PRE-ELECTION ECONOMIC AND FISCAL UPDATE

December 2020

Ministry of Finance, Planning and Economic Development

Statement of Economic and Fiscal Policy

Section 19 (1) (a) of the Public Finance Management Act (PFMA) 2015 requires the Minister of Finance Planning and Economic Development to publish a pre-election economic and fiscal update not earlier than four months before the polling day for a general election. Section 19 (2) of the Act provides that the update shall detail all the election related spending including the expenses of the Electoral Commission for the cost of the general election and any other expenses of a vote related to the election. The update should be accompanied by a statement signed by the Secretary to Treasury that shows that the pre-election economic and fiscal update took into account all the policies and other circumstances that have economic and fiscal implications prior to the elections, as well as the details of election related spending. This statement is therefore prepared in accordance with the above provisions.

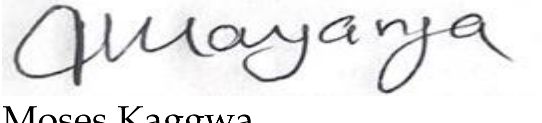
The year 2020 has been a challenging one as far as economic management is concerned. This is mainly because of the emergence of the COVID-19 pandemic which is not only a global health crisis but also the biggest global economic crisis since the great depression of the 1930s. The nature of spread of this virus forced many countries to adopt stringent measures to contain its spread, including domestic lockdowns, closure of borders and other travel restrictions. These measures resulted in global supply chain disruptions, dampening of global demand, and a general slowdown in the level of economic activity at a global level.

The slowdown in the global economy, alongside the containment measures Government undertook to check the spread of the virus, is expected to affect the pace of domestic economic activities. GDP is projected to grow by 3.1 percent this financial year, which is lower than the pre-pandemic projection of 6.2 percent. During the year 2020, fiscal operations have been the most challenging. On the one hand, the slowdown in economic activity and international trade resulted in major revenue shortfalls. On the other hand, expenditure has increased as additional funding has been required to deal with Covid-19 related economic and health challenges. This has translated into a widening fiscal deficit, projected to be 10.7 percent this financial year up from 7.2 percent in FY2019/20. As a result, public debt stock is projected to increase to 49.9 percent of GDP in FY2020/21, from 41.2 percent in FY2019/20.

Going forward, Government remains committed to increasing revenue mobilization efforts and moderating borrowing to ensure fiscal and debt sustainability. Emphasis will be on accelerating implementation of the domestic revenue mobilization strategy, increasing efficiency in public expenditure and investment, and enhancing prioritization in line with the third National Development Plan (NDP III) to ensure that the economy returns to potential growth levels.

In order to mitigate the economic and social impact of the pandemic, Government announced a stimulus package which speaks to the following objectives; restoring household incomes and safeguarding jobs, providing emergency social protection, and re-igniting business activity. The key interventions in the package include increasing access to credit at Uganda Development Bank to offer low interest financing to manufacturing, agribusiness and other private sector firms; increasing funding to Uganda Development Corporation for public-private partnership investments to facilitate our import substitution and export promotion strategy, providing tax relief to most affected sectors and expediting the payment of arrears owed by Government to private sector firms. Other measures included the provision of seed capital to organized special interest groups under the Youth Fund, Women Entrepreneurship Fund and the 'Emyooga' Talent Support scheme; rolling out of the Social Assistance Grant for the Elderly (SAGE) nationwide to persons aged 80 years and above - including the elderly aged 65 years in the piloted 15 districts. These measures will enable the country to return to higher economic growth levels starting this financial year, while at the same time improve the welfare of the population.

Finally, about the general elections scheduled for January 2021, the role of this Ministry is to ensure that funds are availed to facilitate the whole exercise. I am happy to report that cumulatively since last financial year, the Ministry of Finance has allocated a total of Shs 1.073 trillion to the various Ministries, Departments and Agencies (MDAs) involved in the whole electoral roadmap. Of that amount, Shs 768.42 has already been released to them and the remaining amount will be released as planned.



