



# HALF YEAR MACROECONOMIC & FISCAL PERFORMANCE REPORT

**FY 2018/19**

**MINISTRY OF FINANCE, PLANNING AND  
ECONOMIC DEVELOPMENT**

[www.finance.go.ug](http://www.finance.go.ug)

**FEBRUARY 2019**





**HALF YEAR MACROECONOMIC & FISCAL  
PERFORMANCE REPORT  
FINANCIAL YEAR 2018/19**

**MINISTRY OF FINANCE, PLANNING AND  
ECONOMIC DEVELOPMENT**

**[www.finance.go.ug](http://www.finance.go.ug)  
February 2019**



## Table of Contents

<b>MACRO-ECONOMIC DEVELOPMENTS .....</b>	<b>5</b>
<b>Economic Growth.....</b>	<b>6</b>
<b>Inflation .....</b>	<b>9</b>
<b>Financial Sector Trends .....</b>	<b>14</b>
<b>External Sector .....</b>	<b>16</b>
<b>FISCAL PERFORMANCE.....</b>	<b>22</b>
<b>Overview .....</b>	<b>23</b>
<b>Revenues and Grants .....</b>	<b>24</b>
<b>Government Expenditure.....</b>	<b>26</b>
<b>Financing .....</b>	<b>26</b>
<b>Debt Sustainability Analysis.....</b>	<b>27</b>
<b>Compliance with the Charter for Fiscal Responsibility .....</b>	<b>27</b>
<b>Performance of the Petroleum Fund.....</b>	<b>28</b>
<b>OUTLOOK ON THE ECONOMY .....</b>	<b>29</b>
<b>Economic Growth;.....</b>	<b>30</b>
<b>Inflation; .....</b>	<b>31</b>
<b>Financial sector;.....</b>	<b>31</b>
<b>External Sector;.....</b>	<b>31</b>
<b>Fiscal Operations;.....</b>	<b>31</b>
<b>Fiscal Risks.....</b>	<b>31</b>

## FOREWORD

---

The Public Finance Management Act (PFMA) 2015 requires that the Minister shall by the end of February and October of each financial year make a fiscal performance report to Parliament. In accordance with this requirement, the Ministry of Finance Planning and Economic Development has prepared the Half Year Macro-Economic and Fiscal Performance Report for the Financial Year 2018/19 that incorporates the fiscal and economic implications of both government decisions and other economic circumstances as at 30<sup>th</sup> December 2018.

During the first half of Financial Year 2018/19, the economy registered robust levels of economic activity due to solid growth in the services sector and recovery in the construction and manufacturing sectors, that set the foundation for the positive economic performance. Additionally, this impressive growth was supported by strong performance in the agriculture sector, and in particular good performance in fishing activity as a result of the enforcement against illegal fishing.

Accommodative monetary and supportive fiscal policy during the first half of the financial year reinforced and stimulated economic activity. Subsequently, the pace of economic activity is projected to continue strengthening with real GDP expected to grow at 6.3 percent in the Financial Year 2018/19.

Over the medium to long term, growth is projected to return to potential growth (6 to 7 percent) as a result of the improved efficiency and effectiveness of the implementation of public infrastructure investments, and increased private sector growth.



Matia Kasaija (MP)

**MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT**

## EXECUTIVE SUMMARY

---

Economic Growth in the Financial Year 2018/19 is expected to surpass the projected target of 6 percent forecast at the start of the financial year. This achievement is on the back drop of significant economic recovery in the Financial Year 2017/18 and expansion in a relatively stable global economy.

The growth outturn for the Financial Year 2018/19 is projected at 6.3 percent, supported by positive global economic growth, increased private sector activity, significant growth in the services sector, recovery in both the industry sector and agriculture sector as favourable weather conditions continue to prevail.

Despite a rise in fuel pump prices resulting from increased global oil prices, stable and low inflation prevailed at an average of 3.1 percent headline during the first half of the Financial Year 2018/19. The stable outlook on prices in the short to medium term supported the Central Bank's policy decision on maintaining an accommodative policy rate at an average of 9.5 percent through the first half of the financial year in review.

As a result of this accommodative monetary policy and a stable financial sector, the stock of outstanding private sector credit at the end of December 2018 amounted to US\$ 14,223.65 billion, up from US\$ 13,404.63 billion in June 2018. Representing a growth of 6.1 percent against a growth of 5.8 percent in June 2017. Notably, there was a reduction in the ratio of non-performing loans to total gross loans from 5.63 in December 2017 to 3.41 in December 2018.

The economy continued to recover and benefit from a stable macroeconomic environment by attracting growth of over 19.8 percent in foreign direct investments to the tune of USD 639.1 million dollars in the first 3 quarters of 2018. Additionally, USD 819.66 billion was remitted by Ugandans from abroad in the first 3 quarters of 2018. Exports and imports grew by 6 percent and 15.7 percent respectively during the first half of the financial year. The stock of international reserves stood at USD 3,414.5 million as at the end of December 2018 capable of providing sufficient cover in the event of shocks to the economy.

On the fiscal side, government spent an estimated US\$ 11.4 Trillion and collected an estimated US\$ 8.6 Trillion in revenues resulting in a deficit of US\$ 2.8 Trillion that was financed through external and domestic sources.

As at 30th June 2018, Uganda's total public debt stock rose to 41.5 percent of GDP in nominal terms, up from 37.0 percent in June 2017. Despite this, public debt is still sustainable in the medium and long term.

Economic growth over the medium term will be driven mainly by public infrastructure investment and increased private sector investments. Oil mining activities are expected to support growth in industry and the services sector.

## List of Acronyms and Abbreviations

<b>AIA</b>	Appropriations in Aid
<b>BTI</b>	Business Tendency Index
<b>CBR</b>	Central Bank Rate
<b>CET</b>	Customs External Tariff
<b>CFR</b>	Charter for Fiscal Responsibility
<b>CIEA</b>	Composite Index of Economic Activity
<b>CIF</b>	Cost Insurance &Freight
<b>DSA</b>	Debt Sustainability Analysis
<b>EAC</b>	East African Community
<b>EFU</b>	Energy Fuel and Utilities
<b>EU</b>	European Union
<b>FY</b>	Financial Year
<b>GDP</b>	Gross Domestic Product
<b>HIPC</b>	Heavily Indebted Poor Countries
<b>HPPs</b>	Hydro Power Projects
<b>ICBT</b>	Informal Cross Border Trade
<b>IMF</b>	International Monetary Fund
<b>MDAs</b>	Ministries, Departments and Agencies
<b>NPL</b>	Non-performing loans
<b>OSBPs</b>	One Stop Border Posts
<b>OPEC</b>	Organisation of the Petroleum Exporting Countries
<b>PAF</b>	Poverty Alleviation Fund
<b>PMI</b>	Purchasing Managers Index
<b>PSC</b>	Private Sector Credit
<b>PTA</b>	Preferential Trade Area
<b>SCT</b>	Single Customs Territory
<b>Shs/UGX</b>	Ugandan Shilling
<b>TIN</b>	Tax Identification Number
<b>URA</b>	Uganda Revenue Authority
<b>USD</b>	United States Dollars
<b>VAT</b>	Value Added Tax



