HALF YEAR MACROECONOMIC & FISCAL PERFORMANCE REPORT FINANCIAL YEAR 2021/22

MINISTRY OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

February 2022

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Foreword.

The Public Finance Management Act (PFMA) 2015 requires that the Minister shall by the end of February and October of each Financial Year submit a fiscal performance report to Parliament. In accordance with this requirement, the Ministry of Finance, Planning and Economic Development has prepared the Half year Macroeconomic and Fiscal Performance Report for the Financial Year 2021/22 that incorporates the fiscal and economic implications of Government decisions and other economic circumstances as at 31st December 2021.

During the period under review, fiscal, monetary and financial policies were geared towards supporting aggregate demand through provision of affordable financing e.g., the 'Emyooga' program; expediting the payment of domestic arrears to the private sector; prioritising social spending in health and education as well as maintaining an accommodative monetary policy stance so as to accelerate economic recovery.

In addition, the full re-opening of the economy in January 2022 is expected to restore economic activity in all sectors including tourism, education, and entertainment. As a result, economic growth is projected to increase to 3.8 percent in FY 2021/22 from 3.4 percent in FY 2020/21.

The key risks to economic recovery emanate from the resurgence in COVID-19 infections and the emergence of new COVID-19 variants. However, Government will continue to prioritise the vaccination of citizens to contain the spread of the pandemic.

Going forward, Government will aim at accelerating economic growth to pre-pandemic levels of 6-7 percent through increasing productivity in key growth sectors, ensuring effective implementation of public infrastructure projects, fast tracking investment in the oil and gas sector and improving efficiency in public service delivery.

Matia Kasaija (MP)
MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

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List of Acronyms and Abbreviations

AIA	Appropriations in Aid
B.Franc	Burundian Franc
BOP	Balance of Payments
BOU	Bank of Uganda
BTI	Business Tendency Index
CBR	Central Bank Rate
CFR	Charter for Fiscal Responsibility
CIEA	Composite Index of Economic Activity
COVID-19	Coronavirus Disease 2019
DSA	Debt Sustainability Analysis
EAC	East African Community
EFU	Energy, Fuel and Utilities
FDI	Foreign Direct Investments
FOB	Free on Board
FY	Financial Year
GDP	Gross Domestic Product
H1	First Half of the Financial Year
H2	Second Half of the Financial Year
IMF	International Monetary Fund
KShs	Kenyan Shillings
MDA	Ministries, Departments and Agencies
MOFPED	Ministry of Finance, Planning and Economic Development
NPLs	Non-Performing Loans
NTR	Non-Tax Revenue
OPEC	Oil Producing and Exporting Countries
PAYE	Pay as You Earn
PMI	Purchasing Managers Index
R.Franc	Rwandan Franc
SBRF	Small Business Recovery Fund
TzShs	Tanzanian Shillings
UShs	Ugandan Shilling
US$	United States Dollars
VAT	Value Added Tax

Executive Summary

The calendar year 2021 was affected by the emergence of the new COVID-19 delta and omicron variants which necessitated the reinstating of pandemic containment restrictions across the globe and resulted into widespread supply bottlenecks. This weighed down on global economic activity and drove international commodity prices to levels higher than pre-pandemic levels. Nonetheless, global growth in 2021 remained resilient estimated at 5.9 percent from an earlier projection of 6.0 percent in April 2021.

On the domestic scene, despite the second lockdown and the outbreak of the omicron variant, economic recovery was evident during the first half of FY 2021/22. Indeed, GDP in the first quarter of the financial year posted growth of 3.8 percent from the same quarter of last financial year. Similarly, indicators of economic activity reflected growth in the economy and a renewed confidence in business conditions.

To support economic recovery, government undertook a number of fiscal interventions which included; launching of a Small Business Recovery Fund (SBRF) aimed at supporting small businesses that have suffered financial distress as a result of the COVID-19 pandemic; providing affordable financing through the "Emyooga" program and expediting the payment of domestic arrears to suppliers in the private sector. On the monetary front, Bank of Uganda also maintained the Central Bank Rate (CBR) at 6.5 percent throughout the period under review to support a pick-up in economic activity while ensuring that inflation remains within the inflation target of 5+/-3 in the medium term.

Headline inflation in the first half of FY2021/22 remained low averaging 2.3 percent, slightly above 2.2 percent in the previous half (second half of FY 2020/21). The increment was largely attributed to rising food crop and fuel prices. Food crop prices increased due to a rise in demand alongside reduced supply following less than average rainfall that translated into lower crop harvests. The rise in domestic fuel prices followed the increase in international oil prices caused by increased global demand after the lifting of lockdown measures, weather related supply disruptions in the United States and restrained production by Oil Producing and Exporting Countries (OPEC) and its partners.

Within the financial sector, government borrowed UShs 6,0994 billion from the domestic market of which UShs 3,759.58 billion was used for refinancing maturing debt while UShs 2.339.86 billion financed other activities in the government budget.

The stock of credit to the private sector grew favourably by 4.1percent from end June 2021 to end December 2021 compared to a 1.9 percent growth recorded from end December 2020 and end June 2021. This was largely supported by the pickup in economic activity. Meanwhile, the exchange rate remained relatively stable over the review period, with the Uganda shilling posting a marginal depreciation from an average mid-rate of Ushs 3,552 per US$ in July 2021 to Ushs 3,555 per US$ in December 2021.

Despite the CBR remaining low at 6.5 percent, commercial bank lending rates trended upwards driven by increased risk aversion as Non-Performing Loans increased and as some of the previously instituted credit relief measures by the Central Bank were lifted.

On the external side, Uganda's merchandise trade deficit narrowed to USD 1,447.7 million during the first half of FY2021/22 from USD 1,524.6 million in the corresponding period of the previous financial year as a reduction in import payments more than offset a decline in export receipts. While exports declined, coffee exports in particular continued to thrive during the first half of the financial year supported by the rise in the international coffee price and interventions in the sector which continued to bear positive results. As such, earnings from coffee exports almost doubled to USD 419.42 million recorded during the first half of FY2021/22, from USD 255.35 million in the corresponding period of the previous financial year.

Finally on the fiscal side, Government collected an estimated UShs 10.6 trillion in revenues and spent an estimated UShs 14.53 trillion, leaving a deficit of UShs 3.96 trillion that was financed through external and domestic borrowing. At the end of this financial year, the fiscal deficit is projected to stand at 7.5 percent of GDP with the debt to GDP level projected at rise to 51.6 percent by the end of FY2021/22, peak at 52.9 percent in FY2022/23 before gradually declining over the medium to long term.

On the whole, Uganda's economy in financial year FY2021/22 is expected to grow at 3.8 percent from 3.4 percent in FY 2020/21, largely supported by the full re-opening of the economy; strategic fiscal and monetary policy interventions to support economic activity; and continued global growth. Headline Inflation is expected to pick up slightly during the second half of the financial year in line with a further increase in demand while the exchange rate is expected to remain stable with slight depreciation pressures that could arise from increased dollar demand as economic activity picks up.

MACRO-ECONOMIC DEVELOPMENTS

Chapter I: Macro-Economic Developments

Economic Growth

Economy

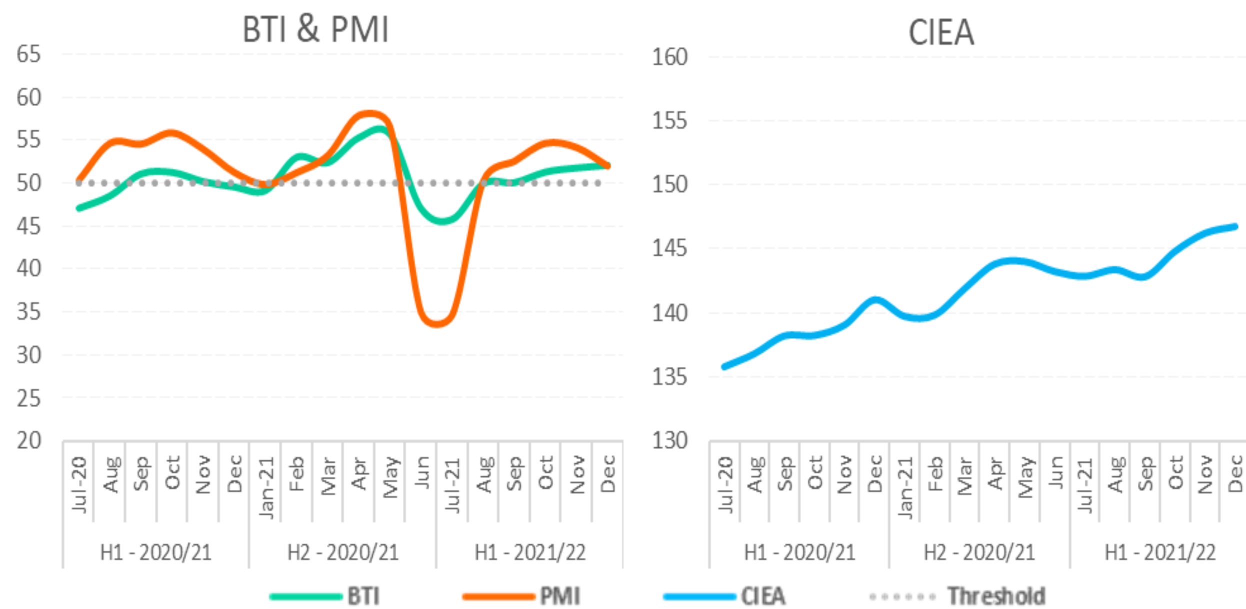
Growth in Quarter 1

3.8%

The first quarter of financial year 2021/22 registered economic growth of 3.8 percent reflecting an improvement in GDP from the same quarter of the previous financial year. This was mainly due to an increased growth momentum in both the industry and services sectors. The services sector grew by 7.9 percent compared to negative growth of 4.5 percent in quarter one of the previous financial year while the industry sector grew by 0.3 percent compared to negative growth of 2.7 percent in quarter one of the previous financial year. The agricultural sector continued to grow although at a slower pace of 3.6 percent compared to 6.8 percent in the same quarter of the previous financial year.

In addition, high frequency indicators of economic activity particularly the Composite Index of Economic Activity (CIEA), the Purchasing Managers Index (PMI) and the Business Tendency Index (BTI) all reflected continued recovery in business activity for the first half of FY 2021/22. While these indicators reflected a bit of economic struggle during the month of July as the economy had just emerged from the 2nd lockdown, they bounced back in the months that followed. The CIEA on average grew at 5 percent compared to the same period last year while the PMI and the BTI both recorded indices above the 50-mark threshold from August to December 2021 as the gradual easing of the June-July lockdown measures led to growth in output and new orders. Figure 1 shows trends in the high frequency indicators of economic activity.

Figure 1 : High Frequency Indicators of Economic Activity

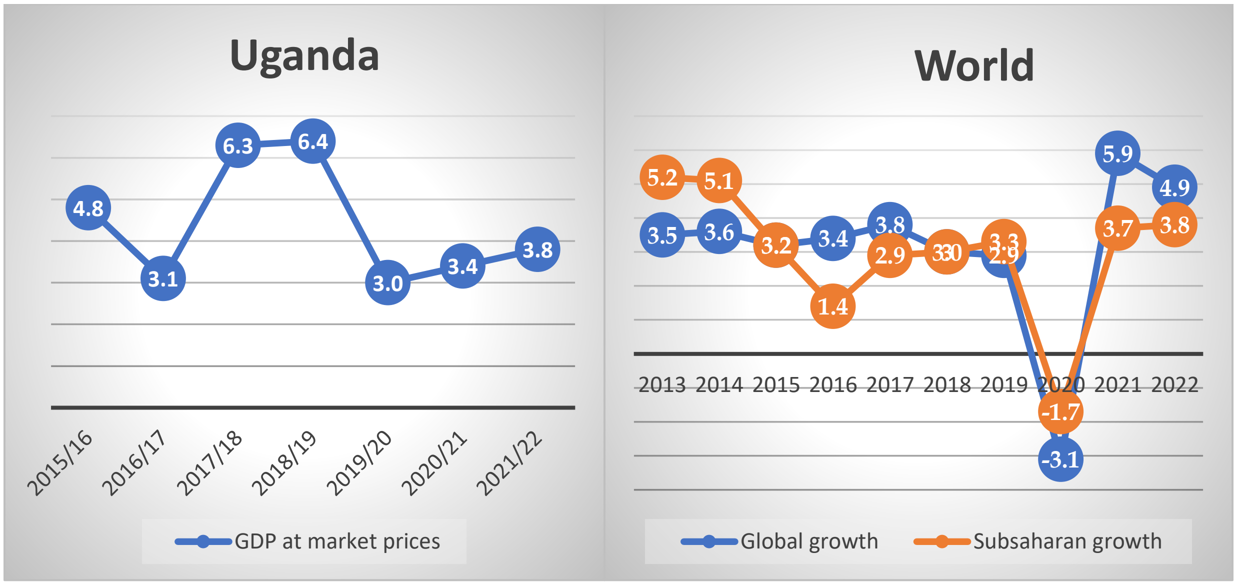


Source: Bank of Uganda, Stanbic Bank Uganda Limited.