Moses Kaggwa
For: PERMANENT SECRETARY/SECRETARY TO TREASURY

Contents

1. Introduction

The Public Finance Management Act (PFMA) 2015 as amended requires that the Minister of Finance Planning and Economic Development publish a pre-election economic and fiscal update/report not earlier than four months before the polling day for a general election.

This report has been written in accordance with this requirement and it includes;

(i) details of election related spending including the expenses of the Electoral Commission for the cost of the general election and any other expenses of a vote related to the election.
(ii) all the policy decisions with economic and fiscal implications that the Government made before the day on which the contents of the economic and fiscal updates were finalized;
(iii) all the other circumstances with economic and fiscal implications which the Ministry was aware of on the day on which the contents of the economic and fiscal updates were finalized.

The rest of this report is structured in four sections. Section 2 gives a summary of recent domestic and international economic developments. Section 3 discusses Government's fiscal operations for the period July – October 2020 and gives projections for the remaining part of the financial year. Section 4 provides details on election roadmap spending so far.

2. Economic Performance

Economic Growth

2.1 The emergence of the COVID-19 crisis towards end of 2019 greatly affected economic activity both globally and domestically. The global economy is expected to contract by 4.4 percent while the Sub-Saharan Africa economy is expected to contract by 3.0 percent in 2020 according to the International Monetary Fund (IMF).

2.2 The domestic economy also suffered immensely from the effects of the pandemic. The economy expanded by 2.9% in FY2019/20 which is a significant slowdown compared to both the pre-pandemic projection of 6.3 percent and the 6.8 percent growth registered for the previous financial year. The services sector (education, tourism, transportation, trade, etc.) and industry (manufacturing and construction) were the most affected and accounted for the biggest share of the slowdown in growth.

2.3 To spur economic activity and return the economy on the trajectory to its potential, Government has undertaken a number of policy interventions. These interventions include amongst others;

i. Deferment of Corporate Income Tax (CIT) and Pay as you Earn (PAYE) payments in the most affected sectors (e.g., Tourism, manufacturing, horticulture and floriculture) for March -June 2020 to December 2020

ii. Waiver of all outstanding interest and penalties to lessen the tax liability of businesses which voluntarily comply with their tax obligations as at 30 June 2020.

iii. Provision of credit through SACCOs and Micro Finance Institutions to support micro and small-scale enterprises.

iv. Increasing access to credit at Uganda Development Bank (UDB) to offer low interest and long-term financing to manufacturing, agribusiness and other private sector firms.

v. Increasing funding to Uganda Development Corporation (UDC) for public-private partnership investments to facilitate our import substitution and export promotion strategy.

vi. Expediting the payment of arrears owed by Government to private sector firms.

vii. Supporting the Uganda Industrial Research Institute (UIRI) to encourage research and development in the industrial sector.

viii. Accelerating the development of industrial and business parks.

2.4 These interventions, together with the continued easing of the lockdown measures have already had a positive impact on economic activity. The high frequency indicators of economic activity show a recovery of the economy in the first four months of this financial year. The Composite Index of Economic Activity (CIEA), which measures the level of both private and public investment and consumption, exports and imports, improved by 7.1 percent in the first quarter of the financial year. Similarly, the Purchasing Managers Index (PMI) which measures the business conditions in the private sector, was recorded above the threshold of 50 for the fifth consecutive month in November 2020. Consequently, the economy is projected to expand by 3.1 percent in FY2020/21.

Employment

2.5 In FY 2019/20, the COVID-19 Pandemic affected economic activity as well as job creation and retention. According to the rapid survey of firms carried out by Economic Policy Research Centre (EPRC), approximately three-quarters of the surveyed businesses reported reduction in the number of employees. Overall, 76% of the businesses in the survey reported to have reduced the size of the workforce.