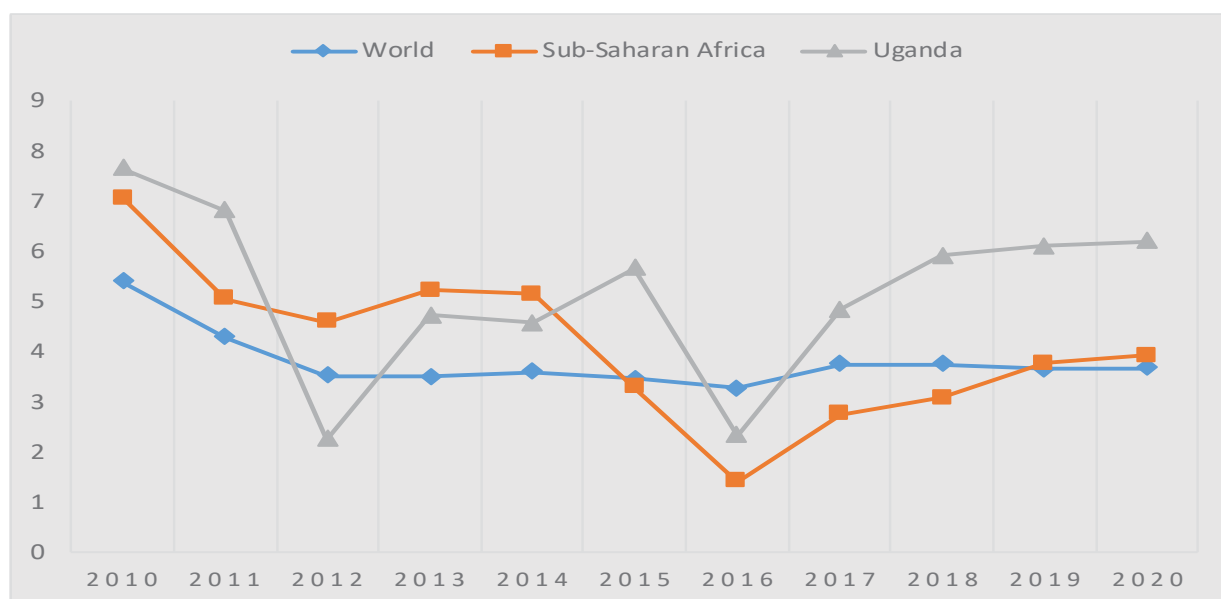
# **MACRO-ECONOMIC DEVELOPMENTS**

# Macro-Economic Developments

## Economic Growth

Growth in the Financial Year 2018/19 is expected to surpass the projected target of 6 percent forecast at the start of the financial year. This achievement is on the back drop of significant economic recovery in the Financial Year 2017/18 and expansion in a relatively stable global economy.

Figure 1: Global Economic Growth rates: 2010-2020



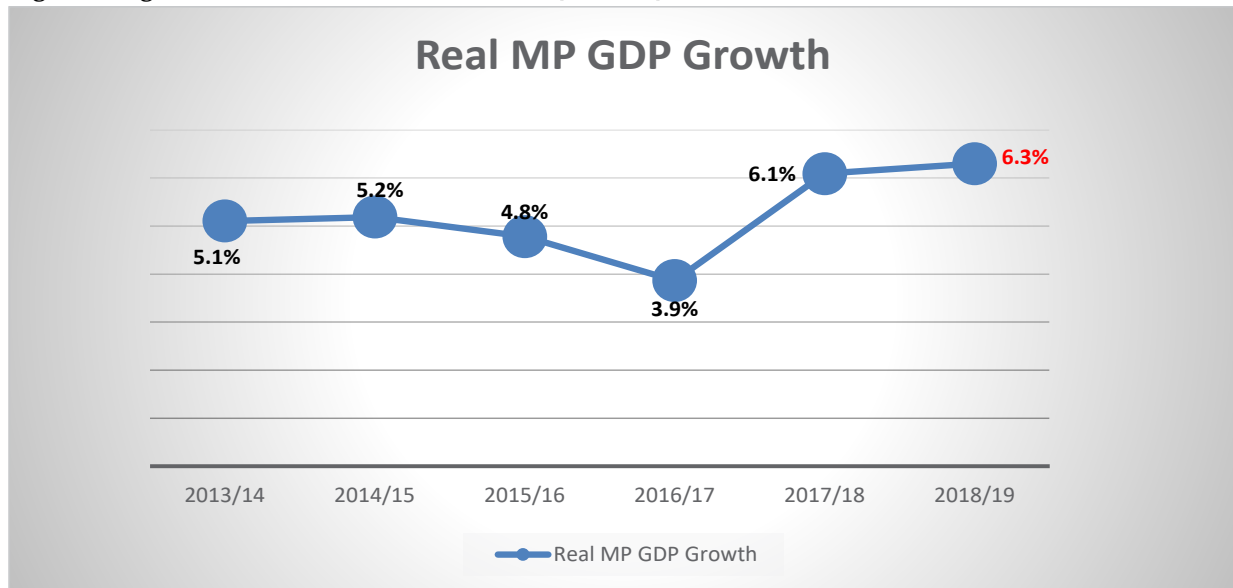
Source: International Monetary Fund

**World economic growth;** global growth remains relatively stable and is estimated at 3.7 percent for the year of 2018 and is expected to slightly decline to 3.5 percent in 2019, on the account of increased trade tensions in the advanced and emerging economies.

Despite a constrained global environment, Sub-Saharan Africa is expected to have recovered to 3.1 percent in 2018 up from 2.8 in 2017 as the recent stability and recovery in commodity prices translates into economic recovery reflected by the fact that a third of Sub-Saharan nations are expected to have grown above 5 percent in 2018. Subsequently, recovery in the Sub-Saharan region coupled with a stable and expanding global economy will positively impact trade, remittances, development assistance and investments into the Ugandan economy.

**On the domestic front,** continued economic recovery is founded on increased private sector activity, significant growth in the services sector, recovery in the industry and manufacturing sector and a rejuvenated agriculture sector. **The growth outturn for the Financial Year 2018/19 is expected at 6.3 percent.**

Figure 2: Uganda Economic Growth rates: 2013/14-2018/19



Source: Uganda Bureau of Statistics & Ministry of Finance, Planning and Economic Development

### Growth Supportive Factors;

The Business Tendency Index (BTI)<sup>1</sup> showed that investors had positive prospects of doing business and was above the threshold of 50 throughout the first half of the Financial Year 2018/19. Additionally, Bank of Uganda’s Composite Index of Economic Activity (CIEA)<sup>2</sup> showed improved activity in the first half of the financial year averaging a 3 percent growth in the index compared to 2.5 percent in the same period of the Financial Year 2017/18. This was also supported by the Purchasing Managers Index (PMI)<sup>3</sup>, which showed that there has been sustained growth of output, new business and increased staffing levels. The headline PMI posted 56.6 in December, up from 55.7 in November and signalling an improvement in business conditions at the end of 2018.

In addition, the quarter one GDP indicated that the economy grew by 6.8 percent with the broad sectors of industry and services all performing better than the corresponding period last year. The agricultural sector also grew albeit modestly compared to quarter one in the Financial Year 2017/18.

**Agriculture, Forestry and Fishing** output grew by 3.0 percent in the first quarter of the Financial Year 2018/19. This performance is on account of the favourable weather conditions and increased supportive government interventions that led to increased production in both food and cash crops. Good performance was also seen in fishing with the benefits of strong enforcement against illegal fishing reaping results.

<sup>1</sup> BTI records investor confidence about doing business in Uganda

<sup>2</sup> CIEA traces performance of exports, imports, taxes and private sector credit, consumption, private investments.

<sup>3</sup> PMI is as of the December PMI Report released on January 4<sup>th</sup> 2019. It provides the latest analysis of data collected from the monthly survey of business conditions in the Ugandan private sector.

The **industrial sector** expanded by 6.9 percent in quarter one of the Financial Year 2018/19 compared to 4.6 percent in the corresponding quarter in the Financial Year 2017/18 supported by improved performance of the mining and quarrying, construction and manufacturing subsectors. Manufacturing sector grew on account of increased food processing activities. Meanwhile growth in the construction sector was supported by both private and public investments.

The **services sector** posted growth of 8.2 percent in quarter one of the Financial Year 2018/19 compared to 8.0 percent in quarter one of the Financial Year 2017/18. This performance was on account of improved growth of Trade and repairs, financial services, transportation and storage, Public administration, Education and Health Services. More detailed analysis indicates that this growth was largely driven by an increase in imported commodities, government expenditures on compensation of employees and increased in transportation and storage activity.

