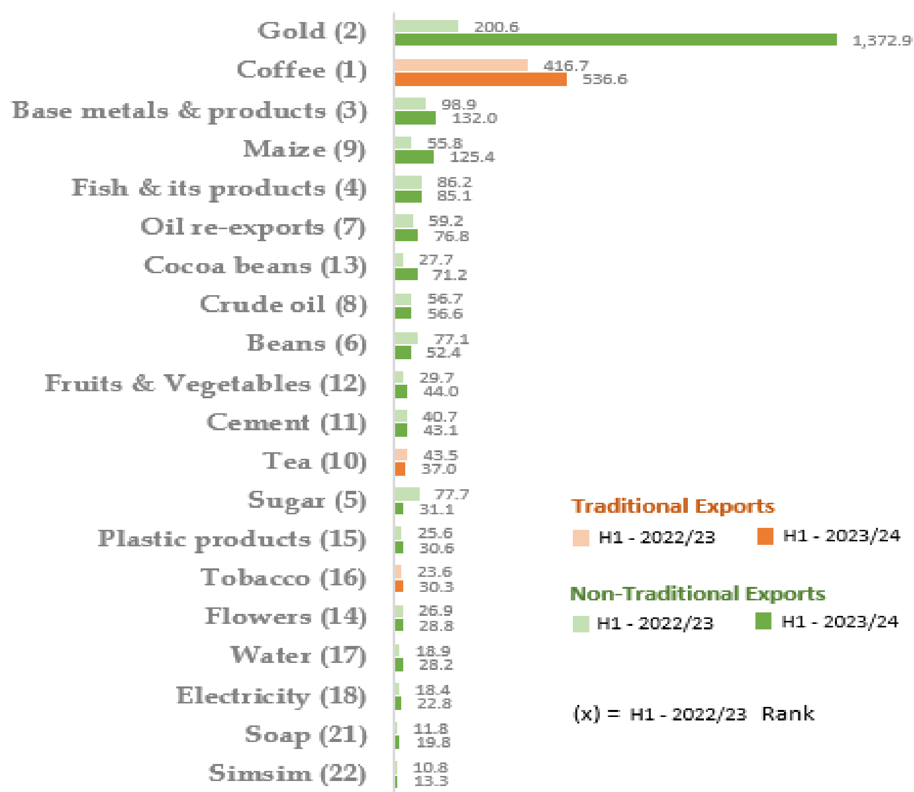
Note: Total Trade is equal to merchandise exports plus merchandise imports, and Trade Balance is equal to merchandise exports minus merchandise imports

Merchandise Exports

In the first half of Fiscal Year 2023/24, Uganda's exports reached a value of US$ 3,769.0 million, marking a significant increase of 68.5% from the US$ 2,236.4 million reported in the same period of the previous year. This substantial growth in export receipts was primarily driven by the notable resurgence in gold exports, with volumes increasing from 3,897 kilograms in the first half of FY 2022/23 to 22,872 kilograms in the corresponding period of FY 2023/24.

Excluding gold, export earnings still saw a healthy increase of 17.7%, propelled by significant gains in maize, which more than doubled, alongside increases in electricity, oil re-exports, and coffee. The surge in coffee earnings can be attributed to higher global prices and an uptick in export volumes; 3,265,410 (60-kg bags) of coffee were exported in the first half of FY 2023/24, up from 2,907,107 (60-kg bags) in the previous year. The peak of coffee exports was in August 2023, with 740,194 (60-kg bags) shipped, benefiting from an excellent harvest in the South-Western region and favorable global market prices, which encouraged exporters to sell their stock.

Figure 13: Top 20 Commodity Exports of Uganda in H1 - 2023/24 (US$ Million)



Source: MOFPED calculations based on data from BOU

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

Traditional Exports are listed according to the Uganda Trade Policy

Destination of Exports

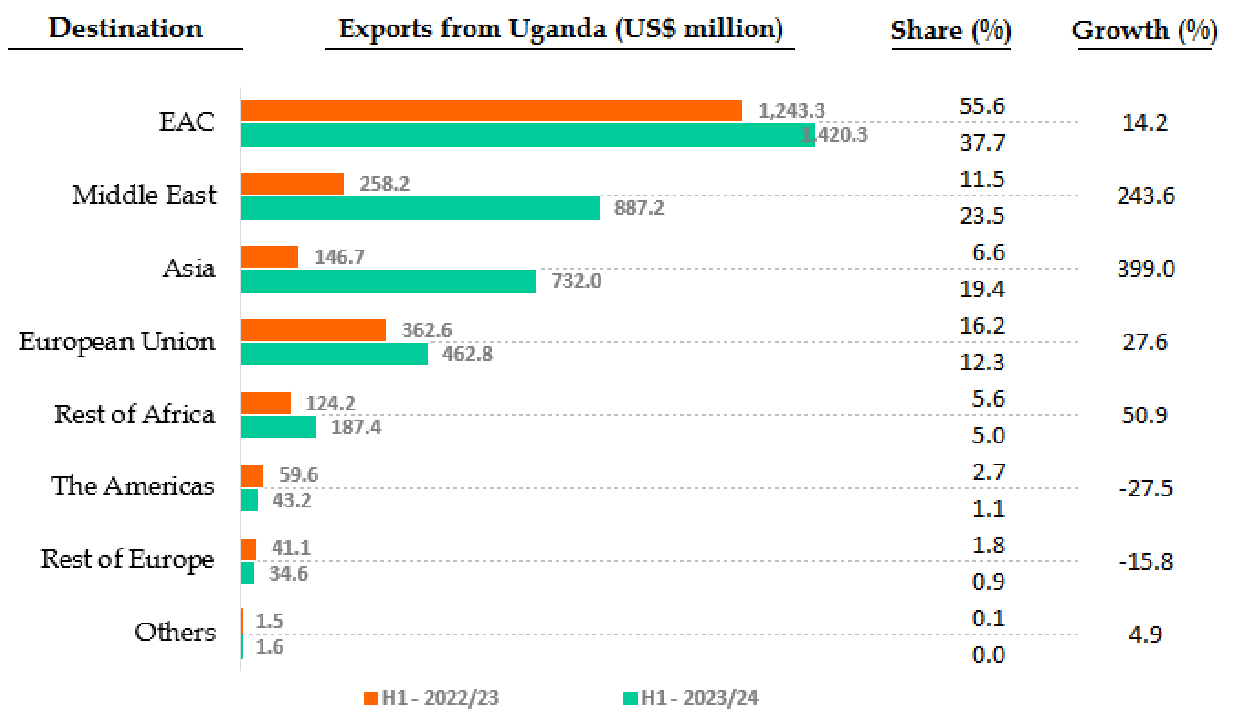
In the first half of Fiscal Year 2023/24, the East African Community (EAC) retained its position as the largest market for Uganda's exports, accounting for 37.7% of the total export merchandise. This was closely followed by significant market shares in the Middle East and Asia, which constituted 23.5% and 19.4% of Uganda's exports, respectively.