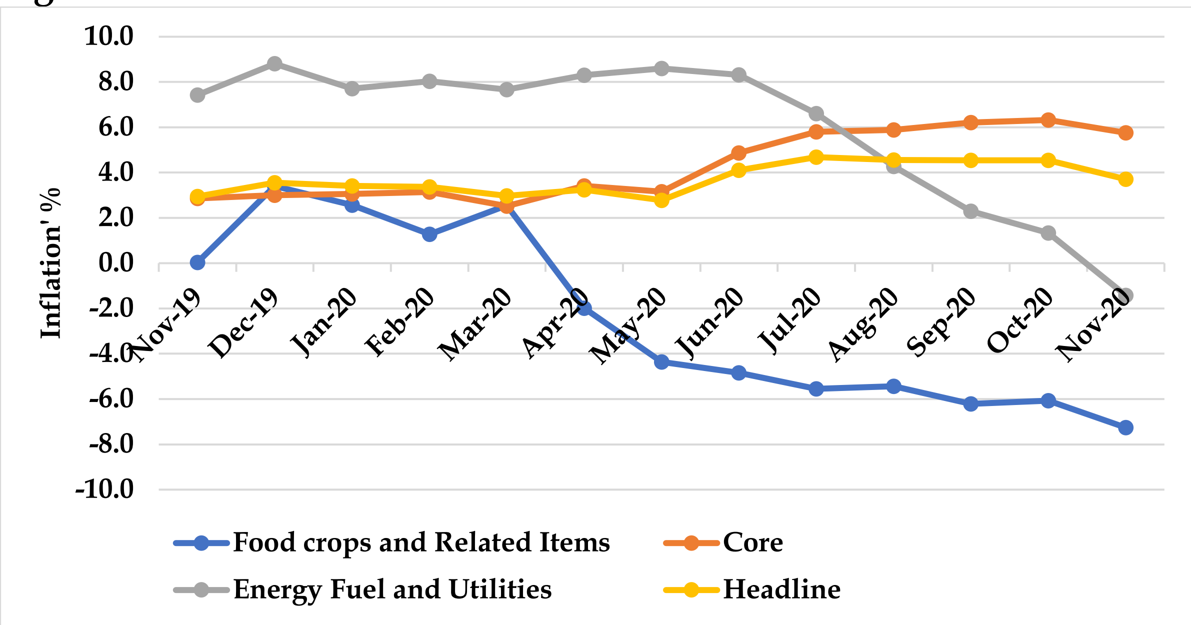
2.6 However, with the gradual easing of lockdown measures since June 2020 that resulted into a pickup in economic activity, a number of jobs have been reinstated. The Purchasing Managers Index for November 2020 indicates that companies reported an increase in employment for a fourth month in a row. The increase in employment was mainly in the construction and services sub-sectors, where companies reported higher new orders as the main factor leading to job creation.

Inflation

2.7 Annual headline and core inflation recorded averages of 3.0 percent and 3.1 percent respectively in FY2019/20. However, since the beginning of FY2020/21, there has been inflationary pressures arising mainly from the impact of higher transport charges on prices of goods and services. Public transportation charges were increased following the requirement to operate services at half-capacity, as a measure to curtail the spread of Covid-19. As of November 2020, annual headline inflation was recorded at 3.7 percent while annual core inflation was 5.8 percent.

2.8 On the other hand, food crop and energy prices have remained subdued for the same period and dampened the impact on overall inflation. The food crops and energy, fuel and utilities inflation were recorded at minus 7.3 percent and minus 1.4 percent, respectively in November 2020. Figure 1 shows the evolution of inflation between November 2019 and November 2020