**Table 1: Quarterly Gross Domestic Product by Economic Activity, 2016/17-2018/19 (% change)**

	2016/17				2017/18				2018/19
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
<b>GDP AT MARKET PRICES</b>	<b>2.0</b>	<b>2.7</b>	<b>4.5</b>	<b>6.5</b>	<b>6.9</b>	<b>6.1</b>	<b>6.1</b>	<b>5.2</b>	<b>6.8</b>
<b>AGRICULTURE, FORESTRY &amp; FISHING</b>	<b>-2.0</b>	<b>-2.0</b>	<b>4.7</b>	<b>7.6</b>	<b>8.0</b>	<b>3.4</b>	<b>1.4</b>	<b>1.1</b>	<b>3.0</b>
Cash crops	-8.2	23.3	0.2	10.7	22.8	-4.3	5.4	2.5	3.9
Food crops	-1.8	-6.5	12.6	11.4	9.7	5.4	1.5	1.0	3.2
Livestock	1.5	0.8	1.0	3.1	2.6	2.7	1.9	0.7	1.4
Agriculture Support Services	-0.3	3.4	10.1	4.0	7.8	3.5	4.8	5.8	3.9
Forestry	-4.7	-5.3	-0.5	1.4	3.1	5.0	1.5	0.9	2.3
Fishing	-0.3	4.0	0.9	2.0	0.2	-3.6	-6.6	1.9	7.9
<b>INDUSTRY</b>	<b>4.2</b>	<b>4.3</b>	<b>2.0</b>	<b>3.1</b>	<b>4.6</b>	<b>6.1</b>	<b>7.5</b>	<b>6.3</b>	<b>6.9</b>
Mining & quarrying	-2.8	-20.0	2.1	0.0	16.7	37.1	33.1	19.5	7.4
Manufacturing	5.7	9.4	-1.6	-3.5	1.0	3.0	2.3	0.4	5.5
Electricity	5.1	7.9	12.8	7.5	9.4	7.5	3.2	5.4	5.1
Water	6.5	7.0	6.7	6.9	6.3	6.0	5.8	5.7	6.1
Construction	3.5	4.0	3.4	10.5	4.7	3.3	9.4	10.3	9.0
<b>SERVICES</b>	<b>3.6</b>	<b>3.7</b>	<b>6.0</b>	<b>8.5</b>	<b>8.0</b>	<b>8.2</b>	<b>8.2</b>	<b>6.5</b>	<b>8.2</b>
Trade & Repairs	-2.8	-2.9	4.5	8.8	4.2	3.7	1.9	-1.0	6.0
Transportation & Storage	4.3	3.0	2.5	4.2	4.7	4.7	5.8	7.3	7.6
Accommodation & Food Service	6.9	7.3	1.3	14.8	5.7	1.5	-0.4	-2.0	2.8
Information & Communication	10.2	14.9	14.7	15.7	15.0	14.3	15.4	16.1	12.3
Financial & Insurance	-1.8	-2.3	5.1	8.1	10.3	9.5	4.6	9.1	6.0
Real Estate Activities	5.6	5.3	5.5	5.8	6.1	6.5	6.7	6.8	6.7
Professional, Scientific & Technical	-5.4	-8.2	-2.5	4.7	3.6	4.7	7.6	5.4	4.1
Administrative & Support Service	-14.8	-5.8	-0.6	3.9	6.3	12.1	17.2	12.1	12.9
Public Administration	9.0	1.4	1.5	-2.6	10.9	12.5	12.1	7.0	9.2
Education	12.9	8.0	6.9	9.6	7.8	8.9	9.0	1.4	7.2
Human Health & Social Work	5.4	3.6	4.0	4.7	6.2	6.8	6.6	5.3	11.6
Arts, Entertainment & Recreation	-15.9	-3.5	2.9	10.3	22.1	8.5	14.3	31.5	14.5
Other Service Activities	13.5	13.9	13.3	12.7	16.5	17.7	21.0	21.3	18.7
Activities of Households	3.6	3.8	4.2	4.6	4.6	4.8	5.0	5.3	6.1
<b>ADJUSTMENTS</b>									
Taxes on products	0.5	5.1	0.2	-0.8	2.2	-0.2	-0.9	5.1	9.7

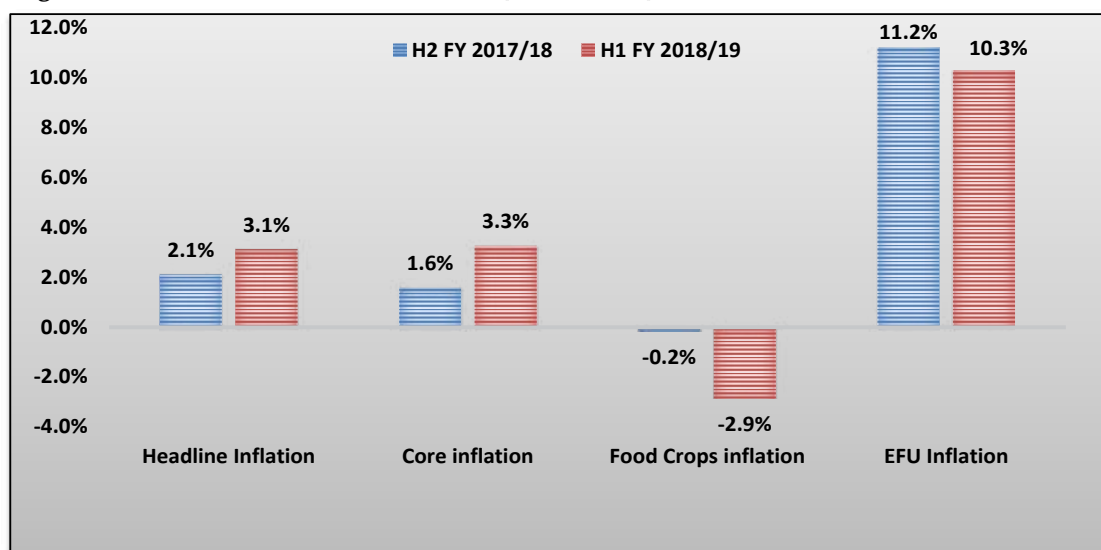
Source: Uganda Bureau of Statistics

## Inflation

### Inflation trends

Headline inflation edged upwards albeit remaining subdued during the first half of the Financial Year 2018/19 registering a 6-month average of 3.1 percent compared to 2.1 percent in the last half of the Financial year 2017/18. In spite of the increase, headline inflation remained reasonably low anchored by low core inflation and low food crop inflation. The increment was attributed to a rise in core inflation as seen in figure 3

Figure 3: Headline Inflation Trends H2-17/18 vs H1-18/19



Source: Uganda Bureau of Statistics

Developments in headline inflation can be further explained by its 3 subcomponents i.e. Core inflation<sup>4</sup>, Food crops inflation and EFU (Energy, Fuel and Utilities) inflation.

**Annual Core inflation** which excludes items whose prices are subject to volatility such as food crops and energy commodities, increased but remained reasonably low recording a 3.3 percent average in the first half of the Financial Year 2018/19 from the 1.6 percent average recorded in the previous six months. The increase in core inflation was most evident in the first 3 months of July, August and September. This was on account of two reasons; the shilling depreciation that raised the domestic price of imported commodities and an increase in prices of second hand vehicles, transport and internet services, all of which were affected by the new budget pronouncements that took effect at the start of the financial year.

**Annual food crop inflation** declined further to an average of -2.9 percent in the first half of the Financial Year 2018/19 from -0.2 percent in the previous 6 months. The negative inflation rate in the first half means that prices for food crops in July to December 2018 were on average 2.9 percent lower than those recorded in the same period of the previous financial year. The decline in prices for food crops was on account of increased food supplies to markets as the favourable weather conditions and increased government interventions into agriculture facilitating large food harvests.

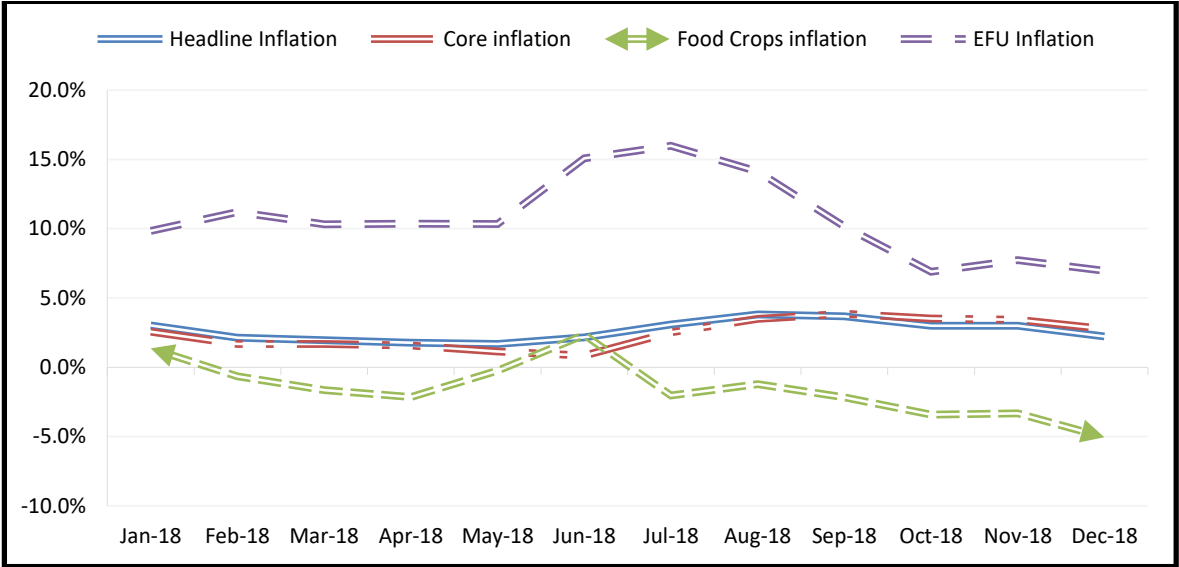
**Annual EFU inflation** which shows changes in prices for Energy, Fuels and Utilities, declined compared to the previous 6 months but remained high at a 10.3 percent six-month average. However, given that the weight of the EFU consumption basket in the

<sup>4</sup>The Core basket of goods and services includes majority of imported commodities, services, manufactured foods and other domestically manufactured commodities. It excludes electricity, fuel products, metered water, and food crops.

overall consumption basket is low, the high prices in EFU were not enough to significantly impact on headline inflation.