At the country level, the United Arab Emirates (UAE) emerged as the leading destination for Uganda's exports during this period, capturing 96% of the total exports to the Middle East, thereby making the region the second-largest export market. Notably, gold was the primary export to the UAE, representing 91% of Uganda's earnings from the country.

India stood as the second major country destination, with gold and coffee making up 85% and 12% of Uganda's total export earnings from India, respectively.

Furthermore, Uganda experienced a trade surplus with the European Union, primarily exporting to Italy and Germany. Coffee was the main export to both countries, with additional exports of petroleum-related products to Germany, highlighting Uganda's diverse export portfolio and its strategic trade relationships across different regions and countries.

Figure 14: Destination of Uganda's Exports to different Regional Blocs



Source: MOFPED calculations based on data from BOU

Merchandise Imports

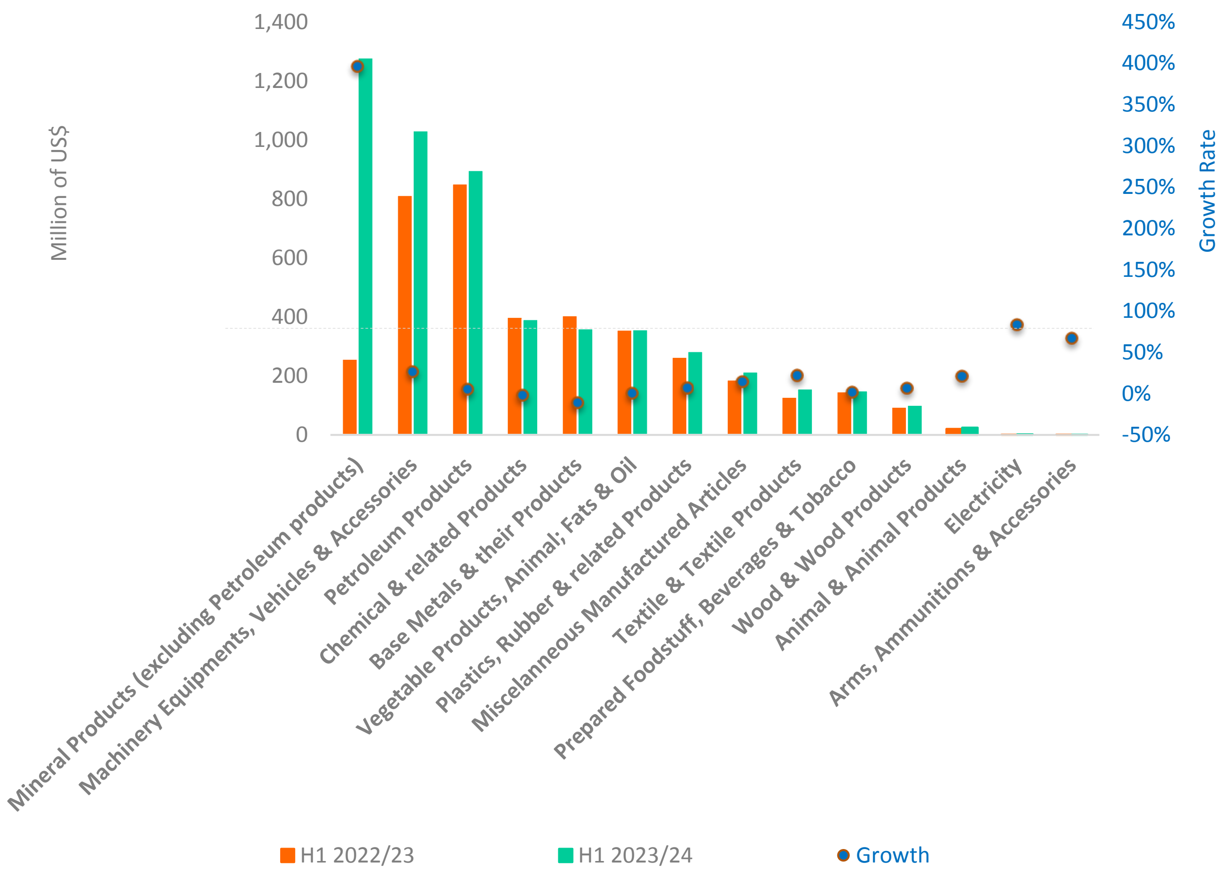
During the first half of Fiscal Year 2023/24, Uganda's merchandise imports saw a significant rise, reaching US$ 5,415.6 million, marking a 30.9% increase from the US$ 4,137.1 million reported in the same period of FY 2022/23. This surge was predominantly fuelled by a 33.3% growth in imports by the private sector, which accounted for US$ 5,317.5 million, up from US$ 3,988.4 million in the first half of the previous financial year. The substantial rise in private sector imports effectively compensated for the 34.1% decline in government imports, highlighting the private sector's pivotal role in the country's import activity.