Figure 1: Inflation for November 2019 – November 2020



Source: Uganda Bureau of Statistics

Exchange Rates

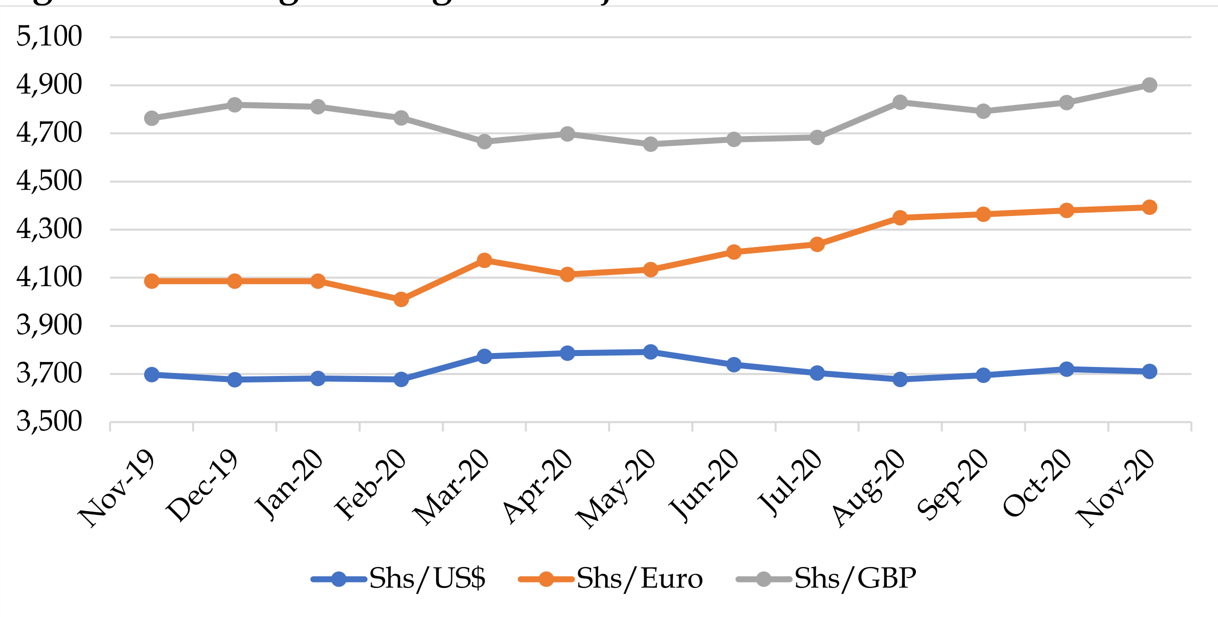
2.9 The Uganda Shilling has generally been stable since the start of this financial year in spite of the COVID-19 pandemic shock. Between

June and November 2020, the shilling on average, appreciated by 0.7 percent against the US Dollar. The appreciation was largely on account of increased inflows from coffee exports, NGOs, private remittances and portfolio inflows to the government securities market.

2.10 The stability in the foreign currency markets enabled the central bank to accumulate foreign exchange reserves. As at end of October 2020, the country's foreign exchange reserves were US$ 3.85 billion which is equivalent to 4.9 months of future imports of goods and services.

Figure 2 shows the exchange rate of the Shilling against major currencies since the start of 2020.

Figure 2: Exchange Rate against Major Currencies



Source: Bank of Uganda

Interest Rates

2.11 Weighted average lending rates for Shilling denominated credit for the period July – October 2020 were recorded at 20.0 percent, which is higher than the average of 18.78 percent for the second half of FY2019/20 (January – June 2020). The higher lending rates is partly attributed to increased credit risks. Risk aversion within commercial banks has increased since the on-set of the pandemic, as a slow-down in economic activities impacted the capacity of borrowers to repay back loans.

Private Sector Credit

2.12 In the first quarter of FY2020/21, loans worth Shs 2,650.3 billion were approved for disbursement to the private sector by lending institutions. This led to a cumulative stock of Shs. 17,221 billion in September, 2020 which translated into a growth of 1.4 percent in the stock of outstanding private sector credit over the quarter. The growth in credit reflects, in part, the easing of prudential regulations by the Central Bank to mitigate the adverse impact of Covid-19 on lenders and borrowers. Such interventions included issuance of waivers on limitations associated with restructuring of credit facilities, and providing exceptional liquidity assistance for a period of up to one year to financial institutions supervised by Bank of Uganda that may require it.

As at September 2020, Non-Performing Loans (NPLs) to total gross loans stood at 5.15%, a reduction from 6.01% recorded in June 2020.

Merchandise imports and exports

2.13 Merchandise export receipts amounted to US$ 363.9 million in October 2020 which is 7.6 percent higher than the amount at the end of June 2020. On the other hand, the merchandise import bill grew by 13.2 percent in the same period to US$ 615.4 million. As a result, the trade deficit widened to US$ 251.5 million in October 2020 from US$ 205.6 million recorded in June 2020. Table 1 shows evolution of exports and imports since January 2020.

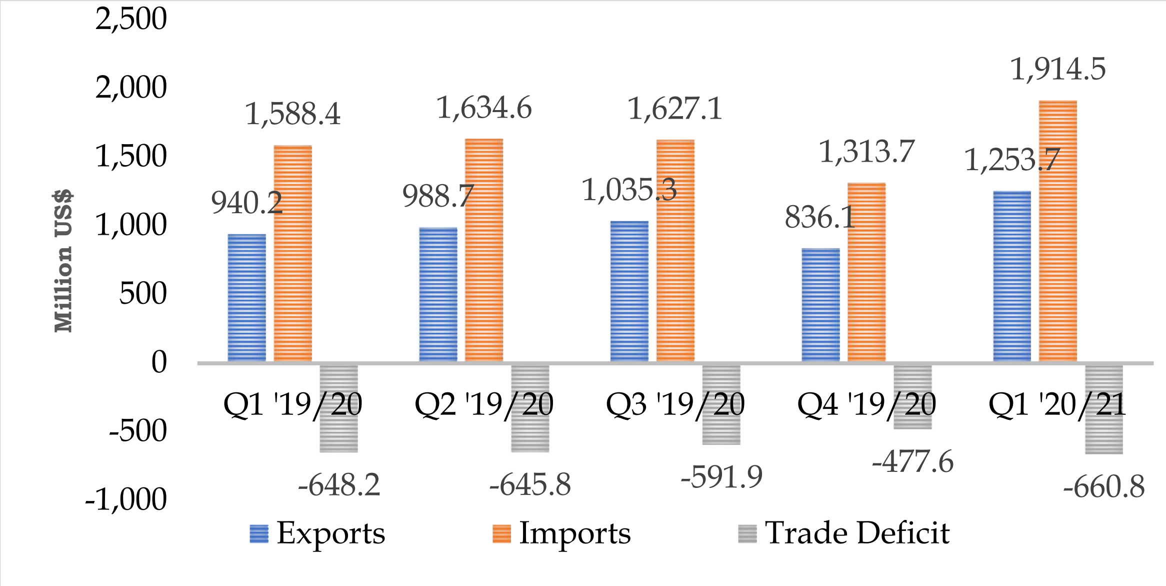
Table 1: Exports, Imports and Trade Balance (Million US Dollars)

	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20
Total Exports	386.0	349.8	299.5	207.1	290.9	338.1	419.5	416.3	417.9	363.9
Total Imports (fob)	588.8	548.1	490.2	334.3	435.6	543.7	605.0	693.9	615.6	615.4
Trade Balance	-202.8	-198.4	-190.7	-127.2	-144.7	-205.6	-185.5	-277.6	-197.6	-251.5

Source: Bank of Uganda

2.14 International trade activities improved in the first four months of this financial year, following Covid-19 related disruptions in second half of last financial year. The improvement follows the easing of supply chain constraints as countries re-opened their borders and eased travel restrictions. Additionally, the easing of the domestic containment measures starting with June 2020 resulted in increased demand for imported goods. Figure 3 shows performance of exports, imports and the trade balance by quarter.

Figure 3: Exports, Imports and Trade Balance



Source: Bank of Uganda

3. Fiscal Performance

Revenue

3.1 Domestic revenue was planned to amount to Shs 21,810.66 billion in the appropriated budget for FY2020/21. Of this amount, tax collections would be Shs 20,219.68 billion while Non-Tax Revenue would be Shs 1,590.98 billion. However, taking into account the adverse effects of COVID-19 on the economy, it is now projected that domestic revenue collections will be Shs 18,773.96 billion for the financial year.

3.2 As of October 2020, revenue collections amounted to Shs 5,528.43 billion which is equivalent to 25.3 percent of the target for the whole year as stated in the approved budget.

Expenditure

3.3 For the first half of the current fiscal year 2020/21, Shs 26,615.45 billion or 58.5 percent of the total approved budget has been released for spending.