Within the EFU basket of goods, fuel and electricity costs increased at a faster rate compared to the previous 6 months. The significant increase in fuel prices was on account of two reasons; first, the one off increase in the excise levy on fuel following the new financial year’s budget pronouncements and second, the increase in international oil prices that trickled in to domestic prices. The electricity prices rose partly on account of the depreciation of the Ugandan Shilling and the increase in international oil prices both of which affect electricity generation costs and consequently end user tariffs.

**Figure 4: Annual inflation trends 2018**



Source: Uganda Bureau of Statistics

**International and Domestic Oil prices**

During the first half of the Financial Year 2018/19, the international price of crude oil experienced significant volatility. The price of Brent crude oil increased from levels well below \$55/barrel in 2017 to a four year high of \$86/barrel in October 2018 before taking a nose dive to \$50/barrel in December 2018. As of February 2019 the price has since recovered to \$66/barrel.

The rise in oil prices is attributed to the decision by the OPEC to cut back on oil output so as to get the oil price to rise into the range of (\$50 to \$60)/barrel. After October 2018; amid global trade tensions impacting on global growth and expectations of an oversupply of oil stemming from increased production, the price of oil declined sharply. More recently, there has been a rebound in oil prices as OPEC has agreed to slash production and geo political tensions that are likely to affect the production and supply of oil.

**Figure 5: Graph on International Oil Price-Oil Price volatility in H1 2018/19**



**Source: British Broadcasting Corporation**

Subsequently, the pump prices of petrol and diesel have been increasing within the first half of the Financial Year 2018/19 due to; the global oil price surge in the early part of the financial year, budget tax pronouncements on petroleum products and also due to the Christmas festivities in December 2018. However, the trend is slowly changing to reflect the significant decline in international oil prices.

The relevant authorities continue to work hand in hand to ensure controlled and synchronised money supply (a combination of fiscal and monetary policy) that could otherwise overheat the economy and cause inflationary pressures. Subsequently, the moderately low and stable inflation witnessed throughout the first half of the financial year continues to play an instrumental role in the recovery of economic growth as it sets an environment for accommodative monetary policy which in turn is encouraging borrowing by the private sector and a boost in private investments.

### **Inflation across the East African Community**

It is vital to assess the impacts of price changes on competitiveness within the **East African community** due to the fact that there are significant trade and economic links within the East African region as a result of improved trade facilitation.

Within the region, inflation remained averagely low with the exception of South Sudan. This was largely due to lower food inflation. Similar to Uganda's inflation, Kenya's inflation during the first half of the financial year increased partly because of the implementation of the new financial year's tax pronouncements particularly the



increased VAT rate on Kenya’s petroleum products. These led to an increase in both domestic fuel and transport prices.

**Table 2: Average annual headline inflation in EAC Partner States**

	<b>H2 FY 2017/18</b>	<b>H1 FY 2018/19</b>
<b>Uganda</b>	2.1%	3.1%
<b>Kenya</b>	4.2%	5.2%
<b>Tanzania</b>	3.8%	3.3%
<b>Rwanda</b>	0.1%	-0.2%
<b>Burundi</b>	-0.2%	-4.9%
<b>South Sudan</b>	127.8%	69.7%

Source: Respective bureaux of statistics.

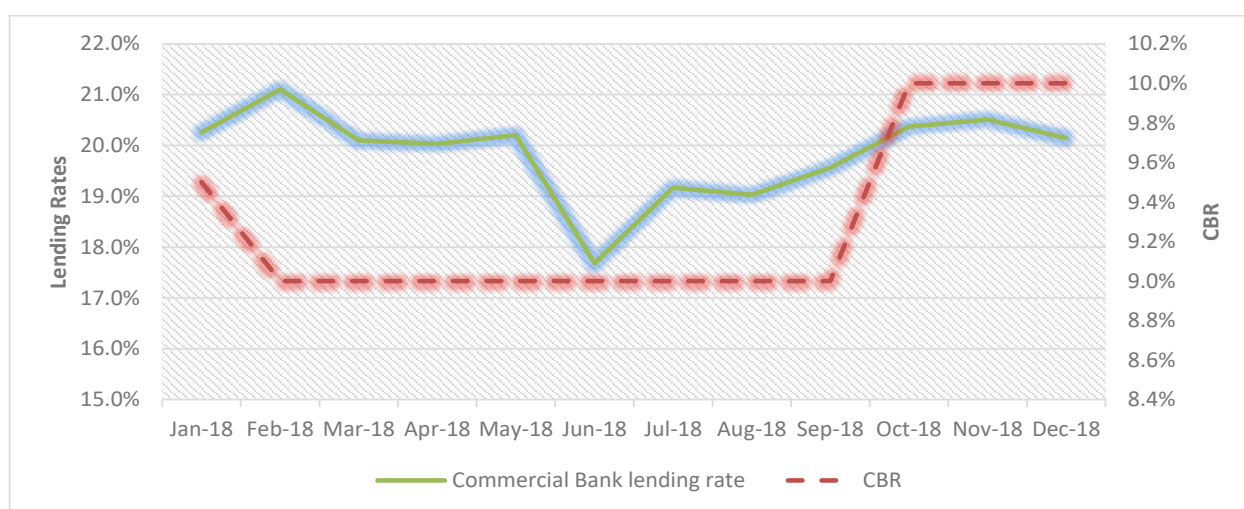
## Financial Sector Trends

During the first half of the Financial Year 18/19, the **Central Bank Rate (CBR)** was maintained at 9 percent for the first three months ending with September. Thereafter, the Bank of Uganda (BoU) tightened monetary policy by increasing the CBR by 1 percentage point to 10 percent in October 2018, following an elevation in the upside risks to a 12-month ahead inflation outlook. The CBR was maintained at 10 percent for the rest of the first half of financial year.

### Interest rates.

**Commercial Bank lending rates** were lower for the first 3 months of the Financial Year 2018/19 before slightly increasing in October. This is consistent with the monetary policy tightening at the time. Despite the downward trend; lending rates remain sticky downwards due to other structural rigidities in the financial sector majorly associated with operational costs and the heightened risk aversion of lenders.

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



Source: Bank of Uganda.

**Yields for all Treasury bills (T-bills)** edged upwards during the first half of the Financial year 2018/19 compared to the second half of the Financial Year 2017/18. The rise in the yields was attributed to increased Government borrowing requirements at the end of the Financial Year 2017/18, resulting in the attachment of a higher risk premium to the securities. The 91-day tenor recorded the lowest increase in yields during the period under review, followed by the 182-day tenor then the 364-day tenor. The average weighted yield to maturity<sup>5</sup> for the first half of the financial year were 10.7 percent, 12.2 percent and 13.5 percent for the 91-day, 182-day and 364-day tenors respectively. This compared with 8.9 percent, 9.3 percent and 10.1 percent for the respective tenors in the second half of the Financial year 2017/18.

<sup>5</sup> Yield to maturity (YTM) is the total return anticipated on a treasury instrument if the instrument is held until it matures.