Table 3: Performance of Imports in US$ million				
	H1 2022/23	H1 2023/24	Difference (value)	Growth Rate
Total Imports (fob)	4,137.11	5,415.64	1,278.53	30.9%
Government Imports	148.75	98.09	-50.66	-34.1%
Project	144.17	90.76	-53.41	-37.0%
Non-Project	4.58	7.34	2.76	60.2%
Formal Private Sector Imports	3,935.12	5,260.95	1,325.82	33.7%
Oil imports	852.62	897.74	45.12	5.3%
Non-oil imports	3,082.51	4,363.21	1,280.70	41.5%
Estimated Private Sector Imports	53.23	56.60	3.37	6.3%
Total Private Sector Imports	3,988.36	5,317.55	1,329.19	33.3%

Source: Bank of Uganda

In the first half of Fiscal Year 2023/24, the notable rise in the value of Uganda's imports, which rose by 41.5%, was primarily due to an increase in non-oil imports. This growth stemmed from higher volumes of imports compared to the same period in the previous year, with mineral products, particularly, experiencing a significant uptick as illustrated in Figure 15. This was closely linked to the resurgence in gold exports post-August 2022. Additionally, the increase in imports reflects the broader trend of increasing economic activity and demand within the country during this period, indicating robust economic recovery.

Figure 15: Composition of Formal Private Sector Imports by Category



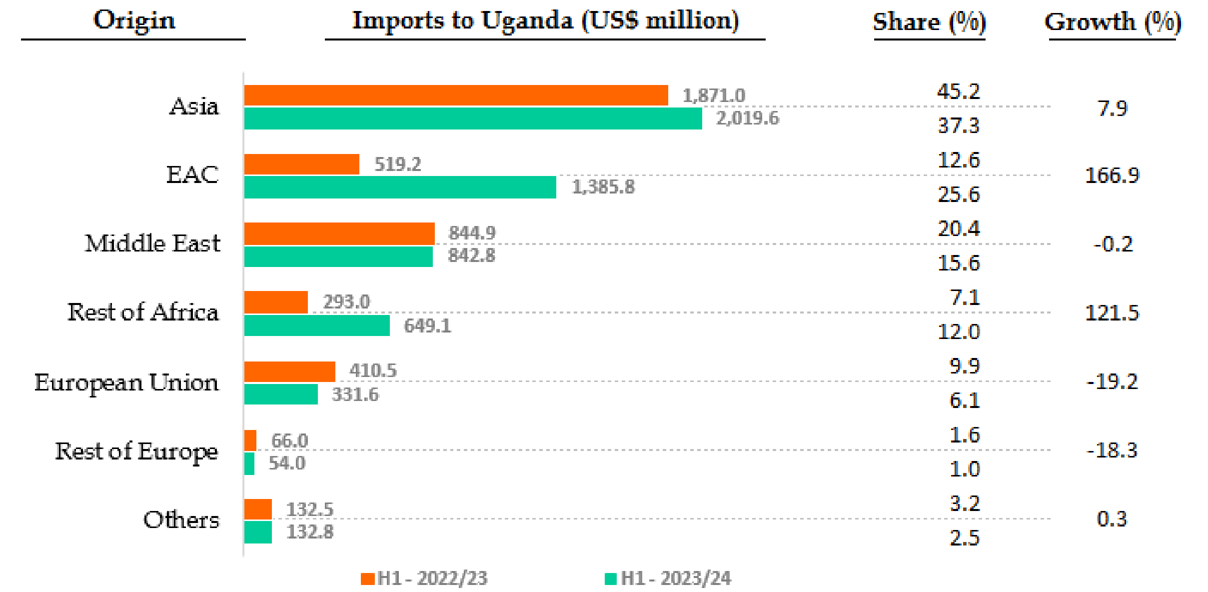
Source: Bank of Uganda

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

Origin of Imports

Asia remained Uganda's biggest source of merchandise imports in H1 2023/24 accounting for 37.3% of the total imports. The share of imports from the EAC increased to 25.6% from 12.6% recorded in H1 2022/23, thereby replacing the Middle East as the second biggest source of imports. The Middle East emerged as the third largest source of imports accounting for 15.6% of the total merchandise imported for the period under review.

Figure 16: Origin of Uganda's Imports from different Regional Blocs



Source: MOFPED calculations based on data from BOU

Imports from Asia were mainly from China (41.4%), India (27.7%) and Japan (10.4%). Our biggest imports from Asia were machinery and transport equipment (road vehicles) as well as manufactured goods (iron and steel products). These two categories make up for over 55% of our imports from the region. Imports from the Middle East were mainly constituted of petroleum products and related materials.