Going forward, the economy is projected to grow at 3.8 percent this Financial Year from 3.4 percent registered in the Financial Year 2020/21, as shown by Figure 2. This is on account of expected recovery in production, aggregate demand and trade following the full reopening of the economy in January 2022. Growth will also be driven by Government policy interventions such as the support to small businesses through the SBRF as well as an accommodative monetary policy. In addition, the anticipated global recovery is expected to boost Uganda's international trade further supporting economic growth.

The global economy is projected to grow at 5.9 percent in 2021 and 4.4 percent in 2022 from -3.1 percent in 2020, as vaccination and policy support continue. Similarly, economic growth in Sub-Saharan Africa (Uganda's largest export destination) is projected to increase to 4.0 percent in 2021 and 3.7 percent in 2022 from -1.7 percent in 2020, which will further support recovery in Uganda's economic growth. New variants of the virus, associated lockdown measures and supply chain disruptions however pose concerns for this outlook.

Figure 2: Real GDP Growth Rates (%)



Source: Uganda Bureau of Statistics, MoFPED, IMF world economic outlook update-January 2021

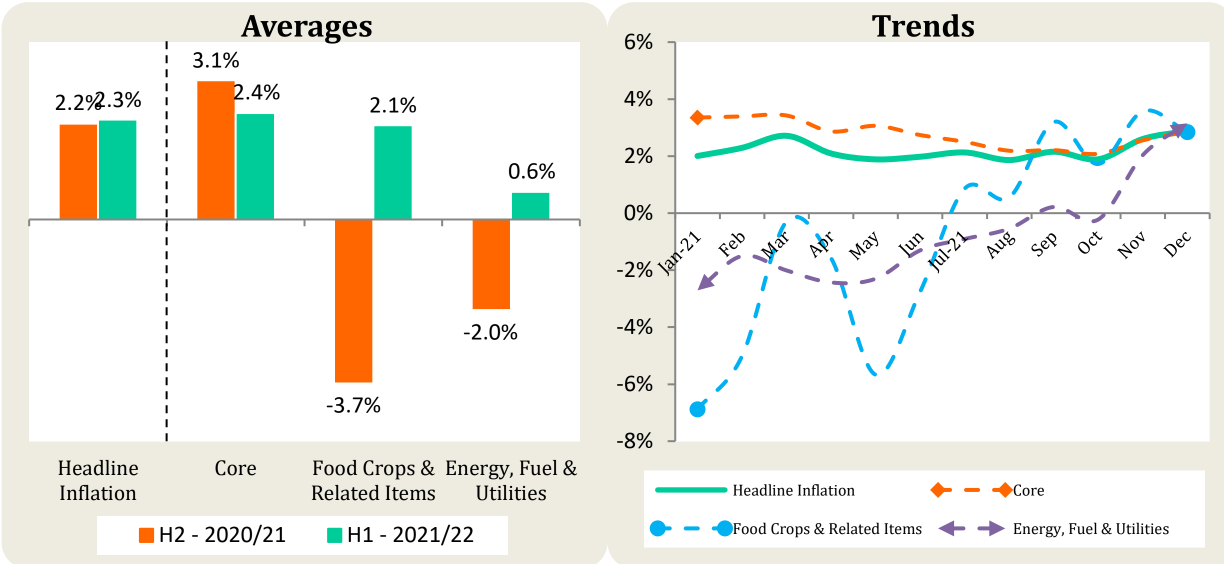
Inflation

Headline Inflation rose to 2.3%

Annual Headline Inflation remained low recording a six-month average of 2.3 percent in the first half of FY2021/22, up from a 2.2 percent average in the previous half. As shown in Figure 3, the increase in annual headline inflation was attributed to a rise in both food crops and EFU inflation rates. Food crop prices increased due to a rise in demand alongside reduced supply following less than average rainfall that translated into lower crop harvests. EFU inflation rose as domestic fuel prices increased in tandem with the rise in international oil prices. The rise in domestic fuel prices was also partly attributed to the increase in the tax levy on each litre of fuel by 100 Uganda Shillings.

However, a decline in core inflation, dampened the effect of the rise in both food crop and EFU inflation leading to the minimal increase in headline inflation.

Figure 3: Annual Inflation breakdown by Sub-components.



Source: Uganda Bureau of Statistics

Sub-components of Headline Inflation.

Core inflation declined to a six-month average of 2.4 percent in first half of the financial year from 3.1 percent in the previous half. The decline in core inflation was largely on account of a slower pace at which costs of transportation services increased as shown in table 1.

Transport costs have been high since 2020 when transport operators hiked transport charges following restrictions in vehicle capacity that were set in line with the Standard Operating Procedures to curb the spread of the COVID-19 pandemic.

Table 1:Annual changes in the average price index for transport costs.

	Weights	H2 2020/21	H1 2021/22
Bus Fare Long distance	6.95	67.1%	3.4%
City Bus transportation	0.18	122.1%	4.2%
Taxi Fares - Long distance	2.12	65.3%	3.1%
Taxi Fares - Medium distance	2.62	63.0%	1.5%
Taxi Fares - Short distance	7.75	80.1%	-2.7%
Taxi Fares - Special Hire	2.02	33.2%	15.1%

Besides the above developments in transport costs, fees charged on internet data declined significantly by 28 percent compared to the same period of the previous financial year, further contributing to the decline in core inflation.

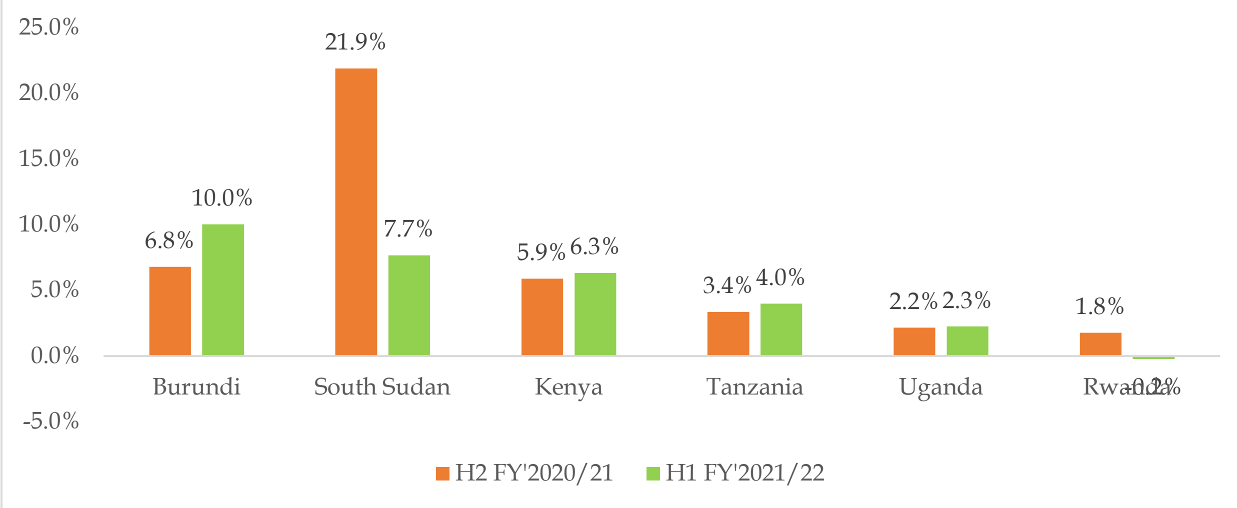
Annual Food crop inflation increased to a 2.1 percent average during the first half of the Financial Year from a -3.7 percent average in the previous half. Throughout the previous half, food crop prices were on a downward trend. The start of H1 FY 2021/22 however saw a reversal in this trend with food crop inflation turning positive and increasing, reflecting a gradual increase in prices of food crops. The rise in food crop prices was largely attributed to a pickup in demand amidst reduced supply following less than average rainfall that translated into lower crop harvests. Some of the food crops whose prices increased significantly include; Pawpaw, passion fruits, cabbage, tomatoes, green pepper, onions, garlic, yams, matooke and sweet potatoes.

Energy Fuel and Utilities (EFU) Inflation also increased to a six months average of 0.6 percent during the first half of the financial year 2021/22 from a -2 percent average during the previous half. The increase in EFU inflation was largely attributed to a rise in domestic fuel prices particularly petrol, diesel, paraffin and liquefied gas prices, whose increase was a feedthrough effect of the soaring international oil prices witnessed in the same period.

Inflation across the East African Community

With the exception of Burundi, all other EAC partner states registered an average annual headline inflation rate that was below the EAC convergence target of 8 percent. Nonetheless, Uganda, Kenya, Tanzania, and Burundi all reported increases in their respective average headline inflation rates when compared to the previous half of the year (H2 FY2020/21). The common drivers of the increases in inflation were a rise in food prices and an increase in domestic fuel prices associated with the upsurge in international oil prices.

Figure 4 Average annual inflation rates among EAC partner states.



Source: Respective National Bureaux of Statistics.

Global Commodity Prices.

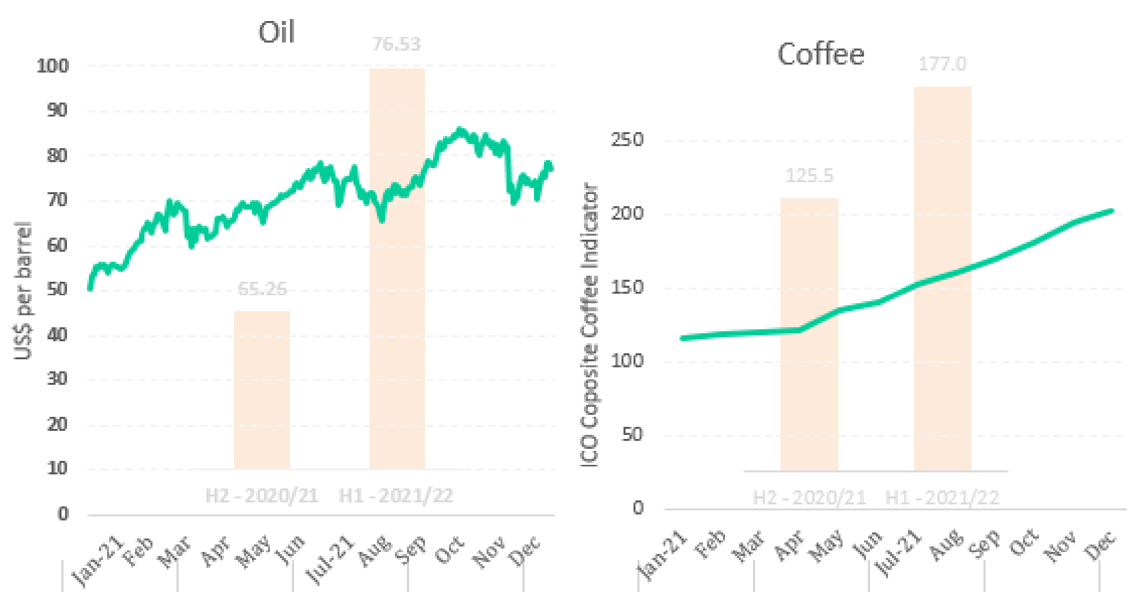
Oil Prices

During the first half of FY2021/22, the international price of Brent crude oil increased to an average of US$ 76.53/barrel from US$ 65.26/barrel that was recorded for the second half FY2020/21 as illustrated in Figure 5. The hike in international oil prices was on account of rising global demand for oil that outmatched supply. On the demand side, the global loosening of COVID-19 related restrictions combined with a pickup in global economic activity resulted into a rise in global demand for oil. On the supply side however, there was a slower increase in global oil production which followed a deliberate decision by Oil Producing and Exporting Countries (OPEC) to limit oil production increases throughout 2021. This was in a bid to support higher crude oil prices following the oil price slump that was experienced in 2020. As such, global oil production increased more slowly than demand, altogether driving up the international oil price.