**Table 3: Treasury Bill Interest Rates (Yields) (%)**

Second Half FY2017/18	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	H2 17/18
<b>Interest Rates(%)</b>							<b>Average</b>
91-day Treasury Bill Yield	8.6	8.7	8.7	8.7	8.8	9.8	8.9
364-day Treasury Bill Yield	9.1	9.4	9.6	9.7	10.1	12.6	10.1
First Half FY2018/19	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	H1 18/19
<b>Interest Rates(%)</b>							<b>Average</b>
91-day Treasury Bill Yield	10.5	10.6	10.0	11.5	11.1	10.8	10.7
364-day Treasury Bill Yield	14.5	14.1	12.3	13.7	13.1	13.0	13.5

Source: Bank of Uganda

## Lending to the Private Sector

The stock of outstanding private sector credit at the end of December 2018 amounted to US\$ 14,223.65 billion, up from US\$ 13,404.63 billion at the end of the Financial Year 2017/18 registering a growth of 6.1 percent comparing positively to the growth of 5.8 percent in the previous review period. The value of loans approved increased by 23.0 percent to Shs 6,673.1 billion in the first half of Financial Year 2018/19 from Shs 5,426.2 billion in the first half of the Financial Year 2017/18. The pick-up in lending is majorly attributed to the continued supportive monetary policy stance resulting, increased economic activity and an increased willingness of commercial banks to extend credit to the private sector due lowered risk of default. Consequently, there was a reduction in the ratio of non-performing loans to total gross loans from 4.44 in June 2018 to 3.41 in December 2018.

In addition, the banking system remained strongly capitalised, with a core capital adequacy ratio<sup>6</sup> of 19.76 percent as of September 2018. This is higher than the minimum requirement of 8 percent.

**Table 4: Non-Performing Loans (NPLs)**

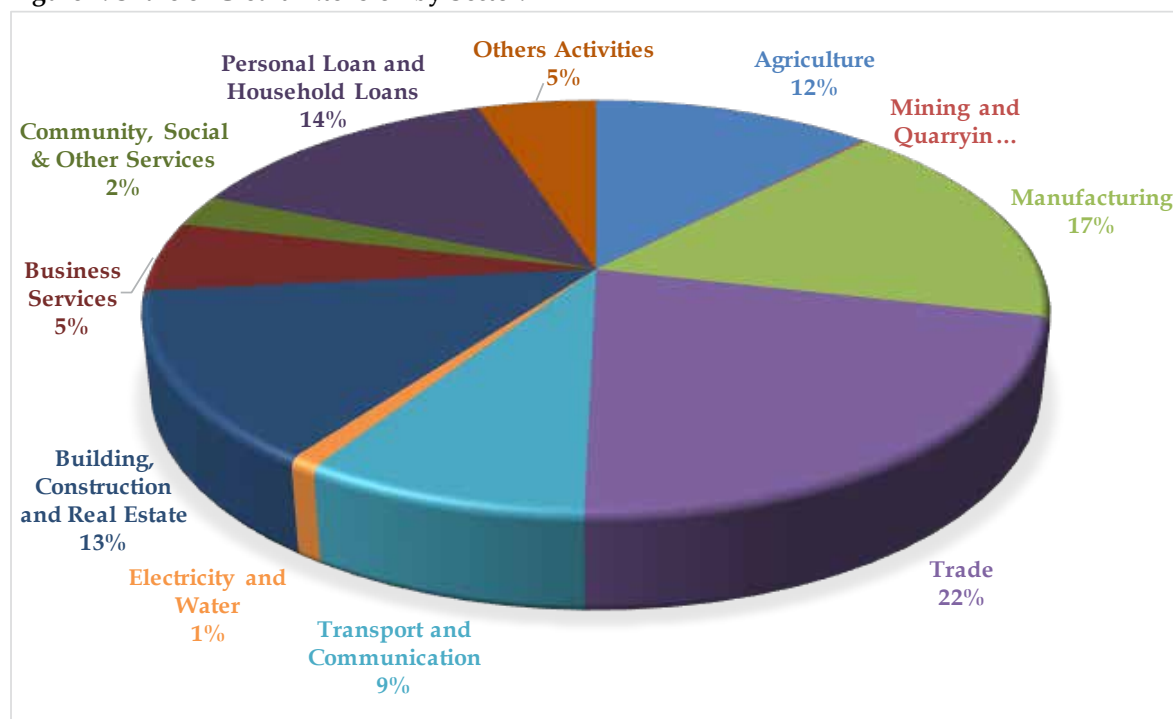
	Dec 16	Jun 17	Dec 17	Jun 18	Dec 18
<b>NPLs</b>	10.47%	6.17%	5.63%	4.44%	3.41%

Source: Bank of Uganda.

By sector, Trade received the largest share of credit extended (loans approved and extended) in the first half of the financial year in review, at 21.7 percent. Other notable recipients of credit were; Manufacturing (16.6 percent), Personal and Household Loans (13.7 percent), Building, Construction and Real Estate (13.4 percent), and Agriculture (11.9 percent). Figure 7, maps the share of credit extended to each sector in the first half of the Financial Year 2018/19.

<sup>6</sup> capital that is permanently and easily available to cushion losses suffered by a bank without it being required to stop operating.

Figure 7: Share of Credit Extension by Sector.



Source: Bank of Uganda

Table 5: credit extension by sector (Billion US\$) for H2 FY 2017/18, and H1 2018/19, as well as the growth rate for H1 FY2018/19.

Sector	H2 17/18	H1 18/19	Growth H1 18/19
Agriculture	699.0	797.1	14.0%
Mining and Quarrying	38.3	7.8	-79.7%
Manufacturing	873.0	1,107.4	26.8%
Trade	1133.3	1,447.2	27.7%
Transport and Communication	343.4	580.4	69.0%
Electricity and Water	92.2	59.4	-35.6%
Building, Construction and Real Estate	1045.9	892.9	-14.6%
Business Services	256.4	364.2	42.1%
Community, Social & Other Services	158.7	167.3	5.4%
Personal Loan and Household Loans	744.4	911.9	22.5%
Others Activities	41.3	337.5	716.2%
<b>TOTAL</b>	<b>5425.9</b>	<b>6,673.0</b>	<b>23.0%</b>

Source: Bank of Uganda

## External Sector

**Uganda's merchandise trade deficit widened** in the first half of Financial Year 2018/19, mainly on account of higher growth in the import bill that offset the growth in export revenues. The trade deficit widened by USD 324.20 million to USD 1,352.54 million from USD 1,028.34 million. The import bill increased by USD 425.85 million (15.7 percent) whereas, export revenues grew by USD 101.65 million (6 percent). This therefore resulted into the weakening of the merchandise trade deficit.

### Merchandise exports

**Uganda's export earnings increased** during the period July – December 2018, compared to the same period a year ago. Exports earnings grew by USD 101.65 million (6 percent) from USD 1,690.74 million during the period July – December 2017 to USD 1,792.39 million during the period July – December 2018. Earnings from; gold, tobacco, sugar, fish & its products, and, base metals & products were the main drivers of the increase in export receipts, following increases in their respective volumes.

**Earnings from coffee fell** during the period under review. The decrease in coffee earnings was due to low international prices on following higher supply in Brazil as well as lower production from the main harvest in Masaka and South-Western regions compared to the previous year. Coffee volumes fell by 12 percent whereas the price declined by 10 percent.

Gold exports registered a significant growth of 110.6 percent compared to the same period in the previous year. Gold was the major export contributing about 18 percent of the total exports over the period July – December 2018. Coffee was second main export contributing about 12 percent, a decline from 16 percent registered in the same period a year ago.

**Table 6: Composition of merchandise value of exports (USD million)**

	Jul- Dec 2017	Jul - Dec 2018	% change
<b>Total exports</b>	<b>1,690.74</b>	<b>1,792.39</b>	6.0%
<b>1. Coffee(value)</b>	<b>270.99</b>	<b>214.87</b>	-20.7%
Volume(60-Kg bags)	2398336	2110295	-12.0%
Av. Unit value	1.88	1.7	-10.6%
<b>2. Non-Coffee formal exports</b>	<b>1,135.84</b>	<b>1,332.22</b>	17.3%
o/w Gold	155.18	326.77	110.6%
Cotton	14.81	17.99	21.5%
Tea	47.21	44.48	-5.8%
Tobacco	40.06	64.31	60.5%
Fish & its prod (excl.regional)	66.75	91.97	37.8%
Maize	51.08	33.08	-35.2%
Beans	48.37	24.02	-50.3%
Sugar	31.30	54.63	74.6%
Base Metals & Products	52.37	69.53	32.8%
<b>3. ICBT Exports<sup>7</sup></b>	<b>283.91</b>	<b>245.30</b>	-13.6%

Source: Bank of Uganda

### Destination of exports

In the first half of the Financial Year 2018/19, East African Community continued to be the largest destination for Ugandan exports, followed by the Rest of Africa and the European Union. Table 7 shows a breakdown of Uganda's exports by destination.