Trade with the EAC

Uganda's trade surplus with the EAC declined to US$ 34.4 million in H1 2023/24 down from US$ 724.1 million recorded in the same period the previous year. The decline was on account of higher imports from the region that amounted to US$ 1,385.8 million, an increment of 166.9% compared to H1 2022/23. Notably, the value of imports from Tanzania significantly increased to US$ 881.8 million in H1 2023/24 from US$ 98.3 million in the same period the previous year, an increase of 796.9%. The increase in the import bill more than offset the increase in export receipts, resulting in a larger trade deficit with Tanzania. Tanzania and Kenya accounted for of 63.6% and 31.3% of the total imports from the region respectively. Gold and cereals (rice, wheat, barley, maize) made up for over 65% of our imports from Tanzania while lime, cement, and fabricated construction materials as well as food and live animals (edible products) accounted for close to 50% of our imports from Kenya.

In H1 2023/24, export receipts from DRC increased to US$ 378.8 million from US$ 355.9 million in H1 2022/23 making it the top destination for Uganda's merchandise exports in EAC, followed by Kenya. Our receipts from DRC were mainly driven by demand for food and live animals as well as animal and vegetable oils. Exports to Kenya were mainly dominated by coffee, tea, spices, dairy products, eggs, feeding stuffs for animals and cereals (maize, wheat, rice and barely).

Table 4: Uganda's Trade with EAC Partner States (US$ Million)

		H1 2022/23	H1 2023/24	Growth Rate
Kenya	Exports	354.0	350.1	-1.1%
	Imports	365.4	433.8	18.7%
	Trade Balance	-11.4	-83.6	
Tanzania	Exports	84.8	138.7	63.7%
	Imports	98.3	881.8	796.9%
	Trade Balance	-13.6	-743.0	
Congo (D.R.)	Exports	335.9	378.8	12.8%
	Imports	39.0	43.8	12.4%
	Trade Balance	296.9	335.0	
Rwanda	Exports	77.1	189.6	145.9%
	Imports	7.1	9.8	38.2%
	Trade Balance	70.0	179.8	
Burundi	Exports	38.6	40.9	6.1%
	Imports	0.5	0.7	51.2%
	Trade Balance	38.1	40.2	
South Sudan	Exports	352.9	322.1	-8.7%
	Imports	8.9	16.0	78.9%
	Trade Balance	344.0	306.1	
EAC EXPORTS		1,243.3	1,420.3	14.2%
EAC IMPORTS		519.2	1,385.8	166.9%
EAC TRADE BALANCE		**724.1**	**34.4**	

Source: Bank of Uganda

Other Balance of Payments transactions

International Reserves; As of December 2023, the stock of **international reserves** stood at US$ 3,733.9 million, equivalent to 3.6 months of imports of goods and services. This was an improvement in gross reserves compared to US$ 3,563.1 million in the same period last year. The increase in reserves is partly attributed to an increase in FDI inflows related to the oil sector as well as an increase in exports.

Tourism earnings (inflows) Earnings from tourism amounted to US$ 289.9 million in Q1 FY 2023/24, up from US$ 223.9 million in the same period the previous year. The increase in tourism earnings was partly attributed to the implementation of the tourism development program aimed at enhancing tourism revenues by increasing Uganda's attractiveness.

Remittances (personal transfers) continued to improve in the first quarter FY 2023/24 registering remittances worth US$ 360.13 million. This compares with remittances worth US$ 316.70 million recorded in Q1 FY 2022/23. The increase was partly attributed to an increase in the number of Ugandans who work abroad, with over 32,000[1] workers who joined the diaspora last year. The increase in personal transfers was also partly explained by the continued recovery of the global economy after the COVID-19 pandemic.

Foreign Direct Investment (FDI); Foreign Direct Investments grew by 21.3% to US$ 895.1 million in Q1 FY 2023/24 up from US$ 738.2 million in Q1 FY 2022/23. The increment in FDI during the period was largely attributed to an increase in oil-related activities.

[1] Source: Ministry of Finance, Planning and Economic Development.

FISCAL PERFORMANCE

Chapter II: Fiscal Performance

Overview

The FY2023/24 budget was anchored on the theme "Full Monetisation of Uganda's Economy through Commercial Agriculture, Industrialisation, Expanding and Broadening Services, Digital Transformation, and Market Access," aligning with the objectives of the third National Development Plan (NDP III). This plan focuses on enhancing household incomes and the overall quality of life for Ugandans by promoting sustainable industrialization, inclusive growth, employment, and wealth creation. The government had earmarked expenditure of Shs 19,866.03 billion for the first half of FY2023/24, excluding debt repayments and Appropriation in Aid. However, the actual expenditure amounted to Shs 18,218.79 billion, falling 8.3% below the planned figure, primarily due to lower than expected externally financed development spending, whereas current and domestically financed development expenditures exceeded projections.

Revenues and grants also fell short, missing the target of Shs 15,964.11 billion by Shs 2,078.43 billion, with domestic revenues experiencing a shortfall of Shs 867.91 billion. Consequently, government operations for the first half of FY 2023/24 resulted in a fiscal deficit of Shs 4,333.11 billion, surpassing the forecasted deficit of Shs 3,901.92 billion. This larger than projected fiscal deficit was mainly driven by revenue and grant shortfalls, alongside elevated recurrent and domestically financed development expenditures. A summary of the government's financial activities during this period is detailed in Table 5.