3.4 Of this amount, Shs 20,626.05 billion was for externally financed projects as well as all government discretionary spending (thus excludes debt service (domestic debt refinancing, external amortization and interest payments). Shs 11,684.04 billion (equivalent to 56.6 percent of the amount released for this purpose) has been spent in the period July to October 2020. Expenditures on recurrent and development activities amounted to Shs 6,595.2 billion and Shs 4,156.0 billion, respectively, while expenditures associated with HPPs and BOU Recapitalization (considered as net lending) and domestic arrears repayments amounted to Shs 554.4 billion and Shs 378.4 billion respectively.

3.5 The major expenditure drivers in FY2020/21 are mainly related to mitigating the health challenges posed by COVID-19 as well as alleviating its impact on the economy and the livelihoods of the vulnerable population. These COVID-19 related expenditures in the first half of FY2020/21 include;

i) **Public health response measures**, for which **Shs 170.03 Billion** was released to enhance health systems through: -
   a. Increasing direct health expenditures for both Covid-19 interventions and capacity strengthening; and
   b. Support to scientists and innovators engaged in scientific research for Covid-19 interventions.

ii) **Economic recovery interventions**, for which **Shs 2,223.10 Billion** was released for: -
   a. Provision of agricultural inputs and extension services to boost production of key agricultural commodities for food security and export (Shs 221.10 Billion);
   b. Labour-intensive work for vulnerable able-bodied persons affected by COVID-19 (Shs 130.00 Billion);
   c. Seed capital for entrepreneurial special interest groups under the Youth Fund, Women fund and talent support scheme (Emyooga) – Shs 416.00 Billion.
   d. Provision of affordable credits for small, medium and large-scale enterprises through the UDB (Shs 558.00 Billion), UDC for public private partnership investments to facilitate

import substitution and export promotion (Shs 138.00), SACCCOs and Micro-Finance Support Centre (Shs 77.00 Billion); payment of domestic arrears (Shs 673.00); and,

iii) **Social protection interventions**, for which **Shs 64.77 Billion** has been released for the provision of relief food, and increased coverage for the elderly under the Social Assistance Grant for the Elderly (SAGE).

Overall deficit and Financing

3.6 The overall deficit for the July to October 2020 period amounted to Shs 5,588.2 billion and was financed through domestic and external borrowing. A total of Shs 2,613.3 billion was sourced from external development partners, of which Shs 1,344.1 billion was in form of direct budgetary support while Shs 1,269.2 billion was geared towards specific projects. Details for fiscal operations for the period July to October 2020 are summarized in Table 2.

Table 2: Fiscal performance, July – October, 2020 (Billion Shillings)

	Jul '20	Aug '20	Sept '20	Oct-20	Total
Revenues and Grants	**1,299.0**	**1,623.7**	**1,646.7**	**1,526.5**	**6,095.8**
Revenues	1,224.9	1,397.1	1,492.6	1,413.9	5,528.4
Tax	1,153.9	1,320.7	1,421.9	1,345.6	5,242.1
Non-Tax	71.0	76.3	70.6	68.4	286.3
Grants	74.1	226.6	154.1	112.6	567.4
Budget Support	30.8	73.2	115.5	61.4	280.9
Project Support	43.3	153.4	38.6	51.2	286.5
Expenditure and Lending	**2,826.4**	**3,489.1**	**1,925.1**	**3,443.4**	**11,684.0**
Current Expenditures	1,568.5	2,089.3	1,259.0	1,678.4	6,595.2
Development Expenditures	1,203.9	649.8	619.4	1,682.8	4,156.0
Net Lending/Repayments	-	543.7	1.9	8.8	554.4
Domestic Arrears Repayments	54.0	206.3	44.8	73.3	378.4
Overall Fiscal Bal. (incl. Grants)	**(1,527.4)**	**(1,865.4)**	**(278.4)**	**(1,916.9)**	**(5,588.2)**
Financing:	**1,527.4**	**1,865.4**	**278.4**	**1,916.9**	**5,588.2**
External Financing (Net)	**1,730.5**	**134.8**	**310.0**	**135.3**	**2,310.6**
Disbursements	1,806.3	206.3	395.2	205.5	2,613.3
Budget Support Loans	1,126.3	-	217.8	-	1,344.1
Project Loans	680.1	206.3	177.3	205.5	1,269.2
Amortization	(75.9)	(71.5)	(85.1)	(70.2)	(302.7)
Domestic Financing (Net)	**(1,180.0)**	**2,389.9**	**91.8**	**1,126.1**	**2,427.8**
Bank Financing (Net)	(1,408.6)	2,153.6	(80.5)	749.6	1,414.1
Non-bank Financing (Net)	228.6	236.3	172.3	376.5	1,013.7
Errors and Omissions	977.0	(659.3)	(123.4)	655.5	849.8