**Table 7: Destination of exports**

	Jul- Dec 2017	Jul - Dec 2018
EAC	41.18%	36.70%
Rest of Africa	20.82%	17.60%
European Union	17.11%	14.61%
Middle East	11.28%	20.81%
Asia	6.28%	7.40%
The Americas	2.44%	1.37%
Rest of Europe	0.84%	1.47%
Others <sup>8</sup>	0.05%	0.05%

Source: Bank of Uganda

<sup>7</sup>ICBT(Informal Cross Border Trade)

<sup>8</sup> Others include Australia and Iceland

Overall by country, The United Arab Emirates took the largest share of exports (19.7 percent), followed by the Democratic Republic of Congo (16.8 percent), Kenya (15.7 percent) and South Sudan (10 percent).

### Merchandise Imports

**Merchandise Imports** registered a 15.7 percent value increase in the first half of the Financial Year 2018/19 compared to the previous financial year. Merchandise worth US\$ 3,144.92 million were imported during the period in review from US\$ 2,719.08 million recorded the same period in the previous financial year. The increase in value of imports during the first half of the financial year was largely driven by a 28.2 percent increase in formal private sector imports that more than offset the decline in Government imports. Increases in non-oil import volumes and a surge in oil prices during the period under review accounted for the increase in the private sector bill.

**Table 8: Performance of Imports in US\$ millions**

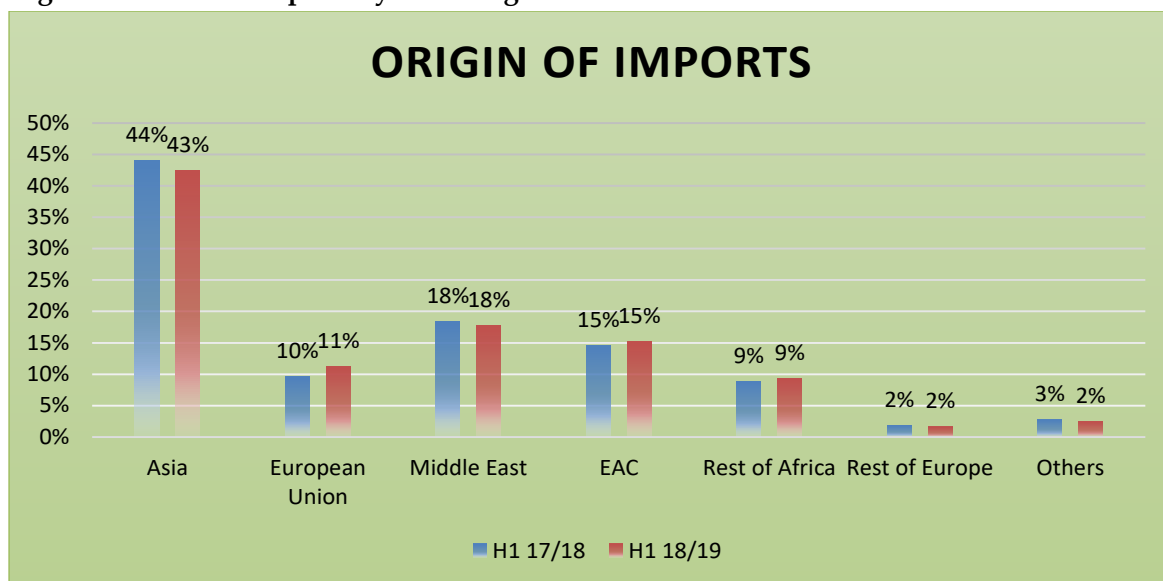
	Jul- Dec 2017	Jul - Dec 2018	Annual Change
<b>Total Imports (fob)</b>	2719.08	3144.92	15.7%
<b>Government Imports</b>	310.90	239.34	-23.0%
<b>Project</b>	306.58	238.44	-22.2%
<b>Non-Project</b>	4.33	0.90	-79.2%
<b>Formal Private Sector Imports</b>	2245.99	2879.87	28.2%
<b>Oil imports</b>	405.28	502.40	24.0%
<b>Non-oil imports</b>	1840.71	2377.48	29.2%
<b>Estimated Private Sector Imports</b>	162.18	25.71	-84.1%
<b>Total Private Sector Imports</b>	2408.18	2905.58	21%

Source: Bank of Uganda

### Origin of Imports

Asia remained the largest source of merchandise imports during the first half of the financial year, contributing 43 percent of the total imports. Middle East and EAC contributed 18 percent and 15 percent of the total merchandise imported respectively. China, India and Japan contributed 81 percent of the imports from Asia, while Kenya and Tanzania contributed 96 percent of the imports from EAC. Figure 8 shows the origin of imports by percentage share.

Figure 8: Source of Imports by Percentage Share



Source: Bank of Uganda

### Other Balance of Payments transactions

**Income remittances increased** in the first three quarters of 2018 amounting to US\$ 819.66 million compared to US\$ 767.62 million recorded for the same period of 2017.

**Foreign Direct Investment (FDI) increased** by 19.8 percent; FDI for the cumulative first three quarters of 2018 stood at US\$ 639.1 million compared to US\$ 533.56 million in the same period of 2017.

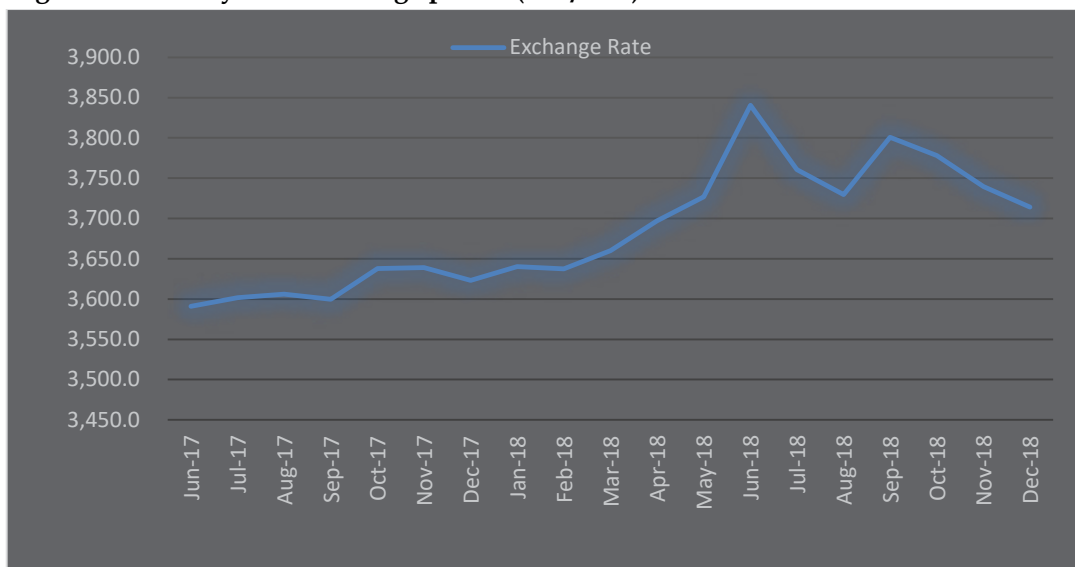
**International reserves** held by the Central Bank stood at US\$ 3414.5 million an average of 4.7 future months of imports of goods and services in December 2018, lower than the average of 5.2 months of future imports in the same period of 2017. However, the reserve cover is above the target of 4.5 months of future imports of goods and services as stipulated in the EAMU protocol.

### Exchange Rate

In the first half of Financial year 2018/19, the **Ugandan shilling depreciated** against the United States Dollar by 3.8 percent compared to the same period the previous financial year, to an average midrate of Shs 3,753.8 from Shs 3,617.9 per USD. This was mainly as a result of increased demand for the dollar from manufacturing, oil and telecommunications sectors, coupled with global strengthening of the dollar. However, on a month on month analysis, the Ugandan shilling remained relatively stable. Depreciation pressures resulting from strong dollar demand in the oil sector as global oil prices increased in the first quarter of the financial year were offset by the Ugandan shilling appreciating due to increased dollar supply from NGOs, coffee receipts, remittances and offshore players in the Government securities market.



**Figure 9: Currency trends-average period (Ush/US\$).**



**Source: Bank of Uganda**

# **FISCAL PERFORMANCE**

## Fiscal Performance

### Overview

Uganda's fiscal policy in the medium term aims at delivering macroeconomic stability to support inclusive and sustainable economic growth and socio-economic transformation. In line with that, the overall macroeconomic goal for the Financial Year 2018/19 is to accelerate and sustain inclusive economic growth while maintaining macroeconomic stability and debt sustainability. This will be achieved through among others; enhancing the impact of public investment on growth, through increasing efficiency in public investment and increasing domestic revenue mobilization.