Table 5: Fiscal Operations of H1 2023/24 (UShs Billion)				
Billion Shs	H1 2023/24 Budget	H1 2023/24 Outturn	Performance	Deviation
Total revenue and grants	**15,964.11**	**13,885.68**	**87.0%**	**- 2,078.43**
Revenue	**14,169.46**	**13,301.55**	**93.9%**	**- 867.91**
Tax revenue	13,142.15	12,328.63	93.8%	- 813.52
Non-tax revenue	1,027.31	972.92	94.7%	- 54.39
Grants	**1,794.65**	**584.13**	**32.5%**	**- 1,210.52**
Budget support	31.98	-	0.0%	- 31.98
Project grants	1,762.67	584.13	33.1%	- 1,178.54
Expenditures and net lending	**19,866.03**	**18,218.79**	**91.7%**	**- 1,647.24**
Recurrent expenditures	**11,341.47**	**12,240.56**	**107.9%**	**899.09**
Wages and salaries	3,464.93	3,578.98	103.3%	114.04
Non-wage	4,961.36	5,594.59	112.8%	633.23
Interest payments	2,915.18	3,067.00	105.2%	151.82
o/w: domestic	2,375.29	2,455.09	103.4%	79.80
o/w: foreign	539.89	611.91	113.3%	72.02
Development expenditures	**7,828.80**	**5,579.20**	**71.3%**	**- 2,249.60**
External	4,724.82	2,199.39	46.5%	- 2,525.43
o/w: concessional	3,849.91	1,810.41	47.0%	- 2,039.50
o/w: non-concessional	874.90	388.98	44.5%	- 485.93
Domestic	3,103.99	3,379.82	108.9%	275.83
Net lending and investment	540.17	235.38	43.6%	- 304.79
O/w HPP	323.17	18.08	5.6%	- 305.09
BoU Recapitalisation	217.00	217.30	100.1%	0.30
Arrears Payments	155.58	163.64	105.2%	8.06
Overall balance	**- 3,901.92**	**- 4,333.11**	**111.1%**	**- 431.20**
Financing	**3,901.92**	**4,333.11**	**111.1%**	**431.20**
External financing (net)	2,560.58	192.33	7.5%	- 2,368.25
Disbursement	3,845.75	1,415.08	36.8%	- 2,430.67
Budget support	560.43	-	0.0%	- 560.43
Project Support	3,285.32	1,415.08	43.1%	- 1,870.23
Concesional loans	2,087.24	1,008.03	48.3%	- 1,079.22
HPPs	323.17	18.08	5.6%	- 305.09
Other non-concessional loans	874.90	388.98	44.5%	- 485.93
Amortisation (-)	- 1,285.17	- 1,222.76	95.1%	62.42
Domestic financing (net)	1,341.34	3,161.70	235.7%	1,820.36
Bank Financing	- 195.76	1,248.18	-637.6%	1,443.94
Central Bank	- 896.67	490.24	-54.7%	1,386.91
Commercial banks	700.91	757.93	108.1%	57.02
Non Bank	**1,537.10**	**1,913.52**	**124.5%**	**376.43**
Errors and Ommissions	**-**	**979.08**		

Source: Ministry of Finance, Planning and Economic Development

Revenues

Total Revenue and Grants

During the first half of Fiscal Year 2023/24, Uganda's total revenue collections, alongside grants disbursements, amounted to Shs 13,885.68 billion, falling 13.0% (Shs 2,078.43 billion) short of the targeted figures. The shortfall was primarily due to underperformance in grants from external development partners, which reached only 32.5% of the expected target, significantly impacting the overall revenue and grants collections. In contrast, domestic revenues achieved a more robust performance, reaching 93.9% of their target.

Domestic Revenue Collections

During the first half of FY2023/24, Shs 13,301.55 billion was collected in form of domestic revenue. This was against a target of Shs 14,169.46 billion implying a shortfall of Shs 867.91 billion as both tax and non-tax revenue were short of their respective targets. Despite the shortfall, there was growth of 12.9% compared to collections in the same period of the previous financial year.

Tax Revenue

In H1 FY2023/24, tax revenue collections amounted to Shs 12,328.63 billion against a target of Shs 13,142.15 billion, translating into a shortfall of Shs 813.52 billion mainly due to below par performance of taxes on international trade transactions and indirect domestic taxes. Following this performance, total tax collections in the first half of FY 2023/24 amounted to 45% of the total tax revenue target for the whole of FY 2023/24. Despite the shortfall registered, tax collections grew by 12.9% compared to H1 FY2022/23.

Direct domestic taxes amounted to Shs 4,747.93 billion in H1 FY2023/24. This was against a target of Shs 4,591.67 billion implying a surplus of Shs 156.26 billion. Under this category, Pay As You Earn (PAYE) performed the best, registering a surplus of Shs 228.53 billion against its target of Shs 2,045.26 billion. This was on account of more recruitments in the private sector as the level of economic activity continues to improve. The other subcategories that registered surpluses included rental income tax (Shs 14.36 billion), taxes on interest earned (bank interest [Shs 5.21 billion] as well as earnings on treasury instruments [Shs 13.91 billion]), and presumptive taxes (Shs 0.59 billion).

Regardless of the good performance of the above subcategories, there were others within the direct domestic taxes category that registered shortfalls. Corporate tax, withholding tax and casino tax among others registered shortfalls of Shs 43.62 billion, Shs 51.87 billion and Shs 8.46 billion respectively.

Indirect domestic taxes amounted to Shs 3,194.67 billion against a target of Shs 3,499.40 billion. This translated into a shortfall of Shs 304.73 billion which was on account of lower than projected collections for both excise duty and Value Added Tax (VAT).

VAT collections were short of the Shs 2,336.0 billion target by Shs 194.01 billion with major shortfalls registered in the manufacturing sector as well as wholesale and retail trade sector. Similarly, excise duty collections were Shs 110.72 billion short of their Shs 1,163.41 billion target for the period with items such as beer, spirits, sugar, cement, etc performing below expectations. This is mainly attributed to challenges related to administration.

Taxes on International Trade

In H1 2023/24, taxes collected from international trade transactions amounted to Shs 4,646.40 billion, falling below the set target of Shs 5,302.90 billion by Shs 656.50 billion. This shortfall was the most significant observed across all major tax categories, with a substantial portion (Shs 391.78 billion) attributed to VAT on imports. The underperformance in VAT revenue was primarily because the value of taxable imports was lower than initially projected.

Non-Tax Revenue (NTR)

Non-Tax Revenue (NTR), comprising charges, fees, and dividends from various sources like passport and license fees, driving permit fees, mining and royalty fees, migration fees, and company registration fees, fell short of its target in the first half of Fiscal Year 2023/24. The total NTR collections reached Shs 972.92 billion, not meeting the projected Shs 1,027.31 billion by a margin of Shs 54.39 billion. This shortfall occurred as the agencies tasked with collecting these revenues were unable to achieve their set targets.

Table 6: Details of Domestic Revenue (UShs Billion)

Billion Shs	H1 FY2023/24 TARGET	H1 FY2023/24 COLLECTIONS	VARIANCE	PERFORMANCE	Y-O-Y GROWTH
Overall net revenue	**14,169.46**	**13,301.55**	**(867.91)**	**93.87%**	**12.9%**
Net tax revenue	**13,142.15**	**12,328.63**	**(813.52)**	**93.81%**	**12.9%**
Direct Domestic Taxes	**4,591.67**	**4,747.93**	**156.26**	**103.40%**	**19.0%**
O/w PAYE	2,045.26	2,273.79	228.53	111.17%	15.3%
Corporate Tax	1,102.63	1,059.01	(43.62)	96.04%	23.0%
Presumptive Tax	7.31	7.90	0.59	108.11%	45.0%
Withholding Tax	821.36	769.49	(51.87)	93.69%	22.3%
Rental Income Tax	121.27	135.63	14.36	111.84%	39.6%
Tax on Bank Interest	79.46	84.67	5.21	106.56%	44.2%
Treasury bills and bonds (BoU)	319.50	333.41	13.91	104.35%	18.6%
Indirect Dmestic Taxes	**3,499.40**	**3,194.67**	**(304.73)**	**91.29%**	**18.1%**
Excise duty	**1,163.41**	**1,052.69**	**(110.72)**	**90.48%**	**14.5%**
O/w Cigarettes	12.46	9.07	(3.38)	72.85%	-8.5%
Beer	223.86	209.41	(14.45)	93.54%	9.0%
Spirits	138.88	105.44	(33.43)	75.93%	15.8%
Soft drinks	112.52	118.26	5.74	105.10%	22.81%
Phone Talk time	173.15	164.60	(8.55)	95.06%	17.95%
-Sugar	35.48	24.28	(11.20)	68.43%	-3.32%
Bottled Water	29.67	19.44	(10.23)	65.53%	35.03%
Cement	30.92	21.05	(9.87)	68.07%	0.60%
Mobile Money Transfers	104.11	93.57	(10.54)	89.88%	14.09%
Bank Charges	63.74	62.86	(0.89)	98.61%	14.86%
Cooking oil	29.19	24.87	(4.33)	85.18%	25.54%
Levy on Mobile money withdrawals	111.92	103.49	(8.43)	92.47%	9.91%
Internet data	65.64	69.56	3.92	105.98%	33.48%
Value Added Tax	**2,336.00**	**2,141.98**	**(194.01)**	**91.69%**	**20.03%**
O/w Manufacturing	1,378.77	1,253.17	(125.60)	90.89%	21.86%
Services	382.42	374.49	(7.93)	97.93%	16.09%
Agriculture	10.47	10.22	(0.26)	97.56%	41.08%
Construction	79.84	72.40	(7.44)	90.69%	18.83%
Wholesale & retail trade; repairs	270.53	230.35	(40.18)	85.15%	16.90%
Hotels & restaurants	65.50	58.03	(7.46)	88.60%	10.98%
Transport & communications	25.75	28.57	2.81	110.92%	20.87%
Real estate activities	101.48	97.62	(3.86)	96.19%	21.35%
Public administration & defence	13.52	8.83	(4.69)	65.30%	27.70%
Mining & quarrying	17.88	14.31	(3.57)	80.05%	21.73%
Oil and gas	0.30	4.20	3.91	1419.67%	675.73%
Taxes on International Trade	**5,302.90**	**4,646.40**	**(656.50)**	**87.62%**	**4.32%**
O/w Petroleum duty	1,543.33	1,542.47	(0.87)	99.94%	14.67%
Import duty	919.26	903.61	(15.66)	98.30%	7.60%
Excise duty	183.97	125.79	(58.18)	68.38%	-4.25%
VAT on Imports	2,089.45	1,697.67	(391.78)	81.25%	-3.62%
Withholding Taxes	151.72	109.99	(41.73)	72.49%	6.77%
Surcharge on imports	183.40	143.20	(40.20)	78.08%	5.24%
Temporary Road Licenses	103.89	56.63	(47.27)	54.51%	-17.82%
Infrastructure Levy	92.90	59.37	(33.53)	63.91%	-1.53%
Export levy	34.97	7.67	(27.30)	21.94%	-0.72%
Tax refunds	**(318.59)**	**(318.66)**	**(0.07)**	**100.02%**	**12.93%**
Stamp duty & Embossing Fees	**66.77**	**58.29**	**(8.48)**	**87.31%**	**6.89%**
Total NTR	**1,027.31**	**972.92**	**(54.39)**	**94.71%**	**13.46%**
URA NTR	795.64	741.26	(54.39)	93.16%	6.93%
NON URA NTR (straight to UCF)	231.67	231.67	-	100.00%	41.06%

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

Note: The categorization of tax revenue and non-tax revenue in this table is different from the Government Finance Statistics (GFS) categorization. However, the overall domestic revenue number is consistent.

Grants

The projected grants disbursement from development partners was Shs 1,794.65 billion for H1 FY2023/24. However, by the end of December 2023, only Shs 584.13 billion had been disbursed towards supporting specific projects while nothing had been disbursed for supporting general activities in the budget. This underperformance is partly explained by low absorption of project funds because of some projects not being ready for execution.

Government Expenditure

Total Government expenditure (excluding domestic debt refinancing and Appropriation in Aid - AIA) for the first half of Financial Year 2023/24 amounted to Shs 18,218.79 billion. This was lower than the programmed expenditure for the period of Shs 19,866.03 billion by 8.3% mainly on account of externally financed development expenditure which performed at only 46.5% of its plan for the period, thereby more than offsetting recurrent expenditure which was 7.9% above its plan for the period.

Expenditure on recurrent items in H1 FY2023/24 amounted to Shs 12,240.56 billion against a plan of Shs 11,341.47 billion with all the sub-components performing at over 100%. Wages and salaries were 3.3% higher than initially planned following the passing of the supplementary budget for wages to cater for wage shortfalls for various Ministries, Departments and Agencies which were realised during budget implementation. For the similar reason, expenditure on non-wage non-interest recurrent items was 12.8% higher than the Shs 4,961.36 billion initially planned for the period.

Interest payments during the first half of FY2023/24 was Shs 3,067.00 billion which is 5.2% higher than what had been projected for the period. The higher domestic interest payment was due to the slight increase in yields on treasury instruments during the period, as well as revisions made in domestic borrowing requirements for FY2022/23 at a time when the budget for this financial year had already been made. On the other hand, exchange rate differentials account for the discrepancy in the external interest payments made during the period vis a vis what was projected.

Government had planned to spend Shs 155.58 billion in clearing domestic arrears in H1 FY2023/24. As at the end of February, Shs 163.64 billion had been spent on this item, further demonstrating Government's commitment and urgency in supporting the private sector through clearance of arrears.

Government expenditure on development items amounted to Shs 5,579.20 billion against a plan of Shs 7,828.80 billion, translating into a performance of 71.3%. Whereas domestically financed development expenditure was 8.9% higher than the Shs 3,103.99

billion plan for H1 FY2023/24 mainly on account of the supplementary budget that was approved, externally financed development expenditure significantly fell short of its plan for the period.

Externally financed expenditure on development items was 2,199.39 billion which is 46.5% of the plan for the half year. The underperformance of this expenditure subcategory was attributable to failure of some of the key projects in the budget to meet conditions required for disbursement by the development partners.

Financing

In the first half of Fiscal Year 2023/24, the Ugandan government faced a budget deficit of Shs 4,333.11 billion, which was addressed through borrowing from both domestic financial markets and external development partners. From these partners, total disbursements amounted to Shs 1,415.08 billion, falling short of expectations mainly due to the absence of budget support loan disbursements and project support loans reaching only 43.1% of the anticipated amount. Consequently, with external debt payments totaling Shs 1,222.76 billion during this period, the net external financing contribution to the budget deficit stood at Shs 192.33 billion.

To mitigate this shortfall, the government secured Shs 3,161.70 billion from domestic financial markets, surpassing the initially programmed amount for this period. This additional domestic borrowing was necessitated by the need to cover the financing gap resulting from the lack of external budget support loan disbursements and the shortfall in domestic revenue collections.

Compliance with the Charter for Fiscal Responsibility

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. Government is committed to meeting the targets as set in the Charter for Fiscal Responsibility. In spite of the shortfalls recorded for revenue so far and the supplementary expenditure, the fiscal deficit for FY2023/24 is still projected to be lower than the target of 4.6% of GDP set in the Charter path. Similarly, the debt to GDP ratio is projected to be to 49.2% by the end of FY2023/24 which is well within the charter ceiling of 52.4% for this financial year.

Debt Sustainability Analysis

Uganda's stock of public debt increased from US$ 20.99 billion (UGX 78,833.4 billion) in FY2021/22 to US$ 23.66 billion (UGX 86,779.87 billion) in FY2022/23. As a share of GDP, public debt reduced to 46.9% from 48.4% over the same period, on account of a number of factors, including; - continued recovery in GDP growth with the economy expanding by 5.2% in FY2022/23 compared to growth of 4.6% the previous financial year; Government's deliberate efforts towards fiscal consolidation with the primary deficit reducing from 4.3% in FY2021/22 to 2.3% in FY2022/23; and an appreciation of the end period exchange rate.

The most recent Debt Sustainability Analysis (DSA) found public debt to be sustainable over the medium to long-term largely supported by Government's continuous efforts towards fiscal consolidation over the medium term appropriately based on both revenue and expenditure measures.

Nonetheless, the debt trajectory was still faced with moderate risk of debt distress, with the major vulnerabilities relating to the weak growth of exports and the increased debt service burden on domestic revenues over the recent years.

Government is taking proactive measures to counter these risks by supporting export growth and reducing the deficit for financing. Where borrowing remains unavoidable, priority will be given to concessional funding to the extent possible as this does not significantly increase the debt service burden.

By end June 2024, the debt to GDP ratio is projected to increase to 49.2% before starting to decline over the medium term. This will be well below the limits set out in the Charter for Fiscal Responsibility. Table 7 shows the loans government contracted in the review period which are within the programmed external borrowing plan for the year.

Table 7: Loans Contracted by Government in H1 FY 2023/24

	Creditor	Project Name	MDA	Project Amount
1.	AfDB	Meter Gauge Railway Project	URC	EUR 65 M
2.	AfDF	Meter Gauge Railway Project	URC	UA 125.16 M
3.	OFID	Upgrading of Katine-Ochero road project	UNRA	US$ 30 M
4.	Saudi Fund	Construction and Equipping of the Uganda Heart Institute	UHI	US$ 30 M
5.	World Bank	Greater Kampala Metropolitan Area Urban Development Project	KCCA	US$ 518 M
6.	China Exim Bank	The National Data Transmission Backbone Infrastructure/E-Government Infrastructure Project Phase V	NITA-U	US$ 147.5 M
7.	China Exim Bank	Electrification of Industrial Parks	UIA	US$ 211.85

Performance of the Petroleum Fund

The Petroleum fund had a balance of Shs 246.7 billion at the start of FY 2023/24. This increased to Shs 345.7 billion as at end of December 2023. The increase in the fund position was mainly from revenue collections during the period. There were no withdrawals from the fund as no appropriation was made to that effect for this financial year.

OUTLOOK ON THE ECONOMY

Chapter III: Outlook on the Economy

Economic Growth

The Ugandan economy is on track for a 6.0% growth rate in FY 2023/24, propelled by increased output in the services, industry, and agriculture sectors. This growth is underpinned by rising aggregate demand and investments, the effective rollout of government programs and infrastructure projects, increasing activities in the Oil & Gas sector, and a boost in exports driven by enhanced regional trade. Additionally, the first quarter of FY 2023/24 saw significant gains in tourism inflows, Foreign Direct Investment, and remittances, which grew by 29.5%, 21.3%, and 13.7% respectively compared to the same period in the previous fiscal year, laying a solid foundation for both public and private investment and further economic expansion.

Economic indicators such as the Purchasing Managers' Index (PMI) and Business Tendency Index (BTI) for January 2024 underscore this positive momentum, with readings of 54.0 and 60.15 respectively, signaling robust economic activity and optimism for the fiscal year's growth prospects. Going forward, the economy is expected to strengthen further to 6.4% in FY 2024/25 and maintain an average growth rate of 7% in the medium term. This outlook is anchored on anticipated improvements in agricultural and manufacturing production and productivity. The government's strategic interventions, such as improving agricultural input quality, expanding services, upgrading irrigation systems, and continuing investments in industrial parks and economic free zones, combined with a revival in private sector activity and investment, as well as ongoing infrastructure development, particularly in the oil and gas industry, are poised to facilitate and sustain Uganda's economic growth trajectory.

Inflation

Core inflation is anticipated to stay within the central bank's target range of ±5% in the near term, with expectations to align closely with this target over the medium term. Core inflation, which excludes volatile food and energy prices, is forecasted to average between 2.5% and 3.5% in FY 2023/24. However, this inflationary forecast faces significant upside risks that could potentially alter the trajectory. These risks include increasing adverse weather conditions, the escalation of geopolitical conflicts in the Middle East, which could lead to higher international oil prices, subsequently affecting domestic fuel prices and causing further disruptions in the supply chain. Additionally, the potential for increased volatility in global financial markets poses a risk of heightened capital outflows, which could contribute to further depreciation of the Ugandan shilling, influencing the overall inflation outlook.

Financial Sector

Despite the current tight global financial conditions, Uganda's financial sector has seen improvements in Private Sector Credit in the first half of Fiscal Year 2023/24, buoyed by the Bank of Uganda's recent monetary easing and the government's fiscal consolidation efforts. These measures are expected to gradually lower lending rates, enhancing financial conditions for the private sector. The sector remains sound and well-capitalized, showcasing resilience amidst economic uncertainties. Over the medium term, the growth trajectory of private sector credit is anticipated to reflect the broader economic recovery, signaling a potential uptick in lending activities that align with the economy's expansion. This resilience, underpinned by strategic monetary policies, prepares the sector to effectively tackle upcoming challenges and drive sustainable economic growth.

However, the financial outlook is tempered by several risks. Inflation is projected to stay within the central bank's 5% target in the near term, supporting a stable macroeconomic backdrop for the financial sector. Yet, escalating geopolitical tensions, particularly in the Middle East, could spike international oil prices, disturbing domestic fuel costs and potentially unsettling the financial sector with renewed supply chain disruptions. Moreover, heightened volatility in global financial markets may provoke capital outflows, amplifying the Ugandan shilling's depreciation and increasing foreign debt servicing and importation costs. These factors, combined with the depreciation risks of the Ugandan shilling due to global market volatility and geopolitical strains, could pressure the sector. Navigating these risks through prudent monetary policy management and proactive mitigation strategies will be pivotal in maintaining the sector's growth outlook and its vital contribution to Uganda's overarching economic goals.

Fiscal Operations

The government's steadfast commitment to fiscal consolidation remains unwavering, with a focused strategy on enhancing revenue mobilization through the diligent implementation of the Domestic Revenue Mobilization Strategy (DRMS) and streamlining expenditures to prioritize growth-enabling sectors while curtailing unnecessary spending. This disciplined approach aims to keep the fiscal deficit for FY 2023/24 within the Charter for Fiscal Responsibility's ceiling of 4.6% of GDP, ensuring sustainable economic growth and fiscal health.

Despite facing a revenue shortfall against the year's target, based on current performance, the government is poised to manage its finances prudently to prevent the fiscal deficit from exceeding manageable limits. This entails potentially constraining expenditure in response to the revenue gap. However, there's an optimistic outlook for the second half of the fiscal year, as budget support loans, initially expected but not received in the first half, are projected to be disbursed. This inflow of funds is anticipated to support government operations, providing a vital safeguard that supports the continuation of essential services and projects.