Source: Macroeconomic Policy Department, MFPED

3.7 Fiscal operations throughout FY2020/21 are projected to result into an overall deficit equivalent to 10.7 percent of GDP, increasing from the 8.4% percent of GDP envisaged in the appropriated budget. This increase has been occasioned by the additional expenditure pressures and the downward revision in projected revenues that have been occasioned by COVID-19 pandemic.

3.8 To finance the higher deficit, the Ministry of Finance obtained approval of Parliament to borrow additional US$ 600 million from the International Monetary Fund (IMF) and Shs 3,258.5 billion from the domestic financial market.

3.9 Because of the higher borrowing, the country's debt stock is projected to increase to 49.9 percent of GDP from 41.2 percent in FY2019/20.

3.10 Despite the widening in the deficit and associated increase in debt stock, Government remains committed to fiscal and debt sustainability. Over the medium term, Government will intensify implementation of the Domestic Revenue Mobilization Strategy as well as rationalizing expenditure.

4. Election Related Spending

4.1 Total funds required by the various Ministries, Departments and Agencies (MDAs) involved in preparation and conduct of the general elections for the electoral roadmap (FY2019/20 – FY2021/22) is Shs 1,255.73 billion. The biggest share of this amount (Shs 772.24 billion) is required by the Electoral Commission.

4.2 Shs 224.25 billion was budgeted and released for election related activities in FY2019/20. In FY2020/21, Shs 849.17 was budgeted for these activities bringing the total to Shs 1,073.42 billion. Of this amount, Shs 768.42 billion has already been released to the various MDAs involved in election activities.

4.3 All MDAs involved in the electoral process were allocated funds as requested in FY2019/20 and FY2020/21. This is with exception of Uganda Police Force whose budget was cut by Parliament by Shs 67.10 billion, and the Electoral Commission which programmed to receive some of the funds in FY2021/22 to cover post-election costs.

4.4 As of November 2020, Shs 456.87 billion had been spent on elections-related activities. The bulk of this amount (Shs 274.11 billion) was spent by the Electoral Commission followed by the Uganda Police Force (Shs 154.79 billion). Table 3 shows the details of the financing of the electoral process as of November 2020.

Table 3: Election Financing as at November 2020 (Billion Shillings)

	Requirement for Electoral Roadmap	Allocated Funds for the Roadmap			Total Releases as at November, 2020	Total Expenditure as at November, 2020
		Budget FY 2019/20	Budget FY 2020/21	Total		
Ministry of Internal Affairs	6.48	-	6.48	6.48	2.36	1.82
Electoral Commission	772.24	141.79	515.25	657.04	536.82	274.11
National Citizenship and Immigration Control (NCIC)	7.98	-	7.98	7.98	2.04	1.90
Uganda Police Force	393.82	64.20	262.52	326.72	191.01	154.79
Uganda Prisons Service	40.01	8.26	31.75	40.01	20.27	11.35
National Identification and Registration Authority (NIRA)	33.06	10.00	23.06	33.06	14.96	12.22
Department of Government Analytical Laboratory (DGAL)	2.15	-	2.15	2.15	0.96	0.67
Grand Total	**1,255.73**	**224.25**	**849.17**	**1,073.42**	**768.42**	**456.87**

Source: Ministry of Finance, Planning and Economic Development