The planned overall deficit for the first half of the Financial Year 2018/19 was projected at Shs 4,694.9 billion. However, the overall deficit turned out to be Shs 2,852.6 billion against its target. This under performance was a combined result of lower revenues and under execution on expenditures, the latter being the more significant of the two factors.

**Table 9: Fiscal operations for H1-2018/19**

	2017/18 H1 Outturn	2018/19 H1 Programme	2018/19 H1 Prel. Outturn	2018/19 Performance	2018/19 Deviation
<b>Total revenue and grants</b>	7,902.8	8,734.4	8,565.4	98.1%	-169.0
Revenue	7,540.4	7,826.4	8,215.0	105.0%	388.6
URA	7,334.0	7,623.6	7,926.0	104.0%	302.4
Non-URA	206.3	202.8	289.0	142.5%	86.2
Grants	362.4	908.0	350.4	38.6%	-557.6
Budget support	23.1	0.0	0.0	0.0	0.0
Project grants	339.3	908.0	350.4	38.6%	-557.6
<b>Expenditures and net lending</b>	10,040.5	13,429.3	11,418.0	85.0%	-2,011.3
<b>Recurrent expenditures</b>	5,289.6	6,203.1	5,981.4	96.4%	-221.7
Wages and salaries	1,751.4	2,132.0	2,069.0	97.0%	-63.0
Non-wage	2,362.2	2,715.7	2,785.7	102.6%	70.0
Interest payments	1,176.0	1,355.3	1,126.7	83.1%	-228.6
o/w: domestic	1,011.2	1,144.8	936.2	81.8%	-208.6
o/w: foreign	164.8	210.5	190.5	90.5%	-20.0
<b>Development expenditures</b>	3,432.0	6,406.7	5,003.7	78.1%	-1,403.0
External	1,588.9	3,749.1	2,232.0	59.5%	-1,517.1
Domestic	1,843.1	2,657.6	2,771.7	104.3%	114.1
<b>Net lending and investment</b>	1,094.8	559.0	156.2	27.9%	-402.8
<b>Others( Arrears)</b>	224.0	260.6	276.7	n.a	16.1
<b>Overall balance</b>	-2,137.7	-4,694.9	-2,852.6	60.8%	1,842.3
Excluding grants	-2,500.1	-5,602.9	-3,203.0	57.2%	2,399.9
<b>Financing</b>	2,137.7	4,694.9	2,852.6	60.8%	-1,842.3
<b>External financing (net)</b>	2,180.7	3,000.9	1,796.7	59.9%	-1,204.2
Disbursement	2,524.8	3,382.5	2,099.4	62.1%	-1,283.1
Budget support	141.1	0.0	0.0	n.a	0.0
Concessional project loans	1,037.1	1,910.2	1,383.1	72.4%	-527.0
Non-concessional loans HPP	1,065.6	541.5	156.2	28.8%	-385.3
Non-concessional loans Other	281.0	930.9	560.1	60.2%	-370.8
Exceptional financing	3.0	0.0	3.1	n.a	3.1
Amortisation (-)	-347.1	-381.7	-305.8	80.1%	75.9
<b>Domestic financing (net)</b>	241.1	1,694.0	847.9	50.1%	-846.1
<b>Bank Financing</b>	324.8	867.5	142.3	16.4%	-725.2
Central Bank	132.5	513.2	22.7	4.4%	-490.5
Commercial banks	192.2	354.2	119.6	33.8%	-234.6
Non-Bank	-83.6	826.5	705.6	85.4%	-121.0
<b>Errors and omissions</b>	-284.2	0.0	208.1	n.a	208.1

Source: Ministry of Finance, Planning and Economic Development

## Revenues and Grants

**Revenue collections and grant disbursements** during the first half of the Financial Year 2018/19 amounted to Shs 8,565.4 billion. This was a shortfall of 169 billion compared to the Shs 8,734.4 billion that had been projected for the period. The shortfall was mainly due to lower grant disbursements, particularly on project support.

**Grants inflows** during the period in review totalled to Shs 350.4 billion which was only 38.6 percent of the expected Shs 908.0 billion of project support (*no budget support was expected in the period under review*). Low absorption of project funds continues to be the main obstacle to project support disbursements. The new public investment management reforms<sup>9</sup> currently being implemented will help to resolve project implementation and the overall absorption capacity of project funds.

## **Tax revenue**

**Direct Domestic Taxes** registered a surplus of Shs 142.6 billion against the target of Shs 2,439.3 billion. The improved economic activity during the half-year led to higher profitability of many companies and boosted corporate tax collections. The step up by the revenue authority to recover arrears in corporate taxes also enhanced collections during the first half of the year. In addition, Pay as You Earn collections contributed to this good performance following the increase in remuneration of various categories of professionals in the public sector as well as more recruitment in the public sector.

**Indirect Domestic Taxes** also registered a surplus of Shs 67.7 billion against the target of Shs 1,857.9 billion. This was on account of VAT collections, which exceeded their target for the period by Shs 108.6 billion. Otherwise, excise duty registered a shortfall of Shs 40.9 billion during the half. This shortfall was largely due to Over the Top tax, which fell short of its target by Shs 114.1 billion. The persistent use of Virtual Private Networks has aided avoidance of this tax despite government effort to fight this. On the positive side, levy on mobile money exceeded its target by Shs50.0 billion which was a 191 percent performance against its target.

**Taxes on International trade** transactions were Shs 3,441.0 billion against the target of Shs 3,352.3 billion for the half year. The growth in import volumes by 28 percent and increased enforcement including seizure notices and valuation controls all boosted collections on international trade taxes.

**Non Tax Revenue** collected during the first half of the financial year in question was Shs 288.9 billion against the target of Shs 202.8 billion. Of this, URA collected Shs209 billion against the target of Shs 192.0 billion while MDAs collected Shs 79.9 billion against the target of Shs10.8 billion. Migration fees still contributed the largest share of Non-tax revenue while it is worth noting that Uganda Registration Services Bureau almost doubled their target for Non-tax revenue.

---

<sup>9</sup> These reforms include strengthening institutional and technical capacity in project appraising

## Government Expenditure

The National budget for the Financial Year 2018/19 is Shs 32,702.82 billion. By the end of the first half, expenditure was Shs 11,418 billion against a target of Shs. 13,429.3 billion. The lower expenditure was largely due to the under-performance of external and net lending disbursements, which performed at 59.6 percent and 27.9 percent against their respective programs.

**Development Expenditure** amounted to Shs 5,003.7 billion against Shs 6,406.7 billion programmed for the period and the under execution was attributed to lower disbursements on externally financed development projects that were less by Shs1,517.1 billion. Slow implementation of projects largely due to the un-readiness of projects continues to undermine project disbursements and overall development expenditure. Efforts however have been put in place to improve the project cycle and readiness of projects before inclusion in the public investment plan and absorption of project funds has been improving recently.

**Net lending and investment** totalled to Shs 156.2 billion against the projected Shs 559 billion. This is expenditure on hydropower projects and the four industrial parks<sup>10</sup>. The nature of financing of these projects however is such that disbursements are made for work that is completed. Despite net lending and investment being lower than planned, the actual physical work on the projects is on course and Isimba dam had some turbines switched on.

During the period in review, Shs 277.4 billion was spent on payment of **arrears**. This was higher than the planned Shs 16.9 billion and is due to government's commitment to clearing domestic arrears.

## Financing

The fiscal deficit was financed by loan disbursements from **external development partners** amounting to Shs 1,796.7 billion; lower than the planned Shs 3,000.9 billion for the first half of the financial year.

For the first half of the Financial Year 2018/19, Government borrowed Shs 959.39 billion from the **domestic market**.

---

<sup>10</sup> These are Soroti, Namanve, Luzira and Bweyogerere industrial parks

**Table 10: Government Securities for H1 2018/19 UShs. billion**

	<b>Total issuance</b>	<b>Net domestic financing</b>	<b>Refinancing</b>
July	385.01	85.71	299.30
August	650.46	79.29	571.17
September	497.58	138.51	359.07
<b>Q1</b>	<b>1,533.05</b>	<b>303.51</b>	<b>1,229.54</b>
October	554.40	297.38	257.02
November	852.44	224.66	627.77
December	476.94	133.84	343.10
<b>Q2</b>	<b>1,883.78</b>	<b>655.88</b>	<b>1,227.89</b>
<b>H1</b>	<b>3,416.83</b>	<b>959.39</b>	<b>2,457.44</b>

Source: Ministry of Finance, Planning and Economic Development

## Debt Sustainability Analysis

As at 30th June 2018; Uganda's total public debt stock rose to US\$ 10.74 billion from US\$ 9.4 billion a year ago, of which external debt amounted USD 7.29 billion, while domestic debt stood at USD 3.45 billion. This is an equivalent to 41.5% of GDP, up from 37.0% in June 2017. In present value terms, the total stock of debt amounted to 30.8 percent of GDP up from 27 percent the previous financial year. Despite this, public debt is still sustainable in the medium and long term.