Coffee prices

As shown in Figure 5, the coffee composite price indicator published by the International Coffee Organization (ICO) trended upwards to an average of 177.03 in the first half of FY 2021/22 from a 125.55 average in the second half of FY 2020/21, reflecting a general rise in the international coffee price. The rise in international coffee prices was attributed to a global shortfall in coffee supply that resulted from extremely unfavourable weather conditions in Brazil that destroyed coffee produce. The drop in coffee supply was further exacerbated by congestion in global shipping services and scarcity of container availability which made it more difficult to get coffee to its markets.

Figure 5: Movements in the International Oil Prices and Coffee Composite Price Indicator, H2 2020/21 vs H1 2021/22



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

Monetary Financial Sector Developments.

Apart from fostering price stability and a sound financial system, Government's monetary policy throughout the first half of FY2021/22, was premised on enhancing economic recovery. In this regard, the monetary and financial measures that government undertook during the period included the following;

i. Continued with an expansionary monetary policy stance by maintaining the Central Bank Rate (CBR) at 6.5 percent throughout the period following a downward revision from 7 percent in May 2021

ii. Maintained the BOU Credit Relief Measures till end September 2021 after which they were ring-fenced only for those sectors like education and hospitality, which remained under lockdown for an extended period of time.

iii. Maintained the Covid-19 Liquidity Assistance program (CLAP) to manage potential liquidity risks arising from the pandemic until the economic situation normalises.

With no doubt, these strategic interventions have facilitated the increased economic activity experienced during the first half of FY 2021/22, as well as stability in prices (both inflation and exchange rates). However, despite the lending rates remaining sticky upwards contrary to the CBR trend, credit to the private sector increased during the period in response to the changes in the CBR.

average
Commercial
bank
lending
rate of
18.62

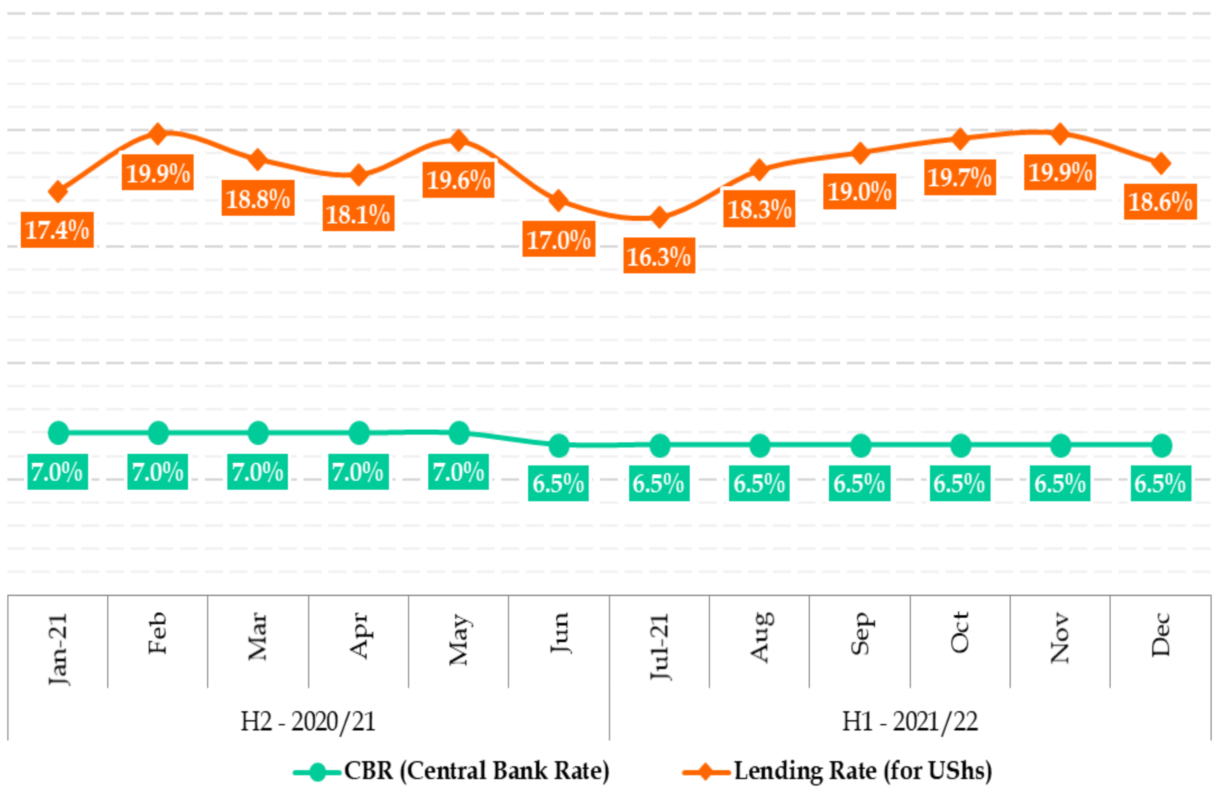
Lending Rates (weighted average)

Commercial bank lending rates increased to an average of 18.62 percent in the first half of FY2021/22, from 18.44 percent in the previous 6-month period.

This increase was partly explained by increased risk aversion as Non-Performing Loans (NPLs) went up from 4.8 percent in June 2021 to 5.4 percent in September 2021. Borrowers were affected by the slowdown in economic activity during the second lockdown (June-July 2021) and thus unable to service their loans which resulted into the increase in NPLs. This was exacerbated by the lifting of the credit relief measures for most sectors, that the Central Bank had earlier put in place to help stressed borrowers cope with the effects of the COVID-19 pandemic.

However, it is worth noting that lending rates are usually sticky upwards when the CBR is reduced due to structural issues within commercial banks including; high costs of doing business and institutional deficiencies.

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

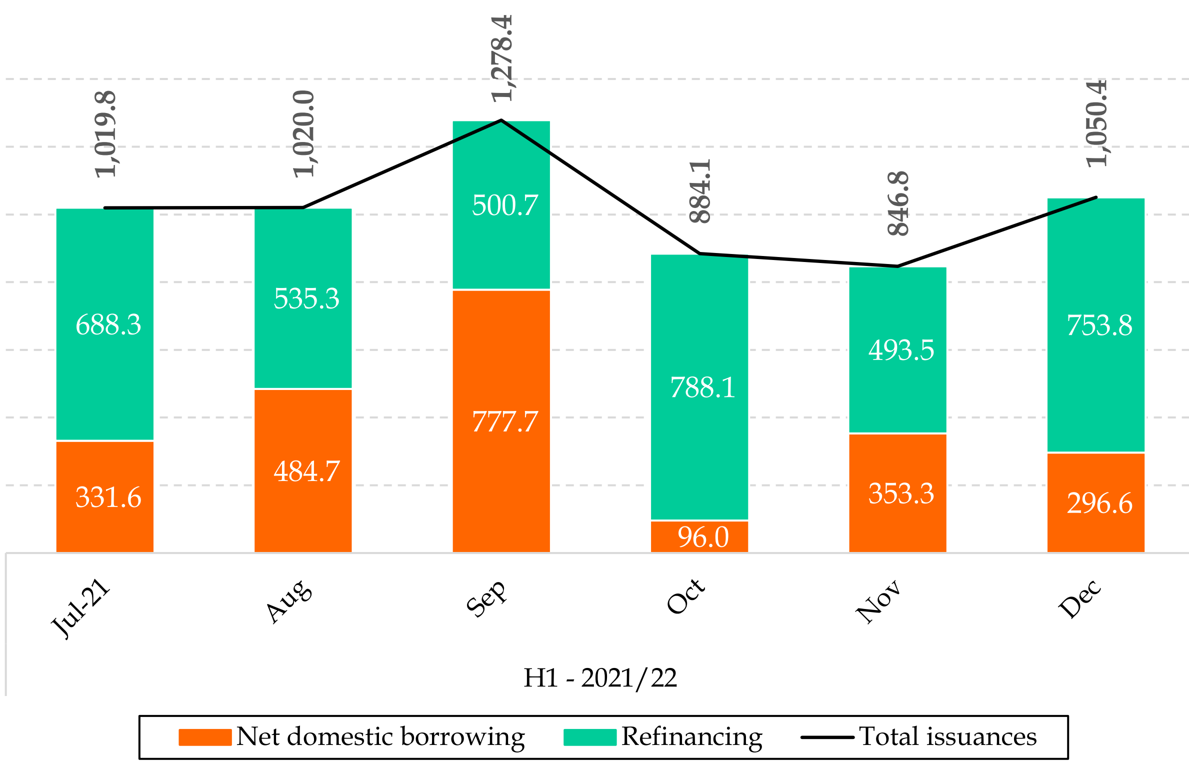


Source: Bank of Uganda

Government Securities

During the first half of FY 2021/22, Government held auctions for both Treasury Bills and Treasury Bonds. These auctions resulted in a total issuance of Shs 6,099.44 billion (at cost). Of the amount raised, Shs 3,759.58 billion was used for the refinancing of maturing debt whilst Shs 2,339.86 billion went towards financing other activities in the Government budget; as shown in figure 7. So far, Government has borrowed 79.5 percent of the total domestic borrowing requirement approved in the budget as there was need to frontload borrowing so as to deal with the covid-19 interventions in the first half of FY2021/22.

Figure 7: Breakdown of Government Securities in Billion UShs



Source: Ministry of Finance, Planning and Economic Development

Yields (interest rates) on Treasury Bills

Yields for all Treasury bill (T-bill) instruments decreased during the first half of FY 2021/22 compared to the second half of the previous financial year. This was attributed to low inflation and increased demand for government securities particularly from both domestic and off-shore players on account of relatively favourable interest rates. In addition, the yields reduced due to a decrease in Government domestic borrowing levels. The average annualised yields for the 91-day, 182-day and 364-day T-bills declined to 6.97 percent, 8.78 percent and 10.14 percent during the first half of FY2021/22, from 7.49 percent, 10.31 percent and 11.79 percent in the second half of FY 2020/21, respectively. Table 2 shows the average annualised yields on Treasury Bills since H1 of FY 2019/20.

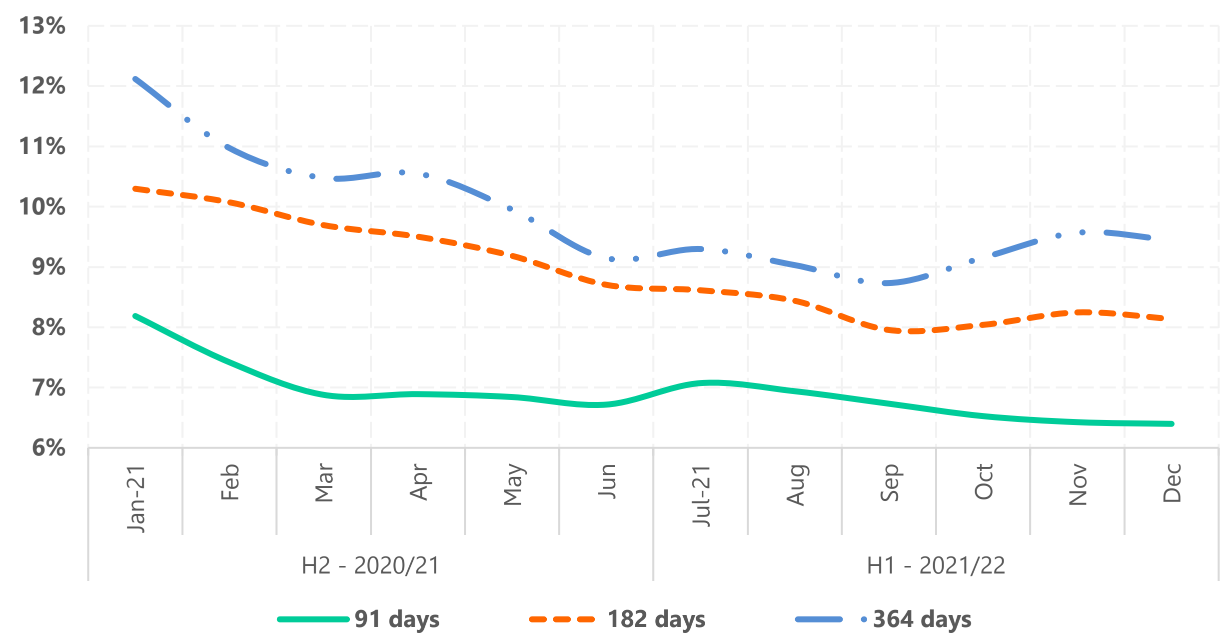
Table 2: Average Annualised Yields on Treasury Bills (%)

	H1 2019/20	H2 2019/20	H1 2020/21	H2 2020/21	H1 2021/22
91 Days	8.98	9.35	8.13	7.49	6.97
182 Days	10.80	11.11	10.00	10.31	8.78
364 Days	11.64	12.84	12.51	11.79	10.14

Source: Bank of Uganda

Figure 8 shows the trend of Yields on Treasury- Bills for H2 2020/21 and H1 2021/22

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



Source: Bank of Uganda

Lending to the Private Sector

Private Sector Credit

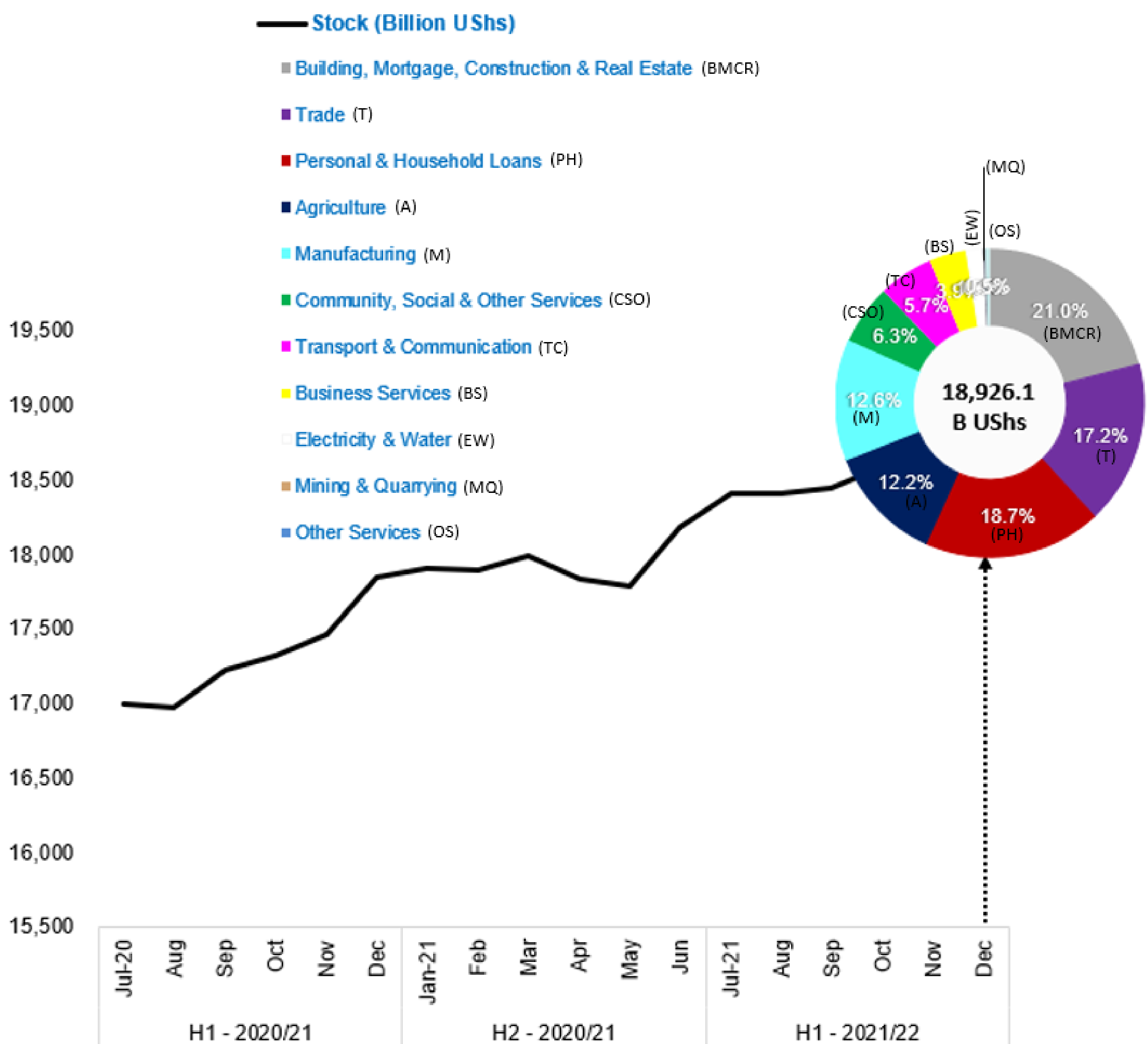
grew by

4.1%

The stock of outstanding private sector credit amounted to UShs.18.93 trillion as at end December 2021 recording a growth of 4.1 percent from the UShs. 18.19 trillion outstanding as at end June 2021. This compares favourably against a growth rate of 1.9 percent recorded between end December 2020 and end June 2021.

The value of credit approved in the six months to December 2021 amounted to UShs. 5,485.1 billion, slightly up from Ushs. 4,417 billion approved in the preceding six-month period. The recovery in private sector lending is partly driven by the improvement in economic activity following the continued easing of lockdown measures during the period under review.

Figure 9: Stock of Private Sector Credit



source: Bank of Uganda

Exchange Rate

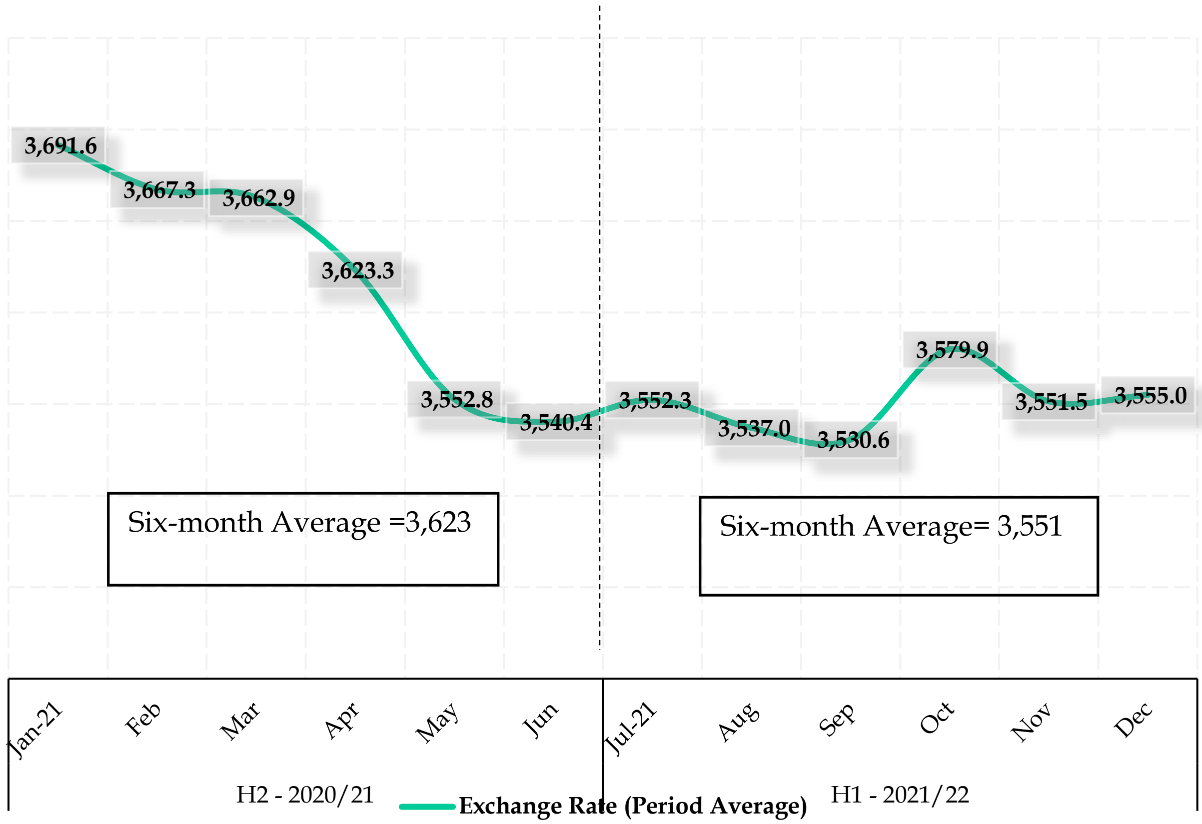
Shilling appreciated

by **1.98%** **per US$** to **3,551**

The Ugandan Shilling appreciated against the US$ by 1.98 percent to a period average of UShs 3,551 per US$ in the first half of FY2021/22 from UShs 3,623 per US$ in H2 FY2020/21, as illustrated by Figure 10. The strengthening of the shilling during this period was supported by steady dollar inflows from offshore investors in government securities coupled with increased coffee receipts and foreign direct investments (FDI).

Compared to H2 FY 2020/21, the Ugandan shilling appreciated against the US$ by 1.98 percent to a period average exchange rate of UShs 3,551 per US$ in H1 FY 2021/22 from UShs 3,623 per US$.

Figure 10 : Exchange Rate Movement (UShs against US$)



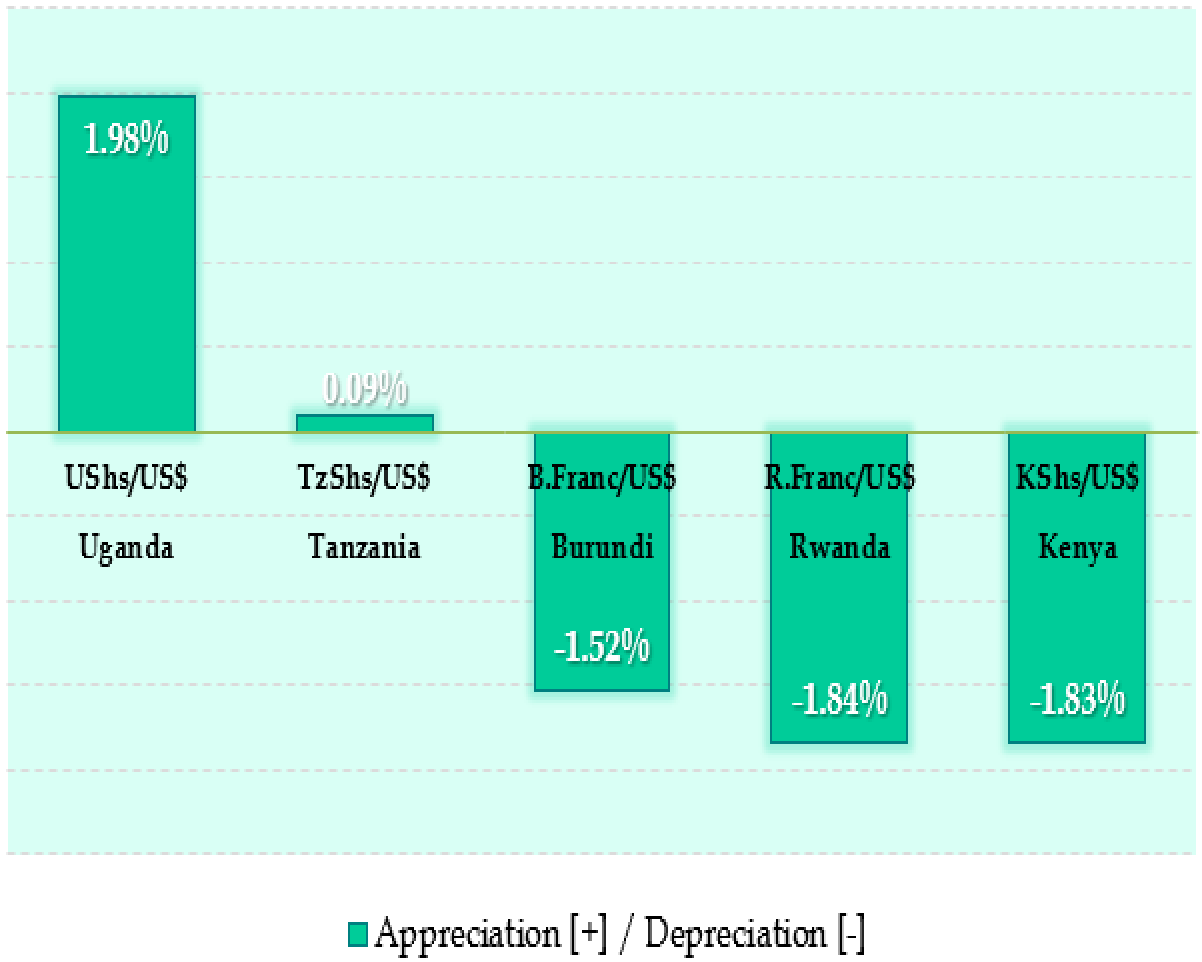
Source: Bank of Uganda

Exchange Rates within the EAC

Within the EAC, both the Ugandan and Tanzanian Shillings appreciated against the US dollar in the first half of FY2021/22 when compared to the second half of FY2020/21. The Tanzanian Shilling remained relatively stable against the US dollar, appreciating slightly by 0.09 percent between the second half of FY2020/21 and the first half of FY 2021/22. All other currencies of the EAC Partner States registered a depreciation against the US dollar in the period under review as shown by Figure 11. The Kenyan Shilling, Rwandan and Burundian Francs, weakened against the US dollar by 1.83%, 1.84% and 1.52%

respectively. The weakening of these currencies against the dollar is partly explained by the global strengthening of the dollar.

Figure 11: Percentage change in Exchange Rates (Period Average) for EAC partner states between H2 2020/21 Vs H1 2021/22



Source: Respective Central Banks

Note: Exchange Rate data for South Sudan was not available

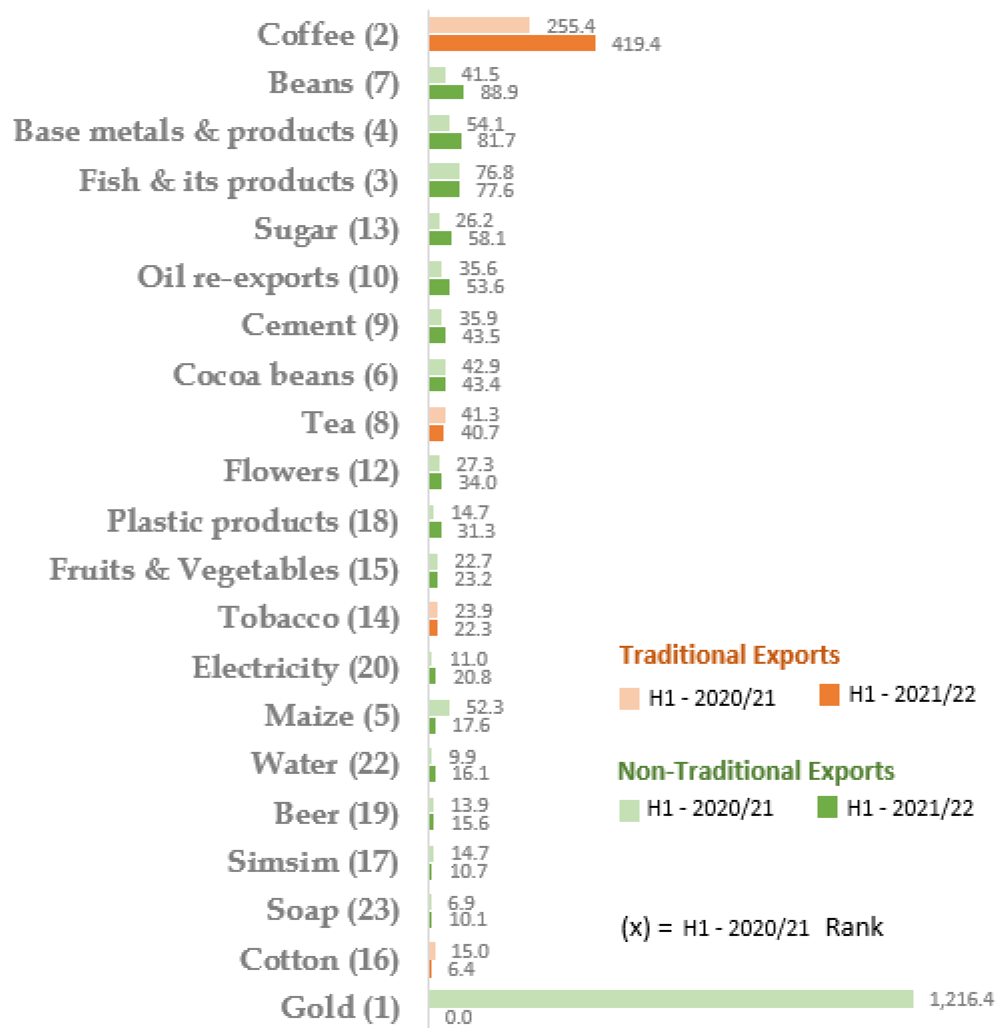
External Sector

Uganda's trade with the Rest of the World resulted in a merchandise trade deficit during the first half of FY2021/22. A merchandise trade deficit of USD 1,447.7 million was recorded during H1 FY2021/22 compared to a deficit of USD 1,524.6 million registered for the same period a year earlier. The narrowing of the merchandise trade deficit was attributed to a higher reduction in the import payments (down by USD 836.35 million) that more than offset the fall in export receipts (down by USD 759.47 million).

Merchandise Exports

Export receipts during the first half of FY2021/22 declined, largely due to no exportation of gold. At the start of FY2021/22, Government imposed a levy of 5 percent on every kilogram of refined gold and 10 percent on unprocessed gold exports. Due to this levy, no gold was exported during the first half of FY2021/22 as Government and players in the gold industry were having negotiations to review this tax measure. Subsequently, total merchandise export receipts declined by 29.4 percent (USD 759.47 million) to USD 1,823.6 million during the first half of FY2021/22, from USD 2,583.1 million in the corresponding period of FY2020/21. Other export items that recorded major declines include maize and cotton. Maize exports were affected by poor standards and Non-tariff barriers which were imposed by Kenya and Rwanda during the period.

Figure 12: Top 22 Commodity Exports of Uganda in H1 2021/22 VS H1 2020/21 (US$ Million)



Source: MOFPED calculations based on data from BOU

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

Traditional Exports are listed according to the Uganda Trade Policy

Earnings from coffee increased to USD 419.42 million during the first half of FY2021/22, from USD 255.35 million in the corresponding period of FY2020/21. This increase was attributed to a rise in the global coffee prices and higher export volumes. The coffee prices increased to an average of USD 2.01 per Kg in the first half of FY 2021/22 from an average of USD 1.49 per Kg recorded the same period the previous financial year. The rise in global coffee prices was attributed to severe frost and drought conditions in Brazil which destroyed coffee fields. Similarly, coffee export volumes increased to 3.53 million 60 Kg bags from 2.85 million 60 Kg bags over the same period partly on account of sustained

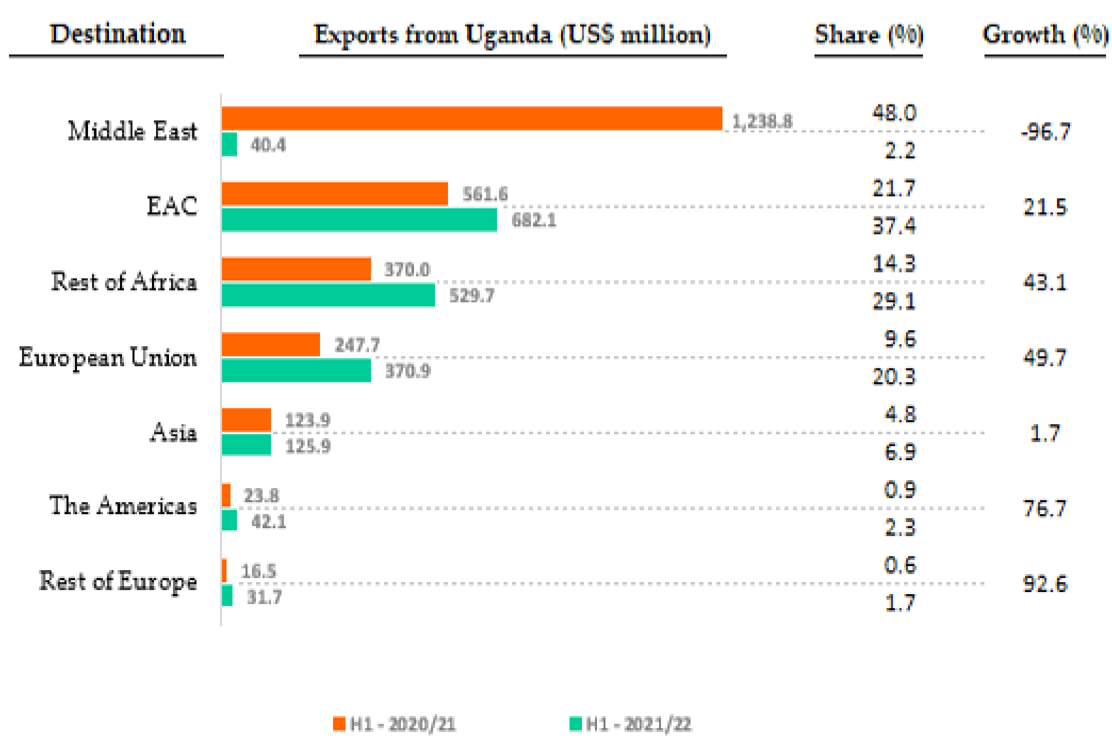
Government interventions in the coffee sub sector which resulted in planting of new coffee trees that have started to yield results. These interventions include provision of quality seedlings, and extension services among others. Coffee was the major export contributing 23.0 percent of total export earnings, up from 9.9 percent recorded during the period H1 FY2020/21.

Destination of Exports

Uganda's merchandise exports to the East African Community accounted for 37.4 percent of the total exports during the first half of the financial year. This was followed by the Rest of Africa accounting for 29.1 percent, and the European Union 20.3 percent of total exports.

The East African Community surpassed the Middle East which was the main export destination in H1 FY2020/21, on account of non-exportation of mineral products during the period.

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



Source: MOFPED calculations based on data from BOU

Merchandise Imports

Merchandise worth USD 3,271.4 million was imported during the first half of FY2021/22. The value of imports declined by 20.4 percent compared to the same period last year, largely due to lower imports of mineral products that dropped to USD 110.81 million in H1 FY2021/22 from USD 1,122.22 million recorded in the same period last year. The decline in imports of mineral products was on account of the imposition of a new tax on exports of gold which took effect this financial year. Over the same period, imports excluding mineral products increased by 11 percent from USD 2,679.12 million to USD 2,973.59 million largely due to higher oil imports following an increase in international oil prices.

Other import categories that recorded significant increases include base metals & their products; vegetable products, animal, beverages, fats & oil; plastics, rubber, & related products.

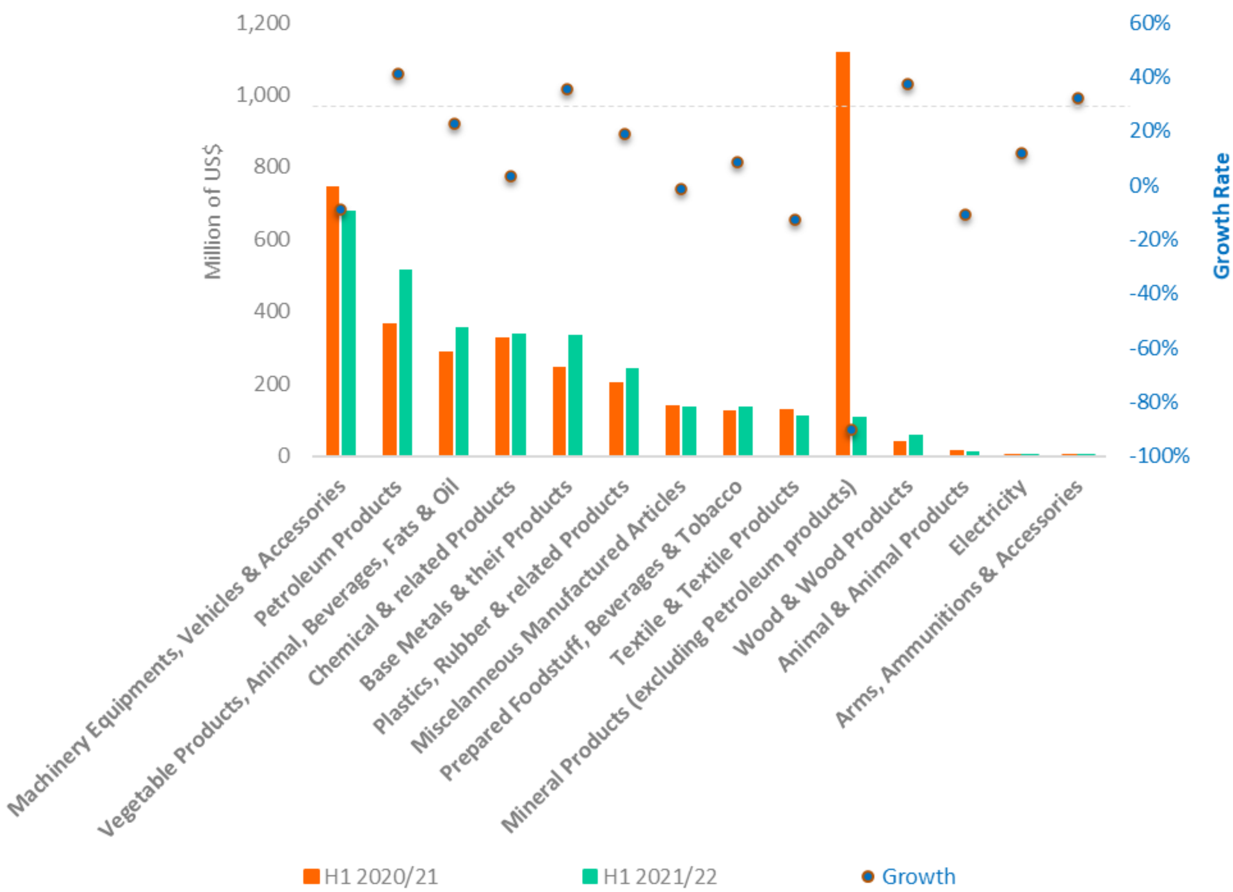
Table 3: Performance of Imports in US$ million

	H1 2020/21	H1 2021/22	Difference (value)	Growth Rate
Total Imports (fob)	**4,107.7**	**3,271.4**	**-836.3**	**-20.4%**
Government Imports	287.2	156.4	-130.8	-45.5%
Project	287.2	139.6	-147.6	-51.4%
Non-Project	0.0	16.8	16.8	0.0%
Formal Private Sector Imports	3,801.3	3,084.4	-716.9	-18.9%
Oil imports	369.6	520.6	151.0	40.9%
Non-oil imports	3,431.8	2,563.8	-868.0	-25.3%
Estimated Private Sector Imports	19.1	30.5	11.4	59.6%
Total Private Sector Imports	3,820.5	3,114.9	-705.5	-18.5%

Source: Bank of Uganda

Formal private sector imports constituted 94.3 percent of the total merchandise imports in the first half of FY2021/22. The major formal private sector imports were: Machinery equipment, Vehicles & Accessories (US$ 681.8 million); and Petroleum Products (US$ 520.6 million), as shown in Figure 14.

Figure 14 : Composition of Formal Private Sector Imports by Category



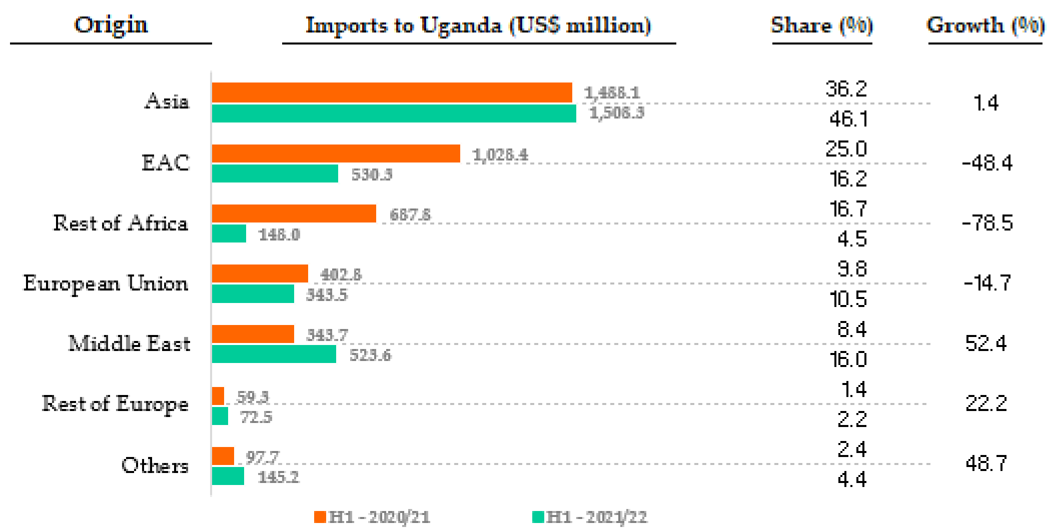
Source: Bank of Uganda

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

Origin of Imports

Asia remained the leading source of merchandise imports accounting for 46.1 percent followed by the EAC (16.2 percent) and Middle East (16.0 percent). China, India and Japan accounted for 79.9 percent of the imports from Asia.

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



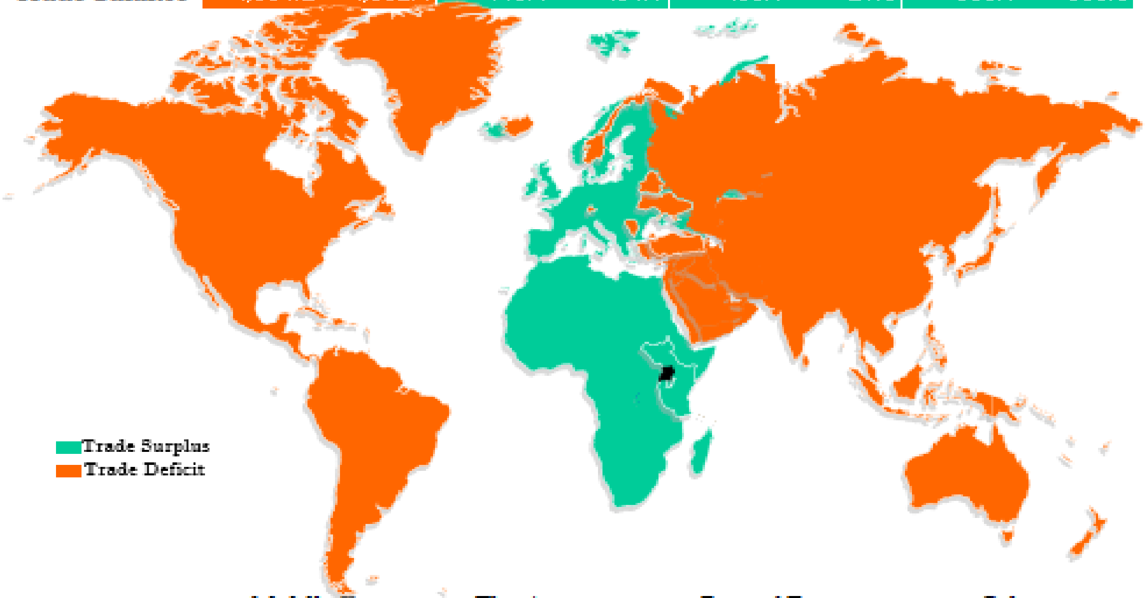
Source: MOFPED calculations based on data from BOU

Main Trade Partners

During the first half of FY 2021/22, Asia was the main trading partner of Uganda with total trade of US$ 1,634.2 million from US$ 1,611.9 million registered in H1 FY 2020/21. This was followed by the East African Community, Middle East, the Rest of Africa and the European Union as shown by figure 16. Uganda had a trade surplus with the EAC, the rest of Africa and the European Union while trade deficits were registered with the other regional blocs.

Figure 16: Uganda's Trade Balance across Regional Blocs in H1 FY2021/22 VS H1 FY2020/21 (US$ Million)

	Asia		EAC		European Union		Rest of Africa	
	H1-20/21	H1-21/22	H1-20/21	H1-21/22	H1-20/21	H1-21/22	H1-20/21	H1-21/22
Total Trade	1,611.9	1,634.2	1,611.4	1,255.3	650.5	714.4	1,036.5	634.9
Trade Balance	-1,364.2	-1,382.4	-445.4	194.7	-155.1	27.5	-339.1	338.8



	Middle East		The Americas		Rest of Europe		Others	
	H1-20/21	H1-21/22	H1-20/21	H1-21/22	H1-20/21	H1-21/22	H1-20/21	H1-21/22
Total Trade	1,582.5	564.0	111.6	169.6	75.8	104.2	10.6	18.5
Trade Balance	895.1	-483.2	-64.0	-85.5	-42.8	-40.8	-9.1	-16.8

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

Trade with the EAC

Uganda traded at a surplus of USD 194.66 million with the EAC during the first half of FY 2021/22, a turnaround from a deficit of USD 445.41 million during the same period of FY 2020/21. During the first half of FY 2021/22, Uganda exported merchandise worth USD 724.98 million to the region, an increase of 24.4 percent from USD 582.97 million registered a year earlier. Over the same period, Uganda imported merchandise worth USD 530.31 million from the region, a decrease of 48.4 percent from USD 1,028.38 million in H1 FY 2020/21.

Within the EAC bloc, Kenya took the largest share of Uganda's exports and was also the main source of Uganda's imports. South Sudan was the second largest market for Uganda's exports in the region while Tanzania was the second largest source of imports.

Other Balance of Payments (BOP) transactions[1]

Tourism; Tourism inflows from the rest of the world increased to USD 249.25 million in Q1 FY 2021/22 from USD 84.34 million in the corresponding period of FY 2020/21. This improvement was largely due to base effects following the relaxation of some travel restrictions on international travel.

Remittances; Remittances (personal transfers from the rest of the world) decreased on an annual basis. Remittances amounted to USD 254.30 million in Q1 2021/22, a decrease of 12.7 percent from USD 291.17 million registered in Q1 of the previous financial year. This decline could be partly on account of low employment levels in migrant-hosting countries, following the emergency of the delta variant.

Foreign Direct Investment; Foreign Direct Investments into Uganda increased by 39.4 percent from USD 230.05 million in Q1 2020/21 to USD 320.59 million in Q1 2021/22.

International reserves; The stock of international reserves held by the Central Bank stood at USD 4328.68 million as at the end of December 2021. This was equivalent to 4.5 months of imports of goods and services.

[1] Analysis on tourism, remittances and FDI is based on Q1 of FY2021/22 numbers as Q2 numbers were not available at the time of drafting this report.

FISCAL PERFORMANCE

Chapter II: Fiscal Performance

Overview.

The budget for the financial year 2021/22 is premised on the theme “Industrialisation for Inclusive Growth, Employment and Wealth Creation” as the Government continues to safeguard livelihood, jobs, businesses and industrial recovery amid the COVID-19 pandemic (which has had adverse effects on both the economy and the population’s wellbeing).

As such, Government planned expenditure for the first half of FY2021/22 was UShs 17,201.87 billion. However, due to slow execution of public investment projects, overall expenditure was lower than planned by 15.5 percent or UShs 2,662.56 billion. Similarly, revenues and grants received were short of the planned target of Ushs. 11,984.93 billion by Ushs.1,401.82 billion. This resulted into a deficit of Ushs. 3,956.21 billion against the programmed target of Ushs. 5,216.94 billion. Table 4 below shows a summary of fiscal operations in H1 FY2021/22.

Table 4: Fiscal Operations H1 FY 2021/22 (UShs Billion)

Billion Shs	Program	H1 FY2021/22 Outturn	H1 FY2021/22 Performance	Deviation
Revenues and Grants	**11,984.93**	**10,583.10**	**88.3%**	**(1,401.82)**
Revenues	**11,093.19**	**10,213.03**	**92.1%**	**(880.17)**
Tax Revenue	10,356.18	9,660.74	93.3%	(695.45)
Non-Tax Revenue	737.01	552.29	74.9%	(184.72)
Grants	**891.73**	**370.08**	**41.5%**	**(521.66)**
Budget Support	-	90.92	-	90.92
Project Support	891.73	279.16	31.3%	(612.57)
Expenditure and Lending	**17,201.87**	**14,539.31**	**84.5%**	**(2,662.56)**
Current Expenditures	**8,594.97**	**9,272.81**	**107.9%**	**677.84**
Wages and Salaries	2,764.28	2,862.54	103.6%	98.26
Interest Payments	2,118.98	2,118.98	100.0%	-
Domestic	1,677.53	1,677.53	100.0%	-
External	441.46	441.46	100.0%	-
Other Recurr. Expenditures	3,711.71	4,291.29	115.6%	579.58
Development Expenditures	**8,277.26**	**4,747.91**	**57.4%**	**(3,529.34)**
Domestic Development	4,423.91	3,399.24	76.8%	(1,024.67)
External Development	3,853.34	1,348.67	35.0%	(2,504.68)
Net Lending/Repayments	60.63	85.68	141.3%	25.06
Domestic Arrears Repaym.	269.01	432.90	160.9%	163.89
Overall Fiscal Bal. (incl. Grants)	**(5,216.94)**	**(3,956.21)**		
Financing:	**5,216.94**	**3,956.21**	**75.8%**	**(1,260.73)**
External Financing (Net)	**2,477.28**	**2,408.37**	**97.2%**	**(68.91)**
Disbursements	3,262.66	3,193.75	97.9%	(68.91)
Budget Support Loans	240.42	1,534.26	638.2%	1,293.84
Armotization	(785.38)	(785.38)	100.0%	-
Domestic Financing (Net)	**2,739.66**	**712.65**	**26.0%**	**(2,027.01)**
Bank Financing (Net)	1,594.12	(755.40)	-47.4%	(2,349.53)
Non-bank Financing (Net)	1,145.54	1,468.05	128.2%	322.51
Errors and Omissions	**-**	**835.19**		

Source: Ministry of Finance, Planning and Economic Development

Revenues and Grants

Revenues

Revenue collections for the first half of the FY 2021/22 amounted to Shs 10,213.03 billion. This was against a planned target of Shs 11,093.19 billion, resulting into a shortfall of Shs 880.17 billion (92.1 percent performance against the target). Of the total collections, Shs 9,660.74 billion was tax revenue while Shs 552.29 billion was non-tax revenue. Both tax and non-tax revenue collections registered shortfalls of Shs 695.45 and Shs 184.72 billion respectively.

Tax Revenue

All major tax heads registered shortfalls against their respective targets for H1 FY2021/22 as collections were affected by low economic activity on account of lockdown measures instituted to curb the spread of the corona virus. In addition, tax revenue collections were affected by ineffective implementation of some planned tax measures for FY 2021/22 such as the one for enhancing rental income tax collections.

However, despite the shortfalls, tax revenues during the first half of FY2021/22 grew by 6.7 percent when compared to the first half of FY 2020/21, majorly on account of increased collections for VAT on imports and phone talk time over the period.

Direct Domestic Taxes

Direct domestic tax collections during the first half of FY2021/22 amounted to UShs 3,376.74 billion, thus registering a shortfall of UShs 273.61 billion against a planned target of UShs 3,650.35 billion. This was on account of shortfalls registered for corporate tax; presumptive; withholding; and rental income tax categories, majorly due to covid-19 restrictions that led to supply chain disruptions, low aggregate demand in the economy and thus reduced profitability.

Specifically, rental income tax collections were affected by ineffective implementation of the rental income tax compliance system. Government contracted a private company (Ripple Nami) to undertake area mapping and data matching of rental properties in the Greater Kampala Metropolitan Area to their true owners within the URA tax register.

This was intended to eliminate rental income tax evasion and avoidance, however it has been challenged by data availability and reliability.

On the flip side, there were more than planned collections for PAYE during the period under review, on account of increased employment in both the private and public sectors.

Indirect Domestic Taxes

Indirect taxes were projected at UShs 2,783.58 billion in H1 FY 2021/22. However, only UShs 2,296.38 billion was collected, resulting into a shortfall of UShs 487.20 billion. This was on account of lower than planned collections for both excise duty and VAT during this period.

VAT collections amounted to UShs 1,518.71 billion against the planned target of UShs 1,874.11 billion for this period, resulting into a shortfall of UShs 355.40 billion (or a performance of 81.0 percent against the target for the period). This was mainly due to low performance in the manufacturing and construction sectors which registered shortfalls of UShs 217.92 billion and UShs 51.85 billion respectively. In addition, collections under this category continue to be affected by roll-out challenges of the Electronic Fiscal Receipting and Invoicing System (EFRIS).

Excise duty collections in H1 FY 2021/22 amounted to UShs 777.67 billion against a planned target of UShs 909.46 billion, on account of lower than planned collections for beer, spirits & waragi, soft drinks and internet data. This was due to the covid-19 related restrictions imposed on entertainment, gatherings and parties which affected the consumption of major excise dutiable goods such as beer, spirits, soft drinks among others.

Taxes on International Trade and Transactions

Government projected to collect UShs 4,102.51 billion from international trade and transactions during the first half of FY 2021/22. However, only UShs 4,076.18 billion was collected resulting into a shortfall of UShs 26.33 billion. This performance was mainly on account of shortfalls registered under import duty as taxes charged on dutiable goods such as motor vehicles and insulated wires were lower than projected. This offset the surpluses registered under petroleum duty and VAT on imports over the same period.

Non-Tax Revenue (NTR)

Non-tax revenue collections in the first six months of the financial year 2021/22 amounted to UShs 552.29 billion against a target of UShs 737.01 billion, thus registering a shortfall worth UShs 184.72 billion or a performance of 74.9 percent. This shortfall was due to the fact that most Ministries, Departments and Agencies (MDA's) that collect this revenue were not fully operational following the covid-19 related restrictions in the country. The most affected institutions were those in the education sector, tourism sector and citizenship and immigration control among others.

Table 5: Details of Domestic Revenue in UShs Billion

Billion Shs	H1 FY2021/22 Program	H1 FY2021/22 Outturn	Performance	Deviation
Overall Net Revenue	**11,093.19**	**10,213.03**	**92.1%**	**(880.17)**
Net URA Tax Revenue	**10,356.18**	**9,660.74**	**93.3%**	**(695.45)**
Direct Domestic Taxes	**3,650.35**	**3,376.74**	**92.5%**	**(273.61)**
O/w PAYE	1,484.41	1,640.87	110.5%	156.45
Corporate Tax	971.14	738.38	76.0%	(232.75)
Presumptive Tax	14.87	2.03	13.7%	(12.84)
Withholding Tax	612.35	559.09	91.3%	(53.26)
Rental Income Tax	167.01	71.32	42.7%	(95.69)
Indirect Domestic Taxes	**2,783.58**	**2,296.38**	**82.5%**	**(487.20)**
Excise Duty	**909.46**	**777.67**	**85.5%**	**(131.79)**
O/w Beer	174.80	150.21	85.9%	(24.60)
Spirits/Waragi	94.31	58.77	62.3%	(35.54)
Soft Drinks	86.39	77.53	89.7%	(8.87)
Internet Data	66.91	36.53	54.6%	(30.39)
Mobile Money Withdraw	64.41	76.37	118.6%	11.96
Bank Charges	63.42	55.21	87.1%	(8.21)
Value Added Tax	**1,874.11**	**1,518.71**	**81.0%**	**(355.40)**
O/w Manufacturing	1,075.78	857.86	79.7%	(217.92)
Services	308.72	329.97	106.9%	21.25
Construction	105.78	53.93	51.0%	(51.85)
Taxes on International Trade	**4,102.51**	**4,076.18**	**99.4%**	**(26.33)**
O/w Petroluem Duty	1,291.24	1,299.97	100.7%	8.73
Import Duty	860.25	758.88	88.2%	(101.37)
Excise Duty	131.44	131.82	100.3%	0.38
VAT on Imports	1,416.76	1,571.81	110.9%	155.05
Withholding Tax	104.45	83.81	80.2%	(20.64)
Tax Refunds	**(219.55)**	**(140.49)**	**64.0%**	**79.06**
Stamp & Embosing Fees	**39.30**	**51.93**	**132.1%**	**12.63**
Total NTR	**737.01**	**552.29**	**74.9%**	**(184.72)**

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

Grants

Government received grants totalling to UShs 370.08 billion from the development partners during the first half of the financial year 2021/22. This was a 41.5 percent performance against the planned target of UShs 891.73 billion. Of this amount, UShs 90.92 billion went towards supporting general budgetary activities (budget support grants) while UShs 279.16 billion went towards specific development projects (project support grants). While no budget support was projected during H1 FY 2021/22, UShs 90.92 billion was received from the European Union earlier than expected. The performance of project support grants in particular remained low (31.3 percent) mainly affected by the covid-19 restrictions and its adverse effects.

Expenditure

Total Government spending in the first half of FY 2021/22 amounted to UShs 14,539.31 billion against the program of UShs 17,201.87 billion hence an 84.5 percent performance for the period. This was on account of lower than planned spending on externally financed development projects which performed at 35.0 percent.

Government's recurrent expenditure in the first half of FY2021/22 amounted to UShs. 9,272.81 billion over and above the planned amount for the period on account of issuance of supplementary expenditures towards the health sector, law enforcement, and the agricultural sector. Particularly, the higher than planned expenditure for both wage and non-wage recurrent categories was mainly attributed to additional recruitments and covid-19 related expenditure in the health & security sectors including; mass vaccinations, and enforcement of the standard operating procedures.

Government planned to spend UShs 269.01 billion towards clearance of arrears. However, by the end of December 2021, UShs 432.90 billion had been spent. This was in line with Government's decision to increase arrears payments in a bid to support the private sector's recovery from the negative effects of the COVID-19 pandemic.

On the other hand, development expenditure in the first half of FY2021/22 amounted to UShs 4,747.91 billion against the program of UShs 8,277.26 billion, translating into a performance of 57.4 percent. This was mainly on account of underperformance of externally financed development spending (by 35.0 percent of its target), owing to execution challenges among MDA's that affected disbursements from the development partners. Similarly, domestically financed development spending performed below the program for the period at 76.8 percent following Government's decision to reduce domestic development expenditure by 40 percent of its value in the FY2021/22 approved budget so as to support interventions to deal with the COVID-19 pandemic.

Financing

The resultant fiscal deficit in the first half of FY 2021/22 (i.e., UShs 3,956.21 billion) was financed from both domestic and external sources. Net external financing amounted to UShs 2,408.37 billion during the period (which is equivalent to 60.9 percent of the overall fiscal deficit). All principal debt repayments (amortisation) planned during the period were paid and amounted to UShs 785.58 billion. A total of UShs 1,659.49 billion was received as project support loans which translated into a performance of 54.9 percent of the planned amount for the period. This low performance was on account of slow project execution during the period under review.

Debt Sustainability Analysis

The stock of total public debt grew from US$ 15.34 billion at end June 2020 to US$ 19.54 billion (UGX 69,512 billion) by end June 2021. Of this, external debt was US$ 12.39 Billion (UGX 44,061 billion), while domestic debt was US$ 7.2 Billion (UGX 25,451 billion). This represents an increase in nominal debt to GDP from 41.0 percent in June 2020 to 47.0 percent in June 2021. The increase in debt was largely on account of increased expenditure in response to the health and economic crises arising from the COVID-19 pandemic.

Debt is assessed as being sustainable, despite a projected increase in the deb-to-GDP ratio to 51.6 percent at the end of FY2021/22 and to 52.9 percent in FY2022/23. Thereafter, debt is projected to decline over the medium to long-term. To reduce debt vulnerabilities, Government will put in place a number of measures including reducing reliance on debt by increasing revenue collection through full operationalization of the reforms under the

Domestic Revenue Mobilisation Strategy (DRMS). In addition, Government will continue to prioritize concessional financing over domestic and commercial external debt.

Compliance with the Charter for Fiscal Responsibility

In fulfilment of the requirement under section 5 of the 2015 Public Finance Management Act (PFMA), the Minister for Finance Planning and Economic Development prepared and submitted to Parliament the second Charter for Fiscal Responsibility for approval. This new charter was considered and approved by Parliament on 27th January 2022, with some proposed amendments.

The new Charter for Fiscal responsibility will run for a period of 5 years from FY 2021/22 to FY 2025/26. It provides Government's fiscal policy objectives over the five years that will ensure sustainable delivery of the country's goal of socioeconomic transformation resulting in increased household incomes and improved quality of life of Ugandans.

Like the previous one, this charter remains mindful of the fact that public debt and the overall fiscal balance must remain at sustainable levels. In addition, a new unique feature of this Charter is that it also takes into consideration the start of commercial oil production in FY2024/25, and is mindful of the existence of petroleum revenues in the medium-term fiscal framework, hence providing a sustainable mechanism for the spending and saving of these revenues. As such, the new Charter consists of a new measurable target on the management of oil revenues which states that;

- A maximum of Oil revenue worth 0.8 percent of the preceding year's estimated non-oil GDP outturn shall be transferred to the Consolidated Fund for budget operations. The balance shall be transferred to the Petroleum Revenue Investment Reserve (PRIR) for investment in accordance with the Public Finance Management Act (2015) as amended.

Going forward, fiscal policy will be guided by the new Charter with the financial year budgets being measured on the basis of its measurable fiscal objectives.

For the Financial year 2021/22, Government's compliance with the objectives in the CFR will be assessed and reported in the annual macroeconomic and fiscal performance report that will be presented to Parliament by end October 2022 as required by the 2015 PFMA.

Performance of the Petroleum Fund

The opening balance of the petroleum fund as at 1st July 2021 was UShs. 228.70 billion. However, of this amount, UShs 200 billion was appropriated in the budget for the FY2021/22. In the first quarter, this amount was drawn down to finance development expenditures. During the first half of the financial, deposits were made on the fund and as at 31st December 2021, the petroleum fund account stood as UShs. 81 billion.

OUTLOOK ON THE ECONOMY

Chapter III: Outlook on the Economy

Economic Growth;

Following the full reopening of the economy, economic growth is expected to rebound during the second half of the financial year with the manufacturing sector, construction, education, and arts and entertainment sectors expected to pick up.

Over the short to medium term, government will prioritise key specific interventions to restore the growth and development path back to pre-pandemic levels. These include;

i. Continuing with wide spread vaccination of the population against COVID-19 and strengthening the health system to mitigate the pandemic and other ailments.
ii. Reviving business activity and deepening financial inclusion through interventions including operationalising the Small Business Recovery Fund and providing affordable development finance through Uganda Development Bank (UDB).
iii. Ensuring the maintenance and availability of productive infrastructure including ICT to support a digitalised economy, energy reliability and affordability as well as effective transport development and maintenance.
iv. Fast tracking industrialisation and manufacturing with a focus on agro-industry and light manufacturing.
v. Increasing productivity and production in agriculture to provide the necessary raw material inputs for industry (agro-industry).
vi. Commercialising oil and gas resources, expediting mineral beneficiation; and fully exploiting Uganda's tourism potential.
vii. Improving public sector efficiency through the implementation of the Parish Development Model, a new government strategy for accelerating wealth and job creation while improving service delivery at parish level.

As a result of the above interventions, economic growth is expected to grow at 3.8 percent in this financial year, and rebound to 6 percent in FY 2022/23 and to at least 7 percent in the medium term.

Inflation;

Headline inflation is likely to increase slightly in the rest of the Financial Year 2021/22 largely driven by a pickup in demand after the full re-opening of the economy. Energy and food prices are specifically likely to increase further as schools re-open and international oil prices remain high.

Over the medium term, inflation is forecast to rise and stabilise around the 5 percent target as demand fully recovers.

The main downside risks to inflation include adverse weather shocks that could cause a significant upsurge in food crop prices and the direction of the exchange rate which is sometimes affected by externally uncontrollable factors.

Financial Sector; The outlook points to a continued pickup in private sector credit growth and a reduction in commercial bank lending rates in the medium term as economic activity continues to recover following the full re-opening of the economy. However, there are downside risks to the short-term outlook stemming largely from a decline in commercial banks' asset quality with the share of Non-Performing Loans (NPLs) to total gross loans rising to 5.4 percent in September 2021 from 4.8 percent in June 2021. More risk stems from the expiry of the credit relief measures of the Central Bank as well as the continued uncertainty due to the lingering effects of COVID-19 and likely emergency of new variants on economic activity.

External Sector; By the end of the financial year 2021/22, the merchandise trade deficit is expected to have widened compared to the previous financial year as growth in merchandise imports outpaces merchandise exports due to a pick-up in domestic demand. FDI inflows are expected to recover as activity in the oil and gas sector picks up following the signing of the Final Investment Decisions. Tourism receipts are also expected to increase further as widespread vaccination in the country continues hence supporting tourist's confidence to visit the country. Additionally, secondary income is expected to increase in line with a strengthening of worker's remittances as well as higher inflows of project aid in support of post pandemic economic recovery.

The exchange rate is largely expected to remain stable in the short to medium term. Nonetheless, slight depreciation pressures may arise due to increased dollar demand as economic activity picks up, 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; The pandemic has led to revenue shortfalls and necessitated additional expenditure in health; security; support to vulnerable groups of people; payment of domestic arrears, among other initiatives to support the private sector. As a result, the fiscal deficit is expected to stand at 7.5 percent of GDP by the end of FY2021/22 before gradually declining to 5.2 percent of GDP in FY 2022/23 and to below 3.0 percent of GDP over the medium term. This is in line with Government's commitment to undertake fiscal consolidation in order to ensure fiscal and debt sustainability. The planned reduction in the fiscal deficit will be supported by an increase in revenue mobilization efforts, a rebound in economic growth and improvements in effectiveness and efficiency in public expenditures through implementation of the program-based budgeting.

Fiscal Risks

A comprehensive analysis of fiscal risks is key for prudent fiscal management. Therefore, the main risks to Uganda's fiscal outlook have been categorised into macroeconomic risks and risks related to public debt and Natural disasters.

a. Macroeconomic Risks

Changes in macroeconomic assumptions create risks to both revenue and expenditure projections as they play a key role in the formulation of the budget. This section assesses two important sources of macroeconomic risks:

i. Global and regional economic and trade environment

Currently, the global economy faces threats from the impact of the COVID-19 pandemic. More specifically, the new variant Omicron which was discovered in Southern Africa in November, 2021 and the low uptake of vaccination (4 percent of the population is fully vaccinated in Africa). The first source of risk relates to the path of the pandemic, the needed public health response, and the associated domestic activity disruptions, most notably for contact-intensive sectors. Subsequently, the extent of global spill overs from subdued demand, weaker tourism and lower remittances are likely to pose a risk to economic activity thereby posing a risk to the national budget. Lastly, financial market sentiment is likely to have implications for global capital flows.

ii. Estimation of macroeconomic indicators

Volatility and optimism bias in growth projections can have negative effects on tax revenues and public debt. This has been exacerbated by the uncertainty arising from uncertainty arising from the resurgence of the covid-19 pandemic and its consequences. These challenges could negatively affect economic growth outturns going forward and in turn affect tax revenues and public debt

b. Risks related to public debt

Risks associated with external and domestic debt, include: -

1) Refinancing risks due to a high composition of short term instruments in the financing mix
2) Materialization of contingent liabilities: Contingent liabilities are payment obligations that only arise if a particular event occurs. Currently, the main contingent liabilities stem from loan guarantees and public corporations' debt.
3) Increased cost of debt especially if we are increasingly borrowing on non-concessional or commercial terms
4) Interest rate risk: Commercial loans are sometimes contracted at a variable interest rate, which is linked to benchmark lending rates such as LIBOR and EURIBOR. Variable rate loans expose future debt service to upward movements in the benchmark lending rates.
5) Foreign exchange rate risk: Borrowing more externally increases Uganda's exposure to foreign exchange rate risk. In the event of sharp and sustained deprecation, external debt service would increase drastically posing a significant impact on sustainability of the debt.

c. Natural disasters

Due to climate change, the frequency of natural disasters like drought, flooding, landslides has increased. These disasters have significant consequences on the National Budget in case unplanned or emergence funding is required. Despite the PFM Act 2015 providing for a contingencies fund to cater for such unforeseen occurrences, these could be of greater magnitude than the provision, hence posing a fiscal risk.

d. Insecurity

Security threats both at home and in the region which may destabilize economic activity hence affecting trade. Government will therefore continue to support the security agencies to counter the threats and maintain peace in the country.

ANNEX

Annex 1: Donations by Vote.

For the FY 2021/22 Shs. 162.894 billion was approved as donations. However, Shs.92.131 billion was donated by end December 2021. The table below shows the amounts of donations approved in the budget and the corresponding expenditure as at 31st December 2021.

Table 6: Donations by Vote

Vote code	Vote Name	Budget	Donations as at December 2021
160	Uganda Coffee Development Authority	0.117	0.027
111	Busitema University	0.006	
122	Kampala Capital City Authority	1.226	
136	Makerere University	0.005	
137	Mbarara University	0.003	
138	Makerere University Business School	0.050	
140	Uganda Management Institute	0.028	
149	Gulu University	0.001	
320	Uganda Business and Technical Examination Board	0.015	0.004
321	National Council of Sports	0.130	0.109
151	Uganda blood transfuzion service	0.600	0.300
157	National forestry authority	0.014	
101	Judiciary (Office of Judicature)	0.108	
119	Uganda Registration Services Bureau	0.011	
144	Uganda police	0.036	0.010
145	Uganda Prisons	0.052	0.016
003	Office of the Prime Minister	4.207	1.006
103	Inspector General of Government's Office	0.011	
313	Capital Markets Authority	0.010	0.006
315	National Population Council	0.160	
318	Uganda Retirement Benefits Regulatory Authority	0.099	0.001
002	State House	155.992	90.653
219	Uganda Embassy in Belgium (Brussels)	0.015	
	Total	162.894	92.131