Stress tests on total public debt indicate significant risks related to non-debt variables, particularly interest rates and the exchange rate. This underscores the need to borrow on concessional terms as much as possible. A key concern is the need to accelerate growth in exports, which represent an important source of foreign exchange with which Government meets its external debt service obligations.

Government will continue with efforts towards improving project implementation across the entire project cycle, including the production of high quality feasibility studies and proper, timely management of the land acquisition process. Untimely project implementation tends to lead to cost overruns and delays as well as reducing the benefits of infrastructure projects, which undermines economic growth and affects the country's ability to repay its debts.

## 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.

Financial Year 2018/19 is the third financial year in which Government's fiscal policy strategy will be underpinned by the Charter for Fiscal Responsibility. The Charter's objective on the fiscal balance requires that Government run a fiscal deficit - including

grants of not more than 3 percent of GDP by the Financial Year 2020/21. However, achieving this objective will present a challenge for the budgeting process because of the need for key infrastructure required for extracting Uganda's first oil within the medium term and partly due to slow implementation of some planned public investments.

The fiscal strategy, however, stays focused to ensuring medium and long-term debt sustainability. The Present Value of public sector debt to GDP is projected to increase from 30.8percent in FY2017/18 to a peak of 40.7 percent in FY2022/23. This still remains below the threshold of 50 percent consistent with the Charter for Fiscal Responsibility.

Government remains committed to the Charter of Fiscal Responsibility while being mindful of the need to support critical public investments to accelerate growth and to ensure that debt is maintained at sustainable levels.

### **Performance of the Petroleum Fund**

As appropriated by Parliament, Shs 200 billion was drawn down from the petroleum fund during the first half of the financial year for the purpose of funding the Oil roads project. The current balance in the petroleum fund stands at an equivalent of Shs 286.2 billion



# **OUTLOOK ON THE ECONOMY**

## Outlook on the Economy

### Economic Growth;

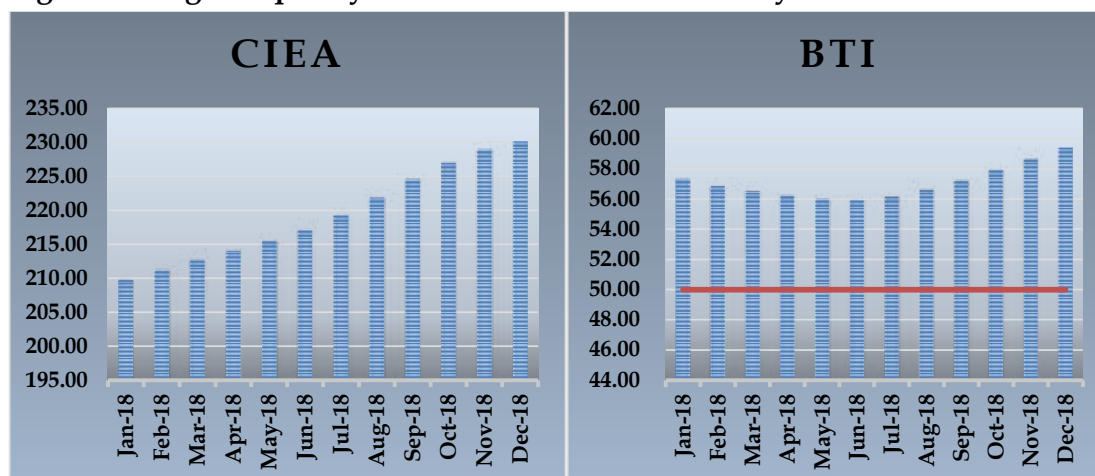
During the Financial Year 2018/19, real GDP is expected to grow at 6.3 percent based on a stable and expanding global economy, increased private sector activity, significant growth in the services sector, recovery in the industry and manufacturing sector and better weather conditions that are expected to facilitate continued recovery in agriculture, forestry and fishing. Additionally, Agricultural and industrial productivity is also expected to improve due to increased government intervention in improving quality of agricultural inputs, providing extension services, efforts in irrigation to reduce reliance on rainfall and investments in industrial parks and economic free zones.

The current supportive monetary policy stance coupled with a stable financial sector and the reduction in non-Performing loans should also encourage commercial banks to lend more to the private sector and subsequently rejuvenate economic activity. The relative stability of the exchange rate is also expected to boost trade and manufacturing.

Economic growth over the medium term is projected to peak at 7 percent and this will be driven mainly by public infrastructure investment and increased private sector investments. Oil mining activities are expected to support growth in industry and the services sector.

High frequency indicators on economic activity show that there is improvement in business sentiments and continued recovery in the level of economic activity. The average Business Tendencies Index was 57.68 and remained above the 50 threshold for the first half of the financial year implying generally positive business expectations. Similarly, the Composite Index of Economic Activity (CIEA), designed to reflect economic activity, increased steadily in recent months indicating a pickup in economic activity.

**Figure 10: High frequency indicators of economic activity.**



Source: Bank of Uganda

## **Inflation;**

Over the course of the Financial Year 2018/19, inflationary pressures are expected to increase prices but overall inflation is projected to remain close to the medium term target band of 5±3 percent core inflation. This is expected to be driven by a pickup in domestic demand as private sector activity continues to recover and an increase in global inflation feeds through to import prices.

## **Financial sector;**

Private Sector Credit is expected to continue recovering as lending rates continue to be accommodating, due to a stable, sound and improving financial sector as well as increased economic activity. With risks to inflation minimal in the short and long run, monetary policy should continue to be supportive of economic activity and growth. The banking sector is also expected to remain stable and resilient throughout the Financial Year 2018/19 and continued decline in the Non-Performing Loans (NPLs) is expected to have a positive effect on future lending.

## **External Sector;**

The exchange rate is largely expected to remain stable nonetheless under a bit of pressure in the short to medium term; due to increased dollar demand, volatility in global financial markets, increments in international crude oil prices and expected recovery in private sector imports. The relative stability of the exchange rate is also expected to boost trade and manufacturing and pose a minimal risk to domestic inflation.

## **Fiscal Operations;**

Over the medium term, the fiscal balance (including grants) is expected to converge towards the medium term target as stipulated in the East African Monetary Union Protocol. This will necessitate continued efforts made towards revenue enhancement to ensure 0.5 percent tax to GDP increase every financial year while improving the efficiency and effectiveness in executing government programs.

## **Fiscal Risks**

The primary external risks to Uganda's fiscal plans stem from the global economic and trade environment, regional conflict and commodity price volatility.

In recent years, the global economy has been marked by **rising geopolitical tensions** – including trade conflicts – alongside higher debt levels in both developed and developing economies. Growing trade tensions, which affect a range of Uganda's major trading partners, could put pressure on foreign investment and remittance inflows, with negative consequences for the exchange value of the shilling.

At the regional level, civil strife in the region could severely disrupted trade and welfare. These conflicts in the past have led to both economic and fiscal costs, including loss of earnings, property, employment, and remittances. Before the recent conflict, South Sudan accounted for about 20 percent of Uganda’s exports, and was one of the leading remitters of income into the country.

As a member of the East African Community, Uganda is a signatory to the East African Monetary Union protocol, which plans to establish a single regional currency by 2024. The convergence criteria for the monetary union include benchmarks for debt, inflation, fiscal balances and external reserves. At present there are significant imbalances within the region, and the pace of achieving and maintaining these benchmarks could lead to future fiscal risks.

Volatility in global commodity prices has a major impact on economic growth, with knock-on effects for the public finances. Rising oil prices would impose large costs on Uganda given our level of oil imports. Subdued global prices for export commodities such as coffee and cotton – and increased competition from other commodity producers – creates greater uncertainty and risks to foreign earnings and the value of the currency.

The government recognises these risks and works to ensure that prudent management of the public finances provides a buffer to changes in the global economic environment.







**MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT**  
**APOLLO KAGGWA ROAD**  
**P.O.BOX 8147, KAMPALA**  
**[www.finance.go.ug](http://www.finance.go.ug)**

Designed and Printed by:

